

Multiple Taxation and SMEs: The Nigerian Experience

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Abstract

This study examines the impact of multiple taxation on small and medium-scale enterprises (SMEs) in Nigeria using a library research approach. From the review of prior studies, it was revealed that multiple taxation has a negative impact on the performance, growth and survival of SMEs in Nigeria and multiple taxation occurs mostly in the local government compare to other levels of governments. This study concludes that multiple taxation is a great threat to the growth and survival of SMEs in Nigeria. This study therefore recommends Federal, State and Local governments to adhere strictly to the provisions of the law by collecting only those taxes within their jurisdictions. Also, there should be a review and a further amendment of the schedule to the Principal Act to harmonise the taxes and levies collected by each tier of government especially the State and Local governments. As a result, the state and local government should jointly collect a single market taxes and levies, road taxes and motor park levies. This will help to reduce the incidence of multiple taxation on SMEs in Nigeria.

Keywords: Multiple Taxation, SMEs.

1.0 INTRODUCTION

Small and Medium-Scale Enterprises (SMEs) make up the vast majority of business entities in both developed and developing countries and can be seen as the engine growth and a source of innovation, income redistribution, competition, employment economic dynamism and growth, which stimulate the innovative spirit and the dispersion of skills because they enjoy a wide

environmental presence (Aremu & Adeyemi, 2011). Taxation is a medium through which government increases revenue for sustainable development and tax policy towards SMEs is an important issue because SMEs are significant segment of the economy (Oludele & Emilie, 2012). This connotes that the government as a policymaker and regulator, must put into consideration the factors that may possibly affect SMEs' competitiveness. One of these factors

which poses great threat to SMEs growth as well as revenue generated is multiple taxation.

In Nigeria, state and local government imposed taxes and levies on SMEs that are similar such as Market taxes and levies, Business premises registration fee, Fire service charge, Development levy to mention but a few and these taxes raises the issue of multiplicity. Flowing from the above, the question then is, does multiplicity of taxes by the lower tiers of government enhance or constrain the operational capacities of SMEs? Better still, what then is the impact of multiple taxation on SMEs in Nigeria? Therefore, the objective of this study is to examine the impact of multiple taxation on SMEs in Nigeria by reviewing extant literature on the subject matter.

The remain part of this study is sectioned as follows: section two reviews prior studies on the subject matter while section three concludes the study with necessary recommendations made.

2.0 Review of Prior Studies on Multiple Taxation and SMEs

2.1 Concept of Small and Medium-Scale Enterprises

SMEs are generally regarded as important catalysts and mechanisms for the world's economic growth and development which have dominated the industrial sector of both developed and developing countries. Prior studies supported that notion stating that SMEs serve as catalysts for employment generation, national growth, poverty reduction and economic development and they contribute about 80 percent source of income to majority of the world population (Kadiri, 2012; Kamunge, Njeru, & Tirimba, 2014). Ogechukwu (2011) discloses that SMEs contribute largely to the advancement of

the country in providing new jobs which have proven strong employment record and are known as key drivers for Gross Domestic Product (GDP) growth in most countries. The 2013 Enterprise Baseline Survey revealed that there are 37,067,416 Micro, Small and Medium Enterprises (MSMEs) which includes 36,994,578 Micro, 68,168 Small, and 4,670 Medium enterprises. Micro, Small and Medium Enterprises (MSMEs) in Nigeria, employed 59,741,211 persons and contributing 84.02% of the total labour force as at December 2013 (Small and Medium Enterprises Development Agency of Nigeria [SMEDAN], 2013).

Eniola and Ektebang (2014) stated that SMEs provide over 90% of employment opportunities available in the Nigerian manufacturing sector and account for about 70% of aggregate employment created per annum. Aruwa (as cited in Ocheni, 2015) is of the opinion that the industrial sector in Nigeria is dominated by SMEs as they account for about 90% in the sector, while in developed nations over 98% enterprises are SMEs. In the private sector, SMEs are said to employ 87.9% of the workforce (Kadiri, 2012; Olukayode & Somoye, 2013). Awoniyi (as cited in Ehikioya & Ismaila, 2014) asserted that for any developing country to grow and develop economically, greater attention and concentration must be given to small and medium enterprises. Ogenyi (2020) analysed SMEs and Internal revenue generation in Benue state. Ex-post facto research design was used while secondary DTA were collected for 12 years from the National Bureau of Statistics. The result provides evidence of SMEs positive impact on employment creation and internally generated revenue.

2.1 Small and Medium-Scale Enterprises Challenges in Nigeria

There are numerous challenges bedevilling SMEs and by extension affect their performance and their growth. According to SMEDAN (2013), challenges confronting the operations of MSMEs in Nigeria are access to finance and poor infrastructure, inconsistency in government policies, poor support, access to market, multiple taxation and obsolete technology. Adekoya (2016) categorised the problems of SMEs in Nigeria as multiple taxation system, high cost of legal documentation, high cost of doing business, lack of continuity, inadequate capacity building, difficulties encountered in obtaining credit facility, regional market failure, corruption, and unstable government policy. According to Adebisi and Gbegi (2013), a key problem facing the SMEs in Nigeria is multiplicity of taxes and it is known to have an adverse effect on their survival as 80% of them die before their fifth anniversary. The performance of SMEs in Nigeria is worrisome and their contribution to GDP is lower compare to other developing countries globally, due to numerous challenges. It is obvious that extant studies consistently identified multiple taxation amongst other challenges as a major problem affecting SMEs in Nigeria (Adekoya, 2016; "The Challenges of SMEs", 2017).

2.2 Multiple Taxation and Small and Medium-Scale Enterprises

The National Tax Policy (2012), states that multiple taxation is the imposition of the same or similar taxes on the same income base, transaction or person by one or more tiers of government, in one or more jurisdictions. The issue of multiple taxes in Nigeria was said to have begun in the late 1980's when revenue accruing to

states and local government from the Federation Account began to diminish (Izedonmi, 2010). Onyeukwu (2010) while supporting that multiple taxation is unhealthy for the development of corporate entities further stated that it is seen as a hindrance for their growth which often affect their corporate social responsibility where they view the host government as being hostile. The incidence of multiple taxation and levies is constitute militating forces for SMEs (Anochie, Ude, & Egbo, 2015). The Taxes and Levies (Approved List for Collection) Act, 2004 was amended because of the pressure of multiple taxes on cost of doing business in Nigeria ("Harmonisation or Legalisation of Multiple Taxes", 2015). However, there are still elements of multiple taxes on SMEs after the amendment of the Schedule to the Principal Act. In the view of Obadina (2018), multiple taxes still affect SMEs and its continued bearing on businesses is becoming troublesome. In the same vein, Dambatta (2018) argued that academy, amongst other factors should lend its voice on the problem of multiple taxation. In addition, Kano Chambers of Commerce, Industry, Mines and Agriculture (KACCIMA, 2018) decries the impact of multiple taxation on businesses in Kano revealing that multiple taxation has almost immobilised economic activities in the state, leading to closure of many SMEs. Nevertheless, The Federal Inland Revenue Service (FIRS, 2018) claimed that harmonisation of taxes are ongoing across the states in Nigeria to address the problem of multiple taxation. In addition, FIRS (2018) concluded that states government, not The Federal Inland Revenue Service (FIRS), imposed taxes on Nigerians especially on the market women.

However, Existing empirical evidence

clearly indicates that SMEs are affected disproportionately by multiple taxation. Salami (2011) opined that there are over 500 taxes and levies enforced by various tiers of government in Nigeria apart from those in the Taxes and Levies (Approved list of Collection) Act. These invariably increase the cost of carrying out business and also destroy the confidence of investors. Salami stated further that multiple taxation is common in the local government than other tiers of governments. Atawodi and Ojeka (2012) examined the relationship between tax policy, growth of SMEs in Zaria, North Central Nigeria using business sustenance and expansion as indices of growth. Judgmental sampling and Spearman's Rank Correlation were used to test the hypothesis. The study found a significant negative relationship between taxes and the business' ability to sustain itself and to expand. Agbor (2013) discovered in his study that there are incidences of multiple taxes within 21 tax subheads in Calabar. He posited that SMEs paid for kiosk and/or shop rates and were forced to pay for operational permit. Multiple taxation also manifest in the signpost/advert tax collected by the local government however, the state also collect taxes on the same heading. Adebisi and Gbegi (2013) examined the effect of multiple taxation on the performance of SMEs in Nigeria. Using a survey research design, the data for the study were quantitatively analysed with simple percentages, and the research hypotheses were tested using the analysis of variance (ANOVA). Findings from the study revealed that multiple taxation has negative effect on SMEs' survival as 80% of SMEs die before their 5th anniversary. The study suggested that government should implement uniform tax policies that will favour the development of SMEs

in Nigeria.

Ocheni (2015) examined the impact analysis of tax policy and the performance of SMEs in Nigerian using a descriptive survey research design. Sixty-eight (68) SMEs operating in Kogi State and Abuja made up the population of the study. The analysis revealed that there is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria. Okolo, Okpalaojiego, and Okolo (2016) investigated the impact of multiple taxation on the investments in SMEs in Enugu state, Nigeria. A survey research design with an SME population of 80 was used in the study. The result of the study revealed that multiple taxation has a negative effect on SMEs investment. Nwamuo (2017) examined the impact of multiple taxation on the operations of business enterprises in Aba metropolis. The study employed a survey research design. The results showed that the incidence of multiple taxation has escalated the cost of doing business, decreased profit margin of businesses, discouraged the establishment of new business outfit, and increased the unemployment rate in Aba metropolis. Adeniyi and Imade (2018) conducted a study to examine the effect of multiple tax regimes on sustainable development among small scale enterprises in Lagos State. A Survey design was adopted for the study. The result showed that multiple taxation negatively affects the performance of SMEs.

Aribaba, Oladele, Ahmodu and Yusuff (2019) investigated tax policies and entrepreneurship sustainability in Ondo state, Nigeria using survey research design for a sample size of 9 local government area duly registered SMEs. They found a negative significant effect

between multiple taxation and sustainability of entrepreneurship. They further recommended a favourable tax regime which will encourage entrepreneurship and reduces social vices. Hassan, Akor, Bamiduro and Rauf (2020) studied the impact of government policy and insecurity factor of SMEs production in Nigeria. They used a design of 590 SMEs respondents. Their multinomial logistic regression result indicated that government policy on multiple taxation caused costs of SMEs to rise and thus had adverse significant impact on the productivity of SMEs in Nigeria. Cross (2020) reviewed the effects of multiple taxation on SMEs survival, investment, growth and development in Nigeria. Descriptive statistics was used to study the data collected. He discovered that multiple taxation affects the survival and growth of SMEs in Nigeria.

3.0 Conclusion and Recommendations

The aim of this study was to review extant literature on the impact of multiple taxation on SMEs in Nigeria. The motivation for the study revolves around the need to enhance the sustainability of SMEs in Nigeria and not to encourage multiple taxes. From the review, it was discovered that multiple taxation has a negative impact on the performance, growth and survival of SMEs in Nigeria as evidenced in the prior studies (Atawodi & Ojeka, 2012; Adebisi & Gbegi, 2013; Okolo et al., 2016; Nwamuo, 2017; Adeniyi & Imade, 2018; Aribaba, Oladele, Ahmodu & Yusuff 2019; Hassan, Akor, Bamiduro & Rauf, 2020; Cross, 2020). It was also discovered that multiple taxation occurs mostly in the local government sphere than among other tiers of governments. This study therefore concludes that

multiple taxation is a great threat to the growth and survival of SMEs in Nigeria.

The study further recommends Federal, State and Local governments to adhere strictly to the provisions of the law by collecting only those taxes within their jurisdictions. Also, there should be a review and a further amendment of the schedule to the Principal Act to harmonise the taxes and levies collected by each tier of government especially the State and Local governments. As a result, the state and local government should jointly collect a single market taxes and levies, road taxes and motor park levies. This will help to reduce the incidence of multiple taxation on SMEs in Nigeria.

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