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Impact of tax incentives on the growth of small and medium scale enterprises in Kwara state

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Abstract

The importance of Small and Medium Scale Enterprises (SMEs) in the economic development of any country in recent years cannot be underrated especially with regard to creation of employment, innovation, uplifting the people's standard of living and financial contribution to the growth of the countries' Gross Domestic Product. This sector's growth is hindered by the challenges of lack of financial resources to expand, the entrepreneur managerial skills/attitudes, employment of cheap and unskilled labour, production of poor quality goods, lack of market for their products, inadequate infrastructural facilities and above all unpleasant taxation policy of the government. In the light of all these, this study reviews the role being played by various governmental tax incentives on the growth and development of SMEs growth in developing economy with special focus on Kwara State SMEs, Nigeria. The study employed descriptive design, thus, primary data was collected on variables contributing to tax influence and their effect on the growth of SMEs. A sample of 260 respondents representing a percentage of targeted population enterprises in the production sector of Kwara State Industrial area was selected through Stratified and Simple Random Sampling techniques. Data collected through questionnaires, interviews and observations when necessary was analyzed using ordinary least square regression model to estimate the contribution of each variable to the growth effect of SMEs. The study found that there was a significant correlation between taxation and SMEs' growth. The study recommends that there should be a friendly tax policy for all start-up businesses preferably a tax holiday, or an introduction of a growth limit which can be said to be a level stable enough to sustain tax payment.

Keywords: Business, Catalysts, Economic Transformation, Financial Regulation

Introduction

Main engine globally recognized by countries for growth and development is Small and Medium Enterprises (SMEs). This is as a result of its slope which allows group of individual who have minimal capital to gather and invest their collective resources for the provision of basic needs, economic development and export growth. According to Storey (1994), there is no generally agreed definition of small and medium scale enterprise (SME) due to the wide diversity of business globally. However, SMEs are businesses whose personnel numbers fall below certain limits.

World Bank's definition of SMEs is that micro scale; less than 50 employees, small scale; 50 employees, medium scale; 50-200 employees. Following the first SMEs definition of EU in 1996, the SME definition which is related with personnel numbers is required to revise because of increases in inflation and productivity. The UK definition of SME is generally a small or medium sized enterprise with fewer than 250 employees. The EU also defines an SME as a business with fewer than 250 employees, a turnover of less than €50 million, or a balance sheet total of less than €43 million (Jessie 2020).

The Central Bank of Nigeria defines small and medium enterprises in Nigeria according to asset base and number of staff employed. The criteria are an asset base between N5 million and N500 million, and a staff strength between 10 and 100 employees.

Tax incentives are strategy used to enhance growth by all countries, additional focus are made by many transitions and developing countries like Nigeria to encourage and promote Small and Medium scale Enterprises (SMEs). Categories of the incentives include cost-based tax incentive (for instance, tax credits and allowances granted on property, plant and equipment) and profit- based tax incentive (for instance tax holidays and other tax reliefs for pioneer companies). Developers, investors, businesses and private individuals when granted tax incentives in turn, develop community in which the company situated through massive employment and other social responsibilities (Ololu, Dipe, Jimoh and Oyediran 2021).

In developed countries, tax incentives often take the form of investment tax credits, accelerated depreciation and favourable tax treatment for expenditures on research and development. To the extent possible in the post-World Trade Organization world, developed countries also adopt tax regimes that favour export activities and seek to provide their resident corporations a competitive advantage in the global marketplace. Tax incentives are used to encourage domestic industries and to attract foreign investment. Here, the tools of choice are often tax holidays, regional investment incentives, special enterprise zones and reinvestment incentives (Alexander Trepelkov and Márcio Verdi 2018). Tax incentive is the use of government spending and tax policies to influence the level of national income. Taxation itself is the process or means by which communities or group are made to contribute part of their income for the purpose of administering the society (Appah, 2004).

In a bid to stimulate growth of SMEs, a number of countries have used tax incentives, for both investors and listing firms, to promote activity on SME boards. Tax incentives for investors are the more common approach, particularly in advanced markets (Mintz and Chen, 2011).

For instance, Poland adopted the policy of encouraging investment in shares of SMEs through removing so-called "back-end" taxes, which are the taxes applied to profits made when selling a security. In South Korea and India, investors benefit from reduced capital gains taxes on SME equity investments. This is done via the cutting of short-term capital gains tax in half, from 30 to 15%, for shares listed of SMEs. The UK and Spain adopted a tax incentive policy where the retail investors may deduct a set percentage of the value they invest in shares of SME equity. This happens via offering tax offsets only for acquiring shares in new SME equity offerings. In France, the investors can get a tax credit of 18% of the value invested in innovation mutual funds French acronym. The latter invest at least 60% of their portfolios in SME equity. Though these policies have been adopted the possible outcome may not significantly affect entrepreneurs as [their] interest rather lies with the capital influx from equity offerings in SMEs (Broersma and Gautier, 2017).

SMEs play a very important role in many developing countries. Young (2009) observes that especially in the developing countries the health of the economy as a whole has a strong relationship with the health and nature of SMEs. In Rwanda for example, the SMEs contribute more than 60% of new jobs created. Due to the importance of SMEs to the Rwandan economy, the Government of Rwanda has made notable intervention by putting in place measures like the Umurenge SACCOs that are geared towards promotion of and development of SMEs (MINICOM, 2016).

Statement of Research Problem

Small and Medium Enterprises are faced with couple of challenges in Nigeria thereby hindered its effectiveness on the economic growth. The positive essential role expected of SMEs on the economic growth fall below standard and this is traced to excessive tax rate imposed by the Government on the owners of SMEs, double or multiple taxations, poor adequate enlightenment about tax related issues as well as faulty tax regulations. As a result of foregoing, poverty rate became extremely high, cost of production turned excessively up which lead to forceful transfer of tax burden onto consumers through high cost price.

The mortality rate of the SMEs in Nigeria is also very high [5]. believed that the key factors among these factors include: insufficient capital, irregular power supply, infrastructural inadequacies (water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, lack of proper book keeping, in ability to separate business and family or personal finances and cut-throat competition. According to Aremu and Adeyemi [6], most SMEs in Nigeria die within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent survive, thrive and grow to maturity. This view was supported by Basil [11] cited in Agwu [4] where they believed that the key factors among these factors include: insufficient capital, irregular power supply, infrastructural inadequacies (water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets

for finished products, lack of succession plan, lack of proper book keeping, in ability to separate business and family or personal finances and cut-throat competition (Babatayo and Adegbie 2020).

In a developing country like Nigeria, there is an urgent need to provide the required enabling environment for the growth of SMEs, so that they could adequately play the role expected of them in the economic transformation of Nigeria. Such roles include mobilization of domestic savings for investment; increased harnessing of local raw materials; appreciable contribution to gross domestic product; employment generation, and significant contribution to poverty reduction efforts through sustainable livelihoods and enhancement in staff income, technological advancement and export diversification [43]. However, this is not the case in Nigeria because taxes which are levied for regulating the investment behaviour of the investors are discouraging the entrepreneurial growth and development, and this thus serves as a major constraint to the development of the SMEs in Nigeria. Complex taxation has been deemed to be a major threat to the growth of SMEs especially in less industrialized countries (Babatayo and Adegbie 2021). This study is to examine how the above stated challenges can the minimized if it cannot be completely eradicated.

Research Questions

Based on the statement of research problems, the following research questions were raised;

1. To What Extent does tax Incentive proxies have influence on sales revenue in selected Kwara State SMEs?
2. To What Level does tax Incentive proxies has impact on business expansion in selected Kwara State SMEs?
3. To What Extent does tax Incentive proxies have influence on profit growth in selected Kwara State SMEs?

Objectives of the study

The Main Objective of this study is to examine the impact of tax incentives on the growth of small and medium scale enterprises in Kwara State. The specific objectives are to:

1. To examine the influence of the incentives on sales revenue in selected firms.
2. To investigate the impact of tax incentive, on business expansion in selected firms.
3. To assess the influence of tax incentives on profit growth in selected firms.

Research Hypotheses

H_0 1: Tax Incentives has no significant influence on scale revenue in selected firms.

H_0 2: There is no significant relationship between tax incentives and business expansion in selected firms.

H_0 3: Tax Incentives has no significant influence on profit growth in selected firms.

Justification for the Study

The research will be of benefit to all the stakeholders including Government, finance houses, deficient, tax authority, policy makers as well as prospective investors whose intension is to invest only in a small and medium enterprises that enjoy tax incentive. It will provide a baseline for effective and efficient evaluation of tax policies and tax matters. Besides, this study will be of great assistance in the identification and utilization of tax loopholes in the existing tax system. It will also expose series of tax incentives available to the existing and prospective SMEs.

Scope of the Study

This study covers impact of tax incentives on the growth of small and medium scale enterprises in Kwara State for year 2020 and it will be limited to the use of questionnaires and annual financial statement. The sample size is 10 selected SMEs in Kwara State.

Literature Review

Conceptual Review

Small and Medium Scale Enterprises (SMEs) According to extant literature, the definition of SMEs varies in different economies but the underlying concept is the same. Fatai [20] argues that the concept of SMEs cannot be explained other than to say they are companies with metric (usually number of employees or annual turnover that below certain threshold). It is these indicators, number of employees and or rate of turnover that tend to define the context within which different countries and economies situate their understanding of small and medium scale enterprises. Adeyemi [8] believes that the characterization of SMEs varies in different economies although the core concept is similar.

According to Okonkwo and Obidike [38], the meaning given to small and medium enterprises differs in accordance with country, schools, context, scholars and author. Nwakoby, Ajike and Ezejiofor [35] in the other hand notes that the definition and criteria for classification of an enterprise as small, medium or large varies from one country to another, depending on whether it is developed or developing country. For instance, Fatai [20] opines that in Britain, small scale business is conceived as that industry with annual turnover of 2 million pounds or less with fewer than 200 paid employees. In Japan, SMEs is conceptualized as type of industry, withpaid up capital and number of employees categorized into manufacturing company with 100million yen paid up capital and 300 employees [20]. Those in wholesale trade with 300million yen paid up capital with 100 employees while those in retail trade with 100million yen paid up capital with 50 employees [20]. In other countries, SMEs are defined in term of the industry and nature of businesses [24]. In Nigeria case, it may be said that there is no clear-cut definition that distinguishes small and medium scale enterprises. The classification and definition of the concept of SMEs in Nigeria has passed through many stages.

The International Finance Corporation (IFC) according to Feyitimi, Temitope, Akeem and Oladele [21] define small enterprises as those that meet two of the following three conditions: (i) less than 50 employees, (ii) Less than $3 million total assets and (iii) less than $3 million total annual sales, while, medium enterprises are those that meet two ofthe following three conditions: (i) Less than 300 employees, (ii) less than $15 million total assets and (iii) less than $15million total annual sales. Due to the different definitions ascribed to SMEs in Nigeria, the National Policy on Micro, and Medium Enterprises (MSMEs) was issued in 2013 to address the issue of definition as to what constitutes micro, small and medium enterprises

The policy further states that if there exists a conflict on classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (N7M) but employs 7 persons), the employment-based classification will take precedence and the enterprise would be regarded as micro. The Nigeria Finance Act 2020 adopted turnover as the basis for classification of companies for company income tax purposes. The Act classifies small enterprises as those who annual turnover does not exceed N25million while medium size companies are those whose annual turnover fall within N25m to N100m and large companies as those whose annual turnover exceed N100m.

This article however, adopted the definition criteria used by the National Policy on Micro, Small and Medium Enterprises2.2. Tax Incentives Tax incentives have been defined in various ways by different scholars [49, 37] Tax incentives have been describedas exemption or reliefs granted to an individual or a company to reduce the effect of taxation and thus encourage savings and investment. Okauru [37] noted further that the reality of taxin centives in Nigeria is that not many people truly take advantage of the incentives that exist, and even when they do, past trends have suggested an individual corporate approach rather than an industry-wide approach.

Also, Keen [27] defines tax incentives as all measures and strategies which provide for more favorable tax treatment to a certain activities or sector, and he went on to describe the following to be typical tax incentives: (i) tax holidays which is defined as the temporal exemption of business investment from certain specified taxes, typically at least corporate income tax. Partial tax holidays offer the reduced obligations rather than full exemption, (ii) special zones which are placed in geographically limited areas where qualified companies can locate and hence benefit from the exemption of various scopes of taxes or administrative requirements, (iii) investment tax credit which is the deduction of some fraction of an investment from the tax liability, (iv) investments allowance/accelerated depreciation which is the deduction of some fraction of an investment from taxable profits (in addition to depreciation), (v) reduced tax rates/preferential tax rates which are the reductions in a tax rate, the corporate income tax rate, (vi) exemptions from various taxes which are the exemptions from certain taxes, most of the time those collected at the border such as tariffs, excises and VAT on imported inputs, (vii) financing incentives which are the reductions in tax rates for the funds providers for example: the reduced withholding taxes on dividends and (viii) Loss carried forward which is usually offered when the business makes a loss, the loss can be carried forward to offset the future. It can therefore be easily inferred that tax incentives are tax reduction given to encourage or support specific course of action intended to encourage investment in certain sectors or geographical areas. Different countries use various forms of incentives which are suitable for the purpose it was meant and in line with the economic realities. The tax incentives used in Nigeria as spelt out by the Nigeria Export Promotion Council (NEPC), in 2001 are.

Investment Allowance

Investment allowances are deductions from taxable income based on some percentages of new investment; it is used by the Nigerian government to encourage investment in some preferred sectors of the economy. According to Oyedele and Erukume [40] Investment Allowance is granted at the rate of 10% to corporate organization (companies) that incur expenditure on plant and equipment. It is calculated on cost and granted in the first year in which the asset is first to used. Olaleye, Memba, and Riro [39] state that the available investment allowance under the Nigerian tax system presently are: 10% investment allowance on plant and machinery for business in the agricultural sector; 10% investment allowance on production machinery in use by manufacturing concerns; and 15% investment allowance on plant and machinery acquired as a replacement for obsolete ones

However, it should be noted that separate investment allowance tax relief is available to businesses which are located not less than 20km away from the following facilities on infrastructure costs at the specific rare. Memba, and Riro [39] state that the available investment allowance under the Nigerian tax system presently are: 10% investment allowance on plant and machinery for business in the agricultural sector; 10% investment allowance on production machinery in use by manufacturing concerns; and 15% investment allowance on plant and machinery acquired as a replacement for obsolete ones.

Tax Holidays

Tax holidays are a common form of tax incentive used by developing countries and countries with economies in transition to attract investment in certain sectors. Under a tax holiday, qualifying newly established firms are exempted from paying corporate for about five years. The may include a tax holiday of three years initially, which may be extended for up to two years upon satisfaction of specified conditions. This is governed under the Nigerian Investment Promotion Commission Act [16]. The tax holiday further reviewed under the Pioneer Status Incentive Regulations, 2014. In the study carried out by Twesige and Gasheja [52], it was found Tax holiday has a significant and positive relationship with the growth of SMEs (b=0.664, sig=0.056) indicating that 66.4% of the variation in the growth of SMEs is explained by tax holiday.

Investment Tax Credit

According to Adamu [2] Investment tax credit may be flat or incremental. Adamu [2] opines further that flat investment tax credit is earned as a fixed percentage on investment expenditure incurred in a year on qualifying capital. In contrast, an incremental investment tax credit is earned as a fixed percentage of qualifying expenditure in a year in excess of some bases that is typically a moving average base. Abdulrahman and Kabir [1] however, note that the investment tax credit is basically a tax related incentive that allows individuals or entities to deduct a certain percentage of specific investment related costs from their tax liability apart from usual allowances for depreciation. Uwuigbe, Uwuigbe, Adeyemo and Anowai [54] state that the investment tax credit, which was crafted for stimulating the economy condition of a country by way of encouraging capital related expenditure, has been granted varied amounts since the year 1962. In the year, 1985, it was six to ten percent of the purchasing price, based on an asset's life.

Theoretical Framework

Theories of Entrepreneurship

Entrepreneurship theories and research remain important to the development of the entrepreneurship field. Several theories have been put forward by scholars to explain the field of entrepreneurship. The current study examines three entrepreneurship theories with a bias on the growth of SMEs. These are: (1) Economic entrepreneurship theory, (2) Psychological entrepreneurship theory, (3) Sociological Entrepreneurship theory (4) Benefit Theory and (5) Ability to Pay Theory

1. Economic Entrepreneurship Theory

The economic entrepreneurship theory has deep roots in the classical and neoclassical theories of economics, and the Austrian market process (AMP). However, because of criticisms leveled against the classical and neo-classical conjectures led to the Austrian Market process (AMP) which was a model influenced by Joseph Aloi Schumpeter (1934). Schumpeter (1934) described entrepreneurship as a driver of market-based systems. To him an important function of an enterprise was to create something new which resulted in processes that served as impulses for the notion of market economy. Odeyemi (2003) contended that the theory offered a logic dynamic reality. In explaining this, he pointed to the fact that knowledge is communicated throughout a market system. If an entrepreneur knows how to create new goods or services, or knows a better way to do so, benefits can be reaped through this knowledge. Entrepreneurs promote knowledge when they believe it will result in some individually defined benefits

Nweze (2009) holds that entrepreneurs are sensitized to use episodic knowledge (that is, possibly never seen before and never to be seen again), to generate value. Thus, the AMP was based on three main conceptualizations (Kirzner, 1973).The first was the arbitraging market in which opportunities emerge for given market actors as others overlook certain opportunities or undertake suboptimal activity. The second was alertness to profit-making opportunities, which entrepreneurs discover and entrepreneurial advantage. The third conceptualization, following Say (1803) and Schumpeter (1934), was that ownership is distinct from entrepreneurship. In other words, entrepreneurship does not require ownership of resources, an idea that adds context to uncertainty and risk (Gartner, 2004). These conceptualizations show that every opportunity is unique and therefore previous activity cannot be used to predict outcomes reliably. (Casson,2005) contends that an entrepreneur is the prime mover in economic development, and his function is to innovate, or to carry out new combinations. Anyone who performs this function is an entrepreneur, whether they are independent or dependent employees of a company. However, while the causes generating opportunities are unexplained in the entrepreneurship literature, a generation of scholars led by Shane and Ulrich (2004) examined the relationship among the entrepreneur, product development and technological innovation. The studies noted that the technology opportunity set is endogenously created by investments in new knowledge (Uduchukwu, 2003).

However, not only does new knowledge contribute to technological change, it also creates opportunities for use by third party firms (Jaffe, 1989), often-new ventures (Shane, 2001). The creation of new knowledge gives rise to new opportunities through knowledge spillovers; therefore, entrepreneurial activity does not involve simply the arbitrage of opportunities (Kirzner, 1973) but also the exploitation of new opportunities created but not appropriated by incumbent organizations. In the current study, just like suggested in the economic entrepreneurship theory by Schumpeter (1934) who described entrepreneurship as a driver of market-based systems, mitigating the adverse effect of taxation requires innovation which is basically dependent on entrepreneurship, creating of new knowledge, risk taking and management, adaptability and leveraging technology.

2. Psychological Entrepreneurship Theory

The level of analysis in psychological theories is the individual (Olokoyo, 1999). These theories emphasize personal characteristics that define entrepreneurship. Personality traits need for achievement and locus of control are associated with entrepreneurial inclination which involves risk taking, innovativeness, and tolerance for ambiguity. The essence of psychological or personal theory is the difference in individuals' attitude. According to this theory the difference in attitude i.e. the internal attitude and ability to judge and forecast the situation lead a man to become a successful entrepreneur defines personality traits as -stable qualities that a person shows in most situations.

Onuba argues that there are enduring inborn qualities or potentials of the individual that naturally make him an entrepreneur. Some of the characteristics or behaviors associated with entrepreneurs are that they tend to be more opportunity driven (they nose around), demonstrate high level of creativity and innovation, and show high-level of management skills and business know-how (Oluyombo, 2010).

Olorunisola, (2003) says that entrepreneurs have been found to be optimistic, (they see the cup as half full than as half empty), emotionally resilient and have mental energy, they arehard workers, show intense commitment and perseverance, thrive on competitive desire to excel and win, tend to be dissatisfied with the status quo and desire improvement, entrepreneurs are also transformational in nature, who are lifelong learners and use failure as a tool and springboard. They also believe that they can personally make a difference, are individuals of integrity and above all visionary. David McClelland‘s theory (1961) on need for achievement explained that human beings have a need to succeed, accomplish, excel or achieve. Entrepreneurs are driven by this need to achieve and excel. In his theory McClelland emphasized the relationship of achievement motivation or need for achievement (Olaitan, 2006).

According to McClelland, one would expect a relatively greater amount of entrepreneurship in a society if the average level of need achievement in a society is relatively high. Because having a high achievement encourages an individual to sit challenging goals, work hard to achieve the goals and uses the skills and abilities needed to accomplish them (Nweze, 2009). Moreover, it is the inner drive of individuals that propels them to work more and to achieve something for their own interest by taking personal risk (Olokoyo, 1999).

Need for achievement then, reflects a strong goal orientation, an obsession with job or task to be done. Consequently, McClelland advocates increasing level of need achievement in a society in order to stimulate entrepreneurship and economic growth (Olaitan, 2006). Finally, according to McClelland, entrepreneurs are activated by the high extent of achievement motivation and he also stated a desire to do well, not so much for the sake of social recognition or prestige, but for an inner feeling of personal accomplishment, induce people to be an entrepreneur (Onuba, 2010). An entrepreneur‘s need for achievement drives him to become innovative by devising tax coping mechanisms in order to survive in the business engagements and excel. This is what motivated the author to adopt the David McClelland‘s theory (1961).

3. Sociological Entrepreneurship Theory

These are theories based on sociological aspects. This is because socio-cultural factors have a substantial influence in creating entrepreneur as well as entrepreneurship (Fred, 2010). Moreover, social and cultural factors places a high value on innovation, risk taking and independence is more likely to produce entrepreneurial events than a system with contrasting values (Abugu, 2007). Among these type of theories Max Weber‘s protestant values is ancient one. In this theory Weber argued that protestant or Calvinistic logic or values were instrumental in promoting capitalist enterprise. These values included, first of all, an emphasis on the inherent goodness of work itself. A person‘s work was regarded as a calling in the very literal rendering of the concept of vocation. Moreover, the experience of financial rewards from one‘s work was regarded as a manifestation that one was blessed by God, a number of elect few predestined to share this grace.

However, money created temptations to the flesh, whose yearnings were to be suppressed. Protestant values called for self-restraint and deferral of gratification. By investing one‘s earnings in the form of capital, one could practice such self-denial. Over a period of many years, repeated investment of earnings created the capital base for the take off of Western societies into the economic break-through of the industrial revolution (Chibundu, 2006). A previously stated in this study, social and cultural factors is an important ingredient on innovation, risk taking and independence for a holistic entrepreneurial status. Just in the same vein, the current study envisions that entrepreneurship will thrive well in a climate where tax burden is reduced.

4. The Benefit Theory

The benefit theory was propounded by Eric Lindahl in the year 1919. The theory assumes that government has another source of funding infrastructure and the burden will now be passed to the citizen. The theory proceeds on the assumption that there is basically an exchange or contractual relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received [10]. In this quid pro quo set up, there is no place for issues like equitable distribution of income and wealth. Instead, the benefits received are taken to represent the basis for distributing the tax burden in a specific manner. Eric-1919 believed that if taxes are levied on this principle as stated, then justice can be achieved. The benefit theory as advocated by Eric-1919 was subjected to severe criticisms on the following grounds; (i) based on the benefit theory; it means that if tax revenue is used to finance the building of a primary school, a man who has no child should not pay the tax since he will not benefit from it. Taxation based on the benefit theory will not yield much revenue to the government since, as already stated, many people who can afford to pay heavy tax may end up paying less tax simply because they do not receive much benefit from government expenditure; (ii) if the state maintains a certain connection between the benefit conferred and the benefits served, it will be against the principle of tax as it is compulsory contribution made to the public authorities to meet the expense of the government and for the provision of general infrastructures to all and; (iii) another flaw of benefit theory is that most of the expenditures incurred by the state are for the general benefits of the citizen. As a result of this, it is impossible to estimate the benefit enjoyed by a particular individual every year.

5. Ability to Pay Theory.

In its use for assessing the efficiency of taxes and appraising fiscal policy, the benefit to pay theory was initially developed by Knut Wick sell in 1896 and Eric Lindahl in 1919, who were economists of the Stockholm School. The theory was later extended in the work of Paul Samuelson and Richard Musgrave. According to Anyanfo [7], this theory states that one should be taxed according to the ability to pay. It is simply an attempt to maximize an explicit value judgment about the distributive effects of taxes. This approach considers tax liability in its true form, that is, compulsory payment to the state without quid pro quo. It does not assume any commercial or semi-commercial relationship between the state and the citizens.

The basic assumption of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitates that the tax burden is apportioned according to their relative ability to pay. Both theorists opined that if the objective of the government is to redistribute income, it should set taxes according to the ability-to-pay principle. Bhartia [10] argued against the ability to pay theory where he opined that a citizen is to pay taxes just because he can and his relative share in the total tax burden is to be determined by his relative paying capacity. This doctrine has been in vogue for at least as long as the benefits theory. This theory was supported by socialist thinkers because of its conformity with the ideas and concepts of justice and equity. The doctrine also received an equally strong support from non-socialist thinkers also and became a part of the theory of welfare economics.

However, this theory was a subject of criticisms. The critic opined that it is difficult to measure ability. There are, in general, three measures of ability: income, expenditure and property which are; (i) income which is said to be a better measure of ability than wealth; (ii) expenditure, according to Prof. N. Kaldor, expenditure is the best possible measure of ability. He advocated an expenditure tax which was tried in India for some time but withdrawn subsequently. A poor man may spend more if he has more dependants and if he has to look after his old parents. So, his expenditure may be higher than his colleague belonging to the same income bracket. But his expenditure does not reflect his true ability to pay and; (iii) property, it is believed that possession of wealth or property is a reflection of well- being, but to a limited degree. For example, if two persons have the same amount of wealth, they are not equally well-off. One may have some productive wealth like a building which yields a steady income. Another may have unproductive wealth (i.e., jewelry) of the same value. Naturally, their ability to pay taxes will differ greatly.

Empirical Review

Twesige and Gasheja [52] analyzed the effect of tax incentives on the growth of sales of SMEs from 2013 up to 2018 in Kenya, where the sales were said to be increasing year to year. Based on these results from the sampled SMEs financial statements, the financial performance of the SMEs was good. Since, profitability is said to be a measure of the amount by which a company's revenues exceeds its relevant expenses, the results of their study revealed that the availability of tax incentives led to an increase in the sales during the study period. This means that tax incentives have a positive effect on the growth of sales of SMEs

The findings of Twesige and Gasheja [42] relates to the study carried out by Külter and Demirgüneş [29] who pointed out that sales revenue and profitability of SMES are affected significantly by tax incentives. Mayende [32] study on the 'Effects of Tax Incentives on Firm Performance' analyzed the effects of tax incentives on the performance of Ugandan manufacturing firms in terms of gross sales and value added employing panel data estimation techniques. The study findings show that firms with tax incentives perform better in terms of gross sales growth and value added than their counterparts.

The study thus concluded that Government needs to streamline the provision of tax incentives for better firm performance. Isaac [25] investigated the effects of government taxation policy on Uasin Gishu County, Kenya SMEs sales revenue. The study adopted an exploratory research design. The data for the study were generated from secondary and primary sources, the primary data were extracted by administering 180 questionnaires, personal interviews and document analysis. The research findings showed that government tax policy has a direct significant impact on SMEs sales revenue. Furthermore, the study revealed that the effects of the government taxation policy on SMEs sales revenue could either be positive or negative. The study concluded that the SMEs should be levied lower amount of tax payable in order to allow for them to have as much as necessary funds for other activities that will lead to growth in their business and yield profitability.

Policy Measures that will Encourage SMEs Growth

Although there is certain policy measures geared towards SME growth in Nigeria, the support needs to be increased, standardized and systematic. Iwuji (n.d) believes that it is the role of the government to provide and enabling environment and social services that support businesses and persons. This means enhancing the investment climate in Nigeria for increased economic growth and subsequent tax contribution from all citizens which is necessary because a good number of

SMEs operate in the informal economy due to the fact that they deem the tax environment within which they operate unfavourable. These SMEs constitute untapped revenue potential and an uneven playing field in many countries (International Tax Dialogue, 2007) as such they need to be captured by the tax net. The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME. The big companies have more choices possibilities. They can either share part of the staff or hire people to deal only with studying the legal requirements and complying with the new regulations, or contract some personal service firm (like E&Y, Deloitte and Touché, Price Waterhouse etc) to deal with their tax compliance, planning etc. For SME this is a great expense out of their abilities (Smatrakalev, 2006). Shahroodi, (2010) believes that for a tax system to be efficient, the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for their growth for example the practice in China where tax policy has been designed to encourage SME financing by granting exemptions from business tax for financial corporations that provide guarantee for loans to SMEs and granting tax deductions to market entities and venture capitalists that invest in high-tech SMEs the tune of 70% of the investment value.

Another way is by designing tax policies that encourage human capital training. (Yaobin, 2007) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection. It is important to note that the awareness of the dangers of inadequate attention to the taxation of SMEs has grown. It can lead, for example, to distortions of competition as a result of uneven tax enforcement, with incentives created to limit growth and to avoid tax through artificial splitting of enterprises. Not least, voluntary compliance by larger enterprises themselves, and by wage earners, may be undermined by the (correct) perception that their smaller counterparts, or better-off neighbors, are getting away with poorer compliance.

(International Tax Dialogue, 2007)

Hence government intervention will help maintain balance while helping countries exploit the social benefits from greater competition and entrepreneurship. Furthermore, policy incentives such as tax rebate for SMEs that put effort on local sourcing of raw materials, serious in adding value to commodities for exports and other business ethics, should be employed by government. Similarly, government could increase private sector investment opportunities that will focus on specific areas of capacity enhancement. Tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance (Kasipillai, 2005). And also tax law should be simplified continuously, mainly for three reasons, namely to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers; and to improve the levels of voluntary compliance (Kasipillai, 2005). Pro-business (and Pro-SME) Tax regimes and enforcement should be simple, consistent and predictable.

Methodology

The data used for this study were obtained from twenty-two out of twenty nine registered SMEs in kwara State, Nigeria. The twenty-two SMEs were randomly selected. Well-structured questionnaires were used to collect the required data from the selected companies. Two hundred and sixty (260) questionnaires were administered to the respondents. The data were analysed using frequency distribution while the hypotheses were tested using the chi-square test.

Data Collection Procedure

The conduct of this research work involved visiting the small and medium enterprises development, firms, the Small and medium Enterprises were involved distribution of questionnaires which were responded to' enterprise growth The questionnaires were handed over to the respondents personally and some of them were collected immediately while some were collected later.

And Analysis

Table 1: Responses Related to the Awareness of Tax Incentives influence on Sale revenue

Questions	'Yes'/agree responses	%	'No/'does not agree response	%
1	246	94.62	14	5.38
2	246	94.62	14	5.38

Source: Field Survey 2021

The data in table 1 above can be analyzed as follows: To question 246 representing 96.85% of the respondents are aware of tax incentives as it affects small scale industries. Meanwhile, representing 5.38% of the respondent are not aware of tax incentives. In response to question 2, 246 representing 96.85% of the respondents asserted that their companies do enjoy tax incentives currently. On the other hand 14 representing 5.35% of the respondents indicated otherwise. From the analysis above, one can conclude that most of the respondents are aware and familiar with tax incentives granted and influenced firm's performance toward SMEs industries by government.

Table 2: Responses Related to the Effect of Tax Incentives influenced on business of Small and medium Scale Enterprises

Questions	'Yes'/agreed responses	%	'No/does 'not agree response	%
3	229	88.07	31	11.92
4	206	79.23	54	20.76

Source: Field Survey 2021

The data in table 2 above can be analyzed as follows: To question 229 representing 88.07% of the respondents agreed that tax incentives affect the business o expansion of small and medium scale enterprises. Meanwhile, 31 representing 11.92% disagreed with this opinion. In response to question 206 representing 79.23% of the respondents are of the opinion that tax incentives do enhance the level of business expansion of small and medium scale enterprises. On the other hand, 54 representing 20.76% of the respondents are of the opposite view. From the analysis above, one can conclude that tax incentives do enhance the level of business expansion of small scale enterprise.

Table 3: Responses Related to the Relationship between Tax Incentives and Profit Growth of Small and Medium Scale Enterprises

Questions	'Yes' Responses	%	'No' Response	%
7	255	98.07	5	1.92
8	250	96.15	10	3.85

Source: Field Survey 2021

The data in table 4 above can be analyzed as follows: To question 255 represent 98.07% of the respondents affirmed that there is relationship between tax incentives and the profit growth of small and medium scale industries. Meanwhile 10 representing 3.85% disagreed. In response to question 255 representing 98..07% of the respondents agreed that tax incentives encourage the growth of small and medium scale industries. On the other hand, 250 representing 96.15% of the respondents are of the opposite opinion. Thus, it may be concluded that tax incentives do encourage the growth of small and medium scale industries.

Table 4: Summary of Hypotheses tested

	Hypothesis 1	Hypothesis 2	Hypothesis 3
Critical value	3.7415	3.8415	3.6415
X^2 Computed	5.5979	5.4978	5.6116
Degree of freedom	1	1	1
Level of significance	0.05	0.05	0.05

Source: Field Survey 2021

Discussion of Findings

Table 5 above summarized the hypotheses tested. In the first hypothesis, the calculated X^2 value of 5.5979 is greater than the critical X^2 value of 3.7415 at 0.05 level of significance and 1 degree of freedom. Therefore, the calculated value is said to be significant and as such we will reject the null hypothesis of no significant effect of tax incentives on the sale revenue of small and medium scale industries. Thus, the alternative hypothesis is accepted. This means that tax incentives do have significant effect on the sale revenue of small scale industries.

Similarly, in the second hypothesis, the calculated X2 value of 5.5979 is greater than the critical X2 value of 3.8415 at 0.05 levels of significance and 1 degree of freedom. Therefore, the null hypothesis is rejected while the alternative hypothesis is accepted. Thus, tax incentives do have significant effect on the business expansion of small scale industries. Finally, in the third hypothesis, the calculated X2 value of 5.6116 is greater than the critical X2 value of 3.6415 at 0.05 level of significance and 1 degree of freedom. Therefore, the null hypothesis is rejected while the alternative hypothesis is accepted. Thus, Tax incentives do enhance the profit growth of small scale enterprises.

5.0 Conclus*ion* and Recommendation

From the literature review, data analysis and discussion of the findings of this study, the conclusion is that tax incentives do have significant impact on the growth of small scale industries. Specifically, tax incentives help in improving the sale revenue, profit growth and business expansion of small and medium scale industries in Nigeria. Also the following recommendations are made: First, government should periodically review the tax incentives available to small scale industries so as to reflect prevailing economic realities. Furthermore, the exemption from tax of the dividend of small scale industries for the first 5 years of operations should be extended to ten (10) years. This will further encourage more investments in the small scale industries. Finally, government should also grant five years unconditional tax holidays to small scale industries. This is very important if the government is to attract reasonable investments in the small scale industries.

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