

Effect of Taxation On The Performance Of Small And Medium-Scale Indigenous Enterprises In Abia State, Nigeria

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ABSTRACT:

The study was on the effect of taxation on the performance of small and medium-scale indigenous enterprises in Abia State. The study specifically determined the socio-economic characteristics of respondents, the level of the performance of indigenous business operators, the level of taxes paid, the perception of indigenous business operators on tax policy, the effect of tax paid on the performance of the respondents, and the factors influencing the amount of tax paid by the indigenous business operators the study area. This study adopted the primary source of data with the use of face-to-face interviews and questionnaires. A simple random sampling technique selected one hundred and fifty-seven (157) respondents. Data were analyzed using statistical tools such as mean, percentage, frequency distribution, regression, and ANOVA. The study showed that most of the respondents who operated indigenous businesses were male, single, young, educated, and having good business experience enough to support the stability of their businesses. Most (73%) of the respondents selected for the study were involved in non-food businesses. In addition, most indigenous business operators had an average income of N 15,260.00 and paid a minimum of N 8 8420 per month as tax. The level of tax payment per month is on the high side and too much to shoulder by the indigenous business operators. Furthermore, indigenous businesses' perception of tax policy in the state did not conform with best practices evidence in the tax burden of operators. However, the operators of indigenous businesses have shown resilience in their operations. Age, firm age, income generated, value of assets, type of enterprise, and business registration were significant variables influencing the amount of tax the indigenous business operators paid. The study recommended that the government should engage operators of SMEs in the state to work out modalities to reduce their tax burden that will ultimately promote business activities in the state. Also, unwholesome tax practices in the state should be eliminated to make the state the next business destination.

KEYWORDS: *Taxation, performance, small, medium scale, enterprises.*

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INTRODUCTION

Taxes are compulsory levies to the government on personal income (salaries), business profits, interest, dividends, and commissions. In this study, taxes are daily and monthly levies/ charges paid to the government by SME operators. Tax may also be an incentive or a disincentive to investment and savings, irrespective of whether the tax is direct or indirect. Small and Medium Enterprises Comprise about 95% of the entire economy and serve as sources of employment generation, innovation, competition, and economic dynamism, ultimately leading to poverty alleviation and national growth. At any rate, tax policy is one of the factors that determines the volume of the operations of these small and medium enterprises in any economic environment. Therefore, every country, including Nigeria, wants to build a civilized country with a strong and sound economy.

Revenue realized from taxation is a significant source of revenue for the Government of Nigeria and, as such, is an essential tool used in the development of Nigeria and her economy. A country's tax policies and systems are significantly related to business ventures in that country. An economy that enacts favorable and progressive tax laws and policies will 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 significantly affected, the other follows suit.

Globally, Small and Medium Enterprises (SMEs) are recognized as the main engine for growth and development. In Nigeria, readily available data on SMEs is scarce, but statistics from the Registrar General's Department suggest that 92 percent of companies registered are micro, small, and medium enterprises. SMEs in Nigeria provide about 85 percent of manufacturing employment, contribute about 70 percent to Nigeria's GDP, and therefore have a catalytic impact on economic growth, income, and employment (Awunyo-Vitor *et al.*, 2012; Steel & Webster, 1991). Panitchpakdi (2006) sees SMEs as a source of employment, competition, economic dynamism, and innovation, stimulating the entrepreneurial spirit and the diffusion of skills. In looking at comparators in some emerging economies, studies indicate that SMEs in India, amounting to almost 30 million operators, have been the fountainhead of several innovations in manufacturing and the service sectors and serve as the primary link in the supply chain between corporate entities and public sector units or enterprises. Here in Nigeria, most SMEs are involved in producing, processing, selling, and distributing made-in-Nigeria (indigenous) goods and services, thereby promoting a robust local economy.

However, regulations and red tape are reported as constraints to expanding businesses in Nigeria (Abia State inclusive). 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 crucial being that tax compliance costs comprise a much more significant proportion of total compliance costs for smaller firms.

Small and medium enterprises' mortality rate, comprising 95% of the economy, is very high. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), 80% of small businesses die within seven years of their establishment. SMEs in the nation and in the state continue to face a challenging business environment, which constituted the factors responsible for the untimely close-up of business enterprises ranging from taxation to enormous tax burden, scant electricity, and illegal levies.

Multiple tax burdens are another major problem in Abia State as many business organizations are taxed multiple times, and in some instances, the three tiers of government levy tax for the same event or asset. To this effect, some businesses are already collapsing, while the 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 considerable constraint to their businesses, as they claim taxes are high and do not allow new businesses to cover up initial costs.

However, if a conducive environment is created for these small businesses to grow through proper regulation, the SME sector has the highest propensity to transform the state's economy. This study's main objective was to assess taxation's effect on the performance of small and medium-scale enterprises in Abia State, Nigeria. More so, the study examines the level of performance of small and medium-scale operators in Abia State, the level of taxes paid by respondents, the perception of respondents on tax policy in Abia

State, the effect of tax paid on the performance of the respondent operations and the factors influencing the amount of tax paid by the respondents. Furthermore, we hypothesized that there is no significant difference between the socio-economic characteristics and the amount paid as taxes.

METHODOLOGY

The area of study is Abia State. Abia is a State in the southeastern part of Nigeria. The capital is Umuahia, and the major commercial city is Aba, formerly a British colonial government outpost in the region; and is also one of the most populated areas in Nigeria. Abia State was created in 1991 from part of Imo State. Abia State occupies about 6,320 square kilometers and is bounded north and northeast by the states of Anambra, Enugu, and Ebonyi. To the west of Abia is Imo State; to the east and southeast are Cross River State and Akwa Ibom State, respectively; to the south is Rivers State. Its population is about 3,727,300 million (NPC, 2006).

The study's target population comprises 285 SME operators in Abia State (Ministry of Commerce and Industry). The following criteria were adopted for an SME to qualify as part of the study population. Enterprises had at least two (2) paid workers and operated the business for at least five (5) years. The entrepreneurs/operators earned their income mainly from the businesses and registered with the Ministry of Commerce and Industry. Taro Yamane's formulae were used in randomly selecting one hundred and fifty-seven (157) SMEs from the list the Ministry of Commerce and Industry provided on all the SMEs meeting the above criteria. The formulae are stated thus:

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

Where;

N = sample size

e = error term

n = target population

Data were analyzed using descriptive statistics such as means, percentages and frequency distributions, regression, and ANOVA. The implicit form of regression models is stated as follows:

$$Y = f(X_i)$$

Where:

Y = Performance (Amount realized in naira from business activities after all expenses)

X₁ = Amount paid as tax (Naira) and;

Z_i = f(X₁X₂X₃X₄X₅X₆X₇)

Where;

Z_i = Amount paid as taxes in Naira

X₁ = Age of the respondents in years

X₂ = years of business experience

X₃ = Age of the firm (years)

X₄ = Income generated in Naira

X₅ = Value of assets in Naira

X₆ = Type of enterprise (food based = 0, non-food based = 1)

X₇ = Business Registration (Yes = 1, No = 0)

The hypotheses were analyzed using Analysis of Variance. The formula is stated as follows:

$$F^* = \frac{\sum \tilde{Y}^2 / (K-1)}{\sum e^2 / (N-K)}$$

Where;

$\sum \tilde{Y}^2$ = the Sum of squared deviations explained by all the regressors together

$\sum y^2$ = the total sum of squared deviations of the y's

$\sum e^2$ = the sum of residual deviations

The degree of freedom for $\sum \tilde{Y}^2$ is K-1, and the degree of freedom for $\sum e^2$ is N-K.

Where N is the sample size

RESULTS AND DISCUSSIONS

Socio-economic characteristics of the indigenous business operators

The socio-economic characteristics of the indigenous business operators in the study area are presented in Table 1

Table 1: Socio-economic characteristics of the indigenous business operators

Sex	Frequency	Percent	Mean
Male	90	57.3	
Female	67	42.7	
Total	157		
Age			
21-30	78	49.7	
31-40	47	29.9	
41-50	22	14.0	
51-60	10	6.4	34
Total	157	100	
Marital status			
Single	74	47.1	
Married	83	52.9	
Total	157	100	
Education			
Primary	14	8.9	
Secondary	60	38.3	
Tertiary	83	52.8	
Total	157	100	
Experience			
1-5	114	72.6	
6-10	25	15.9	
11-15	13	8.3	
16-20	5	3.2	
Total	157	100	5

Source: Field survey, 2021

Table 1 shows that 57.3% of the respondents were male, while 42.7% were female. This means that the majority of the respondents were male. The relatively high number of males in the study could be related to the fact that males are breadwinners of their families and, at the same time, required by the law to pay their taxes to the government purse irrespective of their status in the society.

The Table shows that about 50% of the respondents are aged 21-30. The mean age of the respondents was 34 years. This means that the majority of the respondents who usually pay their taxes were young, energetic, and enterprising. The enterprising nature of the respondents is associated with their ability to adopt technologies that ease the payment of taxes and, at the same time, grow their businesses.

Table 1 shows that 53% of the respondents were single, while 47% of the respondents were married. This means that the respondents who paid taxes were single. The occurrence of single people in SMEs could reflect their ability to hustle and always put in their best through their availability and direct involvement in their business activities. This situation leads to better business performance and prompt tax payments.

Table 1 shows that all the respondents involved in SMEs had one form of education or another. This means that all the respondents were educated. The result implies that respondents can read and easily comprehend the pros and cons of government tax policies.

Table 1 shows that 73% of the respondents had 1-5 years of experience. The mean years of experience in SMEs was 5. This means that most of the respondents have good business experience to support the stability of their businesses and, at the same time, aided them in growing the habit of regularly paying their taxes.

Type of indigenous enterprise operated by the Respondents

The distribution of the respondents based on the type of indigenous enterprises operated is presented in Table 2

Table 2: Distribution of the respondents based on type of indigenous enterprise operated

Types of indigenous enterprises	Percent	Frequency
Food based	42	26.75
Non-food based	115	73.25
Total	157	100

Source: Field Survey, 2021

Table 2 shows that 27% of the respondents operate food-based indigenous enterprises, while 73% of the respondents % operate non-food-based indigenous enterprises. This means most respondents selected for the study were involved in non-food-based indigenous businesses. The high number of respondents involved in non-food-based indigenous enterprises could be associated with the longevity of their products and firm assurance of having returns on their investment over time.

Level of performance of indigenous business operators

Level of performance of indigenous business operators in the study area is presented in Table 3.

Table 3: Level of performance of indigenous business operators

Performance (N)	Frequency	Percentage (%)
1000-1000000	64	40.8
1001000-2000000	47	29.9
2001000-3000000	15	9.6
3001000-4000000	26	16.6
4001000-5000000	5	3.2
Total	157	100
Mean	N183,083	

Source: Field survey, 2021

Table 3 shows that 71% of indigenous business operators' performance levels ranged from N1000-N2,000,000, with the mean performance level being N183,083. This implies that the majority of the respondents generate a moderate income, which could affect tax compliance minimally.

Level of Tax paid by Indigenous business operators

The level of Tax paid by the respondents in the study area is presented in Table 4

Table 4: Level of tax paid by Indigenous business operators

Tax (N)	Frequency	Percentage (%)
1000-200,000	141	89.8
201,000-400,000	16	10.2
Total	157	100.0
\bar{X}	N105,892	

Source: Field Survey, 2021

Table 4 shows that about 90% of the indigenous business operators paid taxes between N1000 and N200,000, while 10% paid taxes between N201,000 and N400,000. The means tax the indigenous business operators paid was N105 892.00. Most indigenous business operators paid a minimum of N8 8420 per month or N290.00 daily. The level of tax payment per day or month may be too much on the shoulders of the indigenous business operators looking at the monthly average income of N15,260.00 if their businesses are not thriving.

Perception of indigenous business operators on tax policy

The perception of indigenous business operators on tax policy is presented in Table 5. Table 5 shows the perception of indigenous business operators on tax policy. The response of indigenous business operators on the perception of different items indicated agreement since their mean response was more than 2.5. The mean value is an affirmation of all the items (1-5).

Furthermore, the grand mean of 3.194 signifies that the majority of the indigenous business operators agreed that items 1-5 were accurate about tax policy in Abia State. This suggests that government should eliminate laws and structures that promote illegal tax collection procedures/practices that negatively affect business activities in the State.

Table 5: Distribution of perception of indigenous business operators on tax policy

Items	SA	A	D	SD	TOTAL	X
Multiple taxes weaken the capital base of the business	548	60	–	–	608	3.87
Unfriendly collection methods by both state and local government authorities discourage the intention for compliance.	180	210	84	–	474	3.01
Business taxes such as environmental and VAT is passed down to the consumer at a higher price	120	29	108	–	447	2.84
Multiple taxes affect the disposable income of small business owners	160	303	32	–	495	3.15
High taxes reduce the competence of business owners to expand their businesses.	200	210	74	–	488	3.10
Total mean						15.97
Grand Mean						3.194

Source: Field Survey, 2021

Effect of tax paid on the performance of indigenous businesses

The effect of tax paid on the performance of indigenous businesses is presented in Table 6

Table 6: Effect of tax paid on the performance of Indigenous businesses

Variable	F calculated	F tabulated	Prob. Level (1%)
Amount of Tax paid	294.022	10.9	0.000

Source: Field Survey, 2021

The result in Table 6 shows a positive and significant 1% relationship between tax paid and the performance of indigenous businesses. This means that as tax paid increased, the performance of indigenous businesses also increased. The increase in the performance of indigenous businesses could be associated with the resilience of the indigenous business operators to survive, not minding the circumstances in which they find themselves. They could adopt product diversification and effective sales/marketing strategies. The more the indigenous business operators adopt product diversification and effective sales/marketing strategies, the more they comply with the government's tax policies.

Factors influencing the amount of Tax paid by Indigenous businesses

Factors influencing the amount of tax paid by the indigenous business operators are presented in Table 7. Table 7 shows that the linear function form was chosen as the lead equation based on the value R^2 (coefficient of multiple determination), F-ratio, numbers of significant variables, and the conformity of these variables to *prior* expectations.

Table 7: Factors influencing the amount of Tax paid by Indigenous businesses

Variable	Linear	Exponential	Semi log	Double log
Constant	29396.1 (1.883)*	10.3641 (58.004)***	-76063.3 (-6.421)***	2.472 (2.118)*
Age	-1902.6 (-3.256)***	-0.012 (-1.727)*	-122223.642 (-5.065)***	-1.139 (-4.793)***
Age of the Firm	4891.3 (3.233)***	0.051 (2.935)***	50151.140 (5.035)***	0.587 (5.985)***
Income Generated	0.051 (16.520)***	4.473E-007 (12.695)***	83812.179 (12.976)***	0.747 (11.739)***
Value of Assets	0.002 (2.911)***	3.133E-008 (3.642)***	183.717 (0.037)	0.076 (1.557)
Type of Enterprise	-2171.2 (-1.101)	-0.037 (-1.634)	-1053.813 (-0.494)	-0.025 (-1.194)
Business Registration	27170.6 (3.204)***	0.234 (2.412)*	50666.496 (-0.494)***	0.428 (4.996)***
R ²	0.746	0.681	0.713	0.733
R ⁻²	0.736	0.669	0.702	0.722
F-ratio	73.570***	53.404***	62.106***	68.636***

Source: Field Survey, 2021 Note: Figures in Parenthesis are t-ratios, + Lead equation

*** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

The value of R² (74.6%) implies that the total variation observed in the dependent variables was caused or accounted for by the independent variables. The value of the F-ratio was 73.570, indicating the model is statistically at 1%. Age, firm age, income generated, value of assets, type of enterprise, and business registration were significant variables influencing the amount of tax the indigenous business operators paid. The age of the respondents was significant at 1% and negatively related to the amount of tax paid. This means that as the age of the respondents increased, the tax paid decreased. This could be associated with less ability and willingness to take risks as the respondents grow older. The lesser the risk taken by the respondents, the less the investment into the indigenous businesses, and the less the return on investment, which can seriously affect the amount to be paid as tax by the respondents.

The age of indigenous firms was significant at 1% and positively related to the amount of tax paid. This means that as age (the capacity to handle indigenous business operations and challenges with less stress) increases, the performance of indigenous firms becomes greater. The greater the performance of business firms, the greater the propensity for indigenous firms to pay tax.

Income generated was significant at 1% and positively related to the amount of tax paid. This means that as the income is generated income, the amount of tax paid also increases. Better income generation could mean adopting better and viable indigenous business strategies/principles.

Asset value was significant at 1% and positively related to the amount of tax paid. This means that as the value of an asset increases, the amount of tax paid also increases. Value of assets means tangible and non-tangible resources that regularly support the advancement of indigenous businesses.

Business registration was significant at 1% and positively related to the amount of tax paid. This means that as indigenous business registration increased, taxes paid also increased. Registration of indigenous firms could mean legal backing/ recognition/ permission to carry out businesses without any fear of business molestation.

Test of Hypothesis

H0₁: There is no significant difference between the socio-economic characteristics and the amount paid on taxes.

Analysis of Variance (ANOVA) was used to analyze the hypothesis, and the result is presented in Table 8. Table 8 shows that F-cal was 73.570 while F-tab was 2.19. So, we will reject the null hypothesis and accept the alternate hypothesis. Therefore, there is a significant difference between the socio-economic characteristics and the amount paid as taxes.

Table 8: Significant difference between the socio-economic characteristic and amount paid as Taxes

Model	Sum of Square	Df	Mean Square	F-cal	F-tab
Regression	7.312E+11	6	1.219E+11	73.5701	2.19
Residual	2.485E+11	150	1656404111		
Total	9.796E+11	156			

Source: Field Survey, 2021. Decision rule: if F-cal is > F-tab, reject the null hypothesis and accept the alternate; otherwise, accept the null hypothesis.

CONCLUSION/RECOMMENDATIONS

The study concludes that the level of tax payment per month is on the high side and too much to shoulder by the indigenous business operators. Furthermore, indigenous businesses' perception of tax policy in the state did not conform with best practices evidence in the tax burden of operators. However, the operators of indigenous businesses have shown resilience in their operations. Age, firm age, income generated, the value of assets, type of enterprise, and business registration were significant variables influencing the amount of tax the indigenous business operators paid. In addition, there is a significant difference between the socio-economic characteristics and the amount paid as taxes. The study recommended that the government should engage operators of SMEs in the state to work out modalities to reduce their tax burden that will ultimately promote business activities in the state. Also, unwholesome tax practices should be eliminated to make the state the next business destination.

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