

The Influence of Taxation on the Performance of SMEs in Lagos State, Nigeria.

Dr. Ekwere Raymond ENANG

*Department of Accounting, Faculty of Business Administration,
University of Uyo, Uyo.*

Johnson Olufemi ALEXANDER

*Department of Business and Executive Education,
School of Business Administration, University Of Ibadan.*

Olufemi Sunkanmi FALEYE

*Department of Accounting, Faculty of Business Administration,
University of Uyo, Uyo.*

Abstract

This study examines the influence of taxation on the performance of Small and Medium-sized Enterprises (SMEs) in Lagos State, Nigeria. The study had a population of 11,663 drawn from the total number of SMEs listed with SMEDAN and a sample size of 387, which was arrived at using the Yamane sampling model. Data was gathered using questionnaires administered to the owners and managers of the sampled SMEs and was analysed using simple percentages and multiple regression techniques. Findings reveal an inverse relationship between tax compliance and the performance of SMEs. The tax rate was also inversely related to SME's performance, while tax incentives were positively related to SMEs' performance in Lagos State. Based on the findings, the study concludes that taxation affects the performance of SMEs in Lagos State. The study recommends a simplified system of taxation that can support SME taxpayers to meet their tax duties and thus reduce the burden of tax compliance within SMEs. Also, the government should design an effective tax rate so that it is not based on the taxable profits as demarcated in the law but on an economic measure that includes the impact of the tax base. Again, the government should consider increasing tax incentives and exemptions such as tax holidays for newly established SMEs. This will not only attract investors who are potential taxpayers, but it will also encourage voluntary compliance and ultimately lead to the expansion of the existing business interests of the SMEs in Nigeria.

Key Words: Taxation, Performance, SMEs.

Date of Submission: 28-03-2022

Date of Acceptance: 09-04-2022

I. Introduction

Globally, Small and Medium-sized Enterprises (SMEs) have been acknowledged as the bedrock for growth and development, as they catalyse the attainment of macroeconomic goals of a country. Their activities have contributed immensely to job creation, revenue generation, economic growth, poverty reduction while at the same time developing a country's entrepreneurial capabilities and indigenous technology (Adebisi, 2004; Oyeniran, David, and Ajayi, 2015; Hu, 2010; Afolabi, 2013). In Nigeria, for instance, a sizable amount of Nigeria's GDP is due to the activities of Small and Medium-sized Enterprises (SMEs). According to the 2005 World Development Report, creating "sustainable" jobs and opportunities for smaller entrepreneurs are the key strategies to take people out of poverty. It is thus a welcome development that the Federal Government of Nigeria continues to take steps to promote the ease of doing business in this sector. The recently signed Finance Act 2020 (the "Act") provides specific tax incentives for Micro, Small and Medium Enterprises (MSME), which will further enhance their role in sustaining the economic growth of the country.

Taxation is an integral part of countries' development policies, interwoven with numerous other areas, from good governance and formalising the economy to spurring growth and stimulating export activities. Among other things, taxation: Provides governments with the funding required to build the infrastructure on which economic development and growth are based; Creates an environment in which business is conducted, and wealth is created; Shapes the way government activities are undertaken, and plays a central role in domestic resource mobilisation. (NEPAD and OECD, 2009). Small and medium-sized enterprises are primarily private

enterprises. They face difficulties dealing with the government in general and the tax administration in particular, mostly in developing countries like Nigeria. Many of the tax authorities' difficulties may be deemed the consequences of poorly conceived tax policies and a lack of certainty regarding future policy changes. However, it would be rare indeed to not observe complaints about the complication or ambiguity of the tax laws and high tax rates (Baurer, 2005). Suppose the tax structure is not adequately designed for specific environmental conditions. In that case, it may create a more significant burden to the tax-paying organisations and eventually affect the final consumer due to the shifting ability of tax. According to a study report by Mnewa and Maliti (2008), most small businesses are less likely to attain or maintain their growing profitability due to factors including tax policies. This implies that as a policymaker and regulator, the government must consider the factors that could affect the competitiveness of the small enterprises in her policy formulation.

The broad objective of this study is to examine the influence of taxation on the performance of Small and Medium-Sized Enterprises in Lagos State, Nigeria. Specifically, the study is aimed at; examining the extent to which tax compliance influences the performance of Small and Medium-Sized Enterprises in Lagos State, determining the effect of tax rates on the performance of Small and Medium Enterprises in Lagos, and assessing the influence of tax incentives on the performance of Small and Medium Enterprises in Lagos State. Given the stated objectives, three null hypotheses that; tax compliance has no significant influence on the performance of Small and Medium Enterprises in Lagos, the tax rate has no significant influence on the performance of Small and Medium Enterprises in Lagos, and tax incentive does not influence the performance of Small and Medium Enterprises in Lagos are respectively formulated to direct the study.

The influence of taxation on the performance of Small and Medium-sized Enterprises in Lagos, when established, would, in addition to extending the frontiers of knowledge, help the regulators like the Ministry of Commerce, Federal Inland Revenue Board and Joint Tax Board to have a deeper understanding that can be used to enable best practices and regulatory policy formulations. Tax regulators would also use this study's findings to enact and improve regulation operations procedures of corporate taxes on Small and Medium-sized Enterprises. The findings of this study would also assist SMEs owners in understanding the objectives, dynamics, challenges, and strategies of taxation. This will help them to understand and observe tax policies to realise better performance.

Following from introduction in section one, the rest of the paper is structured as follows: section two reviews the relevant literature and theories on taxation and the performance of SMEs. Section three discusses the research methodology, highlighting the data of the study and model specification, while section four presents the analysis of data and research findings. Section five concludes the research by summarising the salient aspects of the findings, highlighting the policy implication of the findings and providing valuable recommendations for SMEs' owners, managers, and regulators.

II. Literature Review

Generally, taxation is aimed at generating revenue for the government for the common good and enhancement of the people's wellbeing. The Presidential Committee on National Tax Policy (2008), cited in Azubike, (2009), stated that the central objectives of Nigeria's tax policy are; to contribute to the wellbeing of all Nigerians directly through improved policy formulations and to enhance the wellbeing of the populace indirectly through the appropriate utilisation of tax revenue, generate stable revenue resources needed by the government to accomplish laudable projects and or investment for the benefit of the people, encourage economic growth and development, provide economic stabilisation, pursue fairness and distribute equity, and correct market failure and imperfections. In other words, an efficient tax system is expected to provide the needed platform for the survival and growth of SMEs. Taxation is expected to help SMEs create employment opportunities, diversify productive base, mobilise domestic savings, train entrepreneurs, create linkages between small and large firms, raise the living standard, and redress issues of poverty (Mba and Emeti, 2014; Oluseye, 2013). Unfortunately, the Nigerian tax system has not yielded the expected results. Studies have shown that tax-related issues have resulted in the untimely exit of many SMEs in Nigeria. SMEDAN (2015) records that 80% of SMEs in Nigeria die before their fifth year due to challenges faced by start-ups, taxation inclusive. Ochani and Gamade (2018) observed that multiple taxations and economic tax burdens had remained significant challenges to SMEs in Nigeria. When the tax system in Nigeria is weighed against the ability to pay theory, which is the theoretical underpinning of this study, it was evident that Nigerian SMEs are not taxed according to their abilities to pay. Propounded by M.S. Kendrick in 1939, the ability to pay theory suggests that taxes should be levied according to an individual's ability to pay. The principle emphasises that public expenditure should come from him instead of him that hath not (Inim, Udoh and Ede, 2020). In Nigeria, according to the Deloitte Nigeria SMEs report, 2018, SMEs are subjected to multiple taxes by the different tiers of government, each with its rigorous process and high compliance cost. This increases the strain on their cash flows and other limited resources and their profitability and survival.

In the past few decades, there have been increased interest in the relationship between taxation and the performance of SMEs. This may have resulted from the global recognition of the importance of SMEs in economic growth and development (Hu, 2010; Afolabi, 2013). However, empirical attention in the literature regarding this relationship is limited and contradictory, especially in Nigeria. For instance, Adebisi and Gbegi (2013) find a negative relationship between multiple taxations and SMEs' survival in Nigeria. Their study, which also found a significant relationship between SMEs' size and their ability to pay taxes, recommended a uniform tax policy that will favour the development of SMEs in Nigeria and consider the size of SMEs when setting tax policies. Karl and Andrei (2011) also documented a negative relationship between increased rates on market taxes and the performance of SMEs. Their studies reported that only a marginal fraction of SMEs survived after five years following the increase in tax rates.

In a study that examines the impact of taxation on the growth of Small and Medium Enterprises (SMEs) in Nigeria from 2007 to 2019, using secondary data from the Central Bank of Nigeria Statistical Bulletin and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Inim, Udoh and Ede (2020) found an inverse relationship between CIT, VAT and CEDT and SMEs growth. Ocheni (2015) investigated the influence of tax policy on the performance of SMEs in the Nigerian economy, using questionnaires distributed to the managers and accountants of two hundred and fifty-eight (258) SMEs in Kogi State and FCT, Abuja. The study found no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria and on the implications of tax policy on SMEs' growth. Adebisi and Gbegi (2013) find a significant negative relationship between taxation and SMEs' survival in Nigeria. This finding corroborated the findings of Ojeka (2012), Mungaya, Mbwambo and Tripathi (2012). Abata (2014), in his studies on the impact of tax revenue on Nigeria's economy, finds that tax revenue significantly impacts Federal Government Budget implementation in Nigeria. Ojochogwu and Stephen (2012) also examined the factors that affect tax compliance among small and medium scale enterprises (SMEs) in North Central Nigeria. Findings show that tax is an essential revenue stream for the government's development projects. However, tax compliance among SMEs was found to be poor. Besides, multiple taxations were found to negatively impact tax compliance in that study.

III. Methodology

A survey research design is used for the study. This method involves the use of questionnaires, personal interviews with respondents, and perusal of records and publications in getting opinions, attitudes, and descriptions and getting cause and effect relationships between taxation and the performance of SMEs. The study population consists of all the SMEs that operate their businesses in the five divisions of Lagos State, which are Epe, Ikeja, Badagary, Lagos Island, and Ikorodu and have also registered with Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). According to Olabisi, Olagbemi and Atere, 2011, many SMEs operate in this area. The figures of SMEs from this area listed with SMEDAN as of 2021 is 11,663. Based on the targeted population, the Taro Yemen sampling formula was used to select 387 SMEs as a study sample, using the formula: $n = \frac{N}{1+N(e)^2}$, Where: n = sample size sought, e = Level of significance, N = Population size. Accordingly, 387 copies of the questionnaires were distributed to the managers (owners) and accountants of the selected SMEs and were retrieved after three working days. Their responses were presented in the form of frequency distribution tables, charts and graphs for ease of understanding. Ordinary Least Square (OLS) regression was used for data analysis.

IV. Data Presentation and Discussion of Results

The data obtained from the responses to the questionnaire are presented and analysed, and this will facilitate the testing of the formulated hypotheses.

4.1 Presentation of Data and Interpretation

Table 4.1.1 General Analysis of Questionnaire

	Number of Questions	Percentage
Total Number Administered	387	100%
Total Number Returned	344	88.89%
Number of No Response Rate	43	11.11%

Source: Researcher's Computation (2022)

From Table 4.1.1, out of the 387 questionnaires distributed, 344 were returned, while 43 of the respondents failed to return the questionnaire. This is represented as 100%, 88.89% and 11.11%, respectively.

Table 4.1.2: The Company files its tax returns to the authority after its year end

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	272	70.3	79.1	79.1
	Strongly Agree	72	18.6	20.9	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.2 shows that 272 respondents agreed to represent 70.3%, 72 respondents strongly agreed, which represents 18.6%. This implies that the company files its tax returns to the authority after its year-end.

Table 4.1.3: It is okay to under-declare revenue in order to avoid paying high taxes

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	272	70.3	79.1	79.1
	Undecided	72	18.6	20.9	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

From Table 4.1.3, 272 respondents disagreed, representing 70.3%, 72 respondents were indecisive, which represents 18.6%. This means that it is wrong to under-declare revenue to avoid paying high taxes.

Table 4.1.4: Income or corporation tax evasion among small and medium sized businesses is a major problem.

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	7	1.8	2.0	2.0
	Disagree	265	68.5	77.0	79.1
	Undecided	72	18.6	20.9	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.4 shows that seven (7) respondents strongly disagreed, representing 1.8%, 265 respondents disagreed, representing 68.5%, while 72 respondents were undecided, representing 18.6%. This implies that income or corporation tax evasion among small and medium-sized businesses is not a major problem.

Table 4.1.5: The chances of being prosecuted by the tax authority are sufficient to deter from regularly evading tax

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	272	70.3	79.1	79.1
	Strongly Agree	72	18.6	20.9	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

From Table 4.1.5, 272 respondents agreed, representing 70.3% while 72 respondents strongly agreed, representing 18.6%. This implies that the chances of being prosecuted by the tax authority are sufficient to deter from regularly evading tax.

Table 4.1.6: Penalties impose by the tax authority are sufficient to deter people from regularly evading income tax

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	337	87.1	98.0	98.0
	Strongly Agree	7	1.8	2.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.6 shows that 337 respondents agreed, representing 87.1%, while 7 respondents strongly agreed, representing 1.8%. This implies that penalties imposed by the tax authority are sufficient to deter people from regularly evading income tax.

Table 4.1.7: There are circumstances that can necessitate the company to evade tax

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	265	68.5	77.0	77.0
	Disagree	72	18.6	20.9	98.0
	Undecided	7	1.8	2.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.7 shows that 265 respondents strongly disagreed, representing 68.5%, 72 respondents disagreed, which represents 18.6%, while 7 respondents were Undecided, representing 1.8%. This implies that no circumstances can necessitate the company to evade tax.

Table 4.1.8: Tax authorities are putting effort into reducing income tax evasion among the small and medium sized businesses

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	265	68.5	77.0	77.0
	Strongly Agree	79	20.4	23.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.8 shows that 265 respondents agreed representing 68.5%, and 79 respondents strongly agreed, representing 20.4%. This implies that tax authorities are reducing income tax evasion among the small and medium-sized businesses.

Table 4.1.9: The tax rates charged are clear in terms of payable taxes.

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	265	68.5	77.0	77.0
	Strongly Agree	79	20.4	23.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.9 shows that 265 respondents agreed representing 68.5% while 79 respondents strongly agreed, representing 20.4%. This implies that the tax rates charged are clear in terms of payable taxes.

Table 4.1.10: There are diverse taxes imposed on small and medium enterprises

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	72	18.6	20.9	20.9
	Strongly Agree	272	70.3	79.1	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.10 shows that 72 respondents agreed, representing 18.6% while 272 strongly agreed, representing 70.3%. This implies that there are diverse taxes imposed on small and medium enterprises.

Table 4.1.11: The government either increases or decreases tax rate at its own discretion

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	65	16.8	18.9	18.9
	Disagree	279	72.1	81.1	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.11 shows that 65 respondents strongly disagreed, representing 16.8% while 279 respondents disagreed, representing 72.1%. This implies that the government does not either increase or decrease her tax rate at its own discretion.

Table 4.1.12: The taxes charged are burdensome to the business

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	265	68.5	77.0	77.0
	Strongly Agree	79	20.4	23.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.12 shows that 265 respondents agreed, representing 68.5% while 79 respondents strongly agreed, representing 20.4%. This implies that the taxes charged are burdensome to the business.

Table 4.1.13: SMEs pay taxes when it is convenient for them to pay

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	72	18.6	20.9	20.9
	Disagree	272	70.3	79.1	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.13 above shows that 72 respondents strongly disagreed, representing 18.6%, and 272 respondents disagreed, which represents 70.3%. This implies that SMEs do not pay taxes when convenient for them to pay, and hence, they pay as at when due and required by the law.

Table 4.1.14: SME tax rates do not consider much the scale of operation

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	265	68.5	77.0	77.0
	Strongly Agree	79	20.4	23.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.14 shows that 35 respondents strongly agreed, representing 70%, while 15 respondents agreed, representing 30%. This implies that SME tax rates do not consider much the scale of operation.

Table 4.1.15: The tax rates charged are fair to small and medium business owners

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	7	1.8	2.0	2.0
	Disagree	72	18.6	20.9	23.0
	Agree	265	68.5	77.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.15 shows that 7 respondents strongly disagreed, representing 1.8%, 72 respondents disagreed, representing 18.6%, and 265 respondents agreed, representing 68.5%. This implies that the tax rates are fair to small and medium business owners.

Table 4.1.16: The regressive nature of taxes on SME reduces their revenue base

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	330	85.3	95.9	95.9
	Strongly Agree	14	3.6	4.1	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.16 shows that 330 respondents agreed, representing 85.3% while 14 respondents strongly agreed, representing 3.6%. This implies that the regressive nature of taxes on SME reduces their revenue base.

Table 4.1.17: The tax rates charged are economical to SMEs

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	14	3.6	4.1	4.1
	Disagree	65	16.8	18.9	23.0
	Agree	265	68.5	77.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.17 shows that 14 respondents strongly disagreed, representing 3.6%, 65 respondents disagree representing 16.8%, while 265 respondents agreed, representing 68.5%. This implies that the tax rates charged are economical for SMEs.

Table 4.1.18: SMEs have information on how much tax when to pay tax, where to pay and mode of tax payment

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	272	70.3	79.1	79.1
	Strongly Agree	72	18.6	20.9	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.18 shows that 272 respondents agreed, representing 70.3% while 72 respondents strongly agreed, representing 18.6%. This implies that SMEs have information on how much tax to pay, when to pay tax, where to pay and mode of tax payment.

Table 4.1.19: Tax incentives for SMEs have lowered the operational costs associated with payment of taxes for SMEs

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	265	68.5	77.0	77.0
	Strongly Agree	79	20.4	23.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.19 shows that 265 respondents agreed, representing 68.5% while 79 respondents strongly agreed, representing 20.4%. This implies that tax incentives for SMEs have lowered the operational costs associated with the payment of taxes for SMEs.

Table 4.1.20: Tax incentives, investments, and performance of SMEs are closely linked.

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	330	85.3	95.9	95.9
	Strongly Agree	14	3.6	4.1	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.20 shows that 330 respondents agreed, representing 85.3% while 14 respondents strongly agreed, representing 3.6%. This implies that tax incentives, investments, and the performance of SMEs are closely linked.

Table 4.1.21: Tax incentives have attracted private investors to the SME sector

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	65	16.8	18.9	18.9
	Strongly Agree	279	72.1	81.1	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.21 shows that 65 respondents agreed, representing 16.8%, while 279 respondents strongly agreed, representing 72.1%. This implies that tax incentives have attracted private investors to the SME sector.

Table 4.1.22: The government has given special tax treatment to SMEs in the form of tax holidays

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	265	68.5	77.0	77.0
	Strongly Agree	79	20.4	23.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.22 shows that 265 respondents agreed, representing 68.5% while 79 respondents strongly agreed, representing 20.4%. This implies that the government has given special tax treatment to SMEs in the form of tax holidays.

Table 4.1.23: Tax holidays have helped my business to grow and expand.

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	265	68.5	77.0	77.0
	Strongly Agree	79	20.4	23.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.23 shows that 265 respondents agreed, representing 68.5%, while 79 respondents agreed, representing 20.4%. This implies that tax holidays have helped businesses to grow and expand.

Table 4.1.24: Tax incentives have stimulated the growth and expansion of SMEs in Nigeria

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	265	68.5	77.0	77.0
	Strongly Agree	79	20.4	23.0	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.24 shows that 265 respondents agreed, representing 68.5%, while 79 respondents agreed, representing 20.4%. This implies that tax incentives have assisted in the stimulating the growth and expansion of SMEs.

Table 4.1.25: Tax incentives have encouraged a reasonable number of traders in the SME sector to continue operating

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	330	85.3	95.9	95.9
	Strongly Agree	14	3.6	4.1	100.0
	Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.25 shows that 330 respondents agreed, representing 85.3%, while 14 respondents strongly agreed, representing 3.6%. This implies that tax incentives have encouraged a reasonable number of traders in the SME sector to continue operating.

Table 4.1.26: The special tax regimes for SMEs have reduced the operations of the small businesses in the informal sector.

Options		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	7	1.8	2.0	2.0
	Disagree	72	18.6	20.9	23.0

Undecided	265	68.5	77.0	100.0
Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.26 shows that 7 respondents strongly disagreed, representing 1.8%, 72 disagreed, representing 18.6%, while 265 respondents were undecided about the statements, representing 68.5%. This implies that the special tax regimes for SMEs may or may not reduce the operations of the small businesses in the informal sector.

Table 4.1.27: Special tax treatment for SMEs has corrected market imperfections in the country.

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	14	3.6	4.1	4.1
Valid Disagree	330	85.3	95.9	100.0
Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.27 shows that 14 respondents strongly disagreed, representing 3.6%, while 330 respondents disagreed, representing 85.3%. This implies that special tax treatment for SMEs does not correct market imperfections in the country.

Table 4.1.28: Tax incentives have protected the infant small and medium enterprises in Nigeria

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	330	85.3	95.9	95.9
Valid Strongly Agree	14	3.6	4.1	100.0
Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.28 shows that 330 respondents agreed, representing 65.9%, while 14 respondents strongly agreed, representing 3.6%. This implies that tax incentives have protected Nigeria's infant small and medium enterprises.

Table 4.1.29: Taxes have reduced the return on investments of small and medium firms

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	265	68.5	77.0	77.0
Valid Strongly Agree	79	20.4	23.0	100.0
Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.29 shows that 265 respondents agreed, representing 68.5%, while 79 respondents strongly agreed, representing 20.4%. This implies that taxes have reduced the return on investments of small and medium firms.

Table 4.1.30: Taxes have not affected the sales turnover of SMEs through increasing the operational costs

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	14	3.6	4.1	4.1
Valid Disagree	265	68.5	77.0	81.1
Valid Undecided	65	16.8	18.9	100.0
Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.30 shows that 14 respondents strongly disagreed, representing 3.6%, 265 respondents disagree, representing the largest percentage of 68.5%, while 65 respondents were undecided, representing 16.8%. This implies that taxes have affected the sales turnover of SMEs by increasing operational costs.

Table 4.1.31: Taxes have affected the liquidity position of SMEs

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	65	16.8	18.9	18.9
Valid Strongly Agree	279	72.1	81.1	100.0
Total	344	88.9	100.0	

Source: Researcher's Computation (2022)

Table 4.1.31 shows that 65 respondents agreed, representing 16.8% while 279 strongly agreed, representing 72.1%. This implies that taxes have affected the liquidity position of SMEs.

Table 4.1.32: The profits of the small and medium enterprises before taxes are always high

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	65	16.8	18.9	18.9
Valid Strongly Agree	279	72.1	81.1	100.0
Total	344	88.9	100.0	

Source: Researcher’s Computation (2022)

Table 4.1.32 shows that 65 respondents agreed, representing 16.8%, while 279 strongly agreed, representing 72.1%. This implies that the profits of the small and medium enterprises before taxes are always high.

Table 4.1.33: Taxes have reduced capital resources for investment in research, innovation, and development

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	79	20.4	23.0	23.0
Valid Strongly Agree	265	68.5	77.0	100.0
Total	344	88.9	100.0	

Source: Researcher’s Computation (2022)

Table 4.1.33 shows that 79 respondents agreed, representing 20.4%, while 265 strongly agreed, representing 68.5%. This implies that the taxes have reduced capital resources for investment in research, innovation, and development.

Table 4.1.34: Taxes have inhibited the growth of SMEs in Nigeria

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	330	85.3	95.9	95.9
Valid Strongly Agree	14	3.6	4.1	100.0
Total	344	88.9	100.0	

Source: Researcher’s Computation (2022)

Table 4.1.34 shows that 330 respondents agreed, representing 85.3% while 14 respondents strongly agreed, representing 3.6%. This implies that the taxes have inhibited the growth of SMEs in Nigeria.

Table 4.1.35: The taxes levied on SMEs have made it difficult for the small and medium firms to achieve their goals.

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	330	85.3	95.9	95.9
Valid Strongly Agree	14	3.6	4.1	100.0
Total	344	88.9	100.0	

Source: Researcher’s Computation (2022)

Table 4.1.35 shows that 330 respondents agreed, representing 85.3%, while 14 respondents strongly agreed, representing 3.6%. This implies that the taxes levied on SMEs have made it difficult for the small and medium firms to achieve their goals.

4.2 Test of Hypotheses

HYPOTHESIS ONE

H₀₁; Tax Compliance has no significant influence on the performance of SMEs in Lagos.

Table 4.2.1: Descriptive Statistics

Variables	Mean	Std. Deviation	N
Performance	28.8517	.45637	344
Tax Compliance	26.3576	2.54236	344

Source: Researcher’s Computation (2022)

Table 4.2.1 reveals that SMEs Performance has an average of 28.85%, tax compliance has a mean of 26.35%, while the standard deviation is .45637 and 2.54236 for SMEs performance and tax compliance respectively in a sample of 344 respondents denoted by N. The value of 2.54236 represents a higher standard deviation thus representing a higher spread of data on each side of the mean.

Table 4.2.2: Correlations

		Performance	Tax Compliance
Pearson Correlation	Performance	1.000	-.613
	Tax Compliance	-.613	1.000
Sig. (1-tailed)	Performance	.	.000
	Tax Compliance	.000	.

Source: Researcher’s Computation (2022)

Table 4.2.2 presents the result of the correlation analysis between tax compliance and SMEs performance. The correlation results shows a negative relationship of -.613 between the performance and tax compliance at a significant level of the association of 5%.

4.2.3: Model Summary^b

Model	R	R ²	Adj. R ²	Std. Error of the Esti.	Change Statistics				Durbin-Watson Sig. F Change
					R ² Change	F Change	df1	df2	
1	.613 ^a	.375	.373	.36127	.375	205.355	1	342	.000

Source: Researcher's Computation (2022)
a. Predictors: (Constant), tax compliance

Table 4.2.3 provides a regression summary of the model specification. The R² of 0.373 indicates that about 37% variation in SMEs performance is accounted for by the level of tax compliance. The correlation results show a negative relationship of -.613 with a significant level of .000 between SMEs' performance and tax compliance at a 5% significant level, which means that the null hypothesis (Ho) will be rejected and the alternate hypothesis is accepted. This means that there is a significant, but negative relationship between tax compliance and the performance of SMEs in Lagos State. In other words, the more the SMEs comply with tax payments, the less their profitability. This result is not surprising as SMEs in Nigeria is faced with multiple taxes, each with separate compliance requirements and compliance cost, thus putting pressure on the liquidity and profitability of the SMEs. This finding is in line with the findings of Weichenrieder (2007), and Farzbod (2000).

HYPOTHESIS TWO

H₀₂; Tax Rate has no significant impact on the performance of SMEs in Lagos.

Table 4.2.6: Descriptive Statistics

Variables	Mean	Std. Deviation	N
Performance	28.8517	.45637	344
Tax Rate	40.3924	1.24073	344

Source: Researcher's Computation (2022)

Table 4.2.6 reveals that SMEs Performance has an average 28.85%, Tax Rate has a mean of 40.39% while the standard deviation is .45637 and 1.24073 for SMEs performance and tax rate respectively in a sample of 344 respondents denoted by N. The value of 1.24073 represents a higher standard deviation thus representing a higher spread of data on each side of the mean.

Table 4.2.7: Correlations

		Performance	Tax Rate
Pearson Correlation	Performance	1.000	-.772
	Tax Rate	-.772	1.000
Sig. (1-tailed)	Performance	.	.000
	Tax Rate	.000	.

Source: Researcher's Computation (2022)

Table 4.2.7 presents the result of the correlation analysis between tax rate and SMEs Performance. The result of the correlation shows that there is a positive relationship of .772 between the performance and tax rate at a significant level of the association of 5%.

Table 4.2.8: Model Summary^b

Model	R	R ²	Adj. R ²	Std. Error of the Estimate	Change Statistics				Durbin-Watson	
					R ² Change	F Change	df1	df2		Sig. F Change
1	.772 ^a	.597	.595	.29028	.597	505.787	1	342	.000	1.275

Source: Researcher's Computation (2022)

a. Predictors: (Constant), Tax rate
b. Dependent Variable: Performance

Table 4.2.8 provides a summary of the model specification. The result as measured by R² of 0.595 indicates that the tax rate has about 60% influence on SMEs performance. The correlation result shows a negative relationship of -0.772 with a significant coefficient of 0.000 between the tax rate and the performance of SMEs. Following the significance of the model, the null hypothesis could not be accepted. This means that

the tax rate has a significant influence on the profitability of SMEs in Lagos State. This finding is in line with the a priori expectation of the study, as increase in tax rate will increase the strain on cash flow and other limited resources of SMEs. This finding supports the findings of Inim, Udoh and Ede (2020).

HYPOTHESIS THREE

H₀₃; Tax incentives has no influence on the performance of SMEs in Lagos.

Table 4.2.11: Descriptive Statistics

Variables	Mean	Std. Deviation	N
Performance	28.8517	.45637	344
Tax Incentives	38.5610	1.13096	344

Source: Researcher’s Computation (2022)

Table 4.2.11 reveals that SMEs performance has an average 28.85%, tax incentives have a mean of 38.56%, while the standard deviation is .45637 and 1.13096 for SMEs performance and tax incentives respectively in a sample of 344 respondents denoted by N. The value of 1.13096 represents a higher standard deviation thus representing a higher spread of data on each side of the mean.

Table 4.2.12: Correlations

		Performance	Tax Incentives
Pearson Correlation	Performance	1.000	.217
	Tax Incentives	.217	1.000
Sig. (1-tailed)	Performance	.	.000
	Tax Incentives	.000	.

Source: Researcher’s Computation (2022)

Table 4.2.12 presents the result of the correlation analysis between tax incentives and SMEs performance. The result of the correlation shows that there is a negative relationship of -.217 between the performance and tax incentives at a significant level of the association of 5%.

Table 4.2.13: Model Summary^b

Model Summary ^b										
Model	R	R ²	Adj. R ²	Std. Error of the Estimate	R ² Change	Change Statistics F Change	df1	df2	Sig. Change	Durbin-Watson F
1	.217 ^a	.047	.044	.44617	.047	16.873	1	342	.000	.734

Source: Researcher’s Computation (2022)

a. Predictors: (Constant), tax incentives

b. Dependent Variable: Performance

Table 4.2.13 provides a summary of the model specification. The result as measured by R² of 0.44 indicates that about 4% variation in SMEs performance is due to the tax incentives granted to SMEs. The correlation result shows a positive relationship of .217 with a significant level of .000 between SMEs performance and tax incentives, which are below the stated significant level of the association at 5%, which means that the null hypothesis (H₁) will be rejected. The alternate hypothesis is accepted, and there is a significant relationship between tax incentives and the performance of SMEs in Lagos State, Nigeria. This result was also expected, as tax incentives boost the operations and the resultant profitability of SMEs. The finding corroborates the findings of Tasie and Akinyomi (2011).

V. Conclusion and Recommendations

The study was carried out to examine the effect of taxation on the performance of SMEs in Lagos State, Nigeria. Specifically; to determine the extent to which tax compliance influences the performance of SMEs, to examine the effect of the tax rate on the SMEs' performance and to assess the impact of a tax incentive on the performance of SMEs to examine the role of taxation on the performance of SMEs in Lagos State, Nigeria. The study used a field survey (primary data) to gather relevant and reliable data by distributing questionnaires to the selected SMEs in Lagos State.

Findings reveal an inverse relationship between tax compliance and the performance of SMEs. The tax rate was also found to be inversely related to SMEs' performance, while tax incentives were found to be positively related to SMEs' performance in Lagos State. Based on the findings, the study concludes that taxation affects the performance of SMEs in Lagos State. The study recommends a simplified system of taxation that can support SME taxpayers to meet their tax duties and thus reduce the burden of tax compliance within SMEs. Also, the government should design an effective tax rate in such a way that it is not based on the taxable profits as demarcated in the law but on an economic measure that includes the impact of the tax base. Again, government should consider increasing tax incentives and exemptions such as tax holidays for newly established

SMEs, as this will not only attract investors who are potential taxpayers, it will encourage voluntary compliance and ultimately leads to expansion of existing business interests of the SMEs in Nigeria.

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Dr. Ekwere Raymond ENANG, et. al. "The Influence of Taxation on the Performance of SMEs in Lagos State, Nigeria." *IOSR Journal of Economics and Finance (IOSR-JEF)*, 13(02), 2022, pp. 01-12.