

# TAXATION OF INFORMAL SECTOR AND GENDER IMPACT ASSESSMENT (FOCUS ON THE NIGERIA TAX ACT 2025)

BY

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# LEARNING OBJECTIVES

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At the end of this presentation, participants are expected to know the following:

- a. The informal taxation under the NTA 2025
- b. Gender Impact assessment on informal sector under the NTA 2025
- c. Challenges and recommendation on issues regarding taxation of informal sector and gender impact assessment

# 1. INTRODUCTION

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Gender Impact Assessment (GIA) on the taxation of the informal sector is a systematic, evidence-based process designed to identify, analyze, and mitigate the disproportionate, often negative, effects that tax policies have on women and men operating outside formal economic structures.

Because women are disproportionately represented in lower-income informal sectors, such as street vending and small-scale trading, standard tax policies, particularly "one-size-fits-all" presumptive taxes, often act as regressive burdens that hit women harder than men. A GIA aims to transform these "gender-blind" policies into gender-responsive ones by analyzing sex-disaggregated data and the structural, societal, and economic contexts of informal workers.

Key Contexts for GIA in the Informal Sector includes

Disproportionate Representation. In many low- and middle-income contexts (especially in sub-Saharan Africa), women make up the majority (roughly 74% in some studies) of informal sector operators,

concentrating in low-margin retail and food sectors. Another important issues in GIA is the regressive tax structures. Taxes on the informal sector such as daily market fees, licensing fees, or presumptive taxes are often regressive. A fixed daily fee takes a higher percentage of income from a low-earning woman than a high-earning man. Another issue is the invisible Tax Burdens. Informal taxes are often collected arbitrarily, and payments are not recorded, making it difficult to analyze the full, often coercive, financial strain on women. Objectives of a Gender Impact Assessment

Identify Implicit Bias. To uncover how seemingly neutral laws (e.g., "all market traders pay 100") disproportionately affect women who earn less. Another is to mitigate negative effects. To modify tax collection methods to be fairer, such as establishing income-based thresholds or implementing non-cash payment systems. Also is to

Promote equity. To design policies that recognize the, often higher, contributions made by women and ensure they have a voice in policy formulation.

A GIA is essential for moving from "gender-blind" to "gender-sensitive" fiscal policies, ensuring that tax systems contribute to poverty reduction rather than enhancing economic inequality.

## 2. CONCEPTUAL FRAMEWORK

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Conceptual framework for taxing the informal sector through a gender impact assessment aims to balance revenue generation with equity, recognizing that the informal economy is highly heterogeneous and gendered. While taxing the informal sector can broaden the tax base and increase government accountability, it often imposes disproportionate burdens on women, who are concentrated in lower-earning, more visible informal activities (e.g., market trading). Conceptual Framework Structure

This framework integrates tax policy, gender analysis, and administrative efficiency. These include:

- i. Gender-Blind vs. Gender-Aware Tax Policy: Traditional informal sector taxation is often "gender-blind" (assumes flat taxes are neutral) but in practice, these are regressive, disproportionately affecting women with lower incomes.
- ii. The "Visibility" and "Regressivity" Gap: Informal taxation frequently targets visible operators (e.g., those with market stalls) rather than higher-earning, hidden operators. Because women are more visible in low-income informal retail, they bear a higher effective tax rate relative to their income.

iii. Intersectionality of Work and Care: The framework must account for women's dual burden of income generation and unpaid care work, which limits their time and resources, making rigid, high-frequency, or time-intensive tax compliance particularly punitive.

iv. Types of Informal Taxes: Includes both formal presumptive taxes (market fees) and informal taxes (bribes, extortion, extortion by agents, or payments to non-state actors).

# 3. INFORMAL SECTOR TAXATION UNDER NTA 2025

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Nigeria is implementing a 1% presumptive tax on informal businesses with annual turnovers exceeding 12 million to formalize the sector, replacing cash collections and roadblocks with digital payments to reduce extortion. This reform aims to capture the vast, largely untaxed informal economy, which constitutes a major part of the nation's GDP.

## Key Aspects of Informal Sector Taxation in Nigeria:

New Tax Framework:

1. A 1% presumptive tax is applied to informal business turnover, targeting traders, artisans, and small-scale operators.
2. Exemption Threshold: Businesses with an annual turnover of 12 million or less are exempt from this tax.

3. Digitalization: Cash collections and physical roadblocks are officially banned in favor of digital payment platforms to ensure transparency and prevent extortion.

Challenges: The sector is difficult to tax due to a lack of formal record-keeping, high mobility of businesses, and a high cost of tax administration.

Objectives: The goal is to increase government revenue, broaden the tax base, and improve equity by reducing the disproportionate tax burden on the formal sector.

Informal Taxation (Community-Based):

Beyond government tax, a form of "informal taxation" exists, driven by social mechanisms, market associations, or local community members rather than formal law, often used to fund local security or market infrastructure.

Recent Policy Changes:

The Federal Government recently signed new presumptive tax regulations to enhance fairness, ensuring that tax practices reflect the economic reality of, rather than overwhelming, small business owners.

# 4. GENDER IMPACT ASSESSMENT ON INFORMAL SECTOR TAXATION

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Taxation of Nigeria's informal sector, particularly under new and existing state tax laws, creates disproportionate burdens on women, who dominate low-income trade. Gender impact assessments reveal that flat presumptive taxes act as regressive taxes, taking a higher percentage of income from women than men

## **Key aspects of gender impact on taxation include:**

- i. **Implicit Bias in Flat Taxes:** Taxing traders with a flat fee regardless of income penalizes women, who often earn less than men in the informal sector.
- ii. **Harassment and Extortion:** Male tax collectors frequently harass traders, with women facing higher incidences of harassment and extortion during collection.
- iii. **Tax-like Payments:** Women are significantly affected by extra fees, including market tolls, daily ticket fees, and association dues, which are not always recognized in formal tax laws but constitute a high financial burden.

- iv. Lack of Gender-Disaggregated Data: Current tax systems often lack sex-disaggregated data on income, hindering the creation of equitable policies, as noted in studies on Kaduna and Enugu states.
- v. Unpaid Care Work: Women's time poverty, resulting from balancing income-generating activities with unpaid care work, makes them less likely to navigate complex tax compliance processes.

# 5. NIGERIA TAX ACT 2025 AND GENDER IMPACT ASSESSMENT

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Gender impact assessment of taxing Nigeria's informal sector which constitutes a significant portion of the economy and is predominantly driven by women—reveals that current tax regimes often operate in a gender-blind manner, disproportionately impacting women due to their concentration at the lower end of the income spectrum. While new tax acts (2025–2026) aim to modernize and formalize the sector, they have historically been regressive, leading to over-taxation and harassment.

Government's new tax reforms (Nigeria Tax Act, 2025/2026) are aimed at improving equity but require careful implementation to truly be gender-responsive:

1. **Progressive Tax Thresholds:** Proposed reforms include raising the zero-tax threshold for small earners to ₦800,000 annually, which is expected to reduce the tax burden on low-income female workers.
2. **VAT Exemptions:** Vat exemptions and zero-rated transactions on essential items like food and health services could significantly aid low-income households, which are often headed by women.
3. **Digitalization Risks:** While digital payment systems can reduce extortion by eliminating face-to-face contact, they may create new challenges due to the lower digital literacy rate among women.

4. Targeted Exemptions: Capital Gains Tax (CGT) exemption for compensation related to loss of employment or personal injury has been increased from ~~₦~~10 million to ~~₦~~50 million, providing better protection for women who may experience employment shocks.
5. SME Support: By refining the "small company" With 100 million turnover definitions, the act offers 0% corporate tax rates to more small businesses, which are largely operated by women, thereby supporting economic empowerment.
6. Exempted threshold. Annual turnover exceeding 12 million will pay presumptive tax of 1% on the turnover. Many women will benefit as majority of them fall under the 12 million thresholds

# 6. CONCLUSION AND RECOMMENDATIONS

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## Conclusion

Gender impact assessments of taxation in the informal sector consistently conclude that current tax policies are rarely gender-neutral. Instead, they often act as implicitly regressive systems that disproportionately burden women. Because women are overrepresented in the lowest-earning, most vulnerable segments of the informal economy, flat taxes, daily market fees, and administrative harassment create higher effective tax rates for them compared to men.

## Disproportionate Burden on Women

**Concentration at the Bottom.** In many contexts, such as Sub-Saharan Africa, women dominate the lowest-income informal activities, like petty trading. While men are often found in higher-yielding informal manufacturing, women dominate retail.

**Regressive Nature of Fees:** Informal taxes, such as daily market fees, are frequently fixed (flat-rate). These take a higher percentage of income from low-earning women than from higher-earning men, violating the principle of progressive taxation.

Hidden Costs. Women in the informal sector face "hidden" fees, such as payments for sanitation (e.g., toilets) at markets, which are disproportionately high relative to their daily earnings. Structural barriers which includes

Male-Dominated Tax Collection. Studies indicate that male tax collectors are more likely to harass traders, and women often bear the brunt of this interaction.

Intersection with Unpaid Work: Informal tax regimes rarely account for the fact that women balance their business activities with extensive unpaid care work, limiting their operating hours and income-generating potential. Policy and Administrative Issues

"Visibility" Discrepancy. The informal sector is often invisible to policymakers. As a result, tax policies fail to consider that women operate differently, making the resulting tax administration, such as simplified presumptive taxes, not actually simple for them.

Lack of Data: A lack of gender-disaggregated data on who is paying taxes in the informal sector means that policies are designed without understanding their gendered outcomes.

## Recommendations

Recommendations for Gender-Responsive Taxation are as follows:

1. Gender-Sensitive Tax Collection: Increase the number of female tax collectors and promote the use of mixed-gender teams to minimize harassment and improve compliance.
2. Income-Based Thresholds: Implementing progressive, income-based thresholds instead of flat-rate taxes.
3. Targeted Education: Providing tax education tailored to women in the informal sector to increase awareness and reduce reliance on intermediaries.
4. Data Disaggregation: Developing gender-disaggregated data in tax administration to understand the impact of reforms, as currently less than 20% of tax policies have undergone such assessments.
5. Harmonize Local Taxes: Reduce the number of overlapping and "multiple" taxes levied at the local level, which disproportionately affect women.

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