ICTD Research in Brief
Issue 50 • January 2020

# Small Business Owners and Corporate Tax Responsibility in Nigeria: An Exploratory Study

Summary of ATAP 15 by Kenneth Amaeshi, Bongo Adi and Godson Ikiebey

Small businesses play a significant role in most economies, including Nigeria. However, policy discussions on tax responsibility tend to ignore them in favour of large firms. This study explores what small business owners in Nigeria think of their tax responsibility, as an aspect of corporate social responsibility (CSR). Tax responsibility, including CSR, has become prominent in recent times following corporate tax scandals and a growing emphasis on tax avoidance and evasion by large firms who do this at society's expense. However, little is known about CSR and taxation in Africa, especially amongst small businesses, even though they hold great potential for tax revenue. This paper fills this gap in the literature by exploring how small business owners frame their tax responsibilities and the implications of this for tax compliance in a weak institutional context.

## Why is it important to explore how small business owners understand their tax responsibilities?

To expand the tax base, enhance tax compliance, and improve its fiscal position, the government of Nigeria has embarked on several administrative developments since 2016. These include ICT solutions, the electronic processing of tax clearance certificates, the automation of withholding tax remittances, and the Voluntary Income and Asset Declaration Scheme.

Despite these initiatives, tax compliance has remained extremely low. Over 530,000 new corporate registrations were made during the first quarter of 2016, representing a 67 per cent increase. However, this did not translate to increased tax revenue. Only around 35 per cent of registered corporations could be linked to data available to the national tax agency. Only around 5 per cent of registered businesses filed VAT returns in 2016. For company income tax, which represents the bulk of the country's non-oil tax, only 5.6 per cent of registered entities filed returns in 2016.

Though it is difficult to isolate the actual tax contribution of small businesses, their significance cannot be overemphasised. Figures from PwC show that small businesses in Nigeria contribute nearly half of GDP, and account for 96 per cent of businesses and 84 per cent of employment. Therefore, it is critical to understand how their owners interpret their tax responsibilities and how this affects their tax compliance.

## What does tax responsibility mean to small business owners?

The paper's findings suggest that small businesses are very aware of their tax responsibilities and take them seriously,

> "The different frames and narratives that small business owners employ in talking about their tax responsibilities show that they are not a homogenous group. Any communications should reflect this diversity and be nuanced to reflect the attitudes and behaviours of different groups."

whether they are keen to pay them or not. Based on focus group discussions, interviews, and online chats with small business owners across Nigeria, two main types of tax responsibility discourses are identified: (1) duty-based and (2) rights-based. A duty-based approach sees taxation as citizens' responsibility to government, which should be fulfilled unconditionally. A rights-based approach sees taxation as a government's responsibility to citizens, which should be fulfilled for the government to earn citizens' trust, resulting in higher tax compliance. These duties and rights are broadly categorised into four themes: socio-economic development, legal, moral and philanthropic.

### 1. Economic

Duty-based narratives view it as business owners' duty to pay tax so that the government can meet its socio-economic responsibilities. We describe this approach as *compliance before accountability*. Taxation is seen as an obligation or responsibility to be fulfilled to activate taxpayers' rights to make demands of the government. In contrast, rights-based narratives are more inclined to view the benefits for taxation, based on the reciprocal relationship between the government and citizens, to start first from the government side of things. We describe this approach as demanding *accountability before compliance*.

### 2. Legal

Duty-based narratives view taxation as a mandatory legal duty, to be fulfilled by following the spirit of the law (i.e. what lawmakers intend the law to achieve) – *the spirit of the law matters most*. Business owners with rights-based views approach it as following the letter of the law and appear willing to take advantage of loopholes.

### 3. Moral

Duty-based narratives focus on taxation as *'the right thing to do irrespective of benefits'*, while rights-based narratives draw from instrumental rationality to frame taxation as the right thing to do only if it comes with benefits.

### 4. Philanthropic

Duty-based narratives see tax responsibility and philanthropy as *complements* while rights-based narratives see tax responsibility and philanthropy as *substitutes*.

## Implications for tax regulation and governance

Poor corporate tax compliance appears the biggest impediment to revenue mobilisation in Nigeria, yet demands on firms to be socially responsible are increasing. Some small businesses are not oblivious to their tax responsibilities: despite a weak institutional context, some are willing to 'do the right thing', seeing tax responsibility as part of their social licence to operate. This needs to be further interrogated, and the tax regulator should explore how to tap into this momentum to promote responsible taxation and compliance. The study's findings will also help tax regulators to understand the importance of framing tax compliance as a social responsibility issue, with non-compliance having a negative impact on society.

This study raises the importance of language and framing in understanding tax morale and compliance. It particularly contributes to the communicative approach to understanding tax attitudes amongst small business owners in emerging economies, which is much neglected in the literature as well as in practice and policy. The different frames and narratives that small business owners employ in talking about their tax responsibilities show that they are not a homogenous group. Any communications should reflect this diversity and be nuanced to reflect the attitudes and behaviours of different groups. Understanding these diverse responses will help tax regulators in effective communication and governance, contributing to reduced avoidance and evasion, and increased tax revenues.

## Further reading

**Citation:** Amaeshi, K., Adi, B. and Ikiebey, G. (2019) *Small Business Owners and Corporate Tax Responsibility in Nigeria: An Exploratory Study*, ICTD African Tax Administration Paper 15, Brighton, IDS.

## Credits

**Kenneth Amaeshi** is Chair in Business and Sustainable Development and Director of the Sustainable Business Initiative (SBI), University of Edinburgh Business School.

**Bongo Adi** is a Developmental Economist and Faculty at the Lagos Business School (LBS) Pan-Atlantic University (PAU).

**Godson Ikiebey** is a Sustainable Development Researcher and Technical Advisor, ESG Advisory Associates.

The ICTD is funded with UK aid from the UK Government and by the Bill & Melinda Gates Foundation; however, the views expressed herein do not necessarily reflect the UK Government's official policies, nor those of the Bill & Melinda Gates Foundation.



IDS Institute of Development Studies

ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.



ICTD is proudly funded by UKaid from the British people, Bill & Melinda Gates foundation