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Designing Taxation Structure For Entrepreneurship In Developing Countries: A Case Study Of Nigeria

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Abstract

Taxation plays a very prominent role in the development of every economy as well as the growth of entrepreneurship in both advanced and developing countries of the world. In a developing country like Nigeria, the role of the entrepreneur is critical in influencing the socioeconomic development agenda of the country. As such, alignment of the tax structure or system to the specific entrepreneurial growth needs can be regarded as very important agenda for policy makers. Keeping this issue in view, the study aimed at exploring the perception of entrepreneurs about the impact of the tax system in Nigeria and on the profitability of their businesses. The study is premised upon a survey of selected 100 entrepreneurs in Abuja, the Federal Capital of Nigeria. The survey was administered using structured questionnaires and interviews with the selected respondents. Data was analysed by descriptive analysis method, correlation and regression analysis and findings were presented in terms of frequencies and percentages. The Findings indicate that majority of the respondents perceive the negative impact of the existing tax policies or structure on the growth of their businesses and suggest solutions for reforming the entire tax policies in the country. The findings revealed the challenges facing the design of appropriate tax structure in developing countries, taking Nigeria as a case study. The study recommended a simplification of tax regulations governing entrepreneurs for ease of compliance by them. Also, tax administrators should carry out their duties more efficiently in order to reduce to the barest minimum the issue of multiple taxes levied on the entrepreneurs. Lastly, tax administrators should create tax awareness towards the entrepreneurs. This will enable them to know the type of taxes they are supposed to pay and at a particular period in time as well as the relevant tax holidays that they are entitled to.

Keywords: Entrepreneurship, tax system, Nigeria.

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1.0 Introduction

Entrepreneurship is an engine of economic development. Governments all over the world are searching for and implementing policies to stimulate entrepreneurship as a veritable means to create new job opportunities, reduce poverty and foster innovation and economic growth. Promoting entrepreneurship has therefore been acknowledged as one of the priorities of most governments the world over. From that standpoint, the relationship between entrepreneurship, one of the key ingredients to promoting growth and the design of the tax structure is essential. The above submission draws attention to the potential negative impact high taxes may have on entrepreneurship. Innovation, which is always seen as an important engine of long-term growth and development, often takes place in settings where entrepreneurship is vibrant.

Institutional and policy reforms (including tax reforms) can influence the growth effects of entrepreneurship, but the evidence, in general, points to positive growth effect from the interplay between reforms and entrepreneurship. Governments' need to impose taxes is regularly seen as *sine qua non* to revenue generation. Therefore, policymakers need to identify (and implement) optimal tax regimes that would generate adequate and much needed public revenues, without having a detrimental effect on productive entrepreneurship. This task of designing the appropriate tax structure is even more complex in the 21st century, given the extent of globalisation and fragmentation of production.

Entrepreneurship has contributed remarkably to substantial economic growth and poverty reduction in many countries in the past three decades or so (Naudé, 2013). The idea that entrepreneurship and economic growth are very closely and positively linked together has undoubtedly been the mainstream thought since the early days of (Schumpeter, 1934). There was assumed to be a direct relationship between the number of entrepreneurs and the level of employment generation and economic growth in many countries, especially in developing ones.

(Afolabi, 2015) believes that entrepreneurship originated in Nigeria with barter - mutual exchange of goods. Over time, this led to specialisations among the partaking parties. With this, we can say that Nigerians in the olden days were entrepreneurs in their communal settings. (Ebo, 2014) recounted how the Portuguese, the first Europeans to transverse the coast of Africa, traded with the ancient Benin Kingdom in slaves, palm oil, ivory, pepper and textiles. Government direct

intervention in promoting entrepreneurship however became significant only after the unfortunate Nigerian Civil War of 1967 to 1970. Introduction of the Structural Adjustment Programme (SAP), establishment of the National Directorate of Employment (NDE), establishment of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) all came into play in attempts by successive governments in the past forty years or so to encourage entrepreneurship in Nigeria (Osunde, 2014; Thaddeus, 2012).

There are numerous, and often conflicting, principles that guide the design of a tax structure. One of those principles is that taxation should promote growth, or at best, should have as little impact as possible. This is borne out of the fact that innovation has been shown to be an important engine of long term growth and development, and because innovation often takes place in settings where entrepreneurship is vibrant, a successful implementation of that principle requires that the impact of the tax structure on entrepreneurship be taken into account. The available studies in this area focuses on European countries. Strangled by a sovereign debt crisis that followed a deep financial crisis, governments in those countries are in desperate need for tax revenues.

If the tax structure is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying organisations and eventually affecting the final consumer due to the shifting ability of tax. According to a study by (Mnenwa & Maliti, 2008), the majority of small businesses are less likely to attain or maintain their growing profitability due to factors including tax policies. This implies that as a policy maker and regulator, Government must consider the factors that could affect the competitiveness of the entrepreneurs. In addition, most of the literature and research on the subject are mostly foreign and western in nature, where the dynamics of entrepreneurial activities are different from that of developing countries like Nigeria.

This study therefore seeks to examine the effect of the tax system on the performance of entrepreneurship in Nigeria by focusing on a sample operating in Abuja, the Federal capital of Nigeria. The rest of this paper is organised as follows: Section Two contains the Literature Review which is a summary and synthesis of works already done in the area; Section Three is devoted to a description of the methodology adopted for this research; Section Four will be on data presentation, data analysis and discussion of findings; and finally Section Five will be the final section made up of the conclusion and policy recommendations of possible ways the government, working closely with the private sector, can create a better tax-friendly entrepreneurial society.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Entrepreneurship

The word entrepreneurship does not have a generally accepted meaning as it is multi-faceted in nature. As noted by (Adeyeye, 2009), the phenomenon cuts across several disciplines. Thus, various authors have fashioned out a myriad of definitions based on their inclinations, research interests and dispositions. In seeking a consensus definition, (Bull & Willard, 1993) had earlier noted that researchers from diverse fields often define entrepreneurship in line with their own areas of study. To (Olutunla, 2001), the word entrepreneurship is derived from the French word 'entreprendre' meaning to 'undertake'. The entrepreneur plays a pivotal role in modern economies as a visionary and integrated person with outstanding leadership qualities. Over the years, entrepreneurship has become a very important factor in the economic development of nations. With the world now generally tending towards free market enterprises, the role of the entrepreneur has assumed significant importance.

An entrepreneur has been described as person, working within an existing organisation or independently, who identifies a business opportunity within a given market and sets up an enterprise or subsidiary to take advantage of the opportunity (Gartner, 1988). He assumes the risks involved in pursuing the opportunity and also takes credit for the reward that may accrue from taking such risk. (Kirzner, I., 1973) views the entrepreneur as someone who facilitates adjustment to change by spotting opportunities for profitable arbitrage (and 'disequilibrium' situations in the market). Behavioural definitions also stress the risk-taking dimension of entrepreneurship. (Kanbur, 1979) described the entrepreneur as one who 'manages the production function' by paying workers' wages (which are more certain than profits) and shouldering the risks and uncertainties of production. Such definitions are noted as very relevant in developing countries contexts usually characterised by high risk and uncertainty.

According to (Baumol, 1996), entrepreneurial ability can be allocated towards productive, unproductive, or even destructive activities. He defines entrepreneurs as 'persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige'. Harper (2003) has described entrepreneurship as the main mechanism for wealth creation and economic growth. In developing economies like Nigeria, the role of the entrepreneur is often de-emphasised,

compared to other physical factors of production like capital, land, technological progress, etc. The use to which an economy makes of these other factors depends invariably on the entrepreneurial endeavours of its citizenry. This fact was recognised by (Kirzner, Israel M., 1989) who agreed that these resources can only be brought into existence in economic terms through the efforts of entrepreneurs.

Notable researchers like (Bruyat & Julien, 2001; Hindle & Yencken, 2004; Hisrich, Peters, & Sheperd, 2005) in their writings concurred with the fact that entrepreneurship is an important source of wealth for any developing nation. (Agboli & Ukaegbu, 2006) noted that in developing countries like Nigeria, the business environments are full of several challenges which made these situations frustrate entrepreneurs and render industrial development quite slow. In addition, lack of infrastructure, unnecessarily cumbersome bureaucracy, inefficient access to credit facilities, corrupt practices by officials and difficult regulations for new businesses and business expansion are among the problems militating against businesses in these nations.

Most literatures in the past have focused on defining who an entrepreneur is, the characteristics and traits of a typical entrepreneur. Not much work has been done in the area of understanding and differentiating the concept, characteristics and even the challenges of entrepreneurship in a developed world, compared to a developing economy such as Nigeria (Lingelbach, De La Vina, & Asel, 2005). It is only recently that some authors researched intensively into understanding the concept of entrepreneurship in developing countries. The few scholars who delved into entrepreneurship in developing countries concentrated on describing the attributes of entrepreneurship in developing countries, rather than researching and proffering ideas on the best framework within which entrepreneurs and policy makers can successfully thrive (Lingelbach et al., 2005).

They noted further that there is a distinction between entrepreneurship in an emerging market and that of a developed economy. They observed that the degree of market efficiency influences the practice of entrepreneurship. Entrepreneurs situated in inefficient markets have, to some extent, be able to live above some of these inefficiencies. They basically identified three key factors that distinguish entrepreneurs situated in developing countries. They recognized that the opportunities for entrepreneurs in developing countries are much broader, giving entrepreneurs the chance to diversify their portfolio. They also argued that in as much as the opportunity in the developing

market is broader, the inherent risk in doing business in this sort of environment is much higher compared to developed economies. The last factor they recognised was human resources and the need to direct their efforts to effective and efficient productive efforts.

2.1.2 Stylized Facts about the Nigerian Taxation System

The development of any nation depends on the amount of revenue generated by the government for the provision of infrastructural facilities. Taxation is the key to unlocking the resources required for public investment and infrastructure growth. The modern taxation system by the Federal Government of Nigeria under its taxation arm; Federal Board of Inland Revenue (FBIR) could be traced back to the year 1939 when the Companies Income Tax Ordinance was created. Since the creation of this first taxation body, it has undergone several changes in response to socio-political economic developments in the country. In 1978, the Task Force on Tax Administration under the leadership of Alhaji Shehu Musa formed the Federal Inland Revenue Service (FIRS) as the operational arm of Federal Board of Inland Revenue (FBIR).

In a nutshell, taxes are paid because the State or Federal governments implement tax laws. Taxpayers' money pays for government services of all kinds. Although payment of taxes are considered as legal requirements, paying taxes is also considered a civic duty. If one neglects to pay taxes, the statutory bodies that oversee taxes will request that one does so, or else there might be penalties such as fines or even jail term. Governments require these funds to discharge their numerous responsibilities for the development of the country, betterment of society as a whole and other non-developmental but essential obligations to citizens of the country.

Developing countries such as Nigeria usually struggle in terms of raising internal revenues for development. In order to resolve this issue, scholars have always discussed, among others, the need to widen the tax net to provide funds for infrastructure, create jobs and reduce unemployment, expand the productive sectors of the economy and to significantly raise public revenues from the non-oil sectors. With this process, tax policies are aimed at bringing all taxable entities into the tax bracket with graduated rates that should ensure that the well-off pay their own share while the low income earners are given savings incentives.

2.2 Theoretical Review

The relationship between entrepreneurship, employment generation and economic growth has attracted the attention of many scholars over time. Influential contributions have been made by (Kirzner, I., 1973; Schumpeter, 1934) and several others. These economists stress different aspects of the role of the entrepreneur. Schumpeter believes that entrepreneurs bring about change through the introduction of new technological processes or products as he argues that only certain extraordinary people have the ability to be entrepreneurs as they think about extraordinary events. While (Schumpeter, 1934) stresses the innovating aspect, (Knight, 1921), stresses the risk assuming aspect. (Kirzner, I., 1973), on his part, stresses the role of the entrepreneur in leading markets to equilibrium.

(Bull & Willard, 1993) have grouped the existing literature into five categories: The first, which is not really concerned with theory, focuses on a definition of the word 'entrepreneur'. A second category might be considered the trait approach, i.e., the study of the psychological traits of people identified as entrepreneurs. A third is the study of success strategies; reasons offered to explain the success of new and existing business ventures. A fourth category is the study of the formation of new ventures. Finally, there are papers that study the effects of environmental factors on entrepreneurial actions.

In trying to situate entrepreneurship within the economic science, (Casson, 1982) discovered that there are no real theories of entrepreneurship in economics, whereas virtually all other arms of the social sciences have theories on entrepreneurship. Although entrepreneurship played no role in the neoclassical growth model where it is assumed that technological progress is exogenous, it does play a role in some of the more recent endogenous growth models. Aghion & Howitt, (1992) presented a model where firms invest resources in research to achieve a new product that makes the previous product obsolete. Since firms are motivated by the prospect of monopoly rents, once an innovation is patented, economic growth and technological progress at the macro level are then endogenously determined by competition among firms (entrepreneurs) that generate innovations.

However, in addressing the above, (Afolabi, 2015) maintains that entrepreneurship is not synonymous with small business, even though small firms are outstanding vehicles for individuals to channel their entrepreneurial ambitions. He went further to say that entrepreneurship is not

restricted to persons starting or operating an 'innovative' small firm. Enterprising individuals in large firms - 'intrapreneurs' or 'corporate entrepreneurs' undertake entrepreneurial roles as well.

It is widely held that the link between entrepreneurship and growth is a strong one and indeed, that entrepreneurship is essential to growth. As a matter of fact, growth theory has long acknowledged that capital and labour alone cannot explain growth: the mere accumulation of “human capital” is not sufficient. What is required is the ‘talent’ of combining pieces of knowledge to create value, and this is precisely what entrepreneurship is all about. If so, then the impact of taxation on growth would depend on the impact of taxation on entrepreneurship. As a consequence, if the impact of taxation on entrepreneurship is complex so will be the relationship between taxation and growth. Hence, careful study of how taxation links to entrepreneurship could shed some light on the apparent contradiction prevailing in the contemporary empirical literature on taxation and growth.

From the understanding of entrepreneurship outlined above, and in consonance with the idea developed by (Baumol, 1996), it follows that the link between taxation, entrepreneurship and growth could be a simple one: since higher taxation reduces the level of profit opportunities (incentive effect), it is likely to reduce productive entrepreneurship and therefore hinder growth.

The story about wealth creation is a story about productive versus unproductive entrepreneurship, (Baumol, 1996; Colombatto & Melnik, 2008). Some of the literature reviews carried out in this regard focus on advanced countries that have reached similar levels of development and where enforcement of the rule of law is fairly the same. The theoretical literature generally brings support to that understanding, with some caveat and dissent. However, the literature shows a negative link between corporate tax rates and economic growth and between tax structure and entrepreneurship.

For example, the theoretical model in (Keuschnigg & Nielsen, 2004) suggests that progressive taxation retards entrepreneurship and the expansion of innovative industries. (Kitao, 2008) uses an augmented standard Bewley model with an entrepreneurial sector and occupational heterogeneity to examine the major channels through which fiscal policies influence factor prices, aggregate variables, wealth distribution, and welfare. The author finds that reducing the tax burden on capital formation stimulates investment, but the effects depend on whether the target is entrepreneurial capital or non-entrepreneurial capital. Kitao presents evidence indicating that a flat business tax of 10% will raise entrepreneurial investment by 20% in the long run (although this should depend on the starting point) and lead to an increase in wages of 5%.

While one strand of the theoretical and empirical literature on the subject claims that fiscal policy has barely any impact on the rate of growth, others have claimed that fiscal policy does have a strong impact on growth. Admitting, at least for the sake of discussion, that entrepreneurship is an essential ingredient to growth, it is natural to inquire into what promotes and what hinders it.

2.3. Empirical Review

The empirical literature on the effects of taxes on entrepreneurship is fairly large but tends to contain mixed evidence. Empirical studies have explored the implications of the level (rates) and structure of taxes, focusing in general on the impact on labour markets, job mobility, entrepreneurship and economic growth. However, the empirical evidence on these effects, both at the macro and micro levels, remains mixed. Atawodi & Ojeka, (2012) explained that, the choice of tax policy to employ depends on the use of one or both two groups of instruments. The first being the use of special tax preferences and the other incentives to support start-up and growth of small companies. These incentives comprise of the lowering of corporate income tax rates, special tax exemptions or tax holidays and relieves for small businesses. The underlying reason for all these is to effectively raise revenue through measures that suit a country's circumstances and administrative capacity (Atawodi & Ojeka, 2012).

An effective and efficient tax administration system should be integral to any country's well-being. It is with this notion that (Baurer, 2005) argues that the tax administration must provide a level playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. The authorities and the administrators of taxes should seek to balance their educational and assistance role with the enforcement role. According to (Atawodi & Ojeka, 2012), the rationale behind the whole system of tax is consistent with two of the three major theories of tax namely; the Ability-to-Pay Principle and the Equal Distribution Principle. The two principles stress equality and fairness. The Ability-to-Pay theory is of the view that individual should be taxed based on the individuals' ability to pay while on the other breadth, the Equal Distribution Principle which proposes that the incomes, wealth as well as the monetary transactions of the individuals should be taxed at a fixed percentage. This implies that, the individuals who earn more and buy more should pay more taxes, but will not pay a higher rate of taxes (Atawodi & Ojeka, 2012).

Asoni & Sanandaji, (2009) showed that even with risk-neutral agents and no tax evasion, progressive taxes can increase entrepreneurial entry, while reducing average firm quality. In contrast, (Gentry & Hubbard, 2000) did not find evidence to support such channels and conclude that their empirical results “imply a significant increase in entrepreneurial entry when tax rates are less progressive; whether such encouragement is efficient (that is, stimulating the most talented entrepreneurs) is a topic for future research” (Gentry & Hubbard, 2000). Thus, there is as yet, no real study that examined the effects of tax progressivity on entrepreneurship using macro-level data.

Studies have shown that the problem of tax evasion is a widespread in developing world. Empirical study by (Fagbemi, Uadiale, & Noah, 2010) have reported that non-compliance of tax is prevalent in developing countries and it hinders development thereby leading to economic stagnation and other social and economic problems. Chipeta, (2002) has identified high tax rates as one of the reasons of tax evasion. He further pointed out that a higher tax rate increases the burden of the tax payer and reduces his disposable income hence, the probability of evading tax is higher. Many scholars have addressed the questions that emerge from this literature especially the in-elasticity of tax location decision with respect to tax differences across jurisdictions. Marginal tax rates exert a statistically and quantitatively significant influence on the growth of firms. Marginal tax rate may be defined as the amount of tax paid on an additional naira of income. This leads to the conclusion that raising income tax serves as a hindrance to the growth of entrepreneurs.

Empirical evidence suggests that tax avoidance is an important consideration in the decision to become self-employed. In addition, there is fairly convincing evidence in the literature that suggests that the self-employed are less likely to comply with the tax code (Feinstein, 1991; Klepper & Nagin, 1989). Therefore, an increase in the fraction of the labour market engaged in self-employment will likely result in an increase in overall non-compliance and may require a further increase in tax rates to finance the shortfall.

3.0 Methodology

3.1 Research Design

This research utilized primary and secondary data. It was an explanatory or a causal study as it was aimed at establishing causal relationship between two variables i.e. the relationship between tax system and the performance of entrepreneurship. Since it involved collecting the views,

perspectives or opinions of respondents regarding a particular issue or research interest, the research employed the survey method that uses questionnaires, personal interviews with respondents and review of past records and publications as complementary secondary sources.

3.2 Target Population

The selection of the set of entrepreneurs was done by judgmental sampling in order to attempt obtaining a fair representation of the population. For the purposes of this study, the population designated comprised of selected entrepreneurs in Abuja, who are registered taxpayers. The size of the sample and the way in which it was selected will definitely have implications on the confidence one can have in the data and the extent to which the team can generalize. The study sampled one hundred (100) entrepreneurs with up to date information with respect to their tax payments.

3.3 Sampling Technique

In order to get accurate result for this study, the purposive sampling method was used to select the sample from the population. This method is a non-random sampling technique where the researcher establishes a criterion devoid of randomness for selecting the sample. In the purposive sampling, the sample is chosen to suit the purposes of the study. This method was used due to the time constraints and the difficulty involved in assessing the list of all entrepreneurs from the authorities.

3.4 Data Analysis

To analyse the effect of the tax system on entrepreneurship performance, multiple linear regressions will be the major econometric tool that will be used. The reasons for using regression method are: in the first instance, almost all variables in the present study are measured by interval/ratio scales; secondly, if the sample size is sufficient, regression is undoubtedly a more powerful way to test the relationship between two or more variables than other statistical methods like non-parametric tests. The following hypotheses have therefore been designed for testing in this study:

H₀: There is no significant relationship between the tax system and entrepreneur financial performance.

H₁: There is a significant relationship between the tax system and entrepreneur financial performance.

3.5 Model Specification

Applying the Ordinary Least Square (OLS) regression Method, the multiple regression equation that will fit the study is in the form:

$$R = \beta_0 + \beta_1TP + \beta_2HT + \beta_3TX + \beta_4TC + \beta_5TH + \varepsilon$$

Where:

β_0 = Intercept

$\beta_1, \beta_2, \dots, \beta_5$ = Coefficients of the Explanatory Variables to be estimated

ε = Error Term

Sales revenue (R) or turnover and investment returns are the frequently used financial ratios in most studies. Researchers equally argue that sales revenue or turnover is not always subject to manipulations and as such it serves as an appropriate measure that can be used to reflect financial performance of entrepreneurship businesses. This study therefore adopted sales revenue (R) as its dependent variable to assess the performance of entrepreneurship. As for the independent variables, the study used the amount of tax paid (TP) by a particular entrepreneur for the past one year as the main explanatory variable because the tax rate for businesses in Nigeria remains 30% which is regarded as constant. Other independent variables used are hours spent in compiling and paying tax (HT), tax impact on purchases (TX) which is measured as an index score, payment to tax consultants (TC) and tax holidays (TH) which is a dummy variable.

4.0 Data Presentation, Data Analysis And Discussion

4.1 Data Presentation

Table 4.1 depicts the gender distribution of the respondents. It was observed that 51.7% of the respondents were males while 48.3% were females.

Table 4.1: Gender

	Frequency	Percentage	Valid %	Cummulative %
Male	60	51.7	51.7	51.7
Female	42	48.3	48.3	100
Total	102	100	100	

Source: Author's Construct, 2019

One of the possible impacts of increasing tax is the corresponding increase in the prices and thus, purchases, which in turn affect the growth of Entrepreneur by influencing their competitiveness adversely. Table 4.2 presents the perceived impact of the tax increase on purchase of an entrepreneur.

Table 4.2: Impact of tax on Purchases

	Frequency	Percentage	Valid %	Cummulative %
Negative	63	65.2	65.2	65.2
Neutral	39	34.8	34.8	100
Total	102	100	100	

Source: Author's Construct, 2019

Table 4.3: Description of Statistics

	No	Minimum	Maximum	Mean	Standard Deviation
Profit	102	300	8,400	9,832.12	14,119.60
Time	102	2	9	5.41	2.258
Tax Paid	102	100	9,500	1,206.31	1,648.81
Valid No	102				

Source: Author's Construct, 2019

Table 4.4: Correlation Analysis

	Profit	Time	Tax Paid	Impact on Purchases	Tax holidays
Profit	1				
Time	0.036				
	0.753	1			
Tax Paid	0.701**	0.259			
	(0.000.)	(0.114.)	1		
Impact on Purchases	-0.259**	-0.014	-0.228**		
	(0.019.)	(0.858.)	(0.011.)	1	
Tax Holidays	-0.062	0.084	-0.233*	-0.277**	
	(0.560.)	(0.405.)	(0.027.)	(0.005.)	1

Source: Author’s Construct, 2019

NB: ** Correlation is significant at the 0.1 level (2-tailed)

* Correlation is significant at 0.05 level (2-tailed)

Profit was not correlated to both time spent in filing tax returns and tax holidays since both are not directly related to the operation of the business to yield profit. For the issue of tax holidays, it can be seen from the table (table 4.4) that it is negatively related to both tax paid and impact on purchases. The more there is tax holidays, the lesser tax paid and the lesser negative influence on purchases.

Table 4.5 Regression Output Summary

R	R Square	Adj R Square	Std Error of Estimate	Durbin- Watson
0.618	0.381	0.355	11843.879	1.852.

Source: Author’s Construct, 2019

Table 4.6: Regression Analysis Output

			t	Significance
	Beta	Standard Error		
Constant	14462.925	7489.761	1.905	0.058.
Time	-446.648	526.907	-0.851	0.387
Tax Paid	5.372	0.789.	6.755	0.000.
Tax Holidays	1283.595	2861.767.	0.461	0.742

Source: Author’s Construct, 2019

4.2 Data Analysis

Judging from the results from the regression analysis it is glaring that the specified model was significant at 5% level of significance since the p-value is less than 0.01. The R-square which measures the levels of variation in the dependent variable is explained by the explanatory variables is 0.355 implying that, up to 35.5% of the variations in the profit of the entrepreneurs can be explained by the independent variables. It is further shown from the results that only the amount of tax paid significantly impacts the profit of the entrepreneur with p-value of less than 0.01. The amount of time spent on filing tax returns and the impact on purchases have no significant impact on the profitability of the entrepreneur. Tax holidays was treated as a binary variable with a score of 1 for yes and 0 otherwise. The result indicates its insignificant impact on the profitability. This is understandable since the vast majority of the respondents alluded to the fact that they were unaware of such holidays or incentives talk less of benefiting from them.

4.3 Discussion

4.3.1 Issue of Tax Structure Design

It is argued that no single tax structure can possibly meet the requirements of every country. The best system for any country is always determined taking into cognisance its economic structure, its capacity to administer taxes, its public service needs, and many other relevant factors. Nonetheless, one way to get an idea of what matters in tax structure design is to look at what taxes exist around the world. Choice is also germane, as different countries may also attach different level of importance to such commonly accepted characteristics of a good tax system as fairness, convenience, economic effects and minimum costs of collection.

4.3.2 Prerequisites for Tax Structure Design

A country's choice on adequate design of its tax structure system depends upon many factors among which are: the level of development, the need and desire for increased public services, and the capacity in respect of levying taxes effectively. Tax policy choices is also a function of a country's preference as to such public policy goals as attaining a desired distribution of income and wealth and increasing the rate of national or even regional economic growth. Equity, administrative capability, efficiency and effectiveness are equally key criteria in designing and evaluating the tax systems. Thus, the best tax structure design in the world is worth nothing if it cannot be effectively implemented.

4.3.3 Tax Structure Designs in Developing Countries.

Tax structure design in developing countries is strongly influenced by the relevant economic structures. It is worthy of note that Many developing countries have large traditional agricultural sectors that is not easily taxed. Many transitional and developing countries have a significant informal sector that is also largely outside the formal tax structure. The potentially reachable tax base therefore constitutes a smaller portion of total economic activity than what operates in developed countries. The size of the untaxed economy is in part a function of tax policy. Enforcing a tax system is thus a herculean task in any country, especially the developing ones. Unless this task is tackled with all manners of seriousness and consistency, the best designed tax system or structure will not meet the desired results.

4.3.4 Tax Structure Design and Globalisation

One other factor militating against proper design of tax structure in a developing country is globalisation. Countries no longer have the luxury of designing their tax systems in isolation. The result is a loss of tax sovereignty by individual countries. This means that taxes do matter, and a country with a tax system that differs significantly from other countries, particularly its neighbouring countries, may suffer (benefit). Much of the traditional tax regime for taxing cross-border transactions (such as transfer pricing, base erosion and profit shifting) rests on a stylised set of facts such as (i) relatively small numbers of companies engaged in international operations; (i) little flows of cross border investments; (iii) heavy reliance on fixed assets for production; (iv) relatively small amounts of cross-border portfolio investments by individuals; and (v) small

concerns with international mobility of tax bases and international tax evasions. However all these factors listed have changed in recent years as a result of:

- (i) increased pressure to reduce trade taxes.
- (iii) increased pressure on individual tax revenues.
- (ii) increased pressure on corporate income tax revenues
- (iv) pressure on VAT revenues.

In the same manner, improvements in technology has allowed increased sales without the seller having a physical presence in a country (e-commerce system) as well as increased use of digitised products that make collection of taxes on such products more difficult. In these situations, the eternal problems of designing and implementing a good tax system is complicated by the changing world within which such decisions have to be made.

4.3.5 Areas for Further Research

There were some very important issues raised in this study, but could not be discussed in detail. These issues could be captured by interested researchers in future. Some suggested areas for further studies include an assessment of the role of tax towards the growth of entrepreneurs in Nigeria by focusing on different contexts; and the perception of tax authorities/regulatory bodies towards the growth of entrepreneurship in Nigeria.

4.3.6 Limitations

Though the findings and conclusions are not affected, it is important to highlight some limitations of this study. In the first instance, the survey was conducted in Abuja Federal Capital Territory (FCT), hence it does not examine the situation in other States of the Federation. Secondly, it is also possible that some entrepreneurs did not provide their true opinions during the interviews because they regarded some of the questions as sensitive. However, this group was small and it is assumed not to affect the overall results and conclusions.

5.0 Conclusion And Recommendations

5.1 Conclusion

The research revealed that taxes imposed on the entrepreneurs impact negatively on their growth in terms of profits in different ways. From the study it was discovered that changes in tax rates lead to the changes in prices of various goods and services (*ceteris paribus*). The results show that

the increases in tax rates leads to higher production, distribution and selling costs which invariably leads to higher prices and as such, consumers change their purchasing behaviour. Whenever prices increase due to increase in tax rates, there is an upward movements in the prices of goods and services which leads to a drop in the consumption rate and a decrease in sales volumes, thereby reducing profitability, which eventually retarded growth of entrepreneurs. This is more so, given that tax payment is among the outflows of cash from the business which reduces the purchasing power of an enterprise. The study shows that the purchasing power of an enterprise drops immediately after the payment of taxes. That is why the amount of tax paid relates negatively to the impact of taxes on purchases.

In terms of incentives or tax holidays for entrepreneurship growth in Abuja, FCT, most of them could not benefit from the tax system because they are meant for fully registered (incorporated) entrepreneurs only. Even for the registered businesses or ventures, only very few are aware of such incentives. This is due to lack of education and training for the entrepreneurship operators. A substantial number of entrepreneurs that operate in the informal sectors cannot benefit from the growth incentives.

5.2 Recommendations

Based on the findings made from this study, the following recommendations are therefore made:

- i. There should be a simplification of tax regulations governing entrepreneurs for ease of compliance by them. This includes clear and simple tax regulations and a cumbersome tax filing procedures. The use of information technology should equally be encouraged.
- ii. Tax administrators should carry out their duties more efficiently in order to reduce to the barest minimum the issue of multiple taxes levied on the entrepreneurs. The types of taxes to be levied by each tier of government should be identified.
- iii. Tax administrators should create tax awareness towards the entrepreneurs. This will enable them to know the type of taxes they are supposed to pay and at a particular period in time as well as the relevant tax holidays that they are entitled to.

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