Impact of Taxation on Small and Medium Enterprises (SMEs) In Akure South Local Government Area, Akure, Ondo State, Nigeria

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ABSTRACT: In Nigeria, taxation plays important role in the development of every economy as well as the growth of Small and Medium Enterprises (SMEs). Also, the role of SMEs is critical in pushing the socio-economic development agenda of the country further. Therefore, alignment of the tax system to the specific SME growth needs can be considered an important agenda for the policy makers. Keeping this issue at focus, this study aimed to explore the top management's perception of the tax system on the profitability of their businesses. The study is based on a survey of ten (10) selected SMEs in the South Local Government Area of Akure, Ondo state. The survey was administered using questionnaires with the selected respondents. Data was analyzed by descriptive analysis method, correlation and regression analysis and findings were presented in terms of frequencies and percentage analysis. The findings of this study indicate that majority of the respondents perceive and agree with the less effective impact of existing tax policies as regards profitability, productivity, ease of tax administration and tax utilization, on the performance of SMEs and suggest for constructive review and reforming of the tax policies in the country at large.

KEYWORDS: Public debt, Exchange rate, Performance, Debt management and Growth rate

INTRODUCTION

Small and Medium Enterprises (SMEs) have been described as essential agents for delivering more inclusive globalization and growth, and key contributors to economic and social wellbeing (Organization for Economic Cooperation and Development OECD, 2022). SMEs make a significant contribution to the national and global economies. For the 11 countries examined in the report, the contribution of her SMEs to the total GDP ranged from around 40% to 60%. SMEs also contributed between 45% - 70% of the total employment in these OECD countries. The mortality rate of Small and Medium Enterprises which make up 95% of the economy is very high and they 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. As known, small and medium enterprises are mostly private enterprises and they face difficulties when dealing with the government in general and tax administration in particular, mostly in the developing countries.

Many of the difficulties with the tax authorities may be deemed as the consequences of poorly conceived tax policies and a lack of certainty regarding future policy changes amongst other factors. However, it would be rare indeed to not observe complaints about the complication and/or ambiguity of the tax laws as well as high tax rates (Baurer, 2021). Nonetheless, the concept of Taxation is to create incentives for governments to level up the key societal institutions for nation building, making the idea of taxes one that has virtually been existing as long as we have been having organized governments.

According to Manasseh (2018), a tax is generally referred to as a compulsory levy imposed by government upon various categories of assets for public purposes. In Nigeria, a considerable fraction of the businesses are sole traders operating small scale business, locally owned and managed by individuals or families and often with very few employees working at a single location (Nigeria development bank report, 1988). The relationship between taxation and the level of performance of small-scale enterprises has been a debatable issue over the years. The perceived relationship has been either positive or negative depending on the type of tax policy adopted by the government. However, it is generally agreed that high tax rate has led to decrease in business activities since it dampens the incentives to invest while low tax rate, on the other hand, increased growth of business activities as profits were increased which led to further investment as well as expansion of business. A high marginal tax rate lowers an investor's willingness to invest by lowering the returns on his investment (Palacio and Harischandra, 2018). In the same vein, a reduced

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amount of business activities has a number of negative consequences including decreased productivity of workers and reduced output, employment and ultimately, living standard of the people.

STATEMENT OF THE PROBLEM

Government imperatively, are to create an environment that makes it attractive for entrepreneurs to set up small companies as well as one that is conducive to the success of SMEs in the long run. Small and Medium Enterprises have always been considered an important force for economic development and industrialization in smaller economies (Aryeetey & Ohene, 2014 and Oludele & Emilie, 2022). These small enterprises have increasingly been recognized as enterprises that contribute considerably to the creation of jobs, henceforth boosting the economies.

Ideally too, taxes are necessary as they are being raised by the government to generate revenue used to provide services to the public such as: health centers, telecommunication, roads, schools, electricity et cetera. The data tells us that some entrepreneurs pay up to 10% more tax as a percentage of profits compared to big business, and the newer a company is, the more it pays in tax which stifles the 'start-up' culture. While many governments do offer some tax relief for businesses on the smaller end of the scale, many still face an identical tax regime compared to large businesses.

Benefits of taxes to businesses cannot be overemphasized. These utilities being put in place in the countries are expected by the citizens and companies to in a way, enhance the overall growth - economic, political, social et cetera of the nation at large. But from the look of the issues in the country currently, what we see is far less than what we expected or envisioned. Especially when aspiring entrepreneurs have to reconsider what type of business to start or set up based on how much tax each business type pays. Despite what tax revenues are used for, the state of small and medium scale business enterprises performance in Nigeria is still poor and it is also a concern that these firms find it a hurdle to keep up to making profits and then remitting taxes. This could be due to several reasons based on different firms though, and these reasons could be perceived ambiguity or ignorance of tax laws and practice, or inefficiency of tax collection amidst several reasons each SME might have. The tax issues seem to be taking an upward trend which has led to winding up of some small-scale business enterprises. For instance, with a substantial fixed cost component to tax regulatory requirements and compliance costs (record keeping, filing and payment processes etc.) at national, state and local levels, small businesses are at a disadvantage with respect to large enterprises. For young firms, which also tend to be small in activities, high compliance costs can aggravate the resource and cash-flow constraints often experienced in the early stages of business development, and may act as a deterrent to formalization. In some cases, tax compliance costs for small firms may even exceed their tax cash payments (OECD 2022; Eichfelder and Vaillancourt, 2022). Furthermore, certain aspects of business taxation, including multiplicity of taxes, et cetera, can unintentionally disadvantage some young and small firms (OECD, 2022). Given this situation, one doubts the ability of Nigerian tax system on SMEs to encourage greater investments, ranging from informal to formal businesses, and impact significantly and positively the dimensions of growth and globalization SMEs have to offer, be it employment generation, sales revenue, innovativeness and profitability of the firms. This prompted the researcher to investigate more about the impact of taxes on small scale business enterprises. An ad from the UK's tax agency, Her Majesty's Revenue and Customs (HMRC) - its strapline was 'Tax doesn't have to be taxing'. Sadly, some reports show the reality of taxation fails to match the rhetoric and it is killing small businesses.

RESEARCH QUESTIONS

The following questions would be salient to achieve the objectives of this study:

i. What is the taxation policy on SMEs in Akure South Local Government Area?

ii. What is the relationship between taxation and performance of SMEs in Akure South Local Government Area?

ii. What are the taxation challenges facing SMEs in Akure South Local Government Area?

RESEARCH HYPOTHESIS

Based on the specific objectives of this research, the following hypotheses will be tested.

H_0: Taxation has no significant impact on SMEs in Akure South Local Government Area.

H_1: Taxation has significant impact on SMEs in Akure South Local Government Area.

THE CONCEPT OF TAXATION

Taxation is the primary source of governmental revenue. It is the act of laying a tax, that is, the process by which a local, state and central government, through its law-making body, raises revenue to defray the necessary expenses of the government. According

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to Anyanwu (2021), taxation can be defined as the compulsory transfer or payment (or occasionally of goods and services) from private individuals or groups to the government. Agyei (1983) as cited in Ekine (2022), defined it as the transfer of resources from the private sector to the public sector in order to accomplish some of a nation's economic and social goals.

The purpose and importance of taxation is to raise funds with which to promote the general welfare and protection of a nation's citizens, and to enable it to finance its multifarious activities and to redistribute wealth and management of the economy (Jhingan 2014, Bhartia, 2019; Ola (2021) cited in Ogbonna and Ebimobowei, 2022). Jhingan (2022) pointed out several objectives of taxation, which include to:

    i. Put a curb on consumption and thus transfer resources from consumption to investment,
    ii. Raise revenue for government,
    iii. Reduces economic inequalities and
    iv. Control income and employment.

Overview of the Nigerian Tax System

According to Udoh & Ebong (2019), Nigeria like any other developing country engages in taxation in other to generate revenue with which to finance public administration and publicly provide economic and social services. Other reasons are correction of market imperfections and incomes redistribution. The success of a country's tax policy in providing the above depends on the efficiency of its tax system which is embedded in the tax structure in that economy.

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, as one major determinant of how much tax a company or business pays is the corporate income tax regime in its country of residence. The national government sets a central corporate income tax rate in all countries. However, this tax may also supplement with other rates.

The Concept of Small and Medium Enterprises (SMES)

Agu (2021) defined SMEs as businesses owned, led by one or a few persons, with direct owner(s) influence in decision making, and having a relatively small share of the market and relatively low capital requirement. Osazee and Anao (as cited in Inegbenebor, 2022) defined a small-scale business as any business undertaken, owned, managed and controlled by not more than two entrepreneurs, has no more than twenty employees, has no definite organizational structure (that is, all employees report to the owners) and has a relatively small share of its market.

Small and Medium Enterprises (SMEs) are considered the backbone of economic growth in all countries. Smaller enterprises represent over 90% of private businesses and they contribute to more than 50% of employment and GDP in most African countries (UNIDO, 2022). For instance, small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment in Ghana (Aryeetey, 2021). SMEs are also believed to contribute about 70% to Ghana's GDP and they account for over 90% of businesses in Ghana (Aryeetey, 2021). In line with the various statements noted above, it is reasonable to state that SMEs therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries, even in Nigeria.

Challenges of SMEs

SMEs face several challenges particularly in the areas of regulation and taxation. Across all of the countries examined, regulation and taxation are two key challenges regularly cited by SMEs. Late payments, difficulty with staff recruitment and lack of access to finance are also important obstacles for many SMEs. In the UK, the Small Business Survey conducted by the Government in 2021 reported competition, regulation, taxation and late payments as the major obstacles to the success of SMEs.

In the modem market economy, functional small businesses play an important role amidst their survival strategies. Focusing on the experience of developed countries, SMEs in the sectors should be concentrated to two-third of the economically active

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population. Organization of small businesses should solve the problem of employment, population welfare improvement; contribute to the maintenance of a competitive environment, and practical innovation. But we see the existence of a small business is almost impossible without the active support of the government, ranging from different needs to the formation of tax policy to stimulate the SMEs' development.

Theoretical Review

Many theories of taxation exist. According to Atawodi and Ojeka (2022), the rationale behind the whole system of tax is consistent with two major theories of tax namely; the Ability-to-Pay Principle and the Equal Distribution Principle. The two principles stress equality and fairness.

Ability to Pay Theory

The most popular and commonly accepted principle of equity or justice in taxation is that taxpayers of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual or business. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter.

It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. But our difficulties do not end here. The fact is that when we put this theory in practice, our difficulties actually begin. The trouble arises with the definition of ability to pay. The economists are not unanimous as to what should be the exact measure of an entity's ability to pay. The main viewpoints advanced in this connection are as follows:

(a) Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea was out rightly rejected on the ground that if a person or business earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, another person earning income buys property, he will be subjected to taxation. Is this not absurd and unjustifiable that a person, earning large income is exempted from taxes and another person with small income is taxed?

(b) Tax on the Basis of Expenditure: It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person or business incurs. The greater the expenditure, the higher should be the tax and vice versa. The viewpoint is unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family. If we make expenditure, as the test of one's ability to pay, the former person who is already burdened with many dependents will have to' pay more taxes than the latter who has a small family. So, this is unjustifiable.

(c) Income as the Basis: Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modem tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay of a person.

Equal Distribution Theory

In order to satisfy the idea of justice in taxation, J. S. Mill and some other classical economists have suggested the principle of proportionate in taxation. These economists were of the opinion that if taxes are levied in proportion to the incomes of the individuals and businesses, it will extract equal sacrifice. The modem economists, however, differ with this view. They assert that when income increases, the marginal utility of income decreases. The equality of sacrifice can only be achieved if the persons with high incomes are taxed at higher rates and those with low income at lower rates. They favor progressive system of taxation, in all modem tax systems.

Empirical Review

The study of Bosco (2021) aimed at assessing the performance of business enterprises in Ntungamo Town Council, finding out if tax payers are aware of all their tax obligations, policies and problems affecting them as well as their businesses. The findings revealed the problems faced by the tax payers as regards mode of assessment, collection and tax collectors, inefficiency by tax collectors, loss of equipment, loss of sales and loss of stock were as a result of taxes.

Adebisi and Gbegi's (2023) examined the effect of multiple taxation on SMEs survival. The researchers derived their sample size to arrive at 74 and a self-administered questionnaire was used to collect data. These data were quantitatively analyzed with simple percentages and tested the research hypothesis with ANOVA. Findings revealed that multiple taxation has negative effect on SMEs' survival and the relationship between SMEs' size and their abilities to pay taxes is significant. They therefore recommended that government should come up with a uniform tax policy that will favor the development of SMEs in Nigeria and government should put into consideration the size of SMEs when setting tax policies.

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Chipeta (2022) further pointed out that a higher tax rate increases the burden of the tax payer and reduces his disposable income hence; the probability of evading tax is higher. Many scholars have addressed the questions that emerge from this literature especially the in-elasticity of tax location decision with respect to tax differences across jurisdictions. The issue of incomplete integration between personal and corporate tax has been addressed. Government needs to review tax bias against entrepreneurs and design tax policies for entrepreneurship to remedy market failures, while avoiding adverse side effects. Marginal tax rates exert a statistically and quantitatively significant influence on the growth of firms. This leads to the conclusion that raising income tax inhibits the growth of small firms.

Furthermore, Atawodi and Ojeka (2022) examined the impact of tax rates on SMEs using primary data obtained from the administration of questionnaire on the respondents. The study found that the choice of tax policy to adopt rest heavily on the use of one or more instruments which include the incentives to support start-up as well as the development of SMEs. Incentives could include special tax exemptions or tax holidays and reliefs for SMEs in form of the lowering tax rates.

METHODOLOGY

This research adopted a descriptive research design. An explanatory approach was used to explore and analyze the taxation effects on SMEs in Akure South Local Government Area, and correlation method to establish the causal relationship between the two variables that is, the tax system and the performance of SMEs. Since it involved collecting the perspectives of the respondents regarding a research interest, the researcher employed the survey method using questionnaires and perusal of past records and publications. The study sampled ten (10) SMEs with up to date information with respect to their involvement with the Nigerian tax system.

The purposive sampling method was used to select the sample from the population. This method is a non-random sampling technique where the researcher establishes a criterion devoid of randomness for selecting the sample. In the purposive sampling, the sample is chosen to suit the purposes of the study.

This study covered ten (10) duly Small and Medium-Scale Enterprise Development Agency of Nigeria (SMEDAN) registered SMEs in Akure regionally from different areas of the Akure South Local Government Area, namely, Alagbaka, FUTA Southgate and Oja-Oba.

The likert scale on the dependent and independent variables were subjected to Correlation analysis to ascertain the reliability of the instrument. To analyze the effect of the tax system on SMEs' performance, regression method, particularly linear regression was the major statistical tool used. Graphs such as, tables were also used to summarize the result obtained with the help of the Statistical Software: IBM Statistical Package for Social Science (SPSS, Version 21) and Microsoft Excel.

RESULTS AND DISCUSSIONS

Demographic Variables and Profiles of Respondents

The graphs below depict the demographic variables and profiles of the respondents. With sixty (60) questionnaires administered to the 10 SMEs, a total of 51 questionnaires were returned constituting 85% response rate. The table 4.0 below explains the "yes or no" responses provided by respondents to if their businesses are registered or not.

Table 4.0: Representation of Registered and Non-Registered SMEs

Indicator	Frequency	Valid Percent	Cumulative Percent
Yes	42	84.0	84.0
No	8	16.0	100.0
Total	50	100.0	
Total	51		

Source: Field Survey, 2024

Table 4.1 shows the representation of the age of the businesses in which 56% of the respondents answered that their SMEs have been in business between 1-10 years, while 10% responded between 1 l-20years and 34% have been in business for more than 21 years.

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Table 4.1: Distribution of SMEs According to Years in Operation

Indicator	Frequency	Valid Percent	Cumulative Percent
1-10 years	28	56.0	56.0
11-20 years	5	10.0	66.0
21 years and above	17	34.0	100.0
Total	50	100.0	

Source: Field Survey, 2024

Table 4.2: Distribution of Respondents According to Years of Work Experience

Indicator	Frequency	Valid Percent	Cumulative Percent
1-10 years	25	50.0	50.0
11 -20 years	8	16.0	66.0
21 years and above	17	34.0	100.0
Total	50	100.0	

Source: Field Survey, 202

Table 4.3: Distribution of Respondents According to Managerial Cadre

Indicator	Frequency	Valid Percent	Cumulative Percent
Lower	4	8.0	8.0
Middle	18	36.0	44.0
Top	28	56.0	100.0
Total	50	100.0	

Source: Field Survey, 2024

Objective 1: Awareness of Tax Obligations

Table 4.4 shows the awareness of tax obligations and policies by the respondents. The ranking indicates that most of SMEs have the knowledge of Tax planning and hence, give voluntary compliance which are with a mean of 2.80 and 2.50 respectively. This support that the respondents are aware of tax obligations and policies. This is followed by no full awareness of tax obligations, no knowledge of the concept of tax and need for sensitization with the mean of 2.38, 2.32 and 1.64 respectively.

Table 4.4: Correlation Analysis of Awareness of Tax Obligations

Descriptive Statistics

Indicator	No	Mean	Std. Deviation	Rank
SME is aware and takes opportunity of tax planning	50	2.80	1.125	1
Positive voluntary compliance to taxation of businesses is currently given	50	2.50	0.953	2
Knowledge of the basic or entire concept of taxation and SME is insufficient	50	2.38	1.398	3
There is full awareness of the applicable tax obligations and policies for SMEs	50	2.32	1.115	4
Sensitization on tax obligations, assessment and filing is needed Valid N (listwise)	50 50	1.64	0.631	5

Source: Researcher's Computation from SPSS, 2024

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Objective 2: Mode of Tax Administration to SMEs.

Table 4.5 shows the perception of respondents to the mode of tax administration. The ranking indicates that most of the employees of SMEs are satisfied with the current tax assessment and that tax remuneration is easy with a mean of 2.96 and 2.76 respectively. This support that the respondents find the mode of tax administration, not easy. This is followed by knowledge of tax administration, appropriate and beneficial tax rates and policies with the mean of 2.38, 1.78 and 1.50 respectively.

Table 4.5: Correlation Analysis of Mode of Tax Administration to SMEs

Descriptive Statistics

Indicator	No	Mean	Std. Deviation	Rank
Satisfied with the current tax assessment of the concerned tax authorities	50	2.96	1.124	1
Tax remuneration to the tax bodies is easy	50	2.76	1.001	2
Knowledgeable about the administration of tax by the tax authorities	50	2.38	0.878	3
There is need for business to engage tax professionals and administrators for help	50	1.78	0.932	4
The tax policies need to be designed such that the tax rates are appropriate and beneficial Valid N (listwise)	50	1.50	0.931	5

Source: Researcher's Computation from SPSS, 2024

Objective 3: Significance of Taxation to SMES' Performance

Table 4.6 shows the significance of taxation to the performance of SMEs. The ranking indicates that tax incentives plus exemptions are available for SMEs and tax-related costs do not militate against SMEs' tax compliance with a mean of 3.24 and 2.52 respectively. This support that there is significance of taxation on SMEs' performance. This is followed by tax system putting disproportionate pressure, Tax facilitating SMEs all round growth and Amount of remunerated tax affecting SMEs' financial performance with the mean of 2.20, 2.16 and 2.08 respectively.

Table 4.6: Correlation Analysis of Significance of Taxation to SMEs' Performance

Descriptive Statistics

Indicator	No	Mean	Std. Deviation	Rank
Tax incentives are made available for SME	50	3.24	1.238	1
Tax-related costs militate against SME's tax compliance	50	2.52	0.974	2
Taxes put disproportionate pressure on SME	50	2.20	1.107	3
Tax does not facilitate the SME's all-round growth	50	2.16	1.037	4
Tax remunerated affects the financial performance of the SME	50	2.08	1.007	5
Valid N (listwise)	50			

Source: Researcher's Computation from SPSS, 2024

Reliability Analysis

This is a test to ensure the overall consistency of measures. Here, reliability test was carried out on the questionnaires administered to the respondents. The analysis was tested on the responses from 50 questionnaires out of the 51 returned. The test of reliability carried out on the final data gives the strongest correlation between the variable "Effective Tax Utilization" and the measure "The idea of tax on the SME affects the SME's employees and their productivity" with the correlation coefficient r = 0.355. It is based on N = 50 questionnaires and its 2-tailed significance. P = 0.011 (less than the significance level). This means that

there is a 0.011 probability of finding this sample correlation or a larger one. This being the independent variable hence brings the conclusion that there is a moderate linear relationship between the variables and this correlation is statistically significant (large enough) to reject the null hypothesis. Therefore, the questionnaire instrument has an overall reliability.

Table 4.7: Correlation Analysis of Independent Variables

Independent Variables ↓	Measures of Reliability →	Ability to maintain profitability due to the elements of the taxation structure	There is a need for constant and constructive review of tax policies for SMEs	The idea of tax on the SME affects the SME's Employees and their productivity	There is an unsatisfactory level of total tax revenue productivity in the country.
Profitability	Pearson Correlation	1	-.347*	.065	-.127
	Sig. (2-tailed)		.014	.655	.379
	N	50	50	50	50
Ease of Tax Administration	Pearson Correlation Sig-(2-tailed)	-.347* .014	1	-.082 .571	.175 .223
	N	50	50	50	50
Productivity	Pearson Correlation Sig- (2-tailed)	.065 .655	-.082 .571	1	.355* .011
	N	50	50	50	50
Effective Tax Utilization.	Pearson Correlation Sig. (2-tailed)	-.127 .379	.175 .223	.355* .011	1
	N	50	50	50	50

*. Correlation is significant at the 0.05 level (2-tailed).
Source: Researcher's Computation from SPSS, 2024

Regression Analysis

Using SPSS, the regression analysis of this research examined the impact of taxation on SMEs based on the four independent variables of tax concept on businesses which include Profitability, Productivity, Ease of Tax Administration and Tax Utilization. The dependent variable in this study is performance of SMEs.

The standard error of 0.928 signifies the approximate standard deviation of the statistical sample population, that the sample means of the independent variables are closely distributed around the population mean, hence closely representing the population. Hence, the average distance of the fall of the observed values from the regression line is not far.

The R-Square of the regression is the fraction of the variation in the dependent variable that is accounted for (or predicted by) the independent variables and R, the correlation between the predicted values and the observed values of the dependent variable. Adjusted R Square adjusted the statistic based on the number of independent variables in the model.

Table 4.8: Standard Deviation of All Variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.666a	0.443	0.393	0.928

Source: Researcher's Computation from SPSS, 2024

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a.   Predictors: (Constant): Using the measures: There is an unsatisfactory level of total tax revenue productivity in the country. There is a need for constant and constructive review of tax policies for SMEs, The SME experiences tax burdens. The idea of tax on the SME affects the SME's employees and their productivity.

b.   Dependent Variable: Performance of SMEs.

Model Significance

To represent the regression model significance, the ANOVA statistics is used. The residual figure provides the value predicted by the model and the difference between the actual observed value of the dependent variable and its predicted variable by the regression model for each data point. The significance value for F statistics is 8.947 which is higher than the critical value and the ratio of significance is 0.000, concluding that the regression model is significant (the sample data provide sufficient evidence to conclude that the regression model fits the data better than the model with no independent variables) and the null hypothesis regarded as refuted.

Table 4.9: Analysis of Variance

Model	Sum of Squares	Degrees of	Mean Square	F	Sig. (2-
Regression	30.840	4	7.710	8.947	.000[b]
1 Residual	38.780	45	.862		
Total	69.620	49			

Source: Researcher's Computation from SPSS, 2024

Hypothesis Testing

For the four independent variables, table 4.10 displays the results of the hypothesis testing based on the significant value from the regression analysis. The parameters of the analysis of regression are summarized using the coefficient as the standardized Beta Coefficients depict the impact of each independent variable on the dependent variable.

Profitability has a negative 58.6% with the p-value (Sig.) of 0.000, less than 0.05. Ease of tax administration has negative 19.6% with p-value of 0.102. Productivity has positive 13.5% impact on the performance of SMEs with Sig. of 0.272. Tax Utilization with negative 2.8% impact on the

Table 4.10: Coefficients of Independent Variables

Model	Unstandardized Coefficients		Standardized Coefficients	T-value	Sig.
	Beta	Std. Error	Beta		
Constant Coefficient	4.612	0.471		9.786	0.000
PROFITABILITY	-.625	0.124	-.586	-5.034	0.000
EASE OF TAX 1 ADMINISTRATION	-.233	0.140	-.196	-1.667	0.102
PRODUCTIVITY	0.120	0.108	0.135	1.113	0.272
TAX UTILIZATION	-.025	0.109	-.028	-.226	0.822

Source: Researcher's Computation from SPSS, 2024

Dependent variable with p-value of 0.822. The R-square in Table.4.8 which measures how much of the variation in the dependent variable is explained by the independent variables is 0.666 implying that, up to 66.6% of the variations in the performance of the SMEs can be explained by the independent variables. The results further show that only the independent variable (productivity)

has insignificant relationship with SMEs performance. That is, all other variables but SMEs' employees' productivity are significantly impacted by taxation.

CONCLUSION AND RECOMMENDATIONS

After the interpreted results in section four, the main conclusion is that tax system for Small and Medium Enterprises impact their growth in terms of performance in different ways. From the study, it has been found that poor tax utilization leads to the poor performance of SMEs. Also that no ease in tax administration leads to a complex tax system which can put disproportionate pressure on SMEs. On incentives for SMEs performance in Akure South Local Government Area, some of them could not benefit from the tax system because they are meant for fully registered SMEs only but even with the registered business very few are aware of such incentives. It is concluded that taxation is a key factor in the life of any SME. For the SMEs to perform productively and satisfactorily, the tax system in place should promote the performance of business firms.

RECOMMENDATIONS

Based on the findings made from this study, the following recommendations are therefore made:

i. Tax policies and obligations governing SMEs should be simplified in order to make compliance easier for them. This includes clear and simple tax regulations, and an undemanding tax filing process. The use of information technology should be encouraged.

ii. Tax administrators should carry out their duties more efficiently with the most care and integrity as this will help combat tax-related issues.

iii. Tax administrators should improve their support services towards SMEs for example, small business owners should be educated on issues such as taxes they are expected to pay and the incentives and exemptions they are eligible for.

iv. Harmonization of taxes paid by businesses: It is definitely the right of governments to demand for the payment of taxes by the citizens. It is also the civic responsibility of citizens to pay their taxes promptly. However, taxes must be harmonized such that each tier of government collects taxes that it is statutorily entitled to collect. Also, the rates should not be arbitrary.

v. The government at all levels must judiciously utilize taxpayers' money, in order to give back to the taxpayers and promote SMEs.

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