

**MULTIPLE TAXATION AND SMALL AND MEDIUM SCALE
ENTERPRISES IN NIGERIA**

BY

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CERTIFICATION

We hereby certify that this project work was carried out by **OAMEN JOHN UTOMI** with Mat. No. **PG/MGS1512678** of the Department Business Administration, in partial fulfilment of the award of Masters in Business Administration (MBA) Honours Degree.

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DEDICATION

I dedicate this work to God Almighty. To Him alone be all the glory for in His special grace.

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I want to thank the Almighty God for making it possible for me to accomplish this degree.

My sincere gratitude goes to my project supervisor Ven. Prof. I.O. Osamwonyi, for his untiring efforts in scrutinizing the draft copy and making necessary correction to this research work.

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ABSTRACT

Small and Medium Enterprises play a very important role in development of the Nigerian Economy. Making up about 97% of the entire economy, they serve as a source of employment generation, innovation, competition, economic dynamism which ultimately lead to poverty alleviation and national growth. Tax policy is one of the factors that constitute the Small businesses' economic environment. This research work tries to establish if any relationship exists between the growth of Small businesses and the tax policy environment in which they operate in Nigeria. Questionnaires were distributed to Small businesses in Benin City, Edo State, Nigeria and non probability judgmental sampling method was employed. It was found out that from most Small businesses surveyed; they 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. 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 study revealed a significant negative relationship between taxes and the business' ability to sustain itself and to expand. In order to obtain a vibrant and flourishing SME sector, the tax policy needs to be appropriate such that it will neither be an encumbrance to the Small businesses nor discourage voluntary compliance. A suggested solution is by increasing tax incentives through reducing tax rates and increasing tax authorities' support services towards small and medium enterprises.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Nigeria happen to be one of those countries that desire to build a civilized nation with a strong and sound economy. Demonstration of such a desire is seen in tax payment, but most citizen see it as government's means of exploitation. Tax is a contribution imposed by the Government on income earners, importers, companies, investors, exporters, etc (Holban, 2007)

The desire to build a civilized country with a strong and sound economy is the desire of every Country, including Nigeria. Tax payment is the demonstration of such a desire, although some income earners see it as a means of exploitation by the government. Tax payment is a voluntarily contribution imposed by the Government on personal income earners, companies, investors, exporters, importers etc. revenue realized from taxation is a major source of revenue to the Government of Nigeria, and as such is an important tool used in the development of Nigeria and her economy. A country's tax policies and systems are greatly related with business ventures in that country. An economy that enacts favorable and progressive tax laws and policies will definitely breed successful and finance-healthy business organizations. Once businesses flourish, the economy flourishes as well, as there is no quicker way of stirring the affairs of an economy without the

help of organizations that move services, goods, money and investments from those with surplus to those with deficit; those with marketable ideas/output to those who need these ideas and products. In essence, businesses and tax policies greatly depend on one another for survival. If one is greatly affected, the other follows suite.

The Nigerian Tax System has undergone significant changes in recent times. With the help of various studies and research done by tax experts, tax laws are being reviewed with the aim of repelling obsolete provisions and simplifying the main ones. Under current Nigerian law, taxation is enforced by the 3 tiers of Government, i.e. Federal, State, and Local Government with each having its sphere clearly spelt out in the Taxes and Levies (approved list for Collection)

Small businesses are generally recognized as important drivers of economic success. They are a key ingredient in the “ecology of firms” in a healthy economy, as job creators, sales generators and a source of tax/fiscal revenue. In Nigeria the importance of small business as a creator of jobs, particularly for those with a low skills level, is widely recognized. Small, medium and micro-enterprises (“SMMEs”) contribute 36.1% of the country’s gross domestic product (“GDP”) and employ 68.2% of the workforce in the private sector. In the agriculture, construction and retail sectors, SMMEs employ more than 80% of the total workforce. Over the last few years, the growth in employment by SMMEs has

exceeded the growth in their contribution to GDP, highlighting the job creation potential of this sector of the economy.

Regulations and red tape are reported as one of the constraints to the expansion of businesses both in Nigeria and internationally. International research in this field shows that tax regulatory compliance costs are a significant portion of the total regulatory cost. Several other patterns emerged from the various local and international studies performed, among the most important being that tax compliance costs comprise a much larger proportion of total compliance costs for smaller firms.

Furthermore, various researches have suggested that any effective approach to assist small business requires both policy and administration model adjustments in order to be effective. The 2005 year, therefore, saw the beginning of a process of structural change that was intended to build a positive tax compliance climate in Nigeria.

This report is focused on the survey of the compliance experience of professional accountants and bookkeepers (referred to as “tax practitioners” for the purposes of this document) in respect of their small business clients in Nigeria. It will be complemented by two related surveys, one of small businesses that are registered with the Federal Inland Revenue Service (FIRS), regarding their time

and cost requirements for tax compliance, and one of informal businesses, regarding their perceptions about tax compliance.

1.2 Statement of the Problem

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. 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. However, if conducive environment is created for these Small businesses to grow through proper regulation, the SME sector has the highest propensity to transform our economy. In the same light, taxes are important for the government as they are the major source of funds for government expenditure. Income obtained from taxation of individuals and businesses are used to run governments as well as provide infrastructure such as good roads, water supply, and electricity which are essential for the smooth running of these businesses that are mainly manufacturing companies and as such rely on these commodities to survive.

Tax burden is a major problem in Nigeria as many business organizations are not favored by the tax systems and policies in place. Some businesses are already collapsing; while majority are still struggling to meet up with high tax rates to ensure their businesses still exist. According to a study conducted by Bateman (2007), it was reported in a survey that 90% of business owners admitted that taxes were a huge constraints to their businesses, as they claim taxes are high and do not allow new businesses to cover up initial cost.

1.3 Research Questions

In order to achieve the objectives stated above, the following research questions were used as a guide in achieving the objectives of this research:

1. What conducive environment created for SMEs to grow through proper regulation in Nigeria?
2. What is the effect of multiple taxation on the growth and survival of small and medium enterprise?
3. How high is mortality rate of small and medium scale enterprise?
4. Can Nigeria tax policy encourage the growth of SMEs?

1.4 Objectives of the Research

In-order to achieve the purpose of this research, the following are the objectives of the research:

1. To identify conducive environment created for SMEs to grow through proper regulation in Nigeria.
2. To examine the effect of growth and survival of small and medium enterprise negatively.
3. To find out if mortality rate of small and medium scale enterprise is high.
4. To examine if Nigeria tax policies encourages the growth of SMEs.

1.5 Research Hypotheses

The following are the hypotheses tested to be in the study.

Hypothesis 1:

H₀: There is no conducive environment created for SMEs to grow through proper regulation in Nigeria.

H_A: There is a conducive environment created for SMEs to grow through proper regulation in Nigeria.

Hypothesis 2:

H_O: Multiple taxation does not affect the growth and survival of small and medium enterprise negatively.

H_A: Multiple taxation does affect the growth and survival of small and medium enterprise negatively.

Hypothesis 3:

H_O: The mortality rate of small and medium scale enterprise is not high.

H_A: The mortality rate of small and medium scale enterprise is high.

Hypothesis 4:

H_O: Nigeria tax policies do not encourages the growth of SMEs.

H_A: Nigeria tax policies do encourages the growth of SMEs.

1.6 Significance of the Study

This study gives a clear insight into the various ways in which tax policies in Nigeria can be executed efficiently to still favor small businesses and how some taxation policies in Nigeria can be properly tackled. The study also gives a clear insight into the various causes of why small businesses fail in Nigeria as well as the challenges of the tax policies in Nigeria. The findings and recommendations of the researcher will help in building a strong and better tax policy system n Nigeria,

if taken seriously by government and the general public. The challenges of taxation in Nigeria are outlined in-order for drastic measures to be taken to tackle these challenges and meet the prospects of the general public so that revenue from tax policy to the government can be increased.

1.7 Scope of the Study

This research focuses mainly on the impact of Nigerian tax policies on the economy and small businesses in Nigeria. The study only torches on the challenges tax policies in Nigeria and how it can affect self-employed business men and women, traders, and other forms of sole proprietorship businesses.

Based on the findings of this study other possible researchable areas may include studies on the various challenges of other forms of tax such as the Value Added Tax (VAT), Capital gains tax, Import and Export duties tax. Etc. Further research can also be done on curbing tax evasion in Nigeria.

1.8 Limitation

One of the limitations that will be encountered in carrying out this study will be the delay in getting data from the various respondents. Most respondents may fill reluctant in filling questionnaires administered to them due to their busy schedules and nature of their work.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Multiplicity of taxes is not an established term in the field of taxation as such. Thus, the term seems to be peculiar to Nigerian fiscal lexicography. According to the National Tax Policy Document, multiple taxation occurs “where the tax, fee or rate is levied on the same person in respect of the same liability by more than one State or Local Government Council.

With due respect, this definition is too narrow to the extent that it implies that multiplicity of taxes occurs only with regards to state and local taxes. From the general usages of multiplicity of taxes by stakeholders, it can be said to manifest in at least four ways.

First, it refers to the various unlawful compulsory payments being collected by the local and state governments without appropriate legal backing through intimidation and harassment of the payers. Collection of it is characterized by the use of stickers, mounting of road blocks, use of revenue Agents/Consultants including motor-park touts. Second, it refers to situations where a taxpayer is faced with demands from two or more different levels of government either for the same or similar taxes. A good example here is the administration of the Value Added Tax (VAT) and Sales Tax simultaneously. Third, the term refers to where the same

level of government imposes two or more taxes on the same tax base. A good example is payment of Companies Income Tax, Education Tax and Technology Levy by the same company. Fourth, it refers to cases whereby various government agencies “impose taxes” in the form of fees or charges.

2.2 Definitions

According to Nigeria tax Act, income is regarded as a periodic monetary return coming in with some sort of regularity or expected regularity from definite sources. It could be received in cash or in kind.

Abdallah (2006) defined Taxation as the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities. No specific reward is gained by the tax payer. The money collected is used for the common good, which is, for the production of certain social amenities which are more efficiently provided by the state rather than by individuals, example, the maintenance of law and order at home, and defence against external aggression. Taxes can then be considered as a compulsory payment from household and firms to government to enable government finance its projects and programmes. Taxes are compulsory because anyone subject to tax is not free to choose whether or not to pay. To tax (from the Latin taxo: “I estimate”, which, in turn is from tango: “I touch”) is to impose a financial charge or other levy upon a tax payer. A tax may be defined as a pecuniary burden laid upon

individuals or property owners to support the government. The legal definition and the economic definition of taxes differ in that economist do not consider many transfers to government to be taxes. For example, some transfers to the public sector are comparable to prices. Examples include tuition at public universities and fees for utilities provided by local governments.

Toby (2001) defined tax as monies levied on the income of individuals or businesses (corporations or other legal entities). Various tax policy systems exist, with varying degrees of tax incidence. Tax policy can be progressive or regressive when the tax is levied on the income, or profit tax. Individual tax policies often tax the total income of the individual (with some deducted permit), while corporate tax policies often tax net income (i.e. the difference between gross profit, expenses and add write-offs). Various systems define income differently, and often allow national reductions of income (such as a reduction based on number of children supported).

Abdallah (2006) defined tax evasion as using illegal means to reduce taxes. This is a crime punishable under the laws of Nigeria. Tax evasion is failing to pay legally due taxes. It is a crime and an old problem.

2.3 Conceptual Issues

For some decades now, Nigeria has depended on oil for its major income and foreign exchange. Oil accounts for about 80 percent of federal government

revenues, and 95 percent of foreign exchange earnings. The National Centre for Economic Management and Administration (NCEMA) reports that Nigeria, with a population of about 120 million, is Africa's most populous country and the continent's third largest economy yet it still remains one of the poorest oil producing countries. With a continuously declining per capita income, comparatively unfavorable social indicators, dynamic world economy and the fact that countries are looking into alternative sources of energy it is time to begin to look into alternative sources of income for sustenance in the long run when the demand for oil will dwindle to nothing. Even with the present rates of petroleum products, Nigeria's GDP is below ideal with the SMEs contributing therefore it would not hurt to diversify the economy even before the demand for petroleum products finally diminishes. This means it is time to begin to give more attention to the other sectors of the economy.

This translates into looking at non-oil based sectors in Nigeria such as agriculture, manufacturing, commerce and tourism. These industries are primarily made up of SMEs as such it goes without saying that SMEs are important to the Nigerian economy. The country is blessed with fertile farmlands, vast mineral deposits and a wealth of human resource, making it a very favorable place for small and medium enterprises. These resources have placed Nigeria in a prominent position in Africa, For governments, however, large companies are a

more attractive, more clear-cut and less complex set than SMEs, In designing public policies, particularly tax policies, governments have usually targeted their strategies to large companies (Holban, 2007). Therefore, there is a need to devise methods to encourage the growth and development of these enterprises so as to ensure that they reach their full potential. Subsequently, a favorable business and regulatory environment needs to be created for them to thrive. Thus, for this study, the focus will be on supporting SMEs growth through tax policy. Most large companies have their roots in small and medium enterprises; they started out as SMEs before expanding. This means that the future large corporations are the SMEs today that should be nurtured to ensure their growth. Furthermore, they are generally perceived to be the seedbed for indigenous entrepreneurship and generate all the many small investments, which would otherwise not have taken place (Aryeetey & Ahene, 2004). Therefore, Nigeria needs to further the development of its private sector by creating an environment favorable to the growth of SMEs, strengthening the factors that lead to business success, and addressing the problems threatening the existence and advancement of small and medium enterprises (Chu, Kara & Benzing, 2008) With the dismantling of trade and other barriers, the world has been transformed into a global village.

Consequently, SMEs in developing countries are struggling to survive under intense competitive environments both domestic and international. In developing

countries like Nigeria, there is an urgent need to provide the required enabling environment for the development of SMEs, so that they could adequately play the role expected of them in economic transformation, Such role includes mobilization of domestic savings for investment, appreciable contribution to gross domestic product, increased harnessing of local raw materials, employment generation, and significant contribution of poverty reduction efforts through sustainable livelihoods and enhancement in personnel income, technological development and export diversification (Smatrakalev, 2006). It is for this reason that an ideal tax policy needs to be adopted in order to ensure economic growth and proper utilization of resources. However this is not the case because taxes which are levied for regulating the investment behavior of the households and not for suffocating any entrepreneur initiative seem to be a major constraint to the development of the SMEs they are out to cater for.

Olorunshola (2003), the concept of SMEs is relative and dynamic. The characteristics of SMEs are uncertainty, innovation and evolution. A firm understanding of SMEs world required a good knowledge of its features. In Nigeria SMEs are usually small in size and lack large organizational structure and management culture while the urban SMEs are more structural, the rural ones are less structured. This represents one of the most important characteristic of SMEs in Nigeria. SMEs are in most cases a one man business or partnerships enterprise,

although they may be registered as limited liability company, (Udechukay, 2003). Olurunshola (2003) affirmed that this ownership style has led small and main enterprise to have a simple management structure and make it easiest to manage than that of large firms, and few numbers of staff and in some cases low level of education by some owners of SMEs. SMEs almost share the same characteristic with a sole proprietorship in that, there is no legal personality between the SMEs and their owners, which means that the life span of SMEs depends on the life of the owners; when the owner dies, if not properly taken care by the estate the business will die with the owner(s) Another feature of the SMEs sector in some countries is its heterogeneous nature, ranging from retail outlets to hugely paid professionals and substantially manufactured organisation small and medium enterprise are also likely to vary in organizational form, from sole proprietorship (one man business), scale corporations (public or private), professionals and partnerships.

Furthermore, the process of production in SMEs setting are Labour intensive and they always serve as supplier to the large manufacturing firms by depending on raw materials sourced locally (Hanefah, Ariff and Kasipfflai, 2002). Just like a one man business SMEs also required low start-up capital than large companies (Akinsulise, 2010). Also, the decision of manager have higher tendency to be

subjective as they are controlled by the same person and the employees employer relationship found in most SMEs is predominantly informal.

In addition, the contribution SMEs usually make to tax revenue is lower than its contributions to output and employment (International Tax Dialogue, 2007), that not with-standing SMEs have not become competitive enough to increase their share of output even though they form three fifths of the number of manufacturing industries which are solely rely upon by large manufacturing companies for their supplies (products) (Hanafah *et al.* 2003).

Depending on the country's international standing at any point in time and the economic policies adopted by government, the importance of the various source of revenue varies from time to time. Nigeria has mixed economy i.e., government undertakes commercial investment alongside the private sector with social oriented economic policies, government undertakes greater commercial investment. Though taxation may not be the most important source of revenue to government in term of the magnitude of revenue derivable from taxation however, taxation is the most important source of revenue to the government, from the point of view of certainty, and consistency of taxation. In a social oriented economy, only a small percentage of revenue may be derived from taxation while in a capitalist oriented economy, a greater percentage of government revenue, is derivable from taxation (Osita, 2004). According to Eftekhari (2009), taxation has

always been an issue for the government and taxpayer alike from the early years of civilization. The issue of taxation has generated a lot of controversy and several political conflicts over time. According to its importance, several economic systems have been proposed to run an effective system. Osita, (2004) sees taxation as a compulsory levy by government through its various agencies on the income, capital or consumption of its subjects. Tax is basically of three structures proportional, progressive and regressive. Proportional tax is defined as a type of tax in which tax payer is levied an amount in proportion to his earned, progressive tax levies are higher rate on higher income earners, while the regressive tax is the one that charges higher rate to person receiving lower income. Tax is classified into two broad categories as direct and indirect tax.

Multiple taxations in relation to a company or individual is a situation where the same profit or income respectively which is liable for tax in Nigeria has been subjected to tax by another tax authority in Nigeria or another country outside Nigeria (Osita, 2004). In such situations relief is usually granted to that tax payer for the earlier tax paid or to which he may be liable. Specific arrangements are made with a view to preventing such multiple taxes or to provide relief as is appropriate in the circumstance.

2.4 Challenges of Small and Medium Enterprises (SMEs)

There are a lot of problems that bedevil SMEs and stunt their growth. Although there are some problems peculiar to a particular country, the challenges faced by SMEs in different countries and geopolitical divisions are basically the same. For instance, a survey of Turkish SMEs by Organization for Economic Co-operation and Development (OECD) in 2004 showed that they were suffering the consequences of policy inconsistency, poor access to finance, insufficient know-how and low level of technology, and so many others. The same problems were also registered by other authors concerning other regions like the Philippines, Malaysia and other European states and of course in Sub-Saharan Africa-Nigeria inclusive as shown by different authors on the issue. Uzor (2004) believes that the constraints faced by SMEs in developing countries are not only accentuated with ineffective policy design, but also by market failures in the region. Their lack information technology and knowledge of automation is gradually being reduced given that they serve as contractors for larger firms particularly the foreign manufacturing firms. A major difficulty faced by SMEs is that of lack of access to short and long term capital. Publication of the Weekly Trust of Saturday, January 22, 2011 recognizes the fact that collateral based financing has become increasingly difficult for SMEs, whether as existing businesses, in their expansion states or as startups hence more SMEs are resorting to viability lending in which case they obtain loans based on the viability of the business and health of cash flow,

Banks are usually reluctant to lend to SMEs and this is because of problems such as the SMEs' inability to meet the bank's lending requirements, promoters' low education, management and entrepreneurial skills and poor and unreliable financial records which makes financial review difficult (Aderemi, 2003).

There is also the problem of unsound accounting system and lack of full financial disclosure. Aretay & Ahene (2004), buttressed this assertion by listing lack of access to land, utility installation and services, and import procedures as constraints to SME growth summarily, these problems make SMEs a "high-risk" venture. The above named reasons are in and of themselves problems that impede SME growth because not only do they become obstacles in accessing financing, they are capable of hindering growth on their own. Moreso, in Nigeria, the problems faced by SMEs as posited by Oboh (2002); Okpara (2000); Wale-Awe (2000) and Chu, Kara & Benzing, (2008) include astronomically high operating costs; lack of transparency and corruption; and the lack of interest and lasting support for the SMEs sector by government authorities, dilapidated state of Infrastructural facilities, unreliable employees and Weak economy, unsafe location, undependable electricity supply are common phenomenon.

2.5 Review of the Challenges Facing Tax Policies in Nigeria

George Zodrow and Charles Mciure (2002) wrote a lot about the problems of tax policy implementation in developing countries. They stated that the goal of

simplicity is frequently involved in tax reform debates in both industrialized nations and developing countries, but it is usually not attained. Simplicity is even more important in developing countries than in developed ones. On the average, the ability of individuals and firms to comply with a complex tax structure is low; thus complexity increases the likelihood of filing errors; and the cost of compliance and administration increases.

Finally, they stated that, since evasion is frequently endemic, a simple tax structure implies that more governmental resources can be devoted to finding tax evaders rather than regulating and monitoring honest tax payers. For these reasons, the relative simplicity properties of a tax system are of great importance in developing countries.

In the same research, Zodrow and Mciure (2002) also noted on the issue of timing that: timing gives rise to the thorniest problems in the construction and implementation of a tax policy. The most obvious problem lies on the measurement of depreciation for depreciable assets. Although allowances for economic depreciation obviously are required for accurate measurement of economic income, the determination of economic depreciation is exceedingly difficult.

Comparatively, use of 'percentage of completion' rule for the realization of income for tax purposes may be preferable from the point of view of income

measurement, but they are considerably complex. Concerning extent of coverage, Zodrow and Mcluire stated as follow ‘one troublesome feature of tax policy is that universal coverage of business, generally is desirable to eliminate possibilities for tax avoidance. Attempting such broad coverage is unrealistic in many instances because, it is likely to impose large administrative cost for relatively low revenue gains where a large number of small businesses exist. Moreover, it is generally not feasible to require that every individual who engages in business transaction no matter how influential or how casually should file a business tax return. But if this is not done, there may be opportunities for avoidance.

As observed by Ayua (2004), the major problem of direct personal taxation lies in the collection of taxes especially from the self-employed such as businessmen, contractors, professional practitioners like lawyers, doctors, accountants, architects and traders in shops. These people blatantly refuse to pay tax by reporting losses every year. According to him, many of these professionals live a life style inconsistent with reported income, which is usually unrealistically low for the nature of their business.

Tibor Machan (2005) discussed some of the problems of taxation. He said “liberty is incompatible with taxation”, despite the famous saying by Oliver Wendell Holmes that “taxation is the price we pay for civilization”. In fact, taxation is the most uncivilized way of obtaining funds, given that it boils down to

nothing less than extortion. Just think of it: you go to work for some company and are told you will receive a certain wage but actually, you receive just a fraction of what you have been offered. Why? Because if it is not sent to them (government), they will declare the company as a criminal and seek the police on it. So the company is forced in one way or the other to take part of your earnings and divert it to those who have this power to make them do so. Some of the funds extorted will be used for purposes that may actually benefit you and some who are extorted do not protest but, maybe that is true about who the mafia extorts, as well, and does not matter because what is wrong with extortion is not what the money is used for, but how it is obtained namely, coercively. Often it is Robin Hood who is held up as the role for justifying taxation: did he not “steal from the rich to give to the poor”? Well, not really.

A study conducted by Azagli (2005) on the field of taxation and its meaningful role in the Nigerian economy highlighted various problems of taxation in Nigeria. He stated that lack of public education, outmoded property valuation list, and some managerial problems are some of the problems facing the collection of taxes in Nigeria.

According to the International Monitoring Fund (IMF), Fiscal Affairs Department, which presented an article on tax administration in developing countries.1999, came out with the following challenges:

- **Structure of Developing Economies**

Developing countries have well-known economic characteristics: large shares of total economic output and employment are based in agriculture; they have relatively large informal sectors; entrepreneurial units are small and numerous; wages form a relatively small share of total national income; and a relatively small share of total consumer spending takes place in large modern establishments. The size of the informal sector plays a significant role. Not only does it reduce the possibility of relying on certain modern taxes, such as personal tax policies at the individual level, or value-added taxes at the wholesale, retail, and consumer levels, but it also makes it much more difficult to reach those with the economic ability to pay taxes. The bulk of literature on tax policy in developing countries tends to focus on large taxpaying units, countering tax avoidance and evasion, and the formal economy. While those policy analysts who discuss the particular problems caused by relatively large informal sectors of the economy differ in their views as to exactly what should be done about this gap in developing countries' tax bases, they do agree that the informal sectors need to be brought into the documentary process, and that some form of presumptive taxation may be the best way to begin collecting revenues from the best.

- **Tax Administration and Data**

The second challenge facing tax policy in developing countries is the lack of efficient tax administration. Administrations face major problems: a large proportion of the economy is at a subsistence level; many taxpayers do not keep records, and even where records are kept, they are not necessarily reliable. Taxpayer cooperation is also low because of chronic shortages of trained officials, traditions of corruption, and lack of visible improvements in government services. As a consequence, countries often develop tax systems that exploit whatever obvious revenue-generating options they have rather than develop modern and efficient tax systems that create wide tax bases from which to draw revenue. Hence many developing countries often end up with too many small tax sources, too heavy a reliance on foreign trade taxes, and a relatively small use of personal tax policies. Effective tax administration depends on the existence of these factors:

The existence of a predominantly money economy;

- A high standard of literacy; although literacy is not a necessary condition for taxation, the lack of a literate population reduces the options for policy makers;
- Prevalence of honest and reliable accounting; lack of reliable accounting constrains the types of taxes that can be effectively employed;
- A large degree of voluntary compliance on the part of taxpayers; modern taxation involving self-assessment depends heavily on voluntary co-operation by taxpayers;

- A political system not dominated by wealthy groups acting arbitrarily in their own self-interest.

- **Political and Social Factors**

Political and social factors create additional challenges in devising tax policies for developing countries. Lack of political will to support tax reforms in developing countries has oftentimes led to unsuccessful reforms. Lessons learned from successful reform programs suggest that the key factor is strong political will, demonstrated by a Commitment from leaders at all levels of government.

2.6 Impact of the Nigeria Tax Policies on Small Businesses and the Economy in General

According to a study conducted by Essien (2011), he noted that operators in the telecommunications space of the country's economy have not had peace of mind in the last six years in the process of service delivery as they are confronted with several challenges-one of them being multiple taxation in Nigeria. Unfortunately, most of the challenges have little or no relationship with the process of service delivery. As these initiatives were gradually addressing the known problem that other challenges began raising their head, and they are multiple regulation and taxation. In a federal system there are issues reserved for either federal or state to legislate on and the ones both have powers to regulate. In the

case of telecommunications, it is the federal that has exclusive right to regulate the industry which led it into establishing a Commission in the name of Nigerian Communications Commission (NCC) backed with an act to effectively perform that function.

It is not telecommunications operators that are lamenting over multiple taxation, operators in the manufacturing sector have continued to call for a lasting solution to the problem of multiple taxation in the country. According to them, if the problem is not addressed, business will continue to suffer. With the challenges of poor infrastructure which is killing business in one hand and the headache of multiple taxation have been identified as another major threat to manufacturers and investors.

Speaking on the implication of multiple taxation, Otunba Femi Deru, President, Lagos Chamber of Commerce and Industry, said that as Constitution empowered Local Governments to enact law that will create a situation where they will generate revenue, such as vehicle license, radio, television, business premises levy among others. He added that these taxes are becoming rampant and hindrance to business development in the country. Dr. Emmanuel Ekuem, former president of the Association of Telecommunications Companies of Nigeria (Atcon) called on the government to address the issue of multiple taxation which is currently a threat to development of small businesses in the country. He said a situation in which

operators in the telecoms industry were seen as cash cows should be a thing of the past. He reasoned that government in the land should note that telecoms business attracts operational cost and that when the number of taxes paid by the operators increase just because all tiers of government want their various shares of the “cake,” it engenders less profits for the operators and compromise quality of service.

Another study conducted by Cyril (2002), highlighted the effects of a regressive tax system in a country. He further went to mention a few effects on businesses, which he clearly stated that businesses will fold up with high tax rates in developing countries like Nigeria. A country like Nigeria will lose a lot of money if its tax structures discourage small business operators to survive, as revenue will be lost. A statement by Mr. Ayodele Adigun, President, Chartered Institute of Taxation of Nigeria, also supported this fact. He said that multiple taxation in Nigeria militate against standard taxation practice, which is unhealthy for economic development. He blamed the activities of quacks in the system for this situation and also described the practice as an evil one, noting that the institute was all out to combat this trend. According to him, CITN was championing professional taxation practice in the country and also organizing an awareness campaign to sensitize the public on the need to voluntary pay approved taxes. He added that multiple tax and poor infrastructure had also made the environment

extremely inclement and uncompetitive for locally made goods against those from other nations. It is unfortunate that officials from government quarters seem not to understand the issue of multiple taxes but are looking at it as tax evasion. The issue is clear and does not need interpretation. Operators are not saying that they won't pay tax to government and its relevant authorities but duplication of the same tax which they have already paid to government at the federal or state levels is inimical and put pressure on them. The question is, how can one reconcile a situation where a telecom operator whose services are controlled by federal government pays relevant taxes or levies to federal and state governments, and are also forced to pay similar taxes not approval levy by local governments. As operators are seeking ways to address the issue of multiple taxation that another government agency, National Environmental Standards and Regulations Enforcement Agency (Nesrea) came out with Environmental Impact Assessment for base stations of telecom operators. NCC has a department that enforces standard in the manner operators build their infrastructure, instead of Nesrea liaising with that department of NCC to ensure that those issues it said are raised by the public, it is now enforcing its order on companies that are not under its regulatory jurisdiction. (Holban, 2007).

Internationally it has been recognized that the small business sector plays an important, if not critical, role in the economic and social development of a country.

This sector, however, consistently reports that complying with taxation regulations is a constraint on their growth, due to the costs they have to incur to become and remain tax compliant. A study by Ericson (2001) went ahead to identify and measure the tax compliance costs for small businesses in Nigerian and to develop recommendations where appropriate to both reduce unnecessary tax compliance costs and to encourage formalization. This report is focused on the survey of the compliance experience of professional accountants and bookkeepers (referred to as “tax practitioners” for the purposes of this document) in respect of their small business clients in Nigeria. It will be complemented by two related surveys, one of small businesses that are registered with the Federal Inland Revenue Service, regarding their time and cost requirements for tax compliance, and one of informal businesses, regarding their perceptions about tax compliance.

The purpose of the set of three surveys is to document estimated tax compliance costs for small businesses in Nigeria, to identify the most onerous compliance burdens based on these costs in order to confirm and guide reform priorities, and to provide inputs towards the development of an educational campaign by FIRS that will help to encourage tax compliance amongst small businesses in Nigeria. It is envisaged that the surveys will also be used as a baseline against which future progress can be measured.

The findings of this survey revealed that tax practitioners estimate that N80,000 per annum is the average fee they charge to their small business clients to ensure that tax returns (four key taxes – tax policy, provisional tax, value added tax and employees’ tax) are prepared, completed and submitted as required by FIRS. Furthermore, should the small business require assistance from their tax practitioners with completing/maintaining their accounting/bookkeeping records, (which occurs amongst a quarter to almost one third of the tax practitioners’ clients), then it is estimated that an additional N120,000 is payable by the small businesses. From a time and cost perspective, registering and preparing, completing and submitting VAT returns takes the longest and costs the most. It is also evident that overall the compliance costs are regressive – the smaller the business, the heavier the burden. (Ekpeyong, 2001).

Another interesting finding is that from the point of view of professional tax practitioners, provisional tax is the most burdensome tax for small businesses. The tax practitioners report that “penalties and interest incorrectly raised by FIRS” is the most burdensome aspect of this tax. A possible reason why tax practitioners found that penalties and interest incorrectly raised by FIRS was the most burdensome aspect of provisional tax could be due to the fact that FIRS charged thousands of provisional taxpayers with penalties by mistake. No definition of “burdensome” was provided in the questionnaire, however, as separate questions

regarding the costs of each tax was asked, it was intended that in this context “burdensome” should not only take into account the cost and time factors, but should also include the psychological aspects and frustrations of dealing with FIRS in respect of each tax and therefore could be seen to relate more to the most problematic tax rather than the most costly tax – although it is possible that a tax could be seen as being the most burdensome due to it being the most costly. Whether or not this was perceived as such by all the respondents is not certain and should be borne in mind when considering the responses received. Bateman, 2007:2. Although newspaper articles present "anecdotes" that are not necessarily representative of what everyone else experiences, it is interesting that this recent article illustrated some of the findings of the survey.

Penalties and interest are therefore an area that causes significant frustrations for small business, when they are imposed, all the more so as this is an area that could be avoided if FIRS as well as taxpayers and tax practitioners were more diligent. A special simplified tax regime³ for small businesses is the single most recommended reform (by the tax practitioners) to reduce the provisional tax compliance burden. It was also found that capturing and processing errors when made by FIRS and the time taken to correct these errors are the most burdensome aspect of both tax policy and employees’ tax. Once again the tax practitioners regard a special simplified tax regime for small businesses as the most

recommended reform to reduce these tax compliance burdens. Another problem raised by the tax practitioners is the lack of technical knowledge of some FIRS personnel.

From a VAT perspective, the period taken to register as a VAT vendor and – notably the “time taken to be notified of such registration” is regarded as the most burdensome aspect of this tax. This problem was also recently highlighted in the press⁵ where there was an example of a taxpayer who applied for VAT registration but, due to the fact that FIRS failed to respond with timely notification of its registration and its tax return, the taxpayer was accused by FIRS of being “late” and charged with penalties and interest. FIRS should take keen interest in this result, as it could potentially be one of the reasons why small businesses decide not to register for VAT. Regarding recommended reforms to reduce the VAT compliance burden, tax practitioners regarded higher mandatory registration thresholds as being an important solution. Increasing the threshold every year³ It should be noted that no definition of “special simplified tax regime” was provided in the questionnaire and was thus up to interpretation by the respondents. Almost half of survey respondents (47%) cited this problem. It is clearly a significant worry for tax practitioners. (Aderemi, 2003).

2.7 Ways of Addressing the Challenges of Tax Policies in Nigeria

To address these and other problem areas, it is recommended that thought should be given to the creation and efficient functioning of a Small Business Centre and Small Business help desks. Although the implementation of small business help desks with dedicated facilities and extended hours were mentioned in the 2005 budget speech, concrete progress has not been made in this regard at some FIRS regional offices. FIRS should strive to communicate with taxpayers not only when things go wrong in the tax process, but rather before it gets to this stage. This communication should be done in a positive constructive manner which will lead to a healthy relationship of trust between the taxpayer and FIRS. Various other recommendations have been made in this report to address *inter alia* the above areas of concern, and if implemented by FIRS and National Treasury, will emphasize their commitment to simplifying the tax environment and reducing the compliance cost burden for small businesses. This is important, as according to the estimates of tax practitioners surveyed, over 60% of businesses with a turnover of R300 000 and less decide to stay informal rather than formalize their business operations. To assist in reducing this percentage, it is recommended that FIRS make the tax compliance process, starting with registration, simple, quick and reliable. In addition to this, FIRS should intensify its educational campaigns by offering assistance to newly formed small businesses by means of training and mentorship programs. Consideration should be given to expanding the tax content

included in the syllabuses currently taught at high school level. Regular training sessions (offered at a nominal fee) for small businesses or aspirant Nigeria: small businesses are also important means of combating the lack of knowledge/understanding of the tax compliance requirements by small business owners.

In order to ascertain if any changes implemented by FIRS and National Treasury have indeed been successful, it is recommended that this study should be used as a baseline measurement of tax compliance costs, with the possibility to measure improvement over time as further reforms are enacted. It should also be possible, if FIRS and Treasury are interested in “piloting” some reforms, to select some random provinces to host some pilot reform initiatives (“treatment regions”) while the others maintain the status quo for a period of time (“control regions”). Then follow-up surveys could compare “treatment” vs. “control” regions to ascertain whether the piloted reforms are yielding better results than the status quo. If so, then the piloted reforms can be enacted more widely; if not, they can be discarded, on the basis of a scientific assessment of their effectiveness.

Finally, it is important to stress that the results of this survey should not be viewed in isolation, but should be considered and compared with the results of the formal and informal small business surveys that are currently being conducted. (Horsepower, 2001)

2.8 Ways of Addressing the Challenges to Reduce Tax Burden for Small Businesses as Well as Increasing Government Revenue

A report by Oboh (2002) explains that in order for the government of Nigeria to be able to properly collect taxes from the citizens and residents of Nigeria, the government must educate the masses about the need for the taxes. The average person must be made to understand that the government cannot develop the country and undertake all the projects the citizens' demand without money. For example, Nigerians complain that the roads are bad, the schools, hospitals, and market places are in dilapidated condition, not enough teachers, etc. These services and infrastructure improvements, etc could not be undertaken without money in the form of taxes from the people. We cannot expect only the civil servants and a few others in the country to pay taxes. Many self-employed people in Nigeria pay little or no taxes, yet, they all demand services, one way or the other from the government. The way to make every self-employed person pay taxes is to issue tax identification numbers to each entity and ensure that their businesses, small or large, are registered with the IRS. Better still, the tax ID could also be issued when the business is registered. Those whose businesses are not registered should be charged with non-compliance and hauled to court. The laws on the books must be vigorously enforced.

Second, the government must build a data base to collect information on who is a Nigerian or resident of Nigeria, where, he/she lives, what job the person does, how much (estimate) the person makes in a year, etc. The present system of using post office box numbers to deliver letters especially to individuals is totally unacceptable and must be changed. Internal revenue service agents cannot be sent to a post office box (P. O. Box number) to collect taxes or discuss tax matters or arrest people for non-payment of taxes. The way taxes are collected in Nigeria is archaic and primitive. If someone sells for example at Makola market, issuing the person a ticket in the form of a fee to enter the market to sell goods and services everyday allows the individual to evade taxes. For example, the person can decide to sell from home at anytime without coming to the market or can sell from the road side. The seller can even enter the market when the revenue agents are not at the gate. The point is this: People should be taxed based on their total income and not only on their activities which the authorities presently know about. Nigeria should adopt a broader definition of income. The government should tax a person or an entity on any income which it knows about as well as other income it does not know about. Specifically, this means that if a person is a clerk and also a trader, the person must declare his/her total income as earnings from working as a clerk and earning from his/her trade. This is how the US government has been able to prosecute and jail gangsters and members of the mafia and organized crime for tax

evasion. Al Capone, the mafia kingpin was nailed and sent to prison at Alcatraz for tax evasion in the 1930's.

Third, the present system in Nigeria whereby revenue agents walk around to collect taxes in cash is a sure way for agents to cheat the system and steal from the people by issuing false tax receipts. It is not a good system of internal controls for record keeping and accountability purposes. The government must open revenue offices throughout the country or set up relations with local banks to make it easier for people to pay their assessed taxes. It should be made clear to all Nigerians that it is their responsibility to go to the tax office to pay their taxes and that the government would use whatever powers it has within the law to collect all delinquent taxes including prosecution and jail time for tax evasion. There is a lot of joking and playing around in Nigeria when it comes to economic development. Nigerians expect manna from the government but don't want to pay for it. No country on this earth is ever developed without an adequate tax base to fund programs. The government should work closely with the opposition parties in formulating a progressive tax policy so that the question of taxation does not become a political issue. Civil society, churches, business associations including the chamber of commerce, etc, must all be informed about the need to educate their members on the importance of paying their personal and corporate taxes. Without adequate tax payments from the people and residents of Nigeria, not enough

revenue could be generated for development to promote and maintain sustainable economic growth in the long run (Okpara, 2000).

2.8 Empirical Issues

Tax Policy and the Growth of SMEs

According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008).

Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost as stated earlier they are heterogeneous and these differences in size and structure

may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labour income taxes and social contributions (International Tax Dialogue 2007).

An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortion effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009) and this results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses (Weichenrieder, 2007), Among the factors militating against SME tax compliance with are: high tax rates, Low efficiency, high collection charges, waste of time for taxpayers and the

staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Others according to Yaobin, (2007) are double taxation, no professional tax consultancy, weak tax planning, high taxation cost.

Policy Measures that will Encourage SMEs Growth

Although there is certain policy measures geared towards SME growth in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (2003) believes that it is the role of the government to provide and enabling environment and social services that support businesses and persons. This means enhancing the investment climate in Nigeria for increased economic growth and subsequent tax contribution from all citizens which is necessary because a good number of SMEs operate in the informal economy due to the fact that they deem the tax environment within which they operate unfavorable. These SMEs constitute untapped revenue potential and an even playing field in many countries (International Tax Dialogue, 2007) as such they need to be captured by the tax net. The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. The big companies have more choices possibilities. They can either share

part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y, Deloitte and Touché, Price Waterhouse etc) to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities (Smatrakalev, 2006).

Shahroodi, (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. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting tax deductions to market entities and venture capitalists that invest in high- tech SMEs the tune of 70% of the investment value. Another way is by designing tax policies that encourage human capital training. (Yaobin, 2007) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection, It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead,

for example, to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and to avoid tax through artificial splitting of enterprises. Not least, voluntary compliance by larger enterprises themselves, and by wage earners, may be undermined by the (correct) perception that their smaller counterparts, or better-off neighbours, are getting away with poorer compliance. (International Tax Dialogue, 2007) Hence government intervention will help maintain balance while helping countries exploit the social benefits from greater competition and entrepreneurship. Furthermore, policy incentives such as tax rebate for SMEs that put effort on local sourcing of raw materials, serious in adding value to commodities for exports and other business ethics, should be employed by government. Similarly, government could increase funding for the development of the sub-sector through direct budgetary allocations and enhance private sector investment opportunities that will focus on specific areas of capacity enhancement. And also tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance (Kasipilai, 2005). Pro-business (and Pro-SME) Tax regimes and enforcement should be simple, consistent and predictable.

2.9 Theoretical Framework

Theory of Business Growth

Various authors have postulated theories on business growth. The oldest and the most used theory according to Elhiraika and Nkurunziza (2006) is Gibrat's law of proportionate effect LPE; (1931). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size. By implication it would mean that large firms are preferable in context of private sector development given that they create more employment than small firms. Conversely, Jovanovich (1982) states in his learning model that younger firms learn over time, which helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones. Moreover, given that younger firms are usually smaller than older ones (businesses) for the reasons discussed earlier; Jovanovic deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other longer firm in the same sector as time goes by.

Church and Lewis (1983) as cited in Olawale & Garire (2010) on the other hand claim that as a new small firm starts and develops, it moves through some growth stages, such with its own distinctive characteristics. He also identified the stages of growth as; existence, survival, success, take off and resource maturity. In each stage of development a different set of factors is critical to the firm's survival and success the Churchill Lewis model gives an insight into the dynamics of SMEs growth including the distinguishing characteristics, problems and

requirement of growing SMEs and explains business growth process amongst SMEs, The precise moment in time in which a start-up venture becomes a new business has not yet been theoretically determined. However the ideal of business survival could be equated with a firm that has fully completed the transaction to stage two organization in the five stage of small business growth.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter states the various methods adopted, as well as the population of the study, and sampling techniques used in determining the sample size for the research. How data was collected and analyzed will be discuss in this chapter. The main objectives of this research will be achieved through quantitative methods, as inferential statistics will be used to measure the level of accuracy and validate responses from the respondents in accordance.

3.2 Study Area

Benin City, capital of Edo State of Nigeria was the study area for this research. Since the area contains a fairly large number of businesses that pay taxes and tax consultants, the area was considered appropriate target for the study. Various small businesses will be examined for this study.

3.3 Research Design

According to Ngechu (2001), a research design is a plan showing how problems under investigation are solved. This study will use descriptive survey design. Descriptive survey design is one that allows a researcher to collect information through interviewing or administering a questionnaire to a representative sample drawn from the target population (Orodho, 2009). The

design was chosen because through it, the study will be able to collect and analyze data as they exist in the field. This will enable provision of answers to the research questions.

3.4 Population of the Study

The population for this study consists of selected small businesses in Benin City, Edo State ranging from the manufacturing industry. The reason for choosing Benin City is that it has a fairly large number of business ventures and the researcher resides there as well.

3.5 Sample Size and Technique

The population for this study was 100. Population for this study comprised of business organizations mostly sole proprietorship businesses. Questionnaire will be distributed to all businesses chosen for this study. Since the population for this study was large, I will adopt the convenience sample technique will be adopted.

3.6 Data Collection Method

Data for this study will be collected from the respondents through the use of questionnaire. Questionnaire will be shared to all 100 respondents of the Internal Revenue Service, and field surveys through responses to questions in the questionnaire served as the main source of primary data for this study.

Other information were collected from text books, journals and other secondary sources of data.

3.7 Data Analysis

Data collected will be analyzed using Eview 8.4 software, and policies derived.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents an analysis of the data collected according to the methods and procedures described in chapter three. This analysis includes the results of the demographic data collected among small and medium scale enterprises, in Benin City, Edo State, Nigeria. Next, each of the three questions are answered and hypothesis tested with the relevant statistical data. This chapter is then completed with a discussion of the findings.

4.2 Data Presentation

One hundred and forty (140) copies of the questionnaire were administered to small and medium scale enterprises in Benin City, Edo State, Nigeria out of which one hundred and twenty-seven questionnaires were fully answered and returned.

Table 1. Descriptive statistics of selected variables

Variables	Min.	Max.	Std. Dev	Jarque-Bera	Probability
AGE	1	5	0.839516	73.74962	0
COE	1	5	1.488027	11.79554	0.002746

EDU	1	5	1.136976	25.50534	0.000003
FRE	1	5	1.13714	16.07767	0.000323
MAR	1	4	0.679019	41.68222	0
MOR	1	5	0.881917	19.79612	0.00005
MTA	1	5	1.286145	29.22621	0
SEX	1	5	0.732416	706.325	0
SMA01	1	5	0.95165	138.5455	0
SMC	1	5	1.21622	13.44136	0.001206
SME	1	4	1.06124	16.07211	0.000324
SMI	1	4	0.97647	8.487731	0.014352
SMJ	1	5	1.003929	20.28972	0.000039
SMP	1	5	1.350286	9.534625	0.008503
SMS	1	4	1.015749	12.28922	0.002145
TAC	1	5	1.439354	15.73645	0.000383
TAE	1	5	1.485294	9.793245	0.007472

TAI	1	5	1.000437	101.601	0
TPO	1	5	1.496437	18.55969	0.000093
WKE	1	5	0.814197	40.15816	0

Source: Computation result

Table 2: Regression result

	AGE	COE	EDU	FRE	MAR	MOR	MTA	SEX	SMA01	SMC	SME	SMI	SMJ	SMP	SMS	TAC	TAE	TAI	TPO	WKE
Mean	1.96063	2.992126	3.417323	2.023622	1.614173	2	2.259843	1.464567	1.669291	2.228346	1.968504	1.976378	2.007874	2.488189	2	2.425197	3.015748	1.669291	2.330709	1.834646
Median	2	3	4	2	2	2	2	1	1	2	2	2	2	2	2	2	3	1	2	2
Maximum	5	5	5	5	4	5	5	5	5	5	4	4	5	5	4	5	5	5	5	5
Minimum	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Std. Dev.	0.839516	1.488027	1.136976	1.13714	0.679019	0.881917	1.286145	0.732416	0.95165	1.21622	1.061124	0.912563	1.003929	1.350286	1.015749	1.439354	1.485294	1.000437	1.496319	0.814197
Skewness	1.366814	0.071559	-1.09591	0.864041	1.108059	0.906061	1.169625	2.678318	1.865724	0.645806	0.822992	0.549795	0.97647	0.520309	0.684273	0.767564	0.002109	1.748347	0.850298	1.107315
Kurtosis	5.542481	1.513866	2.874067	2.771889	4.722144	3.676177	3.225769	13.23646	6.501161	2.066278	2.427301	2.371602	3.142494	2.1521	2.329586	2.214381	1.639605	5.640707	2.215579	4.638401
Jarque-Bera	73.74962	11.79554	25.50534	16.07767	41.68222	19.79612	29.22621	706.325	138.5455	13.44136	16.07211	8.487731	20.28972	9.534625	12.28922	15.73645	9.793245	101.601	18.55969	40.15816
Probability	0	0.002746	0.000003	0.000323	0	0.00005	0	0	0	0.001206	0.000324	0.014352	0.000039	0.008503	0.002145	0.000383	0.007472	0	0.000093	0
Sum	249	380	434	257	205	254	287	186	212	283	250	251	255	316	254	308	383	212	296	233
Sum Sq. Dev.	88.80315	278.9921	162.8819	162.9291	58.09449	98	208.4252	67.59055	114.1102	186.378	141.874	104.9291	126.9921	229.7323	130	261.0394	277.9685	126.1102	282.1102	83.52756
Observations	127	127	127	127	127	127	127	127	127	127	127	127	127	127	127	127	127	127	127	127

From the regression result of the variables as shown in table 1 above, it is observed that AGE has a mean value of 1.96063 with maximum and minimum value of 5 and 1. The standard deviation measuring the spread of the distribution stood at 0.839516. The mean value for COE is 2.992126 with maximum and minimum value of 5 and 1 respectively. The standard deviation stood at 1.488027. EDU has a mean value of 3.417323 with maximum and minimum value of 5 and 1 as well. The study also revealed that some other variables like FRE, MOR, MTA, SEX, SMAOI, SMC, SMJ, SMP, TAC, TAE, TAI, TPO, and WKE have their mean 2.023622, 2, 2.259843, 1.464567, 1.669291, 2.228346, 2.007874, 2.488189, 2.425197, 3.015748, 1.669291, 2.330709, and 1.834646. in the same vain they all have their maximum and minimum values as 5 and 1 respectively while their standard deviation measuring the spread of the distribution stood at 1.13714, 0.881917, 1.286145, 0.732416, 0.95165, 1.21622, 1.003929, 1.350286, 1.439354, 1.485294, 1.000437, 1.496319, and 0.814197. Furthermore, variables like MAR, SME, SMI, and SMS have their mean values as 1.614173, 1.968504, 1.976378 and 2 respectively. Their maximum and minimum values stood at 4 and 1 with standard deviation of 1.3136976, 0.679019, 1.061124, 0.912563 and 1.015749. All the variables were skewed apart from EDU which has -1.09591. The Jarque-Bera statistics and probability with $P < 0.05$ is an indication that most of the variables were normally distributed.

Table 3.

Variables	Jarque-Bera	Probability
AGE	73.74962	0
COE	11.79554	0.002746
EDU	25.50534	0.000003
FRE	16.07767	0.000323
MAR	41.68222	0
MOR	19.79612	0.00005
MTA	29.22621	0
SEX	706.325	0
SMA01	138.5455	0
SMC	13.44136	0.001206
SME	16.07211	0.000324
SMI	8.487731	0.014352
SMJ	20.28972	0.000039

SMP	9.534625	0.008503
SMS	12.28922	0.002145
TAC	15.73645	0.000383
TAE	9.793245	0.007472
TAI	101.601	0
TPO	18.55969	0.000093
WKE	40.15816	0

Source: Author's computation results

4.3 Data Analysis

Using the regression result, the four formulated hypotheses in the introductory chapter are tested.

Test of the Hypothesis 1.

H₀: There is no conducive environment created for SMEs to grow through proper regulation in Nigeria.

H_A: There is a conducive environment created for SMEs to grow through proper regulation in Nigeria.

H₀: $\beta_1 = 0$

H_A: $\beta_1 \neq 0$

Decision Rule: Reject null hypothesis (H_0) if the Prob (0.002746) (t_{β_1}) < 0.05

We conclude that there is a conducive environment created for SMEs to grow through proper regulation in Nigeria.

Test of the Hypothesis 2.

H_0 : Multiple taxation does not affect the growth and survival of small and medium enterprises negatively.

H_A : Multiple taxation affect the growth and survival of small and medium enterprises negatively.

H_0 : $\beta_2 = 0$

H_A : $\beta_2 \neq 0$

Decision Rule: Reject null hypothesis (H_0) if the Prob(t_{β_2}) < 0.05

From table1 above, Prob(β_2) = $0 < 0.05$. Thus, null hypothesis (H_0) is rejected. We conclude that multiple taxation affects the growth and survival of small and medium enterprise.

Test of the Hypothesis 3.

H_0 : The mortality rate of small and medium scale enterprises is not high.

H_A : The mortality rate of small and medium scale enterprises is high.

H_0 : $\beta_3 = 0$

H_A : $\beta_3 \neq 0$

Decision Rule: Reject null hypothesis (H_0) if the Prob(t_{β_3}) < 0.05

From table1 above, $\text{Prob}(\beta_3) = 0.00005 < 0.05$. Thus, null hypothesis (H_0) is rejected. We conclude that the mortality rate of small and medium scale enterprise is high in Benin City.

Test of the Hypothesis 4.

H_0 : Nigeria tax policies does not encourages the growth of SMEs.

H_A : Nigeria tax policies does encourages the growth of SMEs.

H_0 : $\beta_4 = 0$

H_A : $\beta_4 \neq 0$

Decision Rule: Reject null hypothesis (H_0) if the $\text{Prob}(t_{\beta_4}) < 0.05$

From table1 above, $\text{Prob}(\beta_4) = 0.007472 < 0.05$. Thus, null hypothesis (H_0) is rejected. We conclude that Nigeria tax policies do not encourage the growth of SMEs in Benin City.

4.4 Discussion of Findings

Result from the field survey revealed that almost all the small and medium scale enterprises (SMEs) in Nigeria pay taxes to government all the time. Not less than (3) three agencies collect taxes from small and medium scale enterprises (SMEs) in Nigeria. This means that all the tiers of government have their own form of taxes they collected from small and medium scale enterprises (SMEs). We also have some cases of community levy, youth levy and union or association levy that are also involve in tax collection in Nigeria. Moreso, we found out that multiple

taxation affects small and medium scale enterprises (SMEs) growth and survival negatively. This was made obvious by the number of respondents that agreed on the view. Findings from the field revealed that tax collectors do not consider the size of a particular business in tax collection. Also, taxes are collected in relation to the profit made by the small and medium scale enterprises (SMEs). As revealed, the ability of small and medium scale enterprises (SMEs) to pay taxes largely depends on their sizes and volume of business, respondents agreed that there is a relationship between the two variables, that is, small and medium scale enterprises (SMEs) size and ability to pay taxes. From the test statistics, we deduced that there is a significant relationship between multiple taxation and small and medium scale enterprise (SMEs) survival. Hence, government should discontinue the excessive taxes they collect from the small and medium scale enterprise (SMEs) so they can continue to exist as an entity. The test also revealed that there is a conducive environment created for small and medium scale enterprise (SMEs) to grow through proper regulation in Nigeria. Likewise, the mortality rate of small and medium scale enterprise is high. Finally, almost all the small and medium scale enterprises (SMEs) in Nigeria pay taxes to government all the time, multiple taxation affects the growth and survival of small and medium enterprise. Nigeria tax policies encourage the growth of small and medium scale enterprises (SMEs). This means that despite the continuous taxing of small and medium scale

enterprises (SMEs) by tax agencies, small and medium scale enterprises (SMEs) continue to survive.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the literature review as well as contains the detailed analysis that has been undertaken in this research work (Multiple Taxation and Small and Medium Scale Business in Nigeria). Therefore, based on the findings arrived at, recommendations were given and conclusion drawn from there.

5.2 Summary

The study was designed to reveal the effects of multiple taxation on small and medium scale business in Nigeria. As earlier stated, the objective of this study is to identify the challenges of Nigeria tax policies, examine the influence of multiple taxation on small businesses and the economy as a whole and to identify

ways of properly addressing the challenges of Nigerian tax policies in order to favour small businesses as well as encourage tax compliance.

The project work was conducted by developing an opened questionnaire to business men and women who pay their taxes and fully understand how tax is administered in Nigeria. The study revealed that tax policies in Nigeria are faced with numerous challenges. The study went ahead to reveal that high tax rates, numerous taxes, multiple taxation by the government, influx of fake tax officials, complex tax systems and bribery/corruption are the main challenges facing tax systems and administration in Nigeria. In view of all these challenges identified in the course of carrying out this study, it also came to light that a bigger challenge the government might start facing in the future is massive tax evasion, as most respondents indicated that since they are not comfortable with tax administration in Nigeria, they try every opportunity they get to evade tax. According to the study, majority of the respondents do not pay their taxes regularly, because they are not comfortable with tax administration in Nigeria, hence they see taxation as a big burden and constraint to their businesses.

The study revealed that in order to tackle these challenges properly and squarely, the government must create a committee to draft new tax policies that favor small businesses in Nigeria, simplify the existing tax system and policies in Nigeria, give free or cheap tax consultancy to small business owners, draft tax

policies that will encourage human capital, reduce tax rates for small businesses in particular as well as exempt small businesses from paying numerous kinds of taxes in the system. It also went ahead to reveal that another way of addressing the challenges of tax policies and administration in Nigeria is to educate small business owners on the need to pay their taxes as this will go a long way in changing the perspective of those who intentionally evade taxes. Establishment of tighter control measures will also go a long way in eliminating fake tax officials as well as reduce bribery and corruption. Other ways of tackling the problem is to use tax proceeds from small businesses to develop development programs for small businesses.

5.3 Conclusion

Evidence from this study and other from economic research indicates that tax policies and, in particular, regressive tax policies do indeed influence small and medium scale businesses when it comes to working, investing, saving, and entrepreneurship. Perhaps most importantly, high and increasing marginal taxes contribute to lower rates of economic growth, reduced rates of personal income growth, lower rates of capital formation, lower than expected aggregate labor supply, and reduced entrepreneurship. In short, high and increasing marginal tax rates reduce economic growth by creating strong disincentives to hard work, savings, investment, and entrepreneurship.

5.3 Recommendations

For the growth and survival of small and medium scale enterprises despite the erroneous tax system in Benin City, Edo State, Nigeria, the following recommendations were made on how SMEs, can survive.

1. Tighter control measures should be put in place to eliminate the activities of fake tax officials who exploit small business owners and steal from the government. Tax policies in Nigeria cannot succeed fully in improving the economy and developing small businesses if fake tax officials keep hampering the activities of tax administrators and making tax payers to lose faith/trust in the government of Nigeria and choosing tax evasion.
2. A committee should be set up to look into how best they can incorporate a more friendly tax policy for small business owners, since the current policy is not favorable to them. Tax practitioners, small business experts and economist should come together and draft a better tax policy that does not only favor small businesses, but also brings constant revenue to the government for economic development.
3. The government of Nigeria, federal, state and local governments should develop a more simple tax system that eliminates red tape, delay and complications. More tax officials should also be employed to educate small business owners on the need to pay their taxes, as well as all the procedures

necessary for filling a tax return in order to eliminate complications when administering taxes in Nigeria.

4. Tax rates should be restructured to fit small businesses as well as encourage new businesses. The current tax rate charged to small businesses is not favorable as most businesses still struggle to survive due to increased tax rates, small businesses do not have much retained earnings to develop new products, be innovative and creative and employ more Nigerian youths.
5. A special trust fund should be set up for small businesses in Nigeria. Tax proceeds from small businesses should be used exclusively for small business development as this will go a long way in economic growth and small business development.

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**DEPARTMENT OF BUSINESS ADMINISTRATION
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Dear Respondents,

I am a student of the above named institution carrying out a research work on “Multiple Taxation and Small and Medium Scale Business in Nigeria”. Please, I need your full cooperation as information will be handled confidentially. Thank you.

INSTRUCTION: Please endeavor to complete the questionnaire by ticking the correct answer(s) from the options or supply the information required where necessary.

Section A

1. Sex: (a). Male (), (b). Female ()
2. Age: (a). 15-30yrs (), (b). 31-45yrs (), (c). 46-60yrs, (d) 60yrs and above
3. Educational level: (a). Primary (), (b) Secondary (), (c). OND, (d). HND/B.Sc. (), Others ()
4. Marital status: (a). Married (), (b). Single (), (c). Divorced (), (d) Widowed ()
5. Work experience (a)1-5yrs (), (b) 6-10yrs (), (c)11-20yrs (), (d) 21yrs above ()

Section B

Please indicate your extent of agreement with the following statements.

Note: SMEs = Small and Medium Enterprise

S/N		Strongly Agree	Agree	Indifference	Disagree	Strongly Disagree
6.	Introduction of tax policy has impacted the growth of Small and Medium Enterprises					
7.	Multiple taxation affect the growth and survival of a lot of business positively					
8.	Small and medium scale enterprises have contributed immensely to the economy of Nigeria					
9.	Small and medium scale enterprises are sources of					

	revenue to the government					
10.	Small and Medium enterprises have created a lot of jobs in Nigeria					
11.	Small and Medium enterprises form core of the world's economy					
12.	Over the years SMEs have been an avenue for job creation and the empowerment of Nigeria's citizens providing about 50% of all the jobs in Nigeria and also for local capital formulation.					
13.	SMEs have improved the standard of living of so many people especially those in the rural areas					
14.	The mortality rate of SMEs is very high					
15.	Among factors responsible for untimely close-ups of SMEs are tax related issues, ranging from multiple taxations to enormous tax burden					
16.	In Nigeria, there is conducive environment created for SMEs to grow through proper regulation					
17.	Taxes are important for the government as they are source funds for					

	government expenditures					
18.	Nigeria tax policies encourages the growth of SMEs					
19.	Tax collectors normally consider the size of a particular business in tax collection					
20.	Almost all the SMEs in Nigeria pay taxes to the government					