Effects of Company Income Tax and Capital Gains Tax on the Financial Performance of Small and Medium Sized Businesses in Nigeria

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Abstract

This study investigated the influence of taxation on the financial performance of Small and Medium Enterprises (SMEs) in Ibadan, Oyo State, Nigeria, aiming to identify the effects of Company Income Tax (CIT) and Capital Gains Tax (CGT). The research was motivated by the observed complexity and burden of tax compliance for SMEs, filling a gap in understanding how specific taxes impact their financial viability. Utilizing a judgmental sampling technique, 120 SMEs in five bustling urban Local Government Areas in Ibadan were selected, ensuring inclusion of diligent taxpayers. Data were gathered through meticulously distributed questionnaires, employing a systematic approach considering both location and optimal times for retrieval. The study revealed that CIT and CGT significantly hindered growth and profitability for SMEs, with respondents consistently viewing these taxes as barriers to investment and expansion. It concluded that the current tax system is challenging for SMEs, necessitating recommendations for tax reform that include simplifying regulations, providing incentives, exemptions, and actively engaging SME owners in policy formulation. Implementing these strategies, it suggests, would foster a more conducive tax environment for SMEs in the region.

Keywords: Financial Performance, Company Income Tax (CIT), Capital Gains Tax (CGT), Small and Medium Enterprises (SMEs), Taxation, Ibadan

Word Count: 180

Introduction

Small and medium businesses (SMEs) are essential for economic growth and industrialisation. Small and Medium Enterprises (SMEs) are considered a catalyst for economic growth and development, particularly in developing economies like Nigeria. Small and medium businesses contribute to job creation, quick expansion, and the efficient use of indigenous resources. Small companies can be found in urban and rural areas around the country. Small and Medium Enterprises (SMEs) use government-provided structures at all levels and must pay taxes due to their widespread use. Taxation has also been identified as an essential source of revenue for all levels of government to pay their statutory duties and expenditures (Abdul, 2018).

According to the Nigerian Small and Medium Enterprises Development Agency (SMEDAN), eighty per cent of SMEs fail before their fifth anniversary. The variables generating these unanticipated close-ups include tax-related challenges ranging from excessive taxation to enormous tax burdens. In many government legislation, SMEs are frequently considered and regulated in the same way as large corporations. Their size and nature, on the other hand, distinguish them. As a result, these distinguishing traits must be considered while dealing with SMEs. Small-business taxes must be calculated to consider their income and survival requirements. They must be able to generate a substantial profit in order to expand their businesses (Pedraza, 2021).

Financial performance, in a broad sense, relates to how well financial goals are being met or have been met. It calculates the monetary value of a company's policies and operations. It's used to assess a company's overall financial health over time and to compare similar companies in the same industry or industries or sectors in aggregate.

Taxation is crucial in generating money and stimulating economic activity in any economy. Personal income tax, education tax, motor park taxes, corporation tax, business registration fees, road taxes, developmental taxes, market taxes, and livestock taxes are among the taxes imposed by the Nigerian government on businesses and individuals. These taxes impact the performance of small and medium businesses both directly and indirectly (Emmanuel & Willie, 2021).

In Nigeria, taxation is an essential revenue source at all government levels. As a technique for raising money from the private and public sectors of the economy, governments at all levels have levied various taxes on businesses and individuals over the years. Unfortunately, these exercises have many consequences for Nigeria's Small and Medium Enterprises, particularly at the state and local government levels. Small and Medium Enterprises paid certain taxes in the 1990s, such as registration, market, product distribution levies, and livestock taxes, which impacted their sales growth. As a result of the same taxes receiving different levies, excessive taxation has resulted.

In 2020, the Oyo state government, through the Orilonise Microfinance Bank, granted zero-interest loans to small-scale company owners in the metropolis to alleviate financial constraints. In a similar spirit, the Oyo State Board of Internal Revenue held a training course for revenue officers on the automation of the tax system to provide them with up-to-date technological knowledge and to create a favourable tax environment in the state and to eradicate phoney tax collectors from the system; tax collection strategies must be used. The Oyo state government took all of these practical initiatives to encourage sustainable small enterprises and boost economic activity in the state.
Therefore, this study focus on the effects of company income tax and capital gains tax on the financial performance of chosen small-scale firms in the Ibadan Metropolis. The specific objectives are to:

i. assess the effect of Company Income Tax (CIT) on financial performance of Small and Medium Enterprises.
ii. examine the effect of Capital Gains Tax (CGT) on financial performance of Small and Medium Enterprises.

Taxation

Taxation has been identified as a critical source of revenue for all levels of government to meet its statutory commitments to citizens. Businesses are expected to view tax payment as a civic responsibility or a national mandate to strengthen the economy, not as a means of exploitation. Various authors and academics have defined taxation. The term "taxation" refers to a fee imposed by government ministries on individuals, products, and services to generate income. It is critical to recognise that taxation is both a tool for managing the economy and a source of money for the government to function efficiently and meet its obligations. However, because it affects capital used by Small and Medium Scale Businesses, it typically becomes a disincentive to enterprises (Oswald, John & Michael, 2021).

Tax is a levy contribution citizens give to the state subject to government redistribution, and taxpayers should not avoid paying it. The government does not levy taxes on citizens because it has provided specific services to him or his family. Regarding taxation, the government cannot do without it; nevertheless, the government must justify its collection by providing appropriate infrastructure facilities to encourage economic activity in the informal sector, which would support small company sales growth. This may persuade many small and medium-sized business owners to view tax payment as a civic responsibility for economic growth and development, increasing the informal sector's profitability (Judith, Maduabuchi, Igwe, Ehis, & David, 2022).

The government uses tax revenue to carry out its traditional duties, such as providing public amenities, upholding the rule of law, defending against external aggression, and regulating commerce and business to maintain social and economic sustainability. Micro effects on income distribution, resource usage efficiency, and macro effects on output capacity, employment, pricing, and growth are among the economic repercussions of taxes. A tax is a mandatory payment made by individuals and corporate entities on their income, profit, wealth, estate, property, commodities, and services that the government imposes to sustain the government but for which there is no assurance of a direct benefit (Nnordee, Ogolo, Poyeri & Akpan, n.d.). The government uses taxes as a powerful tool of fiscal policy to control the state's economic growth. It makes up a significant portion of the macro-economy. In general, it is unnecessary to overstate the importance of taxation to a country because it is a critical component of every economy in the world and a potent weapon for economic transformation. Small and medium-sized businesses must pay a variety of taxes, including income tax, corporate tax, excise tax, custom duty, fees, fines, special assessments, education tax, and value-added tax, among others, including petroleum tax because some of these businesses are involved in the oil and gas industry.

Companies Income Tax

The Companies Income Tax Act (CIT) governs the taxation of companies' payable tax for each year of assessment of the profits at a rate of 30%, i.e. is self-assessed on a preceding government's fiscal year basis. These include profits from, derived from, brought into or received from a trade, business or investment (worldwide income). Also, companies paying dividends to their shareholders must first pay tax on their profits at the company's tax rate. However, where a company is a shareholder in another company, such dividends are excluded from the company's profits for computation of the tax. Except for proviso Tax Administration (Self-Assessment) Regulations 2011, failure to pay and file tax returns to FIRS within the time limits specified in the CIT attracts specific penalties and interest (Ogbonna, Onuoha, Ohoku & Ojeaburu, 2020).

Classification of Tax

The numerous types of taxes can be divided into two groups. As a result, these may include:

1. **Direct Taxes**: These are taxes levied on an individual's or a company's income or assets. As the name implies, the person assessed pays this tax directly to the state. In Nigeria, direct taxes include (Oyedokun & Taiwo, 2022):

a. *Personal Income Tax*: This is a tax assessed on individuals' employment income and any other income they receive.

b. *Company Income Tax*: This is a tax on earnings made by companies other than those engaged in petroleum operations, such as those in the downstream petroleum industry.

c. *Petroleum Profit Tax*: This is a tax imposed on the profits made by petroleum exploration companies. This tax is paid by oil-producing companies only (Anim, Awotwe, Nyarku & Kusi, 2020).

d. *Capital Transfer Tax*: This is a tax paid on the value of any property passed from a donor to a donee as a gift (rather than a sale).

e. *Education Tax*: All Nigerian companies are subject to this tax, levied at a rate of 2% on assessable profit and other services.

2. **Indirect Tax:** This occurs when the tax burden is passed on to the final consumers of a product rather than being borne by the taxpayer. Indirect taxes include:

a. *Sales Tax*: This is a consumption tax levied on a specific consumer goods group. The tax is calculated by multiplying the tax rate by the selling price of products or services to get the tax due (Taiwo & Oyedokun, 2022).

b. *Value Added Tax (VAT)*: A VAT is a tax on the value added by a company throughout its activities. It is defined as a "tax on the delivery of goods and services" in the Statement of Standard Accounting Practice (SSAP) (Adum, 2018).

c. *Export Duties*: Taxes are applied to items exported to another country, which the exploiters pay.

d. *Import Duties*: Import duties are levied on products entering a country.

e. *Excise Duties*: These are charges imposed on goods manufactured locally. Manufacturers pay these taxes to the government on commodities produced in a country (Ilemona, Nwite & Oyedokun, 2019).

Taxes to Be Collected by the Federal Government

Companies Income Tax: The Companies Income Tax Act (CITA), Cap. C21, LFN 2004, governs CIT (as amended). CIT is a tax levied against a company's profit from all sources.
The tax rate is 30% of a company's whole profit. Some gains are free from CIT as long as they are not the result of trades or businesses that the company engages in, like cooperative societies. Every company is required to pay provisional tax, equal to the tax paid in the preceding year of assessment, no later than three (3) months after the start of each assessment year. This payment is for the income tax assessment for the current year (Ogbonna, Onuoha, Ohoku & Ojeaburu, 2020).

Petroleum Profit Tax: As amended, The Petroleum Profits Tax Act of 1959 is the law that imposes a tax on the sale of hydrocarbons. PPT, Cap.354 of the Laws of the Federation of Nigeria 1990, as amended, is the tax imposed by this law.

Value Added Tax: A flat charge called value-added tax (VAT) is imposed on a purchase. It resembles a sales tax in some ways, except that with a sales tax, the consumer pays the entire amount due to the government at the moment of sale. With a VAT, various participants in a transaction each pay a piece of the tax amount (Taiwo & Oyedokun, 2022).

Education Tax: Every Nigerian corporation must pay the tertiary education tax levied at 2.5% of the assessable profit for each assessment year (as amended by the 2021 Finance Act) (Taiwo & Oyedokun, 2022).

Capital Gains Tax: When you sell (or "dispose of") something (an "asset") that has gained in value, you must pay Capital Gains tax on the profit. Not the amount of money you get but the gain you create is taxed (Adum, 2018).

Stamp charges on Corporations and Citizens of Abuja, the Federal Capital Territory: Members of the Armed Forces of the Federation, Members of the Nigeria Police Force; Residents of the Federal Capital Territory, Abuja; and Staff of the Ministry of Foreign Affairs and non-resident individuals are all subject to personal income tax (Twesige & Gasheja, 2019).

Taxes and Levies to be Collected by the State Government

Pay As You Earn (PAYE); Personal Income Tax; Direct Taxation (Self-Assessment)
Withholding tax (individual only) Capital Gains Tax (individuals only). Individually executed instruments are subject to stamp duties; Taxes on pools, lotteries, gaming, and casinos; road taxes; Fee for registering a business premise in a state-defined urban area is capped at N10,000.00 for initial registration and N5,000.00 per year for renewal.

N2,000.00 for registration in rural regions; Renewal of registration costs N1,000.00 each year. A development levy of not more than N100 per year on all taxable individuals.

The state capital's street registration costs have been renamed. Rights of Occupancy Fees on Land Owned by State Governments in the Urban Area in the State. Market taxes and levies where State funds are involved (Twesige & Gasheja, 2019).

Taxes and Levies to be Collected by the Local Government

Rates for shops and kiosks; Tenement rates; Fees for on-premises and off-premises liquor Slaughter slab fees Marriage, birth, and death registration fees (Fleurbaey & Maniquet, 2018). Changing the names of street registration costs to exclude any street in the state capital. Except for those collected by the federal and state governments, right of occupation fees on lands in rural areas. Motor Park levies are market taxes and levies that do not include any market where state finance is involved. Fees for domestic animals' licenses. Fees for bicycles, trucks, canoes, wheelbarrows, and carts (excluding mechanically driven trucks). Cattle tax is only paid by cattle farmers. Charge for road closures and merriment (Twesige & Gasheja, 2019).

Fees for radio and television licenses (except for radio and television transmitters) Fees for vehicle radio licenses (to be imposed by the state's local government in which the car is registered). Erroneous parking fees; Fees for public convenience, sewage, and trash disposal; fees for customary burial ground permits; fees for establishing religious places. Fees for signboards and advertisements.

The phrase "other than the appropriate tax authority" clearly eliminates agents and touts as tax assessors or collectors. It defines tax authority as the Federal Board of Inland Revenue, the State Board of Internal Revenue or the Local Government Revenue Committee, all statutory bodies (Gberegbe & Umoren, 2017).

The Justification for Taxation

Knowing that taxing can have negative consequences for society, one could wonder why the government imposes taxes in the first place. Apart from the fact that taxes are the most reliable source of revenue for the government, there are two main reasons why the government levies taxes (Adeniyi & Imade, 2018):

a. A means of addressing collective need: There are a variety of needs and services that are better and more inexpensively given collectively than individually, just as there are in any society or among groups of persons. Defence, education, utilities, health services, and social amenities are among them. Taxation is merely a tool for requiring citizens to contribute to the cost of meeting such common requirements (SMEDAN, 2020).

b. An economic policy instrument for the government: Taxation, as a tool for government economic policy, can help the government achieve the following goals:

i. Wealth redistribution
ii. Changing the country's balance of payments with other countries
iii. Mobilizing economic resources
iv. Changing the level of economic activity and
v. Combating inflation (Aremu & Adeyemi, 2011).

Tax Collection Issues in Nigeria

Tax collection is a difficult task. Taxes must be collected with caution, especially in a country where volunteer labour is in short supply. Income tax, like all other types of taxes, has been difficult to collect. Members of the public are frequently reluctant to receive paperwork, notices, and letters from tax authorities.

The following obstacles were recognized in direct evaluation:

i. Severe shortage of qualified and trained personnel: In the revenue offices, there is an acute scarcity of qualified and trained personnel. The adequacy and effectiveness of revenue staffs are essential for accurate assessment and timely tax collection. Direct tax assessment relies on the employee's ability to predict the scheme completely, and where he is required to operate the system, he may do it wrongly.

ii. Employer misapplication of code numbers of results in reduced revenue for tax agencies.

However, past experience has demonstrated that tax refers to the amount of revenue that a tax payer receives and is prepared to reveal to the IRS. With the assessment of taxation, which allows the self-employed to submit annual accounts to the tax authorities, the payer can take advantage of the situation to decrease his tax burden. He can achieve this by lying about his salary. Civil officials have little or no chance of dodging tax because of the PAYE System, however self-employed people can always understate their income. However, no matter how unpopular taxes are, they are a necessary source of government money for improved citizen governance.

Taxation's Importance in Nigeria

Income tax is one of the most important sources of revenue for all levels of government in Nigeria, and it is a consideration to consider in both state and federal budgets. The money raised in taxes is returned to the taxpayers in the form of social benefits. The income tax has both supported and discouraged particular private-sector operations, depending on whether the government's objective is to discourage or encourage certain businesses. It lowers the next investment return and diminishes the amount of money available for private savings. It is a pervasive topic that impacts practically everyone's lives, and no major accounting or legal problem can be solved successfully without taking into account its tax implications. Nothing in this world is certain but death and taxes. Businessmen who benefit from water supply, power (where they operate), and land allocation are particularly concerned about taxes (World Bank, 2018).

The importance of income tax is further demonstrated by the fact that the allocation of taxing power between the federal and state governments is one of the inherent challenges in any federal system of government (Ogundele, Ojeifor & Hassan, 2018).

Excessive Tax Practices in Nigeria: Factors to Consider

Many unhappy individuals and organizations have contended that too many taxes are imposed, and that many state taxes, particularly those imposed on businesses, are often a duplication of taxes already imposed by another degree of government alternatively, the same government may operate under different identities. Various elements have been suggested as being responsible for excessive tax practices in Nigeria, including an unfair revenue formula, dwindling state income from the central fund, and a lack of transparency in the tax system. State rivalries are unhealthy. Political patronage is a method of compensating so-called political godfathers. Lack of political will by some state and local governments to stop excessive taxation, inadequate equipment and training of revenue agency workers, and tax officials' greed.

Small and Medium-Sized Enterprises

Small and Medium-Sized Enterprises (SMEs) have become increasingly important to all global economies as a result of the spotlight that the globe has recently shone on their distinctive economic activities. Small and medium-sized businesses have long been recognized as a key driver of economic growth and modernization in developing nations. The importance of these small businesses in Africa's economic development, job creation, and poverty reduction is becoming more widely acknowledged. The best ways to help people escape poverty are to create sustainable employment possibilities and business chances for tiny businesses. They make up the majority of enterprises worldwide, play huge roles in generating employment, providing goods and services, raising living standards, and significantly boosting the gross domestic products (GDPs) of many nations (Ademola, Adeyinka & Emenike, 2019).

A business is considered to be small and medium-sized if it employs between 11 and 300 people and its asset base, excluding land, is between N5 million and N50 million. Emerging enterprises in SMEs are defined as entities with asset bases of NIO million to less than N1 billion with 50-199 employees for "MEDIUM" and NIO million to less than N10 million with 10-49 employees for "SMALL." A business with a revenue of less than NI00 million and/or less than 300 workers was also referred to as a SME. SMEs are adaptable and variable (Anim, Awotwe, Nyarku & Kusi, 2020).

Small and medium business owners are entrepreneurs who are aware of their surroundings and can recognize opportunities or obstacles and turn them around to benefit the economy and society. The businesses are the result of the proprietors' ingenuity and inventiveness. The owners' economic and social actions include generating revenue for the government, reducing unemployment, and raising residents' living standards. Small business owners are persons who only have a limited ability to access the resources they need to run their businesses. The paucity of resources encompasses both financial and human resources. The founders typically start enterprises with a small amount of money saved from personal savings and financial assistance from family, friends, and acquaintances (Nnordee, Ogolo, Poyeri & Akpan, n.d.).

Theory of Unbalanced Growth

The study anchored on the theory of Unbalanced Growth. Hirchman popularized this in 1958. According to this idea, developing economies lack the resources to begin on excessive projects at the same time as rich countries. Hirhman attempted to explain the growth and development of an economy or nation by social overhead capital, which encompassed investment, education, health facilities, transportation, and communications, among other things, which led to industrialization and increased overall productivity (Yahaya & Bakare, 2018). Unbalanced growth theorists claim that the government cannot mobilize adequate resources to foster widespread, coordinated investment across all industries. As a result, only a few important industries require government planning or market involvement. Small and medium-sized businesses require less initial capital than larger businesses, yet nevertheless contribute to a country's economic development. Given the huge importance that small and medium-sized businesses play in job creation and poverty alleviation, it is more cost-effective for the government to prioritize SMBs as one of its priority projects. The hypothesis of imbalanced growth is the most applicable to this study among theories that explain the relationship between taxation and Small and Medium Scale Businesses. Investing in strategically selected sectors of the economy will lead to greater investment possibilities and overall industrialization. For example, if the government provides enough infrastructure, it will boost the performance of small and medium-sized firms, allowing them to employ more capital and make more profit, resulting in more jobs and increased revenue for the government. Because tax payers will have faith and confidence in their ability to pay their taxes. Because the theory emphasizes selectivity over concurrent projects, more money pumped into Small and Medium Scale Businesses in the form of grants or low-interest loans will boost economic activity in the country and increase sales growth of Small and Medium Scale Businesses, thereby improving society's well-being.

Empirical Review

Egiyi (2022) researched on taxation as a significant tool for economic development. The Ordinary least Square (OLS) linear regression model was adopted to estimate the variables. This involves estimation of the model to examine if taxation as a significant tool for economic development in Nigeria. Different proxies for measuring taxation including stamp duties, gas income tax, petroleum profit tax, company income tax and capital gains tax was sourced from Central Bank of Nigeria (CBN) Statistical Bulletin, 2020. Linear estimation techniques aimed at achieving unique parameter estimates. The findings reveal that capital income tax, VAT for import and non-import are found to have a statistically significant positive effect on the economic development of Nigeria at 5% significance level. However other predictors variables may have a potential effect on the economic development of Nigeria but are statistically not significant.

Pedraza (2021) examined the micro, small, and medium-sized enterprises and its role in the economic development of a country. They are a major source of entrepreneurial skills, innovation, and employment account for most businesses worldwide. MSMEs are important contributors to job creation and global economic development, representing 90% of businesses and more than 50% of employment worldwide. The study concluded that capital income tax, VAT for import and non-import are found to have a statistically significant positive effect on the economic development of Nigeria at 5% significance level. However other predictors variables may have a potential effect on the economic development of Nigeria but are statistically not significant. it suggested that effective methods for tax collection should be adopted to ensure compliance.

Al-Haddad, Muhammad, Ali, Alam, Khuong and Khanh (2018) analysed how SMEs contribute to employment generation, whether a significant number of people is employed within the SME sector; whether the SMEs increase the income level of people. The total number of employees was 255 being selected randomly from Swat marble industries. A questionnaire was constructed and distributed to the selected respondents. The responses were collected and analysed using the Statistical Package for Social Sciences (SPSS) analytical tool. The study exposes that SMEs play a vital role in employment generation. There is a positive relationship between SMEs and unemployment reduction. The result also shows that there is a positive relationship between SMEs and increase in income level. For practitioners, it concluded that devise policies and strategies concerning SMEs to generate employment opportunities. The generalizability of existing research in the same field as for academic aspect is a concern.

Methodology

This study adopts a descriptive research design. Since the study aims to describe the effects of certain factors on the financial performance of Small and Medium Enterprises, there was no need for manipulation of variables as the focus is on collecting data from the participants as they are. The population of the study consists of all small and medium scale enterprises particularly in Ibadan, Oyo State, totaling 6137 registered SMEs. Utilizing a judgmental sampling technique, 120 SMEs in five bustling urban Local Government Areas in Ibadan were selected. Data were gathered through meticulously distributed questionnaires, employing a systematic approach considering both location and optimal times for retrieval through Statistical Package for Social Sciences (SPSS) version 26.0 software package.

Results

The core objective of the study, which is the exploration of the impact of different taxes on the financial performance of SMEs. Two taxes, namely, Companies Income Tax (CIT) and Capital Gains Tax (CGT), are considered. Respondents' views on the influence of these taxes on their businesses are measured using a Liket scale summation, which ascertains their level of agreement or disagreement with a set of statements associated with each type of tax.

Table 1: Analysis of Demographic Data of Respondents

Variables	Characteristics	Frequency	Percentage
Gender	Male	63	52.5
	Female	57	47.5
	Total	**120**	**100**
Age	18-25	18	15.0
	26-35	53	44.2
	36-45	29	24.2
	46-55	14	11.7
	56 and above	6	5.0
	Total	**120**	**100**

Occupation	Employed	13	10.8
	Self-employed	95	79.2
	Student	9	7.5
	Unemployed	**3**	**2.5**
	Total	**120**	**100**

Source*: Author's Field Survey, 2023*

Table 1 above shows the classification of respondents according to gender, age and occupation. The gender distribution of the respondents is reasonably balanced, with 52.5 percent of the respondents being male and 47.5 percent of the respondents being female, as shown in Table 1. This indicates that both male and female viewpoints are appropriately represented in the study, so providing a balanced assessment of the effect of taxation on the financial performance of SMEs across gender lines. A significant portion of the respondents (44.2%) fall within the 26-35 age range, reflecting the age group typically active in entrepreneurship. Respondents in the 18-25 and 36-45 age ranges are also well-represented, whereas fewer respondents are in the 46-55 and 56 and above age ranges. This could suggest that the younger generation tends to dominate the SME sector in Ibadan, and their experiences with taxes might vary significantly from older business owners, especially regarding digitalization and the use of technology in tax processes.

Most of the respondents are self-employed (79.2%), which is expected for a study focusing on SMEs. However, the inclusion of employed respondents (10.8%), students (7.5%), and unemployed individuals (2.5%) provides additional perspectives, considering these individuals may have indirect experiences with SMEs, possibly as customers, potential entrepreneurs, or relatives and friends of SME owners.

Effect of Companies Income Tax (CIT) on Financial Performance of Small and Medium Enterprises.

Table 2: Likert scale summation of the effect of company income tax (CIT) on financial performance of small and medium enterprises

Event	**Opinion**							
	5	**4**	**3**	**2**	**1**	**SWV**	**CIT**	**Rank**
The current Companies Income Tax (CIT) rate is reasonable for SMEs in Nigeria.	24	25	22	22	27	357	2.98	5th
The Companies Income Tax (CIT) significantly affects the financial performance of SMEs.	32	33	22	15	18	406	3.38	3rd
The Companies Income Tax (CIT) is a burden for SMEs and hinders their growth and profitability.	34	33	20	18	15	413	3.44	2nd
The Companies Income Tax (CIT) regulations are clear and understandable for SMEs.	28	30	17	27	18	383	3.19	4th
The Companies Income Tax (CIT) incentives or exemptions should be provided to support SMEs.	35	43	18	13	11	438	3.65	1st
							∑= 16.64	
	Mean of ∑ CIT/N 16.64/5= 3.33							

Source: Author's Field Survey, 2023

Table 2 presents the results of a Likert scale summation survey, which was designed to assess the impact of the Company Income Tax (CIT) on the financial performance of small and medium enterprises (SMEs) in Ibadan, Nigeria. The table summarizes responses to five statements about CIT. For each statement, participants were asked to rate their agreement on a scale of 1 to 5, where 5 corresponds to "Strongly Agree" and 1 corresponds to "Strongly Disagree".

The first statement, "The current Companies Income Tax (CIT) rate is reasonable for SMEs in Nigeria," had a mean rank of 2.98, placing it 5^{th} amongst all five statements. This suggests that the respondents were relatively divided in their opinions about the reasonability of the current CIT rate, with a slight tendency towards disagreement.

The second statement, "The Companies Income Tax (CIT) significantly affects the financial performance of SMEs," was ranked 3rd with a mean value of 3.38. This indicates that respondents were more in agreement that CIT has a significant impact on the financial performance of SMEs.

The third statement, "The Companies Income Tax (CIT) is a burden for SMEs and hinders their growth and profitability," had the second-highest mean value at 3.44. This reveals a common perception among respondents that CIT is a significant burden on SMEs and obstructs their growth and profitability.

The fourth statement, "The Companies Income Tax (CIT) regulations are clear and understandable for SMEs," came in 4th place with a mean score of 3.19. This score indicates a moderate level of agreement that CIT regulations are clear and understandable for SMEs, although it falls below the overall mean, suggesting there is still some level of ambiguity or confusion among SMEs about CIT regulations.

Lastly, the statement, "The Companies Income Tax (CIT) incentives or exemptions should be provided to support SMEs," had the highest mean value at 3.65, ranking it first. This suggests a strong consensus among respondents that incentives or exemptions in CIT should be introduced to support SMEs.

The overall mean of all five statements is 3.33, indicating a slightly positive or neutral perception among the respondents. These findings suggest that while there is an acceptance of the importance of CIT to SMEs' financial performance, there is also a strong feeling that it acts as a hindrance to their growth and profitability. There is a call for more supportive measures, like incentives and exemptions, to alleviate the tax burden. Additionally, there seems to be a need for more clarity and understanding in the application of CIT regulations for SMEs.

Table 3: Likert scale summation of the effect of Capital Gains Tax (CGT) on SMEs' Financial Performance

Event	Opinion							
	5	4	3	2	1	SWV	CGT	Rank
The current Capital Gains Tax (CGT) rate is reasonable for SMEs in Nigeria.	33	34	22	14	17	412	3.43	4th
The Capital Gains Tax (CGT) significantly affects the financial performance of SMEs.	29	34	22	19	16	401	3.34	5th
The Capital Gains Tax (CGT) is a burden for SMEs and hinders their growth and profitability.	34	33	20	18	15	413	3.44	3rd
The Capital Gains Tax (CGT) incentives or exemptions should be provided to support SMEs.	40	45	12	11	12	450	3.75	1st
The Capital Gains Tax (CGT) reduces SMEs' ability to invest and expand their operations.	34	33	22	17	14	416	3.47	2nd
							∑= 17.43	
	Mean of ∑ CGT/N 17.43/5= 3.49							

Source: Author's Field Survey, 2023

Table 3 presents a survey summary aimed at assessing the perceived effects of the Capital Gains Tax (CGT) on the financial performance of small and medium enterprises (SMEs) in Ibadan, Nigeria. The table presents the responses to five statements about CGT, with participants asked to rate their agreement on a scale of 1 to 5, where 5 signifies "Strongly Agree" and 1 "Strongly Disagree".

Starting with the first statement, "The current Capital Gainss Tax (CGT) rate is reasonable for SMEs in Nigeria," it obtained a mean rank of 3.43, placing it 4th among the five statements. This suggests a moderate agreement among respondents about the reasonableness of the current CGT rate, but with some evident dissenting opinions as well. For the second statement, "The Capital Gainss Tax (CGT) significantly affects the financial performance of SMEs," the mean value was 3.34, ranking it 5th. This suggests a slightly above neutral but somewhat divided opinion on the significant impact of CGT on SMEs' financial performance.

The third statement, "The Capital Gainss Tax (CGT) is a burden for SMEs and hinders their growth and profitability," saw a mean value of 3.44, which ranked it 3rd. This indicates a modest agreement among respondents that CGT poses a significant burden to SMEs and impedes their growth and profitability.

The fourth statement, "The Capital Gainss Tax (CGT) incentives or exemptions should be provided to support SMEs," had the highest mean score of 3.75, ranking it first. This indicates a relatively strong consensus among respondents that there should be incentives or exemptions in CGT to help SMEs.

Finally, the statement "The Capital Gainss Tax (CGT) reduces SMEs' ability to invest and expand their operations" had the second-highest mean score at 3.47. This shows a notable consensus among respondents that CGT hampers the ability of SMEs to invest and expand their business operations.

The overall mean for all the statements is 3.49, suggesting slightly positive or neutral perceptions among respondents. These results indicate a perception that while CGT plays a notable role in SMEs' financial performance, there is also a belief that it acts as a deterrent to their growth, profitability, and expansion capabilities. There is a strong consensus calling for more supportive measures, like incentives and exemptions, to mitigate the tax burden.

Discussion of Findings

In the analysis of the demographic distribution of the respondents, a balanced representation of genders and various occupations is observed (National Bureau of Statistics, 2023). This is indicative of a diverse and broad perspective towards the research questions. The age distribution pattern further suggests that younger adults are typically more actively involved in entrepreneurship. Such a pattern has been repeatedly witnessed in previous studies, pointing towards the dynamism and risk-taking propensity of the younger age groups (Ezejiofor, Duru & Chukwuma, 2017). The respondents categorized as self-employed dominate the occupation segment. This result is in alignment with the focus of the study on SMEs, as one would expect a large representation of self-employed individuals and business owners in this context (Ezejiofor, Duru & Chukwuma, 2017).

Effect of Companies Income Tax (CIT) on Financial Performance of SMEs

Exploring the impact of CIT on SMEs, the study uncovers diverse opinions. A segment of respondents believes that the current tax rates are reasonable and manageable for SMEs. However, a significant proportion of respondents perceive CIT as a burden that negatively affects the growth and profitability of SMEs (Oseni, 2016). This finding is similar to the conclusions drawn by Ezejiofor et al., which indicates that high company income tax can act as an impediment to the growth trajectory of SMEs in Nigeria (Oseni, 2016).

The study also highlighted an appeal for tax incentives or exemptions, especially for small and medium-sized enterprises. This corroborates the findings from the study conducted by Oseni, which argued that introducing tax incentives could considerably enhance the performance of SMEs (Ayua, 1999).'

Moreover, the study highlights a growing appeal for tax incentives or exemptions, particularly for small and medium-sized enterprises. This aligns with the findings from a study conducted by Oseni, which argued that introducing tax incentives could considerably enhance the performance of SMEs (Ayua, 1999). Such incentives might include tax breaks, deductions, or special provisions aimed at reducing the tax burden on SMEs, thereby providing them with opportunities to reinvest and foster growth.

The relationship between Companies Income Tax (CIT) and the financial performance of SMEs is a complex and multifaceted issue. While some respondents view the current tax rates as manageable, a significant proportion perceives them as a burden. The similarity of these findings with previous research emphasizes the importance of a balanced and well-considered tax policy that takes into account the unique challenges faced by SMEs. Additionally, the appeal for tax incentives or exemptions aligns with the idea that such measures could potentially bolster the growth and performance of SMEs in the face of varying economic conditions and challenges.

Effect of Capital Gains Tax (CGT) on SMEs' Financial Performance

A thorough examination of the impact of Capital Gains Tax (CGT) on SMEs' financial performance reveals a comparable pattern to that of the Company Income Tax (CIT). The study's respondents, predominantly SME owners, frequently characterize CGT as another substantial financial strain for their businesses. The tax, designed to levy a portion of the profit obtained from the sale of assets or investments, can significantly cut into the overall profits of these businesses, leading to a decrease in their financial performance.

Interestingly, some respondents perceive the current rate of CGT as reasonable. Despite this perception, these respondents do not dispute the fact that the tax has a meaningful effect on the financial health of their enterprises. They understand that the income derived from the sale of their assets or investments, which could have been reinvested into the business, is instead partially directed towards fulfilling this tax obligation.

These findings also studied the impact of CGT on SMEs in Nigeria (Okoye, Ezejiofor & Evbuomwan, 2016). The study concluded that the Capital Gains tax could negatively impact the profitability of SMEs. Essentially, the tax may erode profit margins and limit the funds available for reinvestment or for cushioning the business against financial shocks. Further compounding this issue is the recurring demand from the respondents for tax incentives or exemptions specifically designed for SMEs. These incentives or exemptions, if implemented, could help to alleviate the tax burden that CGT imposes on these businesses. By extension, such measures could foster an environment more conducive for SMEs to flourish financially.

The CGT, therefore, while perceived by some as reasonable, still represents a considerable impediment to the financial performance of SMEs. This reaffirms the necessity for policy revisions that might consider the unique financial pressures of SMEs, potentially featuring tax incentives or exemptions to promote the financial viability of these businesses.

Conclusion and Recommendations

The study has concluded that the current tax environment, encompassing the Companies Income Tax (CIT) and Capital Gains Tax (CGT), has significant ramifications for small and medium-sized enterprises (SMEs). As per the findings, taxes are often viewed as a barrier to expansion and profitability due to their substantial burden on these businesses. This burden limits SMEs' capacity for investment and growth, often stifling their potential.

Therefore, the study concludes with a crucial recommendations. These are:

i. Tax regulations should not only be revisited to ensure they are more accessible and understandable, but they should also incorporate provisions that can accommodate the unique challenges of SMEs and bolster their growth.
ii. It may be necessary to revisit how tax rates are determined. This could involve introducing progressive tax policies that take into account the size and earning capacity of businesses, ensuring that SMEs are not unduly burdened compared to their larger counterparts.
iii. Fairness in taxation emerged as a significant concern for SMEs in the study. Currently, taxes can disproportionately burden SMEs, particularly when compared to larger companies. To address this, it may be necessary to revisit how tax rates are determined. This could involve introducing progressive tax policies that take into account the size and earning capacity of businesses, ensuring that SMEs are not unduly burdened compared to their larger counterparts.

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