

An Evaluation of the Impact of State Government's Taxation Regime on Business Prospect Development in Calabar, Cross River State Nigeria

¹*Ntui Eugene Achima, ²Akposi, Asuquo Felix

^{1,2}Department of Business Education, Cross River State College of Education, Akamkpa-Nigeria

*Corresponding Author's Email: ntuieugeneachima@gmail.com

Abstract - The thrust of this research paper is to properly ascertain the true perspective of the State Government's tax regime on business prospect development by investors or entrepreneurs in Calabar, Cross River State Nigeria. The avowed objective is to ascertain how well the tax policy is favourable or otherwise to business developers in the State. It borders on evaluating the economics environment and relating it directly to the tax policy regime in the research area. Literature review was carried out to explore the general view of issues pertaining to the topic under consideration. The research adopted the de facto descriptive survey design aimed at collecting data from 300 purposively sampled respondents in the research area using a well-structured questionnaire. The data collected was then analysed using the Chi-square statistical technique at 0.05 level of significance. The result revealed the values of $\chi^2_{\text{calculated}} = 287.792$, $\chi^2_{\text{tabulated}} = 40.1133$, at $(r-1) * (c-1) = (4-1) * (10-1) = 27$ Degree of Freedom (DF). Since $\chi^2_{\text{calculated}} (287.792)$ is greater than $\chi^2_{\text{tabulated}} (40.1133)$, we rejected the null hypothesis H_0 in favour of the alternative hypothesis H_1 , which implied that there is significant impact of the State Government taxation regime on business prospect development and the State Government tax regime is not friendly or progressive. The research paper recommends that the State Government as a matter of expediency should undertake a pragmatic review of its tax regime towards enhancing a conducive economic environment as well as the sustainability of urban lives in the State and at the same times creating a workable synergy between them and the Government.

Keywords: Taxation Regime, Direct, Indirect tax and Entrepreneurs.

1. Introduction

Abraham Lincoln once stated that one could avoid all other things but not taxation. Taxation according its dictionary definition is a system in which government takes money from people and spends on programmes such as education, health

defence other services. It is quite an established fact that Cross River State Government since the regime of former Governor adopts a tax rigorous policy on individuals and services of various categories. Currently, the state government under the current Governor is operating a tax intensive regime. Different rates are applied to various goods and services such as house tenement rates, business permit rates drivers plying permit and so forth. The tax regulation and application is so pervasive that business profitability is a difficult feat to achieve. Not too long ago it was rumoured that some business individuals have been relocating from the Calabar Central Business district caused by the enormity of the taxation subheads.

For reasons of these multiple sub-heads, some of these go by such names as "DOPT", Green Police 'Operation Akpaku' name them. The aftermath of these multiple agencies is that, citizen are harassed left and right to readily comply with the excruciating conditions. At a point it was reasoned that the cost of living in Calabar was becoming higher than those of primate cities like Lagos, Port-Harcourt, Kano and Ibadan. Like Lincoln said the cost of some these taxes are indirectly borne by other citizens who depend on such services provided. For instance where there is an increase in vehicle transit rates (motor ticket or pass) passengers are indirectly affected by the increased rate.

Currently taxi fare from Calabar to Akamkpa, a distance of 45km from the centre is N1,500 and every drop within the central city is between N100 to N500 naira. This situation contributes to the citizens' hardship or un-liveability of the area. People engage in business to derive extra margin. Where the prospect is not there, they will be forced to vacate or relocate.

This research paper therefore evaluates the true perspective of the business environment vis-a-vis other similar cities with a view to appreciating the real constraints to business development generally.

1.1 Statement of the problem

Taxation is held in derision by most entrepreneurs and businessmen in the developing regions of the world. Cross River State is a civil service State with less diverse business environment. Both the citizens and Government are in a handicapped situation in the sense that Governance must of necessity require tax in order to boost Internally Generated Revenue IGR so as to ensure fairly smooth running of government while the citizens or business men are handicapped by the less buoyant domestic market to increase their investment input to enable them cope with the numerous tax demands. Following this dual predicament, there is a dire necessity of arbitration through information vendors towards creation of a medial position on ways forward towards providing a congenial business environment for business developers and at the same times creating synergy between them and government. Prompted by such a concern this study is aimed at a way forward towards the achievement a workable synergy between tax policy makers and the general public on realistic tax regime for the citizens.

1.2 Aims/objectives of the study

The overall purpose of this study is to examine how government's tax policy is impacting one business enterprise development in the state.

The specific objectives are as follows:

- To evaluate some arbitrary/unethical practices in tax/revenue generation in the state.
- To assess the extent of level of progressive tax execution on the business operators.

1.3 Research hypothesis

The hypothesis is stated in null form as follows:

Ho: There is no significant impact of state government taxation policy on business prospect development in Cross River State Nigeria.

H1: There is significant impact of state government taxation policy on business prospect development in Cross River State Nigeria.

2. Literature Review

[7] Stated that taxation is term when taxing authority usually government levies or imposes a financial obligation on its citizens or residents. Paying taxes to government has been a mainstay of civilization since ancient times. The taxation applies all type of involuntary levies [5]. Taxation refers to the

practice of government collecting money from the citizens to pay for public services.

In modern economies taxes are the most important sources of government revenue. Taxes differ from other sources of revenue in that they are compulsory [4]. Taxes are not usually paid in exchange for some specific thing [13] such as particular public service, the sale of public property or the issuance of public debt [4]. While taxes are presumably collected as a whole, the individual tax payers' liability is independent of any specific benefit received.

They are however important exceptions e.g. pay roll taxes, are commonly levied on labour income in order to finance retirement, [3] benefits, medical payments and other social security programmes – all of which are likely to benefit the tax payer. Because of the likely link between taxes paid and benefits received, pay roll taxes are sometimes called contributions. This is similar to as contributory pension scheme for Federal government workers in Nigeria [4].

Purpose of taxation

Unlike before, today taxes are utilized for purposes other than fiscal policies. According to the American Economist Richard A. Musgrave, one way to view the purpose of taxation is to distinguish between objectives of resource allocation, income redistribution and economic stability [13]. The first objective is furthered or encouraged. If tax policy does not interfere with market determined allocations.

This brings to bear the central theme of our problem statement. Where tax policy is outrageous regardless of the existing or prevailing economic environment it becomes retrogressive and therefore generates apprehension among the tax payers. The second objective, income redistribution is meant to lesson inequality in distribution of income and wealth.

The third objective that is 'stabilization', which is implemented through tax policy, government expenditure, monetary policy and debt management, is that of maintaining high employment and price stability [11].

Categories of taxes

Taxes are categorized on the basis or subheads for which there were imposed as briefly listed and highlighted below.

Direct and indirect taxes

Direct taxes are taxes primarily imposed on persons which are basically based on the individual's ability to pay as measured by income, consumption or net wealth. Direct taxes may be progressive or Flat [1].

Indirect taxes

These are taxes levied on the production or consumption of goods and services or on transactions including imports and exports, [7]. Examples of indirect taxes include selective sales taxes; value added taxes (VAT) and taxes on any aspect of manufacturing or production taxes on legal transactions and customs or import duties.

Others include, General sales taxes (levied on consumer goods) single-sale taxes collected at the retail level), multi-stage taxes (applied at every sale in the production and consumption of goods).

Exercises and custom duties are levied on the bases of number, weight length, volume and other characteristics (ENYAM 2005). Tax Rebate, exemption, holiday, moratorium. These are all concessions given to relieve or alleviate tax payers' burden or liabilities.

- Rebate means lessening the value paid by some percentage reduction.
- Exemption is exclusion granted based on certain considerations.
- Holiday is a kind of respite or free period granted for recuperation or recovery.
- Moratorium also refer to grace period or tax free interval granted to companies and other bodies within the commencements of their operation [8].

Tax Evasion/Compliance

These are different sides of the same coin. Evasion means fleeing or escaping from tax payment. People evade for a variety of reasons including inability, un-readiness or lack of understanding of the tax regime [9].

Compliance refers to the readiness of the tax payer to agree to key-into the tax regime. Ready compliance may be primarily informed by the individuals' appreciation of the objectives of the tax regime. The basis of tax payer appreciation is the primordial grounds for the problem statement of this study.

Psychological effects of taxation on tax payers. A field study on taxation and tax avoidance [9].

The above topic is an excerpt of an abstract of study conducted on the negative response to tax payment in the original French diction with abstract only translated to English: the abstract read. Thus, taxation is psychological and sociological concept as well as being an economic one. Tax psychology differs by individuals according to the inability. The primary adverse effect caused by tax psychology is the fact of taxcompliance and tax evasion arising from the

inability of tax payers to meet their tax liabilities. In order to benefit from taxes effectively, taxes losses and evasion from taxes should be as minimal as possible.

The study therefore directs attention to the fact of identifying the factors effective in the occurrence of tax losses and evasion. The objective here is conformal with our problem statement which is categorically focused on how the state governments tax policy regimes is encouraging business development in the state.

Conclusion

This research work focused on the state governments' taxation policy and the prospect of business development in the state. It is envisaged that progressive tax regime will encourage business enterprise development. It is glaring that taxation psychology has the tendency of dissuading tax payers to crave avoidance or evasion.

3. Methodology of the Study

3.1 Study design

This study adopted de facto descriptive field survey design aimed at collecting data from purposively sampled subjects in the research area.

3.2 Area of study

The area of study is Calabar, Cross River State of Nigeria. Calabar has been an old administrative headquarters of the then colonial Nigeria. As early 1905 Calabar was the administrative headquarters of Colonial Nigeria. By 1960 Oct 1st, Calabar formed one of the administrative divisions of the eastern Nigeria. In 1967 it fell among the administrative headquarters of the 12 states created by the then military regime of General Yakubu Gowon.

Calabar location on the Gulf of Guinea facing the Atlantic Ocean offers it direct access to international business opportunities in the world. The Calabar fell among the earliest port opened in the country. Presently, the import processing (now free trade area) is one opportunity for a good business prospect. The Tinapa trade resort is another facility that would have bolstered business development in the area, yet Calabar still remains in its old cloak as a civil service state" without well-developed industries and other facilities. Predominantly, over 80% of Calabar residents are civil servants while 20% fell into other categories of occupation such commercial trading, banking, commercial motor operators and/or law enforcement agents and military personnel.

3.3 Population of the study

The population of the study comprises all commercial business operators located or domiciled in Calabar Cross River State. Here some discrimination is made between street hawkers and those who are running sedentary businesses in organised market mall or ware houses. Itinerant open market traders are categorised among the nomadic street hawkers.

3.4 Sampling technique

The sampling technique was carried out in stages as:

- **Purposive sampling:** Here the sampling points was identified based on the recognition of important business nuclei such as Edim Etop/Bedwell area, Mariam/Ndidem Usan Iso area, Etagbor/Goldie Nuclei and so on.
- **Stratified sampling:** Here selection was done based on the criteria of business scale and nature of commodity. For instance, stratification based on whole sale/retail business, provision store/food stuff etc.
- **Systematic sampling:** This was considered based selection of equal ration of each category of business in a nuclei e.g. 20 each of whole sale or retail and so on.

A total of Three Hundred (300) respondents were mobilised for the study.

3.5 Instruments for data collection

The major direct instrument used in field data collection was a well-structured questionnaire constructed to elicit the relevant information in the direction of the objectives of this research.

3.6 Methods of data collection

Data was collected based on direct administration of the field instrument, the questionnaire with the aid of field research assistants the instruments was administered and retrieved for data analysis.

3.7 Data analysis

The chi-square statistical analysis techniques was employed for analysing the data.

3.8 Data presentation

Data derived from field exploration survey is as presented in table 1, stating the parameters of the State Governments' taxation policy in the State. Meanwhile, the instrument is constructed using the 4 point likert scale which is rated with alphabetical notation such as: A- agree, SA- Strongly agree, D- Disagree and SD-Strongly disagree. The respondents were allowed to respond to the items according to their choice. The

total number of respondents' interview was 300 drawn from different business categories. The values generated have been accordingly subjected to statistical testing based on the technique of chi-square and is as presented in table 2.

Note

The table1 conveys information on respondents responses on impact of state governments taxation policy on business prospect development in the, area. A total of three hundred respondents were interviewed. These values were then subjected to hypothesis testing based on the chi-square X2 technique. The hypothesis is slated in a null form as provided below.

Table 1: Parameter of on investigation on the state government taxation policy

S/N	Policy Dimensions/Parameters	Respondents Rating Options				
		A	SA	D	SD	Total
1.	Nature of taxation (progressive)	30	35	122	85	272
2.	Nature/extent of effect on marginal profits	77	93	48	54	272
3.	Effect on market mechanism	85	96	27	49	257
4.	Effect on road transport operations	71	101	64	57	293
5.	Effects on tenancy	86	114	41	55	296
6.	Constraints on commuters and other transit population	84	96	50	70	300
7.	Effect on reservation in hotel services	89	108	50	48	295
8.	Impact on land values	104	110	45	34	293
9.	Impact on business integration	114	96	51	32	293
10.	Impact on tourism development prospects	122	80	54	44	300

Hypothesis testing

H₀: There no significant impact of state government taxation policy on business prospect development in Cross River State Nigeria. The technique of chi-square (X^2) was employed in the statistical testing.

Data analysis

Data was analysed in line with the hypothesis stated above using the chi-square statistical techniques.

Decision rule: The values of $x_{calculated}^2 = 287.792$, $x_{tabulated}^2 = 40.1133$, at $(r - 1) * (c - 1) = (4 - 1) * (10 - 1) = 27$ Degree of Freedom (DF) and 0.05 at 0.05 level of significance. Since $x_{calculated}^2 (287.792)$ is greater than $x_{tabulated}^2 (40.1133)$, we rejected the null hypothesis H_0 in favour of the alternative hypothesis H_1 , which implied that there is significant impact of the State Government taxation regime on business prospect in the State. In this case, State Government tax regime is not friendly or progressive.

4. Discussion/Results

From the results obtained from statistical testing using the chi-square. The discussion rule state inter alia: at $(r - 1) * (c - 1) = (4 - 1) * (10 - 1) = 27$ Degree of Freedom (DF) and at 0.05 level of significance, the values of $\chi^2_{calculated} = 287.792$, $\chi^2_{tabulated} = 40.1133$, it is established that the computed value is higher than the table values, therefore the null hypothesis is rejected while the alternative hypothesis is accepted indicating that there is a significant impact of the state government taxation regime on business prospect development in the State. The impact direction from the responses derived from the field is negative which indicates that the government tax regime is not friendly or progressive. This policy contradicts the policy tax categories enunciated by authorities in the field.

It negates the policy of direct taxation/ explained by the [1] that direct taxation is primarily imposed on persons who are basically based on individuals' ability to pay as measured by income, consumption and wealth. The policy of arbitrarily imposition disregards the principle of individual welfare status in the society and the percent relative affluence.

Table 2: Chi square table on impact of state government taxation policy on business prospect development

O_{ij}	E_{ij}	$(O_{ij} - E_{ij})$	$(O_{ij} - E_{ij})^2$	$\frac{(O_{ij} - E_{ij})^2}{E_{ij}}$
30	81	-51	3025	37.35
35	88	-53	2809	31.92
122	52	70	4900	94.23
85	50	35	1225	24.50
77	81	-4	16	0.198
93	88	5	25	0.284
48	52	-4	16	0.308
54	50	4	16	0.320
85	77	8	64	0.831
96	83	13	169	2.036
27	49	-22	484	9.88
49	47	2	4	0.085
71	88	-17	289	3.284
101	94	7	47	0.500
64	56	8	64	1.14
57	54	3	9	0.167
86	89	-3	9	0.101
114	95	19	361	3.800
41	57	-16	256	4.491
55	54	1	1	1.00
84	90	-6	36	0.400
96	97	-1	1	1.00
52	58	-6	36	0.62
70	55	15	225	4.09
89	88	1	1	1.00
108	95	13	169	1.78
50	57	-7	49	0.86
48	54	-6	36	0.667

104	81	23	529	6.53
110	88	22	484	5.50
45	52	-7	49	0.94
34	50	-16	256	5.12
114	81	38	1444	17.83
96	88	8	64	0.73
51	52	-1	1	1
32	50	-18	324	6.48
122	90	32	1024	11.37
80	97	-17	289	2.97
54	58	-4	16	0.28
44	55	-11	121	2.20
χ^2				287.792

Regardless of business considerations imposition of tenement rates of equal ratio on property acquisition runs counter to the healthy live ability of residents who depend services occupation for their livelihood on civil following Johnson (1995) the concept of indirect taxes which are paid on production or consumption of goods and services or on transactions are not closely adhered to selective sales taxes value added taxes (VAT) single sale taxes (collected at every stage in production and consumption are diminished. Such discrepancies may lead to easy bankruptcy or collapse of infant business undertakings due to competition from healthier and older business operators.

This approach may discourage ready compliance earlier stated by [10]. According to the above author, ready compliance may primarily be informed by the individual appreciation of the objectives of the tax regime.

Following the result of the responses of the respondents in table 1, it is glaringly evident that their affirmation is grossly in the negative in the direction of a friendly tax regime by the government.

Such affirmation buttresses the notion of the psychology of taxation put forward by [9] who said tax avoidance is instigated by the negative effect of taxation to tax payers. Thus in part it was stated that taxation is a psychological and sociological concept as well as being an economics one.

It further stated that tax psychology differs by individuals according to their ability that the primary adverse effect caused by tax psychology is the fact of tax compliance and tax evasion arising from the inability of tax payers to meet their tax liabilities.

This position anchors on the practiced illustration of the tax scenario in the state caused by governments' insensitivity to the peculiar circumstances of residents and business operators.

Over advocacy deriving from our findings in this study rests on the point that the state government should as a matter of expediency undertake a pragmatic review of its tax regime for the benefit of the state and general society as well. A friendly tax policy will attract business operators and residents to the state there by enhancing the economic environment as well as the sustainability of urban live in the area.

REFERENCES

- [1] Adeniran F. E. (2010) Perspectives on economic development in Sub-Saharan: Climate change and development programme in Sub-Saharan Africa. *Environment* 5 (1) 475 – 482.
- [2] Akubiro, E. M. (2015) Taxation and macro-economic analysis in the third world context, Los Angel, California, *Penguin publication*.
- [3] Akunyil, A. B. (2018) Progressive taxation and development policies in third world areas. *Economics*. 5: 2952.
- [4] Aluko I. E. (2015) Tax psychology and tax evasion: *Journal of economic analysis* 5/4/25-30.
- [5] Cox C. O. (2019) Psychological effects taxation on tax payer: A field study on tax evasion and tax avoidance.
- [6] Enyam (2005) fundamental of economic for students of tertiary institution Calabar, index publication.
- [7] Johnson, A.S (1995) Tax freely policies and tax compliance: A conceptual review on the precincts' of progressive taxation. *Jeco. Dev.* 10(7) 28-35.
- [8] Maxwell S. A. (2005) Corruption and misappropriate on issues in taxation regions of developing world states. In the proceeding of the association of economic developers, *Seattle wash USA*.
- [9] Mensah N. (1982) Adam Smith and His principles of taxation Finland, *Oakland publications*.
- [10] Oyeridan S. E. (2014) Issues in Development policies of Third World Regions: A seminal presentation in the forum of United Nations Development Programme.
- [11] Oyeridan, I.E. (2012) taxation in the developing society principles and practice Ibadan. *Ethiopia publication*.
- [12] Rox (2018) Principles and practice of modern taxation. *London Earth seen publication*.
- [13] Uwa A. S. (2012) Tax policy and investment prospects by entrepreneurship perspectives of Business.

Citation of this Article:

Ntui Eugene Achima, Akposi, Asuquo Felix, "An Evaluation of the Impact of State Government's Taxation Regime on Business Prospect Development in Calabar, Cross River State Nigeria" Published in *International Research Journal of Innovations in Engineering and Technology - IRJIET*, Volume 7, Issue 6, pp 71-76, June 2023. Article DOI <https://doi.org/10.47001/IRJIET/2023.706012>
