

EFFECTS OF MULTIPLE TAXATION ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NIGERIA

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Abstract

The study examined the effects of multiple taxation on the growth of Small and Medium Enterprises (SMEs) in Nigeria. The aim is to investigate the extent to which multiple taxes affect the operation of SMEs in the country using expansionary rate of these businesses as surrogate for growth. Data for the study were obtained through responses from questionnaire designed on a five (5) point likert scale. Out of 193 questionnaire administered on staff and owners of SMEs on Lokoja – Kogi State, 131 of them were returned representing approximately 68% response rate. The responses were empirically analysed using non-parametric statistics comprising mean score, standard deviation and z-test. The results suggest that multiple taxes have negatively affected the growth of SMEs in Nigeria as many operators of these businesses expressed their unwillingness to venture into new enterprises or expand the existing ones for fear of multiple taxes that continue to take a significant portion of their earnings. The study recommends that government at all level in the country should address the issue of multiple taxes on SMEs by restricting to collecting only those taxes within their tax jurisdiction as stipulated by law. Further, provision should be made in Nigeria. Tax laws for stiff penalties against any tier of government, tax officials and tax agencies using orthodox, unfriendly and illegal means to enforce multiple taxes on operators of SMEs in Nigeria.

Keywords: Multiple taxes, Small and Medium Enterprises, Expansionary rate, Tax laws, Government.

Introduction

The rationale for imposing taxes in any nation stems from government numerous responsibilities and her desire to stimulate growth of economic activities in specific sectors.

Taxation, apart from being the major source to finance government's responsibilities citizens, it is also a means of ensuring that certain economic policies of government such

as creation of friendly environment for private business/enterprises are brought into fruition. As economic regulator, taxation is a potent tool for promotion economic welfare through creation of tax friendly economy conducive for businesses to survive and grow (Osita, 2011).

It is the desire of nations developed or developing for private enterprises to thrive. In Nigeria, private businesses in the category of Small and Medium Enterprises (SMEs) has been playing a crucial role in job creation and poverty alleviation contributing significantly to the country's Gross Domestic product (GDP). The socio-economic contribution of SMEs to the growth of the country cannot be overemphasized as the sector has been the major some of employment, innovation and wealth creation (Faloyin, 2015).

Entrepreneurship through SMEs have been key in economic growth of the nation mainly responsible for engineering initiatives in the area of capital formation, manufacturing/production service delivery, telecommunication, agriculture and so on. The sector has been the major driver of growth in the economy hence government through various forms of tax reliefs, credits, exemptions, allowances, holidays encouraged private businesses a contained in the compendium if investment incentives of Nigeria 2017 complied by Nigeria Investment Promotion Commission (NIPC) and Federal Inland Revenue Service (FIRS). The aim of the incentives is to spur private businesses for growth, wealth creation and poverty reduction in the society in line with what obtains in many advanced countries of the world as countries such as USA and China use government fiscal policy of taxation to stimulate microeconomic growth.

Omah (2016) observed that one of the viable fiscal policy tool used in encouraging entrepreneurship/private business initiative, growth and taxation is taxation and generous tax policies. Collaborating Omah (2016), Momoh (2017) stated that in China, U.K, U.S and Japan, low tax rates devoid of multiplicity and generous tax holidays for new businesses have triggered growth of private businesses in these countries.

Encouraging growth of SMEs in developing nations of sub-Saharan Africa like Nigeria is critical to national needs. Taxation is a powerful tool in the hand of government which can be designed to trigger private investment in line with national need and priorities. In Nigeria, national needs such as employment creation, poverty reduction, industrialization and self-reliance are of paramount. These can be largely achieved through SMEs. Therefore encouraging growth of SMEs in Nigeria is sacrosanct for improved growth rating of the countries among community of nations.

It is in recognition of critical role of SMEs in the economy of Nigeria that government has been offering incentives to provide the operation of the sector in the country. Unfortunately however, the growth of these businesses is quite discouraging as many of them do not survive two (2) to three (3) years after, their establishment (Lawal & Aduku, 2016). Momoh (2017) observed that over 75% of SMEs in Nigeria die in infancy not surviving beyond their 4th anniversary due to myriad of challenge that cannot be remedied by the operations in the sector. Identifying one of these key challenges, Kaigama (2016) discovered that multiple tax imposed on SMEs is a major factor responsible for the abrupt folding up of these businesses in Nigeria as these illegal taxes continue to take a large sunk of their earnings (Kaigama, 2016). Collaborating Abiola (2012) that multiple taxes continue to major issue faced by SMEs as similar types of

taxes are imposed by deferent tiers of government in fragrant disobedience to tax laws relations to taxes that are to be collected by each level of government in Nigeria.

The worrisome aspect of multiple taxation is the embarrassing nature of its enforcement and the use of orthodox collection procedure such as mounting of roadblocks, forceful closure of shops of trades in market places and unpleasant handling of persons and businesses that are not able to pay.

Many of these SMEs are not only burdened by the huge sums of multiple taxes but also the forceful method of collection (Lawal & Aduku, 2016). The issue of multiple taxes on SMEs in Nigeria is more in the local and state government in desperate bid of these tiers of government to expand their revenue bases without recourse to their stated tax revenue jurisdiction (Momoh, 2017).

Literature Review

Conceptual Clarification

The following are key concepts in the study and are clarified as follows:

SMEs: The definition of SMEs varies according to the context, author and the country where these businesses operate. In Britain for instance, SMEs are defined as those enterprises with annual turnover of 2million pound or less with fewer than 200 paid employees (Ekpeyone & Nyong, 1992). In Japan SMEs are seen as those businesses with 100million yen paid up capital and 300employees (Ekpeyong & Nyang, 1992). In Nigeria, SMEs are defined as those entrepreneurship businesses with small number of employees of between 1-100 for small sized businesses and up to 500 or more for medium sized companies (CBN report, various issues). SMEs in Nigeria are broadly defined as business with turnover of less than N100million per annum and/or less than 300 employees and having capital investment not exceeding N2million (excluding the cost of land) or a minimum of N5million naira (CBN reports).

Multiple Tax: Multiple Tax or Multiplicity of Taxes (MT) refers to unlawful and compulsory payment collected mostly by local and state government without legal backing (Abiola, 2012). It is a situation where a tax payer is forced by two (2) or more levels of government to pay either the same or similar taxes in desperate bid to increase their revenue base (Folayin, 2015). Abiola (2016) viewed MT as a situation where the same level of government imposes two or more taxes on the same base. Adum (2018) described MT as a case where profit or wealth of an individual or corporate body is taxed more than once.

Growth: Growth in business is a process of improving some measure of an enterprise's success largely through cost minimization and profit maximization (Fasch, K. U, 2013). A growing enterprise is any enterprise that generates significant cash flow earnings which increase at significantly faster rates than the overll economy (Kaigama, 2016). A growing enterprise tends to have profitable reinvestment and expansionary opportunity from its own retained earnings (Famolola, 2014). Lawal and Aduku (2016) described business growth as that stage where a business reaches the point of expansion and seeks additional options to generate more profits. Kaigama (2016) describes business growth as a function of so many exogenous and endogenous factors of which taxation is one – exogenous.

Empirical Review

Segun and Osazee (2018) did a study on the effect of multiple tax regimes on sustainable development among small scale enterprises in Lagos state: A study of Lagos Island local government. The aim of the study was to determine the influence of multiple tax determine the influence of multiple tax burden on business performance of small scale enterprises particularly in Lagos Island. Using primary source, data were collected from small business owners within Lagos Island Local government. The data were analysed using simple percentage of inferential statistics. It was discovered that there is significant relationship between MT burden and business performance of small scale enterprises. The study recommended that government should establish an institution to manage the issue of MT in Nigeria.

Ocheni and Gemade (2015) conducted a study on the effect of multiple taxation on the performance of SMEs in Benue state. The aim of the study was to examine the effect of multiple taxation on SMEs survival. Data for the study were collected from a sample of 74 respondents into small and medium scale business in Benue state using questionnaire. Responses were analysed using simple percentages of non-parametric statistics. Findings suggest that multiple taxation has negative effects on survival of SMEs. The study recommended that government should come up with uniform tax policies that will aid development of SMEs in Nigeria.

Onwe (2006) investigated the effects of multiple taxation on small scale enterprises in Ebonyi state. The aim of the study was to examine the impact of multiple taxation on investment decision of operators. Using primary source, data were collected from a sample of operators of small scale business in Ebonyi state. The obtained data were analysed descriptively using God'sman and Kruskal's Gama of non-parametric measures. It was discovered that 60% of the respondents complained that tax expenditure takes between 50-60% of their turnover and that negative association exist between multiple taxation and growth of Small Scale Enterprises (SSEs). The study recommended introduction of simplified taxation for SSEs.

Oseni (2014) studied multiple taxation as a bane of business development in Nigeria. The aim of the study was to examine the appropriateness of multiple taxes in developing nations like Nigeria given the ambiguous legislation that contain list of fees and taxes to be collected by all tiers of government in Nigeria. The study used content analysis method to highlight challenges that are peculiar to the country introducing taxes that are not backed by laws. The study recommended use of police to arrest those involved in collecting taxes outside the ones in tax laws of Nigeria.

Ebere, Eunice and Chimaobi (2016) conducted a study on effect of multiple taxation on investment in small and medium enterprises in Enugu State. The aim of the study was to examine the effect of multiple taxation on investments in SMEs. Using primary source through questionnaire distribution, data were obtained from a sample of 80 respondents. Obtained responses were analysed with the use of simple percentages. It was found that multiple taxation has negative effects on SMEs investments. The study recommended that government should evolve a tax policy that would encourage investment in SMEs.

Chukwuemeka (2017) conducted a study on multiple taxation and the operations of business enterprises in Aba metropolis. The aim of the study was to examine the effect of taxation on businesses particularly in Aba. Structured questionnaires were used to obtain

data from selected private business operators in Aba metropolis. Analysis of the data was done using simple percentages. The findings suggest among others that multiple taxation has discouraged the springing up of new businesses enterprise in Aba metropolis.

This study was carried out on SMEs operating in Lokoja, Kogi State to either confirm or dispute findings of previous studies on related issue conducted elsewhere in Nigeria. This therefore formed a basis for a valid conclusion and recommendation of this study on the issue of multiple taxation on SMEs in the country which has become a naughty economic problem on SMEs yet to be properly addressed by successive government in Nigeria.

Theoretical framework

The study is anchored on Laffer curve theory of taxation propounded by Arthur Laffer in 1979 cited in Afuberoh & Okoye (2014). The curve illustrates a theoretical relationship between rates of taxation and the resulting levels of government revenue. With emphasis on taxable income elasticity. The theory assumes that no tax revenue is raised at the extreme tax rates of 0% and 100%, government collect zero (0) revenue due to changes in behaviour of tax payers in response to the tax rate either losing their incentive to do business or finding numerous ways to evade tax just like 0% tax rate where no revenue is raised.

The theory further explained the two effects of taxation namely: the arithmetic and economic effects of tax rates on revenue. The two effects have opposite results on revenue in case of decrease or increase in tax rates. According to the arithmetic effect, if tax rates are lowered, tax revenue will be lowered by the amount of the decrease in the rate. That is the amount of the tax revenue is a function of income available for taxation multiplied by the tax rate. Thus Revenue R is equal to $t \times B$ where t is the tax rate and B is the taxable base ($R = t \times B$). The economic effect however recognised the positive impact that lower tax rate has on work, output, employment and entrepreneurship growth. At a high tax rate with multiple imposition, negative economic effect like tax evasion and disinvestment will dominate arithmetic effect leading to decline in tax revenue (Lawal & Aduku, 2016).

Methodology

Survey research design was adopted in this study. Data for the study were primarily obtained through questionnaire designed to reflect five (5) point Likert scale. The questionnaires were administered to 193 respondents made up of owners and staff of ten (10) randomly selected SMEs in Lokoja, Kogi state. Out of the distributed questionnaire, 131 of them were properly filled and returned representing a response rate of 68%.

Data Analysis

The responses were empirically analysed using mean (\bar{x}) score, standard deviation and z-value statistical test.

Validity of the Instrument

Validity of the instrument was done by giving copies of the questionnaire to senior academics for review and their suggestions were incorporated in the final draft. Also, the instrument was subjected to reliability test using test-retest method. The method is to

establish the consistency of the responses from the questionnaire administered on two occasions to the same respondents (Hyginus, Nicholas & Isaac, 2017).

Results

Table 1: Effects of Multiple Tax on Growth of SMEs

S/N	Responses	SA	A	UND	D	SD	Mean	Std	z-value
Nature of Effects									
1.	Due to multiples taxes SMEs have not been able to expand their businesses	135	252	39	44	6	3.63	0.0598	0.0259
2.	Multiple taxes imposed on SMEs is one of the major factors responsible for low profit and low expansionary rate of SMEs	270	208	21	8	4	3.90	0.306	0.0341
3.	Low rate of expansion and profit contraction due to multiple taxes on SMEs is a factor responsible for high rate of employment in the society	140	264	45	22	6	3.64	0.374	0.1286
4.	Multiple taxes imposed especially by local and state government authorities on SMEs operators is a key factor responsible for unwillingness of SMEs operators to establish business or expand existing ones.	145	232	60	46	01	3.69	0.068	0.050
5.	Multiple taxes and the unfriendly collection method by both state and local government authorities negatively affect intercity commerce and expansion of SMEs in Nigeria	150	280	60	12	5	3.87	0.047	0.340
6.	Slow business activity due to multiple taxes on SMEs hinders economic growth reflected in low GDP growth rate of Nigeria	205	232	51	22	4	3.92	0.061	0.065
7.	Taxes such as reuse collection tax, market taxes levies collected by both local and state government authorities are detrimental to growth of business	190	244	39	28	5	3.86	0.051	0.0713
8.	Poor and corrupt attitude of tax officials and unfriendly orthodox collection procedure discourages both potential and existing entrepreneurs to either venture or expand existing business	170	252	33	30	8	3.76	0.058	0.0468

Source: Field Survey (November/December, 2018)

SA: Strongly Agree (5 points), **A:** Agree (4 points), **UND:** Undecided (3 points), **D:** Disagree (2 points), and **SD:** Strongly Disagree (1 point).

The z-value is calculated using the statistical formula: $Z = \frac{x - \mu}{d \text{ (Std)}}$

Where Z = the standard normal deviation

x = the mean of the sample (value of observations)

μ = the mean of the population (the distribution)

d = the standard deviation of the population (the distribution)

Findings and Discussions

From the table 1, it was found that all the items of questionnaire construct have a mean response score greater than 3.0 on a five (5) point Likert scale. This is an indication that there is a reasonable agreement that the desire of operators of SME's to grow and expand their business is inhibited by multiple taxes imposed by different levels of government a desperate bid to widen their revenue base. This finding is consistent with that of Oseni (2014), Ocheni & Hemade (2015) and Ebere et'al (2016) that discovered in their separate studies that multiple taxes have negative effect on operation of SME's in Nigeria.

Similarly, the positive values of Z-statistics for all items of the questionnaire in the table implies that multiple taxation is one of the major issue impeding the growth of SMEs operating in the area of study and a reflection of what obtains of effects of MT on SMEs elsewhere in the country operating under the same socio-political and economic environment. This result is in conformity with that of Chukwuemeka (2017) and Segun & Osazee (2018) in their studies found out that multiple taxes has hindered the growth of SMEs in Nigeria.

Conclusion and Recommendations

Multiple taxation, its imposition and unfriendly collection procedure meted out for SMEs in Nigeria has been a serious issue with less attention of successive government on finding ways of curbing it. It is quite unfortunate that while the immediate negative effect of multiple taxes is felt at micro level, the negative effect of multiplicity of taxes on the national economy is higher due to reduced revenue and high employment rate as entrepreneurs will result to evading taxes and unwillingness to either venture into new business or expand their existing businesses. This will certainly worsen the unemployment situation in Nigeria that government is battling with. Therefore, immediate action of government at all levels in Nigeria. To curb the socioeconomic effect of multiple taxes on SMEs is of interest to entrepreneurs, government and people of Nigeria.

It is in this view that the following recommendations are put forward:

1. That all tiers of government especially the local and state government in the federation should restrict themselves within the confinement of their tax jurisdiction as enshrined in the constitution.
2. Revenue officials and tax agencies/consultants used by these level of government should be enlightened on the legal implication of imposition of multiple taxes on tax payers especially SMEs operators. Because the reactionary effect of multiple taxes can be counterproductive mostly manifested in tax evasion loss of revenue and microeconomic retardation.
3. Nigerian tax laws should be strengthen for stringent penalty against any tier of government and tax agencies used in imposing and collecting illegal taxes in the country.

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