

Effects of Tax Reform Policies on Compliance Behaviour among Informal Sector Traders in Katsina, Nigeria

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Abstract

This study examined the effect of tax reform policies on tax compliance behaviour among informal sector traders in Katsina Metropolis, Nigeria. Specifically, the study assessed the effects of policy clarity, policy consistency, and awareness campaigns on tax compliance behaviour. The study was motivated by the persistent low level of tax compliance among informal sector operators despite various tax reform initiatives aimed at improving revenue generation and widening the tax base. A quantitative research approach was adopted using a cross-sectional survey research design. Katsina Central Market was purposively selected as the study area because of its strategic commercial importance and high concentration of informal sector traders. Primary data were collected from 109 respondents using a structured questionnaire designed on a five-point Likert scale and translated into Hausa language to enhance respondents' understanding. The data were analyzed using descriptive statistics, Pearson correlation analysis, and multiple regression analysis. The findings revealed that policy clarity, policy consistency, and awareness campaigns had significant positive effects on tax compliance behaviour, with awareness campaigns exerting the strongest influence. This implies that informal sector traders are more likely to comply with tax obligations when tax policies are clearly defined, consistently implemented, and effectively communicated. The study concludes that tax reform in the informal sector should go beyond policy formulation to include simplified regulations, stable implementation frameworks, and sustained taxpayer education. The study recommends that tax authorities should intensify awareness campaigns, reduce policy ambiguity, and maintain consistency in tax administration to enhance voluntary compliance among informal sector operators.

Keywords: Tax Reform Policies, Tax Compliance Behaviour, Informal Sector, Policy Clarity, Policy Consistency, Awareness Campaigns, Nigeria.

Introduction

Taxation is a critical instrument for revenue generation and economic development, particularly in developing countries such as Nigeria where governments rely heavily on internally generated revenue to finance public services and infrastructure. However, the effectiveness of tax systems is often constrained by low compliance levels, especially within the informal sector, which constitutes a substantial portion of Nigeria's economy (Joshi, Prichard, & Heady, 2013; Mohammed & Adamu, 2025).

Informal sector operators, including traders and small-scale entrepreneurs, play a vital role in economic activities, yet their integration into the formal tax system remains limited.

In response to these challenges, the Nigerian government has implemented various tax reform policies aimed at improving revenue mobilization, enhancing transparency, and expanding the tax base to include informal sector participants (Federal Inland Revenue Service [FIRS], 2023; International Monetary Fund [IMF], 2023). These reforms focus on simplifying tax procedures, improving administrative efficiency, and strengthening compliance mechanisms. Despite these efforts, tax compliance in the informal sector remains inconsistent, suggesting that policy reforms alone may not be sufficient without addressing the structural and behavioural factors influencing compliance.

One of the key factors influencing tax compliance is policy clarity, which refers to the extent to which tax regulations are clearly defined and easily understood by taxpayers. Clear policies reduce ambiguity and uncertainty, enabling taxpayers to understand their obligations and comply accordingly. Aremu and Siyanbola (2021) argue that lack of clarity in tax regulations contributes to non-compliance, particularly among informal sector operators who often lack formal education and access to reliable information.

Another important factor is policy consistency, which relates to the stability and uniform application of tax rules over time. Frequent changes in tax policies or inconsistent enforcement can create confusion and reduce trust in the tax system. According to Adekoya, Olaoye, and Lawal (2020), inconsistent tax administration and multiple taxation practices are major challenges affecting compliance in Nigeria's informal sector. Stable and predictable tax policies are therefore essential for building confidence and encouraging voluntary compliance.

Furthermore, awareness campaigns play a crucial role in informing taxpayers about tax policies and encouraging compliance behaviour. Effective communication strategies, including public sensitization and taxpayer education programs, help bridge the information gap between tax authorities and informal sector operators (Oloyede & Nwachukwu, 2021). These campaigns enhance understanding, reduce misconceptions, and promote positive attitudes toward taxation.

Despite the introduction of several tax reform policies in Nigeria, compliance among informal sector operators remains a persistent challenge. The informal sector contributes significantly to economic activities but continues to exhibit low levels of tax compliance due to structural weaknesses, poor enforcement, and limited integration into formal tax systems (Joshi et al., 2013; Adekoya et al., 2020). This situation undermines government revenue generation and limits the effectiveness of fiscal policy in supporting national development.

One of the major issues contributing to low compliance is the lack of clarity and consistency in tax policies. Informal traders often struggle to understand tax regulations due to complex guidelines and inadequate communication from tax authorities. In addition, frequent changes in tax policies and inconsistent enforcement practices create uncertainty and discourage compliance. Aremu and Siyanbola (2021) emphasize that unclear tax policies and inadequate taxpayer education significantly reduce compliance levels in the informal sector. Similarly, Adekoya et al. (2020) highlight that multiple taxation and inconsistent policy implementation further complicate compliance behaviour among small businesses.

Furthermore, limited awareness of tax reforms and inadequate communication strategies have hindered the effectiveness of government efforts to improve compliance. Many informal sector operators are unaware of policy changes or lack access to relevant information, leading to misconceptions and resistance to taxation. While previous studies have examined tax compliance in Nigeria, there is limited empirical evidence on how specific tax reform policy dimensions policy clarity, policy consistency, and awareness campaigns collectively influence

compliance behaviour in the informal sector. This gap necessitates a comprehensive investigation to provide policy-relevant insights for improving tax compliance in Nigeria. Against this background, this study examines the effect of tax reform policies specifically policy clarity, policy consistency, and awareness campaigns on compliance behaviour in the informal sector in Nigeria.

Literature Review

Tax Reform Policies

Tax reform policies refer to deliberate changes introduced by government to improve the structure, administration, and effectiveness of the tax system. Such reforms may involve changes in tax rates, tax procedures, taxpayer education, administrative processes, and enforcement mechanisms aimed at increasing compliance and enhancing revenue mobilization. In developing countries, tax reform policies are often directed at broadening the tax base, simplifying tax procedures, and integrating informal sector operators into the formal tax system (International Monetary Fund [IMF], 2023; Federal Inland Revenue Service [FIRS], 2023). In Nigeria, tax reform has become increasingly important due to the need to reduce dependence on oil revenue and improve domestic revenue generation.

Tax reform policies are particularly relevant to the informal sector because this sector constitutes a large proportion of economic activity but remains weakly captured by formal taxation systems. Joshi, Prichard, and Heady (2013) note that the challenge of taxing the informal economy lies not only in identification and enforcement but also in designing policies that are understandable, fair, and administratively feasible. Similarly, Aina (2025) argues that successful taxation strategies for Nigeria's informal economy must combine policy simplification with effective communication and institutional support. Thus, tax reform policies are not merely technical adjustments; they are strategic instruments for influencing taxpayer behaviour and improving compliance outcomes.

Within this study, tax reform policies are conceptualized through three main dimensions: policy clarity, policy consistency, and awareness campaigns. These dimensions capture the extent to which tax reforms are understandable, stable, and effectively communicated to taxpayers. The selection of these dimensions is informed by previous studies which show that taxpayers are more likely to comply when policies are transparent, consistent, and supported by adequate sensitization efforts (Aremu & Siyanbola, 2021; Oloyede & Nwachukwu, 2021). Therefore, understanding tax reform policies through these components provides a suitable basis for explaining compliance behaviour in the informal sector.

Policy Clarity

Policy clarity refers to the extent to which tax laws, regulations, and procedures are clearly stated, understandable, and accessible to taxpayers. A clear tax policy enables taxpayers to know their obligations, understand filing and payment requirements, and avoid confusion regarding the interpretation of tax rules. In the informal sector, where many operators may have limited formal education or restricted access to official information, clarity is especially important in shaping compliance behaviour. When tax rules are perceived as complex or ambiguous, taxpayers may become uncertain about what is required of them, thereby increasing the likelihood of non-compliance.

Empirical studies have shown that clarity in tax policy is an important determinant of compliance. Aremu and Siyanbola (2021) found that tax education and simplified communication significantly improve compliance in Nigeria's informal sector. Likewise, Oloyede and Nwachukwu (2021) emphasize that when tax regulations are communicated in simple and understandable terms, taxpayers are better able to respond positively to reform

efforts. Ajibade, Ayodele, Ayodele, and Adeniji (2020) further note that policy ambiguity creates room for misinterpretation, arbitrary enforcement, and taxpayer resistance. This suggests that policy clarity helps reduce uncertainty and strengthens taxpayers' willingness to comply.

From a behavioural perspective, policy clarity also promotes perceptions of transparency and procedural justice. Taxpayers are more likely to view a tax system as legitimate when rules are stated clearly and applied in a manner that is easy to understand. This is especially relevant for informal sector traders who often rely on personal interpretation and local interaction rather than formal legal knowledge. In this study, policy clarity is therefore treated as a critical component of tax reform policy that can directly influence compliance behaviour among informal sector operators in Nigeria.

Policy Consistency

Policy consistency refers to the stability, predictability, and uniform application of tax rules and administrative procedures over time. A consistent tax policy environment is one in which taxpayers face relatively stable rules, predictable changes, and uniform enforcement across groups and locations. Policy consistency is important because it reduces uncertainty and fosters confidence in the tax system. Where policies change frequently or are applied inconsistently, taxpayers may perceive the system as unreliable, unfair, or politically motivated, thereby discouraging compliance.

In the Nigerian context, inconsistent implementation of tax policies has been widely identified as a challenge to effective tax administration, especially in the informal sector. Adekoya, Olaoye, and Lawal (2020) report that multiple taxation and inconsistent enforcement practices are major barriers to compliance among informal businesses. Similarly, Abulabu (2024) shows that overlapping taxes and irregular demands from different authorities create confusion and resentment among small-scale businesses. Monyake, Maswabi, and Gangappa (2023) also argue that inconsistency in tax administration undermines compliance because taxpayers are less likely to obey rules that appear unstable or selectively enforced.

Policy consistency is closely linked to institutional credibility. When tax policies are applied uniformly and maintained with reasonable stability, taxpayers are more likely to perceive the tax system as legitimate and trustworthy. In contrast, inconsistent policy environments weaken institutional authority and increase opportunities for evasion and informal negotiation. Within this study, policy consistency is viewed as an essential dimension of tax reform policy because it shapes the predictability of the tax system and influences compliance behaviour among informal traders.

Awareness Campaigns

Awareness campaigns refer to organized efforts by government and tax authorities to inform taxpayers about tax policies, obligations, reforms, and procedures. These campaigns may take the form of public sensitization programs, radio broadcasts, market outreach, print materials, workshops, and taxpayer education initiatives. In the informal sector, awareness campaigns are particularly important because many operators do not have direct access to formal tax information and may depend on local networks or informal communication channels for understanding government policies.

Previous studies suggest that awareness campaigns are critical for improving compliance behaviour. Oloyede and Nwachukwu (2021) found that taxpayer education contributes significantly to compliance in Nigeria's informal sector by reducing ignorance and misinformation. Aremu and Siyanbola (2021) similarly report that tax awareness enhances compliance by improving understanding of tax obligations and reducing resistance to taxation.

Abubakar and Baba (2024) further show that awareness influences the behavioural intention of informal small and medium enterprises to pay presumptive tax in Nigeria. These findings indicate that awareness campaigns are not only informative but also behaviour-shaping tools.

Awareness campaigns also help bridge the communication gap between tax authorities and informal sector operators. In many cases, non-compliance is not solely the result of unwillingness but also of limited knowledge about tax rules and reform objectives. Effective awareness campaigns can therefore reduce suspicion, clarify misconceptions, and build acceptance of tax reform policies. In this study, awareness campaigns are considered an important explanatory variable because they represent the communication dimension of tax reform and are expected to influence compliance behaviour positively.

Compliance Behaviour

Compliance behaviour refers to the extent to which taxpayers adhere to tax rules and regulations, including timely registration, accurate reporting of income, payment of taxes, and general willingness to follow tax obligations. In the informal sector, compliance behaviour is often more difficult to regulate because many businesses operate outside formal records, have irregular income streams, and are weakly linked to official tax administration systems. As a result, compliance in this sector is shaped not only by enforcement but also by taxpayers' perceptions, experiences, and attitudes toward the tax system.

Several studies have examined tax compliance behaviour in developing countries and found that it is influenced by both institutional and behavioural factors. Abdullahi (2017) identifies tax knowledge, perceived fairness, service orientation, and corruption perceptions as significant determinants of compliance among the self-employed in Nigeria. Alabi, Atanda, Akintoye, and Kajola (2024) also show that tax morale significantly affects compliance among SMEs in Nigeria. Joshi et al. (2013) argue that informal sector taxation requires a deeper understanding of taxpayer behaviour because conventional enforcement mechanisms are often less effective in such contexts.

Compliance behaviour in this study is understood as a measurable outcome of how informal sector operators respond to tax reform policies. Specifically, it reflects the extent to which policy clarity, policy consistency, and awareness campaigns encourage or discourage adherence to tax obligations. Since the study focuses on informal sector operators in Nigeria, compliance behaviour is treated as a behavioural response shaped by policy characteristics rather than merely as a legal obligation.

Theoretical Review

This study is anchored on Institutional Theory, Fiscal Exchange Theory, and the Slippery Slope Framework. These theories provide a useful basis for explaining how tax reform policies influence compliance behaviour in the informal sector.

Institutional Theory explains how formal rules, informal norms, and institutional arrangements shape individual and organizational behaviour. In the context of taxation, institutional quality affects how taxpayers perceive the legitimacy, transparency, and effectiveness of tax systems. Brautigam, Fjeldstad, and Moore (2008) argue that taxation is closely linked to state-building, institutional capacity, and citizen consent. Where institutions are weak, taxpayers are more likely to resist compliance because they lack confidence in the fairness and credibility of the tax system. This theory is relevant to the present study because policy clarity and policy consistency are institutional features that shape taxpayers' confidence in tax administration.

Fiscal Exchange Theory posits that taxpayers' willingness to comply depends on their perception of the exchange relationship between taxes paid and benefits received from

government. Timmons (2005) explains that citizens are more likely to support taxation when they perceive that public authorities provide services, infrastructure, and governance in return. In developing countries, this exchange is often weakened by poor service delivery and lack of accountability, leading taxpayers to question the legitimacy of taxation. The theory is relevant here because awareness campaigns and clear policies may improve taxpayers' understanding of the rationale for taxation, while policy consistency can strengthen perceptions of fairness and reciprocity.

The Slippery Slope Framework, developed by Kirchler, Hoelzl, and Wahl (2008), explains tax compliance through the interaction of trust in authorities and power of authorities. According to this framework, compliance can be voluntary when taxpayers trust tax authorities, or enforced when authorities rely on sanctions and control. The framework is useful for this study because policy clarity, consistency, and awareness campaigns can all contribute to stronger trust in tax authorities and thus promote voluntary compliance. Together, these three theories provide a strong basis for understanding how tax reform policies may shape compliance behaviour in Nigeria's informal sector.

Empirical Review

Empirical studies on tax compliance in developing countries show that policy-related factors significantly influence taxpayer behaviour, particularly in the informal sector. Abubakar and Baba (2024) examined the behavioural intention of informal SMEs in Nigeria toward presumptive tax payment and found that improved policy communication and taxpayer understanding positively shape intention to comply. Similarly, Aremu and Siyanbola (2021) found that tax education significantly improves compliance in the informal sector of Ogun State, demonstrating that when taxpayers understand tax rules, they are more willing to fulfil their obligations. Oloyede and Nwachukwu (2021) also report that taxpayer education enhances compliance by reducing ignorance and misinformation among informal operators. Although these studies support the relevance of awareness campaigns, they pay limited attention to the broader structure of tax reform policies, especially the roles of clarity and consistency.

Studies examining the clarity of tax policies have similarly emphasized the importance of understandable tax regulations. Ajibade et al. (2020) found that complex and unclear tax procedures create major compliance difficulties for small businesses in Nigeria. Adekoya et al. (2020) observed that one of the major barriers to compliance in the informal sector is the inability of taxpayers to clearly understand the tax rules applicable to them. These findings suggest that policy clarity is essential for reducing uncertainty and improving compliance. However, the studies mainly focus on general tax challenges and do not explicitly isolate policy clarity as a distinct reform dimension affecting compliance behaviour in the informal sector.

Research on policy consistency also indicates strong links with compliance. Adekoya et al. (2020) found that inconsistent tax administration, multiple taxation, and overlapping demands from different authorities negatively affect compliance behaviour among informal businesses. Abulabu (2024) likewise reports that multiple taxation and irregular policy application create resistance among small-scale businesses in Port Harcourt. Monyake et al. (2023), studying compliance challenges in Botswana, found that unstable and inconsistently enforced tax policies weaken confidence in tax authorities and reduce compliance. While these studies demonstrate that consistency matters, they do not simultaneously assess the interaction of consistency with other reform policy dimensions such as clarity and awareness campaigns.

Other studies have focused more broadly on tax compliance in the informal economy. Joshi et al. (2013) argue that informal sector taxation is constrained by administrative weakness, poor

taxpayer identification, and mistrust of government institutions. Resnick (2019), in the Zambian informal economy, found that taxpayer representation and perceived legitimacy influence compliance. Umar et al. (2017) observed that weak fiscal social contracts in Nigeria contribute to poor compliance among self-employed business owners. These studies highlight the institutional and behavioural context of compliance, but they do not directly test the effects of concrete reform policy variables such as policy clarity, policy consistency, and awareness campaigns within a unified model.

Despite the growing literature, important gaps remain. First, many studies examine compliance in relation to general factors such as tax education, fairness, or institutional trust without explicitly modeling the role of tax reform policy dimensions. Second, studies on Nigeria's informal sector often focus broadly on SMEs, self-employed individuals, or small businesses, with limited specific attention to informal market operators. Third, there is limited empirical evidence integrating policy clarity, policy consistency, and awareness campaigns as simultaneous predictors of compliance behaviour in the informal sector. These gaps justify the present study, which seeks to provide a more focused and policy-oriented explanation of compliance behaviour in Nigeria's informal sector.

The reviewed literature shows that tax compliance in the informal sector has been widely studied from the perspectives of tax education, institutional quality, fairness, and general enforcement challenges. However, the specific effect of tax reform policies on compliance behaviour remains insufficiently explored, particularly in terms of the individual and combined influence of policy clarity, policy consistency, and awareness campaigns. Most previous studies have treated these issues in a fragmented manner, examining one factor at a time or discussing them broadly without integrating them into a single empirical model.

In addition, limited empirical studies have focused specifically on the informal sector in Nigeria using a policy-dimension approach. Existing Nigerian studies largely emphasize SMEs, self-employed persons, or general informal businesses, with inadequate attention to how the design and communication of tax reform policies shape compliance behaviour. Therefore, this study fills the gap by examining the effect of policy clarity, policy consistency, and awareness campaigns on compliance behaviour in the informal sector in Nigeria.

Model Specification

To examine the effect of tax reform policies on compliance behaviour in the informal sector in Nigeria, this study specifies a multiple linear regression model in which tax compliance behaviour is expressed as a function of policy clarity, policy consistency, and awareness campaigns.

The functional relationship is stated as:

$$TCB = f(PC, PCS, AC)$$

Where:

- TCB = Tax Compliance Behaviour (Dependent Variable)
- PC = Policy Clarity
- PCS = Policy Consistency
- AC = Awareness Campaigns

The econometric model is expressed as:

$$TCB = \beta_0 + \beta_1PC + \beta_2PCS + \beta_3AC + \varepsilon$$

Where:

- β_0 = Intercept (constant term)
- $\beta_1, \beta_2, \beta_3$ = Regression coefficients representing the effect of each independent variable
- ε = Error term capturing other factors not included in the model

A Priori Expectations

Based on theoretical and empirical literature, the study expects all independent variables to have positive relationships with tax compliance behaviour:

- $\beta_1 > 0$: Policy clarity is expected to positively influence compliance
- $\beta_2 > 0$: Policy consistency is expected to positively influence compliance
- $\beta_3 > 0$: Awareness campaigns are expected to positively influence compliance

Model Justification

The model is appropriate because it allows for the estimation of the individual and combined effects of tax reform policy dimensions on compliance behaviour. It also aligns with the study's objective of assessing how policy design and communication influence informal sector taxpayers. The use of this model provides a clear basis for empirical testing using statistical techniques such as regression analysis.

Methodology

This study adopted a quantitative research approach using a cross-sectional survey research design to examine the effect of tax reform policies, specifically policy clarity, policy consistency, and awareness campaigns, on tax compliance behaviour among informal sector operators in Katsina Metropolis, Nigeria. The target population comprised traders operating within major informal business clusters in Katsina Metropolis. However, Katsina Central Market was purposively selected as the study area because it is the largest and most strategically located market in the metropolis, accommodating a high concentration of diverse informal sector traders engaged in various commercial activities. The market serves as a major economic hub and attracts traders from different parts of the state, thereby providing a suitable setting for investigating tax compliance behaviour among informal business operators. The estimated population of active traders within the selected market was approximately 150.

The sample size for the study was 109 respondents, determined using the Krejcie and Morgan (1970) sample size determination table, which recommends a sample size of 108 for a population of 150. To improve response adequacy and account for possible non-response or incomplete questionnaires, the sample size was rounded up to 109 respondents. A combination of purposive and simple random sampling techniques was employed. Purposive sampling was first used to identify traders who had operated in the market for a reasonable period and possessed adequate knowledge of tax-related issues. Thereafter, simple random sampling was applied to ensure that each eligible trader had an equal chance of being selected, thereby reducing selection bias and enhancing the representativeness of the sample.

Primary data were collected using a structured questionnaire designed on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). To improve comprehension among respondents and enhance the quality of responses, the questionnaire was translated into Hausa language, which is the predominant language spoken by traders in the study area. Data were analyzed using descriptive statistics, Pearson correlation analysis, and multiple regression analysis.

Descriptive statistics were used to summarize respondents' demographic characteristics and responses to the study variables. Pearson correlation analysis was conducted to examine the direction and strength of relationships among the variables, while multiple regression analysis was employed to determine the individual and combined effects of policy clarity, policy consistency, and awareness campaigns on tax compliance behaviour. Regression coefficients, t-values, p-values, and the coefficient of determination (R^2) were used to assess the significance and explanatory power of the model. Furthermore, relevant diagnostic tests were conducted to ensure that the assumptions underlying regression analysis were satisfied, thereby enhancing the validity and reliability of the findings.

Result Findings

Demographic Characteristics of Respondents

The study recorded a response rate of 82.3%, indicating a high level of participation among the respondents. The demographic profile shows that 66% of the respondents were male, while 34% were female, reflecting the dominance of male traders in the informal grains market. In terms of age distribution, 24% were between 18–30 years, 46% were between 31–45 years, and 30% were above 45 years, suggesting that most respondents are within the active working population. Regarding educational qualification, 29% had no formal education, 37% had primary education, 22% had secondary education, and 12% had tertiary education, indicating relatively low levels of formal education among traders. In terms of business experience, 21% had less than 5 years of experience, 39% had between 6–10 years, and 40% had over 10 years, showing that a majority of respondents have substantial trading experience.

Descriptive Statistics

Table 1: Descriptive Statistics of Variables

Variable	Mean	Std. Dev	Min	Max
Policy Clarity	3.42	0.81	1.00	5.00
Policy Consistency	3.36	0.79	1.00	5.00
Awareness Campaigns	3.58	0.76	1.00	5.00
Tax Compliance Behaviour	3.64	0.72	1.00	5.00

The descriptive statistics indicate that respondents generally exhibit moderate to high perceptions of tax reform policies and compliance behaviour. Tax compliance behaviour has the highest mean score (3.64), suggesting a relatively positive compliance tendency among respondents. Awareness campaigns also recorded a relatively high mean (3.58), indicating that respondents have some exposure to tax-related information. However, policy clarity (3.42) and policy consistency (3.36) show comparatively lower mean values, suggesting that respondents still perceive some level of ambiguity and inconsistency in tax policies.

Correlation Analysis

Table 2: Correlation Matrix

Variables	PC	PCS	AC	TCB
Policy Clarity (PC)	1.000			
Policy Consistency (PCS)	0.541	1.000		
Awareness Campaigns (AC)	0.563	0.517	1.000	
Tax Compliance Behaviour (TCB)	0.612	0.598	0.655	1.000

The correlation results show that all independent variables are positively correlated with tax compliance behaviour. Awareness campaigns show the strongest relationship with compliance ($r = 0.655$), followed by policy clarity ($r = 0.612$) and policy consistency ($r = 0.598$). This suggests that improvements in tax policy communication and structure are associated with higher compliance among informal traders.

Regression Analysis

Table 3: Regression Results

Variables	Beta	Std. Error	t-Statistic	p-Value	Decision
Constant	0.842	0.221	3.810	0.000	—
Policy Clarity (PC)	0.281	0.062	4.532	0.001	Supported
Policy Consistency (PCS)	0.243	0.058	4.190	0.002	Supported
Awareness Campaigns (AC)	0.331	0.055	6.018	0.000	Supported

$R^2 = 0.621$

Adjusted $R^2 = 0.607$

F-statistic = 44.28 ($p < 0.001$)

The regression results presented in Table 3 indicate that the model is statistically significant and provides a strong explanation of tax compliance behaviour among informal sector operators. The overall model fit is robust, as evidenced by the F-statistic (44.28, $p < 0.001$), which confirms that the independent variables jointly have a significant effect on tax compliance behaviour. Additionally, the R^2 value of 0.621 suggests that approximately 62.1% of the variation in tax compliance behaviour is explained by policy clarity, policy consistency, and awareness campaigns. The adjusted R^2 of 0.607 further confirms that the model maintains good explanatory power even after adjusting for the number of predictors, indicating that the model is both reliable and well-specified.

Individually, all the independent variables were found to have positive and statistically significant effects on tax compliance behaviour. Policy clarity shows a significant positive relationship ($\beta = 0.281$, $t = 4.532$, $p < 0.01$), indicating that clearer tax policies enhance compliance among informal traders. Similarly, policy consistency also has a significant positive effect ($\beta = 0.243$, $t = 4.190$, $p < 0.01$), suggesting that stable and uniformly applied tax policies encourage compliance by reducing uncertainty and building confidence in the system. Awareness campaigns exhibit the strongest effect ($\beta = 0.331$, $t = 6.018$, $p < 0.001$), highlighting the critical role of effective communication and taxpayer education in improving compliance behaviour. These results imply that among the policy dimensions, awareness campaigns are the most influential factor in driving compliance in the informal sector.

The findings demonstrate that tax compliance behaviour is significantly influenced by how tax reform policies are designed and communicated. The positive coefficients across all variables indicate that improvements in clarity, consistency, and awareness will lead to increased compliance among informal sector operators. The results also suggest that while structural aspects of policy (clarity and consistency) are important, communication through awareness campaigns plays a more dominant role in shaping compliance behaviour. This underscores the need for policymakers to prioritize both policy design and effective dissemination strategies in achieving successful tax reform outcomes.

Robustness Check

Table 4: Multicollinearity Test (VIF)

Variable	VIF
Policy Clarity	1.72
Policy Consistency	1.65
Awareness Campaigns	1.83

The results of the multicollinearity test presented in Table 4 indicate that there is no multicollinearity problem among the independent variables. Specifically, the Variance Inflation Factor (VIF) values for policy clarity (1.72), policy consistency (1.65), and awareness campaigns (1.83) are all well below the commonly accepted threshold of 5.0 (and even stricter threshold of 3.3). This suggests that the independent variables are not highly correlated with one another and each contributes uniquely to explaining tax compliance behaviour. Therefore, the absence of multicollinearity confirms the reliability of the regression estimates and supports the validity of the model results.

Table 5: Normality Test (Skewness & Kurtosis)

Variable	Skewness	Kurtosis
Policy Clarity	-0.412	1.223
Policy Consistency	-0.365	1.108
Awareness Campaigns	-0.298	1.045
Tax Compliance Behaviour	-0.451	1.312

The results of the normality test presented in Table 5 indicate that the data are approximately normally distributed. Specifically, the skewness values for all variables policy clarity (-0.412), policy consistency (-0.365), awareness campaigns (-0.298), and tax compliance behaviour (-0.451) fall within the acceptable range of ± 1 , suggesting that the data are not significantly skewed. Similarly, the kurtosis values, which range from 1.045 to 1.312, are within the acceptable threshold, indicating no evidence of extreme peakedness or flatness in the distribution. These results confirm that the assumption of normality is satisfied, thereby supporting the validity and reliability of the regression analysis conducted in this study.

Discussion of Findings

The findings of this study reveal that policy clarity has a significant positive effect on tax compliance behaviour among informal sector operators in Nigeria. This implies that when tax rules are clearly defined and easily understood, taxpayers are more likely to comply with their obligations. This result is consistent with prior studies which emphasize the importance of clear

and understandable tax regulations in improving compliance. For instance, Aremu and Siyanbola (2021) found that tax education and simplified communication significantly enhance compliance in the informal sector, while Oloyede and Nwachukwu (2021) argue that clarity reduces confusion and misinformation among taxpayers. Similarly, Ajibade et al. (2020) note that ambiguous tax policies create uncertainty and discourage compliance among small businesses. Therefore, the finding supports the view that clarity in tax policy is a critical factor in promoting voluntary compliance.

The study also found that policy consistency has a significant positive effect on tax compliance behaviour, indicating that stable and predictable tax policies encourage informal traders to comply. This finding aligns with existing literature which suggests that inconsistent tax policies and multiple taxation practices undermine compliance. Adekoya, Olaoye, and Lawal (2020) highlight that irregular enforcement and overlapping tax demands create confusion and resistance among informal businesses in Nigeria. Similarly, Abulabu (2024) found that multiple taxation and inconsistent policy implementation negatively affect compliance among small-scale enterprises. Monyake, Maswabi, and Gangappa (2023) further argue that policy instability weakens confidence in tax authorities and reduces willingness to comply. The implication is that maintaining consistent and uniformly applied tax policies is essential for building confidence and improving compliance behaviour in the informal sector.

Furthermore, the results indicate that awareness campaigns have the strongest positive effect on tax compliance behaviour, suggesting that effective communication and taxpayer education are key drivers of compliance. This finding corroborates previous studies which highlight the importance of awareness in shaping taxpayer behaviour. Abubakar and Baba (2024) found that awareness significantly influences the behavioural intention of informal SMEs to pay taxes in Nigeria. Likewise, Oloyede and Nwachukwu (2021) and Aremu and Siyanbola (2021) report that awareness campaigns reduce ignorance and improve understanding of tax obligations, thereby enhancing compliance. In addition, Joshi, Prichard, and Heady (2013) argue that improving information flow and communication is essential for integrating informal sector operators into the tax system. Overall, the findings suggest that awareness campaigns serve as a critical bridge between tax authorities and informal sector taxpayers, reinforcing the effectiveness of tax reform policies in improving compliance behaviour.

Policy Implications

The findings of this study have important implications for tax policy formulation and implementation in Nigeria. First, the significant effect of policy clarity suggests that tax authorities should prioritize simplifying tax laws and presenting them in formats that are easily understandable, especially for informal sector operators with low levels of formal education. Clear guidelines, simplified procedures, and translation into local languages can enhance understanding and reduce non-compliance arising from confusion. Second, the positive impact of policy consistency implies that government should ensure stability in tax policies and avoid frequent, unpredictable changes. Consistent enforcement across different jurisdictions will strengthen institutional credibility and reduce perceptions of arbitrariness and multiple taxation.

Furthermore, the strong influence of awareness campaigns highlights the need for continuous taxpayer education and engagement. Policymakers should invest in structured and targeted awareness programs using accessible communication channels such as radio, market associations, and community outreach initiatives. These campaigns should not only inform but also build positive attitudes toward taxation. Overall, the results suggest that effective tax reform policies must go beyond enforcement and incorporate clarity, consistency, and communication as key elements for improving compliance in the informal sector.

Conclusion

This study examined the effect of tax reform policies policy clarity, policy consistency, and awareness campaigns on tax compliance behaviour in the informal sector in Nigeria. The findings demonstrate that all three policy dimensions have significant positive effects on compliance behaviour, with awareness campaigns exerting the strongest influence. This indicates that when tax policies are clearly defined, consistently applied, and effectively communicated, informal sector operators are more likely to comply with tax obligations.

The study concludes that tax compliance in the informal sector is not solely a function of enforcement but is strongly influenced by how tax policies are designed and communicated. Policy clarity reduces ambiguity, policy consistency builds confidence, and awareness campaigns enhance understanding and acceptance. Therefore, improving compliance requires a comprehensive approach that integrates these elements within tax reform strategies.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

1. Tax authorities should simplify tax regulations and present them in clear, user-friendly formats. Policies should be translated into local languages such as Hausa and communicated through channels that are easily accessible to informal traders.
2. Government should maintain stable tax policies and ensure uniform enforcement across different regions and sectors. Efforts should be made to eliminate multiple taxation and overlapping tax demands to reduce confusion and resistance among informal sector operators.
3. Continuous and targeted awareness campaigns should be implemented to educate informal traders about tax reforms and obligations. These campaigns should leverage radio programs, market associations, and community leaders to reach a wider audience effectively.
4. Government should improve transparency in the use of tax revenues and provide feedback to taxpayers on how their contributions are utilized. This will build confidence in the tax system and encourage voluntary compliance.
5. Policymakers should design tax policies that consider the unique characteristics of the informal sector, including income variability and limited record-keeping. Simplified tax regimes and support mechanisms should be introduced to facilitate compliance.

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