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THE IMPACT OF TAXATION ON INVESTMENT IN SMALL AND MEDIUM-SCALE ENTERPRISES IN NIGERIA
: A case study of Enugu metropolis

By

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Abstract

Small and Medium scale Enterprises (SMEs) play a very important role in development of an economy. This sector makes up about 97% of the entire economy of Nigeria, they serve as the source for employment generation, innovation, competition, economic dynamism which ultimately leads to poverty alleviation and national growth and development. Some investors prefer to keep their money in the bank or invest in other sectors rather than invest in SMEs due to taxation issues in Enugu state.

The purpose of the research is to determine how taxes affect investment in small and medium-sized businesses in the state of Enugu. Data for the study were gathered using a survey methodology with a sample size of 350 questionnaires. Using the statistical program for social sciences (SPSS), simple/percentage was used to analyse the data, and the study hypothesis was tested with chi-square.

The study found that taxing had a detrimental effect on SME investment, despite the common notion that taxes are a key source of income for the government to support economic growth and the supply of social amenities.

The study also discovered that giving tax breaks to business owners will inspire them and draw in investors. The tax policy needs to be adequate to ensure it won't burden SMEs or deter investors in order to produce thriving and vibrant SMEs and attract and stimulate investment in the sector.

The study suggests that the government cut tax rates, take into account the size of the company before taxing it, and create a tax policy that takes the improvement of SMEs' capital allowance into account when applying taxes. The government should also offer tax breaks and create tax laws that promote investment by combining all applicable taxes into a single payment to prevent double taxation.

Chapter one

Introduction

1.1 Background of study

Every nation aspires to develop into a civilized nation with a robust economy. Tax payment is an indication of this desire, despite the fact that income earners view it as government exploitation (Fatai, 2011). Taxation is a major tool for economic development because it provides the government with revenue.

According to Aguolu (2014), taxation is the term used to describe the government's requirement to collect a fee on its citizens' income, capital, or consumption. Regardless of whether a tax is direct or indirect, it can encourage or discourage investment. For example, a high marginal tax rate of more than 50% will discourage investment, whereas a low marginal tax rate will encourage it. Fatai (2011).

According to Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) the mortality rate of these small firms is very high and with low investment.80% of SMEs die before their 5th anniversary and investors are scared away from investing in small firms. Among the factors responsible for the untimely death and lack of investment are tax related issues ranging from multiple taxation, high tax rate, tax complicity and poor enlightenment, tax policies and regulation which among others do not encourage investment in small scale enterprises (Ebere U.O, Eunice C.O, & Chimaobi V.O, 2016)

A country’s tax policies and systems are greatly related to business ventures in that country. An economy that enacts favorable and progressive tax laws and policies will definitely breed successful and finance-healthy business organizations. Once businesses flourish, the economy flourishes as well, as there is no quicker way of stirring the affairs of an economy without the help of organizations that move services, goods, money, and investments from those with surplus to those with deficit; those with marketable ideas/output to those who need these ideas and products. In essence, businesses and tax policies greatly depend on one another for survival if one is greatly affected, the other follows suit (Ocheni & Gemade 2015).

1.2 Statement of the problems

A study carried out by the Federal Office of Statistics shows that in Nigeria, Small and Medium scale Enterprises (SMEs) make up 97% of the economy (Stephen, 2011). Although there is a general perception that tax is an important source of funds for the development of the economy and the provision of social services; however, there are some problems faced by the entrepreneurs which affect the business's ability to sustain itself and to expand and could have a far-reaching consequence in choosing investment in small and medium enterprises, which will in return affect the number of jobs created in a given economy.

Small and Medium scale Enterprises (SMEs) are faced with the problem of high tax rates, multiple taxations, complex tax regulations, and lack of proper enlightenment or education about tax-related issues. Not minding other challenges that SMEs are facing in other developing countries like Nigeria; inadequate capital, poor technical and managerial skills, environmental effects, and government regulations which affect the operation of SMEs, in Nigeria especially this issue of multiple taxation which is a worm deeply eating chunks of revenues generated by these SMEs for their growth and survival. These have led to an increase in the record of death in small and medium-scale enterprises (Ocheni & Gemade, 2015).

These are problems because they can affect the size and strength of the small business population who might otherwise form new businesses. Secondly, it can slow down the rate at which small businesses are able to grow by making it more difficult for them to finance a rapid expansion. Lastly, they can weaken the desire and the ability of small firms to survive as independent enterprises by making gains from sales or mergers look more attractive than the income to be derived from continued operation.

High income and corporate tax reduce the disposable income of persons in the middle and upper-income classes, they are intended to reduce the supply of equity funds available to finance new businesses and to the extent that they return the prospective returns from the purchase of shares in new firms, they tend to reduce the attractiveness of such shares for prospective investors (Fatai, 2011).

The size and nature of small-scale enterprises make them unique, therefore, in dealing with them their unique qualities need to be considered. In levying of taxes on these enterprises in particular, issues that need to be considered are how these tax policies can be designed to bolster the growth of small businesses, encourage investment, and the most effective ways to administer them. Taxes increase the cost of production of goods and services which eventually causes prices of goods to surge thus affecting the final consumers which indirectly affects investment.

Taxes are perceived to be a major problem for both upcoming and established firms. Attention should be geared towards the adverse effects of taxes on Small and Medium Enterprises irrespective of the contribution of taxes to gross domestic product (GDP) because they are seen as the driving force for the growth of a nation's economy and if not properly handled will affect the economy by reducing job opportunities and thereby increasing the level of unemployment and low standard of living. (Ocheni & Gemade, 2015).

The above-mentioned problems triggered me to research more into the topic impact of taxation on investment in small and medium scale Enterprises (SMEs).

1.3 Objectives of the study

The objective of this study is to ascertain empirically, the impact of taxation on investment in small-scale enterprises. From whence specific objectives are derived as follows:

1. To ascertain the relationship between taxation and investment in Small and Medium scale Enterprises (SME).
2. To investigate if there is any significant relationship between taxation and the profit or return of small and medium entrepreneurs.
3. To examine the importance of government tax incentives to Small and Medium scale Enterprises (SMEs).

1.4 Research questions

1. Is there any significant relationship between taxation and investment in Small and Medium scale Enterprises?
2. To what extent does tax affect the profit or earnings of entrepreneurs?
3. To what extent does government tax incentive encourage investment in Small and Medium scale Enterprises?

1.5 Statement of hypotheses.

2 There is no significant relationship between taxation and investment in Small and Medium scale Enterprises.
3 There is no significant relationship between taxation and entrepreneurs' profit.
4 Tax incentive does not encourage investment in Small Medium scale Enterprises.

1.6 Scope and delimitation of the study.

This research aimed at finding the impact taxation has on investment in Small scale Enterprises in Enugu, Nigeria. The study seeks to find out whether there is a significant relationship between taxation and investment in SMEs, entrepreneurs profit and also the impact tax incentives will have on SMEs. The study will focus primarily on Enugu metropolis to enable the researcher carryout an extensive investigation on this topic. Primary data was used for the study and Questionnaires were distributed to SMEs in Enugu metropolis.

1.7 Significance of the study

The findings of this research shall be of immense significance to the following people in various ways;
To researchers and students; the finding of the study is expected to contribute to the existing literature about taxation and its impact on Small and Medium scale Enterprises(SMEs)

1 Tax authorities and government; the study will guide them in adjusting policies and the need for tax incentives in order to encourage investment both domestic and foreign.
2 Taxpayer (entrepreneurs and investors.) The study will enlighten them on tax issues and their tax obligation.
3 The accomplishment of the study will enable the researcher to acquire skills for processing of research works and data analysis, more knowledge about taxation, and small and medium scale Enterprises.

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Chapter two

Literature review

2.1 Conceptual review

This chapter gives an insight into the various studies conducted by other researchers, theories, and explained terminologies with regard to taxation and investment in small and medium scale Enterprises in Enugu state, Nigeria.

2.1.1 The concept of taxation

The political, economic, and social development of any country depends on the amount of revenue generated for the provision of infrastructure in that given country. However, one means of generating the revenue for providing the needed infrastructure is through a good structure tax system. Azubike (2009) as cited in Okoli, W.W & Edmade E (2010) is of the view that tax is a major player in every economy of the world. The tax system is a means through which the government generates the revenue needed for discharging its obligations. A tax system is one of the most effective means of mobilizing a nation's internal resources and it also helps in creating an environment conducive to the promotion of economic growth. Nzontta (2007) as cited in (Okoli, W.W & Edmade E (2010) on the other hand, argues that taxes constitute key sources of revenue to the federation account shared by the federal, state local governments.

Tax is a major source of government revenue all over the world. the government uses tax proceeds to render their functions such as the provision of public goods, maintenance of law and order, defense, regulation of trade and business to ensure social and economic maintenance.

Adeisi (2004) defines tax as "a compulsory levy imposed by a public authority or the government on income, capital, profit or wealth of an individual, a group of persons such as a community, estate, corporate and unincorporated bodies for the purpose of obtaining revenue to meet the need of the society. He went further to say it is "a device or a system for generating public revenue through different types, forms, and classes of tax."

Aguolu (2014) taxation is defined as the compulsory levy by the government through its various agencies on the income, capital, or consumption of its subjects. These levies are made on personal income such as salaries, business – profits, interest, dividends, commissions, royalties, rent, etc.

Adebisi (2010) sees tax as “a legal demand made by the federal government or state government for its citizens to pay money on income, goods and services”.

In the Chartered Accountants of Nigeria (ICAN) study pack (2010) on the introduction to Nigeria's tax system. Tax is defined as “a contribution levied by a sovereign power on the income, goods, services, profits or properties of individuals and corporate persons, trustee and settlements”. It went further to state that it is a peculiar burden laid upon the individuals, or property to support the government and it is a payment enacted by legislative authority.

Nigeria runs a tripartite tax administration system where tax assessment and collection are presently carried out through the revenue collection agencies of the State and Federal Governments of Nigeria: The State Board of Internal Revenue (SBIR) and the Federal Inland Revenue Service (FIRS) and the tax administration in Nigeria are basically imposed through Acts of the National assembly.

The definitions of tax are somewhat inexhaustible as there can be as many definitions as there are economists in the world. But from the definition given above, it can be deduced that any definition of tax should have some basic elements. These elements are the primary features of tax and they are;

2.1.2. Features of tax

1 It is mandatory.
2 It must have legislative authority.
3 It is usually imposed by the government.
4 It is usually meant to support the government.
5 It can be generally said that any charge not having all of those features cannot really be called a tax, that is a charge may have all the above features and yet not qualify to be called a tax.

2.1.3 Objectives of Taxation

Although the tax structure in the various developing countries differs widely, the objectives of taxation in these countries are virtually the same, the objectives of the tax system and the relationship between these objectives are hardly clearly stated. This not only makes tax administration difficult but also gives room for tax evasion with effects on economic development. Cutt (1969) therefore, states the objectives of taxation as outlined below:

(a) Revenue generation

The classical function of a tax system is the raising of the revenue required to meet government expenditures. This income is required to meet the expenditure which is either the provision of merit, public goods and services which members of the public cannot provide such as defence, social amenities, or maintenance of law which the federal and state governments feel are better provided by itself such as health services and education.

(b) Wealth redistribution

In modern times, great emphasis has been placed on the objective of redistribution of wealth. This has two quite distinct forms. The first is the doctrine that taxation should be based on the ability to pay which is summarized by the saying that "the greatest burdens should be borne by the broadest backs." The second form presupposes that the present distribution is unjust and concludes that this should therefore be undone. This second principle sees confiscation as a legitimate objective of taxation.

(c) Economic price stability

It has been said that the most fundamental reason a government has for taxing its citizens is to provide a reasonable degree of price stability within the nation. Most spending by the public and private sectors without taxes generates high demand, which is inflationary. In such a situation, the function of taxation is to reduce private expenditure in order to allow the government to spend without causing inflation. Thus, taxation is basically a deflationary measure. On the other hand, when aggregate demand is lower than the deserved level, the government has two options which are to increase government spending by increasing taxes or to reduce taxes while leaving government spending stable.

(d) Economic growth and development

The overall control or management of the economy rests on the central government and taxation plays an important role in this direction. In addition to maintaining reasonable price stability, governments are determined to promote the near-full employment of all the resources of the country (including human resources i.e., labour) and ensure a satisfactory rate of economic growth. Economic growth and development programmes are geared towards raising the standard of living of the masses of a country through the improvement of their economic and social conditions. Taxation in one way discourages, postpones or reduces consumption and encourages saving for private investments. This is only possible when the basic necessities of life including security, law and order, education and communication are provided by the government, hence, the national development plans of developing countries are considered to be important. This objective will be of great assistance to Nigeria where there is mass unemployment in the labour force and economic resources.

ICAN (2010) state the following as the three major objectives the government should take into consideration when designing a tax policy:

1) The first objective of taxation is to raise revenue to meet government expenditures. Thus, taxation has always been employed to raise sufficient revenue to satisfy the needs of the government, such as the provision of services like defence, law and order, health services and education. Revenue from taxation can also be spent on capital projects, otherwise called capital expenditures, creating a social life for the people and also enabling the economy of the country to grow. Thus the most important objective of any reform is to raise more revenue.

2) The second objective is the redistribution of income and wealth. This can be looked at from two angles. The first is the doctrine that taxation should be based on the ability to pay, so that the burden of taxation ought to be heavier for the rich men than for the poor, with the taxes collected being used to pay for social services for the less fortunate. This is achieved by the graduation or progressiveness of the tax rates which as being unjust and so attempts to reserve the situation by fixing taxes at concessionary rates in favour of the poor.

   High taxes on the income and wealth of the rich can produce either incentive or disincentive effects. Sometimes, a taxpayer's spendable income is reduced through taxation so he is compelled to work hard in order to maximize his income. Taxes that produce incentive effects, therefore, increase productivity. On the other hand, a high marginal tax rate can produce disincentive effects which make the worker take to leisure rather than to extra work. This disincentive effect is an indication of economic inefficiency and waste.

3) The last objective is the management of the economy. Taxation is important in the planning of economic structure; the government can use taxation as a powerful fiscal weapon to plan and develop a country. Taxation can be used to achieve specific economic objectives of a nation.

It can also be designed in such a way as to direct private investment in line with national needs and priorities. The tax system can be used to regulate or discourage particular activities of citizens which are thought to be undesirable on social grounds, such as drinking alcohol, smoking etc.

4. Finally, taxation is a device to improve gross national income, induce economic development and influence a favourable balance of payment with other countries.

2.1.4 Classification of taxes

Many writers on taxation have devised various bases for classifying taxes. Some of such classifications are given below:

Aguolu (2014) classifies taxes based on who actually pays the tax. Thus there two forms of taxes: direct and indirect tax.

Direct tax

Tax is direct if the person pays the tax, i.e. the person assessed, is also the person who bears the burden of the tax. Hence the person who pays the tax is unable to shift the burden to any other person. The burden therefore rests on the tax payer. This is a peculiar feature of profit or income tax, the burden of which is born by the person who pays the tax. Examples of direct tax are income tax, profit tax and capital gain tax.

Indirect tax

Tax is said to be indirect if the person who pays the tax can shift the burden to someone else. The ability to shift the burden of tax will depend on the elasticity or the demand for the goods or services, the object of the tax. If the demand is elastic, then the burden of the tax (to an extent) cannot be shifted but if the demand is completely inelastic, then the burden can be shifted. Examples of indirect taxes are custom duty, excise duty, stamp duty, entertainment tax etc.

Okauru (2009) on the other hand classifies taxes as follows:

1) Taxes imposed on individuals: These are made up of income tax, development levy.
2) Taxes imposed on corporate entities: company income tax, petroleum profit tax, technology levy, education tax.

3) Taxes on transaction and assets: property tax, value added tax (VAT), excise duty, import duty, export duty, stamp duty and capital gain tax.

Classification based on tax rates: Another way of classifying tax is to categorise it on the basis of variation in tax rates. A tax can either be proportional, progressive or regressive.

Proportional tax: A tax is said to be proportional when the same rate is charged on every tax payer irrespective of size of the income.

Progressive tax: A tax is progressive when the rate of taxation increases as income increases.

Regressive tax: A regressive tax results when the incidence of tax reduces with every increase in income or tax base.

2.1.5 Principles of taxation

Adam (1910) in his book "The Wealth of Nations" gave the most important set of principles, which are also known as the "canon of taxation" which are still accepted generally by tax administrators all over the world. The principles of taxation are outlined below:

(a) Equity/Equality of Sacrifices

Adam Smith maintained in these principles that each taxpayer should contribute to the support of the government also referred to as the "state" as nearly as possible in proportion to his ability to pay. Similarly, Musgrave and Peacock (1984) conceived the principles of equity as an equal proportion of taxation on every income that is; in principle, everyone should pay the same proportion of his income as tax. This means proportional taxation or some percentage on all incomes and therefore rejected progressive taxation i.e. (higher tax rates on higher incomes). It also means equal taxation of earned and investment incomes, existing private wealth, and capital.

(b) The Principle of Certainty

This principle asserts that the taxpayer should know how much tax he has to pay, and when it is to be paid. Such information should be adequately accurate and clearly stated by the tax regulations. Thus, neither the amount nor the time of payment should be the subject of arbitrary decisions by tax officials.

(c) The Principle of Convenience

Taxes should be collected at a time convenient for the taxpayers. For example, the Pay as You Earn income tax on salaries and wages deducted weekly or monthly as the case may be as income is received, is a good example of the principle of convenience. Convenience as a principle of taxation has to do with the enforcement of tax and administration. A good tax system should not impose taxes that are impossible to enforce even when people comply with tax laws voluntarily, the government should verify the tax payments, if not the tax becomes an invitation to break the law. Adam (1976) has pointed out that every tax ought to be levied at the time or in the manner in which it is likely to be convenient for the contributor to pay it.

(d) The Principle of Economy

The principle emphasizes that the cost of assessing and collecting a tax should be small in relation to the revenue so collected i.e. economy should be the yardstick so that the cost of collecting tax should not be excessive. For example, if the expenses incurred in the course of collecting a tax exceed even 50 percent of the yield, then such taxes do not conform to the principle of economy.

There are other principles of taxation which include fairness (implying that tax should be fair to the taxpayers as well as being aligned to the benefits received by taxpayers). Taxes paid should be geared towards achieving the goals required for the economic growth of the country. Equity (taxpayer liability should correspond with the individual income).

2.1.6 Investment

The term investment can have more than one meaning. In economics, it refers to the purchase of a physical asset, such as a firm's acquisition of a plant, equipment or inventory or an individual's purchase of a new home. To the layman, the word investment denotes buying a stock, bond or even a house. In either case, the individual or firm wants a productive asset. But investment in this concept means putting funds into a business. An investment is made because the investor anticipates a return (Herbert B. Mayo 2008).

2.1.7 Small and Medium Scale Enterprises (SMEs)

Small and Medium scale Enterprises are all over the world. They have diversified the country's monetary base and provided it with the occasion of responding to a diversity of market conditions. The contribution of SMEs has created jobs and hence reduced the rate of unemployment in the country. These businesses are typically accepted in Eastern Europe and the Soviet Union. The earliest form of business entity in the world is the small business enterprise. According to Barrow (1993), the first known writings about small enterprises suggest that more economies are fed with products and the provision of services through small business enterprises.

In Nigeria, Small and Medium Enterprises are seen as the backbone of the economy and a key source of economic growth, dynamism and flexibility. A study done by the Federal Office of Statistics shows that 97% of all businesses in Nigeria employ less than 100 employees, implying that 97% of all businesses in Nigeria are "small businesses". SMEs provide on average, 50% of Nigeria's employment and 50% of its industrial output/ General statistics. Indeed, there appears to be an agreement that the development of SMEs in Nigeria is a step towards building a vibrant and diversified economy (Arriyo D, 2000).

Some people will undoubtedly consider all businesses with a specific number of employees (5 or 10) to be small. Others would believe that a small business is one that operates only in the local market area. Still, others would classify businesses as small by the kind of firm such as the local drug store, dress shop, neighbourhood store or shoemakers at the corner of the street. Most people will agree that the neighbouring beer parlour and provision stores on the street are small businesses while Nigeria Breweries and UAC group of companies are big businesses. One would probably generate little argument about what is big or small between these two extremes since the size is a relative concept. What appears small in the establishment in terms of employees or sales may be big in another establishment. In distinguishing between big and small businesses some critiques that are used are relative size, type of customer, financial strength and the number of employees.

The definition of small and medium scale Enterprise depends mainly on the level of development of the country. In most developed market economies like the United States of America (USA), the U.K. and Canada the definition criterion adopted a mixture of annual turnover and employment levels. In Nigeria, the Small and Medium Industries Enterprises Investment Scheme (SMIEIS) defines small and medium scale Enterprises as any enterprise with a maximum asset base of N200 million excluding land and working capital with a number of staff employed not less than 10 or more than 300. Nwokoye N.G (2001) defines Small and Medium-Scale business as "any enterprise employing between five and one hundred workers with an annual turnover of about four hundred thousand Naira (N400,000).

Also, the central bank of Nigeria's credit policy currently defines Small and Medium scale Enterprises (SMEs) for the purpose of commercial and merchant bank loans as one whose total cost of land including working capital is above #1 million but does not exceed #2 million.

Furthermore, the Nigerian Bank of Commerce and Industries (NBCI) because of its reviving loan scheme for small-scale industries defined SMEs as those investing not more than #500,000 (including working capital but excluding the cost of land).

Small and Medium scale Enterprise (SMEs) or business is not limited to only institutional definition alone. Ekpenyong (2005), defined Small and Medium scale Enterprise as those enterprises that have relatively little capital investment, that produce in small quantities and as a result, control a small share of the market, that employ not more than fifty employees and which management, marketing and entrepreneurial function are vested in the proprietor.

Small and Medium scale Enterprises exist in the form of sole proprietorship and partnership, though some could be registered as limited liability companies and characterized by: simple management structure, informal employer/employee relationship, labour-intensive operation, simple technology, the fusion of ownership and management and limited access to capital.

The major sources of funding available to SMEs in Nigeria include personal resources, family and friends, partners or business associates, informal financial markets, banks, specialized funding facilities e.g., NERFUND and specialized financial institutions e.g., NBCI, BOI, NIDB etc.

Their role in economic development includes technological/industrial development, employment generation, technology acquisition, capacity building, promotion of economic growth, increased standard of living, industrial dispersal or spread, servicing of large-scale industries, export promotion, structural transformation of rural areas, flexibility and low take-off requirements.

2.1.8 An Overview of Small and Medium scale Enterprises (SMEs) in Nigeria

Several scholars have confirmed that SMEs are instruments of economic growth and development, regardless of whether the economy is developed or developing. (Arriyo D, 2000)

According to the Nigeria Bureau of Statistics, about 97% of the entire enterprises in the country are SMEs, which employ an average of 50% of the working force and also increase the country's industrial output to about 50%. Arriyo D (2000) agrees that the importance of small businesses in Nigeria is beyond just boosting economic growth but is also the backbone of the nation's development.

Small and medium-scale enterprises contribute nearly half of Nigeria's GDP and account for over 25% of employment in the country. The 2012 Enterprise Baseline Survey revealed that there are 17 million SMEs in Nigeria, employing 32.4 million persons and making a contribution of about 46.54% to the nation's Gross Domestic Product (GDP) in nominal terms.

The survey conducted by the pro-poor Growth and Promotion of Employment programmes developed in collaboration with SMEs Development Agency Nigeria (SMEDAN) with support from a German development agency was aimed at establishing a clear data-driven basis for policy to support the SME segment of the economy. According to the report, SMEs make up the overwhelming majority of private businesses in Nigeria, which is in excess of 17 million registered enterprises. unveiling the report, the head of the component enabling environment Pro-Poor Growth and Promotion of Employment in Nigeria programme Dr Manfred Matzdorf said that the importance of credible reliable data is crucial in Nigeria's planning and policy formulation. He said that the precondition for the growth of any economy is competitiveness and investment.
Nigeria is in the present predicament because the SMEs sector has not been given the right environment to grow and every sector in the economy depends on SMEs (Emmanuel Elebeke 2012)

Small businesses have been operating in Nigeria since independence, but during the adoption of the indigenization policy through the national development plan programmes between 1970 -1979 Nigeria gave conscious effect towards SMEs as a tool for economic growth. The development plan focuses on self-reliance through industrialization entrepreneurial development, employment generation and development through increasing export trade, federal government intervened to make SMEs in Nigeria become major players in the economy through some regulations. Some of these regulations include; Nigeria Enterprises Promotion Act no. 3 of 1977, patent Right and Design Act no, 60 of 1979, Custom Duties (dumped and subsidy goods Act no, 9 of 1959, Industrial Promotion Act NO. 2 of 1929. Industrial development tax Act NO.2 of 1971 among others Alawe T. (2004).

Federal growth also provided microfinance institutions such as the Nigeria Bank of Commerce and Industry (NBCI) National economic reconstruction funds (NERF), peoples Bank of Nigeria (PBN), Community Banks (CB), National Export and Import Bank (NEIB) and many others for effective participation in growth and capacity of small and medium scale enterprise.

Onugu B.A.N (2005) explained that the government in abiding to increase the effectiveness and efficiency of small and medium-scale enterprises further established Raw Material and Research Development Council (RMRD) in 2001, with the intention to give expert advice in their choice of product, delivery strategies. The government also developed training centres such as the Centre for Management Studies (CMS), Administrative Staff College of Nigeria (ASCON) etc. In order to provide a manpower scheme through a combined effort of the banker's forum and the CBN initiative Small and Medium Industry Equity Investment Scheme (SMIEIS) was established in 2001, requiring banks to set aside 10% of their profit before tax to fund Small businesses.

Despite these efforts to boost Small and Medium Enterprises in Nigeria, there has been a rapid decline which has a negative effect on the gross domestic product (GDP). Looking at the manufacturing sector for instance, a survey conducted by the manufacture association of Nigeria argued that about 70% of the Small and Medium Enterprises in Nigeria lie between being operational or on the verge of collapse, while the remaining 30% operate on low-level capacity. In 2009 the manufacturing sector's contribution to GDP dropped sharply to 4.19% from 7%. This implies danger for the economy as manufacturing industries are indispensable in any economy's real growth. Onugu B.A.N (2005)

2.1.9 Features of Small and Medium scale Enterprises in Nigeria

The concept of small and medium scale enterprises is relative and dynamic (Olorunshola, 2003). Small and Medium scale Enterprises are characterized by uncertainty, innovation and evolution. Aderemi (2003) noted that the SMEs in Nigeria are usually small, owner or family-managed businesses 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 (2003) stated that they are mostly sole proprietorships or partnerships, although, on the surface, they may be registered as Limited Liability, while Olorunshola (2003) suggested that this ownership style has led small and medium enterprises have a simple management structure.

Factors also contributing to the reasons Small and Medium Enterprises have a simple management structure are a little number of employees and the owners' low level of education. Since there is no legal personality between the small and medium enterprise and its owners, it means the lifespan of the enterprise is dependent on the lifespan of its owners i.e., there is no perpetual continuity.

Furthermore, the production processes of small-scale enterprises 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 (Olounshola 2003).

They also require lower start-up capital than larger companies. 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 SMEs in most countries is that it is heterogeneous, varying in size from small retail outlets to highly paid professionals, and substantial manufacturing enterprises.

2.1.10 Economic Role of Small and Medium-Scale Enterprises (SMEs).

Small and Medium scale Enterprises have been an important tool of economic development in 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 (2009) sees SMEs as one that will enhance the contributions of the private sector and provide the critical building blocks for industrialization and sustainable economic growth. Small-scale enterprise broadens the base of participation in society, decentralizes economic power and gives people a stake in society's future.

SMEs have also been recognized as a channel for improving the efficiency of domestic markets and making productive use of scarce resources, thus facilitating long-term economic growth in poor countries (Williams, 2006) as cited in (Stephen A.O, 2011). 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.

Anyanwu (2006) as cited in Oluweremi F, Odelabe A.T., Lawal B. (2016) in an interview with the Vanguard Newspaper on Strategies for Nigerian SMEs to grow the economy, opined that the role of small-scale businesses in the national economy cannot be underestimated. He stated that the impacts of SMEs are felt in the following ways: Greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of an avenue for self-employment and provision of opportunity for training managers and semi-skilled workers.

In Nigeria, there is a dire need to create an enabling environment for the nurturing and development of small-scale businesses so that they could play the crucial roles expected of them in economic transformation. The key roles of Small-Scale Enterprises include mobilisation of domestic savings for investment, significant contribution to gross domestic product (GDP) and gross national income (GNI), harnessing of local raw materials, employment creation, poverty reduction and alleviation, enhancement in the standard of living, increase in per capita income, skills acquisition, advancement in technology and expert growth and diversification. This can however only be realised with the existence of a responsive and vibrant industrial policy and involving the government's overall economic development strategies which will involve all stakeholders and ensure the effective and efficient harnessing, coordination and utilisation of economic resources.

In Nigeria, the organised manufacturing sector is made up of over 95 per cent SMEs (Udechukwu, 2009). Structurally, the Nigerian SMEs mainly those engaged in the distribution of trade constitute about 50 per cent of the SMEs, 10 per cent are in manufacturing, 30 per cent in agriculture, and 10 per cent in service. SMEs account for well over 60 per cent of Nigerian gross domestic product generated mainly in the agricultural, service and distributive trade sectors. One interesting feature of Nigerian SMEs is that the distributive trade component is generally more commercially variable than the manufacturing components, which is why they often emerge as better candidates for financial institutions (Udechukwu 2009).

A major contribution made by SMEs is in the area of employment as they offer a high amount of employment in casual, part-time, low-training, and low-skilled jobs. Being more labour-intensive, small business expansion is more likely to boost employment than large enterprises where expansion means a higher degree of automation and machining. Findings suggest that Nigerians consider entrepreneurship an avenue leading to job security, improving their livelihood and poverty alleviation. Small enterprises are said to be the engine room of innovation and because they enhance competition and entrepreneurship, they have external benefits on economy-wide efficiency, and aggregate productivity growth.

SMEs also serve as veritable means of mobilisation and utilisation of domestic savings as well as increase efficiency through cost reduction and greater flexibility. They have been very prominent in the manufacture of bakery products, leather manufactures, furniture, textiles and products required for the construction industry (Olorunshola, 2003).

According to Akinsulire (2010) as cited in (Stephen A.O, 2011), SMEs accelerate rural development while decreasing urban immigration and the problems of congestion in large cities because they have lesser competition by serving dispersed local markets, are closer to their resources and are cheaper to establish in the urban areas entrepreneurs are attracted to invest thus discouraging rural-urban migration and making for even development.

Small enterprises also contribute to domestic capital formation, play a value-adding role, mobilize private savings and harness them for productive purposes. Ekpenyong & Nyong(2010) sees SMEs as a quasi-sponge for urban employment and a provider of inexpensive consumer goods with little or no import content, serving an important pressure-releasing and welfare-augmenting function. SMEs also contribute to long-run industrial growth by producing an increasing number of firms that grow out of the small-scale sector.

2.1.11 Challenges Faced by Small and Medium-Scale Enterprises (SMEs) in Nigeria.

There are several constraints faced by SMEs that 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 the 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. Similar problems were reported for other regions like the Philippines, Malaysia, European states and Sub-Saharan Africa, including, Nigeria. (Aderemi,2003). Uzor (2004) suggested that the constraints faced by small-scale enterprises in developing countries are not only accentuated by ineffective policy design but also by market failures in the region.

Undercapitalization:
All business needs money for their operation and growth, but many of the small business units are undercapitalized. They have limited sources of finance and this creates a problem of not starting up a new business and buying merchandise

independently at the best price. This problem of finance is of three dimensions- the need for starting up capital, working capital, and expansion capital. Afolabi, Micheal Oluseye (2011) also saw the problem facing most small enterprises in Nigeria as that of lack of finance. According to him, this lack whether for the establishment of new businesses or to carry out expansion plans, inability to attract financial credit has stiffed the growth of this subsector. In his view, commercial banks who are expected to be the launch pad for the development of small enterprise by the provision of loan has failed to give adequate support to them. Stiff collateral security demanded by the banks often means that small-scale enterprises are unable to meet these provisions consequently losing the chance of obtaining a loan. In addition, high-interest rates charged on loans have scared off potential entrepreneurs.

Management Problems

Lack of trained manpower and management skills also constitutes a major challenge to the survival of SMEs in Nigeria. According to West and Wood, "90% of all these business failures result from lack of experience and competence." Inefficiency in overall business management and poor record keeping is also a major feature of most SMEs; technical problems/competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misapplication, and wrong and costly decision making.

Inadequate basic infrastructure

The government has not done enough to create the best conducive environment for the striving of small businesses, the problem of infrastructure ranges from shortage of water supply, inadequate transport systems, and lack of electricity to improper solid waste management. Nigeria's underdeveloped physical and social infrastructures create a binding constraint to Small Scale Enterprises' growth since they heavily rely on the inefficiently provided state infrastructures and cannot afford the cost of developing alternatives.

Socio-Cultural Problems: Most Nigerian Entrepreneurs do not have the investment culture of ploughing back profits. The attitude of a typical Nigerian entrepreneur is to invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against made-in-Nigeria goods is significant, most Nigerians have developed a high propensity for the consumption of foreign goods as against their locally made substitutes.

Strategic Planning Problems: Small businesses often do not carry out proper strategic planning in their operations and sound planning is a necessary input to sound decision-making.

Location/Economic Problems: Market stores are dominated by absentee landlords who charge exorbitant rates. The ownership of market stores by politicians is crowding real small-scale operators out of the market. The high rents charged by store owners in good locations have forced real small-scale operators into the streets or at best into accessible places. Also, domestic economic problems of deregulation and removal of protection as well as the global financial crisis have been detrimental to SMEs.

Poor Accounting System: The accounting system of most Small Enterprises lacks standards hence, no proper assessment of their performances. This creates an opportunity for mismanagement and eventually leads to the downfall of the establishment.

Double taxation: This has become a major problem, especially given the role of tax consultants and agents hired by local governments. They are often crude in their operation, excessive in their assessment and destructive in their relationship with the production process. They tax everything in their bid to generate revenue without considering the net effect on household incomes and employment.

Unstable policy environment: Instability in government policies has caused some Small Scale enterprises to collapse. One such policy is that of the 1980s when the government specified that cocoa should not be exported in raw or unprocessed form after a specified deadline. This negatively affected so many SMEs in the cocoa industry. The present high mortality rate of small enterprises in Nigeria is awful to contemplate and institute danger to the entire economic system. It represents serious financial pressure on the nation's economy as well as a waste of valuable resources. The survival of small businesses is only possible through a systematic analysis of the problems they are facing and mapping out appropriate strategies for overcoming them, through a proper understanding of the business environment. For a business to survive in unfriendly environmental conditions it should adopt a strategy that utilizes its strengths to exploit opportunities while avoiding its weaknesses

2.1.12 Tax Policy and the Growth of Small and Medium-Scale Enterprises

According to Tomlin (2008), as cited in (Ocheni S.I & Gemade T.I, 2011), economists argue that the resources of smaller companies directed towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that 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 and tax rates are the same for both small and large enterprises. Reducing compliance costs and tax rate increases the small enterprise's 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 (Ocheni S.I & Gemade T.I, 2011).

Furthermore, SMEs usually have to operate in an overbearing regulatory environment with many regulatory agencies, multiple taxes, cumbersome importation procedures and high port charges that constantly exert a serious burden on their operations (Stephen A.O, 2011).

2.1.13 Government Policies and Programmes for Small-Scale Enterprises Development in Nigeria

The Small and Medium scale Enterprises operating in Nigeria are not shielded or immune from the typical problems and constraints of SMEs in other developing countries. Almost every country assists its SMEs largely because of the inherent role they play in economic growth and development. The assistance is usually in the form of facilities and supportive services rather than protection and subsidies. Other services provided by some governments include commercial finance, venture capital, information training and retraining, research and development (R&D) support, infrastructure and tax incentives. Some of these facilities are provided through local authorities and industry associations at times with the involvement of non-governmental organisations (NGOs). In recognition of the crucial roles played by SMEs with respect to economic growth and development, governments in Nigeria had various initiatives aimed at promoting the welfare of small businesses in the country. The most tangible among the different incentive packages that varied with almost every change in government leadership was the focus on enhancing the financial opportunities for the SMEs. Some of the support institutions and opportunities created by the government to enable small businesses to access funding in the past 30 years include:

(a) Mandatory Credit Guideline in Respect of SMEs (1970).
(b) Small Scale Industries Credit Guarantee Scheme (1971).

(c) Agricultural Credit Guarantee Scheme (1973) Nigeria Agriculture and Co-operative Bank (1973).
(d) Nigerian Bank for Commerce and Industrial Rural Banking Scheme (1977).
(e) The World Bank Assisted SME I (1985) and The World Bank Assisted SME II (1990) Second–Tier Security Market (1985).
(f) Peoples Bank (1989).
(g) National Economic Reconstruction Fund (1992).
(h) Small and Medium Scale Enterprises Loan Scheme (1992).
(i) Family Economic Advancement Programme (1997).
(j) African Development Bank – Export Stimulation Loan Scheme (ADB-ESL) in 1988.
(k) Bank of Industry (BOI) - being a merger of NIDB, NBCI and NERFUND) in 2001.
(l) Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB) - a merger of NACB, Peoples Bank and Family Economic Advancement Programme (FEAP) in 2002.
(m) Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2004.
(n) Microfinance banks.
(o) Small and Medium Enterprises Credit Guarantee Scheme for SMEs 2010.

The above institutions are designed to provide succour to SMEs, notwithstanding the sector, is yet to find its bearing in Nigeria's business environment. This accounts for the government's recent introduction of the last four support schemes i.e., BOI, SMEDAN, the SME Credit Guarantee Scheme, and Microfinance banks.

2.1.14 Policy Measures That Will Encourage the Growth of SMEs

The government has been playing a lot of roles to enhance productivity and ensure a better environment for small businesses for the betterment of the economy in general. The truth still remains that effort is seen not to be enough, this was supported by Ogujuba, K.K, and Adeuga (2004). Iwuji, G.O (2003) argued that the role of government is to provide an enabling environment and social services that support businesses. This means enhancing the investment climate in Nigeria to increase economic growth and subsequent tax contribution from all citizens. This is necessary because a good number of SMEs operate in the informal economy due to the fact they believe the tax environment within which they operate to be unfavourable. Policy measures have to be put in place to ensure that small and medium enterprises experience growth in a positive direction. For one to experience efficiency when it comes to tax policy, there is a need for diverse policies and measures to be put in place. These tax policies should be designed in such a way that will contribute to small businesses in a positive direction and also contribute to the economy in general. Tax policy will help them perform better and this will contribute to the Gross Domestic Product (GDP) of the economy and in turn will enhance economic growth, by providing employment opportunities and attracting investment into the economy. The legislation is a necessary regulator for the protection of the business environment and security of the economic agents, for the establishment of the necessary social security regulations but at the same time, it hampers the business with additional expenditures and administrative obstacles. 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 Touché, Price Waterhouse etc) to deal with their tax compliance, planning etc. For SMEs, this is a great expense out of their abilities. (Stephen A.O, 2011)

Shahrodi, (2010) 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 collection organization are more efficient, the tax burden 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 SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SMEs 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 important policy that will encourage the growth of Small-Scale Enterprises is designing tax policies that encourage human capital training. (Yaobin, 2007). Efforts should be made by the government towards ensuring that private sector investment in small and medium businesses is encouraged and also the federal government should ensure that effort is put into developing both the major sectors of the economy and the sub-sectors of the economy. 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 Small-Scale enterprises 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 the artificial splitting of enterprises. Hence government intervention will help maintain balance while helping countries exploit the social benefits of greater competition and entrepreneurship. The European Charter for Small Enterprises, for instance, sets the objective that “Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises.

Furthermore, policy incentives such as tax rebates for SMEs that put effort into local sourcing of raw materials, adding value to commodities for exports and other business ethics, should be employed by the government. Also, the 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. The use of tax incentives is encouraged because they are “fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country. They are deliberate reductions in tax liability to compensate for deficiencies in the investment environment and entry of players into the sector, thus attracting investment and creating a prospective source of tax revenue, encouraging savings and stimulating investment that leads to a better economy.

Another effort that can be put in place by the government to ensure the growth of Small-Scale Enterprises is by ensuring simplicity of tax payment. The simplicity of tax payment in SMEs will encourage them to continue in the business and also ensure that potential investors are encouraged to invest in SMEs.

Others are continued reduction of tax rates for SMEs, improving the technological development of preferential tax policies which will invariably reduce the compliance costs of SMEs and strengthening the services of tax administration towards SMEs.

2.1.15 Tax Incentives and the Growth of Small-Scale Enterprises

It has been a great concern to all sundry to promote the welfare of SMEs and that of the sub-sector. The government have been making an effort to provide an enabling environment that is conducive to the growth and development of small industries, shield existing investment from unfair competition and stimulate the expansion of domestic production capacity. The government have developed an incentives package for Small Scale Enterprise.

In the early 1970s, the Nigerian government gradually expanded its control over the private sector favouring investment in the key sector and protecting infant industries from foreign competition. This is largely due to the reason that the government accepted the Small and Medium Enterprises as the engine of growth and the creator of wealth and a major factor in promoting private sector development. A major gap in Nigeria's industrial development in the past has been the absence of strong Small and Medium Enterprises.

Small and Medium scale Enterprises by their nature are supposed to be the bedrock of the economy, but the operating environment has been very harsh for them to thrive. Tax incentives developed by the government if properly implemented will attract new investors in the business and also encourage existing entrepreneurs to expand their businesses and also reduce the motility rate of SMEs in Nigeria. For instance, when the tax rate is reduced or a tax holiday is granted for 5-10 years, that money that could have been paid as tax will be reinvested back into the business which in turn stimulates the growth and expansion of the business and will also help entrepreneurs to maximize profit (Oluweremi F, Odelabe A.T., Lawal B.2016)

In the bid to maintain rapid growth among the new establishments, SMEs' fiscal incentives become a vital tool for investment promotion strategy. Fiscal incentives can play an important role in attracting and encouraging firms to expand supply by stimulating their investment power. Fiscal incentives available at the disposal of the Nigerian government with which it can encourage investment in Small Scale enterprises include; reducing tax through flat tax and tax stability agreements and subsidies or granting tax holidays and investment allowances. The fiscal incentives include tax relief for small firms during the first 6 years of operation, granting of pioneer status for a possible extension of 2 years for enterprises located in economically disadvantaged areas and provision of relief for investment in infrastructure allowances and minimal local raw material utilization income of 20%, export incentives include the introduction of import duty, export credit and insurance scheme (Oluweremi F, Odelabe A.T., Lawal B.2016)

2.2 Theorical Review

According to Eftekhari, (2009), taxation has always been an issue for the government and taxpayers alike from the early years of civilization. The issue of taxation has generated a lot of controversy and severe political conflicts over time. According to its importance, several economic theories have been proposed to run an effective system. Taxes are generally classified under different theories as given: the ability to pay theory, benefit approach, expediency theory, cost of service theory and equal distribution principle. However, this work will be anchored on the ability to pay theory (Stephen A.O, 2011).

2.2.1 Ability-to-Pay theory

As the name suggests, it says that taxation should be levied according to an individual's ability to pay. It says that public expenditure should come from "him that hath" instead of "him that hath not". The principle originated in the sixteenth century, the ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean-Baptist Say (1767-1832) and the English economist John Stuart Mill (1806-1873). This is indeed the basis of 'progressive tax,' as the tax rate increases by the increase of the taxable amount. This principle is indeed the most equitable tax system and has been widely used in industrialized economies.

The usual and most supported justification for the ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as (I) each taxpayer surrenders the same absolute degree of utility that she/he obtains from her/his income, or (ii) each sacrifices the same proportion of utility/he obtains from her/his income, or (iii) each gives up the same utility for the last unit of income; respectively.

2.2.2 Theory of Business Growth

Various authors have postulated theories on business growth. The oldest and the most used theory according to Elhiraika and Nkurunziza (2006) 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 the context of private sector development given that they create more employment than small firms. Conversely,

Jovanovich (1982) 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; Jovanovich 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 older firm in the same sector as time goes by.

Church and Lewis (1983) as cited in Olawale & Garire (2010) on the other hand claim that as a new small firm start and develops, it moves through some growth stages. He also identified the stages of growth as; existence, survival, success, take-off and resource maturity. In each stage of development, as different sets of factors are 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 growth 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 business survival could be equated with a firm that has fully completed the transaction to the stage - two organizations in the five stages of small business growth.

2.3 Empirical Review

Fati (2011) in his work "Small and Medium Enterprises in Nigeria: the problem and Prospective" examine small and medium enterprises in Nigeria in relation to those challenges which affect their developing capacity to realise their full potential as well as the prospects for improvement and development for employment generation, economic growth and national development. He found out that the challenges and problems of SMEs are fixed to some economic variables and challenges like high levels of unemployment, high poverty incidence and low industrialization capacity, lack of finance, inadequate infrastructure and insecurity of business environment among others the delay in the approval and implementation of the budget also delays the investment decision of small and medium scale enterprises, especially on tariff and taxes measure in their trade decision. High cases of government regulatory agencies, taxes and levies by different levels of the government have resulted in double taxation leading to the high cost of running a business and investors seem not to be encouraged by these factors.

Ebere U.O, Eunice C.O, Chimobi V.O (2011) "Impact of multiple taxations on investment in Small and Medium scale Enterprises" The study used a survey design with a SMEs population of 80. It was found that multiple taxation has a negative effect on SME investment. The relationship between SMEs' investment ability to pay tax is significant.

Stephen Aanu Ojeka (2011) "Tax Policy and the Growth of SMEs: Implication on Nigeria's Economy" the study used survey design and Spearman's Rank correlation. He concluded that SMEs play an important role in the growth and development of the Nigerian economy and that a friendly tax policy is instrumental to the survival and growth of these small enterprises. However, taxes for small businesses have been more harmful than beneficial as they increase running costs and slow down growth. Most of the SMEs surveyed are faced with the problem of high tax rates, taxation, complex tax regulations and lack of proper enlightenment or education about tax-related issues. Therefore, if SMEs are to flourish, an appropriate tax policy has to be in place, government should reduce the tax burden on small businesses, and pay more attention to implementing tax incentives so that investors could be encouraged to invest which will also encourage voluntary compliance.

Also, Okoi, and Wilfred (2010) investigated the impact of tax on investment and economic development in Nigeria from 1980- 2010. The ordinary least square method of multiple regression analysis was used to analyze the data. The economic implication of the result is that one per cent (1%) increase in capital income tax will result in a decrease in the level of investment in Nigeria. Consequently, an increase in personal income tax will result in a decrease in the level of investment. The result therefore showed that taxation is negatively related to the level of investment and the output of goods and services (GDP) is positively related to government expenditure they also observed that taxation statistically is a significant fact influencing investment, GDP, and government expenditure in Nigeria.

Furthermore, Aremu and Adeyemi (2011) examined that Small and Medium Enterprises have been considered as the engine of economic growth and for promoting equitable development. In their research, it was noted that the Small and Medium Enterprise sector is the main driving force behind job creation, poverty reduction, income distribution and wealth creation. Their findings showed that most SMEs particularly in Nigeria die within their first five years of existence. It was also revealed that a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten per cent of young companies survive, thrive and grow to maturity. Many factors have been identified as likely contributing factors to the premature death. They include insufficient capital, lack of focus, inadequate market research, overconcentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper bookkeeping, irregular power supply, infrastructural inadequacies (water, roads etc), lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right calibre staff, cut-throat competition.

According to Tomlin (2005) as cited in the work of Stephen A. O (2011) economists argue that the resources the smaller companies direct towards tax compliance are resources that would otherwise use for reinvestment, facilitating future growth. Hence there is a belief that taxes put disproportionate pressure on small businesses. Small taxpayers under the regular system of tax rate are the same for both smaller and larger enterprises which will reduce the profit margin of the entrepreneurs.

A study carried out by Afolabi, Micheal Oluseye "Growth effect of Small and Medium Enterprise financing in Nigeria' the commercial bank credit had been instrumental in financing SMEs growth and development. This implies that SME financing is a driving force for economic development.

Finally, Oluwaremi F, Odelabu A.T, Lawal B.A, Obisesan S. (2016) 'Tax incentives and the growth of SMEs in developing economy- Nigeria experience'. The study employed a descriptive design; primary data was collected on variables contributing to tax influence and their effect on the growth of SMEs. In light of the study reviews the role being played by various governmental tax incentives (they play a vital role in ensuring that SMEs thrive in the environment) on the growth and development of SMEs. The study revealed that there is a significant correlation between taxation and SMEs growth. The researchers recommend that there should be a friendly tax policy for all start-up businesses, for instance, tax holidays or the introduction of growth limits which can be level stable enough to sustain tax payments.

2.4 Apriory expectation

From the theoretical and empirical review of other researchers' work and their findings, with the fact that there is a significant relationship between taxation and Small Scale Enterprises, am expecting a negative result looking at the challenges faced by small business owners and also because the relationship between taxation and investment is negative and also there is a significant correlation between taxation and the growth of Small Scale Enterprises, I expect to obtain a negative result at the end of my research (reject the null hypothesis and accept the alternate hypothesis.

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Chapter three

Methodology

It is not out of place that an action pre-supposed planning, hence this chapter focuses on planning with respect to method and techniques, research design adopted, the nature and sources of data used, model specification, description of research variables and techniques of data analysis.

3.1 Research design

Onwumere (2009) describes in his work that research design is the blue print that guides the researcher. This research will employ the survey design, which the variables under investigation are not controlled by the researcher. This design suits the purpose of this study. The survey design advantageous for assessing large and small population especially where the small population is to be derived from the large population.

3.2 Sources of data

The major pillar of research work is data; data are the differentiation between researches and guess work, imagination, myths and other sources of knowledge. (Onodugo Vincent A. 2010). Both primary and secondary data was used for this research; the primary data consist of questionnaires which were distributed to 350 SMEs in Enugu metropolis with 19 questions, observation and interviews. The secondary data used are journals, articles, closely related projects work and electronic data from the internet.

3.3 Population of the study

The population of the study comprises all elements, subjects and perhaps observation in relation to a particular phenomenon (onwumere, 2005). The population of the study will comprise the total number of registered Small-Scale Enterprises in Enugu metropolis for which the sample size was drawn from. The total population of Small and Medium Scale Enterprises in Enugu from the year 2008 to 2017 is 2810 (two thousand eight hundred and ten) this figure is obtained from the Corporate Affairs Commission, Enugu state.

3.4 Sample technique and Size

A sample size refers to the fraction or segment of the total population whose characteristics are used to represent the entire population. the sample size was determined by applying the formula which is concerned with the application of 5% error tolerance. The researcher adopted the Taro Yamane's formula to obtain the sample size. This is demonstrated as follows;

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

Where;

N = Population Size

n = Sample Size

1 = constant

e = limit of tolerable error

From the data given

N = 2810

n =?

e = 5%

Therefore, sample size (n) is obtained thus:

$n = \frac{2810}{1+2810(0.05)^2}$

$n = \frac{2810}{1+7.025}$

$n = \frac{2810}{8.025}$

n = 350

3.5 Techniques of data analysis

The model to this study is that taxation has an inverse relationship with investment, that is the higher the tax rate the lower the rate of investment and the lower the tax rate the higher the rate of investment in small and medium scale Enterprises.

The data collected from the research were presented in tables, analyzed on the basis of a frequency using simple percentage. The analytical technique used in computing the research is chi square with the use of statistical package for social sciences (SPSS) version 21.

3.6 Validity and of data collection instrument

Experts in research believe that instrument used for the collection of data could be valid only when it collects what it was intentionally design for. That is, it achieves the purpose for which it was constructed. Based on the above, the contents of the questionnaire were scrutinized by the project supervisor and corrections were duly made on it.

3.7 Reliability of the data collection instrument

Reliability of the instrument is the process of obtaining information on the degree to which a measure will yield similar result for the same subjects at different times or under conditions of a consistent dependable accurate way.
In this study, the purpose was to know the instrument will be reliable after measuring with the object at different periods of time and receiving the same or similar result. In testing the reliability of the instrument, the research employed the test-re-test techniques. A test-re-test technique is the process whereby the researcher administrates the construal questionnaire on the same reliable sample group more than once, with the view of discovering how consistent each element of the group is in the scoring of the instrument at different times.

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Chapter four

Data presentation, analysis and interpretation

4.1 Presentation of data

In this chapter, the data collected are presented, analyzed, and interpreted using the tabular form and sampling percentage analysis method, which is aimed at identifying the distribution of responses to each question. Greater emphasis is placed on those questions that are directly related to the purpose of the study; the hypothesis formulated in chapter one is also tested in this chapter.

A total of 350 questionnaires were distributed by the researcher to small and medium scale Enterprises (SMEs) in the Enugu metropolis out of which 300 were attended to and returned, which will be used to analyze and compute the data with the aid of statistical packages for the social sciences (SPSS version 21).

General question

Table 1: Taxation and small and medium scale enterprise are inversely related.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	48	16	16
Agree	132	44	60
Undecided	6	2	62
Disagree	78	26	88
Strongly Disagree	36	12	100
Total	300	100	

Source : Field Survey
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.48 ticked strongly agree, representing 16% of the total respondent.132 chose agree, representing 44% of the total respondent. While 6 chose undecided, representing 2% of the total respondent.78 chose disagree, representing 26% of the total respondent.36 chose strongly disagree, which represents 12% of the entire respondents.

Table 2: Taxation frustrates investment in small and medium scale enterprise.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	42	14	14
Agree	144	48	62
Undecided	84	28	90
Disagree	18	6	96
Strongly Disagree	12	4	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised. 42 ticked strongly agree, representing 14% of the total respondent.144 ticked agree, representing 48% of the total respondent. While 84 chose undecided, representing 28% of the total respondent.18 chose disagree, representing 6% of the total respondent.12 chose strongly disagree, which represents 4% of the entire respondents.

Table 3: The rate of tax paid has a significant impact on company's investment decision.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	72	24	24
Agree	144	48	72
Undecided	42	14	86
Disagree	24	8	94
Strongly Disagree	18	6	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.72 ticked strongly agree, representing 24% of the total respondent.144

ticked agree, representing 48% of the total respondent, while 42 ticked undecided, representing 14% of the total respondent.24 chose disagree, representing 8% of the total respondent.18 chose strongly disagree, which represents 6% of the entire respondents.

Table 4: The amount paid as tax affects the level of investment in infant business.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	72	24	24
Agree	186	62	86
Undecided	24	8	94
Disagree	18	6	100
Strongly Disagree	0	0	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.72 ticked strongly agree, representing 24% of the total respondent.186 chose agree, representing 62% of the total respondent. While 24 chose undecided, representing 8% of the total respondent.18 chose disagree, representing 6% of the total respondent.0 chose strongly disagree, which represents 0% of the entire respondents.

Table 5: The rate of investment will increase at a progressive interval if the rate tax payment of any form is reduced.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	126	42	42
Agree	150	50	92
Undecided	6	2	94
Disagree	18	6	100
Strongly Disagree	0	0	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.126 ticked strongly agree, representing 42% of the total respondent.150 chose agree, representing 50% of the total respondent. While 6 chose undecided, representing 2% of the total respondent.18 chose disagree, representing 6% of the total respondent.0 chose strongly disagree, which represents 0% of the entire respondents.

Table 6: I make enough income that enables me to pay tax.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	18	6	6
Agree	60	20	26
Undecided	36	12	48
Disagree	126	42	80
Strongly Disagree	60	20	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.18 ticked strongly agree, representing 6% of the total respondent.60 chose agree, representing 20% of the total respondent. While 36 chose undecided, representing 12% of the total respondent.126 chose disagree, representing 42% of the total respondent.60 chose strongly disagree, which represents 20% of the entire respondents.

Table 7: Taxation affects the growth and survival of small business.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	60	20	20
Agree	180	60	80
Undecided	18	6	86
Disagree	30	10	96

Strongly Disagree	12	4	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised. 60 picked strongly agree, representing 20% of the total respondent.180 chose agree, representing 60% of the total respondent. While 18 chose undecided, representing 6% of the total respondent.30 chose disagree, representing 10% of the total respondent.12 chose strongly disagree, which represents 4% of the entire respondents.

Table 8: Taxation affects the profit of an entrepreneur.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	78	26	26
Agree	138	46	72
undecided	36	12	84
Disagree	36	12	96
Strongly Disagree	12	4	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised. 78 ticked strongly agree, representing 26% of the total respondent.138 chose agree, representing 46% of the total respondent. While 36 chose undecided, representing 12% of the total respondent.36 chose disagree, representing 12% of the total respondent. 12 chose strongly disagree, which represents 4% of the entire respondents.

Table 9: The amount paid as tax could be used to finance the cost of power.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	78	26	26
Agree	144	48	74

Undecided	30	10	84
Disagree	36	12	96
Strongly Disagree	12	4	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.78 ticked strongly agree, representing 26% of the total respondent.144 chose agree, representing 48% of the total respondent. While 30 chose undecided, representing 10% of the total respondent.36 chose disagree, representing 12% of the total respondent.12 chose strongly disagree, which represents 4% of the entire respondents.

Table 10: Small and medium scale businesses in Enugu metropolis receives adequate tax incentives of various form (tax holiday, pioneer legislation, loss relief etc).

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	14	5	5
Agree	38	13	18
Undecided	60	20	38
Disagree	120	40	78
Strongly Disagree	66	22	100
Total		100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.14 ticked strongly agree, representing 5% of the total respondent.38 chose agree, representing 13% of the total respondent. While 60 chose undecided, representing 20% of the total respondent.120 chose disagree, representing 40% of the total respondent.66 chose strongly disagree, which represents 22% of the entire respondents.

Table 11. I have adequate knowledge of all the tax incentives applied to my business.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	12	4	4
Agree	78	26	30
Undecided	54	18	48
Disagree	96	32	80
Strongly Disagree	60	20	100
Total	300	100	

Source : Field Survey
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.12 picked strongly agree, representing 4% of the total respondent.78 chose agree, representing 26% of the total respondent, while 54 chose undecided, representing 18% of the total respondent.96 chose disagree, representing 32% of the total respondent.60 chose strongly disagree, which represents 20% of the entire respondents.

Table 12: Tax incentives affect the profit of small and medium scale enterprise.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	66	22	22
Agree	138	46	68
undecided	66	22	90
Disagree	12	4	94
Strongly Disagree	18	6	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.66 ticked strongly agree, representing 22% of the total respondent.138 chose agree, representing 46% of the total respondent, while 66 chose undecided, representing 22% of the total respondent.12 chose disagree, representing 4% of the total respondent.18 chose strongly disagree, which represents 6% of the entire respondents.

Table 13: If tax incentives are granted to small entrepreneur, it will attract investors and also encourage producers to produce more.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	108	36	36
Agree	138	46	82
Neither	24	8	90
Disagree	18	6	96
Strongly Disagree	12	4	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.108 ticked strongly agree, representing 36% of the total respondent.138 chose agree, representing 46% of the total respondent, while 24 chose undecided, representing 8% of the total respondent.18 chose disagree, representing 6% of the total respondent.12 chose strongly disagree, which represents 4% of the entire respondents.

Table 14: The rates of tax charged by tax authority are fair.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	18	6	6
Agree	84	28	34
Undecided	60	20	54
Disagree	72	24	78
Strongly Disagree	66	22	100
Total	300	100	

Source : Field Survey,
Resesarchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.18 ticked strongly agree, representing 6% of the total respondent.84 chose agree, representing 28% of the total respondent, while 60 chose neither, representing 20% of the total respondent.72 chose disagree, representing 24% of the total respondent.66 chose strongly disagree, which represents 22% of the entire respondents.

Table 15: The location of the place of paying tax is convenient to the tax payer.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	18	6	6
Agree	126	42	48
Undecided	78	26	74
Disagree	36	12	86
Strongly Disagree	42	14	100
Total	300	100	

Source : Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.18 ticked strongly agree, representing 6% of the total respondent.126 chose agree, representing 42% of the total respondent, 78 chose undecided, representing 26% of the total respondent.36 chose disagree, representing 12% of the total respondent.42 chose strongly disagree, which represents 14% of the entire respondents.

Table 16: The government does not deserve tax because they don't provide all facilities (water supply, electricity supply, good road network) that will make production easy.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	186	62	62
Agree	54	18	80
Undecided	24	8	88
Disagree	30	10	98
Strongly Disagree	6	2	100

Total	300	100	

Source: Field Survey,
Researchers SPSS computation, 2017

From the table above, it shows the breakdown of the response to the question raised.186 ticked strongly agree, representing 62% of the total respondent.54 chose agree, representing 18% of the total respondent, 24 chose undecided, representing 8% of the total respondent.30 chose disagree, representing 10% of the total respondent.6 chose strongly disagree, which represents 2% of the entire respondents.

Table 17: The cost of production is high and taxation should be reduced or removed.

Options	**Frequency**	**Percentage**	**Cumulative Percent**
Strongly agree	138	46	46
Agree	84	28	74
Neither	60	20	94
Disagree	6	2	96
Strongly Disagree	12	4	100
Total	300	100	

Source: Field Survey,
Researchers SPSS computation, 2017

From table above, it shows the breakdown of the response to the question raised.138 ticked strongly agree, representing 46% of the total respondent.86 chose agree, representing 28% of the total respondent, while 60 chose undecided, representing 20% of the total respondent.6 chose disagree, representing 2% of the total respondent.12 chose strongly disagree, which represents 4% of the entire respondents.

Research Hypothesis

The various hypothesis stated in chapter one and additional questions will be tested in this section with various test statistics aided by computer through the application of statistical package for social science (SPSS).

4.2 Hypothesis One

- **H_{O1}:** There is no significant relationship between taxation and investment of small and medium-scale enterprises.

  Level of Significance: (0.05 i.e.5%)

  Decision Rule: reject the null hypothesis if the p-value is less than the level of significance, otherwise accept.

Taxation and investment in small and medium scale enterprise are inversely related.

	Observed N	Excepted N	Residual
strongly agree	48	60.0	-12.0
Agree	132	60.0	72.0
Undecided	6	60.0	-54.0
Disagree	78	60.0	18.0
strongly disagree	36	60.0	-24.0
Total	300		

Test Statistics

	Taxation and investment in small and medium scale enterprise are inversely related.
Chi-Square	152.400[a]
Df	4
Asymp. Sig.	.000

Monte Carlo Sig.	Sig.		.000[b]
	95% Confidence Interval	Lower Bound	.000
		Upper Bound	.010

a. 0 cells (0.0%) have expected frequencies less than 5%. The minimum expected cell frequency is 60.0.
b. Based on 300 sampled tables with starting seed 2000000.

Discussion of finding based on decision rule

Decision: A chi-square analysis was used to determine if Taxation and investment in small and medium scale enterprises are inversely related at a 5% level of significance, the X2 =152.400a with df=4 while the p-value is 0.000.hence the null hypothesis (Ho) is rejected based on the result above i.e. the p-value is lesser than the level of significance, thus the assumption that Taxation and investment in small and medium scale enterprise are inversely related is true and there exists a significant relationship between taxation and investment in Small and Medium scale Enterprises in Enugu metropolis.
4.2.2 Hypothesis two

- **H_{O2}:** There is no significant relationship between Taxation and entrepreneur's profit**.**

Level of Significance: (0.05 i.e.5%)

Decision Rule: reject the null hypothesis if the p-value is less than the level of significance, otherwise accept.

Taxation affects the profit of an entrepreneur.

	Observed N	Expected N	Residual
strongly agree	78	60.0	18.0
Agree	138	60.0	78.0
Undecided	36	60.0	-24.0
Disagree	36	60.0	-24.0
strongly disagree	12	60.0	-48.0
Total	300		

Test Statistics

			Taxation affects the profit of an entrepreneur.
Chi-Square			164.400[a]
Df			4
Asymp. Sig.			.000
Monte Carlo Sig.	Sig.		.000[b]
	95% Confidence Interval	Lower Bound	.000
		Upper Bound	.010

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 60.0.
b. Based on 300 sampled tables with starting seed 299883525.

Discussion of finding based on decision rule

Decision: A chi-square analysis was used to determine if Taxation affects the profit of an entrepreneur. at a 5% level of significance, the X2 =164.400a with df=4 while the p-value is 0. 000. hence the null hypothesis is rejected based on the result above i.e. the p-value is lesser than the level of significance, thus the assumption that Taxation affects the profit of an entrepreneur is true.

4.2.3 **Hypothesis three**

- **H_{O2}:** Tax incentives do not encourage investment in small and medium scale enterprise.

Level of Significance: (0.05 i.e.5%)

Decision Rule: reject the null hypothesis if the p-value is less than the level of significance, otherwise accept.

If tax incentives are granted to SMEs, it will attract investors and also encourage producers to produce more.

	Observed N	Expected N	Residual
strongly agree	108	60.0	48.0
Agree	138	60.0	78.0
Undecided	24	60.0	-36.0
Disagree	18	60.0	-42.0
strongly disagree	12	60.0	-48.0
Total	300		

Test Statistics

			If tax incentives are granted to small entrepreneur, it will attract investors and also encourage producers to produce more.
Chi-Square			229.200[a]
Df			4
Asymp. Sig.			.000
Monte Carlo Sig.	Sig.		.000[b]
	95% Confidence Interval	Lower Bound	.000
		Upper Bound	.010

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 60.0.

b. Based on 300 sampled tables with starting seed 926214481.

Discussion of finding based on decision rule

Decision: A chi-square analysis was used to determine whether, if tax incentives are granted to small entrepreneurs, it will attract investors and also encourage producers to produce more. at a 5% level of significance, the X2 =229.200a with df=4 while the p-value is 0. 000. Hence the null hypothesis is rejected based on the result above i.e. the p-value is lesser than the level of significance, therefore if tax incentives are granted to small entrepreneur, it will attract investors and also encourage producers to produce more. So tax incentives encourage investment in Small and Medium scale Enterprises.

Chapter five

Summary of finding, conclusion and recommendation

5.1 Summary of finding.

In line with the general objective of this study which is to obtain the impact of taxation on investment in Small and Medium scale Enterprises using the Enugu metropolis as a case study. This is to bring to the knowledge of government, tax authorities, investors, researchers, and other people the effect taxation has on investment.

The secondary source of data where the population was obtained was gotten from Corporate Affairs Commission, Enugu Zonal Office (Established under the Companies and Allied Matters Act. (1990). The total population of two thousand eight hundred and ten (2810) registered small-scale and medium-scale businesses in Enugu from the year 2008 to 2017. Based on the analysis of the data collected through questionnaires and testing of the hypothesis done in chapter four, the following findings were made;

1. Result from the field survey revealed that most Small and Medium scale Enterprises in the Enugu metropolis pay tax.

2. The research found that the relationship between taxation and investment in SMEs in the Enugu state is significant and this affects the SMEs negatively. This was seen by the number of respondents that agrees with the view that the ability/ wiliness of an investor to invest in SMEs depends on taxation. Respondents agreed that there is a relationship between the three variables; taxation, investment, and Small and Medium scale Enterprise as seen in table1,2,3,4,5 and calculated in 4.2 (H1).

3. The test statistics also revealed that there is a significant relationship between taxation and the entrepreneurs' profit. In the sense that taxation affects the profit of the entrepreneurs, the higher the rate of tax the lower the profit, and vice versa as seen in Table 8 and calculated in 4.3 (H2).

4. The research also found out that most Small and Scale Enterprises in Enugu state don't have adequate knowledge about tax incentives relating to their businesses which also implies that the government doesn't adequately grant them to businessmen as seen in Table 11.

5. Also the test showed that if tax incentives are granted to small entrepreneurs, it will attract investors and also encourage producers to produce more, as can be seen in Table 13.

6. Finally from the interview the researcher also found that there are other factors that affect investment in Small and Medium scale Enterprises in Enugu metropolis which are poor power supply, lack of good road network, lack of finance, uneasy access to raw materials, and unstable government policies, etc.

5.2 Conclusion

The study examined the impact of taxation on investment in Small and Medium scale Enterprises in Enugu metropolis, with a sample size of three hundred and fifty (350) Small and Medium scale Enterprises in Enugu state, Nigeria. 350 questionnaires were distributed but only 300 copies were collected.

The chi-square result revealed that there is a relationship between the three variables: taxation, investment, and Small and Medium scale enterprises. There is a significant relationship between taxation and investment and entrepreneurs' profit, on the other hand, taxation incentives encourage investments.

Finally, from the literature review and the field survey, the researcher deduced that taxation has a negative impact on investments in Small and Medium scale Enterprises in Enugu metropolis. The researcher established a relationship between taxation and investment in Small and Medium scale Enterprises.

5.3 Recommendation

Based on the above findings, the study recommends that;

1. Taxes should be collected in relation to the size and profit of SMEs considering all other factors that can hinder the progress of such SMEs as there is a relationship between SME's size and ability to pay taxes.

2. Judicious use of taxpayers' money should be made and be seen to have been properly utilized. This will encourage entrepreneurs to continue to pay taxes.

3. Small and Medium scale Enterprises should be levied lower amounts of taxes so that they will have enough funds for other activities that will lead to business growth. Furthermore, it will help SMEs to get better equipped to survive in the competitive market.

4. Tax incentives such as tax holidays, tax relief, and pioneer certificates should be granted to SMEs, which will in return attract investors in the sector. Also, policy incentives such as tax rebates for SMEs that put effort into local sourcing of raw materials, adding value to commodities for exports, and other business ethics, should be employed by the government. Government should also increase the funding for the development of the sub-sector through direct budgetary allocations and enhance SME investment opportunities that will focus on specific areas of capacity enhancement.

5. There is a need for government to reduce tax rates in other to attract investors to the sector. The government should also come up with programs and friendly economic policies that will lead to the continuous growth and survival of SMEs in a competitive market.

6. Government should design target tax policies that will encourage investment and create a tax-friendly environment, and enhancement of SMEs' capital allowance when imposing taxes.

7. Government should provide a stable power supply which is another factor that scares away investors from the sector. Small and Medium scale Enterprises are the backbone of an economy, considering their contribution to the nation's Gross Domestic Product (GDP) and the number of people employed in this sector the government should do everything possible to boost the sector.

8. Finally given the poor data generated from the study, it is recommended that policymakers should channel effort towards improving SMEs data base, as this is very important for planning, research, policy making and investment in SMEs.

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