

TAX POLICIES AND PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN ONDO STATE, NIGERIA

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ABSTRACT

This study examined the effect of tax policies on Micro, Small and Medium Enterprises (MSMEs) performance in Ondo State, Nigeria. The rate at which MSMEs ceases to operate is very high owing to a number of factors among which include poor market control, stiff competition to enormous tax burdens. The study involves a survey research design with a population of 73,081 registered MSMEs in Ondo State (71,288 Micro and Small enterprises and 1,793 Medium enterprises). The researchers derived their sample size to arrive at 400 using Taro Yamane formula; and a self-administered questionnaire was used to collect data. ANOVA table report the test of significance of the overall model. It reports how the variables included jointly affect the MSMEs performance. The result shows that the examined tax policies of the government have significant relationship with the MSMEs performance in Ondo State while the model is significant at 0.05 level. Tax rate (-0.089), tax assessment (-0.159) and Value Added Tax (VAT) (-0.007) are negatively related with MSMEs performance in Ondo State but only significant statistically for tax assessment at 0.05 level. The implication is that any possible increment in tax rate, tax assessment and VAT will lead to reduction in MSMEs performance. Thus, the study concluded that an increase in tax burden will result in dwindling performance of MSMEs in Ondo State, Nigeria. The study recommended that Government should give accelerated tax refund and provision to claim back preliminary taxes paid, or set it off against future losses to improve performance, also they should ensure adequate infrastructure capable of providing support for MSMEs business to hamper their willingness to remit VAT.

Keywords: Tax policies, MSMEs performance, tax rate, tax assessment, value added tax

INTRODUCTION

Sustainability of a nation's economy is hinged on prospects of small and medium businesses (Gunay, 2019). Micro, Small and Medium Enterprises (MSMEs) have contributed immensely to the growth of every economy and enhanced employment generation and poverty alleviation around the world (Ali, 2013). The sector is one of the critical sectors that employed most of the citizens especially in a developing nation. Although smaller in size, they are the most important enterprises in the economy due to the fact that when all the individual effects are aggregated, they surpass that of the larger companies (Ochani & Gamade, 2018). As opined by Gunay (2019), MSMEs provide the main source of employment, accounting for about 70% of jobs on average, and are major contributors to value creation, generating 50% to 60% of value added on average. Corroborating with this is International Finance Corporation (IFC) (2010) as contained in the OECD (2017) report which asserts that for emerging economies, MSMEs contribute up to 45% of total employment and 33% of GDP. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) (2013) and the National Bureau of Statistics (2013), there were 37,067,416 (Thirty Seven Million, Sixty Seven Thousand, Four Hundred and Sixteen) Micro, Small and Medium Scale Enterprise

(MMSMEs) in Nigeria as at 2013 which employed over 84% of the total labour force, and contributing 48.47% to the Gross Domestic Product (GDP).

Studies have shown that tax related issues have resulted in untimely exit of many MSMEs in Nigeria. SMEDAN (2015) records that, 80% of MSMEs in Nigeria die before their fifth year as a result of challenges faced by start-ups. The tax policies must not be one that will not encourage MSMEs to remain in the informal sector or to evade or avoid tax payments. More so, many small firms in Africa, including Nigeria, choose to remain in the informal sector because they perceived benefits outweigh the perceived costs. MSMEs see their tax contributions in that poor and corrupt attitude of tax officials and unfriendly orthodox collection procedure which discourages them to expand their business.

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 in order to perform well.

Value Added Tax Act enabled the introduction of Vat Tax in Nigeria, replacing the sales tax. The Act specifies that VAT should be charged, levied and collected on the value of the supply of goods and services by a registered operator, on the importation of any goods into the country under study, or supply of any imported services by any person. It also clearly spells out the conditions on which VAT should be and should not be charged. VAT is a consumption tax which represents tax on the value added to the product throughout its production process. VAT is currently pegged at 7.5 percent, for all goods and services, except for those that have been either exempted, zero-rated or subject to Vat at special rate. The Value Added Tax (VAT) was introduced in Nigeria in December 1993. The rules for compliance and returns are contained within the VAT Act 1993. VAT is administered by the Federal Inland Revenue Service (FIRS).

Import VAT is administered and collected by the Customs Services. Anyone who is registered or is required to be registered is required to charge VAT, remit to the revenue authority and keep required records thereof, failure of which the trader would attract penalties. Some scholars have pointed out that the best practice VAT model should exempt small businesses from paying VAT. However, in the prevailing economic situation, Nigeria under study has been faced with closure of big companies and corporate entities, and an increasing number of Small to Medium enterprises (MSMEs), some which fall in the group of those traders who are required to register for VAT are greatly affected (Wadesango & Chirebvu, 2020).

A study carried out by the Federal Office of Statistics shows that in Nigeria, MSMEs make up 97 percent of the economy (Ariyo, 2017). Current statistics in the National Bureau of statistics (NBS) put the total number of MSMEs in Nigeria at over 41million in which MSMEs are 17.5 million in 2020. A recent survey shows that about 94.3 percent of businesses in Nigeria have been hit by COVID-19 pandemic. That number is so high considering the number of small businesses in Nigeria, this should also inspire the Government of Nigeria to take a bold steps to strategize and adapt to the reality created by the pandemic (Johnbosco, 2021).

Ameyaw, Korang, Twum and Asante (2016) added that taxation contributes to the development and welfare of an economy through three fonts; generation of sufficient funds for public service financing and social transfers at high level of quality, incentive for more

employment and reallocation of income, Likewise incentives for tax rebate which will improve the performance of MSMEs. Atawodi and Ojeka (2012) opined that, tax revenue is the source of funds used for development projects such as provision of infrastructure like good roads, stable power supply, stable water supply etc., all of which combine to create an enabling environment for businesses and in turn the economy at large to grow. Similarly, Nigeria government in 2017 introduced VAIDS (Voluntary Assets and Income Declaration Scheme) with the objective of benevolent tax amnesty for a limited time to defaulters. The scheme intends to instill fuller tax compliance, payment of outstanding tax liabilities as well as preventing tax evasion (Sam, 2017).

According to Kazemy (2018), taxation is expected to contribute significantly and positively to the performance of MSMEs in any economy. This however, seems to be largely far from reality in the Nigerian scenario, the establishment of the new policies and new assessments which has effect on MSMEs turnover, market control, stiff competition so also goods and services cost of sales, are major problems of MSMEs. Tax policies in Nigeria has affected the performance of MSMEs in that, in many government policies, MSMEs are usually viewed and treated in the same light as large corporations.

However, business rates have been enhanced since the introduction of some government policies hence increasing the tax burden to most MSMEs in Nigeria as many MSMEs are not favored by the tax systems and policies in place. In return, this hindered a reasonable compliance and also has a direct impact on the performance of MSMEs and may threaten its survival because taxes are paid out of profits (Murphy, 2008). According to the Micro, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), 80% of MSMEs die within a short period.

Among the factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxations to enormous tax burdens. Some businesses are already collapsing; while majority are still struggling to meet up with high tax rates to ensure their businesses still exist. Gunay, (2019), also showed that some MSME operators were not knowledgeable on the ways in which some tax systems operated, hence creating problems with authorities and affecting business performance. Among such tax systems is of VAT collection. MSMEs are mostly likely not in a position of maximising on claiming VAT thereby living them exposed to paying more tax liabilities.

Previous studies have come up with several results on taxes and MSMEs performance for instance, Agu et al. (2019) conducted a research on the effect of taxation on the performance of MSMEs in Nigeria, Findings indicate that significant and positive relationship exist between taxation and the performance of MSMEs and that tax assessment, tax collection and tax utilization significantly influence the performance of MSMEs in Nigeria. Zayol, et al. (2018) examine the study the effect of multiple taxation on financial performance of Micro, Small and Medium Enterprises (MSMEs) in Benue State, the study found out that duplication of business premises registration, development levy and market taxes have a significant negative effect on financial performance of MSMEs and as a result affects their profitability negatively. Ilemona, et al. (2019) examined the effects of multiple taxation on the growth of Micro, Small and Medium Enterprises (MSMEs) in Nigeria, the study negatively affected the growth of MSMEs in Nigeria as many operators of these businesses expressed their unwillingness to venture into new enterprises or expand the existing ones for fear of multiple taxes that continue to take a significant portion of their earnings. Victor, et al. (2020) examines the impact of taxation on the growth of Micro, Small and Medium Enterprises (MSMEs) in Nigeria from 2007 to 2019, Value Added Tax (VAT) were found to have significant impact on the growth of MSMEs in Nigeria. However, there exists an academic gap in that

while it is indisputable that challenges of MSMEs be tackle in order to have reasonable performance.

The broad objective of this research is to examine the Tax Policies and MSMEs Performance in Ondo State in-order to achieve the purpose of this research, the following are the specific objectives of the research: to determine the effect of effects of tax rate on MSMEs performance in Ondo State; to examine the influence of tax assessment on MSMEs performance; and to evaluate whether the Value Added Tax affects MSMEs performance. In order to achieve the objectives stated above, the following research questions were used as a guide in achieving the objectives of this research: What are the effects of tax rate on MSMEs performance in Ondo State? What are the influences of tax assessment on MSMEs performance in Ondo State? To ascertain if Value Added Tax affects MSMEs performance.

This study focuses mainly on the tax policies and performance of MSMEs in Nigeria. The study comprises of MSMEs owners from three representatives Local Government in Ondo State, Akoko North East, Akure South and Odigbo Local Government. The study also focused on these areas because they have higher number of the duly registered Micro, Small and Medium Enterprises (MSMEs) under SMEDAN in Ondo State in order to gain access to a good number of respondents. This study give a clear insight into the various ways in which tax policies in Nigeria can be executed efficiently to enhance the performance of MSMEs and how some taxation policies in Ondo State can be properly tackled. The study also gives a clear insight into the various causes of why MSMEs involves in multiple taxation in Nigeria as well as MSMEs' size and its ability to pay taxes in Nigeria. The findings and recommendations of the researcher will help in building a strong and better tax policy system in Nigeria, if taken seriously by government and the general public. The challenges of taxation in Nigeria are outlined in-order for drastic measures to be taken to tackle these challenges and enhance the performance of MSMEs.

Literature Review

Conceptual Review

Micro, Small and Medium Enterprises (MSMEs) Performance

Micro, Small and Medium Enterprises (MSMEs) are businesses with less than ₦100million in annual turnover and have less than 300 employees (SMEDAN 2020). The central bank of Nigeria's communique No 69 of the monetary policy committee meeting of April 15, 2019 acknowledged the existence of several definitions of MSMEs one of which states that an enterprise that has an asset base (excluding land) of between ₦5million to ₦500million and labour force of between 11 and 300 belongs to the MSMEs sub-sector. MSMEs are also considered the backbone of economic growth in all countries (Rajesh, Suresh, & Deshmukh 2008). They play an important role in Nigerian's economic growth, as they constitute 97.2% of the companies in Nigeria. (General Statistics Office 2019). According to Eniola and Entebang (2015a), performance is commonly employed as an index of a firm's health over a dedicated period. This puts performance as one of the key issues of MSMEs. The capacity to institute change in management of perceiving market opportunities, adapting to the environment, and possessing certain managerial factors, product innovations, creativity, pro-activeness, technological change, networking, are all critical factors to bringing about strategic improvement in firm performance. MSMEs Performance encompasses various meanings, including growth, survival, success and competitiveness. Performance can be characterized as the firm's ability to create acceptable outcomes and actions (Eniola & Entebang, 2015a).

MSMEs most definitions are made based on variables such as the number of employees, annual turnover, ownership of enterprise, and value of fixed assets. Kayanula &

Quartey (2000) found that there have been issues on what constitutes a small or medium enterprise in literature. Different authors have usually given different definitions to this category of business. The definition of MSMEs depends mainly on the level of development of the country. Furthermore, MSME proponents frequently claim that MSMEs are more productive than large firms but financial market and other institutional failures impede MSME development.

Tax Policies

Tax policy is the choice by a government as to what taxes to levy, in what amounts, and on whom it has both microeconomic and macroeconomic aspects. In Nigeria, empirical report shows that an estimate of about 70% of the industrial employment is held by MSMEs and more than 50% of the Gross Domestic Product is MSMEs generated (Odeyemi, 2003). Tax policies are implemented either to: Finance a budget deficit, Promote long run growth or Counter other influences in the economy (Romer & Romer, 2010). MSMEs are generally very susceptible and only a certain number of them manage to survive due to several factors such as the establishment of the new policies and new assessments which has effect on MSMEs turnover, market control, stiff competition so also goods and services cost of sales; harsh economic conditions which results from unstable government policies; unbearable tax rate; Low rate of expansion and profit contraction which happened as a result of multiple taxes; Poor and corrupt attitude of tax officials and unfriendly orthodox collection procedure which discourages MSMEs to expand their business to mention a few (Oboh, 2002; Okpara, 2000; Wale-Awe, 2000).

Tax Rate

Tax rate is the ratio at which a business or person is taxed (Omagor & Mubiru, 2008). Balunywa, et al. (2010) stated emphatically that taxes cannot be avoided without attracting punishment. Tax rate is one of the key that government used as source of revenue to provide public services to its citizenry (Gunay, 2019). Over the last decade tax performance in Nigeria has significantly be discouraged in nominal terms averaging about 24% of the size of the economy. This has not enabled the government to finance the budget as required. Due to its importance, tax policy debates and decision making becomes a critical issue to the public, to businesses and the economy at large owing to the varied impact that it will have on each of these entities (Mutua 2011). Taxation as described by Bergner (2017) is an important component of the regulatory framework in which businesses operate. It constitutes a major, inevitable cost factor for all businesses. For policy-makers, taxation is a particularly interesting feature of the business environment as it can be directly influenced and controlled through legislation.

Tax Assessment

Tax assessment is a value attached to real property and business personal property by the local government, specifically for the purpose of levying and collecting tax that is used to supports the community. The objective of assessment is to ensure that all taxpayers within a defined tax jurisdiction are brought into tax net and assessed correctly in order to plug all possible leakages. Generally, MSMEs are categorized according to the legal status of their business. MSMEs are one of the categories of taxpayer which is chargeable to tax in his own name. Usually the tax affairs of MSMEs are to be handled by the state internal revenue services (SIRS).

Value Added Tax in Nigeria

MSMEs are very instrumental to economic growth and development with the potential to reduce Nigeria's unemployment rate, create wealth and also re-distribute income. This is why in addition to the goal to grow the revenue base of the federal government through the newly approved Finance Act; certain incentives were put in place for MSMEs based on certain thresholds. The Value Added Tax (VAT) Act is one of such, FG increased VAT – a consumption tax on the “value-added” to the product throughout its production process – to 7.5 percent from 5 percent, companies with turnover of N25 million or less were exempted from filing VAT returns and Company Income Tax. In a recent 2020 economic outlook by Deloitte, tax experts pointed out that some of the products exempted from VAT have in their value chain inputs not exempted from the tax. This will result in higher production cost and investment, which will be passed on to consumers. Hence, some large firms may prefer to engage suppliers who are registered for VAT to enable them to claim all input VAT across the value chain.

Tax Policy in Nigeria

Tax policy is principles governing tax administration and revenue collection; it provides a set of guidelines, rules and modus operandi that would regulate taxation in Nigeria which all stakeholders in the tax system can subscribe to. Appropriate policies have been made by the World Bank in reforming tax policies. In creating an enabling and suitable environment for the success of businesses, governments reform taxes to garb long term economic objectives. Taxation policies were passed by governments to promote and protect MSMEs. However, probed into tax policies by asking these three questions: How much money should government gather as taxes?; How can tax liabilities be distributed among potential taxpayers?; How can the economic cost of taxation be absorbed or minimized? Irrespective of these questions on tax policies, tax policies should create a serene environment in which MSMEs can expand their activities. Tax reforms have been enacted to protect MSMEs. In 1998, an attempt for the re-introduction of VAT systems failed because of extensive public opposition in 1995. The Value Added Tax (VAT) flat rate scheme was enacted by an Act of Parliament in 2007, Act 734 and it served as an amendment to the VAT Act, 1998, Act 546. Essentially, the tax reform of 2003/2004 has made remarkable achievements in the following areas: organizational restructuring of the federal and state tax authorities, the enactment of a national policy, reforms in funding, new tax legislations, tax payers education, dispute resolution mechanism, tax payers registration, human capacity building, automation of key processes and refund mechanism (Nwokoye et al., 2021).

Tax Policies Influence on MSMEs Growth

Complex tax policies can put uneven pressure on smaller businesses. Reduction in tax rates increases the profit margin of MSMEs as well as intensifying government tax revenues since such provisions reduce the size of the shadow economy. Complex tax systems distort the development of MSMEs and often result in the morphing of groups that offer a lower or no tax burden hence resulting in tax systems that levies high expenses on the economy. Poor implementation of tax policies connote high collection charges, low efficiency, time wastage for taxpayers and staff, deviation from optimum allocation of resources and low amount of tax revenues. The efficiency of tax policies depend on the designing of appropriate and rational tax rates, reducing tax burden of the indigent people and intensifying the fight against the corruption and the evasion of taxes. Inaccurate taxation policies and uncertainties hinder MSMEs from acquiring assets or loans to strengthen their performance.

THEORETICAL REVIEW

Ability to Pay Principle

This study is based on the three theories of taxation as given: ability to pay principle, benefit approach and equal distribution principle. However, in this paper we shall be considering ability to pay principle. Ability to pay theory of taxation was propounded by Adam Smith in 1776. The theory state that tax should be levied according to an individual's ability to pay. It says that public expenditure should come from "him that hath" instead of "him that hath not". This is indeed the basis of 'progressive tax,' as the tax rate increases by the increase of the taxable amount. As suggested by Stern (2005), cited in Zayol et al. (2018), there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as (i) each taxpayer surrenders the same absolute degree of utility that s/he obtains from her/his income, or (ii) each sacrifices the same proportion of utility s/he obtains from her/his income, or (iii) each gives up the same utility for the last unit of income; respectively This principle is indeed the most equitable tax system, and has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use.

EMPIRICAL REVIEW

Ojeka (2011) utilizes a non-probability judgmental sampling method and conducted Spearman's ranking test. Result reveals that MSMEs in Zaria are under the heavy weight of excessive tax burden, and that in Nigeria, MSMEs are confronted with multiple taxation, high tax rate, complex tax regulations and lack of proper enlightenment about the tax related issues. There is very little tax education in Nigeria. Tax payers are ignorant of the laws regulating taxation and this makes disclosure difficult. The study remark that the creation of a vibrant and flourishing MSMEs, an appropriate tax policy that will neither hinders MSMEs nor discourage voluntary tax compliance be considered.

In addition, Adebisi and Gbegi (2013), examine the impact of multiple taxations on performance of the Micro, Small and Medium Enterprises. The study utilizes a survey research design with a population of 91 MSMEs. A sample of 74 MSMEs was adopted and questionnaire administered, while the obtained data was analyzed using simple percentages, and the hypotheses were tested using ANOVA. The study reveals that multiple taxation and high tax rate account for the high rate of business fatality among the MSMEs. The study recommends that government should develop uniform tax policies that will favour the growth of MSMEs and that the survival of MSMEs should be integrated into policy formulation. However, the study was restricted to Zaria in north central of Nigeria.

Ocheni (2015) studies impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian economy. The study stressed that mortality rate of Micro, Small and Medium Enterprises which make up 95% of the economy is very high and these Micro, Small and Medium Enterprises serve as source of employment generation; innovation, competition, and economic dynamism in the development of Nigerian Economy. Descriptive survey research design was adopted. The population of the study comprised of sixty eight (68) MSMEs currently operating in Kogi State and Abuja. They have 726 personnel comprised of fifty six (56) managers and 671 accountants. The sample for the study consisted of two hundred and fifty-eight (258) respondents, (20 managers and 238 accountants from the two states. Taro Yamane formula for sampling technique was used to select the two hundred

and fifty-eight (258) respondents, representing 36% of the population. The research hypotheses for the study were tested using z-test statistics to establish $p < 0.05$ significant differences. The analysis revealed that there is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by MSMEs in Nigeria.

Ocheni and Gemade (2015) conducted a study on the effect of multiple taxations on the performance of MSMEs in Benue state. The aim of the study was to examine the effect of multiple taxations on MSMEs survival. Data for the study were collected from a sample of 74 respondents into small and medium scale business in Benue state using questionnaire. Responses were analyzed using simple percentages of non-parametric statistics. Findings suggest that multiple taxations have negative effects on survival of MSMEs. The study recommended that government should come up with uniform tax policies that will aid development of MSMEs in Nigeria.

Zayol et al. (2018) examine the study the effect of multiple taxations on financial performance of Micro, Small and Medium Enterprises (MSMEs) in Benue State. The population of the study was 816 and the sample size of 268 T respondents was adopted using the Taro Yamane formula at a 5% error margin. The study adopted a survey design via questionnaire. Multiple regression was used for analysis in the study. The study found out that duplication of Business Premises Registration Tax, Development Levy and Market Taxes have a significant negative effect on financial performance of MSMEs and as a result affects their profitability negatively. The study therefore, recommends that government should ensure that activities of touts in collecting illegal taxes from MSMEs is stopped, and also government should desist from collecting similar taxes under different names and collapse all taxes of such nature into one form of tax. Finally, government should ensure that only the amount stipulated by law is collected as tax and a clear jurisdiction of each tax should be expressly stated.

Ilemona et al. (2019) examined the effects of multiple taxations on the growth of Micro, Small and Medium Enterprises (MSMEs) in Nigeria. The study investigate the extent to which multiple taxes affect the operation of MSMEs in the country using expansionary rate of these businesses as surrogate for growth, Data for the study were obtained through responses from questionnaire designed on a five (5) point likert scale. The responses were empirically analysed using non-parametric statistics comprising mean score, standard deviation and z-test. The results suggest that multiple taxes have negatively affected the growth of MSMEs in Nigeria as many operators of these businesses expressed their unwillingness to venture into new enterprises or expand the existing ones for fear of multiple taxes that continue to take a significant portion of their earnings. The study recommends that government at all level in the country should address the issue of multiple taxes on MSMEs by restricting to collecting only those taxes within their tax jurisdiction as stipulated by law.

Richards (2019) in his study titled "overview of the National tax policy and its implication for tax administration in Nigeria" evaluates the effect of the National Tax Policy (NTP) on tax administration in Nigeria. The study said further that, NTP although identified the challenges of the Nigeria tax system, failed to provide workable solutions to address these challenges. The study concluded that the implementation of the National tax policy cannot be effective without the amendment of the Constitution of the Federal Republic of Nigeria, (CFRN) 1999 to entrench the principles of multiple and double taxation and expand the taxing powers of States.

Agu et al. (2019) conducted a research on the effect of taxation on the performance of MSMEs in Nigeria. A survey approach was adopted while the questionnaire was used as an instrument. A randomly selected 162 employees and owners of 40 MSMEs were used for the

study. Collected data were analyzed using the multiple regression analysis and one sample t-test. Results indicate that significant and positive relationship exist between taxation and the performance of MSMEs and that tax assessment, tax collection and tax utilization significantly influence the performance of MSMEs in Nigeria. It was recommended among others that the Nigerian tax system must seek to protect and promote the MSMEs for them to contribute meaning fully to economic growth and that they should identify the agents responsible for illegal, multiple tax collections that seek to frustrate MSMEs and deal with them accordingly.

According to Grima¹ et al. (2019), the study analyse costs and information management as determinants of the final price strategy, the cost components and to identify the impact of factors affecting the performance of MSMEs. The methodology is based on the comparative analysis of data using both primary and secondary sources. The data collected are analyzed using the regression method. The results show that cost and information management contributes to determinate the company's price of goods and services. The research for MSMEs shows that company performance depends on managerial decision taking into account cost management and accounting information.

Wadesango and Chirebvu (2020) carried out a study on the impact of value added tax (VAT) on micro, small and medium enterprises in a Developing Country. The study states that, stimulants for the growth and spread of VAT remains unclear both theoretically and empirically. MSMEs are experiencing challenges with respect to complying with the VAT requirements. The study therefore sought to determine the factors that affect VAT compliance; identify the VAT collection methods; determine how VAT is affecting the operations and profits of the firms; and describe the status of VAT compliance among MSMEs in developing country which was referred to as country A. Structured survey questionnaires were distributed to conveniently sampled 50 owners and managers of the firms and a response rate of 76% was recorded. Results indicated that VAT compliance is affected mainly by characteristics of the individuals, features of the VAT system itself, and environmental factors such as political and socio-economic situation in developing country.

Victor et al. (2020) examines the impact of taxation on the growth of Micro, Small and Medium Enterprises (MSMEs) in Nigeria from 2007 to 2019. Data was gathered from the Central Bank of Nigeria Statistical Bulletin and Micro, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). The study adopted the co-integration and error correction modelling as its technique of analysis. While Company Income Tax (CIT) and Value Added Tax (VAT) were found to have significant impact on the growth of MSMEs in Nigeria, Custom and Excise Duty (CEDT) was found to have insignificant impact on their growth. As expected however, the three variables, CIT, VAT and CEDT were found to be inversely related with MSMEs growth. The study therefore recommends among others that for taxation to grow the MSMEs, tax policies especially those relating to CIT and VAT should be properly formulated and carefully administered in such a way that such policies directly promote the growth of MSMEs.

The following gaps were found on the literature review. The current literature presented weak evidence on tax policies and performance of MSMEs in Nigeria. It is clear that there are still vacuum and divergence findings in extant literature. Note that from the literature review; it is observed that majority of the studies focused on Lagos state and other economically advanced states in Nigeria. The following hypotheses were advanced and tested in the course of the study applied to the research;

H₀₁: There is no significant effect of tax rate on MSMEs performance in Ondo State.

H₀₂: There is no significant effect of tax assessment on MSMEs performance in Ondo State.

H₀₃: There is no significant effect of Value Added Tax on MSMEs performance in Ondo State.

METHODOLOGY

The choice of a descriptive survey research design method is borne out of the fact this method focused on people and their attributes which enhanced the study to understand and explain the effect of tax policies on the performance of Small and Medium scale Enterprises. To achieve this, the study used a survey questionnaire, observation schedule and document analysis which comprises of MSMEs owners from three Senatorial District in Ondo State, Akoko North East, Akure South and Odigbo Local Government. Data was collected through primary sources by administering questionnaire and interview guide. The population consists of 3,664 registered MSMEs in Ondo State. Using Taro Yamane, the study derived the 400 sample size. Out of the total questionnaire administered, three hundred and sixty-two (362) copies of the questionnaire were retrieved and used to arrive at the findings of the study. A 5 point Likert-scale was employed in the administration of questionnaire with scales ranging from "Strongly Agree" denoted by 1 to "Strongly Disagree" represented by 5 with neutral scores amid the two extremes. Purposive and judgemental sampling techniques were employed in this research because respondents have information that is vital to this research process. The study adopts multiple regression technique with MSMEs performance as the dependent variable. The independent variables comprise of tax rate, tax assessment and value added tax. Multiple regression technique was applied after obtaining the scores of the variables from their respective indicators.

RESULTS AND DISCUSSION

Socio-economic characteristics of the respondents

Male respondents constitute the highest proportion of the respondents with about 54.4%, while 45.6 percent were female. This clearly infers that males are readily available for surveyed compare to female. More so, more males are into MSMEs business compares to female's counterpart. The age of respondents is very crucial to survey research because most often experience goes with age. The distribution of the respondents shows that more than 50% falls below 41 years of age. It shows that MSMEs operators in the sampled areas were relatively young and agile. This suggests that majority of the respondents were still in their productive year and also in their active age. Another important distribution factor is the number of years in business; this distribution will help us to understand the experience of the respondents as it relates to MSMEs. The distribution indicates that 16.3% had been in the business for 0 to 5 years, 28.7% had spent about 6 to 10 years in the business. 21.3% and 20.4% had been in the business for about 11-15 years and 16 -20 years respectively. 13.3% had been in the business for over 20 years. The role that education plays in achieving better efficiency and effectiveness for any organisation cannot be overemphasized. This is owing to the fact that education enables an employee or employer to be more competitive, efficient, responsive to consumer demands and able to adopt new technologies and improve their livelihood in general. Larger percentage (64.9%) of the respondents had secondary education and 24.6 percent of the respondents had tertiary education. This study is about MSMEs performance and tax, therefore the distribution of amount of tax paid by the MSMEs

operators is also necessary. The result shows that about 62.2% of the respondents paid below 100000 naira as tax and 24% paid between 200000 and 300000 as tax, 8% paid between 300000 and 400000 naira. It was discovered that 40.1% of the MSMEs operators paid their tax through FIRS, while 17.4% paid to local government, 15.5% paid to state government, 0.3% paid to federal government. 62.4% had employee ranging between 1 and 100, 25.1% had employee ranging between 101 and 200.

Table 1: Socio-economic characteristics

Gender	Frequency	Percent
Female	165	45.6
Male	197	54.4
Age of respondents		
50 years and above	82	22.7
40 - 50 years	76	21.0
30 - 40 years	100	27.6
Below 30 years	104	28.7
Number of Years in Business		
20 and above	48	13.3
16 – 20	74	20.4
11 – 15	77	21.3
6 – 10	104	28.7
0 – 5	59	16.3
Education		
Primary	4	1.1
Secondary	235	64.9
Tertiary	89	24.6
Others	34	9.4
Amount Paid as Tax		
400000 and above	21	5.8
300000 – 400000	29	8.0
200000-300000	87	24.0
Below 100000	225	62.2
Organisation Collecting the tax		
Federal government	1	.3
State government	56	15.5
Local government	63	17.4
FIRS	145	40.1
Others	97	26.8
Number of Employee		
201 – 300	15	4.1
101 – 200	91	25.1
1 – 100	226	62.4
None	30	8.3
Total	362	100.0

Researcher's Compilation (2021)

It is important to explore the variables distribution prior to analysis. This will help in better understanding of the variables behavior. The table report the descriptive statistics of the four variables used in achieving the objective of the study. The variable of tax rate with a mean of 3.697 indicates that more than 50% of the sampled MSMEs agreed to the notion that tax rate is unbearable and inimical to their operation. Similarly, value added tax and tax assessment were not favourable to the MSMEs given their mean statistics of 3.3343 and 3.6920 respectively. All the variables report negative skewness and kurtosis platykurtic kurtosis.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic		Statistic
Tax rate	362	1.00	5.00	3.6975	.70931	-.763		.645
Tax Assessment	362	1.00	5.00	3.6920	.70790	-.325		.315
Value Added Tax	362	1.00	5.00	3.3343	.86251	-.699		.036
SME performance	362	1.00	4.00	3.4641	.83223	-1.509		1.436

Researcher's Compilation (2021)

The study was designed to analyse the effect of the tax policy on the MSMEs performance in Ondo state. However, in order to achieve this, data were collected through the use of structured questionnaire. Data collected on the indicators of the variables such as tax rate , tax assessment , value added tax and MSMEs performance were used in obtaining their scores. The calculated scores were later subjected to regression analysis having remodifying their measurement scale. The result of the regression analysis is presented in table 3 to 4 below. ANOVA table report the test of significance of the overall model. It reports how the variables included jointly affect the MSMEs performance. The result shows that tax policy of the government had significance relationship with the MSMEs performance. The F-value of 3.769 with P-value less than 0.05, suggest that the variables included in the model jointly influence the MSMEs performance.

Table 3: ANOVA TABLE

ANOVA ^a					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	7.656	3	2.552	3.769	.011 ^b
Residual	242.377	358	.677		
Total	250.033	361			
a. Dependent Variable: MSMEs performance					
b. Predictors: (Constant), Value Added Tax, Tax rate, Tax Assessment					

Researcher's Compilation (2021)

Moreover, having established the significance of the model, it is important to highlight how each variable in the model affect the MSMEs performance. First of all, let us discuss the diagnostic statistics of the model. The VIF of the variables report the degree of collinearity among the explanatory variables, the result of obtained shows that all the variable report VIF less than 4, which indicates that they are free from the problem of multicollinearity, which possibly might affect the robustness of the model. When the collinearity exists in the model, it overstates or understates the standard error and therefore leads to wrong t-value and decision on the part of the researcher. Also, the R-square of the model shows that about 3.1% of the variation in MSMEs performance was accounted for by the government tax policy. This is a reflection of the fact that what drive the MSMEs performance is much beyond government tax policy, because there are many factors that are capable to enhance the performance of the MSMEs especially finance capability, operational capability, investment capability, nature of the business, market forces, macroeconomics factors, characters of the personnel and etc, which were not capture in the model. The outcome of the model report that tax rate is negatively signed with coefficient of -0.089. The P-Value of the tax rate is greater than 0.05,

which implies that tax is not statistically significant influencing MSMEs performance; it has declining effect on the performance. In the same vein, value added tax report negative relationship with the performance of MSMEs, with coefficient of -0.007, it is statistically not significant judging by its P-Value. The variable of tax assessment is statistically significant also negatively signed which implies that tax assessment of the MSMEs decline their performance. The variable reports a coefficient of -0.159 and P-Value less than 0.05.

Table 4: Parameter Estimate

Coefficients ^a						
	Unstandardized Coefficients	Standardized Coefficients	t	Sig.	Collinearity Statistics	
Model	B	Beta			Tolerance	VIF
(Constant)	4.403		14.577	.000		
Tax rate	-.089	-.076	-1.395	.164	.912	1.097
Tax Assessment	-.159	-.135	-2.423	.016	.872	1.147
Value Added Tax	-.007	-.007	-.134	.893	.930	1.076
Model Summary						
R Square	Adjusted R Square	Change Statistics				Durbin-Watson
		F Change	df1	df2	Sig. F Change	
.031	.022	3.769	3	358	.011	1.563
a. Predictors: (Constant), Value Added Tax, Tax rate, Tax Assessment						
b. Dependent Variable: MSMEs performance						

Researcher's Compilation (2021)

DISCUSSION

The study discovered that rise in tax rate will leads to decline in the performance of the MSMEs in Nigeria, although it statistically less significant. It is expected because firm performance depends on the intensity of demand. MSMEs most often passed the increase in their cost to the consumer especially when the products or services are demand inelastic. However, when the demand for their products is elastic, they tend to absorb the cost without reflecting it in their price. This act will surely negatively affect their profit by increasing their total cost of doing business. Similarly, value added tax increase will leads to reduction in MSMEs performance in Nigeria. The rise in VAT will leads to rise in price of MSMEs inputs which will brings about rise in total cost will therefore exert a drawdown effect on the firm profit. The study discovered that tax assessment leads to reduction in performance of MSMEs in Nigeria. It can be deduced that tax policies in Nigeria is detrimental to the growth of the country MSMEs. It reduces their performance through the rise in cost of input and also rise in price of their products, which will possibly lead to reduction demand intensity. When tax environment is unfavorable, it tends to discourage business expansion and flourishing. This study corroborate the finding of Zayol, Duenya, and Gbenrindye (2018) whose claimed that duplication of Business Premises Registration Tax, Development Levy and Market Taxes have a significant negative effect on financial performance of MSMEs and as a result affects their profitability negatively. However, the outcome of the research negates the earlier submission of Agu, Onwuka, and Aruomah (2019) who concluded that positive relationship exists between taxation and the performance of MSMEs in Nigeria and that tax assessment, tax collection and tax utilization significantly influence the performance of MSMEs in Nigeria.

CONCLUSION

Thus, the study concluded that an increase in tax burden will result in dwindling performance of MSMEs in Ondo State, Nigeria. The findings of the study shows that, the examined tax policies of the government have significant relationship with the MSMEs performance in Ondo State while the model is significant at 0.05 level. Tax rate, tax assessment and Value Added Tax (VAT) are negatively related with MSMEs performance in Ondo State but only significant statistically for tax assessment at 0.05 level. The implication is that any possible increment in tax rate, tax assessment and VAT will lead to reduction in MSMEs performance. Thus, the study concluded that an increase in tax burden will result in dwindling performance of MSMEs in Ondo State, Nigeria.

Recommendations

From the foregoing, the study was designed to analyse the effect of the tax policy on the MSMEs performance in Nigeria, the following recommendations were itemized for government immediate actions:

- i. For Micro, Small and Medium Enterprises to get better equipped, have enough funds and survive in a competitive market, the rate of tax levied on the small business should be lower.
- ii. The rate of tax incentives and exemptions which serve as catalysts and bait for attracting investors should be highly increased by the three tiers of government in Nigeria.
- iii. Government should give accelerated tax refund and provision to claim back preliminary taxes paid, or set it off against future losses to improve performance.
- iv. Government should ensure adequate infrastructure capable of providing support for MSMEs business to hamper their willingness to remit VAT.
- v.

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