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Fiscal Policy and SMEs Sustainability: Post-Covid19 Era in Nigeria

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Abstract
Generally, the use of fiscal policy by governments is to promote a strong and sustainable economic growth of their countries; however, the achievement of this objective seems to be inimical to growth & sustainability of Small Medium Scale Enterprises in Nigeria. Therefore, this paper examines fiscal policy and sustainability of small and medium enterprises (SMEs) in Nigeria during this Covid19 era. The study employed survey design. The result was based on a survey of 316 SMEs selected randomly from a population of 1,500 SMEs spread across Ado Odo Ota Local Government Area. Questionnaires were constructed and distributed to SMEs. The responses to the questionnaire were analyzed with the aid of Statistical package for social sciences (SPSS).The findings. Findings revealed that VAT and government expenditureshave a significant and positive effect on SMEs sustainability. Therefore the study recommends that government should review it tax rate downward for the SMEs in order to grow the economy more through provision of employment opportunity among others. There should be periodic tax review to enhance the sustainability of the SMEs

Keywords: *Fiscal Policy, SMEs Sustainability, COVID19 Era, Government Expenditure*

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I. Introduction

Fiscal policy is seen as a potent instrument which government of any nation can use to shape or direct its economic activities. This instrument which comprises of government expenditure, taxation and government borrowings among others can go a long way to influence a country economic fortune. Government spending and tax levy with the focus of influencing macroeconomic variable such as employment level, national income, general price level have been the major way government stimulate the economy. The impact of this stimulation is obviously seen in one of the major sub-sector of the economy which is the Small and Medium Scale Enterprise (SMEs). SMEs are seen as a chiefcontributor to economic growth of any nation around the world. It serves as a source of employment opportunity to the citizens. According to World Bank (2012)SMEs provide almost 50% of all jobs in Nigeria. Despite being the engine room of any viable financial system, SMEs seems not to receive full attention from governments in term of its operations and sustainability especially in developing countries.SMEs are crucial to economic vitality. SMEs could be regarded literarily as an engine room or lubricant oil in the wheel of economic wellbeing of any society. According to Onugu, (2005), SMEs form the major bedrock of economic growth and development because itgenerate employments, encourages spread of local industries in rural areas, enhance local content, support technological innovations, and ultimately improve standard of living (Oluseye, 2013).

Taxation is a compulsory level imposed on income and profits of individuals and corporate entities. Taxation helps government to provide security, health care, social amenities for general economic well being of the society (Appah&Oyandonghan, 2011). In recent time, tax payment by SMEs in Nigeria appears to be under extreme tax burden due to double taxation and systematic increase in tax rate. This double taxation raisecost of production and reduce the international competitiveness home made products (Sebikeri, 2011). The use third parties by revenue authority as agents and consultants are seen as another challenge to SMEs because they are only interested in tax revenueincrement and not the welfare of the business.

Also, the Finance Act 2020 defines SMEs based on their annual turnover. A small company is regarded as a company with a gross turnover of N25million or less in a year, while medium-sized company as a company with a total gross earning greater than N25million but less than N100million naira and a large company is defined as any company not small or medium-sized company. Aruwa (2013) declared that the industrial sector in Nigeria is dominated by SMEs.They accounts for almost 90% of their total enterprises, as compared with some developed nation with 98% of all their enterprises belonging to SME sector. In Japan for instance, SMEs employ almost 80% of its labor force, while 50% and 46% of Germany and USAlabour force are employed by their SMEs

Statement of Problem

No doubt, SMEs has raised the standard of living of so many people both in the rural and urban areas, however, thehighrate of collapse of SMEs during this pandemic era is disturbing. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Nigeria, 80% of SMEs go to extinction before their 5th year of existence. Some of the factors responsible for these are tax burden and government negligent. In this pandemic era, the challenges became more obvious leading to collapse of many companies.Therefore, there is urgent need to consider holistically some of the effects of tax policies in dealing with small and medium enterprises to strengthen the growth and developments. The challenge of tax agent is overbearing because their main aim is to generate income to government with little or no consideration of the survival and sustainability of the business.

Research Questions

i. To what extent is therelationship between Value Added Tax and sustainability of SMEs in Nigeria?
ii. To what is the relationship between government expenditure and sustainability of SMEs in Nigeria?

Research Hypotheses

i. There is no significant relationship between Value Added Tax and sustainability of SMEs in Nigeria
ii. There is no significant relationship between government expenditure and sustainability of SMEs in Nigeria

II. Review of Related Literature

The Concept of SMEs

SMEs classification of businesses into large scale or small scale in subjective and vary from country to country. Though, some developed countries classify their SMEs based on their annual turnover and the number of employees in the payroll. Like in Britain, SMEs is a business with an annual turnover of 2 million pounds or less and fewer than 200 paid employees. SMEs in Japan are defined by type of industry and capital outlay. In China, SMEs comprises of more than 30 million entities and account for more than 60 percent of China's GDP and contribute more than 50 percent of tax collections. (Ahuru, 2021)

In Nigeria, it appears that no clear-cut distinction between small- scale enterprise and medium-scale enterprise. However, in Finance Act 2000, the Federal Government defined SMEs as enterprise with an annual turnover not exceeds 25,000,000naira. In the recent time, the survival of SMEs around the world including Nigeria is threatened by the covid19 epidemic. According to Bouey (2020), a survey was conducted on some SMEs during this pandemic era, findings showed that 30 percent of those companies income dropped by more than 50 percent and the major area where there are financial pressure are payment of staff salaries, payment of taxes, security among other. This development made enterprise in the manufacturing, tourism, healthcare, restaurants, rentals, transportations among others begging for survive

SMEs contribute significantly to the Gross Domestic Product. It is the hub of any industrial development of a nation. For instance, in Japan, almost 80% of the labour force are SMEs, and contributeover 39% to the GDP. In developing countries, SMEs is taking the center stage of their economy. According toKombo, (2011), SMEs have made important contribution to the growth of Kenyan economy and accounts for over 14 % of its GDP.InNigeria, government is gradually shifting its attention to SMEs because of its pivotal role to national development in the area of employment opportunity, poverty eradication and increase standard of living of the citizens. According to Hassan, (2003) government has initiated legislations and policies to drive this sub-sector. Schemes and programme are being introduced with some financial assistance to entrepreneurs to serve as catalyst to SMEs sustainability in Nigeria.Despite all government effort on SMEs, its performance still not encouraging compare to other developing countries in Africa. The Manufacturing Association of Nigeria posited that only 10% of SMEs are viable and operational in Nigeria (Mba&Emeti, 2014).Taxation takes a center stage in the survival and sustainability of SMEs. The challenge of high tax rates and multiple taxation appears to increase the cost of production. Government longtime negligent in incentivizing SMEs and ineffective tax policies implementation have being the clog in the wheel of progress of this subsector of the economy

Concept of Fiscal Policy

Taxation is a major avenue that government of any nation around the world uses to raise fund to finance its spending which is done through compulsory levy on the income and profit of individuals, companies and other corporate entities. Tax payment is not voluntary payment. These act is back up by tax laws and not specifically trace to a particular service rendered. In the same vein, taxes are the major revenue for government to prosecute its numerous obligations in the fiscal year budget. Such as water supply, healthcare, good roads, electricity. Atawodi&Ojeka (2013) explained that taxation as the capacity to influence development and welfare of the society because it can create sufficient funds for financing public services, create more employment and can reallocate income. SMEs income and need for survival must be put into consideration in process of tax policy formulation. The objective of this paper is to investigate the relationship between fiscal policy and SMEs sustainability in Nigeria.

Value Added Tax and SMEs SustainabilityIn Nigeria

A value added tax (VAT), also known as turnover tax or Goods and Services Tax in some countries, is a tax on consumption of vatable goods and services. According to Inim, Udoh& Ede (2020) VAT was introduced to the economy to boost government revenue and minimize the oil revenue dependence.The company will complete a VAT return invoice and submit to the relevant tax authority. An input VAT is charges on all purchases of goods and service while output VAT is charge on all sales and supplies of vatable goods and services. The output vat and input vat different is payable to the relevant tax authority. VAT Act was amended by the Finance Act, 2020 in Nigeria to increase the revenue generation of government in order to finance its budget deficits. There appear to be more efficiency and effectiveness in the new tax policy. The VAT coverage is now incorporate taxation in the digital economy. Finance Act 2020recently raised the rate of VAT from 5% to 7.5% to help government generate additional revenues to fund the budget.

Furthermore, the analysis in the Finance Act 2020 was further explained byAdereti,Sanni, and Adesina (2011) which opined that the Act addresses the taxation of industries like insurance, capital marketsamong others because they are critical toNigerian economy wellbeing and to stimulate the economic activities in those sectors. The new tax rate in the Act appears to be positive to the growth of SMEs because of the exemption of corporate tax for SMEs with a turnover is 25million naira and minimum tax of 0.5% as against 30% tax rate on turnover in any tax year. This provision is bound to incentivize the SMEs. It is believed that the Finance Act which amends the company Income tax rate from a fixed rate of 30% on the total assessable profit to a more flexible rates for small scale, medium scale and large companies with gross turnover of N100 million and above, is a new tax policy in the right direction and would enhance the growth and sustainability of the SMEs in Nigeria.

Government Expenditure and SMEs Sustainability In Nigeria

According to Ibekwe&Ibekwe (2021) government spending refers to expenses on maintenance and provision of public goods, services, promote economic growth and ultimately enchance standard of living of the people. The expenditures of government are classified intocapital and recurrent expenditures. Therefore, public expenditure policy has become critical to government direction of the economy (Friday, Fiddles, Udeme&Ayodele 2016).

Economic growth and development can only be enhanced by the expansion of infrastructural facilities like the education and health service, roads, security among others (Balam,. &Tonye, 2021). There is need for government to vote huge fund for credit facility in the SMEs subsector of the economy for rapid growth and development of the economy in all facets especially agriculture. The availability and accessibility to credit facilities is crucial to the effectiveness of SMEs in Nigeria. For SMEs to generate income from productive activities, it requires enough credit facilities, this will help to stimulate the heavily under-capitalized local enterprises. Credit availability awakes the aspirations of potential entrepreneurs. The entrepreneurs must be aware of these programmes and incentives from government so that they can make use of the opportunities in order to ameliorate their burden. According to the survey conducted by Inim, Udoh& Ede (2020) on SMEs awareness of government programmes aim at enhancing SMEs operations and activity, 75% of the respondents were unaware of Work-For-Yourself scheme; 70% were unaware of the National Economic Reconstruction Fund Programme; 81% were unaware of the SMEs Loan Scheme; and 79% were unaware of the SMEs Credit Scheme.

Ojeka (2011) averred that SMEs aggregate effects surpass those of large corporations, because they contribute about 36.1% of Nigeria's GDP and employ almost 50% of the labour force in Nigeria. From the foregoing, SMEs is a stimulant to the economic growth and development, therefore, tax incentives should be given to SMEs. However, the opposite seems to be the case because SMEs are not given special considerations in tax policy formulations.Batesman (2007), conducted a research survey on SMEs, findings revealed that 90% of SMEsbelieve that tax is a huge barrier to growth and survival of small and new businesses. And they find it difficult to recoup their capital outlay easily.

A tax policy that produces multiple tax burden will compel SMEs to transit into the informal structure in order to evade tax on them, because, when taxes and its compliance cost becomes a very high, it becomes unsustainable by the SMEs. According to Aturu(2021) taxation is an expense and when it is becomes too high, it reduces the profitability of SMEs. Ojeka (2011) opined that lower tax rate with favourable tax incentives will beef up firm's cash flow and ultimately stimulate investment.

Optimal Tax Theory

Simkovic (2012) postulated that the theory considers how taxes can be structured to give the least deadweight costs, or the best outcomes in terms of social wellbeing. This is because deadweight costs are related to the elasticity of supply and demand for a good and services. It follows that putting the highest tax rates on the goods for which there is most inelastic supply and demand will result in the least overall deadweight costs.

III. Methodology

This study adoptedboth survey design approachwhich focused on the collection and data analysis from the study population in order to look into the interrelationship of the independent and dependent variables, so as to express opinions on the variables. The population for the study consists of the SMEs businesses in Ogun State registered with SMEDAN. The result is based on a survey of 316 SMEs randomly selected from a cross section of a population of 1,500 SMEs spread across Ado Odo Ota Local Government Area.. The responses to the questionnaire were analyzed with the aid of Statistical package for social sciences (SPSS). Taro Yamane statistical formula was used to determine the sample size The study adopted simple random sampling techniques. The result on reliability of data was done at 0.80% usingCronbach's Alpha

Regression Analysis

Y=f(x)

The model is stated thus: SMES = f(VAT and GVE)

Where,

SMES = Small and Medium Enterprises Sustainability

VAT= Value Added Tax

GVE= Government Expenditure

The model is put in econometric equation as

$SMES = \beta_0 + \beta_1 VAT + \beta_2 GVE + \mu$

Where: β0 and μ are the constant and error term respectively while β1, β2 ,are the coefficient of Value Added Tax and Government Expenditures.

Variable	Regression Model			
	Coefficient	Std Error	t-Start	Prob.
C	2.836306	1.342700	5.710419	0.00274
VAT	1.432091	0.010053	1.530420	0.0003
GVE	1.235567	2.032158	6.905754	0.0170
R^2	0.7894167			
Adj. R^2	0.8255726			
S.E of Regression	1.9864354			
F-Statistics	12.0651184			
Prob (F-Stat)	0.00274			
Durbin-Watson	1.94304			

IV. Discussion of Findings

From the above regression coefficients, we can express the model as follows:

SMES = 2.836306, VAT= 1.432091, GVE= 1.235567, + u

Findings from the above table revealed that the independent variable SMES has a positive and significant effect on the dependent variable Fiscal Policy (FP). The constant parameter is positive at 2.836306. That is, independent variables which are the Fiscal Policy are held constant, as a dependent variable of SMES will grow by 2.836306. Value Added Tax: The coefficient of (VAT) is positive at 1.432091 with t-Statistic of 5.710419 and probability value of 0.00274which means VAT has positive and significant effect on SMES, therefore, a unit increase in VAT will cause SMES to increase by 1.432091units.Government Expenditure(GVE): The coefficient of Government Expenditure is positive at 1.235567 with t-Statistic of 6.905754 and probability value of 0.0003 which means that, government expenditure has positive and insignificant effect on SMES. A unit increase in capital expenditure will result to a unit increase in SMES by 1.235567

This is seen from the probability of t-statistics of 0.0003 which is less than the acceptable 5% level of significant. R^2which is the coefficient of determination showed 78% value which is the magnitude of variations on SMES variable by the explanatory variable Fiscal Policy. Therefore, the result reveals that VAT & GVE as a significant effect on SMES.The Durbin-Watson (DW) statistics value of 1.94304 which is significant and indicates the absence of auto-correlation.

V. Conclusion

Tax policy could positively or negatively affect the growth of SMEs, therefore, this study suggest thatVAT rate should be review downward for the benefit of the SMEs and government should deploy more fund to the credit facility schemes established for the growth of this subsector of the economy.Financingand incentivizing of SMEs will go a long way to boost the growth and development of SMEs. Personal savings and loans from banks with high interest rate cannot enhance the growth and development of SMEs. Tax policies of government should always favour the growth of SMEs. Multiple taxation is a yoke on the entrepreneurs,therefore, government should find a way to mitigate this burden so that SMEs can enhance the economic stability. No doubt, small medium scale enterprises can be said to make a valuable contribution to the economy. However, there is still gap and insufficient access to credit facilities from financial institutions with almost zero interest rate. Rather than rely more on personal savings, family and friends supports for capital. There is need for government to always embark on aggressive awareness through all medium available, on the programmes, schemes and credit facilities designed to boost SMEs in Nigeria so that they can be abreast of government efforts on their survival.Policy makers on tax administration in Nigeria should address the issue of over-bearing tax burden bedeviling the SMEs and dwindling their profits, so that SMEs can contribute meaningfully to the economic development

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