

# PDF - IMPACT OF TAXATION ON SMALL AND MEDIUM SCALE BUSINESSES IN NIGERIA -

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the study**

Taxation increases incentives for public participation in the political process and creates pressure for more accountability, better governance, and improved efficiency of government spending. Taxation also creates incentives for governments to upgrade their institutions for tax collection and administration and to provide more public services (Moore, 2007).

Taxes have existed virtually as long as there have been organized governments. The first tax law legislation was introduced in 1919 and ever since then taxes have evolved through a number of reforms. The government in an attempt to widen the tax base and collect more revenue has had to levy several taxes especially on business enterprises in Nigeria which constitute a large part of the formal sector. The taxes charged on business enterprises in Nigeria include; corporation tax, value added tax, presumption tax and exercise duty. In 1997 the Income Tax Act was made. This was to give guidance in assessment and computation of taxes (Campsy, 1997). The Nigerian government has made some recommendable efforts to promote development through taxation since the inception of the current taxation laws for purposes of promoting development. The main objective of taxation in Nigeria has always been to mobilise resources needed to meet the aspiration of government. This is because for any government to be effective, strong, competent and capable of spearheading development, resources have to be readily available in its treasury so as to be in position to provide goods and services to the people adequately. The Nigerian government has always had to ensure proper resource mobilization (Musa, 1992).

According to Manasseh (2000), a tax is generally referred to as a compulsory levy imposed by government upon various categories of assets and taxation is a compulsory and non refundable contribution imposed by government for public purposes. In Nigeria a considerable fraction of the businesses are sole traders operating small scale business, locally owned and managed by individuals or families and often with very few employees working at a single location (Nigeria development bank report, 1988). Taxation in Nigeria is based on system that existed in Britain as it was a British colony. This also applied to other colonies elsewhere and for East Africa, one tax system operated under British administration. This process began in 1900 with the hut tax regulation which imposed a standard charge for every hut/dwelling.

During that period, taxation was aimed at raising revenue for the administrative structure imposed by the

colonial government but also as a means of encouraging monetary/economic activities. It was the Local Authority Ordinance of 1991 that governed the collection of taxes. In September 1991, after a period of review the Rural Revenue Authority (URA) was established. All taxes including income tax came under the umbrella of the URA. From 1992, URA has been organizing and strengthening the administrative procedures and in 1993 this process assisted by a grant from the British government of approximately US\$ 10million.

At least 50 small scale business enterprises were selected in Ilorin, almost all of them employ 2-4 people. These small scale businesses are locally owned and managed by private individuals who sometimes employ their family members. These small and medium scale businesses bear a wide tax burden which has led to poor performance. Therefore, it was against this background that the researcher undertook the study to investigate more about the problem using Nigeria as a case study to evaluate the impact of taxes on small and medium scale business enterprises.

### **1.2 Statement of the problem**

Taxes are raised by the government to generate revenue used to provide services to the public such as; Health centers, telecommunication, roads, schools and electricity and this have helped to improve the performance of small and medium scale business enterprises. Despite the services provided, small and medium scale business enterprises performance in Nigeria is still poor. This could be due to the increasing tax burden brought about by tax rates which are revised annually. These rates seem to be taking an upward trend (Gordon and Dawson, 1987) which has led to winding up of some small scale business enterprises. This prompted the researcher to investigate more about the impact of taxes on small scale business enterprises.

### **1.3 Purpose of the study/Objective of the Study**

The purpose of the study was to evaluate the impact of taxes on small scale business enterprises in Nigeria. The specific objectives are:

- To assess the impact of taxation on small and medium scale business enterprises in Nigeria.

- To find out if tax payers are aware of all their tax obligations and policies.

- To find out problems affecting tax payers and their business.

### **1.4 Research questions**

- What is the effect of taxes on the performance of small scale business in Nigeria?

- Are tax payers aware of all their obligations?

- What are the problems faced by tax payers?

### **1.5 Scope of the study**

#### **1.5.1 Subject scope**

The study covered small and medium scale businesses in Nigeria. Specifically, the study investigated the performance of small scale businesses, the awareness of the tax payers regarding their obligations, problems faced by the tax payers and the relationship between the taxes paid and the performance of the small scale businesses.

#### **1.5.2 Geographical scope**

The study was carried out in Ilorin Kwara State, Nigeria. The area was purposely selected because the researcher worked within the vicinity and therefore this eased data collection.

#### **1.5.3 Time scope**

The study considered a period of four to six months. This period was selected to enable the researcher come up with coherent information from the respondents as it would enable them (Respondents) to give responses that are typical of their opinion from the observations made over this period.

### **1.6 Significance of the study**

The findings of the study are significant on the following ways;

To scholars and researchers, the findings of the study are expected to contribute to the existing literature about taxation and the effect it causes to the economy as a whole.

To the tax authority and government, the study will guide them in adjusting tax policies so that they suit requirements of small and medium scale businesses.

To future academicians especially of Nigeria University students, the study will help in gaining insight about taxes and performance of small scale business enterprises.

The accomplishment of the study will enable the researcher to acquire hands on skills about processing of research work and data analysis. This proficiency will enable the researcher to handle such related work with a lot of precision and proficiency.

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