Effect Of Multiple Taxation On Small/Medium Enterprises In Nigeria

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Abstract: This research is based The Effects of Multiple Taxation on Small/Medium Enterprises in Nigeria focused on finding the changes in the operations of Small/Medium Enterprises prompted by imposition of multiple taxation. Therefore, the objective of this study to examine the relationship between multiple taxation and SMEs survival, and to find out the effects of multiple taxation on the growth and development of small/medium scale enterprise. It also looked at the impact of multiple taxation on investment decision of SMEs operators. Descriptive statistics was used to study the data collected for this work through a well-structured questionnaire. The mortality rate of Small and medium enterprises which make up 95% of the economy is very high and these Small and medium enterprises serve as source of employment generation; innovation, competition, and economic dynamism in the development of Nigerian economy. Tax policy is one of the factors that constitutes the small business economic environment

Keywords: Multiple Taxation, SME’s and Tax

1. Introduction

Taxation can simply be seen as a required transfer or payment of money from private individuals, institutions or groups to the government. It may be levied upon wealth or revenue in the form of surcharge on prices. Taxes therefore are a proportion of the produce of land and labour of a country placed at the disposal of the government. Multiple taxation on the other hand, is the imposition of different types of taxes that could have come under one major tax form on the people by the government. At times some of the taxes are christened levies. However, within the context of this work, all required payment made by individuals and institutions to the government are regarded as tax. - Taxes generally provide basis for government revenue, which help them in carrying out their functions. This is why Ojo (1996) defined tax as a means by which government suitable part of private sector's revenue and expenditure for the purpose of meeting recurrent expenditure and creating public capital formation towards the development and growth of goods and services of the economy. A tax, although may be imposed for the above purposes fit has effects on the behaviour of the payer and some variables within his revenue and consumption function. Small-scale enterprises have so many definitions due to different criteria employed by different people and institutions in defining it. There is no single, uniformly accepted definition of a small firm (Storey, 1994) Firms differ in their levels of capitalization, sales and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. However, Holban (2007) suggested that taxation can add to the development and welfare through three sources; It must be able to generate sufficient funds for financing public services and social transfers at a high level of quality, it should offer incentive for more employment and for an efficient and lasting use of natural resources, finally it should be able to reallocate revenue. But in the case of SMEs, tax must be done in such a way that puts their revenue and need for survival into consideration. It is expedient that enough profit is allowed them for the purpose of expanding their businesses. The tax policy must be one that will not encourage SMEs to remain in the informal sector or to evade or avoid tax payments. More so, many small firms in Africa, including Nigeria, choose to remain in the informal sector because the perceived benefits outweigh the perceived costs. Firms rarely see their tax contributions at work and the compliance costs are high, thus discouraging compliance. The government is also discouraged from collecting taxes from small firms, because the cost of monitoring and collecting tax from small businesses by revenue authorities, whose resources are usually scarce, sometime outweighs the revenues generated by small businesses (Stem and Barbour 2005). The focus of this research therefore is to examine the effect of multiple taxations on the performance of (SMEs) and the importance of taxes to the Nigerian economy. To establish the relationship between tax policy and the growth of SMEs in Nigeria and to evaluate the factors that encourage non-compliance with tax obligation by SMEs. In the Nigerian context, the multiplicity of definitions for small-scale enterprises is the rules rather than exception. Nwankwo (1992) noted that as a result of differences in policy focus, different government agencies in Nigeria apply various definitions to small and medium scale enterprises. The Centre for Industrial Research and Development (1990) defined small-scale enterprise as one whose total assets in capital equipment, plant and working capital are less than two hundred and fifty thousand naira and employing fewer than fifty full-time workers. Central Bank of Nigeria (2002) defined SME as a firm with capital outlay of not more than N200m. National Council of Industries (2003) defined small enterprise as a project with capital investment of over N1.5 million but not more than N50 million and/or work force of between 11 to 100 workers. In fact, the concept, small scale enterprise more often called small and medium-size enterprise (SME) is relative and dynamic, hence there is no universal definition for small scale enterprises. Researchers, because of this problem of definition adopt definitions for small-scale enterprises, which are more suitable to their particular target group. To this effect, small scale enterprise within the context of this work is any business organization which has working capital between one hundred thousand naira and ten million naira excluding land and employs fewer than fifty full-time workers. Sule (1986) observed that
definitions of SMEs vary across countries and business environment as a result of differences in industrial organization at different level of economic development in parts of the same country. Small and medium enterprises (Small businesses) form the core of majority of the world’s economies. A study carried out by the Federal Office of Statistics shows that in Nigeria, small and medium enterprises make up 97% of the economy (Ariyo, 2005). However, the mortality rate of these small firms is very high. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Nigeria, 80% of small businesses die before their 5th anniversary. Among the factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxations to enormous tax burdens etc. In many government policies, small and medium enterprises are usually viewed and treated in the same light as large corporations. However, their size and nature makes them unique. Therefore, in dealing with small and medium enterprises, these unique qualities need to be considered. Government in order to meet up with its responsibilities of providing social infrastructures and other development projects for her citizens imposes taxes on her citizens. This is done by the different tiers of Government—Federal, States and Local Governments with respect to their fiscal powers (Tax Powers). However, the rate at which the governments concerned increase the existing taxes should be a thing of concern to economic agents. While the Federal Government is clamouring for a stable general price level, increased rate of growth in Gross Domestic Product (GDP), increased employment opportunities, through the establishment of small-scale enterprises; the state and local governments are busy introducing new taxes and increasing the rate of the existing taxes. In levying of taxes for these enterprises in particular, issues that need to be considered are how these tax policies can be designed to bolster the growth of Small businesses and the most effective ways to administer them. The importance of Small businesses as a mechanism of economic growth and development is often ignored. They are perceived as minute establishments that have minimal effect on the state of the economy.

2. Statement Of The Problem
Although there was a general perception that tax is an important source of fund for development of the economy and provision of social services, the problems faced are in the area of negative relationship between taxes and the business ability to sustain itself and to expand, SMEs are faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Not minding other challenges that SMEs are facing in other developing countries like Nigeria; inadequate capital, poor technical and managerial skills, environmental effects and the government regulations which is most affecting the operation of SMEs in Nigeria especially this issue of multiple taxation which is a worm eating deeply and the large chunk of revenues generated by these SMEs for their growth and survival. These have led to increase in record of dearth of Small and Medium Scale Enterprise (SMEs).

3. Objective Of The Study
The general objective of the study is to examine the effect of multiple taxations on SMEs performance.

i. To examine the relationship between multiple taxation and SMEs survival.

ii. To find out the effects of multiple taxation on the growth and development of small/medium scale enterprises.

4. Research Hypotheses
The general objective of the study is to examine the effect of multiple taxations on SMEs performance

H1: There is a significant relationship between multiple taxation and SMEs in Nigeria

H2: There are effective multiple taxation system on the growth and development of small/medium scale enterprises

5. Literature Review

5.1 Concept of Multiple Taxation
Tax Policy in Nigeria has been largely used to generate maximum revenue for the government and as a result its use for optimal allocation of i-resources or redistribution of revenue is being neglected. Anyanwu (1997) noted that tax authority in Nigeria has concentrated on the manipulation of the rates and tax bases in order to generate enough revenue for the government. This has led to imposing of different types of taxes and levies by tax authorities. These different taxes, which should have otherwise come under one major type of tax but are split into many forms, are in this work referred to as "multiple tax". Ndekwu (1988) observed that so many taxes are imposed at different or supplementary rates and it involves different tax bases and different times of payment. In Nigeria, tax policy planning is not clearly assigned to specific unit. Any change in tax law is usually designed in ad hoc manner and is based on expediency rather than on long-term studies, (Anyanwu 1997). Utomi (2000) in line with this view noted that Nigeria has a confused taxation philosophy. This results in proliferation of taxes and tax laws hence tax multiplicity. Ogunleye (2000) observed that SME operators battle with high cost of production as a result of various taxes and levies that were slammed on them by various agencies and tiers of government. According to him, "it sounds funny that a company that reaps under the burden of maintaining generators is subjected to pay what the government call generator levies".

5.2 Effects of Taxes (Multiple Taxation) On Small/Medium Enterprises
Generally, effects of taxation refer to all the changes in the economy as a result of tax imposition. Anyanwu (1997) noted that the presence of tax distorts the pattern of production, consumption, investment, employment and other similar patterns for good or for bad. He said that the extent to which the volume of production is affected by a tax depends upon its influence on the ability and the desire to work, to save and to invest. To estimate the effects of taxes on production and I growth would require knowing the effects of tax on the allocation of existing productive resources. A change in taxation will cause a realignment of consumers' wants and the reallocation of factors of production. This affects the demand for goods and services of the products of small-scale enterprises. Longenecker et al (1997) observed that taxes are serious burden imposed on small businesses' cash flow and, therefore, represent a costly drain on the financial health of small firms. Lindsey (1997) asserted that
the current level of regulations (government regulation including tax) is so high, so complicated and so intensive that it's strangling business and suppressing productivity of small business. Taxes imposed by Nigeria on small/medium scale Enterprises include: business registration fee, Environmental Sanitation Fee, Fire Service Fee, Development Tax, Market Taxes, Produce Fee, Revenue Tax, Emblem levy, retail permit and trade permit etc.

5.3 Implications of Multiple-taxation in Nigeria
The foregoing results reveal new insights on multiple-taxation in Nigeria, complementing previous studies. The first is the overall magnitude of the burden. The recent CIPE study (2010) estimates that all tiers of tax cost firms on average about 40 percent of production costs. The World Bank (2008) reported an average effective tax rate of business in Nigeria approximately 33 percent and a marginal effective tax of approximately 40 percent. The current study, based on firm-level data, highlights that associated administrative costs amplify the tax burden substantially, accounting for as much as 42 percent of pre-tax profits of traders and businesses in Nigeria. These costs, which seem to be even higher for smaller and more remote enterprises, place firms at a distinct disadvantage compared to competitors in the international market. This high tax burden occurs in an environment where the State fails to deliver reliable access to electricity in exchange, and where security concerns abound.

5.4 Challenges of Small and Medium Scale Enterprises (SMEs) in Nigeria
i. Inadequate Basic Infrastructure: Government has not done enough to create the best conducive environment for the thriving of SMEs, the problem of infrastructures ranges from shortage of water supply, inadequate transport systems, lack of electricity to improper solid waste management. Nigeria’s underdeveloped physical and social infrastructures create a binding constraint to SMEs growth, since; they heavily rely on the inefficiently provided state infrastructures and cannot afford the cost of developing alternatives.

ii. Multiple taxation: This has become a major problem especially given the role of tax consultants and agents hired by local governments. They are often crude in their operation, excessive in their assessment and destructive in their relationship with the production process. They tax everything in their bid to generate revenue without considering the net effect to household revenues and employment.

iii. Financial Problems: About 80% of Small and medium scale business enterprises are stifled because of poor financing and other associated problems. The problem of financing SMEs is not so much the sources of funds but its accessibility. Factors identified inhibiting funds accessibility are the stringent conditions set by financial institutions, lack of adequate collateral and credit information and cost of accessing funds.

iv. Socio-Cultural Problems: Most Nigerian Entrepreneurs do not have the investment culture of ploughing back profits. Bala (2002) stressed that the attitude of a typical Nigerian entrepreneur is to invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against made in Nigeria goods is significant. Most Nigerians have developed a high propensity for the consumption of foreign goods as against their locally made substitutes.

5.5 Objective of Tax
Taxation is usually used as a major instrument for revenue generation but Akujobi (1988) has a contrary view. He postulated that this function of taxation in recent years can be questioned because government has the power to create money. However, Naifeju (1997) is of the opinion that the revenue objective of taxation is still important. The revenue function of taxation is still important in any economy. The government can raise the required revenue through taxation. Apart from using taxation as an instrument for revenue generation, it can also be used to accomplish some economic objectives. Rabiu (2003) is of the opinion that government can use taxation to accomplish some economic objectives such as influencing consumption demand and providing incentives for production, investment and savings. Buhari (2004) classified the objectives of taxation into four broad headings: revenue generation, revenue distribution, regulation and stabilization of the economy. Hanson (1988) listed the reasons for the imposition of taxes as follows: payment for the cost of general administration, defence and social services, curtailing the consumption of harmful commodities and reduction in revenue inequality. Harvey (1982) summarized the purpose of taxation as follows: achieving equitable distribution of wealth and revenue, compensating social cost and benefits and regulation of the economy. He explained that the economy of a country should be regulated in other to develop important industries, to protect infant industries, to move factors of production from one industry to another, to reduce unemployment, to allocate resources and to encourage the growth of the national revenue. Njoku (2009) is of the opinion that the objectives of taxation include raising revenue, reducing inequality in the economy regulating and controlling consumption of certain goods, checking inflation, servicing of national debt planning and directing the economy, protecting infant industries, promoting exports and curtailing imports, maintain credit balance. Anyanwu (1997) is of the opinion that the primary objective of is to raise revenue for the government needed to finance the provision of essential services to the people. He also argued that tax is used to regulate the production and consumption of certain commodities considered injurious or harmful to the health of either workers or consumers. It is also used to protect infant industries and curb inflation.

6. Research Method
This research therefore covers one selected organisation in Abuja, namely Chevron Nigeria Ltd, Abuja. Secondary data were obtained through books, journals, and internet. Empirical works of other scholars were consulted. A simple size of 82 was obtained from the population of 104 at 5% error tolerance and 95% degree of freedom using Yamane’s statistical formula 82(100%) of the questionnaires distributed, 75 (91%) were returned and 7(9%) were not returned. The questionnaire was designed in Likert scale format. The researchers conducted a pre-test on the questionnaire to ensure the validity of the instrument. Pearson moment product co-efficient and regression analysis were used to test the hypotheses.
7. Test Of Hypotheses

H1: There is a significant relationship between multiple taxation and SMEs in Nigeria
H0: There is no significant relationship between multiple taxation and SMEs in Nigeria

Table 1: Table of correlation between effective multiple taxation and small/medium enterprises in Nigeria

<table>
<thead>
<tr>
<th>effective multiple taxation</th>
<th>level of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.536 **</td>
</tr>
<tr>
<td>Sig. (2-tailed) N</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>80</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

According to above calculations it is observed that amount of correlation coefficient between level of SMEs and effective multiple taxation is equal to 53.6 per cent and considering that a significant level is less than 5%. Then we can say that there is a positive relationship between effective multiple taxation and small/medium enterprises in Nigeria.

Table 2: Regression analysis tests of multiple taxation and small/medium enterprises in Nigeria

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.965*</td>
<td>.716</td>
<td>.586</td>
<td>3.79952</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), multiple taxation
Regression coefficient of R = .965 or 96.5% indicate that relationship exist between independent variables and dependent variable. The coefficient of determination R² = 0.716 which show that 71.6% of variation in multiple taxation explained by SMEs in Nigeria. The adjusted R-square in the table shows that the dependent variable, (SMEs) is affected by 58.6% by independent variable (effective multiple taxation). It shows that multiple taxation is responsible for level of SMEs or the SMEs in Nigeria.

Coefficients*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant) effective multiple taxation</td>
<td>12.310</td>
<td>.901</td>
<td>13.656</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>1.056</td>
<td>.085</td>
<td>.536</td>
<td>12.426</td>
</tr>
</tbody>
</table>

a. Dependent Variable: level of performance
The coefficient of determination for effective multiple taxation is positive (1.056) and is highly significant (0.001) in ensuring level of SMEs. The p-value of 0.000 is less than the t-statistic value of 12.426 and the standard error value of 0.085. This implies that a unit increase in effective multiple taxation will lead to 1.056 increases in level of SMEs.

Therefore, the null hypothesis is rejected and alternative hypothesis accepted that there is a relationship between multiple taxation and the level small/medium enterprises in Nigeria.

Hypothesis Two
H1: There is effective multiple taxation system on the growth and development of small/medium scale enterprises
H0: There is no effective multiple taxation system on the growth and development of small/medium scale enterprises

Table 3: Table of correlation between effective multiple taxation and growth and development of small/medium scale enterprises

<table>
<thead>
<tr>
<th>effective multiple taxation</th>
<th>growth and development of small/medium scale enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.499 **</td>
</tr>
<tr>
<td>Sig. (2-tailed) N</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>80</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

According to above calculations is observed that amount of correlation coefficient effective multiple taxation is equal to 49.9% and considering that a significant level is less than 5%. Then can say that there is a positive relationship between effective multiple taxation and growth and development of small/medium scale enterprises. This implies that one per cent decrease in effective multiple taxation will lead to 49.9% increase in growth and development of small/medium scale enterprises.

Table 4: Regression analysis test of effective multiple taxation and growth and development of small/medium scale enterprises

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.899*</td>
<td>.849</td>
<td>.747</td>
<td>3.90132</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), effective multiple taxation
Regression coefficient of R = .899 or 89.9% indicate that relationship exist between independent variables and dependent variable. The coefficient of determination R² = 0.849 which show that 84.9% of variation in growth and development of small/medium scale enterprises is explained by effective multiple taxation. The adjusted R-square in the table shows that the dependent variable is affected by 74.7% by independent variable. It shows that effective multiple taxation is responsible for growth and development of small/medium scale enterprises.
a. Dependent Variable: growth and development of small/medium scale enterprises

The coefficient of determination for effective multiple taxation is positive (1.733) and is highly significant (0.002) in ensuring growth and development of small/medium scale enterprises is well carried out. The p-value of 0.000 is less than the t-statistic value of 11.257 and the standard error value of 0.154. This implies that a unit increase in effective multiple taxation will lead to 1.733 increases in growth and development of small/medium scale enterprises. Therefore, the null hypothesis is rejected and alternative hypothesis that there is effective multiple taxation on the growth and development of small/medium scale enterprises.

8. Conclusion

The study appraises the effect of multiple taxation on SMEs in Nigeria with a study of Skye Bank Abuja, Nigeria. From all literatures reviewed, the researchers deduced that the development and operation of SMEs has economic impact on the nation. The researchers established relationships between SMEs’ sizes and their ability to pay taxes, multiple taxations and SMEs survival. The researchers therefore conclude that multiple taxations affect the survival and growth of SMEs in Nigeria. Small-scale enterprises are vital in many ways - employment generation, transformation of the economy and production of goods and services, and as such should not be over burdened with multiple levies and taxes. This is to enable them stay in the business and lend their support to the industrialization processes of the state. In addition to the many problems that Small-scale entrepreneurs face in Nigeria, poor business infrastructure, shortage of financing, high interest rates, corruption, they are still battling with high tax burden being imposed on them mostly by the lower tiers of government. When, looking at everything SMEs need to do before beginning. Operations, the process is far too time consuming and costly, representing a serious deterrent to starting SMEs in Nigeria. It therefore, follows that the unanimity of entrepreneurs listing taxation issues, as their biggest problems cannot be ignored. There are too many taxes and tax-like payments (Levies) are being imposed on SMEs. While it is difficult to count them all as the majority are local payments or sector specific, all in all there are over 14 taxes and levies.

9. Recommendations

The research recommended as follows:

1. Tax collection should be defined with respect to which government should collect certain taxes from SMEs. This will avoid the three tiers of government collecting taxes from the same particular organization. Government should also put a policy in place to avoid illegal taxes, such as community levy, boys or youth levy and as well as association or union levy.

2. Taxes should be collected in relation to the sizes and profit of SMEs considering all other factors that can constrain the progress of such SMEs as there is a relationship between SMEs sizes and their ability to pay taxes.

3. Corruption among tax agents and harassment of entrepreneurs by tax agents need to be tackled.

4. Governments especially the local governments need to move away from the urge to control all business activities and give SMEs breathing space to more efficiently allocate their resources and decide on activities for themselves. This calls for accelerated administrative Government and tax authorities with the aim of moving from grudgingly lessening the regulatory local to more-of-a system where government’s intervention in SMEs is minimal and limited to situations where it is necessary to do so.

5. Tax authorities should not have the power to an interrupt business operation unless there is a clear criminal violation. Even this has to be done through the courts and not unilaterally through an internal decision.

6. Government should develop common strategy to enhance public awareness on what taxes are payable and to whom.

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**Author’s Profile**

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