

TAX POLICY AND ENTERPRISE GROWTH AND DEVELOPMENT: ANALYSIS OF EMPIRICAL STUDIES

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ABSTRACT

Literature emphasized tax policy as being not only critical resources for government to provide the needed enabling environmental resources for MSMEs to operate successfully but also seen as an important tool by them to regulate the unstable economic situation within the nation. The review of the literature reveals that there are no unified measures of taxation on the performance SMEs in Nigeria. Hence, the study reviewed and analyzed some of the existing empirical studies in order to discover the various dimension in which tax policy has been used to promote enterprise growth and development in Nigeria. The findings of the study revealed that strict tax policies affect entrepreneurial sustainability and growth while a friendly tax policy promotes SMEs growth's sales revenue. The study concluded that tax has negative effect on SMEs growth and development.

Keywords: Development, Enterprise, Entrepreneur, Growth, Tax policy

Introduction

Research attention has focused on the entrepreneurial growth and development in Nigeria not only because of their ability to innovative new ideas but because of their ability to reduce unemployment rate, influences economic growth; increases per capital income, generate capital, and increases revenue that will be generated by the government in the long run (Muritala, Awolasa, & Bako, 2012). Since an entrepreneur utilizes local materials thereby creating enabling market for local products in the country. Despite these opportunities that surround the entrepreneurship business, it still faces a lot of challenges among which tax policies of the government is one. The inconsistencies in the tax policies system of the government has to not only entrepreneurs but also to other business owners has eaten deep into their profits and thereby making the leftover not to be capable reinvesting into the business and this lead to why many of entrepreneurship businesses and others could not withstand the taste of time. The inconsistencies in tax policies has manifested continuous multiple taxation, high tax rates, and poor tax incentives on the side of the government to the side of entrepreneur and this resulted into tax burdens.

Notably, tax revenue has been made known as one of the sources with which governments generates money for the provision of infrastructural and social amenities as well as cater for recurrent expenditure for the purpose of development (Ariyo, 2005). However, the whole process of the tax collection exercise should be structured in a way that would reduce direct interference with country's economic decisions in order to expand and sustain such decisions (Musgrave, 1984). Failure to keep tax imposition rate so low will discourage tax compliance particularly among the new start-up businesses in which entrepreneur is one (Shahrodi, 2010). It should be the type that will allow efficient and effective tax administration that will be understood by the taxpayers (Weichendreder, 2007). It should equally be used judiciously to achieve economic goals.

Hence, this study being a review looks at the various ways within which existing works have looked at the impact of tax policies on the growth and development of business enterprises in which entrepreneur is one.

Small and Medium Scale Enterprises (SMEs)

Central Bank of Nigeria in 1988 described small-scale enterprises as enterprises with annual turnover of not more than ₦500,000. In the budget of 1990, FG defined small scale enterprises for the purposes of commercial bank loans as businesses with an annual turnover of not exceeding N500,000, and for Merchant Bank loans, it was defined as those enterprises with capital investments not more than 2 million naira (excluding cost of land) or a maximum of N5million. Similarly, the National Economic Reconstruction Fund (NERFUND) put the limit for small-scale industries at N10 million. Companies and Allied Matters Decree of 1990 also defines a small company as one with an annual turnover of not more than ₦2million and net asset value of not more than ₦1million (Ekpenyong & Nyong, 1992). According to Small and Medium Enterprise Equity Investment Scheme (SMEEIS), SME is seen as any enterprise with a maximum asset base of ₦500 million (excluding land and working capital), and with no lower or upper limit of staff”.

Nevertheless, the study relies on the definition of SMEs provided in Section 40(6) of the Companies Income Tax Act(CITA) Cap C21 LFN 2004 as companies with a turnover of ₦1m or less, operating in manufacturing, agricultural, solid mineral mining, and export trade sectors; while subsection 8 of the same Act states that as from 1988 all companies engaged in trade or business with a turnover of ₦500,000.00 and below qualify as small and medium enterprises (Atawodi & Ojeka, 2012)

The Concept of Taxation

So many scholars have defined the concept of taxation in many contexts. Among these scholars are Inim et al (2020) who sees taxation as a process with which governments all over the world generate revenue to cater for its expenditures by levying charges on their companies, citizens as well as on goods and services. Moreso, Iwuji (n.d.) sees tax as a statutory compulsory contribution imposed by government taken from a person’s or entity’s income, property or transaction for the purpose of funding governance. Generally, a tax must fall in any of the three basic structures; proportional, regressive or progressive. A proportional tax is such that the payer is levied an amount that is not a direct proportion of his income. A regressive tax is when a person with lower income is charged higher, while a progressive tax is when a higher income earner is levied higher rate.

Contribution of Tax Policy on the Growth of SMEs

Many authors and researchers have established the nexus that exists between tax policy and enterprise growth. According to Tomlin (2008), economists were of the view that the resources used by smaller companies towards tax compliance are resources that could have been used for reinvestment which would facilitate future growth. Therefore, this establishes a belief that taxes and its complex system put abnormal pressure on smaller businesses. So, small taxpayers under the regular system feel more of the impact, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises.

Therefore, reducing the compliance costs and tax rate increases the profit margin of small businesses. This action also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the untapped economy and the number of non-complying registered taxpayers (Vasak, 2008). In addition, SMEs usually have to operate in a domineering regulatory environment with the excess 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 countless 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 excessively complex regulatory system and tax regime makes tax compliance unduly heavy and often have a distortionary effect on the development of SMEs as they are tempted to transform 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. Also, a poorly executed tax system leads to low efficiency, high collection charges, waste of time for taxpayers and staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence have clearly indicated that small and medium sized businesses are affected unreasonably 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 staff, and the low amounts of received taxes and 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, etc.

Empirical review

Aribaba (2019) examines the effect of tax policies on the survival of entrepreneurship by measuring tax policies in Nigeria with variables such as multiple taxation, tax rate, and tax incentives on one hand while on the other hand, he measured entrepreneur survival with sustainability. The study adopted a survey research design with registered SMEs in 18 local government areas of Ondo State. Out of which he administered 252 copies of questionnaire to the selected fully registered SMEs (under SMEDAN) operating in the 9 local government areas of the state through multi-stage sampling techniques. The result of the ordered logistic regression used in testing the hypotheses found three explanatory variables (multiple taxation, tax rates, and tax incentives) accounted for 43% of the variability in SMEs sustainability in state and also that there was a negative significant effect of multiple taxation on sustainability of entrepreneurship while tax rates and tax incentives maintain positive relationship with entrepreneurship sustainability. However, the study failed to reveal the actual number of registered SMEs in each of the selected 9 high hub business areas of the state. This becomes a gap that calls for future researches in the remaining 9 areas with low business hub in the state. This is because, policy of taxation does not exempt SMEs that operate in a rural or sparsely populated areas as they are all contributing to the nation's gross domestic products (GDP).

In another study conducted Atawodi and Ojeka (2012) in Zaria with the aim to determine if there is any relationship between SMEs' growth and the tax policy of the environment within which they operate. Measuring tax policy and SMEs growth with business sustenance and expansion through the adoption of explanatory or a causal research design. The Spearman's Rank Correlation result of the analysis of the copies of questionnaire judgmentally administered to 150 SMEs' owners in Zaria showed a negative relationship between tax and a small business ability to expand. At the same time, a negative relationship exists between tax and a small business' ability to sustain itself. Though the study failed to clearly defined the basis upon which tax is measured possibly may affect the outcome of the study. Therefore, since this study area falls in the northcentral zone

of the country, there is need for further studies in the North Central region of Nigeria in order to have a good stand at generalizing the finding across the region.

Gimba et al (2020) investigated the relationship between fairness in the tax system, detection probability and penalty magnitude with VAT compliance intention among Small and Medium Enterprises (SMEs) in developing countries. Conceptualizing fairness in tax system as carrot and detection probability and penalty magnitude as stick while their cumulation result into VAT Compliance Intention at the sametime centralizes the theory of the study on planned behaviour theory. The result of the analysis of responses gotten from 500 copies of questionnaire administered to SMEs who were selected using cluster sampling technique, based on geographical location of the SMEs in the industrial areas of Kano state, north-west Nigeria indicated that there is positive relationship between fairness in the tax system, detection probability and penalty magnitude with VAT compliance intention in developing countries. The strength of this study lies in the use of large sample compare to previous studies reviewed. Conversely, the study cannot represent the whole of Nigeria let alone, the Northwest as suggested by the authors despite, the SMEs in Kano constitute 60% in the whole Northwestern state of Nigeria. Hence, it becomes imperative for further studies to focus on the other part of the northwestern state in Nigeria.

Inim et al (2020) examines the impact of taxation on the growth of Small and Medium Enterprises (SMEs) in Nigeria from 2007 to 2019. Their study measures the independent variable(taxation) with proxies such as Company Income Tax(CIT), Value Added Tax(VAT) and Custom and Exercise Duty(CEDT), while the dependent variable(SMEs growth) was measured with SMEs' contribution to GDP, and theories such as Optimal Tax theory, Ability-to-pay tax theory were used for the study. The analysis of the data sourced from Central Bank of Nigeria Statistical Bulletin and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) through co-integration and error correction modelling revealed that Company Income Tax (CIT) and Value Added Tax (VAT) have significant impact on SMEs' growth in Nigeria while Custom and Excise Duty (CEDT) was found to have insignificant impact on their growth. The strength of this study is not only limited to the consideration and comprehensive analysis of the basic types of taxes, both direct (company income tax) and indirect (value added tax and custom and excise duty) on the growth of the SMEs in Nigeria but also the adoption of superior methodology previous studies. Though, the study reviewed scanty empirical work which limited his capacity to see what other

previous authors have done in the area of his study. Hence, there is need for future researchers to carryout studies of this nature with more robust empirical review and increasing number of years

Ocheni (2015) conducted a descriptive research survey to investigate the impact of tax policy on the performance of small and medium scale enterprises in Nigerian economy. The study was anchored on the theory of ability to pay principle, benefit approach and equal distribution principle. Administering copies of questionnaire to 258 respondents arrived at using Taro Yamane at the same time were made up of 20 managers and 238 accountants from the two states. The result of the descriptive statistics and hypotheses tested for the study using z-test statistics did not only revealed that there are no significant difference of opinion of both managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria, but also no significant difference in the mean opinion scores of both managers and accountants on the implications of tax policy on SMEs growth. Though, the study did not only suffer from lack of sophisticated statistical techniques to explain the actual tax policy that could encourage SMEs tax compliances but also could not analysis the obtainable results from the two different locations. However, the study enjoys the use of large sample. However, there is need for future researches not only to concentrate on the studies that will focus among non-professional groups in both Kogi State and Abuja on the subject area but to also employ the use of sophisticated design and statistical method that will elicit the implications of tax policy on SMEs growth.

Olayemi and Folajimi (2021) employed survey research design to review the effect of tax incentives on the growth in sales revenue of Small and Medium Enterprises in Ondo and Ekiti States, Nigeria. Measuring tax Incentives investment allowance, tax holidays, investment tax credits and tax deferment while dependent variable of SMEs' growth was measured using sales revenue. In their study theories such as benefit theory, ability to pay theory, the expediency theory and Ibn-Khaldun's Theory of taxation were accommodated. The study employed the use of multi-stage sampling techniques to administered copies of questionnaire to 386 owners/managers, employees, accountants and auditors of the selected registered SMEs under Small and Medium Enterprise Development Agency of Nigeria in Ondo and Ekiti States. The result of descriptive and inferential statistics used in analyzing the data revealed that tax incentives proxies of investment allowance, tax holiday, tax credit and tax deferment were significant determinants of the SMEs' increased sales revenue in both Ondo and Ekiti States, Nigeria. However, the study provided a

sound justification for the study with reasonably large sample. Though, the study could not determine the individual state result from the analysis. Hence there is need for further studies in southwestern part of the country that would reveal the results of the comparative analysis.

Gaps from the Study

Since the main objective of this study is to identify how tax policy affect enterprises growth specific attention to entrepreneurship development in Nigeria, the review has demonstrated various number of approaches with which tax has affected the growth of enterprises, yet there are still stones left unturned for their findings to be generalized. Among the issues observed was the lack of uniformity in the variables used in measuring tax policies. For instance, authors such as Aribaba et al (2019) studied the effect of tax policies and entrepreneurial sustainability using multiple tax, tax rate, and tax incentives as proxies to tax policies. Atawodi and Ojeka (2012) studied relationship between tax policies and SMEs growth and Economy, but with no specific variables to measure tax policies. The same time is applicable to Ocheni (2015) who studied the tax policies and performance of SMEs. So, this create the need to harmonize and develop tax policies variables.

Similarly, it was also noted that some of the works combining two geographical locations or states did not do a comparative analysis, so as to known what prevail in the individual location on the same issues at the same time of the study. For instance, Olayemi and Folajimi (2021) who studied how tax incentives influences growth in sales revenue of SMEs in Ondo and Ekiti States did not come with findings indicating how these incentives promotes sales in the two states. The same thing is applicable in the work of Ocheni (2015) who studied the impact analysis of tax policy and on the performance of SMEs in Nigerian Economy. Hence, there is need for further studies that will compare the effect of tax policies in two or more locations.

Conclusion

It will be worthy to base in the review that it appears that tax incentives promote SMEs sustainability and sales revenue. A survey of registered SMEs owners in Ondo state (Aribaba, 2019) found a significant positive relationship between tax rates, tax incentives and entrepreneurship sustainability. The same result was obtained in the survey of SMEs in Ondo and Ekiti states (Olayemi & Folajimi, 2021) where tax incentives (investment allowance, tax holiday, tax credit and tax deferment) were significant determinants of SMEs' increased sales revenue.

Generally, taxation appears to be negatively related with SMEs' expansion and sustenance (Atawodi & Ojeka 2012). Likewise, multiple taxation has a negative effect on entrepreneurship sustainability (Aribaba, 2019). However, a positive relationship exists between fairness in tax system, detection probability, penalty magnitude and VAT compliance intention (Gimba et al, 2020). More so, Company Income Tax (CIT) and Value Added Tax (VAT) appears to have a significant impact on SMEs' growth in Nigeria while only Custom and Excise Duty (CEDT) did not have significant impact on SMEs growth (Inim et al, 2020). Only Ocheni (2015) did not find any significant tax policy that can encourage SMEs tax compliance and its effect on their growth.

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