



# The Impacts of Multiple Taxation and Para-Fiscality on Financial Performance of Small and Medium Enterprises in Tanzania

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## Abstract

Small and Medium Enterprises (SMEs) are the backbone of economies globally, contributing considerably to employment, economic growth, and poverty reduction. However, SMEs face high failure rates due to limited access to finance, complex regulatory environment, low level of managerial and business skills, multiple taxation and para-fiscal taxes. Therefore, this study intends to assess the impact of multiple taxation and para-fiscality on the financial performance of SMEs in Tanzania. The study is guided by theoretical underpinning of Ability to Pay and Institutional Theories. The research was conducted in Arusha, Dodoma and Dar es Salaam Regions. The study adopted a descriptive research design and concurrent mixed-methods approach. The target population was all owners/managers of registered SMEs. The sample size was 368 SMEs owners/managers, who were selected proportionate random sampling technique. Also, trade and investment officers of selected regions, and managers of TCCIA in respective regions were purposively selected as key informants. Data were collected through structured questionnaires, interview guide, and documentary analysis. Qualitative data was analysed using thematic analysis, while analysis of quantitative data was carried out using descriptive statistics and inferential statistics based on regression model. The study found that SMEs are highly exposed to multiple taxations and para-fiscal charges to a greater extent and that this situation have detrimental influence on SMEs operations. Moreover, this study found that both multiple taxation and para-fiscality have negative and statistically significant impact on financial performance of SMEs in the study areas. The study concluded that imposition of multiple taxes and para-fiscal charges results into complex and costly compliance procedures and tax burden on SMEs, which eventually shrink SME financial performance. Thus, the study recommended that the TRA establish tax incentives and revisit tax rates and simplify tax compliance rules for SMEs so as to foster SME profitability.

*Keywords:* Multi-taxation, para-fiscality, profitability, small and medium business

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## 1. Introduction

Globally, the Small and Medium Enterprises (SMEs) are the blood and vessels of economies. They constitute more than 99% of all business enterprises globally (Meng, 2022; Downing & Gracia, 2021) and contribute more than 50% of Gross Domestic Product [GDP] (Ajibo, 2023; Botsari, Gvetadze & Lang, 2024) plus employment of greater than 70% of the work force (Ma, Liu & Gao, 2021; Tonya & Samwel, 2025). Regardless of their essential role, SMEs regularly face high failure rates, with research demonstrating about 24.2% of SMEs do not survive the first year (van Dyke, 2025), while 50% of SMEs do not survive past five years (Holom, 2020; Akkartal & Karamik, 2021; Ajibo, 2023), and increases to 65.3% in a tenth year (Werthmuller, 2022; van Dyke, 2025). The failure is attributed to: limited access to finance, complex regulatory environment, low market access and competition, poor technologies, low level of managerial and business skills, multiple taxation, and para-fiscal taxes (Akkartal & Karamik, 2021; Nkouka, 2025; Denanyoh & Owusu, 2025).

In developed countries, research have shown that SMEs are engines for the economies contributing more than 65% of employment and 53% of countries' GDP (Botsari et al., 2024). The failure of SMEs in these countries is less compared to developing countries due to relatively developed markets, infrastructures, friendly regulatory environment, government support, development of human capital and increased access to up-to-date technologies (Clement, 2022). These continual challenges have raised concerns worldwide among policymakers, entrepreneurs and researchers. Therefore, policy makers all over the globe have steered policy consideration in the direction of enhancing SMEs' performance (European Commission [EU], 2021). In Asia, SMEs drive the economies of countries

(Meng, 2022). The Chinese economy grew out of SMEs to unimaginable world class level with heavy industries and first class technology development (Ma et al., 2021).

Similarly, in Africa evidence show that SMEs operate in difficult business environment packed with unfavourable environment such as heavy and multi taxes and lengthy tax compliance procedures (Ndokole, 2023; Ayeerwot, 2024; Musa & Wijayanto, 2024), unfavourable tax policies and laws (Kamar, 2015; Wangeci, 2018; Mwakisha, 2020), low access to financing, low access to improved technologies (Endris & Kassegn, 2021), and lack of managerial and business skills (Ajibo, 2023). Due to these challenges the rate of failure of SMEs is greater than in developed countries. According to Zongo (2024), one of the most disastrous challenge for SMEs in Africa is multiple taxation. Also, Nkouka (2025) has acknowledged the detrimental effects of para-fiscal taxes on performance of SMEs. Despite these myriad challenges, SMEs in Africa play a pivotal role in reducing extreme poverty.

In the same way, SMEs in Tanzania face among others problem of multi taxation and para-fiscality. Due to these challenges SMEs' failure rate is huge, which is estimated around 60% to 70% (Anderson, 2017). Essentially, multiple taxation is the imposition of various taxes and levies by dissimilar levels of government, ranging from national to local authorities, on the same source of income or business activity. The multiple taxation imposed to SMEs include: corporate tax, excise duty and custom duty, environmental taxes, and professional and sectoral fees, property tax, value-added tax (VAT), multiple layers of payroll taxes, various local levies and fees, para-fiscal taxes; and the associated stringent tax regulatory requirements as stipulated in tax policy and laws such as tax compliance procedures and tax return issues (Musa & Wijayanto, 2024; Usmany, 2024; Kanyungu, 2025).

Ideally, tax payment is an obligation to SMEs due to the fact that the tax collected is used by the government for public works, services and betterment of infrastructures in the economy and the welfare of all. While taxation is a fundamental source of government revenue and economic development, excessive tax burdens negatively influence SME's profitability (Ndokole, 2023). Thus, taxation should be guided by fairness. According to Kendrick (1939), when principle of fairness in tax system is violated tax avoidance sets in among taxpayers. Fairness principle should observe the ability to pay. Mwakisha (2020) posit that it is very rational and fair that taxes must be charged on the basis of the taxable capability of a person. The Ability to Pay Theory advocates for SMEs and corporations to bear tax amount that is an equal proportion to their incomes. That SMEs ought not be exposed to the equal intensity of taxation as larger companies and multi-national corporations.

Contrary to theoretical underpinning of Ability to Pay theory, in Tanzania SMEs are exposed to same level of tax as larger enterprises. To SMEs this is considered as an excessive taxing given their size in terms of capital and income (Musa & Wijayanto, 2024). The multiple taxation and para-fiscality can cause greater tax burden to SMEs, which can lead into reduced profitability due to high cost of doing business (Kelly, Nkondo & Zindiye, 2022; Cordier & Bade, 2023; Usmany, 2024). Para-fiscality is all compulsory deductions made for the benefit of the public organisms (other than local entities) on the income of their users or their nationals. These taxes do not completely follow the rules of tax legislation with regard to their creation, determination of the base, tax rate and collection course of action. Para-fiscality is justified by the fact that the State has multiple costs to cover; it relieves itself of the financing of certain works and services by agreeing to the organisations doing the works or providing services to finance themselves using user fees (Lyser, Smith-Roberts, Turyahikayo & Ngendakuriyo, 2021).

Typically, para-fiscal revenues are collected and used by the beneficiaries themselves, outside of the regular budgetary system. This form of taxation is not a part of the official tax system and lacks consistent and clear guidelines that would apply to all its components. In conceptual terms, para-fiscal taxes differ from fiscal taxes mainly because their objective is not primarily to generate public revenues to cover expenses made for the general welfare, rather, para-fiscal taxes are intended to secure financing and income for specific entities and activities. Para-fiscal levies are also distinct from compulsory fiscal levies in that they are not subject to administration and utilisation in accordance with fiscal and budgetary laws. As such, we can say that para-fiscal taxation can be abused for the benefit of local authorities for the purposes of fraud, theft and personal enrichment to the detriment of taxpayers (Roş & Livădariu, 2023).

Para-fiscal charges have received severe criticism from both the business community and experts (Nkouka, 2025). These charges which include agricultural levies, environmental fees, regulatory professional fees, waste management fees, parking fees and other fees charged for services provided by public entities like judicial stamp duties have been described as rotten, uncontrollable, unrestricted, unproductive, and irregular (Roş & Livădariu, 2023; Nkouka, 2025; Benoit, 2025). The multi taxation and para-fiscal taxes increase operational costs, thus redirecting resources away from core business activities thereby reducing SMEs' profitability (Ayeerwot, 2024; Nkouka, 2025). Despite these myriad challenges, SMEs in Africa play a pivotal role in reducing extreme poverty. The imposition of multiple taxes has been a long-standing concern for SMEs, as they increases operational costs, reduces profit margins, and hinders growth and competitiveness (Musa & Wijayanto, 2024). The excessive taxes hurt the resources and cash flow of newly established SMEs, making it difficult for them to carry on operations past the initial years (David, 2020; Ndokole, 2023).

The multiple taxes dictate higher prices of goods and services from SMEs, thereby discouraging consumers and thus impacting SMEs operations (Mwakisha, 2020). Moreover, numerous taxes create many compliance requirements and procedures that increases compliance costs, which can results into non-compliance risks that leads to SMEs being charged penalties. The bureaucratic red tapes in tax compliance, tax returns and its associated costs in Tanzania consume a considerable portion of SME resources, limiting their ability to realize profits, grow and sustain their

operations (Madatta & Chen, 2020; Magasha, Gillo & Alex, 2025). Thus, entrepreneurs and business persons alike, are complaining about the existence of multi fiscal taxation and para-fiscal taxes that businesses face especially SMEs. Therefore, it is important to understand how these taxes and para-fiscal levies are administered in Tanzania and their impact on financial performance of SMEs.

To address SMEs failure and improve their growth and development, the government of United Republic of Tanzania (URT) introduced various reforms such as tax holidays, reduced tax rates, tax credits, simplified tax compliance procedures and exemptions or reductions of withholding tax (Magasha et al., 2025; Kanyungu, 2025). Moreover, the government implemented Electronic Fiscal Devices (EFDs) with the aim to simplify declaration and filling of tax returns in order to encourage tax compliance (Chindengwike, 2024). Despite these efforts, SMEs failure continue to be high and SMEs are struggling with excessive tax burdens (Musa & Wijayanto, 2024) and complex compliance procedures and its associated costs (Chindengwike, 2024).

Therefore, due the importance of SMEs, numerous previous studies (Locken, 2017; Anderson, 2017; Mwakisha, 2020; Madatta & Chen, 2020; Mafie, 2020; Musa & Wijayanto, 2024) have been conducted in Tanzania to understand the way tax regimes can be improved to reflect the conditions in which SMEs' operate, and eventually enhance their performance. However, the focus of these studies was on taxes such as direct and indirect taxes, local levies and fees, tax rates but did not focus on corporate tax, excise duty, custom duty, and para-fiscal taxes such as sectoral fees, environmental taxes, and social security contributions. Regarding tax compliance, focus of past studies (Ndokole, 2023; Abjadi, Wiketye & Mpogole, 2023; Magasha et al., 2025) is on determinant of tax compliance among SMEs but not its impact on SMEs' performance. Therefore, a research gap exist specifically on the effect of para-fiscality on the financial performance of SMEs in Tanzania.

The study was conducted in Arusha, Dar es Salaam and Dodoma Cities. In these Cities, entrepreneurs and business persons have constantly been complaining about how multiple taxation and para-fiscality affect profitability of their businesses (Danga, Chongela & Kaudunde, 2019). There are evidence showing that profitability of SMEs in the Cities is affected by multiple taxation and para-fiscality to the greater extent (Mayiku, 2015; Mafie, 2020; Nyabakora, Mnada & Samanga, 2022). However, there is lack of empirical evidence to officiate the extent multiple taxation and para-fiscality affects SMEs' financial performance. This suggests the existence of literature and knowledge gaps regarding the link between multiple taxation, para-fiscality and profitability of SMEs in the Cities. Therefore, these gaps warranted for the undertaking of this study. Therefore, in order to fill the existing gaps, this study examined the impacts of multiple taxations on financial performance of SMEs; and assessed the impacts of para-fiscal taxes on the financial performance of SMEs.

## **2. Literature Review**

### **2.1. Theoretical Review**

#### **2.1.1. Ability to Pay Theory**

The Ability to Pay Theory was developed by Mill (1848). The Theory proposes a universally acknowledged principle of fairness or equity in taxation that people in a country have to pay taxes to the government in proportion to their respective abilities to pay. The Theory asserts that taxes must be charged by consideration the taxable capacity of concerning person. This is supported by Kendrick (1939) who proposed that money for public have to come from the one who have more instead from the one who have not.

The economists have agreed to which ought be the precise factors to determine an individual's ability to pay. They considered three viewpoints of ability to pay namely, Ownership of Property, Expenditure and Income. However, ownership of the property was at dismissed right away due to the fact that an individual who generate a large income could not spend the income on purchasing any property, and thus avoid paying tax (David, 2020). The view of tax on bases of expenditure was seen unstable and inequitable. However, the view of income as the base for taxation was accepted by most economists on the ground that if an individual has larger the income than the other, asking him/her to contribute (pay) more for government expenditure than the lower income earners is just. Worldwide, modern tax regime of different nations have acknowledged income as the base for measuring the ability to pay is incredibly equitable and fair. According to Pigou (1929), the equality or fairness in taxation is based on the proportion of individual's income, not in the amount of tax. Thus, the tax paid by taxpayers have to be an equal fraction of incomes they earn. Thus, in a view of equality, the tax payment of higher income earners must be greater than that of a moderate income earner.

The disadvantage of Ability to Pay Theory is that since high earners pay more tax amount than low income earners, this might lead to disincentive to earn more and impact negatively government expenditure and the economy as a whole. Despite the weakness, Ability to Pay Theory has an advantage of promoting distributive justice in the society and enabling the government to collect more revenues to finance its expenditure since higher income earners contribute more taxes. Therefore, Ability to Pay Theory is relevant to this study as it asks for justice of SMEs as the low to moderate income earners. The theory advocates for SMEs and corporations to bear tax amount that is an equal proportion to their incomes. That SMEs ought not be subjected to the same multiple taxation and higher rates. However, the Ability to Pay Theory do not explain about the complex tax compliance requirements and procedures

SMEs required to navigate through to realise high financial performance. This dictated the need for Institutional theory.

### **2.1.2. Institutional theory**

Though the connection involving tax regulations such as tax compliance and SMEs' profitability has been examined through different theoretical viewpoints, the Institution Theory is found to be more relevant. The Institutional theory postulates that "tax regulations shape the institutional environment in which businesses operate, influencing their strategies and performance outcomes (Chiu, 2019). However, Cordier and Bade (2023) as well as Usmany (2024) have confirmed that tax regulations can restrict or support businesses operations. The binary views suggests the complexity of the effect of tax regulations on operation of SMEs, and it draw attention to the need for empirical research to be undertaken to explicitly explain these effects. The theory's strength lies with its ability to simplify the business environments that SMEs operates and thus resolve uncertainties allowing the SMEs to operate with less hurdles (Webb, Khoury & Hitt, 2020). However, the criticism of the theory is that it assumes the environments businesses operate are stable, which limits its applicability in hastily changing environments (Suddaby, 2010).

Despite the criticism, institutional theory is relevant to this proposed study. In relation to this study, the connection between tax compliance, tax return and financial performance of SMEs was envisaged to create friendlier business environment for SMEs to operate and compete efficiently by complying with national and enterprise internal policies. However, as suggested by Alojnovich (2023), complex tax compliance requirements and procedures, tax compliance cost, penalties of non-compliance and cost of tax return can have a restricting effect on financial performance of SMEs.

## **2.2. Empirical Review**

### **2.2.1. Multiple taxation and financial performance of SMEs'**

Taxation is a fundamental mechanism for financing government operations (Magasha et al., 2025). Too much taxation in the form of multiple taxes, higher tax rates, and tax compliance costs raises SME's cost of doing business (Mutuku, Waweru & Kosgei, 2024). Empirically, multiple taxes, tax compliance costs and higher tax rates have a negative impact on the growth of SMEs (Collins, Noel & Benon, 2025). The burden of higher tax rates can stop the progress of or even reverse the growth of SMEs by lowering profitability (Ndokole, 2023). Empirically, A study conducted by Ayeerwot (2024) investigated the impact of tax policies on the performance of SMEs in Mukono, Uganda. The study focused on the impact of tax rates, tax assessment, tax compliance, and tax incentives on SMEs' financial performance, growth, and sustainability. The findings revealed that high tax rates and complex tax compliance procedures hinder SME growth, while tax incentives and simplification of tax procedures enhance performance. On the contrary, Collins et al. (2025) determined the impacts of tax compliance on the growth of SMEs in Kabale District, Uganda and found that tax compliance possess a significant positive impact on SMEs' financial performance, business growth and sustainability.

David (2020) investigated the impacts of multiple taxation on the survival of businesses in Liberia. The results of the study show that multiple taxation has indirect relationship with business survival and the relationship between business size and its ability to pay taxes is significant. The study highlights the importance of considering size of business in formulating tax policies and regulations, which is in line with the theoretical underpinning of Ability to Pay Theory; the most relevant and widely used theory of tax to guide research on tax matters. Mutuku et al. (2024) investigated the impacts of multiple taxes on the financial performance of manufacturing firms in Kenya, and found that excise duty and customs duty had negative and significant effect on financial performance but corporate tax had no significant effect. Further, Ombati (2021) examined the effect of multiple taxation on the performance of listed manufacturing firms in Kenya. The findings show that corporate tax has positive and significant effect on performance of listed manufacturing firms, but excise duty and custom duty have non-significant effects. In Tanzanian context, Musa and Wijayanto (2024) investigated the outcome of multiple taxation on the survival of small and medium tourism enterprises (SMTEs). The research revealed that SMETs in Zanzibar are exposed to large burden of multiple taxations and very high tax rates, which jeopardises their survival.

Based on the literature, most studies had found a negative impact of multiple taxation on SMEs' performance. Thus, this study hypothesised that; H1: multiple taxation has no positive and statistically significant impact on SMEs' financial performance

### **2.2.2. Para-fiscality and financial performance of SMEs**

Para-fiscality is all compulsory levy imposed by public or private entities on the income of their users or their nationals, regularly on specific service, products, activities, works, or sectors, to fund targeted projects rather than for general government revenue (Roş & Livădariu, 2023; Nkouka (2025). These taxes do not completely follow the rules of tax legislation with regard to their creation, determination of the base, tax rate and collection course of action; and lacks consistent and clear guidelines that would apply to all its components. They have received rigorous

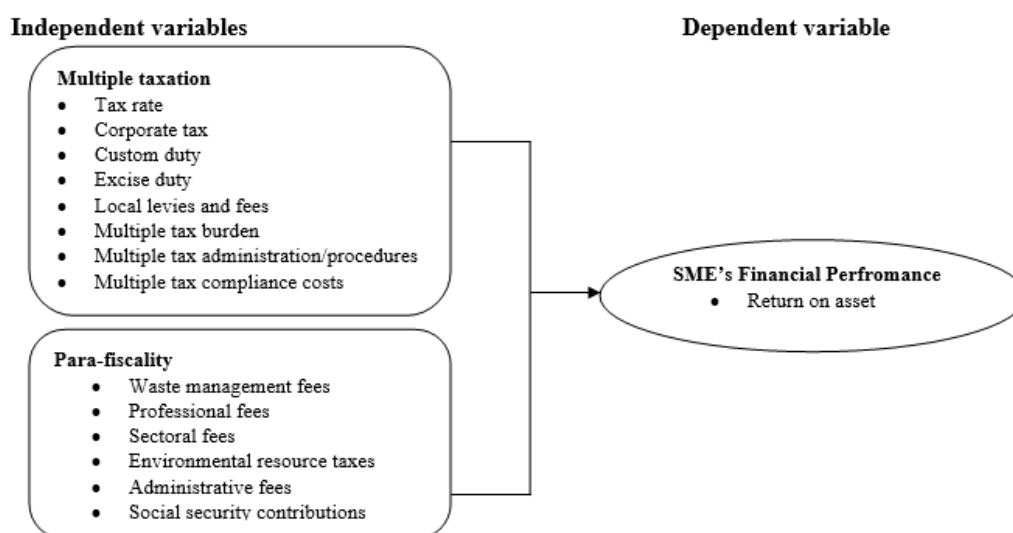
condemnation from businesses (Lyster et al., 2021). However, certain para-fiscal charges have been declared constitutional while others have not. Therefore, it is not, however, possible to make a blanket statement regarding the constitutionality or unconstitutionality of para-fiscal charges as a whole. Despite this, most para-fiscality lack legal backing. Due to the lack of legal oversight, para-fiscal taxation have been abused for personal enrichment to the loss of businesses especially SMEs (Roş & Livădariu, 2023).

Empirical studies (Nkouka, 2025; Benoit 2025) have acknowledged that para-fiscality if not checked can cause SMEs failure especially those dealing with trading, mining, manufacturing, processing, agriculture, exportation, and importation. A study carried out by Nkouka (2025) to analyse the impacts of multiple taxation and para-fiscal charges on the performance of SMEs in Democratic Republic of Congo (DRC) found that para-fiscality and multiple taxation have negative impacts on the performance of SMEs. Also, Benoit (2025) developed a new conceptual Model for Integrating the Informal Sector into the Budget and Gross Domestic Product (MISIB-GDP). In this model the author incorporated para-fiscalities mainly from the activities of SMEs, which were considered informal incomes and thus were not captured in the previous framework, which represented a significant bias and underestimation of DRC's GDP. Due to its importance. Lyster et al. (2021) conducted a comparative analysis of the fiscal regimes and implications for mineral trade of Artisanal and Small-Scale Miners (ASM) of Tin, tungsten, tantalum and gold (3TGs) in Rwanda, Uganda, Burundi and the DRC. The study found that para-fiscality taxes apart from mineral sector, exist in every sector in Congolese supply chain. Also, the study revealed that para-fiscal taxes have negative effects on mineral trade of ASM 3TGs.

So, based on the negative impact of para-fiscal charges that has been confirmed by previous studies on SMEs performance, it was hypothesised that, H2: para-fiscality has no positive and statistical significant impact on SMEs' financial performance

### 2.3. Conceptual Framework

Figure 1 is conceptual framework that maps the expected relationships between multiple taxation and para-fiscal taxes with SMEs' performance. The framework is derived from ability to pay theory and institutional theory. It depicts how independent variables (multiple taxation, and para-fiscal taxes) impacts a dependent variable financial performance of SMEs measured by Return on Asset (ROA). Researchers have reported that multiple taxation can have detrimental effect on financial performance of SMEs (David, 2020; Ombati, 2021; Clement, 2022; Ochie, 2024). Also, para-fiscal taxes have been empirically tested to have positive or negative effects on financial performance of SMEs (Lyster et al., 2021; Nkouka, 2025). These facts are also exemplify by the ability to pay theory as well as institutional theory that multiple taxation are in most cases injurious to SMEs because they have low ability to pay due to low access to financial resources that limits their investment potential and hence income.



**Figure 1:** Conceptual model of multiple-tax, para-fiscality and SMEs' financial performance

## 3. Methodology

### 3.1. Study area, Research Design and Approach

The research was carried out in Arusha, Dar es Salaam and Dodoma Cities. These Cities were purposively selected because of their vast business opportunities for SMEs (Shauri, Magaria & Masanyiwa, 2023; Lunyungu, 2024). Specifically this study was conducted in three Districts namely; Arusha Urban, Ilala and Dodoma Urban. Explanatory research design was employed in this study. This design is appropriate since has the ability to analyse causal-effect relationship among variables. Thus, in this respect explanatory research design was used since the study's main

purpose is to analyse impact of multi taxation and para-fiscality on financial performance of SMEs. The study adopted concurrent mixed-methods approach. This approach was applied since could integrate qualitative and quantitative methods to ensure a full understanding of the topic under investigation. Nevertheless, the quantitative methods dominated the study, with qualitative approach providing the detailed explanations of the quantitative results. In this study quantitative and qualitative methods were applied concurrently or simultaneously during data collection and reporting stages, but differently during data analysis stage.

### **3.2. Target Population, Sample Size and Sampling Procedures**

Since the study intended to analyse effect of multiple tax and para-fiscal charges on the financial performance of SMEs in Tanzania, then the target population in this study was all owners/managers of registered SMEs operating in the selected Cities. These are 3578 SMEs in Arusha (Waziri & Nko, 2023), 2867 SMEs in Dar es Salaam (Minde & Mrindoko, 2024), and 2086 SMEs in Dodoma (Lunyungu, 2024). However, Sampling frame consisted of all SMEs that had been operational for more than two years. This time frame has been proposed because it takes this time for an SME to be able experience the influence of multiple taxes on their profits. In this study the sample size was determined by Yamane's formula because is suitable for survey research (Uakarn, Chaokromthong & Sintao, 2021), and provides accurate sample size (Oluigbo, Ngozi & Ohaegbu, 2024). Moreover, the formula is suitable when most of independent variables are categorical and when a 95% confidence coefficient is applied (Adam, 2020). The sample size obtained was 368 SMEs owners/managers.

This study applied proportionate stratified random sampling to select SMEs in the study areas. The trade and investment officer of selected Cities were requested to provide comprehensive list of registered SMEs, which are currently operational and have been for at least two years. Firstly, SMEs were grouped in three strata based on their regions: Arusha, Dar es Salaam and Dodoma. Then, from each strata SMEs were selected randomly using a random number generator. This ensured an equal representation of each sector. As a result, the sample become unbiased and representative of the entire population. Furthermore, the study purposively selected six key informants: trade and investment officers of three selected regions, and managers of TCCIA in respective regions. Using this method key informants were selected based on the fact that they are well informed and possess good knowledge about the incidence of multiple taxation, para-fiscality plus how these issues can influence profitability of SMEs.

### **3.3. Types of Data and Collection Techniques**

In this study both primary and secondary data were collected. The collection of quantitative primary data was conducted by means of semi-structured questionnaires, while the qualitative data were collected using in-depth interview using interview guide. The secondary data were collected through the analysis of periodic reports, published and unpublished journal articles and bulletins. A semi-structured questionnaire comprised both closed end questions in five point Likert scale and open ended questions, which were in form of numerals either continuous or discrete numbers; and was administered as semi-structured interview.

### **3.4. Operationalisation of Variables**

The dependent variable was financial performance of SME, which was measured using Return on Asset (ROA). This study has two independent variables, namely multiple taxation, and para-fiscal taxes comprising eight and six statements/parameters respectively. All independent variables are categorical variables measured in 5 point Likert scale ranging from 1= Strongly Disagree to 5= Strongly Agree.

### **3.5. Data Analysis**

#### **3.5.1. Qualitative data analysis**

In this study, the qualitative data from in-depth interviews were analysed using thematic analysis. Thematic analysis was employed to analyse qualitative insights on SME experiences regarding multiple taxation. It involves categorizing responses into key themes to interpret patterns and insights. Thematic analysis was carried out for all specific objectives' qualitative data that to provide extra and detailed explanations of the quantitative findings.

#### **3.5.2. Quantitative data analysis**

Quantitative data from questionnaires were analysed using descriptive and inferential statistics. The descriptive statistics assessed the extent multiple tax imposed on SMEs. This was explained by frequency distributions, mean, standard deviation and range. Then, the inferential statistics based on multiple regression analysis was conducted to estimate the impact of multiple tax, and para-fiscal taxes on financial performance of SMEs. Ahead of data analysis, the diagnostic tests were carried out to check for fittingness of data for regression assumptions. The diagnostic tests that were conducted includes; multicollineality, autocorrelation, and heteroskedasticity.

### 3.5.3. The model

The multiple linear regression model (equation 1); was applied in this study.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \quad (1)$$

Where:

- Y = Financial performance of SMEs (ROA)
- X1 = Multiple taxation (MTX)
- X2 = Para-fiscal charges (PFC)
- $\beta_0$  = Constant
- $\beta_1$  to  $\beta_2$  = Regression coefficients of estimates for variables X1 to X2 correspondingly
- $\varepsilon$  = Error term of estimate

### 3.5.4. Reliability

Cronbach's alpha was used to measure reliability. The rule of thumb states that Alpha values above 0.7 symbolize suitable level of internal consistency (Cronbach, 1951). Table 1 shows that the two constructs have Cronbach's Alpha value of above 0.7, hence data were reliable.

**Table 1:** Reliability of Multi Taxation and Para-Fiscality (n=368)

Dimension	Cronbach's Alpha	No. of items
Multiple taxation	0.82	8
Para-fiscal charges	0.80	6

## 4. Results and Discussion

### 4.1. Characteristics of Respondents

The findings in Table 2 show that 53.53% (n=197) of selected managers/owners of SMEs in the study areas were males and 46.47% (n=171) were females. This finding implies that in SMEs sector male entrepreneurs dominate contrary to the popular assertion that SME sector is home of women entrepreneurs. This contradiction could be due to the fact that this study dealt with only registered SMEs; as most women are in informal sector (Chumbula, 2020; Pallangyo, 2021). The overrepresentation of male in this study cannot influence the results and alter the course of this study. Moreover, findings regarding to respondent's age show that 35.6% (n=131) of respondents had the age of 31–40 years followed by the respondents within the age of 41-50 and then 21-30 years who comprised of 22.55% (n=83) and 20.92% (n=77) respectively. The highest age group (60+ years) consisted of only 8.42% (n=31) of all sampled respondents. The average age was recorded at 43 years, where the lowest was 23 years old and the highest was 72 years. This suggests that most of managers/owners of SMEs are in the active age. Based on this age range the respondents were able to provided correct and accurate responses to the questions asked by a researcher.

**Table 2:** Demographic Characteristics of Respondents (n=368)

Variable/parameter	Measurement	Frequency	Percentage
Sex	Male	197	53.53
	Female	171	46.47
Age	21-30 Years	77	20.92
	31-40 Years	131	35.6
	41-50 Years	83	22.55
	51-60 Years	46	12.5
	60+ Years	31	8.42
Business experience	0-5 Years	44	11.96
	>5-10 Years	142	38.59
	>10-20 Years	113	30.71
	20 + Years	69	18.75
Education	Primary	77	30.92
	Secondary	93	25.27
	Certificate	78	21.2
	Diploma	63	17.12
	Bachelor	38	10.33
	Masters	19	5.16

In case of business experience of managers/owners of SMEs, the results in Table 2 demonstrate that the majority of respondents 38.59% (n=142) had experience of more than five years to 10 years, followed by those with experience of more than 10 years to 20 years who were 30.71% (n=113). Those who have more than twenty years experience in managing business were 18.75% (n=69); and those who have worked for less than five years were 11.96% (n=44). The implication of this is that managers/owners of SMEs in Tanzania have high experience managing their businesses. Thus, we consider they provided the study with accurate data. Furthermore, managers/owners of SMEs were asked to give the level of education that they have attained so far. The findings in Table 2 demonstrate that majority of managers/owners 30.92% (n=77) had primary school education, followed by those with secondary education (25.27%; n=93), certificate (21.2%; n=78), diploma (17.12%; n=63), Bachelor degree (10.33%; n=38) and lastly those with Masters degrees (5.16%; n=19). The results suggest that managers/owners of SMEs have moderate education and thus knowledge and skills regarding business management. However, their knowledge was enough for them to provide relevant data to this study.

## 4.2. Descriptive Results

### 4.2.1. The extent of multiple taxation

The findings in Table 3 indicate that, parameter 'our firm pays income/corporate tax that is not proportionate to profit made for that period' scored the greater mean 4.28 (SD=0.6831: Range 2-5), which is in the scale of strongly agree. The parameter has small diversions which fall not far from the mean of the data set, on average. This finding implies that managers/owners of SMEs in Arusha, Dar es Salaam and Dodoma have strongly agreed that SMEs pay income tax that is not proportionate to profit they make in those periods. Thus, this result suggest that SMEs are exposed to taxes that they don't have ability to pay. Moreover, items 'our company lack the ability to pay excise duty to the government because it is related with our income', 'the custom duty paid by our enterprise is greater or disproportional to the value of imported goods', 'taxes constantly exert serious burden on the operations of the enterprise' and 'the tax rate are very high that have adverse effect on our company's profitability' scored mean greater than 4 (M>4.00). It implies that managers/owners have to a greater extent agreed that SMEs are exposed to: excise duty, custom duty, tax rate, and faces high tax compliance costs; and that they are detrimental for SMEs financial profitability.

**Table 3: Mean Standard Deviation for Multiple Taxation (n=368)**

Parameter	N	Min.	Max.	Mean	Std. Deviation
Our firm pays income/corporate tax that is not proportionate to profit made for that period	368	2	5	4.28	0.6831
Our company lack the ability to pay excise duty to the government because it is related with our income	368	1	5	4.03	0.8219
The custom duty paid by our enterprise is greater or disproportional to the value of imported goods	368	2	5	4.14	0.7329
Taxes constantly exert serious burden on the operations of the enterprise	368	2	5	4.16	0.8026
The cost of tax compliance is huge due to multiple taxation	368	2	5	4.22	0.7001
Local levies and fees paid by our company have adverse effect on company's operations	368	1	5	3.86	0.8498
The tax rate are very high that have adverse effect on our company's profitability	368	1	5	4.01	0.8032
Our enterprise cannot navigate safely through a lot and complex tax compliance procedures	368	1	5	3.78	0.8604
Overall	368	2	5	4.06	0.6854

Moreover, overall mean of multiple taxation is 4.06 (SD=0.6854; Range 2-5) suggesting that multiple taxes are imposed to SMEs in Arusha, Dar es Salaam and Dodoma Cities in particular and Tanzania in general; and that the taxes impede the operations of SMEs by adding cost of doing business and hence lower financial performance of SMEs. The findings corroborates with Ochie (2024) who found that multiple taxation exert serious burden on financial performance of pharmaceutical company in the short and long run; and that the taxes does not create favourable business environment for company operations. Similarly, Ombati (2021) found that SMEs often encounter tax burden that affects their business operations and entrepreneurial activity in general. Also, Ayeerwot (2024) revealed that high tax rates and complex tax compliance procedures hinder SME growth.

### 4.2.2. The extent of para-fiscal charges

Table 4 illustrate that the mean scores of all parameters of para-fiscal charges are greater than 3 but less that 4 (M>3.00) implying that respondents agreed that SMEs are exposed to para-fiscal charges such as environmental fee, waste management fees, professional fees and sectoral fees. Moreover, the standard deviation for every item is very small, and thus does not deviate much away from the mean of the data set, on average. The item 'the enterprise pay

solid and liquid waste disposal fee that is in harmony with the firm's ability to pay' has the highest mean of 3.97, and very little deviation from population mean, on average (SD=0.7168; Range 1-5). Accordingly, the overall mean score of para-fiscality is 3.78 (SD=0.8353; Range 1-5) implying that managers/owners of SMEs have agreed that SMEs in Arusha, Dar es Salaam and Dodoma Cities in particular and Tanzania in general are highly exposed to para-fiscal charges that exert very heavy load on SMEs' operations. The findings corroborates with Nkouka (2025) who found that ASMs are highly exposed to para-fiscal charges in DRC. Also, Lyster et al. (2021) found that apart from ASM, also SMEs of other sectors are highly exposed and affected by para-fiscality in DRC. Similarly, Roş & Livădariu (2023) reported similar results in Romania.

**Table 4: Mean and Standard Deviation for Para-Fiscality (n=368)**

Parameter	N	Min.	Max.	Mean	Std. Deviation
Our company pay the state environment protection agency fees that is not harmful to the firm's financial stability	368	1	5	3.94	0.7243
The enterprise pay solid and liquid waste disposal fee that is in harmony with the firm's ability to pay	368	1	5	3.97	0.7168
We pay administrative fees to government agencies for different services and we are happy with it	368	1	5	3.68	0.9271
The enterprise is ok paying fees to professional bodies because does not harm its operations	368	1	5	3.48	0.9758
For every employee the company pays social security contributions	368	1	5	3.76	0.8476
There is fee paid by all actors in our sector and our company always oblige to it since it is within capacity	368	1	5	3.86	0.8202
Overall	368	1	5	3.78	0.8353

### 4.3. Regression Results

In addition to descriptive analysis, the study conducted multiple regression to determine the relationship between multiple taxation, para-fiscal charges and SME's financial performance. Table 5 indicates very high correlation (R=0.75) suggesting that our model accurately predicts relationship between multiple taxation, para-fiscal charges with SME's financial performance. The R-Square (0.56) implies that predictor variables in this model explain 56% of outcome variable. Adjusted R square indicates that the model fit well. Also, the model is significant F(2, 366)=238.55,  $p$  (.000), highlighting that the model is a good fit of the data. Moreover, the findings in the Table 5 indicate that VIF for all two predictors were <10 and Tolerance >0.1. Based on the threshold that VIF <10 (or Tolerance >0.1) means no multicollinearity, therefore, there was no multicollinearity in the estimated regression model. The standard error of estimate is 0.141. Therefore, the fitted model is:

$$\text{Procurement Performance} = 0.981 - 0.172\text{MTX} - 0.984\text{PFC} + 0.141$$

**Table 5: Regression Results (n=368)**

Variable	Unstandardised $\beta$	Std. Error	Standardised $\beta$	T	$p$ -value	VIF	Tolerance
Constant	0.981	0.231		4.247	0.000		
Multiple taxation	-0.172	0.042	0.203	-4.096	0.000	2.208	0.453
Para-fiscality	-0.984	0.081	0.353	-12.149	0.000	3.205	0.312
R	0.75						
R <sup>2</sup>	0.56						
Adj. R <sup>2</sup>	0.56						
F	238.55						
SSRG	9.542						
SSR	7.209						
SST	16.751						
MSRG	4.771						
MSR	0.02						
Sig ( $p$ )	0.000						
SE	0.142						
Df1	2						
Df2	366						

a. Dependent Variable: SMEs financial performance (Return of Asset)

b. Predictors: (Constant), Multiple Taxation, Para-Fiscal Charges

Furthermore, the results of the regression model demonstrate that, multiple taxation entities has negative and statistically significant relationship with financial performance of SMEs ( $\beta=-0.172$ ,  $t=-4.096$ ,  $p=.000$ ). This regression coefficient imply that when other predictors are held constant, increase in taxation by one unit reduces SMEs' financial performance by approximately 17.2%, and this decrease is statistically significant. Thus, the hypotheses H1: multiple taxation has no positive and statistically significant impact on SMEs' financial performance was accepted, suggesting that multiple taxation is determinant of procurement performance. The findings conform to theoretical thinking of Ability to Pay theory, which uncovers that taxes must be charged by consideration the taxable capacity of concerning person. This is supported by Kendrick (1939) who proposed that money for public have to come from the one who have more instead from the one who have not.

The imposition of multiple taxes has been a long-standing concern for SMEs, as they increase operational costs, and reduces profit margins. The excessive taxes erodes financial resources and cash flow of SMEs, making it very complicated for them to conduct their activities. Moreover, numerous taxes create many compliance requirements and procedures that increases compliance costs, which can results into non-compliance risks that leads to SMEs being charged penalties (Kanyungu, 2025). In addition, tax return costs and tax incidence on SMEs can have devastating effect on SME financial performance by drawing out resources that ought to be invested. The finding is in line with David (2020) who found that multiple taxation has indirect relationship with business survival and the relationship between business size and its ability to pay taxes is significant. The study highlights the importance of considering size of business in formulating tax policies and regulations, which is in line with the theoretical underpinning of Ability to Pay Theory; the most relevant and widely used theory of tax to guide research on tax matters. Also, Ombati (2021), Musa and Wijayanto (2024), Mutuku et al. (2024) also found similar results that excise duty and customs duty had negative and significant effect on financial performance but corporate tax had no significant effect.

In case of para-fiscal charges, the results indicate negative and highly significant impact ( $\beta=-0.984$ ,  $t=-12.149$ ,  $p=0.000$ ) with SMEs' financial performance. This implies that one unit increase in para-fiscal charge decreases financial performance of SMEs by 98.4%, and this decrease is statistically significant. As a result, the we fail to reject hypotheses H2: para-fiscality has no positive and statistical significant impact on SMEs' financial performance. The implication of this finding is that, para-fiscal charges reduces financial performance of SMEs by increasing cost of doing business and thus reducing its profitability. For instance in Tanzania road block gate pass fee is extra charge; mostly for agricultural produce; the fee do not have a legal stand, only standing to intimidate small and medium entrepreneurs; reducing their profits. This is why SMEs regularly face high failure rates. The finding is consistent with Ability to Pay theory, which holds that taxes must be charged on the basis of the taxable capability of a person, group or entity. The theory advocates for SMEs and corporations to bear tax amount that is an equal proportion to their ability to pay. That SMEs ought not be exposed to the equal intensity of taxation as larger companies and multi-national corporations.

In Tanzania SMEs are exposed to the same para-fiscal charges as larger enterprises. Para-fiscal charges have received severe criticism worldwide since imposition of majority of them lack legal support and thus are easily abused by those with power. In Romanian authorities have made several attempts to decrease the number of para-fiscal charges, some of them successful, although the less important ones that had no major impact on SMEs financial performance (Roş & Livădariu, 2023). This study has underscored that business firms especially SMEs are exposed to lots of para-fiscal taxes that hinder their success. The results agrees with a study that was conducted by Nkouka (2025) to analyse the impacts of multiple taxation and para-fiscal charges on the performance of SMEs in DRC, and found that para-fiscal charges have negative impacts on the performance of SMEs. Likewise, Lyster et al. (2021) found that parafiscality taxes apart from mineral sector, exist in every sector in Congolese supply chain. Also, the study revealed that para-fiscal taxes have negative effects on mineral trade of ASM 3TGs.

## 5. Conclusion

This study confirms that multiple taxation and para-fiscal charges significantly undermine the financial performance of SMEs. The findings reveal that SMEs are highly exposed to overlapping tax obligations and various para-fiscal levies, which collectively increase operational costs and reduce profitability. These fiscal burdens divert financial resources from productive investments toward compliance and non-productive expenditures, thereby constraining business expansion, innovation, and long-term competitiveness. The complexity and high cost of compliance procedures further intensify the financial strain, limiting SMEs' capacity to reinvest earnings and sustain growth. Overall, excessive and fragmented taxation practices pose substantial barriers to achieving improved financial performance and sustainable development among SMEs.

Based on these findings, it is recommended that governments and relevant tax authorities introduce preferential tax incentives such as tax breaks, deferred tax payments, or reduced tax rates to alleviate financial pressure and stimulate new investments. More business-friendly tax policies, particularly for start-up enterprises, should be implemented through tax holidays or growth-based thresholds that allow businesses to stabilize before bearing full tax obligations. Additionally, simplifying tax compliance procedures is essential to reduce administrative burdens. Strengthening tax education, advisory services, and partnerships with business development agencies can also enhance SMEs' understanding of tax requirements, improve compliance, and foster better growth prospects.

Despite its contributions, this study has certain limitations. The analysis focused solely on the impact of multiple taxation and para-fiscality on financial performance measured by Return on Assets (ROA), which may not comprehensively capture overall business performance. Future research should examine additional financial indicators such as Return on Investment (ROI), Return on Equity (ROE), sales growth, as well as non-financial dimensions including service and product quality. Moreover, the geographical scope was limited to major urban centers Arusha, Dodoma, and Dar es Salaam which may not fully represent SMEs operating in regions with lower economic activity. Subsequent studies are encouraged to expand coverage to other regions for comparative analysis. Although rigorous scientific procedures and random sampling were applied to enhance reliability and generalizability, the findings should be interpreted with caution considering these limitations.

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