

Taxation and Financial Performance of Small and Medium Enterprises in Ibadan, Nigeria

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Certification

This is to certify that **Sunday Abimbola AJAYI**, with Matric No: **LCU/PG/002188** carried out this research work titled “**Taxation and Financial Performance of Small and Medium Enterprises in Ibadan, Nigeria**” in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University, Ibadan, for the award of Master of Science Degree (MSc.) in Accounting and that this has not been previously submitted.

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Dedication

This work is dedicated to God.

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I would like to express deep gratitude to God Almighty for sparing my life, for the wisdom he bestowed upon me, the strength, peace, and good health he granted me during this journey.

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Although, the institution and supervisors have assisted in the process of this research work, I alone stand responsible for the errors if any found in the work.

Abstract

This study investigated the influence of taxation on the financial performance of Small and Medium Enterprises (SMEs) in Ibadan, Oyo State, Nigeria, aiming to identify the effects of Company Income Tax (CIT), Capital Gains Tax (CGT), and Value Added Tax (VAT). The research was motivated by the observed complexity and burden of tax compliance for SMEs, filling a gap in understanding how specific taxes impact their financial viability. Utilizing a judgmental sampling technique, 120 SMEs in five bustling urban Local Government Areas in Ibadan were selected, ensuring inclusion of diligent tax-payers. Data were gathered through meticulously distributed questionnaires, employing a systematic approach considering both location and optimal times for retrieval. The study revealed that CIT, CGT, and VAT significantly hindered growth and profitability for SMEs, with respondents consistently viewing these taxes as barriers to investment and expansion. It concluded that the current tax system is challenging for SMEs, necessitating recommendations for tax reform that include simplifying regulations, providing incentives, exemptions, and actively engaging SME owners in policy formulation. Implementing these strategies, it suggests, would foster a more conducive tax environment for SMEs in the region.

Keywords: Small and Medium Enterprises (SMEs), Taxation, Company Income Tax (CIT); Capital Gains Tax (CGT), Value Added Tax (VAT), Financial Performance, Ibadan, Oyo State, Tax Reform, Policy Formulation

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Chapter One

Introduction

1.1 Background to the Study

Small and medium businesses (SMEs) are essential for economic growth and industrialisation. Small and Medium Enterprises (SMEs) are considered a catalyst for economic growth and development, particularly in developing economies like Nigeria. Small and medium businesses contribute to job creation, quick expansion, and the efficient use of indigenous resources. Small companies can be found in urban and rural areas around the country. Small and Medium Enterprises (SMEs) use government-provided structures at all levels and must pay taxes due to their widespread use. Taxation has also been identified as an essential source of revenue for all levels of government to pay their statutory duties and expenditures¹.

Small and medium enterprises (SMEs) have long been a source of job creation and citizen empowerment in Nigeria, accounting for roughly half of all jobs and contributing significantly to local capital development. Because they are highly innovative, they can make better use of our natural resources, increasing the country's wealth through increased production. SMEs have unquestionably enhanced the living level for many people, particularly in rural areas. On the other hand, the death rate of these tiny businesses is extremely high².

According to the Nigerian Small and Medium Enterprises Development Agency (SMEDAN), eighty per cent of SMEs fail before their fifth anniversary. The variables generating these unanticipated close-ups include tax-related challenges ranging from excessive taxation to enormous tax burdens. In many government legislation, SMEs are frequently considered and regulated in the same way as large corporations. Their size and nature, on the other hand, distinguish them. As a result, these distinguishing traits must be considered while dealing with SMEs. Small-business taxes must be calculated to consider their income and survival

requirements. They must be able to generate a substantial profit in order to expand their businesses³.

SMEs account for 97 per cent of the Nigerian economy. Despite their small size, they are the most important enterprises in the economy since when all their individual effects are combined, they exceed more giant corporations. The importance of SMEs for social and economic growth cannot be overstated. The vast majority of large firms started as SMEs and expanded from there. This suggests that today's SMEs are the future's major enterprises and should be encouraged to ensure their success. Furthermore, they are commonly considered a hotbed for indigenous entrepreneurship, resulting in many minor investments that would not otherwise have occurred⁴.

SMEs in emerging countries are battling to stay afloat in fiercely competitive domestic and international markets. In developing nations like Nigeria, it is critical to create the necessary enabling environment for the growth of SMEs so that they can effectively play the role expected of them in economic transformation. Mobilisation of domestic savings for investment, significant contribution to GDP, increased harnessing of local raw materials, job creation, significant contribution to poverty reduction and enhancement of personnel income, technological development, and export diversification are all examples of such roles.⁴

Financial performance, in a broad sense, relates to how well financial goals are being met or have been met. It calculates the monetary value of a company's policies and operations. It's used to assess a company's overall financial health over time and to compare similar companies in the same industry or industries or sectors in aggregate.

As a result, taxation is crucial in generating money and stimulating economic activity in any economy. Personal income tax, education tax, motor park taxes, corporation tax, business registration fees, road taxes, developmental taxes, market taxes, and livestock taxes are among the taxes imposed by the Nigerian government on businesses and individuals. These taxes impact the performance of small and medium businesses both directly and indirectly². Furthermore,

SME owners have widely maintained that most of the taxes levied by the state and municipal governments are duplications under other names and that any Federal law does not back some. This has made conducting business more difficult for entrepreneurs, particularly in Oyo and other states such as Lagos, Ogun, Rivers, Anambra, Benue, Abuja, and Imo. Small and medium business owners have protested, requesting that the government look into the subject; otherwise, it will have an impact on the activities of small and medium businesses, such as capital employed, sales/turnover, and profitability from operations of Small and Medium Enterprises.⁵

These and other obstacles confronting Small and Medium Enterprises in Nigeria have undermined small firms' profitability chances, emptying the owners' coffers. Though successive governments have attempted to review tax policies and establish schemes to bail out Small and Medium Enterprises to create an enabling environment for small business success, the initiatives' implementation has been severely hampered by the issue of corruption from the custodians of the funds remitted and the existence of phoney revenue collectors at both the state and local government levels⁶.

As a result, the effect of taxation on the performance of chosen small-scale firms in the Ibadan Metropolis will be examined in this study.

1.2 Statement of the Problem

In Nigeria, taxation is an essential revenue source at all government levels. As a technique for raising money from the private and public sectors of the economy, governments at all levels have levied various taxes on businesses and individuals over the years. Unfortunately, these exercises have many consequences for Nigeria's Small and Medium Enterprises, particularly at the state and local government levels. Small and Medium Enterprises paid certain taxes in the 1990s, such as registration, market, product distribution levies, and livestock taxes, which impacted their sales growth. As a result of the same taxes receiving different levies, excessive taxation has

resulted. The quantity of capital employed imposed on Small and Medium Enterprises by Government Ministries, Departments, and Agencies may be worsened by excessive tax structure. Similarly, a significant tax structure can potentially raise overhead costs, lowering small enterprises' profitability.

In 2020, the Oyo state government, through the Orilonise Microfinance Bank, granted zero-interest loans to small-scale company owners in the metropolis to alleviate financial constraints. In a similar spirit, the Oyo State Board of Internal Revenue held a training course for revenue officers on the automation of the tax system to provide them with up-to-date technological knowledge and to create a favourable tax environment in the state and to eradicate phoney tax collectors from the system; tax collection strategies must be used. The Oyo state government took all of these practical initiatives to encourage sustainable small enterprises and boost economic activity in the state.

Despite the state government of Oyo's actions and policies, small and medium businesses continue to be subjected to several taxes on capital employed, sales turnover, and profitability from operations. Excessive taxes have continued to impede the circulation of goods and services inside and outside the state. Because of the issues above, the researcher produced a paper on the numerous taxation and financial performance of Small and Medium Enterprises in the Ibadan Metropolitan Area.

1.3 Aim and Objectives of the Study

This study's main objective is to examine taxation's effect on the financial performance of Small and Medium Enterprises in Ibadan, Oyo State. The specific objectives of this study are to:

- i. assess the effect of Company Income Tax (CIT) on financial performance of Small and Medium Enterprises.
- ii. examine the effect of Capital Gains Tax (CGT) on financial performance of Small and Medium Enterprises.; and,

iii. evaluate the effect of Value Added Tax on financial performance of Small and Medium Enterprises.

1.4 Research Questions

The following research questions were formulated:

i. To what extent does Company Income Tax (CIT) affect the financial performance of Small and Medium Enterprises?

ii. How does Capital Gains Tax (CGT) impact the financial performance of Small and Medium Enterprises?

iii. How can Value Added Tax affect the financial performance of Small and Medium Enterprises?

1.5 Hypotheses

This research will test the following hypotheses

Ho1: Companies Income Tax (CIT) has no significant effect on financial performance of Small and Medium Enterprises.

Ho2: Capital Gains Tax (CGT) has no significant effect on the financial performance of Small and Medium Enterprises.

Ho3: Value Added Tax has no significant effect on the financial performance of Small and Medium Enterprises

1.6 Significance of the Study

The significance of this study lies in its potential benefits for various stakeholders. Firstly, tax authorities and governments stand to gain valuable insights from this research. Investigating the impact of different taxes on the financial performance of small-scale and medium enterprises (SMEs) in Ibadan, the study can contribute to informing tax policy adjustments. Understanding how various tax practices affect SMEs' financial performance can assist authorities in designing tax frameworks that promote economic growth and development while considering the specific

challenges these businesses face. This research can provide evidence-based recommendations to optimise tax systems and ensure a favourable environment for SMEs to thrive.

Secondly, taxpayers, including SME owners and entrepreneurs, will benefit from the findings of this study. By comprehending taxes' critical role in the economy's development, taxpayers can make informed decisions regarding their tax compliance and overall financial management. This knowledge can empower them to navigate the tax landscape more effectively, enabling them to strategise and optimise their tax obligations while ensuring their businesses' sustainable growth and profitability.

Thirdly, the study holds significance in the realm of academic research. The research expands the knowledge base in this field by contributing to the existing literature on taxation and its effects on the economy. Scholars, researchers, and academicians can leverage the findings to gain deeper insights into the relationship between taxation and SMEs' financial performance. This research can serve as a foundation for further studies, allowing for a more comprehensive understanding of the complex dynamics and stimulating further academic discourse.

Additionally, the study's significance extends beyond its immediate beneficiaries. The broader implications of understanding the impact of taxation on SMEs in Ibadan can inform policymakers, economists, and business consultants working towards creating an enabling business environment. The findings can contribute to evidence-based decision-making, allowing stakeholders to devise strategies that support the growth and sustainability of SMEs, which are crucial drivers of economic development, job creation, and poverty alleviation.

1.7 Scope of the Study

This study's scope revolves around investigating taxation's impact on the financial performance of small-scale and medium enterprises (SMEs) in Ibadan, Oyo state. The study focused on five urban Local Government Areas (LGAs) in Ibadan: Ibadan North, Ibadan North East, Ibadan North-West, Ibadan South-East, and Ibadan South-West.

Geographically, the study centres on Ibadan, the capital city of Oyo state, Nigeria. The chosen urban LGAs within Ibadan are recognised as the core areas of the city and are home to a substantial number of SMEs. By focusing on these specific LGAs, the study aims to capture a representative sample of SMEs operating in the heart of Ibadan. The time scope of the research allows for an in-depth analysis of SMEs' taxation practices and financial performance within this defined period. This time frame enables researchers to study the effects of taxation on SMEs' profitability, growth, and overall financial health over a relatively concentrated and specific duration.

The study's population scope includes small-scale and medium enterprises in Ibadan operating within the selected urban LGAs during the three months under investigation. The sample is expected to encompass various SMEs representing various industries, sizes, and ownership structures. By including a broad spectrum of SMEs, the study aims to provide comprehensive insights into Ibadan's taxation and financial performance landscape.

The subject scope revolves around examining the relationship between taxation and the financial performance of SMEs. The study seeks to explore how taxation practices, including tax policies, compliance, and incentives, influence the financial outcomes of these businesses. By analysing the impact of taxation on SMEs' profitability, liquidity, and investment decisions, the study aims to shed light on the specific dynamics and challenges SMEs face in Ibadan.

1.8 Limitation of the Study

The research conducted has several limitations that should be acknowledged. Firstly, the geographical scope of the study, being limited to Ibadan, Oyo State, Nigeria, means the findings may not apply to SMEs in other regions or countries. Each geographical area has unique tax regulations and business climates that could significantly alter the relationship between taxation and SMEs' financial performance. The sample size and selection method also impose

specific constraints. The study relied on 120 SMEs selected via a judgmental sampling method, which, while practical, could introduce selection bias. The experiences of all SMEs in Ibadan, particularly those that grapple with tax compliance or lack comprehensive financial records, may not be adequately represented in the study's findings. The study's cross-sectional design provides a snapshot of the impact of taxation on SMEs at a particular point in time. This approach does not account for changes in tax policy or business performance over time, and the long-term effects of taxation on SMEs' financial performance may not be fully captured.

Data was collected using questionnaires, an efficient method but not without potential issues. Respondents may not have fully understood some questions or might have been influenced by social desirability bias, leading them to provide 'acceptable' responses rather than their actual experiences or perceptions. Finally, the study focused on three types of taxes: CIT, CGT, and VAT. While these are significant taxes that SMEs typically face, other forms of taxes and levies could also significantly impact the financial performance of SMEs.

Despite these limitations, the study provides valuable insights into the relationship between taxation and financial performance among SMEs in Ibadan, Nigeria. Recognising these limitations also presents an opportunity for future research to address these gaps and enhance our understanding of this critical topic.

1.9 Operational Definition of Terms

Capital Allowances: These are given for purchases of assets utilised in business, profession, or vocation to promote capital investment.

Capital Gains Tax (CGT): The Capital Gains tax (CGT) is levied at a fixed rate of 10% on gains deriving from the sale of chargeable assets under the Capital Gains Tax Act (CGTA).

Luxury Tax: A luxury tax is a fee paid by hotels or other companies that provide lodging or recreational and relaxation facilities such as gyms, personal trainers, and banquet halls.

Marriage Registration Fees: Marriage is registered at a local public registry, which requires a Letter of Marriage Intention and payment of a fee of N2,000.

Petroleum Profit Tax (PPT): In place of Company Income Tax, PPT is a tax on the income of enterprises engaged in upstream petroleum operations.

Right of Occupancy Fees: They are fees paid to a local government authority in exchange for the right to utilise land within its localities that have not been designated as an urban area by the state government for agricultural, residential, or other purposes.

Stamp Duty: Stamp duty is levied on official papers such as marriage certificates or paperwork relating to real estate, thereby making such documents suitable to be entered as evidence in court.

Tax on Vehicles Entering State: This is a fee charged to automobiles entering a state where they are not registered.

Tenement Rate: This is a levy the Local Government Authority imposes on occupants of developed properties within a locality.

The National Information Technology Development (NITD): This is a tax Companies in Nigeria with annual sales of at least N100m (\$262,800) must pay, and it is estimated as 1% of Profit before Tax (PBT).

Transportation of Passengers and Goods Tax: Public vehicles carrying goods or people from one state to another must pay this tax when they cross the border from one state to another.

Value Added Tax (VAT): VAT, currently charged at 7.5%, is a consumption tax paid on all goods and services provided in or imported into Nigeria.

Withholding Tax: Withholding tax is not another type of tax but the deduction of tax at source from payment made in certain transactions to a taxable person from the supply of goods and services.

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Chapter Two

Literature Review

The literature review critically examines existing studies and theoretical frameworks related to the impact of taxation on the financial performance of small-scale and medium enterprises (SMEs). It explores the concepts of taxation, tax policies, compliance, and incentives and their implications for SMEs. The review considers empirical research, theoretical perspectives, and international experiences to comprehensively understand this relationship. By identifying gaps and key themes, this review sets the foundation for the subsequent chapters and contributes to the existing knowledge on taxation and SMEs' financial performance.

2.1 Conceptual Review

2.1.1 Taxation

Taxation has been identified as a critical source of revenue for all levels of government to meet its statutory commitments to citizens. Businesses are expected to view tax payment as a civic responsibility or a national mandate to strengthen the economy, not as a means of exploitation. Various authors and academics have defined taxation. The term "taxation" refers to a fee imposed by government ministries on individuals, products, and services to generate income. It is critical to recognise that taxation is both a tool for managing the economy and a source of money for the government to function efficiently and meet its obligations. However, because it affects capital used by Small and Medium Scale Businesses, it typically becomes a disincentive to enterprises¹.

Tax is a levy contribution citizens give to the state subject to government redistribution, and taxpayers should not avoid paying it. The government does not levy taxes on citizens because it has provided specific services to him or his family. Regarding taxation, the government cannot do without it; nevertheless, the government must justify its collection by providing appropriate infrastructure facilities to encourage economic activity in the informal sector, which would

support small company sales growth. This may persuade many small and medium-sized business owners to view tax payment as a civic responsibility for economic growth and development, increasing the informal sector's profitability².

Taxation is a mechanism for economic growth that provides the funding foundation for the provision of public goods. Depending on what the interests of the government in power are, it has two edges. In addition to fostering rapid economic growth, it can promote or discourage behaviours regarded as socially advantageous and unfavourable. Taxes are a necessary evil to pay for the services that a society wants its government to deliver. He sees it as a required donation from taxpayers to the government agency. Tax is a mandatory payment required of individuals and businesses by a public authority to pay for necessary expenses. He claims that taxes are generally levied annually or according to the administration's beliefs. Income taxes on individuals and businesses are essential to the development and growth of any economy². Tax is a mandatory contribution the government imposes on its citizens' wealth or property without providing equivalent advantages. A tax is a mandatory charge that the government imposes on a person or his property to finance public services like security and social amenities and foster societal economic prosperity. All across the world, taxes are a significant source of revenue for governments. The government uses tax revenue to carry out its traditional duties, such as providing public amenities, upholding the rule of law, defending against external aggression, and regulating commerce and business to maintain social and economic sustainability. Micro effects on income distribution, resource usage efficiency, and macro effects on output capacity, employment, pricing, and growth are among the economic repercussions of taxes. A tax is a mandatory payment made by individuals and corporate entities on their income, profit, wealth, estate, property, commodities, and services that the government imposes to sustain the government but for which there is no assurance of a direct benefit³. The government uses taxes as a powerful tool of fiscal policy to control the state's economic growth. It makes up a

significant portion of the macro-economy. In general, it is unnecessary to overstate the importance of taxation to a country because it is a critical component of every economy in the world and a potent weapon for economic transformation. Small and medium-sized businesses must pay a variety of taxes, including income tax, corporate tax, excise tax, custom duty, fees, fines, special assessments, education tax, and value-added tax, among others, including petroleum tax because some of these businesses are involved in the oil and gas industry. However, our analysis emphasises how crucial regressively convergence and other factors are in separating the impact of taxes on economic growth in Nigeria from the viewpoints of SMEs. The following discussion includes some of the pertinent tax liabilities experienced by Nigeria's small and medium-sized businesses⁴.

2.1.1.1 Companies Income Tax

The Companies Income Tax Act (CIT) governs the taxation of companies' payable tax for each year of assessment of the profits at a rate of 30%, i.e. is self-assessed on a preceding government's fiscal year basis. These include profits from, derived from, brought into or received from a trade, business or investment (worldwide income). Also, companies paying dividends to their shareholders must first pay tax on their profits at the company's tax rate. However, where a company is a shareholder in another company, such dividends are excluded from the company's profits for computation of the tax. Except for proviso Tax Administration (Self-Assessment) Regulations 2011, failure to pay and file tax returns to FIRS within the time limits specified in the CIT attracts specific penalties and interest⁴.

2.1.1.2 Education Tax

Section 7(1)(a) to (e) of the TETFUND ACT, 2011 imposes a 2% Education Tax on the assessable profit (tax-adjusted profit before capital allowances) of all registered companies in Nigeria, undertaking public procurement contracts at all levels of government, viewed as a social obligation to contribute their quota in developing educational facilities in the country. Moreover,

the mandate of the Fund is to Federal and State tertiary educational institutions, specifically for the provision and maintenance of essential physical infrastructure for teaching and learning, Instructional material and equipment, and Research and publication. Tertiary Education Trust Fund invested about N7,647,600,000.00 in all states and federal government higher institutions in the southwest in 2013 to provide and maintain essential physical infrastructure. However, the scope of the tax is limited to public sector construction contracts in tax assessment⁴.

2.1.2 Classification of Tax

The numerous types of taxes can be divided into two groups. As a result, these may include: 1)

Direct Taxes: These are taxes levied on an individual's or a company's income or assets.

As the name implies, the person assessed pays this tax directly to the state. In Nigeria, direct taxes include⁵:

- a) **Personal Income Tax:** This is a tax assessed on individuals' employment income and any other income they receive.
- b) **Company Income Tax:** This is a tax on earnings made by companies other than those engaged in petroleum operations, such as those in the downstream petroleum industry.
- c) **Petroleum Profit Tax:** This is a tax imposed on the profits made by petroleum exploration companies. This tax is paid by oil-producing companies only⁶.
- d) **Capital Transfer Tax:** This is a tax paid on the value of any property passed from a donor to a donee as a gift (rather than a sale).
- e) **Education Tax:** All Nigerian companies are subject to this tax, levied at a rate of 2% on assessable profit and other services.

2) Indirect Tax: This occurs when the tax burden is passed on to the final consumers of a product rather than being borne by the taxpayer. Indirect taxes include:

- a) Sales Tax: This is a consumption tax levied on a specific consumer goods group. The tax is calculated by multiplying the tax rate by the selling price of products or services to get the tax due⁷.
- b) Value Added Tax (VAT): A VAT is a tax on the value added by a company throughout its activities. It is defined as a "tax on the delivery of goods and services" in the Statement of Standard Accounting Practice (SSAP).⁸
- c) Export Duties: Taxes are applied to items exported to another country, which the exporters pay.
- d) Import Duties: Import duties are levied on products entering a country.
- e) Excise Duties: These are charges imposed on goods manufactured locally. Manufacturers pay these taxes to the government on commodities produced in a country⁹.

2.1.3 Taxes Collectable By each Tier of Government

2.1.3.1 Taxes To Be Collected By The Federal Government

Companies Income Tax: The Companies Income Tax Act (CITA), Cap. C21, LFN 2004, governs CIT (as amended). CIT is a tax levied against a company's profit from all sources.

The tax rate is 30% of a company's whole profit. Some gains are free from CIT as long as they are not the result of trades or businesses that the company engages in, like cooperative societies. Every company is required to pay provisional tax, equal to the tax paid in the preceding year of assessment, no later than three (3) months after the start of each assessment year. This payment is for the income tax assessment for the current year⁴.

Petroleum Profit Tax: As amended, **The Petroleum Profits Tax Act of 1959** is the law that imposes a tax on the sale of hydrocarbons. PPT, Cap.354 of the Laws of the Federation of Nigeria 1990, as amended, is the tax imposed by this law.

Value Added Tax: A flat charge called value-added tax (VAT) is imposed on a purchase. It resembles a sales tax in some ways, except that with a sales tax, the consumer pays the entire amount due to the government at the moment of sale. With a VAT, various participants in a transaction each pay a piece of the tax amount⁷.

Education Tax: Every Nigerian corporation must pay the tertiary education tax levied at 2.5% of the assessable profit for each assessment year (as amended by the 2021 Finance Act)⁷.

Capital Gains Tax: When you sell (or "dispose of") something (an "asset") that has gained in value, you must pay Capital Gains tax on the profit. Not the amount of money you get but the gain you create is taxed⁸.

Stamp charges on Corporations and Citizens of Abuja, the Federal Capital Territory: Members of the Armed Forces of the Federation, Members of the Nigeria Police Force; Residents of the Federal Capital Territory, Abuja; and Staff of the Ministry of Foreign Affairs and non-resident individuals are all subject to personal income tax¹¹.

2.1.3.2 Taxes and Levies to be Collected by the State Government

Pay As You Earn (PAYE); Personal Income Tax; Direct Taxation (Self Assessment)

Withholding tax (individual only) Capital Gains Tax (individuals only). Individually executed instruments are subject to stamp duties; Taxes on pools, lotteries, gaming, and casinos; road taxes; Fee for registering a business premise in a state-defined urban area is capped at N10,000.00 for initial registration and N5,000.00 per year for renewal.

N2,000.00 for registration in rural regions; Renewal of registration costs N1,000.00 each year. A development levy of not more than N100 per year on all taxable individuals.

The state capital's street registration costs have been renamed. Rights of Occupancy Fees on Land Owned by State Governments in the Urban Area in the State. Market taxes and levies where State funds are involved¹¹.

2.1.3.3 Taxes and Levies to be Collected by the Local Government

Rates for shops and kiosks; Tenement rates; Fees for on-premises and off-premises liquor Slaughter slab fees Marriage, birth, and death registration fees¹⁰. Changing the names of street registration costs to exclude any street in the state capital. Except for those collected by the federal and state governments, right of occupation fees on lands in rural areas. Motor Park levies are market taxes and levies that do not include any market where state finance is involved. Fees for domestic animals' licenses. Fees for bicycles, trucks, canoes, wheelbarrows, and carts (excluding mechanically driven trucks). Cattle tax is only paid by cattle farmers. Charge for road closures and merriment¹¹

Fees for radio and television licenses (except for radio and television transmitters) Fees for vehicle radio licenses (to be imposed by the state's local government in which the car is registered). Erroneous parking fees; Fees for public convenience, sewage, and trash disposal; fees for customary burial ground permits; fees for establishing religious places. Fees for signboards and advertisements.

The phrase “other than the appropriate tax authority” clearly eliminates agents and touts as tax assessors or collectors. It defines tax authority as the Federal Board of Inland Revenue, the State Board of Internal Revenue or the Local Government Revenue Committee, all statutory bodies¹².

2.1.4 History of Taxation in Nigeria

Taxation existed in Nigeria prior to the arrival of the British in 1861, especially in the north, where an effective and stable administration based on the Islamic system existed. In 1861,

Northern Nigeria had a variety of taxes, including "Zakat" (a tax paid on Muslims for charitable, religious, and educational purposes), "KurdirKasa" (an agricultural tax), and "Jangali" (a cattle tax levied on livestock). There were various types of taxes in the South Western Area, including "Isakole" (a tax levied on land used by local communities who are normally expected to pay "tribute tax" to the local chief), "Owo-ori" (a tax levied on land used by local communities who are normally expected to pay "tribute tax" to the local chief), and "Owo-ori" (a tax levied on land used by local communities who are normally expected to pay "tribu (tax paid by every individual in the community to the government)¹³. The Igbos' republican nature is regarded to be the foundation of Nigeria's Eastern Area. The following are some of the types of taxes in this area: "egbu-nkwu" (a tax imposed before palm oil is harvested, which is mandatory and without which no harvest can take place), "community effort" (a tax imposed before palm oil is harvested, which is mandatory and without which no harvest can take place), "egbu-nkwu" (a tax imposed before palm oil is harvested, which is compulsory and without which (tax on members of each community for specific purpose, it is also applicable in the Western Area of Nigeria). Those who are unable to physically participate in community service might pay their tax in cowries (a sort of currency), food, or palm wine¹⁴.

Taxation in the pre-colonial era was more or less ethnically based, with a centralized authority, administrative apparatus, and judicial institutions, such as "Emirs" in the Northern territories and "Obas" in the Yoruba and Benin Kingdoms. There is little or no systematic taxation in non-chieftaincies areas such as the Igbo, Tiv, Bura, Igbira, and Bachama. It should be remembered, however, that throughout this time period, taxes were not always paid in cash. They were primarily compensated in kind for required personal services, sometimes known as "tribute taxes¹⁵."

The English law was first implemented in Nigeria by the British through Lord Lugard in 1904, when the Colony of Lagos was founded in 1862. As a result, the income tax as we know it today was first established by the British through Lord Lugard in 1904. Lugard took attempts to establish a consistent tax structure, modeled after the conventional system he had implemented in the North during his time there, in order to raise additional income. As a result, taxes became a cause of dissatisfaction in the South, contributing to protests against British policy¹⁶.

In 1918, an amendment to the Native Revenue Legislation of 1917 was passed, extending the terms of the 1917 ordinance to Southern Nigeria. The ordinance was first implemented in Abeokuta, Ogun State, and Benin, Edo State, before being expanded across Eastern Nigeria in 1928. The Native Revenue Ordinances of 1917, 1918, and 1928 were later integrated into the Direct Taxation Ordinance No4 of 1940, cap 54, which repealed the 1923 edition's Native Revenue Ordinance, cap 74, and the Native Direct Taxation (colony) Ordinance No41 of 1937. As a result, the Direct Taxation Ordinance of 1940 may serve as a model for Nigerian tax legislation. The law, Europeans in the areas were not taxed in the region where they lived, but Africans and Europeans in the Federal Territory of Lagos were both taxed. As a result of this circumstance, the Raisman Fiscal Commission suggested in 1958 that basic rules for taxing incomes be implemented throughout Nigeria. The Income Tax Management Act of 1961 was based on this recommendation, which was enshrined in the Nigeria Constitution Order in Council of 1960¹⁷.

Despite the lack of documentation, it is apparent that the Nigerian tax system was vibrant and dynamic, despite the variances in form and technique. It would have been more difficult for Lord Lugard to begin the exercise if the North had a robust tax framework in place. Because of the solid structure in place in the north, he was able to create a proper

foundation through codification, which allowed him to expand to other parts of Nigeria following the merger¹⁵.

The first attempt in 1928 in the Eastern Area of Nigeria to codify and reorganize the tax following the passing of the Native Revenue Ordinance practically resulted in the well-known "Aba riot" of 1929, which was sparked by the imposition of revenue on Ibo women. "In our judgment, the Ibo women were essentially fronts for their men, who would have had to pay more tax anyhow¹⁶"

The specific origins of some tax methods are a little hazy. Some writers claim, however, that the practice grew more evident and widespread in the late 1980s. "This time corresponded with the period when revenues accruable to state and local governments from the federation account began to drop, prompting several state governments and many local governments in the country to seek new sources of internally generated money". As a result, many of them gravitated toward a plurality of taxes¹⁶.

Nonetheless, the issue of excessive taxation can be traced all the way back to 1954, when Nigeria became a federating entity. The issue of sharing taxing power between the Regions and the Federal Government was a hot topic at the time. 4 In 1957, the Nigeria Constitutional Conference in London discussed this subject. As a result, the Raisman Commission was formed to investigate the situation and give suggestions¹⁶.

Government tax authority should have exclusive power to impose personal income tax on individuals, sole traders, partnerships, trusts, and other unincorporated associations, the commission's recommendations in June 1958. The proposals were later embodied in Nigeria's 1960 constitution, Section 70. The Western Region responded by enacting the Income Tax Development Contribution Law of 1961. The Eastern Region Finance Law of 1962, as well as the North, Northern Nigeria Personal Tax Law of 1962, were both

passed by the Eastern Region. Nigeria was eventually divided into 12 states. The Northern Region's states used the Personal Tax Law of 1962, the Eastern Region Finance Law of 1962, and the Western Region's Income Tax Development Contribution Law of 1961. The application of varied personal income tax regulations resulted in double taxation between areas. Personal income taxes were levied at various rates¹⁶.

Residents of the Eastern Region who worked in the Western Region were taxed twice: first as a resident of the East and again as money generated in the West. It became more pronounced to the point where taxpayers protested. In response to the protests, the Income Tax Management Act was passed, which aimed to harmonize Personal Income Tax rates across the country and eliminate disparities between states¹⁷.

The Income Tax Management was in place until 1979, when the second Constitution was enacted. Incorporating Personal Income Tax in the Exclusive List was a dramatic move taken by the 1979 constitution to prevent the practice of excessive taxes. The federal government has exclusive power to legislate on personal income tax under item 58 of the Second Schedule to the Constitution⁹. This served to alleviate the problem of excessive taxation by allowing the federal government to implement a standard personal income tax law that applied throughout the country. In the 1990s, Nigeria's history of excessive taxation took on a new dimension. Nigeria has grown in this period, and numerous new states have emerged. States became more zealous in their pursuit of revenue, but the Federation Account's allocation became insufficient. It was eventually revealed during General Sani Abacha's military rule. The military governors implemented "Accelerated Revenue Generation Programs" during the time. They hired specialists to conduct audits of businesses and collect different taxes that the companies had failed to pay. They also passed different laws imposing various types of taxes, fees, levies, and other charges, resulting in tax multiplicity¹⁸. Typically, complaints about excessive taxes were brought to

the attention of the then-Federal Military Government (FMG). After considering the several accusations against the military governors, the FMG made another noteworthy step toward cleansing the Nigerian tax system and preventing duplicate taxation. The F.M.G. then issued Decree No 21 of 1998¹², Taxes and Levies (Approved list for collection), which establishes a list of taxes and levies that can be collected by the Federal, State, and Local Government Councils. The Decree also made it illegal to collect any tax or levy that was not listed in the Decree. It also made it illegal to utilize roadblocks for tax collection and enforcement¹⁹.

In the 2000s, a new age of excessive taxation began. The integration of democracy from the military regime that dominated the country in the 1990s characterizes this period. With 36 states, the country is becoming more developed. The majority of states relied on federation funds to fund their programs and agendas. Unfortunately, the federal government's revenue is clearly insufficient for the states. As a result, states saw the need to step up their efforts to enhance domestic revenue through various forms of tax legislation. As a result, taxation in the states and local governments has multiplied²⁰.

2.1.5 The Building Blocks of a Good Tax System

The following are important for a good and equitable tax system in his book *The Wealth of Nations*.

Universality: Tax duty should be all-encompassing, meaning that all individuals, without exception, should be taxed. As a result, an individual's tax responsibility is decided by his or her financial ability to pay.

Certainty: The amount of the individual's tax burden, as well as the period of payment, must be determined with certainty. This necessitates the establishment of a specific mechanism for calculating the amount of tax owed by each individual. There must be well-defined options if

there is any ambiguity in the amount of tax individuals must pay; otherwise, the tax system is inequitable²¹.

Convenience: The tax payer must be able to pay at a time and in a manner that is convenient to them. As a result, the tax payer will be compelled to pay when he has the financial capacity to do so, using a fairly simple approach.

Economy: The collection system must be cost-effective, which means that the amount of tax actually collected must be sufficient to justify the work and resources used in the collection. As a result, if the quantity of tax collected does not match the effort required to collect it, the tax should be repealed²².

2.1.6 The Justification for Taxation

Knowing that taxing can have negative consequences for society, one could wonder why the government imposes taxes in the first place. Apart from the fact that taxes are the most reliable source of revenue for the government, there are two main reasons why the government levies taxes²²:

a. A means of addressing collective need: There are a variety of needs and services that are better and more inexpensively given collectively than individually, just as there are in any society or among groups of persons. Defence, education, utilities, health services, and social amenities are among them. Taxation is merely a tool for requiring citizens to contribute to the cost of meeting such common requirements²³.

b. An economic policy instrument for the government: Taxation, as a tool for government economic policy, can help the government achieve the following goals:

- i. Wealth redistribution
- ii. Changing the country's balance of payments with other countries
- iii. Mobilizing economic resources
- iv. Changing the level of economic activity and

v. Combating inflation²⁴

2.1.7 Tax Collection Issues in Nigeria

Tax collection is a difficult task. Taxes must be collected with caution, especially in a country where volunteer labour is in short supply. Income tax, like all other types of taxes, has been difficult to collect. Members of the public are frequently reluctant to receive paperwork, notices, and letters from tax authorities.

The following obstacles were recognized in direct evaluation:

- i. Severe shortage of qualified and trained personnel: In the revenue offices, there is an acute scarcity of qualified and trained personnel. The adequacy and effectiveness of revenue staffs are essential for accurate assessment and timely tax collection. Direct tax assessment relies on the employee's ability to predict the scheme completely, and where he is required to operate the system, he may do it wrongly.
- ii. Employer misapplication of code numbers results in reduced revenue for tax agencies.

However, past experience has demonstrated that tax refers to the amount of revenue that a tax payer receives and is prepared to reveal to the IRS. With the assessment of taxation, which allows the self-employed to submit annual accounts to the tax authorities, the payer can take advantage of the situation to decrease his tax burden. He can achieve this by lying about his salary. Civil officials have little or no chance of dodging tax because of the PAYE System, however self-employed people can always understate their income. However, no matter how unpopular taxes are, they are a necessary source of government money for improved citizen governance. Furthermore, history has shown that willing and capable workers, such as public servants, engineers, lawyers, teachers, professors, and others, as well as employees who understand the scheme's operation, do well. However, the scheme's operation grinds to a halt when employees are transferred or quit their jobs due to resignation or termination of employment benefits²⁴.

2.1.8 Taxation's Importance in Nigeria

Income tax is one of the most important sources of revenue for all levels of government in Nigeria, and it is a consideration to consider in both state and federal budgets. The money raised in taxes is returned to the taxpayers in the form of social benefits. The income tax has both supported and discouraged particular private-sector operations, depending on whether the government's objective is to discourage or encourage certain businesses. It lowers the next investment return and diminishes the amount of money available for private savings. It is a pervasive topic that impacts practically everyone's lives, and no major accounting or legal problem can be solved successfully without taking into account its tax implications. Nothing in this world is certain but death and taxes. Businessmen who benefit from water supply, power (where they operate), and land allocation are particularly concerned about taxes²⁵.

Income taxes have societal ramifications. Personal reliefs, tuition relief for children, insurance premium relief, and dependent relatives relief all have an impact on the social structure of the country. The fiscal impact is that the government's cost of collecting these taxes is significant. Professional costs paid to accountants by tax payers, as well as the cost to unpaid employers of deducting the Pay-As-You-Earn System and remitting the taxes deducted to the government, can be a burden. Income tax has an impact on population movements and the size of businesses that are conducted. The importance of income tax is further demonstrated by the fact that the allocation of taxing power between the federal and state governments is one of the inherent challenges in any federal system of government²⁶.

2.1.9 Nigeria's Major Taxes and Levies and Their Challenges

Several researches, Nigeria is one of the countries with excessive taxes and levies that have increased the cost of doing business for Small and Medium Scale Business owners. The following are a few of these taxes:

1. Business Registration Fee: Any company wishing to do business in Nigeria must register with the Corporate Affairs Commission and the State Ministry of Commerce and Industry in the host state in order to obtain a certificate or permit to do so. No one may participate in business unless he has obtained a registration certificate, as required by the business and tax regulation legislation. Furthermore, the tax and levy act (1998) stipulates that the fee varies; for those living in urban areas, the registration price is N10,000 for the first year and N5000 for future years of renewal registration. However, in rural locations, the price is N2,000 for the first year and N1,000 for each successive year. Similarly, launching a business in Nigeria has become less appealing during the last year¹².

People are turning to third-party agents to secure their registration because the procedure of obtaining the certificate entails government bureaucracy. The process has increased the expense of registering with all levels of government for enterprises with low funding²⁸. This may have an impact on the capital strength of small and medium-sized business owners, who are typically funded by personal savings and family credit¹².

2. Personal Income Tax: The government levies this tax on a variety of types of income, including wages, pensions, and dividends. The informal sector's economic development is harmed by the multiplicity of taxes. Despite the establishment of a joint tax body to address these difficulties, the situation remained unchecked, especially at the state and local government levels. As a result, some states and local governments are extorting fees from small and medium-sized businesses that aren't backed by any federal legislation. Personal income taxes have a significant negative impact on small business production growth. It hampered business productivity, and employees may be affected because their take-home pay may be lowered as a result of the tax effect. Similarly, governments at all levels regard taxation as a weapon to achieve their revenue-generation agenda without regard for sentiment, and that excessive taxation is an attempt to create needed revenues that are then duplicated under other identities. A common complaint

raised by aggrieved parties is that the imposition of too many taxes, particularly on small firms, is often a duplication of taxes previously levied by other levels of government but under different names. The establishment of such taxes has added to the system's annoyances and will prevent competition³⁰.

3. Environmental Development Levy: One of the taxes that gives company owners restless nights is the environmental levy; it has added significant hurdles to the cost of doing business in Nigeria, notably in Lagos state, where there are over 97 taxes and levies. To keep the informal sector from collapsing, different taxes and levies must be addressed urgently in order for businesses to be motivated and enjoy an enabling environment. Government taxation, on the other hand, is the responsibility of every person to pay for government services. Governments, business owners agree, require finances to run and perform required services. However, the government must recognize that businesses can only pay taxes and employ others to add value to the economy if they exist³¹. World Bank analysis, businesses pay around N35 in tax compliance for every N100 in taxes they must pay. This has resulted in less capital being employed, which could have been reinvested in the firm and more jobs being generated for the unemployed. The fact that such charges are not underpinned by any Federation law, all sorts of names are given to them³². The Imo state administration implemented an Environmental Audit Review and Certification Price of N30,000 per site, despite the fact that the fee was legally authorized by the federal government's Standards and Enforcement Agency (NESREA). This is a blatant duplication of charge, resulting in increased costs for business owners¹².

4. Road Taxes: Tax Law, no person, including a tax authority, may set up a roadblock in any section of the Federation to collect a tax or levy. Despite this audible warning, roadblocks were erected on roads around the federation without regard for the law. Some utilize uniformed men to extort money from people; those in the transportation industry are disproportionately targeted. These taxes are extortions, and they are more widespread at the local government level.

But why should a scenario exist in which practically all local governments impose arbitrary levies that are in violation of the law, and roads are blocked? This acts as a strong deterrent to the growth of the informal sector, as well as lowering the level of transaction in cities. The majority of carriers believe that, despite the collected funds, the roads remain in a bad state¹⁵.

As a result, much is expected of those who are given much. To justify the importance of collecting taxes and levies from taxpayers, the government must repay the gesture by building important roadways that connect villages and cities. This has the potential to promote tax compliance and economic activity in the country³¹. Furthermore, a ten-kilometer drive can draw up to twenty cost centers/revenue collection stations, where a large number of tolls are collected during the day. The majority of these touts have surrendered to auditors by marking automobiles' windcreens to identify those who have complied when returning. This condition has increased the cost of doing business and weakened small enterprises' financial strength³².

5. Tenement Rate: All occupants of various buildings in all towns and villages that make up the local government area as council may by order direct from time to time pay the prescribed fee by law. The treasury department's staff is in charge of collecting the rates as revenue for the local government. The relevant rate charge levied by the rating authority should be based on the ratable worth of the property and paid by the occupier or owner of the property at the start of each rate period³⁶.

This means that small and medium-sized businesses are subjected to a slew of taxes, and they aren't getting much in the way of basic facilities to help them run their businesses³³.

6. Right of Occupancy Fee: Occupation Rights Individuals cannot possess land under the current legal framework. Right of occupation is the only interest a person can have in land. One of the issues affecting the activities of Small and Medium Scale Businesses, particularly in metropolitan settings, is the question of acquiring or owning land. In relation to a single piece of land, prospective businessmen are liable to a slew of taxes. This money is distributed to the

ministry of land and survey, ward leaders, and district heads, resulting into excessive taxation. The process has created heavy burden to businesses in Nigeria²⁴.

7. Cattle Taxes: Cattle are taxed from the time they are purchased until they are slaughtered. Butchers in Ekiti state have refused the newly imposed N1000 levy on each cow butchered. Butchers bemoaned the fact that they had been paying government veterinarian taxes and inspection fees. Paying N1000 to butchers will result in monthly payments of N26000 and annual payments of N312000. The expense of doing business will become untenable for entrepreneurs as a result of this. Furthermore, certain meat vendors in Oyo state have complained that the state and local governments have overtaxed them. The payment includes inspection fees to the state government, and the Ibadan Metropolitan Council; this circumstance adds to the expense of conducting business in the metropolis³.

8. Shops and Kiosk Levy: In Nigeria, excessive levies impose additional difficulties on small companies. It is one of the issues that is harming the informal sector's performance in Nigeria. Some states levy as many as 97 taxes and levies on firms as a source of revenue for the government. Furthermore, the levies have made the business environment unfriendly to Small and Medium Scale Businesses that lack adequate capital to deal with the situation. As a result, the majority of Small Scale Businesses close down, leaving owners unemployed and customers without access to the products or services of such businesses³.

9. Market Levies and Taxes: This is one of the taxes that have impact on the capital of informal firms. The tariffs have a negative impact on the market prices of items. The taxes levied on market traders amounted to unjustified extortion. Traders may try to shift the tax burden to customers by charging exorbitant prices. Otherwise, the government should take action, as it is impacting the activities of small and medium-sized businesses²¹.

Local government officials, as well as trade unions, have been complicating issues at stake in the informal sector, as traders have lamented that they pay for land after paying for the goods

purchased. Small and medium-sized businesses are unable to cope with this circumstance, and the government's intervention is required to save the situation¹⁹.

10. Fees for parking: Drivers have expressed their dissatisfaction with the state of parks and highways going to major cities around the Federation, despite the fact that they have paid their taxes. To truckers and passengers, the majority of the parks in Nigeria are filthy. Because of the poor state of the parks, many passengers prefer to take off on the road rather than in them.

11. Fees for abattoirs and slaughterhouses: No one should butcher animal meat for sale unless it is done in a public slaughterhouse and according to the methods specified, especially when it comes to animal health. Butchers must pay the veterinary fee, the inspection fee, and the slaughtering fee on this note. This is constantly raising concerns about the cost of operating such firms and their ability to stay in business¹².

2.1.10 Nigeria has Excessive Taxation Systems

There are a total of 39 taxes and levies listed in the approved list of collection in the 1998 Decree No. 21 of the approved taxes and levies in the constitution. In the Exclusive list for the federal government, there are eight taxes and levies, two in the concurrent list for state government, and twenty in the residual list for municipal government⁴⁰. However, academics and business people have noted that Nigeria currently has over 154 taxes and levies. Internally Generated Revenue (IGR) has inspired the federal government, state governments, and local governments to go viral in their revenue-raising efforts¹². To increase money for development, all levels of government have gone above and beyond the approved list of taxes and levies. The more a taxpayer's goods and services are transported across several local governments across the country, the more he is subjected to excessive taxes. Without interstate commerce, no state or nation can develop.

The hostile tax climate in Nigeria makes it difficult for small and medium-sized businesses to survive. Excessive taxes, such as import charges, export and excise duties, education tax, VAT,

and withholding tax, are imposed on the real sector (manufacturing sector). From the same profit, corporations pay corporate income tax and shareholders pay withholding tax¹⁸.

Excessive taxation is more common in the hospitality industry, including hotel consumption tax, restaurant tax, wine tax, food tax or levies, and VAT. This is the equivalent of excessive taxation. Inflation will result from the many taxes levied on business profits. The hospitality industry's expansion is being stifled as a result of this. The majority of the taxes and levies stated above are unconstitutional (outside the approved list of taxes and levies collection). It is occasionally arbitrary, even though the charges and levies are legitimate. The arbitrary charges are a violation of the certainty principle¹².

Annually, charges and levies are raised without regard to any set of guidelines. For example, in 2005, prices for the Aviation Height Clearance Certificate (AHCC) of masts and towers constructed by telecommunication corporations were increased by up to 4000 percent. Normally, most telecommunication firms would have installed more base stations to improve poor service quality, but they are restrained by federal and local government councils' massive taxes and levies. Excessive taxes pose a significant danger to investment and growth. He further argued that output from investment is inversely proportional to input in the telecommunication sector because of the harsh tax environment. For instance, in 2009, Imo State Ministry of Petroleum and Environment introduced an Environment Audit review and certification fee of N30, 000 per site without constitutional backing. This was done in a bid to increasing the internally generated revenue of the state for development. Be that as it may, it has to be within the framework of the law¹¹.

Excessive taxes, such as the radio levy, wagon levy, generator levy, and tenement rate, are more common at the local government level. The majority of these charges are unregulated by legislation. In our thoughts, the issue of Eti-Osa local government vs. Jegede from 2007 is still fresh. Because of its location, the third tier of government is in desperate need of growth. Local

government councils delegate development responsibilities to rural residents. The imposition of unknown taxes and levies, as well as the attendant transfer of obligations to citizens, is not only extortionate, but also impoverishing to the rural population¹⁰. Environmental development levy/charge, environment impact assessment levy, land use charge, Lagos State Environment Protection Agency (LASEPA) Levy (Laboratory Analysis), Ministry of Transport (MDT) road worthiness charge, LASEPA petroleum storage charge for tanks above 10,000 litres, solid waste charge, chemical storage permit, Lagos State Waste Management Authority (LAWMA) levy for waste disposal are among the taxes and levies that can be collected. Excessive taxation is a direct result of Nigeria's bad tax administration¹⁵. As a result of the unfavorable tax climate, the cost of doing business in the country is rising. Some states' tax policies are exorbitant, scaring away investment. This is because the vast majority of the taxes and levies that can be collected are not included in the concurrent list of sanctioned taxes and levies for collection by state governments. Nigeria's federal government is also complicit in this extortionate taxation scheme¹⁴. For example, the Federal Environmental Protection Agency (FEPA) and the National Environmental Standards Regulatory and Enforcement Agency (NESREA) are both defunct, but some persons are still collecting FEPA levy¹⁶. In an ideal world, there should only be one environmental levy. However, the federal government, state governments, and local governments all collect environmental levy under various names and guises. No wonder Nigeria is ranked 125th out of over 130 nations in the World Bank's Doing Business Index (DBI)¹. In addition, Nigeria's Fitch rating has been downgraded to a BB - ranking from a B+ rating: The inhumane investment climate is to blame for this low economic grade. Poor fiscal policy and a lack of actual economic policy are utilized to drive economic factors. This snag is caused by corruption and a lack of infrastructural facilities²⁰.

2.1.10.1 The Disputation

Whatever is contrary to the Nigerian constitution and culture will almost certainly be reconsidered. The controversy stems from the enforcement of several alien taxes and levies that are not included in the decree 1998 approved collection list. The population has turned against governments at all levels as a result of illegitimate levies and charges. Fees for Aviation Height Clearance Certification (ATTCE) of masts and towers, for example, were increased by 1000–4000 percent in 2005²². The dispute over VAT jurisdiction between the Lagos State Government and the Federal Government is contentious. Some Nigerian states have actively opposed VAT collection on their jurisdiction, while others have remained silent. The VAT and PAYE collection matter between Bayelsa State Board of Internal Revenue and FIRS is also unresolved. The use of consultants to boost revenue has only exacerbated the problem. Taxes and levies are devised by consultants without the necessary constitutional support. Consultants are entitled to a commission based on the quantity of revenue earned. On the basis of an agreement with their employers, consultants introduce unknown taxes and levies that are not on the approved list of collection²⁵. As a result, consultants employ task forces and security personnel to enforce their policies. Most relevant tax authorities have been known to use extrajudicial means to enforce their demands. Unapproved means such as arbitrary site closures, equipment seizure, arrest, and physical attacks are used to collect taxes and levies, both legal and unlawful. Some states have attempted to legalize the illegality by adopting legislation to support the heinous trend. The Lagos State Infrastructure Maintenance and Regulatory Agency (LASIMAR) ACT, 2004, was enacted to regulate telecommunication businesses, but the Federal High Court declared it unconstitutional²⁹. Imo State Ministry of Petroleum and Environment's establishment of a N30,000 Audit Review Certificate charge was also deemed unconstitutional. Blocking high ways to collect taxes and levies is prohibitive, but agents block high ways to collect taxes and levies. The Federal Government, through the Joint Tax Board, has specifically prohibited the use of

unconventional methods such as road blocking to enforce their charge. There is also an attempt to prohibit the use of consultants in order to eliminate tax evasion. Instances of excessive taxation, on the other hand, can be addressed by the Tax Appeal Tribunal or the Federal High Court, which is tasked with resolving tax issues. There is a Tax Audit Committee in Lagos State Government (TARC). Resolving tax disputes is the responsibility of the Lagos State Tax Audit Reconciliation Committee. The Nigerian Governors Forum and the National Economic Council, among others, are recommended as viable mechanisms for resolving tax issues before going to the Supreme Court³.

2.1.11 Taxation and Its Complex Causes

Officials are one of the causes of excessive taxation. "unfair revenue formula," "dwindling state income from the central fund," "unhealthy state rivalries," "political patronage," "lack of political will to stop excessive taxation by some state and local governments," "poor equipping and training of revenue agency staff," "inefficient manpower at revenue agencies," and "greed on the part of tax officials." While the paper agrees with the aforementioned assertions, it also discovered that additional technical variables, such as the general motive of an unjust revenue formula and the shrinking state's allocation income, could be accountable for excessive taxation. Nigerian Fiscal Federalism, Road Tax, and Illegal Tax Collectors are among the variables discovered. These are the primary causes of excessive taxes in Nigeria⁵.

1. **Nigerian Fiscal Federalism:** The Federal Republic of Nigeria's 1999 Constitution ensures fiscal federalism. The federal, state, and local governments each have their own tax collection authorities under the Constitution. This means that the various levels of government have the authority to levy and collect taxes in accordance with the Constitution and other relevant legislation. As a result, when each layer exerts these abilities, there is a risk of excessive taxation. Excessive taxation is due to the several levels of government in Nigeria that have the authority to levy taxes⁵.

The National Assembly has the authority to enact tax legislation on any of the 67 items on the Exclusive legislative list as well as the items on the Concurrent legislative list. The States House of Assembly has the authority to enact tax legislation on topics stated in the Concurrent list as well as matters not included in the Exclusive list, known as Residual matter. The remaining issues aren't specified. The states can make any tax law for administration and collection by local government under item 9 of the Concurrent legislative list of the Constitution. The state has inherent taxation power over residual matters under these regulations. The constitution also gave local governments powers over the matters included in the Fourth Schedule of the Constitution. As a result, taxpayers are only at the will and caprices of the governments when each tier of authority exercises its ability to collect taxes, as it is always the objective of any government to create high income¹⁷. As a result, in a federal system of government, there is no prohibition against double taxes. The court further reasoned that if more than one legislative authority, such as the Federal and State legislatures, has the ability to levy a tax, nothing in the Constitution prevents the Federal and State governments from taxing the same person or item. As a result, where the Federal Government taxes, the State taxes, and the Local Government taxes, all on the citizens, the burden is bound to be excessive. Worse, unlike the federal government, which has listed taxation items, state governments have unrestricted taxing authority¹⁴. As a result, state governments are more likely to levy several taxes. So, what should we anticipate from state governments if there is a strong desire to boost money through internally generated revenue in order to meet their responsibilities in their respective states? The states have little choice but to exercise their unbridled power by implementing as many tax laws as they can; after all, their taxing power is unrestricted under the Constitution, albeit limited to the scope of the Federal Government's powers. It would have been different if the states had enumerated taxing power in the same way as the federal government does under the Exclusive legislative list: their excesses

would be curtailed. Because they don't, determining the scope of their taxing powers would be difficult; as a result, taxpayers are at their mercy⁷.

2. **Road Tax:** Another source of taxation that goes unnoticed is the road tax. It has received insufficient attention, but it has a significant impact on excessive taxation. The Taxes and Levies (Approved list for collection) Act gives the state government responsibility for road tax administration and collection. The tax, on the other hand, has a practical obstacle. The federal government collects road tax in the form of vehicles and driver's licenses, whereas states have their own requirements, such as road worthiness and car inspections. The collection of road tax by two levels of government on the same income and for the same purpose is known as double taxation¹².

Another issue with road tax collection is that roads are a network of two or more states, or two or more local governments within a state. When a federal or state road connects two or more states, the states or local governments may choose to collect road tax in separate ways and under different names. This has put the onus on the taxpayer to pay taxes, fees, and levy to numerous states while on the road. The Taxes and Levies Act made no provision for whether the road tax should be collectible by a single state so that it does not have to be paid to many states. But, if such a provision was included in the Act, whose state would wish to entrust it to another to collect? This is the issue of collecting and administering road taxes¹⁰.

3. **Illegal and Fake Tax Collectors:** The majority of tax collectors are imposters. They pose as the Government Revenue Agency and set up roadblocks in order to collect taxes from citizens. "There are charges imposed on business men and women by touts in Lagos States," Babatunde Fashola said. "Every individual should live up against the touts." There is a question about who the touts are. The majority of them are government political appointees who have been awarded patronage for political reasons. The touts block the road and use force and intimidation to extort money from the public. They charge a higher rate and engage the taxpayer

in negotiations, which is contrary to the idea of a healthy tax system, which is that the tax must be certain. They can be found all over the world. They are shady tax collectors. If there is political will, the security agencies will be challenged to find them and deal with them in accordance with the law. They are a big contributor to excessive taxes¹².

2.1.12 Excessive Tax Practices in Nigeria: Factors to Consider

Many unhappy individuals and organizations have contended that too many taxes are imposed, and that many state taxes, particularly those imposed on businesses, are often a duplication of taxes already imposed by another degree of government alternatively, the same government may operate under different identities. Various elements have been suggested as being responsible for excessive tax practices in Nigeria, including an unfair revenue formula, dwindling state income from the central fund, and a lack of transparency in the tax system. State rivalries are unhealthy. Political patronage is a method of compensating so-called political godfathers. Lack of political will by some state and local governments to stop excessive taxation, inadequate equipment and training of revenue agency workers, and tax officials' greed. Furthermore, the following elements have been cited as typical reasons for many states and local governments' willingness to embrace various taxes and levies: poor tax administration, an unfavorable revenue allocation formula, and tax official corruption³.

2.1.13 Small and Medium-Sized Enterprises

Small and Medium-Sized Enterprises (SMEs) have become increasingly important to all global economies as a result of the spotlight that the globe has recently shone on their distinctive economic activities. Small and medium-sized businesses have long been recognized as a key driver of economic growth and modernization in developing nations. The importance of these small businesses in Africa's economic development, job creation, and poverty reduction is becoming more widely acknowledged. The best ways to help people escape poverty are to create sustainable employment possibilities and business chances for tiny businesses. This is because

they have a significant impact on a country's economic development and progress. This sub-influence sector's can be seen in the increased use of local raw resources, the creation of jobs, the promotion of rural development, and the growth of entrepreneurship. They make up the majority of enterprises worldwide, play huge roles in generating employment, providing goods and services, raising living standards, and significantly boosting the gross domestic products (GDPs) of many nations²⁰.

A business is considered to be small and medium-sized if it employs between 11 and 300 people and its asset base, excluding land, is between N5 million and N50 million. Emerging enterprises in SMEs are defined as entities with asset bases of N10 million to less than N1 billion with 50-199 employees for "MEDIUM" and N10 million to less than N100 million with 10-49 employees for "SMALL." A business with a revenue of less than N100 million and/or less than 300 workers was also referred to as a SME. SMEs are adaptable and variable⁶.

Depending on the context, the author, and the nation in which these firms are located, SMEs are defined differently. For instance, in Britain, SMEs are businesses with yearly revenue of 2 million pounds or less and fewer than 200 salaried employees. In Japan, companies with a paid-up capital of 100 million yen and 300 employees are considered SMEs. Small to medium-sized enterprises (SMEs) in Nigeria are those that are owned and operated by entrepreneurs and have fewer than 100 employees for small businesses and 500 or more for medium-sized enterprises (CBN report, various issues). Small to medium-sized enterprises (SMEs) in Nigeria are often classified as having a minimum annual revenue of N5 million, a turnover of less than N100 million, and/or less than 300 employees⁴.

Similarly, UNIDO viewed small and medium-sized firms (SMEs) as the foundation of economic growth in all nations as they account for over 90% of private businesses and more than 50% of employment and GDP in the majority of African nations. Small and medium-sized businesses

serve as a source of employment, competition, economic dynamism, and invention, all of which foster an innovative mindset and the spread of knowledge. Small and medium-sized businesses also contribute to more equitable income distribution because they have a greater geographic footprint than large corporations. They are at the vanguard of increasing output, creating jobs, redistributing money, encouraging homegrown entrepreneurship, and producing basic products to enhance industrial ties. About half of the workers in small and medium-sized businesses (SME) in the United States of America (USA). Small and medium-sized businesses (SMEs) account for at least 60% of the Gross Domestic Product (GDP) of the United States of America (USA), that SMEs have contributed significantly to several emerging industries, and that most IT breakthroughs in the U.S.A. have been driven by SMEs (SMEs). In Africa, where small and medium-sized businesses are known to make up roughly 91 percent of official business entities, contribute between 51 and 57 percent of the GDP, and account for about 60 percent of employment. These small businesses are increasingly understood to have a significant role in job creation, economic expansion, and the eradication of poverty in Africa. In Nigeria, the importance and performance contributions of Small and medium business as a creator of employment particularly, those with low skill level, is widely recognized. Small and medium enterprises in Nigeria are not only catalyst of economic growth and development, but are also the bedrock of the nation. A study carried out by the Federal Office of Statistics shows that in Nigeria, small and medium enterprises make up 97% of productive units of the economy and provide an average of 50% of Nigeria's employment, and its industrial output²².

Small and medium-sized businesses are those with a total investment of less than N500, 000 (including land and working capital). Small or medium-sized business is characterized by the amount of assets it owns and the amount of capital it employs. Furthermore, a small scale firm is one that is operated and managed by an individual or a group of individuals with limited capital, poor sales, and a small number of employees on the payroll³. Small Scale Businesses, on the

other hand, are small in size and number of employees, but they contribute to the well-being of society by creating jobs and providing revenue to the government for economic growth and industrialization.

SMEs are widely considered as crucial engines and mechanisms for the expansion and development of the global economy, and they have dominated the industrial sectors of both developed and developing nations. That idea was reinforced by earlier research, which found that SMEs contribute around 80% of the world's population's source of income and act as catalysts for employment creation, national growth, the decrease of poverty, and economic development.

Over 90% of employment prospects in Nigeria's manufacturing sector are provided by SMEs, which also create around 70% of all new jobs annually. In contrast to industrialized countries where over 98 percent of businesses are small and medium-sized enterprises (SMEs), Nigeria's industrial sector is dominated by SMEs, which make up roughly 90 percent of the sector. SMEs are claimed to employ 87.9% of the workforce in the private sector. Small and medium-sized businesses require more focus and attention if a developing nation is to expand and thrive economically. In the state of Benue, SMEs and internal revenue creation. Secondary data were gathered over 12 years from the National Bureau of Statistics using an ex-post facto research design. The outcome shows that SMEs have a beneficial impact on job generation and internally generated revenue.

Similarly, for tax purposes, section 40(6) of the Companies' Income Tax Act Cap C12 LFN 2004 defined Small and Medium Scale Business as an enterprise with a turnover of one million naira or less that operates in the manufacturing, agricultural production, solid minerals mining, or export trade sectors. Section 8 of the Act specifies that, as of 1988, all businesses or trades with a turnover of N500, 000 or less qualify as small scale businesses⁴.

In Nigeria, a small and medium-sized firm (SME) is defined as any business with a working capital of between five hundred thousand and two million naira and a workforce of between 100

and 199 people. In the UK, a SME is defined as a company with fewer than 250 people and a turnover of less than "£25 million. The evidence on the impact of entrepreneurship and small businesses on economic growth varies by country. However, in both developed and developing countries, many positive effects of this venture have been recognized. Individually held businesses that create economic, social, and environmental values. These ideals contribute to the nation's economic development, poverty reduction, and job creation. SME's sprout up in almost every economy, and their economic operations benefit people's lives and society as a whole².

The pillars of economic development and community empowerment are small and medium companies. Through their commercial transactions, small and medium firms provide activities and engagement for institutions such as finance, marketing, and supply chain. In a developing economy, SMEs are essential for industrial development. Art, such as painting, bag making, shoe making, and clothing, could be used to start small and medium manufacturing firms using locally produced materials. A SME could also include food manufacture from local producers, reducing reliance on imported commodities and increasing consumption of locally produced goods to enhance the national economy¹⁶. Local food manufacture creates cash for non-profits and the government through the taxes it generates. Local enterprises like these, as well as a few others created by SMEs, help to grow the economy, build social values, and contribute to a country's environmental development¹⁰.

Small and medium business owners are entrepreneurs who are aware of their surroundings and can recognize opportunities or obstacles and turn them around to benefit the economy and society. The businesses are the result of the proprietors' ingenuity and inventiveness. The owners' economic and social actions include generating revenue for the government, reducing unemployment, and raising residents' living standards. Small business owners are persons who only have a limited ability to access the resources they need to run their businesses. The paucity of resources encompasses both financial and human resources. The founders typically start

enterprises with a small amount of money saved from personal savings and financial assistance from family, friends, and acquaintances³.

Ekiti, Lagos, Ogun, Ondo, Osun, and Oyo are the six states of southwest Nigeria. Although there are many dialects even within the same state, it is primarily a Yoruba speaking area. Lagos, one of the states, is West Africa's fastest expanding city. Lagos is Africa's fifth largest economy, accounting for over 90% of the country's overall trade flows, roughly 65% of the country's manufacturing sector, and roughly 10% of the country's GDP. Lagos, Osun, and Oyo states have the largest number of SMEs in Nigeria, with Lagos, Osun, and Oyo states having the highest numbers across the federation³⁹. Small and medium companies (SMEs) employed 14,997,184 people in Nigeria's six southwest states, accounting for 26% of the country's total 57,836,391 jobs⁵. SMEs in Nigeria contributed roughly 48.5 percent of the national GDP in the last five years. They employ over half of all industrial workers and account for virtually all of the manufacturing sector's businesses, with a total of 17.4 million. Lagos State, in Nigeria's southwest, contains the country's largest work force, resulting in the region's highest concentration of SMEs. Despite their importance, SMEs are plagued by a slew of problems and hurdles³⁹. The common ground, however, is that these obstacles are not insurmountable. A clear and objective assessment of the kind of products that Nigerian SMEs are uniquely qualified to create, as well as a study of their strengths and shortcomings, should be conducted. They might be aided by paying sufficient attention to the subject of SMEs' production processes' technical and technological progress².

Small businesses have a difficult time getting loans and performing well. The performance of SMEs in Lagos is largely influenced by financial management methods. Funding may be available to assist SMEs in acquiring relevant technologies and expanding their operations and scale. The state of Lagos, in comparison to the federal government, has created a more comprehensive and effective strategy for dealing with MSMEs. Local business organizations

applaud state officials for consulting them and other important stakeholders constructively as they plan and implement new initiatives. The Lagos State Employment Trust Fund (LSETF), for example, a professionally staffed state body formed to assist SMEs in increasing productivity, has meticulously developed its programs after internalizing best practices and examining the successes and failures of previous schemes³⁹.

SMEs act as a stimulus for entrepreneurship, increased job possibilities, and steady economic growth. SMEs contribute to industrial supply chains by creating intermediate items, which helps to decrease rural-urban migration and resource use. In commemoration of SMEs economic contributions, specific programs have been initiated by the government to enhance their development. What constitutes an SME differ among studies. However, several indicators such as profits, total capital, market position, number of employees and turnover are considered. That said, a number of employees and turnovers are often applied. Being a Nigerian study, this paper adopts the SMEs development agency of Nigeria (SMEDAN) National policy definition; which states that firms between 10 and 199 employees are small (10–49 staff with assets between N10 and N99.99 million) or medium-scale (50–199 staff with assets between N100 and N999.99 million)⁴⁰.

Successive Nigerian government across all tiers have shown interest in financing SMEs by establishing specialized banks, credit agencies and schemes to provide tailored funding for SMEs. Despite the renewed attention and contributions given to SME's by the Nigerian government, SMEs experience numerous problems labeled the Nigerian factor and surprisingly, financing (single-digit loans) is the apex of them all.

Others include infrastructural deficiency and the absence of a workable policy framework to drive SME establishment and growth¹.

Small and Medium enterprises play a vital role in poverty reduction, social growth and economic development. Through the establishment of victorious industrial ventures, the economic growth

will be achieved which will create employment opportunities for the general public in the community in which they will be operating. The employment opportunities will boost the disposable income of the people which will create the demand for commodities and services and eventually buy the goods in demand. This income will also enhance the standards of living as well as reduce the poverty levels².

Small and Medium Enterprises is essential for the growth and development of the economy as well as for employment generation. Small and Medium Enterprises need accurate management to develop small and medium enterprises in the world economy. The achievements of an entrepreneurial business will show that way through which poverty level may be reduced and will improve the lifestyle of people in immature societies of the world. However, if SMEs cannot grow rapidly and unable to compete globally, it means they do not accomplish their role in the world economy. To compete globally and for their rapid growth, Small and Medium Enterprises need the managerial talent of those who manage and improve their Small and Medium Enterprises from the present depressing condition to a more competency⁴.

Small businesses offer several benefits to an economy. In Nigeria, small businesses constituting 10 to 99 persons increased from a little above 15 million in 2010 to 36,994,578 in 2013, while large-scale industries constituting 100 persons and above pegged at over 2,000 in 2010 and increased to 4,670 in 2013. Small businesses account for 70% of industrial employment and about 50% of manufacturing output. Previous non-empirical research has been conducted within Nigeria's framework to reflect the effect of entrepreneurship development and the rising level of unemployment and poverty, and the snail speed of growth in the economy. The necessity of entrepreneurship in eradicating poverty, creating employment and quickening advancement in the economy is widely believed. The various governments to have ruled Nigeria in more than thirty years have created regulations and activities focused on improving entrepreneurship using the growth of SMEs⁸.

2.1.14 The Importance of Small-Scale Enterprises in Nigeria

Small and Medium Scale Businesses (SMBs) are thought to be the engine for economic development in every economy; SMBs play an important role in economic growth and development, particularly in developing economies like Nigeria. This is exemplified by the following²¹:

The creation of jobs: Small and medium-sized businesses can employ approximately 58 percent of the world's working population. Small businesses play an important role in human development and minimize the load on government in terms of job creation, accounting for more than 70% of all businesses in Nigeria. Small and medium-sized businesses employ around 30% of the world's population. This demonstrates that small and medium-sized businesses play a critical role in lowering unemployment rates in any country³⁴.

Rural development: Small businesses are an important source of revenue and participation in economic activities in rural areas, particularly in agriculture, trading, and services. As a result, it lowers rural-urban migration and promotes equitable growth. Small and medium-sized businesses have the ability to help achieve rural development's goal of reducing rural-to-urban migration by employing a large portion of the population. Small and medium-sized businesses are key enablers of industrial dispersal and rural development, with the ability to alleviate rural-urban traffic congestion. As a result, small and medium-sized businesses make a significant contribution to the economics of any economy⁸.

1. Economic development and industrialization: The chances for national economic development are dependent on the entrepreneurial energy of thriving small businesses, as most large corporations begin as small businesses and grow into global icons. Small-scale businesses shield countries from the geographical cost-benefit permutation of a few multinational corporations, which are always ready to close their doors when the economy suffers a downturn.

Small and medium-sized businesses enable the development of local skills and the learning of new skills through adaptation¹¹.

2. Better utilization of Indigenous Resources: Small and Medium Scale Businesses make better use of indigenous resources by using local raw materials, employing indigenes in the area where they operate, and contributing to the technological improvement of indigenes. Small and medium-sized businesses use their raw materials locally and supply large-scale companies with raw materials. Small and medium-sized businesses give men and women with shown skill, intimidation, and leadership the opportunity to be effective managers and entrepreneurs.

Increased Living Standards: Succeeding SMEs has favorable consequences for citizens' living standards and generates foreign exchange for the economy's continued development²¹.

Economic Contributions: As of 2021, SMEs in Nigeria accounted for about 96% of businesses and 84% of employment²². They significantly contribute to the country's GDP and play a vital role in job creation.

Innovation: SMEs in Nigeria also contribute to innovation. Despite numerous challenges such as limited access to finance and infrastructure, many SMEs manage to introduce novel products and services to the market, fueling competition and economic dynamism²³.

Community Development: Nigerian SMEs contribute to community development by creating job opportunities and promoting local economic growth. Many SMEs are involved in socially responsible activities that support their communities²².

Supply Chain Efficiency: SMEs in Nigeria, as part of local and international supply chains, enhance efficiency by providing essential goods and services. They play a crucial role in sectors such as agriculture, manufacturing, and services²⁴.

Risk Diversification: Given their number and diversity, Nigerian SMEs contribute to risk diversification in the economy. By spreading risk across multiple businesses and sectors, they make the economy more resilient to shocks²⁴.

Skill Development: SMEs in Nigeria offer opportunities for skill development. They provide a training ground for entrepreneurial skills and contribute to the development of a diverse workforce²³.

2.1.15 The Impact of Small and Medium-Sized on Businesses Performance

Small and medium businesses develop and cultivate job possibilities that help Nigeria's economy grow. Small and medium businesses are critical to the economy's growth. To make a living, people seek employment possibilities. Small and medium businesses are important because they provide essential goods and services to society's consumers, ensuring that market demand is met for the community's benefit. SMEs are expected to generate up to 55 percent of Nigeria's gross domestic product (GDP) and up to 75 percent of the country's total employment rate. Small and medium businesses are especially significant because they participate in CSR activities that promote social welfare in the country by encouraging education, providing safe drinking water, and developing individual skills in society³⁴.

1. Stakeholder impact of Small and Medium Enterprises: Even with the growth of technology and artificial intelligence, a business entity cannot function without people. Human people are essential to the survival and development of every business. An entrepreneur, who is a SME owner in the context of this study, comes up with a creative idea and invention for forming a business entity. To achieve the goal of becoming a corporate entity, a SME owner requires staff with whom to engage and share ideas. People are required in the supply of the product or service offered, either to transfer it to consumers or to consume it themselves, making people essential in the existence of a business entity²². Human resources management is the component of management of a corporate organization that manages the employees; these are the people who are responsible for the organization's activities or operations. Entrepreneurship must include economic generation and the necessity to acquire personnel for a long-term business organization and economic development. The right integration of entrepreneurship, leadership, and human

resources leads to the production of wealth and jobs for the economy and people. Employees must be motivated by the human resources department to increase their dedication at work, which will lead to innovation and creativity. The creative act of motivating people is critical because it allows SMEs to perform extremely well in the market, and in doing so, the organization creates products and provides services utilizing best practices, which are beneficial to both the business and society as a whole³⁵.

Employees, particularly frontline employees, play a vital and critical role in an organization because they are the organization's interaction with customers. Employees on the front lines serve as a conduit between customers and a company's management. Employee happiness and commitment are influenced by how they perceive their work environment. Employers may increase employee job satisfaction by cultivating a welcoming workplace, emotional intelligence, employee involvement, and teamwork. Job satisfaction lowers the likelihood of employees leaving and puts them in the correct mindset to serve consumers. Employees that are happy in their work are more productive for the company, which is one of the ways SMEs deliver value to both internal and external stakeholders³⁶.

2. The social impact of small and medium on businesses: SME's are a source of empowerment for rural and urban people alike. In a rural setting Integration of entrepreneurship, leadership, and human resources, as well as its efficient implementation, leads to the production of wealth and jobs for the economy and people. Employees must be motivated by the human resources department to increase their dedication at work, which will lead to innovation and creativity. The creative act of motivating people is critical because it allows SMEs to perform extremely well in the market, and in doing so, the organization creates products and provides services utilizing best practices, which are beneficial to both the business and society as a whole. Employees, particularly frontline employees, play a vital and critical role in an organization because they are the organization's interaction with customers. Employees on the front lines

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3. The Social Impact of Small and Medium on Businesses: SME's are a source of empowerment for rural and urban people alike. In a rural area, this means they can strengthen the market for locally produced raw materials, thereby boosting the economy and benefiting society. Small businesses also give goods and services to the general public. As a result, promoting SMEs is critical due to their critical societal function. Small and medium businesses also provide jobs, which helps to boost the economy. The number of employees hired by SMEs is determined by the improvement in their performance, which means that the firm's performance is directly related to the number of job chances it provides. SME managers must ensure that SMEs enhance their innovative capabilities and expertise in order for their businesses to be well-positioned to create much-needed possibilities in society. Innovation is the key to competitiveness, since it improves SMEs' performance in producing high-quality items and providing services to the public, as well as creating job opportunities to boost the economy³.

2.1.16 Small and Medium-sized Businesses Face a Variety of Challenges

Small and medium enterprises face diverse challenges that hamper their sustainability, because they are business enterprises run as sole proprietorships, partnerships, or limited liability companies with limited funds, leadership skills, taxation, inadequate electricity supply, among others. Some of these enterprises are founded by people who wanted to try business on their own because they could not get a job, thereby lacking leadership skills to manage the organization

when it is set up. Small and medium enterprises are enterprises with small capacities when compare to large corporations. Most SMEs cannot afford to pay high salaries like the large corporations do, which makes them look at unskilled labor. These challenges and others affect the operation, management, and performance of SMEs⁸.

1. Inadequate Leadership Skills. Small and medium enterprise owners have a large role to play in the sustainability of their businesses. A business owner or top management of an organization's capacity to manage an organization goes a long way to determine the sustainability of an organization. Owners need effectuation and causation strategies to run a SME or a new venture for sustainability. The business environment is dynamic and competitive, which requires an entrepreneur's alertness to the changes that could guide him or her in decision-making¹².

An entrepreneur could make some changes in the organization using a leadership style that would enable the employees to adapt to the changes in the organization and business environment for sustainability. The leadership style incorporated into the organization influences the organization's performance. Leadership in an organization could have both positive and negative impacts on an organization. A transformational leadership style motivates the employees and encourages them to do more than they can imagine of themselves. However, an organization with an abusive leadership approach de-motivates the employees and threatens their jobs, which leads to employee turnover and reduced human capital. Additionally, human capital enhances employees' performance and organizational performance. Therefore, employees should be motivated to increase their performance, human capital, and organization performance³⁷.

A leader stirs the wheel and progress of the organization. The leadership ideology of product or service innovation and creativity influences the employees and determines the progress and sustainability of the organization. The leaders need to possess the required skills to manage an

organization successfully. The owners and managers of SMEs need knowledge acquisition to manage the organization successfully. The business incubator is one of such support by the government, where individuals selected for the tutoring gather knowledge to manage their organizations. Business incubators are institutes formed by the government to promote entrepreneurship in the community and support them in their growth².

2. Inadequate Financial Capacity. Small and medium businesses contribute to the country's growth and development. However, SMEs face difficulties in terms of long-term viability and development. Finance, supply chain, and knowledge gaps are all issues that small and medium businesses encounter. Finance has been recognized as a big barrier for SMEs who are experiencing financial difficulties due to a lack of proper financial management as stated by researcher. Many small business owners lack the necessary books of accounts and records to ensure that the company accounts for all of its expenditures. SME success is hampered by a lack of proper financial resources. SMEs, on the other hand, could tackle the obstacle by identifying the variables that cause the problem and devising a solution. Some types of funding could be available for SME owners to overcome this challenge, whose descriptions follow¹⁵.

i. Financing for Supply Chains: SCF (supply chain financing) could help SMEs overcome their financial difficulties. The assistance could be provided to both the supplying and purchasing organizations. SCF helps to close the financial difference between the buyer and the seller. SCF allows instant payment on items ordered by the customer to the supplier, while also allowing the buyer to pay overtime. It's a type of finance that some small businesses use to help them grow. Some of the research participants who established successful firms after 5 years may have had access to SCF³⁹.

ii Crowd Funding: Crowd funding is a platform that allows small business owners to raise financing that they might not be able to get from traditional lenders. It is a platform where a small business owner offers their product or project to the public in order to raise funds in

exchange for a reward or equity. To contemplate effectively raising cash on a crowd funding platform, there are a few elements to consider. The founder's or owner's knowledge is essential in determining the best campaign period; when individuals are not distracted by other activities and can successfully meet the fundraising goal. Another element to consider in crowd funding is rewarding those who contributed money. The prize should be appealing, with a variety of awards available with varying criteria for backers to choose from¹. Crowd funding can also be used to market products by new and current businesses. Furthermore, individual reviews on crowd funding platforms on a product or project help more people learn about it. Some SME owners may be able to use this type of financing to extend the life of their enterprises beyond five years³⁵.

3. Debt Financing: Debt finance is a type of debt financing. Debt financing is a type of financial assistance provided by banks in which a company obtains a loan, retains ownership and profits, and is required to repay the principal and interest on a set schedule. It is a type of financing that has stringent terms and is backed up by collateral as a guarantee of repayment. Small and medium-sized business owners have complete control and ownership of their companies, and the majority of SMEs prefer loan funding to equity financing. The commitment of a SME to its credit commitments, together with its financial statistics, affect the bank's decision to approve the credit facility, a qualitative study on factors affecting SME access to bank financing in Turkey³⁵.

Banks assess the firm's (a) equity, (b) area of business, (c) profitability, (d) debt and current ratios, and (e) ability to create sufficient cash flow. Other criteria that influence access to bank loans include (a) the length of the company's association with the bank, (b) the industry in which the SME works, and (c) the company's age and bankers' impressions during on-site visits. Firms with a long history with the bank have a better chance of getting loans. These characteristics are also applicable in Egypt and Mozambique, with additional findings indicating that top bank

management must adjust their mindset toward SMEs, as well as government intervention through relevant authorities such as the central bank³⁷.

Other Finance options for Small and Medium-sized Businesses: Other funding sources include (a) friends and family; (b) angel investors/business angels; (c) trade credit, factoring, and invoice discounting; (d) leasing; (e) venture capitalists; (f) equity financing; (g) informal financial markets such as cooperative societies; and (h) specialized funding facilities such as NERFUND, CBN, and AFDB. When the funds in the firm are insufficient to run the business, SMEs turn to deposit money banks for help. Investment, employment, productivity, and savings are all made possible by the availability of capital from deposit money. The Nigerian government formulates policies to facilitate and empower SMEs' growth, development, and performance, qualitative research study on SMEs' funding and its effects on Nigerian economic growth. It could be a credit policy that helps SMEs grow by providing low-interest loans and other fiscal incentives to improve the economy's socioeconomic growth, such as alleviating poverty, creating jobs, promoting human development, and improving social welfare⁴⁰.

1. Electricity supply is insufficient. Access to efficient, useful, and sustainable energy sources is an issue for small and medium businesses. Because SMEs in Nigeria have difficulty getting electricity, they would find it difficult to compete with companies that have access to a variety of energy sources at a lower cost. Access to electricity remains an issue in Nigeria, despite the fact that it is a necessary resource for the country's economic development. The government has a responsibility to play in boosting the business environment by ensuring that small businesses have access to electricity. Some of the businesses are able to obtain electricity through bribery and nepotism at the power distribution agency⁴¹.

Nigerians have ineffective access to energy due to the grid infrastructure. A grid overhaul could be a costly activity that takes a long time, and it could result in more power outages for the duration of the transition. The greatest approach is to seek for methods to improve the grid that

are already accessible to make it more valuable to everyone. Due to issues with access to energy, a large number of employers have had to close or sell their firms. When it comes to SMEs' sustainability, having sustainable energy solutions is critical. Business owners must also play a part in ensuring that they have access to the energy they need to run their enterprises sustainably. Nigeria has made strides toward ensuring that its citizens have access to energy. The privatization of the state-owned electric power utility, as well as the implementation of a feed-in tariff and mini-grid restrictions, was one method³⁹.

2. Instead of Tax Incentives, Excessive Taxation is used. Many government agencies, as well as their third-party contractors working for the federal, state, and local governments, harass SMEs with various taxes and levies. Small-scale business owners, particularly in Lagos State, which serves as Nigeria's commercial nerve center, face a variety of issues that frequently lead to the dissolution of their firms. While taxes are a vital source of revenue for the government, the administration should not penalize enterprises, and payment should not jeopardize a company's long-term viability. The government occasionally hires tax collection consultants, and the agents of these consultants are known to harass most SMEs in collecting taxes and levies, which add to the cost of doing business³.

Excessive taxes have a negative impact on a company's profitability. Favorable policies, such as tax exemptions, can also aid in boosting the performance, growth, and productivity of micro, small, and medium-sized businesses. Excessive taxation is a secondary factor impacting MSME performance after insecurity and the need for infrastructure upgrades, especially electricity supply, the conclusions of a study on factors affecting MSME performance in Borno state, Nigeria. The majority of SME owners agree that numerous taxes have an influence on their businesses' financial performance; they also think that excessive taxation has an impact on SMEs' budgetary and planning performance³⁶.

Any special tax treatment that is especially favorable for SME firms, offering preferential status to certain activities and investments, is referred to as a tax incentive. If not addressed, excessive taxation poses a serious threat to entrepreneurship's long-term viability, whereas tax rates and incentives have a favorable impact on SMEs' long-term viability⁸.

3. Inadequate access to cutting-edge Technology. Small and medium businesses may lack access to technology, which makes formulating expansion strategy difficult. These problems are caused by a lack of technological expertise, a lack of research and development (R&D), and a lack of resources to engage in R&D in order to select the proper technology. Despite the fact that technology may automate a variety of operational company processes, many SMEs continue to do it manually. It frequently causes enterprises and its founders to burn out sooner than originally planned. Manual operations also result in a loss of efficiency, a reduction in the capacity to scale up the production of goods and services, and a decline in the ability to gain market share¹². At a 10% level of importance, the association between technical innovation (product and process) and SME performance (measured as firm turnover) has a considerable impact on SMEs' performance. Small business owners frequently operate manually or employ old, outdated, and ancient technology due to the high cost of necessary equipment. There are some technologies that are too expensive to deploy in Nigeria since they were developed elsewhere in the world, and they are also too expensive to put up due to transportation expenses and a lack of local capacity to install and support them. A large quantity of human and financial resources, as well as knowledge, are required to drive innovation. Knowledge and resources are critical in pursuing innovation, and a lack of the necessary information and resources to sustain innovation raises the risk of disappointment, resulting in SME failure³⁷.

4. Corruption is at an all-time high. Corruption is rampant in Nigeria's government, particularly in agencies tasked with assisting SMEs. Crime has damaged public trust in government and has hampered the growth of small businesses. Corruption is a threat to Nigeria's

long-term growth and makes it difficult for SMEs to thrive. Because of huge policy failures, corruption has compounded mismanagement. The policies implemented to improve the business environment are not having the desired effect. Nigerian SMEs are also harmed by corruption, which makes it difficult for them to succeed. The government's aid to businesses functioning in Nigeria is harmed by crime, which has a detrimental impact on economic progress.

There is a belief among the Nigerian corporate community that there is enough regulation to prevent corruption. Corporations' irresponsibility and regulators' weak enforcement of the law would be challenged by such legislation. Instead, the legislation is ineffective, with foreign principles improperly imported and policy gaps between regulatory rules and subsidiary laws. The main idea was that "fallacious legal transplantation" undermined bad laws³⁸.

2.1.17 Small and Medium-sized Businesses' (SMEs) Contribution to Nigeria's Economic Development

Small and medium-sized businesses (SMEs) are widely acknowledged as being a key factor in economic growth and development. Over the years, the Federal Government of Nigeria and, in fact, many emerging nations have stressed the significance of small and medium-sized enterprises (SMEs) in the growth of their economies. The importance of SMEs and entrepreneurship as a source of dynamism, innovations, and flexibility in advanced industrialized nations as well as in emerging and developing economies is now acknowledged on a global scale. Interest in SMEs has also been influenced by their ability to help with job creation, income inequality reduction, and the production of goods and services for the economy. Serving as a method for backward integration and a vehicle for technical innovation and development, particularly in refining and perfecting emergent technological advances, they also serve as a productive environment for skill development and acquisition.³⁹

The supposed economic benefits and contributions of SMEs in the areas of employment creation, economic development, and poverty reduction have generated interest in SMEs. There is a

school of thinking that holds that SMEs are the answer to many developing nations' economic woes, including Nigeria. In modern Nigeria, SMEs have also received attention due to the anticipated contribution they could provide in terms of serving as a training ground for the growth and development of indigenous entrepreneurs. Due to its labor-intensive production process, ease of start-up and operations compared to major industries and multinationals, this sector can boast of being the largest employer of labor in the world. It also serves as a major catalyst for employment creation, national growth, poverty eradication, equitable income distribution, and economic development. Previous research, emerging countries with a higher proportion of SMEs employed experience faster economic growth than their counterparts³⁷.

SMEs have aided in the increased use of local resources, creation of jobs, promotion of rural development, growth of entrepreneurship, mobilization of local savings, connections with larger industries, provision of regional balance by more evenly distributing investments, provision of avenues for self-employment, and provision of chances for managers and semi-skilled workers to receive training. To start and maintain the process of economic growth, the vast majority of established and emerging nations depend on the dynamism, resourcefulness, and risk-taking of small and medium-sized businesses. Small and medium-sized businesses play a vitally important part in the overall development of the economy. First and foremost, small and medium-sized businesses promote entrepreneurship and fierce rivalry, which have positive external effects on the economy's efficiency and productivity growth³⁹.

The central functions of SMEs represent the use of domestic savings for investment, significant contribution to Gross Domestic Product (GDP) and Gross value, utilization of native raw materials, creation of jobs, alleviation of poverty, improvement of standard of living, increase in per capita financial gain, skill acquisition, investment in technology and professional growth and diversification, restriction of rural-urban migration, and resource utilization. In both

industrialized and developing nations, SMEs account for between thirty and fifty percent of all industrial exports. Most recent changes in the global economy and their impacts on the economic process, SMEs' function will only grow in the future and become more prevalent, with a clear impact on the expanding global trade system³⁶.

The transformation of agriculture-based economies into industrial ones is significantly aided by SMEs. Additionally, they contribute to the development of flexible economic systems in which small and large businesses are interconnected by absorbing productive resources (local technology and raw materials) that would have otherwise been disregarded by larger firms at all levels of the economy. In high-income countries, SMEs account for more than 55 percent of GDP and more than 65 percent of all employment; in low-income countries, they account for more than 60 percent of GDP and more than 70 percent of all employment; and in middle-income countries, they account for about 70 percent of GDP and 95 percent of all employment. On the platform of economic development, it is widely held that small firms create almost half of the new jobs in the economy, and it is assumed that these are good jobs³⁸.

Due to their capacity to generate jobs, encourage entrepreneurship, reduce poverty, accelerate growth, bridge the gap in income inequality, build forward and backward connections, and add depth to the industrial foundation of the economy, SMEs are the engines driving economic growth. Small and medium-sized firms (SMEs) dominate Nigeria's industries, with manufacturing taking the lead. SMEs account for 96% of all businesses in Nigeria, around 95% of the manufacturing sector, and 70% of all industrial jobs. Small companies can typically be found in Nigerian small shops, hair salons, tradesmen, photojournalists, etc. Over 60% of the labor force in Nigeria is employed by SMEs, including in the formal and informal sectors. Furthermore, between 70 and 80 percent of daily essentials in the nation are made from basic materials with little to no automation rather than high-tech products. Most of these goods are

produced by small and medium-sized businesses. The majority of SME's in the Federal Republic of Nigeria fail within the first five years of operation due to a lack of funding, lack of focus, inadequate research, excessive concentration on one or two markets for finished goods, a lack of succession planning, ignorance, improper bookkeeping, irregular power supply, inadequate infrastructure (water, roads, etc.), incorrect records or no records at all, and an inability to distinguish between business and family or person³⁹.

2.1.18 Prospects of Small and Medium Enterprises in Nigeria

Nigeria has relied on oil as its primary source of income and foreign currency. And there is a greater need for the economy to be diversified into other income-generating areas like entrepreneurship because of the ongoing fluctuation in oil prices and other oil market uncertainties. This is because entrepreneurship enables high rates of productivity and commensurate reward both during one's active life and at retirement through pension savings. The national government might accomplish this by ensuring that tax administrators are competent and efficient in their work environments to develop and implement tax policies that support the establishment and survival of SMEs within the economy⁴⁰.

Therefore, businesses use this opportunity to creatively manage their earnings by implementing the concept of thin capitalization in determining their optimal capital structure, establishing appropriate planning and budgeting processes aimed at maximizing owners' wealth, engaging in favorable transfer pricing, and setting up effective reward and pension plans for both the owners and employees of the businesses. It is a known reality that the challenge SMEs face is their inability to have the short- and long-term money to invest when business opportunities present themselves⁴¹. As a result, SMEs in developing countries struggle to survive in a competitive and crowded environment both inside and outside of their own country. In order to sufficiently engage in implementing policy and fiscal revolution, Nigeria, as an emerging economy, must provide the necessary and conducive environment during ongoing ecological and green process

evaluation to achieve most favorable owners' assets for the expansion of SMEs in the extracting region. This necessitates the application of the best and most ideal tax guiding concept in order to ensure monetary and fiscal expansion and efficient asset allocation. However, this is untrue because taxes are imposed on people to manage their speculative activities rather than to suppress all forms of capitalist innovation that limits the growth and development of newly founded SMEs⁴².

In Nigeria, taxes are measured as a less important source of revenue for administration given the level of income from taxes; nonetheless, even with their low profile in comparison to the obligations and functions of the government, taxes are still expected to contribute to the national coffers. As opposed to other types of financial systems where a significant portion of national income is generated through taxes, in a public and collective tilting financial system, barely a little proportion of income is likely to come from levies based on the justification of making the necessary communal and shared resources available. Taxes are the primary monetary assumptions used to ensure an effective financial framework. Small enterprises are assessed several and compound taxes, which diminish their revenue and prevent both expansion and survival. As a result, the government ought to provide incentives to promote investment in this sector of the financial system. To help these enterprises, explicit provisions should be made to prevent excessive and compound taxation⁴.

2.1.19 Small and Medium Enterprises (SMEs) can use sustainable strategies

Many academics have underlined the need of long-term management in SMEs. The importance of innovation and innovation management will help SMEs stay afloat by ensuring that their customers' requirements are met on time. Sustainability is a beneficial direction in innovation because it integrates economic, social, and environmental obligations into the management of innovation. To successfully implement sustainability, organizations must first grasp what it means to them. Sustainability in business is concerned with two issues: the impact of the

business on the environment and the impact of the firm on society. The goal of a long-term corporate plan is to positively benefit both. When businesses fail to focus on sustainability, they risk causing harm to the environment, social injustice, and inequality⁵. The necessity for enterprises to guarantee that a strategic approach is part of the business plan and process, as well as the integration of corporate sustainability into the strategic management of diverse firms in the sector. Sustainable development is defined as economic, environmental, and social progress that meets current demands while not endangering future generations. As a result, sustainability considers both the present and the future in order to protect resources and meet both current and future requirements³⁷.

Any company can develop innovative business models to ensure workplace sustainability. For these models to succeed, businesses must be sustainable in the sense that they benefit both business owners and society as a whole. Business models that aren't sustainable could be discouraged in favor of those that are. To be sustainable, the company must change its entire business model. A sustainable business model (BMS) will benefit both the natural environment and various stakeholders. In addition to embracing the natural environment as a vital part, understanding the BMS may address the broad perspective of sustainability. To achieve genuine sustainability, the construction of sustainable business models is critical in the many sustainable duties they carry out in the organization. A business organization's leader is responsible for directing the operation of a successful business model as well as influencing the organization's strategies and policies. For a long-term company, the leader also oversees the transformation process to eliminate opposition to change. The organization's long-term viability is mostly determined by its leader, who must have the mindset of achieving long-term development goals (SDGs)²⁰. SDGs must be considered by businesses to ensure their long-term profitability and to improve the lives of society's citizens. Small and medium business owners should come up with effective business models that will ensure success in whatever they do as a method of focusing

on sustainability, since it is obvious that such models put in place by business leaders may be sustainable in the long run. Sustainability exists to meet the needs of present and future generations by ensuring that the environment is successfully protected for the greater good of society. To ensure that a company's goals are aligned with the SDGs, it is also vital to align the company's goals with the SDGs. Furthermore, because it has a significant impact on business operations, society, and the environment, corporate sustainability is a viable research issue. Small and medium businesses in Nigeria can learn how the notion of sustainability has been utilized in a variety of organizations in various nations and marketplaces to gain insight into what they can do to secure the sustainability of their own workplace. In Saudi Arabia, there are four success criteria⁸:

- a) person factors,
- b) management factors,
- c) business assistance, and
- d) capital availability.

Exploratory factor analysis was used to choose these indicators. The study found that SMEs with timely access to the necessary capital have a better chance of remaining viable for more than five years. In addition, the founder's entrepreneurial traits, such as age, talents, and personal financial demands, are crucial to the success of SMEs. Human, financial, and social capital are all critical to a company's long-term viability. Even technology and artificial intelligence require qualified individuals who understand company operations, therefore the importance of human capital cannot be overstated. It's also crucial that the organization and the host country have a healthy working relationship. If excellent relationships with the host community are not maintained, some commercial operations may be impeded or completely halted. To have seamless business operations and long-term viability, it is critical that the business owner keeps all stakeholders pleased¹.

Font stressed the need of long-term motivations for achievement. It is critical to recognize the importance of motivation for anyone who wishes to achieve success. Individuals or businesses who are committed to sustainability are more likely to take steps to enhance their operations. Finding motivating elements is the best method to secure the long-term viability of SMEs in Nigeria. While considering a sustainability strategy that benefits both the environment and society, the government should also consider motivating SME owners rather than pressuring them to grow their firms sustainably. A sustainable plan should be beneficial to the environment, society, and the business. One that does not have a positive influence on the organization's bottom line is not sustainable; consequently, one that does should be holistic in its consideration of the organization's bottom line and profitability, adding economic value to encourage the business owner and management. Compared to commercially focused enterprises, companies that are motivated by value and individual lifestyles are more sustainable. The best method to ensure SMEs' long-term viability is for them to prioritize individual lives and well-being before profits and revenue. Firms that are focused on big profits will go to any length to achieve them, and some of the tactics they implement may be harmful to the lives of society's citizens as well as the environment²¹.

2.1.20 Profitability Issues for Small and Medium Businesses

There are numerous issues that wreak havoc on the profitability of small and medium-sized businesses and stifle their growth. Although some problems are unique to a given country, the obstacles that small and medium-sized businesses confront in different countries and geopolitical divisions are essentially the same. For example, the Organization for Economic Co-operation and Development (OECD) conducted a survey of Nigeria Uganda's profitability of small and medium scale enterprises in 2004 and found that they were suffering from policy inconsistency, poor access to finance, a lack of know-how, and a low level of technology, among other things. Other academics have noted similar issues in various locations such as the Philippines, Malaysia,

and other European countries, as well as in Sub-Saharan Africa. The limits imposed on the profitability of small and medium-sized firms in developing nations are exacerbated not just by inefficient policy design, but also by market failures in the region. Because they work as contractors for larger companies, notably international manufacturing companies, their lack of information technology and automation competence is increasingly diminishing³⁶.

Lack of access to short- and long-term finance is a major barrier to profitability for small and medium-sized businesses. The Weekly Trust's publication on Saturday, January 22, 2011 recognizes that collateral-based financing has become increasingly difficult for small and medium-sized businesses to obtain, whether as existing businesses, in expansion stages, or as startups. As a result, more small and medium-sized businesses are turning to viability lending, in which they obtain loans based on the viability of the business and the health of the cash flow. Banks are typically hesitant to lend to small and medium-sized businesses due to issues such as the profitability of small and medium-sized businesses' inability to meet the bank's lending requirements, the promoters' lack of education, management, and entrepreneurial skills, and poor and unreliable financial records, which make financial review difficult⁴⁰. There's also the issue of a faulty accounting system and a lack of complete financial disclosure, which is backed up by the fact that lack of access to land, utility installation and services, and import procedures are all barriers to small and medium-sized business profitability. To summarize, these issues render small and medium-sized businesses "high-risk" investments. The aforementioned factors are challenges in and of themselves that stymie the profitability of small and medium-sized businesses' growth since they not only create barriers to obtaining finance, but they can also stymie growth on their own. In Uganda, astronomically high operating costs, a lack of transparency and corruption, a lack of interest and long-term support for the small and medium-scale enterprise sector by government authorities, dilapidated state of infrastructural facilities,

unreliable employees and a weak economy, unsafe location, and unreliable electricity supply are all common occurrences⁴.

Because of some of their unique characteristics, the profitability of small businesses plays an essential role in transitional economies: Special sanctions include the creation of additional working places, active promotion of innovations, and the creation of a competitive environment; flexibility, quick adaptation, and minimal bureaucracy; and special sanctions include the creation of additional working places, active promotion of innovations, and the creation of a competitive environment. Different governmental incentives can have an impact on the creation and expansion of small and medium-sized businesses. However, one of the most important actors in this process is establishing an appropriate taxes policy³.

2.1.21 Income Tax Administration's Negative Impacts

These are the consequences of the administrators' improper assessment of tax on small enterprises. They occur as a result of bad tax administration.

1. The Current Economic and Tax Situation

Rising commodity prices, inflation, supply chain disruptions, excess demand and restricted supply, protectionism, and greater economic nationalism are all affecting countries around the world. The repercussions of these realities are visible throughout the Nigerian economy, with more businesses struggling to stay afloat and the government grappling with a revenue shortfall. The simple solution appears to be for governments to rely on taxation as a means of increasing revenue and balancing their budgets, but this increases the risk of increased excessive taxation²³.

Several bills have been introduced in the National Assembly at the federal level that seek to impose new taxes on current taxpayers and tax bases. In 2021, for example, the Senate debated the Tertiary Hospital Development Fund Bill. This bill seeks to establish a Tertiary Hospital Development Fund, which will be partially funded by the introduction of a Tertiary Hospital Development Tax, which will include – 1% of petroleum companies tax paid on total barrels of

crude oil produced annually, 6% of mobile phone service providers tax paid on airtime and data sold annually, 7% of beverages and breweries companies tax paid on profit declared annually, and 8% of cement companies o The FIRS is given authority under the Bill to assess, collect, and remit these taxes to the Fund. In addition, the Finance Act of 2021 placed excise on non-alcoholic beverages, as well as a rise in the Tertiary Education Tax rate²⁷.

New taxes are being implemented at the state and local government levels, in addition to the various mandatory and sometimes illegitimate taxes and levies levied and collected by Local Governments across Nigeria. There could be a slew of bills, such as the Tertiary Hospital Development Fund Bill, currently before the National Assembly, that attempt to impose designated or general taxes on already overburdened taxpayers. The negative effects of these additional taxes are numerous. For example, Nigeria has a high business mortality rate, a high attrition rate of foreign investors from the Nigerian market, reduced competitiveness of the Nigerian market as a destination for new foreign investment, and increased capital flight as a result of divestment from Nigeria and reinvestment in other markets. When the African Continental Free Trade Area Agreement is fully operational, these realities may be amplified and expedited, with Nigeria losing and its neighbors benefiting¹⁵.

2.1.22 Financial Performance of Small and Medium Scale Enterprises

Performance is what an organization accomplishes in relation to the objectives it has established. For the management, successful performance entails meeting the company's goals, including profit, market share, growth, and customer happiness, as well as the demands of the workforce, including fair pay and job satisfaction. Performance standards may vary depending on the type of product or service, but in general they involve making efficient use of resources to transform inputs into the necessary outputs at the proper cost, quality, quantity, time, and location⁴.

Financial performance is a key factor in how SMEs choose to finance themselves, particularly those with strong profit margins that lead to a higher usage of short-term debt⁶. Furthermore, it is

found that financial success and total leverage have a negative correlation, proving that SMEs adhere to the pecking order hierarchy. This showed that there was a substantial and consistent inverse association between leverage and financial performance. However, a strong financial performance does not mean that companies will never consider external financing. The highest performing, most financially stable and largest companies are typically those that can easily secure institutional financing. These characteristics give them credit quality, making it easier for them to acquire funding under more advantageous terms than businesses with economic and financial issues. Along with this, a company is more likely to turn to supplier financing the poorer its financial performance, as institutional finance restrictions arise from a higher risk of insolvency or non-payment. Additionally, it emphasizes how financial success and outside resources are related⁶.

Financial performance can be summed up as an organization's capacity to achieve goals. The ability of a company to make a profit, raise the value of invested capital, and simultaneously pay off its short- and long-term liabilities is a key indicator of its financial performance⁴. The management of the company and other stakeholders utilize financial performance indicators, particularly financial ratio analysis, to determine the financial stability and growth potential of the company. The main foundation for evaluating financial performance is financial analysis. There are many different metrics that have been used by researchers to measure organizational performance, including net income, sales, return on assets (ROA), market to book value of the equity, return on investments (ROI), return on sales (ROS), and a combination of ROI and ROS, as well as profitability and market share/growth⁴.

Every corporate organization, even small and medium-sized businesses, should strive for sound and efficient financial performance in order to survive in this fiercely competitive business environment. The monetary evaluation of a company's operations and policies at a certain time is shown in its financial performance. Similar to that, financial performance is the monetary

evaluation of how well a company uses its resources to earn profits from its ongoing operations through time. In essence, financial performance is often communicated to users of financial statements and published in annual financial reports. This suggests that financial success is crucial for all organizations, especially small and medium-sized enterprises (SMEs), whose operations have recently received widespread awareness and attention. The efficient financial performance of a business entity works similarly to how white blood cells in the blood aid the blood in fighting diseases and illnesses; money is used to account for unforeseen risk that could cause a financial shock to the company entity. The significance is that successful financial performance promotes the expansion and survival of small and medium-sized businesses⁴².

2.1.23 Effect of Taxation on Capital Employed by Small and Medium Scale Enterprises

The value of assets that contribute to a company's potential to create revenue is known as business capital. Any company that wants to grow or succeed needs to invest in good capital to suit the needs of its consumers and employees. It is well documented that the majority of small firms fail due to insufficient funding to meet client demand and other expenses. Taxes have been more detrimental than advantageous since they reduce the quantity of capital available to most enterprises and increase their costs. Excessive taxes raise the costs of doing business, lowering the potential and competitiveness of small and medium-sized businesses that can provide jobs for the unemployed. Small businesses will continue to be the engine of an economy's growth¹⁷.

Most small and medium-sized businesses in Nigeria are unable to expand due to a variety of issues that are impacting their performance. The indiscriminate imposition of taxes by Ministries, Departments, and Agencies, particularly at the state and local government level, has been a source of complaint for Small and Medium Scale Business owners. The situation has an impact on the capital used by SMBs, making the cost of conducting business unaffordable for the majority of small business owners. The Federal Government of Nigeria has committed to investigate the matter, but no progress has been made thus far, leading many small and medium-

sized businesses to shrink in order to survive¹⁹. The complexity of Nigerian taxes renders the business environment unfavorable to the majority of small firms. It has increased the cost of doing business for firms, impacting capital utilized by Small and Medium Scale Businesses that lack the financial muscle to carry these excessive charges. Furthermore, many small and medium-sized businesses lack sufficient money to deal with government taxes at all levels, particularly those imposed by state and municipal governments. Allowing Small and Medium Scale Businesses to close will put greater pressure on the government. Small and Medium Scale Businesses are the backbone for economic growth and development and a growth in the number of unemployed people in the economy, which can lead to social vices²². Furthermore, the Manufacturers Association of Nigeria (MAN), corporations that were planning to do business in Nigeria were unable to meet owing to the unfriendly business environment, which imposes additional obligations on businesses. This failure means that thousands of people will be denied job opportunities that could have been in the economy if those enterprises had been present²⁷.

2.124 The Impact of Taxation on Small and Medium-Sized Business Profitability

Without profit, every firm's company would suffer, and it will eventually cease to exist because it will be unable to satisfy its obligations. The basic goal of any commercial organization is profit maximization, and taxation works against this goal because tax is a direct reduction of profit. Taxes are seen as an important source of revenue for governments at all levels, and excessive taxation of small and medium-sized businesses is inefficient since it redistributes money in favor of the median voter. Meanwhile, the owners of Small and Medium-Sized Firms face the brunt of taxes that are disproportionately high in relation to profit and are placed directly on businesses³¹. Payment of taxes is a civic responsibility of every enterprise or individual for government to deliver the dividend of democracy to citizens. On the other hand, many business owners have

been found wanting in terms of dodging tax payment and continue to expect the government to supply them with many of the facilities they want to make their enterprises run more smoothly¹². Economists believe that the resources that small businesses devote on tax compliance may instead be employed for investments, allowing for future growth. As a result, there is a perception that taxes and a complicated tax system disproportionately burden small enterprises. Small taxpayers face discrimination under the ordinary tax system because compliance requirements, compliance costs, and tax rates are the same for small and large businesses. The profit margin of small businesses is increased by lowering compliance expenses and tax rates. It also boosts government revenue because streamlined microenterprise regulations have traditionally reduced the extent of the shadow economy and the number of non-registered taxpayers⁴².

Furthermore, the profitability of small and medium-sized businesses is sometimes hampered by an overburdening regulatory environment, which includes a profusion of regulatory agencies, different taxes, and a time-consuming importation process with exorbitant port fees that put a strain on their operations on a regular basis. Many small businesses must deal with a plethora of agencies at a high cost. As previously noted, they are heterogeneous, and these variances in size and structure may result in differing record-keeping duties, affecting the costs of complying with (and administering) alternative prospective tax obligations for businesses. Public corporations, for example, are sometimes subject to more stringent accounting rules than sole proprietorships, and businesses with employees may be subject to the entire range of regulations related to withholding labor income taxes and social contributions²⁷.

When tax administrations enforce cumbersome reporting and record-keeping requirements as part of their obligations, they can cause problems for the business community. Excessive inspections and audits should be carried out fail to deal with dishonest tax administration

workers. This type of climate is detrimental to both individual enterprises and the economy as a whole²¹.

As a result, many members of the business sector retaliate by taking actions that have a negative impact on the tax base. Underreporting profits and turnover are common examples, as are underreporting employee wages and establishing "phantom" personnel. A large proportion of companies also fail to register or file tax returns. This just adds to the cost of those taxpayers who try to follow the law, and discourages them from doing so in the future. As a result, a vicious cycle emerges, which tends to maintain the status quo. Only real tax reforms can break the cycle and lead to a more favorable business climate, which will boost economic growth¹².

An overly complex regulatory system and tax regime, or one that is opaque in its administration and enforcement, makes tax compliance unduly burdensome and often has a distorting effect on the development of SMEs, as they tend to morph into forms that offer a lower or no tax burden, resulting in a tax system that imposes high expenses on society. Low efficiency, expensive collection costs, waste of time for taxpayers and personnel, low quantities of gathered taxes, and diversion from optimal resource allocation are all consequences of a poorly implemented tax system. Existing empirical evidence clearly shows that small and medium-sized businesses are disproportionately affected by these costs: when measured by sales or assets, compliance costs for small and medium-sized businesses are higher than for large businesses due to low efficiency, high collection charges, taxpayer and staff time waste, low amounts of received taxes, and deviation from optimal resource allocation²².

2.1.25 The Impact of Taxation on Small and Medium-Sized Business Sales Growth

In numerous emerging economies, such as Nigeria, small and medium-sized enterprises (SMEs) form a vital economic pillar. These enterprises contribute significantly to economic growth, employment, and innovation²⁴. However, the progress and potential sales growth of SMEs can be impeded by various factors. Among them, taxation stands out as a critical concern.

2.1.25.1 Impact on Resources and Potential Investments

Taxation represents a considerable expense for businesses, and in the case of SMEs, these funds could often be better allocated elsewhere. The funds used to meet tax obligations could be invested back into the business, potentially leading to increased sales and overall growth²⁵ supports this notion, arguing that the allocation of significant resources towards taxation could limit an SME's capacity to innovate and expand.

2.1.25.2 Complexity of Tax Structure

The intricacy of Nigeria's tax structures presents yet another pressing problem for the country. Small and medium-sized businesses are frequently forced to navigate a complex tax structure, which raises the overall cost of doing business ²⁶. An unfavorable environment can lead to operational inefficiencies and drain resources that could be better employed to assist development in sales. Such an atmosphere can also have the opposite effect.

2.1.25.3 Discouraging Innovation

The negative impact of high taxation isn't limited to the financial realm. The entrepreneurial spirit, which is often vibrant within SMEs, can be dampened by burdensome taxation. High taxes can discourage risk-taking and innovation, which are key to the generation of new ideas and the fostering of sales growth²⁷.

2.1.25.4 Advocacy for Government Policies

In light of these challenges, scholars and stakeholders have called for a review of the current tax policies. Implementing government policies that support innovation and ease the tax burden for SMEs could provide a much-needed boost to sales growth.

2.1.25.5 Tax Burden and Reinvestment Opportunities

One of the fundamental issues underscoring the discourse on SMEs and taxation in Nigeria is the diversion of potential reinvestment capital to meet tax obligations. As SMEs bear the brunt of these financial burdens, their capacity to reinvest in areas like research and development, marketing, and expansion is significantly curtailed²⁵. Given that reinvestment is a critical driver for sales growth, the limitations imposed by heavy taxation mean that many SMEs miss out on lucrative opportunities that could have further bolstered their business potential and market positioning²⁶.

2.1.25.6 Complexity of Tax Structures: A Challenge to Business Operations

Navigating the intricate maze of Nigeria's tax structures poses an operational challenge for many SMEs. This complexity not only results in increased business costs but also requires these businesses to allocate valuable time and resources to ensure compliance, often at the expense of other essential business activities²⁸. The energy spent deciphering these structures could have been channeled into innovation or strategies to penetrate new markets. An efficient, clear, and streamlined tax system could foster a more enabling environment, allowing SMEs to operate with greater clarity and confidence.

2.1.25.6 Encouraging Entrepreneurial Innovation through Tax Policies

Beyond the direct financial implications of taxation, there's an intangible yet potent effect on the entrepreneurial spirit. High taxes, especially when perceived as unjust or excessive, can stifle the enthusiasm and innovative drive of entrepreneurs²⁹. When entrepreneurs, the driving force behind SMEs, feel that their efforts might not yield commensurate returns due to a hefty tax burden, their motivation to innovate or explore new avenues for growth could diminish. Therefore, there's a pressing need for tax reforms that not only ease the financial load but also invigorate and rejuvenate the entrepreneurial spirit. It is argued that such reforms can cultivate a

fertile ground where SMEs can flourish and make more significant contributions to the nation's economy⁵⁶.

2.1.26 Taxation and Electronic Taxation as a Solution

The use of computer systems and networks in the levying and payment of taxes is known as electronic taxation (or e-taxation). It entails the use of computer techniques in the assessment, collection, and administration of taxes, and is sometimes referred to as e-payments and e-filing. Electronic taxation is a development of the e-governance and e-commerce concepts. It entails the interchange of data between the taxpayer and the tax authorities via information communication technology systems. E-taxation's goal is to "replace inefficient manual, bureaucratic service systems with collaborative, efficient, process-driven, and secure on-line delivery solutions." The IRS first offered e-taxation in the United States as a five-tax preparer electronic filing test program. The Internal Revenue Service Restructuring and Reform Act of 1998, on the other hand, solidified computerized taxation in the United States. The IRS took steps to ensure that all electronically prepared returns could be filed online, and by 2012, it had reached an electronic submission rate of more than 80%. E-taxation has moved beyond the United States to other countries, with 92 economies having completely implemented electronic tax filing and payment systems as of 2016. In most parts of the world, a constant move from manual tax processes to a computerized tax system has occurred during the previous 20 years. For example, the Republic of Korea implemented an electronic tax system in 2012, Uruguay implemented mandatory electronic payment of national tax in 2014, and China implemented electronic taxation in 2015¹⁵. India began using electronic taxation in September 2004, originally on a voluntary basis, but in July 2006, it became mandatory for all taxpayers. Serbia came in second in 2014, while Namibia came in third in 2016. A number of African countries have also implemented an electronic tax system. Ethiopia, for example, implemented electronic taxation in 2012. The collaboration between the Investment Climate Facility in Africa and Ethiopia resulted in the adoption of

electronic taxation in Ethiopia (ICF) Ethiopian Revenue and Customs Authority (ERCA) and the Ethiopian Government to strengthen the investment climate in Ethiopia. The Ethiopian e-government strategy and implementation plan included electronic taxation as a key component aimed at making tax services more accessible and delivering efficient service delivery. E-tax is one of the 12 priority areas of Ethiopia's e-Government strategy, which includes 13 e-tax services projects that allow taxpayers to register online, file their tax returns online, apply for tax clearance online, file declarations online, and acquire a taxpayer identity number¹⁹. Taxpayers can now file their returns in one day and with only three steps thanks to the implementation of electronic taxation. In South Africa, the South African Revenue Service (SARS) implemented an electronic tax system in 2001. The electronic filing process, which allows taxpayers to file their tax returns and make income declarations online, was first confined to only paying value added tax and pay as you earn. However, in 2006, the system was expanded to include persons who received basic wages and allowances, and in 2007, it was further expanded to include all individual taxpayers and allow individuals to file tax returns. Furthermore, in recent years, the SARS has made significant improvements to the e-filing system to make it more accessible and user-friendly for taxpayers³⁴. The introduction of a MobiSite program, which allows taxpayers to submit tax returns from their mobile phones, is one such example of innovation. The electronic tax filing system in South Africa has been recognized as one of Africa's most successful government systems. The Integrated Tax Management System (ITMS) was introduced in Kenya in 2007 in an attempt to automate the country's tax technology; however, the system failed to produce the expected results¹⁶.

To replace the ITMS online system, the Tax system, which was an improvement on the ITMS, was released in 2011. The Kenya Revenue Authority (KRA) completed the automation of its tax administration iTax system in 2014, and directed that, beginning March 1, 2014, the system be used. Manual tax returns would no longer be accepted, thus all taxpayers were urged to use the

iTax online services to file their forms. Mauritius' Mauritius Revenue Authority (MRA) implemented electronic taxation in 2007. Since 2007, the MRA has bolstered its Information System Department (ISD) by providing critical logistical support, and its Taxpayer Education and Communication Department (TECD) has launched public awareness initiatives. As a result of these efforts, the percentage of e-filings has increased. Around 92 percent of tax returns were filed electronically in 2014. From 1,500 tax returns filed electronically in 2007 to 123,000 tax returns filed electronically in 2014, there has been a significant increase in the use of electronic taxation. Taxpayers in Mauritius can use any of the various internet banking platforms to file tax returns, receive tax assessments, and pay tax via the Mauritius electronic tax system¹⁵.

2.1.27 Nigerian Electronic Taxation

In Nigeria, the process of collecting taxes electronically is just getting started. The results of visiting teams from the Fiscal Affairs Division of the International Monetary Fund (IMF) in 2004, 2005, and 2006 urged the implementation of an Integrated Tax Administration System. These findings hailed the introduction of electronic taxes in Nigeria (ITAS). The ITAS was given the go-ahead for procurement, installation, and implementation by the Federal Inland Revenue Service after receiving approval from the Federal Executive Council in December of 2010. (FIRS). The ITAS is targeted at re-engineering and automating the FIRS tax administration processes, as well as re-engineering and automating the FIRS tax administration processes, SIGTAS (Standard Integrated Government Tax Administration Solution) and hardware infrastructure procurement, implementation, and deployment. The FIRS teamed up with the Nigerian Interbank Settlement System (NIBBS) in 2015 to enable electronic tax payment in Nigeria. This is the automation of all tax processes, including tax registration, assessment, and return filing, as well as tax payment. The goal was to implement an electronic system that would make it easy to pay taxes online in Nigeria's major cities. The FIRS redesigned the electronic tax

system to run across the country in June 2017, launching six new electronic tax services (e-services).³¹

- **e-registration:** New taxpayers can use e-registration to register with FIRS for a variety of taxes. This service eliminates the need for taxpayers to visit a tax office to register for tax purposes. All they have to do now is register on the FIRS website.

- **e-stamp duty:** e-stamp duty is used to pay stamp duties on qualified documents electronically. This innovation will make conducting business in Nigeria easier. To complete transactions that required stamping in the past, actual stamping was required. Stamping may be done anywhere and at any time online using e-stamping. When a new firm is being incorporated at the Corporate Affairs Commission, this invention comes in handy (CAC). You can pay your stamp duties by migrating from the CAC registration site to the FIRS e-service portal.

- **e-tax payment:** The Nigeria Inter-Bank Settlement System (NIBSS), Remita, and Interswitch platforms can be used to pay all Federal Government taxes and levies. This brings tax payment to your doorstep because you may do so from the convenience of your own home.

- **e-receipt:** An e-receipt is a document that is used to receive and verify e-receipts generated for taxes paid using the new e-tax payment system. You will receive immediate notification that your tax payment has been received.

- **e-filing:** This allows taxpayers to electronically file their tax returns via the FIRS ITAS system. One of the most innovative components of e-tax services is this. The filing of tax returns is a statutory requirement. This platform eliminates the need to visit a tax office to file tax returns because you can upload relevant documents and file your tax returns electronically; and • **electronic tax clearance certificates (e-TCC):** taxpayers can apply for, receive, and verify the authenticity of their e-TCC through this platform. The manual tax administration approach makes obtaining tax clearance certificates difficult. A certificate is automatically provided to tax payers' email addresses with e-TCC, and the authenticity of the certificate can be verified on the

e-service website. These e-service initiatives combine tax administration innovation and technology to make FIRS services quick, easy, and available anywhere and at any time. In Nigeria, there is no complete statutory framework for e-taxation; however, the National Tax Policy (NTP) encourages the use of technology in tax administration. "Federal and state tax authorities should respond immediately to the changing business environment as it impacts tax administration and build a feasible framework to meet the requests of tax payers in this regard," the policy states³¹.

A "collection system shall harness current technologies to advance simplicity of payment and reduce revenue losses". Furthermore, the tax authorities must ensure that technology is used to assist in all aspects of tax administration. These laws establish a policy framework for Nigeria's implementation and operation of electronic taxation. In addition, the FIRS is required to collect and review all policies of the Federal Government relating to taxation and revenue generation, to implement such policies in a systematic and progressive manner, and to perform any other activities necessary or expedient for the full discharge of all or any functions under the Act. Furthermore, a community reading of sections 7(a), (b), (c), (f), and 8(1)(o)(2) of the Federal Inland Revenue Service (Establishment) Act 2007 (FIRS(E) Act) gives the FIRS powers to provide general policy guidelines on tax assessment, a method of filing tax returns, a method of tax payment, and general tax administration. These provisions, along with those of the NTP, lay the groundwork for the implementation of electronic taxes as a tax administration strategy in Nigeria⁴².

2.1.28 Nigeria's Prospects for E-Taxation

Technology affords both individuals and businesses the opportunity to enhance their capacity to carry out tasks in an effective and time-saving manner. Utilizing information and communication technologies to process tax payments would make it easier for the FIRS to accomplish its mission, which would be a positive development. The automation of processes involved in the

administration of taxes reduces the amount of human interference in the tax payment process and, as a result, removes the possibility of tax officials conspiring with dishonest individuals to avoid paying taxes. E-taxation will make it easier for the Federal Inland Revenue Service (FIRS) and state revenue boards to work together, and using a taxpayer identification number will make this process more effective (TIN). As a result, creating an authentic tax administration database and sharing information among tax administrators is easy. As a result, it will be easier to identify and track taxpayers, minimizing the likelihood of double taxation. Furthermore, online tax administration systems make tax processing and payment more straightforward and transparent. This is because, as long as there is internet access, taxes may be paid at any time of day, on any day of the week, from anywhere in the world. As a result, taxpayers no longer need to go to a tax office to file returns, make payments, or apply for tax clearance certificates: These tasks can be carried out from the comfort of one's own home or workplace. The implementation of electronic solutions in tax administration aligns the Nigerian tax system with global trends in tax administration, which are moving away from manual tax processes and toward an automated tax administrative system in line with the global digitalization drive. This shift is motivated by the benefits and prospects of electronic taxation, which include:

- i. processing and paying taxes through electronic platforms is faster, more time-efficient, and more convenient;
- ii. it reduces compliance time and operational costs, and simplifies the tax payment process by reducing calculation errors in tax returns. In a more predictable tax climate, this makes preparing, filing, and paying taxes easier. The operational cost of tax administration is decreased via e-taxation.
- iii. e-taxation reduces the incidences of tax avoidance and evasion by allowing tax authorities to easily ascertain the authenticity of tax returns filed, monitor, and easily identify taxpayers;

- iv. it eliminates the need for cumbersome manual paperwork in the filing of tax returns and preparation of tax assessments, resulting in administrative efficiency and in conformity with the law;
- v. it increases the accessibility of tax services from anywhere in the world because a taxpayer can pay tax from anywhere in the world;
- vi. it reduces the burden of compliance and compliance costs because a taxpayer does not need to travel to the tax office to pay tax; and
- vii. it makes access to a taxpayer's tax history easier because all relevant information can be accessed with the click of a button. As a result, resolving disagreements over tax assessments will be easier and less expensive²⁸.

If implemented properly, electronic taxation in Nigeria will boost voluntary compliance, have a favorable impact on Nigeria's tax culture, and improve the FIRS's delivery capabilities. It will also make the FIRS' activities more responsible and open. Given the benefits of computerized taxes, this will have a broad influence on the Nigerian tax system, bringing it in line with its peers. In Nigeria, with the implementation of computerized taxes, tax revenue collection has grown while collection costs have decreased. 41 Despite the benefits of electronic taxes, there are a number of issues that must be solved in order for electronic tax systems to be sustained and maximized in Nigeria²⁹.

2.1.29 Nigeria's Electronic Taxation Challenges

Electronic tax systems, despite their numerous potential advantages such as increased efficiency, reduced costs, and increased tax compliance, face significant obstacles in Nigeria. One of these challenges is the low level of computer literacy in the country, which limits the adoption and effective utilization of the e-taxation system. It is highlighted that a significant number of taxpayers, particularly those in rural areas, lack the necessary computer skills to navigate digital

tax platforms²⁹. This can potentially lead to lower tax compliance levels, as these individuals might find the e-taxation system complicated and daunting to use.

The cost of establishing and maintaining an e-taxation system is another significant challenge. Setting up a reliable and secure e-taxation system requires substantial investments in information and communication technology (ICT) infrastructure, including hardware, software, and network systems, as well as continuous maintenance and upgrade costs. Such high costs could pose financial constraints to the Nigerian government, which already struggles with limited budgetary resources³⁰.

Furthermore, the effectiveness of an e-taxation system is heavily reliant on the availability of a reliable internet connection. Nigeria, despite being one of Africa's largest economies, still faces significant disparities in internet access across different regions, especially between urban and rural areas. According to the Nigerian Communication Commission (NCC) report in 2018³¹, internet penetration in Nigeria stood at approximately 52%, indicating that almost half of the population still lacked access to the internet.

The NCC report also showed a substantial increase in the number of internet users in Nigeria, from 63.2 million in 2015 to nearly 103.6 million in 2018. This suggests some progress in bridging the digital divide. However, there's still much work to be done considering that approximately 50% of the country's estimated population of 198 million in 2018 did not have access to the internet.

This limited internet connectivity, particularly in rural areas, could impede the effective operation and adoption of the e-taxation system. Without a reliable internet connection, taxpayers would face difficulties in accessing the digital tax platform, filing their tax returns, or making tax payments online..

This is exacerbated by Nigeria's inconsistent energy power supply. Another issue with computerized taxes in Nigeria is that only the Federal Inland Revenue Service (FIRS), which is

the country's tax authority, has fully automated its operations. Except for a few states, such as Lagos, which has implemented e-filing, e-tax payments, and e-tax clearing certificate systems, many tax authorities at the state level still use manual tax processes. This scenario makes it difficult for federal and state tax officials to work together effectively to avoid double taxation. To establish the essential synergy with the FIRS, state revenue departments must automate their processes. This has the advantage of improving Nigeria's ranking on the ease of doing business index since investors will find it simple to meet their tax commitments to the federal and state governments through convenient and transparent electronic tax payment channels. It will also make it easier for tax authorities to communicate information about a taxpayer and compile a detailed tax history of that person²⁹.

Cyber criminals, who strive to breach the integrity of tax revenue service portals, pose the greatest threat to electronic taxes in Nigeria. Electronic tax fraud (cyber tax crime) poses a significant threat to the development and long-term viability of electronic tax systems. A more in-depth assessment of the influence of cybercrime on electronic taxation, as well as the potential hazards of electronic tax fraud, on the adoption of electronic tax systems in Nigeria, is required. As a result, the next section concentrates on electronic tax fraud.

1. Cyber-tax evasion (electronic tax fraud)

Any conduct in the process of paying taxes, or neglect to do an act necessary to fulfill an individual's or organization's tax duty, that is regarded a public wrong by relevant tax legislation, is considered a tax crime. Tax laws in several African countries categorize certain actions and inactions as tax crimes or tax offences, which are punished by imprisonment and/or fines or penalties. The nature of tax offenses has evolved as a result of the widespread use of the internet and information technology in the tax administration. It's becoming more akin to cybercrime than tax evasion. The Council of Europe defines "cybercrime" as "a wide variety of hostile acts,

including illicit data interception, system interferences that jeopardize network integrity and availability, and copyright infringements".

Regrettably, the African Union (AU) Convention on Cyber Security and Personal Data Protection lacks a definition of "cybercrime." "Cybercrime" is defined as "a crime in which a computer is the target of the crime (e.g. hacking, phishing, spamming) or is utilized as a tool to accomplish an offense". Bank information theft, identity theft, online predatory crimes, unauthorized computer access, hacking, viruses, and denial of service (DoS) assaults are all examples of cybercrime. Computer systems and electronic gadgets are used to conduct these crimes because of their vulnerabilities, speed, and ease³¹.

Cybercrime has expanded at an unprecedented rate as a result of increased internet activity. It appeals to criminals because of its speed, anonymity, convenience, and lack of borders. Cybercrime has an unquantifiable economic and social impact, making it difficult to correctly estimate its costs. However, in 2014, McAfee published a research on the economic impact of cybercrime, which anticipated that the cost to the world economy would be more than \$400 billion per year. "Cybercrime captures between 15% and 20% of the value created by the internet... a percentage of revenue that is much bigger than any other international criminal activity". It's no different in Nigeria. It was pointed out that "With over 91.6 million internet users in Nigeria, the number of cyber fraud cases involving Nigerians has skyrocketed. Nigeria lost almost N127 billion to cybercrime in 2015, and the country currently ranks third in the world in terms of internet crimes, behind the United Kingdom and the United States³²"

This trend implies that the electronic tax administration system is vulnerable to cyber-attacks because cyber thieves are not immune to their actions. If electronic tax systems are to be maintained in any tax system, it is consequently vital to have effective anti-cybercrime legislation and organizations to combat cybercrime.

Any criminal transgression in the process of registering for tax reasons, assessing tax liability, filing returns, and paying taxes using electronic computer systems or the internet is referred to as cyber tax crimes or electronic tax fraud. Making false statements and declaring income while e-filing tax returns or making e-payments will be considered cyber tax offenses in Nigeria. Any act that obstructs the efficient operation of electronic tax systems and networks will also be included. With the globalization of government activities and the preference for deploying technology in tax assessment, filing of tax returns, and payment of taxes, taxation has become vulnerable to cyber criminals who attempt to compromise websites and manipulate data on tax authorities' websites by exploiting security flaws. In addition, due to the activity of hackers and rogue workers, there is an increase in fraudulent tax refund claims, the filing of false tax returns, and data leaks, both from private and public sources. In 2015, it is believed that over 700 million personal data records were compromised around the world. Tax scams are on the rise, with tax-related phishing emails and malware climbing 400% in just one tax season. The emails are intended to fool taxpayers into believing they are legitimate correspondence from tax authorities or organizations affiliated with them. The IRS received over 2,748 reports of phishing emails and malware in 2015. Tax refund fraud, corporate account takeover (hacking a company's website), personal identity theft, and sensitive data theft are all examples of cyber tax crimes in the United States. "Cybercriminals are increasingly targeting consumers filing income tax returns online by sending harmful mass emails to lure them into providing their net banking credentials," the Indian Income Tax Department recently warned. These emails are disguised in such a way that they appear to have originated from a legitimate e-mail address."

In India, electronic tax offenses include requesting a taxpayer's password change without authority, providing a false address or email when creating a tax ID online, hacking passwords with false digital signatures, quoting a bogus online bank entry in the self-assessment paid tax column, failing to remit tax deposits deducted from employees but making deductions from

employees with fake online entries, and filing false income tax returns to claim false deductions. The introduction of computerized taxes in Nigeria has undoubtedly resulted in a new set of tax offenses known as cyber tax crimes, as seen by the contemporaneous illustrations above. The development of computer systems and technology in tax administration has resulted in a new set of tax offences that are beyond the scope of existing tax laws. As a result, there is a need to search elsewhere for legal instruments that might help defend and sustain the electronic tax system in addition to tax laws. In the administration of electronic taxation in Nigeria, this is where cybercrime laws become relevant³⁸.

2.1.30 Nigeria's Legal and Institutional Framework for Combating Cyber Tax Crimes

Electronic tax crimes, sometimes known as cyber tax crimes, are distinct from ordinary tax offenses in that they are performed on computer networks and systems rather than in manual processes involving physical acts such as document forgery or obstruction of tax officials. This is normally outside the scope of tax laws and definitely falls within the definition of cybercrime. As a result, the long-term viability of electronic taxation is contingent on the establishment of an adequate cyber security management system as well as suitable legislative tools to prohibit and prevent cybercrime. To minimize their chances of being caught, cybercriminals prefer to operate in nations where cybercrime laws are weak or non-existent. To deal with cyber tax offenses, one must rely on the provisions of cybercrime laws and institutions.

Cybercrime prevention and protection laws and organizations are extremely important in countries with effective computerized tax systems. For example, the United Kingdom and the United States have strong anti-cybercrime legislation and organizations in place to prevent and protect vital infrastructure from cybercrime. Cybercrime has become a big problem for most countries throughout the world, especially as people's reliance on computers and networks for most corporate and personal interactions has grown. Nigeria has participated in regional efforts to combat cybercrime and has taken local measures to combat the problem. The African Union

Convention on Cyber Security and Personal Data Protection was established to address cyber security challenges at a regional level. The Convention requires that Member States create legislative frameworks to protect physical and personal data. Member states are also required to set up national data protection institutions. The Convention applies to any collection, transmission, processing, storage, and use of personal data, as well as any automated or un automated data processing, and any data processing relating to public security, defense, research, criminal prosecution, or state security, subject to existing laws' exceptions. By formulating a policy for the adoption of new offences specific to ICT and aligning certain offences, sanctions, and criminal liability systems in force in Member States with the ICT environment, the Convention seeks to strengthen existing legislation on ICT in Member States and serve as a substantive criminal law to modernize the instruments for the repression of cybercrime. To prevent cyber tax fraud, Member States rely on this Convention, as well as their domestic regulatory framework and cybercrime protection institutions (electronic tax fraud). This African Union Convention has been criticized. "The African Union Convention on Cyber Security and Personal Data Protection does not provide a suitable framework for mutual aid and international cooperation among African States," Orji, for example, claims. and that this situation has the potential to constrain and fragment international cooperation and mutual assistance along sub-regional or bilateral lines." In addition, Orji advises that a regional Computer Emergency Response team be established "to increase cooperation as well as the coordination of responses to cyber-security crises" to address the weaknesses in the AU Convention and foster mutual assistance among African countries³⁷.

The Convention on Cybercrime is another important international tool for regulating cybercrime in Nigeria (also known as the Budapest Convention). Nigeria is now a member of the Convention as an observer. "It was the first multilateral binding document to regulate cybercrime". The spread of cybercrime around the world necessitated the creation of a

harmonized and standard international cybercrime regulatory framework, which led to the creation of this Convention. The Budapest Convention was signed in November 2001 and became effective in July 2004. There were 61 countries that had ratified or joined the Convention as of September 15, 2018. "By ratifying this Convention on Cybercrime, contracting parties commit to ensure that their domestic laws prohibit conduct detailed in the substantive criminal law section and develop the procedural tools necessary to investigate and punish such offences". Unfortunately, Nigeria has yet to ratify or join the Budapest Convention as a signatory. As a result, Nigeria must ratify and become a signatory to the Convention in order to strengthen mutual or international cooperation in the fight against cybercrime. In order to have the desired effect in combating cybercrime in Nigeria, the Budapest Convention should be domesticated into Nigerian legislation³¹.

The rapid rise of electronic commerce (e-commerce), electronic government (e-governance), and electronic taxation (e-taxation) in Nigeria has necessitated the creation of a legal framework for the prohibition and prevention of cybercrime. Nigeria passed the Nigerian Cybercrimes (Prevention, Prohibition, and Other Measures) Act 2015 to combat cybercrime and defend information technology infrastructures from cyber-attacks, in line with the goals of the African Union Convention on Cyber Security and Personal Data Protection. The Act's goals are to "provide an effective, unified, and comprehensive legal, regulatory, and institutional framework for the prohibition, prevention, detection, prosecution, and punishment of cybercrime in Nigeria... ensure the protection of critical national information infrastructure, promote cyber security, and protect computer systems and networks, electronic communications, data and computer programs, intellectual property, and privacy rights¹⁹."

In addition, the Evidence Act in Nigeria was changed in 2011 to recognize electronic evidence prior to the enactment of the Cybercrimes Act. Nigerian law did not recognize computer-generated or electronic evidence prior to the revision of the Evidence Act in 2011. Under the

Cybercrimes Act, the National Security Adviser's office serves as the coordinating body for all security and intelligence services' cybercrime efforts. It is in charge of establishing and maintaining the National Computer Emergency Response Team and the National Computer Forensic Laboratory in order to assist with the implementation of the Cybercrimes Act and the fight against cybercrime in Nigeria. The Cybercrimes Act criminalizes acts capable of breaching website cyber security protocols and eroding internet users' personal privacy. It aims to prevent the commission of computer crimes by criminalizing acts capable of breaching cyber security protocols of websites and eroding internet users' personal privacy. Because electronic taxation relies on working computer systems and networks, which makes it vulnerable to cyber criminals, cyber security issues have become crucial to the tax administration in Nigeria. Although the Act was not designed especially to prohibit the commission of cyber tax offences, its provisions are broad enough to include all types of electronic transaction and computer-related offenses, including electronic taxation. For example, the Cybercrimes Act gives the President the authority, on the advice of the National Security Adviser, to designate certain computer systems and networks, whether physical or virtual, computer programs, computer data, and traffic data that are critical to the country as critical national information infrastructure, such that their incapacity, destruction, or interference with them is a national security threat. Such a system and its assets would have a crippling effect on the economy, national security, and public safety, or any combination of those factors. Because of their economic importance and the impact of an assault on such networks on the national economy, the FIRS electronic tax payment computer systems and network are expected to be recognized as critical national information infrastructure. The Cybercrimes Act also makes it illegal to gain unauthorized access to computer systems or networks (including electronic tax systems and networks) for fraudulent reasons, as well as to attempt to obtain data, computer data, or secure information without authorization, access to any software²².

In addition, the Cybercrimes Act makes it illegal to interfere with or disrupt the operation of any computer system or network. By inputting, transferring, destroying, deleting, modifying, or suppressing computer data in a way that stops the computer system from functioning as intended, which includes electronic tax platforms. Computer phishing, spamming to disrupt computer operations, and the deliberate transmission of malware and viruses to cause damage to any organization's important information and computer systems are also illegal.

When interpreted in conjunction with the relevant tax legislation, the Cybercrimes Act becomes a powerful tool for combating cyber tax fraud in Nigeria. For example, tax rules prohibit and penalize anyone who makes a false declaration, forges a document, or modifies the content of a document, as well as any other fraudulent tax-related activity. As a result of the requirements of sections 42 of the FIRS Act 2007 and 21 of the Industrial Development Act 2004, it is illegal for anybody to make an inaccurate declaration in a document or statement provided to the tax authorities for tax purposes. In the same line, it is illegal for anyone or any company to make a fraudulent return of the amount of tax they have collected or received. Similarly, furnishing false statements or representations for the purpose of receiving tax relief, or aiding, abetting, or inducing any other person to create or provide false returns or statements, or to construct fraudulent accounts to avoid tax responsibility, is illegal. The extent of these tax offenses has been stretched beyond the limits of tax legislation since the introduction of electronic taxation. As a result, all documents, including electronic files, computer data, and computer programs, must now be read. As a result, anyone who makes a false declaration or statement, forges documents, or alters the content of a document on an electronic tax platform when filing tax returns or making tax payments electronically is committing a cyber tax crime, which can be prosecuted under the Cybercrimes Act. Any individual who purposefully accesses a computer or network and alters, deletes, or modifies data is guilty of cybercrime. In order for inauthentic fabricated data to be treated as if it were genuine, it should be suppressed or inputted. People will

be discouraged from making fraudulent declarations or assertions on electronic tax payment systems if this rule is viewed in conjunction with the relevant tax regulations.

To further emphasize this point, it is illegal for anybody to assume the name, designation, or character of a tax official under the FIRS (E) Act. It is also illegal for anyone who is not authorized by law to collect or attempt to collect tax to do so. However, since the implementation of computerized taxation, cyber-squatting has been added to the definition of impersonation and identity theft. In electronic tax systems, impersonation takes many forms; one popular method is for cybercriminals to use a tax authority's domain name or a similar domain name without permission to deceive unsuspecting members of the public. While tax regulations only prohibit impersonation of tax officials, the Cybercrimes Act broadens the definition to encompass impersonation of domain names belonging to individuals, corporations, and the government, including electronic tax networks. For example, using a name, business name, trademark, domain name, or other words registered, owned, or in use by an individual, corporation, or government on the internet is illegal under the Cybercrimes Act or any computer network without the owner's permission with the intent of interfering with the owner's use. Also, any person who fraudulently makes use of the electronic signature or password or any unique identification features, or fraudulently impersonates the identity of another person, or makes false representations in respect of his identity to get an electronic card commits an offence. From the preceding, it is clear that the FIRS will need to work with cybercrime prevention and protection authorities in order to maintain its computerized tax systems.

2.1.31 Relationship between Finance Act of 2021 and the Excessive Taxation

The Finance Act is a measure that grants certain duties, changes other obligations, amends the law relating to the national debt and public revenue, and makes additional financial provisions.

Transactions carried out under this arrangement were taxable based on their legal form rather than their economic substance. As a result, securities lending transactions became unviable due

to the danger of double taxation of the same income streams. The present Finance Act, on the other hand, has established a tax framework that would eliminate the risk of excessive taxation by ensuring that securities lending transactions are taxed on their economic substance rather than their legal form. The Finance Act of 2021 significantly impacts the taxation landscape for businesses in Nigeria, particularly for Small and Medium Enterprises (SMEs). This legislation, intended to support government revenues, has effectively increased the tax rate for a broad range of businesses, adding to the financial burden on the private sector⁶².

In addition to raising tax rates, the Act also increases compliance requirements for affected businesses. The complex and often cumbersome tax compliance procedures can place significant administrative and financial burdens on businesses, particularly SMEs which typically have limited resources². Increased compliance requirements also increase the risk of penalties for non-compliance, which could further strain businesses' financial health.

Furthermore, the financial landscape is complicated by the existence of various industry-specific taxes and compliance obligations. One such is the National Information Technology Development Levy, which is imposed on companies with annual turnover of ₦100 million and above, operating in specified sectors including banking and finance, telecommunications, and insurance. This Levy, which is calculated as 1% of the profit before tax of the affected companies, further raises the total tax burden on these businesses⁶⁰.

Other industry-specific compliance requirements include the Common Reporting Standards (CRS), an international agreement to which Nigeria is a signatory, which requires financial institutions to collect and report information about account holders to their respective tax authorities. For financial institutions, this adds to their compliance burden, potentially leading to higher costs of operation ⁶⁴.

The Electronic Money Transfer Levy is another component of the complex tax system. The 2021 Finance Act imposes this levy on electronic transfers and deposits of money in the sum of ₦10,000 and above, collected by the money deposit banks. This levy directly affects banking institutions and indirectly impacts businesses that rely on electronic money transfers for their transactions, thereby increasing the cost of doing business⁶⁴.

Overall, these multiple layers of taxation and regulatory requirements can significantly impact the operational costs and profitability of businesses in Nigeria, particularly those in the SME sector.

As a result, the revisions in the Finance Act 2021 will greatly improve and boost the expansion of the banking, insurance, and market sectors, given that the Finance Act has addressed the various challenging elements in the existing CITA.

The Dichotomy of Legal Form and Economic Substance

Historically, the Finance Act's provisions relied heavily on the legal form of transactions, leaving a significant gap when the economic substance was at variance with the legal form. This often led to intricate tax implications, especially in complex transactions like securities lending⁵⁸. Such a tax structure inherently bore the risk of double taxation, thereby potentially deterring companies from entering into economically beneficial transactions that had an adverse tax consequence based on their legal form.

Shift in Taxation Paradigm in the Finance Act of 2021

The Finance Act of 2021 heralded a pivotal shift by ensuring that securities lending transactions, among others, would be taxed based on their economic substance. By adopting such an approach, the Act sought to prevent the unfavorable phenomenon of excessive taxation⁵⁹. This was a welcome change, addressing a significant pain point in the financial sector, where the clarity of tax implications is paramount for both investors and institutions.

Broader Impacts on Compliance and Taxation Landscape

While the Act's shift to economic substance brought relief in certain areas, it simultaneously ushered in increased compliance requirements and augmented effective tax rates for some business entities. The addition of specific earmark taxes and industry-specific compliance mandates underlined the Act's comprehensive approach⁶¹. However, while these measures aimed to streamline revenue collection and ensure transparency, they also heightened the compliance burden on companies, especially those in the nascent stages or with limited resource

Positive Projections for Key Financial Sectors

Despite these challenges, the consensus among financial experts is that the amendments in the Finance Act 2021 lay a robust foundation for growth, especially in the banking, insurance, and market sectors. By addressing previous pain points in the Companies Income Tax Act (CITA), the Act facilitates a more conducive environment for businesses to operate and thrive, which is vital for a dynamic economy like Nigeria's⁶⁰.

2.1.32 Relationship between Taxation, Financial Performance and Small and Medium

Enterprises

High tax rates cause demand and supply for labor to be distorted, which reduces productivity because workers will spend more time relaxing. Some nations' tax systems are only designed to generate revenue, which has a detrimental impact on the nation's economy. People typically detest paying taxes because of how it affects their income. If tax policy is to be followed, it must be widely accepted by the populace. As a result, it follows that a good tax system must adhere to the six principles of taxation: equity, neutrality, efficiency, flexibility, and simplicity. A study on corporate income taxes found a link between income tax and corporate institution profitability. The study focused on the effects of corporate income tax obligations on various firm-related metrics, including gross profit, cost of sales, and costs. For the accounting years 1995 to 2000, a

sample of 7,306 businesses was chosen from the hospitality and food service industry, 6,594 from the business services industry, and 1,484 from the production of transportation. The finding was that corporate income tax has a negative impact on corporate institutions' profitability⁴.

The majority of small taxpayers find the complex tax system to be highly frustrating and almost always turn to inventive accounting to avoid paying taxes. Multiplicity also enables the taxpayer to switch between different tax regimes or move from a higher to a lower marginal tax rate in an effort to lessen their overall tax burden. Taxation's main goal is to bring in money for government spending on development. The economic effects of taxes include both macro and micro effects on the efficiency of resource usage, level of capacity output, pricing, employment, and growth. High taxes can reduce growth because they make it difficult for business owners to finance quick expansion. The resources that small firms pay in taxes, may be used for reinvestment, promoting future growth. Small business tax reform will promote growth and increase economic competition by removing significant incentives for companies to remain small⁵.

The amount of public savings and, consequently, the amount of resources available for capital development are influenced by the taxation level. To stimulate economic growth and subsequent tax contributions from all taxpayers, the investment climate in Nigeria urgently needs to be improved. Taxes may be detrimental to the development of small enterprises, but it's not entirely clear how much. The high death rate of small enterprises has raised concerns about the friendliness of the environment in which they operate, despite the fact that the government's fiscal policies are never designed to hinder the growth of SMEs in the nation through taxation. Many small firms can grow into huge, prosperous organizations that are competitive in the market when compared to the USA with the correct tax and regulatory laws. Since many nations, like Nigeria, are experiencing severe economic difficulties, it's important to strike an equal balance between boosting taxes to fund the government and fostering corporate growth³⁰.

2.1.33 In Nigeria, Tax Harmonization is Key to Achieving Long-Term Development

Globally, tax harmonization is gaining traction. Globalization, the advent of open borders, factor mobility and the need to compete for investment with neighbors, the resurgence of economic and trade organizations, and other factors are driving this. What is tax harmonization, and what are the benefits of it? The process of making taxes equivalent or similar across regions, whether consciously or unconsciously is referred to as tax harmonization. It's a method for dealing with the ramifications of the world's many tax systems interacting. Harmonized tax rates or administrative processes between governments, regions, or groups are the result of tax harmonization. It is a type of orientation that has been adopted in various parts of the world and comes in a variety of levels or degrees (to wit: standardization, compatibility, coordination, cooperation and convergence).

What does tax harmonization imply for emerging countries, and how will it affect their growth? The answer to this issue can be distilled from knowledge of the state's interaction with taxation, development, and institutions. The trio shapes, colors, and influences one another. A state's socioeconomic institutions are important factors of its ability to attract investments and prosper. Taxation, on the other hand, can have an impact on both economic and political instability and progress. Taxation is the state's exercise of sovereign power, which is another manifestation of the relationship. It lays the groundwork for peaceful coexistence and citizen engagement in the state's political structure and governance. It also permits a bottom-up approach to addressing the state's developmental challenges. Furthermore, taxation as a source of state or public finance is consistent with the principle of sustainable development (also known as the sustainability principle) because it ensures that the machinery for obtaining public funds is established and operates in a way that at the very least maintains (and sometimes improves) the physical, social, and economic environment for the benefit of current and future generations.

2.1.34 Where is Nigeria in Tax Harmonization?

The table 2.1 describes the degree of tax harmonization, the instruments of harmonization (i.e., the techniques employed in Nigeria for harmonization), and the taxes affected by the harmonization, using the pyramid of degrees of tax harmonization as a reference point.

Table 2.1: Illustrating the degree of tax harmonization, the instruments of harmonization and the taxes affected by the harmonization

Degree of harmonization	Instrument of harmonization	Taxes affected
Standardization	ECOWAS CET 17 ECOWAS VAT Protocol	Import duties/ tariffs Value Added Tax (VAT)
Compatibility	Double Tax Agreements (DTAs) 2	Income taxes, 21 to wit: Personal Income Tax 22 Companies Income Tax 23 Petroleum Profits Tax 24 National Information Technology Development Levy 25 Education Tax 26 Capital Gains Tax 27
Coordination	Technical/Financial assistance or aid or grants	All taxes
Cooperation	Organisation for Economic Co-operation and Development (OECD) Agreement on Exchange of Information on Tax Matters Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Tax Information Exchange Agreements (TIEAs) ATAF Agreement on Mutual Assistance in Tax Matters	As a group, they apply to all forms of compulsory payments to government except customs duties Nigeria is yet to commit to any of the Instruments of harmonization that are peculiar to this level
Convergence	Income Tax (Transfer Pricing) Regulations 2012 (ITR) Tax Administration (Self Assessment) Regulations 2011 (TASAR) Federal Inland Revenue Service (Establishment) Act 2007 (FIRSEA) Adoption of International Reporting Standards (IFRS)	All taxes

2.1.35 Tax Harmonization's Advantages

In rising economies, tax harmonization is a desirable policy to promote long-term growth. There are numerous advantages for Nigeria, including those listed below⁴².

Certainty and Uniformity: Tax harmonization is a powerful instrument for promoting uniformity and predictability in the region's tax systems, whether within regional/ international institutions or among governments. For example, in the lack of harmonization within ECOWAS, a company based in Nigeria that operates in other states in the area will face disparate treatment and divergence due to the differences in the many tax systems that make up the organization. Classification is an example of the above (and by extension, treatment). In Nigeria, a corporation classified as a medium taxpayer (segmented and stratified) might not be classified as such in Sierra Leone, where it does identical business. This, combined with the fact that several accounting/tax regimes exist, would result in a lack of consistency, ambiguity, and a variety of obligations and costs on the organization. In Ghana and Nigeria, this is exemplified through their VAT administration. In Nigeria, all resident and non-resident businesses must register for VAT³⁷, however in Ghana, there is a registration threshold. As a result of the foregoing, an entity that is below the Ghanaian registration threshold but provides goods and services in Nigeria must register for VAT in Nigeria. When there is some degree of tax harmonization between the two countries, however, this is not the case⁴².

In these conditions, cost savings are also connected with economies of scale. The harmonization-induced consistency has the extra benefit of giving a method to counteract forum shopping. When an economic actor domiciles business interests in a jurisdiction region for the period of the existence of economic benefit(s) for doing so, and then relocates the business interest from the jurisdiction when the latter expires, this is known as forum shopping. Cost certainty is also introduced, which is beneficial for business planning.

Reduced Spatial Externalities: Regardless of the degree of tax harmonization achieved, a reduction in spatial externalities is a gain. A reduction in the level of cross-border revenue shift or loss sustained by governments is an example of this. Nigeria is able to limit the amount of loss it suffers as a result of factor mobility because to DTAs (capital and labour). This is likewise true

in the case of the CET's adoption. It will almost certainly reduce cross-border arbitrage. If (and when) Nigeria adopts the ECOWAS VAT Protocol's recommendation, revenue accruing to neighboring jurisdictions with higher VAT rates when items purchased in Nigeria are sold will be eliminated, and the cross-border revenue loss suffered by Nigeria as a result of the sale of consumer goods purchased in Nigeria (a low consumption tax jurisdiction) in high tax jurisdictions will be mitigated⁴³.

Combat Tax Planning: Maneuvers Transnational corporations (TNCs) and resident taxpayers can use current financial tools, as well as differences in tax systems, accounting, and tax rules/practices, to plan their taxes. This should be a priority for Nigeria, given its reliance on oil revenues and the fact that TNCs hold around 40% of the elements used in the oil industry's production⁴⁴.

Second, these variables contribute to the oil industry's tax revenue (Nigeria's primary source of revenue). Finally, they are responsible for around two-thirds of the entire revenue generated by the sector. A convergence in accounting and tax rules/practices will be of enormous advantage to Nigeria in terms of international tax avoidance and evasion. This is because it will help to eliminate the variation that encourages TNCs to engage in tax planning maneuvers. DTAs modeled following the United Nations (UN) Model Double Taxation can be used to address transfer pricing, double dipping, thin capitalization, treaty shopping, patronage of tax havens, and inversion transactions.

TIEAs, the implementation of a profit consolidation system combined with formulary apportionment as alternatives to the separate accounting (SA) rules that currently govern the taxation of TNCs, 43 subscription to the Multilateral Convention on Administrative Assistance in Tax Matters, TIEAs, and the implementation of a profit consolidation system combined with formulary apportionment as alternatives to the separate accounting (SA) rules that currently govern the taxation of TNCs.

Combating Competition: In a globalized and economically integrated world, it stands to reason that nations will fight for tax bases, unwittingly providing TNCs with an incentive to engage in maneuvers that could jeopardize tax systems. The decrease of tax rates is a common strategy used for this goal. The disadvantage of this alternative, when weighed against the need for social spending and the need to correct economic distortions, is that tax contributions to total national revenue will be inefficiently low. The situation is made worse by the fact that many of these states lack policies and/or methods to counteract the effects of tax rate reductions on the economy, which can vary from a constant drop in government revenue to a reduction in social welfare and service spending.etc. Tax harmonization is a way to deal with the tendency for states to compete for tax bases. The logic behind this claim is based on a stylized form of the rational taxpayer model, which states that where taxes are not harmonized, economic players would shift to jurisdictions where they may pay less tax, other things being equal. States will be drawn into a competition to deliver the lowest tax rates in response to this. As a result of the uniformity, there will be a decrease in the use of tax rates as an incentive in the competition for foreign factors, as well as their role in taxpayer decision-making.

Enhances the Tax System's Efficiency: A tax system's efficiency is measured in both economic and administrative terms. The latter is a function of whether the taxes therein result in welfare loss in excess of the tax revenues collected, create a substitutionary effect (i.e., causes economic actors to substitute taxed goods/services with untaxed or less taxed variants), or actuate economic actors to make decisions or take actions aimed at minimizing tax burdens. The tax system is inefficient if the foregoing is true. As a result, economic actors' tax avoidance and evasion methods, as well as the cost of compliance, are products of the tax system's efficiency or lack thereof. The term "compliance cost" refers to the costs incurred by both the taxpayer and the relevant tax authority (RTA) in following the tax system's rules⁴⁵. It includes the time and money spent by the taxpayer in maintaining records, computing, reporting, planning, and so on. It

covers the time and money spent by RTAs on tax administration, such as assessment, audit, inquiry, and litigation.

Information on the tax system's efficiency is required for worldwide comparisons in the field of tax policy formulation. Nigeria's tax structure would be improved by tax harmonization with trading partners or first-world countries. This is because harmonization would provide Nigeria with a model to copy or adapt, as well as a benchmark against which to evaluate its tax system. As a result, there will be less welfare loss as a result of economic actors' tax avoidance and evasion methods, as well as lower tax administration costs and increased efficiency. The system's increased efficiency is a positive sign that will have a beneficial impact on Nigeria's business climate, economic growth, and development⁴².

2.1.36 Nigeria's Way Out of Excessive Taxation

It is a well-known proverb that a problem that is comprehended is half-solved. The solution is obvious now that the causes of excessive taxation have been identified. As a result, it has been argued that a solution to the problem of excessive taxation would be to codify the taxes that can be collected by the various government organs. The government should codify the sorts of taxes stipulated by law in order to address the issue of excessive taxation. In order to reduce double taxes, the government must ensure that constitutional principles are not infringed and that tax processes are uniform. The following steps should be taken to avoid triple taxation: Tax funds are effectively used to provide basic services, and compliance with the Taxes and Levies is strictly enforced (Approved List for collection) More tax incentives and their implementation; maintaining openness, accountability, and due procedure; and decreasing the number of taxes Excessive taxes is a feasible strategy. Indeed, the Taxes and Levies Act⁷ requires revision to accommodate additional taxes not previously mentioned, as well as the issue of "more tax incentives."

However, there are a few more extreme measures that must be implemented before the position of MAN can be realized. The foundation and fundamental source of taxation is the Constitution. As a result, any solution to the problem of excessive taxation must begin with a constitutional examination. The Constitution establishes the relevant taxing powers of each degree of government. The Taxes and Levies Act does not supersede the Constitution; rather, it is bound by it. As a result, the argument goes, any review of the Act to accommodate or eliminate other taxes would be null and void to the extent that it is in conflict with the Constitution. Whatever revisions are made to the Act, it will not be able to counteract the State Government's inherent or undefined taxation power. In terms of tax codification, the paper believes that while the method will be fair, it will not give a long-term solution to the problem. When taxes are codified, it means that all taxes that can be collected within a jurisdiction are identified and documented so that tax payers are aware of them. It would aid in the abolition of tax evasion Journal.

2.1.37 Policy Interventions to Promote SME Growth

Although many governmental measures in Nigeria are targeted toward SME growth, more support is needed, and it has to be uniform and methodical. The government's responsibility is to create an enabling environment and social services that benefit enterprises and individuals. This entails improving Nigeria's investment climate in order to boost economic growth and, as a result, tax revenue from all residents. This is important because many SMEs operate in the informal economy because the tax environment in which they operate is negative. In many nations, these SMEs represent untapped revenue potential and a level playing field, and as a result, they must be covered by the tax net. The legislation is a necessary regulator for the protection of the business environment and the security of economic agents, as well as the establishment of necessary social security regulations, but it also burdens businesses with additional costs and administrative barriers, putting SMEs in a variety of positions. -Large corporations have a wider range of options.

They can either share some of their personnel or hire people to focus only on researching legal requirements and complying with new regulations, or they can pay a personal service firm (such as E&Y, Deloitte and Touché, Price Waterhouse, and others) to handle their tax compliance, planning, and so on. For a small business, this is a significant outlay of resources.

To be efficient, a tax system's tax policy must be set such that tax rates are suitable and sensible, exemptions are lower in amount, tax collecting organizations are more efficient, destitute people's financial burden is less, and the battle against corruption and tax evasion is much more intense. For example, in China, tax policies have been designed to encourage SME financing by granting exemptions from business tax for financial corporations that guarantee loans to SMEs and granting tax deductions to market entities and venture capitalists who invest in high-tech SMEs to the tune of 70% of the investment. Another option is to create tax laws that favor human capital development. Special tax regimes for SMEs could be effective policy instruments for lowering collection costs. It's worth noting that public awareness of the disadvantages of not paying enough attention to SMEs' taxation has grown. It can result in competition distortions as a result of uneven tax enforcement, with incentives generated to limit expansion and evade taxation through artificial company separation. Not least, the (true) idea that their smaller competitors, or better-off neighbors, are getting away with poorer compliance may discourage voluntary compliance by larger firms and wage earners. As a result, government involvement will aid in maintaining equilibrium while also assisting countries in maximizing the social benefits of increased competition and entrepreneurship. Furthermore, the government should use legislative incentives such as tax breaks for SMEs who make an effort to source raw materials locally, are serious about adding value to commodities for export, and follow other business practices. Similarly, the government might raise support for the sub-development sector's through direct budgetary allocations, as well as expand private-sector investment opportunities that focus on specific areas of capacity augmentation. Also, tax legislation should be continually

simplified, primarily for three reasons: to minimize both compliance and administrative expenses, to eliminate taxpayer uncertainty, and to promote voluntary compliance levels. Simple, consistent, and predictable tax regimes and enforcement are essential.

2.2 Theoretical Framework

2.2.1 The Theory of Unbalanced Growth

Hirschman popularized this in 1958. Investment in all economic areas should be selective rather than simultaneous. According to this idea, developing economies lack the resources to begin on excessive projects at the same time as rich countries. As a result, selectivity is required in order to be more efficient and productive. Hirschman attempted to explain the growth and development of an economy or nation by social overhead capital, which encompassed investment, education, health facilities, transportation, and communications, among other things, which led to industrialization and increased overall productivity³⁵.

Unbalanced growth theorists claim that the government cannot mobilize adequate resources to foster widespread, coordinated investment across all industries. As a result, only a few important industries require government planning or market involvement. Small and medium-sized businesses require less initial capital than larger businesses, yet nevertheless contribute to a country's economic development. Given the huge importance that small and medium-sized businesses play in job creation and poverty alleviation, it is more cost-effective for the government to prioritize SMBs as one of its priority projects. The hypothesis of imbalanced growth is the most applicable to this study among theories that explain the relationship between taxation and Small and Medium Scale Businesses. Investing in strategically selected sectors of the economy will lead to greater investment possibilities and overall industrialization. For example, if the government provides enough infrastructure, it will boost the performance of small and medium-sized firms, allowing them to employ more capital and make more profit, resulting in more jobs and increased revenue for the government. Because tax payers will have

faith and confidence in their ability to pay their taxes. Because the theory emphasizes selectivity over concurrent projects, more money pumped into Small and Medium Scale Businesses in the form of grants or low-interest loans will boost economic activity in the country and increase sales growth of Small and Medium Scale Businesses, thereby improving society's well-being.

2.2.2 Ability-to-Pay theory

As the name implies, it states that taxes should be imposed according on an individual's ability to pay. It also states that public spending should come from "he who hath" rather than "him who does not." This idea underpins the concept of a 'progressive tax,' in which the tax rate rises as the taxable amount rises, resulting in the most equitable tax structure. It is frequently utilized in industrialized economies. The most common and widely accepted argument for ability to pay is sacrifice. Taxation is seen as a deprivation to the taxpayer because he relinquished money to the government that he could have used for his own personal gain. However, because the equity of sacrifice might be defined in absolute, proportional, or marginal terms, there is no concrete approach for measuring it in this theory. Equal sacrifice is defined as:

- I) each taxpayer surrenders the same absolute degree of utility that she/he derives from her/his income;
- (ii) each sacrifices the same proportion of utility that she/he derives from her/his income; and (iii) each gives up the same utility for the last unit of income; respectively.

2.2.3 Benefits-received Theory

This assumes that the state and the taxpayers have a contractual or exchange relationship. The state provides certain goods and services, and the cost of those goods and services is contributed in proportion to the benefits received; thus, the benefits received serve as the basis for distributing the tax burden in a specific manner. This theory ignores the possibility of using tax policy to stimulate or stabilize the economy. The benefits-received theory and the cost of service theory are similar. To a greater extent, the theory focuses on the state-citizen relationship as a

semi-commercial relationship. The implication was that citizens have no right to state benefits and, if they do, must pay for them. Unlike the benefits-received theory, which assumes a balanced budget, expenses of services are meticulously recovered under this approach.

The approach places more of an emphasis on citizens' semi-commercial ties with the state. The citizens have no right to any advantages from the state, and if they do, they are responsible for covering the costs. Contrary to the benefits-received approach, which assumes a balanced budget, in this theory, the costs of services are meticulously recovered. This study is mostly based on faculty theory, which is based on ability to pay and aligned to a progressive tax structure. This taxation theory asserts that taxes imposed on tax-payers should be based on the progressive tax method, which maintains that taxes should be imposed in accordance with a tax-ability payer's to pay.

2.3 Review of Empirical Studies

Empirical analysis is a crucial part of research because it allows the researcher to see what has already been done in a given field. Other researchers' work has been evaluated and discussed further down.

In Abia State, Nigeria, a study was done on the impact of excessive taxation on the financial performance of hospitality businesses. The goal is to determine how much excessive taxation is preventing hotel businesses in the state from surviving and succeeding. Data for study was acquired via demand notifications, evidence of payment for all classes of taxes payable in the state, financial records, and statements of 21 hotels in Umuahia over a 9-year period. The data produced was analyzed using the excessive linear regression technique. The study's findings show that excessive taxation (as measured by non-statutory fees and levies collected by the state) has a considerable impact on the hospitality firms' overall income and profit before tax. This report suggests that the state government and local governments focus on the taxes imposed by the legislation in order to improve the sector's survival and profitability. Rather than duplicating

and implementing more tax rules in the state, legislation should be enacted to catch criminal elements who operate beneath the radar of the government to collect illicit taxes¹.

Excessive taxation's impact on SME financial performance in Benue State was investigated. The Taro Yamane algorithm was used to calculate a sample size of 268 respondents with a 5% error margin. The study used a questionnaire-based survey design. In this study, excessive regression was employed for analysis. The study discovered that duplication of Business Premises Registration Tax, Development Levy, and Market Taxes had a considerable negative impact on SMEs' financial performance, lowering their profitability. As a result, the report suggests that the government should ensure that touts' activities in collecting illicit taxes from SMEs are curtailed, Also, the government should stop collecting comparable taxes under different titles and combine all similar taxes into a single tax. Finally, the government should make sure that just the amount specified by law is collected as tax, and that each tax's jurisdiction is clearly stated⁶.

The impact of excessive taxes on the performance of small businesses in Maiduguri was the focus of this study. Though successive governments have attempted to review tax policies and establish schemes to aid small businesses in order to create an environment conducive to their success, the initiatives' implementation has been severely hampered by the issue of corruption among the custodians of the funds remitted and the presence of fake revenue collectors at both the state and local government levels. Excessive taxes have continued to impede the circulation of goods and services both inside and outside the state. Financial analysis of small scale cattle fattening in Bama local government of Borno state is one example of a study on small scale companies in Borno state. In Maiduguri, the government's involvement in financing small enterprises is unclear. Financing small businesses for increased productivity in Borno state, as well as small and medium-sized businesses and job creation in Maiduguri Metropolis. There are

currently no studies on the impact of numerous taxes on the performance of small and medium-sized businesses in the Maiduguri Metropolitan Area¹².

Though successive governments have attempted to review tax policies and establish schemes to aid small businesses in order to create an environment conducive to their success, the initiatives' implementation has been severely hampered by the issue of corruption among the custodians of the funds remitted and the presence of fake revenue collectors at both the state and local government levels. Excessive taxes have continued to impede the circulation of goods and services both inside and outside the state. Financial analysis of small scale cattle fattening in Bama local government of Borno state is one example of a study on small scale companies in Borno state. In Maiduguri, the government's involvement in financing small enterprises is unclear. Small-scale business financing for increased productivity in Borno state, as well as a study of small-scale business and job creation in Maiduguri Metropolis There are currently no studies on the impact of numerous taxes on the performance of small businesses in the Maiduguri Metropolitan Area. Our creates a clear gap that this work aims to fill. Three objectives, three research questions, and three hypotheses led this study, which looked at the impact of excessive taxation on the performance of small businesses in Maiduguri Metropolis. For data analysis, descriptive and inferential statistical tools were used. With the help of Statistic Packages for Social Science, this offers simple percentage as well as table presentation (SPSS). The effect of repeated taxation on the performance of SSBs in Maiduguri Metropolis was studied using excessive regression analysis. Excessive taxation has a significant effect on capital employed by Small Scale Businesses in Maiduguri Metropolis; Excessive taxation has a significant effect on profitability of Small Scale Businesses in Maiduguri Metropolis; and excessive taxation has a significant effect on sales growth of Small Scale Businesses in Maiduguri Metropolis, according to the findings of the study².

The study's goal is to determine the impact of various taxation on the financial performance of SMEs in Benue State. The study's population was 816 people, and the Taro Yamane method was used to calculate a sample size of 268 people with a 5% error margin. A questionnaire-based survey was used in this investigation. The study's analysis was done using excessive regression. The findings revealed that duplication of Business Premises Registration Tax, Development Levy, and Market Taxes has a considerable negative impact on SMEs' financial performance and, as a result, significantly impacts their profitability. As a result, the report suggests that the government should discourage touts from collecting unlawful taxes from SMEs, as well as refrain from collecting comparable taxes under different names and consolidate all such taxes into a single tax. Finally, the government should make sure that just the amount specified by law is collected as tax, and that each tax's jurisdiction is clearly stated⁶.

The study looked at the impact of different taxes on the growth of SMEs in Nigeria. The goal is to see how numerous taxes affect SMEs' operations in the country, utilizing the expansionary rate of these enterprises as a proxy for growth. The data for the study was gathered by responses to a five-point likert scale questionnaire. Out of 193 questionnaires distributed to employees and owners of small businesses in Lokoja, Kogi State, 131 were returned, giving a 68 percent response rate. Non-parametric statistics such as mean score, standard deviation, and z-test were used to experimentally analyze the replies. The findings imply that various taxes have hampered the expansion of SMEs in Nigeria, since many owners of these businesses have voiced a reluctance to start new businesses or expand current ones because of excessive taxes that continue to eat up a large percentage of their revenues. Governments at all levels in the country should address the issue of various taxes on SMEs by limiting tax collection to only those taxes that are imposed by law within their tax jurisdiction. Provision should also be made in Nigeria. Tax laws impose harsh penalties on any level of government, tax officials, and tax organizations

that use traditional, unfriendly, and illegal methods to collect various taxes from SMEs in Nigeria⁸.

Due to the oil boom, which has been the government's primary source of revenue, taxation has not been completely utilized in Nigeria. With the reduction in oil revenue, the federal account allocation has dwindled and has become insufficient for state and municipal administrations. As a result, there is a renewed focus on non-oil revenue sources (taxation) in order to enhance the revenue account. As a result, governments have adopted a variety of tax regulations in order to increase her income. As a result, there are several taxes owed to the federal government, state governments, and local governments. This became obvious as several levels of government implement tax laws that are outside of their taxing powers, while others, in using their valid taxing authorities, behave in an excessive manner, resulting in tax proliferation and burdening the taxpayer with too many taxes to pay. Some of the taxes are illegal and in violation of the law, while others are legal and in compliance with the law, but have resulted in an overabundance of taxes in the system. These considerations have resulted in numerous taxes, which have the effect of driving investors away and lowering tax compliance rates. Nigeria has to design a tax system that is efficient and avoids the excessive taxation problem. This paper is being written against this backdrop in order to look into the problem's possible solutions. The methodology used in this article was doctrinal research. As a result, the constitution, federal and state enactments, text books, periodicals, and newspapers were used to examine both primary and secondary sources of law. Nigerian Fiscal Federalism, Road Tax Administration, and Illegal Tax Collectors are among the complex causes of excessive taxes identified by the report⁴².

The growing desire for rapid development at all levels of government has placed a strain on the government's ability to generate cash internally (IGR). In this study, the variety of taxes in Nigeria was investigated, as well as the debate surrounding them. The primary goal of this

research was to evaluate the taxes and levies included in the approved collection list, as well as the controversies surrounding the Nigerian tax system. To derive general statements on the issue surrounding the Nigerian tax system, simple percentage and z-test (SPSS window output) statistical procedures were used. Nigeria's tax system has been discovered to be controversial. Furthermore, all levies and taxes collected are not on the approved list. The Joint Tax Board (JTB) should educate taxpayers and potential investors on the taxes and levies that are part of the approved collection list. The Revenue Allocation Formula should also be looked at. This study will be used as a model for resolving the Nigerian debate over double taxation⁴³.

Due to the high cost of maintaining a small and medium size firm in Enugu State, some investors prefer to retain their money in the bank rather than engage in SME. Excessive taxation, large tax burdens, levies, and charges account for the majority of this expense. The consequences of excessive-taxation on SMEs' investments are investigated in this study. The study used a survey design with an 80-person SME. Data was gathered via a questionnaire. The data was analyzed using simple percentages and frequencies, and the study hypotheses were checked using ANOVA. Excessive taxation has been demonstrated to have a negative impact on SMEs' investment. Furthermore, there is a strong link between SMEs' investment and their ability to pay taxes. When imposing taxes, the researcher advises that the government adopt a tax strategy that considers the enhancement of SMEs capital allowance. Instead of having excessive closely related but separate taxes at the same time, the government can explore a tax strategy that supports investment in SMEs by unifying all taxes into one slot and later disseminating to various government purses⁵.

The study looks at the impact of tax incentives on the growth of small and medium-sized businesses (SMEs) in Rwanda, using Nyarugenge as a case study. The research was conducted using both qualitative and quantitative methods. In the Nyarugenge district, there are 49000

SMEs in the agricultural, industrial, service, and tourism sectors. Using Silovin and Yemen's sample size calculation, a sample of 136 SMEs was determined. The sample was chosen using simple random and selective sampling procedures. Descriptive statistics were used to analyze the data set. To explain the relationship between variables, excessive regression analysis was utilized as revealed by the findings, 75.7 percent of respondents stated that they are familiar with tax regulations, and 78.7 percent agreed that they are familiar with tax advantages offered to SMEs. Wear and tear, loss carried forward, and value-added tax (VAT) rebate were found to be the most common tax incentives accessible to Rwandan SMEs, with 100, 94.1, and 95.6 percent, respectively. According to the study, there is a substantial positive and significant association between tax incentives and the growth of small and medium firms in Rwanda, as evidenced by R-square coefficients of 88.8%. This suggested that just 11.2 percent of the variation in SMEs' development was due to factors unrelated to the variables studied. Tax incentives, according to the study, are the key to SMEs' long-term growth. The government should create policies that explicitly address challenges relating to SMEs' long-term viability¹⁰.

Excessive tax regimes' effects on small businesses' ability to develop sustainably in Lagos State: a local government study of Lagos Island The study's goal was to ascertain the impact of various tax burdens on small-scale businesses' ability to perform commercially, notably in Lagos Island. Data were gathered from small business owners in the Lagos Island Local government using primary sources. Simple inferential statistics were used to analyze the data. It was found that there is a strong correlation between MT burden and small-scale firms' business performance. The government should create a facility to handle the MT problem in Nigeria⁴⁵.

The study looks at how tax policies affect entrepreneurship's ability to survive in Ondo State, Nigeria. The study used a survey research design with a total of 18 local government areas as its population. In order to choose the sample size for the study, nine local government areas in Ondo State that have properly registered small and medium-sized firms (SMEs) with the Small and

Medium-Scale Enterprise Development Agency of Nigeria (SMEDAN) were used. The respondents completed and returned a structured questionnaire⁴⁶. To evaluate the proposed hypotheses, data was collected and calculated using ordered logistic regression. With a p value between 0.05 and 0.0029, the study found that the three explanatory factors (excessive taxation, tax rates, and tax incentives) explained 43 percent of the variability of SMEs' sustainability in Ondo State. Additionally, it was shown that many taxes had a considerable detrimental impact on the sustainability of entrepreneurship, whereas tax rates and tax incentives had a favorable impact. Based on these conclusions, the study suggests that in order for the government to reduce unemployment rates that led to chronic poverty, banditry, kidnapping, and other social vices in the state, a favorable tax system must be offered⁴⁷. This will encourage sustainable entrepreneurship and lessen social vices. This will not only give them new life, but it will also encourage the emergence of other ones. In the long run, a friendly tax system would encourage entrepreneurs to comply voluntarily, increasing the tax yield.⁴⁸

The literature has given the topic of SMEs' roles in economies, both developed and developing, considerable attention. However, there hasn't been enough positioning or dissipation in the discussion to account for the variations in economic policies and social settings in different economies. This study partially addressed this gap in the literature. In this study, the productivity of SMEs in Nigeria was compared to the effects of government policies and programs and the level of security. The study's foundation was a nationwide survey of 590 SMEs that was carried out in 2020 and used to test the hypotheses. The results of the multinomial logistic regression revealed that, the government's excessive taxing strategy increased costs for SMEs as shown by the variable (Increases in product price) taking on $X^2= 6.163$, $p 0.05$, and as a result had a negative significant influence on SMEs' productivity. Furthermore, none of the government initiatives to support the expansion of SMEs had valid statistics with a p-value lower than 0.05, showing that they had not had a notable impact on raising SMEs' productivity levels in the nation.

Additionally, none of the insecurity variables had a p-value below 0.05, indicating that instability in Nigeria has not significantly harmed SMEs' production. In order to reduce costs for SMEs in the country, this study contends that excessive taxation is harmful to their production. The country's current insecurity situation needs to be given more attention in order to prevent it from deteriorating into a worse state, and other policy efforts need to be properly designed for greater efficacy⁴⁹.

This study, based on "The Effects of Multiple Taxation on Small Medium Enterprises in Nigeria," sought to identify how excessive taxation had an impact on how Small and Medium Enterprises are operated. Therefore, the purpose of this study is to investigate the connection between numerous taxes and the survival of SMEs as well as the consequences of excessive taxes on the expansion and development of small and medium-sized businesses. Additionally, it examined how excessive taxes affected SMEs' decision to invest. The data gathered for this work via a carefully designed questionnaire was examined using descriptive statistics. Small and medium-sized businesses, which account for 95% of the economy, have a very high mortality rate. Nevertheless, they are an important source of employment creation, innovation, competition, and economic dynamism for the growth of the Nigerian economy. One of the elements that make up the environment for small businesses is tax policy⁵⁰.

2.4 Conceptual Framework

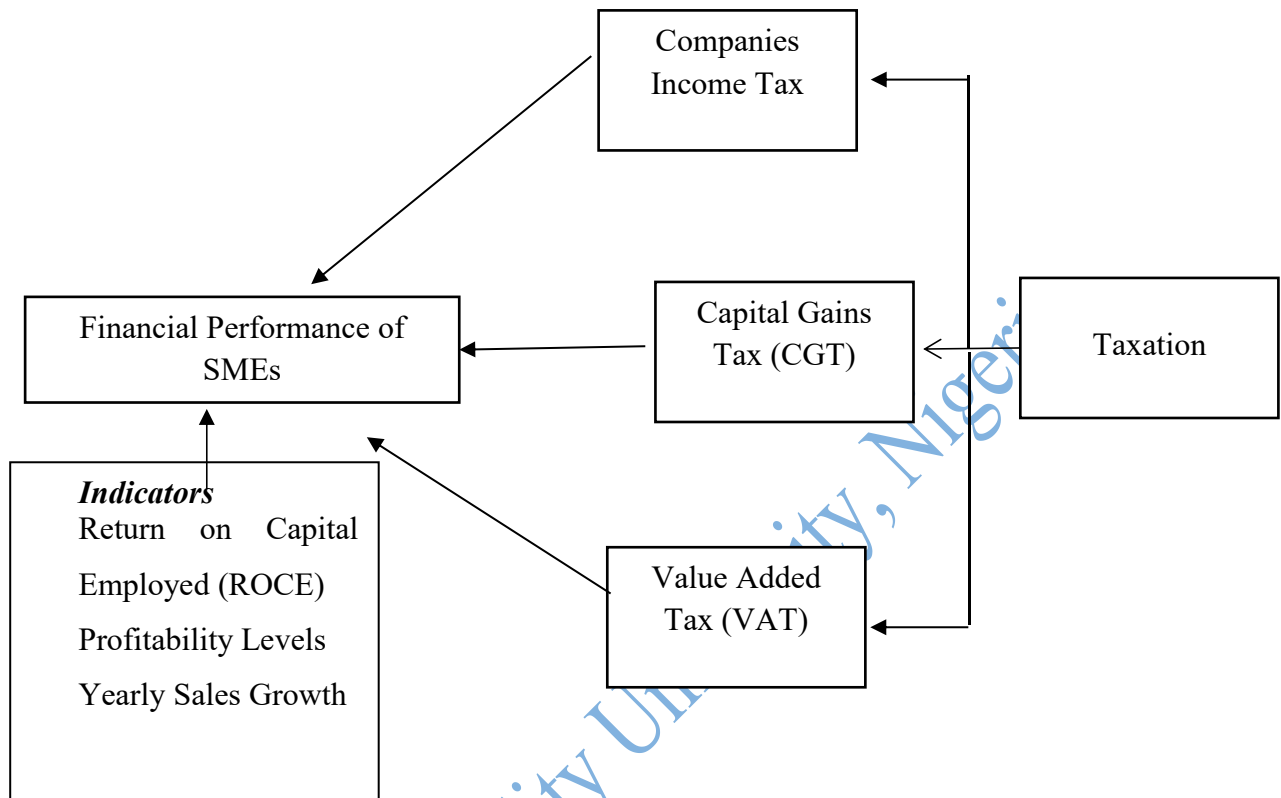


Figure 2.1 Research Conceptual Model

Source: Researcher's Conceptual Model, (2023)

2.5 Summary of Gaps in Literature Reviewed

Based on various reviews of the relevant literature and the works of various authors, it was found that none of the works focused on measuring specifically the effect of different types of taxes (Companies Income Tax, Capital Gains Tax and Value Added Tax) on the financial performance of Small and Medium Enterprises.

Endnotes

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Chapter Three

Methodology

This chapter will give detail of the research design to be employed, and examine the procedure for the selection of the subject through sampling approaches, the instruments of data collection will be extensively discussed and end with a brief highlight of techniques available for data processing and analysis.

3.1 Research Design

The survey research design of descriptive type was the main approach used in this study. This means that the researcher focused on collecting data through surveys that describe the behavior, attitudes, opinions, and characteristics of a specific group of people, in this case, employees. Since the study aims to describe the effects of certain factors on the financial performance of Small and Medium Enterprises, there was no need for manipulation of variables as the focus is on collecting data from the participants as they are.

3.2 Population of the Study

The population of this study consists of all small and medium scale enterprises in Ibadan, Oyo State, totaling 6137 registered SMEs¹. Due to the large size of the population, the researcher selected a representative sample using appropriate statistical methods to ensure that the sample is representative of the population and provides sufficient power to test the research hypotheses. By selecting a representative sample, the researcher was able to draw valid conclusions about the entire population, while minimizing the time and resources required for data collection. This approach is appropriate for this study as it allows the researcher to investigate the population of small and medium scale enterprises in Ibadan, Oyo State, while maintaining a reasonable level of accuracy and precision in the results.

3.3 Sample and Sampling Technique

Sample is the part of the population diocese for the study. SMEs owners in the business aspect of Agriculture business, telecommunication, manufacturing, Schools and Transportation business located in the five urban LGAs in Ibadan; Ibadan North, Ibadan North East, Ibadan North-West, Ibadan South-East and Ibadan South-West will be selected. SMEs businesses in these areas were selected because they are the core of the Ibadan metropolis and are the hub of SMEs. One hundred and twenty (120) SMEs were selected through judgmental sampling technique in selecting participants for the study. This sampling technique was used for convenience sake. This sampling technique was used because the researcher wishes to focus on small and medium scale owners who pay taxes to state government and local government and keep their books of account up to date.

3.4 Description of Research Instrument

The research instrument used in this study was self-designed questionnaire. The variables in the study were Financial performance, Companies income tax, Capital Gains tax, and Value added tax. The scale has two sections: section A and B. Section A contains some demographical data of the respondents while section B contains a 15-items questions aim at eliciting responses of the respondents as it relates to them. The items were structured in a five point format.

3.5 Pilot Study

The pilot study is an important phase of the research, and it involved a small sample size to test the effectiveness of the research design and data collection process. In this study, the main research aims to select 120 small and medium scale enterprises for the research, representing approximately 2% of the total population of registered SMEs in Ibadan, Oyo State. The sample size for the pilot study depended on the calculated sample size required to meet the study's objectives and will typically range between 10% and 20% of the planned sample size for the main study. Therefore, in this study, the pilot study was 12 SMEs, representing 10% of the total

sample size of 120 SMEs that were selected for the main study. The pilot study helped to refine the research design, assess the quality of the data collection process, and identify any issues before the main study to improve the study's validity and reliability.

3.6 Validity of Research Instrument

To ensure the validity of this instrument, it was subjected to criticisms and review by specialists in the areas of management sciences before finally corrected by my supervisor. A copy of the structured questionnaire was given to the researcher's supervisor for his observation, comments and subsequent approval before it was administered to the respondents.

3.7 Reliability of Research Instrument

Reliability and validity are crucial aspects of any research study, and the researcher ensured that the data collected is reliable and valid.

Reliability refers to the consistency and stability of the measurements used in the study. To ensure the reliability of the data, the researcher made use of a standardized questionnaire with clear and unambiguous questions, and the questionnaires were administered consistently to all participants. The researcher also made use of statistical methods, such as the Cronbach alpha test, to assess the questionnaire's internal consistency.

Validity refers to the accuracy and effectiveness of the measurements used in the study in measuring what they are intended to measure. In this study, the researcher aims to investigate the effects of certain factors on the financial performance of small and medium enterprises in Ibadan, Oyo State. To ensure the validity of the study, the researcher made use of a representative sample of SMEs in Ibadan and select participants based on specific criteria. The questionnaire was also designed to cover all relevant aspects of the research question and pretested to identify and address any potential issues before the main study.

3.8 Method of Data Collection

The researcher distributed the questionnaire with the assistance of trained researchers to business owners in Ibadan. The distribution process was carefully planned and organized, taking into account the location of the SMEs and the best times to reach them. The trained researchers were briefed on the study's objectives and methodology to ensure that the questionnaire was delivered accurately. Once the questionnaires were distributed, they were retrieved immediately to avoid delays and ensure a high response rate. The collected questionnaires were checked for completeness and accuracy before data entry to ensure that the data is reliable and can be used to draw valid conclusions. Overall, the careful distribution of the questionnaire by trained researchers enabled the researcher to obtain accurate, reliable, and efficient data on the effects of certain factors on the financial performance of Small and Medium Enterprises in Ibadan, Oyo State.

3.9 Method of Data Analysis

The data collected were analyzed through the use of simple percentage, tables, descriptive analysis and regressions analysis. Simple percentage and descriptive analysis were used for demographic data while sum of weighted value analysis was employed to test the likert scale variables using the Statistical Package for Social Sciences (SPSS) version 26.0 software package.

3.10 Operationalization of Research Variable

Taxation is the independent variable while financial performance of SMEs represents the dependent variable (subdivision of dependent variables are capital employed, profitability and sales growth). This means that:

$$Y = F(X)$$

$$Y = B_0 + B_1C + B_2G + B_3V + U_i \dots \dots \dots (1)$$

Where

Y = Financial Performance

B_0 = Regression Constant

C = Company Income Tax

G = Capital Gains Tax

V = Value Added Tax

U_i = Error term

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Endnotes

1. National Bureau of Statistics, *National Survey of Small & Medium Enterprises (SMEs)*, Small & Medium Enterprises Development Agency of Nigeria, 2017.
2. E. N. Hyginus, I. A. Nicholas & M. I. Isaac. *Essentials of Research* Abakaliki Codlos Publishers, 2017.

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Chapter Four

Results and Discussion of Findings

This chapter commences with a thorough assessment and discussion of the gathered data, which is intended to answer the research questions, and determine the effect of various tax types on the performance of Small and Medium Enterprises (SMEs) in Ibadan, Nigeria. The results are methodically presented and analyzed to provide a clear understanding of the subject matter and to establish valid inferences.

An examination of the demographic characteristics of the respondents, such as gender, age, and occupation, is the initial step. This analysis provides an understanding of the respondent diversity and ensures a broad representation of perspectives within the study.

The discussion then moves towards the core objective of the study, which is the exploration of the impact of different taxes on the financial performance of SMEs. Three taxes, namely, Companies Income Tax (CIT), Capital Gains Tax (CGT), and Value Added Tax (VAT), are considered. Respondents' views on the influence of these taxes on their businesses are measured using a Likert scale summation, which ascertains their level of agreement or disagreement with a set of statements associated with each type of tax.

The objective of this chapter is to organize, scrutinize, and discuss the data in a systematic and logical manner that aligns with the aims of the study and contributes to the larger body of knowledge concerning the impact of taxation on the financial performance of SMEs. The conclusions derived from this chapter will serve as a basis for the final conclusions and recommendations. Throughout the discussion of the findings, comparisons are made with existing literature to affirm, support, or refute previous findings. This approach provides a more nuanced understanding of the subject matter, enhancing the validity and reliability of the study's results.

4.1 Demographic Characteristics

Table 4.1.1 Gender of Respondents

Gender	Frequency	%
Male	63	52.5
Female	57	47.5
Total	120	100

Source: Author's Field Survey, 2023

The gender distribution of the respondents is reasonably balanced, with 52.5 percent of the respondents being male and 47.5 percent of the respondents being female, as shown in Table 4.1.1. This indicates that both male and female viewpoints are appropriately represented in the study, so providing a balanced assessment of the effect of taxation on the financial performance of SMEs across gender lines.

Table 4.1.2 Age of Respondents

Age	Frequency	%
18-25	18	15.0
26-35	53	44.2
36-45	29	24.2
46-55	14	11.7
56 and above	6	5.0
Total	120	100.0

Source: Author's Field Survey, 2023

Table 4.1.2 presents the age distribution of the respondents. A significant portion of the respondents (44.2%) fall within the 26-35 age range, reflecting the age group typically active in entrepreneurship. Respondents in the 18-25 and 36-45 age ranges are also well-represented, whereas fewer respondents are in the 46-55 and 56 and above age ranges. This could suggest that the younger generation tends to dominate the SME sector in Ibadan, and their experiences with

taxes might vary significantly from older business owners, especially regarding digitalization and the use of technology in tax processes.

Table 4.1.3 Occupation of the Respondents

Gender	Frequency	%
Employed	13	10.8
Self-employed	95	79.2
Student	9	7.5
Unemployed	3	2.5
Total	120	100.0

Source: Author's Field Survey, 2023

Table 4.1.3 explores the occupation of the respondents. Most of the respondents are self-employed (79.2%), which is expected for a study focusing on SMEs. However, the inclusion of employed respondents (10.8%), students (7.5%), and unemployed individuals (2.5%) provides additional perspectives, considering these individuals may have indirect experiences with SMEs, possibly as customers, potential entrepreneurs, or relatives and friends of SME owners.

4.2.1 Effect of Companies Income Tax (CIT) on financial performance of Small and Medium Enterprises

Table 4.2.1: Likert scale summation of the effect of company income tax (CIT) on financial performance of small and medium enterprises

Event	Opinion					SWV	CIT	Rank
	5	4	3	2	1			
The current Companies Income Tax (CIT) rate is reasonable for SMEs in Nigeria.	24	25	22	22	27	357	2.98	5 th
The Companies Income Tax (CIT) significantly affects the financial performance of SMEs.	32	33	22	15	18	406	3.38	3 rd
The Companies Income Tax (CIT) is a burden for SMEs and hinders their growth and profitability.	34	33	20	18	15	413	3.44	2 nd
The Companies Income Tax (CIT) regulations are clear and understandable for SMEs.	28	30	17	27	18	383	3.19	4 th
The Companies Income Tax (CIT) incentives or exemptions should be provided to support SMEs.	35	43	18	13	11	438	3.65	1 st
							$\Sigma = 16.64$	
							<i>Mean of $\Sigma CIT/N = 16.64/5 = 3.33$</i>	

Source: Author's Field Survey, 2023

Table 4.2.1 presents the results of a Likert scale summation survey, which was designed to assess the impact of the Company Income Tax (CIT) on the financial performance of small and medium enterprises (SMEs) in Ibadan, Nigeria. The table summarizes responses to five statements about

CIT. For each statement, participants were asked to rate their agreement on a scale of 1 to 5, where 5 corresponds to "Strongly Agree" and 1 corresponds to "Strongly Disagree".

The first statement, "The current Companies Income Tax (CIT) rate is reasonable for SMEs in Nigeria," had a mean rank of 2.98, placing it 5th amongst all five statements. This suggests that the respondents were relatively divided in their opinions about the reasonability of the current CIT rate, with a slight tendency towards disagreement.

The second statement, "The Companies Income Tax (CIT) significantly affects the financial performance of SMEs," was ranked 3rd with a mean value of 3.38. This indicates that respondents were more in agreement that CIT has a significant impact on the financial performance of SMEs.

The third statement, "The Companies Income Tax (CIT) is a burden for SMEs and hinders their growth and profitability," had the second-highest mean value at 3.44. This reveals a common perception among respondents that CIT is a significant burden on SMEs and obstructs their growth and profitability.

The fourth statement, "The Companies Income Tax (CIT) regulations are clear and understandable for SMEs," came in 4th place with a mean score of 3.19. This score indicates a moderate level of agreement that CIT regulations are clear and understandable for SMEs, although it falls below the overall mean, suggesting there is still some level of ambiguity or confusion among SMEs about CIT regulations.

Lastly, the statement, "The Companies Income Tax (CIT) incentives or exemptions should be provided to support SMEs," had the highest mean value at 3.65, ranking it first. This suggests a strong consensus among respondents that incentives or exemptions in CIT should be introduced to support SMEs.

The overall mean of all five statements is 3.33, indicating a slightly positive or neutral perception among the respondents. These findings suggest that while there is an acceptance of the importance of CIT to SMEs' financial performance, there is also a strong feeling that it acts as a hindrance to their growth and profitability. There is a call for more supportive measures, like incentives and exemptions, to alleviate the tax burden. Additionally, there seems to be a need for more clarity and understanding in the application of CIT regulations for SMEs.

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4.2.2 Effect of Capital Gains Tax (CGT) on SMEs' Financial Performance

Table 4.2.2: Likert scale summation of the effect of Capital Gains Tax (CGT) on SMEs' Financial Performance

Event	Opinion					SWV	CGT	Rank
	5	4	3	2	1			
The current Capital Gains Tax (CGT) rate is reasonable for SMEs in Nigeria.	33	34	22	14	17	412	3.43	4 th
The Capital Gains Tax (CGT) significantly affects the financial performance of SMEs.	29	34	22	19	16	401	3.34	5 th
The Capital Gains Tax (CGT) is a burden for SMEs and hinders their growth and profitability.	34	33	20	18	15	413	3.44	3 rd
The Capital Gains Tax (CGT) incentives or exemptions should be provided to support SMEs.	40	45	12	11	12	450	3.75	1 st
The Capital Gains Tax (CGT) reduces SMEs' ability to invest and expand their operations.	34	33	22	17	14	416	3.47	2 nd
							$\Sigma = 17.43$	
							<i>Mean of $\Sigma CGT/N 17.43/5 = 3.49$</i>	

Source: Author's Field Survey, 2023

Table 4.2.2 presents a survey summary aimed at assessing the perceived effects of the Capital Gains Tax (CGT) on the financial performance of small and medium enterprises (SMEs) in

Ibadan, Nigeria. The table presents the responses to five statements about CGT, with participants asked to rate their agreement on a scale of 1 to 5, where 5 signifies "Strongly Agree" and 1 "Strongly Disagree".

Starting with the first statement, "The current Capital Gains Tax (CGT) rate is reasonable for SMEs in Nigeria," it obtained a mean rank of 3.43, placing it 4th among the five statements. This suggests a moderate agreement among respondents about the reasonableness of the current CGT rate, but with some evident dissenting opinions as well.

For the second statement, "The Capital Gains Tax (CGT) significantly affects the financial performance of SMEs," the mean value was 3.34, ranking it 5th. This suggests a slightly above neutral but somewhat divided opinion on the significant impact of CGT on SMEs' financial performance.

The third statement, "The Capital Gains Tax (CGT) is a burden for SMEs and hinders their growth and profitability," saw a mean value of 3.44, which ranked it 3rd. This indicates a modest agreement among respondents that CGT poses a significant burden to SMEs and impedes their growth and profitability.

The fourth statement, "The Capital Gains Tax (CGT) incentives or exemptions should be provided to support SMEs," had the highest mean score of 3.75, ranking it first. This indicates a relatively strong consensus among respondents that there should be incentives or exemptions in CGT to help SMEs.

Finally, the statement "The Capital Gains Tax (CGT) reduces SMEs' ability to invest and expand their operations" had the second-highest mean score at 3.47. This shows a notable consensus among respondents that CGT hampers the ability of SMEs to invest and expand their business operations.

The overall mean for all the statements is 3.49, suggesting slightly positive or neutral perceptions among respondents. These results indicate a perception that while CGT plays a notable role in SMEs' financial performance, there is also a belief that it acts as a deterrent to their growth, profitability, and expansion capabilities. There is a strong consensus calling for more supportive measures, like incentives and exemptions, to mitigate the tax burden.

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4.2.3 Effect of Value Added Tax (VAT) on SMEs' Financial Performance

Table 4.2.3: Likert scale summation of the effect of Value Added Tax (VAT) on SMEs' Financial Performance

Event	Opinion					SWV	VAT	Rank
	5	4	3	2	1			
The Value Added Tax (VAT) significantly affects the financial performance of SMEs.	27	23	22	21	27	362	3.02	4 th
The Value Added Tax (VAT) is a burden for SMEs and hinders their growth and profitability.	35	33	22	13	17	416	3.47	2 nd
The Value Added Tax (VAT) filing and compliance process is manageable for SMEs.	18	15	30	32	25	329	2.74	5 th
The Value Added Tax (VAT) reduces SMEs' ability to compete with larger businesses.	28	30	17	27	18	383	3.19	3 rd
The government should provide more VAT-related support and education to SMEs.	43	38	18	12	9	454	3.78	1 st
							$\Sigma = 16.20$	

$$\text{Mean of } \Sigma VAT/N = 16.20/5 = 3.24$$

Source: Author's Field Survey, 2023

Table 4.2.3 is a survey summary that investigates the perceived impact of the Value Added Tax (VAT) on the financial performance of small and medium enterprises (SMEs) in Nigeria.

Respondents were asked to rate their agreement or disagreement with five statements about VAT, with a Likert scale ranging from 1 to 5, where 5 stands for "Strongly Agree" and 1 for "Strongly Disagree".

The first statement, "The Value Added Tax (VAT) significantly affects the financial performance of SMEs," received a mean score of 3.02 and is ranked 4th among the statements. This result suggests that the participants moderately believe that VAT significantly impacts the financial performance of SMEs, although it is not a dominant sentiment.

The second statement, "The Value Added Tax (VAT) is a burden for SMEs and hinders their growth and profitability," had a higher mean score of 3.47, ranking it 2nd. This outcome indicates that there is a relatively stronger agreement among participants that VAT poses a substantial burden for SMEs, negatively affecting their growth and profitability.

"The Value Added Tax (VAT) filing and compliance process is manageable for SMEs," the third statement, had the lowest mean score at 2.74, ranking 5th. This implies a less favorable perspective towards the manageability of the VAT filing and compliance process for SMEs.

The fourth statement, "The Value Added Tax (VAT) reduces SMEs' ability to compete with larger businesses," had a mean score of 3.19 and was ranked 3rd. This result suggests that the participants somewhat agree that VAT might be impeding SMEs' ability to compete with larger businesses.

The last statement, "The government should provide more VAT-related support and education to SMEs," achieved the highest mean score of 3.78, placing it in 1st rank. This strongly emphasizes a common belief among participants that the government should provide more VAT-related support and educational programs to assist SMEs.

With a general mean score of 3.24, the overall sentiment suggests a somewhat neutral to slightly negative impact of VAT on SMEs' financial performance. The participants' responses reflect their belief in the potential detriment of VAT to SMEs' growth and competitiveness. They strongly suggest the need for government intervention in the form of VAT-related support and education for these enterprises.

4.2 Discussion of Findings

In the analysis of the demographic distribution of the respondents, a balanced representation of genders and various occupations is observed¹. This is indicative of a diverse and broad perspective towards the research questions. The age distribution pattern further suggests that younger adults are typically more actively involved in entrepreneurship. Such a pattern has been repeatedly witnessed in previous studies, pointing towards the dynamism and risk-taking propensity of the younger age groups². The respondents categorized as self-employed dominate the occupation segment. This result is in alignment with the focus of the study on SMEs, as one would expect a large representation of self-employed individuals and business owners in this context².

4.2.1 Effect of Companies Income Tax (CIT) on Financial Performance of SMEs

Exploring the impact of CIT on SMEs, the study uncovers diverse opinions. A segment of respondents believes that the current tax rates are reasonable and manageable for SMEs. However, a significant proportion of respondents perceive CIT as a burden that negatively affects the growth and profitability of SMEs³. This finding is similar to the conclusions drawn by Ezejiolor et al., which indicates that high company income tax can act as an impediment to the growth trajectory of SMEs in Nigeria³.

The study also highlighted an appeal for tax incentives or exemptions, especially for small and medium-sized enterprises. This corroborates the findings from the study conducted by Oseni, which argued that introducing tax incentives could considerably enhance the performance of SMEs⁴

Moreover, the study highlights a growing appeal for tax incentives or exemptions, particularly for small and medium-sized enterprises. This aligns with the findings from a study conducted by Oseni, which argued that introducing tax incentives could considerably enhance the performance of SMEs⁴. Such incentives might include tax breaks, deductions, or special provisions aimed at reducing the tax burden on SMEs, thereby providing them with opportunities to reinvest and foster growth.

The relationship between Companies Income Tax (CIT) and the financial performance of SMEs is a complex and multifaceted issue. While some respondents view the current tax rates as manageable, a significant proportion perceives them as a burden. The similarity of these findings with previous research emphasizes the importance of a balanced and well-considered tax policy that takes into account the unique challenges faced by SMEs. Additionally, the appeal for tax incentives or exemptions aligns with the idea that such measures could potentially bolster the growth and performance of SMEs in the face of varying economic conditions and challenges.

4.2.1 Effect of Capital Gains Tax (CGT) on SMEs' Financial Performance

A thorough examination of the impact of Capital Gains Tax (CGT) on SMEs' financial performance reveals a comparable pattern to that of the Company Income Tax (CIT). The study's respondents, predominantly SME owners, frequently characterize CGT as another substantial financial strain for their businesses. The tax, designed to levy a portion of the profit obtained from the sale of assets or investments, can significantly cut into the overall profits of these businesses, leading to a decrease in their financial performance.

Interestingly, some respondents perceive the current rate of CGT as reasonable. Despite this perception, these respondents do not dispute the fact that the tax has a meaningful effect on the financial health of their enterprises. They understand that the income derived from the sale of their assets or investments, which could have been reinvested into the business, is instead partially directed towards fulfilling this tax obligation.

These findings also studied the impact of CGT on SMEs in Nigeria⁵. The study concluded that the Capital Gains tax could negatively impact the profitability of SMEs. Essentially, the tax may erode profit margins and limit the funds available for reinvestment or for cushioning the business against financial shocks. Further compounding this issue is the recurring demand from the respondents for tax incentives or exemptions specifically designed for SMEs. These incentives or exemptions, if implemented, could help to alleviate the tax burden that CGT imposes on these businesses. By extension, such measures could foster an environment more conducive for SMEs to flourish financially.

The CGT therefore, while perceived by some as reasonable, still represents a considerable impediment to the financial performance of SMEs. This reaffirms the necessity for policy revisions that might consider the unique financial pressures of SMEs, potentially featuring tax incentives or exemptions to promote the financial viability of these businesses.

4.2.3 Effect of Value Added Tax (VAT) on SMEs' Financial Performance

When it comes to the effect of VAT, the respondents' views are mixed. Although a section of respondents believes that the current VAT rate is reasonable, they feel it significantly hampers SMEs' financial performance, which subsequently hinders their growth and profitability⁷. These findings align with those of Ogbonna and Ebimobowei, who stated that VAT significantly influences the performance and profitability of SMEs in Nigeria⁷.

The respondents' demand for clearer regulations concerning VAT and the provision of VAT incentives or exemptions is supported by the arguments put forth by Sanni, who proposed that explicit tax regulations and incentives can substantially contribute to improving the performance of SMEs⁸.

Generally, the findings underscore the critical need for tax reforms tailored to the needs of SMEs in Nigeria. While it's recognized that taxes are vital for national development, their impact on SMEs must be thoroughly considered to ensure they don't inhibit growth and profitability. The recurring call for clearer tax regulations and incentives should serve as an indication of the path that policymakers need to consider to boost the performance and growth of SMEs in Nigeria.

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Chapter Five

Conclusion

5.1 Summary of Findings

Chapter Five marks the culmination of the study, encapsulating the key findings, drawing conclusions based on the research, and offering recommendations. The results obtained from the data analysis and the conclusions drawn thereof are intended to shed light on the effect of different taxes on the performance of SMEs in Ibadan, Nigeria.

A key finding was the relatively balanced representation of both genders among the respondents, with 52.5% being male and 47.5% female. Age-wise, the majority of respondents were found to be between the ages of 26-35, which reflects the demographic most actively involved in entrepreneurship. The respondents' occupations further underpinned the study's relevance, as a significant majority (79.2%) were self-employed, therefore directly affected by the tax mechanisms in question.

Turning to the core of the study, the impact of the three types of taxes on SMEs' financial performance revealed some pivotal findings. In regards to Companies Income Tax (CIT), respondents generally agreed that it significantly affected the financial performance of SMEs and also viewed it as a burden that hindered growth and profitability. Similarly, there was a strong sentiment that more incentives and exemptions should be provided to alleviate this burden. Furthermore, it was observed that while many respondents believed CIT regulations were somewhat clear and understandable, the need for further clarity was still evident.

When analyzing the effects of Capital Gains Tax (CGT) on SMEs, respondents concurred that it was a burden that hindered growth and profitability, and that it reduced the ability to invest and expand their operations. As with CIT, there was a call for more supportive measures like

incentives and exemptions for CGT. The current CGT rate was viewed as moderately reasonable, but opinions varied significantly, indicating a lack of consensus on this point.

The analysis of the Value Added Tax (VAT) found that respondents largely agreed that it had a significant impact on the financial performance of SMEs. Similar to CIT and CGT, VAT was viewed as a burden to SMEs, reducing their ability to invest and expand operations. The need for clarity and understanding of VAT regulations was highlighted, with many respondents finding the regulations moderately clear, but still leaving room for improvements.

The findings shed light on a consistent theme that runs through all three types of taxation, which is that despite the fact that these taxes are recognized as significant mechanisms that influence the financial performance of SMEs, they are also seen as burdens that inhibit growth and profitability. There is a high demand for more tax measures and rules that are supportive, including exemptions, incentives, and a deeper knowledge of these tax regulations among the respondents. .

5.2 Conclusion

The research has concluded that the current tax environment, encompassing the Companies Income Tax (CIT), Capital Gains Tax (CGT), and Value-Added Tax (VAT), has significant ramifications for small and medium-sized enterprises (SMEs). As per the findings, taxes are often viewed as a barrier to expansion and profitability due to their substantial burden on these businesses. This burden limits SMEs' capacity for investment and growth, often stifling their potential.

Interestingly, the study also revealed that SME owners generally understand the purpose and significance of these taxes. They showed an acceptance of their tax obligations and demonstrated readiness to comply, given the existence of supportive measures. This shows the importance of

not only providing tax education but also of designing tax policies that enable and facilitate compliance rather than deter it.

A salient point that emerged from the study was the urgent need for additional clarity in the existing tax regulations for SMEs. Respondents agreed on the necessity for these regulations to be more open, straightforward, and easy to understand. The current complexity appears to hinder effective comprehension and compliance, signaling the need for tax policy reform that prioritizes transparency and simplicity.

The call for the introduction of supportive measures like incentives and exemptions was echoed across all three types of taxes. SME owners conveyed a need for tax policies that encourage growth, rather than inhibit it. This sentiment underscores the necessity of revising tax policies to promote, rather than deter, SME growth and prosperity.

In essence, the study brings to light the pivotal role taxes play in the operation of a nation, and yet it also highlights how their current implementation and structure can place undue pressure on SMEs. This often results in stifled growth and profitability. Therefore, the research concludes with a crucial recommendation: tax regulations should not only be revisited to ensure they are more accessible and understandable, but they should also incorporate provisions that can accommodate the unique challenges of SMEs and bolster their growth.

5.3 Recommendations

Based on the findings of the study, the following recommendations are proposed:

i. Simplify Tax Regulations:

The study has underlined a crucial requirement for the simplification of tax regulations pertaining to the Companies Income Tax (CIT), Capital Gains Tax (CGT), and Value Added Tax

(VAT). The existing regulatory framework, as it stands, is deemed too complex and difficult to navigate for SME owners. The simplification of these regulations, potentially through the use of more accessible language, clearer guidelines, and streamlined procedures, can ensure they are easily understandable. This would ease the burden on SME owners and could result in greater compliance due to a clearer understanding of what is expected. It could also lead to a reduction in inadvertent errors or non-compliance arising from confusion over the current regulations.

ii. Provide Tax Incentives and Exemptions:

Another recommendation emerging from the study is for the government to review and revise its tax policies with the aim of incorporating more supportive measures for SMEs. Such measures may include tax incentives and exemptions targeted at this business segment. Tax incentives could take various forms, such as reductions in taxable income for businesses meeting certain criteria or offering certain goods and services, while exemptions could be offered on specific types of income or transactions. These measures can lighten the tax burden on SMEs, allowing more resources to be allocated towards their growth and profitability.

iii. Offer Training and Support:

The provision of more comprehensive training and support for SMEs on tax matters also comes across as a key recommendation. Government agencies could develop and implement a wide range of educational resources, such as workshops, seminars, or online resources. These could be aimed at helping SME owners understand tax regulations, learn how to correctly file their taxes, and take full advantage of any available incentives or exemptions. Such a step would not only enhance compliance but also equip SMEs with the knowledge to better navigate the tax landscape.

iv. Promote Fairness in Taxation:

Fairness in taxation emerged as a significant concern for SMEs in the study. Currently, taxes can disproportionately burden SMEs, particularly when compared to larger companies. To address this, it may be necessary to revisit how tax rates are determined. This could involve introducing progressive tax policies that take into account the size and earning capacity of businesses, ensuring that SMEs are not unduly burdened compared to their larger counterparts.

v. Strengthen Tax Regulatory Bodies:

The study also recommends a strengthening of tax regulatory bodies. Such bodies play an essential role in providing effective oversight, resolving disputes, and ensuring the enforcement of tax laws. By strengthening these institutions, confidence among SMEs could be bolstered. This could lead to greater trust in the system and promote a culture of tax compliance. Such improvements might include investing in training for regulatory staff, improving the effectiveness of dispute resolution procedures, or enhancing transparency and communication between these bodies and SMEs.

vi. Engage Stakeholders in Policy Formulation:

Lastly, the importance of engaging SMEs and other stakeholders in the formulation of tax policies was highlighted in the study. SMEs, being directly affected by these policies, have unique insights and experiences that can be invaluable in creating policies that are well-tailored to the realities on the ground. Stakeholder engagement can take many forms, such as public consultations, feedback mechanisms, or the inclusion of SME representatives in policy development processes. By doing so, the policies are not only likely to be more relevant and effective, but they may also be more readily accepted and implemented by the SMEs themselves.

5.4 Contribution to Knowledge

i. Empirical Evidence on Taxation and SMEs' Financial Performance:

The study provides a significant contribution to the existing body of knowledge by presenting empirical data on the relationship between taxation and the financial performance of SMEs, specifically in the context of Ibadan, Nigeria. It offers a critical analysis of the impact of various tax forms - such as Companies Income Tax (CIT), Capital Gains Tax (CGT), and Value-Added Tax (VAT) - on the financial well-being of these businesses. This work broadens the scope of the current literature by offering a more region-specific understanding of the interaction between taxation and SME performance, filling a knowledge gap caused by a paucity of research within this specific geographical context.

ii. Perspectives of SME Owners:

The research greatly enriches the academic understanding of SMEs' experiences with taxation. It offers an in-depth exploration into the perspectives of SME owners on tax regulations, their clarity, and the tax burdens they impose. This study provides an invaluable ground-level view of the challenges that SMEs face in dealing with the tax landscape, offering experiential insights that cannot be gleaned from quantitative data alone.

iii. Potential Strategies for Tax Environment Improvement:

The study makes a pivotal contribution by identifying the potential strategies to improve the tax environment for SMEs in Nigeria. These strategies include simplifying tax regulations, providing tax incentives and exemptions, and strengthening tax regulatory bodies. These findings offer crucial guidance for policymakers and contribute to creating a more favorable tax environment for SMEs. This aspect of the research has a profound potential to influence future tax policy and

regulations, thereby fostering a more conducive business environment for the growth and sustainability of SMEs.

5.5 Suggested Areas for Further Research

The following areas are recommended for further research:

i. Sector-Specific Studies:

To gain a more detailed understanding of how taxation affects different industries, more sector-specific studies should be undertaken. These studies would look at the impact of taxes on specific sectors such as manufacturing, retail, or service industries. There may be unique tax implications for different sectors due to variations in their business models, levels of capital intensity, or operational scale. Also, sector-specific tax policies could have varying impacts across industries. For example, tax policies favorable to capital-intensive industries may not have the same effect on labor-intensive sectors. Therefore, understanding these nuances can provide a more granular understanding of the impact of taxation on SMEs and can assist in the formulation of more tailored tax policies.

ii. Longitudinal Studies:

Longitudinal studies offer a way to track changes over time, giving insights into trends and patterns that might not be visible in a cross-sectional study. In the context of taxation and SME performance, a longitudinal study could reveal how changes in tax policies or rates impact the financial performance of SMEs over an extended period. It could also help to understand the long-term effects of taxation on aspects like business growth, profitability, and survival rate among SMEs.

iii. Research on Tax Incentives and Exemptions:

This research area would focus on understanding how specific tax incentives and exemptions influence SMEs' financial performance. This could include exploring the impacts of different types of incentives (such as R&D tax credits, investment allowances, or reduced tax rates for specific activities) and exemptions (like income thresholds or special zones). Additionally, research could be done on how SMEs respond to these incentives and exemptions, what behavioral changes they induce, and how effective they are in stimulating business growth and investment.

iv. Comparative Studies:

Comparative studies could involve analyzing the tax environments in different countries or regions and their impact on SME performance. This could reveal patterns or best practices that can be applied across borders. Moreover, it could provide insights into how different tax systems influence SMEs' competitiveness and growth. This could be especially relevant in the context of globalization, where businesses operate across multiple tax jurisdictions.

v. Impact of Digitalization on Tax Compliance:

Digital technologies are revolutionizing tax compliance, from digital tax filing to the use of AI in tax audits. Research in this area could investigate how these technologies are affecting SMEs' tax compliance behavior, their administrative burden, and their overall financial performance. This could also include studying the impact of tax software solutions, digital tax payment systems, and online tax advice on SMEs. This is particularly important in a time where digitalization is rapidly changing how businesses operate and interact with tax authorities.

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Appendix I

**Department of Management & Accounting
Faculty of Management & Social Sciences
Lead City University, Ibadan**

Questionnaire

Dear Respondent,

I am a post graduate student of the Department of Accounting Lead City University, Ibadan. I am carrying out a research on “**Taxation and Financial Performance of Small and Medium Enterprises in Ibadan, Nigeria**”. I therefore request for your support to supply sincere answers to the questions in this instrument. Also, I want to assure you that your responses will only be used for research purpose and shall be treated with utmost confidentiality.

Yours Sincerely,

Sunday Abimbola AJAYI

Section A: Demographic Information

Respondent's Bio Data

1. Gender: a) Male b) Female
2. Age: a) 18-25 b) 26-35 c) 36-45 d) 46-55 e) 56 and above
3. Occupation: a) Employed b) Self-employed (c) Unemployed d) Student

Section B: Effect of Companies Income Tax (CIT) on financial performance of Small and Medium Enterprises.

Please indicate your level of agreement or disagreement with the following statements using the Likert scale provided. (Choose one option for each statement) Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD)

S/N	Parameter	SA	A	N	D	SD
1.	The current Companies Income Tax (CIT) rate is reasonable for SMEs in Nigeria.					
2.	The Companies Income Tax (CIT) significantly affects the financial performance of SMEs.					
3.	The Companies Income Tax (CIT) is a burden for SMEs and hinders their growth and profitability.					
4.	The Companies Income Tax (CIT) regulations are clear and understandable for SMEs.					
5.	The Companies Income Tax (CIT) incentives or exemptions should be provided to support SMEs.					

Section B: Effect of Capital Gains Tax (CGT) on SMEs' Financial Performance

Please indicate your level of agreement or disagreement with the following statements using the Likert scale provided. (Choose one option for each statement) Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD)

S/N	Parameter	SA	A	N	D	SD
6.	The current Capital Gains Tax (CGT) rate is reasonable for SMEs in Nigeria.					
7.	The Capital Gains Tax (CGT) significantly affects the financial performance of SMEs.					
8.	The Capital Gains Tax (CGT) is a burden for SMEs and hinders their growth and profitability.					
9.	The Capital Gains Tax (CGT) regulations are clear and understandable for SMEs.					

10.	The Capital Gains Tax (CGT) incentives or exemptions should be provided to support SMEs.					
11.	SMEs face difficulties in complying with the Capital Gain Tax (CGT) requirements.					
12.	The Capital Gains Tax (CGT) reduces SMEs' ability to invest and expand their operations.					

Section D: Effect of Value Added Tax (VAT) on SMEs' Financial Performance

Please indicate your level of agreement or disagreement with the following statements using the Likert scale provided. (Choose one option for each statement) Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD)

S/N	Parameter	SA	A	N	D	SD
13.	The current Value Added Tax (VAT) rate is reasonable for SMEs in Nigeria.					
14.	The Value Added Tax (VAT) significantly affects the financial performance of SMEs.					
15.	The Value Added Tax (VAT) regulations are clear and understandable for SMEs.					
16.	The Value Added Tax (VAT) is a burden for SMEs and hinders their growth and profitability.					
17.	The Value Added Tax (VAT) filing and compliance process is manageable for SMEs.					
18.	The Value Added Tax (VAT) reduces SMEs' ability to compete with larger businesses.					
19.	The government should provide more VAT-related support and education to SMEs.					

Bio-data

A. Personal Data

Name: Sunday Abimbola AJAYI
Address: Plot 13, Oyenuga Layout, Adetokun Area,
Ologuneru, Ibadan.
E-mail: bimboajayi08@yahoo.com
Phone number: 08032350700
Date of Birth: 21st January, 1968.
Place of birth: Eruwa
Nationality: Nigerian
State of Origin: Oyo
Local Government: Ibarapa East
Sex: Male
Marital Status: Married

B. Schools Attended with Dates:

- a). Lead City University, Ibadan 2021-2023
- b). Lead City University, Ibadan 2018-2020
- c). University of Ibadan 2008-2010
- d). The Polytechnic, Ibadan 1991-1997
- e). Akolu Grammar School, Eruwa
- f). Obaseku High School, Eruwa
- g). L.A. School Lawoore, Eruwa.

Academic Qualifications with Dates:

- a). M.Sc. Accounting . in view.
- b). B.Sc. Accounting. 2020
- c). MBA (Finance & Accounting) 2011

- | | |
|---------------------------------|------|
| d). HND Business Administration | 1997 |
| e). WASC. | 1986 |
| f). Pry School Leaving Cert | 1980 |

C. Work Experience with Dates

- | | |
|--|----------------|
| a. Director, Gracious-Manuel Consulting. | 2010 till date |
| b. Internal Auditor, Ise-Oluwa Montessori Group of Schools, Ibadan | 2003-2010 |

D. Awards and Fellowship (if any)

E. Professional Membership

- | | |
|---|------|
| a. Fellow, Institute of Chartered Accountants of Nigeria (ICAN) | 2019 |
| b. Associate Member, Chartered Institute of Taxation. | 2015 |

F. Publications

- | | |
|---|------|
| i. Advertising as a Promotional Tool | 1994 |
| ii. Collective Bargaining as a means of Peaceful Industrial Relations | 1997 |
| iii. The Effect of Corporate Governance Mechanisms on Performance | 2010 |

G. Major Conferences/ Workshops Attended with Dates

- | | |
|--|------|
| i. "Use of Accounting Packages" of the Institute of Charatered Accountants of Nigeria (ICAN) | 2008 |
| ii. "Computer Fundamentals" of the Institute of Charatered Accountants of Nigeria (ICAN) | 2008 |

H. References

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Tel: 08023504402
3. Prof. G.E. Oyedokun
Department of Management & Accounting
Lead City University,
Ibadan.

Signature

Date

Do Not Copy, Lead City University, Nigeria

The University Compliance Certification

This is to certify that this Thesis written by **Sunday Abimbola AJAYI** with Matric No: **LCU/PG/002188** in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University, Ibadan is in full compliance with the approved University format and style.

Signature

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