

## Effect of Multiple Taxes on the Performance of Small Scale Leather Enterprises in Aba, Abia State, Nigeria

Ubani, E.C.,<sup>1</sup> Emelogu, L. C.,<sup>1</sup> Nwankwo. D. O.<sup>1</sup> and Aruocha, N. O.<sup>2</sup>

<sup>1</sup>Department of Accountancy, Abia State Polytechnic, Aba

<sup>2</sup>Department of Agricultural Economics, Michael Okpara University of Agriculture, Umudike

**Abstract:** *This research examines the effect of multiple taxes on the performance of small scale leather enterprises in Aba, Abia State, Nigeria. The specific objectives of this study include; to examine the extent of perception on the role multiple taxes play on investment decision of small scale leather entrepreneurs, to ascertain the effects of multiple taxes on the performance of small scale leather entrepreneurs and to evaluate the effects of multiple taxes on the profitability of small scale leather enterprises. Multistage sampling technique was used to select eighty (80) respondents which is made up of 40 small scale leather entrepreneurs from Ariaria International Market and 40 small scale leather entrepreneurs from Ahia Ohuru in Aba. Data were obtained from primary sources and analyzed using percentages, means and regression. The results revealed that the overall mean score of the respondents of 3.25 was greater than the decision mean score of 3.00 and this indicates that multiple taxes influenced the investment decision of the small scale entrepreneurs in the study area. Multiple taxes influenced the size of leather businesses with a mean of 3.64, ranked 1<sup>st</sup> amongst others on the perception of the business owners on the role of multiple taxes on their investment decisions. The study also revealed that multiple taxes affect both the performance and profitability of the small scale leather entrepreneurs in the study area. In view of this result, the study recommends among other things that government should make conscious efforts towards defining particular taxes meant for small scale entrepreneurs as this will avoid the three tiers of government collecting taxes of the same type from the a particular small scale enterprise.*

**Keywords:** *Multiple Taxes, Investment Decision, Profitability, Performances, Leather Enterprises*

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### Introduction

Taxes play crucial roles in the developmental process of an economy of any nation. This role has to do with provision of finance for government expenditure (Onwe, 2006). There are three main objectives of taxes which include; raising of revenue for the government, regulating the economy and economic activities, and controlling of income and employment. A tax may be imposed for the above purposes but it has effects on the behavior of the payer and some variables within his

income and consumption function (Onwe, 2006). However, within the context of this work, all compulsory payments made by individuals, enterprises and institutions to the government are regarded as taxes. Multiple taxes on the other hand, is the imposition of different types of taxes that could have come under one major tax form on the people or organizations by the government.

Ojochogwu (2012) notes that taxes should be chosen so as to minimize interference with economic decisions. A good tax system should permit efficient and non-arbitrary administration and should be understandable by the taxpayer. In Abia State, the following taxes or levies (as they are called by the government agents that impose them) are being paid by leather producers: Personal Income Tax, Sanitation Fee, Market Toll, Business Registration fee, Fire Service Fee, Development Levy, Education Levy, Advert Fee, Product Levy, Haulage Fee, etc. Some of these taxes are being unnecessarily split into many kinds of taxes to the detriment of the entrepreneurs. Hence, the leather industry in Nigeria offers a huge potential for growth and employment even though it constitutes mainly of SMEs (Amakom, 2006). The question now is, does the multiplicity of taxes enhance or constrain the operational capacities of small-scale leather enterprises?

### **Objectives of the Study**

The main objective of this study is to examine the effects of multiple taxes on small-scale leather enterprises' performances in Aba, Abia State. Specifically, the study aims at the following:

- i. To examine the extent of perception on the role multiple taxes play on investment decision of small scale leather entrepreneurs.
- ii. To ascertain the effects of multiple taxes on the performances of small scale leather entrepreneurs.
- iii. To evaluate the effects of multiple taxes on the profitability of small scale leather entrepreneurs.

### **Research Hypotheses**

The following null hypotheses are formulated:

Ho<sub>1</sub>: There is no significant difference in the mean scores of small scale leather entrepreneurs' perception on the role multiple taxes play on their investment decision.

Ho<sub>2</sub>: Multiple taxes do not significantly affect the performances of small scale leather entrepreneurs.

Ho<sub>3</sub>: Multiple taxes do not significantly affect the profitability of small scale leather entrepreneurs.

### **Literature Review**

#### **Conceptual Issues**

Taxes generally provide for government revenues which help them in carrying out their duties. Bhatt (1973) defines tax as a means by which government appropriate part of private sector's income and expenditure as its revenue for the purpose of meeting recurrent expenditure and creating public capital formation towards the development and growth of goods and services-of the economy. Ola (1987) defines tax as the demand made by the government of a country for compulsory payment of money by the citizens of the country. Tax is also conceived as the transfer of resources from the private sector to the public sector in order to accomplish some of a nation's economic and social goals (Okezie, 2003).

A good tax system possesses the following qualities: fairness, convenience, simplicity, and minimum cost of collection and minimum distortions. Bird & Zolt (2003) cited in Ofoegbu,

Akwu & Oliver (2016) posit that effective and efficient tax system can assist the government generate enough revenue to take care of its estimated expenditure, meet the needs of the people and effectively participate in the world economy.

Bhatt (1973) notes that the tax system is an organic part of the economic system, and hence it is essential that there be some certainty and stability about its basic features. He also posits that a large number of ad hoc changes each year create a climate of uncertainty, which hampers productive effort and diverts valuable scarce resources towards speculative and other undesirable channels as well as encouraging efforts to circumvent the government measurers. Thus, the qualitative aspect of taxes in the conventional economic analysis is not much concerned with the revenue-yielding capacity of a tax but with its effects on economic units who are subjected to the payment of tax.

Multiple taxes occurred when an income suffered different forms of tax. Multiple taxes is the imposition of different types of taxes that could have come under one major tax form on the people or organizations by the government.

### **Tax Multiplicity**

Tax Policy in Nigeria has been largely used to generate maximum revenue for the government and as a result, its use for optimal allocation of resources or redistribution of income is being neglected. Anyanwu (1997) posits 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 the imposition of different types of taxes 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 taxes". Fishman & Svenson (2000) reveal that so many taxes are imposed at different or supplementary rates and it involves different tax bases and different times of payment.

In Nigeria, tax policy planning is not clearly assigned to specific unit. Any change in tax law is usually designed in ad hoc manner and is based on expediency rather than on long-term studies, (Anyanwu, 1997). In line with this view, Utomi (2000) asserts that Nigeria has a confused taxes philosophy. This results in proliferation of taxes and tax laws hence tax multiplicity. Feld & Frey (2007) reveal that over 300 different taxes are paid by tax payers in some African countries while in some Asian countries, local officials impose dozens of illegal charges from fees for growing bananas to taxes on slaughtering pigs-either to top up (increase) the local finances or pad their pockets. Among the three tiers of government in Nigeria, the local governments involve themselves more in the issue of tax multiplicity.

### **Relevance of Small Scale Leather Businesses to the Development of National Economy**

Small-scale enterprises are dominating other aspects of enterprises in Nigerian economy. The importance and contributions of small-scale leather enterprises to national economy's growth cannot be over-emphasized. They play a crucial role in providing solid base for a country's socio-economic development. Small-scale leather enterprises produce goods for both end and intermediate users and also utilize low capital cost for creating jobs in the fast growing sector of the economy. Ojochogwu & Stephen (2012) assert that probably up to 90 percent of all registered business organizations in Nigeria are in the category of small and medium scale enterprises.

Mead and Liedholm (1998) opine that small and medium scale enterprises provide productive employment and earning opportunities. Longnecker, Moore & Petty (1997) posit that small scale enterprises in United States of America have created over 3 million new jobs in manufacturing between 1976 and 1986. Small scale enterprises also play a vital role in

introducing innovations. Records show that many scientific breakthroughs have originated with independent inventors and small organizations. Several studies by the US Department of Commerce show that 50 percent of all innovations since World War II have come from new and smaller firms (Longnecker, Moore & Petty, 1997).

Ekator (2001) asserts that most countries in the world that have attained advanced stage in industrial development did so because they started their industrial development with programmes in the small and medium scale enterprises. Small scale enterprises foster linkages within industries and between industries and other sectors of the economy (Uchechukwu, 2003). Small scale enterprises can also contribute to long-run industrial growth by producing an increasing number of firms that grow up and out of small - scale sector.

### **Effects of Taxes on Small Scale Leather Enterprises**

Generally, effects of taxes refer to all the changes in the economy as a result of tax imposition. Anyanwu (1997) notes that the presence of tax distorts the pattern of production, consumption, investment, employment and other similar patterns for good or for bad. Hanefah, Ariff & Kasipillai (2002) had the same view that tax affects production. They further opine that the extent to which the volume of production is affected by a tax depends upon its influence on the ability and the desire to work, to save and to invest. To estimate the effects of taxes on production and profitability would require knowing the effects of tax on the allocation of existing productive resources. A change in taxes will cause a realignment of consumers' wants and the reallocation of factors of production. This affects the demand for goods and services of the products of small-scale enterprises. Anyanwu (1997) posits that all taxes have immediate effect of reducing the volume of resources available for investment in the private sectors.

Evguenia (2004) asserts that one of the main obstacles for the development of private sector small enterprises is a heavy taxes burden to which is added a corrupt system of tax. Longnecker, Moore & Petty (1997) reveal that taxes are serious burden imposed on small businesses' cash flow and, therefore, represent a costly drain on the financial health of small firms. Louis (2008) asserts that the current level of regulations (government regulation including tax) is so high, so complicated and so intensive that it is strangling businesses and suppressing productivity of small businesses.

## **Methodology**

### **Study Area**

The study was carried out in Aba, Abia state. Aba is the major industrial town in Abia State. The markets that draw international attention are found located in Aba. The two largest markets are Ahia Ohuo and Ariaria International markets which also are the major choice of market location of this study. The reason for this choice of these two markets was because they are prominently known for profound leather activities from production to sales and marketing of leather accessories.

### **Sampling Technique**

A multi-stage sampling method was adopted for the study and the sampling procedures followed was first, a purposive selection of Aba Metropolis because of its industrial dominance comparable to the other cities in Abia State. Secondly, another purposive selection of Ahia Ohuo and Ariaria International markets was made because of their dominance in leather based investment. Further, a random sampling of forty small scale leather entrepreneurs from each of the selected market (Ahia Ohuo and Ariaria International markets) was selected making a total of eighty (80) entrepreneurs. Hence, the sample size for this study is eighty (80) entrepreneurs.

**Sources of Data Collection**

Data for this research study were collected mainly from primary sources which involved the issuing of well-structured questionnaire to the small scale leather entrepreneurs in the identified markets in Aba, Abia state. Oral interview was also conducted to supplement the responses from the questionnaire.

**Analytical Technique and Model Specification**

Model for achieving the objectives was analyzed as follows;

To achieve objective one (1) A 5 point Likert scale was used to evaluate extent of perception on role multiple taxes play on investment decision of small scale leather entrepreneurs. The mean responses of the respondents on each assessment question was derived based on a five (5) point scale of

Very High Extent (VHE) = 5,

High Extent (HE) = 4,

Moderate Extent (ME) = 3,

Low Extent (LE) = 2 and

Very Low Extent (VLE) = 1.

A standard mean score of 3.00 was taken as the minimum acceptable value (decision mean score). A mean score of 3.00 was taken as acceptable and important value while any mean score below 3.00 was taken as not acceptable and not important value. Objectives two (2) and three (3) which seek to examine the effects of multiple taxes on the performances and profitability of small scale leather entrepreneurs was analyzed using a multiple regression method.

The regression model for the effect of multiple taxes on performances of small scale leather entrepreneurs is given as:

$$PE = f (X_1+X_2+X_3+X_4+X_5+X_6,+X_7+X_8+X_9+X_{10} \text{ }_i)..... (3.1)$$

Where:

PE = The Performance of entrepreneurs in the area measured as Mean per Capita Household income (MCHI).

X<sub>1</sub>= Sanitation/environmental levies measured in Naira

X<sub>2</sub> = Market levies measured in Naira

X<sub>3</sub> = Shop levies measured in Naira

X<sub>4</sub> = Infrastructural development levy measured in Naira

X<sub>5</sub> = Signboard and advertisement permit fees measured in Naira

X<sub>6</sub> = Business premises registration measured in Naira

X<sub>7</sub> = income tax measured in Naira

X<sub>8</sub> = value added tax measured in Naira

X<sub>9</sub> = tenement rate measured in Naira

X<sub>10</sub> = Business permit measured in Naira

<sub>i</sub> = stochastic error terms

The regression model for the effect of multiple taxes on profitability of small scale leather entrepreneurs is given as;

$$PR = f (X_1+X_2+X_3+X_4+X_5+X_6,+X_7+X_8+X_9+X_{10} \text{ }_i)..... (3.2)$$

Where:

PR = The profitability of entrepreneurs in the area measured as Mean per Capita Household income (MCHI).

X<sub>1</sub>= Sanitation/environmental levies measured in Naira

X<sub>2</sub> = Market levies measured in Naira

X<sub>3</sub>= Shop levies measured in Naira

X<sub>4</sub> = Infrastructural development levy measured in Naira

X<sub>5</sub>= Signboard and advertisement permit fees measured in Naira

X<sub>6</sub>= Business premises registration measured in Naira

X<sub>7</sub> = income tax measured in Naira

X<sub>8</sub> = value added tax measured in Naira

X<sub>9</sub> = tenement rate measured in Naira

X<sub>10</sub> = Business permit measured in Naira

$\epsilon_i$  = stochastic error terms

### Results and Discussion

The Result on the extent of perception on the role multiple taxes play on investment decision of small scale leather entrepreneurs is presented in table 1

**Table 1: Responses from the respondents on the extent of perception on the role multiple taxes play on investment decision of small scale leather entrepreneurs.**

Perception	Very high extent	High extent	Moderate extent	Low extent	Very low extent	Mean score	Ranks
Multiple taxes influence the size of leather businesses	22 (27.25)	37(46.5)	5(6.25)	2(2.5)	14(17.5)	3.64	1st
Multiple taxes cause delay in stocking and restocking	18(22.5)	22(27.5)	12(15.0)	18(22.5)	10(12.5)	3.25	5th
Multiple taxes influence profit level	15 (18.75)	32(40.0)	15(18.75)	15(18.75)	3(3.75)	3.51	3rd
Multiple taxes influence frequency of sales and turnover	12(15.0)	15(18.75)	20(25.0)	22(27.5)	6(7.5)	2.87	7th
Multiple taxes influence amount of capital for investment	12(15.0)	15(18.75)	32(40.0)	15(18.75)	6(7.5)	3.15	6th
Multiple taxes influence increase in price of leather products	17 (21.25)	25(31.25)	15(18.75)	13(16.25)	10(12.5)	3.33	4th
Multiple taxes result to high rate of business liquidation	10(12.5)	20(25.0)	10(12.5)	22(27.5)	18(22.5)	2.77	8th
Multiple taxes result to relocation of businesses to areas of lower tax demands	15 (18.75)	39(48.75)	6(7.5)	14(17.5)	6(7.5)	3.54	2nd
Decision mean						<b>3.00</b>	
Overall mean score						<b>3.25</b>	
Total respondents						<b>80</b>	

**Field survey data, 2019.**

The results on table 1 on perception of respondents on the role multiple taxes play on investment decision of small scale leather entrepreneurs revealed that out of the eight (8) questions bordering on role of multiple taxes on investment decision, six items was perceived highly by the respondents. The overall mean score of the respondents ( $\bar{x} = 3.25$ ) was greater than the decision mean score ( $\bar{x} = 3.00$ ), this indicate that multiple taxes influenced the investment decision of the small scale leather entrepreneurs in the study area. The respondents perceived highly that Multiple taxes influence the size of leather businesses (Ranked 1<sup>st</sup>); Multiple taxes result to relocation of businesses to areas of lower tax demands (Ranked 2<sup>nd</sup>); Multiple taxes influences profit level (Ranked 3<sup>rd</sup>); Multiple taxes influence increase in price of leather products (Ranked 4<sup>th</sup>); Multiple taxes cause delay in stocking and restocking (Ranked 5<sup>th</sup>) and Multiple taxes influence amount of capital for investment which ranked 6<sup>th</sup>. The results conform with the findings of Onwe (2006) who posit that multiple taxes negatively influence the investment decisions of small scale leather entrepreneurs in his study area.

Effects of multiple taxes on performances of small scale leather entrepreneurs

The regression results for the effects of multiple taxes on performances of small scale leather entrepreneurs are shown in Table 2.

**Table 2: Regression result for the effect of multiple taxes on performances of small scale leather entrepreneurs**

Variable	Linear	Exponential	Semi-log <sup>++</sup>	Double-log
Sanitation/environmental levies	0.002(2.046)**	7.48E-05(0.130)	-2863.485(-1.917)*	0.094(1.813)*
Market levies	8.992(2.535)**	2.01E-02(0.090)	-2682.835(-1.867)*	-0.027(-0.334)
Shop levies	200.935(1.018)	-0.001(-1.923)*	-2659.195(-2.475)**	-0.135(-2.217)**
Infrastructural development levy	-785.478(-1.826)*	-0.005(-0.180)	174.420(1.804)*	0.138(0.046)
Signboard and advertisement permit fees	0.184(1.032)	2.46E-05(2.613)**	388.470(1.876)	1.166(2.318)**
Business premises registration	397.993(0.406)	-2.071(-1.830)*	-2809.598(-1.024)**	-0.280(-1.748)*
Income tax	299.001(2.041)**	-0.023(-0.211)	-352.994(-0.280)	-0.093(-0.810)
Value added tax	-90.327(-0.986)	0.003(0.029)	-767.612(-1.21 2)	0.024(0.422)
Tenement rate	245.935(1.218)	-0.031(-1.063)*	-259.195(-1.485)**	-0.167(-2.257)**
Business permit	-735.478(-1.826)*	-0.025(-0.180)	-194.420(-1.884)*	0.133(0.016)
Constant	-612.524(-2.521)**	0.084(1.916)*	3840.490(2.759)**	0.061(2.278)**
R <sup>2</sup>	0.675	0.637	0.696	0.642
Adj R <sup>2</sup>	0.642	0.608	0.669	0.618
F-Statistic	11.152***	10.397**	12.798***	11.297***
DW-test	1.858	2.572	2.104	2.355

Note: asterisk \*\*\*, \*\* and \* represent 1%, 5% and 10% significance levels respectively. Figures in brackets are t- values and variables are as defined in equation (3.13). ++ represents lead equation. Data collected from field survey by the authors, 2019

The semi-log model was selected as the lead model based on the magnitude of the coefficient of multiple determinations ( $R^2$ ), the signs of the regression coefficients as they conform to a priori expectations and the number of significant variables. The model showed that the explanatory variable included in the model accounted for 69.6% of the variation in performance of small scale leather entrepreneurs. The values of sanitation/environmental levies, market levies, shop levies, infrastructural development levy, business premises registration, tenement rate and business permit were the significant determinants of performances of small scale leather entrepreneurs.

Coefficients of sanitation/environmental levies, market levies and business permit were negatively but statistically related to the performance of small scale leather entrepreneurs at 10% level of significance. This result indicates that any increase in sanitation/environmental levies, market levies and business permit will lead to a reduction in the level of performance of small scale leather entrepreneurs and vice versa.

Shop levies, business premises registration and tenement rate were negatively and statistically related to the performance of small scale leather entrepreneurs at 5% level of significance, indicating an inverse relationship between the Shop levies, business premises registration and tenement and profitability of leather entrepreneurs. Infrastructural development levy was positively and statistically related to performance of small scale leather entrepreneurs at 10% significance level.

#### Effects of Multiple Taxes on Profitability of Small Scale Leather Entrepreneurs.

The regression results for the effect of multiple taxes on profitability of small scale leather entrepreneurs are shown in Table 3

**Table 3: Regression result for the effects of multiple taxes on profitability of small scale leather entrepreneurs.**

Variable	Linear	Exponential	Semi-log <sup>++</sup>	Double-log
Sanitation/environmental levies	6.96E-05(1.811)*	2.00E-07(2.222)**	-45.146(-2.466)**	1.122(1.782)*
Market levies	0.019(0.707)	6.33E-05(0.842)	43.842(1.081)	1.103(0.870)
Shop levies	0.001(1.574)	-2.21E-06(-1.693)	-58.852(-2.295)**	-1.093(-2.311)*
Infrastructural development levy	9.229(1.966)*	0.225(0.561)	-46.087(-1.925)*	6.366(1.753)*
Signboard and advertisement permit fees	0.006(1.005)	8.31E-06(0.543)	106.914(0.632)	0.129(0.262)
Business premises registration	-11.888(-1.736)*	-0.028(-1.090)	-21.824(-2.313)	-0.221(-1.454)
Income tax	12.121(0.122)	0.104(0.142)	-84.232(-2.874)***	0.273(3.200)**
Value added tax	-1.804(-0.525)	-0.071(-1.801)*	54.400(2.150)**	1.138(2.608)
Tenement rate	-21.888(-1.736)*	-0.088(-1.080)	-63.314(-1.216)	-1.219(-1.400)

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Business permit	52.123(1.122)	0.194(0.142)	-84.232(-2.874)***	0.273(3.200)**
Constant	-612.524(-2.521)*	0.084(1.916)*	3840.490(2.759)**	0.061(2.278)**
R <sup>2</sup>	0.674	0.778	0.720	0.687
Adj R <sup>2</sup>	0.640	0.735	0.703	0.643
F-Statistic	20.554	20.570***	13.319**	18.020**
DW-test	1.880	1.847	2.239	2.209

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Note: asterisk \*\*\*, \*\* and \* represent 1%, 5% and 10% significance levels respectively. Figures in brackets are t-values and variables are as defined in equation (3.13). ++ represents lead equation. Data collected from field survey by the authors, 2019

The semi-log model was selected as the lead model based on the magnitude of the coefficient of multiple determinations ( $R^2$ ), the signs of the regression coefficients as they conform to a priori expectations and the number of significant variables. The model showed that the explanatory variable included in the model accounted for 72.0% of the variation in profitability of small scale leather entrepreneurs

The values of sanitation/environmental levies, shop levies, infrastructural development levy, income tax, value added tax and business permit were the significant determinants of profitability of small scale leather entrepreneurs.

Coefficients of sanitation/environmental levies, shop levies, income tax and business permit were negatively but statistically related to the profitability of small scale leather entrepreneurs at 5% level of significance. This result indicates that increase in sanitation/environmental levies, shop levies, income tax and business permit will lead to reduction in the profitability of small scale leather entrepreneurs, and vice versa. Infrastructural development levy was negatively and statistically related to the profitability of small scale leather enterprises at 10% level of significance, indicating an inverse relationship existing between Infrastructural development and profitability of small scale leather entrepreneurs. Value added tax was positively and statistically related to performance of small scale leather entrepreneurs at 5% significance level. The F-statistics was significant and confirms the significance of the entire model. The Durbin-Watson statistic test for the existence of serial autocorrelation showed that there was no positive first-order serial autocorrelation at 1%, that is, DW (2.239) > Du (1.85).

### **Conclusion**

Based on the findings of this research work, the results show that small scale leather enterprises are influenced by multiple taxes in Aba, Abia state. The findings reveal that investment decision by small scale leather entrepreneurs are greatly affected by multiple taxes to a high extent. More so, perception that multiple taxes affect sizes of businesses result to relocation of businesses to areas with lower tax demands and affects the level of profitability by leather entrepreneurs amongst others were highly conceived in the study as core negative influence of multiple taxes on small scale leather enterprises in the study area. Also the findings concluded that multiple taxes significantly affect both performance and profitability small scale leather entrepreneurs in the study area.

## **Recommendations**

Based on the findings and conclusion of this research, the following recommendations are made:

1. Government of Abia state should endeavor to merge all annual taxes due for business enterprises together, in such a way that it can be acceptable, understandable and affordable by the small scale enterprises as this will help promote tax compliance amongst the business owners.
2. Government should also make conscious efforts towards defining particular taxes meant for small scale business owners as this will avoid the three tiers of government collecting taxes of the same type from the same particular small scale enterprise.
3. Taxes should be collected based on sizes and profits of small scale enterprises considering other factors that could constrain the performance of the small scale enterprise owners.
4. Imposition of excess burden (multiple taxes) should be eliminated.

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