INTRICACIES OF TAX IRREGULARITIES ON SMALL AND MEDIUM ENTERPRISES' PERFORMANCE IN NIGERIA

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Abstract
This study examined the intricacies of tax irregularities on Small and Medium Enterprises Performance in Nigeria. Data for the study were gathered from both secondary and primary sources. 120 SMEs were randomly selected from Lagos State and grouped into two viz ailing and healthy firms, depending on their level of productivity at the time of the study. Lagos State was selected as the study area because of its population density and because it is the commercial capital of Nigeria. Out of the 120 questionnaire distributed, only 118 were filled correctly and returned, representing 98.3% return rate. To determine the extent to which tax irregularities affect SMEs survival in Nigeria, a four point Likert type scale was used to extract data. Analysis of data and the test of hypothesis were done using f-ratio. Findings from the study revealed among others that there is a direct relationship between taxes paid by SMEs and their ability to survive and remain competitive. The study also shows that taxes are charged based on employee size and profit volume of firms; but that taxing system in Nigeria is still a fair one. Based on the findings the researcher suggested that the Government should support and encourage SMEs operation in Nigeria by ensuring that the burden of taxation does not overshadow the benefits therein. We also recommend that the essential principles of taxation should always be put into consideration by the tax administrators in Nigeria.

Keywords: Tax, Irregularities, Intricacies, SMEs, Mortality.

Introduction
Taxation is no doubt, a primary source of internal revenue to all governments. Taxation aside revenue generation serves also as a means of redistributing income among societies in such away that the burden should not overshadow the benefits therein. Adesola (1998) defined taxation as a means of generating revenue in order to meet government expenditure. Although the primary objective of taxation is to generate revenue, taxation also functions as a means of redistributing income.

According to Kabiru (2009), taxation is expected to serve as a fiscal policy instrument that would bridge the gap between different income groups in the society. He further stated that, though gap bridging between different income groups may be difficult to accomplish by whatever means, especially where great disparity exists; effort made at narrowing the gap in a manner that income inequality is reduced is essential in any society that aspires for peaceful co-existence. Oyekale et al (2006), opines that income inequality results to discontent, violence, and corruption and arouses fear of political instability which in turn does not allow for enabling environment for economic
growth and development. Panitcakdi (2006) opines that SMEs are sources of employment, competition, economic dynamism, and innovation which will stimulate the entrepreneurial spirit and the diffusion of skills because they enjoy a wider geographical presence than big companies. SMEs also contribute to better income distribution.

However, when administering tax, care must be taken so that the burden of taxation does not overshadow the benefits therein. In any society, Small and Medium Scale Enterprises is one of the most important factors that contribute to the growth and development of the economy. Business environment should be conducive for the SMEs to survive and tax should be administered in such a way that companies and SM Es' interest are protected. The researcher therefore, wants to determine the extent to which tax irregularities influence SME mortality rate in Nigeria and to provide a fair balance between tax administration policies and survival of SMEs that will contribute to the economic development of Nigeria.

Review of Related Literature.

Nigeria as a mixed economic nation gives chance to the operation of both private and public sectors in the economy. In the private sector, SMEs play the major role in the creation of jobs and provision of goods and services which may not be contained by larger companies and the public organizations. SMEs have improved the standard of living of many Nigerians and contributed to the national development. Ojochogwu and Stephen (2012) opines that SMEs has over the years served as an avenue for the creation of employment opportunities and the empowerment of the Nigeria citizens by providing an estimated 50% of all jobs as well as a source of local capital formations. SMEs being highly innovative lead to the utilization of natural resources and will usually translate to an increase in the country's wealth through higher productivity. SMEs therefore should be encouraged and conducive and enabling environments be created by administering tax policies that will favour SMEs and not the policies that will burden the firms and militate against their chances of survival. According to Small and Medium Enterprises Development Agency in Nigeria (SMEDAN 2012) Nigeria, 80% of SMEs collapse before their five years of operation due to tax related problems such as multiple and enormous tax burdens.

Concepts of SMEs

The term Small and Medium Enterprises has been defined in different ways by different authors and organizations. The National Economic Reconstruction Fund (NERFUND) defines SMEs as a business enterprise that its assets are not more than N 10M and its annual turnover not more than N 500,000. CAMA (1990) define small company as one with an annual turnover of not more than N 2m and net asset value of not more than N 1m. The Monetary Policy Circular No.22 OF 1988 of the Central Bank of Nigeria define SMEs as enterprises whose annual turnover are not more than N 500,000. Federal Government of Nigeria define SMEs for purposes of Commercial Bank loans as those with an annual turnover not exceeding N 500,000 and for Merchant Bank loans, those enterprises with capital investment not exceeding 2 million naira (excluding cost of land) or a maximum of 5 million.
Features of SMEs in Nigeria

According to Hanefah et al (2002) SMEs are competitive enough to increase their share of output, despite the fact that they form 3/5 of total number of manufacturing firms who are relied upon by large manufacturing companies for their products. The concept of SMEs is relative and dynamic since Medium Enterprises (SMEs) have a simple management structure. This characteristic is similar to that of a sole proprietorship where the management and lifespan of the business depend solely on the owner, low capital formation and limited number of employee. These also distinguish SMEs from large firms and partnership business though they can be registered as Limited Liability Companies. SMEs can also be characterized by the type of services they render hence; Hanefah et al (2002) argue that SMEs production process is labour intensive. They usually serve as supplier for the larger manufacturing firms with their operation being highly dependent on raw material sourced locally. However, this characteristic describes SMEs as always using unskilled and semi-skilled laborers.

Another feature that differentiates SMEs from larger firms is the start up capital Akinsulire (2010) says that SMEs require a lower start up capital than the larger companies. SMEs also contribute more to the creation of jobs at rural areas than the larger companies because SMEs require semi skilled or unskilled labourers than what is required in larger firms. The characteristic of SME that makes it an important enterprise in any country is that it reduces the rate of unemployment and increases the GDP of a country. SMEs therefore should be encouraged to operate efficiently and when administering taxes, it should be administered in such a way that the burdens will not triumph over the benefit.

Problems of Small and Medium Enterprises in Nigeria

Business Enterprises are faced with different problems irrespective of their sizes and forms; some of these problems are generic in nature while some are similar even in different countries and locations. One of the great challenges facing SMEs in Nigeria which is general and most common is financial problem. Although SMEs requires a low start up capital, the means of getting this finance is limited. This has been responsible for Nigerians not venturing into big business enterprises, because though they may get the start up finance, resources may not be enough to sustain the business in an efficient and effective manner. According to Osita (2004), one of the astronomical problems faced by SMEs is high operating cost. Opara (2002) stated that among other challenges faced by Small and Medium Enterprises are lack of transparency and corruption, lack of interests and lasting support for SMEs by government authorities. Chu, Kara and Benzing (2008) as cited by Ojochugwu and Stephen (2012) identified unreliable employees, weak economy, un-save location, lack of stable electricity supply as well as lack of management training as the major difficulties of SMEs.

However, SMEs are also confronted with heavy tax burdens. Although taxes are expected to be collected for the purpose of financing government expenditures, when tax burdens are so high they become a problem to business enterprises.
Important of Small and Medium Enterprises in Nigeria

Small and Medium Enterprises is no doubt the most important source of employment opportunity which at the long-run contributes to economic growth and development of any nation. A major area of contribution by SMEs is in the area of employment in casual, part-time, low training, and low skilled jobs. SMEs therefore are agents of poverty alleviation and avenues for people to improve their standards of living. An approximated 50% of Nigeria employees are working in the SMEs, earning their livings and improving their standards. This has reduced poverty and crime rates in Nigeria. Udechukwu (2003) argued that SMEs enhance the contributions of the private sector and provide the critical building blocks for industrialization and sustainable economic growth.

SMEs serve as a direct link between the consumer and large business enterprises. Williams (2006) opines that SMEs broaden the base of participation in society, decentralize economic power and give people a stake in the society's future. Aryeetey and Ahene (2004) claim that SMEs facilitate long term economic growth in poor countries as it is recognized as a channel for improving the efficiency of domestic and making productive use of the scarce resources. The presence of SMEs also leads to accelerated rural development and reduces the rate of migration from rural to urban areas in search of white collar jobs. According to Akinsulire (2010), SMEs accelerate rural development while decreasing urban migration and the problems of congestion in large cities because they have lesser competition by serving dispersed local markets.

Concept and Meaning of Taxation

Tax is an important source of income to any government for the purpose of financing her expenditure. Tax has been given different definitions by different scholars, according to their perceptions. Tax can widely be defined as a compulsory contribution made by individuals and organisations towards defraying the expenditure of the government. Akanle (1991) sees tax as a compulsory levy imposed on a subject or upon his property by the government having authority over him or the property. From the above, it can be seen that tax is a compulsory contribution to be paid by individuals or group(s) for the purpose of financing government expenditure. Therefore, tax must be fair and comfortable. It should be administered in a way that will not burden the taxpayer. Osita (2004) also defined taxation as a compulsory levy by government through its various agencies on the income, capital or consumption of its subjects. However for tax to be regarded as good and acceptable, it must possess some balanced and essential principles known as Canons of taxation.

Adam Smith in his famous book titled “The Wealth of the Nation” outlined the essentials for good and equitable tax system. Oguntoyinbo (2002) highlighted that a good tax system should be such that the burden must be equally felt by the citizenry such that the higher the income of a citizen, the higher his tax burden. This principle ensures that the citizens have the feeling of fairness in their contributions to encourage compliance in payment so that none feels cheated. These principles give the condition that tax payment should be charged based on individual chargeable income. This is one of the most important principles of taxation.
Indeed, the cost of administering taxes should not be higher, almost greater or equal to the amount being collected. This means that the cost of administration of tax should not over shadow the benefits. This is in view of the fact that a disproportionately high cost of administration will render the taxes collected depleted and therefore merely be an exercise of time wasting. Another principle advocates that tax must be collected with ease, that is, the time and manner of payment must be convenient for the tax payers. This therefore follows that the tax payer will be required to pay at a time when he has the means to do so. If the procedure for the payment of taxes is complicated, then such tax system lacks the essential principles of convenience, and hence inadequate. Essentially, the amount of tax liabilities of individuals must be determined with certainty as well as the time of payment. This means that there must be a definite method of determining the amount of tax to be paid by individual(s). If there is any ambiguity in the amount of tax the individuals are to pay, there must be a well designed option, otherwise the tax system is inadequate. This principle also suggests that the amount payable by individual as tax should not be subjected to arbitrariness by the tax authorities.

Ogundele (1999), however, rightly observed that a good tax system cannot be one that applies all these principles to the letter. This is because one principle may negate the tenets of another. Therefore, a balance is needed to be struck in achieving a good equitable tax regime. In enforcing tax collection, government needs to carefully evaluate the cannons of taxation and ensure that where there are conflicts between two principles, equity should prevail.

**Tax Irregularities**

Tax irregularity is any form of tax system that does not possess the objectives and the essential principles of taxation. In other words, any tax system that lays heavy burdens on tax payers and takes more than necessary from the citizens and may discourage them from paying loyalty to the government is tax irregularity. Tax irregularity also includes other acts from both the tax payers and the tax officials that may negate the tenets of cannons of taxation. These acts can be deemed legal by the law court. They include tax avoidance, tax evasion, fraudulent presentation of changeable income and fraudulent presentation of self assessment returns including multiple taxations. Prominent among these irregularities is multiple taxations. Osita (2004) described multiple taxations as a situation where the same profit or income which is liable for tax in Nigeria is being subjected to tax by another authority in Nigeria or in another country outside Nigeria. In a situation of multiple taxations, relief is always granted to the tax payer in respect of the tax earlier paid or to which he may be liable. Specific arrangements are made with a view to preventing such irregularity or to provide adequate relief as may be appropriate in the circumstance. Whenever such event occurs and no proper arrangement is made to relief the tax payer, it is deemed as a tax irregularity.

Farsbod (2000) opines that a poorly executed tax system also leads to low efficiency, high collection charges, waste of time for tax payers and the tax administrators and low amount of received taxes and the deviation of optimum allocation of resources.
Tax irregularities should be avoided in Nigeria, because it is harmful to the growth and development of SMEs, which will in return have a negative effect on the Nigerian economy. Nasato (2009) argued that an overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distorting effect on the development of SMEs and hence the development and growth of the economy.

Theoretical Framework
The theoretical framework on which this study is anchored is the theory of business growth propounded by Gibrat in 1931. This theory is referred to as Gibrat Law of Proportionate Effect (LPE). Gibrat stipulates that the rate of growth of a firm is independent of its initial size. This means that larger firms are preferable in the context of private sector development, given that they create more employment opportunities than the small firms. Jovanovic (1982) as cited by Ojochogwu and Stephen (2002) opines in his Learning Model saying 'younger firms learn overtime, which help them to improve their performance as they accumulate market knowledge. The interpretation of this model is that new and small firms grow faster than the older firms do. This means that a small firm today can be as big as the older firm in time to come.

From the above theories it is certain therefore that SMEs are set of very important business enterprises which have to be encouraged in any country. The growth and development of SMEs in a country also contribute to the growth and development of the nation's economy. An enabling environment should be created for the growth and development of small and medium enterprises in Nigeria.

Methodology
The study employed survey research design for the purpose of gathering opinions on the effect of taxes on SMEs in Nigeria. The population of the study comprised of all the SMEs operating in Lagos state of Nigeria since they are scattered all over the State. Therefore, a sample of one hundred and twenty SMEs was randomly selected based on the number of employees and profit volumes of firms. Lagos State was used as our study area because of its pivotal status as the commercial nerve center of Nigeria and tax administration potentials of the State. A total of 120 questionnaires were distributed to the selected SMEs but only 118 were filed correctly and returned. This represents 98.3% return rate. To determine the extent to which tax irregularities affect SMEs survival in Nigeria, a four point Likert type scale was used to extract data. The SME directors were made to indicate in a questionnaire the extent to which they agree that the stated tax burdens influence SME mortality in Nigeria. SMEs in Lagos state were grouped into two viz ailing and healthy firms, depending on their level of productivity at the time of the study.

Data Presentation and Analysis
This section presents the data collected from the owners of SMEs in Nigeria on the effect of tax irregularities on their firms. Among the many irregularities listed on the questionnaire are the three shown below:
Table 4.1: Summary of Mean Responses of SME Directors on Tax irregularities in Nigeria

<table>
<thead>
<tr>
<th>S/n</th>
<th>Tax irregularity</th>
<th>Strongly agree (4)</th>
<th>Agree (3)</th>
<th>Disagree (2)</th>
<th>Strongly disagree (1)</th>
<th>X</th>
<th>SD</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Multiple taxation</td>
<td>24 (18)</td>
<td>36 (9)</td>
<td>16 (6)</td>
<td>6 (3)</td>
<td>2.95 (3.17)</td>
<td>2.81 (3.15)</td>
<td>82  (36)</td>
</tr>
<tr>
<td>2.</td>
<td>Based on Employee size</td>
<td>20 (14)</td>
<td>38 (22)</td>
<td>12 (14)</td>
<td>6 (2)</td>
<td>2.95 (3.14)</td>
<td>2.73 (2.48)</td>
<td>76  (42)</td>
</tr>
<tr>
<td>3.</td>
<td>Based on Profit volume</td>
<td>20 (10)</td>
<td>32 (16)</td>
<td>12 (4)</td>
<td>16 (2)</td>
<td>2.70 (2.82)</td>
<td>1.06 (3.1)</td>
<td>80  (38)</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2013

In the table above, the figures (not in parenthesis) represent the responses of the ailing SME owners while the figures in parenthesis represent the responses of the healthy SME directors. In order to convert the ordinal scale to interval scale, a weighing was given to each point in the scale as follows:

- Strongly agree 4 points
- Agree 3 points
- Disagree 2 points
- Strongly disagree 1 point

F-ratio was used to test the hypothesis which states that the ailing and healthy SMEs in Nigeria are not significantly different in their mortality rate due to tax burdens.

**Test of Hypothesis**

**Statement of Hypothesis**

H₀: There is no significant difference in the mortality rate of ailing and healthy SMEs in Nigeria due to tax burdens.

H₁: There is a significant difference in the mortality rate of ailing and healthy SMEs in Nigeria due to tax burdens.

Table 4.2: Analysis of variance (Test result)

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>d.f</th>
<th>MS</th>
<th>F_cal</th>
<th>F_tab</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSB</td>
<td>2008</td>
<td>3</td>
<td>669.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSW</td>
<td>1283</td>
<td>23</td>
<td>106.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>3291</td>
<td>15</td>
<td>6.26</td>
<td>3.49</td>
<td></td>
<td>Reject</td>
</tr>
</tbody>
</table>

Source: Field survey 2013

**Decision Rule:**

From the table above, the calculated value is 6.26, while the critical table value is 3.49 i.e 6.26 > 3.49. Since the calculated value is greater than the table value, we reject the null and accept the alternative hypothesis.
Findings
The following findings were revealed: that there is a direct relationship between taxes paid by SMEs and their survival and growth. Since the tax irregularities in Nigeria involve multiple taxations to the extent that tenancy rates and levies are randomly charged by the State, Local government authorities and sometimes, the Federal Board of Inland Revenues (FBIR), the tax burdens will affect the contribution of SMEs in the social and economic development of Nigeria.

That tax are charged based on the employee size and profit volume of SMEs. Taxes are sometimes charged based on the number of workers employed by the SMEs irrespective of the ranks and quality of staff. Taxes are paid at a flat rate thereby ignoring a vital tenet of proportionate tax system. Profit is a generic term and the natures of the profit recognized by the SMEs are not carefully adjusted before taxes are charged. That although there is a significant relationship between taxes and SMEs survival and growth, the taxing system in Nigeria is still a good one. The tax system in Nigeria is fairly good because there are boundaries between tax collectable by the three tier of governments in Nigeria, though occasionally there will be overlaps.

Conclusion
In conclusion, it is fair to say that the tax system in Nigeria is good, though; there is a direct relationship between tax payment and SMEs growth and development. The result from the survey revealed that taxes are charged based on the profit volume of firms and the employee size of SMEs in Nigeria.

Recommendations
Governments and their tax agencies should realize the importance of SMEs in job creation, reduction of poverty, contribution to the standard of living of the people and the enhancement of economic growth and development of the nation. We therefore recommend that:

1. Government should support and encourage SMEs operation in Nigeria, as they contribute to and improve the economic development as well as the standard of living of the citizenry.
2. Taxes should be collected in relation to the size and adjusted profit volume of SMEs.
3. All the principles of taxation should always be put into consideration when administering taxes.
4. There should be regular tax education for both tax payers and tax administrators in Nigeria.
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