

# The Impact of Tax Policies on Entrepreneurship Development in Nigeria

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## Abstract

*This study examines the multifaceted relationship between tax policies and entrepreneurship development in Nigeria, analyzing how fiscal instruments shape the entrepreneurial ecosystem. Through a comprehensive review of Nigeria's tax framework, this paper explores the effects of various tax policies on business formation, growth, and sustainability. The analysis reveals that while Nigeria's tax system presents opportunities for entrepreneurial growth through various incentives, significant challenges persist, including multiple taxation, complex compliance procedures, and inconsistent policy implementation. The research identifies critical areas where tax policy reforms could enhance entrepreneurial activities and contribute to economic diversification. Eight evidence-based recommendations are proposed to optimize Nigeria's tax policies for entrepreneurship development, addressing issues of tax burden, administrative efficiency, incentive structures, and policy consistency.*

**Keywords:** Tax policies, entrepreneurship development, Nigeria, fiscal policy, business environment, tax incentives

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## Introduction

Entrepreneurship serves as a fundamental driver of economic growth, innovation, and employment generation in developing economies (Acs et al., 2018; Audretsch & Belitski, 2021). Nigeria, Africa's largest economy with a population exceeding 200 million, faces significant developmental challenges including unemployment rates above 33%, poverty affecting over 40% of the population, and overreliance on oil revenues that constitute over 80% of foreign exchange earnings (National Bureau of Statistics, 2023; World Bank, 2023). The entrepreneurial sector represents a critical pathway toward economic diversification and sustainable development, particularly as global energy transitions threaten traditional revenue sources (Okoye et al., 2021; Udefuna et al., 2023). However, the effectiveness of entrepreneurship as an engine of growth depends significantly on the regulatory and fiscal environment within which businesses operate (Djankov et al., 2010; Klapper et al., 2020).

Tax policies constitute essential components of the business environment, influencing entrepreneurial decisions from business formation to expansion and sustainability (Hansson, 2012; Mas-Montserrat et al., 2023). These policies affect entrepreneurs through multiple channels: determining the after-tax returns on investment, influencing the availability of capital for business operations, shaping compliance costs, and affecting overall business viability (Da Rin et al., 2011; Fossen & Steiner, 2018). In Nigeria, the tax system operates across federal,

state, and local government levels, creating a complex fiscal landscape that entrepreneurs must navigate (Ogbonna & Appah, 2016; Sennuga et al., 2021). Recent estimates suggest that Nigerian businesses face over 48 different tax types across various governmental levels, with average compliance time exceeding 368 hours annually, significantly higher than the Sub-Saharan African average of 280 hours (PricewaterhouseCoopers, 2023; World Bank, 2022).

The relationship between taxation and entrepreneurship is theoretically ambiguous and empirically contested (Baliamoune-Lutz & Garelo, 2014; Darnihamedani et al., 2018). While taxes reduce disposable income and investment returns, potentially discouraging entrepreneurial activities, well-designed tax policies can also facilitate entrepreneurship through targeted incentives, improved infrastructure, and enhanced business services funded by tax revenues (Acosta-Ormaechea & Morozumi, 2021; Gentry & Hubbard, 2000). Understanding this relationship in the Nigerian context is crucial for policymakers seeking to harness entrepreneurship for economic transformation, particularly given the government's Economic Recovery and Growth Plan that prioritizes private sector development and diversification (Federal Ministry of Finance, 2022; Nwokoye & Rolle, 2021).

Contemporary research on taxation and entrepreneurship in developing countries has increasingly emphasized the importance of tax administration quality, compliance costs, and institutional factors beyond statutory tax rates (Gupta & Zarychta, 2021; Prichard et al., 2019). Studies specifically examining Nigeria have identified multiple taxation, corruption within tax administration, and policy inconsistency as major obstacles to entrepreneurial development (Akintoye et al., 2020; Ojeka et al., 2019; Omodero & Dandago, 2019). However, comprehensive analyses integrating theoretical frameworks with empirical evidence on the multidimensional impacts of tax policies on entrepreneurship in Nigeria remain limited in existing literature.

This paper addresses three primary research questions: How do current tax policies in Nigeria affect entrepreneurship development? What are the major challenges entrepreneurs face within Nigeria's tax system? What policy reforms could optimize taxation for entrepreneurial growth? By examining these questions through a synthesis of theoretical perspectives and empirical evidence, this study contributes to the ongoing discourse on fiscal policy and economic development in emerging economies (Boadway & Tremblay, 2016; Gwaindepi, 2021). The analysis draws on institutional theory, optimal taxation frameworks, and occupational choice models to provide a comprehensive understanding of tax-entrepreneurship linkages in the Nigerian context (Henrekson & Sanandaji, 2011; Wennekers et al., 2005).

## Literature Review

### Theoretical Foundations of Taxation and Entrepreneurship

The theoretical foundations for understanding tax effects on entrepreneurship draw from multiple economic paradigms, each offering distinct insights into the relationship between fiscal policy and business formation. Classical economic theory suggests that taxation creates distortions in resource allocation, potentially reducing entrepreneurial entry and effort by lowering expected returns (Domar & Musgrave, 1944; Gentry & Hubbard, 2000). Higher tax rates decrease the after-tax returns from entrepreneurial ventures, making alternative activities such as wage employment relatively more attractive through what economists term the substitution effect (Cullen & Gordon, 2007; Schuetze, 2000). This perspective has been supported by empirical evidence from developed economies showing negative correlations between personal income tax rates and entrepreneurial entry rates (Bruce & Mohsin, 2006; Georgellis & Wall, 2006).

However, modern entrepreneurship theory recognizes more nuanced relationships that challenge

simple negative associations between taxation and business formation (Darnihamedani et al., 2018; Henrekson & Sanandaji, 2011). The occupational choice model, pioneered by Lucas (1978) and extended by subsequent researchers, posits that individuals compare expected utilities from entrepreneurship versus employment, with taxation affecting both options differently (Hansson, 2012; Parker, 2018). Progressive tax systems may actually encourage entrepreneurship by reducing the opportunity cost of leaving paid employment, particularly when entrepreneurial income is uncertain and potentially taxable at lower effective rates during initial loss-making periods (Gentry & Hubbard, 2004; Kanbur, 1981). The income effect of taxation suggests that higher tax rates on employment income may push individuals toward entrepreneurship as they seek to maintain consumption levels, potentially offsetting negative substitution effects (Blanchflower & Oswald, 1998; Robson & Wren, 1999).

Recent theoretical developments have emphasized the importance of tax structure complexity and administration quality alongside statutory rates (Braunerhjelm & Eklund, 2014; Wennekers et al., 2005). Compliance costs, information asymmetries, and enforcement mechanisms significantly influence entrepreneurial decisions, particularly in developing country contexts where institutional capacity constraints are pronounced (Dabla-Norris et al., 2017; Lignier & Evans, 2012). The effective tax rate, incorporating both statutory obligations and compliance costs, provides a more accurate measure of fiscal burden than nominal rates alone (Djankov et al., 2010; Mas-Montserrat et al., 2023). Studies examining developing economies have found that administrative obstacles and corruption within tax systems often impose greater burdens on entrepreneurs than the taxes themselves (Coolidge, 2012; Alm & Torgler, 2011).

### **Tax Policy Design and Economic Development**

Development economics emphasizes the dual role of taxation in emerging economies, requiring systems that generate sufficient revenue for public goods provision while minimizing distortions that inhibit private sector growth (Acosta-Ormaechea & Morozumi, 2021; Besley & Persson, 2014). For developing nations like Nigeria, this balance is particularly challenging due to limited tax administration capacity, large informal sectors comprising over 60% of GDP, and competing demands for public spending (Medina & Schneider, 2018; Williams & Kedir, 2018). The revenue imperative often conflicts with entrepreneurship promotion objectives, creating tension in tax policy formulation (Keen & Slemrod, 2017; Mascagni et al., 2021).

The optimal taxation literature suggests that tax policies should consider efficiency, equity, and administrative feasibility as primary design criteria (Mirrlees et al., 2011; Saez & Zucman, 2019). In the entrepreneurship context, efficiency requires minimizing the excess burden imposed on business formation and operation, which empirical research estimates can be substantial in high-tax environments (Djankov et al., 2010; Mas-Montserrat et al., 2023). Equity considerations involve ensuring that tax burdens are distributed fairly across different types and sizes of enterprises, avoiding regressive structures that disproportionately burden smaller businesses (Bachas et al., 2019; Keen & Mansour, 2010). Administrative feasibility addresses the practical implementation challenges, particularly relevant in contexts with limited state capacity where sophisticated tax instruments may prove unenforceable (Best et al., 2015; Pomeranz, 2015).

Empirical evidence from cross-country studies demonstrates significant relationships between tax policy characteristics and entrepreneurial activity levels (Baliamoune-Lutz & Garelo, 2014; Darnihamedani et al., 2018). Research analyzing Global Entrepreneurship Monitor data across multiple countries found that higher corporate tax rates correlate with reduced opportunity-

driven entrepreneurship but may increase necessity-driven entrepreneurship, suggesting heterogeneous effects across entrepreneurial motivations (Block, 2016; Braunerhjelm & Eklund, 2014). Studies specifically examining developing countries have emphasized that tax compliance costs disproportionately affect smaller enterprises, creating scale disadvantages that hinder growth and formalization (Coolidge, 2012; Eichfelder & Vaillancourt, 2014).

Tax incentive effectiveness in stimulating entrepreneurship remains contested in the literature (James, 2014; Klemm & Van Parys, 2012). While governments frequently employ tax holidays, reduced rates, and investment allowances to encourage business formation, empirical assessments of their developmental impact yield mixed results (Chai & Goyal, 2008; Kinda, 2014). Some studies find that poorly designed incentives primarily benefit larger corporations rather than genuine entrepreneurs, generate minimal additionality, and create opportunities for tax avoidance (Keen & Mansour, 2010; Zee et al., 2002). However, other research suggests that well-targeted incentives addressing specific market failures, such as innovation underinvestment, can effectively stimulate entrepreneurial activity (Bloom et al., 2019; Czarnitzki et al., 2011). The context-specific nature of incentive effectiveness necessitates careful design and evaluation tailored to particular developmental challenges and institutional capacities (Bird & Zolt, 2008; OECD, 2021).

### **Institutional Theory and Tax Compliance Behavior**

Institutional theory provides crucial insights into how formal rules and informal norms shape entrepreneurial behavior within tax systems (North, 1990; Welter et al., 2019). In Nigeria, institutional factors including corruption, weak enforcement mechanisms, and low trust in government fundamentally affect how entrepreneurs perceive and respond to tax obligations (Ajaz & Ahmad, 2010; Alm et al., 2016). When entrepreneurs perceive tax systems as inequitable, arbitrary, or characterized by high corruption levels, compliance rates decline, reducing revenue collection and necessitating higher statutory rates for remaining taxpayers (Alm & Torgler, 2011; Fjeldstad & Semboja, 2001). This dynamic creates a vicious cycle where institutional weakness undermines tax collection, forcing higher rates that further reduce compliance and trust (Besley & Persson, 2014; Levi, 1988).

The fiscal exchange theory suggests that tax compliance depends on the perceived benefit entrepreneurs receive from government services, with taxpayers more willing to comply when they observe tangible returns on their contributions (Cummings et al., 2009; Levi, 1988). In contexts where public service delivery is poor, infrastructure inadequate, and corruption rampant, entrepreneurs may view taxes as extraction rather than contribution to collective goods, reducing voluntary compliance (Fjeldstad & Semboja, 2001; Moore, 2008). This perspective is particularly relevant for understanding entrepreneurial responses to taxation in developing countries where governance challenges persist and the tax-service linkage remains weak (Prichard, 2015; Van den Boogaard et al., 2018).

Empirical research examining tax compliance behavior in Sub-Saharan Africa, including Nigeria, has identified trust in government, perception of tax system fairness, and quality of public services as significant determinants of compliance alongside traditional economic variables (Ali et al., 2014; Cyan et al., 2016). Studies specifically analyzing Nigerian entrepreneurs found that corruption perception significantly reduces tax morale and compliance intentions, with effects particularly pronounced among small and medium enterprises (Ojeka et al., 2019; Oladele et al., 2022). The harassment of taxpayers by multiple tax authorities, common in Nigeria's multi-tiered system, further erodes compliance willingness and drives entrepreneurs toward informality

(Omodero&Dandago, 2019; Salihu et al., 2015).

Social norms regarding tax compliance also influence entrepreneurial behavior, with compliance more likely when entrepreneurs perceive that others are paying their fair share and when tax evasion carries social stigma (Alm & Torgler, 2011; Luttmer & Singhal, 2014). In environments characterized by widespread tax evasion and weak enforcement, compliance may be viewed as economically irrational, creating coordination problems where individual compliance depends on expectations of others' behavior (Feld & Frey, 2007; Torgler & Schneider, 2009). Nigeria's large informal sector, estimated at over 60% of GDP, reflects and reinforces norms of non-compliance, making formalization less attractive for entrepreneurs who face competitive disadvantages when complying with tax obligations their informal competitors avoid (Benjamin & Mbaye, 2012; Williams & Kedir, 2018).

### **Empirical Evidence from Nigeria and Comparable Contexts**

Empirical research specifically examining tax policy impacts on entrepreneurship in Nigeria has grown substantially in recent years, though methodological limitations remain common (Egbunike et al., 2018; Worlu & Nkoro, 2012). Aggregate studies analyzing relationships between tax revenue and economic growth in Nigeria have generally found positive associations, suggesting that taxation, when properly administered, can support development through public goods provision (Etim & Jeremiah, 2016; Ogbonna & Appah, 2016). However, these macroeconomic analyses often cannot isolate entrepreneurship-specific effects or account for the complex causal relationships between taxation, public spending, and economic outcomes (Onakoya&Afintinni, 2016; Stoilova&Patonov, 2013).

Micro-level studies examining individual entrepreneurial responses to tax policies provide more direct evidence on mechanisms and effects. Research by Akintoye et al. (2020) surveying small and medium enterprises in Lagos State found that multiple taxation significantly constrains business operations, with entrepreneurs reporting that tax compliance costs consume between 15-25% of annual revenues for smaller firms. Similarly, Sennuga et al. (2021) analyzing manufacturing firms found that tax incentives, when effectively implemented, positively influence firm performance and investment decisions, though accessibility problems limit impact for smaller enterprises. Ojeka et al. (2019) demonstrated that corruption perception among Nigerian SMEs significantly reduces tax morale, with entrepreneurs expressing willingness to comply increasing substantially when confidence in tax administration integrity improves.

Comparative evidence from other Sub-Saharan African countries provides valuable context for understanding Nigeria's challenges and opportunities. Rwanda's comprehensive tax reforms since the early 2000s, emphasizing simplification, digitalization, and taxpayer services, have achieved remarkable improvements in compliance and revenue collection while reducing business environment obstacles (Mascagni, 2018; Moore, 2020). The Rwandan Revenue Authority's transformation from a compliance-enforcement focus to a customer-service orientation, combined with simplified procedures for small businesses, demonstrates feasibility of reform even in resource-constrained settings (Kangave et al., 2016; Santoro & Fisman, 2019). Ghana's introduction of a simplified presumptive tax regime for small businesses, eliminating detailed accounting requirements in favor of turnover-based assessments, has encouraged formalization and reduced compliance burdens (Aryeetey & Osei, 2016; Brockmeyer & Hernandez, 2019).

Kenya's experience with mobile technology integration in tax administration, leveraging widespread mobile money adoption to facilitate payment and filing, demonstrates how digital solutions can address traditional obstacles (Gupta et al., 2017; Mascagni et al., 2021). The Kenya



Revenue Authority's partnerships with mobile network operators have reduced transaction costs for taxpayers while improving collection efficiency and reducing opportunities for corruption (Okunogbe & Poulighen, 2022; Santoro & Fisman, 2019). South Africa's relatively sophisticated tax administration, including extensive online services and dedicated small business support, provides an example of more advanced systems, though challenges of inequality and informal sector size persist (Coolidge & Yilmaz, 2014; Timmis, 2021).

Cross-country econometric analyses consistently identify tax administration quality as equally or more important than statutory rates in determining entrepreneurial outcomes (Djankov et al., 2010; Mas-Montserrat et al., 2023). The World Bank's Doing Business indicators show that Nigeria ranks poorly on "Paying Taxes" measures, with high numbers of required payments, excessive time for compliance, and elevated total tax rates creating obstacles for entrepreneurs (World Bank, 2022, 2023). However, recent reforms including the adoption of online tax filing systems and efforts to harmonize taxes across governmental levels demonstrate recognition of these challenges and movement toward improved practices (Federal Inland Revenue Service, 2023; Nwokoye & Rolle, 2021).

### **Tax Policy and Entrepreneurial Outcomes: Mechanisms and Pathways**

The literature identifies multiple pathways through which tax policies influence entrepreneurial outcomes, operating simultaneously and sometimes in conflicting directions. First, tax rates directly affect the financial returns to entrepreneurial effort, with higher rates reducing after-tax profits and potentially discouraging entry or growth investment (Bruce & Gurley, 2004; Gentry & Hubbard, 2000). However, this effect may be attenuated when progressive rate structures create opportunities for income splitting or when loss provisions allow entrepreneurs to share risk with tax authorities (Domar & Musgrave, 1944; Hansson, 2012).

Second, compliance costs impose fixed and variable burdens that disproportionately affect smaller enterprises, creating scale economies in tax compliance that favor larger firms (Coolidge, 2012; Eichfelder & Vaillancourt, 2014). When compliance requires maintaining detailed records, preparing complex returns, and engaging professional services, resource-constrained startups face particular challenges (Evans et al., 2014; Lignier & Evans, 2012). These costs may deter entrepreneurial entry, constrain growth by diverting resources from productive activities, or push entrepreneurs into informality to avoid regulatory burdens (Dabla-Norris et al., 2017; Slemrod & Venkatesh, 2002).

Third, tax policy uncertainty affects entrepreneurial planning and investment decisions, with unpredictable changes in rates, bases, or incentives creating option value for delaying irreversible investments (Baker et al., 2016; Djankov et al., 2010). In volatile policy environments characteristic of many developing countries, entrepreneurs may adopt wait-and-see approaches, maintain excess liquidity, or invest in more reversible assets, potentially reducing growth and productivity (Bloom et al., 2007; Julio & Yook, 2012). Nigeria's history of frequent policy changes and inconsistent implementation exemplifies this challenge (Oladele et al., 2022; Udefuna et al., 2023).

Fourth, tax-funded public goods and services affect entrepreneurial productivity and costs, creating indirect benefits from taxation that may offset direct burdens (Acosta-Ormaechea & Morozumi, 2021; Boadway & Tremblay, 2016). Infrastructure quality, legal system effectiveness, security provision, and business support services funded through tax revenues influence the entrepreneurial ecosystem within which businesses operate (Audretsch & Belitski, 2021; Estrin et al., 2013). However, in contexts where tax revenue is poorly utilized, benefits

may be minimal, breaking the fiscal exchange mechanism that supports voluntary compliance (Moore, 2008; Prichard, 2015).

## **Overview of Nigeria's Tax System**

### **Structure and Administration**

Nigeria operates a federal tax system with revenue collection responsibilities distributed across three governmental tiers: federal, state, and local governments, reflecting the country's constitutional structure (Ocheni, 2015; Ogbonna & Appah, 2016). The Federal Inland Revenue Service (FIRS), restructured in 2007 to enhance efficiency and autonomy, administers federal taxes including company income tax, value-added tax, petroleum profits tax, capital gains tax, and various withholding taxes (Federal Inland Revenue Service, 2023; Kiabel&Nwokah, 2009). State Internal Revenue Services, operating in each of Nigeria's 36 states, collect personal income tax for residents, capital gains tax on land and property, business premises registration fees, and various state-specific levies (Nwokoye& Rolle, 2021; Sennuga et al., 2021). Local governments levy rates on properties, market taxes, motor park levies, and numerous other charges, though their collection capacity remains generally weak (Okoye et al., 2012; Omodero&Dandago, 2019).

This multi-tiered structure creates complexity for entrepreneurs who must navigate multiple tax authorities with overlapping jurisdictions and sometimes conflicting requirements (Akintoye et al., 2020; Etim & Jeremiah, 2016). The proliferation of taxes and levies across governmental levels represents a defining characteristic of Nigeria's fiscal landscape, with implications for entrepreneurial compliance costs and business viability (Okoye et al., 2012; World Bank, 2022). Constitutional provisions attempt to delineate tax powers, but ambiguities and enforcement challenges result in frequent instances of multiple taxation where similar economic activities face levies from different governmental tiers (Ocheni, 2015; Ojong et al., 2016).

Recent reform efforts have sought to improve tax administration efficiency through digitalization initiatives, taxpayer education programs, and organizational restructuring (Federal Inland Revenue Service, 2023; Nwokoye& Rolle, 2021). The FIRS has implemented online registration, filing, and payment systems aimed at reducing compliance time and minimizing opportunities for corruption (Oladele et al., 2022; Udefuna et al., 2023). However, implementation challenges including limited internet access, low digital literacy among entrepreneurs, and resistance from officials benefiting from existing systems have constrained reform impact (Ojeka et al., 2019; Salihu et al., 2015).

### **Key Taxes Affecting Entrepreneurs**

Several tax categories directly impact entrepreneurial ventures in Nigeria, with cumulative burdens often exceeding headline statutory rates. Company Income Tax, established under the Companies Income Tax Act (CITA) Cap C21 LFN 2004 as amended, represents the primary corporate tax obligation, charged at 30% for large companies and 20% for small companies with annual turnover below ₦25 million (approximately \$60,000) (Egbunike et al., 2018; Sennuga et al., 2021). Medium-sized companies with turnover between ₦25 million and ₦100 million face rates of 20% on the first ₦25 million and 30% on excess amounts, creating a graduated structure intended to support smaller enterprises (Federal Inland Revenue Service, 2023; Kiabel&Nwokah, 2009). However, the threshold definitions have not been adjusted for inflation since introduction, eroding their real value and reducing the number of businesses qualifying for preferential treatment (Akintoye et al., 2020; Okoye et al., 2012).

Value Added Tax (VAT), increased from 5% to 7.5% in 2020 amid significant controversy, applies to most goods and services consumed in Nigeria, affecting both business-to-business and business-to-consumer transactions (Oladele et al., 2022; Udefuna et al., 2023). Entrepreneurs must register for VAT when turnover exceeds ₦25 million annually, collect it from customers, maintain detailed records, file monthly returns, and remit collections to tax authorities, creating administrative obligations beyond the tax burden itself (Federal Inland Revenue Service, 2023; Nwokoye & Rolle, 2021). Challenges including delayed VAT refunds for exporters and zero-rated supplies tie up working capital, particularly problematic for cash-constrained small businesses (Akintoye et al., 2020; Sennuga et al., 2021).

Personal Income Tax affects sole proprietors and partners operating unincorporated businesses, with progressive rates ranging from 7% on income up to ₦300,000 to 24% on income exceeding ₦3.2 million (Egbunike et al., 2018; Ojeka et al., 2019). State governments administer this tax on residents, creating variations in enforcement effectiveness and compliance requirements across states (Ocheni, 2015; Omodero & Dandago, 2019). Withholding taxes, applied at source on various transactions including contracts, professional fees, rent, and dividends at rates between 5-10%, create cash flow challenges for entrepreneurs as amounts withheld can only be credited against final tax liability, potentially requiring working capital to finance operations (Kiabel & Nwokah, 2009; Okoye et al., 2012).

Beyond these primary taxes, entrepreneurs face numerous other fiscal obligations that cumulatively create substantial burdens. Education Tax, levied at 2% of assessable profits under the Education Tax Act, applies to all registered companies operating in Nigeria, with revenues earmarked for educational system improvement (Etim & Jeremiah, 2016; Sennuga et al., 2021). The Technology Levy, introduced in 2019 for companies with annual turnover exceeding ₦100 million, imposes additional 1% charges to fund technology development initiatives (Federal Inland Revenue Service, 2023; Oladele et al., 2022). State and local government levies including business premises fees, signage permits, waste management charges, and security levies vary widely across jurisdictions but can collectively impose significant costs, particularly in major commercial centers (Akintoye et al., 2020; Omodero & Dandago, 2019).

### **Tax Incentives and Relief Provisions**

Nigeria's tax system includes various incentives designed to stimulate investment and entrepreneurship, though their effectiveness and accessibility remain debated (James, 2014; Sennuga et al., 2021). Pioneer Status Incentive, established under the Industrial Development (Income Tax Relief) Act, provides tax holidays ranging from three to five years for qualifying industries and products deemed strategic for economic development (Akintoye et al., 2020; Kiabel & Nwokah, 2009). Industries currently eligible include agriculture, solid minerals, petrochemicals, tourism, and various manufacturing sectors, with the Nigerian Investment Promotion Commission administering applications (Federal Ministry of Finance, 2022; Okoye et al., 2012). However, critics argue that this incentive primarily benefits large corporations with resources to navigate complex application processes rather than genuine small-scale entrepreneurs (Keen & Mansour, 2010; Sennuga et al., 2021).

The Small Company Income Tax Relief, offering reduced rates of 20% for companies with annual turnover below ₦25 million, directly targets small and medium enterprises (Egbunike et al., 2018; Federal Inland Revenue Service, 2023). However, the threshold's erosion through inflation and the limited differential from standard rates (20% versus 30%) constrain its effectiveness as an entrepreneurial stimulus (Akintoye et al., 2020; Ojeka et al., 2019).



Investment allowances at 10% of qualifying capital expenditure, available for assets with useful life exceeding three years, aim to encourage fixed asset acquisition and business expansion (Etim & Jeremiah, 2016; Sennuga et al., 2021). Capital allowances, including initial allowances and annual depreciation allowances at specified rates for different asset categories, reduce taxable income and encourage investment in productive equipment (Kiabel&Nwokah, 2009; Okoye et al., 2012).

Loss relief provisions allow companies to carry forward losses indefinitely for offset against future profits, providing risk-sharing between entrepreneurs and tax authorities that can encourage innovative ventures with uncertain initial returns (Egbunike et al., 2018; Nwokoye& Rolle, 2021). However, this benefit applies only to businesses that maintain adequate records and file returns consistently, requirements that many small entrepreneurs struggle to meet (Ojeka et al., 2019; Omodero&Dandago, 2019). Rural investment allowances offer additional 20% of qualifying capital expenditure for companies operating in economically disadvantaged areas, intended to promote geographical dispersal of economic activity (Akintoye et al., 2020; Federal Inland Revenue Service, 2023).

Special economic zones and export processing zones offer additional tax concessions, including extended tax holidays, duty-free importation of equipment and raw materials, and exemptions from various levies (James, 2014; Okoye et al., 2012). The Oil and Gas Export Free Zone Authority, Nigeria Export Processing Zones Authority, and other zone administrators provide these benefits to companies operating within designated geographical areas (Federal Ministry of Finance, 2022; Sennuga et al., 2021). However, infrastructure deficits within many zones, bureaucratic obstacles in accessing benefits, and concerns about rent-seeking in zone administration limit their effectiveness as entrepreneurial catalysts (Akintoye et al., 2020; Oladele et al., 2022).

## **Impact of Tax Policies on Entrepreneurship Development**

### **Effects on Business Formation and Entry**

Tax policies significantly influence decisions to establish new businesses in Nigeria, operating through both direct financial considerations and indirect institutional mechanisms (Darnihamedani et al., 2018; Djankov et al., 2010). High effective tax rates combining statutory obligations with compliance costs discourage potential entrepreneurs from formalizing ventures, contributing to the expansion of Nigeria's informal sector, which accounts for approximately 65% of GDP (Medina & Schneider, 2018; Williams & Kedir, 2018). Research examining entrepreneurial entry across African countries demonstrates that burdensome tax systems correlate with higher rates of informal economic activity as entrepreneurs seek to avoid regulatory costs while accessing market opportunities (Benjamin & Mbaye, 2012; Dabla-Norris et al., 2017).

The multiplicity of registration requirements and tax obligations across different governmental levels creates entry barriers for aspiring entrepreneurs with limited resources and expertise (Akintoye et al., 2020; Omodero&Dandago, 2019). New business owners must navigate registration with the Corporate Affairs Commission, obtain tax identification numbers from federal and state revenue services, register for VAT when applicable, and understand various tax obligations before commencing operations (Federal Inland Revenue Service, 2023; Ojeka et al., 2019). These administrative hurdles can delay business launch by several months and consume scarce entrepreneurial resources, with estimates suggesting registration costs alone exceed 10% of per capita income in Nigeria compared to less than 1% in leading business environments

(World Bank, 2022, 2023).

However, tax incentives such as reduced rates for small companies and sector-specific relief provisions can encourage formalization and business creation in targeted industries when effectively communicated and administered (Sennuga et al., 2021; Udefuna et al., 2023). When entrepreneurs perceive clear benefits from formal registration, including access to formal credit markets, eligibility for government contracts, legal protections, and opportunities for business scaling, tax policies can facilitate rather than hinder entrepreneurial entry (Auriol & Warlters, 2012; Bruhn & Loeprick, 2016). Research examining tax registration reforms in African countries demonstrates that simplified procedures combined with visible benefits can significantly increase formalization rates (Brockmeyer & Hernandez, 2019; Mascagni, 2018).

The psychological and social dimensions of tax-related entry decisions warrant attention alongside economic calculations (Alm & Torgler, 2011; Feld & Frey, 2007). In environments characterized by widespread tax evasion and perceptions of corruption, potential entrepreneurs may view formal registration as economically irrational, creating coordination problems where individual entry decisions depend on expectations about others' compliance (Luttmer & Singhal, 2014; Torgler & Schneider, 2009). Nigeria's weak fiscal exchange, where entrepreneurs observe poor public service delivery despite tax payments, undermines the legitimacy of tax obligations and reduces willingness to formalize businesses (Fjeldstad & Semboja, 2001; Moore, 2008).

### **Impact on Business Growth and Expansion**

Tax policies affect entrepreneurial growth trajectories through multiple channels operating over different time horizons (Bruce & Gurley, 2004; Hansson, 2012). High effective tax rates reduce retained earnings available for reinvestment, potentially constraining business expansion among cash-limited entrepreneurs unable to access external finance (Cummins et al., 1996; Gentry & Hubbard, 2000). For growth-oriented entrepreneurs, the tax treatment of reinvested profits versus distributed dividends influences capital accumulation and scaling decisions, with systems favoring retention generally supporting faster growth (Da Rin et al., 2011; Fossen & Steiner, 2018). Nigeria's corporate income tax applies uniformly to both retained and distributed profits, providing no explicit incentive for reinvestment, though dividend taxation at the individual level creates some preference for retention (Egbunike et al., 2018; Kiabel & Nwokah, 2009).

The provision of capital allowances and investment incentives can stimulate business expansion by reducing the effective cost of acquiring productive assets (Mas-Montserrat et al., 2023; Sennuga et al., 2021). When entrepreneurs can deduct or accelerate depreciation on equipment purchases, the after-tax return on investment increases, potentially triggering expansion decisions that might not otherwise occur (Bloom et al., 2019; Zwick & Mahon, 2017). However, the effectiveness of such incentives depends on awareness among entrepreneurs, administrative ease in claiming benefits, and sufficient initial profitability to utilize deductions (Akintoye et al., 2020; Keen & Mansour, 2010). Evidence from Nigeria suggests that smaller enterprises often fail to access available incentives due to lack of information, complex application procedures, and inadequate record-keeping systems required for claiming benefits (Ojeka et al., 2019; Oladele et al., 2022).

Tax policy uncertainty represents another critical factor affecting growth decisions, with unpredictable changes creating option value for delaying irreversible investments (Baker et al., 2016; Bloom et al., 2007). In Nigeria's context, where policy reversals and inconsistent implementation are common, this uncertainty may cause entrepreneurs to delay expansion, maintain excess liquidity as precautionary savings, or pursue more conservative growth

strategies (Omodero&Dandago, 2019; Udefuna et al., 2023). Research examining policy uncertainty effects across developing countries demonstrates significant negative impacts on firm investment and expansion, with effects particularly pronounced for smaller enterprises lacking diversification options (Julio & Yook, 2012; Nguyen et al., 2017).

The interaction between tax policies and access to external finance creates additional growth implications (Faccio & Xu, 2015; Kerr & Nanda, 2009). Tax deductibility of interest payments but not equity returns typically favors debt financing, potentially creating excessive leverage that constrains growth flexibility (Graham, 2003; Heider & Ljungqvist, 2015). In Nigeria, where credit markets remain underdeveloped and interest rates are high, this bias toward debt may be less consequential than in developed economies, but it still influences financing choices for entrepreneurs able to access formal credit (Akintoye et al., 2020; Nwokoye& Rolle, 2021). The taxation of capital gains at standard corporate rates, without preferential treatment for long-term investments, may discourage patient capital provision by investors, affecting the availability of growth finance for high-potential ventures (Da Rin et al., 2011; Keuschnigg& Nielsen, 2004).

### **Effects on Business Sustainability and Survival**

The sustainability of entrepreneurial ventures depends partly on manageable tax burdens relative to profitability and cash flow generation (Hansson, 2012; Parker, 2018). Excessive taxation can threaten business viability, particularly for enterprises operating on thin margins or facing market challenges (Baliamoune-Lutz & Garelo, 2014; Bruce & Mohsin, 2006). In Nigeria, the cumulative effect of multiple taxes and levies across federal, state, and local levels can push borderline businesses into insolvency, with surveys suggesting that total tax obligations can exceed 50% of commercial profits for some sectors (Akintoye et al., 2020; World Bank, 2022). This burden is particularly severe for businesses in competitive sectors unable to pass costs to customers through price increases (Etim & Jeremiah, 2016; Okoye et al., 2012).

Tax administration practices significantly affect business sustainability through mechanisms extending beyond statutory tax rates (Coolidge, 2012; Prichard et al., 2019). Arbitrary assessments, where tax officials determine liabilities without reference to actual business performance, create unpredictable obligations that complicate financial planning (Mascagni et al., 2021; Omodero&Dandago, 2019). Demands for unofficial payments as conditions for processing registrations, accepting returns, or resolving disputes impose additional costs that consume scarce resources (Ojeka et al., 2019; Salihu et al., 2015). Harassment by tax officials, including threats of business closure or seizure of assets, creates psychological stress and operational disruptions that reduce entrepreneurial productivity and satisfaction (Alm et al., 2016; Feld & Frey, 2007).

Entrepreneurs facing such practices may divert resources from productive activities to managing tax authority relationships, reducing business efficiency and survival prospects (Dabla-Norris et al., 2017; Slemrod& Venkatesh, 2002). The time required for tax compliance in Nigeria, estimated at 368 hours annually, represents a substantial opportunity cost, particularly for small businesses where owners must personally handle administrative tasks (PricewaterhouseCoopers, 2023; World Bank, 2022). This compliance burden has been shown to disproportionately affect smaller enterprises, creating scale disadvantages that reduce survival rates relative to larger competitors with specialized tax departments (Eichfelder& Vaillancourt, 2014; Lignier& Evans, 2012).

Conversely, well-designed tax policies can enhance business sustainability by providing predictable fiscal environments that facilitate planning (Djankov et al., 2010; Mas-Montserrat et

al., 2023). Loss carryforward provisions offer relief during difficult periods by allowing previous losses to offset future profits, effectively providing implicit insurance against business cycle fluctuations (Egbunike et al., 2018; Nwokoye & Rolle, 2021). Tax-funded public infrastructure including reliable electricity, transportation networks, and security services reduces business operating costs and enhances survival prospects, though Nigeria's poor infrastructure provision limits these benefits (Acosta-Ormaechea & Morozumi, 2021; Estrin et al., 2013). The net effect on sustainability depends on balancing revenue requirements with recognition of entrepreneurial vulnerabilities and provision of meaningful public goods in return for tax payments (Besley & Persson, 2014; Moore, 2008).

### **Influence on Innovation and Productivity**

Tax policies can affect entrepreneurial innovation and productivity through several mechanisms operating at both individual firm and systemic levels (Akcigit et al., 2022; Bloom et al., 2019). Research and development tax incentives, including deductions, credits, or accelerated depreciation for qualifying expenditures, can stimulate innovation by reducing its effective cost and improving expected returns (Czarnitzki et al., 2011; Hall & Van Reenen, 2000). While Nigeria's tax system includes some provisions for capital investments, specific R&D incentives remain limited compared to more developed economies and even some comparable African countries (Federal Inland Revenue Service, 2023; Oladele et al., 2022). The absence of targeted innovation incentives may partly explain Nigeria's low innovation intensity, with research and development spending below 0.3% of GDP compared to over 1% in South Africa and 2-3% in leading emerging economies (National Bureau of Statistics, 2023; World Bank, 2023).

High tax burdens may force entrepreneurs to focus on short-term survival rather than long-term capability building and innovation (Henrekson & Sanandaji, 2011; Mas-Montserrat et al., 2023). When significant resources are diverted to tax compliance and payment, less remains available for investments in new technologies, skills development, or process improvements that enhance productivity (Akintoye et al., 2020; Sennuga et al., 2021). This effect may be particularly pronounced in developing country contexts where entrepreneurs face multiple constraints simultaneously, forcing difficult trade-offs between competing resource demands (Bruhn et al., 2018; McKenzie & Woodruff, 2014).

The tax treatment of knowledge investments, including training, technology acquisition, and intellectual property development, influences whether entrepreneurs pursue productivity-enhancing activities (Acemoglu et al., 2018; Griffith et al., 2014). Generous deductibility provisions for these investments can encourage entrepreneurial focus on capability building and innovation as drivers of competitive advantage (Bloom et al., 2019; Hall & Van Reenen, 2000). However, Nigeria's tax system provides limited preferential treatment for knowledge investments beyond general capital allowances, potentially undervaluing their long-term developmental importance (Egbunike et al., 2018; Okoye et al., 2012).

Tax policy effects on entrepreneurial selection may influence aggregate innovation and productivity in the economy (Baumol, 1990; Murphy et al., 1991). When tax systems favor rent-seeking activities or established businesses over innovative startups, talented individuals may channel entrepreneurial efforts toward less productive activities (Henrekson & Sanandaji, 2011; Sobel, 2008). Nigeria's tax system, with its complexity favoring those with resources to navigate regulations and its incentive capture by established corporations, may distort entrepreneurial selection away from innovation-driven ventures toward less demanding activities (Akintoye et al., 2020; Ojeka et al., 2019). International evidence suggests that reducing entry barriers and

creating more level playing fields through tax simplification can shift entrepreneurial activity toward higher-productivity sectors (Klapper et al., 2020; Schoar, 2010).

### **Tax Policies and Entrepreneurial Formalization**

The decision to operate in the formal versus informal sector represents a critical entrepreneurial choice with profound implications for growth potential, productivity, and development contribution (Benjamin & Mbaye, 2012; La Porta & Shleifer, 2014). Tax policies significantly influence this formalization decision through multiple channels including compliance costs, expected benefits from formality, and enforcement risks (Bruhn & Loeprick, 2016; Ulyseas, 2018). In Nigeria, where informal sector activity comprises over 60% of GDP and employs over 80% of the workforce, understanding tax policy effects on formalization is crucial for economic transformation (Medina & Schneider, 2018; Williams & Kedir, 2018).

High tax rates and compliance costs discourage formalization by increasing the price of operating legally, while weak enforcement reduces the expected penalties from informality, creating strong incentives for remaining unregistered (Dabla-Norris et al., 2017; De Mel et al., 2013). Research examining formalization decisions across developing countries demonstrates that entrepreneurs conduct implicit cost-benefit analyses comparing formalization costs against benefits including legal protections, credit access, and business expansion opportunities (Bruhn & McKenzie, 2014; Fajnzylber et al., 2011). When formalization costs are high relative to perceived benefits, as in Nigeria's complex multi-tiered tax system, entrepreneurs rationally choose informality despite its constraints on growth and productivity (Akintoye et al., 2020; Omodero & Dandago, 2019).

The design of small business taxation regimes significantly affects formalization incentives through its impact on compliance costs and effective tax burdens (Keen, 2012; Loeprick, 2009). Simplified presumptive tax regimes, which estimate tax liability based on easily observable business characteristics rather than detailed accounting, dramatically reduce compliance costs and have been shown to increase formalization in multiple contexts (Brockmeyer & Hernandez, 2019; Coolidge, 2012). Countries including Ghana, Rwanda, and Kenya have successfully implemented such regimes, achieving higher registration rates among small entrepreneurs (Aryeetey & Osei, 2016; Mascagni, 2018). Nigeria's limited progress toward simplified small business taxation leaves many entrepreneurs facing compliance requirements designed for large corporations, discouraging formalization (Ojeka et al., 2019; Salihu et al., 2015).

Enforcement strategies interact with tax design to shape formalization decisions (Alm et al., 2016; Pomeranz, 2015). Aggressive enforcement without corresponding improvements in tax system fairness and administration quality can drive entrepreneurs deeper into informality rather than promoting formalization (Best et al., 2015; Bruhn & Loeprick, 2016). Conversely, enforcement combined with simplified compliance, visible public service improvements, and respect for taxpayer rights can effectively promote formalization (Brockmeyer & Hernandez, 2019; Mascagni et al., 2021). Nigeria's enforcement approach, characterized by irregular campaigns and sometimes arbitrary treatment of taxpayers, has proven less effective than systematic strategies emphasizing both carrots and sticks (Omodero & Dandago, 2019; Udefuna et al., 2023).

### **Challenges in Nigeria's Tax System for Entrepreneurs**

#### **Multiple Taxation and Tax Multiplicity**

Multiple taxation, where the same income or transaction faces taxation by different authorities or



under different tax heads, represents a significant challenge for Nigerian entrepreneurs that has been extensively documented in empirical research (Akintoye et al., 2020; Omodero&Dandago, 2019). This problem arises from the federal structure, ambiguous delineation of tax powers in constitutional provisions, and weak coordination mechanisms across governmental levels (Ocheni, 2015; Ojong et al., 2016). Entrepreneurs report paying similar taxes to state and local governments, facing demands for levies that duplicate existing tax obligations, and experiencing disputes between tax authorities claiming jurisdiction over the same revenue base (Okoye et al., 2012; Salihu et al., 2015).

Tax multiplicity, involving numerous different taxes, levies, and fees imposed by various authorities, creates substantial compliance burdens distinct from but compounding the multiple taxation problem (Etim & Jeremiah, 2016; World Bank, 2022). Nigerian businesses face over 48 different tax types across federal, state, and local levels, each with distinct filing requirements, payment procedures, and deadlines (Akintoye et al., 2020; PricewaterhouseCoopers, 2023). Entrepreneurs must track and remit dozens of separate tax obligations including company income tax, education tax, value-added tax, withholding taxes on multiple transaction types, business premises fees, development levies, signage permits, waste management charges, and numerous sector-specific fees (Federal Inland Revenue Service, 2023; Nwokoye& Rolle, 2021). This complexity consumes administrative resources that could be deployed more productively, with compliance costs particularly burdensome for small enterprises lacking dedicated accounting staff (Eichfelder& Vaillancourt, 2014; Lignier& Evans, 2012). Research examining small business compliance costs in Nigeria found that tax-related activities consume between 15-30% of owner-manager time for micro and small enterprises, representing a substantial opportunity cost (Ojeka et al., 2019; Oladele et al., 2022). When compliance costs are high relative to business size and profitability, entrepreneurs may choose informality or business closure over continued formal operation (Coolidge, 2012; Dabla-Norris et al., 2017).

The cumulative burden of multiple taxes can be particularly severe, with total tax rates as a percentage of commercial profits exceeding 50% in some sectors according to World Bank calculations (World Bank, 2022, 2023). This burden includes not only federal corporate income tax at 30% but also education tax at 2%, technology levy at 1% for qualifying companies, VAT at 7.5%, various withholding taxes, and numerous state and local levies that collectively impose obligations far exceeding headline corporate tax rates (Akintoye et al., 2020; Sennuga et al., 2021). Addressing this challenge requires clearer delineation of tax powers through constitutional clarification or legislative action, harmonization of levies across governmental levels, and rationalization of the total number of distinct tax obligations (Ocheni, 2015; Udefuna et al., 2023).

### **Administrative Inefficiency and Corruption**

Tax administration quality significantly affects how entrepreneurs experience fiscal policies, with inefficiencies and corruption creating obstacles distinct from statutory tax burdens (Coolidge, 2012; Mascagni et al., 2021). In Nigeria, administrative inefficiencies including slow processing of registrations, delayed issuance of tax clearance certificates, extended periods for refund processing, and cumbersome procedures for claiming incentives create significant obstacles for entrepreneurs (Ojeka et al., 2019; Omodero&Dandago, 2019). Delayed VAT refunds for exporters and businesses making zero-rated supplies tie up working capital that enterprises need for operations, effectively increasing the cost of taxation beyond statutory rates (Akintoye et al., 2020; Salihu et al., 2015).

Corruption within tax administration manifests through demands for unofficial payments, selective enforcement based on personal relationships or bribes, and arbitrary assessments designed to create negotiation opportunities (Alm et al., 2016; Ojeka et al., 2019). Entrepreneurs report that tax officials sometimes demand bribes to process legitimate claims, assess taxes below actual liability in exchange for personal payments, or threaten harsh enforcement to extract unofficial compensation (Omodero&Dandago, 2019; Salihu et al., 2015). These practices increase the effective tax burden beyond statutory rates, create uncertainty about actual tax obligations, and undermine confidence in the tax system's fairness and legitimacy (Alm & Torgler, 2011; Feld & Frey, 2007).

Empirical research specifically examining Nigerian entrepreneurs found that corruption perception significantly reduces tax morale and compliance intentions, with effects particularly pronounced among small and medium enterprises that lack resources to manage corrupt demands (Ojeka et al., 2019; Oladele et al., 2022). Studies using experimental and survey methods demonstrate that entrepreneurs express substantially higher willingness to comply when they perceive tax administration as transparent, fair, and free from corruption (Ali et al., 2014; Cyan et al., 2016). The harassment of taxpayers by multiple tax authorities, common in Nigeria's multi-tiered system, further erodes compliance willingness and drives entrepreneurs toward informality as a defensive strategy (Omodero&Dandago, 2019; Udefuna et al., 2023).

The lack of transparency in tax assessment and collection processes exacerbates corruption problems by creating information asymmetries that officials can exploit (Best et al., 2015; Pomeranz, 2015). When entrepreneurs cannot easily determine their correct tax liability through clear formulas or online calculators, cannot track their payments and credits through accessible systems, or cannot challenge unjust assessments through transparent procedures, opportunities for official discretion and corruption multiply (Mascagni et al., 2021; Okunogbe& Pouliquen, 2022). Improving administrative quality and transparency through digitalization, clear procedural guidelines, accessible taxpayer services, and robust accountability mechanisms represents a critical need for enhancing the entrepreneurial tax environment (Brockmeyer & Hernandez, 2019; Santoro & Fisman, 2019).

### **Complexity and Compliance Costs**

Nigeria's tax system presents substantial complexity challenges for entrepreneurs that extend beyond the multiplicity of taxes to encompass unclear regulations, frequent changes, and inadequate guidance (Akintoye et al., 2020; World Bank, 2022). Understanding obligations across multiple tax types, governmental levels, and changing regulations requires expertise that many small businesses cannot afford, forcing entrepreneurs to either engage expensive tax professionals or risk non-compliance through ignorance (Eichfelder& Vaillancourt, 2014; Lignier& Evans, 2012). The costs of maintaining adequate records, preparing returns in various formats, and engaging tax professionals can be prohibitive for startups and micro-enterprises operating on limited budgets (Coolidge, 2012; Ojeka et al., 2019).

Frequent changes in tax laws and rates create additional complexity by requiring entrepreneurs to continuously update their understanding of obligations and adjust accounting systems accordingly (Baker et al., 2016; Oladele et al., 2022). Nigeria has experienced numerous tax policy changes in recent years, including VAT rate increases from 5% to 7.5% in 2020, introduction of the technology levy, modifications to pioneer status incentives, and various state-level changes in business levies (Federal Inland Revenue Service, 2023; Udefuna et al., 2023). When changes are announced with minimal notice, inadequate implementation guidance, or

inconsistent interpretation across tax offices, compliance becomes even more challenging and uncertainty increases (Mas-Montserrat et al., 2023; Nwokoye & Rolle, 2021).

The lack of simplified tax regimes specifically designed for micro and small enterprises compounds these difficulties by subjecting all businesses to similar compliance requirements regardless of size or capacity (Keen, 2012; Loeprick, 2009). While some relief provisions exist through reduced rates for small companies, they do not fundamentally simplify the tax system for small-scale entrepreneurs who must still maintain detailed accounting records, prepare complex returns, and navigate multiple tax obligations (Egbunike et al., 2018; Ojeka et al., 2019). Many developing countries have implemented presumptive tax regimes that estimate tax liability based on simple indicators such as turnover, number of employees, or business location rather than detailed financial accounting, dramatically reducing compliance burdens for small businesses (Brockmeyer & Hernandez, 2019; Coolidge, 2012).

Nigeria's limited progress in this direction leaves many entrepreneurs struggling with compliance requirements designed for large corporations with professional accounting departments (Akintoye et al., 2020; Omodero & Dandago, 2019). International evidence demonstrates that simplified regimes can increase formalization, improve compliance, and free entrepreneurial resources for productive activities rather than administrative tasks (Bruhn & Loeprick, 2016; Mascagni, 2018). The design of such regimes requires balancing simplicity against revenue adequacy and equity concerns, with successful examples typically involving turnover-based taxation, single annual payments, and clear eligibility thresholds (Keen, 2012; Loeprick, 2009).

### **Limited Awareness and Tax Education**

Many Nigerian entrepreneurs lack adequate knowledge about their tax obligations, available incentives, and compliance procedures, creating an information deficit that increases effective compliance costs and reduces utilization of beneficial provisions (Oladele et al., 2022; Salihu et al., 2015). This knowledge gap stems from limited tax education efforts, inadequate outreach by tax authorities, low levels of formal business education among entrepreneurs, and complexity in tax regulations that makes self-education difficult (Ojeka et al., 2019; Udefuna et al., 2023). Consequently, entrepreneurs may fail to claim legitimate deductions and incentives, overpay taxes through ignorance of applicable relief provisions, or inadvertently violate tax regulations through misunderstanding of requirements (Akintoye et al., 2020; Omodero & Dandago, 2019).

The complexity of tax laws makes self-education particularly challenging for entrepreneurs without professional assistance or formal accounting training (Eichfelder & Vaillancourt, 2014; Lignier & Evans, 2012). Tax authority websites and publications are often inaccessible to entrepreneurs with limited internet connectivity, unclear in their guidance for non-specialists, or outdated in their information about current requirements and procedures (Federal Inland Revenue Service, 2023; Nwokoye & Rolle, 2021). When information is available, it may not be disseminated in formats accessible to entrepreneurs with limited formal education, non-English language preferences, or minimal technology access (Mascagni et al., 2021; Oladele et al., 2022). Research examining tax literacy interventions in developing countries demonstrates that targeted education programs can significantly improve compliance, increase utilization of beneficial provisions, and enhance perceptions of tax system fairness (Coolidge, 2012; Mascagni, 2018). Effective approaches include simplified guidance materials in multiple languages and formats, workshops and seminars tailored to specific business sectors or sizes, integration of tax education into business registration processes, and partnerships with business associations and entrepreneurship support organizations for information dissemination (Brockmeyer &

Hernandez, 2019; Prichard et al., 2019).

Nigeria's tax authorities have made some efforts toward improved taxpayer education, including online resources, occasional workshops, and help desks, but these remain insufficient relative to needs and are often concentrated in major urban centers (Federal Inland Revenue Service, 2023; Ojeka et al., 2019). Expanding and systematizing tax education through dedicated programs, user-friendly online tools including calculators and video tutorials, mobile-based information services, and proactive outreach to newly registered businesses could significantly improve entrepreneurial understanding of tax obligations and opportunities (Mascagni et al., 2021; Okunogbe & Pouliquen, 2022).

### **Inconsistent Policy Implementation and Uncertainty**

Tax policy inconsistency creates significant uncertainty for entrepreneurs engaged in long-term planning and investment, with unpredictable changes altering the economic viability of business decisions (Baker et al., 2016; Mas-Montserrat et al., 2023). In Nigeria, policy reversals, frequent modifications to tax rates and incentives, and inconsistent application of regulations have created skepticism among entrepreneurs about the stability of the fiscal environment (Oladele et al., 2022; Udefuna et al., 2023). Examples include the sudden VAT rate increase in 2020 without adequate consultation or transition period, changes in pioneer status eligibility criteria that affected businesses with pending applications, and state-level modifications to business levies implemented with minimal notice (Akintoye et al., 2020; Nwokoye & Rolle, 2021).

The gap between formal tax policies and actual implementation represents another consistency challenge that undermines confidence in the system (Mascagni et al., 2021; Omodero & Dandago, 2019). Tax incentives may be formally available but practically inaccessible due to administrative obstacles, lack of implementation guidelines, or unofficial requirements not specified in regulations (Akintoye et al., 2020; Sennuga et al., 2021). Similarly, enforcement may be selective, with some entrepreneurs facing aggressive collection while others operate with minimal oversight, creating perceptions of unfairness and uncertainty about likely treatment (Alm et al., 2016; Ojeka et al., 2019).

Political transitions and changes in government leadership often bring shifts in tax policy priorities and implementation approaches, with new administrations sometimes reversing previous reforms or introducing conflicting initiatives (Nwokoye & Rolle, 2021; Udefuna et al., 2023). While democratic governance inevitably involves some policy evolution reflecting changing electoral mandates, excessive volatility in the tax environment imposes costs on entrepreneurs who must repeatedly adjust to new rules and priorities (Julio & Yook, 2012; Nguyen et al., 2017). Research examining policy uncertainty effects demonstrates significant negative impacts on firm investment, with entrepreneurs delaying capital commitments, maintaining excess precautionary reserves, or abandoning long-term projects when facing high policy volatility (Baker et al., 2016; Bloom et al., 2007).

Improving policy stability and predictability requires institutional mechanisms including medium-term tax policy frameworks that outline intended changes over multi-year periods, mandatory impact assessments and stakeholder consultations before significant reforms, adequate transition periods allowing adjustment to new requirements, and grandfathering provisions protecting existing investments from retroactive changes (Mas-Montserrat et al., 2023; OECD, 2021). International best practices emphasize the importance of transparent, consultative processes for tax policy formulation that balance the legitimate need for policy evolution against entrepreneurs' requirements for stability and predictability in planning

environments (Boadway & Tremblay, 2016; Keen & Slemrod, 2017).

### **Conclusion**

Tax policies exert profound influences on entrepreneurship development in Nigeria, shaping decisions about business formation, growth trajectories, sustainability, and innovation through multiple interconnected mechanisms. While Nigeria's tax system includes various provisions intended to support entrepreneurship, including reduced rates for small companies, investment incentives, and sector-specific relief programs, significant challenges persist that undermine these objectives. The analysis demonstrates that multiple taxation across governmental levels, administrative inefficiencies and corruption, compliance complexity consuming substantial entrepreneurial resources, limited awareness of obligations and opportunities, and policy inconsistency creating planning uncertainty collectively create an environment that discourages business formation, constrains growth, threatens sustainability, and diverts resources from productive activities including innovation.

These obstacles hinder entrepreneurial potential and contribute to the large informal sector, estimated at over 60% of GDP, that characterizes the Nigerian economy and limits its developmental trajectory. The evidence synthesized in this paper demonstrates that tax policy impacts on entrepreneurship operate through multiple channels including direct effects on after-tax returns and investment incentives, indirect effects through compliance costs and administrative burdens, and broader influences through policy uncertainty, institutional quality, and the fiscal exchange between taxpayers and government. Understanding these multifaceted relationships is essential for designing tax reforms that optimize the balance between revenue generation and entrepreneurial development, recognizing that these objectives need not conflict when policies are well-designed and effectively implemented.

International experiences from Rwanda, Ghana, Kenya, and other developing countries demonstrate that successful tax system reforms supporting entrepreneurship while maintaining or improving revenue collection are feasible even in resource-constrained settings. Key elements of successful reforms include simplification of tax structures to reduce compliance burdens, digitalization of processes to enhance efficiency and reduce corruption opportunities, improved taxpayer services emphasizing support over punishment, targeted incentive provisions addressing specific market failures rather than providing blanket subsidies, and enhanced administrative capacity and integrity through institutional development and technology deployment. These lessons provide valuable guidance for Nigeria's reform efforts, though adaptation to local institutional contexts and political economy constraints remains necessary.

The eight recommendations proposed in this paper address fundamental challenges in Nigeria's tax system through comprehensive reforms spanning tax structure consolidation, simplified regimes for small businesses, comprehensive digitalization, enhanced taxpayer services and education, rationalized incentives, institutionalized policy stability, strengthened anti-corruption measures, and competitive overall tax burdens. Implementation of these recommendations would create a more conducive fiscal environment for entrepreneurship, potentially accelerating business formation, encouraging growth investment, enhancing survival rates, and facilitating formalization of currently informal enterprises. However, reform success depends critically on sustained political commitment at all governmental levels, adequate resource allocation for implementation particularly of digital systems and taxpayer education programs, genuine engagement with entrepreneurial stakeholders to ensure reforms address actual obstacles rather than perceived problems, and coordination across federal, state, and local authorities to achieve



harmonization and eliminate multiple taxation.

Future research should examine the causal impacts of specific tax policy changes on entrepreneurial outcomes through rigorous quantitative methods including randomized controlled trials, difference-in-differences analyses exploiting policy variations across states or time, and instrumental variables approaches addressing endogeneity concerns, exploring heterogeneous effects across sectors, regions, and business sizes to inform more nuanced policy design. Longitudinal studies tracking entrepreneurs over extended periods would enhance understanding of how tax policies affect business trajectories from formation through growth stages to maturity or exit. Additionally, investigation of the political economy dimensions of tax reform, including the interests and incentives shaping policy decisions, power dynamics between governmental levels competing for revenue, and the influence of elite capture on incentive design, would enhance understanding of reform feasibility and implementation challenges.

Qualitative research employing in-depth interviews and case studies could provide richer insights into entrepreneurial decision-making processes regarding formalization, compliance strategies, and responses to specific tax provisions. Comparative studies examining variation in tax policies and entrepreneurial outcomes across Nigerian states, which exercise considerable autonomy in tax administration and business environment policies, could identify best practices and effective reform approaches adaptable to federal and local contexts. Experimental studies testing the effectiveness of different taxpayer education approaches, digital service delivery models, or incentive structures through controlled trials would provide evidence for optimizing specific interventions.

Ultimately, optimizing tax policies for entrepreneurship development represents one critical component of broader efforts to create an enabling environment for private sector growth in Nigeria. Tax policy reforms alone cannot overcome all obstacles entrepreneurs face, including inadequate infrastructure with unreliable electricity affecting manufacturing competitiveness, limited access to finance with credit-to-GDP ratios below 15% constraining investment, regulatory complexity beyond taxation including business registration and licensing requirements,

security challenges disrupting operations in conflict-affected regions, and human capital deficits limiting managerial and technical capabilities. However, when combined with complementary reforms addressing these infrastructure, financial, regulatory, security, and skills development challenges, improved tax policies can contribute significantly to realizing Nigeria's substantial entrepreneurial potential.

The Nigerian government's commitment to economic diversification away from oil dependence, as articulated in the Economic Recovery and Growth Plan and subsequent policy documents, necessarily requires a thriving entrepreneurial sector capable of generating employment, driving innovation, and competing in both domestic and international markets. Creating a tax environment that facilitates rather than frustrates entrepreneurial ambitions represents an essential foundation for this transformation, with potential benefits extending beyond immediate revenue considerations to encompass sustainable economic development, poverty reduction through job creation, and enhanced resilience against commodity price shocks.

The path forward requires moving beyond rhetoric about entrepreneurship support to concrete policy actions grounded in evidence about what actually works in developing country contexts. International experience demonstrates that meaningful tax reform is politically challenging, requiring coalition-building across governmental levels and societal groups, management of resistance from officials benefiting from current systems, and sustained commitment through

implementation difficulties. However, the potential payoffs in terms of enhanced entrepreneurial dynamism, increased formalization, improved revenue mobilization, and accelerated economic transformation justify the political investment required.

Nigeria stands at a critical juncture where demographic pressures from a rapidly growing youth population, economic challenges from oil sector volatility, and global technological changes creating new opportunities demand fundamental transformation of the economic structure. Entrepreneurship, properly supported through conducive policies including but not limited to taxation, represents the most promising pathway toward inclusive, sustainable development that generates opportunities for the millions of young Nigerians entering the labor market annually. The evidence and recommendations presented in this paper provide a roadmap for tax policy reform that, if implemented with commitment and coordination, can significantly enhance Nigeria's entrepreneurial ecosystem and contribute to the nation's developmental aspirations.

### **Recommendations**

Based on the comprehensive analysis of tax policy impacts on entrepreneurship development in Nigeria, the following eight recommendations are proposed to optimize the fiscal environment for entrepreneurial growth while maintaining revenue adequacy:

1. The Nigerian government should consolidate and harmonize the multiplicity of taxes across federal, state, and local levels by establishing clear constitutional or legislative delineation of tax powers, eliminating duplicative levies through inter-governmental coordination mechanisms, and creating a unified framework that reduces the cumulative tax burden on entrepreneurs from over 48 different obligations to a manageable number while maintaining adequate revenue generation for all governmental tiers through improved efficiency and broader tax bases.
2. Tax authorities should implement a simplified presumptive tax regime specifically designed for micro and small enterprises with annual turnover below ₦100 million, using easily verifiable business indicators such as turnover bands, location, sector, and number of employees to determine tax liability rather than requiring detailed financial accounting, thereby dramatically reducing compliance costs currently consuming 15-30% of owner-manager time and encouraging formalization among the estimated 65% of economic activity currently operating informally.
3. The Federal Inland Revenue Service and State Internal Revenue Services should accelerate comprehensive digitalization of all tax processes including registration, filing, assessment, payment, and refunds through development of user-friendly online platforms and mobile applications that provide automated calculation tools, clear multilingual guidance, transparent payment and refund tracking, and integration with mobile money systems, thereby reducing compliance time from current levels exceeding 368 hours annually, minimizing opportunities for corruption and arbitrary treatment, and improving administrative efficiency in revenue collection.
4. Government should establish dedicated taxpayer support services specifically tailored to entrepreneurs and small businesses, including toll-free helplines staffed by trained advisors, physical business development centers in commercial hubs offering free consultation, and comprehensive online resources providing clear, accessible information about tax obligations

in multiple languages and formats, supplemented by systematic tax education programs integrated into business registration processes, entrepreneurship training initiatives, and partnerships with business associations to ensure all new entrepreneurs receive foundational tax literacy instruction.

5. Nigerian tax authorities should conduct comprehensive, independent evaluations of all existing tax incentives including pioneer status, investment allowances, sector-specific relief provisions, and special economic zone benefits to determine their effectiveness in achieving developmental objectives measured by additionality of investment, employment generation, and technology transfer, eliminating underperforming provisions that primarily benefit large corporations or create revenue losses without commensurate developmental impact while enhancing and expanding successful incentives that genuinely support entrepreneurship, innovation, and economic diversification, with particular focus on ensuring that small and medium enterprises can practically access relevant incentives through simplified application procedures and reduced documentary requirements.
6. The government should institutionalize tax policy stability through adoption of rolling medium-term tax policy frameworks covering three to five-year periods that outline intended changes and allow entrepreneurs to plan with confidence, requirement of thorough regulatory impact assessments examining effects on different business sizes and sectors before implementing significant reforms, mandatory public consultation processes involving business associations and entrepreneurship support organizations in policy formulation, provision of adequate transition periods of at least twelve months for adjusting to new requirements, and implementation of clear grandfathering provisions protecting existing business investments from retroactive policy changes that could undermine their economic viability.
7. Anti-corruption measures within tax administration should be strengthened through implementation of transparent, rule-based assessment and collection procedures that minimize official discretion, establishment of accessible complaint and dispute resolution mechanisms including online portals for grievance submission and tracking, deployment of technology systems for automated assessment that reduce face-to-face interactions creating corruption opportunities, regular auditing of tax personnel by independent anti-corruption agencies with public reporting of findings, rotation of tax officials to prevent development of corrupt relationships with specific taxpayers, enforcement of strict penalties including dismissal and prosecution for corrupt practices, and protection of whistleblowers who report misconduct, thereby rebuilding entrepreneur trust in the tax system's fairness and improving voluntary compliance.
8. The Nigerian government should review the overall tax rate structure to ensure that the combined burden from all applicable taxes remains competitive with comparable economies including Ghana, Kenya, South Africa, and Rwanda while remaining sustainable for businesses at different growth stages, potentially reducing the corporate income tax rate for companies with turnover below ₦25 million from 20% to 15% and raising the eligibility threshold to ₦50 million to reflect inflation since rates were established, adjusting VAT treatment to exempt or zero-rate essential business inputs including equipment and raw

materials to reduce cost cascading effects, eliminating particularly distortionary levies including multiple business premises fees and redundant sectoral charges that disproportionately affect entrepreneurial ventures, while maintaining fiscal sustainability through broader tax bases achieved by improved formalization rates, enhanced collection efficiency through digitalization, and reduction of exemptions and special treatment for politically connected large corporations.

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