

Corporate Taxes and Financial Performance Of Small and Medium Enterprises in Nigeria

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Abstract

The study examined the effect of Corporate Taxes and Financial performances of Small and Medium Enterprises in Nigeria. The objective is to investigate the extent to which various Corporate Income taxes and Education taxes have affected the financial performances of Small and Medium Enterprises in Nigeria. The study adopted the Longitudinal research design using Secondary data with ordinary least square regression technique of analysis and time series data. The sample population of all SMEs in Nigeria of about 41.5million based on judgmental Sampling to obtain numerical values of model coefficient with the use of E-views version 9. The findings revealed that the company's income tax has a positive and insignificant effect on the financial performance of small and medium enterprises in Nigeria while education tax has a negative and significant relationship with the financial performance of small and medium enterprises in Nigeria. The study concludes that the financial performance of small and medium enterprises in Nigeria is driven by Companies' income tax, Education Tax, and Personal Income Tax. It, therefore, recommended that business entities should have knowledge on how to calculate the amount of tax payable based on the available information role of taxation in economic development should be used for social sustainability to achieve per capita income for an improved standard of living by citizens.

Keywords: Corporate tax, Education tax, Financial performance, Small and medium enterprises

JEL Classification: H20, H21, H23, H24, H25

1. Introduction

This veritable platform was created by the Nigerian stock exchange for emerging businesses to access the capital market which is referred to as the Alternative Securities Market (ASEM) which is a special board to accommodate small and mid-sized enterprises with high growth potential. It seeks to address major challenges of emerging businesses in Nigeria such as; Difficulty in accessing long-term capital due to the high cost of the fund as a result of perceived high risk, Informal nature of operations, Inadequate accounting standards, controls and

management of resources despite this opportunity, not more than 11 SMEs are participating in this capital market. The report in 2015 indicated that about 90% of companies in Nigeria were made up of SMEs⁵. On the realization that one of the ways of strengthening the economic environment is via the creation of entrepreneurial cells across the country, coupled with the fact that a strong and vibrant economy is driven by a large pool of entrepreneurs and SMEs Governments constantly vary their economic policies in a manner that should stimulate the economy, create jobs, improve the citizens quality of life and at the same time generate revenues for the government to defray her expenditure without necessarily distorting operations at the real sectors of the economy. Tax policies of the government are a part of the fiscal policy framework. It is concerned with the manipulation of government expenditure and taxes to influence macroeconomic variables such as Gross Domestic Product, employment, and price level towards the desired goal. It deals with the aggregate effect of government expenditure and taxation on income, production, employment, and other economic activities. It can be expansionary when there is an increase in government expenditure or a decrease in taxation while a contractionary fiscal policy entails a reduction in government expenditure or an increase in taxation. A well-structured fiscal policy framework should not lead to high real interests and uncompetitive exchange rates which negatively affect the real sector and easily results in lower outputs, tax revenue, and unemployment.

This study examined the relationship between corporate taxes and the financial performance of small and medium enterprises in Nigeria. However, the specific objectives were set to:

1. Examine the effects of company income tax on the financial performance of small and medium enterprises in Nigeria
2. Ascertain the effects of education tax on the financial performance of small and medium enterprises in Nigeria

2. Literature Review

2.1. Financial Performance

Financial performance is a major determinant of the financing decisions for SMEs, especially the ones with high-profit margins which induced higher use of short-term debt⁶. It is further determined that financial performance correlates negatively with overall leverage, indicating that the pecking order hierarchy is followed by SMEs (Babatunde, Ibukun & Oyeyemi, 2017). This demonstrated that a strong and robust negative relationship existed between financial performance and leverage (Takumah & lyke, 2017). A solid financial performance does however not imply that firms disregard external debt altogether. Firms that readily obtain institutional finance are generally the ones with the best financial performance, the most solvent, and the largest. These features provide them with credit quality, facilitating access to financing in more beneficial conditions compared to firms with economic and financial problems. In conjunction with this, the worse the financial performance of a firm the more likely it is to resort to supplier finance since higher chances of bankruptcy or non-payment result in institutional finance constraints (Kujore, Dada & Adegbeie, 2021). It furthermore points out the relationship between financial performance and external finances (Olunga & Solomon, 2019). The dependence on trade credit is negatively related to the strength of the firm's relationship with its bank, which is highly correlated with its financial status. Even though there seems to be a negative relationship

between financial performance and overall leverage, some evidence points out that firms with solid financial performance turn towards institutional debt. One can therefore expect that firms with mediocre financial performance rely more on bank, and turn towards, alternative financing. This is of interest for this degree project as it aims to investigate if financial performance affects the usage of trade credit for SMEs. Thus, controlling for financial performance will make the authors aware of why capital structure among SMEs differs.

Finance and accounting literature evaluate SMEs performance by applying financial ratios such as profitability ratios, liquidity ratios, market ratios, and debt ratios, yet these are just the last performance indicators, as they are in fact, influenced by how firms perform in terms of their efficiency and productivity, and how inputs and product prices change (Nwidobie & Oyedokun, 2018). However, SMEs' performance may be measured using objective, subjective and operational measures (Liargovas & Skandalis, 2010). Financial statement measures (derived from the accounts of a company) are referred to as objective measures because they can be individually measured and verified. Traditional statements of financial performance, statements of assets and liabilities, and management accounts are not enough to effectively measure the performance of businesses, which are seeking to survive and add shareholder/owner value. Measuring performance in SMEs requires identifying what the business does in terms of levels of processing and attaching key performance indicators to those processes,

Credit obtained from banks improves business performance in terms of increased business profit, increased employees, increased sales turnover, increased diversification, increased business capital and assets as well as reduction of poverty among customers (Okwara & Amori, 2017). In addition, financial measures include profit before tax (Stobirski, 2020). The non-financial measures of the performance of SMEs include employee growth, customer satisfaction, the performance of competitors, and overall satisfaction (Liargovas & Skandalis, 2010). Based on the source of financing, the performance of SMEs can be measured in terms of solvability ratio, and coverage of interest (Igga, 2018). Availability of finance determines the capacity of an enterprise in terms of choice of technology, access to markets, and access to essential resources, which in turn greatly influences the viability and success of a business (Kurfi, 2003). A new business start-up with high growth potential may use grant funding to develop a product before moving on to funding from business angels, venture capitalists, or banks once the product is developed. Higher finance development increases new firm entry in sectors, which are heavily dependent upon external finance. Better access to finance leads to higher productivity within an economy. SMEs that do not have access to external funds due to stringent terms that the financiers tend to tie to their credit and investment have impaired capacity building (Okwara & Amori, 2017). However, short-term loans are not conducive to greater productivity while long-term loans may lead to improvements in productivity (Akinsulire, 2014). Profitability is the greatest indicator of the performance of SMEs who struggle for survival, on top of proving their creditworthiness and solvability to their financiers. In this study, income and expenses are used to measure profitability.

Profitability is the excess of revenue over expenses, which is seen by the ratios like gross profit margin and pre-tax margin (Jouini, Lustig, Moumami & Shimeles, 2018). Though profitability ratios are essential in measuring performance, their measurements are rather in most SMEs. This is because most SMEs in developing countries lack proper documentation (Shane & Hushy,

2000). SMEs which survive on the loaned capital struggle to cover their debt costs. The more firms cover debt costs using operating capital, the more they experience decreasing levels of profitability (Igga, 2018). The same study observed that high debt costs reduce the profits earned by shareholders. Profitability measures help in assessing the success of a business undertaking. An undertaking that is not generating profits/revenue cannot survive (Emeni, Ajide, Ogunnoiki & Akande, 2019). A profitable undertaking can pay back the owners in form of a return on investment. The solvability ratio measures the credit worthiness of the firm and determines the constraints on cash management and hence decreases profits (Okwara & Amori, 2017). Solvency gauges the company's ability to pay all financial obligations if all assets are sold or continue viable operations after financial adversity.

Return on Investment (ROI): This is the ratio between net profit and investment. It is the profit made as a result of an investment. This indicator is used to measure the efficiency of an investment. An ROI that is high shows that the investment gains compare favorably to its cost.

Return on Asset (ROA): This is the ratio of Net income/Profit on total Assets of an organization. It is an indicator that shows how profitable a company is of its total Assets.

Small and Medium Enterprises (SMEs)

Small and Medium Scale Enterprises is defined as an enterprise that has an asset base (excluding land) of between N5Million - N500Million and a labor force of between 11 and 300 (Sanusi, 2003). The definition for emerging businesses in SMEs is defined as an enterprise with an asset base excluding land and building of N10million to less than 100million with 10-49 employees for "SMALL" and N100million to less than N1 billion with 50-199 employees for "MEDIUM" (Mahohoma & Agbenyegah, 2020). SMEs was also defined as a business with a turnover of less than N100 million and/or less than 300 employees (Lawai & Ajayi-Owoeye, 2020). SMEs are dynamic and relative (Dzomoda, 2022).

Another definition of SMEs that is worth adopting is that of the National Council on Industry which in 1992 streamlined the various definitions of SMEs and agreed to change them every 4 years. It defines SMEs as enterprises with fixed assets above N1m but not exceeding N10m, excluding working capital; while medium scale, as enterprises with a fixed asset that is more than N10m and less than N40m including working capital but excluding the cost of land in 1992, in 1996, it defined small scale business as enterprises with more than N1m but less than N10m excluding the cost of land and including working capital and a labor size of between 11 and 35 workers, while medium scale enterprises should have over N40m and less than N150m as fixed asset including working capital and excluding the cost of land and labor size should be 36 and 100 workings. New Industrial Policy for Nigeria defined SMEs as enterprises with a total investment of between N 100,000 and N2m excluding the cost of capital but including working capital (OECD, 2017).

The country is blessed with fertile farmlands, vast mineral deposits, and a wealth of human resources, making it a very favorable place for small and medium Enterprises. These resources have placed Nigeria in a prominent position in Africa. Therefore, there is a need to devise methods to encourage the growth and development of these enterprises to ensure that they reach their full potential. Also, SMEs are seen to be the bedrock of indigenous enterprises and generate many small investments, which would not have taken place in the first instance (Adeusi, Alawiye

& Ibitoye, 2014). Nigeria needs to encourage the development of its private sector by creating a friendly environment for the growth of Small and medium enterprises, strengthening the factors that lead to business success, and addressing the problems threatening the existence and advancement of small and medium enterprises (Egwuonwu & Osuchukwu, 2021), with the dismantling of trade and other barriers.

Many developing countries SME's are struggling to survive under intense competitive environments, in Nigeria, there is an urgent need to provide the required enabling environments for the development of SMEs to help them adequately play the role expected of them in economic transformation, such as mobilization of savings for investment, increase in harnessing of Local raw materials, employment generation, Alleviating poverty level, appreciable contribution to gross domestic products, export diversification (Adeosun & Shittu, 2022). The concept of SMEs is relative and dynamic as their characteristics are uncertainty, innovation, and evolution (Ufua, Olujobi, Ogbari, Dada & Edafe, 2020). A firm understanding of SMEs would require a good knowledge of their features. SMEs are usually small in size and lack a large organizational structure and management culture, while they are more structural in the urban area, the rural ones are unstructured. In most cases the sole ownership or family business at times a partnership enterprise, which is sometimes registered as a Limited liability Company (Okechukwu & Emeti, 2014). The ownership style has led the small and main enterprises to have a simple management structure and make it easier to manage than most large firms, with few numbers of staff and in some cases low level of education of some of the owner's evolution (Ufua, Olujobi, Ogbari, Dada & Edafe, 2020).

Corporate Taxes

Corporate taxes are taxes regulated by the company's income tax act (CITA). Corporate taxes are taxes directly paid by companies periodically to the government of a particular country or nation where it operates. The government imposes corporate taxes on the net profit of the corporations (Olaoye & Alade, 2019}. Company Income Tax Act (CITA) is the principal law that regulates the taxation of companies in Nigeria. The tax System in Nigeria is a multi-level tax system, which means that taxation is administered by the three tiers of government. The Federal Inland Revenue Service (FIRS) administers income tax for companies. It is a tax on the profits of registered companies in Nigeria. It also includes the tax on the profits of foreign companies carrying on any business in Nigeria. The CIT is paid by limited liability companies inclusive of the public limited liability companies. Resident companies are liable to corporate income tax (CIT) on their worldwide income while non-residents are subject to CIT on their Nigeria-source income. Corporate income tax is based on accounting profits adjusted for tax purposes. Apart from CIT, other taxes may apply to companies in Nigeria. Such taxes include the Withholding Tax, which is payable in advance on executed contracts by the companies but subjects to deduction from taxable profits. Also, the Value Added Tax, which is payable on certain goods and services. Education Tax and Industrial Training Funds are also to be paid by companies operating in Nigeria (Oyedokun, 2022). With the effect of the Finance Act 2019, small companies that are with less than N25 Million turnover are now completely exempted from the payment of company income tax.

Corporate taxes are one of the major sources of revenue available to finance government expenditures and it's also an important factor that determines capital investment in every nation

of the world (Ileana, Aurelia, Minzu, Popa, & Niculescu, 2016). Companies Income Tax (CIT) is a tax imposed on the profits of registered companies in Nigeria and those of foreign companies carrying on any business in Nigeria. Companies Income Tax Act, 2007 (as amended) is a principal law that regulates the taxation of companies in Nigeria and also empowers the Federal Inland Revenue Service Board (FIRSB) with the ability to assess and collect taxes from all limited liability companies that carry out their operation from or within Nigeria except those specifically exempted from tax by the ACT. The tax system is structured in a way that allows domestic corporations to be taxed on their assessable profit which is generated from all its activities carried out globally while foreign corporations are subjected to tax only on income from domestic activities within the jurisdiction (Adejare, 2015). After all allowable expenses have been deducted as specified by the Act; companies are required by the Act to pay 30% of their assessable profit to the government as tax. However, the CIT rate for small companies is 0% for companies with gross turnover of N25 million or less and that of medium companies with gross turnover greater than N25 million and less than N100 million to be 20% (PricewaterhouseCoopers, 2021). Organizations are also subjected to various taxes such as property tax, withholding tax, customs duties, payroll tax, excise tax, value added tax, and other taxes which, however, are rarely referred to as “corporate tax.” (Adejare, 2015). The Federal Inland Revenue Service (FIRS) is the body charged primarily with the responsibility to administer a tax on behalf of the government (Omodero & Amah, 2018). The concept of corporate tax has different dimensions from a conceptual standpoint (Graham, 2003). The first dimension considers corporate taxpayers, which is about the evaluation of how this tax affects the income of firms whilst carrying out production activities; while the second dimension considers corporate tax based totally on its influence on the way firms are financed. The first and second dimensions of corporate tax go hand in hand in influencing the company’s preference for a financing decision that is centered on the company’s sustainable performance (Ilemona, Nwite, & Oyedokun, 2019; Nwaorgu, Oyekezie & Abiahu, 2020).

2.2. Theoretical Review

The theoretical background for this study is the Ability to Pay Theory. The Ability to pay approach states that taxes are based on the taxpayer's ability to pay; there is no quid pro quo (Adams, 1977). Taxes are seen as a sacrifice by taxpayers who determines what sacrifice each taxpayer should be and how it should be measured. The total loss of utility as a result of taxation should be equal for all taxpayers equal proportional sacrifice. It’s also defined, that taxes should be imposed according to a person’s ability to pay based on his or her earnings it is widely known that public expenditure should be expected from those that have and not from those who have not. This principle originated in the sixteenth century and was also systematically stressed by (Ohiokha & Ohiokha, 2018). It is believed that the ability to pay theory underpins the foundation of a progressive tax regime- as the tax rate increases, so also increase the taxable amount and vice versa. The instantaneous loss of utility as measured by the derivative of the utility function which is a result of taxation should be consistent and if not so then the need for adjustment for tax equal utility is needed (Eiya & America, 2018).

2.3. Review of Empirical Studies

Akadakpo and Akogo (2022) examined the impact of company income tax on corporate performance. The study used data from twelve (12) listed firms on the Nigerian Stock Exchange,

of which data for the study was collected from the annual reports of the companies, and regression analysis was used as a technique for data analysis using SPSS 2020. The data span ten (10) years from the period of 2011- 2020. Findings from the study revealed that Company income tax (CIT) has a positive and significant effect on profit after tax (PAT) and returns on equity (ROE). Change in shareholders' funds (CSHF) has a negative yet significant effect on ROE, while CIT has a significant and positive effect on shareholders' earnings. Following the results from the research analysis, the study recommended that the fiscal policy adopted in Nigeria should consider the circumstances surrounding the activities of companies located in the Country and the special role they play in the pursuit of the economic growth of the nation. Tax incentives and positive tax reforms that could reduce the burden and liability of tax on companies in Nigeria should be incorporated into the fiscal policy to encourage their business activities and going concerns.

Lormbagah, Abiahu, and Ibiam (2021) examined the effect of the corporate tax mix on the financial performance of listed manufacturing firms in Nigeria. Data were collected from 10 listed manufacturing firms across sectors listed on the Nigerian Stock Exchange from 2014 to 2018 based on firms with complete information for the years under review. The study adopts an ex post facto research design and the use of both the Pearson correlation and multiple linear regression in analyzing the data. Findings revealed that tax mix has a positive insignificant effect on the net income of listed manufacturing firms in Nigeria while the deferred tax has a negative insignificant effect on the net income of listed firms in Nigeria. Further, findings revealed that company income tax has a positive and significant effect on the net income of listed manufacturing firms in Nigeria. The study implication is that the tax incentives available for manufacturing firms are not enough to boost manufacturing activities for business growth, and this compels the firms to defer their tax payment which ends up becoming deferred tax liabilities. It is recommended that government should provide more tax incentives that will reduce corporate income tax payments, and encourage tax deferment to boost manufacturing activities to boost the net income of the listed manufacturing firms to increase manufacturing activities. Also, manufacturing firms should explore the various tax incentives available to determine an effective corporate tax mix.

Nwaorgu, Oyekezie, and Abiahu (2020) examined the effect of corporate tax on the sustainable financial performance of listed firms in Nigeria, specifically the listed manufacturing firms. The study employed an ex post facto research design using data from 10 listed manufacturing firms. The data span across 5 years ranging from 2013- 2017 and were analyzed using simple linear regression. Findings from the study revealed that corporate tax payment has no significant effect on the return on equity of firms. Further findings revealed a positive and significant effect of corporate tax payment on the debt-to-equity ratio of the listed firms. Hence, based on the results obtained from this study it is recommended that Investors in the manufacturing sector should use their tax pay-out policy as a tool for financing decisions as it greatly affects the firm's debt-to-equity ratio (Capital combination) decision-making. Also, they should encourage the prompt payment of tax as it has no significant effect on their returns but in turn, increases the market value of the firms.

Olaoye and Alade (2019) studied the effect of corporate taxation on the profitability of some selected firms in Nigeria from 2007 to 2016 using secondary data which was sourced from

various publications of the firm's financial reports. The study employed pooled ordinary least squares as the estimation technique. The analytical results revealed that the coefficient of corporate tax on profit after tax was positive with a value of 2.418830 and its P-values were 0.0000, the coefficient of value-added tax was 14.51298 and its p-value was 0.0000. Equally, the coefficient of withholding tax was positive with a value of 7.256489 and a p-value of 0.0000. Furthermore, the education tax result depicts that the coefficient is 36.28245 and its p-value is 0.0000. However, the study concluded that corporate tax rate and education tax as the major taxes paid by companies have positive and significant effects to influence profit after tax. It is also clinched that value-added tax rate and withholding tax being used as other variables that could have effects on profit after tax equally revealed positive and significant effects on profit after tax. Therefore, the study recommended that the government and relevant tax authorities should improve the administration of corporate taxes to avoid non-compliance.

Lazar and Istrate (2018) investigated the impact of the overall firm-specific tax mix on firm performance for Romanian listed companies during the 2000- 2011 period. By overall tax mix, we mean all public finance-related liabilities borne by a company, thus including not only profit taxes, but also non-profit taxes (i.e., real-estate taxes) and labor-related taxes (social security charges borne by companies). Developed around the corresponding tax wedge, the variable of interest is a firm-specific effective tax rate that aggregates all public finance liabilities, based on a unique set of hand-collected data from publicly available corporate reports. Using a fixed-effect model, the results show that a one percentage point increase in overall firm-specific tax rate triggers 0.15 percentage points decrease in return on assets. Moreover, tangibles, leverage, and size hurt Romanian listed companies' performance, while liquidity, growth, and lagged profitability have a positive effect.

Otwani, Namusonge, and Makokha (2017) assessed the effect of corporate income tax on the financial performance of the companies listed on the Nairobi Securities Exchange in Kenya. The objective of this study was to establish the effect of corporate income tax on the financial performance of the companies listed on the Nairobi Securities Exchange in Kenya. The research design used in this study was mixed research both qualitative and quantitative design. Secondary data was extracted from the NSE database, Capital Markets Authority (CMA) database, journals, and other publications. A sample of fifty-nine out of a target population of sixty-nine companies publicly listed as of January 2015 was extracted from the NSE website. This study is expected to provide empirical evidence on the profitability (financial performance) of the companies listed Nairobi security exchange in Kenya. The key findings were that there is a positive relationship between corporate income tax and financial performance of listed companies on the NSE in Kenya. The study will assist policymakers with useful input for formulating Government policies to avert poor performance and consequently bankruptcy of listed companies.

Pitulice, Stefanescu, Popa, and Niculescu (2016) researched corporate tax impact on financial performance in the case of companies listed on the Bucharest Stock Exchange. Financial performance is the objective of any economic entity, regardless of the domain, it activates in. From the decision-making process perspective, the corporate tax is included in the equation of financial performance, considering that it has multiple informational facets at the company's level. Considering the computation formula for the due tax as a premise, one can say that along with the economic development of the company, there is a positive correlation degree between it

and the fiscal liability, determined by the multiplication of the number of transactions generating tax. Therefore, the corporate tax becomes relevant information for decision-making in terms of organization form, reinvestment, and others. In this context, our research plans to identify a relationship between corporate tax and the financial performance of an entity. In this respect, two econometric models were built showing that the effective tax rate passes the tests of significance and negatively influences the performance indicators.

3. Research Method

The study adopted longitudinal research design. This design helps to investigate the relationship as well as the source and effect of Corporate tax on the financial performance of small and medium enterprises in Nigeria. Times series data will be used for the study during the period from 1985 to 2020. The study made use of the judgmental sampling technique, from Data and a statistical report obtained from the Central Bank of Nigeria (CBN), Federal office of Statistics, Small and Medium Enterprises Development of Nigeria (SMEDAN), and Federal Inland Revenue Service (FIRS). The population for this study consists of Small and Medium Enterprises in Nigeria with a representative sample size of 41.5million. This study made use of secondary data which was obtained from the statistical bulletin of the Central Bank of Nigeria and reports of the Federal Inland Revenue Service (FIRS) for the period between 1985 and 2020. This study used regression analysis in measuring the collected data via statistical software ‘E-view version 9’ to examine the relationship between the identified variables. Ordinary least square (OLS) regression technique of analysis using time series data was adopted to analyze data.

3.1. Model Specification

The necessary models adopted for our regression analysis are implicitly stated as follows:

$$ROA_{it} = P_0 + p_1 CIT_{it} + p_2 EDT_{it}$$

Where:

ROA_{it} = Financial Performance (Return on Assets) of firm i at time t p_0 = Constant term (intercept);

$p_1 - p_2$ = Coefficients for the independent variables (CIT and EDT)

CIT = Company Income tax, EDT = Education tax

4. Results and Discussion

4.1. Data Analysis and Results

Table 1: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std Dev.
ROA	38095.73	24283740	7460445	9349837
CIT	2.400000	798.7200	172.8440	253.5223
EDT	0.000000	223.5200	34.99844	61.01760

Source: Result, 2022

The descriptive statistics indicate that the financial performance of small and medium enterprises proxies with return on Asset (ROA) has a minimum and maximum values of 38095.73 and 24283740 respectively with a mean value of 7460445 and standard deviation of 9349837. This indicates that the financial performance of the selected small and medium enterprises deviates from both sides of the mean. The descriptive statistics reveal that companies' income tax (CIT) has a mean value is 172.8440, a maximum value is 798.7200, a minimum value of 2.400000, and a standard deviation of 253.5223. The standard deviation of 253.5223 is less than the mean value of 172.8440, it shows that the data are not widely dispersed from the mean. The result also indicates that minimum and maximum values of education tax (EDT) are 0 and 223.5200 respectively with a mean value of 34.99844 and a standard deviation of 61.01760. This indicates that the education tax for small and medium enterprises deviates from both sides of the mean.

Correlation Matrix

Table 2: Correlation Matrix

	ROA	CIT	EDT
ROA	1.000000		
CIT	0.959947	1.000000	
EDT	0.900883	0.976242	1.000000

Source: Result, 2022

From Table 2, the correlation result indicates that education tax (EDT) has a positive relationship with the financial performance of small and medium enterprises (ROA) from a correlation coefficient of 0.900883. Similarly, there is a positive relationship between capital allowance incentive (CAI) and the financial performance of small and medium enterprises (ROA) with A correlation coefficient of 0.227835.

Regression Results

Table 3: Summary of Ordinary Least Square Regression

Variables	Coefficient	t-Statistic	Probability.
Constant	-456022.4	-1.451325	0.1567
Companies Income Tax	50279.39	10.03918	0.0000
Education Tax	-83665.47	-4.877826	0.0000

R-squared	0.983139
F-statistic	451.9009
Prob(F-statistic)	0.000000

Source: Result, 2022

Table 3 shows the result of the ordinary least square regression technique. The overall fitness of the model is revealed in the F-statistic of 451.9009 with Probability Prob (F- statistic) of 0.000000 which is less than the standard critical p-value of 0.05. This implies that the estimated model is statistically significant at a 5% level and thus the linearized functional specification of the model is appropriate. The R-square, which shows the overall explanatory power of the model, reveals that the independent variables (Company income tax and Education tax,) explain about 98% of the systematic variation of the dependent variable. While 2% is attributed to systematic variation in the dependent variable that was not accounted for in the model and has been contained by the error term.

Hypotheses Testing

H₀₁: Companies' income tax has no significant effect on financial performance of the small and medium enterprises in Nigeria

The regression result in table 3 shows that companies' income tax has a positive and significant effect on the financial performance of the small and medium enterprises in Nigeria, from a coefficient of 50279.39 and t-statistics of 10.03918, and a probability value of 0.0000 which is less than 0.05 percent (the level of significance). Therefore, the null hypothesis which states that companies' income tax has no significant effect on financial performance of the small and medium enterprises in Nigeria is rejected at the 5% level of significance.

H₀₂ Education tax has no significant effect on financial performance of the small and medium enterprises in Nigeria

Similarly, the regression result also indicates that education tax has a negative and significant effect on the financial performance of the small and medium enterprises in Nigeria, from the coefficient of -83665.47 and t-statistics of -4.877826 and a probability value of 0.0000 which is less than 0.05 percent (the level of significance). Therefore, the null hypothesis which states that education tax has no significant effect on financial performance of small and medium enterprises in Nigeria is rejected at the 5% level of significance.

4.2. Discussion of Findings

The results of the regression analysis in table 3 for the income taxes and financial performance of SMEs in Nigeria, show relatively that the variable has a positive and significant relationship apart from education tax which has a negative and significant relationship, though company income tax is not significant. Conceptually the income tax, which the relevant tax authorities collected from companies operating in the country, is highly germane to the growth of the economy. About the ability to pay theory and other theories adopted in this study, it becomes paramount for SMEs to pay taxes with the incentives being given to them, to encourage payments and reduce tax evasion.

The regression analysis in Table 3 shows that education tax has a negative and significant relationship with the financial performance of small and medium enterprises in Nigeria. It becomes imperative that the interplay of the carrot and stick approach which the respective regulation theory suggests is adopted for the tax administration of the country to fully harness the revenue that should accrue from the Education tax. The tax conceptually is made compulsory for

the development of the country's education system, thus the positive effect and significance on the SMEs performance as it is based on the company adjusted profit tax.

5. Conclusion

This study examined the Corporate Taxes and Financial Performance of Small and Medium Enterprises in Nigeria. The study finds that the company's income tax has a positive and insignificant effect on the financial performance of small and medium enterprises in Nigeria during the period of the study. The study also revealed that the education tax has a negative and significant relationship with the financial performance of the small and medium enterprises in Nigeria during the period of the study. The study concludes that the financial performance of small and medium enterprises in Nigeria is driven by Companies' Income Tax and Education Tax that which have a positive and significant effect on the financial performance of the small and medium enterprises in Nigeria.

From the findings and conclusion of this study, the following recommendations are:

1. The Government should encourage the payment of taxes with the introduction of reduced tax rates and create adequate infrastructural facilities to encourage taxpayers' compliance culture;
2. In the harmonization of the number of taxes to which companies are subjected, multiple taxes regime should be discouraged while taxes introduced by the state and the local should be reviewed and harmonized by a joint tax board for ease of payment.
3. An efficient assessment and a good payment system should be implemented to improve tax revenue generation for the country and adequate monitoring and information should be put in place to eliminate the complexities of corporate tax administration.

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