



Impact of Multiple Taxations on Lagos Entrepreneurs and It's Economic Challenges

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ABSTRACT

Taxes are essential for national development as it constitutes the primary source of revenue to the government. However, taxes, especially in Lagos state is becoming a major reason for business collapse. This is so because there is proliferation of illegal taxes being imposed on individual business owners by some 'unknown bodies' who come under the guise of community levy, union levy, sanitation levy, security levy among others and compelling owners to pay one levy or the other; and when refused, suffer loss of their products, and most times brutally beaten. This study investigated the impact of multiple taxations on entrepreneurs in Lagos state. Descriptive survey research designed was adopted and the study was carried out in Lagos Island. Questionnaire was adopted for data collection and sample of 280 entrepreneurs of SMEs were studied. Data derived was descriptively analyzed using means and percentages, while chi-square was used to test the hypothesis formulated. The result of this study indicated that multiple taxations do have significant negative impacts on entrepreneurs in Lagos state. Based on this conclusion the study made several recommendations, all geared towards eradicating multiple taxations..

Keywords: Multiple taxations, entrepreneurs, SMEs, Lagos.

1 INTRODUCTION

Nigeria is a country that burdens businesses with numerous levies and taxes, which invariably increases the cost of doing business in the country (Iliya, 2017). The philosophy behind government imposing taxes on businesses is for the stimulation of economic growth in various sectors. It is also a source of finance to government and ensuring the fulfillment of various economy policies and promotion of economic welfare through the creation of a conducive business environment (Faloyin, 2015). In every nation, entrepreneurship through SMEs have been identified as vital to economic growth as it is responsible for 90% of job creation. Omah (2016) observed taxation to be a tool used in encouraging the business growth of entrepreneurs. In countries like United Kingdom, Japan, China and USA, private business growth is enhanced as a result of low tax rates and tax holidays for new businesses (Momoh, 2017).

In the hands of the government, taxation is a powerful tool that can trigger private investment and enhance employment creation. However, small businesses have been reported to have a high mortality rate before their fifth year of existence in business. This high mortality rate can be attributed to several factors, with tax related issues from multiple taxations topping the list. Multiple taxations defined as compulsory fee without legal endorsement usually collected by local and state government without legal backing (Ilemona, Nwite & Oyedokun, 2019). Adum (2018) referred to multiple taxes as a situation in which an individual or company's profit is taxed multiple times (Ilemona, Nwite & Oyedokun, 2019). Decree 28 of 1998 classified the various taxes that should be collected by the government at all levels; federal, state and local. On July 12th, 2010, an approval was made by the Lagos State Government regarding levies for Local Government Area and Local Council Development Area. As commendable as this law is, it fails to address the problem of multiple tax in the state. Despite the formal recognition and appointment of tax consultants for the administration of tax in Lagos state, there exist some tax consultants who intimidate small business owners in the process of carrying out their duties. Given this issue of multiple taxation on entrepreneurs in Lagos state, which is made worse by administrative burden that compels compliance with the payment of these taxes which results into products being priced higher and even death of some businesses (Adeniyi, Osaze & Imade, 2019).

Statement of research problem

Entrepreneurs through small and medium scale businesses are considered significant to economy growth; however they are challenged by issues of multiple taxation which is a factor that is contributory to their high mortality rate. Governments use income accrued from taxation of businesses to provide basic infrastructure necessary to the smooth operation of businesses which rely on these infrastructure for their survival. However, in taxing entrepreneurs, it should be levied in such a way that their income and survival is considered and enables their business expansion (Ocheni&Gemade, 2015). Taxation of private businesses in Nigeria appears to be challenging, given that most of the imposed taxes are duplicated under different names usually without legal backing. The result of this is the high price of conducting or operating a business in Lagos state (Iliya, 2017). Based on the foregoing, this study investigates the impact of multiple taxations on Lagos entrepreneurs.

Research objective

Generally, the study seeks to investigate the impact of multiple taxations on Lagos entrepreneurs, while it specifically;

1. Ascertain the impact of multiple taxations on entrepreneurs' survival in Lagos State.
2. Determinesthe extent to which the ability of an entrepreneur to pay tax affects their survival.
3. To ascertain the effect of multiple tax burden on business performance of entrepreneurs in Lagos state

Research question

1. What is the impact of multiple taxations on entrepreneurs' survival in Lagos State?
2. To what extent does the ability of an entrepreneur to pay tax affects their survival?
3. What is the effect of multiple tax burdens on business performance of entrepreneurs in Lagos state?

Research hypothesis

H0: There is no significant impact of multiple taxations on Lagos entrepreneurs.

H1: There is significant impact of multiple taxations on Lagos entrepreneurs.

Literature review

The socio economic sector of the country is greatly improved by the contribution of SMEs through provision of employment, innovation and creation of wealth (Faloyin, 2015). It is important that entrepreneurship be encouraged as they have been a major driver of growth but it is unfortunate to note that most businesses do not thrive after the first few years of establishment as a huge portion of their earnings is taken up by illegal taxes amongst other challenges (Kaigama, 2016). These taxes are forced on businesses and the methods of collecting them are unorthodox such as forcefully closing the shops of business owners, mounting roadblocks, handling entrepreneurs and their employees unpleasantly if they fail to pay up (Ilemona, Nwite, &Oyedokun, 2019).

Taxation can be referred to as an obligatory payment of money from institutions or groups, private individuals to the government. These taxes hence are a percentage of the produce of land and labour of a country placed at the disposal of the government (Cross, 2019). Multiple taxations according to Adum (2018) can be defined as a case where a corporate body's or an individual's wealth or profit is taxed more than once. Abiola (2016) also referred to multiple taxation as a situation where two or more taxes is imposed on the same base by the same level of government.

In Lagos state, the phenomenon of small business not surviving past the first three years persists as touts force business owners to part with some amount of money for ridiculous charges and permits. The cost of renting a shop is quite high and some entrepreneurs and business owners are forced to make use of make shift shops where they are at the mercy of these touts (Anudu, 2019). Some do not even know what the levies they pay are meant for. With time, these businesses crumble and the owners are forced to find other means of survival. The issue of multiple taxations has ruined business operations for businesses as those who record losses still have to pay taxes from their turnover. This system of taxation depletes investment returns, crumbles listed firms' capital base and consequently triggers collapse of business (Oji, 2019).

Empirical studies

Ilemona, Nwite, &Oyedokun (2019) carried out a study to examine the effects of multiple taxation on the growth of Small and Medium Enterprises (SMEs) in Lokoja, Kogi state, Nigeria and the extent to which these taxes affect operations. Data were collected through questionnaires from a study sample of 131 respondents comprising staff and owners of SMEs. Results from the analysis revealed that the growth

of SMEs in Nigeria have been negatively affected by multiple taxes and that business operators are unwilling to expand or venture into new enterprises for fear of multiple taxes taking up most of their earnings.

Another study by Cross (2019) examined the effects of Multiple Taxation on Small and Medium Enterprises in Nigeria with a focus on finding the changes in their operations that result from multiple taxes being imposed on them. Data were collected through the use of structured questionnaires and studied with descriptive statistics. Results showed that 95% of the economy is made up of small and medium enterprises that generate employment are innovative, competitive and economically dynamic in developing the Nigerian economy.

Similarly, Agu, Onwuka and Aruomah (2019) assessed the effect of taxation on the performance of SMEs in Aba, Abia State. Questionnaires used to collect data from a sample size comprising 162 employees and 40 business owners were analyzed using multiple regression analysis and one sample t-test. Results showed a significant relationship between taxation and SME performance. Also, performance was substantially influenced by tax assessment, collection and utilization.

Theoretical framework: Ability-To-Pay principle

The ability-to-pay principle of taxation was proposed by Adam Smith, an economist and philosopher in 1776, and states that taxes should be charged according to a taxpayer's ability to pay. Under this principle, the benchmark for tax equity (equality before the law) is, thus, the ability to pay (Koritnik&Podlipnik, 2017). The idea is that individuals, businesses, and companies with higher revenues can and ought to pay more in taxes and should make the same sacrifice in paying taxes. Again, this is so because the people with more money can effectively pay more tax without feeling burdened (Kagan, 2020). This principle ensures impartial taxation in modern tax systems.

Methodology

The study adopted a descriptive survey research, which focused on entrepreneurs in Lagos state. Lagos Island was chosen as the place of study given the fact that people from all careers and walks of life can be found in Lagos Island. Using a random sampling method, 280 entrepreneurs were selected for the study and questionnaires administered to them. The questionnaires were structured using a four point likert scale format. The data derived was descriptively analyzed using means and percentages.

Data Analysis

Demographic data

Table 1: Data presentation of respondents' demographic Characteristics

GenderN=269	Number	Percentage (%)
Male	187	69.7
Female	82	30.3
Highest educational qualification		
Diploma/ OND/NCE	45	16.7
B.Sc./ HND HND/Bsc/BA/Bed	180	66.9
M. Sc./MBA/ME.D	34	12.6
Others	10	3.7
Occupation		
Civil servant	30	11.2
Private worker	127	47.2
Artisan	29	10.8
Self-employed	83	30.8

Source: Researcher's Field Survey Result, 2021

The table above shows that majority of male (69.7) took part in the study more than female (30.3%). Of this population, majority had B.Sc./ HND HND/BSc/BA/Bed when compared with other educational qualifications indicated in the Table. Finally, the occupations of the participants were indicated. The result indicated that participants of the respondents cut across different occupation including private sector, civil servants, artisan, and Self-employed.

RQ1: What is the impact of multiple taxations on entrepreneurs' survival in Lagos State?

Variables	Responses	Mean	Std. Error	95% Confidence Interval	
				Lower Bound	Upper Bound
Due to multiples taxes entrepreneurs have not been able to expand their businesses	Strong Agree	45.210	3.096	39.141	51.280
	Agree	35.357	3.096	29.287	41.427
	Disagree	9.746	3.069	3.676	15.815
	Strongly disagree	10.684	3.096	4.615	16.754
Multiple taxes imposed on entrepreneurs is one of the major factors responsible for low profit and low expansionary rate of SMEs	Strong Agree	34.448	3.116	28.340	40.556
	Agree	47.989	3.116	41.881	54.096
	Disagree	8.274	3.116	2.166	14.381
	Strongly disagree	8.795	3.116	2.687	14.903
Multiple taxes imposed by government authorities on entrepreneurs is a key factor responsible for unwillingness to establish business or expand existing ones	Strong Agree	40.136	3.178	33.906	46.366
	Agree	37.521	3.178	31.291	43.751
	Disagree	11.325	3.178	5.095	17.555
	Strongly disagree	9.290	3.178	3.060	15.520
Multiple taxes imposed on entrepreneurs influences them to morph into forms that offer a lower tax burden or no tax burden at all	Strong Agree	45.533	3.132	39.393	51.673
	Agree	34.323	3.132	28.183	40.463
	Disagree	12.669	3.132	6.529	18.809
	Strongly disagree	6.565	3.132	.425	12.705

Field survey 2021

The table above shows the mean scores and standard deviations of the respondent's opinion on the relationship between multiple taxations and entrepreneurs' survival in Lagos State. Going by the result on the Table, the highest means for all the items in the table are from strong agree and agree. This shows that majority of the respondents are in agreement to the statements mentioned on the table above to determine the relationships. This shows that multiples taxes prevent entrepreneurs from expanding their businesses; causes low profit and low expansionary rate of SMEs; is the key factor responsible for unwillingness to establish business or expand existing ones; and influences them entrepreneurs to morph into forms that offer a lower tax burden or no tax burden at all. This implies that multiple taxations have negative effects on entrepreneurs' survival in Lagos State.

RQ2: To what extent does the ability of an entrepreneur to pay tax affects their survival?

Variables	Responses	Mean	Std. Error	95% Confidence Interval	
				Lower Bound	Upper Bound
Low rate of expansion and profit contraction due to multiple taxes on entrepreneur	Strongly Agree	46.662	3.502	39.796	53.528
	Agree	33.781	3.502	26.915	40.646
	Disagree	8.698	3.502	1.832	15.564
	Strongly disagree	11.357	3.502	4.491	18.223
It place firms at a distinct disadvantage compared to competitors in the international market.	Strongly Agree	45.210	3.096	39.141	51.280
	Agree	35.357	3.096	29.287	41.427
	Disagree	9.746	3.096	3.676	15.815
	Strongly disagree	10.684	3.096	4.615	16.754

It depletes returns on investment, erodes the capital base of listed firms, and subsequently trigger businesses collapse	Strongly Agree	38.956	3.846	31.417	46.495
	Agree	44.337	3.846	36.798	51.876
	Disagree	9.233	3.846	1.694	16.772
	Strongly disagree	7.068	3.856	-491	14.627
It undermines efforts by capital market regulators to woo more companies to list their shares in the market, a move that will make investors have access to many investment opportunities and deepen the market.	Strongly Agree	42.137	4.100	34.100	50.174
	Agree	51.527	4.100	43.490	59.565
	Disagree	12.365	4.100	4.328	20.402
	Strongly disagree	14.168	4.212	5.910	22.427

Field survey 2021

Table 3 above shows the respondents views on the extent to which the ability of an entrepreneur to pay tax affects their survival. The result in the table indicates high means on strongly agree as well as agree. Which shows that majority of the respondents are in support of the items in the table. This implies that, the respondents shared that multiple taxations leads to low rate of expansion and profit contraction; It places firms at a distinct disadvantage compared to competitors in the international market; It depletes returns on investment, erodes the capital base of listed firms, and subsequently trigger businesses collapse; and undermines efforts by capital market regulators to woo more companies to list their shares in the market, a move that will make investors have access to many investment opportunities and deepen the market. The result of this study further justifies that high taxation have negative impact in businesses in Lagos to a large extent.

RQ3: What is the effect of multiple tax burdens on business performance of entrepreneurs in Lagos state?

Variables	Responses	Mean	Std. Error	95% Confidence Interval	
				Lower Bound	Upper Bound
Multiple taxes and the unfriendly collection method by authorities negatively affect intercity commerce and expansion of business	Strongly Agree	45.210	45.210	45.210	45.210
	Agree	35.357	35.357	35.357	35.357
	Disagree	10.684	3.096	4.615	16.754
	Strongly disagree	9.746	3.096	3.676	15.815
Multiple taxes causes slow business activity	Strongly Agree	34.448	3.116	28.340	40.556
	Agree	47.989	3.116	41.881	54.096
	Disagree	8.274	3.116	2.166	14.381
	Strongly disagree	8.795	3.116	2.687	14.903
Multiple taxes discourages both potential and existing entrepreneurs to either venture or expand existing business	Strongly Agree	38.956	3.846	31.417	46.495
	Agree	44.337	3.846	36.798	51.876
	Disagree	9.233	3.846	1.694	16.772
	Strongly disagree	7.068	3.856	-491	14.627
Multiple taxes on entrepreneurs causes a realignment of consumers' wants and the reallocation of factors of production, which affects the demand for goods and services of the products of small-scale enterprises	Strongly Agree	33.781	3.502	26.915	40.646
	Agree	46.662	3.502	39.796	53.528
	Disagree	11.357	3.502	4.491	18.223
	Strongly disagree	9.746	3.096	3.676	15.815

Field survey, 2021

Table 4 above presents the respondents' opinions on the effect of multiple tax burdens on business performance of entrepreneurs in Lagos state. As indicated in the table above, with the highest means on strongly agree and agree, the result indicates that multiple taxes and the unfriendly collection method by authorities negatively affect intercity commerce and expansion of business; it causes slow business activity; it discourages both potential and existing entrepreneurs to either venture or expand existing business; it causes a realignment of consumers' wants and the reallocation of factors of production, which affects the demand for goods and services of the products of small-scale enterprises.

Test of Hypothesis

H0: There is no significant impact of multiple taxations on Lagos entrepreneurs.

H1: There is significant impact of multiple taxations on Lagos entrepreneurs.

Table 4: Results of X² Test for the hypothesis

Chi-Square Tests	Value	Df	Asymptotic significance (2-sided)
Pearson Chi-Square	3.756 ^a	1	.001
Likelihood Ratio	3.432	2	.001
Linear-by-linear association	1.416	3	.004
N of Valid cases	100		

0 cells (0.0%) have expected count less than 5.

The minimum expected count is 20.0

The p-value is less than the chosen significance level ($\alpha = 0.05$); as a result, we reject the null hypothesis which states that there is no significant impact of multiple taxations on Lagos entrepreneurs. In favour of the alternative hypothesis. This implies that there is a significant impact between multiple taxations and Lagos entrepreneurs.

Discussions

Going by the result above, the result has proven that multiple taxations have significant impact on entrepreneurs in Lagos. The impact is negative as it affects profitability. Multiple taxations occur when individual is compelled to pay two or more taxes on the same product by the same level of government. It is common in Lagos and other places in Nigeria. Some charges are even illegal. In Lagos state, for instance, transport drivers pay all sorts of 'tax' on the road with little or no evidence of payment; almost all the bus tops have one fee to collect or another. Other small scale businesses are not exempted. Today, the phenomenon of small business not surviving past the first three years persists as touts force business owners to part with some amount of money for ridiculous charges and permits. The cost of renting a shop is quite high and some entrepreneurs and business owners are forced to make use of make shift shops where they are at the mercy of these touts (Anudu, 2019). In fact, because of multiple taxations, some of the individual paying has no idea which of the taxes they are paying forcing them into spending more than the profits they make. The result of this study clearly indicates that multiple taxation have significant and negative impacts on the business as it leads to losses on the part of the payees. This result confirmed the findings by Oji (2019) whose study indicates that multiple taxations deplete investment on returns, crumbles listed firms' capital base and consequently triggers collapse of business. In same vein, the study confirms that carried out by Ilemona, Nwite, and Oyedokun (2019), Cross (2019) and Agu, Onwuka and Aruomah (2019) respectively whose studies also revealed significant negative effect of taxations on entrepreneurs in Lagos state.

Conclusions and recommendations

It is true that taxes are one of the avenue of which government generates revenue; however, when abused, it becomes dangerous to payee. This is the case when individual entrepreneurs are compelled to pay multiple tasks from one single business. Paying tax once is already eating deep into the profits of SMEs entrepreneurs, and the situation becomes worse when the same tax is paid multiple times under different disguised name. This compulsory fee without legal backing affects the profit and overall return on investment make by these small business owners. This negatively impacts the sustainability of SMEs making most of them to rarely survive the first three years of their establishment. On the premise of this result, this study recommends that multiple taxations should be completely eradicated in Lagos state. Secondly, given that these taxes are collected without any legal evidence, the masses should be enlightened not to give any money to group of individuals without clear evidence that identified them as government agents. Given that the tax collectors are always violent and attack payees at any point, and in the process destroys their products, this study recommends that task forces be organized to protect the markets and SMEs entrepreneur against touts and 'so called unlabeled government agents' who are responsible in collecting multiple taxes on the people. Agents found collecting illegal taxes should be prosecuted and severely punished to serves as deterrent to others who also engages into such practices. Tax holidays should be given to newly formed SMEs to encourage them and help them to remain sustainable. Finally, the study recommends that government should enact policies and laws that will control and prevent illegal taxes, such as security levy, youth levy community levy, union levy, etc.

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IMPACT OF MULTIPLE TAXATIONS ON LAGOS ENTREPRENEURS**REQUEST FOR INFORMATION**

Dear Respondent,

I am carrying out a study on “Impact of Multiple taxations on Lagos entrepreneurs” and you have been chosen to be part of the study. This questionnaire is only for academic purposes. Kindly select the response which applies to you and all information will be kept confidential

SECTION A:

Gender: Male () Female ()

Education qualification

- a) OND/NCE ()
 b) B.Sc/ HND ()
 c) M. Sc./MBA ()
 d) Others () Specify.....

Occupation

- a) Civil servant ()
 b) Private worker ()
 c) Artisan ()
 d) Self employed ()
 e) Other () Specify

SECTION B:

Instructions: Please tick (√) as appropriate where

SA = Strongly Agree (SA), A = Agree, D = Disagree (D), SD = Strongly Disagree (SD)

Key: Strongly agree (4), Agree (3), Disagree (2), and strongly disagree (1).

S/N	ITEMS	SA	A	D	SD
RQ1	What is the relationship between multiple taxations and entrepreneurs' survival in Lagos State?				
1	Due to multiples taxes entrepreneurs have not been able to expand their businesses				
2	Multiple taxes imposed on entrepreneurs is one of the major factors responsible for low profit and low expansionary rate of SMEs				
3	Multiple taxes imposed by government authorities on entrepreneurs is a key factor responsible for unwillingness to establish business or expand existing ones				
4	Multiple taxes imposed on entrepreneurs influences them to morph into forms that offer a lower tax burden or no tax burden at all				
RQ2	To what extent does the payment of multiple tax impact on the expansion capacity of entrepreneurs?				
5	Low rate of expansion and profit contraction due to multiple taxes				
6	It place firms at a distinct disadvantage compared to competitors in the international market.				
7	It depletes returns on investment, erodes the capital base of listed firms, and subsequently trigger businesses collapse				
8	It undermines efforts by capital market regulators to woo more companies to list their shares in the market, a move that will make investors have access to many investment opportunities and deepen the market.				
RQ3	What is the effect of multiple tax burdens on business performance of entrepreneurs in Lagos state?				
9	Multiple taxes and the unfriendly collection method by authorities negatively affect intercity commerce and expansion of business				
10	Multiple taxes causes slow business activity				
11	Multiple taxes discourages both potential and existing entrepreneurs to either venture or expand existing business				
12	Multiple taxes on entrepreneurs causes a realignment of consumers' wants and the reallocation of factors of production, which affects the demand for goods and services of the products of small-scale enterprises				