

TAX INCENTIVES AND THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN DEVELOPING ECONOMY –THE NIGERIAN EXPERIENCE

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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 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 100 respondents representing a percentage of targeted population enterprises in the production sector of Osun 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

Background of the Study

In the early 1970's, the Nigeria government gradually expanded its control over the private sector favoring investment in key sector and protecting infant industrial establishments from foreign competition. This is largely due to the reason that the Nigeria government accepts the SMEs as the engine of growth and the creator of wealth and a major factor in promoting private sector development and partnership. The development of SMEs is therefore an essential element in the growth strategy of most economies and hold particularly significance for Nigeria. A major gap in Nigeria industrial development process in the past has been the absent of a strong small and medium enterprises sub-sector. The little progress recorded from the courageous effort of the first generation of indigenous industrialist were almost wiped out

by the massive dislocated, traumatic development which took place under the structural adjustment program and government inability to effectively utilize its fiscal policy instrument towards their growth.

In a bid to maintain rapid growth among new established small and medium enterprises, fiscal incentives become a vital tool of government investment promotion strategy, fiscal incentives can play an important role in attracting and encouraging firms to expand supply by stimulating their investing power. Fiscal incentives available at the disposal of Nigeria government with which it can encourage the small and medium enterprise include: reduced cooperation tax through reduced tax, flat rate, tax exemption and tax stability agreement and subsidy or grant and tax holiday and investment allowance.

The most commonly used incentive by the government is tax holiday, but this provision exempt firms from other tax liability, it also denies some firms certain tax deductions over the tax holiday period e.g. depreciation cost and interest expense tending to offset at least in part investment incentives. Though, tax incentives are viewed erroneously as simple incentives with a relatively low compliance burden e.g. no need to calculate income tax over the holiday period. This perception makes tax incentives more attractive at stimulating the growth and expansion of small and medium enterprises.

It has been a great concern to all and sundry to promote the welfare of SMEs and that the vital sub-sector has fallen short of expectation. The situation is more disturbing and worrying when compared with what other developing and developed countries have been able to achieve with their SMEs. It has been shown that there is a high correlation between the degree of poverty hunger, unemployment, economic well being (standard of living) of the citizens of countries and the degree of vibrancy of the respective country's SMEs. The time is now to do something surgical to the situation of our SMEs given the aggravating level of poverty in Nigeria and the need to meet up with the Millennium Declaration Goals. The decreasing level of Nigeria's per capita income, which declined from \$870 in 1981 to \$260 in 1998, and \$205 in 2004 as well as a low level of agricultural, industrial and infrastructural development (irrigation, road and railway networks) all represent disturbing indices, which also contribute to the dismal performance and contribution of our SMEs.

Statement of the problem

Despite the fact that the small and medium enterprises have been pivotal to economic development in Nigeria, yet it is observed that the objectives of the government to attaining the effective use of tax incentives remain an unrealized dream. Amongst the following are some of the genuine causes of these under achievement.

- Fiscal indiscipline i.e. government inability to effectively implement its tax policies, government grants little or no tax incentives, incessant introduction of new levies e.g. signpost charge, vehicle particulars charge and high value added tax, change in system of government which result to change in tax agenda and multiple taxes on a particular business.

The above problems are major reasons why government has not been able to assist the growth of the small and medium enterprises

Objectives of the Study

The main objective of the study is to determine tax incentives and the growth of small and medium scale enterprises in developing economy while the specific objectives are:

- To evaluate the long term benefit of granting tax incentives to small and medium enterprises by the government in the economy.
- To ascertain the reaction of the SMEs to the various tax incentives used over the year by the government.
- To identify the major problems, challenges and constraints, which have hindered the SMEs from playing the vital role in the Nigerian economic growth and development.

Research Questions

The following research questions are relevant to the study:

- Would the tax incentives given by government be beneficial enough to encourage the desired growth of small and medium enterprises in the long term?
- What has been the reaction of the SMEs to the various tax incentives used over the year by the government?
- What are the major problems, challenges and constraints militating against effective granting of tax incentives to SMEs in Nigeria?

Research Hypothesis

The following hypothesis shall be tested in this study:

Ho Tax incentives are not effective tools used by the government to encourage growth and expansion in small and medium enterprises.

Hi Tax incentives are effective tools used by the government to encourage growth and expansion in small and medium enterprises.

LITERATURE REVIEW

Introduction

Small and medium enterprises (SMEs) have been defined along a broad continuum of size and type. In terms of size, measures used to classify SMEs include employment, assets and revenue. Definitions of SMEs vary from one organisation/association to another, from country to country, industry to industry and from one financial institution to another. The Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC) define small enterprises as those that meet two of the following three conditions:

1. Less than 50 employees
2. Less than \$3 million total assets
3. Less than \$3 million total annual sales.

Meanwhile, medium enterprises are those that meet two of the following three conditions:

1. Less than 300 employees
2. Less than \$15 million total assets
3. Less than \$15 million total annual sales, (Dababneh & Tukan 2007).

However, according to UNIDO, the definition of SMEs is a significant issue for policy development and implementation and depends primarily on the purpose of classification. Hence, SME definitions vary among various countries as well as within the country over a period of time. Nigeria defines small and medium enterprises as one whose total fixed assets (excluding land) plus cost of investment do not exceed ten million naira in constant 1985 price. It sees SMEs as firms with less than 50 employees and at least half the output is sold. According to Bolton (1971) committee defined small and medium scale enterprise as a firm that meets the following three criteria: it has a relatively small share of their market place; it is managed by owners in a personalized way, and not through the medium of a formalized management structure and it is independent, in the sense of not forming part of a large enterprise. There are various criteria of size that might be used to define a SME (turnover, number of employees, capital base, profits, extent of imports and exports), and various definitions have indeed been developed for application in a range of countries.

The centre for Industrial Research and Development (1990) defines small scale industry as one whose total assets in capital equipment, plant and working capital are less than two hundred and fifty thousand naira and employing fewer than fifty full-time workers. Nweze (2009) observed that definitions of SMEs vary across countries and business environments as a result of differences in industrial organization at different level of economic development impacts of the same country. Characteristics of SMEs identified by Nweze include the following distinguishing factors: tax payers tend to be few, owner of the business is also the manager, transactions are based on cash payments and hardly bank payments, the businesses normally have a dynamic lifespan, and the places of business for SMEs are normally fixed but volatile and react to changes/demands. On accounting standards, SMEs tend to have little accounts or records SMEs have a focus on meeting local customers for their market reach and administratively, SMEs engage few or no professional unlike major companies run by professionals (Nweze, 2009).

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, and (3) Sociological Entrepreneurship theory.

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 Alois 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.

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 are

hard 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 set 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).

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.

Schumpeter's Innovation Model

Schumpeter's model is dynamic system that continually generates change and technological progress. Schumpeter's model is a dynamic one which describes an equilibrium path that the economy follows over time, not the stable equilibrium described by the familiar supply and demand models that were in vogue when Schumpeter first described his concept of creative destruction early in the twentieth century. Schumpeter described the capitalist economy as a "perennial gale of creative destruction" in which each firm sought to gain an advantage in the market place through innovation. He complained that "the problem that is usually being visualized is how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them" (Schumpeter, 1934). Each innovation, such as a more attractive design, a lowering of production costs, a new product, a new source of supply of inputs or raw materials, or improved management methods was pursued because it held the possibility of generating higher profit for the innovating firm. Such creative activity also destroyed the monopoly power that its competitors had gained by means of their earlier innovations. Each innovator's gain is, therefore, only temporary because the creative innovation of its competitors will, sooner or later, destroy its hard-earned market power. This continual creation and destruction prevents permanent monopolies from developing, and in the process, society enjoys continuous technological progress. Creative destruction was, according to Schumpeter, the source of economic growth and the enormous increases in living standards that the world was experiencing in the early 1900s (Udichukwu 2003).

A Systems Theory of Creativity

This Theory was advanced by Mihaly Csikszentmihalyi (1988) by relating creative effort by individuals to the state of the domain they are working in and the characteristics of those who assess the worth of the creative endeavor in the field concerned, (Ekpenyoung et al, 1992). According to Udichukwu 2003, the environment has two salient aspects: a cultural, or symbolic, aspect which here is called the domain; and a social aspect called the field. Creativity is a process that can be observed only at the intersection where individuals, domains, and fields interact.

Role of SMES in Nigeria

SMEs are believed to be the engine room for the development of any economy because they form the bulk of business activities in a growing economy like that of Nigeria. The benefits of SMEs cannot be over-emphasised and they include contributions to the economy in terms of output of goods and services, and creation of jobs at relatively low capital cost, especially in the fast growing service sector. It is a vehicle for the reduction of income disparities thus developing a pool of skilled or semi-skilled workers as a basis for the future industrial expansion; improves forward and backward linkages between economically socially and geographically diverse sectors of the economy; provides opportunities for developing and adapting appropriate technological approaches; offers an excellent breeding ground for entrepreneurial and managerial talent, the critical shortage of which is often a great handicap to economic development among others (UNCTD, 2004)

- SMEs have been fully recognised by government and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of SMEs is an essential element in the growth strategy of most economies and holds particular significance for Nigeria (Udechukwu, 2003).

- SMEs contribute to improved living standards, bring about substantial local capital formation and achieve high level of productivity and capability. SMEs are recognised as the principal means of achieving equitable and sustainable industrial diversification and dispersal (Udechukwu, 2003).
- SMEs also serve as veritable means of mobilisation and utilisation of domestic savings as well as increased efficiency through cost reduction and greater flexibility. They have been very prominent in the manufacture of bakery products, leather manufactures, furniture, textiles and products required for the construction industry (Olorunshola, 2003).

They also provide veritable means of large-scale employment, as they are usually labour intensive and can provide training grounds for entrepreneurs even as they generally rely more on the use of local materials (Anyanwu, 2003) Chibundu (2006), in an interview with the vanguard Newspaper on Strategies for Nigerian SMEs to Grow Economy, opined that the role of SMEs in the national economy cannot be underestimated. He hinted that the impact of SMEs is felt in the following ways: Greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. In Nigeria, there is the dire need to create an enabling environment for the nurturing and development of SMEs so that they could play the crucial roles expected of them in economic transformation. The key roles of SMEs include mobilisation of domestic savings for investment, significant contribution to gross domestic product (GDP) and gross national income (GNI), harnessing of local raw materials, employment creation, poverty reduction and alleviation, enhancement in standard of living, increase in per capita income, skills acquisition, advancement in technology and expert growth and diversification. This can however only be realised with the existence of a responsive and vibrant industrial policy and involving government's overall economic development strategies which will involve all stakeholders and ensure the effective and efficient harnessing, coordination and utilisation of economic resources.

In Nigeria, the organised manufacturing sector is made up of over 95 percent SMEs (Udechukwu, 2003). Structurally, the Nigerian SMEs mainly those engaged in the distribution of trade who, according to Odeyemi, constitute about 50 percent of the SMEs, 10 percent are in manufacturing, 30 percent in agriculture, and 10 percent in service. According to Odeyemi, the SMEs account for well over 60 percent of Nigerian gross domestic product, generated mainly in the agricultural, service and distributive trade sectors. One interesting feature of the Nigerian SMEs is that the distributive trade component is generally more commercially variable than the manufacturing components, which is why they often emerge as better candidates for financial institutions (Nweze, 2009).

Challenges of SMES in Nigeria

The fact that SMEs have not made the desired impact on the Nigerian economy in- spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the belief that there exists fundamental issues or problems, which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled. The incidence of inadequate working capital, which constrains productive capacities of the SMEs as well as absence of succession plans in the event of the death of the proprietor, leads in many cases to frequent early demise of SMEs. Moreover, the

persistence of unstable macro-economic environment, arising mainly from fiscal policy excesses has often smothered many SMEs (Chibundu, 2006).

Chibundu (2006) highlights the following challenges confronting SMEs in Nigeria as poor management practices and low entrepreneurial skill, poor implementation of policies, restricted market access, overbearing regulatory and operational environment, lack of infrastructural facilities, financial indiscipline, constrained access to money and capital markets, among others. Many factors have been identified as being the possible causes or contributing factors to the premature death (a prominent feature of Nigerian SMEs). Key among these include insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plans, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right calibre staff, cut-throat competition, lack of official patronage of locally produced goods and services, dumping of foreign goods and over concentration of decision making on one (key) person, usually the owner (RAMP, 2010). Other challenges which SMEs face in Nigeria include irregular power supply and other infrastructural inadequacies (water, roads etc), unfavourable fiscal policies, multiple taxes, levies and rates, fuel crises or shortages, policy inconsistencies, reversals and shocks, uneasy access to funding, poor policy implementation, restricted market access, raw materials sourcing problems, competition with cheaper imported products, problems of inter-sectoral linkages given that most large scale firms source some of their raw material outside instead of sub contracting to SMEs, insecurity of people and property, fragile ownership base, lack of requisite skill and experience, etc. (Onugu, 2005). The extent to which some of the identified challenges to SMEs are still relevant today are among other factors that this study tends to identify.

Government Policies and Programmes for SMES Development in Nigeria

The SMEs operating in Nigeria are not shielded or immune from the typical problems and constraints of SMEs in other developing countries. Almost every country assists her SMEs largely because of the crucial inherent role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services rather than on protection and subsidies. Other services provided by some governments include commercial finance, venture capital, information training and retraining, research and development (R&D) support, infrastructure and tax incentives. Some of these facilities are provided through local authorities and industry associations at times with the involvement of non-governmental organisations (NGOs). In recognition of the crucial roles played by SMEs with respect to economic growth and development, succeeding governments in Nigeria had various initiatives aimed at promoting the welfare of SMEs in the country. The most tangible among the different incentive packages that varied with almost every change in government leadership was the focus on enhancing the financial opportunities for the SMEs. Some of the support institutions and opportunities created by the government to enable SMEs access funding in the past 30 years include:

- Mandatory Credit Guideline in respect of SMEs (1970).
- Small Scale Industries Credit Guarantee Scheme (1971).
- Agricultural Credit Guarantee Scheme (1973).
- Nigeria Agriculture and Co-operative Bank (1973).
- Nigerian Bank for Commerce and Industry (1973).

- Rural Banking Scheme (1977).
- The World Bank Assisted SME I (1985) and The World Bank Assisted SME II (1990) Second – Tier Security Market (1985).
- Peoples Bank (1989).
- National Economic Reconstruction Fund (1992).
- Small and Medium Scale Enterprises Loan Scheme (1992).
- Family Economic Advancement Programme (1997).
- African Development Bank – Export Stimulation Loan Scheme (ADB-ESL) in 1988.
- Bank of Industry (BOI) - being merger of NIDB, NBCI and NERFUND) in 2001.
- Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB) - being merger of NACB, Peoples Bank and Family Economic Advancement Programme (FEAP) in 2002.
- Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2004.
- Microfinance banks.
- Small and Medium Enterprises Credit Guarantee Scheme for SMEs 2010.

The above well-intentioned institutions designed to provide succour to SMEs, notwithstanding the sector, is yet to find its bearing in the murky waters of Nigeria's business environment. This accounts for the government's recent introduction of the last four support schemes i.e. BOI, SMEDAN, the SME Credit Guarantee Scheme, and Microfinance banks.

RESEARCH METHODOLOGY

Research Design

Research design adopted for this research work was the survey method. The duo of Oyesiku and Odugbemi (2000) defined survey research as “an accurate method of assessing the characteristic features of the larger population through a carefully selected sample drawn from the defined population”. The mode of operation used for this research work was 5 employers each selected from the micro, small, medium in the small business estate. The steps taken to select the sample were:

- Determination of the population of the micro, small, and medium enterprises within the small business estate which is 43
- Determination of the number of small and medium enterprises and number of workers to make up the sample which is 20 and 5 in order to make the sample represent the population adequately
- Questionnaires were given to them and the information obtained from them was used to make a generalization on the entire employees working in the organization.

Population of the Study

The population of this study comprises of the small and medium enterprises development agency (SMEDAN), the Federal Board of Inland Revenue (FBIR) and Small and Small Enterprises (SMEs) in Osun State of Nigeria.

Sample and Sampling Technique

A total of 100 respondents were selected for the purpose of this study using proportionate Stratified Random Sampling method as follows:

SMEDAN	FBIR	SMEs	Total
12	22	66	100

This Simple Random Sampling technique was applied on each stratum to permit equal chance to every member therein. Eventually, a total of one hundred (100) respondents were selected.

Research Instrument

The research instrument used for this study was a questionnaire and observation. These instruments are used to elicit information from respondents, it consisted of pre formulated written set of questions answer. The questionnaire was constructed using ratio scale where respondents are asked to respond by ticking any variable they agree with. Likert scale was also used to measure the agreement and disagreement of respondent. The scale was 5-point scale ranging from strongly agree which has (5 point), agree (4 points), undecided (3 points), disagree (2 points) and strongly disagree (1point). The questionnaires distributed to the respondents to fill. The researcher collected the filled questionnaire from the respondents in order to analyse the data collected with the appropriate statistical instruments.

Data Collection Procedure

The conduct of this research work involved visiting the small and medium enterprises development agency, the Federal Board of Inland Revenue and Small and Small Enterprises, distributing questionnaires to respondents' involved and also conducting interview with the employees coupled with discussion held with officials of the government agency in charge of handling small and medium enterprise growth (SMEDAN). The questionnaires were handed over to the respondents personally and some of them were collected immediately while some were collected later.

Pilot Test of the Instrument

Pre-testing of the Instrument was carried on a small group of 20 prospective respondents. This is 20% of the the sample size that was eventually used. This activity of instrument pre-testing was carried out to ascertain its efficacy before going full scale. Also, to find out whether there were ambiguous questions, ab-nitio, or questions that could provoke bias or resistance of the respondents.

Data Processing and Analysis

The procedures for analyzing data collected in this study were regression analysis as well as the correlation co-efficient. Regression analysis is to establish whether there exist linear relationships between two variables.

$$Y = a+bx$$

$$a = Y-bx$$

$$b = \frac{n\sum XY - \sum X \sum Y}{N\sum X^2 - (\sum X)^2}$$

Where Y = dependent variable

x = independent variable

a = intercept of y variable

b = regression co-efficient.

The formula for correlation co-efficient is given as:

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{(n\sum x^2 - (\sum x)^2)(n\sum Y^2 - (\sum Y)^2)}}$$

Having obtained co-efficient r, it is mandatory to test the reliability of obtained “r”. This is done by the test of significance of “r” using the student “t”.

The student “t” test given as:

$$“t” = \pm r \sqrt{\frac{N-2}{1-r^2}}$$

The decision rule here is that if the empirical value of “t” is greater than the critical value, we accept the alternative hypothesis (Hi) and reject the null hypothesis (Ho) but if the empirical value is lower than the critical value, we accept the null hypothesis (Ho) and reject the alternatives hypothesis (Hi).

Data Presentation And Analysis

Introduction

Fagbohunge (1996) asserted, data analysis forms the bedrock of any scientific enquiry on research. Therefore, in order to make data analysis meaningful, it must focus on testing the hypothesis or proposition of the research.

Presentation and Analysis of Data according to responses from questionnaires

The organization of the data collected from the questionnaire administered to the selected employee in the selected small and medium enterprises was based on question, which were close ended question, which is the response were Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD) and Undecided (U).

Figures in %

S/N	QUESTIONS	SA	A	D	SD	U	TOTAL
1	Do you agree that Nigerian government grants tax incentive?	40	60	0	0	0	100
2	Do you agree that SMES are pivotal to economic growth?	55	45	0	0	0	100
3	Do you agree that tax incentives improve SMES performance?	11	55	10	9	15	100
4	Do you agree that government introduce incessant new taxes?	20	50	10		20	100
5	Do you agree that change in government policy on tax affect SMES?	15	32	20	25	8	100
6	Do you agree that SMES are granted additional 1% bonus for early filling of returns	5	52	20	0	23	100
7	Do you agree that SMES are guided on how to meet their tax obligation?	30	47	15	0	8	100
8	Do you agree that sanctions are imposed for failure to register with tax authorities?	15	32	20	25	8	100
9	Do you agree that double taxation affects SMES growth?	15	72	1	2	10	100
10	Do you agree that competitive imported product is part of the reason why SMES do not thrive?	40	15	15	20	10	100
11	Do you agree that government grant SMES the incentives of paying lower tax rate of 20% if annual turnover is below N1, 000,000	12	60	13	5	10	100
12	Do you agree that tax incentives reduce economic burden on SMES?	19	41	18	12	10	100
13	Do you agree that developing countries have tended to rely on tax holiday as common tax incentives?	21	45	20	9	5	100
14	Do you agree that tax incentives can be utilized by the government to encourage	26	40	20	9	5	100

	growth and expansion of SMES?						
15	Do you agree that a tax incentive plays a vital role in ensuring that SMES thrive?	25	35	22	10	8	100
16	In your opinion, tax incentives have serious effects on small and medium enterprises in Nigeria?	20	65	5		10	100

Source: Field Survey (2014)

Correlation, Regression Analysis and Hypothesis Testing
Regression Analysis

$$Y = a + bx$$

$$b = \frac{n \sum xy - \sum x \sum y}{n \sum x^2 - (\sum x)^2}$$

$$a = \bar{Y} - bx$$

Ho: - there is no significant relationship between tax incentives (capital allowance) and the growth of small and medium enterprises.

Hi: - there is a significant relationship between tax incentives (capital allowance) and the growth of small and medium enterprises.

X = Total tax incentives

Y = Retained profit / profit after tax

$$b = \frac{n \sum xy - \sum x \sum y}{n \sum x^2 - (\sum x)^2}$$

Period	Capital allowance(X)	Retained profit(Y)	XY	X ²	Y ²
2004	4360.727	513.727	2240223.2	19015939.97	263915.4305
2005	5974.936	809.818	4838610.722	35699860.2	655805.1931
2006	8728.353	1372.235	11977351.48	76184146.09	1883028.85
2007	14953.263	2297.151	34349903.05	223600074.3	5276902.717
2008	15459.247	2181.370	33722337.63	238988317.8	4758375.077
2009	14994.662	1615.283	24220558.01	224838688.9	2609139.17
2010	14662.299	1177.435	17263904.02	214983012	1386353.179
2011	15362.258	1355.024	20785503.77	235998970.9	1830673.945
Total	94495.705	11320.043	149398391.9	1269309010	18664193.61

$$b = \frac{8(149398391.9) - (94495.705)(11320.043)}{8(1269309010) - (94495.705)^2}$$

$$= \frac{125491691.3}{1225033817}$$

$$b = 0.10$$

$$a = \bar{y} - b\bar{x}$$

$$\bar{y} = \frac{11320.043}{8} = 1415$$

$$\bar{x} = \frac{94495.705}{8} = 11811$$

$$= \bar{y} - b\bar{x}$$

$$= 1415 - 0.10(11811)$$

$$= 1415 - 1181$$

$$a = 234$$

$$y = 234 + 0.1x$$

Interpretation: - There is therefore a relationship between tax incentives (capital allowance) and the growth of small and medium enterprise we therefore accept the alternative hypothesis (Hi) and reject the null hypothesis (Ho).

Correlation Analysis

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

Having obtained co-efficient r, it is mandatory to test the reliability of obtaining "r". This is done by the test of significance of "r" using the student "t" test

The student "t" is given as:

$$t = \pm r \sqrt{\frac{N-2}{1-r^2}}$$

The decision rule here is that if the empirical value of "t" is greater than the critical value we accept the alternative hypothesis (Hi) and reject the null hypothesis (Ho) but if the empirical value is lower than the critical value, we accept the null hypothesis (Ho) and reject the alternative hypothesis (Hi).

$$r = \frac{8(149398391.9) - (94494.705)(11320.043)}{\sqrt{8(1269309010) - (94495)^2} \sqrt{8(18664193.61) - (11320.043)^2}}$$

$$= \frac{125491691.3}{\sqrt{1225033817} \sqrt{21170175.36}}$$

$$= \frac{125491691.3}{161040897.3}$$

$$= 0.78$$

Having obtained r to be 0.78, it is mandatory to test the reliability of r using the student "t" test.

$$\text{"t"} = \pm r \sqrt{\frac{N-2}{1-r}}$$

$$\text{Thus "t"} = 0.78 \sqrt{\frac{8-2}{1-0.78}}$$

$$\text{"t"} = 4.073$$

To find the critical value of "t"

Degree of freedom = n-2

$$= 8-2 = 6$$

At a significance level of 0.05, the critical value of "t" = 2.45.

Decision: - Since the empirical value of 4.073 is greater than the critical value of 2.45, we accept the alternative hypothesis that tax incentives are an effective tool in the hands of the government through which the growth and development of small and medium enterprises scheme is attained and reject the null hypothesis (H₀).

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

It is important to state that the small and medium enterprises sector is potentially the fastest and largest growing sector in any economy for them to thrive in any economy, it becomes pertinent for the government to create an enabling environment through its regulatory measures. One germane area through which the government can achieve this is through the use of tax incentives. The response of the respondent having been analyzed revealed that their work experience, qualification gives us the opportunity to rely much on the information derived from them.

In the course of this study, it was discovered that like bigger companies SMEs require a favorable institutional framework, which are most times overlooked by policy makers and legislator. The findings of this research work include that tax incentives are pivotal to the expansion and sustenance of growth in the small enterprises sector and that well managed SMES are a sources of employment opportunities and wealth creation, they contribute to social stability and generate tax revenue. It was also discovered that there is a positive

relationship between a country overall level of income and the number of SMES per 1,000 people.

It was also discovered that a thriving SMEs sector is critical to inclusive economic growth and development and that their growth depend on how the government has been able to create an enabling atmosphere conducive for them to thrive and that government needs to create the necessary enabling framework and relax the burden of regulatory measure in order to sustain their growth and development. In addition, it was discovered that most organization does not benefit from the impact of government policy reforms.

Furthermore, it was also discovered that apart from government ability to grant tax incentives that will encourage their growth and expansion. The small and medium enterprises are an important source of local supply and service provision to larger corporation, they usually have extensive local knowledge of resources, supply pattern and purchasing trends. They also represent an important source of innovation and they tend to occupy specialized market niches and follow competitive strategies that set them apart from other sectors.

In addition, in the course of the study, the research works reveal that enterprises could be classified according to size, sector, organization and location. But the pertinent issues among these classification remains that some SMEs do not enjoy tax incentives and are thus obvious of the benefit that could accrue to them from the government tax reform policies. It was equally discovered that these problems can be ameliorated if not solve completely by ensuring that the government uses its tax incentives effectively thus creating an enabling environment.

CONCLUSION

On the basis of the discussed findings of this research work, the facts have been clearly confirmed that tax incentives are germane to the growth, development and continued sustenance of small and medium enterprises. Tax incentive plays a vital role in ensuring that small and medium enterprises thrive because the federal government has made available tax holidays for pioneer companies, the government also grants a number of general and industry specific incentives. Finally, for many SMEs, the decision to remain informal is deliberate because of the cost and procedural burden of joining the formal sector out weight the benefit of staying in the informal sector. Informal sectors make large contributions to nation economies, in both human and financial terms. But being visible to government agencies and formal sector companies, they can be easily reached with capacity building improvement schemes but they cannot compete for business with larger companies thus a need for the government to accelerate their growth by creating an enabling environment for them vide appropriate tax incentives when necessary to enhance their sustenance and growth.

RECOMMENDATIONS

On the basis of the findings in this research work the recommendations are as follows.

1. Government can address the dire need for start-up fund for SMES by providing incentives for SMEs funding.
2. People should enlighten themselves appropriately on the form of business they want to embark upon before venturing into it to make them better equipped by going for entrepreneurial training programs.

3. There is a need for the government to employ tax holiday as a major tax incentives for newly established small and medium enterprises because it stimulate their investing power thereby exempting them from other tax liabilities.
4. Government should promote the growth of small and medium enterprises by creating the necessary enabling frameworks and relax the burden of regulating measures and ensure that their efforts are geared towards granting tax incentives to micro, small and medium enterprises.
5. Building SMEs capacity through the localization of supply chains requires the leadership from the top localizing values creation through engagement with SMEs is a key contribution that large corporations can achieve, this undermine their license to operate by creating a positive local impact, considering partnership across segments, business planning skill, all these put in place goes a long way in ensuring that tax incentives granted to SMES have a significant impact on their growth.

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