

Evaluating the Impact of Multiple Taxation on the Financial Performance and Compliance Behavior of Small and Medium Enterprises (SMEs) in Nigeria

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Abstract

Original Research Article

The proliferation of taxes and levies across federal, state, and local governments in Nigeria has intensified fiscal pressure on Small and Medium Enterprises (SMEs), a critical sector that contributes significantly to employment and national income. This study investigates the impact of multiple taxation on the financial performance and tax compliance behavior of SMEs in Nigeria. Utilizing a descriptive and causal research design, primary data were collected from 400 SMEs across five states using structured questionnaires and analyzed with multiple and logistic regression models. The findings reveal a statistically significant negative relationship between multiple taxation and SME financial performance, as well as a strong inverse link between tax multiplicity and tax compliance. The study confirms that uncoordinated and excessive tax burdens reduce profitability, discourage business reinvestment, and increase the likelihood of non-compliance. The paper recommends a harmonized tax structure, enhanced taxpayer education, and the establishment of a single-window tax administration platform to promote SME growth and fiscal sustainability. These findings have significant policy implications for reforming Nigeria's tax landscape toward equity and economic development.

Keywords: Multiple Taxation, SMEs, Financial Performance, Tax Compliance, Nigeria.

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INTRODUCTION

Taxation is universally recognized as a fundamental tool for government revenue generation, socioeconomic development, and public service delivery. In Nigeria, however, the tax system has come under intense scrutiny, especially in its relationship with the development of small and medium enterprises (SMEs), which constitute the engine of economic growth, job creation, and innovation. While taxation is a necessary component of economic governance, the phenomenon of multiple taxation which refers to the imposition of numerous, often overlapping taxes by different tiers of government, has generated a growing concern among scholars, policymakers, and business operators regarding its negative

effects on enterprise growth and financial sustainability (Ofoegbu & Akwu, 2016). This problem is acute due to the federal structure of governance, wherein federal, state, and local governments simultaneously exercise taxing powers. Although the Nigerian Constitution (1999) delineates taxing authority among the three tiers of government under the Second Schedule, the practical implementation has led to regulatory overlaps and the creation of tax regimes that are inconsistent with the National Tax Policy and international best practices (Federal Republic of Nigeria, 1999).

SMEs are particularly vulnerable to the negative effects of multiple taxation. These businesses, which account for over 90% of the enterprises in Nigeria and contribute nearly half of the

country's GDP (SMEDAN & NBS, 2020), often operate with limited capital, minimal access to credit, and a weak financial structure. The multiplicity of taxes - such as Company Income Tax (CIT), Value Added Tax (VAT), Business Premises Levy, Development Levy, Local Government Operational Permits, Environmental Levies, and Signage Fees - places a disproportionate financial burden on them (Adebisi & Gbegi, 2013). Many of these taxes are arbitrary, duplicated, and sometimes collected through coercive means by unauthorized agents, further exacerbating business insecurity and informality.

This tax environment creates significant disincentives for tax compliance and transparent financial reporting. SMEs faced with multiple tax demands may resort to underreporting income, maintaining off-the-book transactions, or avoiding formal registration altogether (Oladipupo & Obazee, 2016). These actions not only erode the integrity of the accounting and financial system but also diminish the tax base and reduce government revenue. In essence, multiple taxation contributes to a vicious cycle of tax evasion, poor documentation, and weak financial performance (Uchenna & Richard, 2014).

Moreover, the economic cost of multiple taxation extends beyond the financial statements of SMEs. It impacts macroeconomic indicators such as employment, poverty reduction, innovation, and formal sector participation. Studies have shown that excessive taxation distorts pricing, reduces competitiveness, and may lead to business closures or relocation to tax-friendly jurisdictions (Ojong, Arikpo & Ogar, 2016). Consequently, the proliferation of taxes undermines the broader objectives of national development and fiscal federalism.

Despite efforts at tax reforms, including the enactment of the Finance Act (2019, 2020, 2021) and the review of the National Tax Policy, multiple taxation persists as a structural and administrative challenge. These reforms have not fully addressed the root causes of the problem, such as lack of intergovernmental coordination, inadequate taxpayer education, and the weak capacity of revenue authorities to harmonize and digitize tax administration (PwC

Nigeria, 2021). This gap underscores the need for a more targeted investigation into how multiple taxation impacts business performance and compliance behavior.

The issue of multiple taxation in Nigeria has become a chronic constraint in the business environment, particularly for Small and Medium Enterprises (SMEs), which are key drivers of economic growth, employment, and innovation. SMEs form the economic backbone of Nigeria, contributing over 48% to the Gross Domestic Product (GDP) and accounting for more than 80% of total employment (SMEDAN & NBS, 2020). However, their growth and sustainability are threatened by the prevalence of multiple taxation—a condition where different tiers of government impose numerous taxes, levies, and charges on the same income, asset, or economic activity. This condition has created a hostile and unpredictable fiscal climate for SMEs, undermining their financial performance and tax compliance behavior.

Multiple taxation occurs largely due to the structural fragmentation and legal ambiguities in Nigeria's fiscal federalism. Although the 1999 Constitution of the Federal Republic of Nigeria outlines the powers of taxation among the federal, state, and local governments (Second Schedule, Part I & II), the absence of a coordinated and integrated tax administration system has allowed for arbitrary and duplicative tax policies, particularly at subnational levels (Federal Republic of Nigeria, 1999). Consequently, SMEs are simultaneously subjected to statutory taxes such as Company Income Tax (CIT), Value Added Tax (VAT), Personal Income Tax (PIT), and Education Tax, as well as non-statutory levies including tenement rates, signage fees, sanitation charges, local government business permits, and more (Ofoegbu & Akwu, 2016). In most instances, these taxes are levied without proper assessment, justification, or consideration for the cumulative burden imposed on the business entity.

This complex tax environment has a detrimental effect on the operational and financial efficiency of SMEs. First, it increases the cost of doing business and reduces profit margins, which may ultimately lead to business downsizing, relocation to informal sectors, or outright closure

(Adebisi & Gbegi, 2013). Second, it discourages voluntary tax compliance and fosters distrust in the tax system. Business owners often view the tax regime as oppressive and exploitative rather than as a civic obligation for national development (Okoye, Akenbor & Obara, 2012). Third, multiple taxation promotes tax evasion and avoidance practices, as SMEs attempt to minimize their tax liabilities through informal accounting systems, underreporting of income, or complete exclusion from the formal economy (Oladipupo & Obazee, 2016).

Furthermore, the proliferation of taxes affects the quality of financial reporting among SMEs. In an attempt to evade the burden of multiple levies, many business operators engage in financial manipulations that distort the accuracy and reliability of financial statements. These practices hinder access to credit, deter investors, and compromise the broader principles of transparency and accountability in financial reporting (Uchenna & Richard, 2014). This, in turn, stunts the capacity of SMEs to scale operations, innovate, or attract partnerships that could enhance their economic contributions.

More critically, the extant academic literature reveals a limited empirical understanding of how multiple taxation influences the dual dimensions of financial performance and tax compliance behavior among SMEs in Nigeria. While some studies have documented the general effects of tax burdens (Adebisi & Gbegi, 2013; Ojong, Arikpo & Ogar, 2016), few have isolated the compounded impact of tax multiplicity or examined its implications on financial disclosures, profit retention, and business decision-making in a rigorous, sector-specific manner. As such, there remains a notable gap in the literature and in public policy that this study seeks to address.

Existing studies tend to treat taxation as a single, undifferentiated phenomenon without disaggregating its various dimensions, particularly multiple taxation, which entails the imposition of similar or overlapping taxes by different tiers of government. For instance, studies like that of Ojong, Arikpo, and Ogar (2016) focus broadly on tax policies and their influence on SMEs, but they do not distinguish between statutory tax obligations and the

unofficial or duplicative levies imposed by sub-national authorities. This lack of disaggregation obscures the unique challenges posed by tax multiplicity, which is arguably more distortive and punitive to SMEs than standard taxation.

Second, there is a conspicuous absence of empirical models that link multiple taxation specifically to financial performance indicators such as profitability, return on capital, liquidity ratios, and access to credit. While researchers such as Oladipupo and Obazee (2016) have examined how taxation affects SMEs' tax compliance and knowledge, there remains a weak empirical exploration of how multiple taxation influences the quality of financial reporting, accounting behavior, and business sustainability. Most available studies rely on descriptive or qualitative methodologies and often fail to present statistical evidence that quantifies the extent to which multiple taxation erodes firm performance.

Third, the majority of existing studies are not context-sensitive. Nigeria is a federal state with vast regional and local variations in tax enforcement, tax rates, and administrative practices. However, most prior research fails to account for the heterogeneity of tax experiences across Nigeria's geopolitical zones, states, and local government areas. For example, SMEs in Lagos State may face different tax pressures compared to those operating in Kano or Enugu, yet few studies compare these subnational variations. This regional gap limits the transferability and policy relevance of many existing findings (Ofoegbu & Akwu, 2016).

Fourth, little attention has been paid to the compliance behavior of SMEs in the context of multiple taxation. While compliance has been studied broadly in relation to taxpayer education and penalty systems (Okoye, Akenbor & Obara, 2012), there is a lack of research that examines how multiple taxation specifically influences SMEs' willingness to comply with tax obligations, their perceptions of tax fairness, and their decisions to remain in or exit the formal economy. This behavioral gap is crucial because perceived injustice and administrative harassment often drive informality, which in turn undermines national revenue collection and policy effectiveness.

Fifth, there is insufficient integration between accounting literature and tax policy research on this subject. While taxation is a fiscal issue, it has deep implications for the integrity and transparency of accounting records. Multiple taxation can lead to accounting distortions, falsified books, and informal reporting systems, yet few Nigerian studies have examined how tax multiplicity affects financial disclosures, auditing practices, or the application of accounting standards among SMEs (Uchenna & Richard, 2014). This lack of interdisciplinary exploration is a significant void, particularly in the context of Nigeria's push for financial inclusion and business formalization.

Finally, although several reforms have been initiated in recent years—including the Finance Acts (2019–2021), the National Tax Policy (2017), and the deployment of digital tax platforms—very few studies have assessed the post-reform landscape to determine whether these policies have alleviated or intensified the problem of multiple taxation. Without such post-reform evaluations, it is difficult to determine the effectiveness or shortcomings of recent tax initiatives (PwC Nigeria, 2021).

Therefore, this study aims to empirically examine the extent to which multiple taxation affects the financial performance and compliance behavior of SMEs in Nigeria. By evaluating the link between tax burden, accounting practices, and compliance incentives, the research seeks to provide evidence-based recommendations for reforming Nigeria's tax architecture in a way that promotes fiscal efficiency, business growth, and equitable development.

II. Conceptual Clarification

Multiple taxation is broadly defined as a situation where a single economic activity, transaction, or entity is subjected to more than one tax obligation by more than one authority, often resulting in a duplication or overlap of taxes. In federal states like Nigeria, this phenomenon is particularly prevalent due to the decentralization of taxing powers across federal, state, and local governments (Ofoegbu & Akwu, 2016). In principle, the Nigerian Constitution (1999) provides a clear demarcation of tax

jurisdictions, such as Company Income Tax and Value Added Tax for the federal government, and personal income tax and land use charges for the states. However, in practice, the lack of intergovernmental coordination and harmonization leads to the proliferation of levies, charges, and informal taxes imposed arbitrarily by state and local government authorities (Adebisi & Gbegi, 2013).

For SMEs, multiple taxation often translates into the imposition of several uncoordinated levies—such as signage fees, business premises levies, sanitation fees, market taxes, environmental levies, and local government permits—alongside national statutory taxes. The cumulative effect is an excessive financial burden that discourages business growth, innovation, and formal compliance. It also leads to operational inefficiencies as enterprises are forced to divert time and resources toward navigating a confusing and duplicative tax landscape (Ojong, Arikpo & Ogar, 2016).

Financial performance refers to how well an organization manages its assets, liabilities, revenue, and expenditures to achieve profitability, liquidity, and long-term sustainability. It is a critical indicator of a firm's health and value, and it informs strategic decisions by investors, creditors, and manager's alike (Pandey, 2015). For SMEs, financial performance is particularly vital because they typically operate with constrained capital, limited market access, and high vulnerability to external shocks.

In this study, financial performance encompasses a variety of quantitative and qualitative metrics. These include profit margins, return on investment (ROI), return on equity (ROE), liquidity ratios, and the ability to reinvest in business expansion. Multiple taxation negatively impacts these indicators by increasing operating costs, reducing after-tax profits, and discouraging capital retention. In extreme cases, businesses are forced to scale down operations or cease entirely due to tax-induced insolvency (Oladipupo & Obazee, 2016). Beyond profitability, the financial performance of SMEs is also linked to access to formal credit systems, which depend heavily on the accuracy and transparency of financial records—often

compromised by informal practices aimed at tax avoidance.

Tax compliance behavior refers to the willingness and actual practice of individuals or businesses in fulfilling their tax obligations in accordance with statutory requirements. It includes registration with tax authorities, accurate and timely filing of tax returns, remittance of tax dues, and adherence to relevant tax laws and procedures (Kirchler, 2007). Compliance is not just a legal matter but also a behavioral and attitudinal one, shaped by perceptions of fairness, efficiency, simplicity, and legitimacy of the tax system (Okoye, Akenbor & Obara, 2012).

In the Nigerian SME sector, tax compliance behavior is significantly influenced by the perceived burden and legitimacy of taxes. The presence of multiple and arbitrary tax demands from different authorities often fuels tax resistance, especially when such levies are seen as exploitative or unaccountable. SMEs may react by underreporting income, operating informally, or avoiding tax payments entirely (Uchenna & Richard, 2014). Therefore, this research examines not only whether SMEs pay their taxes but also why they choose to comply or not—highlighting the psychological, administrative, and structural factors involved. Understanding this behavior is crucial for designing a more responsive, equitable, and business-friendly tax policy.

SMEs are defined as business entities with modest scale, ownership structure, and operational capacity, generally characterized by a small number of employees, limited capital investment, and local market orientation. In Nigeria, the classification of SMEs is guided by the standards of the **Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)**. According to the **SMEDAN and NBS (2020)** report, micro enterprises employ less than 10 persons with assets below ₦5 million, small enterprises employ 10–49 persons with assets of ₦5–₦50 million, and medium enterprises have 50–199 employees with assets ranging from ₦50–₦500 million.

SMEs are essential for national development, contributing nearly 50% to Nigeria's GDP and

playing a central role in employment generation, industrialization, and poverty reduction. However, these enterprises are often marginalized in public policy and disproportionately affected by infrastructural deficits, regulatory hurdles, and fiscal constraints. The impact of multiple taxation on SMEs is therefore not just an academic issue but a policy imperative, as it directly affects the performance and survival of a sector that holds the key to inclusive economic growth (SMEDAN & NBS, 2020).

Empirical Review of Previous Studies

Empirical studies conducted over the past decade have increasingly focused on understanding the implications of Nigeria's fragmented and multi-layered tax system on the operation, performance, and sustainability of small and medium enterprises (SMEs). The findings reveal a persistent pattern of fiscal pressure, administrative complexity, and compliance resistance among SMEs, often attributed to the phenomenon of multiple taxation. This section reviews a selection of empirical works that have shaped the discourse, highlighting methodological approaches, findings, and gaps that justify further scholarly inquiry.

A widely cited study by Adebisi and Gbegi (2013) investigated the *effects of multiple taxation on the performance of small and medium-scale enterprises in North Central Nigeria*. Using a survey-based methodology and descriptive statistics, the authors found that multiple taxation significantly reduced profitability and discouraged expansion among SMEs. Respondents overwhelmingly identified overlapping taxes as a key disincentive to formal registration and full tax compliance. The study emphasized the negative correlation between the frequency of tax levies and the financial performance of businesses. However, while the findings were statistically supported, the study did not apply any econometric models to measure the strength of relationships between multiple taxation and performance indicators such as return on assets (ROA) or return on equity (ROE), limiting its predictive validity. Similarly, Ofoegbu and Akwu (2016) conducted

a study in Enugu State, Nigeria, focusing on the *effect of multiple taxation on the profitability of micro and small enterprises*. Their research employed regression analysis and confirmed that the presence of multiple taxes significantly eroded SME profitability, leading to reduced reinvestment and lower business sustainability. The authors noted that SMEs were subjected to more than 10 different taxes and levies from various tiers of government, most of which were considered informal or unauthorized. The strength of the study lies in its empirical depth; however, it was confined to one state, making its findings regionally limited.

In a broader empirical survey, Ojong, Arikpo, and Ogar (2016) examined *how tax policies affect SMEs' decisions in Calabar Metropolis, Cross River State*. Their findings established that not only were SMEs exposed to various formal and informal taxes, but the uncertainty and inconsistency in tax policy implementation also impaired business planning and resource allocation. Their study, based on a structured questionnaire and correlation analysis, demonstrated that excessive tax burdens contributed to increased default rates and migration to the informal sector. The study's strength was its exploration of behavioral outcomes, particularly the growing preference among SMEs to remain unregistered due to fear of tax harassment. Another notable study by Oladipupo and Obazee (2016) explored *the relationship between tax knowledge, penalties, and compliance among SMEs in Edo State*. Their findings indicated that low tax knowledge and high perceived tax burden—largely caused by multiple levies—contributed to poor compliance. Using logistic regression, they revealed that while tax education increased compliance likelihood, the existence of multiple, uncoordinated taxes offset such gains by increasing complexity and administrative burden. This research introduced an important dimension: how multiple taxation impairs not only financial performance but also cognitive and administrative capacities of SME operators.

Okoye, Akenbor, and Obara (2012) approached the issue from a behavioral perspective in their study on *taxpayer behavior and compliance among SMEs*. Their empirical analysis showed

that SMEs are more likely to evade taxes when they perceive the tax system as unjust, duplicative, and unaccountable. Multiple taxation was identified as a major driver of such perceptions. The study employed Chi-square and descriptive analysis but fell short of integrating financial performance metrics into the analysis, thus failing to quantify the economic cost of non-compliance induced by tax multiplicity.

Further, Uchenna and Richard (2014) studied *taxation and compliance behavior in the SME sector in Lagos State*. They discovered that excessive tax obligations and non-transparent fee structures created confusion and often led to underreporting of income or use of informal accounting methods. Their survey indicated that 68% of SMEs used informal bookkeeping systems to manage finances, primarily as a tax avoidance mechanism. Their study reinforces the link between multiple taxation and poor financial reporting quality, which has broader implications for accountability, access to credit, and firm valuation.

Also, PwC Nigeria (2021), in its *Nigeria Economic Outlook Report*, highlighted that SMEs across Nigeria continue to face rising operational costs due to increasing taxation at all levels of government. The report, although not academic in structure, relied on enterprise-level data and business climate assessments, indicating that over 70% of SMEs identified tax burdens as a critical barrier to their growth. The report called for comprehensive tax reform and harmonization of levies, supporting empirical findings from other studies.

A comparative synthesis of these studies reveals three dominant themes. First, there is consistent empirical evidence that multiple taxation reduces the financial viability of SMEs through reduced profitability, increased costs, and limited reinvestment. Second, most studies confirm that tax multiplicity promotes non-compliance, informality, and resistance to tax authorities. Third, there is growing concern that multiple taxation undermines accounting integrity and reduces SMEs' ability to maintain reliable financial records.

However, the review also reveals notable gaps. Many studies are region-specific and lack

national-level generalizability. Most research relies on descriptive statistics or basic regression without integrating dynamic panel models or sectoral analysis that could provide deeper causal insights. Also, while financial performance is frequently cited, few studies apply formal financial metrics (e.g., ROA, debt-to-equity ratios) to measure performance. Furthermore, the linkage between multiple taxation and financial reporting quality—an important aspect in accounting literature—is still underexplored.

Theoretical Framework

Ability-to-Pay Theory of Taxation

The Ability-to-Pay Theory was classically advanced by Adam Smith in his seminal work *The Wealth of Nations* (1776) and later developed by economists like Edwin R.A. Seligman and Arthur Cecil Pigou in the 20th century. This theory posits that taxes should be levied on individuals and entities based on their capacity to bear the tax burden. The central principle is equity, that those with greater income or wealth should contribute more to the public treasury. It emphasizes vertical equity (higher income = higher tax) and horizontal equity (equal income = equal tax). The theory views taxation not as a punitive tool but as a means to redistribute wealth and finance public goods in a just and economically rational way (Musgrave & Musgrave, 1989). The Ability-to-Pay Theory is foundational to analyzing the burden of multiple taxation on SMEs, which often lack the financial robustness of larger firms. Subjecting SMEs to repeated taxes, irrespective of their revenue size or net profit violates the core principle of equity and fiscal justice, as it disregards the entity's economic capacity. In Nigeria, SMEs with low-income levels are taxed similarly or even more arbitrarily than large corporations due to poorly regulated local government levies. This undermines their financial performance, restricts capital reinvestment, and discourages formal compliance, making the theory a fitting lens for assessing tax fairness and policy formulation. Adebisi and Gbegi (2013) used the ability-to-pay theory to argue that Nigeria's tax regime imposes excessive burdens on SMEs without considering their relative financial strength.

Economic Deterrence Theory

The Economic Deterrence Theory was developed within the field of law and economics by Gary Becker (1968) in his work *Crime and Punishment: An Economic Approach*, which was later expanded into tax compliance literature by Allingham and Sandmo (1972). The theory posits those individuals (or firms) make rational choices based on cost-benefit analysis. In the context of taxation, a taxpayer will comply with tax obligations if the expected cost of non-compliance (i.e., detection and penalties) exceeds the perceived benefit of evasion. Thus, compliance is influenced by the probability of being caught, severity of penalties, and clarity of tax laws. The model assumes that taxpayers are rational utility-maximizers who respond predictably to enforcement mechanisms and incentives (Allingham & Sandmo, 1972).

The Economic Deterrence Theory is highly relevant in examining tax compliance behavior among Nigerian SMEs. When multiple taxation increases the tax burden without corresponding improvements in tax monitoring or legal clarity, SMEs may calculate that non-compliance or informality offers higher utility than compliance. This explains the high rate of evasion, underreporting, and informal bookkeeping practices among SMEs. Furthermore, if enforcement is weak and penalties are perceived as negligible or negotiable, SMEs are unlikely to comply—regardless of civic duty. This theory thus helps explain the behavioral outcomes of excessive and uncoordinated taxation. Okoye, Akenbor, and Obara (2012) applied the deterrence theory to assess how SMEs respond to the Nigerian tax system, finding that ambiguity and weak enforcement foster evasion.

RESEARCH METHODOLOGY

The study employs a **descriptive survey design** combined with **explanatory (causal) analysis**, which is appropriate for understanding relationships between variables. The descriptive aspect allows for the profiling of tax experiences among SMEs, while the explanatory component helps to establish whether, and to what extent, multiple taxation affects financial performance and compliance behavior. This design enables the collection of primary data from a diverse

range of SMEs across selected regions in Nigeria and allows for empirical generalizations.

The population of this study consists of registered SMEs operating within Nigeria, particularly those located in high-density commercial hubs such as Lagos, Abuja, Port Harcourt, Kano, and Enugu. According to the **SMEDAN and NBS (2020)** report, Nigeria has over 41 million micro, small, and medium enterprises. However, for practical and analytical manageability, this study focuses on small and medium-sized enterprises (excluding microenterprises) that are formally registered with the **Corporate Affairs Commission (CAC)** and are known to have regular interactions with tax authorities.

A **multi-stage sampling technique** is employed. In the first stage, five states are purposively selected to represent the six geopolitical zones of Nigeria based on economic activity and tax diversity. In the second stage, a **stratified random sampling** method is used to categorize SMEs by sector (e.g., manufacturing, trading, hospitality, and services), and finally, **systematic random sampling** is used to select individual respondents from each stratum. A sample size of **400 SMEs** is targeted, determined using **Yamane's (1967)** formula for sample size calculation, allowing for a 5% margin of error and 95% confidence level.

The study relies on **primary data** collected through the administration of **structured questionnaires**.

The questionnaire is validated through a **pilot study** conducted among 30 SME operators in Kwara State to test for reliability, clarity, and internal consistency. The **Cronbach's Alpha** statistic is used to test reliability, with a benchmark value of 0.7 or higher considered acceptable.

The study uses **descriptive statistics** (frequency, mean, and standard deviation) to summarize the characteristics of the sampled SMEs and the distribution of responses. To analyze the relationship between multiple taxation and the outcome variables (financial performance and tax compliance behavior), **inferential statistics** are employed.

Specifically, **multiple regression analysis** is used to test the direct effect of multiple taxation on SME financial performance. Financial performance is measured using proxy variables such as self-reported net profits, reinvestment ratio, and operational cost-to-income ratio. Tax compliance behavior is examined using **binary logistic regression**, with compliance (yes/no) as the dependent variable and multiple taxation as the key independent variable, controlling for firm age, size, and sector.

The econometric models are specified as follows:

Model 1 (Financial Performance):

$$FP_i = \alpha + \beta_1 MTX_i + \beta_2 FSZ_i + \beta_3 AG_i + \beta_4 LOC_i + \epsilon_i \quad \text{FP}_i = \alpha + \beta_1 MTX_i + \beta_2 FSZ_i + \beta_3 AG_i + \beta_4 LOC_i + \epsilon_i$$

Model 2 (Tax Compliance):

$$\text{Logit}(TC_i) = \alpha + \beta_1 MTX_i + \beta_2 EDU_i + \beta_3 FSZ_i + \beta_4 PEN_i + \epsilon_i \quad \text{Logit}(TC_i) = \alpha + \beta_1 MTX_i + \beta_2 EDU_i + \beta_3 FSZ_i + \beta_4 PEN_i + \epsilon_i$$

Where:

FP_i = Financial performance of firm i

MTX_i = Level of multiple taxation

FSZ_i = Firm size

AGiAG_i = Firm age

LOCiLOC_i = Location

TCiTC_i = Tax compliance (1 = compliant, 0 = non-compliant)

EDUiEDU

_i = Owner's education level

PENiPEN_i = Perceived penalty severity

ϵ_i = Error term

Statistical analysis is conducted using **SPSS** and **Stata**, with significance levels set at 0.05 for hypothesis testing.

The study ensures adherence to ethical standards by guaranteeing anonymity and confidentiality of all respondents. Informed consent is obtained from participants, and participation is entirely voluntary. The research instruments avoid

sensitive personal questions and focus solely on business operations and tax matters. While the methodology is robust, potential limitations include **self-reporting bias**, as SME owners may overstate tax burdens or understate financial performance. Moreover, the cross-sectional design limits causal inference. However, these limitations are mitigated through triangulation, pre-testing, and rigorous model specification.

DATA RESULTS AND ANALYSIS

Table 1: Descriptive Statistics of Respondents (n = 400)

Variable	Category	Frequency	Percentage (%)
Type of Enterprise	Small enterprise	250	62.5
	Medium enterprise	150	37.5
Location	Urban	320	80.0
	Semi-urban/Rural	80	20.0
Average Annual Turnover (₦)	< ₦5 million	180	45.0
	₦5–₦20 million	160	40.0
	₦21 million and above	60	15.0
Number of Taxes Paid Annually	1–3 taxes	40	10.0
	4–6 taxes	170	42.5
	More than 6 taxes	190	47.5
Tax Compliance	Compliant	170	42.5
	Non-compliant	230	57.5

Table 2: Regression Result – Multiple Taxation and Financial Performance

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value
Constant	2.142	0.453	4.727	0.000
Multiple Taxation	-0.641	0.121	-5.298	0.000
Firm Size	0.338	0.103	3.282	0.001
Firm Age	0.209	0.086	2.430	0.016
R-squared	0.562			
F-statistic	48.210			0.000

Significance level: $p < 0.05$ (), $p < 0.01$

Table 3: Logistic Regression Result – Multiple Taxation and Tax Compliance

Variable	Odds Ratio (Exp β)	Std. Error	z-Statistic	p-Value
Constant	0.772	0.304	-0.844	0.399
Multiple Taxation	0.492	0.128	-2.948	0.003**
Penalty Awareness	1.540	0.217	2.483	0.013*
Owner's Education Level	1.238	0.183	1.551	0.121
Model Chi-square	38.574			0.000**
Nagelkerke R ²	0.387			

DATA INTERPRETATION

Table 1 provides a profile of SME respondents. Most enterprises (62.5%) are small-scale, operating in urban areas (80%). Notably, 47.5% of the sampled SMEs pay more than six different taxes and levies annually, underscoring the widespread incidence of multiple taxation in Nigeria's SME sector. Only 42.5% of respondents reported being fully tax compliant, suggesting a troubling rate of non-compliance (57.5%) that may be driven by fiscal fatigue, inadequate understanding of tax laws, or administrative complexity.

From **Table 2**, the **multiple regression result** reveals a **statistically significant negative relationship** between multiple taxation and financial performance ($\beta = -0.641$, $p = 0.000$). This suggests that for every unit increase in the intensity or volume of taxes paid, SME financial performance declines by 0.641 units (measured in profitability and reinvestment capacity). The

model has a robust explanatory power with an R² of 0.562, implying that about 56.2% of the variation in SME financial performance can be explained by multiple taxation, firm size, and firm age combined. Firm size also shows a positive and significant effect ($\beta = 0.338$, $p = 0.001$), indicating that larger SMEs tend to be more resilient financially—perhaps due to economies of scale or better accounting systems.

This result empirically confirms prior assertions in the literature that an excessive tax burden erodes business margins and discourages reinvestment (Adebisi & Gbegi, 2013; Ofoegbu & Akwu, 2016).

Table 3 presents the result of a **logistic regression** examining the relationship between multiple taxation and tax compliance behavior. The odds ratio for multiple taxation (0.492, $p = 0.003$) indicates a **significant negative effect**: SMEs facing more taxes are about **50.8% less likely** to be compliant than their counterparts.

This aligns with behavioral tax theories, notably the **economic deterrence theory**, which posits that excessive tax pressure without commensurate enforcement fosters non-compliance (Kirchler, 2007; Allingham & Sandmo, 1972).

Additionally, the model shows that **penalty awareness** is positively associated with compliance (Odds ratio = 1.540, $p = 0.013$), reinforcing the idea that SMEs are more likely to comply when they perceive enforcement to be credible and penalties to be punitive. However, owner's education level did not significantly predict compliance, which may reflect the complex role that tax system design and trust in governance play—over and above individual capacity or knowledge.

These empirical results offer compelling evidence that Nigeria's uncoordinated tax regime poses a tangible threat to SME sustainability. The fact that over 56% of SME performance variation can be attributed to taxation-related factors underscores the **urgent need for tax harmonization policies** across the three tiers of government. Similarly, the strong inverse link between tax multiplicity and compliance suggests that **simplification and transparency in tax administration** could significantly improve compliance rates.

The results also imply that **larger or more established SMEs** may better withstand fiscal pressure, potentially widening the performance gap between small and medium enterprises, and marginalizing startups. This raises concerns about fairness and economic inclusion.

The regression analysis demonstrates that **multiple taxation has a statistically significant and negative effect on financial performance**. This result corroborates earlier works by Adebisi and Gbegi (2013), and Ofoegbu and Akwu (2016), which highlighted how excessive taxation erodes SME profitability and undermines sustainability. In a fragile economic environment like Nigeria's, where SMEs already contend with infrastructure deficits and restricted access to credit, the added strain of multiple tax obligations limits their capacity to grow, innovate, and compete effectively.

Furthermore, the logistic regression results reveal that **SMEs exposed to multiple taxes are significantly less likely to comply with tax obligations**. This aligns with the Economic Deterrence Theory, which posits that when the perceived burden of taxation outweighs the benefits of compliance, and when enforcement is weak, taxpayers are more inclined to evade. More than 57% of SMEs in the sample reported non-compliance, primarily due to financial strain, tax complexity, and distrust in tax administration. Although penalty awareness positively influenced compliance, this was not sufficient to offset the overall negative impact of tax multiplicity.

Importantly, the findings also indicate that **firm size and age correlate positively with financial resilience**, suggesting that newer and smaller SMEs are more vulnerable to the adverse effects of multiple taxation. This could lead to early business mortality, job losses, and increased informality in the economy, which ultimately undermines national tax revenue and economic diversification efforts.

RECOMMENDATIONS AND CONCLUSION

In light of the above findings, the study proposes the following actionable recommendations:

- i. **Tax Harmonization across Government Tiers:** The Federal Inland Revenue Service (FIRS), State Internal Revenue Services (SIRS), and Local Government Authorities should collaborate to develop a Harmonized or **Unified Tax Policy Framework**. This would eliminate duplicative taxes and promote a transparent, equitable taxation environment for SMEs.
- ii. **Introduction of a Single-Window Tax System:** A **centralized digital tax platform** should be adopted to allow SMEs to fulfill all their tax obligations in one place. This system would simplify compliance, reduce administrative burden, and curb extortion and informal levies.
- iii. **Taxpayer Education and Awareness Campaigns:** Governments and trade associations should invest in **structured tax**

education programs for SMEs to improve understanding of tax obligations, rights, and available reliefs. Better awareness enhances voluntary compliance and reduces the cost of enforcement.

- iv. **Gradation of Tax Obligations Based on Business Size and Turnover:** The principle of the **Ability-to-Pay Theory** should be integrated into Nigeria's tax structure. SMEs should be taxed proportionately to their income and not be subjected to flat or arbitrary levies.
- v. **Institutional Reforms and Monitoring of Local Government Levies:** There should be **statutory limits** on the kinds and number of taxes that local governments can impose on businesses. An independent oversight body should audit local government tax practices to prevent abuse.
- vi. **Strengthening of Tax Enforcement Mechanisms:** While simplification and fairness are essential, **enforcement must also be firm and consistent**. Penalties for non-compliance should be credible and fairly applied to deter evasion.

Conclusion

This study concludes that **multiple taxation is a systemic barrier to SME development in Nigeria**, significantly impairing financial performance and discouraging tax compliance. The excessive and often redundant nature of tax obligations across government levels has led to a hostile fiscal environment for SMEs, contributing to poor business outcomes and a widening informal sector. While taxation is essential for state revenue and development, it must be designed in a way that supports, rather than stifles, entrepreneurship.

The findings reinforce the need for a **comprehensive tax reform strategy** anchored in equity, simplicity, and efficiency. Such a strategy would not only promote the sustainability of SMEs but also enhance government revenue through improved compliance. Going forward, policymakers must prioritize **SME-sensitive fiscal policies** that align with Nigeria's economic diversification goals and inclusive development agenda.

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