

IMPACT OF TAXATION ON PERFORMANCE IN SMALL SCALE ENTERPRISE

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT
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REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE
(B.Sc.), DEGREE IN TAXATION.**

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DECLARATION

I, **Oghenetega Oghenero** do hereby declare that this project is undertaken by me in the Department of Accounting (Taxation), Faculty of Management Sciences, University of Benin, Benin City, Edo State under the supervision of Dr. Jude Aruomoaghe.

The work embodied in this project has not been previously submitted in candidature for any degree and is not concurrently being submitted for any other degree.

Oghenetega Oghenero

CERTIFICATION

We certify that the research was carried out by **Oghenetega Oghenero** with Mat. No. **MGS2007571** in the Department of Accounting (Taxation) and that the work is adequate in scope and qualifies for the requirements for the award of Bachelor of Science (B.Sc.) in Taxation.

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DEDICATION

This project is dedicated to God almighty who saw me throughout my stay as an undergraduate in the university of Benin, for his guidance, protection, grace, knowledge to scale through despite the various hurdles that came my way and to my father of blessed memory Late Mr. Oghenero Okpeh who supported me at the beginning of this journey but is not here to see the end.

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ABSTRACT

This study investigates the impact taxation on performance in small scale enterprise. It separately ascertains the effect of tax policies on small scale enterprise performance, the effect of tax rates on small scale enterprise performance, the effect of multiple taxation on small scale enterprise performance and the relationship between taxation and small scale enterprise performance.

The study made used of descriptive survey research design. The study population consisted of 156 small-scale enterprises with a sample size of 115 respondents. A structured questionnaire was used to collect data from the respondents. The data collected and collated from the respondents were analysed using both descriptive and inferential statistics.

Based on the analysis, the following were the findings: Tax policy affect small scale enterprise performance as unclear and inconsistent tax policies affect business planning and operations. The major effects of tax rates on small scale enterprise performance are the reduction of capital available for business expansion and inability to meet tax obligations due to high tax rates. The major effects of multiple taxation on small scale enterprise performance are the increment of operational costs of small businesses, and discouragement in the registration and formalization business. Taxation has a significant positive relationship with the performance of small-scale enterprises. Considering the findings of the study and the conclusion reached the following recommendations among others were suggested: Government agencies should endeavour to simplify tax policies to ensure clarity and consistency, reducing the uncertainty that affects business planning and operations. Government at all levels should come up with a framework to reduce excessive tax rates to encourage business expansion and enable small enterprises to reinvest in their growth. Relevant Government Authority should introduce more tax incentives such as exemptions and holidays to support small business sustainability and profitability.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Tax payment is a voluntary contribution imposed by the government on personal income earners, companies and investors. Tax revenue realized is one of the major sources of revenue in the country (Nigeria) and it is used as an important tool for the development of the economy.

In Nigerian, tax is enforced by the 3 tiers of government, federal, state and local governments, with each having its sphere clearly spelt out in the taxes and levies Act, 1998 (Taxes and Levies [Approved List for Collection] Act; CAP T2 LFN 2004 as amended). The approved list was further “harmonized” in year 2015 via; the schedule to the Taxes and Levies (Approved List for Collection) (Act amendment) Order, 2015 (Oyedokun, 2020). These taxes are imposed with main objective of generating revenue with which to provide for the welfare of the citizens, for economic growth and development and for the general administration. It therefore enables government to mobilize fund for some important projects in the society (like road, education, healthcare, airport, factories etc) and alleviation of poverty (Nnamdi and Ike, 2020).

The Federal Inland Revenue Service (FIRS), a federal government agency, collects revenue from a variety of sources, including Company Income Tax (CIT), Value

Added Tax (VAT), Petroleum Profit Tax (PPT), Capital Gains Tax (CGT), Tertiary Education Tax (TET), Armed Forces and Police PAYEE, and the Nigerian Information Technology Development levy. The State Internal Revenue Service collects the following taxes: Individual income taxes, PAYEE, pools, and betting/gaming tax, withholding tax on dividends, contracts, bank interest, services royalties, directors' fees, consultancy fees, education levy, development levy, and non-tax revenue. The third tier of government collects taxes such as the tenement rate, slaughter slab, motor park levy, bicycle, truck, wheelbarrow, and cart fees, right of occupancy levy, radio and television licenses, store and kiosk rates, and ground permits (Nnachi et. al., 2023).

Small scale enterprises (SSE) are critical to economy sector of any country (including Nigeria); they are significant to the economic growth of many societies. In Nigeria, considerable fractions of the businesses are sole traders operating small scale business. Small scale enterprises serve as a good avenue for job creation and empowerment of Nigerian citizens (providing jobs for almost 50% of Nigerian labour force), sustenance of the economy, reduction in poverty, innovation in technology and elevating in economic wellbeing and standard of the people (Adanlawo and Vezi-Magigaba, 2021).

Records show that SMEs account for the highest number of businesses worldwide and are essential contributors to employment generation and global economic

development. Universally, SMEs account for around 90% of businesses and more than 50% of employment. In emerging economies, SMEs contribute up to 40% of GDP, which significantly increased when combined with informal SMEs (WDB, 2022). Furthermore, SME development is considered a high priority worldwide as World Bank estimates that by 2030 nearly 600 million jobs will be needed to absorb the rising workforce globally.

However, despite the significant contribution of SMEs to the economy, their mortality rate is high. According to Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2012) and, Ocheni and Gemade (2015), nearly 80% of most SMEs liquidate before they reach their 5th anniversary and five out of seven new businesses fail in their first year (Adanlawo, Vezi-Magigaba and Owolabi, 2021). SMEDAN (2012) and Nyong (2021) also noted that factors responsible for this untimely death include but are not limited to tax-related issues – multiple taxations and enormous tax burdens.

Although, taxation serves as a vital source of revenue for governments at all levels in the execution of their statutory functions, and contribute to Gross Domestic Product (GDP) of a country in general, much attention is also needed on the side effects and negative consequences of tax on the performance of SMEs such as multiple taxations, which causes undue or illegal tax burdens, poor tax administration, and a lack of consistency in tax administration, among others. This is because SMEs play a crucial

role in driving economic growth in both developing and developed countries as small scale businesses are the backbone of many economies worldwide (Tee, Boadi and Opoku, 2016).

Small scale enterprises (SSE) often face unique challenges in their operational environment, including access to finance, regulatory compliance, and market competition. One of the most critical factors influencing their success is taxation. Taxation policies can either promote the growth of small-scale enterprises or stifle their development. Small businesses are particularly sensitive to tax structures due to their limited resources and cash flow constraints. While governments rely on taxes as a key source of revenue, the tax burden on small businesses can affect their profitability, investment capacity, and overall sustainability.

Understanding the interplay between taxation and business performance is crucial for policymakers aiming to foster a supportive environment for small businesses. By analyzing how tax policies affect these enterprises, this study seeks to offer insights into optimizing tax systems to promote economic development, particularly in developing economies where small-scale enterprises play a pivotal role in job creation and poverty reduction

1.2 Statement of the Problem

The experience of SSEs in Nigeria mirrors that of other developing countries. Despite their vital contribution to the economy, Nigeria's Micro, Small, and Medium

Enterprises (MSMEs) receive insufficient support needed to boost the country's economic progress. These enterprises are often reliant on smaller financial institutions that offer loans at exorbitant interest rates, undermining their potential for growth. This challenge stems from limited access to credit from commercial banks, with only 26% of businesses securing such loans, according to PwC 2024 Micro, Small, and Medium Enterprises (MSMEs) Survey. Adekoya (2018) highlights that the issue is not just the scarcity of loans, but also the high-interest rates and restrictive conditions attached. The difficulty in accessing bank loans has consistently been a major issue for SMEs globally, and in Nigeria, this obstacle further limits their potential to thrive.

SSEs which form a major part of Nigeria's business sector face numerous hurdles that impede their operations and reduce their economic contributions. These barriers include limited financing, poor managerial expertise, an unfavorable business environment, inadequate infrastructure and lack of access to modern technologies (CBN 2017).

Small-scale enterprises (SSEs) play a significant role in economic development by providing employment opportunities, promoting entrepreneurship, and contributing to GDP. However, another major challenge faced by SSEs is taxation. Taxes are essential for government revenue, but when not well-structured, they can create a heavy financial burden on small businesses, affecting their performance and growth.

The problem lies in how taxation policies, including complex tax law, tax rates, compliance procedures, inconsistent tax administration and enforcement measures, impact the financial health of small-scale enterprises. Excessive tax burdens can lead to reduced profitability, limited reinvestment capacity, and hindered expansion. On the other hand, inadequate taxation might result in a lack of public services and infrastructure, which are vital for businesses to thrive.

Therefore, this study seeks to investigate the specific ways in which taxation affects the performance of small-scale enterprises, identifying the challenges and opportunities for optimizing tax structures to promote sustainable growth in this sector. The key issues to be examined include tax compliance costs, the administrative complexity of tax systems, and the balance between taxation and incentives for small businesses.

1.3 Objectives of the Research

The main objective of this study is to investigate the effect of taxation on the performance of Small scale enterprises. However, the specific objectives of the study include:

1. To assess the effect of tax policies on small scale enterprise performance.
2. To evaluate the effect of tax rates on small scale enterprise performance

3. To examine the effect of multiple taxation on small scale enterprise performance
4. To determine the relationship between taxation and small scale enterprise performance.

1.4 Research Questions

The following research questions were raised to guide this study

1. How does tax policies affect small scale enterprise performance?
2. What is the effect of tax rates on small scale enterprise performance?
3. What is the effect of multiple taxation on small scale enterprise performance?
4. What is relationship between taxation and small scale enterprise performance?

1.5 Research Hypothesis

Research question 1-3 will be answered while research question 4 will be hypothesized as follow:

H₀₁: There is no significant relationship between taxation and the performance of small scale enterprises.

1.6 Scope/Limitation of the study

The focus of this study is on the impact of taxation on the performance of small scale enterprises. Geographically, the study will be carried out among small scale enterprises in Ovia North East Local Government, Edo State. The study will look at

the effect of tax policies, tax rates and multiple taxations on performance of small scale enterprises in Ovia North East Local Government, Edo State.

1.7 Limitation of the Study

The findings of this study cannot be generalized to other local government since it will be based on small scale enterprises in Ovia North East Local Government, Edo State. Also, variables considered in the study that is tax policies, tax rates and multiple taxation can only explain parts of small scale business performance in Ovia North East Local Government Area. Other limitations to this study will include:

1. Time constraint: The researcher will engage in this research with other academic work. This will be cut down on the time devoted to research work.
2. Data Availability: Access to accurate and comprehensive data on small enterprises' financial performance and tax compliance may be limited, as many small businesses operate informally or may not keep detailed records, leading to potential gaps in the research.
3. Business Size Variation: Small-scale enterprises vary widely in terms of size, industry, and operational structure. The study may not account for these variations, limiting the ability to apply findings across different types of small businesses or sectors.
4. Taxation as One Factor: While taxation impacts business performance, other external factors such as market competition, inflation, access to finance, and

technological advancements also play critical roles. This study may struggle to isolate the impact of taxation from these other influences, limiting the clarity of conclusions.

1.8 Significance of the study

The significance of this study cannot be overstated. This study will be of immense benefits to other researchers who intend to know more on this study and also be used by non-researchers to build more on their research work. It would contribute to the knowledge and serve as guild for other study. As a developing country, the role of taxation in Nigeria cannot be overemphasized. Understanding how taxation affects SSEs helps governments and policymakers design more effective tax policies that encourage the growth and sustainability of small businesses. This could involve adjusting tax rates, offering tax incentives, or simplifying the tax process for small enterprises.

SSEs contribute significantly to job creation, income generation, and local economies. By analyzing the relationship between taxation and their performance, this research could provide insights into how optimizing tax structures can stimulate economic growth, reduce unemployment, and promote financial inclusion.

The study might reveal challenges small businesses face in complying with tax regulations, such as complexity, high tax rates, or lack of knowledge. This could lead

to recommendations for simplifying tax processes and improving compliance rates without stifling business performance.

This study would also help stakeholders and investors understand the tax environment's influence on small enterprises and guide them in making better decisions regarding investing or supporting these businesses.

1.9 Definition of Terms

Tax: Tax is a mandatory financial charge or levy imposed by a government on individuals, businesses, or other entities to fund government activities and public services. Governments set tax rates, rules, and collection methods, and failure to pay taxes can lead to penalties.

Tax Rate: Taxes are most often levied as percentage. Thus, tax rate is the percentage of income or profit an individual pay as tax.

Small scale enterprise: This is sometimes called small scale business. It is a business that employs small amount of workers and does not have a very high volume of turnover annually.

CHAPTER TWO

LITERATURE REVIEW

This chapter discuss the related literatures on the impact of taxation on small scale enterprise performance. The review of relevant literature will include discussions on the concept of taxation, taxation in Nigeria, tax policies, tax rates, multiple taxation, small scale enterprises, impact of taxation on small scale enterprise performance, theoretical review, theoretical framework and empirical review.

2.1 Concept of Taxation

Taxation has been generally defined as a charge by the government on the income of an individual, corporation or trust, as well as, the value of an estate or gift. Institute of Chartered Accountants of Nigeria [ICAN] (2009), defines a tax is a compulsory contribution imposed on the citizens by the government in order to provide public goods and services and to ensure the citizens social and economic welfare. Similarly, Adebao (2009) defines tax as a compulsory levy imposed by the government on individuals and business organizations. It is a payment in return for which no direct and specific “quid pro quo” is offered by the government and indirect benefit to different individual taxpayers cannot be determined. Implicit in the above definitions of tax are the fact that it is an imposition, a deduction from income and is done by government or its agent principally to generate revenue for governance.

Tax therefore is a legal imposition by government on the income of individuals in order to raise fund to oil the wheels of governance. Thus, three tax elements involved are the tax base, the tax rate and the tax yield. While the tax base is the object being taxed, examples are: income, profit and property; the tax rate is the proportion of the value of the tax based that is paid as tax. The tax yield is the actual amount accrued to the government in tax (Nnamdi & Ike, 2020)

Taxes are the dues upon the people to the state treasury under the law (which can be enforced) without getting reciprocal service which can be shown directly and used to pay for general expenses. This definition, later on, has been corrected as Tax is the transition of wealth from the people to the state treasury to finance routine expenditures. Its surplus is used for public saving, becoming the main source for funding public investment (Abd Hakim, 2020).

2.1.1 Taxation in Nigeria

Taxation in Nigeria following the extant laws is enforced by the 3 tiers of government, that is, federal, state, and local governments with each having its sphere clearly spelt out in the Taxes and Levies (approved list for collection) law, 1998. However, Nigeria runs a largely centralized revenue collection system, with the federal government collecting the major revenue (petroleum revenue – profit taxes, royalties, crude oil sales; company income tax, value added tax, customs and excise duties) on behalf of the constituent governments (Emmanuel, 2010).

The tax system in Nigeria is made up of the tax policy, the tax laws and the tax administration. All of these are expected to work together in order to achieve the economic goal of the nation (Adegbite & Fasina, 2019). According to the Presidential Committee on National tax policy (2008), the central objective of the Nigerian tax system is to contribute to the wellbeing of all Nigerians directly through improved policy formulation and indirectly through appropriate utilization of tax revenue generated for the benefit of the people. In generating revenue to achieve this goal, the tax system is expected to minimize distortion in the economy. Other expectations of the Nigerian tax system according to the Presidential Committee on National tax policy (2008) are to; encourage economic growth and development, generate stable revenue or resources needed by government to accomplish loadable projects and or investment for the benefit of the people, provide economic stabilization, to pursue fairness and distributive equity, and correction of market failure and imperfection.

2.1.1.2 Classification of Tax System

According to Oyedokun (2020) taxes can be classified in any of the following:

Classification by Method/Tax Burden: This class is subdivided into three tax forms.

These are:

Proportion Tax: it has a fixed rate applied to a taxpayer's assessable income to obtain the tax liability. The tax payable is proportional to the taxpayers' income. A

system of taxation on income known as a proportional tax applies the same percentage of taxation to all taxpayers, irrespective of their income level. A proportionate tax levies the same rate on taxpayers with low, moderate, and high-income levels. Flat taxes are another name for proportional taxes. Proportional taxes are also called graduated taxes (Jacob, 2018).

Progressive Tax: This applies to higher tax rates as income increases. Its sole objective is to redistribute income in the economy. It is also called “Pay as you earn.” A tax is considered progressive when the tax rate grows in proportion to the amount subject to the tax. The phrase "progressive" refers to how the tax rate increases from a low starting point to a high maximum level, with the end consequence being that a taxpayer's marginal tax rate is higher than their average tax rate (Berens, & Gelepithis, 2019).

Regressive Tax: Formerly used in Britain, the higher you earn, the lower your tax. A tax is said to be regressive if it is levied in such a way that the rate of taxation declines as the amount of income subject to taxes rises. A distribution effect on income or spending is said to be "regressive" when the rate advances from high to low, meaning that the average tax rate is higher than the marginal tax rate. This occurs when the marginal tax rate is lower than the average (Makowsky, 2019).

Classification by Incidence/ Tax Subject: This is further divided into two.

Direct Tax: this is assessable to taxpayers who must pay tax on their property, income, or profit. Direct taxes include Personal income tax, Companies Income Tax, Capital Gains Tax, Petroleum Profit Tax, and Education Tax.

Indirect tax: indirect taxes are imposed on commodities before they reach the consumer and are paid by those upon whom they ultimately fall. They are paid as part of the selling price of the commodity. Examples are Customs and excise duties, Value Added Tax, Stamp Duties, and Import and Export duties (Oyedokun, 2020).

Classification by Perspective of Tax Base: Taxes can also be classified according to what is being taxed. In Nigeria, the following bases are in use:

Capital base - This includes Capital Gains Tax. This is on the sale of capital goods (noncurrent assets).

Income base: Personal Income Tax, petroleum income tax, and Company Income Tax. As the name implies, the government's income is being taxed.

Consumption based - Examples of consumption are value-added tax, stamp duties, and excise duties.

2.1.2 Tax Policies

Tax policy is the choice by a government as to what taxes to levy, in what amounts, and on whom (Evans, 2013). It's argued that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment,

facilitating future growth (Ngali, 2020). 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 (Tomlin, 2018). 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, 2018).

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 (Vasak, 2018).

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 distortionary 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, 2019) 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, 2015). 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 or large businesses. 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.

If a large proportion of SME costs are devoted to paying tax, they will be forced to shift the tax burden onto the consumer, and this will ultimately make their goods and services uncompetitive, which will have a negative impact on their performance and growth (Ngali, 2020).

2.1.3 Tax Rates

The tax rate is the percentage of an income or an amount of money that has to be paid as tax. Indirect taxes can be defined as taxation on an individual or entity, which is ultimately paid for by another person (Ngali, 2020). The body that collects the tax will then remit it to the government. But in the case of direct taxes, the person immediately paying the tax is the person that the government is seeking to tax. A proportional tax applies the same tax rate across low, middle, and high-income taxpayers. In contrast, the progressive tax system adjusts tax rates by incomes. A

marginal rate taxing system, such as the flat tax, has a constant rate for both businesses and individual taxpayers (Bolboros, 2016)

In Nigeria, different rates are applied to different tax heads as directed by Nigeria Revenue Authority. Bolboros (2016) indicated that tax rates are influenced by government demands. Noor-Halp (2011) also posited that tax rates are positively and significantly associated with financial performance in Nigeria. The tax rate is used as the model of collecting more revenue from different financial practices. He further stated that the tax rates are used to verify and describe financial performance of Enterprises. Tax rates had a great impact on economic financial performance and regulations of money circulations. Progressive tax rates influence tax collection with increase in income tax (Ngali, 2020).

Ali, Sjursen and Michelsen (2015) studied factors affecting tax compliance attitude in Africa, Evidence from Kenya, Tanzania, Uganda and South Africa. Findings indicated that the impact of corporate incomes tax rates is borne by business owners through decreased profits either by employees through decreased wages or by customers through prices. However, in tax equity finance is the investment transaction where an investor with large tax liabilities makes an equity investment in another business accruing tax credits, investors return comes from realizing those tax credits against their tax liabilities. It is generally believed that a high tax rate is the main cause of dismal performance and noncompliance by SMEs. Incentives to evade

tax depend on the marginal rates of taxation because these govern the gains from evasion as a sum of the sum evaded (Kaldor, 2016). One major tax evasion is the high personal income tax rates which tend to lead tax payers to evade tax. Too many and complicated rules and regulations imposed by the government tend to lead to tax evasion. Small scale enterprises find it generally difficult and often not profitable to do business legally.

2.1.4 Multiple Taxation

According to the National Tax Policy Document, Multiple taxation occurs where the tax, fee or rate is imposed on the same person in respect of the same liability by more than one state or local government council. Oseni (2014) identified the following ways in which multiplicity of taxes manifest.

First, it refers to the various unlawful compulsory payments being collected by different tiers of government 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 tout. Second, it refers to situations where a tax payer is faced with demands from two or more different levels of government for the same or similar taxes.

Multiple taxation is the levying of tax by two or more jurisdictions on the same declared income (in the case of income taxes), assets (in the case of capital gains

taxes), or financial transactions (in the case of stamp duties). Multiple taxation is a situation in which the same earnings are taxed more than once. Adam (2019) defines multiple taxation as the taxing of a person by two or more government authorities demanding the same kind of tax. Put differently, multiple taxation in relation to a company or individual is a situation where the same profit or income which is liable for tax in Nigeria has been subjected to tax by another tax authority in Nigeria or country outside Nigeria (Osita, 2014).

Researchers (Fasoto, 2017; Zayol et. al., 2018) have shown that over 500 different taxes and levies are being imposed by various tiers of government in Nigeria as against the only 55 approved by Taxes and Levies (Approved list of collection) Act 2004 (as amended) (Oyedokun, 2020). For instance, the more a taxpayer transports his goods and service across many local governments in the country, the more he is confronted with incidents of multiple taxes, legally and illegally imposed (Izedonmi, 2010). Ifeuko (2018) asserted that multiple tax practices in Nigeria came as a result of the absence of a national policy document that defines who has the right to collect tax and what amount to collect by each tier.

2.2 Small Scale Enterprises (SSEs)

Small Scale Enterprises (SSEs) have been defined along a broad continuum of size and type. In terms of size, measures used to classify SMEs include employment, assets and revenue. Definitions of SMEs vary from one organization to another, from

country to country, industry to industry and from one financial institution to another. The Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC) defined small enterprises as those that meet two of the following three conditions: 1. Less than 50 employees 2. Less than \$3 million total assets 3. Less than \$3 million total annual sales (Zayol, Duenya & Gberindye, 2018).

The Monetary Policy Circular No. 22 of 1988 of the Central Bank of Nigeria defined SMEs as enterprises whose annual turnover was not more than N500, 000. The National Economic Reconstruction Fund (NERFUND) put the ceiling for small-scale industries at N10 million. Section 37b(2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with an annual turnover of not more than N2 million and net asset value of not more than 1 million naira. The Small and Medium Enterprise Equity Investment Scheme (SMEEIS) sees the SME as any enterprise with a maximum asset base of N500 million (excluding land and working capital), and with no lower or upper limit of staff. For tax purposes, Section 40(6) of the Companies Income Tax Act Cap C21 LFN 2004 alludes to companies with a turnover of N1 million and below operating in the manufacturing, agricultural production, solid mineral mining, and export trade sectors as SMEs; While subsection 8 states that as from 1988 all companies engaged in trade or business with a turnover of N500,000.00 and below qualify as SMEs (Zayol et al., 2018).

Despite the many efforts that the government has put in to ensure that the SME sector is developed with goals of lowering unemployment rates and improving the living populace's living standards, Ilegbinosa and Jumbo (2019) investigate some of the challenges faced by small and medium-sized enterprises (SMEs) in Nigeria. These challenges are discussed further below.

Inadequate Funding: It is a known fact internationally that SMEs are funded by their owners' personal or family savings. Nonetheless, the high level of poverty and, consequently, the low level of savings in Nigeria and other Less Developed Countries have made this funding source for establishing, growing, and developing new and existing SMEs inactively low. This perhaps explains why most SMEs in Nigeria starts with inadequate funding and afterward start warming up for shutdown if external funds from the government or financial institution do not come (Acosta, & Gartland, 2021).

Inadequate Infrastructural Facilities: The problem of unstable and unreliable supply of electricity, dilapidated roads, inadequate supply of water for both home and industrial use, and inefficient and costly communication systems, among others, have for long hindered the growth and development of SMEs in Nigeria. Nearly all SMEs in Nigeria have one or more power-generating plants as an alternative power supply source. However, the cost of obtaining, maintaining, sustaining, and managing such generating plants are more often than not very expensive, and this has made the cost

of production as well as prices of products costly, with the latter turning out to be more and more uncompetitive in comparison with the imported equivalent (Jegede, 2019).

Low Capacity Utilization: This is perpetually gotten from the low demand for SME products owing to their poor quality and exorbitant prices. Therefore, sales and profits have remained relatively low, leading to poor returns on investment. For example, a study of about 39 SMEs' performance in Nigeria illustrated that most of them operated between 30%-35% of their established capacity, with sales and profit volume showing little increase (NCI, 2011).

Poor Planning and Management: Management involves planning, coordination, organization, and control of both human and natural resources in an organization to attain its set aims and objectives (Basil, 2015). Therefore, it involves getting things done appropriately and efficiently through people. Nonetheless, a survey of SMEs operating in LDCs showed that owners get everything done alone without seeking consultation from professionals or experts. This has resulted in incompetence, inefficiency, wastage, and under-utilization of resources available to the organization.

Poor Education and Experience: Closely associated with the problem of planning and management is the low level of education and lousy business experience among SME operators in Nigeria (Alasan & Yakubu, 2011). These explain the lack of

pioneering, inventive, innovative, dynamic, vibrant, and entrepreneurial skills and abilities necessary to confront and tackle issues as they emerge effectively. Human resources, therefore, constitute the foundation for a wealth of nations (Cosson, 2023).

Raw Material Management and Choice of Appropriate Technology: These are fundamental for growing and developing any business, whether large or small. The difficulty relating to small enterprises is the unavailability of quality and superior raw materials and organization at a suitable price and time (Nigerian Economic Summit Group, 2022). In Nigeria, most of these raw materials are not produced in the country but are imported. In addition, a general assessment of domestic or locally made goods is the non-existence of uniformity and standardization in them. Therefore, SMEs in agro-allied industries encounter the peculiar difficulty of procurement, maintenance, conservation, and storage of materials. Furthermore, the selection of suitable technical knowledge and expertise that would produce superior quality and standard goods capable of challenging their international equivalent, as well as meeting both domestic and foreign needs, have to be appropriately addressed (Onyinlade, 2015).

2.3 Effect of Taxation Small Scale Enterprise Performance

According to Ocheni (2015), the resources small companies use to pay taxes would rather be used for other activities that would facilitate future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller

businesses which makes the situation too hard for survival. 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.

Majority of small scale enterprises are concentrated in the service and commercial sectors across the country. This SMEs offer different services and goods and this is their main source of income which enables their operations. However, this firms can only increase their profits by minimizing their operational costs which affects this profit a large extent. If a large portion of SME costs are devoted in paying taxes, SMEs will shift this burden to their consumers which mean the price of their commodities will go up affecting their total sales hence their profit (IJBIR 2015).

In a study conducted by Aribaba et al. (2019), high tax rates, low efficiency, high collection charges and the low amounts of received taxes are identified among the factors counting against SMEs tax compliance. Eragbhe and Omoye (2014); Igbinovia and Okoye (2017) also add that double taxation, lack of tax consultant, improper tax planning, high taxation costs are part of the factors affecting SMEs. Ojeka, (2011) avows that the lower the amount of taxes paid by the SME, the more the project the business will embark-on with the profit generated. Ocheni and Gemade (2015); Oladipupo and Obazee (2016) affirm that numerous tax collection

has negative impact on SMEs' survival and the relationship between SMEs' size and its capability to pay taxes is momentous. The researchers, therefore, conclude that multiple taxations affect the survival and growth of SMEs (Ocheni and Gemade, (2015).

2.4 Theoretical Review

The impact of taxation on small scale enterprises can be explained by three main theories.

2.4.1 The Theory of Optimal Taxation

The standard theory of optimal taxation acknowledges that a tax system should be chosen to maximize a social welfare function subject to a set of constraints (Farzbod, 2010). The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. This theory states that organizations should be taxed in such a way that they will be in a position to pay the imposed tax without 'harming' the overall operations of the organization optimal taxation theory and practice (Masato, 2019)

The optimal tax system is obtained when the adverse behavioral effect and the positive redistribution effect (weighted by the relevant population shares) form a reasonable relationship. The defining feature of an optimal tax system is that there

exists no reform of the marginal tax rates in any income range such that social welfare in the population improves after the reform.

The optimality condition in the model expresses this condition in formal terms using the three elements that is, elasticity of taxable income with respect to the marginal tax rate, the distribution of abilities and the social preference for redistribution. The theory of optimal taxation is also normative, essentially assuming that policy is made by a benevolent dictator who respects individual preferences as well as some 'social' preference for equality. One can choose to dismiss this body of theory by pointing out that actual policy makers typically represent specific interest groups and that actual policies tend to reflect some compromise between conflicting interests rather than the maximization of a Bergson-Samuelson social welfare function (Koehne, 2017).

This theory can be used by tax administrators in the formulation of tax policies for the optimal taxation of small scale enterprises in the country.

2.4.2 Ability to Pay Theory

The ability to pay theory was propounded by MS Kendrick in 1939. In the theory tax is considered as a liability in its true form-compulsory payment to the state without quid pro quo. It does not assume any commercial or semi-commercial relationship between the state and the citizens. The theory postulates that a citizen is to pay taxes

just because he can and his relative share in the total tax burden is to be determined by his relative paying capacity.

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual (Braithwaite, 2013). This theory states that, citizens should not be charged taxes which they are not able to pay. According to the theory, taxes should be based upon the amount of money people earn. For example, those who earn more money are expected to pay a higher rate of taxes--which means a higher portion of their income--than people who earn less money.

Remember, governments impose taxes to pay for services, like public schools, roads, police, and governance. The ability-to-pay theory of taxation does not take into consideration the amount of these services that taxpayers actually use. It seems that if the taxes are levied on this principle as stated above, then justice can be achieved (Coso, 2012).

The theory will be relevant to the study because it justifies equity as a principle of taxation and can also be applicable to small scale enterprises to improve performance. The small scale enterprises sacrifice part of their income and it is turned over to the

government to be spent on public services. The sacrifice is measured both in terms of the burden that small scale enterprise bears on sacrificing their income to the public but also the ease with which they got that income (Jepkosgei, 2014).

2.4.3 Economic Based Theories

They are also known as deterrence theory and they place emphasis on incentives as acknowledged by Gupta. The theory suggests that taxpayers are amoral utility maximizers- they are influenced by economic motives such as profit maximization and probability of detection. As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative that maximizes their expected after tax returns after adjusting for risks (Ojochogwu, 2012).

Ibn Khaldun's economic theory of taxation has been considered as one of the most important contributions to economic thought. Khaldun (1958) related the theory of taxation with the government expenditure and argued for low tax rate so that incentive to work is not killed and taxes are paid happily. According to him, at the beginning of a dynasty, taxation yields a large revenue from small assessment, but at the end of a dynasty, taxation yields a small revenue from large assessment. The effect of taxation on incentives and productivity is so clearly visualized by Ibn Khaldun that he seems to have grasped the concept of optimum taxation. He also analyzed the effect of government expenditure on the economy. He advocates a

policy of wise and productive public expenditure. By these economic insights, Ibn Khaldun has been considered as the forerunner of modern recommendations that high tax rates shrink the tax base because they reduce the economic activity (Abdul, 2015).

The Unicist Theory of Business Growth

The Unicist Theory was developed by Peter Belohlavek, as a paradigm shift of the scientific approach to complex adaptive systems. The theory was modified and used to research and discover the fundamentals that drive growth both at a macro and micro level. This brought forth the Unicist theory of macroeconomic growth and the Unicist theory of microeconomic growth. Both were incorporated into a unified field that permitted developing situations, future situations and execute solid methodologies to promote growth. The Unicist theory of business growth allowed the conditions that need to be given and the activities that should be created to advance businesses development. It additionally established the limits that are given by the accessible assets. The objective of the theory is to establish the rules that need to be considered when developing growth programs. According to the proponent of the theory, there are two concurrent activities that need to be developed to grow any business: (1). Conjunctural activities to take advantage of opportunities and (2). Structural activities to develop the structural growth of a business (Belohlavek, 2015).

The rationale for this theory in this study is to understand the sense that SMEs have the capacity to contribute to nation development if the businesses have the opportunity to grow. This implies the need for tax policies to be relaxed to encourage and support entrepreneurs, especially those who are experiencing challenges. Ojeka (2011) avers that the importance of SMEs as a mechanism of economic growth and development is often ignored as they are perceived as small businesses that have insignificant influence on the economy. However, if conducive environment is created for these SMEs to operate through proper regulation, the SME sector has the highest tendency to transform our economy. This implies that there is need for governments to reform policies and conditions that have a bearing on firm creation and expansion, with the end goal of enhancing the contributions that these businesses can make to economic growth (Taiwo, Falohun and Agwu, 2016). There are many issues that should be considered when levying taxes for the SMEs, which include: how these tax policies are designed to support and promote the growth of SMEs and the most effective ways to administer them without affecting their financial growth.

According to Tee et al. (2016), the Unicist Theory proposes for a favourable tax policy that support SMEs operators to use available income to expand their business operations, without being hindered by various taxes. This implies that an expansive work environment for SMEs will stimulate business activities and will lead to growth in sales, profit and number of employees. When they grow, they will

generate more money for the government through taxes and they can as well generate more employment. As the businesses expand, the more people will be needed to cater for the expansion; this is the understanding of the Unicist theory. But if multiple taxation is allowed, it ends up placing huge tax burden on these SMEs firms; and the chance of survival or struggling to survive becomes so high to the SMEs. Also, the possibility of these SMEs firms to die prematurely is very high. Therefore, the growth of SMEs to contribute to economic development is attached to non-multiple taxation and absence of huge tax burdens levied on these small businesses.

2.5 Empirical Review

Yinka, Muyiwa, Gbenga, and Temitayo (2023) used multiple regression analysis and survey research methodology to evaluate the effect of numerous taxations on the financial performance of small and medium-sized firms (SMEs) in Ekiti State, Nigeria. All registered and operational SMEs in Ado Ekiti that had been in business for more than five years and had legitimate documentation of their tax payments made up the research population. The study's findings demonstrated that while the ability to pay taxes had a significant and positive influence on the financial burden of SMEs in Ekiti State, Nigeria, numerous tax administrations and burdens had a significant but negative impact on the financial performance of SMEs in that state.

Eyitayo and Makhosazana (2022) who explore the effects of tax policies on the performance of SMEs. The Unicist Theory of business growth was used to underpin the study, the theory analysed the implications that multiple tax could have on the growth of SMEs in Nigeria. Survey method with a close-ended structured questionnaire was administered to 110 SME owners in three local government areas in Lagos State. Collected data were analyzed with descriptive statistics while formulated hypothesis was tested with the Chi square method. Findings revealed that various Governmental policies on taxes significantly affect the performance of SMEs in Lagos State. The paper implicates a possible diversity of tax policies that will favour SMEs operator to make meaningful contributions to the economy.

Akpan and Ime (2021) investigated the effects of various taxes on the expansion of SMEs in Akwa-Ibom state, Nigeria using an independent t-test analysis and survey methods. The population of the study is made up of all Uyo urban small- and medium-sized enterprise (SMEs) operators. 398 participants were chosen at random from the population for the study using a straightforward random sampling technique. A questionnaire was used as the data collection instrument. The study's findings demonstrated that many taxes in the Nigerian state of Akwa-Ibom's Uyo Urban had a significant but negative effect on the performance of SMEs.

Francis, Augustine, and Monday (2022) investigated the effect of multiple taxation on the expansion of small and medium-sized enterprises (SMEs) in the South-South

States of Nigeria through survey research. The population of the study consists of 7,844 micro, small, and medium-sized enterprises (MSMEs) in the South-South states of Nigeria that are registered with the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN). A sample of 381 SMEs was selected using the Taro Yamane sampling technique. The data that was collected was analysed using the SPSS version. The results demonstrated that environmental and sanitation levies have a major effect on Nigeria's small- and medium-sized companies (SMEs) growth. Additionally, it was said that taxes for infrastructure development significantly affect the growth of SMEs in the economy. According to the report, land-based and property-based fees have a significant effect on the growth of SMEs in Nigeria.

Godswill, Onwka and Obinwanne (2019) assess the effect of taxation on the performance of SMEs in Aba Abia State. A survey approach was adopted while the questionnaire was used as an instrument. A randomly selected 162 employees and owners of 40 SMEs were used for the study. Collected data were analyzed using multiple regression analysis and one sample t-test. Results indicate that a significant and positive relationship exists between taxation and the performance of SMEs and that tax assessment, tax collection and tax utilization significantly influence the performance of SMEs in Aba.

Ocheni and Gemade (2015) studied the impact of various taxation on Benue State SMEs. The survey had 91 participants. Researchers sampled 74 people. Data were collected by questionnaire. ANOVA was used to test the research hypotheses and analyze the results. Multiple taxations negatively affect SMEs' survival, because SMEs' size and tax-paying capabilities are linked. The report recommends that the government create standard tax policies that encourage the growth of SMEs in Nigeria and consider the size of SMEs when creating tax policies.

Dauda and Dauda (2021) used regression analysis to evaluate the effects of certain taxes on restaurant investment drivers and sales growth in Minna, Niger State, Nigeria. A census-based sample approach was employed because the study's population consisted of companies that ran 60 restaurants in the city of Minna. One of the dependent factors used in the research to elicit a response was multiple taxation; the other dependent variables were investment decisions and sales growth. The study's findings demonstrated that different taxes had not had a significant effect on the rise in restaurant sales. Still, it was found that different taxes affected investment decisions significantly.

Cross (2019) used the descriptive statistics method to investigate the connection between multiple taxation and the survival of SMEs. It also examined the effects of multiple taxation on "the growth of small/medium scale enterprises in Nigeria." The method of data collection employed was structured questionnaires. The research

found that the great majority of deaths occurred in small and medium-sized enterprises, which comprised ninety-five per cent of the economy. The investigation also demonstrated how important these companies were to the development of the Nigerian economy by fostering competition, innovation, jobs, and economic dynamism.

Mbazulike, Ukairo, and Umar (2023) examined the effects of various taxes on the survival of small and medium-sized firms (SMEs) in Katsina state, Nigeria. The data acquired through the administration of surveys was analyzed using regression analysis and descriptive statistics. The descriptive findings showed that several taxes had a significant but negative effect on SMEs' ability to survive in the Nigerian state of Katsina. Regression analysis, however, revealed that different taxes had no discernible effect on the survival of SMEs in Katsina state. Thus, the study recommended that, while assessing tax legislation, consideration be given to the size of SMEs in Katsina state concerning their profits to prevent repeated taxation in the state. Adebisi and

Gbegi (2013) applied basic percentages and Analysis of variance (ANOVA) methodologies to study the effects of various taxes on the survival of SMEs in West African Ceramics Ajeokuta, Kogi State, Nigeria. There were 91 people in the study's population, and 74 people made up the sample. A self-administered questionnaire was used to collect data for the analysis. The study's conclusions showed that

numerous taxes had a statistically significant detrimental influence on the survival of SMEs and that there was a relationship between an organization's size and its ability to comply with tax laws.

Sani, Sunday, and Godwin (2019) investigated the effects of various taxes on the growth of SMEs in Nigeria using non-parametric statistics such as the mean score, standard deviation, and z-test. The questionnaires used during the study to gather data used a five-point Likert scale. Of the 193 questionnaires issued to SME operators in Lokoja, Kogi State, 131 were returned, or approximately 68% of the total. By using analytical estimating approaches, the results showed that some taxes had a significant but negative effect on the growth of small and medium-sized enterprises in Nigeria.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the methodology employed in examining the impact of taxation on performance in small scale enterprise. It details the research design, population, sampling techniques, data sources, data collection methods, model specification,

operationalization of variables, and data analysis techniques. The methodology is also structured to ensure reliability, validity, and accuracy in assessing the relationship between taxation and small scale enterprise performance.

3.2 Research Design

This study adopts a descriptive survey research design to collect and analyze data from small-scale enterprises in Benin Metropolis. A survey design is appropriate because it allows for the collection of first-hand information from small scale enterprise owners and managers regarding their experiences with taxation and its influence on their performance.

3.3 Population and Sampling

The target population consists of registered small-scale enterprises operating within Benin Metropolis, Edo State, which includes retail businesses, artisans, restaurants, and service providers. A total population of 156 small-scale enterprises was obtained from the register of SMEs at the Edo State Ministry of Commerce and Industry.

3.4 Sample size determination

The sample size is the number of sample selected as representative of the population. The minimum sample size required was determined using Taro Yamane's formula below:

$$n = \frac{N}{1 + N(e^2)}$$

Where: n = minimum sample size

N = Total population

e = constant (0.05)

$$n = \frac{156}{1 + 156(0.05^2)}$$

$$n = \frac{156}{1.39}$$

$$n = 114.7$$

$$\approx 115$$

3.5 Sample Size and Sampling Technique

The sample size for this study is about 115 small-scale enterprises in Benin metropolis, Nigeria which will form the respondents. The convenience sampling technique will be used to carry out this study, as the instrument will be administered to the owners, managers and account officers available and accessible during the period of data collection.

3.6 Source of Data

Both **primary and secondary data** sources will be utilized:

- **Primary data** will be obtained directly from business owners, managers and account officers through structured questionnaires designed and administered by the researcher to the sample respondents.
- **Secondary data** will be gathered from government publications, tax records, financial reports of small businesses, and academic literature related to taxation and small-scale enterprise performance.

3.7 Method of Data Collection

A structured questionnaire will be the primary instrument for data collection. The questionnaire will include closed-ended and Likert-scale questions to measure business performance indicators and taxation challenges.

3.8 Validity and Reliability of the Instrument

Validity

The research instrument will be content validated by the researcher's supervisor to ensure the content of the questionnaire is relevant to the research objectives of the study.

Reliability

To ensure the instrument is reliable, the questionnaire will be pretested on a small group of (20) respondents outside the sample size within two weeks interval. The

data collected was analysed using Cronbach alpha statistics and a reliability coefficient of 0.88 was obtained.

3.9 Model Specification

To examine the relationship between taxation and small scale performance, a multiple regression model will be used:

$$SSP = f(TP, TR, MT) \text{ ----- (i)}$$

$$SSP = \beta_0 + \beta_1 TP_1 + \beta_2 TR_2 + \beta_3 MT_3 + \varepsilon \text{ ----- (ii)}$$

Where:

- SSP = Small Scale Performance
- TP = Tax Policy
- TR = Tax Rate
- MT = Multiple taxation
- $\beta_1, \beta_2, \beta_3$, are the coefficients of the estimate.
- $\beta_1, \beta_2, \beta_3, > 0$
- ε = Error term representing other factors affecting performance

3.10 Operationalization of Variables

S/N	Variables	Define	Scale	Question
1.	Tax Policy	The mean of Q1-Q5 will be used to proxy small scale performance	5 point scale	Q1-Q5
2.	Tax Policy	The mean of Q6-Q10 will be used to proxy small scale performance	5 point scale	Q6-Q10
3.	Multiple Taxation	The mean of Q11-Q15 will be used to proxy small scale performance	5 point scale	Q11-Q25

3.11 Method of Data Analysis

The collected data will be analyzed using descriptive statistics (mean, standard deviation, and percentages) to summarize responses. Inferential statistics, particularly regression analysis, will be used to determine the relationship between taxation and small business performance. The Statistical Package for Social Sciences (SPSS) will be used for data processing. Hypothesis testing will be tested using the one sample t-test at 0.5 level of significance.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION OF FINDING

4.1 Introduction

This chapter presents results from analysis of data obtained from the questionnaires distributed to the respondents using descriptive statistics (Frequency tables, percentages, mean sum and standard deviation) to answer the research questionnaires and inferential statistics (Linear regressions) at 95% interval to test the hypothesis through the Statistical Package for Social Sciences (SPSS).

4.2 Descriptive Statistics

This section describes the sample in terms of demography (Gender, Age bracket, Business Experience and Educational Qualification). This is presented in the tables below:

The demographic profile of the respondents is presented in the Tables below:

4.2.1 Analysis of Demographic Data

Table 4.1: Frequency Distribution of Respondents' Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	60	52.2	52.2	52.2
Female	55	47.8	47.8	100.0
Total	115	100.0	100.0	

Source: Fieldwork, 2025

Table 4.1 above reveals the gender distributions of respondents. The table indicated that majority 60 (52.2%) of the respondents were male while 55 (47.8%) of the respondents were female. Although, the male respondents were the majority, the female respondents were full represented to a proportionate extent.

Table 4.2: Frequency Distribution of Respondents' Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 25-35 years	17	14.8	14.8	14.8
36-45 years	45	39.1	39.1	53.9
46-55 years	46	40.0	40.0	93.9
56 years and above	7	6.1	6.1	100.0
Total	115	100.0	100.0	

Source: Fieldwork, 2025

Table 4.2 above revealed the frequency distribution of respondents' Age. It was revealed that 17 (14.8%) of the respondents were between the age of 25-35 years, 45 (39.1%) of the respondents were between the age of 36-45 years, 46 (40%) of the respondents were between the age of 46-55 years while 7 (6.1%) of the respondents were between the age of 56 years and above. However, majority (40%) of the respondents were between the age of 46-55 years follow very closely by (39.1%) of the respondents who were between the age of 36-45 years.

Table 4.3: Frequency Distribution of Respondents' Business Experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5 years	20	17.4	17.4	17.4
6-10 years	25	21.7	21.7	39.1
11-15 years	32	27.8	27.8	67.0
16-20 years	30	26.1	26.1	93.0
21 years and above	8	7.0	7.0	100.0
Total	115	100.0	100.0	

Source: Fieldwork, 2025

Table 4.3 revealed the result of the frequency distribution of respondents' business experiences. It was discovered that majority 32 (27.8%) of the respondents had 11-15 years business experience, followed closely by 30 (26.1%) of the respondents who have 16-20 years of business experience. The study further revealed that 25 (21.7%) of the respondents have 6-10 years of business experience, 20 (17.4%) of the respondents have 1-5 years of business experience while 8 (7%) of the respondents have 21 years and above business experience

Table 4.4: Frequency Distribution of Respondents' Educational Qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid O/Level/OND	22	19.1	19.1	19.1
HND/B.Sc.	70	60.9	60.9	80.0
Masters	21	18.3	18.3	98.3
PhD	2	1.7	1.7	100.0
Total	115	100.0	100.0	

Source: Fieldwork, 2025

Table 4.4 reveal the frequency distribution of respondents' educational qualification. The table highlight that majority 70 (60.9%) of the respondents were holders of HND/B.Sc. qualification, 22 (19.1%) of the respondents were O/level/OND holders, 21 (18.3%) of the respondents were masters degree holders while only 2 (1.7%) of the respondents were Ph.D. holders.

4.2.2 Analysis of the Research Questions

Research Question One: How does a tax policy affect small scale enterprise performance?

Table 4.5: Analysis on how tax policy affects small scale enterprise performance

S/N	Items	N	Sum	Mean \bar{x}	Std. Dev.	Remark
1.	Unfavorable tax policies enhance the profitability of small-scale enterprises	115	170	1.48	.765	Disagree
2.	Unclear and inconsistent tax policies affect business planning and operations.	115	332	2.89	1.848	Agree
3.	Frequent changes in tax policies negatively impact business stability	115	332	2.89	1.791	Agree
4.	Tax holidays and exemptions boost small business profitability	115	331	2.88	1.738	Agree
5.	Poor tax administration leads to financial difficulties for small businesses	115	296	2.57	1.579	Agree
	Grand mean			2.54	1.544	Agree

Source: Fieldwork, 2025

Mean Score < 2.50 (Disagree) Mean > 2.50 (Agree)

Table 4.5 above reveal the result of the analysis on how tax policy affects small scale enterprise performance. Item 1 on the table with a mean score of 1.48 reveals that respondents generally disagreed that unfavorable tax policies enhance the profitability of small-scale enterprises. Item 2 on the table with a mean score of 2.89 suggests that respondents agreed that unclear and inconsistent tax policies affect

business planning and operations. Item 3 on the table with a mean score of 2.89 further indicates that respondents fully agreed that frequent changes in tax policies negatively impact business stability. Item 4 on the table with a mean score of 2.88 reveals that respondents are of the opinion that tax holidays and exemptions boost small business profitability. Item 5 which is the final item on table 4.5 with a mean score of 2.52 indicated that respondents moderately agreed that poor tax administration leads to financial difficulties for small businesses.

Based on the grand mean of 2.54 which is greater than the normative mean of 2.50, it is therefore concluded that tax policy affects small scale enterprise performance as unclear and inconsistent tax policies affect business planning and operations, frequent changes in tax policies negatively impact business stability and poor tax administration leads to financial difficulties for small businesses

Research Question Two: What is the effect of tax rates on small scale enterprise performance?

Table 4.6: Analysis on the effect of tax rates on small scale enterprise performance

S/N	Items	N	Sum	Mean \bar{x}	Std. Dev.	Remark
6.	High tax rates reduce the capital available for business expansion.	115	287	2.50	1.739	Agree
7.	Small businesses with higher tax burdens experience slow growth.	115	378	3.29	1.834	Agree
8.	The tax rate structure affects pricing strategies in small businesses.	115	272	2.37	1.591	Disagree
9.	Progressive tax rates are more beneficial to small businesses than flat rates	115	278	2.42	1.445	Disagree
10.	Small businesses struggle to meet tax obligations due to high tax rates.	115	346	3.01	1.814	Agree
	Grand mean			2.72	1.685	Agree

Source: Fieldwork, 2025

Mean Score < 2.50 (Disagree) Mean > 2.50 (Agree)

Table 4.6 above reveal the result of the analysis on the effect of tax rates on small scale enterprise performance. Item 6 on the table with a mean score of 2.50 reveals that respondents agreed that high tax rates reduce the capital available for business expansion. Item 7 on the table with a mean score of 3.29 suggests that respondents agreed Small businesses with higher tax burdens experience slow growth. Item 8 on the table with a mean score of 2.31 indicated that respondents moderately disagreed that the tax rate structure affects pricing strategies in small businesses. Item 9 on the table with a mean score of 2.42 reveals that respondents do not fully agree with the exertion that progressive

tax rates are more beneficial to small businesses than flat rates. Finally, item 10 on the table with a mean score of 3.01 indicated that respondents agreed that Small businesses struggle to meet tax obligations due to high tax rates.

Based on the grand mean of 2.72 which is greater than the normative mean of 2.50, it is therefore concluded that the effect of tax rates on small scale enterprise performance include the reduction of capital available for business expansion, slow growth and inability to meet tax obligations due to high tax rates.

Research Question Three: What is the effect of multiple taxation on small scale enterprise performance?

Table 4.7: Analysis on the effect of multiple taxation on small scale enterprise performance

S/N	Items	N	Sum	Mean \bar{x}	Std. Dev.	Remark
-----	-------	---	-----	-------------------	-----------	--------

11.	Multiple taxation increases the operational costs of small businesses	115	345	3.00	1.777	Agree
12.	Multiple taxation discourages business registration and formalization	115	344	2.99	1.630	Agree
13.	Multiple taxation discourages new business start-ups	115	320	2.78	1.664	Agree
14.	Multiple taxation leads to informal business operations.	115	322	2.80	1.708	Agree
15.	The presence of multiple tax agencies confuses small business owners	115	356	3.10	1.797	Agree
	Grand mean			2.93	1.715	Agree

Source: Fieldwork, 2025

Mean Score < 2.50 (Disagree) Mean > 2.50 (Agree)

Table 4.7 above reveal the result of the analysis on the effect of multiple taxation on small scale enterprise performance. Item 11 on the table with a mean score of 3.00 reveals that respondents agree that multiple taxation increases the operational costs of small businesses. Item 12 on the table with a mean score of 2.99 suggests that respondents agreed multiple taxation discourages business registration and formalization. Item 13 on the table with a mean score of 2.78 indicated that respondents agreed that multiple taxation discourages new business start-ups. Item 14 on the table with a mean score of 2.80 reveals that respondents agreed that multiple taxation leads to informal business operations. Finally, item 15 on the table with a mean score of 3.10 indicated that respondents agreed that the presence of multiple tax agencies confuses small business owners.

Based on the grand mean of 2.92 which is greater than the normative mean of 2.50, it is therefore concluded that the effect of multiple taxation on small scale enterprise performance include increases the operational costs of small businesses, discourages business registration and formalization, discourages new business start-ups, leads to informal business operations and confuses small business owners.

4.3 Test of Hypotheses

4.8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.830 ^a	.688	.686	2.87333	.688	249.756	1	113	.000

a. Predictors: (Constant), Taxation (TP, TR and MT)

The model summary on table 4.8 showed a good model fit: $F(1, 113) = 249.756$. $P < .001$, Adjusted $R^2 = 0.69$ and $R^2 = 0.69$. This indicates a strong positive relationship between the independent variables (Taxation) and the dependent variable (Small Scale Performance). Sig. F Change = 0.000: This indicates that the overall model is statistically significant

ANOVA^b

Model	Sum of Squares	Df	Mean Square	F	Sig.
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1	Regression	2061.991	1	2061.991	249.756	.000 ^a
	Residual	932.931	113	8.256		
	Total	2994.922	114			

a. Predictors: (Constant), Taxation (TP, TR and MT)

b. Dependent Variable: Small Scale Performance

The high F-value (249.756) and p-value (0.000) confirm that taxation has a statistically significant effect on SSP.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.237	.769		.309	.758	-1.286	1.760		
	Taxation	.278	.018	.830	15.804	.000	.243	.313	1.000	1.000

a. Dependent Variable: SSP

Hypothesis One:

H₀₁: There is no significant relationship between taxation and the performance of small scale enterprises

The above analysis indicates that taxation is a highly significant predictor of small-scale enterprise performance. ($\beta = 0.83$, $t = 15.80$, $p < .001$). Hence, hypothesis one

which state that there is no significant relationship between taxation and the performance of small scale enterprises was rejected. The findings reject the null hypothesis (H_{01}) and confirm that taxation significantly affects small-scale enterprise performance.

4.4 Discussion of Findings

Based on the results of the analysis in the study, the following are the discussions of findings in accordance with the research objectives.

Research question one sought to assess the effect of tax policies on small scale enterprise performance. Findings revealed that tax policy affect small scale enterprise performance as unclear and inconsistent tax policies affect business planning and operations, frequent changes in tax policies negatively impact business stability and poor tax administration leads to financial difficulties for small businesses.

Research question two sought to evaluate the effect of tax rates on small scale enterprise performance. The result of the analysis revealed that the major effect of tax rates on small scale enterprise performance are the reduction of capital available for business expansion, slow business growth and inability to meet tax obligations due to high tax rates.

Research question three sought to examine the effect of multiple taxation on small scale enterprise performance. Findings confirmed that the effect of multiple taxation on small scale enterprise performance may include increment of operational costs of small businesses, discourages business registration and formalization, discourages new business start-ups, and leads to informal business operations.

The result of the tested null hypotheses which sought to determine the relationship between taxation and small-scale enterprise performance revealed that taxation has a significant positive relationship with the performance of small-scale enterprises.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

The study examined the impact of taxation on the performance of small-scale enterprises, focusing on tax policies, tax rates, and multiple taxation. Based on the analysis, the following were the findings:

1. Tax policy affect small scale enterprise performance as unclear and inconsistent tax policies affect business planning and operations.
2. The major effects of tax rates on small scale enterprise performance are the reduction of capital available for business expansion and inability to meet tax obligations due to high tax rates.
3. The major effects of multiple taxation on small scale enterprise performance are the increment of operational costs of small businesses, and discouragement in the registration and formalization business.
4. Taxation has a significant positive relationship with the performance of small-scale enterprises.

5.2 Conclusion

This study examined the impact of taxation on the performance of small-scale enterprises with the aims to ascertain if tax policies, tax rates, and multiple taxations affects small scale enterprise performance. The study therefore concludes that taxation (tax policies, tax rates and multiple taxation) negatively impacts business growth, profitability, and sustainability. While tax incentives such as exemptions and holidays were found to be beneficial, frequent changes in tax policies and poor administration disrupt business planning and operations. It was further concluded that taxation has a significant impact on small-scale enterprise performance.

5.3 Recommendations

Based on the findings of the study and the conclusion drawn, the following recommendations are brought forward for immediate consideration:

1. Government agencies should endeavour to simplify tax policies to ensure clarity and consistency, reducing the uncertainty that affects business planning and operations.
2. Government at all levels should come up with a framework to reduce excessive tax rates to encourage business expansion and enable small enterprises to reinvest in their growth.

3. Relevant Government Authority should introduce more tax incentives such as exemptions and holidays to support small business sustainability and profitability.
4. It is time for Government at all levels to deliberate and consider to eliminate multiple taxation by harmonizing tax policies across different government agencies to prevent duplication and reduce financial strain on businesses.
5. Relevant government agencies should provide tax education programs to help small business owners understand their tax obligations and encourage voluntary compliance.
6. Government through legislation should strengthen regulatory frameworks to ensure transparency and accountability in tax collection, minimizing corruption and administrative inefficiencies.

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APPENDICES

Appendix I: Reliability

[DataSet8] C:\Users\HP\Desktop\tega final data for analysis.sav

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	115	100.0
	Excluded ^a	0	.0
	Total	115	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.880	15

**DEPARTMENT OF ACCOUNTING
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF BENIN
BENIN CITY**

QUESTIONNAIRE:

**IMPACT OF TAXATION ON PERFORMANCE IN SMALL SCALE
ENTERPRISE**

Dear Respondent,

I am a student of the above named university and I am conducting a research on the “Impact of Taxation on Performance in Small Scale Enterprise. Please kindly assist me and respond appropriately to the items on the questionnaire below so as to enable me complete my study.

Note: The research is for academic purpose only, and any information given by you will be treated confidentially.

Please respond correctly to the items, as your cooperation will be highly appreciated.

SECTION A: DEMOGRAPHIC DATA

Kindly tick (√) the appropriate box that suits your responses to the below items.

1. **Gender:** Male () Female ()
2. **Age:** 25-35yrs () 36-45yrs () 46-55yrs () 55 and above ()
3. **Business Experience:** 1-5yrs () 6-10yrs () 11-15yrs () 16-20yrs () 21yrs & above ()

4. **Educational Qualification:** O/Level/OND () HND/B.Sc. () Masters () PhD ()

SECTION B: RESEARCH VARIABLES

Instructions: Kindly tick (√) the appropriate box that suits your best response to the statements below.

Keys: SA – Strongly Agree; A – Agree; U – Undecided D – Disagree; SD – Strongly Disagree

S/N	ITEMS	RESPONSES				
RQ1	How does a tax policy affect small scale enterprise performance?	SA	A	U	D	SD
16.	Unfavorable tax policies enhance the profitability of small-scale enterprises					
2.	Unlear and inconsistent tax policies affect business planning and operations.					
3.	Frequent changes in tax policies negatively impact business stability					
4.	Tax holidays and exemptions boost small business profitability					
5.	Poor tax administration leads to financial difficulties for small businesses					
RQ2	What is the effect of tax rates on small scale enterprise performance?	SA	A	U	D	SD
6.	High tax rates reduce the capital available for business expansion.					
7.	Small businesses with higher tax burdens experience slow growth.					
8.	The tax rate structure affects pricing strategies in small businesses.					
9.	Progressive tax rates are more beneficial to small businesses than flat rates					
10.	Small businesses struggle to meet tax obligations due to high tax rates.					

RQ3	What is the effect of multiple taxation on small scale enterprise performance?	SA	A	U	D	SD
11.	Multiple taxation increases the operational costs of small businesses					
12.	Multiple taxation discourages business registration and formalization					
13.	Multiple taxation discourages new business start-ups					
14.	Multiple taxation leads to informal business operations.					
15.	The presence of multiple tax agencies confuses small business owners					