

TITLE PAGE

**THE EFFECTS OF NIGERIA TAX POLICIES ON THE PERFORMANCE
OF SELECTED SMALL AND MEDIUM ENTERPRISE (SMEs) IN
KADUNA METROPOLIS**

BY

**MANNIR IBRAHIM
KPT/CBMS/18/40297**

**BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT
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JUNE, 2022

DECLARATION

I solely declare that this research work has been undertaken and conducted by me Mannir Ibrahim with the Registration Number KPT/CBMS/18/40297 under the supervision of Mr. Tunde Lawal of the Department of Business Administration and Management, Kaduna Polytechnic.

MANNIR IBRAHIM
KPT/CBMS/18/40297

DATE

APPROVAL PAGE

This is to certify that this research titled “**The Effects of Nigeria Tax Policies On The Performance of Selected SMEs in Kaduna Metropolis**” is an original work undertaken and written by me **Mannir Ibrahim KPT/CBMS/18/40297**, and has been prepared in accordance with the regulations governing the preparation and presentation of project in Kaduna Polytechnic and approved as meeting the requirement for the award of Higher National Diploma in Business Administration and Management. Kaduna Polytechnic, Kaduna.

Mr. Tunde Lawal

Project Supervisor

Signature

Date

Dr. Ismaeel M. Anchau

Project Coordinator

Signature

Date

Mr. Tunde Lawal

Head of Department

Signature

Date

External Examiner

Signature

Date

DEDICATION

This project is dedicated to God Almighty.

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My appreciation goes to God Almighty who has granted me life with sound health and made possible the fulfillment of this project work. I feel heavily indebted to and wish to express my warm gratitude to my project supervisor, Mr. Tunde Lawal, for his professional guidance and assistance in the preparation of this research work and going through my manuscripts. If not for his sincere contribution, this project would not have been accomplished, likewise my project coordinator Dr. Ismaeel M. Anchau and all my able lecturers of the Department of Business Administration and Management. Thank you all for the knowledge impacted in me.

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ABSTRACT

The study was carried out to investigate the effect of Nigeria Tax policies on the performance of selected SMEs in Kaduna Metropolis. The study has three specific objectives, among the specific objectives is to examine the effect of current tax policy on the performance of SMEs, to examine the effect of reforms on taxation on SMEs, to find out the effect of implementation of tax policies on the performance of SMEs. Three research questions were answered. Chapter two dealt with review of related literature which dealt with concept of taxation, types of taxation, taxation of SMEs and tax compliance and SMEs, contribution of tax policy on the growth of SMEs. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. A descriptive survey design was adopted for the study and the target group for the study comprised 357 SMEs. A self developed questionnaire was used to collect data. The data was analyzed and the results presented in tables for discussion. It was recommended among others that Small and medium enterprises should be levied lower amounts of taxes so that they would have enough funds for other activities that will lead to business growth. Furthermore it will help SMEs get better equipped to survive in a competitive market. The government should consider increasing tax incentives and exemptions as this will not only attract investors who are potential tax payers, it will encourage voluntary compliance and ultimately leads to expansion of existing business interest of the SMEs in Nigeria.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In every country, there are certain services which the government must provide to the citizens because of their essential nature. The services are essential that, even where individuals are allowed to provide them they are not allowed to monopolize their supplies or production, so as to ensure their even supply and distribution. The contributions made by individuals and corporate entities in form of taxes fees and levies therefore serve as the main source of revenue to the government for the supply of these essential services.

Country seeking to improve its economic growth would opt for a concept enabling it to best realize its objectives with due regard to its peculiar socio-economic make up. One of these ways is by taxation. However, according to Eftekhari (2019), taxation has always been an issue for the government and tax payers alike from the early years of civilization. The issue of taxation has generated a lot of controversy and severe political conflicts over time. Thus because of its importance, several economic theories have been proposed to

run an effective tax system although some income earners see it as a means of exploitation by the government.

Iwuji (2015) defines tax as a statutory compulsory contribution imposed by government exacted from a person's or entity's income, property or transaction for the purpose of funding governance. Tax can also be defined as a compulsory contribution made by individuals and corporate entities for the purpose of financing the expenditure of the government. It can also be defined as a means of compulsory contribution to state revenue, levied by the government on workers' income and business profits or added to the cost of some goods, services and transactions. The accumulated revenue is used in meeting recurrent expenditure. Tax occupies a unique position, because it is an important part of government policies. The ability of a government to generate revenue from this sector affects services offered by such a government. Income obtained from taxation of individuals and businesses are used to run governments as well as provide infrastructure such as good roads, water supply and electricity which are essential for the smooth running of these businesses that are mainly manufacturing companies and as such rely on these commodities to survive.

According to Holban (2017) taxation can contribute to development and to welfare through three sources; it must be able to generate sufficient funds for

financing public services and social transfer at a high level of quality, it should offer incentive for more employment and for an efficient and lasting use of natural resources, finally it should be able to reallocate income. In the case of small and medium enterprises, it must at the same time be done in such a manner that plus their income and need for survival into consideration.

Panitchparkdi (2016) sees SMEs as a source of employment, competition, economic dynamism and innovation which stimulates the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, SMEs also contribute to better income distribution. Being highly innovative, they lead to the utilization of our natural resources which in turn translates to increasing the country's wealth through higher productivity. Small and medium scale enterprises have undoubtedly improved the standard of living of so many people especially those in the rural areas Ariyo (2015).

Salemi (2012) states that there are various types of taxes i.e income tax, cooperation tax sales tax, excise tax, custom duty, fees, prices, fines, special assessments, VAT along others. The government levy taxes to accomplish the following purpose i.e raise revenue, maintain economic stability solve unemployment problem, offer protection policy, social welfare and help

achieve fair distribution of resources by optimally allocating resources and increase the rate of economic formula. But when imposing any tax, the following conditions and challenges must be fulfilled i.e equality, certainty, convenience, economical productivity, elasticity, flexibility, simplicity and durability otherwise it won't be fulfilling its objectives. Another challenges of taxation is those who try not to pay tax through evading or avoidance.

In order for SMEs sectors to grow the level of taxation set must be friendly and not stifle the running of the business. Holtz-Eakin (2019) argues as to whether there is an economic case for the preferential tax treatment of SMEs some of the factors that could advance in favour of tax concessions for SMEs includes; firstly, presence of externalities provided by small firms that benefit the economy, the rewards for which are not fully captured by small firms for example if small firms were highly innovative but the majority of the advantages accrued to large businesses who, because of their market power, were able to buy small firms for less than they are worth. Secondly, there is a need to provide tax breaks for small firms, on the basis of equity and thirdly the tax system should not affect the growth of the SMEs in a negative way.

The focus of this research therefore is to evaluate the effects of Nigerian tax policies on the performance of SMEs in Kaduna Metropolis.

1.2 Statements of the Problem

The attitude of Nigerian towards taxation is worrisome as many prefer not to pay tax if given the opportunity. The economy continues to lose huge amount of revenue through the unwholesome practice to tax avoidance and tax evasion, this loss of revenue can change the fortune of many economics. Particularly, developing countries like Nigeria. This problem has been lingering for so long which call for urgent attention and solution is over due to the cost of collecting tax in Nigeria (both social and economic cost) is too high to the extent that if left unchecked the cost may soon outweigh the benefit or value derived from such operation and that will not be appropriate for the system.

According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), 80% of small businesses die within seven years of its establishment Farzbod (2014). Among the factors responsible for these untimely close-ups are tax related issues, ranging from taxations to enormous tax burdens etc. therefore, in dealing with small and medium enterprises, these unique qualities need to be considered. Another problem faced with SMEs in Nigeria is that the levying of taxes for these enterprises in particular, issues that need to be considered are how these tax policies can be designed to support the growth of small businesses and the most effective

ways to administer them. The importance of small businesses as a mechanism of economic growth and development is often ignored. They are perceived as minute establishments that have minimal effect of the state of the economy.

However, if conducive environment is created for these small businesses to grow through proper regulation, the SME sector has the highest propensity to transform our economy. Tax burden is another major problem in Nigeria as many business organizations are not favoured by the tax systems and policies in place. Some businesses are already collapsing; while majority are still struggling to meet up with high tax rates to ensure their businesses still exist. According to a study conducted by Aryeetey (2014), it was reported in a survey that 90% of business owners admitted that taxes were a huge constraints to their businesses, as they claim taxes are high and do not allow new businesses to cover up initial cost.

But the questions this long essay seeks to find answers to are: what tax policy best suits SMEs that will encourage tax compliance? Does the tax policy encourages the growth of SMEs or poses threats to SMEs? How has the tax policy affect the SMEs? This research work focused primarily on SMEs which according to Ariyo (2015), make up 97% of production units of the economy.

1.3 Research Questions

This research work is set to answer the research question below;-

- i. To what extent does current tax policies has effect on the performance of SMEs?
- ii. To what extent does reforms on taxation has effect on SMEs?
- iii. To what extent does implementation of tax policies has effect on SMEs?

1.4 Objective of the Study

The general objective of this study is to examine the effects of Nigerian tax policies on the performance of selected small and medium enterprises while the specific objectives are:-

- i. To examine the effect of current tax policy on the performance of SMEs.
- ii. To examine the effect of reforms in taxation on SMEs.
- iii. To find out the effect of implementation of tax policies on the performance of SMEs.

1.5 Significance of the Study

This research is significant in many aspects of life, it is hoped that, when the study is successfully completed would serve as a source of policy guidance to the SMEs and provide necessary incentive for increasing productivity. It would help to enlighten the management of the organization on the need and importance of having effective performance of tax policies and help to lobby with the government to reduce the burden of tax on them. The findings would assist the ministry of finance to lobby with government to amend the income tax law so as to make it friendly for small business enterprises. To the tax authority the research would guide them in adjusting tax policies so that they suit the requirements of small businesses.

The research would help to challenge both the management and workers in the SMEs in Nigeria on both the importance attached to increase productivity. The study serves as a partial fulfillment for the award of Higher National Diploma in Business Administration and Management to the researcher. Finally, this work would be of immense benefit as aid and guide to future researchers on tax policies and performance of SMEs in Kaduna Metropolis.

1.6 Scope of the Study

The scope of study is exclusively restricted to SMEs. However, it should not be misconceived that the study has no relevance to other organizations in Nigeria they are bound to face such problem considering the globalized nature of organizational environment. The theoretical issues to be discussed are leadership style and organizational goal. The researcher for the purpose of this project work is limited to small and medium enterprises as it relates to the effects of Nigeria tax policies on the performance of SMEs. This study would cover the area of activities and role played by the organization, and the data shall be solicited for the period 2017-2021.

1.7 Definition of Terms

Policy: Policy is a deliberate system of guidelines to guide decisions and achieve rational outcomes.

Performance: Is how effective something or someone is at doing a good job.

SMEs: Small and medium enterprises is considered as the engine of economic growth and for promoting equitable development in a country.

Tax: A tax is a compulsory financial charge or some other type of levy imposed on a taxpayer by a governmental organization in order to fund government spending and various public expenditures.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter has examines the available literature of what other writers have written about the topic. It also go to elaborate the different views raised by different authors on “the effects of Nigerian tax policies on the performance of SMEs”. The idea is to take a critical look at the available materials analyze and relate them to the research topic.

2.2 Conceptual Framework

2.2.1 Concept of Small and Medium Scale Enterprises (SMEs)

Small scale enterprises has been defined variously by many individuals and institution using various yardsticks such as numbers of employees, volume of sales, value of assets, or the volume of deposit in banks Ademola (2014). The National Economic Reconstruction Fund (NERF) defined small and medium enterprises with a criterion that projects to be financed by the firm should have a total fixed asset cost (including land) of not more than N10million. The Federal Ministry of Industry in respect of the small scale industries credit scheme sees small scale industry as any manufacturing,

processing or service industry with capital investment not exceeding N150,000 in machinery and equipment alone.

According to Atikosan (2014) a small business is any manufacturing, processing or servicing industry that satisfies any or all of the following conditions:

- i. Capital but excluding cost of land and not exceeding N750,000
- ii. Staff strength not exceeding 50 persons and wholly Nigerian owned.
- iii. A manufacturing, processing or servicing industry, exceeding the units of investment stated is relatively small compared to prevalent size of plant and the technology is fairly labour intensive.

According to Ademola et al (2014), Small scale enterprises are catalysts for world's economic growth and development which have dominated the industrial sector of both developed and underdeveloped countries. Aruwa (2013) believed that Nigeria's industrial sector is dominated by small and medium scale enterprises (SMEs) which accounts for 90% in terms of number of enterprises as compared with other developed countries where more than 98% of all their enterprises belong to SME sector, about 80% of

the total industrial labour force in Japan is SME 50% in Germany, 46% in USA are employed in smaller firms. Central Bank of Nigeria defined small scale enterprises as all businesses with a total assets investment of less than one million and annual turnover of less than one million and with a total number of employees of less than fifty.

In addition, the International Finance Corporation (IFC) and Corporate Affairs Commission in 2001 further justified that Nigeria's industrial sector is dominated by SMEs, estimated to be about 90% of the sector employing less than 50% of the people (Aderemi 2013). Given the place occupied by the SMEs in Nigeria's industrial sector, it is expected that the success of the Nigerian economy would be partly dependent on the success of the SMEs.

Nwoye (2014), pointed out clearly that SMEs are catalysts for Nigeria's economic growth and development. He believed that through so many SMEs, Nigeria has great potentials for success and growth, sales of large volume of goods etc. even though, some of them have adequate capital, many of them fail due to poor financial management operations. The Monetary Policy Circular No. 22 of 1988 of the Central Bank of Nigeria defined small scale enterprises as enterprises whose annual turnover was not more than N500,000. In the 1990 budget, the Federal Government of Nigeria defined small scale enterprises for purposes of commercial bank loans as

those with an annual turnover not exceeds N500,000 and for Merchant bank Loans those enterprises with capital investments not exceeding 2 million naira excluding cost of land or a maximum of N5million.

The National Economic Reconstruction Fund (NERFUND) put the ceiling for small scale industries at N10million. Section 37b (2) of the companies and Allied Matters Decree of 1990 defines a small company as on with an annual turnover of not more than N2million and net asset value of not more than 1million naira. Ekpenyong & Nyong (2012). The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) sees the SME as “any enterprise with a maximum asset base of N500 million (excluding land and working capital) and with no lower or upper limit of staff”. However, for tax purposes, section 40(6) of the Companies Income Tax Act Cap C21 LFN 2004 alludes to companies with a turnover of N1million and below operating in the manufacturing, agricultural production, solid mineral mining, and export trade sectors as SMEs; while subsection 8 states that as from 1988 all companies engaged in trade or business with a turnover of N500, 000.00 and below qualify as small and medium enterprises (Iwuji, 2015).

2.2.2 Characteristics of SMEs in Nigeria

The concept of SMEs is relative and dynamic Olorunshola (2016), SMEs are characterized by uncertainty, innovation and evolution. A firm

understanding of SMEs would require a good knowledge of its features. Aderemi (2013) noted that the SMEs in Nigeria are usually small owner or family managed business offering basic goods and services, which tend to lack organizational and management structures with the urban ones tending to be more structural than their rural counterparts. This is one of the most generic features of SMEs in Nigeria.

Udechukwu (2010) stated that they are mostly sole proprietorships or partnerships, although on the surface, they may be registered as Limited Liability, while Olorunshola (2016) suggested that this ownership style has led small and medium enterprises to have a simple management structure. Factors also contributing to the reasons small and medium enterprises have a simple management structure, few number of employees and the owners low level of education. Since there is no legal personality between the small and medium enterprises and its owners, it means the lifespan of the enterprise is dependent on the lifespan of its owners i.e there is no perpetual contiguity.

Furthermore, the production processes of SMEs are usually labour intensive and they usually serve as suppliers for the larger manufacturing firms with their operations being highly dependent on raw materials sourced locally (Hanefah, Ariff & Kasipillai, 2012). They also require a lower start up capital than the larger companies (Akinsulire, 2010). While the decisions of

the managers have a higher tendency to be subjective given that they are managed and controlled by the same individual. Also, the employee-employer relationship found in most SMEs is predominantly informal.

Another key feature of the SME sector in most countries is that it is heterogeneous, varying in size from small retail outlets to highly paid professionals, and substantial manufacturing enterprises. SMEs are also likely to varying organizational form from sole proprietorships (with or without employees), small corporations (public or private), professionals and partnerships. This features usually results in different obligations for record keeping for the enterprise.

In addition, the contribution SMEs usually make to tax revenue is lower than its contributions to output and employment (International Tax Dialogue, 2007). That fact notwithstanding, SMEs have not become competitive enough to increase their share of output even though they form three-fifths of the number of manufacturing firms where larger manufacturing companies rely on SMEs for their supplies (Hanefah et al 2012).

2.2.3 SMEs Threats

There are several problems that “bedevil SMEs and stunt their growth. Though some of these problems are peculiar to a particular country”, the

challenges faced by SMEs in different countries and geopolitical divisions are basically the same. For instance, a survey of Turkish SMEs by organization for Economic Cooperation 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. Similarly, problems were reported for other regions like the Philippines, Malaysia, European states and the Sub-Saharan Africa including Nigeria. (Aderemi, 2013) Uzor (2014) suggested that the constraints faced by SMEs in developing countries are not only accentuated with ineffective policy design but also by market failures in the region.

In addition, Aryeetey & Ahene (2014) listed lack of access to land, utility installation and services and import procedures as constraints to SME growth. In addition lack of protection for property rights, which in turn limit SME access to foreign technologies and lack of capacity which affects the enterprises ability to handle problems of bureaucracy and other such complexities. Other factors are high inflation and high import dependency high debt burden on the nation, lack of access to technology and best of breed business solutions, business services, consulting and training make for an unstable macro-economic environment.

Other problems are astronomically high operating costs; lack of transparency and corruption, lack of interest and lasting support for the SMEs sector by government authorities Oboh 2012, Okpara 2013, Wale-Awe 2015. Nigerian entrepreneurs cite unreliable employees. Weak economy, unsafe location, undependable electricity supply and lack of management training are closely ranked behind Chu, Kara & Benzing (2018). Opined that because many SMEs produce non-standardized products and due to their lack of awareness of markets skills, they also have problems marketing these products. Yoabin (2015), maintained that the asymmetry of financing information, high risk of investment and business operation.

2.2.4 SMEs as Sine qua none to National Development

SMEs have been an important tool for economic development of Nigeria. The future of any growing economy such as Nigeria's depends on the entrepreneurial energy of vibrant SMEs because a lot of large businesses start out as SMEs. Many authors believe that they are the starting point of development in the economy towards industrialization. Udechukwu (2016) for example sees the SME sector as a very important sector that will enhance the contributions of the private sector and provide the critical building blocks for industrialization and sustainable economic growth SMEs broaden the base of participation in society, decentralize economic power and give

people a stake in the society's future Williams (2019). SMEs have also been recognized as a channel for improving the efficiency of domestic markets and making productive use of scarce resources and thus facilitating long-term economic growth in poor countries Aryeetey and Ahene (2014). Given that a large proportion of Nigeria's population relies either directly or indirectly on small and medium enterprises for survival, their importance cannot be overemphasized.

A major contribution made by SMEs is in the area of employment Yaobin (2015) small and medium sized enterprises are a key source of new jobs, innovation, economic dynamism and greater social inclusion in the European Union. Other important role they play is in the secondary labour markets (that is they offer a high amount of employment in casual, part time, low training, low skilled jobs); they are an invaluable source of "entrepreneurship" employment growth. Findings from a study carried out by Chu, Kara & Benzing (2018) suggest that Nigerian consider entrepreneurship an avenue leading to job security and improving their livelihood.

They also regard business ownership as a means of controlling their destiny and deriving self-satisfaction. Being more labour intensive, SME expansion is more likely to boost employment than large enterprises where expansion

mean higher degree of automation and machining. Hence, SME subsidization will lead to poverty alleviation Beck Demirguc-Kunt & Levine, (2011).

2.2.5 Concept of Taxation

Every government takes part in one activity or the other, which lead to some form of expenditure. To be able to attain success it raises funds through various means one of which is taxation. Taxation is therefore the process of levying and collection of tax from taxable persons (individuals and corporate entities).

Taxation is a compulsory levy by the government through its agent on the profits, income or consumption of its subjects or citizens. It is also viewed as a compulsory contribution made by individuals and organization towards defraying the expenditure of government (Dandago & Alabede 2011). Kotler (2015) feels is a charge levied by the government on the income or wealth of a person or corporate organization for the common benefit of all.

The term does not include specific charges made against a particular person or properties for current or permanent benefits and privileges accruing only to those paying such charges. Similarly, Ogundele (2017) defines taxation as the transfer of real economic resources from private sector to the public

sector to financial public sector activities. It can therefore be concluded that the essence of all taxes is the removal of resources from private hands of the individual, families, corporate bodies, communities and trusts to the public sector to finance the development of the society. The need for government in the affairs of man is therefore the basis for taxation in societies. As such Ogundele (2017) Dandago and Alabede (2011) the following purpose of taxation.

- i. As a revenue source to defray government capital and revenue expenditure
- ii. It is fiscal policy instrument employed by government to regulate the economy.
- iii. It is also a means of controlling consumption of some harmful goods and services e.g cigarette, alcohol, cinema etc.
- iv. The equity principle in taxation facilitates the application of rule of law
- v. The taxpayer identification programme introduced by Federal Inland Revenue Service serves as database on biography of both individual and corporate taxpayers.

According to Anyanwu (2019), he assumed tax as more or less compulsory, non-returned contribution of money (or occasionally for goods and services) from private individuals, institutions or groups to the government. It may be levied upon wealth or income or in form of surcharge on prices. John (2015) said that tax can be seen as a compulsory charge made by the government to pay from the services he/she provides to the country. When making these charges government tries to observe certain rules. They prefer to make none from those who are wealthy than from those who are poor. Mayo (2016), observed tax to be a compulsory contribution imposed on persons, corporate bodies as well as goods and services. Taxes therefore generate revenue to government to enable her meet its traditional responsibilities of maintaining law and other general administration and other obligations of providing social and infrastructural facilities to aid economic welfare and development of a country.

Gabay (2016) observed tax as a compulsory contribution imposed by the government on citizens in accordance with legislative provision and paid by them through agents to defray the cost of administration. Famoyin (2019) justified tax as a compulsory contribution imposed upon persons for the general purpose of the government. Once levied every taxable persons must pay tax. He also added that taxes are benefit, but for providing the

government with funds necessary for the general administration of the country. According to Smith (2016), opine that the primary goal of the economy is to increase its productivity capacity or the economy growth. He said to achieve this goal is through the principles which he sat out and to what he called the canon of taxation namely; canon of equity, canon of certainty, canon of convenience and canon of flexibility. From the various definitions, it can be seen that the economic history of both developed and developing countries reveals that taxation is an important weapon in the hands of government. Taxation is divided into major types they are direct taxes, for the purpose of this project, only indirect taxes would be discussed briefly in which value added tax (VAT) will also be examine in details. Value added increase in the value of goods and services in the process of their production or delivery. Goods and services could add value under three factors as identified by Professor Aluko (2014).

This is the Tax on the supply of goods and services which is eventually borne by final consumer, but collected at each stage of production and distribution chain, some of the features are:

It is a consumption tax, its incidence is on the final consumer and it is a multi-staged tax.

Ola (2015), he said that VAT is a tax paid at each stage of value added. It is a multi-stage tax which applies whenever goods and services are supplied by the producers. He also said that VAT are levied on the value gained or added on the products before being sold, VAT is an output tax less input tax. He went further to say that VAT is one of the indirect taxes collected by the government in this case the incidence of tax is borne by either the producer or the final consumer or shared by both.

2.2.6 Types of Taxation

Broadly taxation can be classified into direct and indirect taxation., this was in an analysis of the “impact and incidence” it has on the tax payer. In direct taxation, taxes are collected directly from the income of individuals and companies whose incidence and burden is on the individuals or the companies that paid the tax to the government. Examples are Personal Income Tax, Company Income Tax, Petroleum Profit Tax, Capital Gains Tax etc. in other word, in indirect taxation are taxes imposed on the value of goods and services, produced and consumed within the country, imported into the country or exported to other countries, whose burden can be shifted in part or in full by the taxpayer who has paid the tax to the government to the final consumers who do not even know either when they pay the tax or the exact amount of the tax they pay. Examples are Value Added Tax,

Entertainment Tax, Import Duties, Export Duties, Excise Duties etc. indirect taxes paid by a company usually reflect in the selling price of the goods and services to be payable by the consumers, depending on the nature of elasticity of demand of the product and other factors.

Other classification is in relation to income and property taxation with income mainly based on profit or other incomes e.g companies income tax, personal income tax, petroleum profit tax and value added tax where property taxes relate to taxes on capital like capital gain tax, and import duty. All these classifications are wide in nature but the essence is to drag every economic activity into the tax net.

2.2.7 Taxation of SMEs

Fiscal policy is one of the main components of macroeconomic policy and its roles have been considered in a double context form; first the core of fiscal policy, and second the consistency with the monetary policy Holban (2017).

In general terms, the choice of tax policy to employ depends on the use of one or both two groups of instruments, the first one being the use of special tax preferences and the other, the incentives to support start-up and growth of small and medium scale enterprises. The incentives include the lowering

of corporate income tax rates, special tax exemptions and relives for small businesses.

The fundamental purpose of taxation is to raise revenue effectively, through measures that suit each country's circumstance and administrative capacity. In fulfilling the revenue function, a well-designed tax system should be efficient in minimizing the distortion impact on resources allocation, and equitable in its effect on different groups in the society Bolnick (2014). It is important that the country's situation is property analyzed before employing any tax policy in order to have a property working tax system. The difficulties facing tax authorities in Nigeria are predicated on how she conceived tax policies and a lack of certainty regarding future policy changes. The objectives of a tax policy should be to achieve collection-cost savings while minimizing the revenue loss, disruption to the economy and the inequity and capriciousness of the tax burden. For an economy such as Nigeria's, which is still in the throes of a recession the tax regime must be versatile enough to encourage savings, stimulate investment and reward social responsibility and research funding. To widen the taxbase/net, policy makers must never forget the urgency to provide infrastructures; create jobs and reduce unemployment; expand the productive sectors of the economy;

stimulate exports and substantially raise public revenues from non-oil sources Punch (2014).

Hence, tax policies should aim at bringing all taxable adults into the tax net with a graduated rate that should ensure that the well-off pay their own share while the low income earners are given savings-enhancing incentives.

An effective and efficient tax administration system is integral to any country's well-being, it is as a result of this that Baurer (2015) believes that the tax administration must provide a level playing ground for businesses by ensuring that all taxpayers meet their tax filing and paying requirements. The tax administration must balance its educational and assistance role with its enforcement role.

The rationale behind the whole system of tax is consistent with two of the three major theories of tax namely; the ability-to-pay principle and the Equal Distribution Principles.

These two principles stress equality and fairness.

While the ability-to-pay principles, states that individuals should be levied taxes based on their ability to pay, the Equal Distribution Principle suggests that income, wealth and transaction should be taxed at a fixed percentage;

that is people who earn more and buy more should pay more taxes, but will not pay a higher rate of taxes Gabay and Remotin (2016).

2.3.8 Tax Compliance and SMEs

Marti (2013) states that tax compliance is a complex term to define. Simply put tax compliance refers to fulfilling all tax obligations as specified by the law freely, willingly and completely. He also believes that high compliance costs can result in tax avoidance, tax fraud and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness.

Tax non-compliance may be in one of many forms; it could either be failure to submit a tax return within the stipulated period or non-submission, understatement of income, overstatement of deductions, failure to pay assessed tax by due date. Kasipillai & Abdul Jabbar (2019).

Furthermore, Fagbemi, Uadile & Noah (2010) found that it is prevalent in developing countries and it hinders development thereby leading to economic stagnation and other socio-economic problems. Chipeta (2017), identify tax rates as one of the causes of tax evasion. He pointed out that a higher tax rate increases taxpayers burden and reduces their disposable income therefore, the probability of evading tax is higher.

2.2.9 Contribution of Tax Policy on the Growth of SMEs

According to Tomlin (2018), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprises historically reduce the size of the shadow economy and the number of non-complying registered taxpayers Vasak (2019).

Furthermore, SMEs usually have no operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost. As stated earlier they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with

(and to the revenue authorities of administering) alternative possible tax obligations.

Public corporations for example commonly have stronger accounting requirements than sole proprietorships, and enterprises with employees may be subject to the full monopoly of requirements associated with holding labour income taxes and social contributions (International Tax Dialogue 2009).

An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all Masato (2018) and this results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources Farzbod, (2014).

Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by scales or assets, the compliance costs of SMEs are higher than for large businesses Weichenrieder (2012). Among the factors militating against SME

tax compliance which are: high tax rate, low efficiency, high collection charges, waste of time for taxpayers and the staff and the low amounts of received taxes and the deviation of optimum allocation of resources Farzbod (2014). Others according to Yaobin (2015) are double taxation, no professional tax consultancy, weak tax planning, high taxation cost.

2.2.10 Challenges of SMEs

There are a lot of problems that bedevil SMEs and stunt their growth. Although there are some problems peculiar to a particular country, the challenges faced by SMEs in different countries and geopolitical divisions are basically the same. For instance, a survey of Turkish SMEs 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 (2014) believes that the constraints faced by SMEs in developing countries are not only accentuated with ineffective policy design, but also by market failures in the region. Their lack information technology and knowledge of automation is gradually

being reduced given that they serve as contractors for larger firms particularly the foreign manufacturing firms. A major difficulty faced by SMEs is that of lack of access to short and long term capital. Publication of the Weekly Trust of Saturday, January 22, 2011 recognizes the fact that collateral based financing has become increasingly difficult for SMEs, whether as existing businesses, in their expansion states or as startups hence more SMEs 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 SMEs' 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, 2013). There is also the problem of unsound accounting system and lack of full financial disclosure (Jan, n.d.). Aryeetey & Ahene, (2014) buttressed this assertion by listing lack of access to land, utility installation and services, and import procedures as constraints to SME growth. Summarily, these problems make SMEs a "high-risk" venture. The above named reasons are in and of themselves problems that impede SME growth because not only do they become obstacles in accessing financing, they are capable of hindering growth on their own. Moreso, in Nigeria, the problems faced by SMEs as

posited by Oboh (2012); Okpara (2013); Wale-Awe (2015) and Chu, Kara & Benzing, (2018) include astronomically high operating costs; lack of transparency and corruption; and the lack of interest and lasting support for the SMEs sector by government authorities, dilapidated state of Infrastructural facilities, unreliable employees and Weak economy, unsafe location, undependable electricity supply are common phenomenon.

2.2.11 Factors that Favour the Growth of SMEs

Although there are factors that Favour the growth of SMEs in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (2015) believes that it is the role of the government to provide an enabling environment and social services that support businesses and persons. This means enhancing the investment climate in Nigeria for increased economic growth and subsequent tax contribution from all citizens which is necessary because a good number of SMEs operate in the informal economy due to the fact that they deem the tax environment within which they operate unfavourable.

These SMEs constitute untapped revenue potential and an uneven playing field in many countries. As such they need to be captured by the tax net.

The legislation is a necessary regulator for protection of the business environment and security of the economic agents for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. The big companies have more choices possibilities. They can either share part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y Deloitte and Touched, Price Waterhouse etc) to deal with their tax compliance, planning etc. for SME this is a great expense out of their abilities Smatrakalev (2014). Shahroodi (2015) believes that for a tax system to be efficient, the tax policy need to the designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense. Tax policies can be designed in such a way that they do not only directly affect SMs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting tax deductions to market

entities and venture capitalists that invest in high tech SMEs the tune of 70% of the investment value Ademola (2014).

Another way is by designing tax policies that encourage human capital training Yaobin (2015) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection.

It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead, for example to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and to avoid tax through artificial splitting of enterprises. Not least, voluntary compliance by larger enterprises themselves and by wage earners, may be undermined by the (correct) perception that their smaller counterparts or better-off neighbours are getting away with poorer compliance. Hence government intervention will help maintain balance while helping countries exploit the social benefits from greater competition and entrepreneurship. Furthermore, policy incentives such as tax rebate for SMEs that put effort on local sourcing of raw materials, serious in adding value to commodities for exports and other business ethics, should be employed by government.

Similarly, government could increase funding for the development of the sub-sector through direct budgetary.

2.3 Empirical Review

According to Tomlin (2018) economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small tax payers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak 2019).

Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes cumbersome importance procedure and high port charges that constantly exert serious burden on their operations.

Many SMEs have to deal with myriad of agencies at great cost as stated earlier; they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the

costs to the enterprises of complying with and to the revenue authorities of administering alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full monopoly of requirements associated with withholding labour income taxes and social contributions.

An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortion effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all Masato (2018) and this results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources Farzbod, (2014). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs, when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses Weichenrieder, (2012), among the factors militating against SME tax compliance are high tax rates, low efficiency, high collection charges, waste

of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources Farzbod (2014). Other according to Yaobin (2015) are double taxation non professional tax consultancy, weak tax planning, high taxation cost.

Although there is certain policy measures geared towards SME growth in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (2015) believes that it is the role of the government to provide an enabling environment and social services that support businesses and persons. This means enhancing the investment climate in Nigeria for increased economic growth and subsequent tax contribution from all citizens which is necessary because a good number of SMEs operate in the informal economy due to the fact that deem the tax environment within which they operate unfavourable. These SMEs constitute untapped revenue potential and an even playing field in many countries as such they need to be captured by the tax net. The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. They can either share part of the staff or hire people to deal only with studying the legal requirements and

complying with the new regulations, or contract some personal service firm like E & Y Deloitte and Touche Price Waterhouse etc to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities (Smatrakalev, 2014). Shahroodi (2015) believes that for a tax system to be efficient the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax authorities are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be strengthened.

Tax policies can be designed in such a way that they do not directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting tax deductions to market entities and venture capitalists that invest in high-tech SMEs the tune of 70% of the investment value. Another way is by designing tax policies that encourage human capital training. Yaobin (2015) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection, it is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead, for

example to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and to avoid tax through artificial splitting of enterprises. Furthermore, policy incentives such as tax rebate for SMEs with emphasis on local sourcing of raw materials, serious in adding value to commodities for exports and other business ethics, should be employed by government. Similarly, government could increase funding for the development of the sub-sector through direct budgetary allocations and enhance private sector investment opportunities that will focus on specific areas of capacity enhancement. Also, tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers and to improve the levels of voluntary compliance Kasipilai (2019). Pro-business and (Pro-SME) Tax regimes and enforcement should be simple consistent and predictable.

2.4 Theoretical Framework

Theory of Business Growth

Various authors have postulated theories on business growth. The oldest and the most used theory according to Elhiraika and Nkurunziza (2016) is Gibrat's law of proportionate effect LPE; (1931). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size. By implication

it would mean that large firms are preferable in context of private sector development given that they create more employment than small firms. Conversely, Jovanovich (2016) states in his learning model that younger firms learn over time, which helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones. Moreover, given that younger firms are usually smaller than older ones (businesses) for the reasons discussed earlier; Jovanovic deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other longer firm in the same sector as time goes by Chu (2018) as cited in Olawale & Garire (2015) on the other hand claim that as a new small firm starts and develops, it moves through some growth stages, such as with its own distinctive characteristics. He also identified the stages of growth as; existence, survival, success, take off and resource maturity. In each stage of development a different set of factors is critical to the firm's survival and success the Churchill Lewis model gives an insight into the dynamics of SMEs growth including the distinguishing characteristics, problems and requirements of growing SMEs and explains the business growth process amongst SMEs, The precise moment in time in which a start up venture becomes a new business has not yet been theoretically determined. However

the ideal of business survival could be equated with a firm that has fully completed the transaction to stage - two organisation in the five stage of small business growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the various methods employed for the collection and analysis of data for this research. The chapter covers research design, population of the study, sampling techniques and sample size, method of data collection validity and reliability tests and the method used in data analysis.

3.2 Research Design

The researcher adopt the use of survey research design which is concerned with studying a group of people in order to find out the establishing causal relationship between two variables i.e the relationship between tax policy and the growth of SMEs. Since it involves collecting the views, perspectives or opinions of respondents regarding a particular issue or research interest on the effects of Nigeria tax policies performance of selected SMEs in Kaduna and to determine the extent to which tax policy can contribute immensely to SMEs goal effectively.

3.3 Area of the Study

The study use all selected SMEs from Kaduna Central, Market Kaduna Railway Station and Kaduna Monday Markets. Kaduna as the area of study.

3.4 Population of the Study

The population of this project work comprise SMEs from Kaduna Central, Kaduna Railway Station and Monday Markets. The list of SMEs and the tax payers in each selected markets were collected. The total population consists of 4800 and the sample size is 357 according to Krejcie and Morgan (1970).

3.5 Sample Size and Sampling Techniques

Out of a total population of 4800 members of SMEs, the sample size for the study is 357. According to Krejcie & Morgan (1970) sample size table in Marteins (2010) was used (Appendix III). To determine the sample size on the total population of 4800 respondents, the researcher used Krejcie and Morgan table. Using this table the sample of 357 respondents of SMEs. Kaduna was surveyed. Therefore, 357 questionnaires were distributed to ascertain the fact about the effect of Nigeria Tax Policies on the Performance of Selected SMEs in Kaduna Metropolis.

3.6 Instrument of Data Collection and Justification for its Appropriateness

This instrument of data collection is primary data and secondary data. Primary data was obtained from small business owners by the use of questionnaire and interview. While secondary data was obtained by reviewing market records/documents, reports brochures. Personal interview was also employed, people that could not be administered with questions and lastly was observation. The major method adopted was on questionnaire, this is so because of the fact that it permits one to measure the attitude and opinion of the small business owners towards the questions. It is helpful to administer and facilitates statistical analysis which would be used to analyze the data in chapter four. It has the merit of giving respondents the freedom in answering the questions unlike the interview, it is a very good form of primary data that the required information is obtained exactly and as far as humanly possible and a lot of misrepresentation and misinterpretation could be avoided.

Also the primary source of data could not be enough hence the secondary data which would cover up areas not covered by the primary data such as questionnaire and others. Hence textbooks, journal were also used when it becomes so necessary.

The questionnaire was distributed and the filled copies were collected, personally by the researcher through the representative from the organization that doubles as research assistant.

The questionnaire become most useful because of shyness, people trying to avoid being quoted, hence it is more private and created confidence.

3.7 Reliability of the Instrument

Test- retest method in order to ascertain the reliability of the instrument i.e. questionnaire, the researcher would first structured the questions which would be distributed to few respondents to answered and will retrieve after, these will be used to ascertain if the respondents really understand the questionnaire, and effect any correction that arise, before the final questionnaire were presented to the respondents.

3.8 Validity of the Instrument

According to Kerlinger (2007) validation by others is an effective method for content validation of research instrument. Consequently, the questionnaire will be validated by expert (project supervisor) from the Business Administration Department of Kaduna Polytechnic. The project supervisor was requested to judge the appropriateness, comprehensiveness

and clarity of items in the questionnaire. The contribution in form of suggestion and constructive criticism were used in the final draft.

3.9 Method of Data Collection

The data collected was analysed using frequency distribution table and simple mean and the respondents opinion would incorporated to answer the research questions whether they will agree or disagree with the results, hence the responses would analyzed and discussed, using the five point likert scale.

The formula for mean (x) $= \frac{\sum fx}{\sum f}$

Where f = Frequency

x = Variables

x = Mean

Decision rule table of 5 scale point

	SA	A	U	D	SD
Grade point	5	4	3	2	1
Range	4.5-5.0	3.5-4.0	2.5-3.0	1.5-2.0	0-1.0

Key:

SA = Strongly Agree

A = Agree

U = Undecided

D = Disagree

SD = Strongly Disagree

3.10 Decision Rule

Therefore the mean score of 3.0 and above would be regarded as agreed, while points below a mean average of 3.0 would be regarded as disagreed.

CHAPTER FOUR

DATA PRESENTATION AND STATISTICAL ANALYSIS

4.1 Introduction

This chapter seeks to analyze and interpret the findings that have been collected. The main purpose of this study is to evaluate the effects of Nigeria tax policies on the performance of selected SMEs. A set of questionnaire was employed to gather the requisite data for the study. The data from the respondents were analyzed through the computation of frequencies and percentages.

A total number of three hundred and fifty seven questionnaires were distributed to small business owners of Kaduna Central Market, Kaduna Railway Station and Kaduna Monday Market. The 357 questionnaires were valid, filled and returned by the respondents.

4.2 Characteristic of Respondents

The data collected were presented and analyzed through frequency tables, percentages and mean. The responses collected are tabulated and analyzed as follows:-

Table 4.2.1: Sex of the Respondents

Variable	Responses	Percentage (%)
Male	155	43.5
Female	202	56.5
Total	357	100

Source: Field survey, 2022

The data in table 4.2.1 above shows that 155 respondents representing 43.5% are males. This means that the majority of the respondents are males. However, 56.5% of the respondents which has the total of 202 respondents are females. This simply means that the female gender is the minority in the sample of study. But it also shows that there is a little bit of fair representation of both genders in the market since the percentage margin is not wide.

Table 4.2.2: Age Distribution of Respondents

Variable	Response	Percentage %
18-25 years	39	10.9
26-30 years	77	21.7
31-40 years	124	34.8
41-50 years	116	32.6
Total	357	100%

Source: Field survey 2022

The data in table 4.2.2 above shows the age distribution of the respondents. It reveals that the majority of the respondents are within the age of 31 to 40 years which serves as 34.8% of the total respondents. The respondents between the ages of 18-25 are 10 in number with a percentage contribution to the total respondent of 10.9%. And also 21.7% of the respondents are between the ages of 26-30, while 41-50 years are 32.6% with a number of 30 respondents.

Table 4.2.3: Educational Status

Variable	Responses	Percentage %
Primary	46	13.0
Secondary	101	28.3
Tertiary	69	19.6
None	23	6.5
Service	116	32.6
Total	357	100%

Source: Field survey 2022

The data in table 4.2.3 above shows the educational status of the respondents. It revealed that majority of the respondents that are educated are within the range of 30 which represent 32.6%. Those with primary certificate represent 13.0% with the number of 12 respondents. For the

secondary certificate it represents 28.3% with the number of 26 respondents. Tertiary certificate represent 19.6% with the number of 18 respondents and finally none certificate represent 6.5% with the number of 6 respondents.

Table 4.2.4: Nature of Business

Variable	Responses	Percentage %
Manufacturing	116	32.6
Retail	241	67.4
Total	357	100%

Source: Field survey 2022

The data in table 4.2.4 above shows the nature of business of the respondents. It revealed that the majority of the small business owners are retailers which represent 67.4% with the number of 241 respondents and manufacturers represent 32.6% with the number of 116 respondents.

Table 4.2.5: Number of year in business

Variable	Responses	Percentage %
1-5	151	42.4
6-10	77	21.7
11-15	27	7.6
16-20	62	17.4
Over 20	39	10.9
Total	357	100%

Source: Field survey 2022

The data in table 4.2.5 above shows the number of year in the business of the respondents. It shows that the majority of the small business owners at the range of 1-5 represent 42.4% with the number of 151 respondents. Those representing 21.7% are with the number of 77 respondents while 27 respondents represent 7.6%. Some respondents from 16-20 represent 17.4% with the number of 62 respondents and finally over 20 years represent 10.9% with the number of 39 respondents. This could be a suggestion that, the longer they stay in business, the better they find loopholes in the system and ways to evade taxes. It could also be a result of small business failure since studies have revealed that few small businesses make it in business after the first five years.

4.3 Data Presentation and Analysis

Research Question 1: To what extent does current tax policies has effect on the performance of SMEs?

Table 4.3.1: Effect of current tax policies on the performance of SMEs.

S/N	STATEMENTS	SA	A	UD	D	SD	Mean	Remark
1.	The effect of current tax policies on SMEs has lead to tax evasion.	250	50	-	30	27	4.3	Agree
2.	Tax rates are appropriate and rational.	230	80	-	27	20	4.3	Agree
3.	Tax policies are affecting the business negatively.	300	30	-	10	17	4.6	Agree
4.	Government incentives such as tax rebate is supportive.	270	70	-	10	7	4.6	Agree
5.	The tax policy on the SMEs is positively impactful.	230	90	-	17	20	4.4	Agree

Source: Field Survey 2022

The data in table 4.3.1 shows the respondents' responses with regards to the Effect of current tax policies on the performance of SMEs. In item 1, result shows that the respondents agree that the effect of current tax policies on SMEs has lead to tax evasion (N=357; x=4.3). In item 2 the respondent agree that Tax rates are appropriate and rational (N= 357; x= 4.3). In item 3

the respondent also agree that tax policies are affecting the business negatively (N = 357; x = 4.6). In item 4 the respondent strongly agreed that government incentives such as tax rebate is supportive (N= 357; x = 4.6). Finally, in item 5 the respondent strongly agree that the tax policy on the SMEs is positively impactful (N= 357; x=4.4).

Research Question 2: To what extend does reforms on taxation has effect of SMEs?

Table 4.3.2: The effect of reforms on taxation of SMEs.

S/N	STATEMENTS	SA	A	UD	D	SD	Mean	Remark
6.	Capital Gain Tax Act of 1990.	90	80	-	200	22	2.5	Disagree
7.	Company Income Tax Act of 1990.	160	140	-	37	20	4.1	Agree
8.	Stamp Duties Act of 1990.	180	120	-	24	33	4.1	Agree
9.	Value Added Tax Act of 1993.	192	80	5	45	35	3.9	Agree
10.	Tax and Levies Act of 1998	210	67	20	40	20	4.1	Agree

Source: Field survey 2022

The data in table 4.3.2 shows the respondents' responses with regards to the effect of reforms on taxation of SMEs. In item 6 result shows that the respondents disagree that capital Gain Tax Act of 1990 (N=357; x=2.5). This is because many of the respondents were not in business by 1990 as

corroborated with the table on number of years in business. In item 7 the respondents agree that Company Income Tax Act of 1990 (N = 357; x = 4.1). While in item 8 the respondents agree that Stamp Duties Act of 1990 (N = 357; x = 4.1). In item 9 the respondents that Value Added Tax Act of 1993 (N=357; x = 3.9). Finally, in item 10 the respondents agree that Tax and Levies Act of 1998 (N = 357; x= 4.1).

Research Question 3: To what extend does implementation of tax policies has effect on SMEs?

Table 4.3.3: The implementation of tax policies on SMEs.

S/N	STATEMENTS	SA	A	UD	D	SD	Mean	Remark
11.	SME is faced with lack of access to long term capital.	235	70	12	20	20	4.3	Agree
12.	The mortality rate of small firms is very high.	225	62	-	30	40	4.1	Agree
13.	The incessant tax increase has become a burden.	115	190	-	32	20	3.9	Agree
14.	Voluntary compliance is triggered by the tax authority.	255	62	-	15	25	4.4	Agree

Source: Field survey 2022

The data in table 4.3.3 shows the respondents' responses with regards to the effect of implementation of tax policies on SMEs. In item 11 the respondent agreed that SMEs is faced with lack of access to long term capital (N=357; x

= 4.3). In item 12 the respondents agree that the mortality rate of small firms is very high (N = 357; x=4.1). In item 13 shows that respondents agreed that the incessant tax increase has become a burden (N = 357; x = 3.9). Finally, in item 14 the respondents agree that Voluntary compliance is triggered by the tax authority (N = 357; x = 4.4).

4.4 Summary of Findings

The following are the findings of the study:

- i. The effect of current tax policies on small and medium enterprises has led to tax evasion.
- ii. Base on the findings of the researcher tax rates is very appropriate and rational for the growth and development of small and medium enterprises in Nigeria.
- iii. According to the findings of the researcher it indicates that tax policies affects small and medium enterprises negatively in Nigeria.
- iv. The effect of current tax policy indicates that government incentives such as tax rebate are supportive.
- v. The implementation of tax policies on small medium enterprises in the economy faces the problems of easy access to long term capital.

- vi. The findings indicate that mortality rate of small firms is very high in Nigeria.
- vii. Finally, voluntary compliance is triggered by the tax authority.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study was carried out to investigate the effect of Nigeria Tax policies on the performance of selected SMEs in Kaduna Metropolis. The study has three specific objectives, among the specific objectives is to examine the effect of current tax policy on the performance of SMEs, to examine the effect of reforms on taxation on SMEs, to find out the effect of implementation of tax policies on the performance of SMEs. Three research questions were answered. Chapter two dealt with review of related literature which dealt with concept of taxation, types of taxation, taxation of SMEs and tax compliance and SMEs, contribution of tax policy on the growth of SMEs. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. A descriptive survey design was adopted for the study and the target group for the study comprised 357 SMEs. A self developed questionnaire was used to collect data. The data was analyzed and the results presented in tables for discussion. It was recommended among others that Small and medium

enterprises should be levied lower amounts of taxes so that they would have enough funds for other activities that will lead to business growth. Furthermore it will help SMEs get better equipped to survive in a competitive market. The government should consider increasing tax incentives and exemptions as this will not only attract investors who are potential tax payers, it will encourage voluntary compliance and ultimately leads to expansion of existing business interest of the SMEs in Nigeria.

5.2 Conclusion

The best tax policy to suit SMEs and encourages tax compliance in Nigeria should be to lower both compliance costs and administrative costs, reduce uncertainty faced by taxpayers. The tax policy needs to be designed such that the rates are appropriate and rational. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth. A low tax rate policy is instrumental to the survival and growth of these small and medium enterprises.

It can be concluded that small business owners are aware of tax reforms, their relevance to businesses and evidence of growth. They indicated that they comply with tax obligations. This state of affairs seems to support the view that tax reforms could lead to formalization and hence growth of small businesses. They however stated some factors that prevent them from filling

returns and these include limited time on their part as well as long queues and procedures they go through in an attempt to pay taxes.

The implementation of tax policies on SMEs growth and the Nigerian economy includes: taxes and complex tax system put disproportionate pressure on smaller businesses. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff and the low amounts of received taxes. A complex regulatory system and tax regime makes tax compliance unduly burdensome and often has a distortionary effect on the development of SMEs. On the contrary, it increases the governments tax revenue, since the simplified provisions for a micro enterprises historically reduce the size of the shadow economy and the number of non-complying registered taxpayers.

5.3 Recommendations

The following recommendations have been put forward for considerations.

1. The tax policy should be designed in a manner that it will encourage those who are potential tax payers to adopt voluntary compliance and ultimately leading to expansion of existing business interests of the SMEs in Nigeria.

2. Reforms in taxes in small businesses aimed at motivating them to comply and formalize should be designed in such a ways as to enable them comply with them with relative ease. In effect, these reforms should be easily understandable by all parties involved.
3. For small and medium enterprises to get better equipped, they must have enough funds and survive in a competitive market, the rate of tax levied on the small business should be lower.
4. Government should promulgate a policy that will help to avoid illegal taxes, such as community levy, boys or youth levy and as well as association or union levy. Any policy that will push for enough funds and other activities that will lead to small and medium enterprises growth is good for promulgation.
5. There should be consistency in tax policy that will cushion the effects of factors that militate against the expansion of SMEs in relation to their ability to pay taxes by government.

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APPENDIX I

Department of Business Administration &
Management,
College of Business & Management Studies,
Kaduna Polytechnic,
P.M.B.2012,
Kaduna.

Dear Respondents,

REQUEST FOR RESPONSE TO QUESTIONNAIRE

I am a student of Higher National Diploma in the above named department undertaking a research on the topic “**The Effects of Nigeria Tax Policies on the Performance of Selected SMEs in Kaduna Metropolis**”. This is in partial fulfillment of the requirement for the award of Higher National Diploma in Business Administration and Management.

All these questions are strictly meant for the purpose of this research work. Kindly read through the questions carefully and sincerely answer them as your response will to a large extent form part of the bases of any conclusion and recommendation.

Yours Faithfully,

MANNIR IBRAHIM
The Researcher

APPENDIX II
QUESTIONNAIRE

SECTION A

CHARACTERISTICS OF RESPONDENTS

1. Sex: Male [] Female []

2. Age: 18-25 [] 26-30 [] 31-40 [] 41-50 []

3. Educational level: Primary [] Secondary [] Tertiary [] None of
the above [] Service []

4. Nature of business? (a) Manufacturing [] (b) Retail []

5. How many years have you been in business 1-5 [] 6-10 [] 11-15 []
over 20 []

SECTION B

To what extent does current tax policies has effect on the performance of SMEs?

S/N	STATEMENTS	SA	A	UD	D	SD
1.	The effect of current tax policies on SMEs has lead to tax evasion.					
2.	Tax rates are appropriate and rational.					
3.	Tax policies are affecting the business negatively.					
4.	Government incentives such as tax rebate is supportive.					
5.	The tax policy on the SMEs is positively impactful.					

SECTION C

To what extent does reforms on taxation has effect on SMEs?

S/N	STATEMENTS	SA	A	UD	D	SD
6.	Capital Gain Tax Act of 1990.					
7.	Company Income Tax Act of 1990.					
8.	Stamp Duties Act of 1990.					
9.	Value Added Tax Act of 1993.					
10.	Tax and Levies Act of 1998					

SECTION D

To what extent does implementation of tax policies has effect on SMEs?

S/N	STATEMENTS	SA	A	UD	D	SD
11.	SMEs is faced with lack of access to long term capital.					
12.	The mortality rate of small firms is very high.					
13.	The incessant tax increase has become a burden.					
14.	Voluntary compliance is triggered by the tax authority.					