

Impact Analysis of Tax Policy and the Performance of Small and Medium Scale Enterprises in Nigerian Economy

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Abstract

The mortality rate of Small and medium enterprises which make up 95% of the economy is very high and these Small and medium enterprises serve as source of employment generation; innovation, competition, and economic dynamism in the development of Nigerian Economy. Tax policy is one of the factors that constitute the Small businesses' economic environment. Therefore, the objective of this study impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian economy is to investigate impact of tax policy on the performance of small and medium scale enterprises in Nigerian economy. Descriptive survey research design was adopted. The population for this study is comprised of sixty eight (68) SMEs currently operating in Kogi State and Abuja. They have 726 personnel comprised of fifty six (56) managers and 671 accountants. The sample for the study consisted of two hundred and fifty-eight (258) respondents, (20 managers and 238 accountants from the two states. Yaro Yamani formula for sampling technique was used to select the two hundred and fifty-eight (258) respondents, representing 36% of the population. Out the two hundred and fifty-eight (258) copies of the questionnaire were printed and distributed, sixty eight were not returned while One hundred and ninety (190) copies of the questionnaire were retrieved, representing a seventy four (74%) per cent return, out of which one hundred and forty six were wrongly filled giving the total of one hundred and forty four (144) copies of the valid questionnaire. Descriptive statistics was used to analyse the data collected and to obtain the mean assessment for each scale item. The research hypotheses for this study were tested using z-test statistics to establish $p < 0.05$ significant differences. The analysis revealed that there is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria. It was also revealed that there is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth. The paper therefore recommended that the for Small and Medium Enterprises to get better equipped, have enough funds and survive in a competitive market, the rate of tax levied on the small business should be lower; The rate of tax incentives and exemptions which serve as catalysts and bait for attracting investors should be highly increased by the three tiers of government in Nigeria; Government should promulgate a policy that will help to avoid illegal taxes, such as community levy, boys or youth levy and as well as association or union levy; Any policy that will push for enough funds and other activities that will lead to Small and Medium Enterprises growth is good for promulgation and there should be consistency in tax policy that will cushion the effects of factors that militate against the expansion of SMEs in relation to their ability to pay taxes by government.

Keywords: Economy, Nigerian, Small and Medium Scale Enterprises, Tax Policy

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Introduction

Small and Medium Enterprises Make up about 95% of the entire economy and they serve as source of employment generation, innovation, competition, economic dynamism which ultimately lead to poverty alleviation and national growth. At any rate, tax policy is one of the factors that constitute these Small and medium enterprises in the economic environment. Therefore, the desire to build a civilized country with a strong and sound economy is the desire of every Country, including Nigeria. Tax payment is the demonstration of such a desire, although some income earners see it as a means of exploitation by the government. Tax payment is a voluntarily contribution imposed by the Government on personal income earners, companies, investors, exporters, importers etc. revenue realized from taxation is a major source of revenue to the Government of Nigeria, and as such is an important tool used in the development of Nigeria and her economy. A country's tax policies and systems are greatly related with business ventures in that country. An economy that enacts favorable and progressive tax laws and policies will definitely breed successful and finance-healthy business organizations. Once businesses flourish, the economy flourishes as well, as there is no quicker way of stirring the affairs of an economy without the help of organizations that move services, goods, money and investments from those with surplus to those with deficit; those with marketable ideas/output to those who need these ideas and products. In essence, businesses and tax policies greatly depend on one another for survival. If one is greatly affected, the other follows suite.

The Nigerian Tax System has undergone significant changes in recent times. With the help of various studies and research done by tax experts, tax laws are being reviewed with the aim of repelling obsolete provisions and simplifying the main ones. Under current Nigerian law, taxation is enforced by the Federal, State, and Local Government with each having its sphere clearly spelt out in the Taxes and Levies. Small businesses are generally recognized as important drivers of economic success. They are a key ingredient in the "ecology of firms" in a healthy economy, as job creators, sales generators and a source of tax/fiscal revenue. In Nigeria the importance of small business as a creator of jobs, particularly for those with a low skills level, is widely recognized. Small, medium and micro-enterprises ("SMMEs") contribute 36.1% of the country's gross domestic product ("GDP") and employ 68.2% of the workforce in the private sector. In the agriculture, construction and retail sectors, SMMEs employ more than 80% of the total workforce.

Over the last few years, the growth in employment by SMMEs has exceeded the growth in their contribution to GDP, highlighting the job creation potential of this sector of the economy.

Regulations and red tape are reported as one of the constraints to the expansion of businesses both in Nigeria and internationally. International research in this field shows that tax regulatory compliance costs are a significant portion of the total regulatory cost. Several other patterns emerged from the various local and international studies performed, among the most important being that tax compliance costs comprise a much larger proportion of total compliance costs for smaller firms.

Furthermore, various researches have suggested that any effective approach to assist small business requires both policy and administration model adjustments in order to be effective. The 2005 year, therefore, saw the beginning of a process of structural change that was intended to build a positive tax compliance climate in Nigeria.

Therefore, this study focused on the examination of the impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian economy.

Statement of the Problem

The mortality rate of Small and medium enterprises which make up 95% of the economy are very high. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), 80% of small businesses die within seven years of its establishment. Among the factors responsible for these untimely close-ups are tax related issues, ranging from taxations to enormous tax burdens etc. Therefore, in dealing with small and medium enterprises, these unique qualities need to be considered. Another problem faced with SMEs in Nigeria is that the levying of taxes for these enterprises in particular, issues that need to be considered are how these tax policies can be designed to bolster the growth of Small businesses and the most effective ways to administer them. The importance of Small businesses as a mechanism of economic growth and development is often ignored. They are perceived as minute establishments that have minimal effect on the state of the economy.

However, if conducive environment is created for these Small businesses to grow through proper regulation, the SME sector has the highest propensity to transform our economy. Tax burden is another major problem in Nigeria as many business organizations are not favored by the tax systems and policies in place. Some businesses are already collapsing; while majority are still struggling to meet up with high tax rates to ensure their businesses still exist. According to a study conducted by Bateman (2013), it was reported in a survey that 90% of business owners admitted that taxes were a huge constraints to their businesses, as they claim taxes are high and do not allow new businesses to cover up initial cost.

Objectives of the Study

Based on the enumerated problem therefore, the main objective of this study is to analyze the impact of tax policy on the performance of small and medium scale enterprises in Nigerian economy. Specifically, this study is set:

- i. To examine the best tax policy that encourages tax compliance by SMEs in Nigeria
- ii. To examine the implications of tax policy on SMEs growth

Research Questions

In order to achieve the objectives stated above, the following research questions were used as a guide in achieving the objectives of this research:

- i. What best tax policy is to suit small SME and encourages tax compliance in Nigeria?
- ii. What are the implications of tax policies on SMEs growth and the economy?

Statement of Hypotheses

- i. There is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria
- ii. There is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth

Literature

Concept of Small Scale Enterprises

Small scale enterprises has been defined variously by many individuals and institution using various yardsticks such as numbers of employees, volume of sales, value of assets, or the volume of deposit in banks (Ademola,2014). The National Economic Reconstruction Fund (NERF) defined small and medium enterprises with a criterion that projects to be financed by the firm should have a total fixed asset cost (including land) of not more than N10million. The Federal Ministry of Industry (in respect of the small scale industries credit scheme) sees small scale industry as any manufacturing, processing or service industry with capital investment not exceeding N150,000 in machinery and equipment alone. According to Atijosan (2014), a small business is any manufacturing, processing or servicing industry that satisfies any or all of the following conditions:

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

According to Ademola et al (2012), Small scale enterprises are catalysts for catalysts for world's economic growth and development which have dominated the industrial sector of both developed and underdeveloped countries. Aruwa (2013) believed that Nigeria's industrial sector is dominated by small and medium scale enterprises (SMEs) which accounts for 90% in terms of number of enterprises, as compared with other developed countries where more than 98% of all their enterprises belong to SME sector, about 80% of the total industrial labour force in Japan is SME, 50% in Germany, 46% in USA are employed in smaller firms. Central Bank of Nigeria defined small scale enterprises as all businesses with a total assets investment of less than one million, an annual turnover of less than one million and with a total number of employees of less than fifty (World Bank Mapping 2001). In addition, the International Finance Corporation (IFC) and Corporate Affairs Commission in 2001 further justified that Nigeria's industrial sector is dominated by SMEs, estimated to be about 90% of the sector employing less than 50% of the people (HPACI 2002). Given the place occupied by the SMEs in Nigeria's industrial sector, it is expected that the success of the Nigerian economy would be partly dependent on the success of the SMEs.

Nwoye (2014) pointed out clearly that SMEs are catalysts for Nigeria's economic growth and development. He believe that through so many SMEs, Nigeria has great potentials for success and growth, sales of large volume of goods etc. Even though, some of them have adequate capital, many of them fail due to poor financial management operations.

The Monetary Policy Circular No. 22 of 1988 of the Central Bank of Nigeria defined small-scale enterprises as enterprises whose annual turnover was not more than N500, 000. In the 1990 budget, the Federal Government of Nigeria defined small-scale enterprises for purposes of commercial bank loans as those with an annual turnover not exceeds N500, 000, and for Merchant Bank Loans, those enterprises with capital investments not exceeding 2 million naira (excluding cost of land) or a maximum of N 5 million. The National Economic Reconstruction Fund (NERFUND) put the ceiling for small-scale industries at N10 million. Section 37b (2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with an annual turnover of not more than N 2 million and net asset value of not more than 1 million naira. (Ekpenyong & Nyong, 1992). The Small and Medium Enterprise Equity Investment Scheme (SMEEIS) sees the SME as "any enterprise with a maximum asset base of N500 million (excluding land and working capital), and with no lower or upper limit of staff". However, for tax purposes, Section 40(6) of the Companies Income Tax Act Cap C21 LFN 2004 alludes to companies with a turnover of N1 million and below operating in the manufacturing, agricultural production, solid mineral mining, and export trade sectors as SMEs; While subsection 8 states that as from 1988 all companies engaged in trade or business with a turnover of N500, 000.00 and below qualify as small and medium enterprises. (Iwuji, n.d)

SMEs Threats

There are a lot of threats that bedevil SMEs and stunt their growth. Although there are some problems peculiar to a particular country, the challenges faced by SMEs in different countries and geopolitical divisions are basically the same. For instance, a survey of Turkish SMEs by Organization for Economic Co-operation and Development (OECD) in 2004 showed that they were suffering the consequences of policy inconsistency, poor access to finance, insufficient know-how and low level of technology, and so many others.

The same problems were also registered by other authors concerning other regions like the Philippines, Malaysia and other European states and of course in Sub-Saharan Africa-Nigeria inclusive as shown by different authors on the issue. Uzor (2014) believes that the constraints faced by SMEs in developing countries are not only accentuated with ineffective policy design, but also by market failures in the region. Their lack information technology and knowledge of automation is gradually being reduced given that they serve as contractors for larger firms particularly the foreign manufacturing firms.

A major difficulty faced by SMEs is that of lack of access to short and long term capital. A publication of the Weekly Trust of Saturday, January 22, 2011 recognizes the fact that collateral based financing has become increasingly difficult for SMEs, whether as existing businesses, in their expansion states or as startups hence more SMEs are resorting to viability lending in which case they obtain loans based on the viability of the business and health of cash flow. Banks are usually reluctant to lend to SMEs and this is because of problems such as the SMEs' inability to meet the bank's lending requirements, promoters' low education, management and entrepreneurial skills and poor and unreliable financial records which makes financial review difficult. (Aderemi, 2003). There is also the problem of unsound accounting system and lack of full financial disclosure (Jan, n.d.). Areetey& Ahene, (2004) buttressed this assertion by listing lack of access to land, utility installation and services, and import procedures as constraints to SME growth Summarily, these problems make SMEs a "high-risk" venture. The above named reasons are in and of themselves problems that impede SME growth because not only do they become obstacles in accessing financing, they are capable of hindering growth on their own.

Moreso, in Nigeria, the problems faced by SMEs as posited by Oboh (2002); Okpara (2000); Wale-Awe (2000) and Chu, Kara & Benzing, (2008) include astronomically high operating costs; lack of transparency and corruption; and the lack of interest and lasting support for the SMEs sector by government authorities, dilapidated state of Infrastructural facilities, unreliable employees and Weak economy, unsafe location, undependable electricity supply are common phenomenon.

SMEs as Sinequanon to Development of Nigerian Economy

SMEs have been an important tool of economic development for Nigeria. The future of any growing economy such as Nigeria's depends on the entrepreneurial energy of vibrant SMEs because a lot of large businesses start out as SMEs. Many authors believe that they are the starting point of development in the economy towards industrialization. Udechukwu (2003) for example sees the SME sector as a very important sector that will enhance the contributions of the private sector and provide the critical building blocks for industrialization and sustainable economic growth. SMEs broaden the base of participation in society, decentralize economic power and give people a stake in the society's future (Williams, 2006). SMEs have also been recognized as a channel for improving the efficiency of domestic markets and making productive

use of scarce resources, and thus facilitating long-term economic growth in poor countries (Aryeetey & Ahene, 2004). Given that a large proportion of Nigeria's population relies either directly or indirectly on small and medium enterprises for survival, their importance cannot be overemphasized.

A major contribution made by SMEs is in the area of employment (Yaobin, 2007) Small and medium-sized enterprises are a key source of new jobs, innovation, economic dynamism and greater social inclusion in the European Union. Other important they play an important role in secondary labour markets (that is, they offer a high amount of employment in casual, part-time, low training, low-skilled jobs); they are an invaluable source of 'entrepreneurship', employment growth. Findings from a study carried out by Chu, Kara & Benzing (2008) suggest that Nigerians consider entrepreneurship an avenue leading to job security and improving their livelihood. They also regard business ownership as a means of controlling their destiny and deriving self satisfaction. Being more labour intensive, SME expansion is more likely to boost employment than large enterprises where expansion means higher degree of automation and machining. Hence, SME subsidization will lead to poverty alleviation (Beck, Demirguc-Kunt & Levine, 2005)

Theoretical Nexus of Taxation

This study is based on the three theories of taxation as given: ability to pay principle, benefit approach and equal distribution principle. However, in this paper we shall be considering ability to pay principle.

Ability-To-Pay Principle

As the name suggests, it says that the taxation should be levied according to an individual's ability to pay. It says that public expenditure should come from "him that hath" instead of "him that hath not". The principle originated from the sixteenth century, the ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean-Baptiste Say (1767-1832) and the English economist John Stuart

Mill (1806-1873). This is indeed the basis of 'progressive tax,' as the tax rate increases by the increase of the taxable amount. This principle is indeed the most equitable tax system, and has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as (i) each taxpayer surrenders the same absolute degree of utility that s/he obtains from her/his income, or (ii) each sacrifices the same proportion of utility s/he obtains from her/his income, or (iii) each gives up the same utility for the last unit of income; respectively.

Contribution of Tax Policy on the Growth of SMEs

According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises.

Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008).

Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost. As stated earlier they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labor income taxes and social contributions (International Tax Dialogue 2007).

An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009) and this results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses (Weichenrieder, 2007). Among the factors militating against SME tax compliance with are: high tax rates, Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Others according to Yaobin, (2007) are double taxation, no professional tax consultancy, weak tax planning, high taxation cost.

Factors that Favour the Growth in SMEs

Although there are Factors that Favour the Growth of SMEs in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (n.d) believes that it is the role of the government to provide an enabling environment and social services that support businesses and persons. This means enhancing the investment climate in Nigeria for increased economic growth and subsequent tax contribution from all citizens which is necessary because a good number of SMEs operate in the informal economy due to the fact that they deem the tax environment within which they operate unfavourable. These SMEs constitute untapped revenue potential and an uneven playing field in many countries (International Tax Dialogue, 2007) as such they need to be captured by the tax net. The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. The big companies have more choices possibilities. They can either share part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y, Deloitte and Touché, Price Waterhouse etc) to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities (Smatrakalev, 2006). Shahroodi, (2010) believes that for a tax system to be efficient, the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting tax deductions to market entities and venture capitalists that invest in high-tech SMEs the tune of 70% of the investment value.

Another way is by designing tax policies that encourage human capital training. (Yaobin, 2007) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection.

It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead, for example, to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and

to avoid tax through artificial splitting of enterprises. Not least, voluntary compliance by larger enterprises themselves, and by wage earners, may be undermined by the (correct) perception that their smaller counterparts, or better-off neighbors, are getting away with poorer compliance. (International Tax Dialogue, 2007) Hence government intervention will help maintain balance while helping countries exploit the social benefits from greater competition and entrepreneurship. Furthermore, policy incentives such as tax rebate for SMEs that put effort on local sourcing of raw materials, serious in adding value to commodities for exports and other business ethics, should be employed by government. Similarly, government could increase funding for the development of the sub-sector through direct budgetary allocations and enhance private sector investment opportunities that will focus on specific areas of capacity enhancement.

Tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance (Kasipillai, 2005). And also tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance (Kasipillai, 2005). Pro-business (and Pro-SME) Tax regimes and enforcement should be simple, consistent and predictable.

Research Method

This study represents descriptive survey research, aimed at investigating the impact of tax policy and the performance of small and medium scale enterprises in Nigerian economy. This research collects data and describes it in a systematic manner. Data is collected as is, analysed and reported without manipulation or distortion of any of the variables. Ololube (2009) defined this approach as research designed to gather systematic descriptions of existing phenomena in order to describe or explain what is going on.

The choice of a descriptive survey method is borne out of the fact this method focuses on people and their attributes which will help the researcher to understand and explain the impact of tax policy on the performance of small and medium scale enterprises. To achieve this, the researcher has used a survey questionnaire, observation schedule and document analysis.

Population

The population for this study is comprised of sixty eight (68) SMEs currently operating in Kogi State and Abuja. They have 726 personnel comprised of fifty six (56) managers and 671 accountants.

Sample and Sampling Technique

The sample for the study consisted of two hundred and fifty-eight (258) respondents, (20 managers and 238 accountants from the two states. Yaro Yamani formula for sampling technique was used to select the two hundred and fifty-eight (258) respondents, representing 36% of the population.

Instrumentation

The instruments for the study included an observation schedule, document analysis, and a ten (10) item survey questionnaire (Impact Analysis of Tax Policy and the Performance of Small and Medium Scale Enterprises Assessment Questionnaire-IATPPSMSEAO) that used a modified Likert-type scale with four response options. The questionnaire was divided into two sections. The first section was made up of five (5) items used to gather demographic information about the respondents, while the second section was made up of ten (10) items used to elicit information from respondents on their assessment of and impact of tax policy and the performance of small and medium scale enterprises in Nigerian economy.

The observation schedule included items used to collect concrete evidence on the availability, quantity and rate of tax in SMEs and factors in favour and militating against tax policy and compliance in Nigeria in assessed Enterprises, while document analysis was used to obtain information on the availability, quality, and tax compliance of SMEs.

Validity

After developing the instrument, its face and content validity were established by subjecting it to a critical assessment by the researcher's supervisor and two other experts. They helped to ascertain that the contents of the instrument were in line with the purpose of the study, research questions and hypotheses.

Reliability

To ascertain that the instrument was reliable, i.e. able to consistently elicit the same information from the respondents, the researcher adopted the test re-test technique. seven (7) copies of the questionnaire were administered seven (7) staff, (4 managers and 3 accountants) not participating in the study. The instrument was re-administered to the same respondents within an interval of two weeks. The responses (results) of the first and second instrument were collated and subjected to a reliability test using the Pearson Product Moment Correlation Analysis. The result obtained yielded a reliability index of 0.846, indicating high reliability of the research instruments.

Administration of the Instruments

The instrument was administered by the researcher in person, with the support of a well-informed research assistant to ensure a one hundred (100) per cent return of completed questionnaires. The researcher administered the questionnaire and collected them after an interval of ten days. On arriving at the schools, the researcher explained to the respondents the purpose of the study to allay their fears and reduce misinterpretation of the items.

The researcher also engaged in a discussion with the manager of each enterprise to obtain access to documents and to allow observation of the necessary documents. Finally, the researcher assured confidentiality of all information provided. However, out the two hundred and fifty-eight (258) copies of the questionnaire were printed and distributed, sixty eight were not returned while One hundred and ninety (190) copies of the questionnaire were retrieved, representing a seventy four (74%) per cent return, out of which one hundred and forty six were wrongly filled giving the total of one hundred and forty four (144) copies of the valid questionnaire

Method of Data Analysis

In preparing the data for analysis, the researcher developed keys for coding the information contained in the research. Descriptive statistics was used to analyse the data collected and to obtain the mean assessment for each scale item. Responses to the Section B questionnaire items were weighted across a four point Likert-type scale of Strongly Agree (SA), Agree (A), Disagree (D), and Strongly Disagree (SD). The deductions from the document analysis were weighted based on availability, quantity, qualification, relevance and experience. The data gathered from the observation schedule was weighted based on availability, quantity, condition, and adequacy. A percentage scale of the responses to each item was analysed and used to answer the research questions. The research hypotheses for this study were tested using z-test statistics to establish the significant differences between the variables in the study. There was a $p < 0.05$ level of significance for all of the hypotheses, while the acceptance or rejection of null hypotheses was based on the calculated value of the t-test analysis.

Data Presentation and Analysis

Research Question 1: What best tax policy is to suit SME and encourages tax compliance in Nigeria?

Table 1: Mean Standard Deviation and rank order Statistics of Managers and Accountants on the best tax Policy to suit Small and Medium Enterprises and Encourages tax Compliance in Nigeria

Sn	Items	Accountants		Managers		Mean set	Rank	Remarks
		XA	SDA	XM	SDM			
1	Tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance	3.19	1.20	3.27	0.90	3.23	4th	Agreed
2	The tax burden of the indigent people should not be lighter and the fight against corruption and tax evasion should not be much more intense.	1.84	1.09	1.91	1.38	1.88	5th	Disagreed
3	The tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount and the tax collection organizations are more efficient.	3.39	0.95	3.36	1.27	3.38	2nd	Agreed
4	Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth.	3.29	1.01	3.36	0.92	3.33	3rd	Agreed
5	Policy incentives such as tax rebate for SMEs that put effort on local sourcing of raw materials, serious in adding value to commodities for exports and other business ethics, should be employed by government.	3.22	1.11	3.64	0.81	3.43	1st	Agreed
6	Tax policies that do not encourage human capital training are the special tax regimes for SMEs that may be appropriate policy instruments for minimizing the cost of collection	1.86	1.14	1.55	1.04	1.71	6th	Disagreed

N=144

As shown in table 1, items with serial numbers 1,3, 4 and 5 have their mean sets above the criterion mean of 2.50 and are therefore agreed upon by the managers and accountants on the best tax policy to suit Small and Medium Enterprises and encourages tax compliance in Nigeria.

Items with serial numbers 2 and 6 have their means sets below the criterion mean of 2.50 and are therefore not agreed upon by managers and accountants on the best tax policy to suit Small and Medium Enterprises and encourage tax compliance in Nigeria.

In response to the research question posed above, and as queried on items 1-6 of the questionnaire, the best tax policy to suit Small and Medium Enterprises and encourages tax compliance in Nigeria was discovered.

Research Question Two: What are the implications of tax policies on SMEs growth and the economy?

Table 2: Mean, Standard Deviation, and rank Order Statistics of Managers and Accountants on the Implications of tax Policies on SMEs growth and the Economy

Sn	Items	Accountants		Managers		Mean set	Rank	Remarks
		XA	SDA	XM	SDM			
7	Taxes and complex tax system put disproportionate pressure on smaller businesses.	3.17	0.79	3.36	1.03	3.27	2 nd	Agreed
8	Double taxation, no professional tax consultancy, weak tax planning, high taxation cost, Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources are some of the factors militating against SME tax compliance	3.45	1.00	3.18	1.25	3.32	1 st	Agreed
9	Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs	1.91	1.06	1.91	1.38	1.91	5 th	Disagreed
10	An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden	3.03	1.10	3.27	1.27	3.15	4 th	Agreed

	at all and this results in a tax system that imposes high expenses on the society							
11	It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers.	3.03	1.29	3.27	0.79	3.15	4 th	Agreed
12	A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources.	3.29	0.85	3.18	1.17	3.24	3 rd	Agreed

N=144

As shown in table 2, items with serial numbers 7, 8, 10, 11-12 have their mean sets above the criterion mean value of 2.50 and are therefore, agreed upon by managers and accountants on the implications of tax policies on SMEs growth and the economy. Item with serial number 9 has its mean set below the criterion mean value of 2.50 and are therefore not agreed upon by managers and accountants on the implications of tax policies on SMEs growth and the economy discovered.

Test of Hypotheses

Hypothesis One

There is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria

Table 3: Mean Difference in the mean Scores of Banks staff on the Best tax Policy that Encourages tax Compliance by SMEs in Nigeria

Category	N	Df	X	SD	Z-Calculated	Z-Critical	Remarks
Accountants	133	142	2.79	1.08	0.18	1.96	Accept
Managers	11		2.85	1.05			

As shown in table 3, accountants have mean and standard deviation scores of 2.79 and 1.08 respectively while managers have mean and standard deviation scores of 2.85 and 1.05. At an alpha level of 0.05 with a degree of freedom of 142, the z-calculated value is less than the z-critical value. Therefore the null hypothesis of no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria .By implication, There is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria

Hypothesis Two

There is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth.

Table 4: Mean Difference in the Mean Scores of staff on the Implications of Tax Policy on SMEs growth

Category	N	Df	X	SD	Z-Calculated	Z-Critical	Remarks
Accountants	133	142	2.51	1.10	1.22	1.96	Accept
Managers	11		2.86	0.90			

As shown in table 4, accountants have mean and standard deviation scores of 2.51 and 1.10 while managers have mean and standard deviation scores of 2.86 and 0.90. At an alpha level of significance 0.05 with a degree of freedom of 142, the z-calculated value of 1.22 is less than the z-critical value of 1.96. Therefore, the null hypothesis of There is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth is upheld. By implication, there is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth.

Discussion of Findings

In the impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian economy, table one showed that items with serial numbers 1, 3, 4 and 5 have their mean sets above the criterion mean of 2.50 and are therefore agreed upon by the managers and accountants on the best tax policy to suit Small and Medium Enterprises and encourages tax compliance in Nigeria. Items with serial numbers 2 and 6 have their means sets below the criterion mean of 2.50 and are therefore not agreed upon by managers and accountants on the best tax policy to suit Small and Medium Enterprises and encourage tax compliance in Nigeria. In response to the research question posed above, and as queried on items 1-6 of the questionnaire, the best tax policy to suit Small and Medium Enterprises and encourages tax compliance in Nigeria was discovered. In the test of hypotheses therefore, accountants have mean and standard deviation scores of 2.79 and 1.08 respectively while managers have mean and standard deviation scores of 2.85 and 1.05. At an alpha level of 0.05 with a degree of freedom of 142, the z-calculated value is less than the z-critical value. Therefore the null hypothesis of no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria .By implication, There is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria

In table two, items with serial numbers 7, 8, 10, 11-12 have their mean sets above the criterion mean value of 2.50 and are therefore, agreed upon by managers and accountants on the implications of tax policies on SMEs growth and the economy. Item with serial number 9 has its mean set below the criterion mean value of 2.50 and are therefore not agreed upon by managers and accountants on the implications of tax policies on SMEs growth and the economy discovered. Table four showed the test of hypothesis two. Accountants have mean and standard deviation scores of 2.51 and 1.10 while managers have mean and standard deviation scores of 2.86 and 0.90. At an alpha level of significance 0.05 with a degree of freedom of 142, the z- calculated value of 1.22 is less than the z-critical value of 1.96. Therefore, the null hypothesis of There is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth is upheld. By implication, there is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth.

Conclusion

From the foregoing, the impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian economy cannot be overemphasized. In conclusion, SMEs is a sine qua non to the growth and development of the Nigerian economy. Also in conclusion a low tax rate policy is instrumental to the survival and growth of these small and medium enterprises. However, taxes for SMEs have been more harmful than beneficial as they increase running costs and slow down growth. The best tax policy to suit SME and encourages tax compliance in Nigeria should be lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance. The tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount and the tax collection organizations are more efficient. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth. The factors militating against SMEs tax compliance include; Double taxation, no professional tax consultancy, weak tax planning, high taxation cost, Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources are some of the factors militating against SME tax compliance.

The implications of tax policies on SMEs growth and the Nigerian economy include: Taxes and complex tax system put disproportionate pressure on smaller businesses. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources. An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all and this results in a tax system that imposes high expenses on the society. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers.

Recommendations

From the foregoing, the impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian economy, the following recommendations were itemized for government immediate actions:

- i. For Small and Medium Enterprises to get better equipped, have enough funds and survive in a competitive market, the rate of tax levied on the small business should be lower.
- ii. The rate of tax incentives and exemptions which serve as catalysts and bait for attracting investors should be highly increased by the three tiers of government in Nigeria.
- iv. Government should promulgate a policy that will help to avoid illegal taxes, such as community levy, boys or youth levy and as well as association or union levy.
- v. Any policy that will push for enough funds and other activities that will lead to Small and Medium Enterprises growth is good for promulgation
- vi. There should be consistency in tax policy that will cushion the effects of factors that militate against the expansion of SMEs in relation to their ability to pay taxes by government.
- vii. The tax policy should be designed in a manner that it will encourage those who are potential tax payers, voluntary compliance and ultimately leads to expansion of existing business interests of the SMEs in Nigeria.

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