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Effects of multiple taxation on the survival of businesses in grand cape mount county, Republic of Liberia

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Abstract

This researches to identify the effects of multiple taxation on the survival of Businesses in Grand Cape mount county, Republic of Liberia.

In Liberia, Businesses have been an avenue of job creation and the empowerment of Liberians Specifically in Grand cape Mount County, providing about 95 % of all jobs in grand cape mount and also for local capital formation. However, the mortality rate of these Businesses is very high. Among the triggering and dynamic factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxation to enormous tax burdens. The study also seeks to examine effects of multiple taxation on the survival of Businesses in Grand Cape mount county, Republic of Liberia. The study involves a survey research design with a population of 50. The researchers derived their sample size to arrive at 74 and a self-administered questionnaire was used to collect data. This data was quantitatively analyzed with simple percentages and the research hypotheses were tested with ANOVA. Findings revealed that multiple taxation has negative effect on Business survival and the relationship between business size and its ability to pay taxes is significant. The research therefore, recommends that the government of Liberia should provide uniform tax policies that will favor the development of businesses in grand cape Mount County and government should put into consideration the size of businesses when formulating tax policies.

Keywords: Multiple Taxations, Businesses, Mortality, Growth

1. Introduction

1.1 Background

The objective of this study is to establish effects of multiple taxation on the survival of Businesses in Grand Cape mount county, Republic of Liberia, Specifically enterprises in Grand County Republic of Liberia. This study involves a survey research design with a population of 50. The researchers derived their sample size to arrive at 74 and a self-administered questionnaire was used to collect data. This data was quantitatively analyzed with simple percentages and the research hypotheses were tested with ANOVA.

The desire to build a civilized country with a strong and sound economy is the desire of every country, including The Republic of Liberia. Taxes should be done voluntarily and should not be a burden to the people by the government on the people. Even though the money that comes from taxation is very important to the government. The Liberian tax system has undergone significant changes in recent times. Under current Liberian laws, taxation is enforced by two tiers of the government, i.e. The Liberia Revenue Authority (L.R.A), and the ministry of finance and development planning (MFDP). Around 2012 the government of Liberia created the Liberia Revenue Authority for assessing, enforcing, and collecting the taxes on behalf of the government. It was also created to revenue growth.

Before its creation, the Ministry of Finance and development Planning was called the Ministry of Finance and it was responsible for tax policies and the collection of revenue. Enterprises are often recognized as important players of economic success because Liberia is trying to recover from 14 years civil crises. In the Republic of Liberia, the importance of small Enterprises as a creator of jobs, particularly for those with low skills level, Should be widely recognized Small enterprises contribute mostly to country's gross domestic product GDP. Over the last few years the growth of Small business organization employment has exceeded the growth in their contribution to the GDP. Regulations and tax policies are reported to be one of the constraints to the expansion of small enterprises in Liberia and internationally.

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However, these enterprises like any other business in Liberia, are liable to different types of taxes and these include income tax, which is known as the 4% and 2% tax, withholding tax, which is known as the salary and wages tax, corporation tax, capital gain tax, sales tax, customs duties, & tax incentives which that are paid at different stages of the business. Taxation plays an important role in the development of every economy, as well as the growth of small business organizations, in a middle income country like Liberia, the role of small Enterprises, is critical pushing

the social economic development agenda, of the country further. Businesses are require to pay various types of taxes as seen in Table 1. In 2017, the policy for Businesses in Grand Cape Mount County was very good and transparent. But with the change of regime in 2018, the taxes attached to each Business in 2018 was very high, which is a major problem for Business in Grand cape Mount County. But the change of policy in 2018 didn't affect the ordinary employees and higher class employees salary and wages.

Table 1: Income tax rate applied for small enterprises in Montserrado County

	Salary or Revenue (LRD\$)	Tax Rate
Business Income	5000000 ~ 10000000	40%
Ordinary Employees	< 20000	15%
	20000 ~ 70000	0
Middle & Higher Class Employees	< 200000	30%
	200000 ~ 800000	60%
Source: Liberia revenue authority		

Ordinary employees that makes a monthly salary or 70,000 Liberian dollars and below, they are not allow to pay tax. For other employees who have a monthly salary above 70,000 to 200,000 Liberian dollars, they are to pay 15% tax of their monthly salary and also for middle and higher class employees such as manager, bosses, who makes a monthly salary from 200,000 they are to pay 30% tax, and for middle and higher class employees who make a salary above 800,000 they are to pay 60%. Smaller enterprises who generate annual Revenue of 5, 000, 000 Liberian dollars, to

10,000,000 Liberian dollars, they are also entitle to pay 40% tax to the government. Which is a hug burden on their growth and survival. According to the Liberia Revenue Authority, small enterprises are classified according to their revenue generated annually. As seen in the table below, in 2017 small enterprises had good revenue generation as compare to 2018. This is because of the policy change and the high tax rate change on incentives to grow of small enterprises which begin in 2018.

Table 2: Revenue generated annually in 2017 & 2018 by small enterprises.

Names of Small Enterprises	Year 2018-Annual Revenue in LRD\$	Year 2017 Annual Revenue LRD\$
Reo international	\$83,21,233	\$90,33,32
Trust West Coast Liberia Ltd.	\$75,081,20	\$1,505,844
LAG Fashion (Lib.), Inc.	\$83,456.00	\$100,900
YAEHD Services.	\$ 83,21,23	\$945,436
Sliver Heritage Incorporated.	\$ 67,43,21	\$88,23,10
International Scrap Incorporation	\$70,000.00	\$90,000.00
Triumph Scrap Trading Company	\$45,077.00	\$76,077.00
Business Alliance Network.	\$956,666.00	\$100,000.00
Zion Furniture & Hardware.	\$324,441.22	\$856,444.00
A.K.B Import & Export Inc.	\$666,814.00	\$885,320.56
Quantum Resources Inc.	\$150,445.11	\$863,100.78
Morweh Liberia Limited.	\$100,556.10	\$343,333.70
International Scrap Incorporation	\$445,456.30	\$900,567.33

Currency exchange rate to USD 91.5

Note: 2017 revenue was generated before the regime change, and 2018 revenue was generated under the current regime.

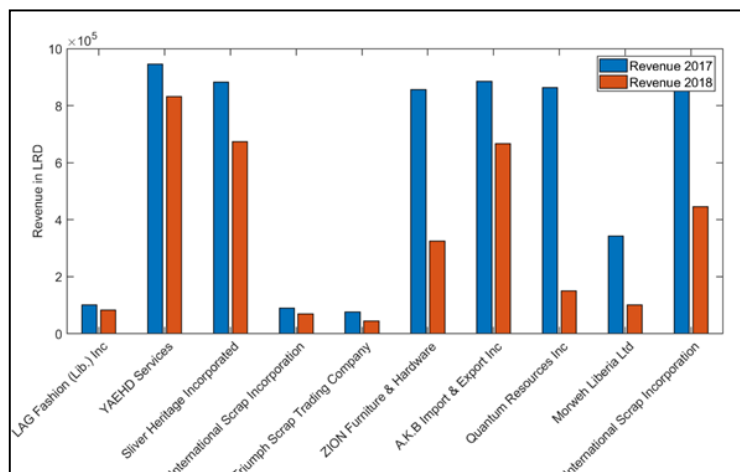


Fig 1: Revenue response to Multiple Taxation on businesses in Grand Cape Mount County.

As you can see in 2017, there was a massive increase in revenue for most of the Businesses as compare to 2018. In 2018 there's a great fall in Business revenue as a result of the policy change and the multiple taxation change which is currently affecting businesses.

1.2 Statement of the Problem

Although there is a general perception that tax is an important source of fund for development of the economy and provision of social services, the problems faced are in the area of negative relationship between taxes and the business' ability to sustain itself and to expand. Businesses are faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Not minding other challenges that Businesses are facing in other developing countries like Liberia, inadequate capital, poor technical and managerial skills, environmental effects and government regulations which affect the operation of Businesses in Liberia, especially this issue of multiple taxation which is a worm eating deeply and the large chunk of revenues generated by these Businesses for their growth and survival. These have led to increase in record of dearth of Businesses.

1.3 Research Questions

To achieve the objectives of the study, the researcher was guided by the following set of questions;

- 1) What is the relationship between multiple taxation and SMEs survival in Grand Cape mount County
- 2) Does the size and ability of Businesses to pay tax affect their survival?

1.4 Objectives of the Study

Taxation is to help government to grow, increase investments and attract investors to a country. A good taxation system are meant to encourage Enterprises/ investors and individuals to engage in behavior that is socially responsible and or benefits the community. This enhances the Enterprise performance and hence economic growth. Enterprise that qualify enjoy good taxation policy that will make them able to save and invest their money leading to increased profitability and growth. Business are faced with the problem of Multiple taxation in which in turns affect their revenue and performance. The objective of granting taxation to business is to enhance government growth and development, thus contributing to the overall economic development of the country. But multiple taxation is more of a burden, therefore, there is the need to proffer solutions to our institutions to benefit from tax savings. Oguma (1995) did a study in the relationship between tax rate and Multiple taxation on Businesses the study found that taxation measures were used to stimulate Enterprises growth and performance. Obertson (2011) examined the effect of the multiple taxation on the overall performance of registered small Enterprises in nimba county, Liberia. It was discovered that multiple taxation affects the Business growth and does significantly affect the profitability of staff strength and the growth and development of enterprises. From other studies being done, none of the studies known to the researcher have investigated the effect of multiple taxation on business survival in Grand cape mount county.

1.5 Statement of Hypotheses

The following research hypotheses were developed in order to properly address the problems of the study. These

hypotheses were stated in Null form as follows:

- (i) Ho1: There is no significant relationship between multiple taxation and Business survival.
- (ii) Ho2: The relationship between business size and its ability to pay taxes does not significantly affect their survival.

2. Conceptual Issues

The Liberian taxation systems for small enterprises consist of two major structures, the income tax, and the tax incentive payment according to its types, which are illustrated subsequently. Income tax for businesses are determined based on the revenue reported or surveyed. Since it is seldom precise or trustful, and in the meantime understandable for the small enterprises to survive, the reported income or revenue are in principle only partially accepted for accounting the income tax quantity. But in addition, on top of the income tax, businesses are obligated to pay the "incentive taxes" according to its tax incentive types. For example, if a Business reports or is surveyed to have an income of A, income tax rate is r1, and its obligatory incentive tax is r2, the total tax due will be:

$$\text{Tax} = \text{Income tax} + \text{Incentive taxes} = A * r1 * (1 + r2)$$

Where A is the reported or surveyed income or revenue, r1 is the income tax rate, r2 is the incentive tax rate. Such a taxation system is now in actual practice in the area of Grand cape mount County in Liberia where the author of the thesis was a previous employee of the local taxation office. Majority of Liberians living in Grand County, survive by Businesses

2.1 Challenges of Businesses

There are a lot of problems that are face by business in Grand Cape mount County which stunt their growth. Although there are some problems peculiar to a particular country, the challenges faced by businesses in different countries and geopolitical divisions are basically the same. For instance, a survey of India business by Organization for Economic Co-operation and Development (OECD) in 2004 showed that they were suffering the consequences of policy inconsistency, poor access to finance, insufficient know-how and low level of technology, and so many others. The same problems were also registered by other authors concerning other regions like the Philippines, Malaysia and other European states and of course in Sub-Saharan Africa-Nigeria inclusive as shown by different authors on the issue. Uzor (2004) believes that the constraints faced by businesses in developing countries are not only accentuated with ineffective policy design, but also by market failures in the region. Their lack of information technology and knowledge of automation is gradually being reduced given that they serve as contractors and or suppliers for larger firms particularly the foreign manufacturing firms. A major difficulty faced by businesses is that of lack of access to short and long term capital. Publication of the Weekly Trust of January 22, 2013 recognizes the fact that collateral based financing has become increasingly difficult for businesses.

whether as existing businesses, in their expansion states or as startups hence more businesses are resorting to viability lending in which case they obtain loans based on the viability of the business and health of cash flow, Banks are usually reluctant to lend to SMEs and this is because of problems such as the businesses inability to meet the bank's lending requirements, promoters 'low education,

management and entrepreneurial skills and poor and unreliable financial records which makes financial review difficult (Aderemi, 2003). There is also the problem of unsound accounting system and lack of full financial disclosure (Janded). Areetey & Ahene, (2004) buttressed this assertion by listing lack of access to land, utility installation and services, and import procedures as constraints to businesses growth. Summarily, these problems make businesses a “high-risk” venture.

3. Research Design

Because this study involves the collection of views, perspectives or opinions of respondents regarding a particular issue, the study employed a survey research method which involves questionnaire, personal interview with respondents and perusal of past records and publications. This choice was made due to the fact that the survey method is effective when it comes to getting opinions, attitudes and descriptions as well as getting cause and effect relationship. The population of the study is fifty (50) businesses in Grand Cape Mont County.

And they are as follow:

Table 3 simple size

$$n = \frac{N}{1 + n(e)^2}$$

Where n = Sample size

N = Population

e = Margin of error (0.05)

Thus, the sample size is:

$$n = \frac{50}{1 + 91(0.05)^2}$$

$$n = \frac{50}{1 + 50(0.0025)^2}$$

n = 74.1344

The sample size consists of seventy four (50) businesses in grand cape mount county, Five (5) copies of questionnaire were distributed to the management staff of each of the sampled businesses in grand cape mount county, giving a total of 370 copies of questionnaire distributed.

Analysis of data refers to those techniques by which the investigator extracts from data or information that was not apparently there before and which would enable a summary description of the subject studied to be made. The information being referred to here is the information that enabled the study to test the research hypotheses. Also the statistical tool of frequency tables and percentages were used to present and analyze data collected and also tested the research hypotheses with the Analysis of Variance (ANOVA). The formula is as shown in the table below:

Table 4: Anova

Source	SS	DF	MS	F- ratio	Remark
Between	SSB	t - 1	SSB/dfB	MSB/MSW	Accept or reject
Within	SSW	N - t	SSW/dfW		
Total	SST	N - 1			

Source: Adefila (2008).

Where:

N= the total number of individual scores in all

Q= the grand total of all the data

t= Number of groups

n= Number of elements or cells in each group

SST =Sum of the square of each of the individual scores in all the groups, subtract Q²/N

$$= \frac{(X^2+X^2+X^2}{1 \quad 2 \quad 3} + \dots + \frac{Z^2+Z^2+Z^2}{3 \quad 4 \quad 5}) - Q^2/N$$

SSB= Square of each group sum, divided by the corresponding

Group (n), then sum all these and subtract Q²/N

$$= \left(\frac{XX^2}{n} + \frac{YY^2}{n} + \frac{ZZ^2}{n} - \frac{Q^2}{N} \right)$$

SSW = the outcome of SST less the outcome of SSB

SSW = SST-SSB

DFB = degree of freedom for “variance between” = t-1

DFT = degree of freedom for total of all the data = N -1

DFW = degree of freedom for “variance within” = dfT – DFB (N - t) Ms = mean square for “variance between” and “variance within”.

Decision Rule

The null hypothesis is rejected if the calculated value of F-ratio i.e. (MSB/MSW) is greater than the critical value of F. i.e. (Ft - 1 N - t) as given in the F distribution table otherwise, it stands accepted.

1. If MSB/MSW > Ft - 1, N - t), then, reject the Null hypothesis
2. If MSB/MSW > Ft - 1, N - t), then, reject the Null hypothesis
3. If MSB/MSW < Ft - 1, N - t) then, reject the Alternate hypothesis

The choice of ANOVA for this research is based on the fact that it determines the extent of variance in dependent variables that are caused by independent variables, also used in comparing the variation in more than two independent samples that are drawn just once from population with the same variance. More so, ANOVA reduces the type 1 error rate (rejecting null hypothesis instead of accepting) thus, the equality of several means can be tested in a single classification, where the relationship between one independent and one dependent variable is examined.

4. Data Presentation and Analysis

The data presented here are those collected from the field survey on the appraisal of the effect of multiple taxations on Business survival in Grand cape mount county Republic of Liberia. The data were collected in response to 370 copies of questionnaire distributed to the management staff of the businesses out of which 350 copies were fully completed and returned. This will be geared towards testing the research hypotheses leading to drawing conclusions and recommendations.

Table 4.1: Does your company pay tax?

Responses	Frequency	Percentage
All the time	181	51%
Most of the time	107	31%
Not in most time	56	16%
Not at all	6	2%
Total	350	100%

Source: Field Survey, 2013.

From table 4.1 above, 181 respondents representing 51% of the total sample size say their company pays tax all the time. 107 respondent representing 31% say most of the time, 56 respondents representing 16% say less of the time while

only 6 of the respondents representing 2% of the sample size say not at all. From the score, we deduced that Businesses in grand cape mount county pay tax all the time given the amount of respondents that stood for it.

Table 4.2: How many agencies do you pay taxes to?

Responses	Frequency	Percentage
Above three	79	23%
Not less than three	152	43%
Above two	74	21%
Not less than two	45	13%
Total	350	100%

Source: Field Survey, 2013.

The table above shows the response rate of how many agencies collects taxes, 79 respondents representing 23% of the sample size say above three, 152 respondents representing 43% say not less than three, 74 respondents

representing 21% say above two, 45 respondents representing 13% say not less than two, From the score, we deduced that at least not less than three agencies collect taxes from small and medium scale enterprises in Benue State

Table 4.3: Multiple Taxations Affects the Growth and Survival of Businesses Negatively in Grand cape mount county republic of Liberia.

Responses	Frequency	Percentage
Strongly agree	90	26%
Agree	220	63%
Disagree	40	11%
Strongly disagree	0	0%
Total	350	100%

Source: Field Survey, 2013

he score on table 4.3 above revealed that multiple taxations affect the growth and survival of businesses in Grand cape mount county, This is based on the opinion of respondents, at least 90 of them representing 26% strongly agree, 220 of the respondents representing 63% also agree while only 40 respondent representing 11% disagree with the statement. Meanwhile, no respondent strongly disagree with the statement.

From table 4.5 above, 90 respondents representing 26% strongly agree that there is a relationship between business sizes and their ability to pay taxes. 141 respondents representing 40% followed by agreeing to it while, 96 respondents representing 27% disagree and 23 respondents representing 7% strongly disagree with the relationship between the sizes of businesses and their ability to pay. From the result; we deduced that the ability of businesses to pay all taxes depends on their sizes, volume of business and level of revenue generation.

Table 4.4: tax Collectors Consider Size of Business

Responses	Frequency	Percentage
Strongly agree	17	9%
Agree	40	11%
Disagree	220	60%
Strongly disagree	73	20%
Total	350	100%

Source: Field Survey, 2013.

From the result on table 4.4 above, 17 respondents representing 9% of the total sample size strongly agree that tax collector considers the size of business for collecting taxes. 40 respondents representing 11% also agree but, 220 respondents representing 60% disagree that tax collectors considers the size of business for collecting taxes while 73 respondents representing 20% strongly disagree. From the score, we deduced that tax collectors do not really look at the sizes of business for tax collection.

Table 4.5: A Relationship between Business Sizes and Ability to Pay Taxes

Responses	Frequency	Percentage
Strongly agree	90	26%
Agree	141	40%
Disagree	96	27%
Strongly disagree	23	7%
Total	350	100%

Source: Field Survey, 2013

4.1 Test of Hypotheses

This section involves the test of the research hypotheses using the analysis of variance (ANOVA). The test is based on the data collected from the field survey on the study. The data is drawn from table 4.1, 4.2, 4.3 for hypothesis 1: and 4.4, 4.5 for hypothesis 2; respectively.

Test of Hypothesis One

Table 4.6: ANOVA Table

Source	SS	Df	MS	FCAL
Between treatment	35938	C-1 = 4-1 =3	11979	
Within treatment	14515	N-C = 12-4 = 8	1814	
Total	50453	11		6.60

Source: Adopted from Questionnaire 2013

Decision Rule

Ftab = df under level of significance F (V1, V2) under 5%, F (3, 5) under 0.05, Standard or critical table value = 4.07 Compare Fcal α Ftab, 6.60 α 4.07, 6.60 > 4.07 Since the calculated F is greater than the critical table value of F which is 4.07, that is, 6.60>4.07, we reject the null

hypothesis and therefore accept the alternative hypothesis at 0.05 level of significance. This means that the relationship between multiple taxation and business survival is significant. Hence, the continuous extortion of monies from business is capable of crippling the survival and growth of businesses in Grand Cape Mount County.

Test of hypothesis two

Table 4.7: Test of ANOVA Table.

Source	SS	Df	MS	FCAL
Between treatment	15392	C-1= 4-1 =3	5131	
Within treatment	16702	N-C=12-4= 8	4176	
Total	32094	11		1.23

Source: Adopted from Questionnaire 2013

Decision Rule

$F_{tab} = df$ under level of significance, $F(V1,V2)$ under 5%, $F(3,5)$ under 0.05,
 Critical table value = 4.07 Compare F_{cal} α F_{tab} , α 4.07, $1.23 < 4.07$

From the ANOVA test statistics above, F_{cal} is lesser than F_{tab} . That is, $1.23 < 4.07$. We therefore accept the null hypothesis (H_0) and therefore reject the alternative hypothesis (H_1) at 0.05 level of significance. The implication of this decision is that the relationship between the size of SMEs and ability to pay taxes does not significantly affect their survival. This means that despite the continuous taxing of businesses by tax agencies, businesses continue to survive irrespective of the revenue generated by the business.

5. Summary of Findings

Summary of findings for this research is based on the analysis of data collected through questionnaire and testing of hypotheses. These findings are:

That all the businesses in grand cape mount county pay taxes to government all the time.

That multiple taxation affects businesses growth and survival negatively.

That tax collectors do not consider the size of a particular business in tax collection.

That the relationship between the size of businesses and ability to pay taxes does not significantly affect their survival. This means that despite the continuous taxing of businesses by tax agencies, businesses continue to survive.

5.1 Conclusions

The study examine the effect of multiple taxation on the survival of businesses in Grand cape mount county, republic of Liberia. From all literatures reviewed, the researchers deduced that the development and operation of businesses has economic impact on the nation. The researchers established relationships between businesses sizes and their ability to pay taxes; multiple taxations and businesses survival. The researchers therefore conclude that multiple taxations affect the survival and growth of businesses in Montserrado County. Order to make compliance easier for them.

This includes clear and simple tax regulations, and an undemanding tax filing process. The use of information technology should be encouraged.

ii. Tax administrators should carry out their duties more efficiently with the most care and integrity as this will help

combat issues such as multiple taxes.

- i. Tax administrators should improve their support services towards businesses for example, small business owners should be educated on issues such as taxes they are expected to pay and the incentives and Exemptions they are eligible for.

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