



**RESEARCH ARTICLE** ↓

**Multiple Taxations and Survival of Micro, Small and Medium Enterprises (MSMEs) in Nigeria: A Structural Equation Modelling Approach**

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*Abstract*

This study was carried out to explain the relationship between multiple taxation and survival of micro, small and medium enterprises (MSMEs) in Nigeria. The population for this work was 200 SMEs in Enugu Nigeria. A simple random sampling technique was used to obtain responses from the selected population. The study collated 218 questionnaires to carry out this research work. The study was based on the laffer curve theory and variables were measured using Likert Scale. PLS-SEM was used to analyze the data. Findings from this research work show that there is a significant positive relationship between survival of MSMEs and multiple taxation in Nigeria. This means that any increase or change as a result of multiple taxation can affect the profitability of these companies.

**Keywords:** Multiple Taxations; Micro, Small and Medium Enterprises (MSMEs); Structural Equation Modelling Approach; Nigeria

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## Introduction

Over the years, small and medium-sized businesses have been a means of empowering Nigerian citizens and creating jobs. They account for around 50% of all jobs in Nigeria and also contribute to local capital formation. According to Adanlawo (2021), SMEs operate in different sectors of production, they are associated with all parts of industrial development, and they account for 66% of employment levels in service industry sector. However, these little businesses have an extremely high death rate. Tax-related problems, from multiple taxing to astronomical tax burdens, are among the causes of these premature close-ups. This study therefore looks at the effect of multiple taxation on MSMEs survival. Taxation apart from being the major source to finance government's responsibilities, is also a means of ensuring that certain economic policies of government such as creation of friendly environment for private business/enterprises are brought into fruition. As economic regulator, taxation is a potent tool for promoting economic welfare through creation of tax friendly economy conducive for businesses to survive and grow (Osita, 2011). However, the case of double taxation has characterized the tax collection process in MSMEs in Nigeria. The National Tax policy statement states that multiple taxation happens when the same individual is subject to more than one state or local government council's imposition of a tax, charge, or rate in connection with the same liability.

Oseni (2014) identified some of the causes of this multiple taxation as: different levels of government using threats and harassment against the payers to collect illegally mandated payments without the proper legal support. Collection of it is characterized by the use of stickers, mounting of road blocks, use of revenue agents/ consultants including motor park tout. Additionally, it describes circumstances in which a taxpaying individual is confronted with requests for the same or comparable taxes from two or more distinct levels of government. A good example is the restaurant business and bars which are taxed within 21 subheads. Multiple taxation is the levying of tax by two (2) or more jurisdictions on the same declared income (in the case of stamp duties). Multiple taxation is a situation in which the same earnings are taxed more than once (Zayol, 2018). In order to avoid multiple taxation, the government should improve on tax incentive already provided, improve infrastructure, and implement tax policies based on the ability to pay and eschew multiplicity of payment by MSMEs owners; these will eventually encourage growth and expansion of MSMEs and the economy at large (Nnam, 2022).

## Theoretical Framework

### Laffer curve theory

The study is anchored on Laffer curve theory of taxation propounded by Arthur Laffer in 1979 cited in (Okoye, 2014). The curve illustrates a theoretical relationship between rates of taxation and the resulting levels of government revenue. With emphasis on taxable income elasticity. The theory assumes that no tax revenue is raised at the extreme tax rates of 0% and 100%, government collect zero (0) revenue due to changes in behavior of tax payers in response to the tax rate either losing their incentive to do business or finding numerous ways to evade tax just like 0% tax rate where no revenue is raised. The theory further explained the two effects of taxation namely: the arithmetic and economic effects of tax rates on revenue. The two effects have opposite results on revenue in case of decrease or increase in tax rates. According to the arithmetic effect, if tax rates are lowered, tax revenue will be lowered by the amount of the decrease in the rate. That is the amount of the tax revenue is a function of income available for taxation multiplied by the tax rate. The economic effect however recognized the positive impact that lower tax rate has on work, output, employment and entrepreneurship growth.

### Empirical Review

To find out how the issue of multiple taxation has affected the performance and survival of MSMEs in Nigeria, related reviews were considered from previous researches carried out on this subject matter.

Nnam (2022) carried out research on taxation practices and the survival of small and medium-sized enterprises. The objective of the study was to examine the effect of taxation/taxing practices on the growth of SMEs with a specific focus on whether 'multiple payment obligations placed on SMEs have significant implications on their profitability, investment decisions, and cash flows. The study adopted survey research design. The chi-square and regression analysis were used in testing hypotheses. The results show that tax practices significantly affect SMEs profitability and investment decision.

Obiaso (2021) analyzed the impact of high taxes on the performance of small and medium scale businesses in Anambra state. The study made use of descriptive survey and the area of study was Anambra state. The study's target audience consisted of the 21 senior managers who were selected from Anambra's three senatorial districts. Multiple regression analysis was used to evaluate the hypotheses after descriptive analysis of the research topics (MRA). According to the study, Anambra state's small and medium-sized firms benefit from high taxation.

Ilemona (2019) conducted study on the impact of different taxes on the expansion of Nigeria's small and medium-sized businesses. Responses on a five-point Likert scale questionnaire were used to collect data for the study. They were administered to staff and owners of SMEs in Lokoja Kogi State. Using non-parametric statistics like mean score, standard deviation, and z-test, the replies were empirically examined. The findings imply that multiple taxes have hampered the expansion of SMEs in Nigeria as many of their owners reported a reluctance to start new businesses or grow current ones out of concern for the many taxes that continue to eat up a substantial amount of their profits.

Zayol (2018) conducted research on the effect of multiple taxation on financial performance of small and medium enterprises in Benue state. The population of the study adopted using Taro Yamane formula at a 5% error margin. The study adopted a survey design via questionnaire. Multiple regression was used for analyzing the study. According to the study, SMEs' financial performance is significantly impacted by the duplication of market taxes, development levies, and business premises registration fees, which also negatively impacts their profitability.

### **Methodology**

The focus of the study is on multiple tax and survival micro, small and medium scale enterprise (MSMEs) in Nigeria, specifically in Enugu state. We chose 200 SMEs for this study using purposive sampling. Purposive sampling is used to elicit professional judgment (MSMEs operatives) on how government multiple tax policies affect their individual businesses. The state of Enugu was primarily chosen because of the proximity of the study area to the researcher.

The sample for this study is a relatively large group of people in micro, small and medium scale enterprise firm in Enugu state. A simple random sampling technique is used to obtain a response from the selected population in which each respondent has an equal chance of being chosen. This study collected 218 questionnaires to investigate multiple tax and survival of micro, small and medium enterprise in Enugu state. Consent forms were given to them after the study had been carefully explained to them in their most proficient language. The participation was voluntary and was not enforced. To test the hypotheses, 200 data were utilized after screening and structural equation modeling applied for the analysis.

### **Measures**

The variables for this study were measured using a Likert scale. All items were scored with a five-point Likert scale, ranging from (1) strongly agree to (5) strongly disagree. This construct reflects multiple tax and survival of small and medium scale enterprise in Enugu state, Nigeria.

### **Data Analyses and Hypotheses Results**

Table 1 shows the demographic distribution of the respondents for gender, marital status, age, education level and working experience in the business.

**Table 1: Demographic Profile of the Respondents (n = 200)**

<b>Characteristics</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	146	73%
Female	54	27%
<b>Marital Status</b>		
Single	94	49%
Married	106	51%
<b>Age (Years)</b>		
20 -29 years old	65	32%
30-39 years old	87	44%
40-49 years old	33	17%
50-59 years old	15	7%
60 years and above	00	0
<b>Academic Qualification</b>		
B.sc/HND	57	29%
Masters	42	21%
PhD	33	17%
Others	68	34%
<b>Experience</b>		
< 1-2 year	81	40%
3-5 years	58	29%
6-10 years	40	20%
Above 10 years	21	11%

As shown in Table 1, for gender, 73% of the respondents are male, and 27% are female. Majority of the respondents are married, which is 51% and single are 49%. In terms of age group, highest age group consists of "30 to 39years" which is 44% followed by "20 to 29 years" which is 32%, "40 to 49 years" 17%, "50 to 59 years" 7% and 60 years and above is 0%. For academic qualification, majority of the respondents are others and bachelor's degree holder, which are 34% and 29% respectively, while master's and PhD recorded the least response with 21% and 17% respectively. While looking into the job experience of the respondents, most of them have experiences of <1 to 2 years, followed by 3 to 5 years is 29%, 6-10 years is 20% and more than 11 years is 16%.

### Study Results

The researchers used PLS-SEM to analyze the data in order to assess multiple taxation and the survival of MSMEs in Nigeria, Enugu state, Nigeria. We report results with p.01 and p.001 levels of significance.

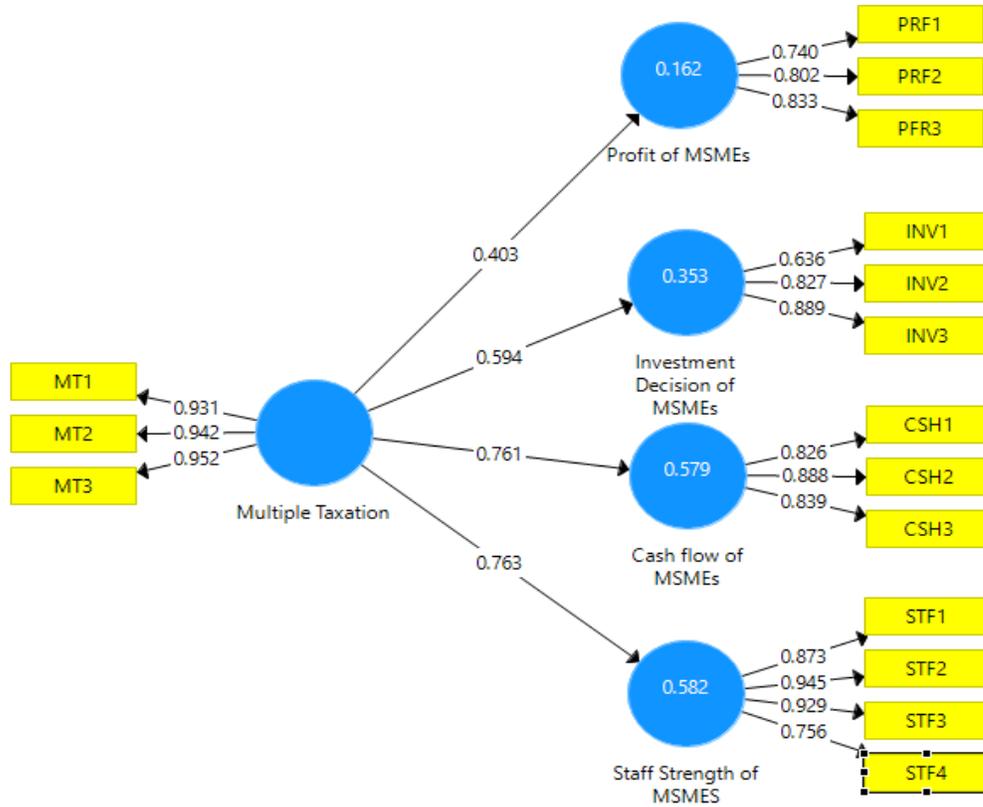
**Table 2: Construct Validity and Reliability**

	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
<b>Cash flow of MSMEs</b>	0.814	0.834	0.888	0.725
<b>Investment decision of MSMEs</b>	0.700	0.720	0.831	0.626
<b>Multiple Taxation of SMMEs</b>	0.936	0.941	0.959	0.886
<b>Profit of MSMEs</b>	0.711	0.733	0.835	0.628
<b>Staff Strength of MSMEs</b>	0.899	0.912	0.931	0.772

Numerous important measures were used to develop the study variable, including construct validity, reliability, and content validity. Different operational were examined for content validity by studying available studies and measurement that contains multiple items. Both the confirmatory and exploratory analyses confirm the variables' factorability. Individual item factor loading is depicted in Figure 1. All of the items in the model exceeded the recommended loading of 0.70. Table 2 shows that none of the constructs have a Cronbach alpha less than 0.70. Furthermore, the composite reliability was higher than the acceptable level. The average variance extracted was

also checked to ensure convergent validity, and all variables exceeded the recommended value of 0.50. As a result, all of the variables confirm the content's validity and reliability.

**The Relationship between Multiple Taxation and survival of MSMEs in Nigeria, Enugu State.**



**Fig 1: Measurement model**

Figure 1 depicts individual item factor loading and confirms the confirmatory factor analysis. Heterotrait and Monotrait (HTMT) analysis was used to assess the discriminant validity of the five variables used in the study

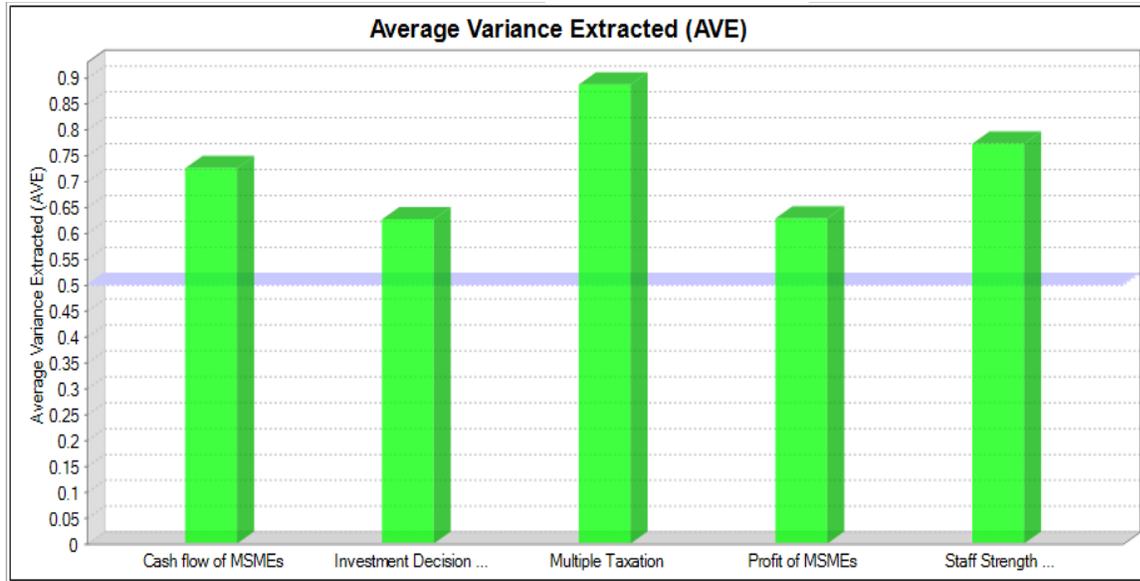


Fig 2: Represents the graph of AVE

The diagram of average variance extracted for each latent variable used in Fig 2 shows that all of the AVEs exceeded the required 0.50, which is the standard. As a result, the latent variable is well specified.

Table 3: Discriminant Validity (HTMT)

	Cash flow of MSMEs	Investment decision of MSMEs	Multiple Taxation of MSMEs	Profit of MSMEs	Staff Strength of MSMEs
<i>Cash flow of MSMEs</i>	0.851				
<i>Investment decision of MSMEs</i>	0.831	0.791			
<i>Multiple Taxation of MSMEs</i>	0.761	0.594	<b>0.941</b>		
<i>Profit of MSMEs</i>	0.526	0.600	0.403	0.793	
<i>Staff Strength of MSMEs</i>	0.840	0.641	0.763	0.390	0.879

Result of confirmatory factor analysis shown in table 3 supports the pragmatic verification of the distinctiveness of most of the variables. It is important to state that the values in bold in the above table indicated discriminant validity problems according to HTMT<sub>0.85</sub> criterion. This implies that the HTMT criterion detects collinearity problem among latent constructs. The construct of **multiple taxation of MSMEs – multiple taxation of MSMEs** is having problems. Perhaps the majority of the items are measuring the same thing, hence it contains the overlying items from the respondent opinions in the affected construct. However, majority of the confirmed the discriminant validity for further analysis by maintaining that no correlation exceeds the limit of HTMT.

### Structural Equation Modelling

To observe the effects of predictor variables on the dependent variable in Smart-PLS, two steps are usually taken: measurement model and structural model. Some of the standards, such as construct validity and reliability, have been discussed. In addition, R square is shown in the structural modeling equation for the predictive power of predictor variables on dependent variables. The value of R<sup>2</sup> (**0.579; 0.353; 0.162 and 0.582**) indicates that multiple taxation was able to predict survival of MSMEs (Profit; investment decision; cash flow and staff strength) by 57.9%, 35.3%, 16.2% and 58.2% respectively. These percentage variation in the survival of MSMEs is caused by the multiple taxation. Additionally, for the model fit SRMR value was examined, which is **0.027** means model is a good fit

**Table 5: The Direct effect of multiple taxation on survival of MSMEs in Nigeria, Enugu state**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
<i>Multiple Taxation of MSMEs-&gt; Profit of MSMEs</i>	0.761	0.750	0.073	10.428	<b>0.000</b>
<i>Multiple Taxation of MSMEs -&gt; Investment decision of MSMEs</i>	0.594	0.614	0.059	10.136	<b>0.000</b>
<i>Multiple Taxation of MSMEs -&gt; Cash flow of MSMEs</i>	0.403	0.404	0.201	2.005	<b>0.046</b>
<i>Multiple Taxation of MSMEs -&gt; Staff strength of MSMEs</i>	0.763	0.749	0.090	8.522	<b>0.000</b>

In structural modelling, the total of four hypotheses was examined through the use of empirical data collected from the employees in selected MSMEs in Nigeria, Enugu State. All the four hypotheses were accepted. For a better presentation, Table 5 shows the p-value and t-value. There is clear evidence that we will accept all the hypothesis presented in this study such that multiple taxation is statistically significant and have a positive relationship with survival of MSMEs in Nigeria, Enugu state.

### Conclusion

In line with the findings of the study, it is important to conclude that multiple taxation has a significant adverse effect on financial performance of MSMEs in Nigeria. Data was acquired through questionnaires from 218 respondents. The findings show that multiple taxation has negative impact on MSMEs in Nigeria. The study therefore, recommends that government should revoke its tax laws and policies that are unfavorable to MSMEs in order to enhance their performance.

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