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**TAX POLICY AND INVESTMENT DECISIONS OF SMALL AND MEDIUM SCALE ENTERPRISES: EVIDENCE FROM CROSS RIVER STATE, NIGERIA.**

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**Abstract**

This study is on the Cross River State tax policy and its effect on the investment decisions of small and medium scale enterprises (SMEs) in Calabar South Local Government Area. Over the years, small and medium scale enterprises (SMEs) have been an avenue for job creation and the empowerment of Nigerian citizens, providing about 50% of all jobs in Nigeria and also for local capital formation. However, the mortality rate of these small firms is very high. Among the factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxation to enormous tax burdens. The study therefore examines the effect of tax policy on SMEs survival. The study involves a survey research design with a population of 104. The researcher derived their sample size to arrive at 75 and a self-administered questionnaire was used to collect data. This data was quantitatively analyzed with simple percentages and the research hypotheses were tested with Chi-square analysis. Findings revealed that Cross River State tax policy has significant negative effect on SMEs' investment decisions and the relationship between SMEs' size and its ability to pay taxes is significant. The research therefore, recommends that government should come up with uniform tax policies that will favour the development of SMEs in Nigeria and government should put into consideration the sizes of SMEs when formulating tax policies.

**Keywords:** Cross River State Tax Policy, Investment Decisions, Small and Medium Scale Enterprises and Tax Rate.

**1. BACKGROUND TO THE STUDY**

The development of small scale business enterprises is greatly affected by the level of taxation, its administration and compliance; The higher the task risk of the greater the efforts to fulfill taxation requirement as well as to check how those requirements are met, the lower the initiatives for small scale businesses to work hard. Thus, maintaining the tricky balance between tax rate, compliance cost, tax administration and economic growth should be a major goal of every tax policy. The relationship between taxation and the level of growth of small scale enterprises has been a debatable issue over the years. The perceived relationship can be either positive or negative depending on the type of tax policy adopted by the government. However, it is generally agreed that high task rate can lead to decrease in business activities since it dampens the incentives to invest while low tax rate, on the other hand, tends to increase growth of business activities as profits are increased which lead to further investment as well as expansion of business. A high marginal tax rate lowers an investor's willingness to invest by lowering the returns on his investment (Palacio and Harischandra, 2008). In the same vein, a reduced amount

of business activities has a number of negative consequences including decreased productivity of workers and reduced output, employment and ultimately, living standard of the people.

The flow of investment expenditure at any time depends on the comparisons operators do between the potential benefit and the cost of making that investment (Ndebbio, 2007). Tax on the other hand is more of less and appropriation of the realized benefits of investors or business operators. The consequence of this appropriation is a reduction in business profit (Bassey, 2005). Business operators operating at any point in the time are usually guided by their propensity to maximize the contribution to value creation (Ndebbio, 2007). To this effect, business are not always made where they obtain the highest pre-tax return, rather, they are interested in operating where they obtain the highest post-tax return which is the income they take home or retain (Cappelea, 2001). Small scale business or enterprise is of crucial importance in a developing economy as it helps to bridge and reduce unemployment gap in such economy. Small scale enterprise is vital to the economic growth of Cross River State as it constitutes nearly 90% of the state's economy. The government of Cross River State in an attempt to widen the tax base and collect more revenues has had to levy several taxes especially on business enterprises in the state and this has resulted to a slow pace of the growth of small scale enterprises as high tax rate has a major adverse effect on business decision making through covering the profit of a firm thereby reducing the amount of after tax profit meant for re-investment and expansion. Thus, it is a greater worthiness that the researcher is studying the impact of taxation on small scale enterprises in Calabar South Local Government Area of Cross River State.

### **1.1 STATEMENT OF THE PROBLEM**

Tax is a compulsory levy imposed by government on the citizens income and consumption, tax policy is an important factor that constitutes the SMES economic environment, a good tax policy positively influence investment in SMES such that the imposed levy on the SMES should be moderate relative to the benefits realized from the public programs in support of business and infrastructure to aid SMES survival, thereby encouraging the decision to invest in SMES and create jobs for the teaming youths of in Calabar South LGA. However, it is evidently clear that from year 2010 to the present 2019 SMES mostly in the transport sector, restaurant and fast food business, barbing and hair dressing saloon, stores and supermarkets. etc., have experienced a consistent diminishing trend, with the death toll rising to about 225 SMES, thereby discouraging further investment, notable example is the fold up of the popular Mr. BIGGS. This therefore suggests that investment decision has drastically dropped in line with the result of Agbor (2013) which shows that multiple and high rate of tax have impinged negatively on the stability of businesses in Calabar South and therefore recommends the amendment of the fourth schedule to the 1999 constitution to prune it of excess items which the local government uses to perpetrate multiple and excessive taxation. Arroyo (2005) opined that the mortality rate of small businesses has been on the increase. Consequently, the decreasing trend in the number of SMES in Calabar South LGA have left about four hundred inhabitants jobless, bringing about increasing cases of arm robbery, cultism, area boys, kidnapping, drug abuse. Etc. As we go further in these research we shall unravel the puzzle "To what extent has tax policy influenced investment decision"? As we seek to examine Cross River state tax policy and its effect on the investment decision of small and medium scale enterprises in Calabar South LGA.

## **1.2 OBJECTIVES OF THE STUDY**

The main objective of this research is to investigate the effect of Cross River State tax policy on the investment decisions of small and medium scale enterprises in Calabar South LGA.

. The specific objectives of this study include:

1.2.1 To investigate how multiple taxation affect the investment decision of small and medium scale enterprises in Calabar South LGA

1.2.2 To investigate how tax rates affect the investment decision of small and medium scale enterprises in Calabar South LGA

1.2.3 To investigate how tax incentives affect the investment decisions of small and medium scale enterprises in Calabar South LGA

## **1.3 SCOPE OF STUDY**

This research work examines Cross River State tax policy and its effect on the investment decision of small and medium scale enterprises in Calabar South LGA of Cross River State. The research looks at how the enormous taxes levied on small scale business operators in the state affect the growth of the small scale industry in the study areas.

## **1.4 RESEARCH QUESTIONS**

This study answers the following questions:

1.4.1 To what extent has multiple taxation affected the investment decisions of small and medium scale enterprises in Calabar South LGA?

1.4.2 To what extent has tax rates affected the investment decisions of small and medium scale enterprises in Calabar South LGA?

1.4.3 To what extent has tax incentives affected the investment decisions of small and medium scale enterprises in Calabar South LGA?

## **1.5 RESEARCH HYPOTHESES**

The study is guided by the following null and alternative hypothesis:

H0<sub>1</sub>: There is no significant relationship between Cross River State tax policy and the investment decisions of small and medium scale enterprises in Calabar South LGA.

H0<sub>2</sub>: There is a significant relationship between Cross River State tax policy and the investment decisions of small and medium scale enterprises in Calabar South LGA.

## **1.6 SIGNIFICANCE OF THE STUDY**

This study is of benefit to investors, policy makers and academics. For investors, the study will create awareness on the procedure for starting business in Calabar South LGA and Cross River State at large and various charges and taxes levied by the State Government. For policy makers, the study will reveal the effect of their fiscal policy specifically taxation on macro-economic variables in the State. For academics, the study will add to the existing researches on study of small scale enterprise and taxation.

## **1.9 STUDY AREA**

Calabar South was carved out of the former Calabar Municipality in August 1991. It is bounded southwards by the Cross River estuary, which opens up to the Atlantic Ocean, and northwards by Calabar Municipality. The headquarters of the LGA is Anantigha. Its estimated population, 226,028 persons in 2012, was split almost equally between male and female. Calabar South represents about 6.63 percent of the State population. 40 percent of the population was in the age brackets 15 – 40 years, and 74 percent was believed to be living below poverty line. Economic activities of the LGA were majorly wholesale and retail trade, vocational/technical occupations, and a variety of personal services. In the past, Calabar South earned notoriety for sundry criminal behaviours and impunities, but better policing and peace building have improve the security situation significantly, although the public perception of the Calabar South is yet to change significantly, as many still perceived that the LGA was unsafe. However, several enterprise owners still found excessive taxation and harassment by thugs popularly called, area boys” quite disturbing. Calabar South equally has a vast underground economy characterized by informal seafaring involving fishing, couriering of locally refined petroleum products, rice, used (or second hand) cloths, and timber. Operators within the underground economy are often chased around as criminals, as no effort is spared to distinguish “informal” but legitimate businesses from clear-cut criminal activities. Such wholesale criminalizing of the underground economy makes business formalization promotion more difficult. What obtains is that Government set up task forces to chase and apprehend the criminals, but such efforts often end in fiasco as task force members covertly protect the operators in exchange for informal monetary transfers.

## **2 LITERATURE REVIEW**

### **2.1 Conceptual Framework**

The meaning of SMEs differs across frontiers (Gunasekaran, Forker and Kobu, 2000). However, numbers of persons employed seem to remain a recurring trend. Capital employed, sales turnover, and/ or assets are also used in categorizing firms. In Nigeria, a small scale enterprise is a firm employing a workforce of 11 – 100 persons or capital not exceeding ₦50 million, including working capital but excluding cost of land. While a medium scale enterprise is one with a workforce of 101 - 300 persons or capital exceeding ₦50 million but not more than ₦200 million, including working capital but excluding cost of land. Central Bank of Nigeria (2010) in its definition of what constitutes SMEs accepted the number of staff employed at the above level, but differs on asset value. Thus, firms with asset ranging between ₦5 million and ₦500 million, are classed under SMEs. Small and Medium Enterprises in Nigeria are believed to account for about 40 percent of GDP and 70 percent of industrial employment (Eniola, 2014). Duke (2006), notes that about 87 percent of all enterprises in Nigeria by definition are small businesses and contribute an estimated 61 percent of GDP. At the national level, they generate 58 percent of employment. Similarly it is estimated that about 70% of all business enterprises in Ghana are grouped under SME and contribute up to 40% of GDP. Kenya’s experience also reveals the existence of approximately 1.3 million micro and small enterprises, employing about 2.3 million people, thus creating employment, wealth and export expansion (Dimoji & Onwumere , 2016; Mbogua, 2003). In many of the newly industrialized nations like China, India, South Korea etc. about 98 percent of businesses are grouped under the SME sector and account for a large chunk

of the labour force (Sanusi, 2003). Nigeria needs to encourage the development of its private sector by creating a friendly environment for the growth of SMEs, strengthening the factors that lead to business success, and addressing the problems threatening the existence and advancement of small and medium enterprises (Chu, Kara & Benzing, 2008). With the dismantling of trade and other barriers.

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

Olorunshola (2003), the concept of SMEs is relative and dynamic. The characteristics of SMEs are uncertainty, innovation and evolution. A firm understanding of SMEs would require a good knowledge of its features. In Nigeria, SMEs are usually small in size and lack large organizational structure and management culture while the urban SMEs are more structural, the rural ones are less structured. This represents one of the most important characteristic of SMEs in Nigeria. SMEs are in most cases a one man business or partnerships enterprise, although they may be registered as limited liability company, (Udechukay, 2003). Olorunshola (2003) affirmed that this ownership style has led small and main enterprise to have a simple management structure and make it easier to manage than that of large firms, and few numbers of staff and in some cases low level of education of some owners of SMEs. SMEs almost share the same characteristic with a sole proprietorship in that, there is no legal personality between the SMEs and their owners, which means that the life span of SMEs depends on the life of the owners; when the owner dies, the business dies alongside. Another feature of the SMEs sector in some countries is its heterogeneous nature, ranging from retail outlets to hugely paid professionals and substantially manufactured organisation small and medium enterprise are also likely to vary in organizational form, from sole proprietorship (one man business), scale corporations (public or private), professionals and partnerships.

## **2.2 THEORETICAL FRAMEWORK**

### **2.2.1 Theory of Business Growth**

Various authors have postulated theories on business growth. The oldest and the most used theory according to Elhiraika and Nkurunziza (2006) is Gibrat's law of proportionate effect (LPE); (1931). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size. It has been proved that performances of business organizations oftentimes lead to national growth (Inyang, 2019; Effiong, Usoro, Effiong & Inyang, 2019). By implication it would mean

that large firms are preferable in context of private sector development given that they create more employment than small firms. Conversely, Jovanovich (1982) states in his learning model that younger firms learn over time, which helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones. Moreover, given that younger firms are usually smaller than older ones (businesses) for the reasons discussed earlier; Jovanovich deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other longer firm in the same sector as time goes by.

Church and Lewis (1983) as cited in Olawale & Garire (2010) on the other hand claim that as a new small firm starts and develops, it moves through some growth stages. He also identified the stages of growth as; existence, survival, success, take off and resource maturity. In each stage of development as different set of factors is critical to the firm's survival and success the Churchill Lewis model gives an insight into the dynamics of SMEs growth including the distinguishing characteristics, problems and requirement of growing SMEs and explains business growth process amongst SMEs. The precise moment in time in which a startup venture becomes a new business has not yet been theoretically determined. However, the ideal business survival could be equated with a firm that has fully completed the transaction to stage - two organizations in the five stages of small business growth.

### **2.3 EMPIRICAL REVIEW OF LITERATURE**

Igbinoia and Okoye (2017) examined the perception of some entrepreneurs in Benin City, Nigeria, with a view to finding out their stake on tax burden, tax incentives, and entrepreneurial development in Nigeria. A cross-sectional survey research design was employed and data were obtained from the responses of 140 respondents structured research questionnaire designed on a 5-point Likert attitudinal scale, reflecting various preferences and level of agreement with certain questions and assertions. Data was analyzed with the Spearman's rank correlation and the ordinary least square (OLS) regression techniques. It was revealed that a larger number of respondents confirmed that tax burden is a disincentive to entrepreneurial development having observed a negative significant relationship. Furthermore, the study confirmed that there was a positive relationship between tax incentives and entrepreneurial development in Nigeria but, was not significant.

Adebisi and Gbegi (2013) establish that multiple taxation portends adverse influence on SMEs' existence, and that link amid SMEs' size and entrepreneurs' capacity to remit returns are highly momentous. Oboh, Yeye, and Isa (2013) conducted a study on the effect of manifold tax practices and taxpayers compliance attitudes in Nigeria. Correlation analysis revealed that multiple tax practices have a significant effect on taxpayers' compliance attitude, but the result revealed the attitude of Nigerians towards corruption, poor tax administration, and greed. Masud, Aliyu, and Gambo (2014) carried out a study on the effect of tax rate on tax compliance in Africa using cross-country data. African countries were the study population, upon which sample was selected using multi-stage approach. Data was analyzed with correlation analysis. Result revealed a significant negative correlation between tax rate and tax compliance and tax rate depict a negative impact on tax compliance. As such, the study suggested inasmuch the average

tax rate is 29.1985% in Africa, countries with tax rates above average are advised to reduce their tax rate to improve tax compliance as well as encourage industrial and entrepreneurial growth.

Hazman (2009) examined the behavioural models that affect taxpayer compliance with the obligation to pay tax. He identified two basic norms, which are internal and external. The thoughts and perceptions of taxpayers about taxation that shape their behaviours and attitudes are viewed as internal. The external factors considered were tax system and technique, approach of tax administration to taxpayers, general sense of political confidence in public opinion, tax knowledge as well as legal arrangements.

Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost as stated earlier; they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labour income taxes and social contributions (International Tax Dialogue 2007). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses (Weichenrieder, 2007), among the factors militating against SME tax compliance are: high tax rates, Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Others according to Yaobin, (2007) are double taxation, no professional tax consultancy, weak tax planning, high taxation cost.

Although there is certain policy measures geared towards SME growth in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (2003) believes that it is the role of the government to provide an enabling environment and social services that support businesses and persons. This means enhancing the investment climate in Nigeria for increased economic growth and subsequent tax contribution from all citizens which is necessary because a good number of SMEs operate in the informal economy due to the fact that they deem the tax environment within which they operate unfavorable. These SMEs constitute untapped revenue potential and an even playing field in many countries (International Tax Dialogue, 2007). They need to be captured by the tax net. The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. They can either share part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y, Deloitte and Touché, Price Waterhouse etc) to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities (Smatrakalev, 2006). Shahroodi, (2010) believes that for a tax system to be efficient the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax authorities are more

efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be strengthened.

Another way is by designing tax policies that encourage human capital training. (Yaobin, 2007) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection, It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead, for example, to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and to avoid tax through artificial splitting of enterprises (International Tax Dialogue, 2007).

Farzbod (2000) conceptualized the sway of tax policy on SMEs businesses and unveiled the issues weighing against SMEs tax passivity include exorbitant tax rates and multiple taxation, low tax incentives, low efficiency, and also that a tax system executed poorly usually leads to low productivity. The study recommended a reviewed tax system best capable of sustaining SMEs. Similarly, Shahrodi (2010) also conceptualized the impact of the tax system on the growth of entrepreneurs and found that the tax policy of the government on SMEs has not in any form favor the growth of SMEs. Tomlin (2008) viewed tax policy on the growth of SMEs; the study found that a complex tax and clumsy regime with correspondent multiple taxation put under undue pressures on entrepreneurship. In as much, the compliance requirement; the rate of acquiescence and levy payable is equal for both small and large companies under the regular system of taxation. International Tax Dialogue (2007) conducted a study on the impact of regulatory environment on the SMEs. The study affirmed that SMEs have to carry out its operations most times in an environment full of a series of regulations. Environment with a retinue of regulatory agencies and multiple taxes and also have to deal with legions of agencies at great cost. A conducive tax environment to enable SMEs to meet possible tax obligations was however recommended.

Anyanwu (1997) noted that tax authority in Nigeria has concentrated on the manipulation of the rates and tax bases in order to generate enough revenue for the government. This has led to imposing of different types of taxes and levies by tax authorities. These different taxes, which should have otherwise come under one major type of tax but are split into many forms, are in this work referred to as "multiple tax". Ndekwu (1988) observed that so many taxes are imposed at different or supplementary' rates and it involves different tax bases and different times of payment. Any change in tax law according to Anyanwu, is usually designed in ad hoc manner and is based on expediency rather than on long-term studies. Utomi (2000) in line with 'this view noted that Nigeria has a confused taxation philosophy. This results in proliferation of taxes and tax laws hence tax multiplicity. Ogunleye (2000) observed that SME operators battle with high cost of production as a result of various taxes and levies that were slam on them by various agencies and tiers of government. According to him, "it sounds funny that a company that reels under the burden of maintaining generators is subjected to pay what the government call generator levies".

Pitigala and Hope (2011) confirmed that literature even named multiple taxation to include 'nuisance taxes' because they can increase tax burdens by unnecessarily heightening the cost of administrative to both the government and businesses. Appreciable development in the world economy has been attributed to the activities of small and medium scale enterprises (SMEs), most especially in emerging economies like Nigeria. Worst still the exact number of



taxes levied on businesses seems to vary significantly between states and local governments throughout Nigeria and businesses be subjected to as many as a 100 different taxes, charges, fees, and levies in some instance taxed for the same event or assets that are levied by the three tiers (Trade Policy Note, 2007).

Issues in respect of paying taxes more than one occasion in respect of profits from the same business in the same period were classified as multiple taxations. In 1993, Education tax was introduced in Nigeria to fund the deteriorating educational system. Assessment of education tax goes together with the company income tax. The law regulates 2% tax on the assessable profits of companies. The National Information Technology Development Agency (NITDA) Act, LFN 2007 stipulates a levy of 1% on the profit before tax of GSM service providers and all Telecommunication Companies, Cyber Companies and Internet providers, Pension Managers and pension related companies. Banks and other financial Institutions and Insurance companies were also included. This provision, according to Abiola and Asiweh (2012), amounts to duplications and multiplicity of tax since these companies equally pay tax as required by Companies Income Tax Act (CITA).

Onyeukwu (2010) while agreeing that multiple taxation is not healthy for development of corporate entities further asserted that it is a disincentive for their growth and these at times affect their corporate social responsibility where they perceive the host state government as being unfriendly. The establishment of the Joint Tax Board is a laudable act in bringing sanity to the crisscrossing demands for tax by each of these governments. The bane of multiplicity of taxes was mitigated by the issuance of taxes and levies approved for collection through Taxes and Levies (Approved List for collection) CAP.T2 LFN 2004. Taxes collectible by all tiers of governments are stated therein. Salami (2011) asserted that there are more than 500 taxes and levies imposed by various tiers of government in Nigeria apart from those approved by Taxes and Levies (Approved list of Collection) Act. These invariably drive up the cost of doing business and destroy investors' confidence. He further stated that multiple taxation is more common in the Local Government than other tiers of governments.

Agbor (2013) found out in his studies that a typical fast food and restaurant business and bars in Calabar South is taxed within 21 subheads. Some amount to double or multiple taxation while some are introductions not recognized by law. For instance, operational permits are collectible only from kiosks and shops but bigger outfits after paying for business premises are also forced to pay for operational permits. Multiple taxation also manifests in the signpost/advert tax. The jurisdiction for collection of this tax is the local government, but the state also collect tax on the same heading. His result shows that multiple and high rate of tax have impinged negatively on the stability of these businesses and therefore recommends the amendment of the fourth schedule to the 1999 constitution to prune it of excess items which the local government uses to perpetrate multiple and excessive taxation.

There are obvious contradictions in respect of taxes collected by all the tiers of government in Nigeria. Imposing Education tax after payment of corporate tax by companies, accepting revenue from VAT and later imposing sales tax, payment of ground rent and later demanding for tenement rates are all moving spacioously towards the multiple taxation syndromes. In some states the methods used in collecting theses taxes are not only illegal, but

dehumanizing and violent (Theodore and Appolos, 2012). They asserted that a proper perusal of the Constitution indicates that the Local Government Councils have no powers to legislate on taxes. They can only collect taxes under the authority of a State law which might empower them to make by-laws. But in most of the 774 local government councils in the country, arbitrary laws that will generate funds are passed.

Multiple taxation could be counterproductive if it is excessively applied. The establishment of the Joint Tax Board is to control the imposition of taxes and levies by the appropriate tiers of government and to ensure that whatever tax imposed is legitimate. In *Eti-Osa Local Government vs Rufus Jegede & Anor*, it was mentioned that taxation is the life wire of government expenses from which a responsible government provides for the welfare of its people. It was also said that the issue of the power to impose tax should not be allowed to degenerate into a desperate extortion, usurpation and illegitimate exploitation of the public by the said government (Dongban-Mensem JCA, 2007). Multiplicity of taxes is one of the major problems facing the country and corporate entities and individuals often complain the ripple effects associated with it. States complain about their fiscal responsibilities and fiscal powers or jurisdiction. In order to fill the gap, states resorted to levying certain taxes, which has led to arbitrariness, harassment and even closure of businesses. To rectify this embarrassing situation, the Taxes and Levies (Approved List for collection) Decree No. 21 of 1998 was enacted (Odusola, 2006). Nigerian tax system faces a pack of challenges which include non availability of tax statistics, inability to prioritise tax efforts and multiplicity of tax. Individuals and corporate bodies according to Micah, Ebere and Umobong (2012), feel the ripple effects associated with duplication of tax.

The foregoing results reveal new insights on multiple taxation in Nigeria, complementing previous studies. The first is the overall magnitude of the burden. The recent CIPE study (2010) estimates that all tiers of tax cost firms on average about 40 percent of production costs. The World Bank (2008) reported an average effective tax rate of business in Nigeria approximately 33 percent and a marginal effective tax of approximately 40 percent. Other studies, based on firm-level data, highlights that associated administrative costs amplify the tax burden substantially, accounting for as much as 42 percent of pre-tax profits of traders and businesses in Nigeria. These costs, which seem to be even higher for smaller and more remote enterprises, place firms at a distinct disadvantage compared to competitors in the international market. This high tax burden occurs in an environment where the State fails to deliver reliable access to electricity in exchange, and where security concerns abound.

The tax rate is the percentage payable as tax by taxpayers on profit and or economic transactions. Kirchler (2007) affirmed that it is somehow difficult to separate the impact of tax rates and income, especially when the variables changed at the same time in experimental studies. Jackson and Farzbod (2000) argued that the perceived fairness of the tax rate is more important than its absolute level. Determination of the fairness in taxation entails possession of thorough knowledge and correct interpretation of the tax law, and complex tax rate structures, such as progressive taxation which are not well understood most taxpayers who could hardly pay for the services of consultants. The desire of taxpayers' for progressive, flat, and regressive taxation is a function of the individual tax rates presented most especially when tax rates are depicted as an abstract concept or in concrete terms with a hypothetical illustration. (Roberts,

Hite and Bradley, 1994). In the same vein, McCaffery and Baron (2004), with the aid of a structured questionnaire requested their respondents to reflect what they consider to be a fair tax rate for different amount of revenue. Urge for progressive taxation was stronger when the amount of taxes had to be indicated in absolute amounts. Further, information concerning the impact of tax rates could assist tax authorities to promote changes in tax policy in such a way that tax rate rises without reducing the degree of tax compliance (Kirchler, 2007). For the source of income, Boylan and Sprinkle (2001) affirmed in their study that respondents/taxpayers reacted to a marginal increase in tax rate with lower compliance.

Klemm (2009), Gurtner and Christensen (2008) described tax inducements as parameters put in place by government through the tax authorities provide a more friendly or favourable tax treatment of certain activities and for some flagged sectors of the economy likened to what was approved to industries. With this arrangement, there would be an overall reduction in the tax rate or better still a generous depreciation program. Note that, those incentives applicable to all firms would not be considered tax incentives. Furthermore, Babatunde (2014) reiterated that tax incentives are one of the instruments deployed to encourage the acquisition of new technology or to enable the economy to benefit from. Incentives are tool for stimulation of consumption; incentive for encouraging research and development activities for the purpose of solving problems; and for the attainment of mass food production; improve social security. Tax incentives could be adopted to instill a desired economic culture of savings and investment as well as stimulating foreign exchange earnings (Gurtner & Christensen, 2008).

### **3 RESEARCH METHODOLOGY**

Primary data were collected by use of questionnaires and interview guides in the field who were assumed to give first-hand information on the subject under study. Secondary data were obtained from sources like; Annual reports, Journal articles, internet, magazines, newspapers and books related to the subject of the study and these were consulted at length to extract the information required to support the findings from the study respondents. The researcher visited such places and got information that was related to the study variables as presented in literatures review.

The researcher used a cross sectional survey design based on the use of descriptive and quantitative designs that was used to establish the relationship between income tax administration and the profitability of small-scale business enterprises. This design was used for estimating, predicting and examining associative relationships. Cross sectional studies easily provide a quick snapshot of what is going on with the variables for the research problem.

The population of 104 at 5% error tolerance and 95% degree of freedom using Yamane's statistical formula of small scale enterprises in Calabar South LGA, which includes retail shops, fast foods, hard ware shops, groceries, and dealers in general merchandise was used for the study. The researcher used simple random sampling and purposive sampling techniques. Simple random sampling approach was used during the study because of its advantages like minimization of bias results. This implies that all participants in the study population had equal chance of being selected. Purposive sampling was also used to select only those respondents with importance attached to their office. This means that data was obtained from the key informants about the subject matter, a combination of these two techniques given a wide range of response.

Due to the difficulty that may be involved in studying the entire population of the study, the researcher adopted a sample size of 82 respondents.

### **3.8. DATA COLLECTION INSTRUMENTS AND METHODS**

**3.8.1 Self-administered questionnaire:** Open and close ended questionnaires were constructed and this was self-administered were the researcher allowed the study respondents to fill the questionnaire in the study field. The questionnaire tools were used to collect information from tax payer of the Selected Small Scale Business Enterprises.

#### **3.8.2 Interview method**

An interview guide was drafted with a set of questions that the researcher asked respondents during an interview and this was open ended in nature. This tool was used to collect information from respondents of Small and Medium Scale Business enterprises. In this case, the interviews during this research were structured and were specifically administer to staff of Selected Small Scale Business Enterprises.

#### **3.8.3 Observation method**

The researcher observed the tickets from the tax administrators that the business operators had pinned in the shelves of the businesses as well as counter books and other were pasted at the entrance door of SMEs (Appendix 2). However, the observation method revealed that not all the respondents used the counter books to record all the transactions made implying that they have poor records keeping system.

### **3.9 VALIDITY OF SAMPLE INSTRUMENT**

The questionnaire was designed in Likert scale format. The researchers conducted a pre-test on the questionnaire to ensure the validity of the instrument.

### **3.10 METHOD OF DATA ANALYSIS**

In order to achieve the primary goals of this study, Tables, and percentages are used. The methods of data analysis used is chi-square. The Chi-square statistics is commonly used for testing the relationships between categorical variables. The Chi-square analysis is done using SPSS.

### **3.11 LIMITATIONS OF THE STUDY**

**Financial constraints:** Financing the research study was too costly in terms of transport costs, feeding and processing of the proposal and research report.

**Limited time:** Inadequate period required for a detailed research study. Comprehensive research study involves a great deal of collecting, analyzing and processing that requires a lot of time.

**Non-response:** Owners of businesses were busy attending to their customers and rarely spared time for the researcher.

### **PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS**

**4.1 DATA ANALYSIS AND PRESENTATION**

This chapter shows the presentation and analysis of collected data in respect to this study. Eighty two (82) questionnaires were administered in the study area (Calabar South Local Government Area) of Cross River State.

**Table 1: Administration of Questionnaires**

Respondent	Number administered	Percentage (%)
Returned	75	91
Not returned	7	9
Total administered	82	100

**Source:** Researcher’s field work, 2019

Table 1 above shows that 82 (100%) of the questionnaires distributed to small scale enterprises in Calabar South, 75 (91%) were returned and 7(9%) were not returned.

**4.1.1 Age of respondents**

In order to attest the credibility of the responses, the respondents were asked to indicate their age bracket and the response is shown below.

*Table 2: Showing the respondents’ age*

Age	Frequency	Percentage (%)
20-29	5	6.7
30-39	25	33.3
40-49	21	28
50-59	15	20
60 and above	9	12
<b>Total</b>	<b>75</b>	<b>100</b>

**Source:** Researcher’s field work, 2019

The table above shows that 6.7% of the respondents were in the age group of 20-29, 33.3% in the age group of 30-39, 28% between 40-49, 20% between 50-59 and 12% in the age group of above 60 years. This implies that the majority of the respondents are between 30-39 years of age an indication that they can make independent decisions

**4.1.2 Gender of the respondents**

This seeks to establish gender balance in the study. The table below clearly indicates what the researcher found out concerning the gender of the respondents in selected SMEs in Calabar South L.G.A.

*Table 3: Showing gender of the respondents*

Gender	Frequency	Percentage (%)
Male	45	60
Female	30	40
<b>Total</b>	<b>75</b>	<b>100</b>

**Source:** Researcher’s field work, 2019

The study population was selected in a way that avoids gender bias. As illustrated in the pie chart below, 60% of the respondents were male while 40% were female. This indicated that most of the respondents were male.

**4.1.3 Findings on the marital status of the respondents**

Here respondents were asked if they were married, single, separated widow and the results were as follows;

*Table 4: Shows marital status of the respondents*

Marital status	Frequency	Percentage (%)
Single	9	12
Separated	14	18.7
Married	47	62.7
Widow	5	6.6
<b>Total</b>	<b>75</b>	<b>100</b>

**Source:** Researcher’s field work, 2019

From table above, 12% were single, 18.7% separated, and 62.7% were married while 6.6% were widowed. This implies that most of the small-scale business enterprises in selected SMEs in Calabar South L.G.A were operated by the single, separated and the widowed. This finding is related to the pressing domestic responsibilities that compel people to find out avenues of funding for their families including opening up small-scale businesses.

**4.1.4 Level of education attained**

This seeks to establish the level of education of the respondents. The respondents were asked to indicate their level of education and the response below was got.

*Table 5: showing the level of education of the respondents*

Level of education	Frequency	Percentage (%)
Not educated	4	5.3
Primary level	10	13.3
„A“/”0“ Level	42	56
Diploma	12	16
Bachelors degree	5	6.7
Masters degree	2	2.7
PHD	-	-
<b>Total</b>	<b>75</b>	<b>100</b>

**Source:** Researcher’s field work, 2019

The table above shows that majority of the respondents are “A”/”0” level with 56% followed by, diploma holders, primary level, bachelor holders, masters degree and not educated. There were no PHD holders. This indicates that only a small number of respondents do not have enough knowledge about income tax. This information is also represented in the graph bellow.

**4.1.5 Nature of business**

The respondents were asked about the nature of their business and the products they deal in. Alongside interviewing, the researcher used observation method to identify the nature of products and variety of businesses were identified which include; construction companies, retail shops, bars and lodges, kiosks and fast food, restaurants, cyber cafes, grocery, petrol station, tailoring, Salons, beer parlours among others which are charged different taxes in one year ranging from Internal Revenue, Operation permits, Business premises renewal, Signage and Advertisement, Business Development fund, Sanitation, etc.

*Table 6: Showing the nature of business and products*

Nature of business	Number of respondents	Percentage (%)
Retail shops	18	24
General merchandise	10	13.3
Restaurants/Beer Parlour	20	26.7
Hard ware /Cybercafe	12	16
Others	15	20
<b>Total</b>	<b>75</b>	<b>100</b>

**Source:** Researcher’s field work, 2019

From the table above we observe that most of the respondents deal in restaurant/beer parlour with 26.7% of the products followed by those who deal in retail shops, general merchandise, hardware/cybercafe and the rest in the different kinds of businesses.

**4.1.6 Period in business**

Besides testing for maturity and integrity of the respondents, respondents were also asked to indicate how long they had been in business so as to establish the level of understanding of the operations of the business environment, how businesses are taxed and to know their level of profits for the given periods in business. Below is the response obtained:

*Table 7: Showing period worked in business*

Period	Frequency	Percentage (%)
Less than a year	20	26.7
1-4 years	35	46.7
5-10 years	15	20
Over 10 years	5	6.6
<b>Total</b>	<b>75</b>	<b>100</b>

**Source:** Researcher’s field work, 2019

The table above shows that most of the respondents have been in business for a period of 1-4 years and less than a year which is an indication that majority of them understand the taxation system and the business cycles that may lead to a change in profitability of the business.

**4.1.7 Types of the respondents business**

The researcher found it important to know the nature of the business from where respondents originated, as to whether they were Sole proprietorship, Retailers and Wholesalers.

*Table 8: showing the nature of the respondents business.*

<b>Types of the business</b>	<b>Frequency</b>	<b>Percentage</b>
Sole proprietorship	47	56.0
Retailer	26	28.0
Wholesaler	12	16.0
<b>Total</b>	<b>75</b>	<b>100.0</b>

**Source:** Researcher’s field work, 2019

From the table above, 56% of the respondents were sole proprietors, 28% were retailers while the remaining 16% of the respondents were wholesalers. This is attributed to the amount of capital/ money required to start business in any of the above categories

***How income tax administration is administered among small-scale businesses in Calabar South L.G.A.***

The research question tries to answer the three major components of tax administration, which include; identification of the taxpayer, assessment of income tax, and finally collection of tax dues, which are the bases upon which income tax, is administered.

***They normally assess your business for income tax purposes***

The respondents were asked if they usually assessed their business for income tax purposes. This also shows how often they are supplied with the tax assessment forms. The response is tabulated below:

***4.1.8 The tax assessment forms***

*Table 9: Showing responses on the tax assessment forms*

<b>Period</b>	<b>Number of respondents</b>	<b>Percentages (%)</b>
July to October	18	24
November to February	15	20
March to June	42	56
<b>Total</b>	<b>75</b>	<b>100</b>

**Source:** Researcher’s Computation, 2019

From the table it can be revealed that most of the tax payers 56 % receive the tax assessment forms between march to June, 24% of the respondents receive tax assessment forms between July to October and 20% between November to February. This implies that there are delays in delivering the tax assessment forms.

***4.1.9 Assistance from tax authorities***

The respondents were asked if they had received any form of assistance as regards tax awareness from the tax authorities.



Table 10: showing form of assistance rendered by tax authorities

Response	Frequency	Percentage (%)
Yes	20	26.7
No	55	73.3
<b>Total</b>	<b>75</b>	<b>100</b>

**Source: Researcher’s Computation, 2019**

From the table above, 73.3% did not receive any form of assistance and 26.7% said they received some assistance. Those who had received said it was in form of manuals, radio talk shows, meaning that there were very few workshops, which could have been more effective in terms of creating awareness to the taxpayers. This information is also represented in the chart.

**4.1.10 Profitability of small-scale businesses in Calabar South L.G.A**

**Capital employed**

This seeks to determine the size of the business and the level of profits that would be estimated from a given business venture. The results are shown in the table below.

Table 21: Showing capital employed in the business.

Capital employed in ₦	Frequency	Percentage (%)
Less than 50,000	12	16
60,000-80,000	19	25.3
90,000-100,000	31	41.3
Above 100,000	13	17.4
<b>TOTAL</b>	<b>75</b>	<b>100</b>

**Source: Researcher’s Computation, 2019**

From the above results, 16% of the respondents employed capital of less than ₦50, 000, 25.3% employed capital of ₦60,000 to 80,000 and 41.3% employed in the range of 90,000 to 100,000 while those above 100,000 are 30%. This indicates that the enterprises operates on small scale.

**4.1.11 Average daily sales**

The respondents were asked about sales made in their enterprises and the results were as follows.

Table 32: showing average daily sales

Response	Frequency	Percentage (%)
Less than 10,000	5	6.7
10,000-29,000	16	21.3
30,000-49,000	37	49.3
50,000-69,000	14	18.7
Above 70,000	3	4
<b>Total</b>	<b>75</b>	<b>100</b>

**Source: Researcher’s Computation, 2019**

From the above result, the average daily sales of SMEs in Calabar South L.G.A fall with the range of N30, 000-49, 000. Therefore, taxes to be paid should be in the range of small-scale enterprises as stated in the income tax act (1997).

**4.1.12 Daily expenses**

This also helped to determine the performance and size of the business.

*Table 43: showing daily expenses*

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Less than 10,000	22	44
10,000-19,000	13	26
20,000-39,000	9	18
40,000-49,000	4	8
50,000-59,000	2	4
<b>Total</b>	<b>75</b>	<b>100</b>

**Source: Researcher’s Computation, 2019**

The table shows that these business units spend less money because their daily sales are averagely low with 44% of the respondents spending less than ₦10,000 given the fact that they employ little capital and make small sales on a daily basis.

**4.1.13 Range of profits**

The respondents were asked to identify the range of profits earned per annum. The response was tabulated as follows.

*Table 54: showing the range of profits*

<b>Range of profits per annum( thousand)</b>	<b>No of respondents</b>	<b>Percentage (%)</b>
Above 50	-	-
50-40	12	16
40-30	14	18.7
30-20	28	36
Below 20	20	40
<b>Total</b>	<b>75</b>	<b>100</b>

**Source: Researcher’s Computation, 2019**

From the table above, it shows that none of the respondents earns above 50 thousand, 16% of the respondents earn a profit between 50-40 thousand, 18.7% earn between 40-30 thousand, 36% earn between 30-20 thousand while 40% are below 20 thousand.

**4.1.14 Level of Profits**

*Table 15: showing whether businesses generate enough profits to carry out business operations.*

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	9	12.0

Agree	23	30.7
Not sure	10	13.3
Disagree	30	40.0
Strongly disagree	3	4.0
<b>Total</b>	<b>75</b>	<b>100.0</b>

**Source: Researcher’s Computation, 2019**

From the above result, 40% of the respondents disagreed, 30% agreed while the remaining 10% of the respondents were not sure whether they generate enough profits to carry out their business operations. This implies that most selected SMEs did not generate enough profits to cater for their business operations

**4.1.15 Cash Balances**

*Table 16: showing whether the business is left with some cash to acquire more stock*

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	8	10.7
Agree	25	33.3
Not sure	10	13.3
Disagree	20	26.7
Strongly disagree	12	16
<b>Total</b>	<b>75</b>	<b>100.0</b>

**Source: Researcher’s Computation, 2019**

According to the above result, 25 respondents representing 33.3% agreed that after paying presumptive tax the businesses are left with cash to acquire more stock, 20 respondents representing 26.7% disagree while 13.3% were not sure whether their businesses are left with some cash to acquire more stock. This is attributed to poor financial practices used by owners of selected SMEs for example lack of proper book keeping practices.

**4.1.16 Income tax returns and computations**

**Range of tax paid annually**

The respondents were asked about how much on average the amount of tax they pay annually. The response below was got.

*Table 17: Showing average amount of tax paid annually*

<b>Annual tax payments</b>	<b>Frequency</b>	<b>Percentage</b>
Zero	1	1.3
100,000-190,000	57	76
200,000-290,000	14	18.7
300,000-390,000	3	4
<b>Total</b>	<b>75</b>	<b>100</b>

**Source: Researcher’s Computation, 2019**

From table above, it has seen that no business pays taxes and most of the small-scale businesses fall in the range of ₦100,000-190,000 with 76%. The implication of this result is that based on

the working capital, there is an indication that the small and medium scale enterprises in Calabar South L.G.A pay multiple taxes.

**4.1.17 Effect of tax on the growth and development of business**

*Table 18: showing whether tax affect the growth and development of SMEs*

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	7	9.3
Disagree	12	16
Undecided	5	6.7
Agree	45	60.0
Strongly agree	6	8.0
<b>Total</b>	<b>75</b>	<b>100.0</b>

**Source: Researcher’s Computation, 2019**

From the table above, 45% of the respondents agreed that income tax affects profits earned by selected SMEs while 12% of the respondents disagreed. This implies that income tax affects selected SMEs negatively and thus calling for urgent solution since the rate of business closure seems to be high.

**4.1.18 Level of tax policy on investment decisions of small and medium scale enterprises Table 19: showing the effects of tax policy (multiple taxation, tax rates and tax incentives) on investment decisions of small and medium scale enterprises**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	5	6.7
Disagree	25	33.3
Undecided	3	4.0
Agree	35	46.7
Strongly agree	7	9.3
<b>Total</b>	<b>75</b>	<b>100.0</b>

**Source: Researcher’s Computation, 2019**

The study revealed that 46.7% (35) of the respondents agrees, 33.3% (25) respondents disagree, 9.3% (7) respondents strongly agrees, 6.7% (5) respondents strongly disagrees and 4% (3) respondents are undecided that tax policy affects their investment decisions. This implies that Cross River State tax policy affects selected SMEs negatively and thus calling for urgent solution since the rate of business closure seems to be high.

4.2 TEST OF HYPOTHESIS AND DISCUSSION

Research Hypothesis

H<sub>01</sub>: Cross River State tax policy does not affect the investment decisions of small and medium scale enterprises in Calabar South LGA.

H<sub>02</sub>: Cross River State tax policy does affect the investment decisions of small and medium scale enterprises in Calabar South LGA.

Variables

**Dependent** - investment decisions

**Independent** - Cross River State tax policy (multiple taxation, tax rates and tax incentives)

Table 20: Effect of tax policy on the investment decisions of SMEs Cross tabulation

Count

	level of tax policy					Total
	strongly disagree	Disagree	Undecided	Agree	strongly agree	
strongly disagree	5	2	0	0	0	7
Investment Disagree	0	13	0	0	0	13
Decisions Undecided	0	5	0	0	0	5
Agree	0	5	3	35	1	44
strongly agree	0	0	0	0	6	6
Total	5	25	3	35	7	75

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	165.292 <sup>a</sup>	16	.000
Likelihood Ratio	118.052	16	.000
Linear-by-Linear Association	55.086	1	.000
N of Valid Cases	75		

a. 22 cells (88.0%) have expected count less than 5. The minimum expected count is .20.

According to the above analysis it is observed that Cross River State tax policy affects the investment decisions of small and medium scale enterprises in Calabar South LGA., with a  $X^2 = 165.292$ . Then we can say that there is a positive relationship between Cross River State tax policy and the investment decisions of small and medium scale enterprises in Calabar South LGA.

We therefore activate the alternate hypothesis which states that “Cross River State tax policy (multiple taxation, tax rates and tax incentives) affects the investment decisions of small and

medium scale enterprises in Calabar South LGA” which is in line with Tomlin (2008), economists, who argue that the resources of smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises.

Consistently with well embraced belief that multiple tax constitute a great burden to business growth, ditto sustainability of entrepreneurship, the inference of this finding is that probability that multiple tax will affect SMEs is well pronounced considering that 46.7% of respondents in the sampled LGA asserted that the tax system especially in Calabar South LGA does not give room for negotiation by the business owners. Hence, multiple tax policy demonstrate a serious threat to the sustainability of SMEs in Calabar South LGA, Cross River State of Nigeria.

On the other hand, tax rate ( $T_r$ ) has been seen to have a negative impact on the growth and development of SMEs in Calabar South LGA with 60%. 73.3% of the samples revealed that the tax authorities do not give them any form of assistance. It was further realized based on an interview with some the SMEs owners that the business are not normally assessed before the issuance of the assessment form to them by the tax authorities. This implies that the tax authorities decides randomly on whatever amount the SMEs should pay without proper assessment.

Tax incentives ( $T_i$ ) have both negative and positive impacts. Among the positive benefits, if implemented and designed properly, tax incentives can attract more investments. Easson however stated that tax incentives can cause negative effects if they are not properly designed and implemented which seems to be the case of Calabar South LGA.

The implication is that tactful tax rate and entrepreneurial-friendly tax incentives demonstrate the likelihood of enhancing SMEs in Calabar South LGA.

Since tax rate is positively related to profitability according to Ezegwu and Akubo (2014) and that adequate compliance with tax policy rest on considerable tax rate as stressed by Atawodi and Ojeka (2012), tax rate should therefore be determined and reviewed as frequently as necessary to encourage not only sustainability of SMEs but also the establishment of more SMEs.

## **5.1 Conclusion**

The study examines Cross River State tax policy and its effect on the investment decision of small and medium scale enterprises in Calabar South Local Government Area of Cross River State, Nigeria. With a study of 75 questionnaires administered and collected from SMEs in Calabar South LGA. Hypothesis tested for this study reveals that Cross River State tax policy (multiple taxation, tax rates and tax incentives) affects the investment decisions of small and medium scale enterprises in Calabar South LGA.

Therefore, Government should as a matter of urgency, prioritize the SMEs sector giving it devoted practical and visible attention with the view to consolidating all revenue collections into one account and later channelling the funds to various accounts thereby taxing the SMEs with only one slot of tax.

Finally, given the poor data generated from the study, it is recommended that policy makers should channel efforts towards improving SMEs data base information in Calabar South LGA particularly and Cross River State at large as this is very important for planning, research policy making, and investments in SMEs.

## **5.2 Recommendations**

Based on the background of the above conclusion, the study therefore recommends the following;

- i. Governments (Federal, State and Local), NGOs and other stake holders should design targeted tax policies that will actively encourage investments in SMEs in Calabar South LGA., and create a tax friendly environment through wide publicity / sensitization exercise.
- ii. Tax collection should be defined with respect to which government should collect certain taxes from SMEs. This will avoid the three tiers of government collecting taxes of the same type from the same particular organization.
- iii Taxes should be collected in relation to the sizes and profit of SMEs considering all other factors that can constrain the progress of such SMEs as there is a relationship between SMEs sizes and their ability to pay taxes.
- iv Despite the continued survival of SMEs irrespective of the numerous taxing by tax agencies, there is need for SMEs to be levied lower amount of taxes so that they will have enough funds for other activities that will lead to business growth. Furthermore it will help SMEs to get better equipped to survive in a competitive market. More also, policy incentives such as tax rebate for SMEs that put efforts on local sourcing of raw materials, serious adding value to commodities for exports and other business ethics, should be employed by Government. Similarly, Government could increase funding for the development of the sub-sector through direct budgetary allocations and enhance SMEs investment opportunities that will focus on specific areas of capacity enhancement.

## **5.3 Suggestions for further Studies**

There should be further studies on the influence of tax policies on the investment decisions in Calabar, Cross River State to identify those policies that have mostly discouraged the investment decisions of SMEs in Calabar South and Municipality LGAs.

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 Government should always embark on making policies that will attract the appropriate investment decisions in the private sector (Inyang and Egbunike, 2019).  
 Transparency and accountability in the use of public funds can to a large extent positively influence the investment decisions of private sector organizations (Inyang, 2016).

**APPENDIX 1  
 RESEARCH QUESTIONNAIRE**

Please tick  where necessary

**SECTION A: RESPONDENTS DEMOGRAPHIC INFORMATION.**

In this section tick in the box or fill in your response in the space provided as appropriate

1. Age of the respondents

20-29	30-39	40-49	50-59	Above 60
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Gender Male  Female

3. What is your marital status?

Married  Single

Separated  Window

4. Level of education

No education background	Primary level	A/O level	Diploma	Bachelors degree	Masters degree	PHD
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. What is the nature of your business?

Retail shops  Hardware /Cybercafe  Others

Restaurants/Beer Parlour  General merchandise

If others please specify.....

6. For how long have you been in business?

Less than a year	1-4 years	5-10 years	Over 10 year

**SECTION B: INVESTMENT DECISION OF SMES**

1. What is the type of your business?

Sole proprietorship  Wholesaler  Retailer

**SECTION C: THE EXTENT TO WHICH MULTIPLE TAXATION AFFECTED THE INVESTMENT DECISION OF SMALL AND MEDIUM SCALE ENTERPRISES IN CALABAR SOUTH LGA**

1. How often do you pay your taxes?

July to October	November to February	March to June

2. Do you normally get any form of assistance from tax authorities? Yes ( ) No ( )

3. Do different agencies come to collect tax from you? Yes ( ) No ( )

**SECTION D: SECOND POLICY COMPONENT: THE EXTENT TO WHICH TAX RATES AFFECTED THE INVESTMENT DECISION OF SMALL AND MEDIUM SCALE ENTERPRISES IN CALABAR SOUTH LGA**

3. What is the range of tax that you pay annually?

Less than 50,000	60,000-80,000	90,000-100,000	Above 100,000	Others specify

4. How much do you make on daily basis?

Less than 10,000	10,000-29,000	30,000-49,000	50,000-69,000	Above 70,000

5. How much do you spend on daily basis?

Less than 10,000	10,000-19,000	20,000-39,000	40,000-49,000	50,000-59,000

6) What is the range of profits you make in a year?

Above 50	50-40	40-30	30-20	Below 20

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7. What is the average amount of tax paid annually?

Zero	100,000-190,000	200,000-290,000	300,000-390,000

**SECTION E: THIRD POLICY COMPONENT: THE EXTENT TO WHICH TAX INCENTIVES AFFECT THE INVESTMENT DECISION OF SMALL AND MEDIUM SCALE ENTERPRISES IN CALABAR SOUTH LGA**

S/N	Comments	SD	D	U	A	SA
1.	Your business generates enough profits to carry out business operations due to good incentives provided by government					
2.	You are always left with some cash to acquire more stock due to stable light					
3.	Tax affects the growth and development of your business due to unavailability of good road					
4.	Tax policies affects your investment decisions					

**SD= Strongly Disagree, D= Disagree, U= Undecided, A= Agree, SA= Strongly Agree**

*Thank you for your cooperation*

APPENDIX 2: RECEIPTS OF TAXES ADMINISTERED TO SMES

LOCAL GOVERNMENT  
CROSS RIVER STATE

REVENUE COLLECTOR'S RECEIPT

STATION Cal South

DATE: 17-7-2019

HEAD: Zone 5

Received from Dommonk Skon

of 8 Atamene str Cal

the sum of Three Thousand Naira Only

kobo, being Payment for Operational Permit for the year 2019

\* If space is insufficient further particulars be inserted on back of Receipt.

N 3,000 k

Signature or mark of Payer [Signature]

Signature of Revenue Collector [Signature]

Signature of Witness or mark

Occupation of Witness

Address of Witness

72339

