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TAXATION AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISE (SME) IN
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Abstract

The study examined the relationship between taxation and financial performance of quoted SMEs in Nigeria from 2013 to 2017. Company income tax and education tax were taxation proxies while return on investment, return on assets and current ratio were the proxies of financial performance. The researchers adopted ex post- facto research design for the study. The study used secondary data obtained from the audited annual reports and accounts of the ten listed SMEs' website and whose stocks are traded on the alternative security market (ASM) in the Nigeria stock exchange. The research data was analyzed using basic descriptive, Pearson product moment correlation and multiple regression in a panel data setting with the aid of E-View version 9. The results revealed that company income tax and education tax have no significant relationship with return on investment return on assets and current ratio quoted small and medium enterprises in Nigeria in the period of this study. We thus concluded that taxation has no significant relationship with financial performance of SMEs in Nigeria in the period of this study. It is recommended that government should review downward the current corporate tax rate of 30% on SMEs to enable them perform optimally in this highly business competitive environment in Nigeria. We equally endorsed that Nigerian tax authority should carry out their duties more efficiently with the most care and integrity to combat multiple taxes for better performance.

Keywords: Taxation, financial performance, Nigeria, Small Business, Medium Business

Introduction

Sound and efficient financial performance is the fundamental and desirable objective of every corporate entity including small and medium enterprises for survival in this highly competitive business world. Financial performance showcases the monetary measurement of policies and operations of firms at a given period. Similarly, financial performance can be defined as the monetary measurement of how a business utilizes the resources to generate revenues from its daily operations over a period of time. Basically, financial performance is usually published in the annual financial reports and presented to the users of financial statements. This implies that financial performance is very vital as the life-blood of all businesses particularly small and medium enterprises (SMEs) whose activities have been accorded global recognition and attention in recent time. University of Rochester Medical Center (2014) asserts that as the white blood cells in the blood help the blood to fight against diseases and illnesses, so is the same with efficient financial performance of business entity; money is used to cater for unforeseen risk which may pose a financial shock to the business entity. The import is that good financial performance enhances the growth and survival of small and medium enterprises.

Over the recent decades, the world has beamed searchlight on the unique economic activities of Small and Medium Enterprises (SMEs) and their development has been the focal point of all economies in the world. Small and Medium Enterprises have always been considered an important force for economic development and industrialization in smaller economies (Aryeetey & Ohene, 2004 and Oludele & Emilie, 2012). These small enterprises have increasingly been recognized as enterprises that contribute considerably to the creation of jobs, economic growth and eradication of poverty in Africa. World Development Report maintains that creating sustainable jobs and opportunities for smaller entrepreneurs are the key strategies to take people out of poverty. This is as a result of the fact that they contribute immensely to the economic growth and development of nations. The influence of this sub-sector is reflected in greater utilization of local raw materials, employment generation, encouragement of rural development as well as development of entrepreneurship (Muritala, Awolaja & Bako, 2012). They make-up the largest proportion of businesses all over the world and play incredible roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries.

Similarly, UNIDO considered Small and medium enterprises (SMEs) being the backbone of economic growth in all countries as they represent over 90% of private businesses and they contribute to more than 50% of employment and GDP in most African countries. Panitchparkdi (2006) sees small and medium enterprises as a source of employment, competition, economic dynamism, and innovation which stimulates the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, small and medium enterprises also contribute to better income distribution. They are in the forefront of output expansion, employment generation, income redistribution, promotion of indigenous entrepreneurship and production of primary goods to strengthen industrial linkages. In the United States of America (USA), small and medium enterprises employed about 50% of the workforce (Audretsch & Thurik, 2010). Correspondingly, Ovia (2001) states that available empirical studies have shown that, the small and medium enterprises generate at least 60% of the United States of America (USA) Gross Domestic Product (GDP), that the SMEs constitute the major breakthrough in several emerging sectors, most breakthroughs in (IT) in the U.S.A were propelled by small and

medium enterprises (SMEs).

The situation is not different in Africa as reported by Kongolo (2010) where small and medium enterprises were known to account for about 91% of the formal business entities, contributing about 51% to 57% of GDP, and providing almost 60% of employment, These small enterprises have increasingly been recognized as enterprises that contribute considerably to the creation of jobs, economic growth and eradication of poverty in Africa. In Nigeria, the importance and performance contributions of Small and medium business as a creator of employment particularly, those with low skill level, is widely recognized. Ariyo (1999) and Ihua (2009) stated that small and medium enterprises in Nigeria are not only catalyst of economic growth and development, but are also the bedrock of the nation. A study carried out by the Federal Office of Statistics shows that in Nigeria, small and medium enterprises make up 97% of productive units of the economy and provide an average of 50% of Nigeria's employment, and its industrial output (Ariyo, 2005; Taiwo, Ayodeji & Yusuf, 2012).

In 2002, 98% of all businesses in the manufacturing sector were small and medium enterprises (SMEs) operating in Nigeria, providing 76% of the workforce and 48% of all industrial output in terms of value added (Mahmoud, 2005 as cited in Eniola & Ektebang, 2014). Small and medium enterprises (SMEs) employ 87.9% of the workforce in the private sector (Kadiri, 2012). In the agriculture and manufacturing sectors, small and medium enterprises (SMEs) employ more than 80% of the total workforce. In the last few years, an increase in employment of small and medium enterprises (SMEs) has exceeded the increase in their contribution to gross domestic product (GDP), highlighting the employment creation potential of this sector of the economy (Kraja & Osmani, 2013). In the same vein, a report in 2015 by Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) indicated that about 90% of companies in Nigeria were made up of small and medium enterprises. Although smaller in size, they are the most important enterprises in the economy due to the fact that when all the individual effects are aggregated, they surpass that of the larger companies.

Most of the existing studies often focus on Commercial Banks' Credit and SMEs Development (Dada, 2014), effect of SME financing on economic development (Taiwo, Falohun & Agwu, 2016). Others looked at the problems, challenges and prospects, government policies and programmes geared towards SMEs development (Kongolo, 2010; Okoli, 2011; Taiwo, Ayodeji & Yusuf, 2012, Dzisi & Ofosu, 2014). Besides, other scholars have examined the relationship between taxation and financial performance of small and medium enterprises (SMEs) using only company income tax on the basis of questionnaire instrument (Altenburg & Eckhardt 2006 focused on the effect of tax revenue components from small and medium enterprise on the economic growth of Nigeria from 1980-2015).

However, none of these studies was conducted on the relationship between taxation and financial performance of quoted small and medium enterprise in Nigeria. It is against this background that this study is designed to investigate the relationship between taxation and financial performance of small and medium enterprise (SMEs) in Nigeria using empirical secondary data from the quoted small and medium enterprises on alternative security market (ASeM) established by the Nigerian Stock Exchange.

Statement of the Problem

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2013) indicated a high mortality rate of SMEs in the country. Precisely, the survey stated that about

80% of SMEs dies within first five years of birth. Mordi (2005) avers that this situation is more worrisome when relating with what other developing and developed countries have attained with their Small and Medium Enterprises. This is plausible due to the heavy tax burden suffered by these SMEs. Udechukwu (2003) observes that this discourages entrepreneurship, results in absence of a strong and virile SME sector and, thus, creates industrial gap. This make them less attractive to potential foreign investors who may wish to invest in the Nigerian manufacturing ventures. These reduce profit potentials of the enterprises, even with increases are recorded in annual turnover.

There is no doubt that taxation plays a vital role in promoting economic activity and growth as tax revenue contributes greatly to the Gross Domestic Product (GDP) of Nigeria with which government provides infrastructures needed for smooth business operations. Regrettably, this impact is not primarily felt due to poor and inconsiderate tax policies of government and maladministration of the tax authority resulting to multiple taxations that is bedeviling businesses. SMES are faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Even though other challenges such as inadequate capital, epileptic power supply, poor technical and managerial skills, stiff competitions and government regulations are staring on faces of SMEs in developing countries like Nigeria, the issue of multiple taxation is eating deeply into the revenues generated by these SMEs for their growth and survival. These have led to increase in record of dearth of Small and Medium Scale Enterprise (SMEs).

Taxes of various forms which are charged on the income of SMEs include company income tax, withholding tax, VAT (Value added tax), education tax, business premises tax, import and excise duties and many others. The stunted growth of the SMEs has often been blamed largely on the challenge of taxation. Taxation generally increases the costs of operation and running of small and medium enterprises. Most of the existing studies (Dada, 2014; Taiwo, Falohun & Agwu, 2016; Kongolo, 2010; Okoli, 2011; Taiwo, Ayodeji & Yusuf, 2012; Dzisi & Ofosu, 2014; Altenburg & Eckhardt 2006) have inconsistent results. Base on the above, that this study tend to investigate the relationship between taxation and financial performance of quoted small and medium enterprise in Nigeria using empirical secondary data from the quoted small and medium enterprises on alternative security market (ASeM) established by the Nigerian Stock Exchange.

Aim and Objectives of the Study

The main aim of this study is to investigate the relationship between taxation and financial performance of Small and Medium Enterprises (SMEs) in Nigeria. The specific objectives include:

1. Examine the relationship between company income tax and the return on assets of quoted small and medium enterprises in Nigeria.
2. Find out the relationship between company income tax and the return on investment of quoted small and medium enterprises in Nigeria.
3. Establish the relationship between company income tax and the current ratio of quoted small and medium enterprises in Nigeria.
4. Investigate the relationship between education tax and the return on assets of quoted small and medium enterprises in Nigeria.
5. Evaluate the relationship between education tax and the return on investment of quoted small and medium enterprises in Nigeria.
6. Explore the relationship between education tax and the current ratio of quoted small and medium enterprises in Nigeria.

Research Questions

In line with the above aim and objectives, the study intends ask the following research questions;

1. What is the relationship between company income tax and the return on assets of quoted small and medium enterprises in Nigeria?
2. What is the relationship between company income tax and the return on investment of quoted small and medium enterprises in Nigeria?
3. What is the relationship between company income tax and the current ratio of quoted small and medium enterprises in Nigeria?
4. What is the relationship between education tax and the return on assets of quoted small and medium enterprises in Nigeria?
5. What is the relationship between education tax and the return on investment of quoted small and medium enterprises in Nigeria?
6. What is the relationship between education tax and the current ratio of quoted small and medium enterprises in Nigeria?

Research Hypotheses

For this study, the following research hypotheses will be formulated:

- Ho₁ There is no significant relationship between company income tax and the return on assets of quoted small and medium enterprises in Nigeria.
- Ho₂ There is no significant relationship between company income tax and the return on investment of quoted small and medium enterprises in Nigeria.
- Ho₃ There is no significant relationship between company income tax and the current ratio of quoted small and medium enterprises in Nigeria.
- Ho₄ There is no significant relationship between education tax and the return on assets of quoted small and medium enterprises in Nigeria.
- Ho₅ There is no significant relationship between education tax and the return on investment of quoted small and medium enterprises in Nigeria.
- Ho₆ There is no significant relationship between education tax and the current ratio of quoted small and medium enterprises in Nigeria.

Literature Review

Theoretical Framework

Faculty Theory

This is also known as ability to pay theory of taxation. 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. Bhartia (2009) argue 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 theory of taxation upholds that, taxes imposed on tax-payers should be based on the progressive tax approach which maintains that taxes should be levied according to a tax-payer's ability to pay. This system of taxation requires that higher earning persons pay taxes higher than those with lower income.

The basic tenet of this theory is that, the burden of taxation should be shared by the members of the society on the principle of equity and justice and that this principle necessitates that tax burden is apportioned according to their relative ability to pay. Adam Smith is the brain behind the principle of equity and justice. He advocates that, the amount of tax payable should be equal, this by implication means that, tax payable is in proportion to earned income. Equity and justice is assumed only when the tax system is based on the

ability of the tax payer to pay the amount levied as tax liability.

Benefit-Received Theory

The proponents of this theory are Knut Wicksell (1896) and Erik Lindahl (1919). This theory proceeds on the assumption that there is basically an exchange 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 (Bhartia, 2009). Anyanfo (1996) argues that taxes should be allocated on the basis of benefits received from government expenditure. This assumes an exchange or contractual relationship between the state and the tax-payers, certain goods and services are provided by the state and the cost of such goods and services are contributed in the proportion of the received benefits, thus, the benefits received present the basis for distributing the tax burden in specific manner. Chigbu (2012) see the cost of service theory as very similar to the benefits-received theory. The theory emphasize on semi commercial relationships between the state and the citizens to a greater extent. Chigbu (2012) argued that, the citizens are not entitled to any benefits from the state and if they do, they must pay the cost thereof. In this theory, the costs of services are scrupulously recovered unlike the benefits-received theory where a balanced budget is implied.

Essentially, this study is anchored on faculty theory that is based on ability to pay and aligned to progressive tax system in nature. The reason been that this theory of taxation upholds that, taxes imposed on tax-payers should be based on the progressive tax approach which maintains that taxes should be levied according to a tax-payer's ability to pay. Equity and justice is assumed only when the tax system is based on the ability of the tax payer to pay the amount levied as tax liability.

Conceptual Review

Taxation

Taxation is an economic development tool that provides the financial base for providing public goods. It is a double-edged sword depending on what is the interest of the government in power. Apart from providing rapid economic growth, it can also be used to encourage or discourage certain activities considered to be socially, friendly and unfriendly. Udabah (2002) asserts that tax is evil necessary to meet the cost of those services a society wishes its government to provide. He sees it as an obligatory transfer from taxpayers to the public authority. Attama (2004) posits that tax is a compulsory contribution imposed upon persons and firms by a public authority to cover government expenses. He opines that tax is regularly imposed annually or as government thinks. To him, taxes on peoples and firms income play critical roles in any nation's economic growth and development. Tax is a compulsory contribution imposed by government on her citizens, their wealth or property without commensurate benefits. Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for economic wellbeing of the society (Appah, 2004).

Similarly, Ogbonna and Ebimobowei (2012) tagged tax as a major source of government revenue all over the world. Azubuike (2009) noted that government uses tax proceeds to render their traditional function such as the provision of public goods, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social economic maintenance. Musgrave and Musgrave (2006) observed that the economic effects of tax include micro effects on the distribution of income and efficiency of resource use as well as macro effect on the level of capacity output, employment, prices and growth. Ogbonna (2010) stated that a tax is a compulsory payment

imposed on income, profit, wealth, estate, property, goods and services of individuals and corporate bodies by the government for the sustenance of the government and for which there is no guarantee direct benefit. Taxes represent potent instrument of fiscal policy used by government to manage the economic development of the state. It constitutes a major aspect of the macro-economy (Ogbonna & Ebimobowei, 2012). Generally, the importance of taxation to a nation need not be over emphasized as it is a powerful tool of economic reform and a major player in every economy of the world.

Mwangi and Nganga (2015) noted that the various types of taxes SMEs pay are income tax, corporate tax, excise tax, custom duty, fees, fines, special assessments, education tax, Value Added Tax among other which include petroleum tax as some medium scale enterprises also engaged in the oil and gas sector. This analysis however, underscores the importance of regressively convergence and influences in isolating the effect of taxes on economic growth in Nigeria from the perspectives of SMEs. Some of the relevance tax liabilities suffered by small and medium enterprises in Nigeria are hereunder discussed.

Companies Income Tax

The Companies Income Tax Act (CITA) governs the taxation of companies' payable tax for each year of assessment of the profits at a rate of 30% i.e. is self-assessed on a preceding government's fiscal year basis. These include profits accruing in, derived from, brought into or received from a trade, business or investment (worldwide income). Also companies paying dividends to its shareholders are first obliged to pay tax on its profits at the company's tax rate. However, where a company is a shareholder in another company then such dividends are excluded from the profits of the company for the purposes of computation of the tax. Except proviso Tax Administration (Self-Assessment) Regulations 2011, failure to pay and file tax returns to FIRS within the time limits specified in the CITA attracts certain penalties and interest.

Education Tax

The Section 7(1)(a) to (e) of the TETFUND ACT, 2011 imposes a 2% Education Tax on the assessable profit (tax-adjusted profit before capital allowances) of all registered companies in Nigeria, undertaking public procurement contracts at all levels of government, viewed as a social obligation to contribute their own quota in developing educational facilities in the country. Moreover, the mandate of the Fund is to Federal and State tertiary educational institutions, specifically for the provision and maintenance of essential physical infrastructure for teaching and learning, Instructional material and equipment, and Research and publication. Tertiary Education Trust Fund invested about N7, 647,600,000.00 in all states and federal government higher institutions in the southwest in 2013 for the provision and maintenance of essential physical infrastructure. However, the scope of the tax is limited to public sector construction contracts in tax assessment.

Financial Performance

Performance is an achievement of the organization in relation with its set goals. To management, successful performance means achieving company's objectives, profit, growth, market share etc., satisfying customers, requirements – price, quality, quantity, time etc. and satisfying the needs of the workforce – good pay, satisfaction etc. although, performance criteria may differ according to the type of product or service, generally it involves effective use of resources to efficiently convert inputs into the required outputs at the right cost, quality, quantity, time and space. Financial performance may be defined as

the ability of an organization to accomplish objectives. Financial performance of a firm is associated with its ability to generate profit; increase the value of invested capital and at the same time repay its short- and long-term liabilities.

Indicators of financial performance, especially financial ratio analysis, have become important financial decision-support information used by firm management and other stakeholders to assess financial stability and growth potential. Assessment of financial performance is primarily based on various methods of financial analysis. Various researchers have used different measures to capture organizational performance including net income, sales (Dollinger, 1984), Return on investments (ROI), Return on sales (ROS), and a combination of ROI and ROS (Pegels and Yang, 2000), return on assets (ROA) (Birley and Wiersema, 2000) and market to book value of the equity as well as profitability and market share/growth (Entrialgo, Fernandez & Vazquez (2000).

Relationship between Taxation, Financial Performance and Small and Medium Enterprises

Gordon (2010) argue that high tax rate distort the demand and supply of labour hence productivity is impaired as people will prefer longer leisure hours. Some countries tax system is structured purely towards revenue generation and that has negative effect on the economy. Ordinarily, people abhor tax payment due to its effect on their income. Owens (2006) noted that tax policy must be generally accepted by the people if it must gain compliance. It therefore means a good tax system must be in consonance with Adam (1776) canon of taxation: equitability, neutrality, efficiency, flexibility and simplicity.

Rohaya, NoriAzam and NurSyazwani, (2010) conducted a study on corporate income taxes and revealed an association between income tax and profitability of corporate institutions. The study related to the impact of corporate income tax liabilities on different variables of a firm as gross profit, cost of sales and expenses. A sample of 7,306 companies was taken from the hotels and restaurants sector, 6,594 in business services and 1,484 in transport manufacturing sectors, for the accounting periods 1995 to 2000. The conclusion was that corporate income tax adversely affects the profitability of corporate institutions.

Most small taxpayers are quite frustrated with the convoluted tax code and will invariably resort to creative accounting to escape the tax net. Multiplicity also allows the taxpayer to slide from one type of tax to another or slip from a higher to lower marginal tax rate solely to reduce tax liability. The primary objective of taxation is to generate revenue for government, for developmental purpose. Musgrave and Musgrave (2004) stated that economic effect of tax include micro effects on the distribution of income and efficiency of resources use as well as micro effects on the level of capacity output, prices, employment and growth. High taxes can slow than the rate of growth by making it difficult for entrepreneurs to finance rapid expansion.

Economists have argued that the resources small businesses pay as tax could be channeled towards reinvestment, facilitating future growth (Tomlin, 2008). He also suggested that reforming small business taxation would remove major incentives for firms to stay small, encourage their growth and make the economy more competitive overall. Musgrave and Musgrave (2004) noted that the level of taxation affects the level of public savings and thus the volume of resources available for capital formation. There is serious need to enhance the investment climate in Nigeria to increase economic growth and subsequent tax contribution from all taxpayers. Industrialists may argue that taxes are inimical to the success of small businesses, but the extent of the impact is quite unclear.

Most notably, the government's fiscal policies are never intended to discourage the development of SMEs in the country through taxation, but the high mortality rate of small

businesses has called to question the cordiality of the environment in which they operate in. Given the right tax and regulatory policies, many small businesses can develop into large successful companies that are competitive at the business, when compared to USA (Tomlin, 2008). Many countries of the world are facing serious economic crises (including Nigeria), therefore there is need to ensure equitable balance between raising taxes to generate revenue for government and creating enabling environment for business growth.

Empirical Review

Bello, Robert and Iliyasu, (2015) assessed the effect of entrepreneurial skills management and funding on small and medium enterprises in Northern Nigeria. 300 SMEs were drawn from three states (Kaduna, Bauchi, and Niger) from the manufacturing sector of Northern Nigeria. The result of the study indicated that funding has significant influence on the performances of SMEs in northern Nigeria and accounts for 42.8% of the variations in the performances of SMEs. This result is in agreement with the works of Evbuomwan, Ikpi, Okoruwa, & Akinyosoye (2013) and Onakoya, Onakoya, Jimi-Salami, & Odedairo, (2013).

Kayode and Alfred (2014) investigated the determinants of capacity of SMEs in employment creation in Lagos State, Nigeria. Using population of registered small and medium scale businesses in Lagos, State and a sample 260 SMEs, it was found that sources of capital among other factors is significant in determining both income generation and employment generation potential of the SMEs in Lagos.

Mika, Andrew and Shiv (2012) in a study to explore impact of tax system on the growth of SMEs in Shinyanga, Tanzania, had the objective to determine the managers/executive officers' perception of tax system effectiveness in promoting SMEs growth in Tanzania. The study found that, whenever prices increase due to increase in tax rates, prices of goods and services increase and there is a drop in the consumption rate and a decrease in sales volumes which leads to retarded growth of SMEs. Tax payment is among the outflows of cash from the business which reduce the purchasing power of an enterprise. This is due to the fact that a large amount of cash collected is used to pay taxes rather than to expand the business. The study showed that the purchasing power of an enterprise drops immediately an organization pays taxes. The study is based on a survey of 120 respondents and used descriptive analysis. It recommends reforming of the tax policies in the country.

Were (2011) applied correlation analysis in a study to determine the relationship between presumptive income tax system and profitability of SMEs in Uganda. He also found out that presumptive tax has not favoured the growth of SMEs in the Nakawa division of Uganda because they are encroached on expected revenue. He concluded that presumptive tax negatively affects the profitability of SMEs, recommending that businesses should keep proper books of account to ensure that correct tax assessments are made to avoid over taxation thus improving on their profits. SMEs owners should also join micro finances so that they are able to get loans with low returns for businesses expansion which will lead to increase in stock and sales thus increase profits.

Ojeka (2011) studied on Tax policy and the Growth of SMEs. Found that small and enterprises play a very important role in development of the Nigeria economy, making up about 97% of the entire economy. The research work sought to establish if any relationship exists between the growth of SMEs and the tax policy in Nigeria. It was found that most SMEs surveyed were faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Data was collected for 107 respondents and analyzed using Spearman's Rank Correlation which

measures strength of association between two variables.

Rohaya, et al. (2010) conducted a study on corporate income taxes and revealed an association between income tax and profitability of corporate institutions. The study related to the impact of corporate income tax liabilities on different variables of a firm as gross profit, cost of sales, expenses etc. A sample of 7,306 companies was taken from the hotels and restaurants sector, includes 6,594 in business services and 1,484 in transport manufacturing sectors, for the accounting periods 1995 to 2000. The conclusion was that corporate income tax adversely affects the profitability of corporate institutions but has a positive relationship with the firm size and age of companies.

Jens and Schwellnus (2008) examined the effects of corporate income taxes on two of the main drivers of growth, profitability and investment of firms in European OECD member countries over the time period of 1996-2004; through stratified sampling this is found to be true across firms of different size and age classes, except for young and small firms. The results suggest that corporate income taxes reduce investment through an increase in the user cost of capital. This may be partly explained by the negative profitability effects of corporate income taxes if there is an increase in the corporate tax rate.

Australia Board of Taxation (2007) adopted qualitative approach in a study to find out tax compliance costs facing the small business sector. The study found that there is a consensus that tax compliance costs are amongst the highest regulatory burdens faced by small business.

Chipeta (2002) examined the parallel economy in Malawi. The objective of his study was to first establish the size of the parallel economy in Malawi and secondly to establish the extent of tax evasion. He employed the monetary approaches of Guttman and Tanzi to come up with the size of the parallel economy from 1965 to 1990. He identified that a higher tax rate increases taxpayers' burden and reduces their disposable income therefore, the probability of evading tax is higher. The study concludes that reducing the compliance costs and tax rate increases the SMEs profit margin and recommends a revision of income taxes downward.

Rosen, Carroll, Douglas and Mark (2000) analyzed the personal income tax returns of a large number of sole proprietors in Kenya before and after the tax reform act of 1986 and determined how the substantial reductions in marginal tax rates associated with that law affected the growth of their firms as measured by gross receipts. They found that individual income taxes exerted a statistically and quantitative significant influence on firm growth rates. The results showed that raising the sole proprietors' tax price by 10%, increased receipts by about 8.4%. This finding is consistent with the view that raising income tax rates discourages growth of small businesses.

Derwent (2000) investigated taxation behaviour in five different countries (USA, Gambia, Nigeria, South Africa and Kenya), concluded that increased tax burden is a major threat. The results show that the increase in tax rates leads to higher production, distribution and selling costs which lead to higher prices and as a result consumers change their buying behaviour. People react to the higher prices by buying less of the product. When sales fall, some manufactures cut back on production and some workers may lose their jobs.

Kneller, Bleaney and Gemmell (1999) focused on 22 OECD countries for the period 1970 - 1995. They used five years average of the annual data to avoid business cycle effect. They employed static panel econometric techniques to investigate the relationship between fiscal policy and growth. The study found a significant and positive relationship between

non-distortionary taxation (indirect tax) and economic growth. They concluded that indirect tax is less harmful to the economy as it does not cut down on return on investment compared to direct tax.

Methodology

This study adopted ex-post facto research design for the periods under study (2013-2017) as it allows collecting past. Ex post fact is actually a Latin word which stand for “after the fact” (Ary, Jacobs, Sorensen & Razavieh (2009). Thus, the researchers adopted Pearson Product Moment Correlation Coefficient statistical tool and multiple regression analysis were used to analyze the data with the aid of E-View version 9. The population of this study is made up of eleven (11) quoted SMEs which shares are actively traded in the Alternative Security Exchange Market (ASEM) in Nigeria Stock Exchange (NSE) as at April 29, 2013. These SMEs were so used because they were considered viable and seen to have the required capability to carry on SME business in Nigeria. They are Adswitchplc, Afrik Pharmaceuticals plc, Anino International plc, Capital Oil plc, Juli plc, Mc Nichols Consolidated plc, Rak Unity Petroleum plc, Rokana Industries plc, Smart Products Nigeria plc, Union Venture & Petroleum plc, West Africa Aluminum Products plc.

From the population of the study above, some members were delisted for poor performance while new entrants were listed. It reasonable to say that the entire ten SMEs listed in the ASeM of Nigerian Stock Exchange (NSE) as at December 31, 2015 were all selected during the five years period for the study. The ten SMEs taken such as Afrik pharmaceuticals plc, Capital oil plc, Chellaramsplc, Juliplc, Mcnichols plc, Omoluabi mortgage bank plc, Rak unity petroleum comp. plc, Smart products Nigeria plc, the initiates plc satisfied the following criteria:- Availability of all required data of ASeM and complete financial statements from 2013 – 2017 sample periods.

The researcher used secondary data for this study. The relevant data will be generated from the audited annual financial statements particularly the statement of profit or loss and other comprehensive income and the statement of financial position as well as their respective notes to the accounts of the 10 quoted Small Medium Enterprises under study covering a period of 5 years (2013-2017) directly from the Small Medium Enterprises website and Alternative Securities Market on Nigeria Stock Exchange. This method of data collection was adopted because of the availability of data, convenience as well as the nature of the research design which required past and documented facts as basis for financial performance evaluation.

Model Specification

For the purposes of examining the relationship between taxation and financial performance of quoted small and medium enterprises in Nigeria, a linear model will be built. Kozhan, (2010) reports that model specification is the determination of the endogenous and exogenous variables to be included in the model as well as the a priori expectation about the sign and the size of the parameters of the function. Based on the conceptual framework and hypotheses stated earlier, the model for this study will be specified as follows showing the functional, mathematical and econometric relationships that exist between the independent and the dependent variables.

Functional Expression of model:

Y = f (X1, X2).....1
 Y = Dependent Variable (financial performance)

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$$FP = f(CIT, ET) \dots\dots\dots 2$$

Where:

CIT, & ET = Company Income Tax and Education Tax respectively

FP = Financial Performance (ROI, ROA & CR)

Mathematical Expression of Model:

$$FRQ = \alpha_0 + \beta_1CIT + \beta_2ET \dots\dots\dots 3$$

The above equation 2 is trans-modified into econometrics form by adding constant term (α_0), slope (β) and error term (ϵ) in the model below:

Econometric Expression of Model:

$$FRQ = \alpha_0 + \beta_1CIT + \beta_2ET + \epsilon \dots\dots\dots 4$$

Where;

FP=Financial Performance, T =Taxation, ROI=Return on Investment, ROA =Return on Assets, CR=Current Ratio, CIT=Company Income Tax, ET =Education Tax, α_0 = Intercept, $\beta_1 - \beta_2$ = Coefficient of predictor variables, ϵ = Error term

Results and Discussion

This section analyzed and interpreted the results obtained from the tests conducted on the data collected for the study. The investigators employed Pearson Product Moment Correlation Coefficient statistical tool and linear regression analysis with the aid of E-View version 9 starting with data presentation.

Data Presentation

The relevant data used in this study are presented in the tables below.

Table 1. Education Tax of the Quoted SMEs in Nigeria from 2013 – 2017

Education Tax = 2% of PBT

Names of Quoted SMEs	2013	2014	2015	2016	2017
	N'000	N'000	N'000	N'000	N'000
Afrik pharmaceuticals plc,	1,353	2,979.2	4,829	7,112	1,907
Amino International Plc (MRS)	81,910	137,867	157,671	202,409	161,817
Capital oil plc.	2,028,796	9,834,781	2,981,749	1,351,008	6,871,372
Chellarams plc,	5,437	5,652	4,020	70,118	4,011
Juliplc,	538,761	964,654	844,543	1,046,560	1,035,377
Mcnichols plc,	371,779	536,698	909,460	1,084,170	1,365,289
Omoluabi mortgage bank plc,	997,044	1,392,177	1,202,837	3,520,573	1,476,748
Rak unity petroleum comp. plc,	5,453	357	2,726	2,645	1,617
Smart products Nigeria plc,	296,29	386,715	373,886	499,612	372,762
The initiates plc	191,1580	226,031	697,516	1,201,022	4,063,669

Source: Authors' Desk, 2018 via Annual Reports and Accounts of Quoted SMEs

Table 2. Company Income Tax of Quoted SMEs from 2013 – 2017

Names of Quoted SMEs	2013	2014	2015	2016	2017
	N'000	N'000	N'000	N'000	N'000
Afrik pharmaceuticals plc,	7,735	18,382	12,934	19,912	30,268

Amino International Plc (MRS)	1,310,560	2,068,004	2,365,059	2,502,001	2,572,398
Capital oil plc.	65,004,693	16,208,957	17,926,064	5,698,500	3,315,888
Chellaramspc,	96,849	119,457	4,029	519,802	16,064
Juliplc,	3,566,828	2,809,072	2,385,445	2,476,321	2,498,945
Mcnichols plc,	9,402,758	3,427,456	4,934,246	4,938,612	12,332,276
Omoluabi mortgage bank plc,	10,672,441	12,285,731	11,962,056	7,992,524	6,514,265
Rak unity petroleum comp. plc,	1,096	2,041	25,396	42,505	27,503
Smart products Nigeria plc,	3,153,255	7,314,940	6,050,508	8,323,112	5,801,834
The initiates plc	7,645,328	8,388,009	9,711,780	22,883,903	65,052,877

Source: Annual Reports and Accounts of Quoted SMEs

Table 3. Return on Investment of the Quoted SMEs in Nigeria 2013 - 2017

Names of Quoted SMEs	2013	2014	2015	2016	2017
	%	%	%	%	%
Afrik pharmaceuticals plc,	0.038	0.073	0.153	0.290	0.053
Amino International Plc (MRS)	0.025	0.030	0.033	0.031	0.033
Capital oil plc.	0.018	0.500	0.160	0.081	0.810
Chellarams plc,	0.059	0.037	0.044	2.022	0.111
Juli plc,	0.082	0.177	0.161	0.144	0.117
Mcnichols plc,	0.035	0.073	0.107	0.117	0.118
Omoluabi mortgage bank plc,	0.014	0.044	0.017	0.064	0.020
Rak unity petroleum comp. plc,	0.101	0.020	0.160	0.129	0.038
Smart products Nigeria plc,	0.101	0.111	0.105	0.127	0.086
The initiates plc	0.003	0.004	0.028	0.050	0.161

Source: Authors' Desk, 2018 via Annual Reports and Accounts of Quoted SMEs

Table 4. Return on assets of the Quoted SMEs in Nigeria from 2013 – 2017

Names of Quoted SMEs	2013	2014	2015	2016	2017
	%	%	%	%	%
Afrik pharmaceuticals plc,	0.021	0.045	0.082	0.153	0.077
Amino International Plc (MRS)	0.018	0.028	0.030	0.039	0.020
Capital oil plc.	0.134	0.256	0.077	0.038	0.056
Chellaram spc,	0.013	0.012	0.013	0.178	0.038
Juli plc,	0.181	0.570	1.145	1.315	0.776
Mcnichols plc,	0.053	0.124	0.191	0.189	0.115
Omoluabi mortgage bank plc,	0.023	0.025	0.019	0.710	0.052
Rak unity petroleum comp. plc,	0.104	0.020	0.164	0.191	0.270
Smart products Nigeria plc,	0.214	0.199	0.192	0.228	0.125
The initiates plc	0.004	0.005	0.036	0.064	0.015

Source: Authors' Desk, 2018 via Annual Reports and Accounts of Quoted SMEs

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Table 5. Current Ratio of the Quoted SMEs in Nigeria 2013 – 2017

Names of Quoted SMEs	2013	2014	2015	2016	2017
	%	%	%	%	%
Afriki pharmaceuticals plc,	2.131	2.594	1.985	2.078	19.124
Amino International Plc (MRS)	10.30 1	1.195	1.677	1.901	1.677
Capital oil plc.	2.428	2.171	2.866	2.804	10.202
Chellarams plc,	1.121	1.069	1.168	1.193	1.224
Juli plc,	0.543	0.271	0.208	0.091	1.143
Mcnichols plc,	2.370	1.102	0.935	1.143	9.255
Omoluabi mortgage bank plc,	0.539	0.316	0.327	0.227	0.245
Rak unity petroleum comp. plc,	2.898	72.07 7	0.594	2.769	1.430
Smart products Nigeria plc,	0.423	0.543	0.841	1.051	0.995
The initiates plc	1.807	1.438	1.871	1.813	1.919

Source: Authors' Desk, 2018 via Annual Reports and Accounts of Quoted SMEs

Descriptive Statistics

Table 6 below presents the descriptive results with the minimum, maximum, mean and the standard deviation of variables used in our statistical models.

Table 6, Descriptive Statistic Output

	CIT	ET	ROI	ROA	CR
Mean	7248812.	990498.4	0.142300	0.173000	3.641900
Median	4438026.	619663.0	0.098000	0.123000	2.365500
Maximum	22736379	4613541.	0.455000	0.797000	15.95400
Minimum	17846.00	2560.000	0.030000	0.025000	0.331000
Std. Dev.	8537607.	1403863.	0.136637	0.226831	4.656891
Skewness	1.010747	1.875201	1.456536	2.344206	2.039962
Kurtosis	2.543249	5.594824	3.835984	7.129214	6.125614
Jarque-Bera	1.789607	8.666092	3.827025	16.26318	11.00635
Probability	0.408688	0.013128	0.147561	0.000294	0.004074
Sum	72488122	9904984.	1.423000	1.730000	36.41900
Sum Sq. Dev.	6.56E+14	1.77E+13	0.168026	0.463070	195.1797
Observations	10	10	10	10	10

Source: Authors' Desk, 2018 via E-View 9

Company income tax has a mean performance of N7.249 million with a maximum of N22.736 million and a minimum of N1.785 million. Education tax has an average of N.990 million with a maximum of N4.613 million and a minimum of N2.560 million. The mean of ROI stood at N.142 billion with a maximum of N0.455 million and a minimum of N.003 billion. ROA has a mean of N.173 million, with a maximum of N0.797 million and a minimum of N.025 billion. Finally, Current ratio has an average of N3.641 million with a maximum of N15.954 million and a minimum of N.331 million.

Unit Root Test

Table 7 below shows the ADF stationarity unit root tests output of variables in this study via E-View version 9.

Table 7: ADF Unit Root Test Output

Variables	ADF statisti % Levels	ADF statisti Diff.	ADF statistic Critical Value.	t-Statistic	Prob.*
CIT	10%	3 rd	-2.606857	-2.153125	0.2260
ET	5%	2 nd	-2.986225	0.342328	0.9759
ROI	10%	3 rd	-3.233456	-1.401929	0.8362
ROA	10%	3 rd	-3.215267	-2.543252	0.3068
CR	10%	3 rd	-3.229230	-3.216001	0.1025

Source: Authors' Desk, 2018 via E-View 9

The table above indicates the result of Stationarity using Augmented Dickey Fuller (ADF) unit root test. The results revealed that CIT became stationary at the third difference with (ADF t-statistic value of -2.606857 with the test critical value of -2.153125 at 10% level), ET became stationary at the second difference (ADF t-statistic value of -2.986225 with test critical value of 0.342328) and ROI became stationary at the third difference (ADF t-statistic value of -3.233456 with test critical value of -1.401929 at 10% level). Similarly, ROA became stationary at the third difference (ADF t-statistic value of -3.215267 with test critical value of -2.543252 at 10% level). Finally, CR became stationary at the third difference (ADF t-statistic value of -3.229230 with test critical value of -3.216001 at 10% level).

Cointegration Test

Table 8 below shows the Johansen tests output of variables in this study via E-View 9.

Table 8: Johansen Cointegration Test Results.

Paired	Eigen Value	Trace Statistic	5% Critical Value	1% Critical Value	Hypothesized no. CE (S)
CIT & ROI	0.426342	5.598063	19.17	26.69	None*
ET & ROI	0.639119	9.876299	17.83	25.28	At most 1
CIT & ROA	0.662922	10.403912	19.17	26.69	At most 2
ET & ROA	0.915597	56.079624	15.41	20.04	At most 3
CIT & CR	0.759425	22.77175	17.83	20.28	At most 4
ET & CR	0.518898	14.119058	19.17	26.69	At most 5

*(**) denotes rejection of the hypothesis at the 5 % (1%) significance level

Variables are CIT, ET, ROA, ROI & CR.

Source: Authors' Computation using E-views.

Under the Johansen Cointegration Test, eigenvalue statistic is used to determine whether cointegrated variables exist. Mencet (2006) states that cointegration is said to exist if the values of computed statistics are significantly different from zero and the trace statistic

is lower than 5% and 1% critical values. From the table above, the results revealed no cointegration in the paired variables of (CIT & ROI, ET & ROI, CIT & ROA, and ET & CR). This is so because their eigenvalues (0.426342, 0.639119, 0.0.662922 & 0.518898) are significantly different from zero and also their trace statistics (5.98063, 9.876299, 10.403912, & 14.119058) are lower than 5% and 1 % critical values respectively. However, a long-run cointegration exists amongst the paired variables (ET & ROA and CIT & CR) used in the model. This is due to the fact that, their trace statistics (56.079624 & 22.77175) were respectively higher than 5% and 1% critical values.

Error Correction Mechanism Test

The error correction model is a statistical relationship that shows the speed of adjustment, i.e. the rate at which the dependent variable adjusts to changes in the independent variables. We therefore, test for the speed of adjustment using the short run dynamism of error correction model (ECM).

**Table 9: Error Correction Model Results
Dependent Variables = D(HDI,2 & EPI,2)**

Variables	Coefficient	Standard Error	T-Statistics	Probability Value
D(CIT(-1),2)	-0.02641	0.03987	-0.66219	0.0314
D(CIT,2)	-0.042978	0.03584	-1.19923	0.0842
D(ET(-1),2)	0.336595	0.21702	1.55096	0.5097
D(ET,2)	0.130785	0.12127	1.07845	0.1035
D(ROI(-1),2)	0.648089	0.21106	3.07064	0.5990
D(ROI,2)	0.055821	0.22501	0.24808	0.9633
D(ROA(-1),2)	-1.110957	0.37757	-2.94239	0.8990
D(ROA,2)	-1.123571	0.40056	-2.80497	0.2110
D(CRI(-1),2)	-0.077683	0.14817	-0.15884	0.3665
D(CR,2)	-0.094000	0.13677	-0.68731	0.3882
ECM(-1)	-0.221716	0.016095	1.10206	0.01460

Source: Authors’ Desk, 2018 via E-View.

From the result of the ECM in Table 9 above, it is obvious that the coefficient of the error correction term is significant and negative. In other words, the negative sign justifies its significance. That is to say that the ECM will be effective to correct any deviations from the long-run equilibrium. The coefficient of the ECM at -0.221716 indicates that the speed of adjustment to long run equilibrium is 22.2% when any past deviation will be corrected in the present period. This means that the present value of financial performance adjust rather slowly to changes in CIT and ET.

Pairwise Granger Causality Tests

Table 10 below shows the Pairwise Granger Causality Tests that exists among the variables in this study and this was achieved with the aid of E-View version 9.

Table 10: Pairwise Granger Causality Test Output

Null Hypothesis:	Obs	F-Statistic	Prob.
ET does not Granger Cause CIT	8	1.64481	0.3294
CIT does not Granger Cause ET		0.36403	0.7219
ROI does not Granger Cause CIT	8	1.85210	0.2993
CIT does not Granger Cause ROI		0.71110	0.5588
ROA does not Granger Cause CIT	8	1.83073	0.3022
CIT does not Granger Cause ROA		10.2826	0.0454
CR does not Granger Cause CIT	8	3.22873	0.1787
CIT does not Granger Cause CR		0.01422	0.9859
ROI does not Granger Cause ET	8	0.15375	0.8638
ET does not Granger Cause ROI		0.99957	0.4649
ROA does not Granger Cause ET	8	0.56715	0.6181
ET does not Granger Cause ROA		23.9915	0.0143
CR does not Granger Cause ET	8	0.06093	0.9420
ET does not Granger Cause CR		0.06474	0.9386
ROA does not Granger Cause ROI	8	0.51827	0.6407
ROI does not Granger Cause ROA		6.80208	0.0768
CR does not Granger Cause ROI	8	0.10261	0.9055
ROI does not Granger Cause CR		1.00158	0.4643
CR does not Granger Cause ROA	8	0.28215	0.7722
ROA does not Granger Cause CR		0.17568	0.8469

Source: Author's Desk, 2018 via E-View Version 9

The table above revealed the results of Pairwise Granger Causality Tests aimed at establishing if one variable Granger – cause the other and the direction of the causality. It demonstrates that company income tax with the ($p < 0.0454$, $F = 10.2826$) granger cause return on assets. Similarly, education tax with the ($p < 0.0143$, $F = 23.9915$) However, other variables are not effective enough by this analysis of this study to exert influence on SMEs financial performance but they are positively related to ROI and CR respectively.

Correlation Analysis

Table below presents the correlation analysis results in a correlation matrix with all the variables in the study. The essence of the correlation analysis was to examine the inter relationships between the independent variables to check for multicollinearity. Pearson correlation analysis was used to achieve this end at 95% confidence level and done through E-View version 9.

Table 11: Correlation Marix

	CIT	ET	ROI	ROA	CR
CIT	1				

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EDT	0.788807	1			
ROI	-0.028669	0.236397	1		
ROA	-0.202686	0.007107	-0.060798	1	
CR	-0.272123	-0.179394	-0.113979	-0.196890	1

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

Source: Authors' Desk, 2018 via E-View 9

The results established that ROI, ROA and CR have inverse relationship with CIT with a co-efficient of -0.028669, -0.202686 & -0.272123. This means that whenever tax burden on the business increase, it reduces the level of financial performance of the small and medium enterprises. On the other hand, education tax of the SMEs showed positive association with ROI & ROA coefficients of 0.236397, 0.007107 respectively. This implies that a unit change in education tax will result to an increase in the financial performance of SMEs. However, CR indicated a negative relationship with education tax with a co-efficient of -0.179394 implying that an increase in tax burden will reduce the financial performance of SMEs.

Regression

The study conducted a single regression analysis to determine the nature of relationship between the predictor and criterion variables of the study. The findings are presented in t appendix 1-5.

Extract of the Regression Results

Model 1

Table 12: ROI = $\alpha_0 + \beta_1CIT + \beta_2ET + \epsilon$

Variables	β - Coefficient	Standard error	t-statistic	P-value
CIT	-0.569	8.92	-1.022	0,341
ET	0.686	5.43	1.230	0.258
	$R^2 = 0.178403$ Adjusted $R^2 = -0.056339$			

*Significant at 5% (0.05) level of significance

Source: Authors' Desk, 2018 via E-View 9

The result of the multiple regressions is presented in table 12 of model 1 and appendix 1. The result helps to explain the empirical relationship between the dependent variable (return on investment) and the independent variables. The explanatory power of the OLS regression model, R^2 shows that the prediction variables: CIT and ET revealed weak ability to predict financial performance proxy – return on investment and accounts for about 17.8% of the cross sectional variations in the dependent variable of ROI. This implies that the remaining 82.2% variation in ROA cannot be explained because it is related to other variables which are not depicted in the model. The implication is that there may be number of variables which can have impacts on financial performance of small and medium enterprises that need to be studied.

The coefficients model displays both negative and positive relationship implying that corporate governance structures depicted both negative and positive correlation with the financial performance of small and medium enterprises. Furthermore, the coefficient value of (-0.569 & 0.686) for CIT & ET means that a unit increase in CIT & ET will lead to about -

0.569 units decrease in ROI while it would increase by 0.686 unites in ROI. Yet, they are found to be statistically insignificant since their P-values (0.341 & 0.258) levels are more than standard alpha (0.05) level.

CIT with ($\beta = -0.569$ & $P = 0.341$) negatively related with ROI. This means that a unit change in the company tax would reduce ROI by about -0.569 of the small and medium enterprises. Besides, the p-value of 0.341 is greater than 0.05%. Thus, the null hypothesis was accepted and the study concluded that CIT does not significantly relate with ROI of quoted small and medium enterprises in Nigeria in the period of this study.

ET with ($\beta = 0.686$ & $P = 0.258$) positively related with ROI. This means that a unit change in the education tax would increase ROI by about 0.686 of the small and medium enterprises. However, the p-value of 0.258 is greater than 0.05%. Thus, the null hypothesis was accepted and the study concluded that ET does not significantly relate with ROI of quoted small and medium enterprises in Nigeria in the period of this study.

Model 2

Table 13: ROA = $\alpha_0 + \beta_1 \text{CIT} + \beta_2 \text{ET} + \epsilon$

Variables	β - Coefficient	Standard error	t-statistic	P-value
CIT	-0.551	1.54	-0.953	0.372
ET	0.442	9.35	0.764	0.470
	$R^2 = 0.114893$ Adjusted $R^2 = -0.137994$			

*Significant at 5% (0.05) level of significance

Source: Authors' Desk, 2018 via E-View 9

Similarly, the result of the multiple regressions is presented in table 13 of model 2 and appendix 2. The result helps to explain the empirical relationship between the dependent variable (return on investment) and the independent variables. The explanatory power of the OLS regression model, R^2 shows that the prediction variables: CIT and ET revealed weak ability to predict financial performance proxy – return on assets and accounts for about 11.5% of the cross sectional variations in the dependent variable of ROA. This implies that the remaining 88.5% variation in ROA cannot be explained because it is related to other variables which are not depicted in the model. The implication is that there may be number of variables which can have impacts on financial performance of small and medium enterprises that need to be studied.

The coefficients model displays both negative and positive relationship implying that corporate governance structures depicted both negative and positive correlation with the financial performance of small and medium enterprises. Furthermore, the coefficient value of (-0.551 & 0.442) for CIT & ET means that a unit increase in CIT & ET will lead to about -0.551 units decrease in ROA while it would increase by 0.442 unite in ROA. Alas, they are found to be statistically insignificant since their P-values (0.372 & 0.470) levels are more than standard alpha (0.05) level.

ET with ($\beta = 0.442$ & $P = 0.470$) positively related with ROA. This means that a unit change in the education tax would increase ROA by about 0.442 of the small and medium enterprises. However, the p-value of 0.470 is greater than 0.05%. Thus, the null hypothesis was accepted and the study concluded that ET does not significantly relate with ROA of

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quoted small and medium enterprises in Nigeria in the period of this study.

CIT with ($\beta = -0.551$ & $P = 0.372$) negatively related with ROA. This means that a unit change in the company tax would reduce ROA by about -0.551 of the small and medium enterprises. Yet, the p-value of 0.372 is greater than 0.05%. Thus, the null hypothesis was accepted and the study concluded that CIT does not significantly relate with ROA of quoted small and medium enterprises in Nigeria in the period of this study.

Model 3

Table 14: $CR = \alpha_0 + \beta_1 CIT + \beta_2 ET + \epsilon$

Variables	β - Coefficient	Standard error	t-statistic	P-value
CIT	-0.346	3.22	-0.585	0.577
ET	0.093	1.96	0.158	0.879
$R^2 = 0.077342$ $Adjusted R^2 = -0.186275$				

*Significant at 5% (0.05) level of significance

Source: Authors’ Desk, 2018 via E-View 9

Furthermore, the result of the multiple regressions is presented in table 14 of model 3 and appendix 3. The result helps to explain the empirical relationship between the dependent variable (return on investment) and the independent variables. The explanatory power of the OLS regression model, R^2 shows that the prediction variables: CIT and ET revealed weak ability to predict financial performance proxy – current ratio and accounts for about 7.7% of the cross sectional variations in the dependent variable of CR. This implies that the remaining 92.3% variation in CR cannot be explained because it is related to other variables which are not depicted in the model. The implication is that there may be number of variables which can have impacts on financial performance of small and medium enterprises that need to be studied.

The coefficients model displays both negative and positive relationship implying that corporate governance structures depicted both negative and positive correlation with the financial performance of small and medium enterprises. Furthermore, the coefficient value of (-0.346 & 0.093) for CIT & ET means that a unit increase in CIT & ET will lead to about -0.569 units decrease in ROI while it would increase by 0.686 unites in ROI. Yet, they are found to be statistically insignificant since their P-values (0.577 & 0.879) levels are more than standard alpha (0.05) level.

CIT with ($\beta = -0.346$ & $P = 0.577$) negatively related with CR. This means that a unit change in the company tax would reduce CR by about -0.346 of the small and medium enterprises. Yet, the p-value of 0.577 is greater than 0.05%. Thus, the null hypothesis was accepted and the study concluded that CIT does not significantly relate with CR of quoted small and medium enterprises in Nigeria in the period of this study

ET with ($\beta = 0.093$ & $P = 0.879$) positively related with CR. This means that a unit change in the education tax would increase CR by about 0.093 of the small and medium enterprises. However, the p-value of 0.879 is greater than 0.05%. Thus, the null hypothesis was accepted and the study concluded that ET does not significantly relate with CR of quoted small and medium enterprises in Nigeria in the period of this study.

Discussion of Findings

The study examined the relationship between taxation and financial performance of quoted SMEs in Nigeria. Strictly based on the result from the hypotheses tested, it was established that taxation has no significant relationship with financial performance of quoted SMEs in Nigeria in the period of this study. Taxation does not significantly influence return on investment of quoted SMEs financial performance in Nigeria in the period of this study. Based on the findings, tax had an inverse and insignificant relationship with return on investment with values of ($r = -0.569$, $p < 0.341$). This finding is in line with the findings of Derwent (2000) in a study to establish the relationship between tax expense and performance of SMEs in USA. He submitted that tax expense inversely influenced return on investment of SMEs. More so, taxation does not significantly influence return on investment of quoted SMEs financial performance in Nigeria in the period of this study. According to the findings, Tax had a positive and insignificant relationship with return on investment with values of ($r = 0.686$, $p < 0.258$). This does not support the findings by were (2011) in a study to determine the relationship between presumptive income tax system and profitability of SMEs in Uganda. He concluded that presumptive tax negatively affects the profitability of SMEs.

Furthermore, taxation does not significantly influence return on assets of quoted SMEs financial performance in Nigeria in the period of this study. Giving the findings, tax had a downhill and insignificant relationship with company income tax with values of ($r = -0.551$, $p < 0.372$). This is tandem with the findings by Ojeka (2011) in a study to know the association between tax policies and SMEs performance in Nigeria. He discovered that tax policies negatively impacted on the performance of SMEs.

Similarly, taxation does not significantly influence return on assets of quoted SMEs financial performance in Nigeria in the period of this study. The study found education tax expense has a positive but no significant relationship with return on investment as in ($r = 0.442$, $p < 0.470$). This result tallies with the findings by Jens and Schwellnus (2008) in a study that examined the impact of corporate income taxes on financial performance of SMES in European OECD member countries from 1996-2004. They found out that there is a positive but no significant relationship between education tax and return on assets

In addition, taxation does not significantly relate with current ratio of quoted SMEs financial performance in Nigeria in the period of this study. Based on this findings, company income tax with values of ($r = -0.346$, $p < 0.577$) had a negative but not significant relationship with current assets. This result agrees with the findings by Rohaya, et al (2010) that investigated the relationship between corporate income tax expense and SMEs performance in Tanzania. They found a negative and insignificant relationship between tax expense and financial performance of SMEs.

Finally, taxation does not significantly influence current ratio of quoted SMEs financial performance in Nigeria in the period of this study. According to this finding, education tax with values of ($r = 0.093$, $p < 0.879$) had a positive and insignificant relationship with current ratio. This result concurs with the findings of Australia Board of Taxation (2007). Their studies aimed at examining the relationship between taxation and financial performance of SMEs and the findings shown inverse and insignificant relationships with SMEs financial performance.

Conclusion

In line with the results from the tested formulated hypotheses, we conclude thus that:

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- i. Company income tax does not significantly relate with return on investment of quoted SMEs financial performance in Nigeria in the period of this study.
- ii. Education tax does not significantly relate with return on investment of quoted SMEs financial performance in Nigeria in the period of this study.
- iii. Company income tax does not significantly relate with return on assets of quoted SMEs financial performance in Nigeria in the period of this study.
- iv. Education tax does not significantly relate with return on assets of quoted SMEs financial performance in Nigeria in the period of this study.
- v. Company income tax does not significantly relate with current ratio of quoted SMEs financial performance in Nigeria in the period of this study.
- vi. Education tax does not significantly relate with current ratio of quoted SMEs financial performance in Nigeria in the period of this study.

In a nut shell, the negative relationship between company income tax and financial performance of the SMEs is not surprising since SMEs are paying the same tax liability rate of 30% of assessable income like large and big companies in Nigeria. This presupposes that as businesses pay more tax, their earning level decreases implying that whenever tax burden on an SME increases, it reduces the level of financial performance of the business.

Recommendations

Based on the findings made from this study, the following recommendations are therefore put forward:

- i. Company income tax for SMEs should be reviewed downward from the current rate of 30%. This would help them to get better equipped, have enough funds survive in a competitive market and improve the return on their investment
- ii. Tax administrators should carry out their duties more efficiently with the most care and integrity as this will help combat issues such as multiple taxes to enable them pay more attention to education tax.
- iii. Tax administrators should improve their support services towards SMEs for example, small business owners should be educated on issues such as taxes they are expected to pay and the incentives and exemptions they are eligible for.
- iv. The rate of tax incentives and exemptions which serve as catalysts and bait for attracting investors should be highly increased by the three tiers of government in Nigeria.
- v. The tax policy should be designed in a manner that it will encourage those who are potential tax payers, voluntary compliance and ultimately leads to expansion of existing business interests of the SMEs in Nigeria.

Contribution to Knowledge

The current study has contributed to the evolving academic literature on taxation and financial performance of quoted SMEs in Nigeria as most of the existing studies are from other countries of the world.

Significantly, the study had uniquely used secondary data from SMEs in Nigeria. Most of the existing studies made use of primary data which is subjective in nature.

The research has also contributed to knowledge by coming up with model specification showing the relationship between taxation and financial performance of quoted SMEs in Nigeria.

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APPENDICES

Appendix 1. Panel Data 1

Dependent Variable: ROI

Method: Least Squares

Date: 10/07/18 Time: 17:36

Sample: 2008 2017

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.142270	0.059659	2.384719	0.0485
CIT	-0.569231	8.924209	-1.021695	0.3409
ET	0.686423	5.431308	1.230036	0.2584

R-squared	0.178403	Mean dependent var	0.142300
Adjusted R-squared	-0.056339	S.D. dependent var	0.136637
S.E. of regression	0.140433	Akaike info criterion	-0.844849
Sum squared resid	0.138050	Schwarz criterion	-0.754074
Log likelihood	7.224245	Hannan-Quinn criter.	-0.944430
F-statistic	0.759995	Durbin-Watson stat	1.736620
Prob(F-statistic)	0.502697		

Source: Author's Desk , 2018 via E-View Version 9

Appendix 2. Panel Data 2

Dependent Variable: ROA

Method: Least Squares

Date: 10/07/18 Time: 17:51

Sample: 2008 2017

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.208444	0.102797	2.027723	0.0822
CIT	-0.551342	1.542308	-0.953022	0.3723
ET	0.442354	9.351348	0.764036	0.4698

R-squared	0.114893	Mean dependent var	0.173000
Adjusted R-squared	-0.137994	S.D. dependent var	0.226831
S.E. of regression	0.241976	Akaike info criterion	0.243368
Sum squared resid	0.409866	Schwarz criterion	0.334143
Log likelihood	1.783161	Hannan-Quinn criter.	0.143787
F-statistic	0.454326	Durbin-Watson stat	2.189781
Prob(F-statistic)	0.652356		

Source: Author's Desk, 2018 via E-View Version 9

Appendix 3. Panel Data 3

Dependent Variable: CR

Method: Least Squares

Date: 10/07/18 Time: 17:56

Sample: 2008 2017

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.702283	2.154751	2.182286	0.0654
CIT	-0.346321	3.224207	-0.585335	0.5767
ET	0.093245	1.962106	0.158007	0.8789
R-squared	0.077342	Mean dependent var		3.641900
Adjusted R-squared	-0.186275	S.D. dependent var		4.656891
S.E. of regression	5.072110	Akaike info criterion		6.328716
Sum squared resid	180.0841	Schwarz criterion		6.419492
Log likelihood	-28.64358	Hannan-Quinn criter.		6.229135
F-statistic	0.293388	Durbin-Watson stat		2.664850
Prob(F-statistic)	0.754471			

Source: Author's Desk, 2018 via E-View Version 9