

OPTIMIZING TAX REVENUE IN MICRO SMALL AND MEDIUM ENTERPRISES IN NIGERIA

MFON S. JEREMIAH PhD

Department of Accounting

Faculty of Business Administration

University of Uyo

Akwa Ibom State, Nigeria

Email:mfon.jerry@gmail.com

RAPHAEL S. ETIM PhD

Department of Accounting

Faculty of Business Administration

University of Uyo

Akwa Ibom State, Nigeria

Email:etimralph@yahoo.com

JEREMIAH PATRICK EDET

Department of Accounting

Faculty of Business Administration

University of Uyo

Akwa Ibom State, Nigeria

ABSTRACT

The purpose of this study was to examine the factors that can optimize tax revenue generated in MSMEs in Nigeria. The researchers adopted the survey method of research design because the opinion of the taxpayers is considered important. The sources of data were from the MSMEs in Uyo local government area of Akwa Ibom State. The independent variables of the study were Improper Keeping of Financial Records (IKFR), Corruption (C), Poor Tax Administration (PAD), Regulatory Challenge (RC), Non-Availability of Tax Statistics (NAS) and Other Factors (OT). The dependent variable was the Tax Compliance Habit (TCH) of MSMEs. The regression analysis was conducted on the data. Corruption and poor tax administration are found to influence the compliance habit of those in MSMEs in Akwa Ibom State. The policy recommendation is suggested.

Keywords: Micro, Small and Medium Enterprises, Tax Compliance Habit, Corruption, Optimization of Tax Revenue.

INTRODUCTION

Government of Nigeria at all levels requires funds to operate effectively. Funding is necessary because of the responsibility of the government (Onakoya and Afintinni, 2016). Of course, government's decision to undertake any developmental project depends on availability of funds (Abomaye-Nimenibo, Michael, and Friday, 2018).

With the teeming population in Nigeria and new technologies, the activities of government that demand huge funds are in the rise. The needed majorly come from no other source than tax. Apart from few other sources of revenue such as rent received, investment income and so on, tax revenue is the main source of government revenue in Nigeria (Micah, Ebere and Umobong, 2012).

The breakdown of this revenue indicates that the greater part of it is derived from oil and gas industry. Indeed, crude oil export has continued to account for more than 75% of the total federal government revenue, while the remaining 25% is contributed by non-oil sector (Popoola, Jimoh and Oladipo, 2017).

There is no gainsaying by affirming that other countries of the world also depends on tax revenue for developmental projects.

Given the place of tax revenue in socio-economic development of the whole country it is necessary to vigorously raise tax revenue in Nigeria from all relevant sources. The inflows of such tax revenue should be estimated for every fiscal year (Udoh, 2015).

This is because the revenue from taxation in a can be use as benchmark for economic planning in a fiscal year. Taxation is recognized as the key to domestic resource allocation. Taxation has also assisted government of Nigeria to achieve some macroeconomic objectives goals. The unanswered question is, how can non-oil tax revenue be optimized from Micro, Small and Medium Enterprises (MSMEs) in Nigeria. The present study attempts to provide empirical evidence on how tax revenue from MSMEs could be optimized.

Previous studies provide empirical evidence confirming that MSMEs form the main stimulants of economic growth and job creation (Taiwo, Falohun, & Edwin, 2016; James, & Walter, 2018).

Regarding the sector's contribution to national income, global estimates show that MSMEs account for 60% to 70% of gross domestic product (GDP). Concerning the relationship between firm size and economic growth, there is consistent evidence that a large share of MSMEs spurs economic growth at the industry or subnational level. Tax is one of the variables that contributes to the economic growth. In Nigeria, a good number of MSMEs cannot afford the complexity of a thorough accounting structure even if they do, the accounting system most times appears in a single entries and incomplete form thereby making it difficult for the tracking of cash flow and levying appropriate taxes (Ezejiolor, Emmanuel, & Olise, 2014).

Certain factors affect adequate revenue generation from taxation in Nigeria, among which are improper keeping of financial records, corruption, poor tax administration, regulatory challenge, and non-availability of tax statistics (Micah,; Ebere, & Umobong, 2012; Ofoegbu,; Akwu, & Oliver, 2016; Nduruchi, Makokha, & Namusonge, 2017; James, & Walter, 2018). Indeed, majority of MSMEs do not comply in payments of taxes due to so many factors, even though MSMEs has noticeable impact on economy. The present study examines these factors empirically.

Therefore, the main objective of the study is to examine the factors that can optimize tax revenue in MSMEs in Nigeria. The hypothesis is stated in null form as: there is no significant impact of improper keeping of financial records, corruption, poor tax administration, regulatory challenge, non-availability of tax statistics on tax compliance habit in Nigeria.

The remaining paper is divided into following sections. In section two of the related literature is reviewed; while in three the research methodology is discussed. Data analysis and

findings discussion are the presented in section four. The conclusion and recommendations are discussed in the last chapter.

REVIEW OF RELATED LITERATURE

The related literature reviewed focus on conceptual, theoretical and empirical issues.

Conceptual Issues in Literature

The Meaning of Tax and its Effect in Economy

Taxation is a compulsory levy imposed by the government to every eligible citizen in a country. It is an instrument employed by the government for generating public funds (Ofoegbu, Akwu & Oliver, 2016).

This is a required payment imposed by the government on the income, profit or wealth of individuals, group of persons and corporate organisations with applicable tax rate and base (Ofoegbu, Akwu & Oliver, 2016). According to Okafor (2012), a well-designed tax system can help governments in developing countries to prioritize their spending, build stable institutions, and improve democratic accountability.

The core purpose of a tax is to enable public sector to finance its activities to achieve some national economic and social goals. It can also be used as a tool to reallocate wealth of the nation in order to ensure social justice (Okafor, 2012).

Taxes, therefore, can be used as an instrument for achieving both micro and macroeconomic objectives, particularly, in developing countries such as Nigeria. Taxes are the basic and most reliable sources of government revenue because of their certainty and flexibility characteristics.

MSMEs and the Factors That Affect Taxation Revenue in Nigeria

From the point of view of national policy, enterprises may be classified by size, sector, organisation, staff strength, technology and location (Udoh, 2015). These variables interact with each other in complex ways which must be taken into consideration to understand the nature, characteristics, performance, problems and challenges of business enterprises. From the perspective of policy and planning, size provides the most practical basis for classification of enterprises (Ojochogwu, & Ojeka, 2012).

The usual criteria include one or more of the following: employment, turnover, assets, and paid-up capital. However, definitions vary from country to country relative to the overall size and structure of the domestic economy.

In Nigeria, factors that affect adequate generation of tax revenue from MSMEs are improper keeping of financial records, corruption, poor tax administration, regulatory challenge, non-availability of tax statistics, and among others (Micah,; Ebere, & Umobong, 2012; Ofoegbu,; Akwu, & Oliver, 2016; Nduruchi, Makokha, & Namusonge, 2017; James, & Walter, 2018).

These factors seem to impede optimization of tax revenue from MSMEs. Politics brings some element of corruption into the tax bureaucracy. Low salaries for tax officials, political protection of prominent tax evaders, poor monitoring of junior officials, high tax rates and high levels of discretion for the tax official and poor information, generally are some of the issues behind corruption. At what point are the policymakers, bureaucracies, and taxpayers ready to

make essential changes towards reducing corrupt practices is a question to which there is no clear response.

Taxation has been the oldest governmental activity since the country's amalgamation in 1914. One would expect tax statistics to be readily available. Moreover, there are no efforts to have the inadequate data that are available collated or analyzed on a routine basis, not to mention, having it stored, or made more easily assessable or retrievable. This situation does not provide much input to policy process in the economy of Nigeria. Tax administration and individual agencies suffer from limitations in manpower, money, tools and machinery to meet the ever-increasing socio-economic challenges and difficulties.

In fact, the negative attitude of most tax collectors toward taxpayers can be linked to poor remuneration and motivation. Philips (1997) considers the inadequacy of administrative capacity as a major impediment to the government in its attempts to raise revenue in Nigeria. The prevalence of support staff in a professionally inclined agency like the FIRS does not foretell well for the country.

The situation at the local government level is more hazardous. Indeed, staffs are not provided with regular training to keep them abreast of developments in tax related matters. This makes the administration of taxes in terms of total coverage and accurate assessment very weak and poor.

Political risk and exchange controls pose one of the greatest business and regulatory challenges for companies' business in Nigeria. Moreover, company law and intellectual property protection are very challenging areas for companies. Protecting your investment and workforce, being able to extract profits and freely move the workforce are often taken for granted when investing in first world countries.

The Importance of MSMEs in Economy

The participation of micro, small and medium enterprises (MSMEs) in the economic development of most developed countries is overwhelming. This is because the sector provides reasonable employment to majority of the country population, thereby contributes adequately to the enhancement in revenue growth of government. Owners of these enterprises pay income tax, VAT and withholding tax as well as providing income and wages to households (Ezejiolor, Emmanuel, & Olise, 2014).

The growth of MSMEs in a developing country also contribute significantly to the increase in the scope of the public sector in the economy by reducing poverty rate through fiscal transfers of income from employer to employee. In this case, MSMEs play important role in enhancing social and economic development.

Central Bank of Nigeria (CBN) described MSMEs as economically self-determined establishments with about 11 to 300 employees and an annual debit turnover of between ₦5 million to ₦300 million. Small business owners contribute significantly in the creation of job opportunities and wealth in Nigeria; its activities have also contributed to the growth of the country's economy by increasing her GDP.

The significant of MSMEs for the growth, productivity and competitiveness of the economies of developing countries is universally recognized. Not only do they provide employment and income for the bulk of the population, as well as the primary source of new jobs, they have been acknowledged as critical breeding and nurturing grounds for domestic

entrepreneurial capacities, technical skills, technological innovativeness and managerial competencies for private sector development (Micah, Ebere, & Umobong, 2012).

A key ingredient for improving growth performance of countries is innovation start-ups, and MSMEs play an important role in developing and commercializing innovations.

The Related Theories

In this study, two theories are considered relevant. These are: the cost of service theory and the socio-political theory. According to the cost of service theory, the cost incurred by government in providing certain services to the people must collectively be met by the people who are the ultimate receivers of the service (Okafor, 2012).

This theory believes that tax is like price. So, if a person does not utilize the service of a state, he should not be charged any tax. Some criticisms have been stated against this theory. According to (Okafor, 2012), the cost of service theory imposes some restrictions on government services. The objective of government is to provide welfare to the poor. However, some of the poor are not taxpayers.

The limitations integral in the cost of service theory led to the amendment of the theory. This amendment brought new theory referred to as the benefit received theory of taxation. According to this theory, citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the government. The theory assumes that there is exchange relationship between taxpayers and government.

The government confers some benefits on taxpayers by providing social goods which the taxpayers pay a consideration in the form of taxes for using such goods. The inability to quantify the benefits received by an individual from the services rendered by the government has rendered this theory inapplicable (Okafor, 2012).

The socio-political theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals but should be used to cure the ills of society as a whole (Okafor, 2012). This study is therefore anchor on these theories.

EMPIRICAL ISSUES IN LITERATURE

James & Walter, (2018) conducted a study on Taxation and the Growth of Small and Medium Scale Enterprise (SMEs) in Nigeria: A Case of Selected SMEs in Nasarawa State. A survey was conducted, and primary data were collected and analyzed. From the result of the analysis, they concluded that high tax system together with unfavorable tax policies have negative impact on the growth of SMEs in Nasarawa state and by generalization the entire nation.

In which case, undue taxes could be dangerous to small businesses.

Ezejiofor, Emmanuel & Olise, (2014) conducted a study on “The relevance of accounting records in small scale business: the Nigerian experience”. Survey method of research design was adopted in the study.

They concluded that keeping of records is crucial for the successful performance of a business. A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. It is from such records that adequate taxpayers can be assessed and levies appropriately.

Nduruchi, Makokha, & Namusonge, (2017) conducted a study on “Determinants of tax compliance among small and medium enterprises in Bungoman County, Kenya”. They concluded from the findings that tax compliance of SMEs is significantly negative when other factors are held constant. They also recommended that Kenya Revenue Authority should consider revising the cost of tax product downwards.

Ojochogwu, & Ojeka, (2012) conducted a study on Relationship between tax policy, growth of SMEs and Nigerian Economy. From the findings, they concluded that tax policy has no significant effect on SMEs growth in Nigeria.

From the work reviewed, no studies specifically addressed the need to optimize tax revenue from MSMEs in Nigeria. This study will add to the literature by highlighting the factors that affect optimization of tax revenue from MSMEs in Nigeria.

METHODOLOGY

The researcher adopted the survey method of research design simply because it is a descriptive study. Primary data was collected using questionnaires. The type of data obtained was cross-sectional data. The study participants were drawn from owners of Micro, Small and Medium Enterprises (MSMEs) in Uyo local government area of Akwa Ibom State.

The population of the study is the total number of MSMEs in Uyo, Akwa Ibom State, which was estimated to be nine hundred (900) ventures. This is made up of the registered and the unregistered ventures in Uyo, Akwa Ibom State that comply in payment of tax according to the State Internal Revenue Service.

The independent variables of the study are Improper Keeping of Financial Records (IKFR), Corruption (C), Poor Tax Administration (PAD), Regulatory Challenge (RC), Non-Availability of Tax Statistics (NAS) and Other Factors (OT).

The dependent variable is the Tax Compliance Habit (TCH) of MSMEs. The sample size was determined using Taro Yamene formula and it was two hundred and seventy-seven (277) with 5% level of significance.

Data were analyzed using the Statistical Package for Social Science (SPSS), version 25. The questionnaire was structured using the four-point Likert scale rated as follows: Strongly Agree (SA) 4; Agree (A) 3; Undecided (U) 2; Disagree (D) 1; and Strongly Disagree (SD) 0.

The model for the study is specified thus:

$$TCH = \beta_0 + \beta_1 IKFR + \beta_2 C + \beta_3 PAD + \beta_4 RC + \beta_5 NAS + \beta_6 OT + e_t$$

Where:

TCH = Tax Compliance Habit

IKFR = Improper Keeping of Financial Records

C = Corruption

PAD = Poor Tax Administration

RC = Regulatory Challenges

NAS = Non-Availability of Tax Statistics

OT = Other Factors

e_t = Random Error Term

All the independent variables factors are expected to yield negative impact on TCH.

Results and Discussion

The results are presented and discussed in this section. In the questionnaire, the respondents were asked to confirm the degree to which they agree that the listed factors in Table 1 can influence tax revenue generation among MSMEs in Akwa Ibom State. From the Table, it can be observed that most of the participants agree that all the listed factors can influence tax revenue raised from MSMEs in Akwa Ibom State. This encouraged the researchers to include them in the study.

Table 1: Responses on Factors That Affect Adequate Revenue Generation From Taxation Of MSMEs

S/N	Factor	SA	A	U	D	SD
i.	Improper keeping of financial records	200	73	4	0	0

ii.	Corruption	175	85	7	10	0
iii.	Poor tax administration	188	80	5	4	0
iv.	Regulatory challenges	225	52	0	0	0
v.	Non-availability of tax statistics	210	60	7	0	0
vi.	Others	7	60	10	190	10

Source: Field Survey, 2019

Table 2: Tax Compliance Habits TCH Responses

Scale	Number	Percentage
SA	198	78
A	70	21
U	7	1
D	2	0
SD	0	0
Total	277	100

Source: Field Survey, 2019

The respondents were also asked to select the degree to which they agree that tax compliance habits of MSMEs in Akwa Ibom State is important in raising tax revenue. Table 2 discloses that 78% of the respondents strongly agree that tax compliance habit is important in terms of tax revenue from MSMEs in Akwa Ibom State.

Table 3a- c: The summary of the regression results

(a) Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.974 ^a	.949	.948	.12772	1.837

a. Predictors: (Constant), OT, RC, PAD, C, NAS, IKFR

b. Dependent Variable: CH

(b) ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	82.354	6	13.726	841.388	.000 ^b
	Residual	4.405	270	.016		

Total	86.758	276		
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a. Dependent Variable: CH

b. Predictors: (Constant), OT, RC, PAD, C, NAS, IKFR

(c) Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.195	.082		-2.381	.018		
	IKFR	.554	.046	.481	12.171	.000	.120	8.300
	C	-.090	.027	-.116	3.335	.001	.155	6.452
	PAD	-.277	.042	-.295	6.623	.000	.095	10.556
	RC	-.039	.037	-.028	-1.064	.288	.281	3.559
	NAS	.175	.044	.155	3.952	.000	.122	8.189
	OT	-.009	.009	-.015	-.921	.358	.694	1.440

a. Dependent Variable: CH

Source: Researcher's Computation Using Spss Version 25

The regression results of relationship of IKFR, C, PAD, RC, NAS, OT with Tax Compliance Habit (TCH) is presented as the computer output in Table 3a-c. The summary of the model, ANOVA, and estimated coefficients are presented in Table 3 a, b, and c respectively.

From Table 3c, the estimated relationship of the independent variable with the dependent is presented as:

$$TCH = 0.2 + 0.55IKFR - 0.09C - 0.28PAD - 0.04RC + 0.18NAS - 0.09OT$$

This model shows that 1% increment in improper keeping of financial records (IKFR) will bring about 55% increase in Tax Compliance Habit (TCH) of MSMEs and it is significant at 5% level. This is not consistent with the a priori theory. Moreover, 1% increase in corruption (C) will lead to about 9% decrease in tax compliance habit (TCH) of MSMEs and the estimate is significant at 1% level.

Again, 1% increase in poor tax administration (PAD) would result in about 28% decrease in TCH of MSMEs and this also is significant at 1% level. Although 1% increase in regulatory challenges (RC) could likely lead to about 4% decrease in TCH of MSMEs, however, the estimate is not significant.

But 1% increase in non-availability of tax statistics (NAS) will bring about 18% increase in TCH of MSMEs and it is significant. Again, the finding is not consistent with the a priori theory. A unit increase in other related factors (OT) will bring about 9% decreases in TCH of MSMEs, however, it is not significant.

The correlation coefficient R-square (Table 3c) shows that 94.9% variations in TCH is explained by the influence of IKFR, C, PAD, RC, NAS and OT. The indication is that other factors which are not included in the model is represented only 5.1%. The Durbin-Watson (DW) statistics of 1.837 shows that there is no autocorrelation and the multi-collinearity test conducted using variance inflation factor (VIF) shows that there no multi-collinearity in the independent variables (IKFR, C, PAD, RC, NAS and OT).

This also is confirmed by the level of the tolerance statistics in Table 3c. The F-ratio, which measures the overall significance of the model, shows that the R-square of 94.9% is significant at 1% level. (see Table 3b).

The null hypothesis, which states that there is no significant impact of IKFR, C, PAD, RC, NAS, OT on TCH, is rejected for C and PAD, and the alternative hypothesis which states that there is significant impact TCH, is accepted.

These findings are in line with Micah, Ebere & Umobong, (2012) who conducted a study on Tax System in Nigeria – Challenges and the Way Forward. For other factors in the model, for instance IKFR, the estimated coefficient is significant, but the nature of relationship is different from what was anticipated. These triggers further investigation in a different context.

The result suggests that MSMEs should be encouraged to prepare financial statements and submit to the tax authority so that appropriate tax can be assessed by the tax officials. Of course, Ezejiolor, Emmanuel & Olise, (2014) their study concluded that keeping of records is crucial for the successful performance of a business.

A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business.

CONCLUSION AND RECOMMENDATIONS

From the analysis of the study, the researcher concluded that the factors that affect adequate revenue generation from taxation of MSMEs in Nigeria are majorly corruption and poor tax administration.

Indeed, the present study points to the challenges corruption pose on development of good tax compliance habit among those medium and small business sector. It is therefore recommended that tax officials and Nigerian government generally, need to create a system that would reduce tax bureaucracy and thus boost taxpayers' compliance habit. This will invariably, optimize the revenue that will be generated from MSMEs in Nigeria.

Moreover, the tax administration should be reviewed by the government to bring in some level of transparency in the system. This will go a long way to encourage taxpayers. Again, the situation where taxpayers are not well assessed can be reduced if MSMEs are encouraged to prepare financial statements of their operations. Seminars and workshops can be organized by government or her agencies to explain to operators of MSMEs the benefits of keeping good accounting records.

Of course, the payment of tax needs not be polarized, rather other benefits should dominate the discuss while tax issues could be considered secondary.

Further study that could examine the independents variables that indicate unexpected relationships and those with insignificant influence is suggested. Such study could validate the present findings or bring out fresh insight.

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