

Impact of Multiple Taxes on the Growth of Small Businesses in Ogun State, Nigeria

Oyekola Oluwakemi Olaronke & Ogunsuji Olabode James

Department of Accountancy
Ogun State Institute of Technology
Igbesa, Ogun State, Nigeria
E-mail: ronkemi1221@gmail.com

ABSTRACT

Tax system and policy plays an important role in encouraging growth, investment and survival of business organisations in various categories, therefore, the need to harmonise taxes at various levels of government cannot be overemphasized. In Nigeria, small businesses which majorly comprise the entrepreneurship owners are being plagued with multiple taxes thereby, resulting in high tax burden and consequently retarding their growth. This type of business known for their peculiarity in terms of size of capital, management and rate of turnover contributes significantly, to the economy of every nation. This study seeks to examine the impact of multiple taxes on growth of small businesses in Nigeria, using Ogun State as case study. The Simple linear Regression was used to analysed data, and the result shows that the correlation coefficient ($r = -0.756$) indicated a strong negative association between multiple taxes and the growth of small business, multiple tax value has strong negative effect on growth of small business with a unit increase in multiple taxes leads to 0.540 decreases in growth of small business. The study recommends that government must enact favorable progressive tax laws & policies, harmonise the taxes at the state and local level which will breed successful business organizations at all stages.

Keywords: Small business, Growth, Tax Policies, Multiple tax,

Journal Reference Format:

Oyekola, O.O & Ogunsuji, O.J (2018): Impact of Multiple Taxes on the Growth of Small Businesses in Ogun State, Nigeria. Humanities, Management, Arts, Education & the Social Sciences Journal. Vol. 6. No. 3, Pp 23-32

1. INTRODUCTION

Small businesses offers an excellent enabling ground for entrepreneurship and managerial participation. Nevertheless, these enterprises like any other business are being subjected to different types of taxes/levies from both the state and local government revenue services, such as income/profit tax, trade permit, shop and kiosks levies, advertisement permit, market taxes, capital gains tax and customs duties that are paid at different stages of the business. Multiple taxation is understood to include both incidences of double-taxation, whereby the same asset or event is taxed multiple times by different jurisdictions, and the multiplicity of small nuisance taxes (Pitigala & Hoppe, 2011). The Personal Income Tax Act as amended in 2011, provides for the payment of tax on income/profit derived from trade, business, profession, vocation or employment by both in the formal and informal sector of the economy. It also specified taxes and levies to be imposed and collected by each tier of government within her jurisdiction in accordance with the place of residence of the taxpayer.

While recognizing the fact that taxes, are the major source through which government finances her activities in order to achieve economic growth and development in the nation, a country's tax policies and systems is expected to influence investment decision into business, the growth of businesses and equally improve the economy at large. Ocheni (2015), reported that "Tax policy is one of the factors that constitute the Small businesses' economic environment". Thus, every country always strive to enact favourable and progressive tax laws and policies that will breed successful and finance healthy business organisations at all stages (whether small, medium or big enterprise).

Research have shown that small business enterprises are generally recognised as important drivers of economic success because they contribute about 60% to Employment rate and the Gross Domestic Product (GDP) of every nation. Agu and Emeti (2014), SME sector provides about 50% of Nigeria's employment and about 50% of her industrial output. Likewise, Ogunleye (2004), cited the United States of America as a reference, whose small business sector has about 22 million enterprises, generate more than a half of the country's GDP, employing about 53% of the total private workforce, and is responsible for creating majority of all new jobs. Small business enterprises are generally recognised as important drivers of economic success. The successes recorded from small business are measured based on its contribution to the economy in respect to provision of goods and services as well as job opportunities (self-employment). However, in Nigeria, small businesses are being hurt more by different forms of taxes from State Internal Revenue Service and Local Government Revenue Committee.

The combination of all these make business to suffer high taxes, and while this onus of taxes is becoming repressing to all businesses, its impact appears to be malignant on small businesses, who have little or no opportunity to access capital in the public market. In evaluating economies' ease of doing business which covers 11 areas of business regulation such as: starting a business, payment of taxes, market regulation and other measures, out of 190 countries surveyed, Nigeria rank 145 and 167 in the World Bank's doing business report of 2018 and 2017 respectively. Even though, there seems to be improvement Nigeria's has been slipping back constantly on the ease of paying taxes index which function as three key indicators; total tax rate, number of tax payments and time required to comply with tax obligations. At 145 Nigeria is far behind a number of other African countries such as Ghana, Cote D'voire and Senegal. The desire to establish a small business enterprise has been on the increase but government regulations and tax policies are reported to be part of the limitations to the growth and expansion of small businesses in Nigeria. The payments of taxes are one of entrepreneurs' biggest complaints such as the payment of tax on profit earned (income tax), Capital gains tax, Value added tax and levies like; trade permit, lock-up-shops, advertisement permit, market taxes and levies among others in a particular year of assessment. Nigeria being compounded by the administrative burden to comply with these taxes, thereby making the payment of all these taxes results into high operating cost for small business owners, discouraging new enterprises from springing up and stunting the growth of the existing ones.

The burden of tax is a major challenge as the tax system and policies in Nigeria do not favour many business organisation, some businesses are already collapsing, while majority are still struggling to meet up with high tax rates to ensure their businesses still exist. As a matter of fact, entrepreneurs see it as exploitation by the government and they tend to evade taxes so that their business could grow and survive. Therefore, the inability of the State Internal Revenue Service and Local Government Revenue Committee at all state levels to harmonize their tax structures and policies are impeding the growth and threatening the growth of small business in Nigeria. This study intends to investigate the effect multiple taxes on small businesses growth in Nigeria. This paper will however be limited to selected small businesses Ogun State, as case study.

1.2 Significance of the Study

The importance of this study is to contribute to existing literature by examining the effect of multiple taxes, on the growth of small businesses in Nigeria. The outcome of the study will assist, the government on harmonizing tax system between the state and local governments. It will also enable government to do reforms to that tax rates in supporting small business to achieve accuracy, transparency, and co-ordination of tax system within the informal sector. While, on the part of the traders it will enlighten them more, on the need to keep accurate records of their business transactions as and when due, since taxes are part of the operational costs of business, must be paid.

1.3 Objective of the Study

The existence and contribution of small enterprise in any nation cannot be underrated therefore, main objective of this work is to investigate the impact of multiple taxes on the growth of small business in Nigeria, using Ogun State as a case study.

1.4 Research Questions

The study intends to provide answer to the question:

- i. To what extent has multiple tax significantly impact the growth of small businesses in Nigeria?

1.5 Research Hypothesis

Ho: Multiple taxes have no significant impact on the growth of small businesses in Nigeria.

2.1 Conceptual Review

Small businesses or small scale enterprise are an essential part of the economy, as studies had revealed that they make up about 97% of the Nigeria economy (Ariyo, 2005). The Organisation for Economic Co-operation and Development (OECD), reports that small and medium-sized enterprises account for 60 to 70 per cent of jobs in most OECD countries. Small enterprises are those enterprises whose total assets (excluding land and building) are above Five Million Naira but not exceeding Fifty Million Naira with a total workforce of above ten, but not exceeding forty-nine employees (most entrepreneurship business falls under the category of small business). This class of business is generally recognised as important drivers of economic success because it generates income, stimulates indigenous entrepreneurship and contribute to Gross domestic production of the nation. Panitchpakdi (2006), refers to small business as a source of employment, innovation which stimulates entrepreneurial spirit, diffusion of skills, competition and economic dynamism. Udechukwu (2003), sees the small business as a sector, which is germane sector in enhancing the contribution of the private sector and providing the critical building block for industrialisation and sustainable economic growth. Based on the foregoing, it is crystal clear that the importance of this class of business in any society cannot be overemphasized.

However, there are lot of problems plaguing small businesses and stunting their growth, one of which is tax liability. The effect of the Nigeria tax policy on small business has been a matter of increasing interest and concern for so many years because the economy of any nations has a great dependency on the growth and survival of small businesses. Many studies have revealed that a significant relationship exist between taxes and the business ability to sustain itself and to expand. Cynthia (2005), opined that regulations and tax policies are reported to be one of the constraints to the expansion of small businesses. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) revealed that majority of small business die between 1-5 years of establishment. Among the factors identified as being responsible for the death of small business are tax related matters, ranging from multiple taxations to gruesome tax burden.

Small Enterprises are widely defined in terms of their characteristics, which include the size of capital investment, employees' number, and rate of turnover, the management style, the location and the market share. It is expected that government should put into consideration the peculiarities of small businesses when formulating and implementing tax policies. Series of study in this area of interest have explained that high taxes can affect the strength and size of the small business population in many ways, such as, reducing the number of business births by discouraging those who might intend form new businesses. They can slow down the rate at which small businesses are able to grow by making it more difficult for them to finance a rapid expansion. In addition, they can weaken the desire and the ability of small concerns to survive as independent enterprises by making the gains from a sale or merger look more attractive than the income to be derived from continued operation.

Mungaya, Mbwambo and Tripathi (2012), noted that tax authorities are among of the most "feared" institutions by informal sector operators for institutionalizing their activities. Noted that Institutionalization is an inter-alia, registration with the tax authorities and subsequently the requirement to pay relevant taxes, tax is a cost to its payers. With multiple and high tax rates, the costs become escalating, tax therefore reduces business's profit. High tax burden and multiple-taxation is a major problem in Nigerian as many business organizations are not favoured by the tax systems and policies in place. This they expatiated further by saying some businesses are already collapsing, while majority are still struggling to meet up with the high tax rates to ensure their businesses still exist.

Hence, the high tax burden makes it more difficult for small businesses to finance necessary growth, high taxes on business income are said to destroy the incentive for growth and survival. In a similar view the majority of small-business owners, claimed federal taxes have a moderate to significant impact on the day-to-day operation of their business, and hold significant influence over decisions about the firm and its employees (National Small Business Association 2015 survey). The impact of tax system cannot be assessed only by looking at the tax rate. Tax system and policy plays an important role in encouraging growth, investment and innovation, survival and facilitating international trade and mobility. If the tax policy is not adequately structured to the specific environment peculiarity and conditions, it has the ability of posing a great burden on the tax payer, especially small business and thus threaten its growth and survival. Various researches have suggested that any effective approach to assist small business requires both policy and administration adjustments in order to be effective. The Nigerian tax policy and administration which was characterized with inefficiencies, where the tax liability computation is based on estimates, records of many small business firms are incomplete, and some miss out completely leading to tax over charge. In return, this directly affects the growth of the enterprise and threatens its survival because taxes are paid out of profits. Despite all the efforts by the government in restructuring Nigerian tax system, the system still suffers setbacks such as:

- i. Ambiguity of tax laws is a major problem of Nigeria tax system. The state tax laws and the federal Income management Act have been so subjected to series of piecemeal amendments that makes it difficult even for the tax officials to determine the structure of personal Income tax and its assessment and there is no literature in the tax laws which will help for easy understanding of the laws.
- ii. Compliance challenges: A recurring problem with tax payment is the non-compliance by small business owners to register their business.
- iii. Absence of Competent tax administrators due to incompetence and absence of honest administrators, the problem of tax avoidance and evasion has reached an alarming proportion. The

problem with Income taxation in Nigeria is the administration of the tax system bordering on the tax collection, assessment and widespread corruption.

- iv. Changes in the base to which the tax applies. This can be illustrated by the increase and decrease of revenue from taxes from one year to another on export products due to fluctuations in prices in the international market.
- v. Lack of database of all taxable persons cum inadequate penalties for tax evaders are part of the challenges facing the Nigerian Tax system.
- vi. The poor legal structure impairs the objectives of personal income tax. A lot of loopholes abounds in the Personal Income Tax Laws in Nigerian.
- vii. Improper orientation of tax payers as to the need and purpose of tax. Most especially tax payers, in the informal sectors see taxes as a burden since the perception is that they derive no benefit from paying tax. Such group of individuals should be properly enlightened.

It is in view of the above challenges and others, that government now consider the presumptive form of tax as a way to ensure tax payers in the informal sector are brought into the tax net and improve the efficiency of collection of taxes.

2.2 Theoretical Review

Tax laws are being reviewed with the aim of repealing obsolete provisions and simplifying the main ones to reflect economic realities and incorporate current changes easily. The Nigerian tax system has undergone significant changes and improvements over the years, such as, the amendment to Personal Income Tax Act in 2011, where the categories of reliefs and allowances have been combined into consolidated allowance in order to enhance simplicity in tax law. Many of the changes made in tax laws were helpful to small business; but they still left small businesses, as well as large businesses, with tax burdens that are enormous. The rationale behind the whole system of tax is consistent with certain theories of tax among which are: Benefit Principle and Ability-to-Pay Principle. However, this paper shall uphold the ability to pay principle.

i. **Benefit Principle:** According to Adam Smith, who also advocated this theory, “the subject of every state ought to contribute towards the support of the government as nearly as possible in proportion of their respective abilities that is in proportion to the revenue which they respectively enjoy under the proportion of the state”. The benefit theory contains the value of services principle. It implies that every citizen should pay tax in proportion to the utility he derives from the public goods and services (that is, those who get more benefits from public goods should pay more taxes than others). Thus, those who receive more benefits or utility from social goods should pay more than others. The main merit of this principle is that it assumes that the imposition of taxes is justified by the benefits involved in public goods. However, this principle is highly unrealistic assumption because taxes in actual practice cannot be levied on the basis of benefit.

ii. **Ability to Pay:** In modern taxation, the ability to pay principle advocates that every person should be taxed according to his ability-to-pay. It implied that broadest shoulders should bear the heaviest burden that is, persons with greater-to-pay should pay more, while those with little ability should pay less. The ability to pay principle thus, is based on the assumption that those who are placed in better economic condition should be made to contribute relatively more to the cause of public expenditure. It says that public expenditure should come from “him that hath” instead of “him that hath not” (Ocheni, 2015). This is indeed the basis of ‘progressive tax’, as the tax rate increases by the increase of the taxable amount (Ojeka, 2011).

The ability to pay principle emphasizes that in order to fulfill the equity must be endeavored by treating all tax payers in a similar economic situation in equal manner, but simultaneously, vested equity should also be obtained by according discriminatory treatment to the tax payers under different economic circumstances. Equity in taxation thus, requires that the relative sacrifice of each tax payers must be the same. This principle is indeed the most equitable tax system, and has been widely used in industrialized economics (Ocheni, 2015). The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. Shahrodi (2010), believes that for a tax system to be efficient the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense.

2.3 Empirical Framework

A survey by Tee, Boadi & Opoku (2016), using correlation and regression analysis indicates that there is an adverse impact of existing tax policies on the growth of SMEs. Using ANOVA, Okolo, Okpalaojiego & Okolo (2016), established that the effect of multiple taxation on small and medium enterprises in Enugu founds that multiple taxation has negative effect on SMEs investment and its ability to pay tax is significant. Atawodi & Ojeka (2012), in a study on relationship between tax policy, growth of SMEs and the Nigerian Economy also used spearman's rank correlation and finds that there is a significant negative relationship between taxes and business ability to sustain itself and to expand. Meanwhile, Ojeka (2011), used spearman's rank correlation in his study and finds that most SMEs surveyed were faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. The study also revealed a significant negative relationship between taxes and the business' ability to sustain itself and to expand. Likewise, Ocheni (2015), using descriptive statistics in his study concluded that a low tax rate policy is instrumental to the survival and growth of these small and medium enterprises. The literatures reviewed (concept, theory and empirical) revealed the impact of taxation on Small businesses, and agrees that small businesses should be made to payers in accordance to their ability.

3.1 METHODOLOGY

This study is a survey based research design and a well-structured questionnaire was designed as an instrument for the target audience (small business owners in Ogun State, Nigeria). Simple linear regression analysis was conducted to assess the relative predictive power of the independent variables on the dependent variable. The statistical package for social sciences (SPSS, version 23) was employed in the different analyses of respective hypothesis.

3.2 MODEL SPECIFICATION

Dependent variable (Y) is the growth of small business

Independent variable (X) is the multiple tax.

This implies that:

$GSB = F(MT)$ (Growth of small business is a function of multiple Taxes)

$GSB = \alpha_0 + \alpha_1.MT + \epsilon$

Where; GSB = Growth of Small Business

MT= Multiple Taxes.

α_0 and α_1 are parameters

ϵ is the error term

4. RESULTS AND DISCUSSION

Ho: Multiple taxes have no significant impact on the growth of small businesses in Nigeria.

Ha: Multiple taxes have significant impact on the growth of small businesses in Nigeria.

At 0.05, level of significance this analysis was carried out. The model obtained from the data analyzed using SPSS 23 is written below:

$$GSB = \alpha_0 + \alpha_1 MT + \epsilon$$

Growth of Small Business = 0.876-0.540x

Where, independent variable is multiple taxes (x)

This is interpreted as a unit increase in multiple taxes leads to 0.540 decreases in growth of small business.

4.1 Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	-.756 ^a	.714	.601		.02617

a. Predictors: (Constant), Multiple taxes.

From the result in table 4.1, (i) adjusted R square (0.714) has moderate fit. This reveals that the constructed simple regression model of the independent variables (Multiple taxes) account for approximately 71% variance in the dependent variable (growth of small business). Adjusted R square and standard error of the estimate talk about the performance of model, however, standard error of the estimate 0.02617 showed that the model is reliable because is very close to zero. (ii) The correlation coefficient (r= -0.756) indicated a strong negative association between multiple taxes and the growth of small business. The results on the Analysis of variance (ANOVA) for the model are shown in Table 2.

4.2 ANOVA^b

		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.621	1	13.621	8.240	.000 ^a
	Residual	332.200	201	1.653		
	Total	345.821	202			

a. Predictors: (Constant), Multiple taxes

b. Dependent Variable: Growth of small business.

The results of the analysis of variance (ANOVA), $F(df 1, 345.821 = 8.240, P < 0.05)$, indicated a statistically significant impact of multiple taxes on growth of small business. Based on this significant relationship, the coefficient for the Beta weight for the amount of standard deviation unit of change in the dependent variable was calculated. The results are as shown in table 3 below.

4.3 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.876	.078		4.461	.000
	Multiple taxes	-.540	.039	-.552	4.336	.000

- a. Dependent Variable: Growth of small business.

The standardized coefficients in Table 3 reveal that:

- (a) The independent variable, Multiple tax value has strong negative effect on growth of small business because the standardized coefficient Beta value (-0.552, 0.000) which shows statistically significant negative contribution for the value is less than 0.05.

5. CONCLUSION AND RECOMMENDATION

The analysis of data revealed that, multiple taxes impact of growth of small businesses in Nigeria was significant. According to this study, it is believed that proper harmonization in a country's tax laws, policies and systems will influence the growth of businesses, contributes to small business survival and equally improves the economy at large. Therefore, government must enact favorable progressive tax laws & policies, harmonise the taxes at the state and local level which will breed successful business organizations at all stages. Though taxation of small business may seem complex and cumbersome, in the sense that they operate in an informal sector and most taxpayers in this sector do not possess the administrative resources to maintain accurate books or records, as a result, tax evasion is rampant and authorities exert considerable effort locating and assessing small businesses for tax. In addition a successful implementation of a presumptive tax regime will go a long way to create an improve and easy access to the large pool of taxpayers in the informal sector, as well as, reducing tax avoidance, equalizing the distribution of the tax burden particularly in relation to the compliance burden on taxpayers with very low turnover (and the corresponding administrative burden of auditing such taxpayers).

Based on empirical work in this study conducted; there is the need to make the following recommendations: This study believed that setting the base for small business tax reform requires analyzing the level of compliance of small businesses with tax obligations and when making efforts to broaden the tax net, it should be limited to business operating above the subsistence level for poverty reduction reasons. Also, tax system should be properly harmonized to avoid multiple taxes at the state and local level. A friendly tax policy on tax holiday should be implemented for all new small businesses that will ensure a growth limit is attained which can be said to be a level stable enough to sustain tax payment.

REFERENCES

1. Agwu, M.O., & Emeti C.I. (2014). Issues, challenges and prospects of small and medium scale enterprises
2. (SMEs) in Port-Harcourt City, Nigeria. *European Journal of Sustainable Development*, 3(1), 101-114.
3. Ariyo, D. (2005). Small firms are the backbone of the Nigeria economy. *African Economic Analysis*. Retrieved on 13th July 2018, from <http://www.africaeconomicanalysis.org>
4. Atawodi, O.W., & Ojeka, S.A.(2012). Relationship between tax policy, growth of SMEs and the Nigerian economy. *International Journals of Business & Management*. 7(13), 125-135.
5. Cynthia, J.T. (2014): Impact of taxation on the growth of small micro enterprises: case study of selected
6. SMEs in ITEN town. Research work submitted to the school of Business and Economics, Moi University, Kenya.
7. *Doing Business Report*, (2017). Equal opportunity for all. A World Bank group flagship publication. Retrieved on 12th July 2018, from <http://www.doingbusiness.org>
8. *Doing Business Report*, (2018). Reforming to create jobs. A World Bank group flagship publication.
9. Retrieved on 12th July 2018, from <http://www.doingbusiness.org>
10. Excerpts of the Handbook. (2012). Federal inland revenue service and taxation reforms in Democratic Nigeria. Retrieved on 13th July 2018, from <http://www.firs.gov.ng/aboutus>.
11. National Small Business Association (2015). Year-End Economic Report. Retrieved on 30th June, 2018, from <http://www.nsba.biz>
12. Munjaya, M., Mbwambo, A., & Tripathi, S. (2012). Study of tax system impact on the growth of small and medium enterprise (SMES)- with reference to Shimyanga Municipality, Tanzania. Mzumbe
13. University. *International Journal of Business and Management*, 2(3), 99-105.
14. Ocheni S.I., (2015). Impact Analysis of Tax Policy and the Performance of Small and Medium Scale
15. Enterprises in Nigerian Economy. *American Research Institute for Policy Development*. 3(1), 71-94
16. OECD (1996). SMEs: employment, innovation and growth. Washington Workshop, Paris. Retrieved on 29th June 2018, from <https://www.oecd.org/cfe/smes>
17. Ogunleye, G.A. (2004). Small and medium scale enterprises as foundation for rapid economic development in Nigeria; effective implementation strategies. Lagos, Maryland finance company and consultancy service Ltd.
18. Ojeka S.A, (2011). Tax Policy and the Growth of SMEs: Implications for the Nigerian economy.
19. *Research Journal of Finance and Accounting*, Retrieved on 2nd July 2018, from <http://www.iiste.org/Journals>
20. Okolo, E.U., Okpalaojiego, E.C., & Okolo, C.V., (2016). Effect of multiple taxation on investments in small & medium enterprise in Enugu state, Nigeria. *International Journal of Economics & Management Engineering*, 1(1), 378-386
21. Panitchpakdi, S. (2006). Statements at the 10th session of the commission on enterprise, business facilitation and development. Retrieved on 30th June 2018, from: <http://www.unctad.org>
22. Pitigala N., & Hoppe, M.,(2011). Impact of multiple taxation on competitiveness in Nigeria. *African Trade Policy Notes*. Retrieved 25th June 2018, from <http://siteresources.worldbank.org>

23. Shahrodi, S.M. (2010): Investigation of the effective factors in the efficiency of tax system. *Journals of Accounting and Taxation*, 2(3), 42-45.
24. Small and Medium Enterprises Development Agency of Nigeria: SMEDAN and National bureau of statistics collaborative survey: selected findings (2103). Retrieved on 2nd July 2018, from <http://www.nigerianstat.gov.ng>.
25. Tee, E., Opoku, R.T., & Boadi L.A. (2016). The effect of tax payment on performance of SMEs: the case study of selectd SMEs in West Municipal Assembly. *European Journal of Business and Management*. 8(20), 119-125.
26. Udechukwu, F.N, (2003). Survey of small and medium scale industries and their potentials in Nigeria. Paper presented at CBN on small and medium industries equity investment scheme (SMIEIS), Retrieved on 31st June 2018, from [www. Centbank.org](http://www.Centbank.org)