

# Taxation of Informal Market Through the Simplified Tax for Small Taxpayers (ISPC) and its Impact on the Expansion of the Tax Base: A Case Study of Belenenses Market, Nampula

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**Abstract:** Tax revenue mobilization is crucial for economic development and the sustainability of public finances, especially in developing countries such as Mozambique. This study investigates the role of the Simplified Tax for Small Taxpayers (ISPC) in expanding the tax base at the Belenenses Market in Nampula. A mixed-methods approach, combining quantitative surveys and qualitative interviews, was employed with a sample of 248 traders from a population of approximately 650. Findings reveal extremely low compliance with the ISPC, with only 0.8% of traders registered and actively contributing, while the vast majority (99.2%) pay only municipal fees. Key factors affecting compliance include limited institutional presence, behavioral resistance, distrust in fiscal authorities, and economic constraints. Despite national-level data indicating growth in ISPC registration, empirical evidence demonstrates a substantial gap between administrative registration and actual contribution, confirming the persistence of informal economic activity. The study underscores that expanding the tax base requires not only simplified tax regimes but also effective enforcement, taxpayer education, and trust-building measures. Policy implications suggest strengthening the visibility of tax authorities, enhancing taxpayer support, providing incentives for compliance, and improving coordination with municipal authorities. Overall, the ISPC represents a positive step toward formalization, but its local-level impact remains limited.

**Keywords:** ISPC, Informal Sector, Tax Compliance, Tax Base Expansion, Mozambique, Belenenses Market.

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## I. INTRODUCTION

Tax revenue mobilization is essential for economic development and the sustainability of public finances (Musgrave & Musgrave, 1989). In developing countries such as Mozambique, expanding domestic revenue sources is critical to reduce dependence on external aid.

The informal sector plays a dominant role in Mozambique's economy, absorbing a large share of the labor force and contributing significantly to household income (World Bank, 2018; ILO, 2018). However, its largely unregulated nature limits tax collection.

To address this challenge, the government introduced the Simplified Tax for Small Taxpayers (ISPC), aimed at integrating informal operators into the tax system. Despite

this effort, compliance remains uncertain, particularly at local market levels.

This study seeks to answer:

- *To what extent does ISPC contribute to the expansion of the tax base in the Belenenses Market?*

## II. LITERATURE REVIEW

### A. Informal Sector

The informal sector includes economic activities that operate outside formal regulatory frameworks (ILO, 2015). These activities are typically small-scale, labor-intensive, and lack formal accounting systems (Chen, 2012). In Mozambique, the sector is a key survival mechanism (Chichava, 1998).

**B. Taxation and its Functions**

Taxation enables governments to finance public services, redistribute income, and regulate economic behavior (Nabais, 2010; Musgrave & Musgrave, 1989). In African contexts, taxation also strengthens accountability between citizens and the State (Prichard, 2015).

**C. Challenges in Taxing the Informal Sector**

Taxing informal activities is difficult due to weak administrative capacity, lack of records, and resistance from taxpayers (Joshi et al., 2014). Schneider (2015) highlights that informality reduces tax system effectiveness.

➤ *Mozambican Tax System*

The Mozambican tax system comprises legal norms, institutions, and procedures through which the state collects revenue. It operates under principles of **legality, equity, contribution capacity, simplicity, and administrative efficiency**. The **Autoridade Tributária de Moçambique**

(AT) is responsible for tax collection, monitoring, and management.

➤ *Tax Categories*

- **Direct Taxes:** levied on income and property;
- **Indirect Taxes:** levied on consumption and transactions;
- **Simplified Taxes:** for small taxpayers, including ISPC.

Key taxes include IRPS, IRPC, IVA, ISPC, ICE, and SISA.

**D. Historical Evolution**

➤ *Pre-Independence Period*

According to **Ibraimo (2002)**, the tax system during colonial times was designed to meet the budgetary needs of the Portuguese administration, featuring trained personnel but complex legislation largely inaccessible to ordinary taxpayers. The main taxes were:

Table 1: Classification of Taxes by Scope of Application

Tax	Scope
Industrial Contribution	Profits from industrial and commercial activities
Urban Property Contribution	Income from properties and land concessions
Professional Tax	Income from employment or self-employment
Capital Application Tax	Income from capital investments
Complementary Tax	Global income of individuals and entities

Source: Author’s own elaboration.

The system was sufficient to meet administrative expenditures but lacked social equity.

➤ *Post-Independence Reforms*

- **1978 Reform:** Resolução 5/1977 introduced progressive rates and social justice principles, adapting taxes to national economic policy (**Ibraimo, 2002**).
- **1987 Reform (PRE):** The Programa de Reabilitação Económica and Lei 3/1987 aimed to increase tax elasticity and expand the tax base. Direct and indirect taxes included Industrial Contribution, Labor Income Tax, VAT, ICE, and Special Fuel Taxes.
- **2002 Reform:** Lei 15/2002 modernized taxation, introduced VAT (1998), simplified procedures, expanded the base, and regulated national and municipal taxes. Direct taxes included IRPC, IRPS, Complementary Tax, and Property Contribution. Indirect taxes included VAT, ICE, and customs duties.

➤ *Imposto Simplificado para Pequenos Contribuintes (ISPC)*

The **ISPC**, created by **Law n° 5/2009**, is a simplified tax for small businesses and service providers with annual turnover ≤ 2,500,000 MT.

➤ *Key Features:*

- Annual payment: 75,000 MT or 3% of turnover;
- First-year 50% discount for new taxpayers;
- Optional: taxpayers can choose ISPC instead of other taxes like VAT;

- Objective: reduce compliance costs, simplify administration, and encourage formalization (**INE, 2009**).

➤ *Exclusion from Other Taxes*

ISPC taxpayers are exempt from VAT, IRPS, and IRPC for the taxable activities under this regime. Additional incomes outside ISPC scope must be declared for separate taxation.

➤ *ISPC and Tax Base Expansion*

The ISPC was introduced to simplify tax compliance and encourage formalization (Lei n° 5/2009). However, Tanzi (2013) argues that increasing registered taxpayers does not necessarily increase revenue without effective enforcement.

**III. METHODOLOGY**

A mixed-methods approach was adopted, combining quantitative and qualitative techniques in a case study design focused on the Belenenses Market.

The population consisted of approximately 650 traders. A sample of 248 respondents was selected using Yamane’s formula (1967) with a 5% margin of error and stratified sampling. Qualitative data were collected through purposive sampling.

Data collection methods included questionnaires, semi-structured interviews, direct observation, and document analysis. Quantitative data were analyzed using descriptive statistics, while qualitative data were analyzed through content analysis (Minayo, 2014).

Simplified Tax for Small Taxpayers (ISPC). The analysis is structured according to the study's specific objectives, organized into categories and subcategories, combining quantitative data (frequencies, percentages, values) with qualitative data (perceptions, behaviors, and field observations). This triangulated approach allows connecting results with the theoretical framework.

**IV. ANALYSIS, INTERPRETATION, AND DISCUSSION OF RESULTS**

➤ *Introduction*

This chapter presents the analysis, interpretation, and discussion of data collected from informal traders at the Belenenses Market, in the context of taxation under the

➤ *Registration of Informal Traders under ISPC*

- *Number of Traders Registered*

Table 2: Number of Traders Registered under ISPC

Category	Frequency (n)	Percentage (%)
Registered under ISPC	2	0.8
Not registered	246	99.2
Total	248	100

Source: Author's own elaboration.

The results indicate an extremely low level of registration under the ISPC, with only 0.8% of traders formally registered, compared to 99.2% who remain outside the system. This finding highlights a significant gap between the intended scope of the simplified tax regime and its actual implementation at the local level. The low registration rate suggests the presence of structural, institutional, and informational barriers that limit the integration of informal

traders into the tax system. Consequently, the ISPC's contribution to broadening the tax base in the Belenenses Market remains minimal, reinforcing concerns about its effectiveness as a tool for fiscal inclusion.

- *Type of Tax Paid*

Table 3: Type of Tax Paid by Traders

Tax Type	Frequency	Percentage
Municipal fees only	246	99.2
ISPC + municipal fees	2	0.8

Source: Author's own elaboration.

- **Interpretation:** The results reveal that the overwhelming majority of traders (99.2%) are limited to paying only municipal fees, while a negligible proportion (0.8%) complies with both municipal obligations and the ISPC. This pattern suggests that municipal taxation mechanisms are more effectively enforced at the local level, likely due to greater institutional proximity and regular interaction with traders. In contrast, the extremely low adherence to the ISPC reflects weak

integration of informal operators into the national tax system. The findings point to the existence of institutional and economic barriers, as well as limited awareness and incentives, which constrain the effectiveness of the ISPC in promoting fiscal inclusion and expanding the tax base.

➤ *Type of Trader*

Table 4: Type of Trader

Trader Type	Frequency	Percentage
Small stalls/Street vendors	229	92.3
Grocery stores/warehouses	19	7.7

Source: Author's own elaboration.

- **Interpretation:** The data show that the informal market is predominantly composed of small stalls and street vendors, accounting for 92.3% of all traders, while grocery stores and warehouses represent only 7.7%. This distribution indicates that the majority of economic

activities in the Belenenses Market are small-scale and highly informal, which likely contributes to the challenges in broadening the tax base. The predominance of low-capacity traders reinforces the need for simplified and targeted tax policies, such as the ISPC, but also

highlights why compliance remains minimal due to limited financial and administrative capacity.

➤ *Market Tenure*

Table 5: Market Tenure of Traders

Tenure	Frequency	Percentage
Less than 2 years	40	16.1
2–5 years	80	32.3
More than 5 years	128	51.6

Source: Author’s own elaboration.

- Interpretation: The data indicate that more than half of the traders (51.6%) have been operating in the Belenenses Market for over five years, suggesting a high level of market permanence. Traders with 2–5 years of tenure represent 32.3%, while only 16.1% have been in the market for less than two years. Despite this permanence, long-term presence does not appear to translate into formal tax compliance, as evidenced by the extremely low ISPC registration and payment rates. This finding supports the notion that institutional and behavioral barriers, rather than market stability alone,

play a decisive role in determining the formalization and integration of informal traders into the tax system.

➤ *Monitoring and Supervision*

- Tax Authority vs. Municipal Presence: Limited Tax Authority inspection; municipal officials are more visible.
- Trader Resistance: Many traders hesitate to provide fiscal information, reflecting distrust in institutions (Moore, 2004; Prichard, 2015).

➤ *ISPC Revenue Evolution (2009–2024)*

Table 6: ISPC Revenue Evolution (2009–2024)

Year	ISPC Revenue (Million MT)	Registered Taxpayers
2009	52	18,000
2018	246.49	55,000
2024	—	72,000

Source: National Tax Authority data (2009–2024).

- Interpretation: The data show a clear increase in both ISPC revenue and the number of registered taxpayers over the period 2009–2018, with revenue rising from 52 million MT to 246.49 million MT and registered taxpayers increasing from 18,000 to 55,000. By 2024, the number of registered taxpayers is projected to reach 72,000, although revenue figures are not yet available. Despite this growth in registration, empirical evidence from the Belenenses Market indicates that actual compliance at the local level remains extremely low. This disparity suggests that while the ISPC regime has expanded formally, its effectiveness in generating revenue from small traders is limited, highlighting the need for enhanced enforcement, incentives, and institutional support to translate registration into meaningful fiscal contribution.

Administrative registration → weak compliance. Bird (2014) highlights that simplified regimes only expand the tax base when combined with monitoring and incentives.

- Trader Contribution: Out of 650 traders, only two small grocery stores pay ISPC, operating less than 2 years, indicating limited contribution.

➤ *Retention or Exit from the Tax System*

- Retention Factors: Obligations to municipal fees and lack of knowledge about formalization benefits (De Soto, 1989; Schneider, 2015).
- Exit Factors: Resistance, evasion, and institutional distrust (Moore, 2004; Prichard, 2015).

➤ *Constraints in ISPC Collection*

- Institutional Limitations: Low Tax Authority presence limits collection (Prichard, 2015).
- Behavioral Challenges: Resistance and evasion due to distrust (Moore, 2004).
- Economic Barriers: Many small traders cannot afford ISPC alongside municipal fees (Schneider, 2015).

➤ *Tax Base Expansion*

- ISPC Registration vs. Tax Base: Although registration increased, effective contribution is minimal.

**V. DISCUSSION OF RESULTS**

The integration of small economic operators into the tax system, particularly within the framework of the Simplified Tax for Small Taxpayers (ISPC), should be analyzed in a multidimensional manner, combining institutional, behavioral, and economic factors. As argued by Richard Bird (2014), the mere existence of simplified regimes does not, by itself, guarantee the expansion of the tax base; it is essential that these be accompanied by strong institutional capacity for implementation, monitoring, and enforcement of tax compliance.

In the context of the Belenenses Market in Nampula, the empirical results reveal a significant gap between administrative registration and the effective fulfillment of tax obligations. Although there has been an increase in the number of taxpayers registered under the ISPC, this growth has not translated into effective revenue collection, confirming that administrative registration alone does not ensure tax compliance, as also argued by Friedrich Schneider (2015) and Vito Tanzi (1992). This phenomenon indicates that the formal expansion of the tax base is, in practice, largely superficial.

The structure of the informal sector, characterized by the predominance of low-formalization economic units, constitutes an additional obstacle to taxation, as highlighted by Friedrich Schneider (2015). Even in contexts where there is physical permanence in the market, as in the case of Belenenses, this does not necessarily imply the formalization of activities, supporting the perspective of Hernando de Soto (1989), according to which persistent institutional barriers hinder the transition to formality.

From an institutional perspective, the limited presence of the Tax Authority in the market significantly reduces the capacity for inspection and collection, thereby weakening tax compliance. Wilson Prichard (2015) emphasizes that proximity between tax authorities and taxpayers is crucial for improving compliance levels. In the case under analysis, it is observed that the stronger presence of municipal authorities facilitates the collection of local fees, creating a clear contrast with the weak performance of the central tax administration.

Additionally, retention factors within the informal sector are associated with the obligation to pay municipal fees and the lack of awareness regarding the benefits of formalization, as argued by Hernando de Soto (1989) and Friedrich Schneider (2015). On the other hand, exit factors from the tax system—such as resistance to tax payment, tax evasion, and distrust in public institutions—are consistent with the analysis of Mick Moore (2004) and Wilson Prichard (2015), who link low tax compliance to low levels of trust in the state.

Behavioral challenges are mainly reflected in the active resistance of traders to paying the ISPC, often associated with the perception of a lack of direct benefits and limited institutional transparency. At the same time, economic constraints play a crucial role: many small traders lack the financial capacity to simultaneously bear the burden of the ISPC and municipal fees, reinforcing their persistence in informality, as argued by Friedrich Schneider (2015).

The empirical evidence from the Belenenses Market is particularly illustrative: out of approximately 650 traders, only two small grocery stores effectively comply with ISPC payments, both operating for less than two years. This finding demonstrates that the real contribution of the tax to expanding the tax base is practically negligible at the local level, despite aggregate figures suggesting growth in taxpayer registration.

In summary, the results confirm that the ISPC, although designed as an instrument for fiscal inclusion, faces significant limitations in its practical effectiveness. As emphasized by Richard Bird (2014), simplified regimes can only effectively expand the tax base when accompanied by robust enforcement mechanisms, appropriate incentives, and strengthened institutional capacity. In the case of the Belenenses Market, the absence of these elements results in a formally expanded tax base that remains substantially ineffective in terms of revenue collection and genuine fiscal inclusion.

## VI. CONCLUSION

This study examined the role of the Simplified Tax for Small Taxpayers (ISPC) in expanding the tax base at the Belenenses Market in Nampula, Mozambique. The findings reveal that, despite its introduction as a policy tool to formalize small-scale economic activities, the actual compliance with ISPC remains extremely low. Out of 248 surveyed traders, only 0.8% were registered and actively contributing to the ISPC, while the overwhelming majority (99.2%) paid solely municipal fees.

The analysis highlights several key factors affecting compliance. Institutional limitations, particularly the limited presence of the Tax Authority, hinder effective monitoring and enforcement. Behavioral factors, including distrust of institutions and resistance to sharing fiscal information, further reduce compliance, corroborating Moore's (2004) observations regarding taxpayer behavior. Economic barriers, such as limited financial capacity among small traders, also perpetuate informality (Schneider, 2015).

Despite national-level data indicating an increase in ISPC registration, the study identifies a significant gap between administrative registration and actual contribution. Many traders maintain long-term operations in the market without formal fiscal engagement, reflecting De Soto's (1989) argument that informal economic activity persists independently of economic stability. This divergence between registration and compliance underscores that expanding the tax base requires not only simplified regimes but also effective enforcement, taxpayer education, and trust-building measures (Bird, 2014; Tanzi, 2013).

The findings have important implications for policy and practice. To enhance the effectiveness of the ISPC and broaden the tax base, strategies should focus on increasing the visibility and presence of the Tax Authority, strengthening taxpayer support and education, and implementing incentive structures to encourage voluntary compliance. Additionally, closer collaboration with municipal authorities could improve coordination, given their greater proximity to traders.

In conclusion, while the ISPC represents a positive step toward formalizing informal economic activities and expanding Mozambique's tax base, its impact is currently limited at the local level. Sustainable improvement in tax compliance will depend on addressing institutional,

behavioral, and economic barriers, fostering a culture of fiscal responsibility, and ensuring that small traders perceive tangible benefits from formalization.

The adherence to the Simplified Tax for Small Taxpayers (ISPC) at the Belenenses Market is extremely low (0.8%), indicating that the tax's contribution to expanding the local tax base is practically negligible. This low compliance reflects institutional, behavioral, and economic barriers that prevent the ISPC from achieving its objective of formalizing the informal sector. To ensure that the tax effectively contributes to broadening the tax base, it is recommended to increase the presence of the Tax Authority in the market, implement programs for taxpayer education and incentives for formalization, and strengthen collaboration with municipal authorities, given their closer proximity and interaction with traders.

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