

Reading List

Tax and Informality

Essential Readings

[Anuradha Joshi, Wilson Prichard & Christopher Heady \(2014\) Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research, The Journal of Development Studies, 50:10, 1325-1347](#)

Joshi et al.'s 2014 paper provides an effective introduction to the current state of academic research on taxing the informal economy, reviewing key policy options such as indirect and presumptive taxation. The authors highlight the often relatively limited revenue potential of taxing informal economies alongside its equity implications. Crucially, they note that policymaking in this field has so far paid insufficient attention to the politics of taxing informal economies and outline ways for policymakers to better understand politics, institutions, and incentives facing political leaders and administrators, in order to devise strategies for making taxation fair and accountable.

[ILO - The Informal Economy and Decent Work: A Policy Resource Guide supporting transitions to formality \(Chapter 1&2\)](#)

The ILO's 'Policy Resource Guide supporting transitions to formality' is not primarily focused on taxation but on a regulatory and developmental strategy towards formalisation. Crucially, the first two chapters of this report provide an effective introduction to key conceptual issues from a policy perspective, as well as the challenges of measurement and accounting in the context of informality. They emphasise the significant diversity of informal businesses, noting segmentations in earnings and business models and highlighting the drivers of informality differ substantially between sectors and contexts.

[Dube & Casale \(2017\), Informal sector taxes and equity: Evidence from presumptive taxation in Zimbabwe, Development Policy Review Volume 37, Issue 1](#)

This case study examines presumptive taxation, one of the most commonly used tools to tax informal economies, in Zimbabwe. Drawing on both a representative taxpayer analysis and informant interviews, the case study argues that presumptive taxation in Zimbabwe's case undermined both horizontal (between groups) and vertical (between individuals) equity. In addition, it provides insight on the enforcement challenges of these taxes i.e. a burdensome collection process, political pressures and low enthusiasm among tax collectors led to limited enforcement; and an enforcement focus on the

most visible sectors within the informal economy further re-enforced equity problems.

Prudhomme, R. “Informal Local Taxation in Developing Countries.” Environment and Planning C: Government and Policy 10 (1992): 1–17

Prud’homme’s seminal paper on informal local taxation in developing countries defines information taxation as “the mobilisation of resources outside normal tax channels for the provision of public goods and services”. It provides a typology of informal taxes that distinguishes between (1) ‘pinch’, (2) extortions, (3) requisitions, (4) contributions, (5) gifts, and (6) donations, and provides an early discussion of the magnitude and merits of informal taxation.

Olken, Benjamin A., and Monica Singhal. “Informal Taxation.” American Economic Journal: Applied Economics 3 (2011): 1–28.

Using microdata from ten countries, Olken and Singhal lay out stylized facts on the magnitude, form, and distributional implications of informal taxation. They document that informal taxation is widespread, particularly in rural areas, with particularly substantial in-kind labour payments. Crucially, they argue that informal taxes are more regressive than formal taxes, and that failing to include informal taxation underestimates household tax burdens and revenue decentralization in developing countries.

Vanessa van den Boogaard, Wilson Prichard, Samuel Jibao, Informal taxation in Sierra Leone: Magnitudes, perceptions and implications, African Affairs, Volume 118, Issue 471, April 2019, Pages 259–284

This study captures the incidence of informal taxation and taxpayer perspectives on these payments in post-conflict Sierra Leone. They find informal taxes particularly prevalent within areas of weak formal statehood in Sierra Leone, where households are paying an equal number of informal and formal taxes. Furthermore, despite informal taxes being regressive in their distribution, the authors find that taxpayer perceptions of the fairness of informal taxes relative to formal taxes are more positive. They explain this by the fact that taxpayers are more likely to trust the actor levying these payments and are more likely to believe that they will be used to deliver benefits to the community.

Further Readings

Gallien, Max and Van den Boogaard, Vanessa (2020), "Unpacking Formalisation: The need for a new research agenda on taxation and the informal economy", ICTD Blog

Tendler, Judith (2002), "Small Firms, the Informal Sector, and the Devil's Deal" IDS Bulletin. Vol. 33, No. 3

Caroll, Erica (2011), Taxing Ghana's informal sector: the experience of women, Caroll, Christian Aid Papers

Meagher, Kate (2016), Taxing times: taxation, divided societies and the informal economy in Northern Nigeria. Journal of Development Studies . pp. 1-17

Dube, Casale (2016): The implementation of informal sector taxation: Evidence from selected African countries

Pimhidzai, Fox (n.d.) Taking from the poor or local economic development: the dilemma of taxation of small informal enterprises in Uganda (World Bank Discussion Paper)

Rural Informal Taxation in China: Historical Evolution and an Analytic Framework, Justin Yifu Lin Mingxing Liu

Laura Paler, Wilson Prichard, Raul Sanchez de la Sierra, and Cyrus Samii, 2017. 'Survey on Total Tax Burden in the DRC'

IGC Working Paper: Informal Taxation and Cash Transfers: Experimental Evidence from Kenya, Michael Walker