Taxation and Economic Freedom: The Impact of Tax Increases on Small and Medium Enterprises in Kantin Kwari Market

By: Mustapha Kameel Aboki

Next Advocates Liberty of Project Research Fellow
Ahmadu Bello University, Zaria

Executive Summary

This research examines the relationship between taxation and economic freedom with particular focus on the effects of tax increment on Small and Medium Enterprises (SMEs) in Nigeria, using Kantin Kwari Market in Kano as a case study. SMEs are widely recognised as the backbone of economic development due to their contributions to employment generation, innovation, and poverty reduction. However, their growth and sustainability are significantly influenced by government policies, especially taxation. While taxation remains a necessary tool for revenue generation and the provision of public goods, excessive or poorly structured tax systems can undermine entrepreneurial freedom, reduce investment incentives, and hinder business expansion. This study critically evaluates the Nigerian tax regime, particularly recent reforms, and their implications on SMEs. It adopts a free market analytical framework rooted in classical economic theories, which advocate minimal government interference in economic activities. The findings reveal that increased tax rates, multiple taxation, and complex compliance requirements impose heavy burdens on SMEs, thereby limiting their capacity for growth and innovation. The study further establishes that such tax policies are inconsistent with the principles of economic freedom and free market systems. Comparative insights from low-tax jurisdictions demonstrate that reduced tax burdens can attract investment and stimulate economic growth. The research concludes that for Nigeria to achieve sustainable economic development, tax policies must be restructured to promote fairness, simplicity, and entrepreneurial liberty. Practical policy recommendations are therefore provided to ensure a more business-friendly environment that supports SMEs and aligns with free market principles.

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Introduction

Small and Medium Enterprises (SMEs) are widely regarded as critical drivers of economic growth and development across both developed and developing economies. They play a vital role in job creation, innovation, and poverty reduction, while also contributing significantly to national income. In Nigeria, SMEs constitute a substantial proportion of the private sector and are instrumental in promoting economic diversification and resilience. Despite their importance, SMEs face numerous challenges, particularly in relation to government policies and regulatory frameworks. One of the most significant of these challenges is taxation. Taxation forms a fundamental part of any economic system as it provides governments with the revenue necessary to deliver public goods such as infrastructure, healthcare, and security. However, the manner in which tax policies are designed and implemented has far-reaching implications for business operations and economic freedom. In many developing countries, including Nigeria, SMEs often operate within a complex and burdensome tax environment characterised by multiple taxation, high rates, and administrative inefficiencies. These challenges are further compounded by the lack of clarity and predictability in tax regulations. The relationship between taxation and business performance has long been debated, with some arguing that taxation promotes development while others contend that excessive taxation stifles economic activity. In practice, high tax rates tend to reduce incentives for investment and expansion, while lower tax rates encourage growth and innovation. This study, therefore, seeks to examine how tax increments affect SMEs in Nigeria, using Kantin Kwari Market in Kano as a case study, and to evaluate whether existing tax policies support or hinder economic freedom.

Background and Context

This research examines the effects of tax increments on Small and Medium Enterprises (SMEs) in Nigeria, with a specific focus on the Kantin Kwari Market in Kano. Before 2020, Nigeria maintained the Value Added Tax (VAT) at a maximum rate of 5%. However, the 2020 tax

legislation increased the VAT rate to 7.5%, directly inflating production costs and indirectly raising product prices.

While Nigeria legally operates a mixed economic system, wherein both the government and private enterprises actively participate in the economy, successful outcomes require government policies that actively favour and support private sector growth. The Nigerian Tax Act of 2025 revolutionised the economic landscape but introduced significant systemic challenges. For instance, the Act established a rigid computation system that remains inaccessible to the average businessperson. Such complexity hinders ideal economic development; in an economy where individuals drive business activities, global policies must remain balanced rather than one-sided.

The overall impact of this new tax regime suggests a deceleration of economic development and an increase in unnecessary government interference regarding individual economic freedom. In Kantin Kwari, a hub dominated by numerous small and medium enterprises, the consequences of this fiscal shift are profound and far-reaching.

Problem of the Statement

Small businesses in Nigeria often operate within a complex tax environment characterised by multiple taxes, regulatory levies, and administrative burdens. These financial obligations can increase operational costs, reduce profitability, and discourage business expansion. Although recent reforms aim to simplify taxation and protect small businesses, traders in traditional markets frequently report that tax burdens remain significant. In commercial centres such as Kantin Kwari Market, traders may face financial obligations imposed by federal, state, and local authorities simultaneously. Such conditions raise important questions about whether existing tax policies support the principles of a free market economy or create barriers to entrepreneurial activity. Understanding the real impact of tax increments on SMEs is therefore necessary in order to evaluate whether Nigeria's fiscal policies promote economic freedom and market growth.

Objectives of the Study

This particular research aimed to achieve the following objectives:

- To examine the relationship between taxation and economic freedom in Nigeria.
- To specifically identify the taxes imposed on SMEs in Kantin Kwari Market.

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- To analyse the effects of tax increments on business profitability and growth,
- To evaluate whether recent tax reforms support entrepreneurial freedom
- State the position of a free market-based system and make comparisons with non-free market systems.
- To recommend policy measures that encourage sustainable development.

Theoretical/Analytical Framework

This research is guided by the free market principles advanced by Adam Smith, who argued that economic prosperity emerges when individuals are free to pursue their economic interests within a competitive market system. The study also draws from the ideas of Friedrich Hayek, who emphasised that decentralised market systems are more efficient than centralised economic control because they allow individuals to respond to local information and opportunities. From this perspective, excessive government intervention, including heavy taxation, may distort incentives, reduce productivity, and limit entrepreneurial initiative. These theories provide a useful framework for examining how taxation policies influence the functioning of markets and the freedom of individuals to engage in economic activities.

To make it more interesting, I adopted an analytical and doctrinal system in analysing the problems while interacting with the subject of this research. Recourse is equally made to policy-oriented research, and the facts are critically analysed on the principles of economic freedom and free market system ideologies.

The Pro-Freedom Argument:

An Overview of the Kantin Kwari Market

Kantin Kwari Market, located within the Fagge Local Government Area of Kano State, stands as one of the largest textile trading hubs in Africa. As a densely populated commercial centre, it contributes significantly to the internally generated revenue (IGR) of Kano State. While the market represents a vital engine for economic development, the sustainability of this growth is contingent upon a structured and transparent fiscal framework.

Despite the enactment of the Kano State and Local Government Revenue Administration (Consolidation & Codification) Law of 2021 and the establishment of the Joint Tax Board in 2025 under the Nigeria Tax Administration Act (2025), both intended to harmonise revenue collection and eliminate redundant local government taxes, field interactions indicate that multiple taxation remains prevalent. Shop owners report a significant disconnect between these legislative reforms and the daily operational reality of the market.

Adamu Dahiru (Dan Kaduna), CEO of Dan Kaduna Textiles, highlights the complexities and frustrations associated with the current tax regime in Kantin Kwari. His experience outlines a multi-layered and often informal collection process:

1. State Government Levies: The state government typically issues a notice period of one to two months. Traders may settle these obligations individually or through collective group payments. Dahiru notes that the final amount often involves a negotiation process with revenue collectors, typically ranging from N20,000 to N50,000 annually. Official receipts are issued upon payment.

2. Local Government Obligations: Parallel to state requirements, the local government enforces its own notice and payment cycle. These levies, designated for sanitation and shop rates, generally total approximately N50,000 per annum. Traders receive separate documentation and receipts for these payments.

3. Informal and Overlapping Levies: Beyond statutory government taxes, traders face a revolving door of additional demands:

- **Market Union Levies**: Individuals claiming to represent the market union frequently solicit funds, asserting their office operates independently of the market's Managing Director.
- **Management Charges:** Separate collectors representing the office of the Managing Director of Kwari Market often demand additional fees specifically for security and sanitation, despite these services being cited in local government levies.

- **Shop Ownership Fees**: Failure to pay shop ownership fees results in the immediate sealing of premises. While research clarifies that these are private property lease payments rather than government taxes, the timing and enforcement of these fees add to the financial burden of the traders.

The cumulative weight of these various taxes and "negotiated" levies significantly erodes the profit margins of Small and Medium Enterprises (SMEs). Consequently, many business owners have opted to liquidate or abandon their businesses entirely, while others adopt evasion tactics, such as operating for limited hours or on specific days to avoid encounters with revenue agents.

This environment of “unjustifiable taxation” creates a paradox: while the market remains a high-revenue zone for the government, the lack of a streamlined, transparent collection system threatens the long-term viability of the very businesses that fuel the state's economy.

Economic Freedom and the Fiscal Fate of Kantin Kwari Market

Economic freedom entails the ability of individuals to engage in production, trade, and investment with minimal government interference, governed primarily by rules that protect property rights and maintain order (Investopedia, 2023). In a free market, decentralised decisions driven by supply and demand promote efficiency and innovation (Corporate Finance Institute, 2019). Adam Smith (1776) argued that individuals pursuing self-interest unintentionally promote the societal good through an "invisible hand." In Kano, private entrepreneurs frequently fund public projects and social works, supporting Smith’s assertion that a less controlled economy fosters collective support for societal betterment. Conversely, Friedrich Hayek (1945) emphasised that centralised control is counterproductive because knowledge in society is dispersed. Consequently, excessive government intervention through heavy taxation and regulatory complexity disrupts market signals and distorts incentives.

The previous overview of Kantin Kwari Market revealed a complex tax structure involving federal, state, and local governments. In the Nigerian context, this multifaceted tax regime presents significant challenges to free-market ideals. While certain provisions appear to favour small companies through exemptions, the broader structure burdens the medium and large

enterprises that form the backbone of the market's supply chain. Most SMEs in Kantin Kwari operate on a systematic loan scheme, taking goods on credit from larger firms. When the government increases Company Income Tax (CIT) for larger firms, these entities pass the costs down through increased prices. This indirect taxation undermines the sustainability of SMEs, restricting their ability to reinvest and expand (Ojeka, 2012).

The current tax regime has led to a documented economic contraction within the market. Over 100 SMEs closed due to initial tax hikes, and more than 500 businesses have since collapsed entirely. Furthermore, surveys indicate that over 1,000 small business owners currently face challenges that put them at the brink of collapse. Unlike previous years when foreign investors frequented the market daily, investment rates have plummeted following the implementation of the new tax reforms. This decline illustrates how an unstable and heavy tax burden erodes confidence and discourages both domestic and foreign capital.

The tax framework in Kantin Kwari creates several artificial hindrances that contradict the principle of equal opportunity. Classifying companies into varying tax brackets introduces inequality, creating artificial advantages that stifle natural competition. Additionally, the complexity of Nigerian tax laws imposes significant compliance burdens on SMEs. Over 60% of Kantin Kwari business owners lack advanced arithmetic or technical skills; therefore, the technicalities of the current tax system create a prominent hindrance to growth. This complexity encourages entrepreneurs to remain in the informal sector to avoid regulatory pressure, which ultimately shrinks the formal tax base and undermines government revenue objectives.

The overlapping demands from different government levels lead to double or triple taxation, violating the principles of fairness and transparency. In a true free market system, taxation should remain simple and proportionate to ensure it does not stifle innovation. The analysis demonstrates that the current tax regime in Kantin Kwari is unfavourable for economic development. The weight of these taxes stifles the "invisible hand," preventing private individuals from contributing to the societal good as Adam Smith envisioned. To achieve a viable economic atmosphere, the government must adopt a pro-freedom approach by minimising interference, reducing rates, and simplifying compliance. Shifting from the current burdensome

system to one that promotes hard work and healthy competition is essential to prevent further enterprise collapse and ensure long-term societal well-being.

Comparative Case Study of Low-Tax Jurisdictions and Economic Magnetism

Low-tax countries consistently attract expatriates and business owners because domestic and foreign investors prioritise retaining a higher percentage of their earnings to facilitate reinvestment. This phenomenon exemplifies the impact of a free-market economy. As of 2026, several nations remain global leaders in tax competitiveness:

The United Arab Emirates (UAE)

The UAE frequently ranks as the nation with the lowest tax rates globally, serving as a magnet for entrepreneurs, investors, and remote professionals. The fiscal framework includes a 0% personal income tax rate and a standard 5% Value Added Tax (VAT). Regarding corporate taxation, the UAE applies a 0% rate on taxable income up to AED 375,000, with a modest 9% rate applicable only to income exceeding that threshold. Furthermore, the implementation of Federal Decree Law No. 16 of 2025 and Cabinet Decision No. 142 of 2024 recently reduced VAT and streamlined tax legislation. These reforms simplified the legal context of taxation, allowing the economy to thrive and maintain its appeal to foreign investors.

Bahamas and Switzerland

The Bahamas maintains a highly competitive environment with 0% personal income tax and 0% Value Added Tax (VAT). Similarly, Switzerland continues to attract global capital by maintaining exceptionally low and flexible tax rates across its various cantons.

8.1 Local Implications for Kantin Kwari Market

Nigeria can derive critical lessons from these international models. Interactions with Small and Medium Enterprise (SME) owners in Kantin Kwari Market reveal that the Tax Act of 2025 has triggered adverse shifts. Traders report changing their initial business models or facing higher operational costs, posing an imminent threat to their long-term growth and development.

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Policy Recommendations for Kantin Kwari Market

Based on the findings of this research and the identified challenges facing the textile hub, the following recommendations are proposed to restore the market's economic viability:

1. Establishment of a Market-Specific Tax Enlightenment Body: The state should establish a specialised body dedicated to educating Kantin Kwari traders on tax-related matters. This body must provide guidance in local languages to bridge the literacy gap, ensuring traders understand their obligations and rights without needing advanced technical arithmetic.

2. Creation of an Independent Accountability Institution: To foster trust, an independent oversight body should be established to monitor how the government utilises revenue generated from Kantin Kwari. This commission would hold authorities accountable, ensuring that tax proceeds directly fund market infrastructure, such as improved security, drainage, and electricity.

3. Drastic Reduction of Multi-Layered Tax Rates: Authorities must drastically reduce the rates for Company Income Tax (CIT), Personal Income Tax, and Value Added Tax (VAT) applicable to market activities. Consolidating these into a single, transparent payment would eliminate the current "multiplicity of taxes" and allow SMEs to retain more profit for reinvestment.

Conclusion:

This study evaluated the impact of tax increments on Small and Medium Enterprises (SMEs) within the Kantin Kwari Market and the broader Nigerian economic landscape. The findings demonstrate that excessive taxation and complex regulatory frameworks negatively affect business growth, profitability, and long-term sustainability. While taxation remains a fundamental instrument for national development, the government must strike a balance to prevent the discouragement of vital economic activity. As SMEs serve as a primary engine for Nigeria's economy, their success depends entirely on a supportive and stable policy environment.

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Ultimately, a strategic shift toward simplified, equitable, and transparent tax policies will enhance economic freedom, incentivise domestic and foreign investment, and foster sustainable development. Implementing these reforms is essential to ensuring that the fiscal system supports, rather than stifles, the entrepreneurial spirit of the Kantin Kwari Market.

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