

**IMPACT OF TAXES ON PERFORMANCE OF SMALL SCALE
BUSINESSES
(A STUDY OF SELECTED SMALL SCALE BUSINESSES IN YOLA
NORTH LOCAL GOVERNMENT AREA OF ADAMAWA STATE)**

BY

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**A PROJECT SUBMITTED TO THE DEPARTMENT OF
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DECLARATION

I declare that this work was carried out in its original form by Bee, Bonifacce Terngu of the department of Management, the Federal University of Technology, Yola.

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APPROVAL PAGE

This thesis entitled Impact of Taxes on Performance of Small Scale Businesses (A Study of Selected Small Scale Businesses in Yola North Local Government Area of Adamawa State) by Bee, Boniface Terngu meets the regulations governing the award of Masters in Business Administration (MBA) of Federal University of Technology, Yola and is approved for its contribution to knowledge and literacy presentation.

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DEDICATION

This research work is dedicated to God who is the pillar of my life, family educational career and everything. Without His grace, this researcher work and my present academic status wouldn't have been possible.

God, I am grateful.

ACKNOWLEDGEMENT

I wish to knowledge the grace and blessings of the Almighty God upon me which has enabled the success of this research work and my educational career so far. God, to you alone be all the glory.

I also want to express my gratitude to my supervisor Ejike Sambo who despite his busy schedules read through the manuscripts, made necessary correction, advised and guided me to ensure the success of the research work.

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ABSTRACT

The focal point of this research proposal is to find out the impacts of taxes on the performance of small scale businesses in Yola North Local Government Area of Adamawa State with respect to their growth and development. In attempt to do this, the researcher has looked at the definitions of small scale business to make a clearer picture of what constitute small business. Further review of related literature was made. This formed the conceptual framework of the study and established the horizon to provide insight to enable wide scope of knowledge as well as to serve as a guide to the investigation. The review led to the determination of the fact that small businesses play an important role in socio-economic development of most nations. The problems affecting small businesses and the types of taxes which small business are made to pay have also been examined. The nature of the research work has been ascertained to be survey research. Types of data, methods of collecting, presenting and analyzing the data are also stated. The results of the findings together with the hypothesis which was tested revealed that taxes which small businesses in Yola-North Local Government area of Adamawa State pay affects their performance adversely especially in terms of their revenue, profit, growth and development.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Small scale businesses have continued to thrive in Nigeria despite the existence of large scale businesses. The ability of these small scale businesses to thrive is due to the significant role they play in the socio-economic development of the country. Small scale businesses create more jobs and spawn more important technological innovation than large firms, (Brookbank, 1999). In an economy where income per head is low, most people lack the large capital required for establishment of large business organizations. Similarly, since the income level of most citizens is low, most people are only able to buy goods in small units. Small businesses are thus able to provide goods in such small units to meet the demands of these people which make the small business to continue to flourish. (Beijerse, 2000).

The high level of unemployment and desire of many people in Nigeria to be independent is also one of the reasons responsible for the continued existence of small scale business. Small scale business helps to generate employment; alleviate poverty and utilization of local technology etc.

With the significant role which small businesses play in Nigeria, one would expect that the Government would not only create an enabling environment for the growth of these businesses, but that

adequate encouragement will be given to the small scale business to enable their growth and development.

Indeed, attempts have been made by Government to support small Businesses. The creation of Small and Medium Enterprises and Development Agency (SMEDAN) is a focal point for promotion and development of small businesses. Government has also created various platforms such as the National Directorate of Employment (NDE), National Poverty Alleviation Programme (NAPEP) as platforms to mobilize, train and support small businesses . Similarly, several micro credit schemes such as micro finance banks have been established to provide funds to support small scale businesses. However, many factors seem to impede the growth and development of small scale businesses in Nigeria. Such factors include lack of funds for expansion of the business to lack of managerial expertise, lack of adequate Government support and the multiple taxes which small businesses are subjected to. This project work is designed to examine the impact of the taxes on the growth and development of small scale businesses in Yola-North Local Government area of Adamawa State of Nigeria.

1.2 STATEMENT OF THE PROBLEM

Going by the significant role which small scale businesses play in the socio-economic development of the country, it is expected that they will be given adequate support and enablement to enhance their growth and development.

Ironically however, Government support facilities in form of funding, training and credit facilities etc to small scale businesses are lacking or inadequate. Small scale businesses are left with personal saving of the owner, borrowing and the profit from the operations of the business as the only sources of finance.

Perhaps as a way of encouragement for the small businesses, one would expect that small businesses would be exempted from paying taxes so as to enable them to fully plough back their profit for expansion. Unfortunately however, small scale businesses are made to pay multiple taxes ranging from registration fees, signpost fees, urban development fees, Local Government revenue rates etc. In view of the multiple taxes, it becomes pertinent to ask the following questions: is it possible for some of the businesses to close down during some period of the day in order to evade taxes? Is it also possible that some of the businesses would not want to erect signpost for advertisement of the business because erecting such signpost will attract taxes? Conversely, if the sign post are not erected, will this not impede advertisement which could lead to more awareness and hence increase sales? Do the taxes not reduce the amount of the income which could have been plough back into the business for development?

It is in the light of the foregoing that the researcher has set out to determine the impact of taxes on the performance of small businesses in Yola-North Local Government Area of Adamawa State of Nigeria.

1.3 OBJECTIVES OF THE STUDY

The major objective of this research work is to find out the impact of taxes on small business in YOLA- North Local Government of Adamawa State.

Specifically, the objectives of the work are:-

- i. To ascertain whether or not small scale businesses are exempted from paying tax.
- ii. To find out the types of taxes which small businesses are made to pay.
- iii. To determine if possible the amount, rate or ratio which small businesses are expected to pay as tax.
- iv. To find out the effects (impact) of taxes on activities and performance of small scale businesses in YOLA North Local Government.

1.4 RESEARCH QUESTIONS AND HYPOTHESIS

The research questions are as follows:

- i. Do small scale businesses pay taxes?
- ii. What types of taxes do small scale businesses pay?
- iii. How much in terms of amount, rate or ratio do small businesses pay as tax per month or annum?
- iv. What are the effects of taxes on activities and performance of small scale businesses in YOLA-North Local Government

1.4.1 HYPOTHESIS

Null Hypothesis (Ho): Taxes which small scale businesses pay have effects on their performance.

Alternate Hypothesis (Hi): Taxes which small businesses pay do not have effects on their performance.

1.5 SIGNIFICANCE OF THE STUDY

It is believed that the study will unravel the effects which taxes have on the growth and development of small businesses in Yola North Local Government of Adamawa State and hence make appropriate authorities to design tax policies that will not only be friendly but will also facilitate the development of small businesses in the area.

The research work will also enable owners of small businesses to understand and appreciate the essence for Government to impose taxes on small businesses and this understanding will help reduce incidences of tax evasion by small businesses.

Finally, it is hoped that this work will serve as secondary source of information for further research work on taxes imposed on small businesses in Yola North Local Government.

1.6 SCOPE OF THE STUDY

This research work is restricted only to small businesses located in Yola North Local Government Area of Adamawa State. However, only small businesses which have operated for at least three years will be studied. The study will cover small businesses in different industries including bakeries, fashion designing, barbing and hair dressing, laundry and dry cleaning, computer services, welding and fabrication as well as block molding. A historical conceptualization of the problem will be reviewed; some of the tax agencies like local Government revenue department, ministry of Commerce Yola, Urban Development Board, Yola, and Fire service etc will also be visited to ascertain the taxes designed for small businesses.

1.7 LIMITATIONS OF THE STUDY

The researcher encountered some problems in the course of the study. Some of the problems which constituted constraints include:-

Lack of adequate funds to enable the researcher go to all small businesses in all parts of the Yola North Local Government to gather data constituted a constraint. The researcher therefore restricted himself to small businesses that are closer to him to gather the relevant data.

Another limitation was that some of the owners and staff of the small businesses could not communicate properly in English. It thus became difficult for them to respond to the questionnaire or the interview questions. Again, the researcher over came this constraint by administering questionnaire and interview to those that can speak and write English Language.

Further more, some respondents were not willing to complete the questionnaire or to be interviewed. Others who collected the questionnaires could not complete and return the questionnaires on time. The questionnaires were eventually retrieved but this delayed the research work and served as a constraint.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 DEFINITION OF SMALL SCALE BUSINESS

There is no uniform definition of small scale business. Instead several criteria are used to sort firms by size and the rationale for this variation is far from transparent. The various definitions are based on parameters such as installed capacity utilization, annual turnover, number of employees, capital employed, and type of industry or other criteria which have more relevance to the industrial policy of the specified country.

The term small scale business therefore is a relative and heterogeneous concept as what is small in an industrious country like in the United States of America may not be considered small in an Africa country like in Nigeria. Similarly, what is small in the manufacturing sector may not small in the retail sector. Moreover, no common yardstick is internationally accepted for measuring the sizes of a business.

In the United States, Guentner (2005) states that a small business is defined as one that is independently owned and operated and which is not dominant in its field of operation. In Britain, an attempt was made to define small scale business by looking at the number or workers on the payroll. By this definition those firms employing up to 200 workers may be regarded as small.

The small scale industries division of the federal industries defined small scale industries as enterprise having investment (investment) in land, building, machinery and equipment and working capital) of up to N60,000 and employing not more than 50 employees. The Nigeria Bank for Commerce and industries (NBCI) for the purpose of its revolving loan scheme for small scale industries defined small scale enterprises as those investing not than more N500,000 (excluding) the cost of land but including working capital. Ile (2003).

However, the Centre for Management Development (CMD) has recommended to the federal government of Nigeria that the official definition of small scale business is any manufacturing, processing or service industry whose investment in plant and machinery, land and building do not exceed N500,000, utilities power, plant and machinery in its operations and employs up to 50 full time workers.

In his words, Ejiofor (1987) defined small business as those enterprise that have relatively little capital investment that, produce in small quantities and as a result controls a small share of the market, that employs not more than 50 workers and in which management and entrepreneurial functions are vested in the proprietor. Similarly, Onnoch (1998) defined small business as one which is independently owned and operated and not dominant in its field of operation.

However, Ayuba (1989) has noted that small business cannot be adequately defined in terms of number of employees, sales volume,

assets employed or a combination of these factors because of the inherent fallacy that would be embedded in such a definition.

The 1989 Industrial Policy of Nigeria according to Ile (2003) defined small scale businesses as those with total investment of between N100,000 and N2 Million exclusive of land but including working capital. Also the Central Bank of Nigeria credit policy defines small scale enterprises for the purpose of commercial and merchant bank loans as one whose total cost excluding cost of land but including working capital is above N1 Million but does not exceed N10 million.

The catalogue of definitions above thus shows that there is no generally acceptable definitions of small scale businesses in Nigeria even the world over. Although the definitions vary, what is however common with the definitions is what they give as the upper limit either of employment or as turn over or investment capital. Even with this, it will appear as if any business whose investment capital or total assets range from one Naira (N1.00) and employing not more than 100 employees can be regarded as small business. This makes the definitions of small business to be some what ambiguous.

To avoid the ambiguities, a small business can be defined as one that is independently owned and operated and which is not dominant in its field of operations and meets certain standards in terms of employees or annual receipts (set by the small business administration) Guentner (2009).

This definition has clarified that:-

- i. Ownership and management are usually vested in the same person or persons. There is no external control from the public or any board.
- ii. The firms usually have a small share of the market or alternatively a significant share of a highly specialized low volume market and in general are not in a position to significantly influence the market.
- iii. The chief executive generally participates actively in most levels of the decision-making process and in the day to day operations of the firms, usually inadequate specialist support.

Small businesses are organic in nature, structurally informal with few differentiations among their units. In terms of financing, planning, control, and information systems, small businesses are weak as a result of lack of resources.

They exhibit the peculiarities of companies operating under perfect competition, Osuagwu (2009) states that small businesses:

- Have little ability to affect market price by altering output
- Have small market share.
- Are unable to present entry barriers in their relevant industries.
- Are unable to easily increase prices.
- Depend substantially on small number of customers and clients.

2.1.1 FEATURES OF SMALL SCALE BUSINESSES

Small businesses have certain characteristics which distinguish them from large scale businesses and which also justify separate analysis of their role in development. Ile (2003) gave the characteristics as follows:-

- i. Small scale businesses are many compare to large scale business. This is because of the amount of money required to establish them is relatively small and there may be no legal provisions to be fulfilled before they are set up.
- ii. Management is usually independent. The manager is usually the owner and thus independent. This is unlike the large business where the owners are different from management and hence not independent.
- iii. There is no much specialization because the manager/proprietor handles or supervises the accounting, production, marketing and personnel functions of the business.
- iv. The manager or proprietors rarely raise short, medium or long term capital needs of his business from the organized financial market. Instead, they rely heavily on personal savings, loans from friends, relations or money lenders.
- v. Small scale businesses have a small share of the market.
- vi. The entrepreneur confines in the local market in which he carries out his business, ignoring wider and more distant markets.
- vii. The owner-manager knows and is know by all employees and apprentices in the firm.

- viii. In terms of invest able funds; scale of operation and number of people employed, the size of the business is relatively small.
- ix. The craft sub sector is dependent heavily upon apprentice labor.

This is because it is cheap and as a result helps the proprietor to survive in the highly competitive market with small and irregular demand for the firm's products or services.

2.1.2 TYPES OF SMALL SCALE BUSINESS

According to Ile (2003) small scale businesses fan be basically grouped into five (5) large classes.

- i. Service business: these are the types that offer technical services to customers. These include hair dressers, dry cleaners, electronics repairers etc.
- ii. Retail business: these are types of business that sell product directly to customers e.g. petty shops.
- iii. Whole sellers: these are types of business that buy finish goods from manufacturers and resale them to the retailers who in turn sell them to consumers.
- iv. General construction: these are small businesses that can undertake small construction work like building of houses.
- v. Manufacturing: these are category of small business that buy raw materials, components and produce or assemble them into finished products.

2.1.3 ADVANTAGES OF SMALL SCALE BUSINESS IN NIGERIA

Advantages of small scale businesses in Nigeria are given by (wiki.answers.com.2009) as follows:-

- a. The businesses require small capital to operate. This makes it possible for people to start the businesses easily.
- b. The proximity of small businesses to residential houses makes them to be easily patronized by most people.
- c. They provide employment to those who could not get white collar jobs.
- d. The cost of running small business is small. They do not require large amount to pay rents and charges.
- e. Small businesses can maintain a closer relationship with its customers, employees, and its suppliers.
- f. Small firms have greater flexibility because their size let them adopt new processes, services, materials and products.
- g. Management people are more attracted to smaller firms can be accelerated, work experience tend to be more diversified.

2.1.4 DISADVANTAGES OF SMALL SCALE BUSINESSES IN NIGERIA

- a. Small scale businesses face the problem of inadequate capital. This also makes the business to be unable to expand as may be desired.
- b. Small scale businesses do not enjoy economic offsets. Due to small size of small scale businesses they often lack economy of scale.

2.1.5 ECONOMIC ROLE OF SMALL FIRMS

Available data indicate that small scale businesses make significant contributions to the performance of every economy Guenthner (2005)

They play important roles in the growth and development of many nations. According to Osuagwu (2009), small businesses constitute a large part of many economics of the world, including those of developed and developing countries. Small businesses number up to two thirds of businesses all over the world. For example, in the United Kingdom, small businesses enterprises account for over 95% of all businesses registered for Value Add Tax (VAT), employ about 65% of the country's workforce and represent about 25% of the Gross Domestic Product (GDP). In Nigeria, small businesses account for about 70% of the number of businesses operating presently, contribute a reasonable percentage of the nations GDP and employ reasonable percentage of the nation's workforce.

Entrepreneurial micro enterprises and small enterprises are often credited for being agents of innovation, wealth creation and employment generation. Yong (2005).

Small businesses also appear to play important roles in industries where technological innovation is a main driving force for growth and structural change. They employ nearly 4 out of every ten scientists, engineers, and computer specialists working in the private sector.

Bashiru (1990) explain that the sector offers the best opportunity for the development of indigenous resources mobilization of domestic savings, utilization of local resources, and modernization of rural sector and creation of self reliance in consumer and industrial good.

2.1.6 PROBLEMS OF SMALL SCALE BUSINESSES IN NIGERIA

Oshunbiyi (1989) has identified a number of problems which include under capitalization. Small scale businesses have limited sources of finance. The problem of lack of adequate capital is in three dimensions: the start-up capital, working capital and expansion capital. The key problem of small scale business is lack of finance. Most small firms do not have access to the capital market. The commercial banks who should have been launch pad have failed to give adequate support to them.

Another major problem of small business is incompetence of management. In most small business, the proprietor is a one-man management team. He takes all the major and minor decisions. Unfortunately, this requires a diversity of talents and no individual has superior ability in all areas of management. Lack of management ability on the part of the small business has been one serious cause of failure.

Onouaha (1998) has identified that policy and regulatory environment for the small scale enterprises is unfavorable. Most existing laws or policies are not to the advantage of small scale

businesses. The excessive regulations and discriminations against small scale businesses do not augur well for their development.

It has also been identified that apart from limited sources of capital, small scale businesses also faces the problem of multiple taxes which they are made to pay to various Government levels and agencies. This affects their expansion capability.

Lack of business development services and management training is also another problem affecting small scale businesses. Most small businesses do not have access to effective training in management. They thus lack the ability to ensure effective and adequate research, communication and institutional linkages to enable them realize the fullest potentials.

2.2 WHAT IS TAX?

According to Alabede (2001), tax is a compulsory levy imposed by Government or her agencies on individuals and organizations within a country primary for the purpose of raising revenue to execute her expenditure programmes. Taxes are imposed directly on individuals e.g. personal income tax or on organizations e.g. Excise duties, Value Added Tax. The payee of direct tax bears the incidence directly. Under the indirect tax, the incidence of the tax is indirectly borne by the final consumer.

2.2.1 REASONS WHY GOVERNMENT IMPOSE TAX

Alabede (2001) states that Government imposes tax for the following reasons:

- i. Government imposes tax to raise revenue to finance recurrent and capital expenditure
- ii. Taxes such as import duties are imposed sometimes to discourage importation of certain goods either to prevent dumping, or to protect local industries from foreign competition.
- iii. Imposition of tax also serves as measures to re-distribute income among the citizenry.
- iv. Tax also serve as a measure to stabilize the economy.

Tax can be distinguished from other forms of levies by following characteristics:

- i. Tax is compulsory contribution which failure to pay may make chargeable person liable to punishment as prescribed under the relevant provisions of the law.
- ii. Tax does not have element of quid pro quo as such it does not confer specific benefits to the payers unlike other levies as fees, charges etc.
- iii. The revenue tax is used for the good of everyone in the country.

2.3 TYPES OF TAX IMPOSED ON SMALL SCALE BUSINESSES

The taxes which small businesses pay Yola North Local Government include:

- i. Income tax: This is collected by Board of internal revenue office of the state government. The tax is based on the revenue of the business

- ii. Fire service tax: This tax is charged by the Adamawa State Fire Service Board.
- iii. Business tax: This tax is collected by ministry of Commerce Industry on all registered businesses in Yola North Local Government.
- iv. Sanitation tax: The ministry of Environment collects this tax from all businesses for refuse clearing services
- v. Tax on signboard: The Yola North Local Government demand tax on all signboards mounted by businesses.
- vi. Revenue tax: This tax is also collected by Yola North Local Government.

2.4 THE EFFECTS OF INCOME TAXES ECONOMIC GROWTH

One of the most commonly discussed issues in economics is how tax relates to economic growth. Advocates of the cut tax claim that a reduction in the tax rate will lead to increased economic growth and prosperity. Others claim that if we reduced taxes, it will reduce the amount of funding for Government expenditure. Moffat (2009).

2.4.1 THE IMPACT OF FAIR TAX ON SMALL BUSINESS

a. Small Businesses Create a Large Effect in the Economy

Over five million strong, small businesses (those employing less than 20 people) account for 89% of all U.S. employees and employ over 20 million people, about 4.5 per business despite the adverse effects of the current tax system on small businesses. In the words of one small business owner, "starting a small business means doing one thing I love... and 99 that I hate ... A simpler, fairer, and growth – oriented tax code will ease the compliance burden on the small business owner-allow them to gain focus on the one thing they love". (Fairtax.org 2009).

a. Tax Regulation creates the most difficulty for small businesses

According to testimony given to the US Advisory panel on federal tax reform in 2005, (Fairtax.org 2009) of the 600,000 members of the National federation of Independent Businesses that replied to a 2001 member survey on the regulation or small businesses, 36% responded that tax regulations create the most difficult for them, more than any other category (health/safety, employment, environment, occupation, other). IN a 2003 survey on the burden of paperwork and record keeping, the National federation of Independent Businesses membership response showed that record keeping costs was the highest for tax related records and that two out of three respondents used an outside person to do tax records.

b. Most Small Businesses Pay Taxes Via the Individual Income Tax:

Although many small businesses are not subject to the corporate income tax, the individual income tax affects most businesses. That is because earnings are often paid through the individual is "passed through" to business owners. The business income from sole proprietorship, small corporations etc is all taxed at the owners' individual income tax rates. In 2004 31 million business owners are estimated to receive this type of income and pay tax on this income through the individual income tax. Moffat (2009). Research suggests that across the board tax cuts, regardless or income level, will increase entrepreneurial start up survival.

The fair tax plan (which replaces Federal individual and corporate income taxes including self employment taxes and alternative minimum tax), the pay roll tax and estate tax with single rate dramatically improved the economic environment for small businesses. It reduces compliance cost and tax burdens and improves bottom line profits.

c. Under the Fair Tax, Small Businesses Enjoy Zero Tax and Compliance Cost:

Corporations, partnerships, Limited liability Companies and sole proprietorship pay no tax on their income. Both employee and the employer share of pay roll taxes, self employment tax rate and estate and gift tax are abolished. Compliance costs are a much more substantial economic drag on small business than they are on larger businesses. Small corporate bear in compliance cost burden about 27 times greater than a largest corporations. (Fair tax.org 2009).

A small business today must use tax accounting rules (which are different from generally accepted accounting principles) to keep track of: income, inventories, various type of expenses, depreciation, tax basis for asset sold various employee benefits rules and so on.

Small business compliance costs drop dramatically under the fair tax because the only question relevant for sales tax purposes is "How much did you sales to consumers?" Businesses that sell to other businesses have virtually no compliance cost, since intermediate business to business sales are not taxed under fair tax plan. In

addition, under the plan, retail business receive administration fees that allow them to keep a portion of the sales tax they collect to compensate them for collection cost.

Small businesses are found in services, retailing and other labour intensive industries. Both complying with and paying the pay roll tax and the income tax imposes a major burden on these small businesses. Moreover, services sector and the retailing sector typically how much higher effective income tax rate than other businesses.

d. The Fair Tax Plan Increases Economic Growth:

Small businesses thrive in healthy, growing economy, but because of inadequate capitalization and lack of access to sufficient bank credit, they have much more difficulty in a stagnant or shrinking economy. The fair tax causes the economy to growth to be come more dynamic.

2.4.2 ECONOMIC ARGUMENTS FOR TAX SUBSIDY FOR SMALL SCALE BUSINESSES

The economic importance of small firms raises the question of why the subsidies are needed if small businesses normally account for substantial share of domestic employment and development of certain new technologies.

Proponents' of small businesses tax subsidies generally cite four economic justifications for them. Guentner (2005) has stated that the following as justification for tax subsidies for small firms.

a. The Special economic role of small firms:

The economic contributions of small firms are sometimes cited as a reason to extend Government support to small scale businesses. Small businesses tax subsidies take this view a step further by arguing that small firms are deserving of Government support because they generate special economic benefits that large firms generally cannot replicate. These benefits can be seen in the multitude of jobs and new technologies they create over time and their innumerable and ever-changing linkages to larger firms in the economic supply chain as evident in the ability of small businesses to supply certain goods and services more efficiently than large firms.

b. Opportunities for the Economic Advancement of Immigrants, Women and Members of Minority Groups:

Proponents of small business tax subsidies also cite the economic benefits of small business ownership for women, minority groups, immigrants and the communities where they live as an important justification for the subsidies. Female small business owners are more likely than their male counterparts to encourage openness in workplace communication and decision making, hire a diverse workforce, put in place desirable child care programmes and pay full benefits to employees. All these call for the need to provide subsidies for small scale business (Wang, 2005).

c. Imperfection in Capital Markets:

Another economic argument made in favour of small business tax subsidies is that, they can ease or offset the barriers facing many small business owners and aspiring entrepreneurs in trying to raise funds needed to start or expand a business. Small scale businesses are not able to source funds from the capital market hence they are forced to finance the business out of their resources. For these reasons, proponents maintain that Government support is required to enable cash strapped small firms to gain access to the funds they need to grow.

d. Impact of Progressive Income Taxes:

Supporters of tax relief for small firms also maintain that tax have a significant effects on three key decisions made by any small business owner. It has been observed that as individuals or corporate tax rate rise, small firms tend to grow at a slower rate, invest less in new assets and become less likely to expand employment. In these views, the effects of higher tax burdens are sufficient reason to offer tax breaks to small firms.

e. Cost of Tax Compliance:

Some proponents of small scale business tax preferences argue that they are also justified because of the inordinate cost the Government imposes on small firms through the numerous regulations (including tax) they must comply with. In this view, the preference offsets at least some of the costs which can be highly regressive. Proponents maintain that, that the cost of tax compliance puts small firms at a

competitive disadvantage because their cost per employee is much higher than it is for larger firms in the same industries.

2.4.3. ECONOMIC ARGUMENTS AGAINST THE SUBSIDIES

a. Equity Concerns:

Critics of small business tax subsidies charge that the main equity effect of small business tax preference is to undercut the progressives of the individual income tax. Under the progressive income tax, a tax payer's tax liability depends on his or her taxable income and tax payer with higher taxable income pay higher taxes than tax payer with lower incomes. But small business tax preference weakens the link between tax burden and income by reducing the tax burden on business owners.

b. Efficiency Concerns:

Critics also assail small business tax subsidies on efficiency grounds. In their view, an efficient or desirable allocation of resources can be achieved only if the tax code does not favour small firms over large firms or unincorporated firms over incorporated firm or interfere with the national growth or encourage firms to attain a certain asset, employment or revenue size and grow no further. Thus critics question both the premises and policy implication of this claim.

c. Small Firms and Job Creation:

Critics and proponents alike agree that small firms generally are a robust source of job creation. Critics however, maintain that for a variety of reasons these data do not necessarily prove that small

firms possess a greater job creating prowess than large firms as most data available fails to address some important questions about the measurement of job creation and size. It is also argued that many of the jobs created by small business do not last for long time as most of them fail within the first few years. Even if small firms were to create more jobs than large firms over time, there is no reason to think that Government support for small business would generate even faster employment growth. Economic analysis shows that the economy generates jobs through what can best be described as a natural process of growth, decline and structural change, the size distribution of firms is just incidental. Therefore, the level of national employment over time is the product of a mix of factors that would overwhelm the employment effects of Government support for small business. The key factors are fiscal and monetary policy, consumer spending, business investment and the difference between exports and imports.

2.4.4 COMPARING THE ARGUMENTS FOR AND AGAINST TAXES ON SMALL BUSINESSES

Available economic data suggest that small firms make important contributions to the performance and growth of every economy. But the magnitude of contributions depends critically on how a small firm is defined. Under the definition used by the small business administration in administering each programme to support small firms, it appears that small businesses account for majority of private sector jobs, generate many technological innovations and serve as an agent of revitalization and structural change in a variety of

industries. These contributions arguably seem to under gird the strong support for government policies to support small businesses.

Still, conventional economic analysis can challenge the view that small business tax preferences are justified on economic grounds. The preferences have the effect of lowering the tax burden on owners of small firms, diluting (to an extent that is difficult to measure) the progressivity of the federal individual income tax system. Furthermore, the preferences seemingly do little to promote growth in the productivity and the output of goods and services. In theory, any tax other than a lump sum tax causes efficiency losses by distorting the behaviour of consumers and firms. In the case of production, the best possible outcome is an income tax system that does not distort the production arrangements within firms and taxes all returns to capital at the same rate. Most economists hold that departures from this doctrine of uniform or neutral taxation are warranted only to correct clear and harmful market failure affecting their formation, performance, or growth in ways that harm social welfare.

This is not to suggest that government support for small firms cannot ever be justified on purely economic grounds. If convincing evidence were to emerge that the formation and growth of small entrepreneurial firms are critical to an efficient allocation of economic resources, and that some market failure was unduly restraining their formation or growth, then even critics might accept that government action to correct the failure would be warranted. (Andries & Debackere, 2006).

One possible market failure would be imperfections in capital markets that unreasonably denied promising small start-up firms access to the financial capital they need to develop new products and services and growth their business. In theory, this problem could be resolved through a series of policy measures aimed at breaking down the barriers that were preventing these firms from gaining the funding they desired without diverting the overall flow of capital away from its most productive uses. Tax subsidies might be helpful, but to be cost effective, they would need to address the root causes of the capital market imperfections at a lower economic cost than alternative policy responses, such as increased federal regulation markets or the establishment of a federally subsidized lending facility.

Another possible market failure would be conclusive evidence that small firms as a whole are more innovative than other firms and thus are responsible for a disproportionately large proportion of the positive externalities arising from technological innovations. It seems improbable that such a market failure would materialize however, given that these externalities are tied to specific innovations, not to be operations of a specific class of firms.

If anything, the need for a robust model of the process by which small firms are formed and grow and contribute to the total output of goods and services and productivity is vital. As some economist have noted, the development of such a model might make it easier for policy makers to determine whether a market failure lies behind

any problems facing a wide swath of small firms; identify the key factors contributing to any market failure that is detected; and devise appropriate and cost effective remedies for the problem.

2.4.5 THE DRAWBACKS OF INCREASING GOVERNMENT SPENDING THROUGH INCREASING TAXES

One issue that has attracted wide discussion is how Government spending increases aggregate demand and has a stimulus effect on the economy. But we also need to consider how that spending is funded. It is actually funded through cutting spending elsewhere, or by increasing deficit or by increasing taxes including taxes on small businesses.

Moffat (2009) posits that, the drawbacks of increasing Government spending through increasing taxes, particularly taxes on business investment brings about substitution effects such as:

- a. High investment tax rate causes local and international investors to switch their investments to places or countries with more favorable tax regimes.
- b. High investment taxes rates lower the expected return on investments on projects involving some risks as a company pay 100% of their losses (if they lose money but only 80, 70, 60 etc percent of their gain since their profit are taxed. Because of this asymmetry, a lot of worthwhile projects may not be undertaken if tax rates are too high.

If you take money away from business, then they won't have the resources to expand and enter into new projects. Under these

circumstances if a company finances a project out of pocket, it pays in a opportunity cost sense, an implicit interest rate of prime minus one. However, if it has to finance it through a bank, it pays an interest rate 8 or 9 percentage points higher. Thus a lot of projects that would be profitable if financed internally will have low or negative returns on investment if financed through a bank. Allow small businesses to keep more of their money will increase the number of profitable investment opportunities they have, so the story of higher economic growth from the income effect of lower business taxes appears to have a great deal of merit.

CHAPTER THREE

METHODOLOGY

3.1 DESIGN OF THE STUDY

According to Agburu (2007), a survey research method entails gathering information about a large number of people, objects or an entire group by sampling the population. Survey research examines large and small population by selecting and studying samples chosen from the populations in order to discover the relative incidence, distribution and interrelatedness of variables. Although survey research can be used on any set of objects that can be well defined, Osuagwu (2008) states that survey research focus on people, their beliefs, opinions, actions, attitudes, and behaviors.

This research work involves small businesses in Yola-north local Government of Adamawa State. This is no doubt a large group and elements of the population are people (the owners and employees in small businesses). The research intends to draw a sample out of the large number of small businesses in Yola-north. This research is therefore a survey research.

The survey method is chosen because it is one of the most important methods for collecting data in large group in its original forms and discussing the population observed directly. The major advantage of the survey method is that information obtained can be accurate which enables the researcher to arrive at a valid conclusion and generalizations.

3.2 POPULATION OF THE STUDY

The population of the study refers to the group that is being studied. This research work is aimed at finding out the effects of taxes on small businesses in Yola North Local Government area. But for their vast number, all small businesses in YOLA north local government would have been considered for study. However, in view of the vast number of small businesses in the area, the researcher has selected a total of four (4) small businesses each from eight industries namely: computer business centres, hair dressing and barbing, Bakaries, laundry and dry cleaning, as well as welding and fabrication, restaurants, block molding and fashion designing. All together, 32 small businesses were selected. These 32 businesses all together have 160 staffs. These 160 staffs constitute the population of the study.

3.3 SAMPLE SIZE OF THE STUDY

Sampling is a scientific method of selecting and using a representative part (sample) of a whole to seek the truth about the whole. Okafor (2002). A sample survey is therefore defined as the collection and examination of data from a sample in order to make inferences about the whole.

The entire population of the study is made up of 160 staffs of the selected small businesses scattered over Yola – north local Government. The researcher will have to personally visit the selected businesses to collect data from the staffs. However, the scattered nature of the businesses, time within which the research is to be

carried out and available resources hindered the researcher from visiting all the staffs of businesses that constitute the population. Consequently, 100 staffs out of the population of 160 was selected. The 100 selected staffs constitute the sample size of the study. The sample size represent 62.5% of the population. The researcher believes that a sample of 62.5% of the population is a fair representation of the population to enable valid conclusions.

3.4 SAMPLING TECHNIQUES

Stratified random sampling and systematic random sampling techniques were employed to obtain the sample size. This is due to the fact the population been researched is made up of sub-populations that are intra-homogeneous but inter-heterogeneous with respect to some characteristics. The sub-population will be based on the various core classes of the businesses such as bakeries, laundry and dry cleaning services, barbing and hair dressing, computer services and fashion designing, Restaurants welding and fabrication and block molding. The stratified random sampling will enable the researcher to classify the small scale businesses into the various classes which are non-overlapping sub-populations or strata from where systematic random sampling will be use to select the desired sample size. The 150 staffs will be numbered from 1 to 150. Using systematic random sampling, the researcher will select 2 staffs skips, the third and continue the process until sample of 100 staffs is selected.

3.5 INSTRUMENTS OF DATA COLLECTION

The major data collection instruments are the questionnaire – the quantitative research instrument which seeks structured responses that can be summarized in numbers like percentages and averages. Perreault and McCarty (2005). The questionnaire consists of questions with structured responses to simplify analysis. However, there were few open ended questions to enable the respondent to express him or herself. Another instrument used in gathering data was personal interview to enable the researcher get more in-depth and complicated information.

3.6 METHODS OF DATA COLLECTION

Primary data was collected by administering the questionnaire which consists of closed ended and open questions. The research questionnaire contained an introductory part which introduced the questionnaire to the respondent. The researcher personally administered the questionnaire to the respondents. Four days were given to the respondents to complete the questionnaire thereafter which to the respondents to complete the questionnaires thereafter which the research went back to retrieve the completed questionnaires. The researcher also personally interviewed the respondents to obtain more in-depth data on complex issues. Secondary data was collected through review of journals, textbooks and newspapers.

3.7 VALIDATION OF DATA COLLECTION INSTRUMENTS

Validation of data collection instruments is meant to ensure that the instruments measures what is supposed to measure and nothing

else. In study, the questionnaire was designed in such a manner to capture the necessary information to enable the researcher draw valid conclusions. The researcher deliberately used simple language to ensure that the respondents understand the questions properly. Besides, the questionnaires were verified and validated by experts to ensure that they are capable of enabling adequate capture of necessary and relevant information.

3.8 METHODS OF DATA PRESENTATION AND ANALYSIS

The data will be presented using tabulation, frequency of occurrence and simple percentages. The work is survey research and the sample size is more than 30. the problem is also two-tailed and the research work is inferential in nature. The chi-square distribution will thus be the statistic tool that will be used to use to analyze the data to enable valid conclusion.

CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 DATA PRESENTATION

Relevant data was collected for the purpose of this study through the questionnaire and interview. The data collected is hereby presented in this chapter. The presentation follows the order of the questions in the questionnaire.

One hundred (100) questionnaires were distributed to respondents but only 95% of them were correctly filled and returned. The remaining 5 could not be retrieved because the respondents were not able to fill and return them. The responses of the respondents in the questionnaires constitute the data which is hereby presented using tabulation, frequency of occurrence and simple percentages.

4.2 DATA ANALYSIS

4.2.1 DISTRIBUTION OF RESPONDENTS BY SEX

Table 1: Distribution of Respondents by sex

Sex of Respondents	Number	Percentage
Male	50	52.6%
Female	45	47.4%
Total	95	100%

Source: Field Survey, 2010

Table 2 above shows that 50 or 52.6% the respondents are Male while 45 respondents 47.4% are female. This almost equal distribution is obvious because, the sample has two male dominated

business in welding and fabrication as well as block molding while the female also dominate two of sampled businesses namely hair dressing salon and restaurants. The remaining businesses are of the female and male folk

4.2.2 DISTRIBUTION OF RESPONDENTS BY AGE

Table 2: Distribution of respondents by age

Age of Respondents	Number	Percentage
20 years or below	7	7.4%
21 – 30 years	35	36.8%
31 years and above	53	55.7%
Total	95	100%

Source: Field Survey, 2010

Only 7 or 7.4% of respondents were either 20 years or below. They constitute part of the employees of some of the small business. The respondents in this age brackets is small because few people at this age have ability, knowledge and educational qualification to be able to do the work as required by the businesses. 35 or 36.8% of the respondents are between 21 – 30 years. This age bracket has a high number because most of the employees of the small business fall within this age bracket. Respondents who are either 31 years or above are 55 or 55.7%, the respondents within this category were mostly the owners of the small businesses sampled.

4.2.3 DISTRIBUTION OF RESPONDENTS BY EDUCATIONAL QUALIFICATION

Table 3: Distribution of Respondents by Educational Qualification

Qualification	Number	Percentage
SSCE, OND & Below	43	45.3%
OND, NCE	28	29.5%
HND, Bsc, BA	20	21.1%
M.Sc., MBA, Ph.d	4	4.2%
Total	95	100%

Source: Field Survey, 2010

Distribution of respondents based on educational qualification according to table 3 above shows that 43 or 54.3% of the respondents have only secondary school education or less or no formal education at all. The respondents in this category cut across both employees and owners of the small businesses. The respondents with either Diploma or NCE were 28 representing 29.5% of the sampled population while those having HND, Bsc or BA were 20 or 21.1% of the population. Postgraduate degrees holders were only 4. They are owners of businesses.

4.2.4 DISTRIBUTION OF RESPONDENTS BASED ON CLASSES OF BUSINESS OR INDUSTRY

Table 4: Distribution of respondents based on Classes of Business

Class of business industry	Number	Percentage
Computer Services	13	13.7%
Hair dressing and barbing	12	13.7%
Bakeries	13	13.7%
Laundry & dry cleaning	13	12.6%
Fashion & Designing	12	12.6%
Restaurants	12	12.6%
Welding & Fabrication	10	10.55%
Block Molding	10	10.55%
Total	95	100%

Source: Field Survey, 2010

Number of respondents were almost equally spread among, the industries. However, computer services, Bakeries and Laundry and dry cleaning have more respondents. This obviously is from the fact that these businesses presented more number of employees for the sample size. The three businesses presented 39 respondents representing 41.1% of all the respondents. Hair dressing/barbing, Fashion designing and Restaurant businesses had 36 respondents all together while welding/Fabrication and block molding together have 20 respondents or 21.1%. The almost even distribution of respondents was done to ensure that all industries are fairly represented to enable valid generalizations.

4.2.5 RESEARCH QUESTION 5: DOES YOUR BUSINESS PAY TAX?

Table 5: Responses to Research Question 5 Above

Responses	Frequency	Percentage
Yes	95	100%
No	0	0
Total	95	100%

Source: Field Survey, 2010

The data as shown in table 5 above indicate that all the 95 respondents representing 100% stated that tax is paid in respect of the businesses. This implies that all small businesses sampled pay tax to various Government Agencies.

4.2.6 RESEARCH QUESTION 6: WAS THE BUSINESS EXEMPTED FROM PAYING TAX AT THE INITIAL STAGE OF ESTABLISHMENT?

Responses	Frequency	Percentage
Yes	95	100%
No	0	0
Total	95	100%

Source: Field Survey, 2010

There is total agreement by all the respondents that all the small businesses sampled did not enjoy tax exemption even during their early days of establishment. All the 95 respondents representing

100% collaborated that the businesses were not exempted from paying tax even when they were newly established.

4.2.7 RESEARCH QUESTION 7: STATE THE NAMES OF THE TAXES AND AMOUNT WHICH YOUR BUSINESSES PAY AND THE AGENCY THAT COLLECT THE TAX

Table 7: Average amount paid as Tax per small business per annum

S/N	Name of Tax	Agency collecting Tax	Amount per annum
1	Income Tax	Board of Internal Revenue	N6000
2	Fire Service Tax	State Fire Service	N2500
3	Business Tax	Min. of Commerce	N6000
4	Sanitation Tax	Urban Development Board	N2500
5	Sign Board	Local Government	N1000
6	Revenue Tax	Local Government	N3000
	Total		N21,000

Source: Field Survey, 2010

Table 7: Above shows that on the average, every small business pay at least N21,000 out of their annual income as tax to Government agencies every year. The taxes are paid to 5 different Government agencies.

4.2.8 RESEARCH QUESTION 8: IF THE AMOUNT YOU USED IN PAYING TAX WAS NOT USED TO PAY THE TAX WHAT WOULD YOU HAVE USED IT FOR?

Table 8: Responses to Research Question 8 above

Responses	Frequency	Percentage
Re-invest	92	96.8%
Withdrawn for personal use	3	3.2%
Total	95	100%

Source: Field Survey, 2010

An overwhelming majority 92 respondents representing 96.8% stated that the amount used in paying tax would have been ploughed back into the businesses for re-investment. 3 or 3.2% of the respondents stated that they would have withdrawn the amount used in paying tax for personal use. This means, most of the small businesses would re-invest the amount into the businesses.

4.2.9 RESEARCH QUESTION 9: IF THE AMOUNT USED IN PAYING TAX WAS RE-INVESTED, HOW MUCH PROFIT WOULD HAVE BEEN MADE FROM IT PER YEAR?

Table 9: Responses to Research Question 9 above

Amount of Profit	Frequency	Percentage
0 – N2,500	12	12.6%
N2,600 – N5,000	27	28.4%
N5,100 – N7,500	52	54.7%
N7,600 and above	4	4.2%
Total	95	100%

Source: Field Survey, 2010

From table 9 above, 12 respondents representing 12.6% of the respondents stated that their businesses would have made above N2,500 as profit per Year from the amount that was used in paying tax, 27 or 28.4% of the respondents stated that they would have gain up to N5,000 as profit from the amount paid out as tax had the amount been re-invested into the business. Majority of the respondents numbering up to 52 or 54.7% indicated that they would have earned profit of up to N7,500 on the amount used for tax had the amount not been used to pay tax. Only 4 respondents represent 4.2% could have gained of over N7,600 as profit if had not paid taxes but had re-invested the amount. This means on the average, most of the businesses would have made an additional gain of over N5,100 as profit if they had not paid taxes but had re-invested the amount. The N5,100 plus the amount initially used to pay the taxes represent a loss to the businesses.

4.2.10 RESEARCH QUESTION 10: IS YOUR BUSINESS GIVEN NOTICE BEFORE YOU ARE REQUESTED TO PAY TAX?

Table 10: Responses to Research Question 10 above

Responses	Frequency	Percentage
Yes	81	85.3%
No	14	14.7%
Total	95	100%

Source: Field Survey, 2010

From table 10 above, most the respondents indicated that they are given notice requesting them to pay tax in respect of the business. This enables the business owner to prepare him/her self. However, 14 respondents or 14.7% stated that demand notice is not given.

4.2.11 RESEARCH QUESTION 11: DO YOU AT ANY TIME HAVE TO LOCK-UP THE SHOP OR BUSINESS PLACE TO AVOID EMBARRASSMENT BY TAX OFFICIALS?

Table 11: Responses to Research Question 11 above

Responses	Frequency	Percentage
Yes	22	23.2%
No	73	76.8%
Total	95	100%

Source: Field Survey 2010

For fear of embarrassment, 22 out of 95 of the respondents representing 23.2% stated they had at one time or the other had to lock up their business until when they had money to pay the taxes demanded. However, most of the respondent representing 76.8% (73 respondents) said they had never locked up their business to avoid harassment from tax officials. This analysis shows that the issue of tax payment actively does disrupt the activities of some of the small business thereby leading to loss of revenue.

4.2.12: RESEARCH QUESTION 12: WHAT DO THE TAX OFFICIALS DO IF YOU FAIL TO PAY THE TAX?

Table 12: Response to Research question 12 above

Responses	Frequency	Percentage
Beat you	0	0
Summon you	60	63.1%
Seize your business items	28	29.5%
Seal your business	7	7.4%
Leave you	0	0%
Total	95	100%

Source: Field Survey 2010

Majority of the respondents to question 12 above stated that where you fail to pay the tax as demanded, you are summoned and consequently made to pay the tax plus fine. The respondents who gave this response were 60 or 63.1% of the respondents. However, 28 or 29.5% of the respondents stated that if you fail to pay tax as demanded, the officials will seize your working implements to force you to pay. A few respondents numbering 7 or 7.4% stated that a business is sealed if the owner fails to pay tax as demanded.

4.2.13: RESEARCH QUESTION 13: DO YOU INCREASE THE PRICE OF YOUR GOODS OR SERVICES AS A RESULT OF THE TAX YOU PAY?

Table 13: Responses to Question 13 above

Responses	Frequency	Percentage
Yes	73	76.9%
No	22	23.1%
Total	95	100%

Source: Field Survey 2010

Where as 22 or 23.1% of the respondents do not increase the price of their products as a result of the tax which they pay, 73 respondents representing 76.9% stated that they increased the price of their products as a result of the taxes they pay in respect of the business. This is obvious and in line with the principle of incidence of taxation where the burden of indirect tax is borne by the final consumer. Most owners of small businesses increase price of the products to make up for the expenses incurred on payment of taxes.

4.2.14: RESEARCH QUESTION 14: DO YOU INCUR EXTRA EXPENSE ON KEEPING RECORDS FOR THE PURPOSE OF TAX?

Table 14: Responses to Question 14 above

Responses	Frequency	Percentage
Yes	42	44.2%
No	53	55.8%
Total	95	100%

Source: Field Survey 2010

Respondents were almost equally divided on this question. Where as 42 or 44.2% indicated that they incur additional expenses for keeping records for tax, 53 or 55.8% stated that they do not incur extra expenses on keeping records for the purpose of tax.

4.2.15 RESEARCH QUESTION 15: HAS THE ISSUE OF TAX MADE YOU NOT TO ERECT SIGNBOARD TO ADVERTISE YOUR BUSINESS?

Table 15: Responses to Question 15 above

Responses	Frequency	Percentage
Yes	26	27.4%
No	69	72.6%
Total	95	100%

Source: Field Survey 2010

Response on research question 15 above shows that 26 respondents representing 27.4% indicated that issue concerning tax on signboard has actually made them not to erect signboard because they would affect payment of tax however, majority of the respondents 69 or

72.6% said that despite the tax imposed on sign boards, they still erect signboard to advertise their business.

4.2.16: RESEARCH QUESTION 16: DO YOUR BUSINESS BENEFIT FROM GOVERNMENT FOR PAYING TAX IN RESPECT OF THE BUSINESS?

Table 16: Responses to Research Question 16 above

Responses	Frequency	Percentage
Yes	19	20%
No	76	80%
Total	95	100%

Source: Field Survey 2010

As can be seen in table 16 above, 76% of the respondent representing 80% stated that they do not receive any assistance from the Government for their business. 19 respondents representing 20% however stated that they do receive assistance from Government for paying tax.

4.2.16 Research question 17: Do issues concerning payment of tax hindered expansion of your business?

Table 17: Responses to Research Question 17 above

Responses	Frequency	Percentage
Yes	69	72.6%
No	26	27.4%
Total	95	100%

Source: Field Survey 2010

69 of the 95 sampled population indicated that issues concerning payment of tax has hindered the expansion of their business. This is to say that payment of taxes or issues concerning payment of tax has in one way or the other has limited the expansion of their business. However 26 respondents representing 27.4% respondents indicated that issues concerning payment of tax have not hindered the expansion of their business in any way.

4.2.18: RESEARCH QUESTION 18: IS THERE ANY THING THAT IS YOU HAD DONE, IT WOULD HAVE IMPROVED THE TUNE OF YOUR BUSINESS BUT YOU HAVE NOT DONE IT BECAUSE IT WOULD ATTRACT PAYMENT OF ADDITIONAL TAX?

This was an open ended question and 32% of the state that they would have loved to erect signboards, diversified into related businesses etc but they are afraid because introduction of these things will attracts payment additional tax.

4.3 TESTING OF HYPOTHESIS

The aim of this section is to test the hypothesis using the data collected. The work is survey research and inferential in nature. The desire is to find out the dependence or inter relatedness of two variables on each other. The variables are tax and performance of small business in Yola – North Local Government. The sample size is also more than 30, the chi-square distribution is therefore the most appropriate statistical tool used to test the hypothesis to enable interpretation of the data collected.

The formula for calculating chi-square = $X^2 = \sum \frac{(O_i - e_i)^2}{e_i}$

Where e_i = expected frequency

O_i = observed frequency

$E_i = \frac{\text{Raw Total} \times \text{Col}_j \text{ Total}}{\text{Grand Total}}$

The researcher has decided to use the data collected on question 8 since it is the question that has provided data concerning what the respondents would have used the money for if it were not used to pay tax which also leads to the resultant effect of the tax on the business.

Research Question 8: If the amount used in paying tax was not used to pay the tax, what would you have used it for?

Table 8: Response to question 8 above classified according to class of business

Responses	Computer Services	Hair Dressing	Fashion Designing	Bakeries	Laundry & Dry Cleaning	Restaurant	Welding & Fabrication	Block Molding	Total
Re-Invest	13	12	11	12	13	12	9	10	92
Withdrawn for personal use	0	0	1	1	0	0	1	0	3
Total	13	12	12	13	13	12	10	10	95

$$X^2 = \frac{\text{Row Total}}{\text{Grand total}} \times \text{Col}_j \text{ Total}$$

$$ei1 = \frac{92}{95} \times 13 = 12.59$$

$$ei2 = \frac{92}{95} \times 12 = 11.62$$

$$ei3 = \frac{92}{95} \times 12 = 10.65$$

$$ei4 = \frac{92}{95} \times 12 = 11.62$$

$$ei5 = \frac{92}{95} \times 13 = 12.59$$

$$ei6 = \frac{92}{95} \times 12 = 11.62$$

$$ei7 = \frac{92}{95} \times 9 = 8.72$$

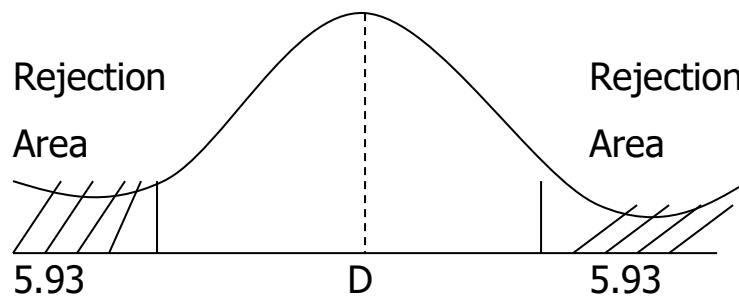
$$ei8 = \frac{92}{95} \times 10 = 9.72$$

Table for Calculating Chi-square

O _i	e _i	O _i - e _i	(O _i - e _i) ²	$\frac{(O_i - e_i)^2}{e_i}$
13	12.59	0.41	0.1681	0.01335
12	11.62	0.38	0.1444	0.01243
11	11.62	-0.62	0.3844	0.033081
12	12.59	-0.59	0.3481	0.02783
13	12.59	0.41	0.1681	0.01335
12	11.62	0.38	0.1444	0.01243
9	9.68	-0.68	0.4624	0.04777
10	9.68	2.32	0.6400	0.66115
0	0.41	-0.41	0.1681	0.4100
0	0.38	-0.38	0.1444	0.3800
1	0.38	0.62	0.3844	0.01158
1	0.41	0.59	0.3841	0.84902
0	0.41	.0.41	0.1681	0.41000
0	0.38	-0.38	0.1444	0.38000
1	0.38	0.68	0.4624	1.44500
0	0.32	0.32	0.1024	0.32000

$$\sum \frac{(oi - ei)^2}{ei} = 5.9324$$

From the table above, the computed value of $X^2 = 5.9324$



Decision Rule: If Chi – Square computed is less than Chi-Square tabulated then we accept the null hypothesis which states that taxes which small business pay have effects on their performance and reject the alternative hypothesis otherwise we reject the null hypothesis and accept the alternative hypothesis.

The degree of freedom formula, $FD = (R-1) (c-I)$

Where R = Number of Rows

C = Number of Columns

From table 8, $R = 2, C = 8$

$$\begin{aligned} \text{Therefore } F &= (R-I) (c-I) \\ &= (2 -1) (8-I) \\ &= (1) (7) \\ &= 7 \end{aligned}$$

At 5% level of significance

$$\alpha = 5\% = 0.05$$

$$X^2 \text{ tabulated} = 14.07$$

$$X^2 \text{ Cal.} = 5.9324$$

$$X^2 \text{ Tab.} = 14.07$$

$$X^2 \text{ Cal} < X^2 \text{ Tab} \text{ (} X^2 \text{ Cal is less than } X^2 \text{ Computed)}$$

Decision: We therefore accept the null hypothesis which states that taxes which small business pay have effects on their performance and reject the alternative hypothesis.

4.4 RESEARCH FINDINGS

The aim of this section is to present the results of the findings of this research as gathered from data on the questionnaire and from the interview.

The following were the findings

1. The data gathered shows that the selected small businesses in Yola actually pay at least six (6) types of tax to different government agencies. The businesses were not even exempted from paying the tax even during their infancy state. This was the unanimous position of all the 95 respondents.
2. It was also discovered that the businesses selected for study pay an average of N21,000 per annum as tax to five Government agencies or departments.
3. On the question of what they would have done with the amount they used in paying the taxes, 96.8% of the respondents stated that they would have re-invested it into the business. Compared with 3 respondents (3.2%) who said they would have withdrawn the amount for personal use means on the whole, most of the business would have re-invested the amount which would led to more growth and expansion of the business.
4. Majority of the respondents stated that they would have made up to N7,500.00 or more as profit from the N21,000 had it not been used to pay tax. 56 respondents representing about 59% of the

sampled population gave this affirmation. 27 respondents indicated that they would have made up to N5,000 while 12 respondents stated that they would have gained at least N2,500.00 if they had not used the amount to pay tax. In summary, all the businesses surveyed would have made extra profit if they had not used the money to pay tax.

5. It was also discovered from the data gathered that, the business are given notice before they are eventually demanded to pay the taxes. This was the view of 81 respondents which make up 85.3% of the sampled population. However, 14 respondents representing 14.7% the stated that demands notice is not given to them.

6. The research findings also led to the discovery that small business owners are actually summoned and fined if they fail to pay the tax. 28 of the respondent representing 29.5% however differ in their response. According to them, the tax officials would actually seized you business items or working tools if you fail to pay the tax. A panty member of respondents (about 7 of them) stated that the tax officials would seal your business if you fail to pay the appropriate tax demanded.

7. The data gathered from the research also show that some business owner do lock up their shops to avoid embarrassment from tax officials any time the tax officials are coming and the action definitely will disrupt business activities and reduce the revenue and profit which such business would have made during that period. However the respondents that lock up shops to avoid embarrassment from tax officials constitute only 23.2% of the

sampled population. Most of the respondents which constitute about 76.8% have never closed their shops to avoid embarrassment from tax officials. Further interview reveal that those that said they have never closed their shops actually pay their tax promptly hence there is no cause for embarrassment from tax officials.

8. The data gathered from the questionnaire also reveal that no small business is able to evade tax as the option recorded no response as show in table 12. The data actually show that where any business fails to pay the tax, the owner is summoned and at the end will have to pay the tax plus a fine. In some case however, the tax officials may seize the working implements of the defaulting business to force them to pay the tax. In any case, both action tends to disturbed the businessman operations directly or disturbed the owner thereby causing loss of man hours and hence revenue.

9. Another important findings from this research is that most of the small business selectively surveyed stated that they are forced to increase price of their products to enable them cover the expenses on tax. This is indicated by 73 or 76.9% of the respondents. Only 22 out of the 95 respondent stated that they do not increase the price of their goods or services as a result of payment of tax.

10. A little above half of the respondents 55.8% indicated that they do not incur extra expenses on keeping accounts for the purpose of tax. Conversely, 44.2% agreed that they do incur additional expenses as a result of keeping records for the purpose of tax.

11. Although majority of the respondents (60 out of 95) stated that the issue of tax on signboard has never discouraged them from erecting one as it is a veritable means for advertising the business.

They nevertheless lamented about the tax as gathered in further interview with some respect. 35 respondents would out rightly not mount signboard to avoid additional tax.

12. Most of the respondents representing 80% indicated that they do not benefit any thing from paying taxes. Only 19 respondent of 20% indicated that they benefit from government for paying tax.

13. 69 respondents representing 72.6% indicated that issues concerning paying tax actually impede their expansion effort while 26 or 27.4% opposed this insinuation. They are of the view that issues concerning payment of tax have not mitigated the expansion effort of the businesses.

14. It was discovered that some of the small business do avoid some form of diversification and addition of certain things which can bring about additional profit due to the fact that such will attract payments of tax.

15. Test of Hypothesis also revealed that taxes which small businesses in Yola North Local Government pay affect the performance of the businesses.

4.5 DISCUSSION OF FINDINGS

The research work led to confirmation that small businesses pay tax and they are indeed expected to pay right from the day they were established. This is to say that even at the infant stage when they are struggling to established them in the market and absorb cost associated with initial establishment; they are not exempted from paying tax. This is confirmed by the 95 respondents to the questionnaire.

Indeed payment of tax affects the overall performance of the small business. The research findings show that small business in Yola-North Local Government spend at least N21,000 from the business earning to pay tax. Further findings reveal that most of these business would have re-invested the N21,000.00 and more than 50% of the respondent confirmed that they would have made at least N5,100 as additional profit if they had not used the N21,000 to pay tax. This no doubt means that the profitability ratio of the firm is reduced. This will consequently affect their performance adversely and reduce their expansion efforts.

Issues concerning payment of tax also affect small business in diverse manners. The research findings reveal that some business owner who have not got the money to pay the taxes as demanded sometimes lock-up their business when they learn that the tax officials are going round. This was affirmed by 23.2% of the respondent representing 22 respondents. Similarly 88 respondent representing over 92% of the respondent confirmed that when a small business fail to pay tax, the owner is summoned or in some case the tax officials would seize some of the working tools of the business. Both actions will ultimately lead to disruption of business and lead to loss of revenue and profit consequently. In this way, one can say that the issue of payment of the affects the performance of small business in a negative manner.

Advertisement is very important for all businesses. It is a promotional tool that informs, educates the prospective customers about the existence and usage of a product or services of a business.

Unfortunately, the unwillingness of some small business to erect signboard for fear of paying additional tax adversely affects the businesses. It deprives them of all functions such as creation of awareness about the businesses, stimulating demand for product and services of the businesses. This invariably reduces sales, revenue and profit which could have helped the business to expand. This is the implication of the action of 27% of the respondents.

From the findings, it is discovered that most small businesses usually increase the selling price of their products to make up for the amount they spend on taxes, 73 respondents representing 16.9% of the sampled population confirmed this. Cost of operation of business in Nigeria generally is very high due to inadequate electricity supply, high cost of fuel, high cost of raw materials. These on its own usually make cost of goods and services to be high. When the small businesses which are at disadvantage competing with the large business are forced to further increase their price due to additional expenses arising from taxes, many of them will not be able to attract much patronage because their price would be less competitive when compared with large business. If sales declines to a certain point the small business may be forced out of business. If this happens and the business closed down the employees will loss their job which then affect the society. In this sense, the lack of subsidy for small business can be said to be affecting them adversely.

As it was discovered in the findings, some of the small business even incur extra expense keeping records for tax purposes, 44.2% of the respondents confirmed this. Further probing by interview clarified

that such expenses arise from employing formally trained personnel to keep financial records of the business as income tax depends on the income of the business.

Finally, 72.6% representing 69 respondents stated that issues concerning payment of tax actually mitigate them from expanding their businesses. Actually, the discoveries which have been found to be direct effects of tax on small businesses are capable of hindering the growth and expansion of small businesses. Some respondents 26 representing 27.4% attested to these issues like increasing price of products, not erecting signboard which could lead to advertisement reduction in profit level due to diversion of investible income for payment of tax, and lack of zeal to diversify or expand the business as such will lead to payment of additional tax all affect adversely, the performance and expansion desires of small business.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter presents the summary of the study as well as conclusions drawn from the finding of the study. Recommendations are then made based on the findings. This chapter concludes with recommendations for further study.

5.1 SUMMARY

Available economic data suggest that small firms make important economic contributions to the performance and growth of every economy. They account for majority of the private sector jobs, generate many technological innovations and serve as agent of revitalization and structural change. Their contributions arguably seem to under gird strong support for Government policies to support small businesses. With the significant role which small business play, one would expect that the government would not only create an enabling environment for the growth of these businesses, but that adequate encouragement and support will be given to the small businesses to enable their growth and development. Although Government has established performs such as small and medium Enterprise and Development agency (SMEDAN) to offer support to small businesses, many factors seem to impede the growth and development small businesses in Nigeria in general and Yola-North in particular. Besides lack of funds for expansion, inadequate managerial enterprises, inadequate Government support, multiple

taxation constitute impediments to the growth and expansion of small businesses in Yola.

By paying tax small business are made to part with their money which they would have re-invested for further profit and expansion. If you take money away from business, then they won't have the resources to expand and enter into new projects. Under these circumstances, if a company finances a project out of pocket, it pays in a opportunity cost sense, an implicit interest rate of prime minus one. However, if it has to finance it through it through a bank, it pays on interest rate. Thus a lot of projects that would be profitable if financial internally, will have a low or negative returns on investment if finance through a bank. Allow small business to keep more of their money will increase the number of profitable investment opportunities they have, so the story of the higher economic growth from the income effect of lower business taxes appear to have a great deal of merit.

Issues concerning payment of tax do actually affect small businesses in several ways. It was gathered that some of the business do not even mount signboard which should help to advertise their businesses. This reduces the level of awareness of members of the public about such business. This no doubt leads to reduction in patronage and revenue.

As a way out of the make up for the taxes, most of the small businesses tend to increase price of their products. But again, this has repercussions about all performance of the businesses. It could lead to low patronage because the price may become higher than

those of larger firms. Customers may begin to defect from the small firms. This might consequently cause them to loss out of business which will make their employees to loss employment with resultant effects on the society.

A cursory look at the owners of small shows that many of the businesses are owned by women who used the business to strongly support the family system in Yola North. These women owned businesses are more likely to hire a diverse workforce; put in place desirable childcare programmes and pay full benefits to employees. All these call for the need to provide tax subsidies which is eroded by the present tax system facing small businesses in Yola North Local Government.

5.2 CONCLUSION

The study makes four major significant findings which serve as the basis for making condition.

- i. Small business in Yola-North Local Government of Adamawa are not exempted from paying tax even during their infancy stage.
- ii. The small business uses significant revenue to pay taxes. These findings put the amount at minimum of N21,000.
- iii. If the small businesses had not use that money in paying tax they would have re-invested it and would have made addition profit on the money.
- iv. That taking the money away from small business makes them to loss the additional profit they would have made.

Besides, it deprives them of invertible funds for further expansion.

From the result of the hypothesis tested which accepted the null hypothesis and rejected the alternative hypothesis as well as the findings as discussed above, this study has come to the conclusion that payment of taxes by small businesses actually affects their performance especially in terms of profit, growth and development.

5.3 RECOMMENDATION

This research work has made very important discoveries (findings) regarding the effects of taxes on performance of small businesses in Yola North Local Government Area of Adamawa State. In view of the findings which show that the performance of small businesses is affected adversely by the multiple taxes which they pay, the researcher has hereby made the following recommendations.

1. The Government and other concerned authorities should review the environment within which small businesses are operating with a view to enhance the establishment, growth and development of small businesses in Yola North Local Government and indeed other Local Governments in Adamawa State.
2. Going by the fact that multiple taxes which the small businesses are paying are adversely affecting them, it is hereby recommended that the present tax framework should be re-examined with a view to reducing the amount and types of taxes which small businesses in Yola North Local

Government are made to pay so that the small businesses will have more cost free funds at their disposal to re-invest in their businesses for more profit.

3. Government at Federal and especially at State level should create more ways of assisting and supporting small businesses as part of efforts towards reducing poverty. The support strategies from government should be devoid of stringent requirements.
4. Infant small businesses should be exempted from paying tax at least for the first 3 years of their establishment to enable them absorb initial cost and pressure of establishment.
5. Government should encourage and aid individuals to establish small businesses since they have been discovered as being the greatest source of employment, technological innovation, and agents of structural change and utilization of local raw materials.
6. Government should find ways of funding her increasing expenditure by striving to earn revenue from other ways instead of increasing taxation of small businesses in Yola North Area of Adamawa State.

5.4 SUGGESTIONS FOR FURTHER STUDIES

1. This study can be carried out to cover the whole of Adamawa State instead of restricting it to only Yola North.
2. An investigation into the reasons why many small businesses in Yola North fail in the first 3 years of establishment.

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Appendix i

Department of Management,
School of Management and
Information Technology,
Federal University of Technology,
Yola
March, 2010

Dear Respondent,

I am a MBA student of the Federal University of Technology, Yola. I am undertaking a research on the Impact of Taxes of Small Scale Business in Yola- North Local Government of Adamawa State. I hereby request your assistance in answering the attached questionnaire to enable the realization of the object of the study.

The information you will provide will be kept very confidentially and would be used strictly for the research work. The success of research depends very much on your cooperation as you respond to the questions. Your cooperation is highly appreciated.

Thank you.

Yours Sincerely,

Bee, Boniface Terngu

QUESTIONNAIRE

Please tick your choice or fill in your answer as appropriate

1. Sex: Male Female
2. Age: 20 years or less than
 21 – 30 years
 31 years and above
3. Educational Qualification: FSLC, SSCE
 OND, NCE
 HND, B.Sc, BA
 M.Sc MBA, P.hd
4. Class of Business.....
5. Do your Business Pay Tax? Yes No
6. Was the Business exempted from paying Tax at the initial stage of establishment? Yes No
7. State the names of the Tax and amount which your Business pay and the agency that collect the Tax:

S/N	Name of tax	Agency Collecting Tax	Amount pre Year

8. If the amount you used in the Tax was not used to pay the Tax, what would you have used if for?
 Re-invest
 Withdraw for personal use

9. If the amount used in paying Tax was re-invested, how much profit would have been made from it per month or year?
 ₦.....
10. Is your Business given notice before you are requested to pay Tax? ? Yes No
11. Do you at any time have to lock-up your shop to avoid embarrassment by Tax Officials? ? Yes No
12. What do Tax officials do if you fail to pay the Tax?
- | | |
|--------------------------------|--------------------------|
| Beat You | <input type="checkbox"/> |
| Summon/Arrest you | <input type="checkbox"/> |
| Seize your business properties | <input type="checkbox"/> |
| Seal your Business | <input type="checkbox"/> |
| Leave you | <input type="checkbox"/> |
13. Do you increase the price of your goods or services as a result of the Tax you pay? Yes No
14. Do you incur extra expenses in keeping records for the purpose of Tax? Yes No
15. Has the issue of Tax made you not to erect signboard to advertise the Business? Yes No
16. Do your Business benefit from Government for paying Tax?
 Yes No
17. Do issues concerning payment of Tax hindered expansion of your Business? Yes No
18. Is there anything that if you would have done, it would have improved the fortunes of your Business but you have not done it because it would attract payment of additional Tax?