

Tax Policy and the SMEs: An Empirical Analysis of Perception, Compliance and Growth in Lagos State

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Abstract

The vital roles small and medium scale enterprises occupy in an economy has necessitated the Nigerian government to design policies and programmes to encourage their growth and development so as to make them more vibrant. Given the immense contribution that SMEs are seen to be making to the GDP, it is expected that a significant percentage of government revenue generated from taxation should be realized from this sector of the economy. This study examined tax policy and SMEs' perception, compliance and growth in Lagos State. Survey research design was adopted for the study. Four research questions were answered and four research hypotheses were tested. Entrepreneurs located in Shomolu, Surulere and Ikeja local government areas in Lagos State were selected through stratified random sampling to participate in the study while 130 respondents were selected through convenience sampling. The research instrument used for data collection had a Cronbach Alpha co-efficient of 0.61. Data were analyzed with descriptive statistical tools, Pearson product moment correlation and multiple regression analysis. The findings from the study revealed a significant relationship between tax policy and SMEs perception, SMEs compliance and SMEs growth. The multiple regression analysis revealed a positive linear relationship between the dependent and the independent variables while the ANOVA table showed statistically significant predictors. The study recommended that government should increase tax incentives and concessions which may likely increase tax base and revenue generation.

Keywords: *Tax policy, Tax rate, Compliance, Perception, Growth, SMEs*

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Background to the Study

Small and medium scale enterprises (SMEs) constitute a large percentage of businesses globally. The integral role they play include generation of employment opportunities, effective and efficient utilization of economic resources, growth of the manufacturing and service sector, avenues for creating multiple streams of income for the working population, capital accumulation as well as initiating innovation and competition in most economies.

In Nigeria, studies have been conducted to determine the relevant contributions of SMEs to the growth of the economy. For instance, Ikon and Chukwu (2018) conducted a study on small and medium scale enterprises and industrial growth in Nigeria in which secondary data was obtained from Central Bank of Nigeria statistical bulletin and National Bureau of Statistics publications for the period 2002-2016. The data collected was analyzed using regression analysis and findings from the study revealed that manufacturing SMEs production has a statistical significant relationship with industrial growth in Nigeria. The implication of this finding is that manufacturing SMEs are capable of accelerating industrial growth through their contributions to the economy. Furthermore, Odebode, Oyewole and David (2017), also reported in a study conducted on the influence of entrepreneurial activities of SMEs on the level of economic development in Lagos State that, SMEs activities has a significant influence on living standard of the people and the use of economic resources deployed within the state. The implication of this finding is that the goods and services produced through these activities are making life more comfortable for the people and economic resources available in the state are optimally utilized.

In developed countries the significant contributions of SMEs to economic growth is obvious because human potentials have been successfully utilized. It is reported that SMEs accounted for about 20% of patents in bio-technology-related fields in Europe in 2014. They are also known to account for the establishment of over 95% of enterprises; 60-70% of the population are gainfully employed in entrepreneurial ventures, 55% of the nation's income is derived as well as the emergence of new employment (Eurostat, 2014)

The Nigeria government in recognition of the vital role that SMEs play in an economy has designed policies and programmes to encourage their growth and development and to make them more vibrant. Given the immense contribution that small and medium scale enterprises are seen to be making, it is expected that a significant percentage of government revenue generated from taxation should be realized from this sector of the economy. That is SMEs are expected to contribute their quota towards the development of the economy by particularly paying taxes to the government from the income generated through their commercial activities.

Statement of Problem

The sustenance of the enterprises set up by SMEs has being a challenge in recent times. SMEs have recorded a low performance in its contribution to Gross domestic product (GDP) in many developing countries, yet many researchers have shown that they are the main stay and catalyst for the growth and development of such economies. Research findings have revealed

that one of the main issues responsible for their inability to sustain their enterprises is inadequate finance. Many entrepreneurs are of the opinion that high taxes, multiple taxation of their profits militates against their investment and growth.

Objectives of the Study

The broad objective of the study is to examine the attitude of SMEs to the new tax policy in Lagos State. Specifically the study:

1. Examined the awareness level of the new tax policy
2. Examined SMEs perception of the new tax policy
3. Investigated the level of compliance of SMEs with the new tax policy
4. Examined the growth of SMEs under the new tax policy

Research Questions

The following research questions are to guide the study:

1. What is the awareness level of the new tax policy in Lagos State among SMEs?
2. What is the level of positive perception of SMEs towards the new tax policy in Lagos State?
3. What is the level of compliance of SMEs to the new tax policy in Lagos State?
4. What is the growth level of SMEs under the new tax policy in Lagos State?

Research Hypotheses

The following hypotheses are tested in the study

1. There is no significant relationship between SMEs perception and the new tax policy in Lagos State.
2. SMEs compliance is not significantly related to the new tax policy in Lagos State.
3. There is no significant relationship between the growth of SMEs under the new tax policy in Lagos State.
4. Tax policy in Lagos State cannot significantly predict SMEs perception, compliance and growth.

Literature Review

Taxation and Tax Policy

Taxation is primarily the process of collecting taxes within a particular location. In this regard, tax has been defined as “a monetary charge imposed by the government on persons, entities, transactions or properties to yield revenue”. It is a “compulsory levy on persons and properties by the State for the support of government activities and for all public needs”. The goal of a good tax system of the government is to accelerate investments and at the same time increasing revenues that will provide an environment where business can thrive, such as the provision infrastructural facilities. On the other hand, a poor tax system, where the administration and applications are ambiguous, complex or unpredictable, may hinder investment, increase project costs and other uncertainties. Policy makers are therefore encouraged to ensure that the tax system adopted places a fair tax liability that can be precisely determined in order to make tax compliance easy and to reduce tax administration costs (OECD, 2013).

Tax policy is an administrative tool that is created to levy and collect tax, by applying different tariff on the tax base, in order to implement the policy (Definition.net, 2019). The Nigeria National Tax Policy(NTP) was first introduced in 2012 as part of the efforts of the government at establishing an effective and functional tax system in Nigeria. However the need for the amendment of this existing one made a committee to be inaugurated in August 2016 which was vested with the responsibility of reviewing the NTP and to recommend practicable implementation strategies (Federal Ministry of Finance, 2017). The Federal Executive Council in February 2017 approved a revised National Tax Policy(NTP)for Nigeria. The one goals of the new NTP is to establish a sound and efficient tax system in Nigeria with focus on legal amendments to reduce the tax liability on MSMEs. The new NTP also recommended reduction of company tax rates and introduction of tax registration platform as inducement to encourage compliance and protect MSMEs. However, taxes still seem to be a crucial challenge to the growth of these SMEs in Nigeria (Ani, 2017).

Empirical Review

Empirical studies have been conducted on the activities of SMEs and tax policy, for example Oludele and Emilie (2012)found in their study on SMEs perception of the tax policy that three vital issues affect SMEs views on tax policies which are: vital tax information, decisions that reveal taxes as a great loss; perception about non-compliance opportunities. Similarly studies in Ghana by Ameyaw, Korang, Twum, and Asante (2016) on the analysis of tax policy, SMES compliance, perception and growth relationship revealed that tax policies impact SMEs growth negatively and entrepreneurs perception on tax policies is unappealing.

Furthermore, Eragbhe and Modugu (2014) examined tax compliance cost of SMEs in Nigeria, which revealed that SMEs in Nigeria bear a high tax compliance cost. This high cost is an obstacle to innovation and growth. The study therefore recommended that the compliance cost be reduced because this will likely increase their profitability and also expand government tax revenue. Similarly, Koranteng, E., Osei-Bonsu, E., Ameyaw, F. et al. (2017) conducted a study to find out what factors affects SMEs compliance to tax. In other to determine this, the study had to initially find out if entrepreneurs perception on taxes adversely affect compliance to taxes and how their subjective growth opinions also affect tax compliance. The findings revealed that SMEs have negative subjective opinions on their growth hence having negative effect on their general perception towards taxes thereby having an adverse effect on compliance to taxes and moreover, most tax payers view the policies on taxas placing a heavy burden on the profitability of their businesses.

Ojeka (2011) examined tax policy and the growth of SMES: implication for the Nigerian economy. Findings from the study revealed that it is a general opinion that tax is a vital source of revenue for development of the economy and provision of social amenities. However a significant negative relationship between taxes and entrepreneurs' potential as well as sustenance and expansion of their businesses was also revealed through the study. It was recommended that for SMEs to be more productive, the tax policy should be suitable enough so as not to have an over bearing effect or hinder voluntary compliance.

Similarly James and Walter (2018) investigated taxation and the growth of SMEs in Nigeria using Nasarawa State as a case study. Data collected for the study was analyzed using multinomial logistic regression. It was reported that high tax system with unfavorable tax policies has negative impact on the growth of SMEs in the state. On size, the result revealed that 1% increase in high tax system will reduce the growth of SMEs by 22 % while 1% increase in unfavourable tax policy will reduce the growth of SMEs by 3%.

Research Methodology

Descriptive (survey) research design was used for the study. The population for the study comprises all small and medium scale entrepreneurs in Lagos State. Through stratified sampling procedure 130 SMEs from Shomolu, Surulere and Ikeja local government areas in Lagos State were selected for the study. The study areas were selected due to the high concentration of SMEs needed for the research in these areas. The research instrument for the study was a questionnaire which had a Cronbach reliability Alpha coefficient 0.61. The instrument had two sections, the first section requested for the bio data of the entrepreneurs, such as gender, marital status, age and type of enterprise. The second section was made up of 20 items requesting for SMEs awareness of the new tax policy of the government, their perception of, compliance with and growth in relation to the tax policy. The response format is the liker type ranging from strongly disagree to strongly agree, on a rating scale of 1-4. The researchers moved around the study areas to personally distribute the questionnaire to entrepreneurs that were available. Descriptive and inferential statistical tools which include frequency, percentages, Pearson product moment correlation coefficient and multiple regression were the tools used to analysed data collected from the study. The Statistical Package for Social Scientist (SPSS) version 23 is used to analyse the data collected. All hypotheses were tested at 0.05 level of significance.

Data Presentation and Analysis

Socio-Demographic Analysis of Respondents

Table1: Classification of Respondents by Gender and Marital Status

Gender	Frequency	Percentage	Marital Status	Frequency	Percentage
Male	67	51.5	Single	74	56.1
Female	63	48.5	Married	56	43.1
Total	130	100.0	Total	130	100.0

Table 1 reveals that 51.5% of the respondents from the study are male while 48.5% are female. Similarly, the study shows that more entrepreneurs who are single (56.1%) are now self-employed than those whose who are married (43.1%). It could be inferred that singles are also taking advantage of the flexible schedule of activities that self-employment is synonymous with.

Table 2: Classification of Respondents by Age and Type of Enterprise

Age	Frequency	Percentage	Enterprise	Frequency	Percentage
20years & below	19	14.6	Manufacturing	25	19.2
21-40 years	85	65.4	Service	56	43.1
41 years& above	26	20.0	Others	49	37.7
Total	130	100.0	Total	130	100.0

Table 2 reveals the respondents from study by age and type of enterprise engaged with. The table shows that a large percentage of them fall within the 21-40 years (65.4%). It is interesting to see that 14.6% of the respondents are 20years and below. This result reveals that the effort of the Federal Government of Nigeria at inculcating entrepreneurial mindset into young people is yielding positively. This seem to justify the inclusion of 34 trade subjects into the curriculum of secondary schools some years back, which was to serve as a measure at eradicating unemployment among youths. In the same vein, the table also shows that higher percentage of the respondents from the study have set up enterprises to offer services (43.1%), while those in the manufacturing sector (19.2%) accounts for the lowest percentage. Some of the challenges encountered by manufacturers in Nigeria today are the high cost of operation, which accounts for why existing entrepreneurs in sector are folding up while new ones are unwilling to venture into the sector.

Analysis of Responses

This section presents answers to thefour research questions raised to guide the study.

Table 3: Analysis of Responses to Research Questions

Research Questions	Frequency	Percentage
1.What is the awareness level of the new tax policy in Lagos State among SMEs?	88	67.6%
2.What is the level of positive perception of SMEs towards the new tax policy in Lagos State?	82	63.0%
3.What is the level of compliance of SMEs to the new tax policy in Lagos State?	62	47.6%
4.What is the growth level of SMEs under the new tax policy in Lagos State?	77	59.2%

Table 3 reveals the analysis of the 130 respondents that participated in the study.

Test of Hypotheses

The analyses of responses were presented in line with the four hypotheses formulated:

Table 4: Correlations Co-efficient of the Relationship Between Tax Policy and SMEs Perception, Compliance and Growth

		Tax Policy	Perception of SMEs	Compliance of SMEs	Growth of SMEs
Tax Policy	Pearson Correlation Sig.(2tailed)	1	.413*	.217*	.253*
	N		.000	.013	.004
			130	130	130

*. Correlation is significant at the 0.05 level (2-tailed).

H₀₁: There is no significant relationship between SMEs perception and the new tax policy in Lagos State.

Table 4 reveals the correlation co-efficient value between tax policy and SMEs perception which is 0.413 with a significant alpha value of .000 which is below 0.05 significant level set for alpha. The null hypothesis is therefore rejected; hence there is a significant relationship between SMEs perception and the new tax policy in Lagos State.

H₀₂: SMEs compliance is not significantly related to the new tax policy in Lagos State.

Table 4 reveals the correlation co-efficient value between tax policy and SMEs compliance which is 0.217 with a significant alpha value of .013 which is below 0.05 level of significance set for alpha. The null hypothesis is therefore rejected; hence there is a significant relationship between SMEs compliance and the new tax policy in Lagos State.

H₀₃: There is no significant relationship between the growth of SMEs under the new tax policy in Lagos State.

Table 4 reveals the correlation co-efficient value between tax policy and SMEs growth which is 0.253 with a significant alpha value of .004 which is below 0.05 significant level set for alpha. The null hypothesis is therefore rejected; hence there is a significant relationship between the growth SMEs under the new tax policy in Lagos State.

H₀₄: Tax policy in Lagos State cannot significantly predict SMEs perception, compliance and growth.

Table 5: Regression Analysis of Tax Policy and SMEs Perception, Compliance and Growth.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.502 ^a	.252	.234	11.54307

a. Predictors: (Constant), growth of SMEs, compliance of SMEs, perception of SMEs

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5643.962	3	1881.321	14.120	.000 ^b
	Residual	16788.538	126	133.242		
	Total	22432.500	129			

a. Dependent Variable: tax policy

b. Predictors: (Constant), growth of SMEs, compliance of SMEs, perception of SMEs

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	25.452	7.750		3.284	.001
	perception of SMEs	.345	.072	.379	4.793	.000
	compliance of SMEs	.211	.070	.233	3.020	.003
	growth of SMEs	.159	.072	.176	2.218	.028

a. Dependent Variable: tax policy

The result of the analysis in table 5.1 revealed the assessed fit of the regression model. The value of the correlation coefficient (R) which is 0.502 implies that there is a moderate inverse relationship between tax policy (dependent variable), perception, compliance and growth (independent variables) of SMEs. In addition, coefficient of determination (i.e. R Square) is a measure of how much variability in the outcome (tax policy) is accounted for by the predictors (perception, compliance and growth of SMEs.). Hence, the predictors explain 25% of the total variation in the tax leaving the remaining 75% unexplained. The adjusted RSquare is 20% which, is lower than R-square indicates that the cross validity of the model fit is good and standard. Standard error of estimate (SEE) is the standard deviation of residuals, which indicates low estimation error value close to zero.

To check the model fit, the result in Table 5.2 tests the acceptability of the model from statistical perspectives. The ANOVA table reports if the model overall results in a significantly good degree prediction of the outcome variable. Hence, the independent variables predicts

the tax policy in the state since the result is statistically significant, $F_{(3, 126)} = 14.120$; P value = .000 which is less than .05. Therefore, the model fits the data well. The result in Table 5.3 gives us estimate for b-values which is positive indicating a direct relationship between the predictors (perception, compliance, and growth) and the dependent variable (Tax Policy). The fitted regression model is $\text{Tax Policy} = 25.452 + 0.345^*p + 0.211^*_c + 0.159^*_g$. This implies that the independent variables have a positive significant effect on tax policy; a unit increase in independent variables would increase tax policy (dependent variable). In addition, the most influential predictor is perception which had the highest co-efficient ($B=0.354$, $P=.000$). This shows that perception of SMEs have a high influence on the tax policy. Hence SMEs perception, compliance and growth have positive significant effect on the tax policy. Following from the results revealed in tables 5 the Null hypothesis is therefore (H_{0d}) is rejected; it is concluded that tax policy in Lagos State can significantly predict the perception, compliance and growth of SMEs.

Discussion of Findings

The first research question was raised to investigate the level of awareness of the new tax policy in Lagos state among SMEs. Result shows that 67.6% of the respondents are aware of the tax policy. This an indication that a good number of the sampled entrepreneurs know that the Lagos State government has put in place a tax policy under which all entrepreneurs are expected to operate and to comply by the provisions of the policy as it is applicable to individual enterprises.

The second research question was raised to examine the level of positive perception of SMEs towards the new tax policy in Lagos State. The result shows that 63.0% of the respondents have a positive perception towards that new tax policy in the state. This percentage seems to be high and as such entrepreneurs seems to have positive regard for the provisions of the policy, see tax payment as an obligation towards the development of the economy and also may have an expectation, through the provision an enabling environment that can enhance business growth.

The third research question was raised to determine the compliance level of SMEs with the new tax policy in Lagos State. The result shows that 47.6% of the respondents claim to have being complying with the provisions of the policy as it relates to the conduct of entrepreneurial activities. However this percentage of compliance is low and it shows that higher percentages (52.4%) of the respondents from the study are not actually complying with the provisions of the policy. Whatever may be the reason for their non-compliance, it evident that the effect of this on the Lagos State Government will be adverse. The major source of government revenue for its operation is taxation, if a significant percentage of entrepreneurs are not complying with one of the provisions of the tax policy, then government operations may be difficult to carry out.

The fourth research question was raised to examine the growth level of SMEs under the new tax policy in Lagos State. The result revealed that 59.2% of the respondents from the study acknowledged the growth of their enterprises under the new tax policy in Lagos State. This

percentage of growth seems to low from a sector of the economy which is expected to be an engine/catalyst of growth for the development of an economy.

Research hypotheses one to three (H_{01} - H_{03}) is on the relationship between tax policy and SMEs perception, compliance and Growth. The result from the study revealed that there is a significant direct relationship between tax policy and SMEs perception, compliance and Growth. This implies that a positive exhibition of behavior of entrepreneurs towards the tax policy will have a positive effect on the provisions and successes of the tax policy. However looking at the result of level of compliance of SMEs as revealed by the study which is 47.6%, this percentage of compliance is rather low. Taking a look at the study conducted by Atawodi & Ojeka (2012) on factors that affect tax compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria, it was reported that increased taxation and cumbersome processes for filing are the most important causes responsible for non-compliance of SMEs. This finding is in agreement with this study .However, Ameyaw, Korang, Twum, and Asante (2016) in their study to find out the impact of tax policy on SMEs perception, compliance and growth in Ghana, revealed that tax policies impactgrowth of SMEs negatively and SMEs perception on tax policies look unappealing. This finding seem to be in disagreement with this study, because SMEs level of perception towards the tax policy is 63.0% while the growth of SMEs under the tax policy is 59.2%.

Research hypothesis four addresses tax policy in Lagos State ability to predict SMEs perception, compliance and growth. The multiple regression analysis result showed statistically significant values (f-values and b-values). The ANOVA table results revealed that SMEs perception, compliance and growth jointly contribute to significantly predict the tax policy. This finding supports the study conducted by Ameyaw, Korang, Twum, and Asante (2016), in which it was reported that the three predictors (perception, compliance and growth) satisfied the regression model and there exist a positive correlation between tax policies and compliance, growth, perception.

Conclusion

The empirical examination of tax policy in Lagos State and SMEs perception, compliance and growth revealed that 67.7% of the respondents were aware of the new tax policy, 63.0%had a good perception of the tax policy, 59.2% indicated that their enterprises had experienced growth under the tax policy. With regards to compliance, 47.6% of the respondents claimed they were able to comply with the provisions of the tax policy which is rather low. The study investigation of the relationship between tax policy and SMEs perception, compliance and growth was significant. Furthermore, the multiple regression analysis carried out to predict the effect of the tax policy on SMEs perception, compliance and growth revealed that tax policy in Lagos State can significantly predict the perception, compliance and growth of SMEs.

Recommendations

Based on the findings from the study the researchers recommended the following:

1. The government should review the tax policy in relation to compliance and payment to encourage tax payers.

2. Additional tax incentives and concessions to tax payers will increase government tax base and revenue generation. Penalty for non-compliance should be made friendly especially to SMEs.
3. Adequate tax education and information dissemination to tax payers will create necessary awareness and a veritable tax collection tool.

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