

Unlocking Prosperity for Nigeria's NMSMEs Through Tax Reforms





ABOUT THE FATE INSTITUTE

The FATE Institute is the research, policy and advocacy arm of FATE Foundation which leads innovative thinking and creates platforms to enable idea exchange and problem-solving strategies to foster sustainable entrepreneurship in Nigeria.

Since inception in 2015, the FATE Institute has published 14 thought leadership reports on Nigeria's Micro, Small and Medium Enterprises (MSMEs) and entrepreneurs; hosted an annual Policy Dialogue on Entrepreneurship; and in 2021 launched a quarterly Policy Workshop series.

The Institute also recently developed the Enterprise Data Map platform to track data and insights within the ecosystem and launched the pioneer FATE Institute Fellows Program this year.

The FATE Institute is a member of the Global Entrepreneurship Research Network (GERN), Aspen Network of Development Entrepreneurs (ANDE) West Africa and also the Facilitator of the Nigerian Economic Summit Group (NESG) MSME Community of Practice.



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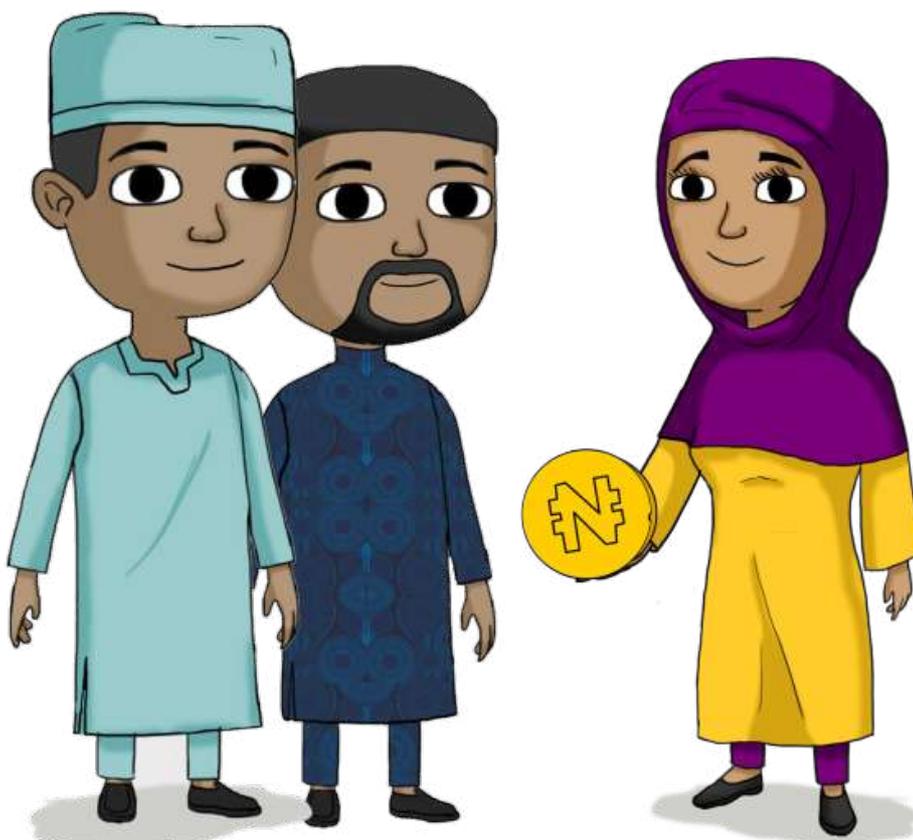
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EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

For three consecutive years (2021 – 2023) in The FATE Institute's State of Entrepreneurship report, multiple taxation has ranked among the top four challenges faced by entrepreneurs in Nigeria. In this 2023 edition, multiple taxation was the fourth most problematic factor in doing business in Nigeria, after limited access to finance, poor power supply and unstable government policies. Given the severity of this problem and its implication on the growth of nano, micro and small businesses, The FATE Institute embarked on this study to examine the dimensions of multiple taxation and proffer solutions to this complicated problem. This report obtained insights from the 2023 State of Entrepreneurship survey, which covered 10,377 businesses across the 36 states and the Federal Capital Territory in Nigeria. In addition, the report gathered findings from several Focus Group Discussions (FGDs) with stakeholders that operate within the tax ecosystem. The FGDs were organised by The FATE Institute.

...but nano businesses pay most of their taxes and levies to non-state actors, than to any other agency. 33.2% of nano businesses pay taxes/levies to non-state actors. Nano businesses tend to be more vulnerable to the activities of non-state actors given that they are mostly unregistered, they have low income and are less likely to be protected by the state. Taxes and levies paid by nano business owners are forcefully implemented by non-state actors, as these entrepreneurs are left with no choice but to pay these taxes and levies.



33.2% of nano businesses pay taxes/levies to non-state actors.

KEY FINDINGS

55% of nano, micro and small businesses in Nigeria pay taxes. Majority of these entrepreneurs pay taxes and levies to state government agencies than to any other agency or level of government. This level of government is responsible for collecting important taxes such as personal income taxes, some market taxes and levies, and road taxes among others.

Majority of these entrepreneurs pay taxes and levies to state government agencies than to any other agency or level of government.

Registered businesses are more likely to pay taxes than those that are not registered. 75% of businesses that do not pay taxes are not registered while among those that pay taxes, 64.7% are registered. This implies that the government could focus on incentivising the formalisation of businesses rather than exclusively emphasizing the need to tax the informal sector. Being formal is not only good for government tax revenues, but it can also aid business growth by enabling access to opportunities and resources – financial, human and technical.

75% of businesses that do not pay taxes are not registered while among those that pay taxes, 64.7% are registered.

Lack of information on taxes to be paid and the absence of trust in the government to use tax revenues judiciously are the two main reasons entrepreneurs do not pay taxes. 80% of business owners said they were not aware of the number of taxes to pay while 67% of business owners that do not pay taxes cited the lack of information on taxes to be paid as a major reason for not paying taxes. The next major reason for not paying taxes is the lack of trust in the usage of tax revenue by the government, cited by 46% of businesses that do not pay taxes.

The tax process in some states is complex and lacks transparency. In some states, government websites related to finance/taxes are not functional; the filing process is manual and tedious, and business owners are required to physically visit tax offices, which are often located in state capitals with very limited presence in rural areas. A few entrepreneurs cited the ad-hoc manner in which tax officials at state revenue agencies conduct tax assessments for their businesses. These problems make tax payment difficult and complex for entrepreneurs, many of whom are dealing with multiple problems, amidst limited resources.

In some states, government websites related to finance/taxes are not functional; the filing process is manual and tedious.



Too many taxes and levies; too many collection agents; ad-hoc charges and lack of transparency are some issues businesses cited as key concerns. Some businesses pay as high as 36 taxes to non-state actors, state and local governments. Some state governments charge hotel consumption tax which is similar to Value Added Tax (VAT) charged by the federal government. Market levies are sometimes charged on businesses by both state and local governments, exerting additional pressure on businesses.

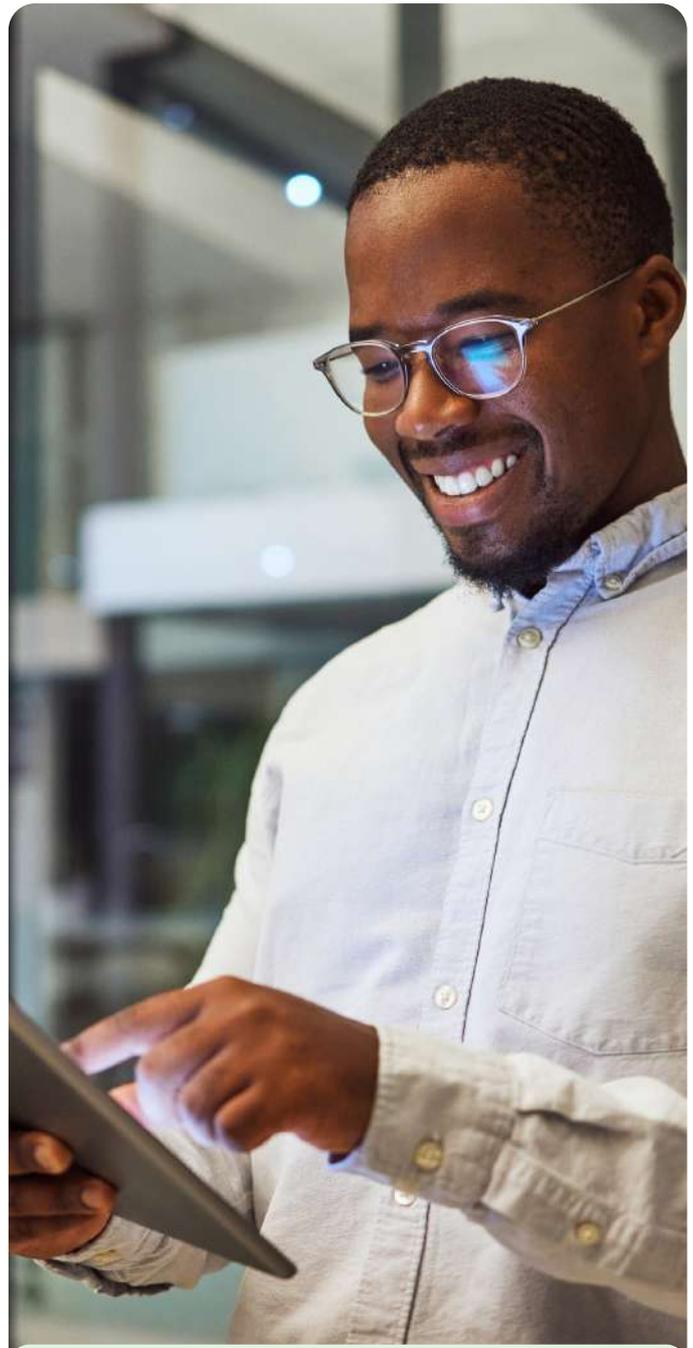
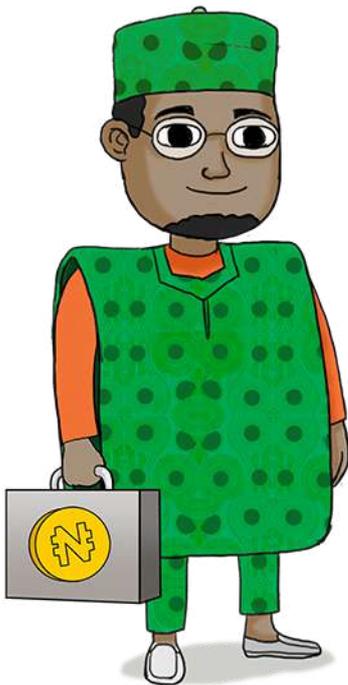
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Even though many states have consolidated tax laws, these laws still list numerous taxes and levies to be paid by businesses. The passage of the Consolidated Revenue Code (CRC) in almost all the states of the federation was a good step towards addressing multiple and double taxation. However, many state governments simply consolidated rather than harmonize taxes and levies. There are still many taxes and levies listed in the consolidated law, while the tax rate, fees and charges are at a huge cost for small businesses.

100% of surveyed business owners in Niger state say multiple taxes is a major problem affecting their businesses negatively. The state has too many taxes, fees and levies ranging from hotels, restaurants, event centres and entertainment tax to education tax, annual registration fee for tricycle and motorbike operators, etc. States where over 90% of entrepreneurs are severely affected by multiple taxation include Zamfara, Yobe, Kano, Anambra, Bayelsa, Kaduna and Adamawa. Taraba, Cross River and Ekiti had the lowest shares of 3%, 8% and 10%, respectively.

Businesses in the transportation and logistics sector are the most affected by multiple taxation. 60% of entrepreneurs that operate in the transportation and logistics sector identified multiple taxes as an important factor that negatively affected their businesses in the last one year. This is the highest share when compared with other sectors. Majority of these businesses are nano and micro businesses and they operate in Kaduna and the FCT.

The report concludes with some recommendations across five key areas: ensure simplicity of taxes and levies; build capacity; communicate to and strengthen engagement with stakeholders; incentivise business formalisation and ensure effectiveness, efficiency and transparency of government. Some specific recommendations include the need to urgently review and amend the Taxes and Levies Act, 2004 and the Schedule to the Taxes and Levies Order, 2015 to streamline the number of taxes and levies to be paid by businesses to each level of government; ensure constant training for tax officials; improve the tax payment process by adopting technology; gathering data; providing incentives for business formalization and ensuring constant quarterly engagements with citizens and businesses on tax related issues.



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INTRODUCTION



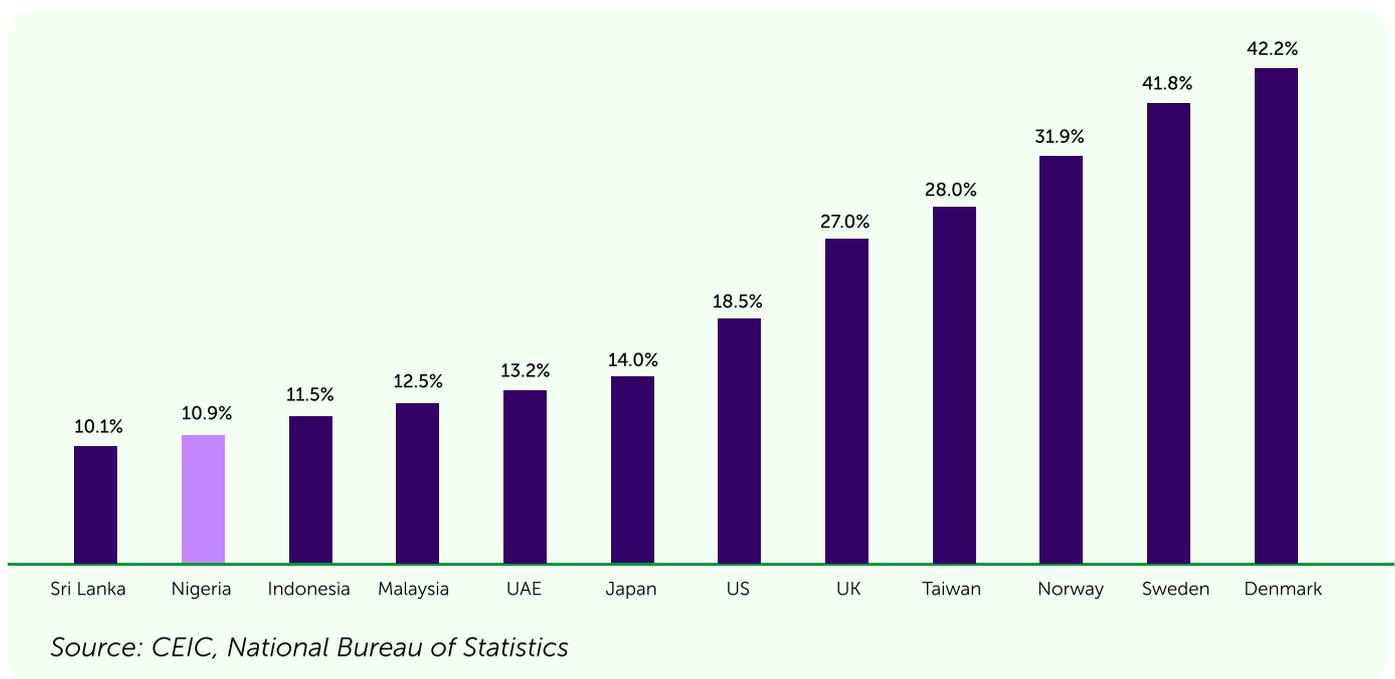
INTRODUCTION

Taxation is important in channelling resources to productive areas of an economy. Tax incentives can be used to encourage investment into critical sectors while a high tax rate can discourage consumption of certain goods, with negative health implications. Tax policies, legislations and instruments have been used by governments to spur the growth and development of economies.

In many advanced and fast-developing countries, tax revenue as a percentage of Gross Domestic Product (GDP) is relatively higher than in some developing and less developing countries. The question of whether tax revenues are high because these countries are developed or whether the countries are developed because they are able to mobilise resources from the domestic economy is a long-standing debate. What is important, however, is that tax revenues play an important role in financing development. Countries that are able to generate much of their revenue from taxes tend to be more accountable to the public on how revenues are utilised. This presupposes that when governments are funded through taxes, they become more constrained by their citizens.



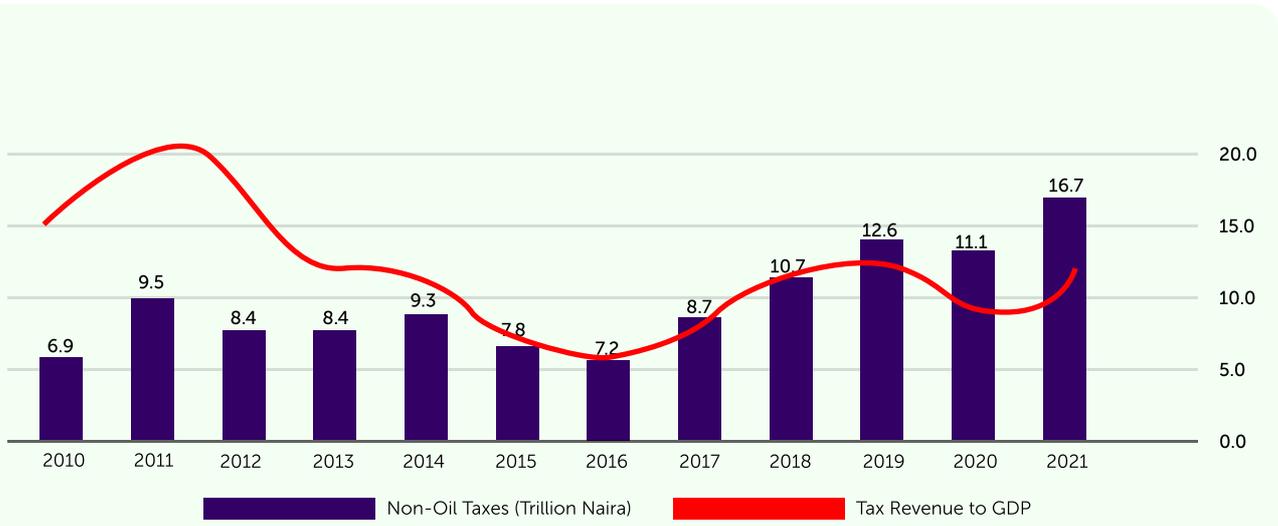
Figure 1: Tax to GDP ratio (2022)



In Nigeria, non-oil tax revenue has doubled in the last decade, from ₦8.4 trillion in 2012 to ₦16.7 trillion in 2021. When compared with GDP however, overall tax revenue exhibits a declining trend. Tax to GDP ratio fell from 16 per cent in 2012 to 10.9 per cent in 2021. Relative to what is obtainable in countries such as South Africa (25%), Egypt (13.3%) and African average of 16%^[1], Nigeria's official tax-to-GDP ratio is low, suggesting that the country is yet to realise its potential as regards tax revenues.

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Figure 2: Tax Revenue to GDP (%) And Non Oil Taxes (Trillion Naira)



Source: National Bureau of Statistics

The narrative about Nigeria having a low tax to GDP has often been used by public officials as a justification to raise tax rates and generate more taxes from households and businesses. The increase of Value Added Tax (VAT) from 5% to 7.5% in 2020 is one of such examples. This narrative, however, conceals the true picture about Nigeria's tax system and the important role of the informal economy in the country. Findings from the 2023 State of Entrepreneurship (SoE) survey show that 53% of businesses in Nigeria are not registered and about 40% of these businesses pay one form of taxes/levies or another to state governments (SG), local governments (LG) and non-state actors. It is important to note that a significant number of these fees, charges, taxes/levies overlap, and therefore businesses are taxed multiple times. In addition, some of the charges tend to be general estimates and are largely unaccounted for. The consequence of such an

unstructured and regressive tax system is that the chances of business survival are limited, as majority of businesses find it difficult to grow sustainably over time and are left uncompetitive.

53% of businesses in Nigeria are not registered and about 40% of these businesses pay one form of taxes/levies or another to state governments (SG), local governments (LG) and non-state actors.

[1] See OECD's Revenue Statistics for Africa 2022: <https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf>

Yet, the philosophy of taxes in Nigeria is centred on revenue mobilization, which, in the Nigerian context is executed at the expense of growth and expansion of businesses in the country. Several examples point to this - the temporarily suspended VAT on diesel, an important commodity for manufacturers and businesses. The imposition of VAT on diesel was implemented in the absence of constant power supply and functional local refineries, both of which are due to government failures. The imposition of such taxes on diesel, which is a primary energy source for businesses, underscores the viewpoint that the government's motive to raise revenue surpasses that of enabling businesses to grow and thrive. Another example is the planned introduction of an annual levy of N1,000 for proof of vehicle ownership which is regressive and only points to the prioritisation of revenue by the government.

It is crucial to make clear that the major sustainable way to rapidly and consistently grow tax revenues is to ensure the growth of businesses, whether small or large. Thus, the philosophy of the government, at all levels on taxes and levies must be to support business growth and ensure the transition of businesses from nano to micro to small, medium and large. This will require that the national framework for taxes and levies be urgently revised to reduce excessive pressure on these businesses. As a matter of fact, when many businesses grow and expand, the prospect for more tax revenues increases.

For nano, micro and small businesses, which are the focus of this study, the government has implemented efforts to relieve them of some taxes. The Finance Act exempts businesses with gross turnover not exceeding N25 million from paying Company Income Tax (CIT), Value Added Tax (VAT), and Education Tax among others. Other efforts taken included the exemption of small companies in the manufacturing sector from paying tax on dividend payments during the first five years of operation^[2].

Notwithstanding these efforts, nano, micro and small businesses still face a huge tax burden, as majority view multiple taxes as a key impediment to the growth of their businesses. In the 2023 SoE survey, some small business owners noted that they pay about 36 taxes and levies to state and local governments and non-state actors. These taxes and levies create additional pressure on businesses,

particularly small businesses that are already grappling with poor power supply, limited infrastructure and poor access to finance, which raise business costs, amidst the fuel subsidy removal. At the moment in Nigeria, each business is viewed as a target for revenue by non-state actors and by different agencies across the three levels of government.

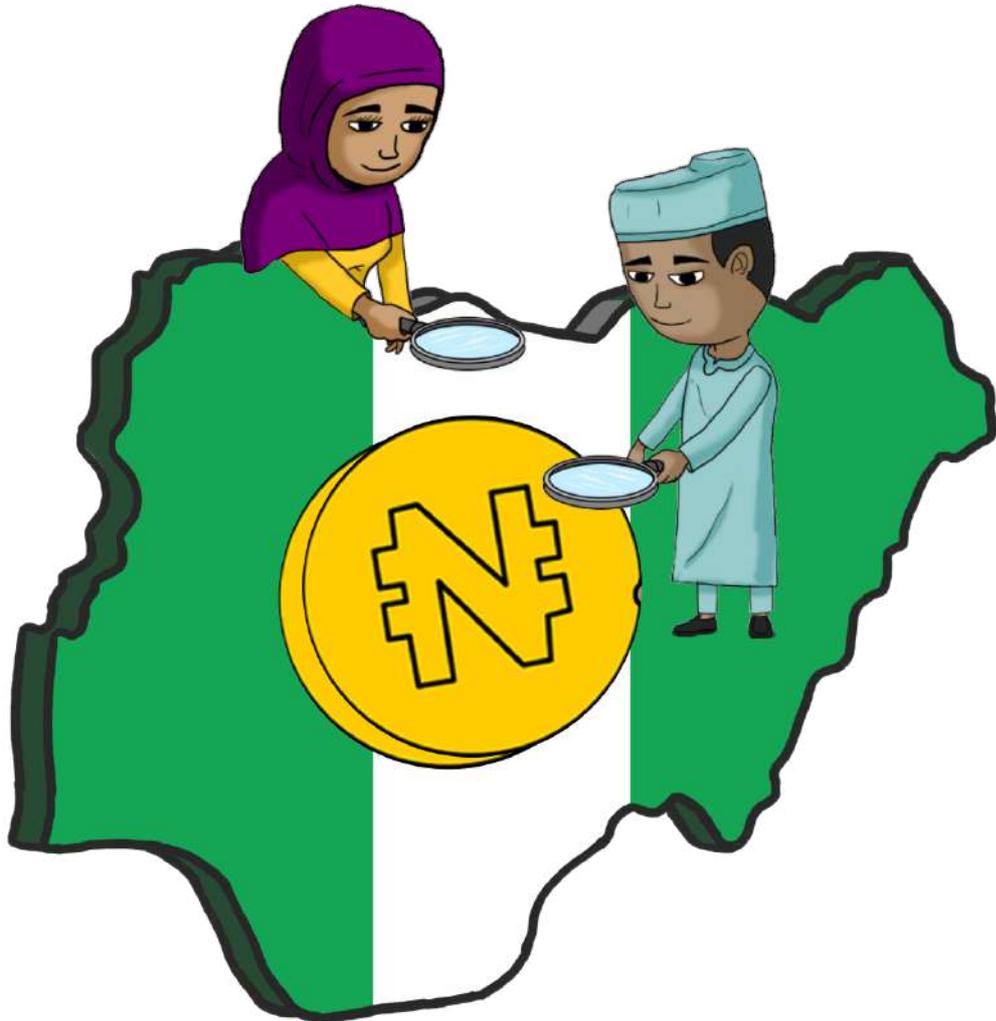
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To change this tide will require concerted efforts by federal, state and local government agencies to harmonise taxes and reduce agencies responsible for the collection of taxes. Legislative and institutional reforms are key to the realisation of these goals. In addition to incentivising the formalisation of small businesses, the government across all levels must improve effectiveness and transparency in the use of tax revenue, as these are key ingredients to improve the tax morale of small business owners in the country. Small businesses remain crucial in job creation and in the growth of the Nigerian economy. These businesses must be nurtured and supported to expand and create even better jobs for the teeming populace. It is only then that the government can maximise the contribution of these businesses to the tax revenue profile of the country.

[2] FIRS 2022. Information Circular. <https://assets.kpmg.com/content/dam/kpmg/ng/pdf/clarification-on-the-exemption-of-small-companies-from-income-tax.pdf>



UNDERSTANDING NIGERIA'S TAX LANDSCAPE FOR NANO, MICRO, SMALL AND MEDIUM ENTERPRISES



This section explores the issue of taxation in Nigeria as it relates to small businesses from a policy and legislative angle. It also reveals the perspectives of entrepreneurs, obtained through the 2023 State of Entrepreneurship (SoE) survey, which featured 10,377 business owners across the 36 states and the Federal Capital Territory (FCT).

Entrepreneurs and the Tax Ecosystem in Nigeria

In Nigeria, tax revenue is crucial for the development of the country and has over the years become a veritable option to boost government finances. Taxes in Nigeria are collected by federal, state and local government agencies and non-state actors. Specifically for small businesses which is the focus of this study, much of the taxes and levies reside at the state and local government level. The tax system comprises numerous agencies across different levels of government and non-state actors that constantly pressurise, and in some cases, extort small business owners in the payment of different taxes and levies, some of which are not backed by law. While small businesses, those with a turnover of less than ₦25 million, are exempted from many of the federal taxes, they are faced with a huge burden at the state and local government level, thereby limiting their growth and expansion. Some key taxes and levies that most small businesses are required to pay include personal income tax for staff that earn above minimum wage, business premise registration, market taxes, and many other taxes, which are administered at the state and local government levels.

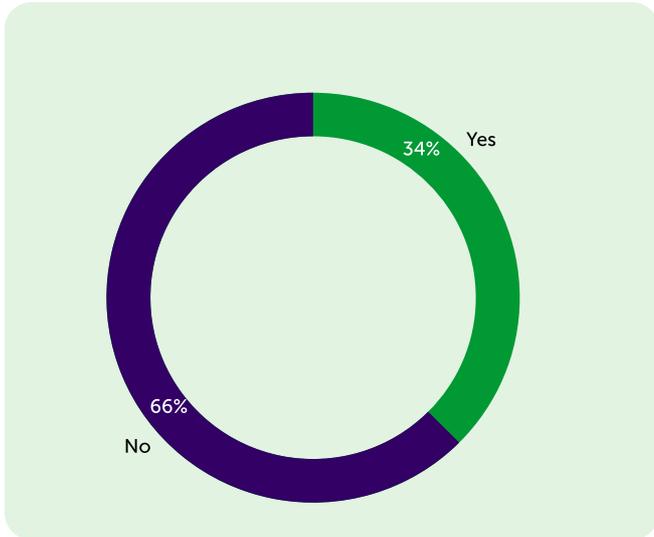
Small business owners operate in the formal and informal sector and the dynamics of each sector plays a critical role in how a business is taxed. This is because many formal rather than informal businesses operate within the tax radar and are more likely to pay taxes to government agencies. But majority of businesses in Nigeria are not registered and thus operate in the informal sector. Majority of these businesses do not pay taxes to the government; therefore, the tax burden rests on a few businesses that pay taxes. Among those who pay taxes, they are faced with numerous challenges of multiple taxation, poor information about taxes, complex processes, and issues of transparency and accountability, among others.

Because majority of entrepreneurs in Nigeria operate in the informal sector, the 2023 SoE survey showed that only 34% of businesses have a Tax Identification Number (TIN). Among businesses that have a TIN, 74% described the process of obtaining a TIN as easy and very easy. The largely positive response is mainly due to reforms by the government that ensure any newly registered business automatically obtains a TIN. For businesses that said it is hard or very hard to obtain a TIN, 13%, 9% and 8% are located in Kaduna, Osun and Lagos State. The major reasons for not obtaining a TIN as cited by entrepreneurs include lack of clarity in the process of collection, cost of obtaining a tax identification number, unfriendly tax administrators and time constraints.

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Figure 3: Do you have a Tax Identification Number (TIN)?



That 73% of NMSME owners think that it is important to pay taxes. 27% think otherwise.

Figure 5: Do you think paying of taxes is important?

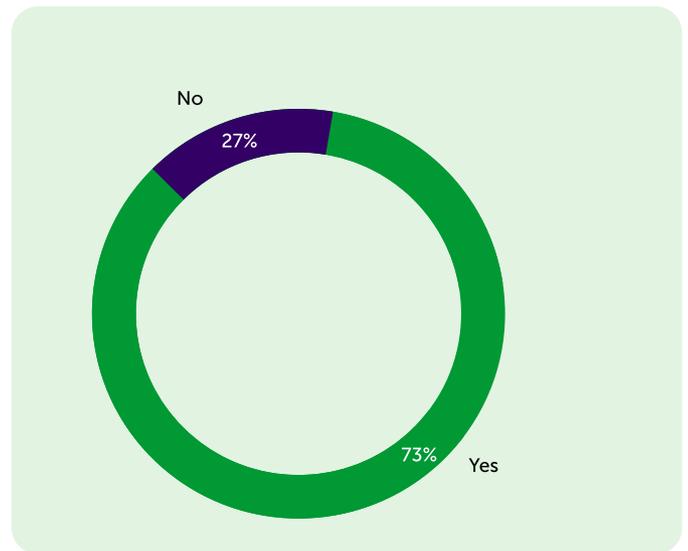
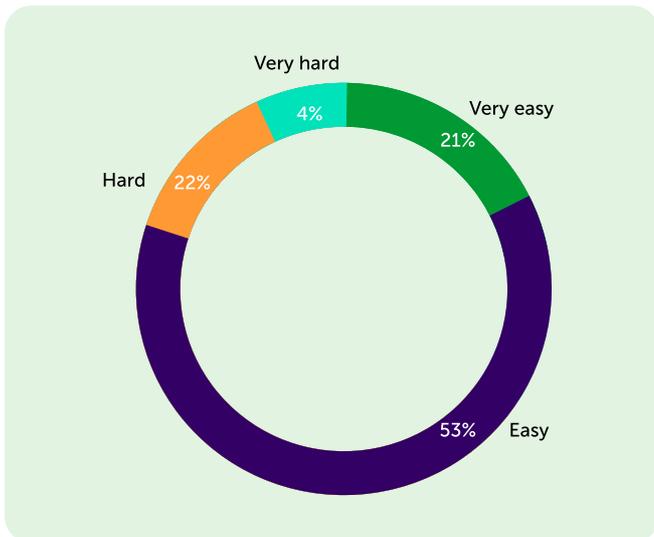


Figure 4: How would you describe the process of getting your Tax Identification Number?



By gender, 62% of female-led businesses think it is important to pay taxes; 72% for male-led businesses.

In gauging the perception of entrepreneurs on paying taxes, the SoE 2023 survey found that 73% of NMSME owners think that it is important to pay taxes. 27% think otherwise. When compared with previous surveys^[3], the share of 73% is higher, suggesting increased awareness among business owners on the need to pay taxes in Nigeria. Looking at business age, the older a business is, the more the owner thinks it is important to pay taxes. By gender, 62% of female-led businesses think it is important to pay taxes; 72% for male-led businesses.

[3] A similar 2018 study on the tax perception of Nigerians by the Nigerian Economic Summit Group found that more than a fifth of the population think that it is 'not wrong at all' to not pay your taxes.

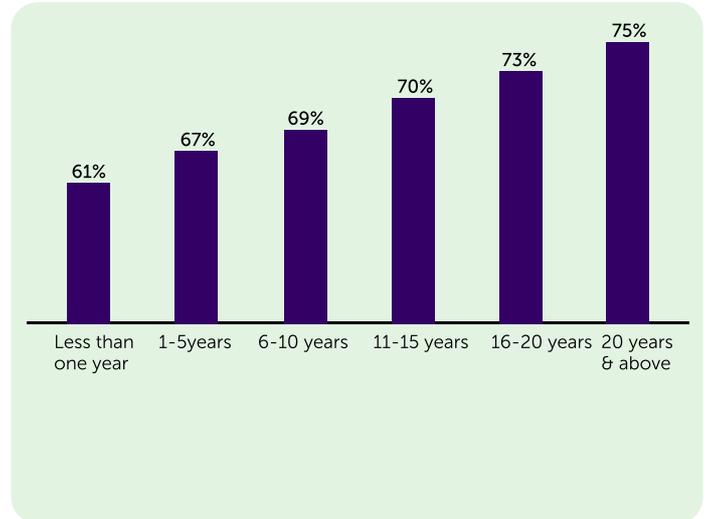


Do nano, micro and small businesses pay taxes?

There is the common notion that many nano, micro and small businesses, particularly those in the informal sector, do not pay taxes. This view can be misleading for several reasons. First, it could trigger the government to target these informal businesses by creating new taxes or raising existing tax rates, in addition to the numerous levies that the owners of these businesses already pay. Second, the view presupposes that nano, micro and small business owners understand the difference between the tax paid to the government and the levies paid to non-state actors, who sometimes represent the government or act independently.

However, from the perspective of business owners, taxes and levies are leakages to their businesses irrespective of who they are paid to, provided that these actors are allowed to operate by the government. For levies in particular, some business owners are forced to comply and non-compliance is usually followed by threats of business closure or disruption of business activities by non-state actors. With this in mind, majority of small business owners, in the SoE 2023 survey, say that they pay taxes. Specifically, 55% of nano, micro and small businesses surveyed say they pay taxes and 45% do not. We note, however, that a share of 44% of businesses not paying tax is still very high, suggesting that the government is losing significant revenue as a result.

Figure 6: Do you think paying taxes is important? (% of respondents in each category)



55% of nano, micro and small businesses surveyed say they pay taxes and 45% do not.

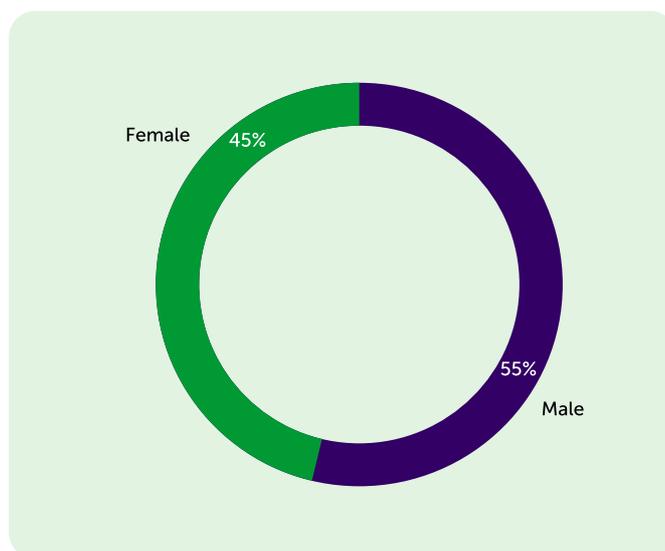


Figure 7: Do you pay taxes?



Exploring further by gender, our survey found that many male-led businesses tend to pay taxes than female-led businesses. 55% of male-led nano, micro and small business owners say they pay taxes (45% for female-led). Payment of taxes varies by the length of time that a business has been in operation. The survey shows strong evidence that fewer younger businesses pay taxes than older companies – only 35% of businesses that are less than one year old pay taxes. As the business becomes older, this share increases. 72% of businesses that are 16-20 years old pay taxes. Furthermore, by business size, fewer nano and micro

Figure 8: Nano, Micro and Small Businesses owners that pay taxes



businesses pay taxes than small and medium-sized firms. This is unsurprising as 72% of nano and micro businesses are young, i.e. less than 5 years old. In terms of who taxes are paid to, majority (35.6%) of businesses pay taxes to their state governments, followed by local government (32.2%) and non-state actors (23.4%). Federal government accounted for a share of 8.8%.

Table 1: Business owners that pay taxes (% of businesses in each category)

Business Size	Percentage
Nano/Homestead	38%
Micro	57%
Small	77%
Start-up	31%
Medium	80%

Age of Business	Percentage
Less than a years	35%
1-5 years	47%
6-10 years	63%
11-15 years	70%
16-20 years	72%
20 years and above	68%

Table 2: Which of the following agencies do you pay taxes to?

	Percentage
Federal Government Agencies	8.8%
State Government Agencies	35.6%
Local Government Agencies	32.2%
Others (Associations/ unions/Individuals)	23.5%

Tax Filing and Payment Process

The process of filing and paying taxes by small business owners varies across states. While a few states have embraced technology (online portals) in the process of tax filing and payment, others still operate manual processes. For those that adopt online portals, there are also issues of downtime, which requires taxpayers to physically visit tax offices and or commercial banks to make payments. In the SoE survey, we asked business owners about their experience with tax filing and payment. 64% of business owners say the tax filing and payment process is easy or very easy. Only 36% say it is hard or very hard. From the data, we observe a huge discrepancy between businesses that are registered and those that are not. In fact, a higher share of registered businesses (77%) say it is easy or very easy to pay taxes, while 48% of unregistered businesses found it easy or very easy to file and pay taxes. Essentially, this finding confirms the narrative that informal businesses do pay taxes and the process is more difficult for these business owners relative to formal business owners. Moreso, it is important to note that majority of informal businesses pay taxes/levies to local government agencies and non-state actors and these agents do not have a simplified and online tax payment process.



A higher share of registered businesses (77%) say it is easy or very easy to pay taxes, while 48% of unregistered businesses found it easy or very easy to file and pay taxes.

Figure 9: How would you describe the process of paying your taxes/tax filing process?

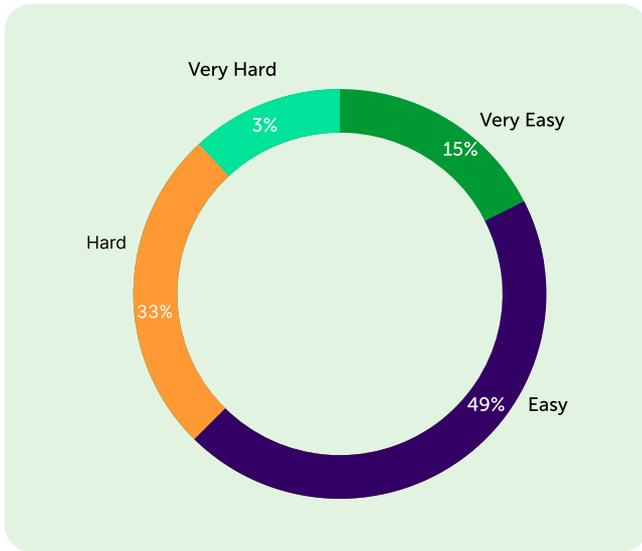


Figure 11: How would you describe the process of paying your taxes/tax filing process? Unregistered Business

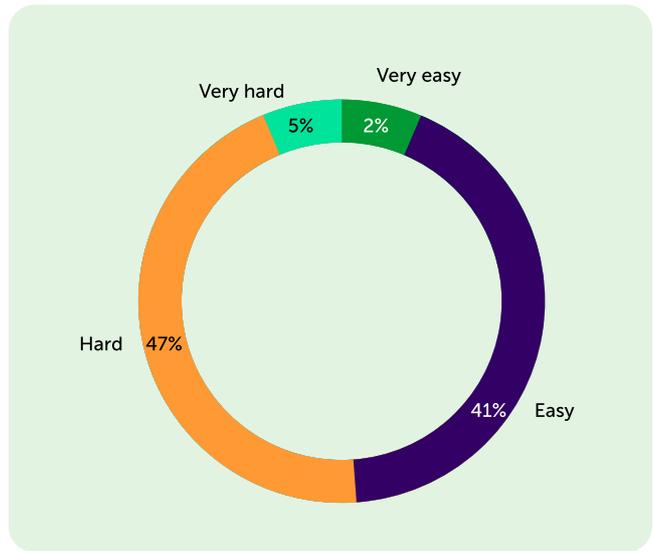
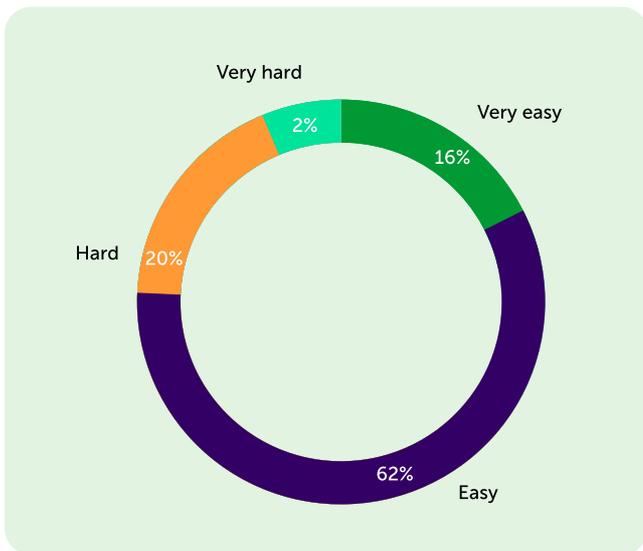
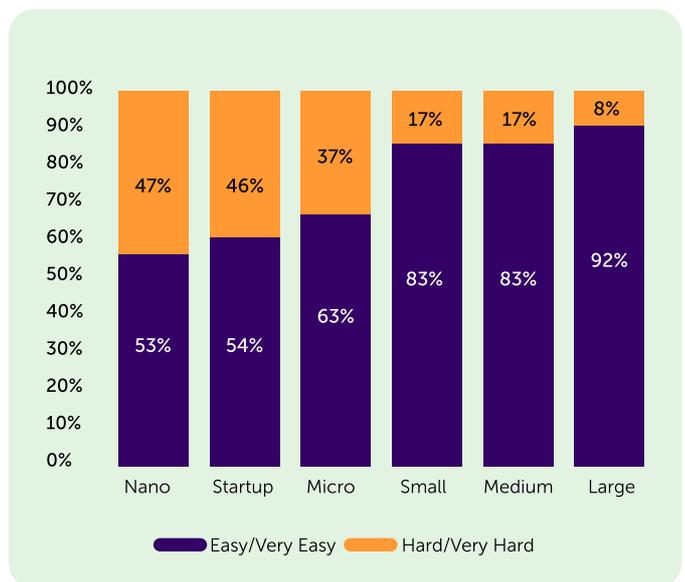


Figure 10: How would you describe the process of paying your taxes/tax filing process? Registered Business



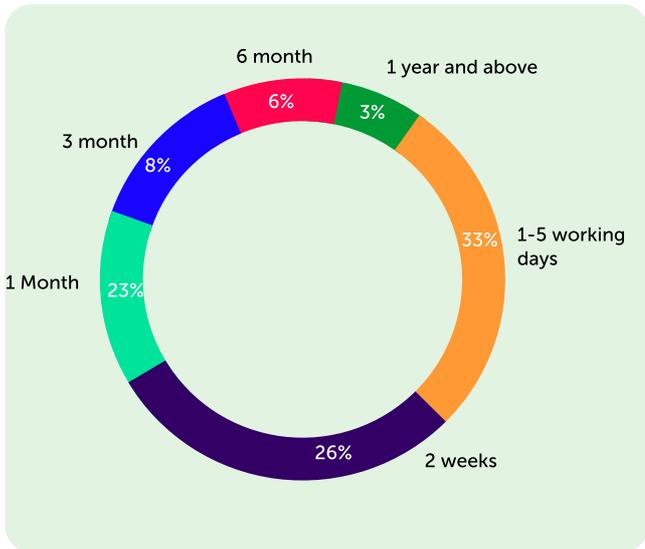
Larger businesses find it relatively easier to pay taxes than smaller businesses. 47% and 37% of nano and micro businesses say it is hard/very hard to pay taxes respectively.

Figure 12: How would you describe the process of filing/paying your taxes?



Larger businesses find it relatively easier to pay taxes than smaller businesses. 47% and 37% of nano and micro businesses say it is hard/very hard to pay taxes respectively. This share is lower for medium-sized businesses (17%) and for large businesses (8%). The rationale for this is that larger businesses have accumulated experience and resources in dealing with tax issues relative to smaller businesses. In terms of the time it takes to file/pay taxes, 59% of businesses say it takes 1-5 working days or two weeks to file/pay taxes.

Figure 13: How long does it take for you to file and pay your taxes?



authorities and government regulations, just as there are formal businesses that evade taxes. However, because of the limited incentives for these thriving informal businesses to formalise (access to state grants, training, financial management, etc), they remain informal and do not register for personal and corporate income tax.

From the SoE survey, there appears to be a linkage between informality and payment/non-payment of taxes in Nigeria. Businesses that are registered are more likely to pay taxes than those that are not. In particular, the survey shows that 75% of businesses that do not pay taxes are not registered. While among those who pay taxes, 64.7% are registered and 34.3% are not registered. The onus, therefore, should be on the government to incentivize the formalisation of businesses rather than focus exclusively on taxing the informal sector. Being formal is not only good for government tax revenues, but it can also aid business growth by enabling access to opportunities and resources – financial, human and technical.

Taxation/Levies, Informality and Business Growth in Nigeria

Nigeria's informal sector is an integral part of the economy. According to the National Bureau of Statistics, the sector accounts for over 40% of GDP ^[4] making this aspect of the economy crucial for economic growth, job creation and revenue generation, if properly harnessed. Typically, businesses in the informal sector are not registered and workers in the sector are less productive, poorly paid, and work in precarious conditions. Within the informal economy, majority of workers are situated in the agricultural sector, practicing subsistence farming, while others work in transportation, trade and other services – hairdressing, cleaning, security guards, etc.

The Nigerian Labour Force Survey released in 2023 confirmed the shrinking of formal jobs in Nigeria. The report showed that the share of wage employment was only 13.4% and the rate of informal employment was 93.5% in 2022^[5]. This concentration of Nigerian workers in the informal sector portends the absence of viable alternatives, and by consequence, limits the ability of the government to generate taxes such as personal income tax from these workers who earn low income. Admittedly, not all informal businesses generate low income. A few of these businesses are thriving, but operate outside the radar of tax



The survey shows that 75% of businesses that do not pay taxes are not registered. While among those who pay taxes, 64.7% are registered and 34.3% are not registered.

[4] See NBS Report on Formal and Informal Sector Split of Gross Domestic Product

[5] See Nigeria Labour Force Statistics Report Q4 2022 and Q1 2023 published by the NBS

Table 3: Do you pay taxes?

	Yes	No
Registered Business	65%	25%
Unregistered Business	35%	75%

How the informal sector is taxed in Nigeria

In Nigeria, there is a clear difference between how informal and formal businesses pay taxes. Majority of informal businesses fall within the income threshold of nano, micro and small businesses that are exempted from paying certain taxes such as company income tax, education tax, personal income tax and VAT. Moreover, these businesses are obliged to pay numerous levies such as market levy, business premise registration, shop and kiosk rate, and licence fees, many of which are charged multiple times and enforced at the state and local government level and also by non-state actors. These charges are usually broad estimates and are not made in consideration of the revenue/profit profile of the payers.

In terms of gender, more females (as a share of total female-led businesses) tend to operate in the informal sector than males. 58% of female-led businesses are not registered; 49% for male-led businesses. This has implications for taxes and levies paid by female-led businesses. More informal female-led businesses are likely to be taxed by non-state actors – 37% of unregistered female-led businesses pay their taxes/levies to non-state actors, a higher share than the 33% for male-led businesses. These charges are gender regressive and non-state actors are less likely to be accountable relative to other tax agents. The magnitude to which these taxes and levies affect businesses is discussed in subsequent sections.

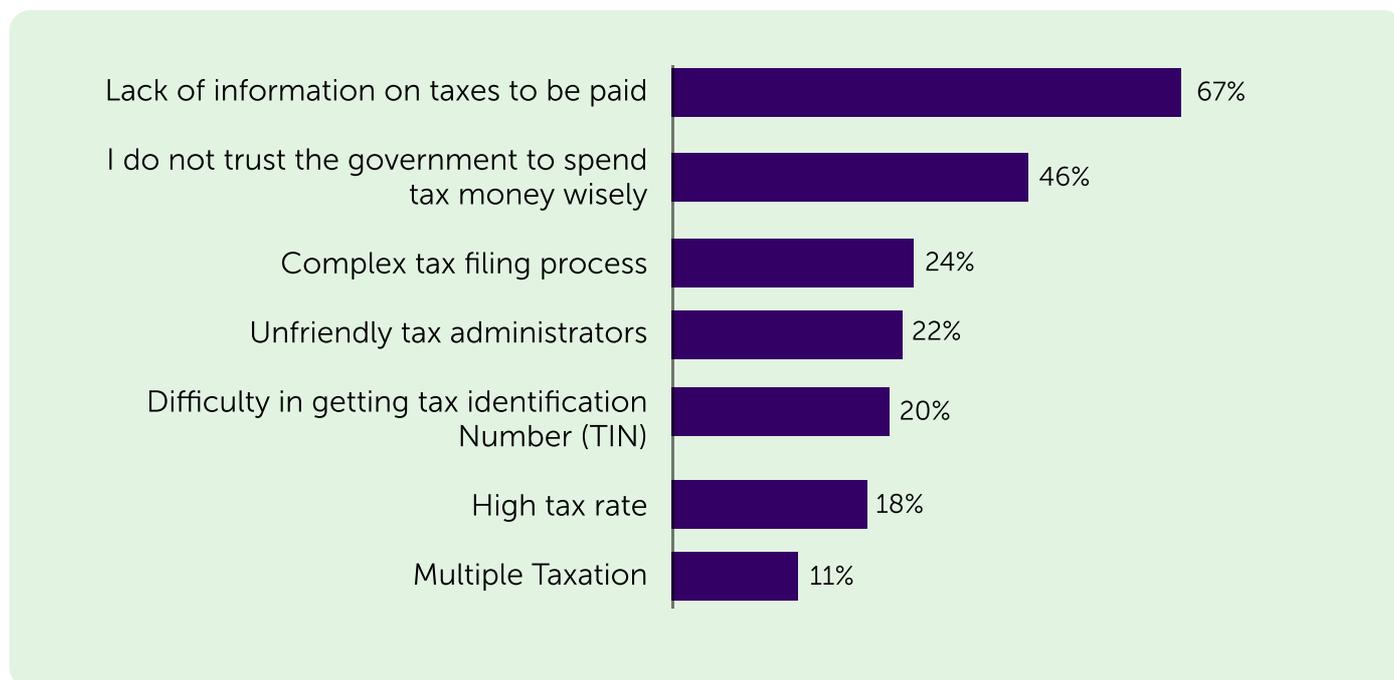
As noted earlier, 45% of entrepreneurs say they do not pay taxes. Among these business owners who do not pay taxes, 67% cited the lack of information on taxes to be paid as a major reason for not paying taxes. The next big factor is the lack of trust in the usage of government revenue followed by complex tax filing process. Multiple taxation has the lowest share of 11% although among businesses that pay taxes, it is regarded as the most pressing challenge they encounter when paying taxes.

More females (as a share of total female-led businesses) tend to operate in the informal sector than males. 58% of female-led businesses are not registered; 49% for male-led businesses.



Among these business owners who do not pay taxes, 67% cited the lack of information on taxes to be paid as a major reason for not paying taxes.

Figure 14: What is your reason for not paying your taxes?



Review of Taxes/Levies Paid by Entrepreneurs in Nigeria

From a legislative point of view, there are complexities regarding the number of taxes businesses should pay and to which agencies. In 2015, there was an effort to harmonise federal, state and local government taxes and levies through the review of the Taxes and Levies Act which contains the list of approved taxes to be collected by the different levels of government. Rather than reducing the number of taxes, the amendment^[6] process added 14 new taxes and levies to be collected by state governments. It increased the list of approved taxes, with majority of the tax burden for small businesses situated at the state and local government level. Furthermore, there are other taxes and levies not captured by the amended Act that businesses are required to pay. Some of these include import duties and levies, and excise tax, among others.



[6]The amendment is a subject of litigation. In 2020, the Federal High Court held that the Taxes and Levies (Approved List for Collection) Act (Amendment) Order 2015 is null, void and unconstitutional.

Table 4: Taxes and Levies (Approved List for Collection, 2015)
 The red coloured tax are affected by small businesses the most

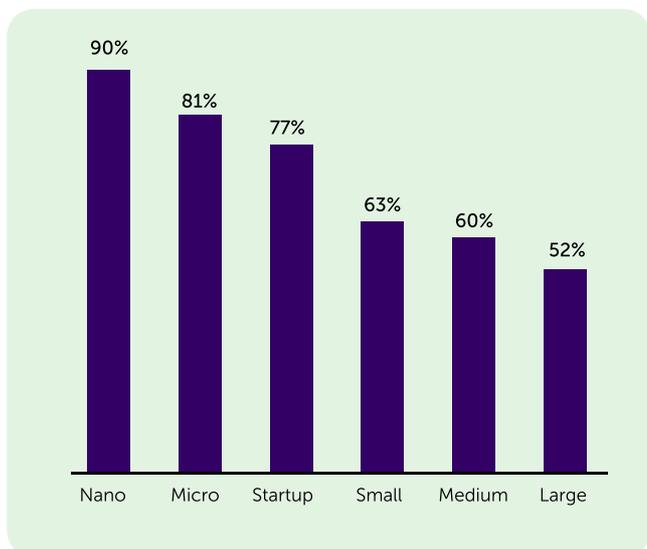
Federal Government	State Government	Local Government
<ul style="list-style-type: none"> • Company Income Tax • Withholding Tax On Companies' Resident In Abuja • Petroleum Profit Tax • Valued Added Tax • Education Tax • Capital Gains Tax On Residents Of The Federal Capital, Abuja, Bodies Corporate And Non Resident Individuals • Stamp Duties On Bodies Corporate And Residents Of The Federal Capital Territory, Abuja • Personal Income Tax In Respect Of Residents Of The Federal Capital Territory, Abuja • National Information Technology Development Levy (NITDL) 	<ul style="list-style-type: none"> • Personal Income Tax In Respect Of: Pay-As-You-Earn (PAYE); And Direct Taxation (Self-Assessment) • Withholding Tax (Individuals Only) • Capital Gains Tax (Individuals Only) • Stamp Duties On Instruments Executed By Individuals • Pools Betting And Lotteries, Gaming And Casino Tax • Road Tax • Business Premises Registration Fee In Respect Of Urban And Rural Areas, Which Include Registrations Fee Per Annum Renewals As Fixed By Each State. • Development Levy (Individuals Only) Not More Than N100 Per Annum On All Taxable Individuals. • Right Of Occupancy Fees On Lands Own By The State Government In Urban Areas Of The State • Market Taxes And Levies Where State Finance Is Involved • Land Use Charge Where Applicable • Hotel, Restaurant, Event Center Consumption Tax Where Applicable • Entertainment Tax Where Applicable • Mining, Milling And Quarrying Fee Where Applicable 	<ul style="list-style-type: none"> • Shops And Kiosk Rates • Tenant Rates • On And Off Liquor Licence Fee • Slaughter Slab Fees • Right Of Occupancy Fees On Landsin Rural Areas, Excluding Those Collectable By The Federal Government And State Governments • Market Taxes And Levies Excluding Any Market Where State Finance Is Involved • Motor Park Levie • Bicycle, Truck, Canoe, Wheelbarrow And Cart Fees, Other Than A Mechanically Propelled Truck • Cattle Tax Payable By Cattle Farmers Only • Radio And Television License Fees (Other Than Radio And Television Transmitter) • Vehicle Radio License Fees (To Be Imposed By Local Government Of The State Of Which The Car Is Registered)
	<ul style="list-style-type: none"> • Animal Trade Tax Where Applicable • Produce Sales Tax Where Applicable • Slaughter Or Abattoir Fees Where State Finance Involved • Infrastructural Maintenance Charge Or Levy Where Applicable • Fire Service Charge • Property Tax Where Applicable • Economic Development Levy Where Applicable • Social Service Contribution Levy Where Applicable And • Signages And Mobile Advertisement, Jointly Collected Bt States And Local Governments 	<ul style="list-style-type: none"> • Public Convenience, Sewage And Refuse Disposal Fees • Signboard And Advertisement Permit Fees • Wharfs Landing Charge, Where Applicable

The numerous taxes and levies create confusion for business owners and have become a major burden to the growth of NMSMEs. To corroborate this, we asked entrepreneurs if they are aware of the number of taxes they are required to pay. 80% of entrepreneurs said they are not aware of the number of taxes they are required to pay. Across the different business sizes, nano businesses have the highest share of entrepreneurs that do not know the number of taxes to pay – 90% of nano businesses are not aware of the taxes to pay. As we move from small to large businesses, the share of businesses that are not knowledgeable about the number of taxes to pay decreases.

Figures 15a: Are you aware of the number of taxes you are required to pay for your business?



Figures 15b: Are you aware of the number of taxes you are required to pay for your business?



Among those who are aware of the number of taxes they are required to pay, some cited as high as 12 taxes paid to each level of government (federal and state) while for both local government and non-state actors, the highest number of taxes and levies they are required to pay to each level was 7. While this represents a high number, we note that many entrepreneurs pay more taxes and levies than the required number.

80% of entrepreneurs said they are not aware of the number of taxes they are required to pay.



Review of major taxes for small businesses across the different levels of Government

Federal Taxes

Majority of federal government taxes such as the company income tax, value added tax and education tax are borne by medium to large companies with revenue of over ₦25 million per annum. Outside the tax and levies act, there are other policy and legislative documents that prescribe taxes and levies to be paid by businesses. In April 2023, the federal government approved the 2023 Fiscal Policy Measures, which introduced green taxes on single-use plastics and some categories of motor vehicles and increased excise duty on tobacco and alcoholic beverages. The government also reduced import duty on specific manufacturing items to support the growth of local businesses. Just like other taxes, these taxes were introduced in an ad-hoc manner and without proper stakeholder consultation, leaving businesses with limited time to adjust and plan ahead.

Specifically for small companies with gross turnover below ₦25 million, a major levy due to the federal government is the Electronic Money Transfer Levy, which was introduced by the Finance Act, 2020.

The Act stipulated a singular and one-off fee of ₦50 on the recipient of any electronic receipts or transfers of ₦10,000 or above. Although the levy appears to be relatively small, it is among the numerous charges on business transactions (ATM fees, cash withdrawal fees,

account maintenance fees) faced by small businesses that need to be reconsidered, especially in view of the need to promote Nigeria’s quest towards a cashless economy.

With the recent exemption of small businesses from some key federal taxes under the Finance Acts, only a few small businesses pay taxes to the federal government and its agencies. According to the SoE 2023 survey, 6.4% of nano businesses, 9% of micro businesses and 11.6% of small businesses pay taxes to the federal government. These shares are the lowest in each category when compared with the share of businesses that pay taxes to other levels of government and non-state actors. The federal government only ranked highest among large businesses – 42.3% (majority) of large businesses pay taxes to the federal government agencies.

According to the SoE 2023 survey, 6.4% of nano businesses, 9% of micro businesses and 11.6% of small businesses pay taxes to the federal government.

Table 5: Which of the following agencies do you pay taxes to?

	Nano	Micro	Small	Startup	Medium	Large	General
FG Agencies	6.4%	9.0%	11.6%	16.3%	17.6%	42.3%	8.8%
SG Agencies	27.6%	42.8%	41.5%	51.2%	41.2%	34.6%	35.6%
LG Agencies	32.8%	27.8%	34.7%	20.9%	32.6%	15.4%	32.2%
Others (Associations/Unions/Individuals)	33.2%	20.3%	12.3%	11.6%	8.6%	7.7%	23.5%

Highest Lowest

Read: Majority (33.2%) of nano businesses pay taxes/levies to non-state actors - Associations/unions/Individuals while only 6.4% of nano businesses pay taxes to the FG.

Notwithstanding this exemption of small businesses, some federal taxes still have huge impacts on small businesses and households, and are a major contributor to the high cost of doing business and high living cost in Nigeria. To illustrate, the introduction of value added tax(VAT) on diesel, which was recently suspended by the President for 6 months, was among the factors that led to the increase in the price of diesel to over N1,000 per litre, further increasing the cost of doing business.

State Taxes

Although many small businesses are exempt from paying many of the federal taxes, most of the tax burden on these businesses is from the state and local governments and non-state actors (in the form of levies). At the state level, the major taxes include the personal income tax (PAYE and Direct Assessment), withholding and capital gain taxes for individuals, road tax, business premises registration and market taxes and levies. Some of the taxes imposed by some state governments and the mode of collection also vary by state. For instance, Lagos state, under the Hotel Consumption Law, imposes a consumption tax, which is five per cent on the value of goods and services consumed in hotels, restaurants, and event centres within the state. In addition, ride-hailing services also pay licensing fees and service tax to the state government. In Anambra state, the government is implementing a new tax and levy regime in markets, roads and parks. Businesses in private and government markets are required to pay ₦7,400 and ₦12,200 annually, directly to the government through various e-channels.

Majority of businesses in Nigeria pay taxes to state government agencies. The SoE survey showed that 35.6% of businesses pay taxes to state government agencies, the highest share relative to other government agencies. Across the different business categories, majority of micro, small, medium sized businesses and start-ups pay their taxes to state government agencies. Several reasons for this include the informal nature of many businesses, the dominance of businesses involved in trade and the importance attached to some of these taxes such as income tax, road taxes, business premise registration fee, right of occupancy fees and some market taxes, all of which fall within the purview of state governments. For large businesses, which are mostly formal, state government agencies were the second highest agencies that these businesses pay taxes to.

The SoE survey showed that 35.6% of businesses pay taxes to state government agencies, the highest share relative to other government agencies.

The mode of collection of state taxes varies from one state to another likewise the agencies that collect these taxes. States such as Kaduna, Enugu, Kogi, Lagos, Anambra and a few others, have websites with relevant tax information, while only a few states have functional e-payment tax platforms. For instance, the government of Anambra State has an online registration system for eligible tax payers and an identity platform for residents of the state known as the Anambra State Identity Number (ASIN). ASIN is required for the payment of taxes and accessing government services - grants, loans, and other allowances and is instrumental in ensuring and tracking compliance of residents and businesses with relevant tax payments.

In terms of the challenges encountered by entrepreneurs, findings from our focus group discussion with small business owners show that there is still the issue of lack of adequate information on the taxes businesses are required to pay; how to navigate the process and what tax revenues are used for. In some states, government websites related to finance/taxes are not functional, the filing process is manual and tedious, and business owners are required to physically visit the tax offices, which are often located in state capitals with very limited presence in rural areas. Some entrepreneurs cited the ad-hoc manner in which tax officials at state revenue agencies conduct tax assessments for businesses (presumptive tax), and the lack of standardisation of information about taxes. Furthermore, there are numerous state agencies (Internal Revenue Services, advertisement and signage agencies, environmental agencies and state government MDAs) that engage businesses for the payment of specific taxes and levies, exerting undue pressure on small businesses.

Findings from our focus group discussion with small business owners show that there is still the issue of lack of adequate information on the taxes businesses are required to pay; how to navigate the process and what tax revenues are used for.

What is clear is that many state governments have not made adequate reforms to streamline the number of taxes, the procedure of tax payment and the number of agencies collecting these taxes. There is also limited investment in the state revenue agencies, especially in areas of capacity building, technology adoption and e-tax collection drive. With federal allocations accounting for over 50% of total revenue in many states in Nigeria, several state governors are yet to prioritise the streamlining of the number of taxes to ease payment and ensure increased compliance.

Local Government Taxes and Levies collected by Non-State Actors

Local government is the closest level of government to households and businesses. This level of government has many taxes to be paid by businesses according to the Tax and Levies Act. Ideally, the local government should bear much of the responsibility of providing services in the immediate environment where businesses operate. However, this level of government is responsible for much of the tax burden businesses face and they operate with weak accountability and service delivery, relative to other levels of government. The major taxes collected by local governments include shop and kiosk rates, tenement rates, right of occupancy fees on lands in rural areas, motor park levies, market taxes and levies, radio and TV licence and refuse disposal fees. The amount charged for each of these taxes and levies varies by local government, location (urban or rural) and business size. Smaller businesses pay lower charges relative to large businesses and the charge for each category is fixed, irrespective of whether the business is profitable or not.

In relation to enforcement, many states such as Kogi, Ekiti, Lagos, Kwara have developed local government legislations which set guidelines for the collection of local government levies, mode of collection, appointment of revenue collectors, penalties and offences as well as the schedule of taxes and levies to be paid by businesses. Across states, these legislations only reinforce the numerous taxes contained in the Tax and Levies Act with significant pressure on businesses, particularly small businesses. While some of these legislations grant local governments the power to appoint revenue collectors, who shall wear identification badges with clear inscriptions of their names and official capacity, the enforcement of this

aspect remains weak. In fact, across many local governments, revenue collectors do not wear badges/IDs and it is difficult to differentiate between local government revenue collectors and non-state actors. Some of the non-state actors often claim that they are representatives of state and local governments while others often collaborate with local governments to collect taxes and meet certain revenue targets. This ambiguity and the fact that many of these non-state actors are allowed to operate within the locality legitimises their existence and to a large extent, endorses the extortion and harassment small business owners face from these actors.

Majority of the culprits of the actions of non-state actors are nano businesses i.e. businesses with 1-2 employees or assets less than N3m (excluding land and buildings). These businesses are mostly informal and include hawkers, roadside sellers, petty traders, motorcycle and tricycle operators and kiosk owners who are mostly vulnerable and with very weak financial capacity. According to findings from the SoE 2023 survey, majority (33.2%) of these businesses pay taxes/levies to non-state actors. Taxes and levies paid by these business owners are compulsory and forcefully implemented by the actors, leaving entrepreneurs with no choice. The data also show that as businesses become larger, they are less exposed to the vagaries of these non-state actors.

Other uncategorized levies imposed by non-state actors on both businesses and individuals include charges on moving goods, furniture and other items, land development fees, electricity connection fees, fees paid to local communities for road/drainage construction, charges paid to local youth for offloading containers, among many others. These informal levies have implications on the overall ease and cost of doing business across states and are often ignored by relevant government agencies that are saddled with the responsibility of reforming the tax ecosystem. Failure to comply with payments to these actors often leads to harassment such as closure of shop, damage to property/goods or even physical assault.

One major characteristic of the local government and non-state actors is the lack of transparency and accountability in the collection and usage of collected taxes and levies. Across the different layers of agencies that collect taxes (federal, state, local governments and non-state actors), the local government and non-state actors are the least

areas as far as technology adoption in the collection of taxes is concerned. Several participants in our focus group discussion noted that for many of the levies paid to local governments and non-state actors, the revenue collectors do not issue receipts to the payers and thus, such revenues are less likely to be accounted for. This represents a huge revenue loss to the government and is a major factor for the low tax morale among businesses and households.

Multiple taxation, a major hurdle facing businesses in Nigeria

In many surveys, multiple taxation has consistently ranked among the top five challenges that limit the growth of businesses in Nigeria. In the SoE report for 2021 and 2022, multiple taxes ranked third and in the SoE report for 2023, it was ranked fourth by entrepreneurs. Specifically for entrepreneurs that pay taxes, majority cited multiple taxes as a major challenge they encountered. These underscore the severity of this problem and the need for the government to urgently streamline taxes across and within the three levels of government.



Figure 16: Which of the following factors have negatively impacted your business in the last one year?

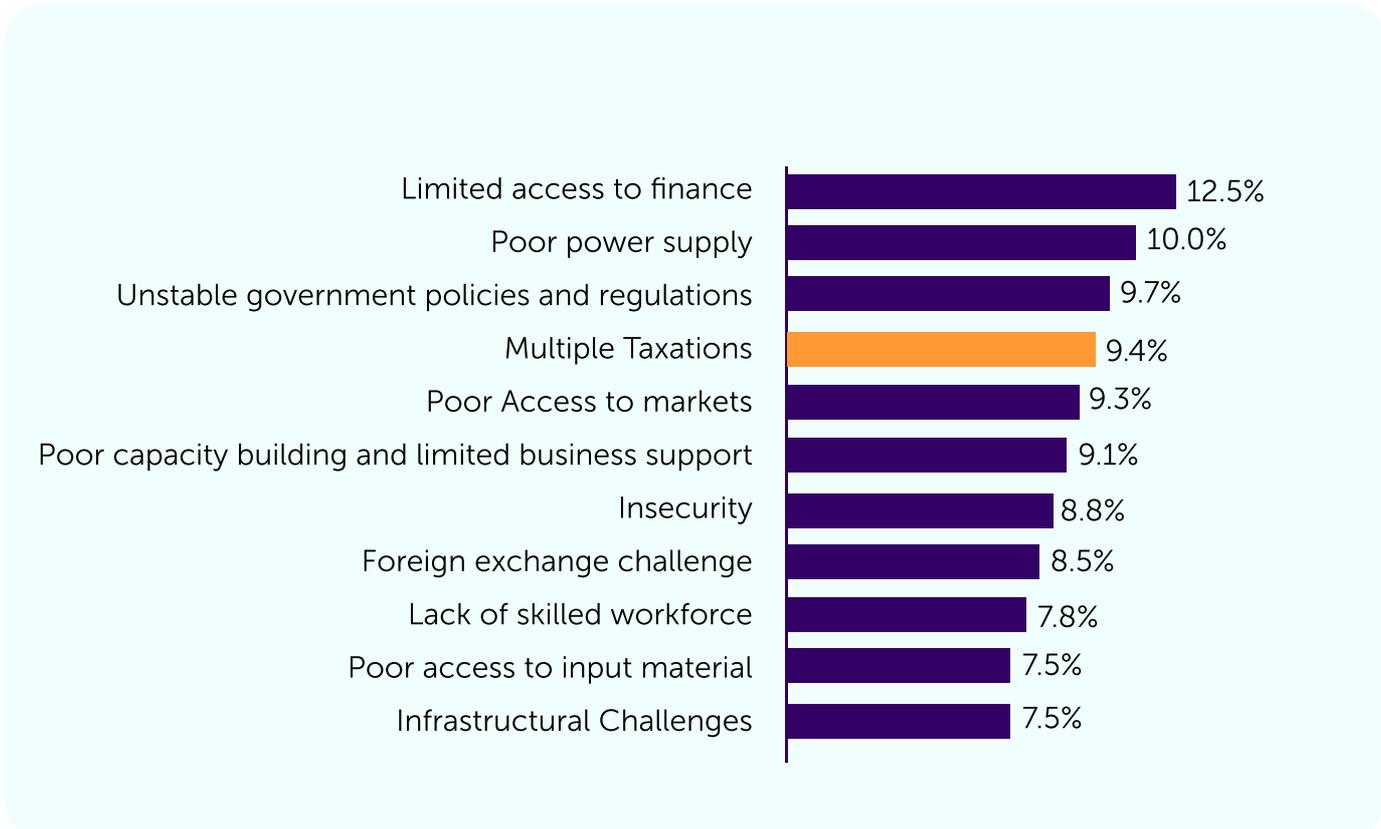
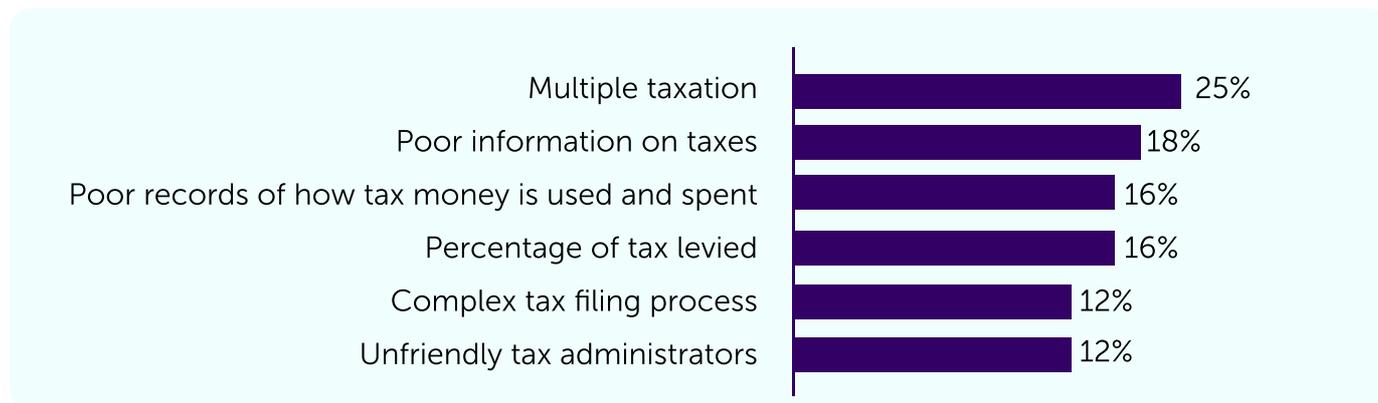


Figure 17: What are the challenges you encounter in paying your taxes?



Multiple taxes exist in different forms. For instance, there are situations where the different levels of government charge businesses with the same or very similar taxes. A clear case is the value added tax charged by the federal government and the consumption tax charged by some state governments, with both targeting the same businesses, particularly those in the media and hospitality sector. Also, some businesses are made to pay more than one similar tax charged by the same government entity, when these taxes can be streamlined to ease the burden on businesses. In Edo state, there is the Land Use Charge Tax, which is backed by The Land Use Charge Law (2012). The state also implements the Tenement Rate which is provided for under the Local Government Law; and the Property Tax which is provided for under the Land Use Charge Law. Although these taxes are backed by separate laws, they are similar and can be streamlined, as practised in Ogun state. Ogun state recently consolidated all land-based rates and charges payable in the state into a Land Use & Amenities Charge (LUAC). The LUAC consists of property Tax, Tenement Rate, Ground Rent, and radio and television licenses payable each year.

In addition, there are also multiple taxes that are extortionary and charged by both government agencies and non-state actors. According to findings by Anudu (2019)^[7], in some parts of Lagos for instance, each tricycle operator pays ₦3,300 every day to four different groups - the National Union of Road Transport Workers, the local government, the state government and the Tricycle Owners Association of Nigeria (TOAN). This excludes payments made to the police and the Lagos State Traffic Management Agency (LASTMA). Majority of these payments are made without the issuance of

receipts, thus, there is the absence of transparency and accountability in the usage of these monies. During our focus group discussions, many entrepreneurs decried the pervasive exploitation by so-called tax officials and non-state actors who claim to work for the government. This is a reoccurring issue across many states and sectors in Nigeria.

To explore the magnitude of the impact of multiple taxes on businesses across size, sectors, states, gender, age and registration, we obtained insights from the SoE 2023 survey.

Multiple Taxation and Business Size

Multiple taxes affect small and medium-sized businesses than large businesses in Nigeria. The survey shows that 66% and 63% of small and medium-sized businesses, respectively, identified multiple taxes as an important factor that negatively affected their businesses in the last one year. This share is lower for all other business categories - about half for micro businesses, 45% for nano businesses and 12% for large businesses. The lower share for large businesses can be attributed to the fact that these companies deal mostly with federal government agencies and they also have the financial capacity and influence to address tax-related issues with local government agencies and non-state actors.

[7] See Anudu (2019). In Nigeria's largest city, SMEs choke as touts levy multiple taxes. <https://businessday.ng/businessday-investigation/article/in-nigerias-largest-city-smes-choke-as-touts-levy-multiple-taxes/>

The survey shows that 66% and 63% of small and medium-sized businesses, respectively, identified multiple taxes as an important factor that negatively affected their businesses in the last one year.

Multiple Taxation, Gender and Business Registration

55% of male entrepreneurs identified multiple taxes as an important factor that negatively affected their businesses; 49% for female entrepreneurs. This suggests that relative to male entrepreneurs, female entrepreneurs have other pressing issues to contend with, top of which are limited access to affordable finance, poor power supply and poor access to markets. The SoE survey also showed that businesses that are registered are more affected (negatively) by multiple taxation, relative to those that are not registered. This could serve as a disincentive for some entrepreneurs to register their businesses.

Figure 18: Business owners that identified multiple taxes as an important factor that negatively affected their businesses in the last one year (% of respondents in each category)

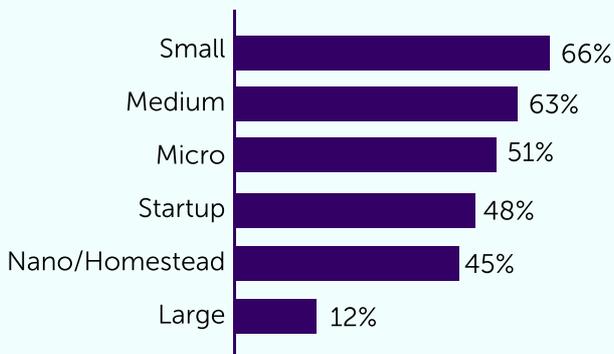
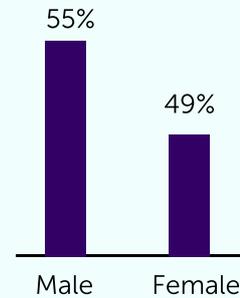


Figure 19: Business owners that identified multiple taxes as an important factor that negatively affected their businesses in the last one year (% of respondents in each gender)



55% of male entrepreneurs identified multiple taxes as an important factor that negatively affected their businesses; 49% for female entrepreneurs.

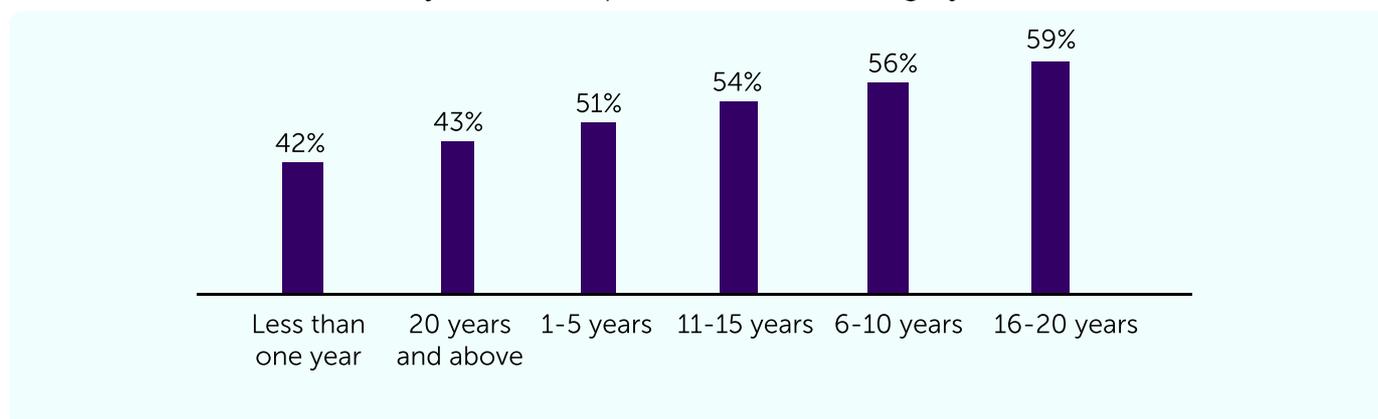
Figure 20: Business owners that identified multiple taxes as an important factor that negatively affected their businesses in the last one year (% of respondents in each category)



Multiple Taxation and Business Age

Looking at the age of businesses and the impact of multiple taxation, the result is mixed. A lower share of businesses that are less than one year and those that are 20 years and above identified multiple taxes as an important factor that negatively affected their businesses, when compared with businesses that have been in existence for 1-20 years.

Figure 21: Business owners that identified multiple taxes as an important factor that negatively affected their businesses in the last one year (% of respondents in each category)

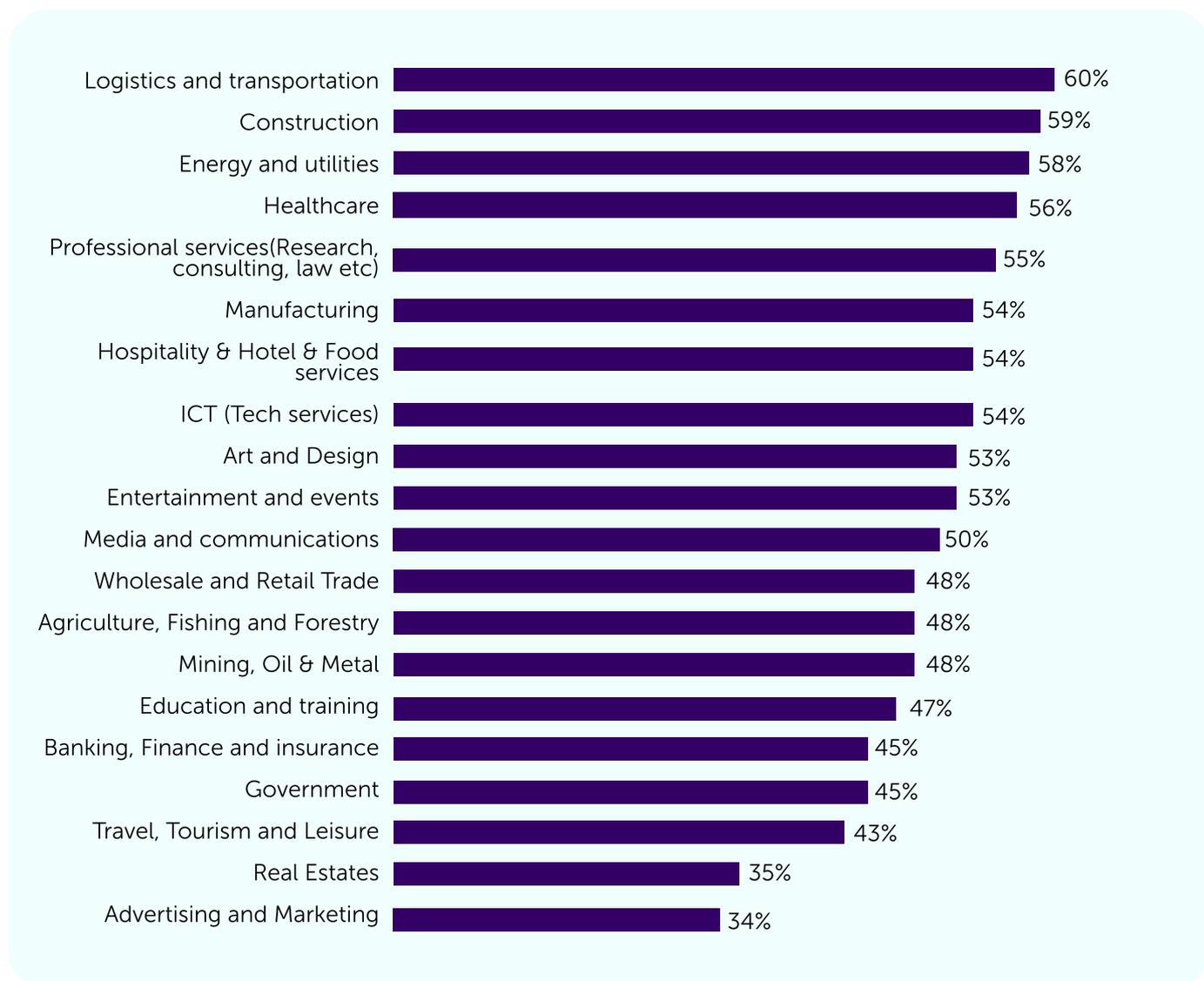


Multiple Taxation and Business Sector

60% of entrepreneurs that operate in the transportation and logistics sector identified multiple taxes as an important factor that negatively affected their businesses in the last one year. This is the highest share when compared with other sectors. The nature of transport business requires movement from one place to another, within and across states and the FCT. This exposes the business to tax officials from federal, state and local governments as well as non-state actors. Some tax-related documentation required by government officials and non-state actors includes vehicle licence, insurance paper, roadworthiness, Ministry of Transport (MOT), state carriage fee, and NIPOST fee, among others. Majority of these businesses are nano and micro businesses and they operate mainly in Kaduna and the FCT, according to the survey.



Figure 22: Business owners that identified multiple taxes as an important factor that negatively affected their businesses in the last one year (% of respondents in each sector)



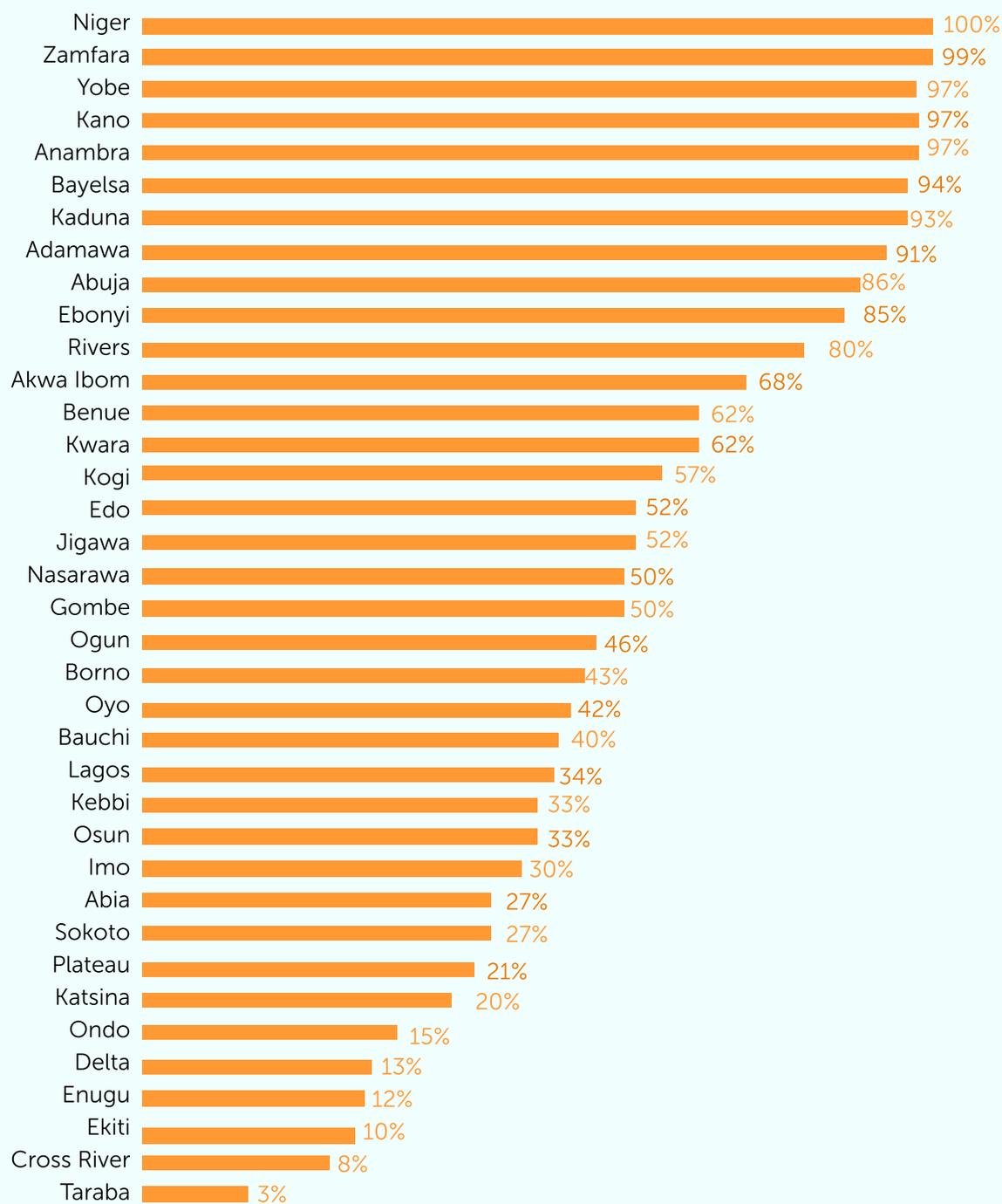
Multiple Taxation and Location

Niger state had the highest share of business owners that said multiple taxation is important in affecting their businesses negatively. In fact, all respondents (100%) believe so. This corroborates the findings by Usman (2022)^[8] which showed that multiple taxes in the state affect the income growth of businesses, particularly tricycle operators, despite the state government’s efforts to harmonise taxes. In Niger state, there is a hotels, restaurants, event centres and entertainment tax of five per cent, which is charged for the "use or possession, or for the right to the use or possession of any hotel, hotel facility, restaurant facility, School halls, halls or events centre"^[9]. This excludes VAT charged by the federal government. Niger state charges an education tax of 5% of the fees payable per pupil/student per term or per annum in private schools. The state also mandates each motorcycle and tricycle operator to pay a daily operation fee of N100 and N150 respectively, and an annual registration fee of N5,000. These are in addition to the numerous taxes levied on businesses operating in the state. Other states such as Zamfara, Yobe, Kano and Anambra had a high share of over 95%. At the bottom, only 3% of business owners in Taraba identified multiple taxation as important in affecting their businesses negatively.

[8] See Usman, A. (2022). Effect of 'Multiple Taxation' on Income Generation of Commercial Tricycle Riders in Niger State, Nigeria. *The International Journal of Humanities & Social Studies*, 10(4). <https://doi.org/10.24940/theijhss/2022/v10/i4/HS2204-025>

[9] See <https://www.ngsirs.gov.ng/wp-content/uploads/2023/01/NIGER-STATE-TAX-ADMINISTRATION-AND-CONSOLIDATION-LAW-2022.pdf>

Figure 23: Business owners that identified multiple taxes as an important factor that negatively affected their businesses in the last one year (% of respondents in each state)

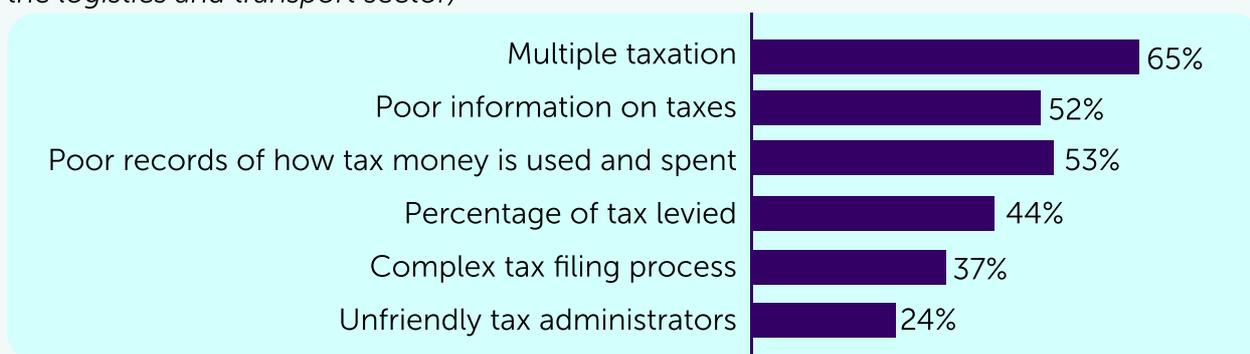


Box 1: Case Study on Taxation – Logistics and Transportation Sector in Nigeria

The transport sector in Nigeria accounted for 1.3% of the country's GDP in the second quarter of 2023, according to data from the NBS. The sector is dominated by road transport, which accounted for 91% of its output. Other sub-sectors such as Air Transport, Transport Services and Post and Courier Services had lower shares of output of 5%, 3% and 1% respectively. Activities within the sector are largely fragmented, ranging from the movement of persons and goods within a state, between and across states, through various modes such as road, water, rail and air, with the use of different transportation means.

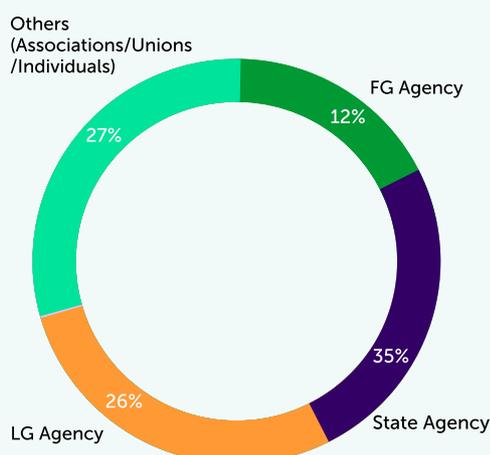
Because transportation involves moving people and goods from one state to another, players in the sector interface with different tax and revenue-collecting agents, at state and local government levels and also at the interstate level. For this reason, these players, are subjected to multiple taxes. In fact, in the SoE survey, the sector had the highest share (60%) of businesses that said multiple taxation was an important factor that negatively affected their businesses in the last one year. Among businesses that pay tax in the sector, 65% identified multiple taxation as the challenges they encounter in paying their taxes. Besides multiple taxation, other tax-related challenges include poor information on taxes, poor records on how tax revenues are used and high tax rate.

Figure 24: What are the challenges you encounter in paying your taxes? (% of respondents in the logistics and transport sector)



Paying taxes is never a difficult task, according to 66% of entrepreneurs in the sector. However, 38% of business owners in the sector do not pay taxes. This share is lower than 45% for overall businesses, mainly because non-payment results in immediate consequences such as physical harassment, delays and seizure/damage of vehicles, motorcycles, etc. In terms of which agencies taxes and levies are paid to, 35% of business owners in the sector pay their taxes and levies to state government agencies; 27% to non-state actors and 26% to local government agencies. Only 12% pay their taxes to federal government agencies.

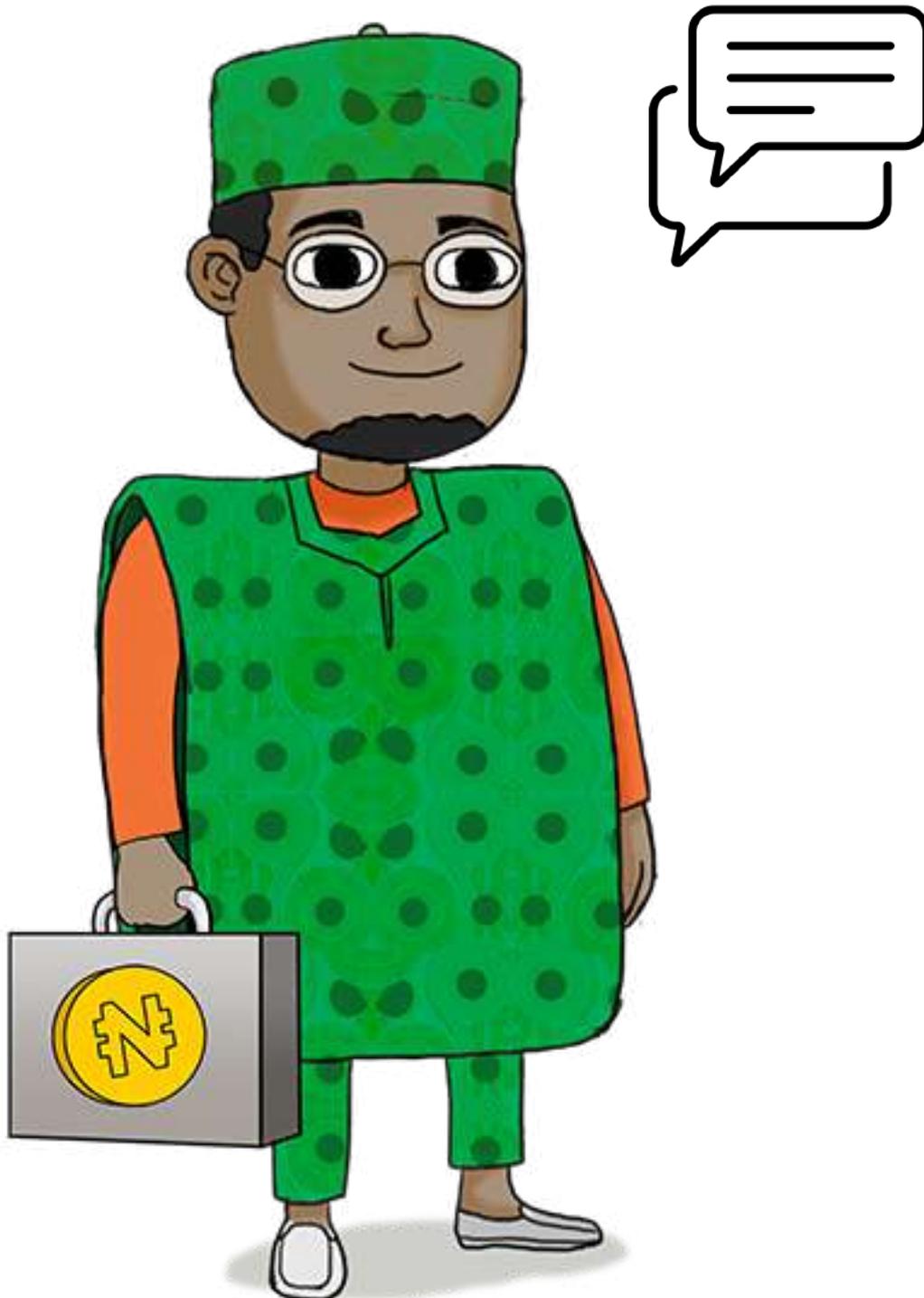
Figure 25: Which of the following agencies do you pay taxes to?



One key aspect within the sector that is burdened by multiple taxes is courier services, which have recorded unprecedented growth since COVID-19. Dispatch riders, for instance, are required to pay various fees and levies and show documentation such as mid-year paper, consolidate permit certificate, radio licence, unified clearance, insurance paper, roadworthiness, vehicle licence, Ministry of Transport licence (state), NIPOST fees and vehicle road tax. Across states, these riders carry over 30 tax-related documents and are constantly harassed by touts who claim to represent local governments. These activities raise the operating costs of businesses in the sector. This, therefore, calls for urgent streamlining of taxes by state and local governments across the country to ease doing business by operators in the sector.



REVIEW OF GOVERNMENT'S RESPONSE TO THE TAX PROBLEM



Over the past decade, the Nigerian government has embarked on many tax reforms. Usually, tax reforms at the federal level are often motivated by appeals from the business communities for the government to make tax changes to ease their operating environment. However, the underperformance in oil revenue over the past decade has heightened the need for the federal and state governments to leverage taxes to make up for the shortfall in oil revenue. This section reviews some of the tax reforms that have been implemented in Nigeria in the last few years.

Finance Acts

In the face of fragile economic growth, severe revenue problems and heightened public debt sustainability concerns, the government recognised the impediments that some outdated legal and regulatory tax provisions had on the performance of businesses in the country. Hence, the government introduced the Finance Act as a document supporting and providing policy directions for the upcoming year's Budget. The Finance Acts were passed to revise some of Nigeria's tax laws and have since 2019 become an annual practice of the federal government. This is done to keep fiscal policy in tune with emerging trends and support the government's revenue. It has become the primary vehicle that the federal government uses to implement tax changes.

The tax changes from the Finance Acts have varying Implications for entrepreneurs and their businesses. While some of the reforms are targeted at easing businesses' burden, many have come with strains on businesses. The Finance Act has made the following changes to ease the operating environment for entrepreneurs, particularly in the MSME space:

- Exempted companies with gross turnover of less than ₦25 million and companies in their first four calendar years of operation from Companies Income Tax (FA, 2019).
- Exempted companies engaged in primary agriculture production, real estate and regulated security lending transactions from CIT (FA, 2019, 2020).
- Granted pioneer status to companies engaged in primary agriculture (FA, 2020)
- CIT rate made progressive; 0%, 20% and 30% for companies with turnovers below ₦25 million, ₦25 – ₦100 million and above ₦100 million, respectively (FA, 2019).
- Abolished pre-operation levies before the issuance of Tax Clearance Certificates (TCC) to companies who are yet to commence operation (FA, 2019).
- Reduced the minimum tax rate from 0.5% to 0.25%, applicable to companies in a loss position in a year of assessment (FA, 2020).
- Exempted SMEs from presenting audited financial statements before filing for tax while also making it mandatory for all companies, including SMEs, to maintain books or records of accounts containing sufficient information on all their transactions (FA, 2020).
- Exempted the hire, rental or lease of agricultural equipment for agricultural purposes from VAT and limited the compliance threshold at a turnover of over ₦25 million. (FA, 2019, 2020).
- Small companies with annual turnovers of ₦25 million and below are exempted from Tertiary Education Tax (FA, 2019).

Several policies emanating from the Finance Acts are commendable, especially in relation to the exemptions granted to small business owners. These entrepreneurs have enjoyed tax reliefs and reduced tax burdens, which provide further opportunities for growth and expansion. In addition, the lesser interactions with the federal government on tax-related issues provides administrative relief to small businesses, many of which do not have adequate financial and human resources to address tax issues.

One of the downsides to the Finance Acts is that the policy design and implementation process are, in several instances, devoid of engagement with concerned stakeholders. Furthermore, policy stances such as increasing the VAT rate from 5% to 7.5% (FA, 2019); imposing excise duties on non-alcoholic, carbonated, and sweetened beverages charged at a flat rate of N10 per litre (FA, 2021); and the introduction of the Electronic Money Transfer Levy (EMTL) (FA, 2019) arguably have negative implications on the overall operating costs of companies and on the prices of goods and services in the country.

Consolidated Revenue Code (CRC)

Following the 2016 recession that accompanied the global oil price crash in 2014, all state governments agreed to improve domestic resource mobilisation. Hence, the Nigeria Governors' Forum (NGF), as part of the State Action Plan on Revenue Generation (SAPRG), developed a toolkit that provides guidance notes, templates, manuals and checklists to aid the domestication of key reforms under the World Bank's States Fiscal Transparency, Accountability and Sustainability (SFTAS) Programme. The emanating tax reforms focused on tax consolidation, harmonisation and codification. This led to the passage of the Consolidated Revenue Code (CRC) in almost all the states of the federation to end multiple and double taxation and give full administrative and financial autonomy to tax authorities. The implementation of the CRC has led to increased digitalisation, compliance, and tax revenues in some states. Nevertheless, about half of the states have not yet achieved full administrative and financial autonomy as the Code provides¹⁰¹.

Despite the implementation of the CRC in some states, multiple taxation remains a problem for small businesses across many states. Many small business owners are still exposed to multiple tolls, levies, permits and charges. This is largely because many state governments simply consolidated rather than harmonize taxes and levies. As an example, Niger and Kogi states have state tax administration and consolidation laws which contain all taxes and levies that should be paid by businesses in the states. However, the number of taxes in this consolidated law is numerous; the tax rate, fees and charges are quite high, all targeting businesses operating in the state. This is in addition to the activities of other actors such as the local government and non-state actors, who work in partnership with government officials.



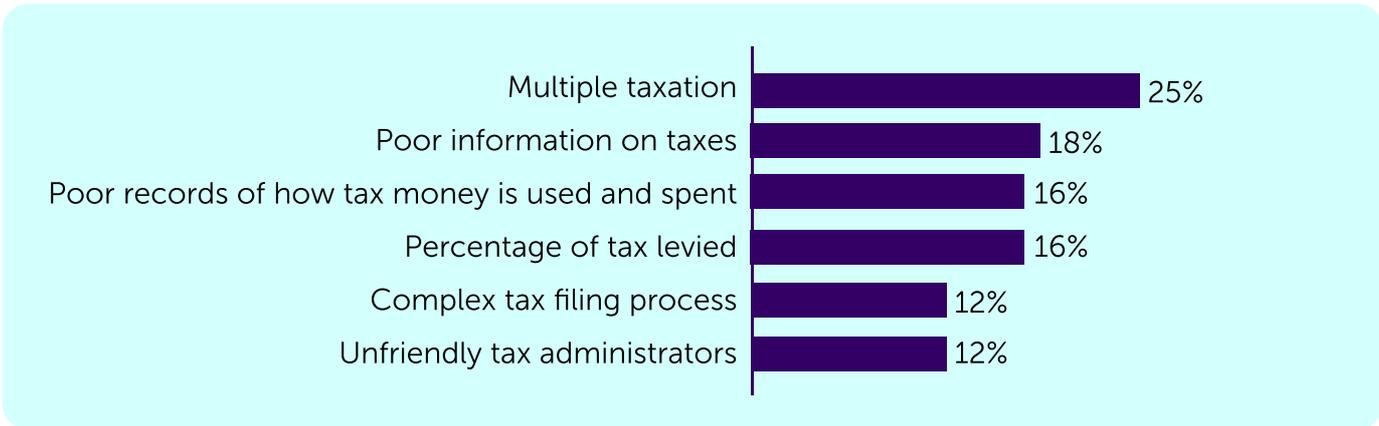


CHALLENGES FACING ENTREPRENEURS IN RELATION TO TAXES AND LEVIES



In navigating the realm of taxes and levies, entrepreneurs face a number of challenges which make it even more difficult to comply with tax payments. These challenges range from multiple taxation to understanding complex tax regulations and compliance requirements. Moreover, staying updated with ever-evolving tax regulations and complying with the associated inconsistencies can pose considerable challenges for small business owners who are striving to stay afloat in a challenging business environment. In this section, we delve into the specific challenges entrepreneurs face concerning taxes and levies, drawing insights from the findings of the 2023 SoE survey.

Figure 26: What are the challenges you encounter in paying your taxes?



Multiple taxation

As far as taxes and levies are concerned, multiple taxation is the most significant problem faced by entrepreneurs in Nigeria. In the 2023 SoE survey, some businesses noted as many as 24 taxes and levies paid to different agents – federal, state, local governments and non-state actors which include associations, unions and individuals. Businesses are obliged to pay taxes that are similar such as value added tax and consumption tax charged in some states. In addition, there are levies that are paid on a daily basis by entrepreneurs to non-state actors irrespective of the revenue generated by the business, while several charges are paid monthly and annually. In most instances, the amount paid are flat estimates and tend to be regressive on businesses, especially nano businesses. The situation is such that each agent views a particular entrepreneur as a potential revenue source and the agents fail to take account of one another, resulting in an overlap of responsibilities. Accordingly, the numerous taxes raise business costs, make businesses uncompetitive and limit their growth and expansion.

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Poor information on taxes and charges

According to the SoE survey, majority of businesses pay their taxes to state and local government. Information about taxes and levies varies across states. A few states have digitised the tax process and have up-to-date information on the websites of the State Internal Revenue Service. This cannot be said about some states where the process is still manual and information is fragmented. Across board, information about taxes is scarcely available in local languages, pamphlets, and on radio and social media. Although we note that in some states where information about taxes is available, there is still the problem of multiple taxes. For instance, Niger state has a detailed schedule of taxes and levies which can be accessed online, however, 100% of entrepreneurs surveyed in the state identified multiple taxes as an important factor that negatively affected their businesses. At the local government level, the situation is a lot complex. Many business owners are not aware of the taxes to pay to local government agencies, and non-state actors often take advantage of this to introduce and enforce different levies.

Poor records of how tax money is used and spent

Across states and local governments, the finances of government are obscure and largely unavailable to both businesses and households. In addition, the process of budgeting excludes a significant number of the populace even as government effectiveness in providing basic services is low. Typically, businesses provide their water, electricity, roads, drainage and other public services. This raises the overall cost of doing business. As such, entrepreneurs often question the rationale for paying taxes and levies to the government and non-state actors.

Complex tax filing process

At the federal level, the introduction of Taxpro Max in 2021 by the Federal Inland Revenue Service (FIRS) represents an improvement in the tax process through the use of technology. The platform is a one-stop-shop for taxpayer registration, filing of tax returns, payment of tax, and obtaining tax clearance certificates. During the FATE Institute's focus group discussions, a few entrepreneurs applauded the Taxpro Max platform, while others highlighted several challenges such as downtime of the portal, lack of proper integration of Taxpro Max with Ministries, Departments and Agencies, and lack of full automation of the process, which therefore demands that taxpayers or tax consultants visit FIRS or field

operational offices to obtain tax clearance certificates. Some states have a dedicated online portal that makes it easier for businesses to file and pay taxes. Lagos for instance has the IBILE Hub for the informal sector and about 40 mini tax stations under the hub that are close to marketplaces. The hub provides tax receipts and tax IDs to taxpayers and ensures the tax process is convenient and simplified. On the flip side, in many states, particularly those that are yet to digitise the process, the tax filing and payment process is complex and lacks transparency and ease for taxpayers, resulting in tax apathy and limited accountability in the collection of tax revenue.

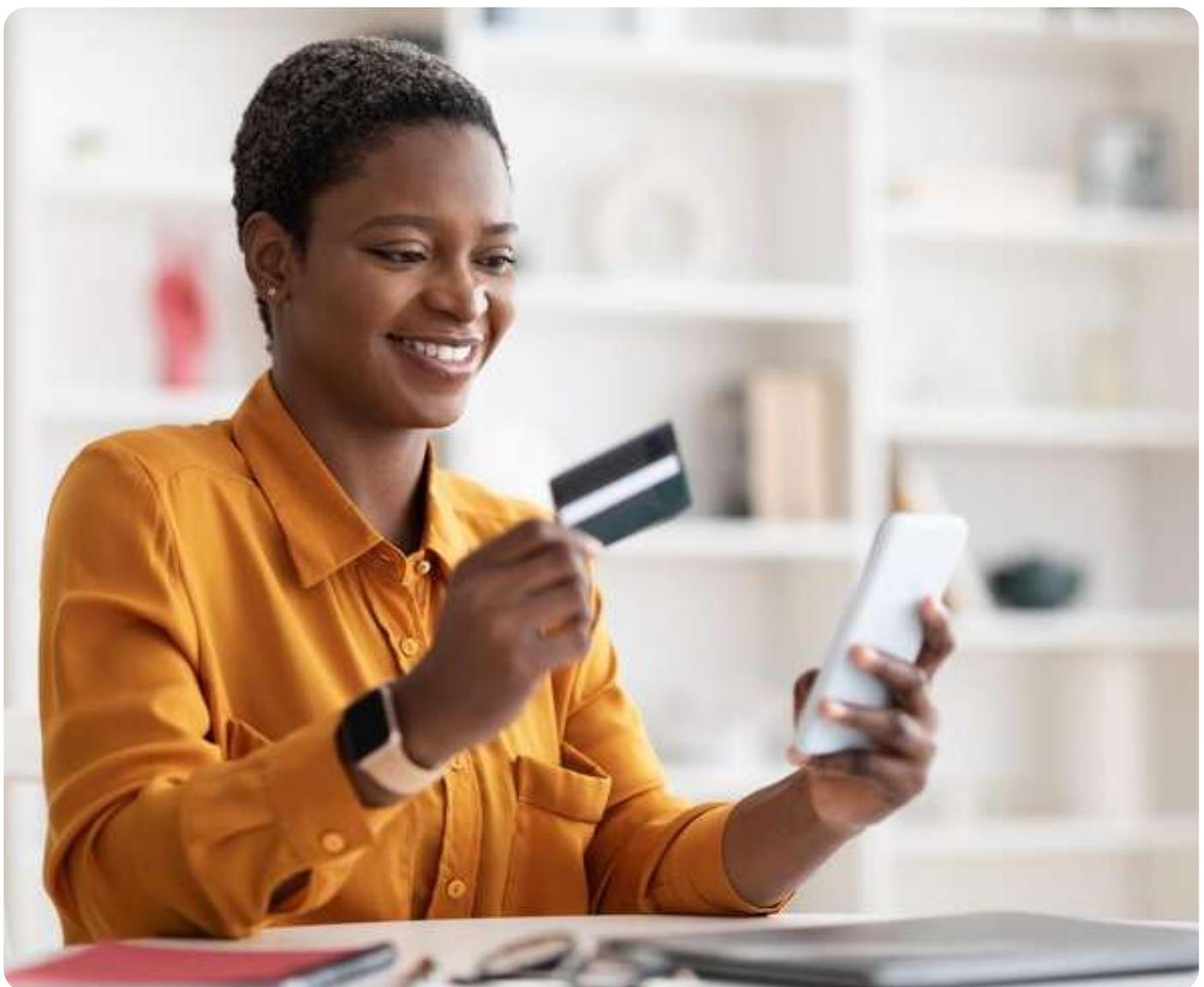


Percentage of taxes levied

With the challenge of multiple taxes, business owners are made to pay many taxes, which when consolidated, amount to huge costs for businesses. The drive for many state and local governments to generate revenue from taxes has also led to numerous charges on small businesses, which are often more vulnerable to financial shocks and have limited access to affordable finance. Some states take advantage of the presumptive tax legislation to impose high taxes on businesses in the informal sector. This is in addition to other forms of charges and taxes paid by businesses in the state. Such a high tax bill heightens cashflow problems and results in a less efficient economy. It is therefore in the best interest of state and local governments to reduce the tax bills on small businesses in their locality.

Unfriendly tax administrators

Across federal, state and local governments, there are cases of unfriendly and corrupt tax officials who seek to exploit business owners who are not knowledgeable of tax legislation and procedures. Some challenges faced by tax officials include lack of training, unequipped with relevant resources, they face constant pressure to meet revenue targets, they have limited information about the usage of tax revenues and come under personal threats from potential taxpayers. These factors contribute to the low tax morale among business owners across the country.



Box 2: Country Case Study on Improving Tax Revenue and Implementing Tax Reforms - Senegal

Senegal faced economic challenges in the mid-2000s owing to high energy and food prices in the international market, along with other domestic shocks. As a result, economic growth stagnated, and fiscal deficits widened to 5.1% of GDP as a result of lower tax revenues. Supported by the International Monetary Fund (IMF), the country implemented a number of tax reforms to improve revenue collection and reduce the fiscal deficit.

Senegal's government, in 2012, implemented reforms which included consolidating the tax code and simplifying some major taxes in the country. Specifically, all legislation governing domestic taxation was streamlined into the Tax Code in 2012. This enabled the Ministry of Finance to regain full control of the country's tax policy. Another instituted reform was the creation of the Center for Medium-Sized Enterprises (CMZE) which segmented medium-sized taxpayers and introduced new measures to improve tax compliance for businesses that fall within this category. The outcome of this reform was an increase in the number of firms covered under the CMZE by 35% within one year and a reduction in filing and payment non-compliance rates under the CMZE.

More importantly, the approach to tax reforms implemented by Senegal included key stakeholders such as labour unions and employers. This ensured stakeholder buy-in of tax reforms by the government. As a result of these reforms, the country's tax-to-GDP ratio increased from 18% in 2009 to 20.9% in 2017.

In reviewing some case studies on tax reforms implemented in countries such as Burkina Faso, The Gambia, Maldives, Mauritania, Rwanda, Senegal, and Uganda, some key lessons are highlighted below:

- Political commitment from the top facilitates coordination by all relevant agencies and encourages the implementation of tax reforms.
- Social dialogue enhances buy-in from stakeholders.
- Simplifying the tax system improves compliance.
- Enhancing management, governance, and human resources and introducing modern business procedures leveraging on technology are important.
- Establishing or strengthening the segmentation of taxpayers allows for specific policies to improve compliance of that segment.
- Ensure compliance risk management.
- The drive for more revenue by the government can damage economic efficiency, if not carefully managed.

[11]See Akitoby B. et al (2019). *Case Studies in Tax Revenue Mobilization in Low-Income Countries*. IMF Working Papers. Volume 2019: Issue 104. <https://doi.org/10.5089/9781498314565.001>



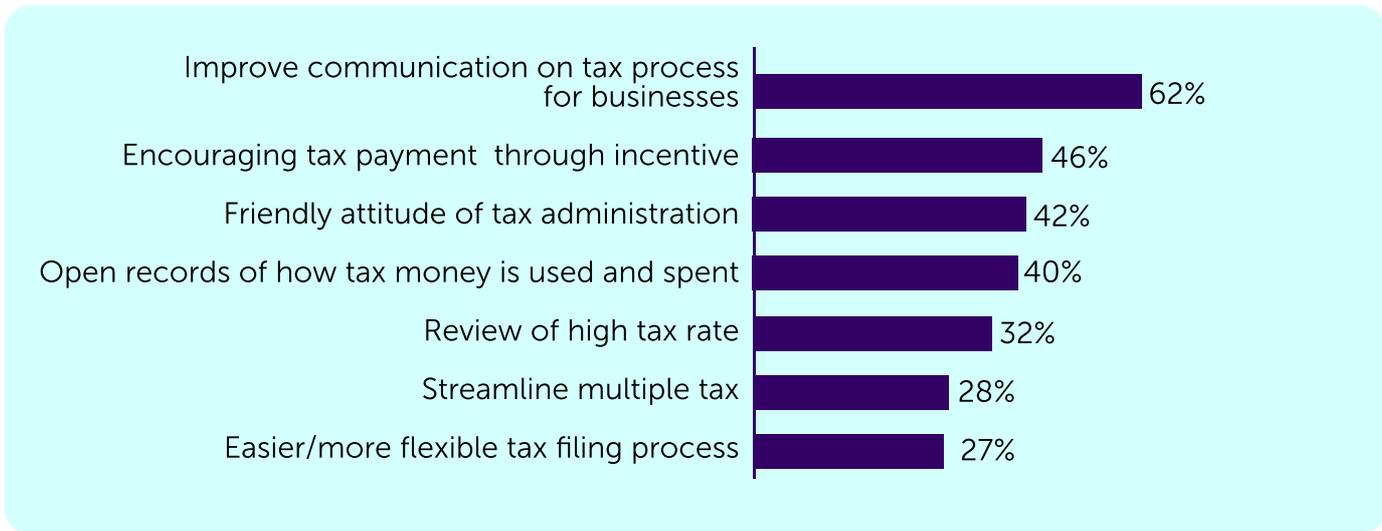
POLICY RECOMMENDATIONS



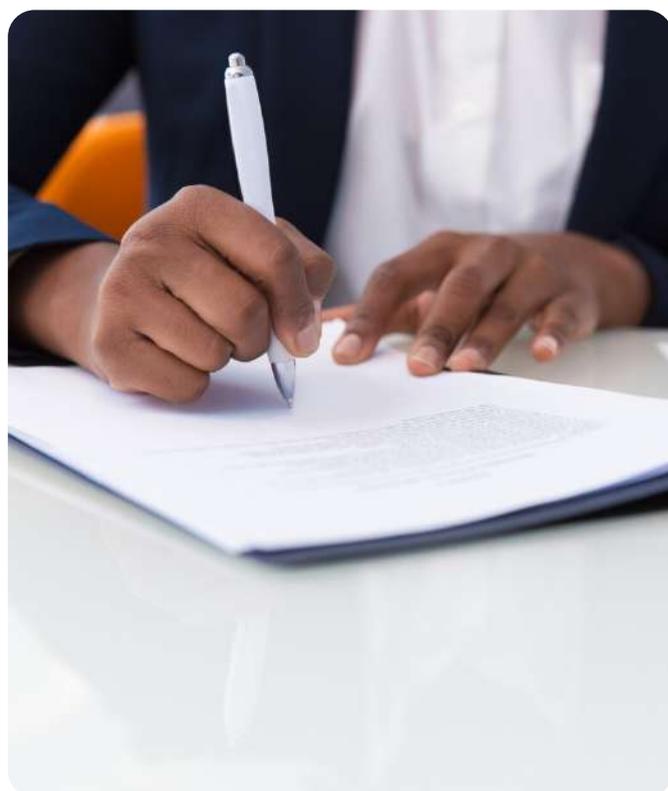
To foster a more conducive environment for entrepreneurship, it is important for stakeholders to address the bottlenecks associated with taxes and levies. In the 2023 SoE survey, 68% of entrepreneurs believe that improving communication on tax processes will improve tax compliance in Nigeria. Other reforms cited by entrepreneurs include the provision of tax incentives, improving the attitude of tax officials, and transparency in the use of tax revenue, among others

68% of entrepreneurs believe that improving communication on tax processes will improve tax compliance in Nigeria.

Figure 27: How do you think tax compliance can be improved for businesses in Nigeria? (% of respondents)



We discuss the recommendations under five blocks: Ensure Simplicity; Build Capacity; Strengthen Engagement with Stakeholders; Incentivise Business Formalisation and Ensure Effectiveness, Efficiency and Transparency of Government. These recommendations are designed to create a balanced and supportive fiscal landscape for aspiring and existing entrepreneurs



Ensure Simplicity of Taxes and Levies

To foster a more conducive environment for entrepreneurship, it is important for stakeholders to address the bottlenecks associated with taxes and levies. In the 2023 SoE survey, 68% of entrepreneurs believe that improving communication on tax processes will improve tax compliance in Nigeria. Other reforms cited by entrepreneurs include the provision of tax incentives, improving the attitude of tax officials, and transparency in the use of tax revenue, among others.

1. **Legislation:** To start with, the government working with the National Assembly must urgently review and amend the Taxes and Levies Act, 2004 and the Schedule to the Taxes and Levies Order, 2015, which provide a list of taxes and levies to be collected by the different levels of government. The goal of the review must be to streamline the number of taxes and levies to be paid by businesses to each level of government. These taxes and levies should be reduced to at most two, especially as majority of small businesses are excluded from CIT and other federal taxes in the Finance Acts. This must be accompanied by state-level and local government laws aimed at harmonizing (beyond consolidating) relevant taxes and levies as well as streamlining the revenue collection agencies in the state/local government to one for each level. Legislations and executive orders by state governors must declare the activities of non-state actors as illegal and list sanctions for any actor that violates the legislation. State governments must balance the need to generate non-oil revenue with the need to ensure the growth of small businesses. The Joint Tax Board, Presidential Committee on Fiscal Policy and Tax Reforms, and State Governors must lead the reform process.



2. **Administration process:** The tax payment process must also be simplified and government agencies must prioritise the use of data and technology to increase coverage and ensure efficiency and transparency of the tax process. State governments must phase out the collection of cash from businesses as taxes and establish an online platform which must be functional and easy-to-use by taxpayers and consultants. Governments across different levels must invest in data and information to monitor economic activities and identify potential taxpayers. The Nigerian Governors Forum and the Association of Local Governments of Nigeria (ALGON) along with other stakeholders must work together to digitise and simplify the tax payment process across states and local governments.

Build Capacity

Developing the capacity of both tax officials and business owners is important in building a modern and efficient tax system. This can be viewed from two perspectives:

1. **Training of tax officials:** The government (FIRS and State/Local Government Internal Revenue Agencies) must ensure adequate training of tax officials on the relevant tax laws, policies and practices as these are crucial when engaging taxpayers. Tax officials must be provided with adequate resources such as official means of transportation, communication tools, internet access, fuel, and protection by law enforcement agencies to ensure they execute their functions effectively.
2. **Training of business owners on taxes:** It is important for business owners to be knowledgeable about tax policies and how they affect their businesses. Entrepreneurs must attend relevant training on financial management and ensure proper bookkeeping which are important ingredients in filing and paying taxes and levies. They can also engage tax consultants. They must ensure compliance with relevant tax laws to avoid exploitation by corrupt tax officials and non-state actors.

Communicate to and Strengthen Engagement with Stakeholders

Tax reforms are mostly political in nature and therefore require public education and stakeholder buy-in, to prevent protests and violence in the case of implementing tax policies that seek to bring more businesses into the tax net. There must be seamless communication of tax legislation, policies and practices to current and potential taxpayers which must be easily accessible across board. Federal, state, and local governments must utilize traditional (radio, TV) and social media to communicate tax policies and changes to these policies using indigenous languages. In addition, constant quarterly engagements with citizens and businesses on tax-related issues are required across the three levels of government. Community engagements and town hall meetings at local government levels should be organized by State/ Local Government Internal Revenue Agencies.

Incentivise Business Formalisation

A major finding from the 2023 SoE survey is that registered businesses are more likely to pay taxes than unregistered businesses. With majority of businesses operating in the informal space in Nigeria, tax collection costs are likely to be high as revenue agencies collect small amounts from large number of businesses. To encourage the formalization of businesses, the government can implement specific policies such as reduction of business registration costs, embarking on a campaign at marketplaces to sensitize businesses on the benefits of registration (relatively better access to funding, markets, etc), among others.

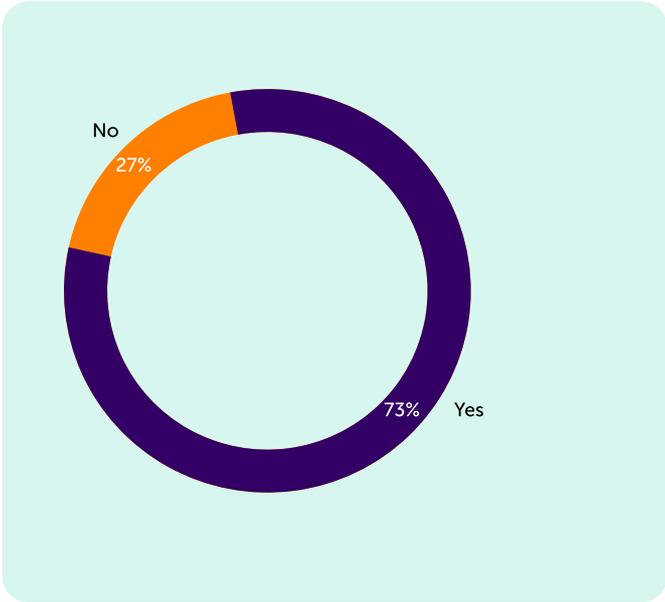


Establish a Social Contract with Citizens and ensure Effectiveness, Efficiency and Transparency of Government Finances

Greater efficiency and transparency in the use of government revenue will have a huge and positive impact on tax compliance across the country. Majority of businesses that do not pay taxes cite a lack of trust in public officials in the use of tax revenues as the reason for not paying taxes. In addition, 73% of businesses are willing to pay more taxes provided the government makes good use of tax revenues and prioritises the provision of infrastructure, health and education, security and financial support to businesses and citizens.

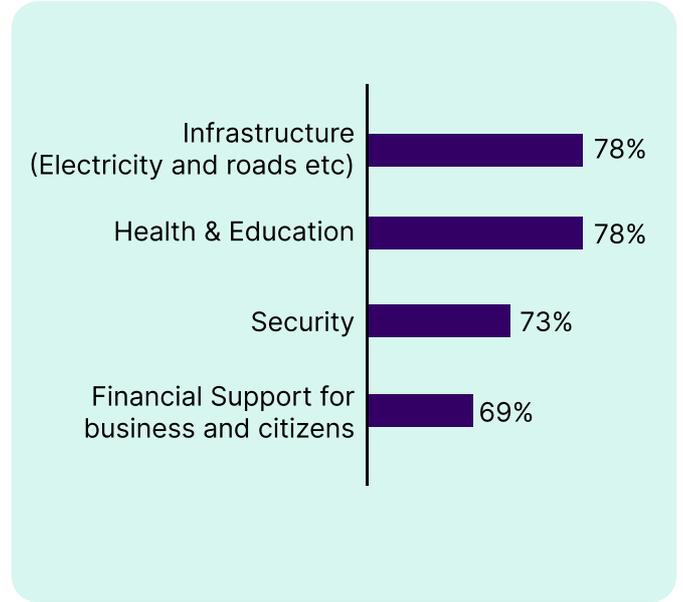


Figure 28: Would you be willing to pay more tax if the government spends tax revenue judiciously?



Going forward, it is essential for federal, state and local government to present quarterly how tax revenues are used and this must be effectively communicated to business owners in different forms and languages. Furthermore, taxpayers must enjoy value-for-money through the government's provision of basic amenities such as good roads, constant power supply, quality education and health care system and security. Business owners should be able to easily access federal, state and local government grants.

Figure 29: If yes, what area(s) do you think government should prioritize spending? (% of respondents)



This means that the government must link tax payments with certain benefits such as pensions, healthcare, grants, discounts on government services, etc. Above all, the government's interest in raising revenue must be matched by the need to cut unnecessary costs and provide basic services to citizens. As such, the government must reduce wastage by constantly scrutinising annual budgets and ensuring public funds are properly utilised and well accounted for.

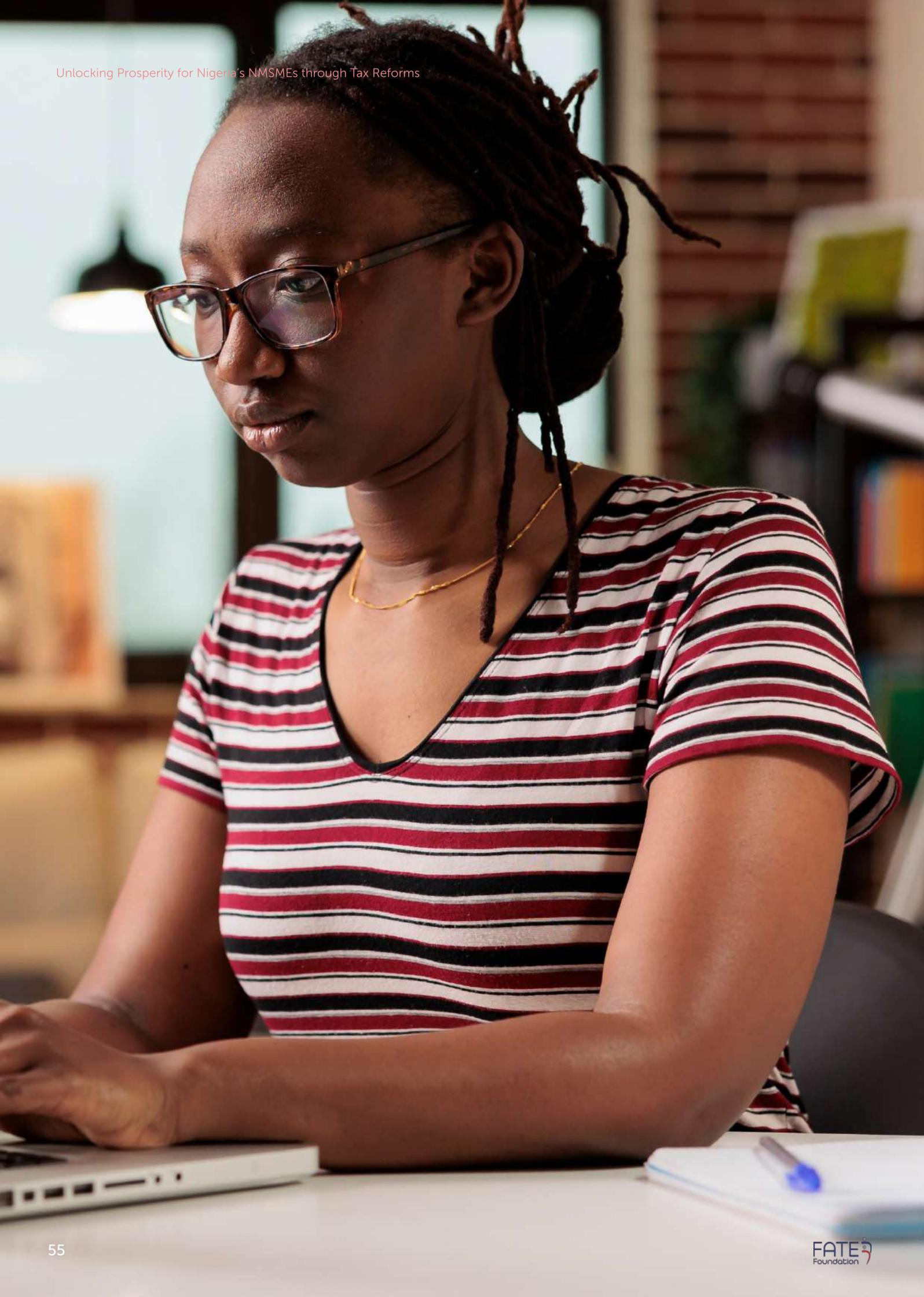


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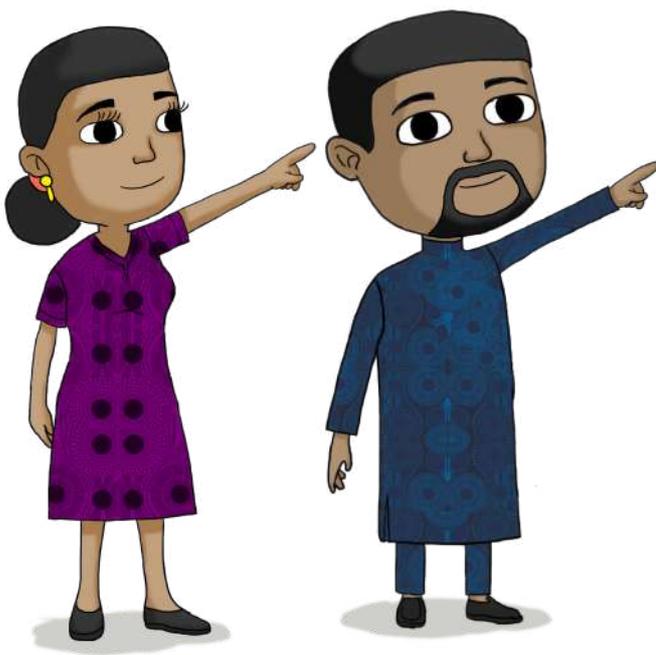
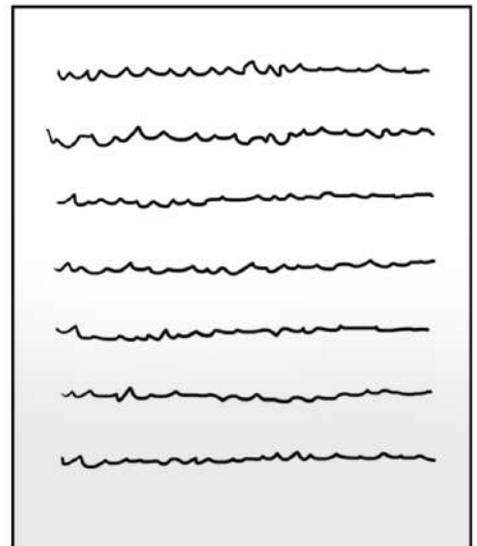


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APPENDIX



APPENDIX

Methodology Note

The FATE Institute conducted the 2023 State of Entrepreneurship survey of business establishments across several states and the Federal Capital Territory in Nigeria for this study. A nationally representative sample of 8,500 business establishments was selected. Establishments cut across formal and informal sectors and were located in both rural and urban areas. The businesses in this study are captured under 20 sectors of the economy.

The survey was executed in two major forms: questionnaire (online and physical) and interviews of entrepreneurs, government regulators and business member organisations. The principal objective of the survey was to provide data support towards the mapping of the State of Entrepreneurship in Nigeria. Other objectives included to capture data on key business trends, survival and death rates of businesses, access to finance, multiple taxation as well as highlight key challenges and perception of entrepreneurs on the business environment.

The survey was conducted in the months of July and August 2023. Final number of surveyed businesses was 10,377 which exceeded the initial sample of 8,500. Field responses accounted for 97.6% of respondents while online responses had the remaining share of 2.4%. For the interviews, 15 organisations were interviewed. After completion, the data were lodged, validated, cleaned up and analysed in line with the objectives of the report. Two main statistical software - Ms Excel and SPSS were used in the analysis.

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