

TAXATION, QUALITY OF GOVERNMENT AND BUSINESS DEVELOPMENT IN OSUN STATE, NIGERIA

Helen Olubunmi Aderemi

Department of Management and Accounting, Obafemi Awolowo University, Ile-Ife, Nigeria
Email: haderemi@oauife.edu.ng

Abstract

This paper examined the extent to which taxation affects the survival of enterprises in Osun State, Nigeria. It also investigated the effect of taxation on the quality of governance and ascertained how taxation influences business operations of the enterprises. These were with a view to determining how taxation enhances quality of governance and business development. Data were obtained from primary and secondary sources. The population of the study comprised 80 enterprises located in the state capital of Osun State. Findings revealed that taxation affects the survival of enterprises in the state to a large extent. Also, taxation when effectively implemented could enhance the effectiveness of the government in power. The paper recommends that government should ensure that they provide the citizens with adequate tax awareness and give incentives to tax payers who are compliant. This will assist in bringing more tax payers into the tax net and increase the tax revenue generated and consequently improve quality of governance.

Keywords: *Taxation, Quality of Government, Enterprises, Businesses, SMEs*

JEL Classification: *H25, M41*

INTRODUCTION

The political importance of taxation extends beyond the raising of revenue. Taxation can stimulate calls for more representative and accountable governments, while the need to increase revenues can stimulate institution-building. The success of a government in power rests on the way the taxation system is being handled (Brautigam, 2008). Taxation deals basically with the systems that have been put in place to ensure prompt assessment and collection of tax/levy on taxable income, profit, consumption and property from individuals and corporate entities with a view to, among other purposes, generate revenue needed by the government for covering the cost of executing various developmental projects. The Americans believe that tax is the price paid for a civilized society and spend almost 30% of their income on tax (American debt, 2019). It is regarded as an obligation and the system is strictly monitored by ensuring that legislations, relevant authorities are in place to ensure the prompt assessment and collection of taxes as they fall due.

Taxes comes in different forms but generally fall into the following broad categories: Income tax (e.g. corporate tax, dividend tax, capital gain tax), Payroll tax (e.g. pay as you earn), Property tax, Consumption tax (e.g. Value-Added Tax), Tariff (taxes on international trade), Capitation, a fixed tax charged per person, Fees and tolls, Effective taxes, government policies that are not explicitly taxes, but result in income to the government through losses to the public. But however, it comes, taxation can be seen as a central factor in the successful state's

development process. Tax is not the sole determinant of rapid development, but it is one pillar of an effective state and may also provide the basis for accountable and responsive systems (Samuel, 2009). Mahon also indicated the fact that increased taxes could have an effect on good governance, especially in the case of direct taxes. It has been observed that one of the major ways the government raises its revenue is through taxes (Ademola, 2019) and the funds raised from the taxes go a long way in affecting the quality of the government and the efficient service the government renders to the populace. Thus, taxation is a key tool the country must put into consideration. Good governance instil confidence in the mind of the populace of an effective and a goal oriented government in power and this may lead to the expansion of the tax net and increase in the level of tax revenue that will eventually be raised.

Tax payers seem to be apathetic about their tax obligations when they believe the government does not have their interest at heart. Once a tax payer can sense unfairness in the tax system, he reacts by not paying his taxes. In 1986, Etzioni stated clearly that if the public feels that the tax is unfairly distributed, there will be reluctance in the payment of taxes and this was reiterated by Ademola (2019). This statement was equally affirmed by a research carried out by Bradley in 1994 where he found out that tax evasion increased due to increase in the percentage of tax payers who feel injustice in the tax system. The fair treatment on the tax payers and the tax authority honesty will be the factors that will encourage voluntary tax compliance (Kirchler & Hoetzl, 2006). If the regulators act equitably, then people will believe the motives of the tax authority thus have the effect voluntarily comply. Trust is the key to success for the achievement of tax compliance and this will encourage positive attitude towards the tax authorities (Siahaan, 2012). It is very obvious that a government who wants to increase its revenue base could do that easily by paying close attention to taxation. An individual will only want to give out his money to the government if he believes that he is going to get something in return and thus, the government has a role to play in ensuring that the populace sees the reason why they should pay their taxes.

Business development measures the phases through which businesses grow and gets developed. Summers (1991) and Bucataru (2002) opined that business development and decisions are those concerning the conversion of capital money in material form such as machinery, equipment, buildings, through operations of acquisition of these assets. Taxation has its major role to be played in the business development of a country as high taxes on a business entity could hinder its growth and development. When a business is at its infant or growth stage, there should be some considerations to be given as high tax levy during this period could ultimately lead to the death of the business. Tax holiday is evasion from the payment of taxes for a specified period and it will be highly appreciated by the infant entities if they can be given tax holidays in their early years of business operations. Bruce and Moshin (2006) argued that high taxes and poor taxation policies largely affect small business performance. The tax levy is a major factor that influences the forms of business. Once it is observed by the tax payers that a business pays little or no tax, there is a high tendency that such form of business will be the choice of all irrespective of the business risk attached to it for the purpose of tax advantage. Minniti (2008) research states that favourable tax system encourages more people to start business. In fact, some existing businesses paying high taxes might be liquidated for the purpose of forming a new low tax-paying entity.

The effect of taxation on business cannot be overemphasized and it is obvious that most businesses that are formed nowadays are partnership businesses and the reason may be due to the fact that only the partners are liable to tax but the business as a whole is not liable to tax. The quality of government and the business development are key factors that affect taxation. Once there is good governance, there is a tendency for increase in tax revenue which will eventually lead to economic development of a state. The development envisaged in a business also lies on how favourable the taxation system has been in the period. Most research works that has been observed in the course of this work pinpoint the effect of quality government on taxation and not the effect the latter has on the former. A number of research works has emphasized that the institutional climate and the quality of governance of the countries in which tax payers live are important determinants of tax compliance (Picur & Riahi-Belkoui: 2006; Frey & Torgler: 2007).

Quality governance has to be in place to bring more tax payers into the tax net and this can be achieved by ensuring the existence of a highly effective tax authority for the assessment and collection of taxes and also the creation of tax awareness on the part of the tax payers. On the other hand, tax funds generated serve as a major source of revenue for the government and thus, low tax revenue can be tantamount to inefficient government. One of the major reasons why a country might have a balanced or a surplus budget is if all the tax payers are brought into the tax net and their tax obligations being appropriately performed. A country that has a surplus or a balanced budget will find itself capable of meeting the recurrent and capital expenditures as specified in the budget and thus will be appraised by the populace. Business evolves through many stages before they are established in the industry. The ability of the tax agencies and authorities to ensure that tax evasion is prohibited and tax avoidance is allowed goes a long way also in affecting the tax payers that will be brought to the tax net and the tax revenue that will be raised. The tax revenue raised also influence the level of business and economic development. Thus, it can be concluded that the quality of government and business development affects taxation and also taxation affects the quality of government and business development.

The paper focused specifically on the government of Osun state, Nigeria and the impacts which taxation could have on the business development and governance. Good governance and business development is deemed to be affected by the level of taxation and this study pinpoint how taxation as a tool can be used to achieve good governance and a sustainable business development.

Even though it is expected that the quality of government and business development should affect the level of taxation, it should not be assumed that this will always be the case as the level of taxation could affect the quality of government and business development and this forms the basis of the investigation. It is worthy to note that good governance and development of businesses might be as a result of a favourable tax policy. Moore (2017) summarized the implications of taxation on the quality of governance in developed economy. First, he established that the more states are dependent on tax revenue, the more they are accountable and responsive to the citizens. However, this might not happen, if in order to raise more

revenues, they use coercive measures and thereby damaging state-society relations. There is need to ascertain the issue of what obtains in a developing economy like Nigeria bearing in mind the suggestion of Moore (2017) that taxation should be based on consensual practices which might enforce good governance. When reviewing publications, it was observed that most of the studies carried out were on the impacts of quality of government and business development on taxation. Andersson (2017) argued and provided empirical evidence that the effect of democratization on taxation depends on the distribution of tax preferences in the society. Furthermore, there is dearth in literature of the specific tax paid by business concerns. Aside this, study investigates the effect of taxation on the quality of government and business development in Nigeria. Also, this study investigates the possibility of achieving good governance as a result of increase in tax revenue as previous studies only consider the impact of quality of government on taxation level of a state. For Example, Benno (2003) showed that direct democratic rights, local autonomy, trust in government and court and legal systems has a positive and significant effect on tax morale. It is with this backdrop that the paper attempts to answer the following questions: What kind of tax are being paid by SMEs; To what extent does taxation affect business development and operations? How does increase in tax revenue affect the achievement of good governance? What is the effect of taxation on quality of government?

LITERATURE REVIEW

The study by Ozele, Atu, Adegbe and Oghogho (2019) found that government in developed and emerging markets had long begun re-directing tax policy towards more consumption-based model rather than income-based model and at best having an efficient combination of both models. They however discovered a low performance of value-added tax (VAT) in Nigeria. A VAT is a consumption tax that is levied at a particular stage in the sale of a product or service. It is an indirect tax levied at every stage of the consumption process, from raw material to finished goods (Ozele et al, 2019). While the authors lay emphasis on consumer as sole payer of VAT. However, going by the definition of VAT, even business enterprises as an entity pays VAT at some point in the it operations. The empirical analysis that was carried out by the Uganda government to evaluate the effect of tax treatment and influence of taxation policy on the performance of SMEs (Small and Medium sized enterprises) and to determine if the tax payers were aware of all their tax obligations and policies revealed that the government of Uganda promotes tax compliance. At the end of the investigation, it was concluded that the tax system was fair to all small business owners. Furthermore, the study posited that the government provided information on how to register the business and also revealed that high tax rates encouraged tax evasion and discouraged business owners from starting enterprising firms (Minniti, 2008). It was also discovered that majority of the businesses do not survive for more than 5 years after commencement. The fact remains that SMEs have their challenges and tax could definitely not be adduced as reason for business failure, extinct or collapse. For instance, the study recommended education for small business owners especially on accounting skills. This deemphasized the problem as taxation.

A study on tax compliant by Marti et al (2010) in Kenya found a strong relationship between tax payers attitude and tax compliance. Also, Benk, Cakmak and Budak (2011) in Turkey concluded that normative expectations of tax compliance and penalty magnitude were the most significant effects on tax compliance. Verboon and Dijke (2007) in Netherland observed that there exists a significant and positive effect of outcome favourability on people's compliance with the tax authorities' decision when distributive justice was high. Freya and Feld (2002) in Switzerland observed and came to the conclusion that the tax payer's morale was raised when the tax officials treated them with respect. Cummings, Martinez-Vazquez, McKee and Torgler (2009) in Botswana and South Africa observed that the field experiments conducted in countries with substantially different political histories and records of government quality demonstrate that observed differences of tax compliance levels persist over alternative levels of enforcement. Torgler (2003) in Switzerland observed that vertical equity factors significantly influence the probability to undertake full tax evasion and the effect of exchange inequality is not so clear. It was also observed that there exists a significant relationship between tax compliance intentions and equity, norms and risk preference of the behaviour of tax payers.

Alabede, Affrin and Idris (2011) in Nigeria came to the conclusion that the perceived tax service quality was positively and significantly related to tax compliance behaviour. Dabor, Ekiomado and Agrgreh (2019) discovered a positive disposition towards tax remission by firms who practice corporate social responsibility. A research was carried out in Kogi State, Nigeria with the sole objective of appraising the effects of multiple taxation. From the scores, it was deduced that West African Ceramics Limited, Ajaokuta, Kogi State paid tax all the time. Also, it was concluded that at least not less than three agencies collected taxes from small and medium scale enterprises in Nigeria. The reports that were obtained affirmed that multiple taxation affected the growth and survival of SMEs in Nigeria. From the result, it was also observed that tax collectors do not really look at the sizes of business for tax collection. Hence, the study recommended that government should discontinue excessive taxes collected from Small and Medium size Enterprise (SMEs) so that they can continue to exist as an entity. However, the study did not specify the kind of tax/levy collected by the tax office/agencies in question. The issue persists that many taxpayers, especially business concerns misconstrue any levy/fee required from them from government agencies for tax. This study therefore endeavoured to understand the types of taxation administered to enterprises and its effect on governance and business development which hitherto has experienced dearth of knowledge in developing and emerging economies.

METHODOLOGY

The data used in this study were primary and secondary data. The study was explorative in nature with a population of 80 SMEs drawn from the record of the Ministry of Commerce and industry in Osun State capital, Osogbo, Nigeria. The sample size was calculated using Taro Yamane Formula, which was 67 respondents. The sampling technique used was purposive based on the frequency of monitoring and visitation from the state revenue office. Data were elicited from the chief executive or accountants of the enterprises with the use of a structured

questionnaire. The primary data collected were analyzed using frequencies, percentages, tabulation and regression analysis. The secondary data was obtained from the state of Osun Report, 2017.

RESULTS AND DISCUSSION

Socio-Demographic Characteristics of the Respondents

Table 1 showed the Socio-Demographic characteristics of the respondents. In respect of gender, out of 67 respondents, 45(67.2%) of the respondents were male and 22 (32.8%) of the respondents were female. This indicates that the male respondents were more in the position of chief executives and accountants of the SMEs in the study area.

The table showed that 8(11.9%) of the respondents were below 18 years, 13(19.4%) were between ages 18 and 20 years, 17 (25.4%) were between 21 and 25 years, 29(43.3%) were above 25 years. This showed that majority of the respondents were within the range of 26 years and above. Marital status of the respondents indicates that 21 (31.3%) were married, 41 (61.2%) were single, 4 (6%) were divorced and 1 (1.5%) failed to disclose their marital status. This implied that majority of the respondents were single. It seems that the responsibility of chauffeuring a business enterprise has prevented many of the owners to take on additional responsibility of marriage. This position was also purported by Mwobobia (2012).

Table 1: Socio-Demographic Characteristics of the Respondents

Variable	Description of variables	Frequency	Percentage (%)
Gender	Male	45	67.2
	Female	22	32.8
Total		67	100
Age	Below 18 years	8	11.9
	18-20 years	13	19.4
	21-25 years	17	25.4
	26 years and above	29	43.3
Total		67	100.0
Marital status	Married	21	31.3
	Single	41	61.2
	Divorced	4	6.0
	Unanswered	1	1.5
Total		67	100

Educational qualification	SSCE	22	32.8
	BSC	18	26.9
	HND	8	11.9
	OND	9	13.4
	NCE	1	1.5
	Others	9	13.4
Total		67	100
Work experience	1-2 years	18	26.9
	2-3 years	18	26.9
	3-5 years	13	19.3
	6 years and above	18	26.9
Total		67	100

Source: Field Survey, 2019

On educational qualification, 22 (32.8%) of the respondents had SSCE, 18 (26.9%) were B.Sc holders, 8 (11.9%) had HND, 9 (13.4%) were OND holders, 1 (1.5%) had NCE while 9 (13.4%) of the respondents indicated that they had other educational qualifications not mentioned. This showed that majority of the respondents were SSCE holders, which contributed to the knowledge required for information needs of this research work. Data on work experience of the respondents revealed that 18 (26.9%) of the respondents indicated that they had one to two years' experience, 18 (26.9%) had two to three-years work experience, 13 (19.4%) of the respondents indicated that they had three to five-years work experience and 18 (26.9%) of the respondents do not have the specified work experience. This implied that majority of the respondents had one to three years working experience. About 43 (64.2%) of the respondents agreed that they were small and medium sized enterprise owners while 24 (64.2%) indicated that they were Small scale enterprise (SSE). Of those that indicated to be a Small and Medium sized Enterprises (SMEs) owner, 2 (3%) of the respondents actually revealed that they were into manufacturing, 24 (35.8%) were in the service sector, 17 (25.4%) of the respondents were into retailing and 2 (3%) of the respondents failed to indicate their line of business. This implied that majority of the 43(64.2%) respondents who indicated that they were into small and medium sized enterprises (SMEs) operations were actually in the service sector. It can be deduced that majority of the respondents who answered the questionnaire were educated and matured and thus, any conclusion drawn on the responses gathered from this set of people can be relied on in making a logical decision.

Table 2: Analysis of the line of business of small and medium sized enterprise owners

Type of Business	Frequency	Percent
Manufacturing	2	4.5
Service	24	56.8
Retailing	17	38.6
Total	43	100

Source: Field Survey, 2019

On type of taxes paid by the business owners/accountants of the firms, Table 3 revealed that the highest rated paid tax was fees and tolls (100%), followed by consumption tax (94%) and then income tax (71.6%). This indicates that some of the enterprises still manage to evade tax payment despite the frequent visitation from the tax office. It was also obvious from the finding that many of the enterprises who complained of multiple taxation were mixing up the types of taxes paid. Apparently, fees and tolls paid by all the owners/accountant was certainly not income tax which was also expected to be paid by them all.

Table 3: Types of Tax Paid by The SMEs owners/Accountants

Type of Business	*Frequency	Percent
Income tax	48	71.6
Payroll tax	32	47.7
Property tax	28	41.8
Consumption tax	63	94.0
Tarriff	23	34.3
Capitation	-	-
Fees and tolls	67	100

* Multiple response

Source: Field Survey, 2019

Extent of the impact of taxation on business development

The extent of the impact of taxation on business development was analysed using income tax at different periods in the lifetime of the enterprises. Result of regression shows that taxation affects the level at which the enterprises develop ($t = 5.392$, $p < 0.05$) positively only when taxed after five years of being in operation but not before. Table 4 indicates that the significance coefficient was less than 5% which implies that taxation had a positive effect on the survival of SMEs after five years of the commencement of business operations. When tax is implemented prior to this time, the business had a hard time surviving.

$$Y = 2.369 + 0.146X \quad (R^2 = 2.1\%)$$

Where Y= Survival of SMEs, X= Level of taxation

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	Beta	Std. Error		
Taxation after five years of operation of enterprise	1.967	.365	5.392	.000
Taxation prior to five years of operation of enterprise	.121	.146	1.187	.239

a. Dependent Variable: The level at which business develop is affected by Income tax

Source: Author's Survey Analysis, 2019

The achievability of good governance as a result of tax revenue

Descriptive statistics revealed the possibility of achieving good governance as a result of tax revenue. From the result obtained, 31(46.3%) of the respondents indicated that there exists a relationship between taxation and the quality of government, while 5(7.5%) strongly disagreed with the opinion and 4(6%) had nothing to say. About one-third of the respondents agreed that effective taxation system can affect the quality of government while 12(17.9%) strongly disagreed about that and 2(3%) had nothing to say. Logically, it could be said that the level of government quality depends on the effectiveness of the taxation system. Twenty-three (34.3%) of the respondents strongly agreed that the success of the government in power is directly related to how its taxation system is effectively managed while 11(16.4%) strongly disagreed with the statement and 3(4.5%) had nothing to say.

Furthermore, 23(34.3%) of the respondents strongly agreed that self-assessment scheme being introduced in all sectors of the economy will largely affect the quality of government while 8(11.9%) strongly disagreed with the statement and 8(11.9%) had nothing to say. A total number of 23(34.3%) of the respondents strongly agreed that bringing more tax payers into the tax net can lead to the attainment of good governance while 11(16.4%) strongly disagreed with the statement and 7(10.4%) were undecided. Some 25(37.3%) of the respondents strongly agreed that trust by tax payers on the judicious utilization of tax revenue collected can bring about good governance while 18(26.9%) strongly disagreed with the statement and 4(6%) were undecided. A total of 26(38.8%) of the respondents strongly agreed that the introduction of tax avoidance schemes into the taxation system can bring about good governance while 10(14.9%) strongly disagreed with the statement and 7(10.4%) were undecided. Some 40(59.7%) of the respondents indicated that good governance is affected by the ability of the government to raise tax revenue while 3(4.5%) of the respondents disagreed with the statement and 6(9%) of the respondents had nothing to say. About half, 33(49.3%) of the respondents agreed that good governance will be achieved if incentives are given to the tax payers who are compliant while

8(11.9%) strongly disagreed with the statement and 4(6%) were undecided. It can be concluded that there will be attainment of good governance if incentives are given to the tax payers who are compliant.

In addition, 35(52.2%) of the respondents strongly agreed that tax payers are willing to pay their taxes if the government in power sees them as part of the system while 8(11%) strongly disagreed with the statement and 1(1.5%) were undecided. Few, 10(44.8%) of the respondents strongly agreed that embezzlement of tax funds by tax officials will be reduced if the tax authorities judiciously make use of the tax funds collected while 14(20.9%) strongly disagreed with the statement and 2(3%) had nothing to say. About half, 32(47.8%) of the respondents strongly agreed that high level of tax defaulters could affect the quality of government while 15(22.4%) strongly disagreed with the statement and 4(6%) of the respondents had nothing to say. Also, 30(44.8%) of the respondents strongly agreed that increase in tax revenue generated will affect the ability of the government to meet the social obligations of the masses while 10(14.9%) strongly disagreed with the statement and 10(14.9%) were undecided. Some 32(47.8%) of the respondents strongly believed that the availability of schemes where tax payers could express their grievances will affect the quality of government while 10(14.9%) strongly disagreed with the statement and 5(7.5%) were undecided. Also, 37(55.2%) of the respondents strongly agreed that the imposition of fines and penalties on defaulters will affect the tax revenue generated and the quality of government while 6(9%) strongly disagreed with the statement and 6(9%) of the respondents were undecided. Logically, it can be concluded that fines and penalties affect the tax revenue generated and the quality of government.

About two-third of the respondents strongly believed that the awareness of tax agencies responsible for the collection of taxes will affect the quality of government while 6(9%) strongly disagreed with the statement and 3(4.5%) were undecided. Thirty-six 36(53.7%) of the respondents strongly believed that bad governance can easily be achieved as a result of tax evasion while 12(17.9%) strongly disagreed with the statement and 5(7.5%) were undecided. Another 27(40.3%) of the respondents strongly believed that lack in the ability of the government to redistribute income between the rich and poor could affect the quality of government while 11(16.4%) went strongly against that and 7(10.4%) were undecided. About 31(46.3%) of the respondents believed that good governance is achievable as a result of tax participation of citizens while 15(22.4%) went strongly against that and 3(4.5%) were undecided. An appreciable number 32(47.8%) of the respondents strongly agreed that tax apathy affects the quality of government in power while 9(13.4%) went strongly against it and 5(7.4%) were undecided. A good number 49(73.1%) of the respondents strongly agreed that taxpayers will be willing to pay their taxes if the economic system of the state is favourable while 4(6%) strongly went against it and 2(3%) were neutral.

Effect of taxation on the business operations of enterprises

The regression results of how taxation affects business operations of small and medium sized enterprises were analysed in this section. First, the regression result shows that small and medium sized enterprises can suffer from multiple taxation system as a result of tax authorities forcefully collecting tax from the tax payers. Since the level of significance is less than 5%, it

can be deduced that forceful collection of taxes has a positive effect on the multiple taxation system.

$$Y = 1.511 + 0.367X \quad (R^2 = 13.5\%)$$

Where Y = Multiple taxation system, X = Forceful collection

Table 5: Regression coefficients on forceful collection of taxes

Model		Coefficients ^a		t	Sig.
		Unstandardized Coefficients	Standardized Coefficients		
		B	Std. Error	Beta	
1	(Constant)	1.511	.285		5.297
	Small and medium sized enterprises suffers from multiple taxation system	.365	.140	.367	2.617 .012

a. Dependent Variable: Tax authorities forcefully collect tax from small and medium sized enterprises (SMEs)

Source: Author’s Analysis (2019)

The result of the regressions also indicated that high rates of tax on small and medium sized enterprises can reduce business resources for SMEs. The level of significance is less than 5% which indicated that high tax rates have a positive effect on the business resources.

$$Y = 1.611 + 0.274X \quad (R^2 = 7.5\%)$$

Where Y = Business resources, X = High tax rates

Table 6: Regression coefficients on the analysis of tax effects

Model		Coefficients ^a		t	Sig.
		Unstandardized Coefficients	Standardized Coefficients		
		B	Std. Error	Beta	
1	(Constant)	2.343	.444		5.283
	The tax levied on the operations of small and medium sized enterprises (SMEs) has discouraged people from starting enterprising firm	.102	.162	.095	.627 .534

a. Dependent Variable: People analyze the tax effects of various types of businesses before venturing into them

Source: Author’s Analysis (2019)

The regression results also showed that the effect of taxation on the growth and survival of the businesses can affect the continuity of their business operations. The results showed that the effect of taxation on the growth and survival of the business affects the continuity of business operations positively since the level of significance was less than 5%.

$$Y = 1.741 + 0.153X \quad (R^2 = 2.4\%)$$

Where Y= Continuity of business operations, X= Effect of taxation on the growth and survival of the business

Table 6: Model Summary on continuity of business operations Model

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.741	.373		4.665	.000
	Txaes levied on small andf medium sized enterprises (SMEs) has discouraged some business owners from continuing business operations	.162	.158	.153	1.029	.309

a. Dependent Variable: The growth of small and medium sized enterprises (SMEs) depends on the taxation system

Source: Author’s Analysis (2019)

Effect of taxation on the quality of government

The effect of taxation on the quality of government was analyzed using regression analysis. Data was obtained for five years from 2012-2016 in relation to the cash flows and the total debt stock of Osun state, Nigeria. For the purpose of this study, the total cash flow was considered as the tax revenue and the measure of government quality was seen as the ability to pay off the total debt stock of the country. The total cash flow generated during the period will not affect the total debt stock of the government.

Since the level of significance was less than 5%, this implies that taxation (t = -5.290, p<0.05) indeed affects quality of governance significantly but negatively. It appears that consistent revenue through taxation though expected to enhance quality of government, in this scenario may not due to the negative sign.

$$Y = 63.333 - 0.950X \quad (R^2 = 90.3\%)$$

Where Y= Total debt stock, X= Total cash flows of the government

A lot of reason can be adduced to this due to several abnormality and imperfections in the Nigeria tax system.

Table 8: Regression coefficients of the cash flow generated during the period

		Coefficients ^a				
		Unstandardized		Standardized		
		Coefficients		Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	63.333	5.369		11.795	.001
	total debt	-.256	.048	-.950	-5.290	.013
	stock					

a. Dependent Variable: the total cash flow of Osun state from 2012-2016

Discussion of Findings

This study revealed that taxation can have an impact on the growth and survival of SMEs after five years of the commencement of business operations. This finding was in agreement with Bruce and Mohsin (2006) in their investigation where they argued that high taxes and poor taxation policies largely affect small business performance.

Research question two revealed the possibility of achieving good governance as a result of good taxation policy and practice like implementing self-assessment schemes, tax avoidance schemes, tax participation of the citizens, trust by tax payers on the judicious use of tax revenue, tax awareness of the tax payers, expression of grievances, introduction of fines and penalties. It was revealed that taxation can to a large extent have an impact on the effectiveness of the government in power. This finding accords with Brautigam (1991) in her investigation on the significance of good governance where she analysed conditions for introducing strengthened accountability, participation, transparency and predictability and among these conditions, the important role of taxation in shaping governance was emphasized.

The findings of this work also concur with several cross-country (Alonso & Garcimartin, 2010; Altunba & Thornton, 2011; Asongu, 2015; Timmons & Garfia, 2015) and sub-national (Hoffman & Gibson, 2005; Berger, 2011) empirical studies which provide supporting evidence that dependence on taxation influences the quality of institution. Also, this finding aligns with Feld & Frey (2002) who believed that direct political participation increases tax compliance because it enhances tax payers' sense of civic duty and Vihanto (2003) who argued that direct political participation allows tax payers to express their discontents about either the tax burden or the tax authorities. It also accords with Belgum (2007) who found out that developing countries having low tax effort (less than unity) are not utilizing their full capacity of tax revenue and they can reduce the budgetary imbalance through the raising of tax revenue and Tilly (1992) who argued that for states to be more accountable and responsive to the citizens, it should have laws motive to bargain over taxation, state financing and public policy. Samuel (2009) also provided an affirmative opinion by stating that tax is not a determinant of rapid development, but it is one pillar of an effective state, and may also provide the basis for accountable and responsive systems. However, Ibrahim et al., (2015) had a different opinion and believed that satisfaction with democracy do not increase tax compliance.

On the aspect of the effects of taxation on business operations, it was revealed that small and medium sized enterprises suffer from multiple taxation, reduction of business resources as a result of high tax rates, stagnancy of growth in their product life cycle and discouragement to continue with the business operations. While this finding aligns with Minniti (2008) who revealed that high tax rates encourage tax evasion and discourage business owners from starting enterprising firms. It is worthy of note that a lot of the business owners/accountants misconstrue fees, levies, income tax and tolls as tax in general and hence the impression of multiple taxation. Tax avoidance was observed which had previously been found (Muhibudeen, 2018). On the aspect of the effects of taxation on the quality of government, it was revealed that the tax revenue generated affect the government quality but negatively. This was in disagreement with Ross (2001) who claimed that the revenue stream affects state capacity in that it forms the basis of the government's budget. Ola, 2001; Jhinghan, 2004; Musgrave, 2004; Bhartia, 2009 were also in disagreement by stating that the primary purpose of taxation is to finance expenditure and to redistribute wealth which increases the development of the country. Worlu and Nkoro (2012) also went against it by stating that tax revenue stimulates economic growth through infrastructural development. It is no surprise that Nigerian state scenario proved negative. This could be as a result of the imperfections and challenges bedevilling the tax system as a developing economy.

CONCLUSION AND RECOMMENDATIONS

This study emphasizes the impact of taxation on business development of small and medium sized enterprises. We conclude that taxation goes a long way in affecting the growth and survival of small and medium sized enterprises and thus, should not be ignored. Implementation of unfavourable tax policy, poor administration of taxes and lack of tax awareness can affect the level of business development and the government should endeavour to look into this aspect for the continuous existence of small and medium sized enterprises.

Secondly, this study deduced that taxation had a great impact on the existence of good governance. The introduction of self-assessment scheme of taxation, provision of tax incentives, reduction of the high level of tax defaulters, avoidance of tax evasion, tax participation of citizens will go a long way in determining the success of the government in power. If good governance is to be achieved, all these factors should be given strict consideration. Also, taxation goes a long way in affecting the performance of the government in power. If sufficient amount of tax funds is generated, the ability of the government to provide infrastructural facilities and amenities will be efficient and the management of debt stock will be cost-effective for the government.

- i. Policy makers should endeavour to understand the nature, problems and needs of SMEs before enunciating policies for the sub-sector. In this regard, policy makers should consult with relevant stakeholders before enacting such policies that affect them.

- ii. Government should give the Small and Medium sized Enterprises (SMEs) tax holidays within the first three years of commencement of business operations and then 20% from the fourth year and beyond.
- iii. Government should through its arms reduce corruption to the minimum point, as this discourages tax payers from paying tax.
- iv. The government should ensure that they provide the citizens with adequate tax awareness needed. This will in the long run bring more tax payers into the tax net and increase the tax revenue generated.
- v. Incentives should be given to tax payers who are compliant. This will go a long way in motivating the tax payers to continually pay without being forced.

References

- Adebisi, J. & Gbegi D. (2013). Effect of multiple taxation on the performance of small and medium scale enterprises, *Mediterranean Journal of Social Sciences*, 4(6), 5-12.
- Akintoye, R.I., Oyebamiji, T.A., Chukwuma, U.J. & Abiahu, M.C (Eds.). (2020). *The Nigerian 2019 Finance Act: The Good and The Flip Sides*. Lagos: Chartered Institute of Taxation of Nigeria.
- Alonso, A.J. & Garcimartin, C. (2010). The determinants of institutional quality. More on the debate. *Journal of Development Studies*, 25(2), 206–226
- Altunbas, Y. & Thornton, J. (2011). Does paying taxes improve the quality of governance? Cross-country evidence. *Poverty & Public Policy*, 3(3), 1–17
- Asongu, S. (2015). On taxation, political accountability and foreign aid: Empirics to a celebrated literature. *South African Journal of Economics*, 83(2), 180-198
- Amadou, B., Matty, K. & Abebe, S. (2016). On the link between tax compliance and good governance in selected African countries, 2-5
- Appah, E. & Wosowei E. (2016). Tax compliance intentions and the behaviour of the individual tax payer: Evidence from Nigeria. *Research Journal of Finance and Accounting*, 7(13), 3-6
- Begum, L. (2007). The Quality of Governance and Tax Effort: Evidence from developed and developing countries. *International Political Economy*, 4-5
- Bhartia, H. (2009). *Public Finance* (14th Edu. ed.). New Delhi: Vikas Publishing House PVT Ltd.
- Bird (2004). Taxation and Development. *Handbook of Public Economics*, 5-6
- Bradley (1994). Good governance and tax compliance in indonesia, *International Journal of Sustainable Development*, 2-3.
- Charles T. (1992). Promoting Good tax-governance in third countries: The Role of the EU, 4-5.

- Cummings, R. G., Martinez-Vazquez, J., McKee, M., & Torgler, B. (2009). Tax morale affects tax compliance: Evidence from surveys and an artefactual field experiment. *Journal of Economic Behavior & Organization*, 70(3), 447-457.
- Dabor, A. O., Ekiomade E. B., and Aggreh M. (2019) Tax Aggressiveness and Corporate Social Responsibility in the Nigerian Manufacturing Sector. *Journal of Taxation and Economic Development*, 18(1), 23-33
- Deborah B. (1991). Promoting Good tax-governance in third countries: The Role of the EU, 4-5
- Etzioni (1986). Good governance and tax compliance in indonesia, *International Journal of Sustainable Development*, 2-3.
- Jeffrey, O. (2015, November). *Promoting good tax-governance in third counties: The Role of European Union*.
- Joshua O. (2012). Principles and Practice of taxation in Nigeria, 15-32
- Kaldor, K. (1963). Taxation and Development: What Have we Learned from Fifty Years of Research? *International Center for Public Policy*, 6-7
- Kirchler (2007): On the link between tax compliance and Good governance in Selected African Countries, 2-3
- MFPEP (2011). Critical Analysis of the Taxation Policy on Small Businesses and Entrepreneurial Enterprises in Uganda. *Journal of Economics and Sustainable Development*, 5(10), 17-19
- Minniti (2008). Critical Analysis of the Taxation Policy on Small Businesses and Entrepreneurial Enterprises in Uganda. *Journal of Economics and Sustainable Development*, 5(10), 17-19
- Mitchell (2009). Taxation and Government Quality: The size, the shape or just Europe 300 Years ago? *Quality of Government Working Paper Series*, 3-4
- Moore M. (2017). How can Governments of low Income Countries Collect More Tax Revenue: ICTD Working Paper 70
- Muhibudeen, L. (2018). Determinants of Tax Compliance Behavior in the Informal Sector of Kano State, Nigeria, PhD Thesis, Department of Accounting, Bayero University, Kano, Nigeria
- Mwobobia, F. M. (2012). The challenges facing small-scale women entrepreneurs: A case of Kenya. *International Journal of Business Administration*, 3(2), 112.
- Ozele, E. C., Atu, F. O., Adeghe, R. I. A., and Oghogho G. (2019). Value Added Tax and Revenue Generation in Nigeria: An Empirical Analysis. *Journal of Taxation and Economic Development*, 18(1), 59-71
- Timmons, J.F. & Garfias, F. (2015). Revealed corruption, taxation, and fiscal accountability: evidence from Brazil. *World Development*, 70, 13-27
- Timothy B.& Torsten P. (2013, January). Taxation and Development, *Journal of Public Economics* (1), 5-8
- Uganda Development Bank (2010). Critical Analysis of the Taxation Policy on Small Businesses and Entrepreneurial Enterprises in Uganda. *Journal of Economics and Sustainable Development*, 5(10), 17-19

- Valbona Z. & Artan N. (2015, March). Taxes and their Effects on Business Environment, *Academic Journal of Interdisciplinary studies*, 4, (1), 1-6.
- Worlu, C. N., & Nkoro, E. (2012). Tax revenue and economic development in Nigeria: A macroeconometric approach. *Academic Journal of Interdisciplinary Studies*, 1(2), 211-223.