Innovations

Taxation and performance of small and medium enterprises (SME) in Nigeria; prospects and implications

Okere, Wisdom; Okere Uloma
Department of Accounting, Bells University of Technology Ota Ogun state
Corresponding author: **Okere, Wisdom**

Abstract
This research looked at how different tax rates affected the success of small and medium-sized businesses in Nigeria. The research, which used a conceptual approach, found that tax rates had an effect on the performance of small and medium-sized businesses, with higher rates leading to greater production, distribution, and selling expenses. In addition, the analysis shows that there is a significant chance for small and medium-sized enterprises (SMEs) to get access to taxes and the official market under the existing Finance Act 2020. The research suggests streamlining tax rules for small and medium-sized enterprises (SMEs) to make compliance less of a hassle. This entails not only having straightforward tax rules, but also a straightforward tax filing procedure.

Key Words: 1.*Tax; 2.Finance Act; 3.SMEs, 4.Taxation; 5.Growth.*

Introduction

In order for a nation to achieve sustainable development, the small and medium-sized enterprise (SME) sector is essential (Jiménez et al, 2021; Aryeetey &Ohene, 2004; Oludele& Emilie, 2012). Thus, encouraging small and medium-sized enterprises (SMEs) in emerging countries like Nigeria would lead to widespread wealth creation, financial independence, and entrepreneurship, thus slowing the flow of people from rural to urban regions (Arinzeh, 2022; Uzor, 2004). They are simple to launch and bring in significant revenue for the economy, as well as export revenues, requiring just a little amount of initial investment and specialized knowledge (Okechukwu et al, 2020; Udechukwu, 2003). Small and medium-sized enterprises (SMEs) can play a larger role in the economy if they address several critical business challenges, including cutting costs, increasing employee productivity, and creating a competitive advantage through the delivery of high-quality goods and services and other forms of entrepreneurship (Dey et al, 2020; UNCTAD, 2005).

Income tax, corporate tax, sales tax, excise tax, customs duty, fees, pricing, penalties, special assessments, value-added tax, and many more are all examples of taxes cited by Salemi (2010). In order to optimally allocate resources and increase the rate of economic formula, as well as to achieve a fair distribution of resources, the government imposes taxes on its citizens in order to raise revenue, maintain economic stability, solve the unemployment problem, offer protection policy, and provide social welfare. However, in order for a tax to achieve its goals, it must meet a number of prerequisites and obstacles. These include fairness, certainty, practicality, efficiency, adaptability, simplicity, longevity, and economic productivity. Tax evaders and avoiders provide another difficulty for the tax system.

The acceleration of this sector is essential for any country if it is to achieve national development and sustained economic growth, and this is why most nations have begun assessing the challenges and limits facing SMEs (Buraiki& Khan, 2018). Statistics from 2015 show that 80% of SMEs fail before their fifth anniversary, as reported by SMEDAN, Nigeria's agency for developing small and medium-sized enterprises. Tax difficulties, including complicated taxes and large tax loads, have contributed to this premature collapse

(Ojochogwu&Ojeka, 2012). In less industrialized nations, notably, complex taxes seems to be a serious barrier to the expansion of SMEs. Direct tax, which includes income tax charged on business income, employment income, rent income, pension and investment income, and indirect tax, which includes Value-Added-Tax (VAT), Corporation Tax, and Excise Duties, are all examples of taxes imposed on SMEs in Nigeria, according to an analysis of the country's previous tax laws.

Small and medium-sized enterprises (SMEs) may see a slowdown in growth as a result of all these taxes since they raise the overall cost of doing business (Choi et al, 2022). Increasing product pricing to cover rising overhead expenses often results in fewer units sold. Reduced sales lead to lower earnings, a smaller capital base, and a slower rate of job creation, all of which dampen economic development and exacerbate poverty. Also, SMEs are disproportionately impacted by tax complexity since the time and money spent on complying with different tax systems is money that cannot be reinvested to fuel the company's development.

However, it is quite unusual to hear someone say they are not bothered by the high tax rates and the complexity and/or ambiguity of the tax code (Baurer, 2005). Due to tax's capacity to be passed along to others, a poorly conceived tax system may increase costs for tax-paying businesses and, in the end, the people who pay those taxes. Mnewa and Maliti (2008) found that small enterprises are hindered in their efforts to become and remain profitable due to variables such as tax legislation. This means that the government, in its role as policymaker and regulator, must take into account the issues that may hinder small businesses' ability to compete. All nations rely heavily on small and medium-sized businesses (SMEs) to fuel economic growth. In most African nations, small firms account for over 90% of the private sector and produce over 50% of the country's GDP (UNIDO, 2009).

The consequences of a tax on the expansion of small and medium-sized enterprises (SMEs) should be given considerable consideration, despite the fact that taxing may contribute to a country's Gross Domestic Product (GDP). The negative impact of tax payment on the financial performance of SMEs in developing countries has not received much attention in the literature (Baurer, 2005). The challenges faced by small and medium-sized enterprises (SMEs) include high tax rates, multiple taxations, complex tax regulations, and a lack of proper enlightenment or education about tax related issues, despite the widespread belief that taxes are a necessary means of financing the growth of the economy and the delivery of essential social services. The issue of multiple taxations is a worm eating deeply and the large chunk of revenues generated by these SMEs for their growth and survival in Nigeria, regardless of the other challenges that SMEs face in other developing countries like Nigeria, such as a lack of capital, a lack of technical and managerial skills, environmental effects, and government regulations.

Due to the necessity to weigh the policy's immediate and long-term effects, this circumstance raises severe concerns about the difficulty of adapting a country's tax system to meet the unique and evolving demands of a given nation. This fact alone necessitates more research on the effects of taxes on Nigeria's small and medium-sized enterprises. Furthermore, the majority of the literature and study on the issue is mostly international and western in origin, where the dynamics of SME activities are distinct from those of developing nations like Nigeria. Therefore, the purpose of this research is to analyze how Nigeria's tax structure influences the success of small and medium-sized businesses.

Conceptual Review

Concept of SME

Small and medium-sized businesses are the lifeblood of economies like Bangladesh's, according to Rahman and Mahmood (2007). Common problems that small and medium-sized enterprises (SMEs) face include a dearth of capital, trouble sourcing raw materials, inadequate access to pertinent business information, inadequate technological capabilities, issues arising from time-consuming and expensive bureaucratic procedures, and policies and regulations that distort markets. However, if the government provides the right kind of domestic policy support and keeps an eye on global market trends, SMEs will be able to expand their operations and enjoy the benefits of globalization. According to research by Hasan and Islam (2008), SMEs are often overlooked by banks when seeking credit.

The greater operating expense, lower return, and increased risk associated with SME finance are the reasons for this conservatism. The high operating expense and close oversight are direct results of the tiny loan amount. Because small and medium-sized businesses often do not own any immovable assets, there is a greater chance that they will not be able to meet the collateral requirements, which is the major reason for the increased risk. In certain cases, financial institutions (both banks and non-banks) are hesitant to lend to small and medium-sized businesses (SMEs) because they want collateral. According to a report published by the Bangladesh Bank in 2008, the main reasons why fewer small and medium-sized enterprises are venturing into manufacturing include a lack of capital, poor utility infrastructure, outdated technology, and biased government policies.

However, banks and other financial institutions favor corporate customers due to cheaper changeover costs and higher collateral availability. Microfinance is also inaccessible to SMEs. Given the importance of small and medium-sized enterprises (SMEs) to the decentralized creation of jobs and production of output in developing nations, their expansion is an admirable objective (Chen, 2011). Small and medium-sized enterprises (SMEs) play a crucial role in the economic growth of developing countries like Bangladesh by providing much-needed jobs and by manufacturing domestic alternatives to expensive imported equipment (Chowdhury, 2008).

According to Khan (2015), the elimination of poverty and unemployment has been the primary goal of SMEs in the majority of developing nations. Small and medium-sized enterprises (SMEs) have enormous potential for the benefit of the nation, and Al Barwani, Jahwari, Al Saidi, and Mahrouqi (2014) stressed that the government has the obligation for fostering this potential. They also advocated that SMEs should invest in training in order to become more capable business leaders and staff. A committee that may design the framework for SMEs was advocated by Christina, Neelufer, and Al Amri (2014), who highlighted that SMEs are accountable for job generation and poverty reduction in a nation. According to Okoth (2013), the absence of a conducive governance environment and the limited access to financing are the primary challenges encountered by small and medium-sized enterprises. According to Gulani& Usman (2013), the growth of entrepreneurship is significantly skewed by the difficulty of small and medium-sized enterprises (SMEs) in securing funding for startup or expansion. According to Khan (2009), most SMEs have delays in both their initial setup and the start of production for a variety of reasons, the most common of which is a lack of capital. According to Uddin (2014), even a little amount of capital may aid a small or medium-sized enterprise (SME) in its expansion efforts.

According to Kambwale, Chisoro, and Karodia (2015), small and medium-sized enterprises (SMEs) are unable to withstand shocks because their backbones are not supported by enough managerial skills and financial resources. For them to reach their full potential and contribute to economic growth, it is advised that the government play a role in supporting them so that small and medium-sized enterprises (SMEs) don't fail. According to Eniola&Entebang (2013), the most significant difficulty for SMEs is in the management of their resources. According to Farsi and Toghraee (2014), the government has to implement appropriate regulatory regulations to help small and medium-sized enterprises (SMEs) overcome the challenges they experience while attempting to implement new technologies due to their lack of personnel with the necessary skills.

In light of the challenges encountered by small and medium-sized enterprises (SMEs), Khan and Krishnamurthy (2016) argued that policymakers should create strategies to keep the entrepreneurial spirit alive among young people. According to Ashrafi, Sharma, Al-Badi, and Al-Gharbi (2014), it is difficult for the owners of small and medium-sized enterprises (SMEs) to acquire straightforward ICT solutions and the associated assistance in order to implement ICT inside their organizations. According to Saleh (2012), small and medium-sized enterprises (SMEs) in Oman have a plethora of e-business alternatives at their disposal for expanding their operations and gaining and keeping clients. Organizing and planning such a structure, making internal changes like people training, etc., is the key difficulty, according to research by Tarute and

Gatautis (2014), which shows that SMEs need to embrace ICT. According to Al Rahbi (2017), business owners of SMEs would benefit from implementing ICT into their operations but are unable to do so due to a lack of resources (including capital, knowledge, and technical support).

Types, Size Structure and Major Classification of SMEs in Nigeria

The ideal parameters for determining what makes a big or small SME are not universally agreed upon by academics. This is due to the fact that categorizing SMEs into distinct sizes is a very subjective endeavor (Ekpenyong&Nyong, 1992). In the United Kingdom, for instance, a small or medium-sized firm is one with a yearly revenue of less than $2 million and less than 200 workers. Small and medium-sized enterprises (SMEs) in North America are classified by their yearly sales and employee counts. The OECD claims that the strengths of a country's small and medium-sized enterprises (SMEs) reveal not only the economic but also the cultural trajectory of that nation. Various nations use a variety of these definitions to classify small and medium-sized enterprises. Some people solely consider the number of employees when determining the kind of small and medium-sized enterprise (SME), while others take into account additional factors such as the amount of capital invested, the company's annual revenue, and the industry in which it operates. As reported by (Dababneh&Tukan, 2007).

Udechukwu conducted a study of Nigeria's micro, small, and medium-sized enterprises and their potential in 2003. His research led him to classify Nigerian SMEs into four broad classes:

- “Micro/cottage industry is an industry with a labour size of not more than 10 workers, or total cost of not more than N1.50 million, including working capital but excluding the cost of land.
- A small-scale industry is an industry with a labour size of 11 to 100 workers or a total cost of not more than N50 million, including working capital but excluding the cost of land.
- Medium scale industry: an industry with a labour size of between 101 to 300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding the cost of land.
- Large scale industry is an industry with a labour size of over 300 workers or a total cost of over N200 million, including working capital but excluding the cost of land.” (Udechukwu, 2003).

Micro, small, and medium-sized enterprises (MSMEs) were characterized as follows by Yinka Fisher, coordinator of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in Lagos, during an interview with Daily Independent (2012).

- Business with less than ten employees and a capital base of between one and five million Nigerian naira (1 and 5 million), excluding the cost of land, is considered a micro firm.
- When a company has 10 to 49 people and a capital basis of $5 million to $50 million, we call it a small enterprise
- Businesses with between 50 and 199 people and a capitalization between $50 million and $500 million are considered medium-sized businesses.
- Businesses with between 50 and 199 people and a capitalization between $50 million and $500 million are considered medium-sized businesses; or Companies with between 500 and 2,500 employees are classified as medium-sized businesses, while those with more than 2,500 employees are classified as either major domestic or international corporations.

The National Policy on MSMEs adopts a classification based on dual criteria: employment and assets (excluding land and buildings), as follows:

Table 1: Small and Medium-Sized Enterprises Classification under National Policy

S/N	Size Category	Employment	Asset (#, Million) Excluding Land and Buildings)
1.	Micro enterprises	Less than 10	Less than 5
2.	Small enterprises	10-49	5 less than 50
3.	Medium enterprises	50-199	50 less than 500

The United Nations Industrial Creation Organization (UNIDO) notes, however, that the definition of small and medium-sized enterprises (SMEs) is a major problem for policy development and implementation, and that this question is mostly driven by the goal of categorization. As a result, the definition of a small or medium-sized enterprise (SME) differs from nation to country and even from one era to the next within a single country.

It's worth noting that SMEs are classified differently in various nations. SMEs in Japan's manufacturing industry must have less than 300 workers and a paid-up capital of no more than 300 million Yen. South Korean small and medium-sized enterprises (SMEs) are privately held companies in the country's four major industrial, commercial, and service sectors that employ fewer than 300 people. Small and medium-sized enterprises (SMEs) in the European Union are classified according to their employee count and annual revenue/balance sheet. An organization may be considered a small or medium-sized business (SME) if it meets the requirements for the number of workers and either the turnover or balance sheet total. As an added criterion, it must be self-sufficient (Subrahmanya, 2005.)

Taxation

When a government collects taxes from its people, it is essentially taking an economic toll on them. Taxes are mandatory payments made by residents, businesses, and organizations to the government in order to fund its operations. They are not levied as punishment for a wrongdoing or as part of an instant exchange of products (Ali-Nayea, 2008).

TAXATION OF SMES

According to Atawodi and Ojeka (2012), deciding between these two categories of tax instruments is crucial to crafting an effective tax policy. The first is providing small businesses with favorable tax treatment and other incentives to help them get off the ground and thrive (Atawodi&Ojeka, 2012). Reduced corporate income tax rates, tax holidays, and other tax breaks are all examples of these incentives. The ultimate goal of all of these is to maximize a country's tax take by using strategies best suited to its unique conditions and administrative infrastructure (Atawodi&Ojeka, 2012).

Raising domestic funds for economic growth is a common source of difficulty for developing nations like Ghana. Experts agree that expanding the tax base is a key part of the solution to this problem. This is necessary owing to the pressing need for new infrastructure, the creation of new jobs, the reduction of unemployment, the growth of the productive sectors of the economy, and the large increase in state income from sources other than oil.

This procedure is meant to encourage low-income workers to save while also ensuring that the wealthy pay their fair share of taxes. Every nation has to have a tax administration system that works smoothly and efficiently for its own good (Atawodi&Ojeka, 2012). Baurer (2005) uses this idea to argue that the tax administration must level the playing field for business by enforcing tax compliance on all taxpayers. Tax authorities and administrators should strike a balance between enforcement and other functions, such as education and aid. Atawodi and Ojeka (2012) state that the Ability-to-Pay Principle and the Equal Distribution Principle, two of the three basic theories of taxation, are congruent with the logic underpinning the whole tax system. Both of the guiding principles center on the idea of justice and equality. Those who subscribe to the Ability-to-Pay theory believe that people should be taxed in proportion to their resources, whereas those who support the Equal Distribution Principle argue that everyone should pay the same rate of tax on their wages, savings, and other monetary transactions. This means that high-income consumers, who also tend to spend more, should pay a higher tax rate but ultimately will not do so (Atawodi&Ojeka, 2012).

2.2.2 Overview of Nigeria's Tax System

Nigeria operates fiscal federalism with various taxingpowers according to different levels of government.Many of the country's tax laws have not been reviewed inover a decade thereby becoming obsolete as they do notsufficiently address current business realities.Domestic revenue mobilization is low resulting in a Tax toGDP ratio of about 6% compared to about 17% for AfricanCountries. The key challenges include multiple taxations, the multiplicityof taxing agencies, administrative inefficiencies, and a lackof transparency regarding taxes collected and how theyare utilized.

Finance Act 2020

To a joint session of the National Assembly on 14 October 2019, the President of the Federal Republic of Nigeria, Muhammadu Buhari, delivered the 2020 Budget proposals, which included the Finance Bill, an Executive Bill drafted by the Honorable Minister for Finance, Budget and National Planning. The National Assembly then deliberated and approved the Bill on Wednesday, 20 November 2019 (Senate) and Wednesday, 27 November 2019 (House of Representatives), respectively, before the President gave his approval, resulting in the Finance Act, 2020 (hence referred to as the "Finance Act").

2.2.3.1 The passing of the Finance Act is a watershed moment for Nigeria since it ushers in a new era of active fiscal oversight, prompting a yearly or at least periodic examination of the macro environment and the stimulation of the economy through tools like a Finance Act. Nigeria last used this budgeting fiscal instrument in modifying the tax climate for business in 1999 with the Finance (Miscellaneous Provisions) Act No.30.

2.2.3.2 Numerous laws are amended by the Finance Act, including the Companies Income Tax Act, the Value Added Tax Act, the Petroleum Profits Tax Act, the Personal Income Tax Act, the Capital Gains Tax Act, the Customs and Excise Tariff Etc. (Consolidation) Act, and the Stamp Duties Act. Following approval by the Senate and House of Representatives and the President's signature, this legislation will join the Budget and Appropriations Act signed by the President in December 2019 to become law in time for the 2020 calendar year. The Finance Act was passed so that the Federal Government of Nigeria could more easily collect the taxes that are needed to pay for public services, promote a steady growth in tax collections, and guarantee that tax law provisions were in line with the goals of the country's tax policy.

Specifically, there are five main categories into which the changes are broken down:

- Foster monetary fairness by reducing regressive taxes.
- Revise our own tax code to reflect international norms.
- Establish fiscal incentives for financial market and physical infrastructure investment.
- Enhance government income via a variety of fiscal measures, such as raising the value-added tax rate from 5% to 7.5%.
- Encourage small enterprises in accordance with the ease of doing business reforms

Finance Act and Its Moves Towards Supporting MSMEs

The current finance act in Nigeria creates Exemption from CIT (and TET) for companies with turnover below N25 million, a Possible 8 years exemption for companies involved in agricultural production, Exemption of small companies from min tax, Exemption of dividends received from small companies in the manufacturing sector in the first 5 years of operations, VAT compliance threshold for small businesses, exemption of basic food items, Stamp duty threshold for electronic transfer increased from N1,000 to N10,000, Bonus of 2% for early payment of CIT by medium-sized companies.

Theoretical Review

The Law of Proportionate Effect

Several scholars have proposed hypotheses about the expansion of businesses. Gibrat's Law of Proportionate Effect is the most well-known and widely-accepted hypothesis (LPE). Gibrat first proposed this idea back in 1931. According to this hypothesis, a company's pace of growth doesn't rely on how big it was to begin with. By inference, the rule of proportional impact states that established businesses' growth rates are not influenced by systematic characteristics like their size or history of expansion. That is to say, the distribution of growth-inducing variables such as taxes, demand growth, managerial skills, innovation, and organizational structure is not dependent on the size or growth history of an individual business (Goddard, Ghandi&Gbandi, 2001). Tests of LPE in the real world have always shown contradictory outcomes. Thus, Mansfield (1962) notes that the inconclusive results concerning the validity of the LPE result from using three different types of samples:

- All firms (including those that fail to survive during the period);
- Surviving firms only; and
- Well-established firms (i.e., firms that have reached the minimum efficient scale (MES) of operation, and thus have exhausted economies of scale). As a whole, Mansfield (1962) finds that small businesses expand faster and more unevenly than big ones.

The Stochastic Theory of Firm's Growth

A variety of economic theories of business development emerged in the late 1970s and 1980s, after a resurgence of empirical study in the subject of firm growth. The stochastic theory of the development of a corporation is one such theory. In 1982, Jovanovic came up with this concept. The hypothesis included aspects of chance into the more established notion of a company's development. As part of stochastic theory, random firm-specific shocks are introduced to the cost curves of all firms. Firms get insight into the impacts of shocks on their productivity over time. When businesses get positive shocks, they expand and thrive. Some companies, however, fail to expand and may even begin to deteriorate or even disappear altogether. What this means is that the rates of growth of big companies are more stable than those of smaller ones.

Evolutionary Theory of Firm Growth

Evolutionary theory of business development was proposed by Nelson and Winter (1982). The idea of sequential growth is implicit in the evolutionary model of business expansion. According to Nelson and Winter (1982), it is impossible to break the cycle of success and failure. The LPE and other purely stochastic growth models assume that the proportional growth of surviving enterprises is random and, hence, independent of prior performance, however this is not the case. The model by Nelson and Winter (1982) highlights some basic problems about the propriety of putting strong rationality and informational assumptions on agents that encounter continuous technological change by eschewing stringent maximizing assumptions in favor of lesser rationality assumptions. Most agents don't bother to optimize their responses to shifts in the market, but instead rely on customary procedures developed for their company. Growth is most likely to be achieved again by repeating tried and true practices that have shown to be effective in the past. There will always be shifts in the market, but successful businesses have tried-and-true processes for adapting their practices accordingly (Hart, 2000).

Indicators of the relative relevance of systematic and stochastic elements in growth theory include the degree of serial correlation in growth. Consistent with evolutionary theories of firm development, steady corporate expansion due to systematic variables is predicted to result in a high degree of serial correlation. To the contrary, stochastic growth theories like the LPE assume that the proportional growth of surviving enterprises is entirely random. Though all of the aforementioned theories are pertinent to the issue at hand, the Law of Proportional Effect—LPE—is the most suitable framework within which to conduct this research.

This is due to the theory's association of corporate expansion with factors such as government regulation and taxes.

Empirical Review of Literature

Author	Country	Objective	Methodology	findings
Buraiki, and Khan (2018)	Oman	Analyze the issues that small and medium-sized enterprises (SMEs) experience while attempting to embrace new technology, and critically explore the challenges that come in the form of rules and processes.	Chi-square tests, Kolmogorov-Smirnov tests and regression analysis	Results show that the majority of respondents had their company launch delayed owing to a lack of capital. It is also stated that SMEs need expert assistance in setting up their IT infrastructure at the time of their enterprises' inception.
AgotandUgwuoke (2018)	Nigeria	Taxation's Effect on Nigeria's Small and Medium-Sized Enterprises	multinomial regression	It was shown that expensive and complicated tax regimes tend to be more destructive than advantageous to SMEs, since they raise operating expenses and dampen SMEs' potential for development.
Tee,Boadi and Opoku (2016)	Ghana	The purpose of this research was to examine how Ghanaian corporate executives and managers see the country's tax structure and its impact on company profits.	Descriptive analysis method, correlation and regression analysis	The results show that the vast majority of respondents believe that the country's current tax policies have a negative effect on the expansion of small and medium-sized enterprises (SMEs), and advocate for change.
Megha (2016)	India	issues, challenges, and future opportunities for SMEs in the Pune area's electronic manufacturing sector were highlighted.	descriptive research design	The data analysis revealed that the main problems for small and medium sized electronic units in the Pune area were a lack of finance, poor social infrastructure, a shortage of management skills, and a plethora of taxes.
Dolgih, Zhdanova and Bannova (2015)	Russia	Think about how taxes influences the growth of small businesses.	descriptive	Simplified legislation and administrative processes in the tax regulation of the activity; improved information portals, hosting webinars, and other information to help businesses are all

				necessary to create a favorable atmosphere for SMEs.
Alauddinand Chowdhury (2015)	Bangladesh	the endeavor to examine the problems, possibilities, and obstacles associated with funding SMEs, and to identify solutions to those problems	Questionnaire	A loan distribution system that assesses borrowers' creditworthiness in ways other than the ownership of fixed assets is urgently required.
Chowdhury,Azam and Islam (2013)	Bangladesh	as a means of understanding the role SMEs may play in the Bangladeshi economy.	structural questionnaire	Small and medium-sized enterprises (SMEs) have taken on a unique importance in Bangladesh due to their potential role in poverty alleviation initiatives and their contribution to the country's overall industrial and economic progress
Mwangi and Nganga (2013)	Kenya	The impact of taxes on Kenya's burgeoning small and medium-sized enterprise (SME) sector was the focus of this study	descriptive design Primary data Binary logistic regression	There is a strong link between taxes and expansion in the SME market.

Source: Authors Compilation (2022)

Methodology

This study examines the impact of taxation on the performance of SMEs in Nigeria. The study adopts a conceptual research design. This research design does not include any practical analysis but is related to the analysis of abstract, concepts or ideas.

Conclusions and Recommendations

Conclusion

The findings of this research indicate that taxes have varying effects on the success of small and medium-sized businesses. Reviewing the available literature, we learn that changes to tax rates cause adjustments to the costs of different commodities. Increases in tax rates are associated with increased manufacturing, distribution, and selling expenses, which in turn lead to higher prices and prompt shifts in consumer purchasing patterns. When prices rise, consumers respond by purchasing less of the item. Whenever tax rates are raised, costs of products and services rise, leading to a decline in consumption and a reduction in sales volumes, which in turn reduces profitability and slows the expansion of SMEs.

The amount of taxes established must be conducive to the growth of SME sectors and must not hinder the operation of the firm. Holtz and Eakin (1995) debate whether or not there is a financial argument for providing favored tax treatment to small and medium-sized enterprises (SMEs). As an example, if small firms were highly innovative but large businesses were able to buy them for less than they were worth due to their market power, then the case could be made that tax breaks should be provided to small and medium-sized enterprises (SMEs). This is because SMEs provide externalities that benefit the economy, but the rewards for these externalities are not fully captured by SMEs. Second, the tax system shouldn't stifle the expansion of small and medium-sized enterprises (SMEs); third, tax benefits for such enterprises should be based on equity.

Payment of taxes is also an outflow of cash from the firm that lessens its buying power. This is because a significant portion of revenue is spent on tax obligations rather than being reinvested into the company. The research demonstrates that when a business pays its taxes, its buying power instantly decreases. That is why a negative correlation exists between how much tax is paid and the effect taxes have on purchasing. In addition, the tax system in Nigeria is not conducive to the expansion of SMEs since the incentives available to them are restricted to properly registered SMEs, and even among those businesses, relatively few are aware of the existence of such advantages. This occurs because operators of SMEs often have inadequate education and training. Growth incentives are not available to the numerous SMEs that operate in the shadow economy. Small and medium-sized enterprises (SMEs) have a great deal to gain from taxes and the formal market thanks to the current finance act 2020.

Conclusions and Recommendations

As a result of this investigation, the following suggestions are offered:

- If we want to make it easier for small and medium-sized enterprises to comply with tax requirements, we need to make those regulations simpler. This entails not only having straightforward tax rules, but also a straightforward tax filing procedure. Promoting the usage of IT is important.
- Better efficiency and honesty on the part of tax administrators is essential in the fight against problems like double taxation.
- Tax administrators can enhance their support services for SMEs by, for instance, educating small company owners on topics like the taxes they are obligated to pay and the incentives and exemptions, which they are qualified.

References

1. *Agot, G. J.&Ugwuoke, O. W. (2018). Taxation and the Growth of Small and Medium ScaleEnterprise (SMEs) in Nigeria: A Case of Selected SMEsin Nasarawa State. International Journal of Advanced Research in Accounting, Economics and Business Perspectives, 2(1), 15-25.*
2. *Al Barwani, K.M., Al Jahwari, M.R., Al Saidi, A.S, & Al Mahrouqi, F.S. (2014). Towards a Growing, Competitive and Dynamic Small and Medium – sizedEnterprises Sector in Oman: Strategy and Policies, Central Bank of Oman – Occasional Paper, 1-66.*
3. *Al Rahbi, H.S.A. (2017).Factors Influencing Social Media Adoption in Small and Medium Enterprises (SMEs). Degree of Doctor of Philosophy Thesis submitted to Department of Computer Science, Brunel University London, 1-261.*
4. *Alauddin, M. & Chowdhury, M. M. (2015). Small and Medium Enterprise in Bangladesh-Prospects and Challenges. Global Journal of Management and Business Research, 15(7), 1-10.*
5. *Arinzeh, I. F. (2022). Microcredit Loan Accessibility and its Effect on the Performance of Small and Medium-sized Enterprises (SMEs) in the Niger Delta Region of Nigeria.*
6. *Aryeetey, E. &Ohene, A., 2004. Changing regulatory environment for small-medium size enterprises and theirperformance in Ghana. s.l., Working Paper, p. 300594.*
7. *Asgary, A., Ozdemir, A. I., &Özyürek, H. (2020). Small and medium enterprises and global risks: evidence from manufacturing SMEs in Turkey. International Journal of Disaster Risk Science, 11, 59-73.*
8. *Ashrafi, R., Sharma, S.K., Al-Badi, A.H. & Al-Gharbi, K. (2014). Achieving Business Success Through Information and Communication Technologies Adoption by Small and Medium Enterprises in Oman. Middle-East Journal of Scientific Research, 22(1), 138-146.*

9. *Atawodi, O. W. &Ojeka, S. A. (2012). Factors that affect tax compliance among small and medium enterprises(SMEs) in north central Nigeria. International journal of business and management, 7(12).*
10. *Baurer, L. I. (2005). Tax Administration and Small and Medium Enterprises (SMEs) in Development Countries.s.l.: s.n.*
11. *Buraiki, A. A. & Khan, M. F. R. (2018). Finance and technology: Key challenges faced by small and medium enterprises (SME's) in Oman. International Journal of Management, Innovation & Entrepreneurial Research, 4(2), 01-12.*
12. *Choi, J. U., Lee, C. Y., & Lee, J. H. (2022). Does government support make small and medium-sized enterprises reluctant to grow? Evidence from South Korea. Journal of the Asia Pacific Economy, 1-25.*
13. *Chowdhury, M. S. A.Azam, M. K. G.& Islam, S. (2013). Problems and Prospects of SME Financing in Bangladesh. Asian Business Review, 2(2), 51-58.*
14. *Christina, B., Neelufer, A. & Al Amri, S. (2014). Challenges and Barriers Encountered by The SMEs Owners in Muscat.International Journal of Small Business and Entrepreneurship Research, 2(3), 1-13.*
15. *Dababneh, R. &Tukan, F. (2007). Booklet of standardized small and medium enterprises definition-2007. A publication of USAID.*
16. *Dey, P. K., Malesios, C., De, D., Budhwar, P., Chowdhury, S., &Cheffi, W. (2020). Circular economy to enhance sustainability of small and medium-sized enterprises. Business Strategy and the Environment, 29(6), 2145-2169.*
17. *Dolgih, I. N., Zhdanova, A. B., Bannova, K. A. (2015). The influence of taxation on small enterprise development in Russia. Procedia - Social and Behavioral Sciences, 166, 216 – 221.*
18. *Ekpenyong, D. B., &Nyong, M. O., 1992. Small and medium-scale enterprises in Nigeria: their characteristics, problems and sources of finance. African Economic Research Consortium, Nairobi, Kenya Zakuna Printers Ltd.*
19. *Eniola, A.A. &Entebang, H. (2013). SME Firm Performance-Financial Innovation and Challenges.Procedia –Social and Behavioral Sciences, 195, 334-342.*
20. *Farsi, J. Y. &Toghraee,M.T. (2014). Identification the main challenges of small and medium sized enterprises in exploiting of innovative opportunities (Case study: Iran SMEs).Journal of Global Entrepreneurship Research, 4(4), 1-15.*
21. *Gulani, M.G. &Usman, A. (2013). Financing Small and Medium Scale Enterprises (SMEs): A Challenge for Entrepreneurial Development in Gombe State. Asian Journal of Business and Management Sciences, 2(9), 17-23.*
22. *Hasan, R. A. & Islam, K. M. Z. (2008), Bridging the Gap between Microfinance and SME Financing in Bangladesh: unlocking the potentials, Daffodil. International University Journal of Business and Economic, 3(1).*
23. *Jiménez, E., de la Cuesta-González, M., &Boronat-Navarro, M. (2021). How Small and Medium-Sized Enterprises Can Uptake the Sustainable Development Goals through a Cluster Management Organization: A Case Study. Sustainability, 13(11), 5939.*
24. *Kambwale, J.N., Chisoro, C. &Karodia, A.M. (2015).Investigation into the Causes of Small and Medium Enterprise Failures in Windhoek, Namibia. Arabian Journal of Business and Management Review (OMAN Chapter), 4(7), 80-85.*
25. *Khan, F.R. (2009). Financial Impact on Entrepreneurial Development across Industrial Estates of Chennai, State of Tamil Nadu, India. Journal for Global Business Advancement (JGBA), 6(1),116-125.*
26. *Khan, F.R. (2015). Women Entrepreneurship in Chennai, India – Factors Trigger and Prevent, International Journal of Management, Innovation and Entrepreneurial Research (IJMIER), 1(1), 22-31.*
27. *Megha, R. B. (2016). Issues, challenges and prospects of small and medium scale enterprises (SME's) in Pune region. International Journal of Disciplinary Studies, 1(2), 1-12.*

28. *Mnewa, R. &Maliti, E. (2008). The role of small business in poverty alleviation: The case of Dar es, Salaam,Tanzarnia..s.l., Research Report.*

29. *Mwangi, J. M. &Nganga, I. (2013). Taxation and SME's sector growth. Asian Journal of Business and Management Sciences, 2(3), 1-7.*
30. *Okoth, M. O. (2013). Challenges of Financing Small & Medium Enterprises (SMEs) Inequity Bank Branches in Kenya, Master of Business Administration research Project submitted to School of Business, University of Nairobi, 1-59.*
31. *Oludele, A. A. & Emilie, C. K. (2012). Regulation, Awareness, Compliance and SME Performance inCameroon's Manufacturing and Retail Sectors. International Journal of Social Economics, 39(12).*
32. *Subrahmanya M.H. (2005). SMEs in India: will they be able to join "Global Chains? CA J Chart Account (The Institute of Chartered Accountants of India, New Delhi), 54(3), 421–427.*
33. *Tarute, A. &Gatautis, R. (2014). ICT Impact on SMEs Performance.Procedia –Social Behavioral Sciences, 110, 1218-1225.*
34. *Tee, E.,Boadi, L. A.&Opoku, R. T. (2016). The Effect of Tax Payment on the Performance of SMEs: TheCase of Selected SMEs in Ga West Municipal Assembly. European Journal of Business and Management, 8(20), 119-125.*
35. *Uddin M.A. (2014).Problems faced by micro, small and medium enterprises in raising debt capital. Proceedings of the International conference on Social Sciences Research, Jun. 2014, 176-185.*
36. *Udechukwu, F.N. (2003). Survey of Small and Medium Scale Industries and their Potentials in Nigeria, Seminar on Small and Medium Industries Equity Investments Scheme, publication. No. 4, CBN training centre, Lagos.*
37. *Uzor, O. O. (2004). Small and medium scale enterprises cluster development in South-Eastern region of Nigeria. Institute for world Economics and International Management, 5(2), 649-670.*