

The Effect of Taxation and Unemployment on SMEs Development in Delta State

Clement Uchechukwu Ukwadinamor Ph.D.,FCE

Department of management and Accounting, Lead City University, Ibadan Oyo State.

Abstract

Taxation and unemployment play important role in the development of every economy as well as the growth of Small and Medium Enterprises (SMEs). In a low-income country like Nigeria, the role of SMEs is critical in pushing the socioeconomic development agenda of the country upwards. The study focuses on assessment of the effect of taxation and unemployment on the small and medium enterprises development in Delta State. The study adopted survey research design. Target population comprised 2388 SMEs in the three Senatorial districts in Delta State. Purposive sampling technique was adopted in selecting the SMEs and sample size of 477 was generated through Krejcie and Morgan (1970). Structured questionnaire was adopted, validated and used for data collection. Cronbach's Alpha coefficients for the constructs ranged from 0.867 to 0.936. The response rate was 73%. Data were analyzed using descriptive and inferential (Linear regression) statistics. Findings of the study revealed: Unemployment has no significant effect on SMEs development in Delta State ($F = .227$, $(R) = .026$, $(R^2) = .001$, $p \text{ value} = .634 > .05$); taxation has no significant effect on SMEs development in Delta State ($F = .600$, $(R) = .042$, $(R^2) = .002$, $p \text{ value} = .439$). Although this study found no relationship between taxation, unemployment and SMEs development, the study recommends that taxation and unemployment remain quintessential factors in SMEs development, and governments should formulate policies and programmes that will aid SMEs development within the State.

Key Word: Taxation, Unemployment, Development, SMEs

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I. Introduction

Small and Medium Enterprises are effective employment creators; they are also viewed as the seed of big businesses and the fuel of the national economic engine (Musah, Gakpetor, and Pomaa, 2018; Adeyelure, Kalema, and Bwalya, 2018). These small enterprises have increasingly been recognized as enterprises that contribute considerably to the creation of jobs, economic growth and eradication of poverty in Africa. According to the 2005 World Development Report, the creating of "sustainable" jobs and opportunities for smaller entrepreneurs are the key strategies to take people out of poverty. However, it would be rare indeed to not observe complaints about the complication and/or ambiguity of the tax laws as well as high rate of unemployment in Nigeria. (Baurer, 2005).

Many researchers have argued that the way out of the problem of economic development for many developing countries is to devote a lot of energy to the development of small business enterprises. The modern economists' small business development as a necessary step for rapid growth (Musah et al, 2018). But Nigeria small-scale enterprises continued to decline despite the so-called priority given to this sector. In developing countries in particular, it is now realized that large business has played, and cannot alone, be expected to play the dynamic role that they are supposed to play in the rapid growth and development of the economics (Adeyelure et al, 2018). It is becoming evident that small business, which had seen neglected, could play the aforementioned roles, as well, if not better than the large business establishments. However, many countries are what they are today because they adopted the strategy of developing their small business outfits. For example, the transformation of Japan from a relatively backward trading nation into a modern industrial giant was as a result of the development of highly efficient small business concerns. But in Nigeria, it is a different case in that Nigeria has failed to adopt this strategy owing to the belief that paying attention to small scale business is a relatively show process of industrialization which may not be very compatible with their desire to "catch up" with the industrialization countries. Adopting the "import substitution strategy aimed mainly at producing domestically consumed goods that were imported from elsewhere did this. This research work is of the intent to examine the impact of taxation and unemployment on small business in developing economy. Taxation and unemployment can help small business to get a high profit target bearing in mind that they will pay tax from the profits they make and sme has a way of creating jobs for the people which helps to eradicate poverty (Adeyelure

et al, 2018). One of the issues facing SMEs in Nigeria is that the legislature does not give them utmost consideration when making strategy in which need is given to enormous associations (Adeyelure et al, 2018).

Without a doubt, unemployment in Nigeria has worsened when the instrument for structure and continuing SMEs were disassembled and not energized by SAP. Joblessness is a critical issue facing Nigeria, and because of that it causes violence, wrongdoing. It has been noted that forty-eight percent of Nigeria populace are jobless and more than one million of Nigeria move on from the tertiary institution and take on any job not on the grounds that they like it (UNCTAD, 2005). On the other hand, involuntary unemployment exists when persons cannot obtain work for which they are qualified even if they are willing to accept lower real wages or poor conditions than similar qualified workers who are currently in employment. It is obvious that taxation has some impact on the establishment of small business (Adeyelure et al, 2018). It is alleged that high Income tax rates affect the level of consumption and increase the unit cost. Profit maximization is the major goal of every small-scale enterprise. However, this seems not to be a reality as most of them cannot achieve this goal. Income tax administration plays a pertinent role regarding revenue collection as well as profitability of any business entity. In an effort for the government to increase its tax base, the tax burden for many firms increases.

However, the tax administration system is poor as at times, the tax liability computation is based on estimates, records of many small business firms are incomplete, and some miss out completely leading to tax over charge. In return, this directly affects the growth of the enterprise and may threaten its survival because taxes are paid out of profits. Therefore, failure to have an effective tax administration system adversely affects the profitability of small-scale businesses.

Thus, this study investigated the effect of taxation and unemployment on SMEs development (start-up capital, number of employees and profitability) in Delta State, Nigeria.

II. Literature Review and Theoretical Framework

Taxation is the practice of government collecting money from its citizens to pay for public services (Adeyelure et al, 2018). Without taxation, there would be no public libraries or parks. Employment has always been regarded as one of the important social issues. The fundamental reason that makes it so important is that it does not only affect the economic development of society, but also the stability of the society (Bhatia, 2015). Employment determines how a society is like, how it is going to develop. It also affects how individuals define themselves. Imagine if enormous numbers of people are jobless, the consequences must be drastically catastrophic. Although this might sound like “groundless” fear, it might eventually become reality if we do not address it in time (Weichenrieder, 2017). Generally, most people understand unemployment as simple as “people do not have a job”. However, the concept of unemployment is far more complex than the above mentioned (Mba & Izunwanne, 2014).

Tax according to Njoku (2016) is a compulsory contributions or payments of money or occasionally of goods and services from private individuals, institutions or groups to the governments for the defraying of expenditures incurred by the government in the common interest of all without reference to any special benefit conferred on any of the person or impersonal unit that made the compulsory contributions or payments. Soyode and Kajoka (2014) defined taxation as the process of levying and collection of tax from taxable persons. Nwachukwu (2005) defined taxation as a system of taxing and executing the collection of tax by the authorities. He defined tax as a compulsory payment made by a citizen for which there is no immediate commensurate return. Bhatia (2015) defined tax as a compulsory levy payable by an economic unit to the government without any corresponding entitlement to receive a definite direct quid pro quo from the government.

Unemployment is a term referring to individuals who are employable and seeking a job but are unable to find a job. There are basically four types of unemployment: (1) demand deficient, (2) frictional, (3) structural, and (4) voluntary unemployment. Unemployment is caused by various reasons that come from both the demand side, or employer, and the supply side, or the worker. The only advantage of being unemployed is that they can spend time with their children, family and friends. Without a job, there is more time to participate in family or school events but nobody likes to be unemployed.

According to Omar, Arokiasamy & Ismail, (2009) and Hooi (2006), there is no globally acceptable definition of SME. But Garikai (2011) opined, “SMEs are defined by number of workers employed, capital employed and sales turnover. For fiscal policy, Keynes (1972) pointed out, tax policy can also serve to increase available income, thus fostering expansion of effective demand. Lastly, it can also be used to enable unequally distributed income to be reallocated, by either income or inheritance taxes. For monetary policy, Keynes suggested that its ultimate goal is to impede that “disastrous fluctuations in the volume of employment continue in the future as severely as in the past, and perhaps more severely” (1982, p. 137).

Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than large businesses (Weichenrieder, 2017) because of low efficiency, high collection charges, waste of time for

taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000; Yaobin, (2007).

Mba and Izunwanne (2014) study issues, challenges and prospects of SMEs in Port-Harcourt city, Nigeria. Using descriptive statistics found that poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxations are the major challenges confronting SMEs in Port-Harcourt. Based on their findings, they recommended that provision of soft loans, capacity building and tax incentives to SMEs operators is imperative to ensure sustained growth of SMEs in the city. Similarly, Gbandi and Amissah (2014) study financing options for SMEs in Nigeria. Using descriptive statistics, found that SMEs in Nigeria have underperformed despite the fact that SMEs in Nigeria constitute more than 90 percent of the Nigerian businesses, but its contribution to GDP is below 10 percent. Based on their findings, they recommended that developing countries such as Nigeria requiring sustained economic growth must pay attention to SMEs sector and harness their great potential to employment generation and poverty reduction (Mba & Izunwanne, 2014).

In a related development, Kehinde and Sikiru (2014) studied financial structure mix effect on growth and earnings of SMEs in Nigeria. Using descriptive statistics, found that granting pioneering status for tax purpose would go a long way to create a strong earnings base for the SMEs. Therefore, on the basis of their findings, recommended professionalism should be adopted in financial structure mix and management of the SMEs for increased earnings and growth. In contrast, Abubakar and Yahaya (2013) study strengthening SMEs as a strategy for poverty reduction in North Western Nigerian. Using T- test method of analysis, found that large enterprises contribute more in the area of employment provision than the SMEs. They therefore, on the basis of their findings recommended that government should make a practical approach to poverty alleviation by emphasizing on the strength of the poor and their productive capacity and not on their weaknesses.

As Onyeizugbe, Orogbu and Oyigbo (2015) have observed, attempts to provide solution to societal problems often set processes in motion such that the opportunities for engaging human efforts called job creation are provided. They noted that jobs are created when firms established by entrepreneurs employ people with requisite skills to occupy vacant positions. To Tijani-Alawiye (2014), entrepreneurs successfully run innovative enterprises, nurture them to growth and sustainable level so that more hands can be engaged in the running of the enterprise. Through such processes, he remarked, job opportunities are created. Entrepreneurship development affords the youth the opportunity to be productively engaged so as to divert their attention from negative vices such as crime, militancy and so on. Rasmussen and Stroheim (2015), its major role is wealth creation. Persons engaged in entrepreneurship, either on their own efforts or inside an organization pursue opportunities without regard to resources under their control.

Nwagwu (2014) investigated the relationship between unemployment, poverty and insecurity of lives and properties in the country. Using secondary data obtained from the Central Bank of Nigeria. Findings revealed that unemployment and poverty have direct link to security challenges in Nigeria. Similarly, Eze and Okpala (2015) investigated the quantitative impact of Small and medium scale enterprises (SMEs) on Nigeria's economic growth performance for the sample period 1993 to 2011 using econometric technique of the multiple regression method based on ordinary least squares technique. Findings revealed that the output of SMEs does not make any significant contribution to Nigeria's economic growth performance.

Hudson, Andrew and Ibrahim (2014) provide empirical findings on small and medium scale enterprises and employment generation in Borno State, Nigeria. Using univariate analysis, measure of central tendency, pearson product moment correlation. The findings of the study clearly showed that small scale industries do consistently contribute to employment generation in Borno state, it also found out that there is a significant difference between ratings of the employment quality provided by the SMEs in Borno state, which implies that the quality of employment provided by the SMEs are of low quality and that most of the employees of Small and Medium Enterprises in Borno State are young men with low educational qualifications. It further showed that there is no relationship between Enterprise characteristics and quality of employment generated by SMEs in Borno State. Afolabi (2013) employed Ordinary Least Square (OLS) method to estimate the Growth effect of Small and Medium Enterprises (SMEs) Financing in Nigeria. The estimated model results revealed that SMEs output exert positive influence on economic development while lending rate is found to exert negative effects on economic growth.

Kareem (2015) adopted regression analysis and causality tests to investigate employment level and the economic growth of Nigeria. The results showed that foreign direct investment, inflation, interest rate have positive relationship with Employment level. The result of granger causality also showed that GDP granger cause Inflation at 1% level of significant, FDI Granger cause GDP with a 5% level significant, Interest rate Granger cause GDP at 10% level of significant, FDI Granger cause Interest rate with a 10% level of significant. The result concluded that Gross domestic product (GDP), interest rate were factors that contributed to those Employment level in Nigeria.

Considering a study conducted by Lawal, (2017) which was basically a survey of small and medium scale enterprises in local government in Lagos State and the purpose was to assess the strategic role of participating SMEs in economic development. Data for this study was generated from both primary and secondary sources through the use of self-administered questionnaires and structured interview. Content analysis of records particularly financial record of some participating SMEs were undertaken to obtain the secondary data. For this particular study, a total population of 2,670 was used among which stratified sampling technique was employed to select 1,000 SMEs upon which the research instruments were administered. The result of the analysis-conducted sequel to the study shows that international SMEs contributed more than domestic SMEs in all dimension of strategic importance.

These days apart from the objective of raising the public revenue, taxes level affect consumption, production and distribution with a view to ensuring the social welfare through the economic development of a country, tax can be used as an important tool in the following manner: optimum allocation of available resources, raising government revenue, encouraging savings and investment, acceleration of economic growth, price stability, and control mechanism (Edame and Okoi 2014).

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III. Methodology

The study adopted a descriptive survey design. The population of the study comprised of 2,388 members of staff of twenty Small and Medium Enterprises(SMEs) in Delta State, Nigeria. The sample size of the study is 477 members of staff drawn from the entire population of 2,388 in selected Small and Medium Enterprise in Delta State. Krejcie and Morgan (1970) was used to determine the sample size. Purposive sampling technique was adopted for the study. This has to do with the researcher choosing 20 Small and Medium Enterprises from a total of 2388 small and medium enterprises in Delta State. The justification for this is that the study focused only on identified seasoned SMEs owners in Delta State who were technically and operationally judged SMEs operators. The choice of these 20 Small and Medium Enterprises was based on their evenly distribution and engagement in nine (9) different types of manufacturing activities. Cronbach’s Alpha coefficients for the constructs ranged from 0.867 to 0.936. Linear regression method of analysis was adopted to show the effects of taxation and unemployment on development of SMEs in Delta State, Nigeria.

The model for analysis is;

$$Y = f(X)$$

$$y_1 = \beta_0 + \beta_1 x_1 + \mu \dots\dots\dots \text{equation 1}$$

$$y_2 = \beta_0 + \beta_2 x_2 + \mu \dots\dots\dots \text{equation 2}$$

Where,

Y = SMEs development (y₁=monthly profit; y₂=number of employees; y₃=total capitalization)

X = Taxation, Unemployment (x₁= Taxation; x₂= Unemployment).

β₀, β₁, β₂ and β₃ coefficients of determination

μ = the error terms

IV. Discussion Of Findings

Re-statement of Hypothesis Two

H₀₁ Taxation does not have significant effect on SMEs development in Delta State

Table 1: Effect of Taxation on SMEs development

(a)		Coefficients			T	Sig.
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)					
2	taxation	2.513 .033	.199 .068	.026	12.613 .477	.000 .634
a. Dependent Variable: SME-development						
b. Predictors: (Constant), taxation						

As shown in Table 1, F = .227, (R) = .026, (R²) =.001 but the p value = .634 which is greater than 0.05 level of significance. This implies that since the p value that is .634 is greater than the level of significance, which is 0.05, therefore it is concluded that taxation has no positive significant influence on SME development in Delta state. Going by this, the null hypothesis is hereby accepted. This study negate previous studies which find that taxation has significant effects on SMEs development or performance Ojochogwu and Ojeka (2012)’s study on the relationship between tax policy, growth of SMEs and the Nigerian economy found that although there is general perception that tax is an important source of fund for development of the economy and provision of social services, a significant negative relationship exists between taxes and the business's ability to sustain itself and to expand. This report absolutely supports the finding of this hypothesis, which is in summary that taxation is significantly negative to business expansion, which is synonymous to SME development. According

to Jackson and Jaouen (1989) female taxpayers are more compliant than their male counterparts. Although this study is not gender based, demographically, this study found that there are more female SME operators in Delta state than male. Considering the fact that it was revealed in this hypothesis that taxation is not significantly positively influencing SME development, the study actually found that SMEs in Delta state are tax compliant. So, it can be said that female SME owners in Delta state do pay tax as well as their male counter parts. Therefore, the findings of Jackson and Jaouen (1989) negates the findings of this study.

Re-statement of Hypothesis Two

H₀₂ Unemployment does not have significant effect on SMEs development in Delta State

Table 2: Effect of Unemployment on SMEs Development

(a) Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)					
2	Unemployment	2.666	.077		34.746	.000
		-.021	.027	-.042	-.775	.439
a. Dependent Variable: SME-development						
b. Predictors: (Constant), unemployment						

Table 2, F = .600, (R) = .042, (R²) =.002. p value = .439 which is greater than 0.05 level of significance. This means that since the p value that is .439 is greater than the level of significance which is 0.05, therefore it can be said that unemployment has no positive significant influence on SME development in Delta state. Going by this, the null hypothesis is also accepted. Although, this study found no relationship between unemployment and SMEs development, SME operators in Delta State attested to the fact SMEs have contributed to the reduction of unemployment in the State.

More so, previous studies have found unemployment to be significant to SMEs development. These group of studies include Kauffman (2005), Kauffman (2003), Government of Ghana (2003); World Bank (2006), Parker (1996), Kithae (2012); Mwarari & Ngugi (2013) they found that SMEs contributed 40% of the GDP, over 50% of new jobs and account for 80% of the workforce, they also found that SMEs accounted for 70% of Nigerian industrial jobs and 95% of the manufacturing sector.

In addition, the overall mean score of the level of SME development in Delta State is quite low. With an average mean score of 2.71 on 6-point Likert Scale and standard deviation of 1.1502, it can be adjudged that SMEs contribution to the development of economic growth of Delta State remain infinitesimal. This is in contrary to the findings of Ayyagari, Beck and Demirguc-kunt (2003), Harris & Gibson (2006), Sauser (2005), Kamunge et al., (2014) all reported that the contribution of SMEs correlates strongly with a country’s Gross Domestic Product (GDP). Santrelli & Vivarelli (2007) also reported that without SMEs, many African governments will experience financial and developmental constraints, all which would only worsen living standards of low-income persons often served by the sector. This might not be too surprising to this study because many SME operators in Delta state are of the opinion that curbing unemployment in the state can be achieved not only through investing in SMEs but through other economic measures.

V. Conclusion and Recommendations

The study concluded that taxation and unemployment have no significant contribution on SMEs development in Delta State. This study adds more to the knowledge and understanding on taxation, unemployment and SME development. As it has been shown, in order to promote development of small and medium enterprises in Nigeria, as well as reduce the costs of taxation to the society as a whole, taxation policy changes were undertaken in two directions. First, a fixed tax on a certain layer of the SME sector was imposed. Then, there was an effort to introduce a single tax for a sub-category of small and medium enterprises. The first policy can be considered as lump-sum taxation; the second one can be viewed as means of addressing compliance problems and administrative taxation costs reduction. Both changes were supposed to have a positive effect on SME sector development.

Conclusively, the government of Delta state and Nigeria, need to work on the aspect of financing SMEs. Although this study found no relationship between taxation, unemployment and SMEs development, the study recommends that taxation and unemployment remain quintessential factors in SMEs development, and governments should formulate policies and programmes that will aid SMEs development within the State.

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