



## **TRUST RELATIONSHIP AND TAX COMPLIANCE IN DEVELOPING COUNTRIES - INFORMAL SECTOR PERSPECTIVES**

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### **Abstract**

*Trust and tax compliance study is of political, economic and social benefit to the citizens and the government. Tax evasion by potential taxpayers in the informal sector are perceived to have adversely affected tax culture and government revenues in developing countries. Various studies have been carried out on taxpayers' compliance behaviour, but not many study the relationship of trust to tax compliance. This study examined the relationship of trust on tax compliance behaviour among informal sector operators in developing countries with focus on Lagos State, Nigeria. Survey research design was employed. 400 copies of questionnaire were administered to various potential taxpayers in the informal sector and a response rate of 90.5% was achieved. Descriptive statistics was used to analysed the data. The study revealed that 92.5% of the respondents are potential taxpayers, they agreed that SIRS is honest and not corrupt in handling and dealing with tax matters. Also, the State government exhibits transparency and trustworthy in the application of tax revenues. Furthermore, tax payment is seen as the right and natural things to do, and to support the state. The study recommends that*

*government and its institutions should always be transparent, accountable, corruption free and invest tax revenues on public goods and services for the wellbeing of the citizens, this build trust and influence voluntary tax compliance*

*Keywords: Informal sector, Tax compliance behaviour, Tax evasion, Tax revenue, Transparency, Trust*

## INTRODUCTION

Trust and tax compliance study is of political, economic and social benefit to the citizens and the government. Taxation is one techniques adopted by government for revenues generation, it is a strategic asset for financing infrastructural development, provision of public goods and services, administration of various government institutions, and enhancement of economic growth and stability. It is also useful for wealth redistribution among the citizens, as well as a fiscal tool. However, tax is a compulsory levy imposed by government on incomes of an individual or profits of business enterprises. Adekoya, Oyebamiji and Lawal (2019) viewed tax as a form of payment made by citizens to support and augment the cost of governance. Tax is a form of fiscal exchange between the citizens and the government. The citizens pay taxes to the government while the government in returns used the tax revenues for infrastructural developments, social and economic services, maintenance of laws and orders, and achieving other administrative programmes for the benefit of the citizens (Adekoya, Olaoye & Lawal, 2020). Besides, the extent to which citizens will be willing to pay tax and contribute to national development is a function of trust they have in government and its institutions. Beale and Wyatt (2017) also opined that a good tax system should addressed capacity building, economic management and social welfare that will create good relationship between the government and the citizens.

Despite the importance of taxation for development and macroeconomic objectives, most developing countries fails to key into this opportunity because of overreliance on revenue from crude oil and other mineral resources. In recent time, there has been dwindling in revenues from non-taxes, high rate of corruption, infrastructures decayed, incessant tax evasion and unexpected COVID-19 pandemic, all these opened the cankerworm of trust in government. In the past, even before the pandemic, tax revenues has been relatively low in most African countries. According to OECD/AUC/ATAF, (2021), the average tax revenues collection of 30 African countries in 2019 was 16.6% of GDP, this was halve of 33.8% of what was achieved in OECD members' countries. However, in recent time, most developing countries have shifted towards taxes rather than over dependent on non-tax revenues, loans and foreign aids. Tax

compliance topic is vital worldwide, while what actually induces taxpayers' willingness to pay tax has remain unanswered. Although, various factors had been proffered by various authors and researchers, however, trust remain a key factors in most developing countries. James and Alley (2002), classified factors that influence tax compliance into economic and behavioural approaches. The economic approach viewed taxpayers being primarily concerned about financial gains while the behavioural approach viewed taxpayers compliance based on perceived trust in government and its institutions.

Trust in government and its institutions means citizens expectation that government will act timely and responsibly in the application of tax revenues. Trust in latin word means "Fiducia" which also translate to assurance, confident, security, faith and reliance. Trust is the currency of exchange between the government and taxpayers, between the resources providers and resources managers, and between the leaders and the led. Trust in government also known as political trust is the difference between government performances and taxpayers or citizens expectations. Trust in government and its institutions means taxpayers willingness to pay taxes based on their personal believe that government and its institutions are honest, compassionate, devoid of corruption and provide good governance for the wellbeing of the citizens. Today citizens live in trust puzzle where, according to Edelman (2020) leads to violation of social contract, high rate of corruption and consistence fake news, all these stained trust relationship. Globally, distrust in government and its institutions has 48% and 49% index for 2019 and 2020 respectively (Edelman, 2020).

Voluntary tax compliance behaviour is the citizens' willingness to comply with the relevant tax laws, rules and regulations without any form of pressure or coercive power. According to Adekoya (2020), tax payment is an act not valued by citizens because most taxable persons does not like paying tax, however, this attitude leads to high rate of tax gap and tax evasion. Torgler (2003) reported that tax evasion is not a new phenomenon, it has been on from the inception of taxation till date, likewise tax cheating, which is as old as tax laws (Slahaan, 2012). These two concepts are worldwide phenomena which cuts across countries. Tax evasion has been increasing in developing countries despite the relevant tax laws and regulations which highlighted the various penalties and punishments for tax evaders. Adekoya, Olaoye and Lawal (2021) asserted that voluntary tax compliance in the informal sector has become a great challenge for tax administrators on an annual basis, as most developing countries find it difficult to achieve the tax revenue potentials immersed in the informal sector due to various factors of which administrative and trust challenges are key. Worldwide, the self-employed individuals operating in the informal sector represent 86.1% while 80% represent business enterprises that are in the informal sector (ILO, 2018). The self-employed are those

individuals operating business activities in the informal sector who do not register with the tax authority for tax assessment nor pay tax. However, Sebele-Mpofu (2021) postulated that in developing countries, informal sector has been a problem to tax revenues collection, therefore, there is need to bring these taxpayers into the tax net. A taxpayer is any individual, firm or organization who or that is qualified to pay tax, whether tax is paid or not (Adekoya *et al.*, 2021). Tax revenues from the informal sector is always marginal despite massive taxable activities, but often, taxes were evaded or avoided. The high rate of tax evasion and tax gap from informal sectors in developing countries has become a matter of concern to the government, tax policy makers and the scholars.

Besides, in most developing countries, citizens find it difficult to access the basic goods and services even where taxes are paid. The question is why should citizens pay taxes? When the government fails in its social, economic and administrative responsibilities. Tsikas (2017) opined that citizens feel more obliged to pay taxes when they perceived high institutional quality of trustworthy, otherwise taxpayers will exhibit tax evasion attitude. Scholz and Lubell (1998) asserted that there exist strong correlation between taxpayers trust in government and willingness to pay tax. Tax evasion behaviour is against the generally acceptable standards, norms and rules that will enhance tax compliance. Susuawu, Ofori-Boateng and Amoh (2020) postulated that tax non-compliance behaviour among the citizens' results from poor service quality by the relevant tax authorities, Syadullah and Wibowo (2015) viewed it as bribery and corruption while Kiow, Salleh and Kassim (2017) reported it as lack of transparency, above all mistrust in the tax system and government also leads to tax evasion.

In the past, various researchers had carried out studies on perception of trust in government or tax authorities for companies and individual taxpayers in the formal sector, with less emphasis on the informal sector participants that pay taxes and other revenues such as rates, property tax, licences, permits, stallages, rent and fees. In addition, most behavioral researchers have not considered trust as dependent variable in their model but rather as a mediating or moderating variable (Adekoya, Adegbe & Agbetunde, 2020; Adekoya & Enyi, 2020; Adekoya & Akintoye, 2019; Anderson, 2017; Birskyte, 2014; Damayanti & Supramono, 2019; Jimenez & Iyer, 2016; Kastlunger, Lozza, Kirchler & Schabman, 2013; Kinyondo & Byaro, 2019; Mas'ud, Manaf & Saad 2019; Scholz & Lubell, 1998; and Wahl, Kastlunger & Kirchler, 2010. However, the outcome of these researchers are of diverse opinions, while some concluded that trust in tax authorities increases tax compliance others are of the opinion that tax compliance depends on trust in government while tax evasion is a syndrome of corruption, mistrust, ineffective government and weak legal system.

Therefore, the purpose of the study is to add to the body of knowledge and to show whether or not trust in government and its institutions (tax authorities) have any relationship to tax compliance in the informal sectors in developing countries, using Lagos State, Nigeria as case study. At the end, the study will contribute to the frontier of knowledge on tax morale and tax compliance behaviour, and also assist government on voluntary tax compliance strategies. The other part of the paper is divided into four sections, these are the review of extant literature in section two, methodology in section three, while the fourth section deals with data analysis and discussion findings and the last section deals with conclusion and recommendations.

## REVIEW OF EXTANT LITERATURE

### Conceptual review

**Trust in Government:** Trust in government is the citizens' trust towards the performance of government, how the citizens perceived the various public goods and services provided by the government. Trust is based on how the resources contributed by the citizens are managed by the government, whether it is fair or not. Trust is the most expensive things in the world. It takes a lot of times or years to build but it can be lost easily and quickly within a matter of second. Robbin and Judge (2009) defined trust as positive expectations that another, will not through words, actions, or decisions, act opportunistically. Trust means taxpayers believe that government and its institutions are compassionate, corruption free, govern for the wellbeing of the citizens, all these develop moral obligation to willingly pay taxes (Mas'ud *et al.* 2019). According to Gangl Hofmann and Kirchler (2015), trust is vital to social life as trust is individual willingness to take risk. Besides, Nunkoo (2015) viewed trust in government as a form of social capital democracy, effective legitimacy, good governance and political sustainability, and power for decision making. Kirchler, Hoelzl and Wahl (2008) also reported that trust is an opinion by citizens that the tax authorities are transparent, reliable and trustworthy in carrying out their work for the wellbeing of the citizens. Furthermore, Byaro and Kinyondo (2020) asserted that trust in government is to achieve a synergistic climate between the tax authorities and tax payers. Synergistic climate will make the tax authorities believed that taxpayers will pay their taxes voluntary, while the taxpayers also have the believed that tax revenues will be used by the government in their best interest.

Alm, Mccelland and Schulze (1992) postulated that taxpayers' trust or mistrust in government has a significant effect on tax compliance, this is based on principle of accountability, transparency and trustworthy. Torgler (2003) asserted that when government's honesty is in doubt, individual taxpayers will be reluctant to pay tax, this leads to high rate of tax non-compliance. Therefore, trust is a motivation to pay tax and a key to tax compliance

behaviour. Ortega, Ronconi and Sanguinetti (2016) reported that tax compliance will be enhanced where the government is seen by taxpayers to be responsive, transparent and efficient in the provision of public goods. However, where mistrust on tax revenues is alarming, taxpayers will have alternative opinion that hard earned income should not be paid as taxes to government. According to Isbell (2017), mistrust in government occurred where taxes paid do not enhance public goods and services. However, in an honest, transparent and trustworthy government, citizens will be willing to comply with relevant tax laws and regulations, this will boost high level of tax compliance rate and also minimize tax collection cost arising from audit and enforcement.

Thomas (1998) stated that trust can be fiduciary, mutual or social trust. Fiduciary trust is known as asymmetric relationship. Mutual trust on the other hand, is a form that develops between or among individuals based on long and repeated interaction. Social trust occurred in respect of institutions and its relationship with the general public. However, OECD (2013) classified trust into two, these are social and political trust. Social trust is the citizens' confidence in the social activities of the immediate environment while the political trust is citizens' appraisal of government and its institutions activities. Political trust is derives from good governance which is associated with accountability, transparency, control of corruption and rule of law. Political trust includes institutional based trust and macro level trust while the social trust involves civic engagement and interpersonal trust. Besides, Habibov, Cheung and Auchnikara (2017) reported that interpersonal trust will leads to greater tax compliance and government support. Choi and Kim (2012) stated that public trust by taxpayers is a function of good governance while Braithwaite (2016) reported that taxpayers trust in government is their perception of government responsibilities in managing tax revenues in an honest, reliable and truthful manner. A good tax system emanates from trust and good governance. Good governance principles entail that governance is open, forward looking, trustworthy, accountable and responsive in all dealings. Good governance is achieved through an efficient and effective use of government resources to achieve the desired goals and targets aimed for the interest, welfare and prosperity of the citizens (Sitardja & Dwimulyani, 2016).

Trust is hang on good governance of transparency, quality of service and corruption free society. Transparency is one of the challenges in taxation because when taxpayers have mistrust or lose confidence in government and the tax system, it leads to tax non-compliance and tax fraud (Kiw *et.al*, 2017). Transparency is the availability and clarity of government information for public consumption and decision making (Adekoya & Akintoye, 2019). According to Siahaam (2013), transparency is synonymous to trust and the two are positively correlated. In a modern-day situation, taxpayers required more information on tax transparency, this



enhances trust between the taxpayers and the government. Besides, high level of corruption in the society creates an environment for tax fraud and evasion. Corruption involved fraudulent activities such as bribery, extortion, fraud and embezzlement of tax revenues. Corruption is an abuse of trust and office for private gains. It is a form of dishonesty and fraudulent conduct by a person or organization entrusted with power for private gain (Adekoya & Enyi, 2020). According to Aloko and Abdullahi (2018), corruption is a destructive force that promote poverty, cause conflicts and impact negatively on the wellbeing of the citizens. Corruption is a worldwide and age old phenomenon in all sectors of human endeavors, it cut across various faiths and religions, political cycle, industries and governments.

Mohammed and Saad (2016) also reported that quality of tax service is an important factor to tax compliance and willingness to pay tax. Quality of service is defined as degree of excellence, which can either be subjective or objective. It is individual perception of how service provided by client is enjoyed by customers (Ali Al-Ttaffi & Abdul-Jabbar, 2016). Quality of tax service is measured by the level individual taxpayers' expectation from the tax authority or government service and the quality of tax service received. Besides, quality of tax service will be regarded as low where it does not meet the expectation of individual taxpayers, while it will be regarded as high where it meet the expectation of such. Above all, Kastlunger *et al.* (2013) and Kogler *et al.* (2013) asserted that high trust on the tax authority and government will increase the rate of tax compliance while distrust in government could lead to unwillingness on the part of the citizens to voluntary pay taxes, increase tax evasion, disobedience, crises and chaos.

**Tax Compliance:** Tax compliance rest on behavioural phenomena where taxpayer compliance social behaviour is influenced by his intention. Tax compliance is the taxpayer's willingness to offset tax liabilities promptly in line with the relevant tax laws. According to Saw (2017), tax compliance is the process of rendering tax returns within a limited time frame and makes payment promptly to the tax authority. Gangl, Hafmann and Kirchler (2015) viewed tax compliance as tax payment without any form of force but by ways of positive mutuality of the taxpayer at appropriate time. Jaya (2017) reported that tax compliance is taxpayers' willingness to pay tax liabilities in line with the relevant legislation. Ahmed and Kadir (2015) also viewed tax compliance as the degree of taxpayer's compliance with the extant tax laws in a country. James and Alley (2002) viewed tax compliance as a variety which ranges from societal commitment on one hand to the enforcement of the law on the other hand. Besides, voluntary tax compliance is taxpayer's willingness to prepare and file tax returns without any forms of coercion or force. In modern day approach, voluntary tax compliance is based on self-assessment by individual taxpayers. Saad (2014) reported that self-assessment is a method where taxpayers do personal

assessment of his tax liabilities and make payment without any form of coercion or enforcement from the tax authority.

**Informal sector:** Informal sector also known as hard to tax group, underground economy, shadow economy, black market, under the table, working for cash and off the books consists of small, mini and micro business enterprises, unregistered entrepreneurs likes farmers, artisan, traders, professionals, manufacturers, who engaged in business activities such as trading, manufacturing, substantive farming, transportation, entertainments, professional services, mining and quarrying, and entrepreneurship. Adekoya *et al.*, (2020) viewed informal sector as an economic activities undertaken outside government registration, regulation and extant laws. It is a forms of business activities with easy form of entry and exist, and not fully regulated by the government. It shares the larger percentage of the economy where majority of the citizens depends for livelihood. According to International Labour Organisation (ILO) (1972), informality is a way of doing business characterized by family ownership; reliance on indigenous resources; ease of entry; purely labour intensive and adaptive technology; unregistered and competitive markets; small scale operations; and skills required outside that of the formal sectors. However, informal sector is seen as a type of business in subsistent economy (Joshi, Prichard & Heady, 2014). Globally, 86.1% of self-employed individuals operates in the informal sector (ILO, 2018), while 80% of business enterprises are managed in the informal sector (ILO, 2020).

In most developing countries, informal sectors accounted for 75% of the country's economy (Obara & Nangih, 2017). In Nigeria, informal sector accounts for 90%, 80% and 60% of new job, non-agricultural employment and urban job creation respectively (CISLAC, 2014). National Bureau of Statistic (NBS) (2019), also reported that informal sector contributes 58% to GDP and 80% to employment rate in Nigeria in 2019. Despite all these, informal sector tax revenues contribution is marginally low despite the huge activities of transactions in the sector that are taxable, rather taxes are evaded or avoided (Adekoya *et al.*, 2021). Researchers had come up with various challenges attributable to low tax revenue collections from the informal sector which in most cases leads to high level of tax evasion. Some of these problems are associated with trust, these are infrastructural decayed, lack of accountability and transparency, bad governance; corruption; poor quality of service and insecurity (Adekoya *et al.*, 2020; Munjeyi *et al.*, 2017; Obara and Nangih, 2017). Government at Federal, State and Local are endowed with various forms of taxes collectable from the informal sector such as Federal (Company income tax, value added tax), State (personal income tax, withholding tax, licences, fines and rates), Local government (tenement rate, licences, fines, fees, and rates). Tax evasion in the informal sector in most developing countries is alarming when compared with what is



obtainable in the formal sector. Therefore, there is need to minimize this rate of evasion from the sector by government and tax policy makers.

### Theoretical review

The study adopts Fiscal exchange theory and political legitimacy theory. In fiscal exchange and political legitimacy theories, it is expected that taxpayer's behaviour would be positively correlated to satisfaction received from payment of taxes. These theories are based on social, psychological or relational contract between the government and the citizens. This build a cordial relationship of accountability, transparency, efficiency and mutual trust between the citizens and the state.

**Fiscal exchange theory:** Fiscal exchange theory is a mixture of social, psychological and economic approach of explaining tax compliance (Fjeldstad, Schulz-Herbenberg & Sjurson, 2012; Frey & Feld, 2002; McKerchar & Evans, 2009; Torgler, 2003). Devos (2014), traced the propounding of the theory to Vogel (1974). The theory was based on taxpayers' perception of government. It emphasize the loss of motivation to pay taxes where there are no correspondence benefits for tax payments. According to Kogler *et al.* (2013), voluntary tax compliance is enhance more through trust in government by taxpayers. Therefore, the relationship between the taxpayers and the government is regarded as implicit contract or relational (Moore, 2004). Tax payment is motivated by the government's transparency, accountability and trustworthy on tax revenues. Tax payment is enhance where the money contributed by the citizens from taxes are actually used in financing the desired public goods and services which are perceived to be effective, efficient and reasonable in nature. Bodea and LeBas (2014) opined that taxpayers oblige to pay tax where government is perceived to provide the desired goods and services. Besides, Alm, Jackson and Mckee (1993) also asserted that willingness to pay tax by taxpayer will be enhanced where social and economic projects and programmes financed with tax revenues are valued by the citizens to be reasonable, cost effective and of added value.

**Political Legitimacy Theory:** Legitimacy theory emanated from political economy theory and also from organisation legitimacy concept defined by Dowling and Pfeffer (1975). Political legitimacy is the belief or trust in government and its institutions by the citizens to provide goods and services for their wellbeing in lieu of tax payment. The theory postulated that tax compliance is influenced by the level of trust the citizens have on the government and its institutions (Kirchler, Hoelz & Wahl, 2008). Tax compliance is presumed to be higher in an environment where citizens perceived high level of trust in government than when there is mistrust. Globally, tax compliance is shaped with a model of political legitimacy. According to

OECD (2010), citizen's trust in government and its institutions will propel tax rules and regulations compliance which will further enhance voluntary tax compliance. Adekoya, Oyebamiji and Lawal (2019) also postulated that promotion of fairness in the application of tax laws will build trust and enhance voluntary tax compliance.

### **Empirical review**

Korgaonkar (2022) studied the determinant of tax morale in India. The study revealed that trust in government, parliament and civil services positively affects tax morale of Indian citizens. The study recommends that no government can rely on enforcement strategy for an increase in tax compliance. Also, Sebele-Mpofu (2021) examined informal sector taxation and enforcement in African countries. The study reviewed that tax non-compliance in the informal sector has reduced the value of tax collections. Therefore, there is need to ensure that taxpayers in the informal sector are captured into the tax net. In addition, Adekoya *et al.*, (2021) studied informal sector tax administration and ways of reducing tax evasion and fraud in the hard to tax sector in Nigeria. The study revealed that a good tax administration and data base in the informal sector will reduce administrative cost, time, tax evasion and fraud. The study recommends that government should provide economic and social needs of the citizens with the tax revenues, this will propel trust and enhance voluntary tax compliance. In the same vein, Adekoya *et al.*, (2020) studied the informal sector and tax compliance in Nigeria. The study revealed that informal sector is very important to any country for revenue, growth and development. The study recommends that government should exhibit accountability and transparency in tax revenues in order to build trust in the informal sector and enhance voluntary tax compliance.

Oladele *et al* (2020) studied slippery slope framework and tax compliance among corporate taxpayers in Nigeria. The study revealed that trust influences voluntary tax compliance. The study recommends that government should exhibit a good level of transparency and accountability in tax revenues as this will boost trust and confidence among the citizens and enhances voluntary tax compliance. However, Habibov *et al.* (2017a, 2017b) looked at the effect of trust on willingness to pay taxes, and help for the needy and public health in countries of Eastern and Southern Europe. The study revealed that interpersonal trust enhances voluntary tax compliance. The study also revealed a positive relationship between social trust and better health care system, where social trust contributes to voluntary tax compliance. In addition, Byaro and Kinyondo (2020) studied citizens' trust in government and their greater willingness to pay taxes in Tanzania. The study revealed through a descriptive statistics that 79.4% of the citizens trust government based on quality of goods and services

provided while 91.3% of the citizens are willing to pay more taxes. In the same vein, Habibov *et al.* (2018) studied institutional trust and willingness to pay more taxes for financing the country's infrastructural development and making life better for the citizens. The study revealed that institutional trust enhances willingness to pay taxes by the citizens, thereby making funds available for financing the needs of the state in the area of public health and education. Also, Adekoya and Enyi (2020) studied control of corruption, trust in government and voluntary tax compliance. The study revealed that control of corruption positively influenced voluntary tax compliance. The study recommends that government should put better stiff strategies and penalties in controlling corruption on tax matters in order to earn trust and ensure voluntary tax compliance.

Kiow, Salleh and Kassim (2017) studied the determinant of individual taxpayer's tax compliance behaviour in Peninsular Malaysia. Findings from the review of previous researches showed that individual tax payer's compliance behaviour was influenced by ethical perception of the taxpayer and this perception was affected by public governance and transparency in government business operations. The study concluded that the individual perception of how funds generated from taxes by the government were used is a function of the benefit received from such, this influences taxpayer's compliance behaviour. Mas'ud, Manaf and Saad (2019) studied trust and power as predictors to tax compliance. The study revealed that trust in authorities has influence on tax compliance. Therefore, authorities should ensure appropriate use of tax revenues in financing public goods and services for the citizens, this enhances trust and improves tax compliance. Also, Damayanti and Supramono (2019) viewed trust reciprocity and power as an integration to create tax compliance, the results from the study showed that trust affect tax compliance while the taxpayers exhibit high tax compliance rate when they have trust exchange. In addition, Palil and Faizal (2017), from their study on the mediating effect of power and trust in the relationship between procedure justice and tax compliance in Nigeria, posited that trust in authorities plays a vital role in taxpayers' relationship with government.

Birskyte (2014) explained the impact of trust in government on the tax paying behaviour of Nonfarm sole proprietors. The study revealed that trust promotes feeling of goodwill among taxpayers and also improves tax compliance. The study recommends that higher trust in government will enhance taxpayers' compliance to tax laws and regulations. Also, Kinyondo and Byaro (2019) examined citizens' trust in government and willingness to pay taxes in Tanzania. The study revealed that taxpayers are dissatisfied with the level of public goods and services provided by the government. They concluded that provision of better public goods and services for the citizens is an effective tool for achieving better revenue generation by the government. Furthermore, Anderson (2017) studied citizen's trust in government and citizens' willingness to

pay taxes in transition economies. The study revealed that citizens' trust in government had significant impact on tax payment. In addition, Faizal *et al.* (2017) looked at the perception of justice, trust and tax compliance behaviour in Malaysia. The study revealed that procedural justice and trust affect tax compliance whereby, procedural justice positively and significantly correlated with trust. Also, Saruji, Mohdali and Mohamed (2019) studied trust in government and perceptions of tax compliance among adolescents. The study revealed a positive and statistical significant impact of fairness on trust in government and tax compliance among the adolescents.

## METHODOLOGY

A survey research design was employed to gather the relevant primary data from Lagos state, Nigeria. The study focused only on informal sector prospective taxpayers in the state. Primary data used for this study were obtained from the validated questionnaires administered to informal sector individuals using random sampling techniques. The questions were in scaled and closed form, it was structured to capture demographic factors, trust, and voluntary tax compliance. Questions highlighted in the questionnaire were adapted from the work of Adekoya (2020); Adekoya, Enyi and Akintoye (2019); Enyi, Akintoye and Adekoya (2019), tax payers' compliance appraisal by Fisher, Wartick and Mark (1992), Kirchler and Wahls (2010), and Lateef, Saheed and Onipe (2015).

400 copies of questionnaire were administered to various individual taxpayers in the informal sector using random sampling techniques and a total of 362 copies were returned valid by the respondents, this gives a response rate of 90.5%. The returned questionnaires were tag valid based on respondents ability to answers all questions because of their educational background and knowledge of the study. The content and construct of the questionnaire are also validated by experts as the questions measure what they intended to measure. The study adopted purposeful sample technique to select the study state of Lagos State, Nigeria. This selection was based on the following characteristics: Lagos state is the commercial hub center of the country, Nigeria, and it has the highest internally generated revenue in the country for the past 10 years. Besides, it has the highest percentage of internally generated revenue of (N398.73 billion, 29.9%) to the thirty-six states total internally generated revenues in 2019. In addition, it also achieved internally generated revenue of 77% to the gross revenues achieved by the state in 2019 (NBS, 2020).

Reliability test of the instrument was based on the outcome of the pilot study carried out in four local governments within the state (Ikeja, Ikorodu, Ojo and Oshodi-Isolo). 100 questionnaires were administered to various respondents in the local governments, 83

respondents answered and returned the questionnaire, this represent 83% response rate. Measurements with Cronbach Alpha ( $\alpha$ ) showed that trust in State Internal Revenue Service (SIRS), trust in government, and voluntary tax compliance had Cronbach's alpha of 86.8%, 89.2%, and 79% respectively. Bolarinwa, 2015; Taber (2016); Tavakol and Dennick (2011), reported that a composite reliability and Cronbach Alpha ( $\alpha$ ) greater than 60% was affirmed as a reasonable reliable and acceptable. Based on this assertion, the results from the pilot study showed that the instrument was reasonable, good, robust and reliable since all the constructs figures were above the acceptable threshold and therefore suitable for the study.

## RESULTS AND FINDINGS

Descriptive statistics was used to analysed the primary data employed for the study (see Table 1).

Table 1. Demographic Characteristics of the Respondents

<b>Respondents Characteristics</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Gender:</b>		
Male	223	61.6
Female	139	38.4
<b>Age:</b>		
18-30 Years	68	18.8
31-40 Years	111	30.7
41-50 Years	121	33.4
51-60 Years	60	16.6
Above 60 Years	2	0.6
<b>Educational Qualification:</b>		
GCE/WASC and below	24	6.6
OND/NCE	62	17.1
HND/BSc	205	56.6
MSc/MBA	65	18.0
PhD	6	1.7
<b>Informal Status:</b>		
Traders	121	33.4
Transporters	31	8.6
Artisans/Entrepreneurs	104	28.7
Contractors	55	15.2
Consultants/Professionals	51	14.1
<b>Tax Stakeholder's Group</b>		
Taxpayers	335	92.5
Tax consultants	11	3.0
Media/Advocacy Group	16	4.4

The demographic profile of the respondents presented in Table 1 shows that 223 respondents representing 61.6% were male, 139 respondents representing 38.4% were female. This suggests that more male respondents were involved in assessing trust and tax compliance in Lagos State, Nigeria. Furthermore, the study found that 68 respondents representing 18.8% were in the 18-30 years category; while 298 respondents representing 80.6% of the entire respondents are between 31-60 years. Those above 61 years old were 2 respondents, representing 0.6%. This shows that those who are in their active age period were involved in assessing trust and tax compliance. The result also shows that 24 respondents have senior secondary school certificates and below representing 6.6% of the respondents, while 338 respondents, representing 93.4% have between OND/NCE/HND/BSC/MSc/BSC/PhD as their highest academic qualification. Majority of the respondents (56.6%) have HND/B.Sc. as their highest academic qualification. Furthermore, 121 of the respondents were traders representing 33.3%, followed by artisan/entrepreneur with 104 representing 28.7%. The rest of the respondents were contractors/transporters/consultants with 55, 31 and 51 representing 15.2%, 8.6% and 14.1% respectively. Based on the tax stakeholders' group classification, 335 respondents representing 92.5% were taxpayers, followed by media and advocacy group, and tax consultants with 16 and 11 respondents, representing 4.4% and 3.0% respectively.

### Descriptive Analysis of the Test Items

This section describes the test items individually using six (6) Likert scale of strongly agree (SA), agree (A), partially agree (PA), partially disagree (PD), disagree (D) and strongly disagree (SD) with standard deviation (SDV).

Table 2. Respondents Responses on Trust in State Internal Revenue Service

S/N	Test Items		SD 1	D 2	PD 3	PA 4	A 5	SA 6	Mean	SDV
1	SIRS are trust worthy on tax matters.	Freq	11	20	15	131	139	46	4.4	1.13
		%	3.0	5.5	4.1	36.2	38.4	12.7		
2	SIRS exhibit transparency on tax matter while dealing with tax payers	Freq	9	31	42	131	126	23	4.11	1.13
		%	2.5	8.6	11.6	36.2	34.8	6.4		
3	SIRS are honest in dealing with tax payers.	Freq	13	31	50	123	125	20	4.04	1.17
		%	5.6	8.6	13.8	34.0	34.5	5.5		
4	SIRS are reliable in dealing with tax payers.	Freq	8	41	46	133	112	22	4.01	1.16
		%	2.2	11.3	12.7	36.7	30.9	6.1		
5	SIRS are honest in the application of tax laws to all parties.	Freq	11	39	49	129	115	19	3.98	1.17
		%	3.0	10.8	13.5	35.6	31.8	5.2		
6	SIRS are not corrupt in handling tax matters.	Freq	23	64	59	125	75	16	3.59	1.30
		%	6.4	17.7	16.3	34.5	20.7	4.4		
Mean & Standard Deviation									4.09	1.00



Table 2 describes the responses of respondents on trust from the State Inland Revenue Services (SIRS) in Lagos States, Nigeria. It was discovered that 12.6% of the sampled respondents disagreed that SIRS are trust worthy on tax matters, while 87.3% agreed with the test item. The mean of 4.4 suggests that majority of the respondents agreed to the test item that SIRS are trust worthy on tax matters. Also, opinion that SIRS exhibits transparency on tax matter while dealing with tax payers showed that 22.7% of the respondents disagreed with the test statement while 77.4% of the respondents agreed. The mean of 4.11 suggests that the respondents agreed that SIRS exhibits transparency on tax matters while dealing with tax payers. The study also revealed that 28.0% of the total respondents disagreed with the test item that SIRS are honest in dealing with tax payers, while 74.0% of the respondents agreed with the test item. The mean of 4.04 indicated that majority of the respondents agreed that SIRS is honest in dealing with tax payers. Furthermore, there was evidence that 26.2% of the respondents disagreed that SIRS are reliable in dealing with tax payers, while 73.7% of the respondents agreed with the test statement. The average of 4.01 suggested that the respondents agreed that SIRS is reliable in dealing with tax payers. In addition, 27.3% of the respondents disagreed that SIRS is honest in the application of tax laws to all parties, while 72.6% of the respondents agreed. The mean of 3.98 suggested that respondents agreed that SIRS is honest in the application of tax laws to all parties. The study also revealed that 40.4% of the respondents disagreed that SIRS is not corrupt in handling tax matters, while 59.6% agreed that SIRS is not corrupt in handling tax matters. The mean of 3.59 shows that SIRS is not corrupt in handling tax matters, however, this result should be interpreted with caution because at least 40.4% of the respondents disagreed that SIRS is not corrupt in handling tax matters. On the overall, a mean of 4.09 further indicates that majority of the respondents agreed that there is trust on SIRS. The standard deviation of 1.13, 1.13, 1.17, 1.16, 1.17 and 1.3 respectively shows that the responses of the respondents are not susceptible to change.

Table 3. Respondents Responses on Trust in Government

S/N	Test Items		SD 1	D 2	PD 3	PA 4	A 5	SA 6	Mean	SDV
7	This state government is honest in the application of tax laws to all parties.	Freq	27	49	32	97	119	38	3.96	1.43
		%	7.5	13.5	8.8	26.8	32.9	10.5		
8	This state government exhibit openness and transparency in dealing with tax payers.	Freq	23	53	37	108	122	19	3.86	1.34
		%	6.4	14.6	10.2	29.8	33.7	5.2		

9	This state government is trust worthy on application of tax revenue	Freq	40	38	36	103	122	23	3.82	1.44
		%	11.0	10.5	9.9	28.5	33.7	6.4		
10	This state government is not corrupt in handling tax revenue	Freq	31	53	45	130	85	18	3.66	1.34
		%	8.6	14.6	12.4	35.9	23.5	5.0		
11	This state government is reliable and transparent in the award of contract,	Freq	41	89	44	107	63	18	3.32	1.43
		%	11.3	24.6	12.2	29.6	17.4	5.0		
12	This state government is reliable in the application of tax revenue	Freq	21	41	37	108	122	33	4.02	1.34
		%	5.8	11.3	10.2	29.8	33.7	9.1		
Mean & Standard Deviation									3.86	1.16

Table 3...

Table 3 describes the responses of the respondents on trust from the government in Lagos States, Nigeria. It was discovered that 29.8% of the sampled respondents disagreed that the state government is honest in the application of tax laws to all parties, while 80.2% of the respondents agreed with the test items. The mean of 3.96 suggests that the respondents agreed to the test item that the state government is honest in the application of tax laws to all parties. Additionally, the test item that the state government exhibits openness and transparency in dealing with tax payers revealed that 33.2% of the respondents disagreed with the test statement while 66.8% of the respondents agreed with test item. The mean of 3.86 suggests that the respondents agreed that the state government exhibit openness and transparency in dealing with tax payers. The study also revealed that 31.4% of the total respondents disagreed with the test item that the state government is trust worthy on application of tax revenue while 68.6% of the respondents agreed with the test item. The mean of 3.82 indicated that majority of the respondents agreed that the state government is trust worthy on application of tax revenue. Furthermore, there is the evidence that 35.6% of the respondents disagreed that the state government is not corrupt in handling tax revenue, while 64.4% agreed. The mean of 3.66 further suggests that the respondents agreed that the state government is not corrupt in handling tax revenue. The study also revealed that 48.1% of the respondents disagreed that the state government is reliable and transparent in the award of contract, while 51.9% of the respondents agreed to the test items. The mean of 3.32 suggests that the respondents agreed that the state government is reliable and transparent in the award of contract. In addition, 27.3% of the respondents disagreed that the state government is reliable in the application of tax revenue, while 72.7% agreed. The mean of 4.02 showed that the state

government is reliable in the application of tax revenue. On the overall, a mean of 3.80 further indicates that majority of the respondents agreed that there is trust on the government. A standard deviation of 1.43, 1.34, 1.44, 1.34, 1.43 and 1.34 respectively shows that the responses of the respondents are not susceptible to change.

Table 4. Respondents Responses on Voluntary Tax Compliance

S/N	Test Items		SD 1	D 2	PD 3	PA 4	A 5	SA 6	Mean	SDV
13	Paying tax is the right and natural things to do.	Freq	4	5	9	27	110	207	5.36	0.96
		%	1.1	1.4	2.5	7.5	30.4	57.1		
14	Paying tax is a responsibility that should be willingly accepted by all citizen.	Freq	1	5	5	23	120	208	5.43	0.82
		%	0.3	1.4	1.4	6.4	33.1	57.4		
15	I pay tax to support the state, other citizen and its programme.	Freq	0	5	7	22	148	180	5.36	0.80
		%	0.0	1.4	1.9	6.1	40.9	49.7		
16	I will pay tax even when there are no controls because I am sure I am doing the right things.	Freq	7	21	10	60	121	143	4.92	1.23
		%	1.9	5.8	2.8	16.6	33.4	39.5		
17	Paying tax promptly is a matter of cause because I like to contribute to everyone's goods.	Freq	0	17	6	59	141	139	5.05	1.02
		%	0.0	4.7	1.7	16.3	39.0	38.3		
18	I feel morally obliged to honestly declare all my income for tax purposes because I regard it as my duty.	Freq	5	11	20	66	162	98	4.83	1.07
		%	1.4	3.0	5.5	18.2	44.8	27.1		
19	I will pay tax even if tax audit does not exist.	Freq	21	38	24	84	117	78	4.01	1.34
		%	5.8	10.5	6.6	23.3	32.3	21.5		
Mean & Standard Deviation									5.10	0.81

Table 4 shows the responses on the level of voluntary tax compliance in the Lagos States, Nigeria. The study revealed that 5.0% of the total respondents disagreed with the test item that paying tax is the right and natural things to do while 95.0% of the respondents agreed with the test item. The mean of 5.36 indicates that majority of the respondents agreed that paying tax is the right and natural things to do. Furthermore, there is the evidence that 3.1% of the respondents disagreed that paying tax is a responsibility that should be willingly accepted by

all citizens, while 96.9% of the respondents agreed. The mean of 5.43 further suggests that the respondents agreed that paying tax is a responsibility that should be willingly accepted by all citizens. It was also discovered that 3.3% of the sampled respondents disagreed that they pay tax to support the state, other citizens and its programme, while 96.7% of the respondents agreed. The mean of 5.36 suggests that the respondents agreed to the test item that they pay tax to support the state, other citizens and its programme. Additionally, the opinion that respondents will pay tax even when there are no controls because they are sure that they are doing the right things shows that 10.5% of the respondents disagreed with the test statement that they will pay tax even when there are no controls because they are sure that they are doing the right things while 89.5% of the respondents agreed to the test items. The mean of 4.92 suggests that the respondents agreed that they will pay tax even when there are no controls because they are sure that they are doing the right things.

Furthermore, 6.4% of the respondents disagreed that paying tax promptly is a matter of cause because they like to contribute to everyone's goods, while 93.6% of the respondents agreed to test item. The mean of 5.05 suggests that the respondents agreed that paying tax promptly is a matter of cause because they like to contribute to everyone's goods. It was also discovered that 9.9% of the sampled respondents disagreed that they feel morally obliged to honestly declare all their income for tax purposes because they regard it as their duty, while 90.1% of the respondents agreed with the opinion. The mean of 4.83 suggests that the respondents agreed to the test item that they feel morally obliged to honestly declare all their incomes for tax purposes because they regard it as their duty. In addition, there is the evidence that 22.9% of the respondents disagreed with the test statement that they will pay tax even if tax audit does not exist while 77.1% of the respondents agreed with the test statement. The mean of 4.01 suggests that the respondents agreed that they will pay tax even if tax audit does not exist. On the overall, a mean of 5.1 further indicates that majority of the respondents agreed that voluntary tax compliance is prominent in the state. A standard deviation of 0.96, 0.82, 0.80, 1.23, 1.02, 1.07 and 1.34 respectively implies that the respondents were not likely to change their responses over time.

## DISCUSSION OF FINDINGS

The demographic statistics revealed that more males' respondents are involved in the study than the females' counterpart. Majority of the respondents are in their active age period, besides, they were knowledgeable enough to responds to the test items. Majority of the respondents are traders (33.4%), followed by artisan (28.7%) while the rest are transporters, contractors and professionals operating in the informal sector. The study also shows that 92.5%

of the respondents are potential taxpayers. However, from the test on trust from SIRS, 87.3%, 77.4%, 74%, and 73.7% agreed that SIRS is trustworthy, exhibit transparency, and honest in dealing with tax matters, and reliable in dealing with taxpayers respectively. Furthermore, 72.6% agreed to SIRS honesty in the application of tax laws while 59.6% were of the opinion that SIRS are not corrupt in handling tax matters, although, 40.4% reported otherwise, this calls for proper attention. Overall, the mean of 4.09 shows that majority of the respondents agreed that SIRS are trustworthy. However, on the test item of trust in government, 70.2%, 68.7%, and 68.6% of the respondents agreed respectively that state government is honest in the application of tax laws, show of openness and transparency, and trustworthy in the application of tax revenues respectively. In addition, 64.4%, 52%, and 72.6% were of the view that state government is not corrupt in handling tax revenues, reliable and transparent, and reliable in the application of tax revenues respectively. Overall, the average of 3.86 indicates that majority of the respondents agreed that there is trust in government.

The test items on voluntary tax compliance indicates that 95.1%, 97%, and 96.7% of the respondents agreed that tax is the right and natural things to do, tax payment should willingly be paid by citizens, and tax payment is meant to support the state and citizens respectively. Furthermore, 89.5%, 93.7%, 90.1%, and 77.0% of the respondents viewed that tax payment should be voluntary and not tied to any controls, tax payment should be prompt, there should be moral obligation to declare all income for tax assessment, and tax payment should be done without auditing respectively. Overall, a mean of 5.1 shows that majority of the respondents agreed to voluntary tax payment. The outcome of the study align with some of Afrobarometer (2022) outcome in respect of 34 African countries survey in 2019/2021. Afrobarometer study revealed that majority of the respondents agreed that government has the right to collect taxes, however, tax evasion increases due to corruption, lack of tax fairness, mistrust and misuse of tax revenues. In respect of Nigeria, Afrobarometer study also revealed that 49% respondents agreed that tax authority has the right to make citizens pay taxes while 37%, and 14% respondents disagreed, neither agreed nor disagreed respectively. However, in the area of taxes and government accountability, the survey revealed that on average 51% of the respondents agreed that government used tax revenues for the good of the citizens.

## CONCLUSION

Tax compliance in the informal sectors will increase tax revenues if well tapped, this in turn gives the government the opportunity to have more funds for financing public goods and services, promote economic growth and development, ensure adequate security, and minimize debt. Tax authorities and government must foster attitude of trust in taxpayers as this enhances

voluntary tax compliance. In developing countries, trust restoration in government should start from the local government. This is the closet government to the informal sector and therefore, should be trusted than the Federal or State government in service delivery and tax revenues usage. Building trust in the informal sectors taxpayers, is a major function government should embraced by ensuring that hard earned money paid by the citizens as taxes are invested on things of mutual benefit and wellbeing of the citizens. In Nigeria, Lagos State is the commercial hub and it has shown its lead in application of tax revenues which has earn trust among the taxpayers in the informal sector. This has translated into been the highest Internally Generated Revenue (IGR) State in the country for the past 10 years with 29.9% of total revenues generated by 36 states (NBS, 2020). This align with the viewed of Chang, Supriyadi and Torgler (2018) that building trust will strengthen tax morale and (Adekoya *et al.*, (2021) that using tax revenues for economic and social needs of the citizens will enhance better living of the citizens and tax compliance. At time, citizens has limited willingness to pay taxes based on mistrust in government and high rate of perception of corruption on tax revenues but the study negate this. The study revealed that 92.5% of the respondents are potential taxpayers and they agreed that tax revenues collected in the state were honestly applied for the benefit of the citizens. They also agreed that SIRS is honest and not corrupt in handling and dealing with tax matters and also that the State government exhibits transparency and trustworthy in the application of tax revenues. Furthermore, tax payment is seen as the right and natural things to do, and to support the state. Therefore, tax should be transparent, prompt and voluntary.

## RECOMMENDATIONS

1. Government and its institutions should always be transparent in all their dealings with taxpayers, this build trust and influence voluntary tax compliance
2. Government should always be accountable and reduce perception of corruption, this increases taxpayers probability to voluntary pay taxes as at when due
3. Government should always ensure rule of laws and protect lives and properties. Crime would be minimized and citizens would feel safe, this attract businesses and more informal sectors operators, create employment, and earn trust in government for payment of taxes.
4. Government should always invest tax revenues on public goods and services like roads, railways, hospital, schools, energy, security and industrialisation. This motivates taxpayers to pay more taxes based on fiscal exchange and legitimacy theories.
5. Government tax policies should be tailored towards easy way to pay taxes, boost trustworthy and ensure citizens confidence.



6. Tax culture should always be instituted among the informal sector participants and also improves citizens' participation in tax system with up to date data base.
7. Government should blocked tax fraud and corruption on tax revenues, this motivates taxpayers' willingness to pay tax.

## LIMITATIONS OF STUDY

The study focus on informal sectors taxpayers in Lagos State, Nigeria but future research could consider more states comparison and also across other countries. The formal sector could also be considered along with the informal sector.

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