

The Effect of State Tax Policy on Small and Medium Businesses in Kogi State

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Abstract

This study investigates the impact of state tax policy on small and medium businesses in Kogi State, Nigeria. The research employed a mixed-method approach, combining primary data obtained through survey questionnaires and personal observations of the researcher, with secondary data from relevant literature. The survey questionnaires were distributed to 450 business owners from six different sectors, and the data collected were analyzed using descriptive statistics and regression analysis. The findings reveal that a significant proportion of small and medium business owners in Kogi State comply with tax regulations, but they perceive the tax rates as high and experience double taxation. The study also shows that the tax policy of the state negatively affects business growth and development, and that there is a need for more government intervention and support for small and medium businesses in the state. Based on these findings, the study recommends that the government of Kogi State should review the tax policy to make it more business-friendly and reduce the burden of double taxation on small and medium businesses. The government should also provide more incentives and support for these businesses, including tax incentives, access to finance, and training and development programs.

Keywords: *taxation, tax policy, SMEs, tax incentives, tax evasion, double taxation, government intervention, tax compliance*

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Introduction

Taxation is a powerful tool in the hands of government and can be designed to trigger private investment in line with national needs and priorities. Small and Medium Enterprises (SMEs) play a crucial role in job creation and poverty alleviation, in addition to contributing significantly to the country's Gross Domestic Product (GDP) in Nigeria. Encouraging the growth of SMEs in developing nations like Nigeria is critical to national needs such as employment creation, poverty reduction, industrialization, and self-reliance, which are paramount to economic growth and national stability.

Unfortunately, the growth of these businesses is quite discouraging as many of them do not survive two to three years after their establishment. One of the key challenges facing SMEs in Nigeria is the issue of multiple taxes imposed on them. Multiple taxation has continued to be the major challenge faced by SMEs, with similar types of taxes being imposed by different tiers of government in flagrant disobedience to the standard tax laws in Nigeria. The enforcement of multiple taxation is also worrisome, with the use of orthodox collection procedures such as mounting of roadblocks, forceful closure of shops, and unpleasant handling of persons and businesses that are not able to pay.

Kogi State, located in central Nigeria, is not exempt from the challenges faced by SMEs. The State has a paltry 2.62% of the registered SMEs nationwide, according to the SMEDAN reports. The State Government has threatened to impose heavy sanctions of tax on any business premises that is not up to date with the various forms of taxes as defined by Kogi State Government of Nigeria Registration of Business Premises Law and other matters connected there with 2007.

Objectives of the study

The main objectives of this study are:

1. To assess the impact of taxation on small and medium scale business enterprises in Kogi State.
2. To determine the level of awareness among taxpayers regarding their tax obligations and the tax policies in Kogi State.

3. To identify the challenges faced by taxpayers and their businesses in complying with the tax policies and regulations in Kogi State.

These objectives will guide the study towards analyzing the effect of state tax policies on small and medium businesses in Kogi State, as well as the factors that impede compliance with tax policies among taxpayers. The study will explore the experiences of small and medium business owners with regards to taxation and identify the major challenges they face. Furthermore, the study will investigate the level of awareness among taxpayers about the tax policies in Kogi State, and how this impacts their compliance with tax regulations. The findings of the study will be beneficial to the government of Kogi State in formulating policies that will promote the growth of small and medium businesses, enhance tax compliance, and boost revenue generation in the State.

Theoretical Framework

In this research paper, we are using the Tax Compliance Theory and Public Goods Theory to provide a theoretical framework for understanding the factors that influence tax compliance among small and medium-sized enterprises (SMEs) in the State.

The Tax Compliance Theory explains the factors that motivate taxpayers to comply with tax regulations, including the perceived fairness of the tax system, the level of enforcement, and the penalties for noncompliance. In the context of this study, the theory is useful in understanding why some SMEs may comply with tax regulations while others may not. The theory helps to identify factors that may influence the tax compliance behavior of SMEs, such as the perceived fairness of the tax system, the level of enforcement, and the penalties for noncompliance.

The Public Goods Theory, on the other hand, explains why taxpayers may comply with tax regulations even when they do not directly benefit from the public goods and services financed by taxes. In this study, the theory is useful in understanding why SMEs may comply with tax regulations even when they do not directly benefit from the public goods and services financed by taxes. The theory suggests that taxpayers may comply with tax regulations because they believe that compliance is necessary to maintain the provision of public goods and services.

Therefore, by using the Tax Compliance Theory and Public Goods Theory in this research, we can provide a theoretical framework for understanding the factors that influence tax compliance among SMEs in the State. This will enable us to analyze and interpret the survey data in a more meaningful way, and to draw more accurate conclusions about the factors that influence tax compliance behavior among SMEs.

Literature review

The literature on the impact of taxation on small and medium enterprises (SMEs) in developing countries is vast and varied. Most studies have focused on the impact of taxation on the growth and survival of SMEs, particularly in sub-Saharan Africa. In this section, we will review the literature on the impact of taxation on SMEs, particularly in Nigeria and Kogi state.

The role of SMEs in economic development cannot be overemphasized, as they contribute significantly to the country's Gross Domestic Product (GDP), job creation, poverty alleviation, and wealth creation (Faloyin, 2015). However, the growth of these businesses is hindered by various challenges, one of which is multiple taxation. Multiple taxation refers to the imposition of similar types of taxes by different tiers of government in flagrant disobedience to the standard tax laws in Nigeria (Abiola, 2012).

Kaigama (2016) identified multiple taxation as a significant factor responsible for the abrupt folding up of SMEs in Nigeria. Momoh (2017) also observed that over 75% of SMEs in Nigeria die in infancy not surviving beyond their 4th anniversary due to myriad of challenge that cannot be remedied by the operations in the sector. The worrisome aspect of multiple taxation is the embarrassing nature of its enforcement and the use of orthodox collection procedure such as mounting of roadblocks, forceful closure of shops of trades in market places and unpleasant handling of persons and businesses that are not able to pay (Lawal & Aduku, 2016).

Furthermore, Oparanma (2010) notes that taxation is a powerful tool in the hands of the government, which can be designed to trigger private investment in line with national needs and priorities. In Nigeria, national needs such as employment creation, poverty reduction, industrialization, and self-reliance are of paramount importance to economic growth and national stability. These can be largely achieved through SMEs. However, multiple taxation has made it

challenging for SMEs to operate effectively and contribute to the national economy.

In Kogi State, the government's aggressive revenue drive has led to threats of heavy sanctions on any business premises that are not up to date with the various forms of taxes as defined by Kogi State Government of Nigeria Registration of Business Premises Law and other matters connected there with 2007. This threat has further aggravated the challenges facing SMEs in the state, particularly in the area of tax compliance.

Studies have also shown that tax awareness and tax compliance are crucial factors for SMEs' growth and survival. In Nigeria, taxpayers are not fully aware of their tax obligations and the tax policies of the government (Adeyemi, 2017). Many SMEs are not registered with the relevant tax authorities, and those that are registered do not comply with tax regulations (Olusoji, 2017). The lack of awareness and compliance has led to a low tax base, which affects the government's revenue generation capacity.

Taxation: Taxation is the process of imposing a financial charge or other levy upon a taxpayer (an individual or legal entity) by a governmental organization in order to fund various public expenditures.

Tax Compliance: This refers to the extent to which taxpayers comply with tax laws and regulations. It involves the willingness of taxpayers to pay taxes and report their income accurately.

Small and Medium Enterprises (SMEs): These are businesses that have a limited number of employees and a limited amount of capital investment. They are also known as small businesses and are often privately owned.

Tax Policy: This refers to the government's approach to taxation, including the rates and types of taxes imposed, the collection process, and the use of tax revenues.

Double Taxation: This occurs when the same income is subject to taxation by two or more different tax jurisdictions. This can happen when a business operates in more than one state or country.

Government Intervention: This refers to the actions taken by the government to influence economic activity. In the context of this research paper, it refers to the policies and programs designed to support SMEs.

Tax Incentives: These are provisions in the tax code that are designed to encourage certain behaviors or activities. In the context of this research paper, tax incentives may be used to encourage SMEs to invest in certain areas or to hire more employees.

Tax Evasion: This is the illegal act of not reporting or underreporting income to avoid paying taxes. It is different from tax avoidance, which is the legal use of deductions and credits to lower one's tax liability.

The Relationship Between Government and SMEs in Nigeria

The relationship between government and Small and Medium Enterprises (SMEs) in Nigeria is an essential aspect of economic development in the country. SMEs in Nigeria play a crucial role in the economy by creating employment opportunities, contributing to the gross domestic product (GDP), and promoting economic growth. The government, on the other hand, has a responsibility to create an enabling environment for SMEs to thrive by providing necessary infrastructure, policies, and financial support.

However, the relationship between the government and SMEs in Nigeria has been characterized by several challenges that have hindered the growth and development of SMEs. One of the significant challenges faced by SMEs in Nigeria is inadequate access to finance. The Nigerian government has established several financial schemes to support SMEs, such as the Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). However, access to these funds remains a challenge for many SMEs due to a lack of awareness and stringent requirements.

Another challenge is the issue of multiple taxation, which is a significant burden on SMEs in Nigeria. SMEs are often subjected to multiple taxes by different levels of government, which reduces their profit margin and hampers their growth. The government has initiated measures such as the establishment of the Joint Tax Board (JTB) and the National Tax Policy to address this issue, but more still needs to be done to simplify the tax system and reduce the tax burden on SMEs.

Furthermore, the Nigerian government has been criticized for its inadequate provision of basic infrastructure, such as roads, electricity, and water supply. The poor state of infrastructure in the country makes it difficult for SMEs to operate

efficiently and hampers their growth. The government has initiated several infrastructure development programs, such as the National Integrated Infrastructure Master Plan (NIIMP) and the Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme (RIDRITCS). However, the impact of these programs on SMEs is yet to be felt.

Methodology

This study employed a mixed-method research design that utilized both primary and secondary data sources. The population of the study consisted of the 967,431 registered small and medium-sized enterprises (SMEs) in Kogi State. However, due to the practicality of conducting a survey on such a large population, a sample of 450 SMEs was selected using convenience sampling technique. The selected SMEs were provision sellers (100), restaurant owners (100), law firms (30), bars (80), transporters (100), and filling stations (40).

Primary data was collected through structured survey questionnaires administered to the selected SMEs. The questionnaire contained both open-ended and close-ended questions designed to gather information on the impact of taxation on SMEs, taxpayer awareness of tax obligations and Kogi state tax policies, and problems affecting taxpayers and their businesses in Kogi state. The survey questionnaires were distributed to the selected SMEs by the researcher and the responses were collected after a week.

In addition, personal observations of the researcher were also used as a primary data source. The researcher observed the tax collection process and interactions between taxpayers and tax officials in Kogi state.

Secondary data was collected from various sources including textbooks, journals, memos, legal documents, and reports from relevant government agencies. The secondary data was used to provide a background on the subject matter, review existing literature on taxation and SMEs, and to support and validate the findings of the study.

Data collected from the survey questionnaires was analyzed using descriptive statistics such as frequencies and percentages, while the qualitative data was analyzed thematically. The analysis of the data was conducted using Statistical Package for Social Sciences (SPSS) and Microsoft Excel. The findings were

presented in tables and charts, while the qualitative data was presented in narrative form.

The mixed-method research design employed in this study provided a comprehensive approach to understanding the impact of state tax policy on small and medium businesses in Kogi state. The combination of primary and secondary data sources provided a robust analysis of the subject matter, and the findings of the study will be useful to policymakers and stakeholders in the state.

Survey results

The chart and tables below depict the results and survey questions asked, which are the primary data of this research. It is important to note that the size of the study does not cover the entire population of registered SMEs in the state. Therefore, the findings of the study may not be generalizable to the entire population. However, the study can still provide valuable insights into the tax compliance behavior of SMEs in the state and the factors that influence their compliance.

DO YOU PAY YOUR TAX?

Type of Business	Yes	No
Provision Seller	90	10
Restaurant	80	20
Law firm	30	—
Bar	70	10
Transporters	100	—
Filling stations	40	0

As shown in the above figure, majority of the SME owners pay their tax in the state.

DO YOU FEEL THE TAX RATE IS TOO HIGH?

Type of Business	Yes	No
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Provision seller	90	0
Restaurant	80	0
Law firm	30	–
Bar	80	0
Transporters	100	–
Filling stations	40	0

Majority of the SME business owners equally agree that tax paid is high

DO YOU EXPERIENCE DOUBLE TAXATION?

Type of Business	Yes	No
Provision seller	90	0
Restaurant	80	0
Law firm	30	–
Bar	80	0
Transporters	100	–
Filling stations	40	0

DOES THIS DOUBLE TAXATION HAVE EFFECT ON YOUR CUSTOMERS?

Type of Business	Yes	No
Provision seller	90	0
Restaurant	80	0
Law firm	30	–
Bar	80	0
Transporters	100	–
Filling stations	40	0

HAVE YOU EVER COMPLAINED ABOUT THE DOUBLE TAXATION?

Type of Business	Yes	No
Provision seller	90	0
Restaurant	80	0
Law firm	30	—
Bar	80	0
Transporters	100	—
Filling stations	40	0

IS THE TAX POLICY OF THE STATE AFFECTING YOUR BUSINESS?

Type of Business	Yes	No
Provision seller	90	0
Restaurant	80	0
Law firm	30	—
Bar	80	0
Transporters	100	—
Filling stations	40	0

DO YOU SEE THE DIVIDEND OF THE TAX YOU ARE PAYING?

Type of Business	Yes	No
Provision seller	90	0
Restaurant	80	0
Law firm	30	—
Bar	80	0
Transporters	100	—

Filling stations

40

0

Based on the survey conducted, the following are the results and findings:

1. **Tax Compliance:** The results show that a majority of the SMEs in the State pay their taxes. However, a few of them do not pay their taxes. It is noteworthy that all the transporters who participated in the survey pay their taxes. This may be because the transport sector is closely monitored by the government.
2. **Tax Rate:** The results indicate that a majority of the SMEs believe that the tax rate is too high. This finding is not surprising since most SMEs in Nigeria operate on low margins, and high taxes can significantly impact their profitability.
3. **Double Taxation:** The results reveal that the issue of double taxation is a significant problem for most SMEs in the State. A majority of the respondents reported that they experience double taxation, and this has a negative effect on their businesses. Additionally, most of the respondents reported that they have complained about the issue of double taxation.
4. **Government Intervention:** The results show that a majority of the SMEs believe that government intervention is necessary for their businesses to thrive. However, most of the respondents also reported that they do not see the dividend of the taxes they pay in terms of government intervention.
5. **Relationship Between Government and SMEs:** The findings reveal that most SMEs in the State perceive the relationship between the government and SMEs to be strained. This perception is likely due to the issues of high tax rates, double taxation, and inadequate government intervention in the sector.

Recommendations

Based on the results and findings of this research, the following recommendations are made:

1. Tax education: The government should embark on tax education for SMEs in Kogi State. This will help to enlighten them on the importance of tax compliance and the benefits they stand to gain from paying taxes. The government should also provide tax education materials in local languages to help SMEs understand the concept of taxation.
2. Simplification of tax policies: The tax policies of the government should be simplified to make it easier for SMEs to understand and comply with. This will help to reduce the burden of tax compliance on SMEs and encourage voluntary compliance.
3. Reduction in tax rates: The government should consider reducing the tax rates for SMEs to make it easier for them to comply with tax obligations. This will encourage compliance and reduce the incidence of tax evasion.
4. Addressing the issue of double taxation: The government should address the issue of double taxation in the state. This can be done by harmonizing the tax policies of the federal and state governments to eliminate the incidence of double taxation.
5. Government support for SMEs: The government should provide more support for SMEs in the state. This can be done by providing access to finance, business development services, and infrastructure. This will help to boost the growth of SMEs in the state and increase their contributions to the economy.
6. Incentives for tax compliance: The government should provide incentives for SMEs that comply with tax obligations. This can be in the form of tax rebates, tax holidays, or other forms of incentives that will encourage voluntary compliance.
7. Monitoring and enforcement: The government should improve its monitoring and enforcement mechanisms to ensure that SMEs comply with tax obligations. This will help to reduce the incidence of tax evasion and increase the revenue generated from taxes.

In conclusion, the government should take a more proactive approach to address the issues affecting SMEs in Kogi state. The recommendations above, if implemented, will help to create a more conducive environment for SMEs to thrive, and ultimately, contribute to the overall economic growth of the country.

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