

INTRODUCTION

1.1 Background to the Study

Taxation policy towards SMEs is an important factor that needs to be considered because SMEs are a crucial sector of the economy, despite being owned by individuals and are smaller in size than larger firms. In addition, they improve the standard of living of a majority of the population. Therefore, revenue authorities have to take all of the above features into account when establishing the components of taxation policy that are associated with SMEs. Despite the vibrancy of SMEs, they have a major negative characteristic: they often have an extremely short life span. Some of the factors that bring about shutting down of SMEs sooner than expected after their inception are tax related, including multiple taxation and enormous tax burdens. The perception of SMEs by policy makers often fails to acknowledge their significance as a mechanism of economic growth and development. Regarding SMEs as insignificant enterprises that have no impact on the economy is an oversight that can no longer be justified. This is because SMEs merely require a favorable regulatory environment in which to conduct business, and they will demonstrate their potential for profitability and growth. Thus they need to be granted a measure of flexibility in taxation which will allow them to maximize their potential. The profitability and growth of SME can be assessed through the parameters of sales revenue, asset accumulation, and returns on capital, therefore it is important to find out the effect that taxation policy has on them.

According to (Holban, 2007), taxation can contribute to development and to welfare through three sources; by generating sufficient funds for financing public services and social transfers at a high level of quality, by offering incentive for more employment and for an efficient and lasting use of natural resources, and by reallocation of income. However, this has to be balanced against the requirements of SMEs income and their need for survival. Having insufficient profitability will render the growth of SMEs impossible. Therefore, any prospective tax policy will have to evaluate the factors that encourage non-compliance with tax obligation by SMEs. Although it has been noted that taxation is a challenge to the productivity and growth of SMEs, this does not mean that SMEs should not pay tax. Without tax revenue, governments will be unable to facilitate the environment in which SMEs thrive, therefore it is in SMEs own best interest to pay taxes. The government has to collect revenue in order to finance its expenditure. Income obtained from taxation of individuals and businesses is used to run governments and to build and maintain infrastructure such as good roads, water supply, and electricity which are essential for the smooth running of businesses. With the above

in mind, the goal of the current study sought to determine the importance of government taxation policy on profitability of SMEs.

1.2 Statement of the Problem

No doubt about the general view that tax is a significant source of revenue for economic growth and development as well as provision of basic amenities. However, the challenges facing this assertion are in the area of negative correlation between taxes and the business' ability to sustain and expand itself. The problem confronting SMEs are in the area of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Other problems that confronting SMEs in Nigeria are insufficient capital, managerial and technical skills, environmental effects and government policies which affect the smooth operation of SMEs throughout the country especially this issue of taxation which is a worm eating deeply and the large chunk of revenues generated by these SMEs for their growth and survival. These have led to increase in record of death of Small and Medium Scale Enterprise (SMEs). It is on this foundation that this study seeks to examine effect of tax payment on the performance of SMEs by using selected SMEs in Kano, Nigeria.

1.3 Objectives of the study

The general objective or main objective of this study is to examine effect of tax payment on the performance of SMEs by using selected SMEs in Kano, Nigeria. The specific objectives are:

1. To assess the performance of small scale business enterprises in Kano State.
2. To determine the tax policy used to administer tax on small-scale business enterprises in Kano State
3. To establish the types of tax that affects the growth of small-scale business enterprises in Kano State

1.4 Research Questions

The following are some of the questions which this study intends to answer:

1. What is the performance of small scale business enterprises in Kano State?
2. What is the tax policy used to administer tax on small-scale business enterprises in Kano State?
3. What are the types of tax that affect the growth of small-scale business enterprises in Kano State?

1.5 Research Hypotheses

The following will be the research hypotheses to be tested for this study:

- i) There is a significant relationship between taxation and SMEs' survival.
- ii) There is no significant correlation between taxation and SMEs growth

1.7 Significance of the study

The findings of the study are significant on the following ways;

1. To scholars and researchers, the findings of the study are expected to contribute to the existing literature about taxation and the effect it causes to the economy as a whole.
2. To the tax authority and government, the study will guide them in adjusting tax policies so that they suit requirements of small scale businesses.
3. To future academicians especially of Nigeria University students, the study will help in gaining insight about taxes and performance of small scale business enterprises.
4. The accomplishment of the study will enable the researcher to acquire hands on skills about processing of research work and data analysis. This proficiency will enable the researcher to handle such related work with a lot of precision and proficiency.

1.7 Scope of the Study

The study covered small scale businesses in Kano State. Specifically, the study investigated the performance of small scale businesses, the awareness of the tax payers regarding their obligations, problems faced by the tax payers and the relationship between the taxes paid and the performance of the small scale businesses.

EFFECT OF TAX PAYMENT ON THE PERFORMANCE OF SMES: THE CASE OF SELECTED SMES IN KANO, NIGERIA

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