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IMPACT OF GOVERNMENT TAXATION POLICIES ON SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) IN AMAC, ABUJA

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ABSTRACT

This study examines the impact of government taxation policies on the performance and sustainability of Small and Medium-Sized Enterprises (SMEs) in the Abuja Municipal Area Council (AMAC), Abuja. Recognising SMEs as critical drivers of economic growth, job creation, and poverty alleviation, the research investigates how tax compliance, multiple taxation, tax rates, and access to tax incentives influence business profitability and operational sustainability. A descriptive survey design was employed, targeting 180 registered SMEs across key commercial areas of AMAC. Data were collected using structured questionnaires and analysed through descriptive statistics and chi-square tests to test the research hypotheses. Findings reveal that tax payment significantly affects SME profitability, with high tax rates and multiple levies posing substantial financial and administrative burdens. Additionally, limited accessibility to tax incentives was found to negatively impact SMEs sustainability, while inadequate tax education and low adoption of digital tax systems hinder compliance. The study concludes that current taxation policies, though intended to generate revenue, often constrain SME growth and formalisation. It recommends harmonised tax structures, progressive and capacity-based tax assessments, improved access to incentives, and targeted education and digital support programs to enhance SMEs' compliance, profitability, and sustainability in AMAC. Implementing these measures will strengthen SMEs' contributions to local economic development.

KEYWORDS: SMEs, Taxation Policies, Profitability, Tax Incentives, Sustainability.

1.0 INTRODUCTION

Small and Medium-sized Enterprises (SMEs) are universally acknowledged as the engine room of economic development (Ahmed et al., 2024). They contribute significantly to job creation, innovation, and poverty alleviation, especially in developing countries like Nigeria. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021), SMEs constitute over 90% of businesses in Nigeria and contribute about 48% to the national GDP. As economies increasingly decentralise, SMEs provide the crucial grassroots economic engagement needed to stimulate productivity and improve local livelihoods. It is a fact that SMEs play very important roles in promoting industrial take-off and development, this is clearly demonstrated insuch countries as Indonesia, Malaysia and India, the group popularly known as the Asian tiger' (Aluko, 2008). In the context of Abuja Municipal Area Council (AMAC), SMEs have proliferated in response to urban migration and the growing demand for goods and services (Ibrahim & Momoh, 2020). Despite their socio-economic contributions, SMEs in Nigeria struggle under systemic barriers, chief among them government taxation policies (Muhammed et al., 20225; Ismail et al., 2025). While taxation is an essential tool for revenue generation, its structure, administration, and enforcement mechanisms often present significant obstacles to business development (Ezenwa & Okoye, 2019). The complex tax environment, combined with issues such as double taxation and poor communication from tax authorities, can be detrimental to these businesses' survival. The Nigerian tax system, though reformed in parts, still imposes a disproportionate tax burden on SMEs, often stifling innovation and expansion (Oboh, 2017).

It is the government's responsibility to continuously look for new ways to reallocate resources and enhance the welfare of its citizens (Aluko, Musa & Ismail, 2024). Government taxation policies in Nigeria are fragmented across federal, state, and local levels, each imposing various levies on SMEs. This layered tax system, as noted by Okafor and Uchenna (2021), often results in duplicated taxation and excessive compliance costs for small businesses. Furthermore, many SMEs in AMAC operate informally and lack the necessary tax education to navigate this complicated system. As a result, there is widespread tax avoidance, non-compliance, and, in some cases, outright business closures (Adebisi & Gbegi, 2020). The lack of a harmonised tax structure continues to discourage business formalisation and investment in the local economy.

Efforts to reform Nigeria's tax structure have included automation, unification of tax databases, and stakeholder engagement initiatives. For example, the Federal Inland Revenue Service (FIRS) has introduced the TaxPro-Max platform to streamline tax filings and increase transparency. However, according to Adesina and Bello (2022), these reforms tend to prioritise revenue generation over the sustainability and growth of SMEs. In the current economic climate, where inflation, insecurity, and infrastructural deficits already place significant strain on small businesses, poorly designed tax policies may further shrink the SMEs sector and undermine local economic development.

Consequently, the study, therefore, seeks to examine the specific impacts of government taxation policies on the operational performance, sustainability, and growth of SMEs in AMAC. By focusing on a geographically and economically significant area, the study aims to generate evidence-based recommendations to support both tax authorities and SME owners in fostering a more enabling business environment.

2.0 Literature Review and Theoretical Framework

2.1 Conceptual issues

2.1.1 Taxation and Economic Growth

Taxes are a critical instrument for mobilising revenue to fund government expenditure on social services, infrastructure, and public goods that support economic activity. In AMAC, tax revenue is intended to fund roads, electricity supply, market facilities, and other essential services that enable SMEs to operate efficiently. Well-structured taxation can provide a stable macroeconomic environment, attract investment, and stimulate entrepreneurship, thereby fostering local economic growth.

However, excessive or poorly designed taxation can hinder business growth. SMEs in AMAC often operate on thin profit margins, and multiple or unpredictable tax demands can reduce reinvestment potential and limit their operational expansion. For instance, when small businesses pay high rates for company income tax, VAT, and local levies simultaneously, the remaining funds available for purchasing raw materials or upgrading facilities shrink significantly, affecting their competitiveness.

Moreover, the perceived value of taxation affects compliance and business morale. When SME operators in AMAC observe tangible benefits from taxes paid—such as improved roads or market facilities—they are more likely to comply and reinvest profits. Conversely, when the connection between taxation and visible economic improvements is unclear, SMEs may

reduce their tax compliance, leading to inefficiencies in revenue collection and reduced economic growth in the local council.

2.1.2 SMEs and National Development

SMEs constitute the backbone of Nigeria's economy, contributing significantly to GDP and employment, and driving economic diversification and innovation (SMEDAN, 2023; Adekoya et al., 2025). In AMAC, SMEs operate in retail, manufacturing, services, and agro-processing sectors, providing vital income opportunities and employment for thousands of residents. Their operations enhance local economic resilience and stimulate commercial activities across communities (Magaji & Saleh, 2010).

Despite their importance, SMEs' potential contribution to national and local development is often constrained by structural challenges (Magaji et al, 2024). In AMAC, inadequate infrastructure, poor access to finance, and regulatory burdens, particularly in taxation, limit business growth. Frequent tax rate changes, unclear communication from tax authorities, and harassment by revenue agents create a business environment where compliance and profitability are compromised.

Effective taxation policies, however, can empower SMEs to thrive. When tax systems are predictable, equitable, and transparent, SMEs in AMAC can plan effectively, reinvest profits, expand operations, and contribute meaningfully to local economic development. A well-implemented tax framework also encourages formalisation, enabling SMEs to access government support programs, credit facilities, and training opportunities that further strengthen their developmental impact.

2.1.3 Compliance Burden and Tax Awareness

The compliance burden associated with taxation is a significant challenge for SMEs in AMAC. Business owners frequently spend considerable time and financial resources navigating complex tax filing requirements, visiting multiple government offices, or hiring consultants to prepare accurate returns. This administrative load reduces productivity and increases operational costs, placing a heavier strain on smaller enterprises with limited personnel and financial capacity (Ayoade & Yusuf, 2022; El-Yaqub, et al., 2025, 2024).

Tax literacy is another critical factor affecting compliance. Many SME operators in AMAC lack adequate knowledge of their statutory obligations, tax benefits, or filing procedures. This gap leads to unintentional non-compliance, reliance on informal advisors, and, in some cases, avoidance of formal business registration to escape perceived bureaucratic burdens (Okon &

Eyo, 2021). Low awareness also contributes to mistrust between taxpayers and authorities, further undermining the efficiency of the tax system. Digital tax systems, including online filing platforms and electronic payment portals, offer opportunities to streamline compliance and reduce administrative effort. However, limited internet access, inadequate digital literacy, and infrastructural challenges hinder widespread adoption among SMEs in AMAC. Targeted education programs and localised support are essential to bridge this gap and ensure that SMEs can comply efficiently while benefiting from tax incentives.

2.1.4 Role of Local Government and Multiple Taxation

Local governments in AMAC are crucial for grassroots tax collection, but they face challenges that negatively affect SMEs. Revenue agents impose levies such as market dues, sanitation fees, and signage charges, sometimes without clear legal justification. This inconsistent enforcement creates confusion, erodes trust, and increases the operational burden for small businesses, especially in informal markets and semi-urban areas.

Multiple taxation, where federal, state, and local taxes overlap, compounds this burden. SMEs may be required to pay company income tax, local government business levies, and other sector-specific fees within the same fiscal year, reducing funds available for reinvestment, operational expansion, and equipment maintenance (Bello & Hamzat, 2023). Such duplicative taxation discourages business formalisation and, in extreme cases, can lead to closures.

To address these challenges, tax harmonisation and collaboration between government tiers are essential. AMAC authorities and SME associations can work together to consolidate levies into a unified, predictable system. Implementing a single tax payment platform would simplify compliance, reduce costs, enhance trust, and foster a business-friendly environment conducive to SME growth.

2.1.5 Tax Incentives and SME Growth

Tax incentives, including tax holidays, reduced rates, and exemptions, are designed to stimulate investment and business growth (Chima & Uzo, 2023). In AMAC, many SMEs are unaware of these incentives or lack clear guidance on how to access them. Consequently, the potential positive impact of these policies on profitability and sustainability remains underutilised.

When communicated effectively, tax incentives can encourage formalisation and reinvestment. SMEs that benefit from reduced tax burdens are more likely to expand

operations, hire additional staff, and invest in equipment and technology. For instance, a small manufacturing business in AMAC that receives a tax holiday can redirect saved funds toward production efficiency or market expansion.

Furthermore, visible support for SMEs through incentives enhances trust between business operators and government authorities. Awareness campaigns, workshops, and targeted advisory services can ensure that tax incentives fulfil their purpose, contributing to the overall growth of SMEs and strengthening their role in AMAC's economic development.

2.1.6 Tax Policy and Business Sustainability

Tax policy encompasses the rules, laws, and administrative procedures governing taxation and directly affects SME sustainability (Umar & Obinna, 2024). Predictable, transparent, and equitable tax systems enable businesses to plan, reinvest profits, and navigate market fluctuations successfully (Musa et al., 2025). Conversely, inconsistent enforcement, harassment, and unclear regulations reduce profitability and business continuity.

Unfriendly tax policies can undermine business confidence and discourage formalisation. SMEs may deliberately remain unregistered to avoid multiple levies or complicated compliance processes, limiting their access to formal credit facilities and government support programs. Such practices hinder long-term business growth and reduce contributions to local economic development (Ayodele & Onwuchekwa, 2024).

A sustainable tax policy aligns fiscal objectives with SME capacity. Simplified filing procedures, harmonised rates, and incentives that reward compliance create an environment in which SMEs can thrive (El-Yaqub, Musa & Ismail, 2024). When tax revenue is visibly reinvested into community infrastructure such as markets, roads, and power supply business operators perceive tangible benefits, fostering voluntary compliance and promoting long-term sustainability.

2.2 Theoretical Framework

2.2.1 Ability-to-Pay Theory (Musgrave, 1959)

The Ability-to-Pay Theory, developed by Musgrave (1959), posits that taxation should be proportional to an individual's or entity's ability to pay, ensuring that those with higher income or wealth contribute more, in line with the principle of vertical equity. Applied to SMEs, this theory suggests that tax systems should consider a business's income, scale, and profitability rather than imposing flat or arbitrary levies, as uniform taxation can disproportionately burden smaller firms with thin margins and irregular cash flows. In the

context of AMAC, Abuja, current tax policies often require micro and small enterprises to pay the exact fixed charges as larger businesses, undermining fairness and limiting growth potential. Therefore, adopting the Ability-to-Pay approach through graduated tax brackets, income-based assessments, or simplified presumptive taxation could foster a more equitable environment, enhance SME sustainability, and improve voluntary compliance.

2.3 Empirical Review

El-Yaqub, Ismail and Eke (2024) analyze the impact of commercial bank credit on small and medium scale enterprise in Nigeria: 1992 to 2022 using Autoregressive Distributed Lag model (ARDL). The stationarity results showed that SMEs profit (SMEP) and Lending rate (LENR) were integrated at levels I(0) while commercial bank credit to SMEs (CLSME) and money supply (TMS) were stationary after the first different. The result of the ARDL Bound test showed that long-run relationships are thus evident between the variables. Furthermore, the result demonstrates that the adjustment mechanism (ECMt-1) is statistically significant and has the necessary sign (negative). Showing that a short-term shock will eventually be brought to equilibrium at an average pace of 95% annually. The ARDL results showed that CLSME has a negative and a positive significant impact on SMEP in the short run and the long run, respectively. LENR has a positive significant and insignificant impact on SMEP in the short run and long run, respectively. Finally, TMS has a positive and a negative significant impact on SMEP in short run and the long run, respectively. The study concluded that commercial bank credit has impact on small and medium scale enterprise (SMEs) in Nigeria. Hence, the study recommended that commercial banks should prioritize lending to small and medium scale in Nigeria with a view to achieve rapid growth among SMEs in Nigeria, and government through monetary policy authority should reduce lending rate that will be profitable to small and medium enterprise with intention for business expansion and creation of jobs in the country.

Adegbite and Adebayo (2021) conducted an empirical study to assess the relationship between tax policies and SME performance in Lagos State, Nigeria. Their research employed a mixed-methods approach, including structured questionnaires and in-depth interviews with 150 SME operators across three local government areas. The study revealed that inconsistent tax rates, poor taxpayer education, and frequent visits by tax officials significantly contributed to the decline in the profitability and sustainability of small businesses in the area.

One of the central findings of the study was that a significant proportion of SME operators lacked a clear understanding of their tax obligations, mainly due to the absence of targeted

tax education and advisory services. Many respondents reported difficulty distinguishing between statutory taxes and unofficial levies, often paying taxes without receipts or formal documentation. This confusion led to distrust of government tax institutions and an increased tendency to underreport income.

The study also highlighted the influence of tax harmonisation on business performance. In areas where tax systems had been unified or streamlined—such as under the Lagos State Internal Revenue Service (LIRS) initiative—SMEs experienced better compliance rates and reported fewer disruptions to business operations. The researchers concluded that an enabling tax environment requires simplified procedures, improved communication, and deliberate support systems tailored to SMEs' capacities. Although Lagos has more developed administrative structures than the Abuja Municipal Area Council (AMAC), the challenges identified are similar. The issue of uncoordinated tax collection, lack of education, and distrust of tax officials resonates with SME operators in AMAC. As such, the findings offer relevant insights into how improved tax harmonisation and education can enhance SME compliance and performance in the local Abuja context. Ocheni and Gemade (2022) examined the detrimental effects of multiple taxation on SMEs in Makurdi, Benue State. Through a survey of 120 SMEs and interviews with local tax officials, the study found that small business owners were subject to as many as eight different tax obligations from various levels of government. These included business premises levies, signage taxes, sanitation charges, development levies, and local market taxes, among others. Most of these taxes were not coordinated, resulting in financial strain and operational inefficiencies for the businesses.

The researchers found that 74% of the respondents perceived these taxes as excessive and non-transparent. This perception fueled widespread resistance to formal registration and encouraged informal operations to evade taxation. The study observed that multiple taxation not only reduced net profits but also diminished reinvestment capabilities, discouraged expansion, and increased the risk of business closure, especially for microenterprises and start-ups.

Furthermore, the study highlighted a lack of clarity and communication from local tax authorities. Many respondents were unsure of the legal basis for certain levies and reported receiving conflicting instructions from different government agents. In some instances, levies were imposed by non-uniformed agents without identification or documentation, thereby creating room for corruption and harassment. The findings are particularly relevant to AMAC, where similar challenges persist. Many business operators report being taxed by both formal and informal agents, often without a clear understanding of the purpose or legality of

the levies. This study supports the case for urgent reforms to harmonise tax demands, improve transparency, and foster a more business-friendly environment in AMAC.

Usman and Fatima (2023) conducted a case study on the effectiveness of digital tax reforms introduced by the Federal Inland Revenue Service (FIRS) in Abuja, focusing on SME adoption and response. The research used both quantitative surveys and qualitative interviews with 100 SMEs in the Abuja Municipal Area Council (AMAC). The central objective was to assess how digital tax systems such as e-filing, e-payments, and taxpayer self-service portals influenced compliance, efficiency, and record-keeping among SMEs. The study found that despite the deployment of these digital tools, actual utilisation remained low. Only 24% of the SMEs surveyed had registered on the FIRS digital platform, and even fewer—about 18%—used it consistently. The primary reasons for low adoption included poor digital literacy, unreliable internet connectivity, limited awareness campaigns, and scepticism regarding the reliability of government-managed platforms. Many small business owners preferred traditional cash-based transactions and expressed fears over data privacy and accountability.

In addition to the technical barriers, the study identified a significant information gap. Most SMEs in AMAC were unaware of FIRS's digital platforms or believed that digital compliance was intended only for larger corporations. This misconception was compounded by the lack of personalised guidance or support services for micro- and small businesses transitioning to digital systems. The study also observed that some SMEs attempted to use the digital systems but gave up due to complex interfaces and a lack of prompt technical support. The researchers concluded that while digital tax reforms have the potential to reduce administrative costs and corruption, their success depends on complementary policies to promote digital literacy and access. For AMAC, these findings point to the need for more inclusive digital strategies, community-based sensitisation, and partnerships with local business associations to expand awareness and adoption of digital tax platforms.

Okoro and Ekong (2021) explored tax compliance among SMEs in Port Harcourt, Rivers State, focusing on the comparative impact of enforcement versus education-based strategies. Their study surveyed 110 SMEs and interviewed 10 local tax officers to understand the motivations behind tax payment behaviour better. The findings indicated that most SME operators complied with tax obligations primarily out of fear of enforcement actions, such as business closures, fines, or public embarrassment. The study observed that enforcement

methods—while effective in the short term—produced a climate of fear and resentment. Many SMEs viewed tax officers as adversaries rather than service providers. As a result, compliance often occurred only when the business was under direct scrutiny. Outside of such circumstances, evasion was common. This reactive approach to tax enforcement failed to foster a sustainable culture of compliance.

In contrast, the few SMEs that had attended tax education seminars or engaged with trained consultants reported a better understanding of their tax responsibilities and expressed greater willingness to comply. These businesses were also more likely to benefit from government programs because of their formal registration. However, access to such education was minimal, especially for microenterprises and informal traders operating in low-income neighbourhoods. Based on these insights, the authors recommended a significant policy shift from enforcement to education. They advocated for regular workshops, simplified communication materials in local languages, and accessible help desks to guide SME operators. These recommendations resonate with the situation in AMAC, where enforcement-based compliance remains dominant and education-based strategies are lacking. Addressing this imbalance could improve voluntary compliance and enhance the effectiveness of local tax systems.

Ibrahim and Musa (2020) investigated the relationship between tax incentives and SME growth in Kaduna State, Nigeria. Their study adopted a descriptive survey design involving 200 registered SMEs to examine how tax reliefs, holidays, and exemptions influence business expansion and investment decisions. The study was motivated by the persistent complaints of small business owners about unequal access to tax incentives.The findings revealed that most SMEs were unaware of existing tax incentives, and those who benefited from them often did so accidentally or through personal networks. The study also found that the implementation of tax incentives was poorly coordinated and largely favoured medium-sized firms over microenterprises. This lack of equity limited the overall impact of incentive policies on small business development. The authors concluded that weak institutional collaboration between tax agencies and SME associations contributed to the inefficiency in incentive administration. They recommended stronger coordination, transparency in incentive allocation, and awareness programs to ensure that incentives reach deserving small business operators and promote equitable growth within the SME sector.

Eze and Nwankwo (2022) analysed the effect of tax compliance costs on SME profitability in Enugu State. The study employed a regression analysis on data collected from 150 SMEs, focusing on the time and financial resources spent on record-keeping, tax filing, and audits. Their objective was to determine whether compliance costs significantly influence SME profitability.

Results indicated that high compliance costs hindered business growth, as many entrepreneurs spent excessive time and money on fulfilling tax obligations. Some respondents hired accountants or consultants at a cost they could barely afford, which diverted funds from productive investment. The researchers observed that these administrative burdens discouraged small firms from formal registration.

The study concluded that simplifying tax filing procedures and digitising tax records could reduce compliance costs and enhance efficiency among SMEs. They recommended capacity-building programs on e-tax platforms and affordable accounting support services for micro and small enterprises, especially in fast-growing cities such as Abuja.

Bello and Adamu (2021) explored the effects of multiple taxation on small businesses in Kano Metropolis. The study used a cross-sectional survey design involving 180 SMEs drawn from manufacturing, retail, and service sectors. It sought to understand how multiple taxes from different levels of government affect business survival and competitiveness.

The findings showed that overlapping tax demands from federal, state, and local agencies created severe financial and administrative burdens. Respondents reported paying various levies—such as signage, market, and environmental fees—often for the same activity. This duplication led to confusion, harassment, and declining profit margins. The researchers concluded that multiple taxation directly contributed to the high rate of SME failure in Kano. They recommended harmonising tax systems across tiers of government, ensuring proper coordination among tax authorities, and enforcing against illegal tax agents who exploit small businesses.

Ahmed and Hassan (2020) examined the effect of Value Added Tax (VAT) policy on SME performance in Abuja. Using data from 100 SMEs located in Garki, Wuse, and Nyanya, the study investigated whether VAT administration supports or hinders small-business growth. A structured questionnaire and interviews were used to collect primary data from business owners.

The study revealed that most SMEs found VAT registration and filing procedures too complex and time-consuming. Many business operators complained of limited guidance from tax officers, resulting in inaccurate filings and penalties. Some entrepreneurs also passed VAT costs to consumers, making their products less competitive.

The researchers concluded that while VAT remains vital to government revenue, its current structure strains SMEs. They recommended reduced VAT rates for microbusinesses, simplified documentation, and awareness campaigns to improve understanding and voluntary compliance among small-scale entrepreneurs in Abuja.

Okafor (2023) studied the impact of tax audits on SME performance in Anambra State. The research adopted an ex-post facto design using financial data from 75 SMEs audited between 2018 and 2022. The study aimed to determine whether audit practices enhance tax compliance and transparency among small firms. Findings showed that while audits improved compliance and accountability, they also disrupted normal business operations. Many SMEs reported increased costs due to hiring external accountants and prolonged engagement with tax officers during audits. These interruptions often reduced productivity and cash flow in the short term. Okafor concluded that fair and transparent audit exercises are essential but must be managed carefully to avoid discouraging investment. He recommended pre-audit education for SMEs, data-driven audit selection, and prompt post-audit feedback to reduce operational disruptions.

Afolabi and James (2021) assessed the effect of tax administration efficiency on SMEs in Osun State. The study used structured questionnaires and focus group discussions with 120 entrepreneurs across different sectors. Its purpose was to determine how administrative quality influences taxpayer confidence and compliance.

The results showed that inefficient tax administration—manifested through poor record-keeping, manual processes, and corruption—undermined SMEs' trust in tax authorities. Respondents frequently complained about being taxed twice for the same obligation and being issued inconsistent receipts by tax collectors. Such practices created frustration and resistance to compliance. The researchers concluded that transparent and technology-driven tax systems are essential for building trust among SME operators. They recommended digitalisation of tax processes, periodic audits of tax officials, and the introduction of electronic receipts to enhance accountability and reduce corruption.

Sani and Yakubu (2022) examined the effects of variations in tax rates on SME investment behaviour in Niger State. The study surveyed 130 SMEs to understand how unstable tax regimes affect financial planning and business confidence. Data were analysed using correlation and regression models. Findings revealed that frequent changes in tax rates created uncertainty and discouraged long-term investments. Many business owners expressed difficulty forecasting future revenues due to unpredictable tax adjustments. Sectors with relatively stable tax rates, such as agriculture, recorded better performance than those with irregular adjustments.

The study concluded that consistent and predictable tax policies promote investment and business expansion. The authors recommended that the government maintain stable tax rates and communicate policy changes clearly to enable SMEs to plan effectively.

Yusuf and Abdullahi (2020) investigated the relationship between tax collection practices and the informal SME sector in Zaria, Kaduna State. The study employed a descriptive design using interviews and questionnaires with informal traders and micro-enterprise owners. The goal was to identify barriers preventing informal businesses from complying with tax regulations.

Results indicated that most informal SMEs avoided registration due to fears of over-taxation and lack of visible benefits from government revenue. Respondents believed that officials used taxes for personal gain rather than for public services, eroding trust in the tax system. Consequently, many chose to remain outside the formal economy.

The researchers recommended community-based outreach, simplified tax registration, and visible infrastructural improvements to encourage voluntary participation in the tax system. These findings have substantial implications for AMAC, where informal operations remain widespread.

Ojo and Samuel (2021) studied the role of tax education in promoting compliance among SMEs in Lagos State. The research used a survey of 140 SMEs that participated in training sessions organised by the Lagos Internal Revenue Service. The study aimed to assess how education influences taxpayers' attitudes and compliance behaviour.

The findings revealed that SMEs who attended training sessions exhibited greater awareness of filing procedures, penalties, and the benefits of compliance. They also expressed greater trust in tax authorities and were more consistent in fulfilling their obligations. Non-participants, however, displayed higher levels of confusion and evasion.

The study concluded that tax education significantly enhances compliance and transparency among SMEs. The authors recommended regular workshops, simplified tax guides, and partnerships with SME associations to replicate such initiatives across other regions, including Abuja.

Danladi and Joseph (2023) investigated the effects of tax evasion on SME growth in the Federal Capital Territory. Using regression analysis on responses from 120 SMEs, they examined why many businesses evade taxes and how this affects long-term growth and credit access.

The study found that tax evasion was driven by distrust in government, perceived unfair tax rates, and weak enforcement. Although evasion offered temporary financial relief, it limited access to formal credit, business registration, and government contracts. Consequently, evading firms experienced slower growth than compliant businesses. The researchers concluded that tax transparency and fairness are vital for compliance. They recommended that FIRS enhance public accountability, organise town-hall engagements, and provide incentives for voluntary income disclosure to discourage evasion.

Nnamdi and Uche (2024) analysed the effect of recent tax reforms on SME competitiveness in the North-Central region, including Abuja. The study used a longitudinal approach, comparing SME performance before and after the implementation of the Finance Act 2020. Primary and secondary data were collected from 150 SMEs. The findings revealed that while some reforms simplified filing procedures and promoted digital platforms, others increased compliance costs through new levies. SMEs reported mixed outcomes, with improved record-keeping but reduced profit margins due to rising compliance costs. The study noted that limited stakeholder consultation weakened the intended benefits of the reforms. The authors concluded that participatory policymaking and consistent communication between tax authorities and business operators are essential for successful implementation. They recommended periodic assessment of the outcomes of tax reform and continuous collaboration between the government and SMEs to ensure fairness and efficiency.

2.4 Gap in Literature

A review of existing literature reveals that most studies on taxation and small business performance in Nigeria have primarily concentrated on national and state-level policies, with limited attention to the peculiarities of local government administration. Specifically, there is

a noticeable gap in understanding how taxation policies are designed, implemented, and experienced at the grassroots level, particularly within metropolitan local councils such as the Abuja Municipal Area Council (AMAC).

Moreover, while prior research has consistently highlighted issues of multiple taxation, inconsistent tax administration, and low compliance rates among SMEs, few studies have contextualised these challenges within the framework of local realities. Factors such as limited digital literacy, weak taxpayer education, and the predominance of informal enterprises are often overlooked in existing analyses, despite their significant influence on compliance behaviour and business sustainability.

This study seeks to bridge these gaps by critically examining the impact of government taxation policies on the performance and survival of SMEs within AMAC. It further aims to propose context-driven policy recommendations that account for the operational, technological, and administrative peculiarities of local enterprises, thereby contributing to a more inclusive and effective tax policy framework for sustainable SME development.

3.0 Methodology

3.1 Introduction

This section presents the methodological approach adopted in conducting the study on the Impact of Government Taxation Policies on Small and Medium-Sized Enterprises (SMEs) in AMAC Local Government Area, Abuja. It outlines the research design, population, sample size determination, sampling techniques, data collection instruments, validation procedures, methods of data analysis, and ethical considerations. The methods described were chosen to ensure the credibility, validity, and reliability of the findings.

3.2 Research Design

The study adopted a descriptive survey research design. This design was considered appropriate because it enables the researcher to collect, summarise, and interpret data from a representative sample of SME operators in their natural business environment. It also enables the identification of patterns and relationships between government taxation policies and SME performance. The descriptive design provides flexibility for gathering both quantitative and qualitative data through structured questionnaires.

3.3 Population of the Study

The target population for this study comprised all registered Small and Medium-Sized Enterprises (SMEs) operating within the Abuja Municipal Area Council (AMAC). According

to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2023), there are approximately 327 registered SMEs in the area. These businesses are distributed across key sectors, including retail trade, hospitality, information technology, transportation, and professional services. The population is large and diverse, making it suitable for statistical sampling using a scientific approach.

3.4 Sample Size and Sampling Technique

To determine the appropriate sample size for the study, the Taro Yamane (1967) formula was used. This formula provides a statistically valid and simple approach for selecting a representative sample from a known population. It is expressed as:

$n = N / (1 + N(e)^2$

Where:

n = Sample size

N = Population size

e = Margin of error (0.05 representing 5% level of precision)

Given that the population of active and registered SMEs within the Abuja Municipal Area Council (AMAC) was approximately 327, the formula was applied as follows:

$n = 327 / (1 + 327(0.05)^2$

n = 327 / (1 + 327(0.0025)

n = 327 / (1 + 0.8175)

n = 327 / 1.8175

n = 180

Therefore, the sample size for this study was 180 SMEs.

The sampling technique employed was purposive, which enabled the researcher to select only SMEs that had operated for more than 2 years. This ensured that participants had sufficient experience with taxation policies and compliance practices. The selected SMEs were proportionally drawn from key commercial areas in AMAC, including Wuse, Garki, Gwarinpa, and Maitama, to capture a broad spectrum of business operations and perspectives.

3.5 Method of Data Collection

Primary data were collected using a structured questionnaire designed by the researcher. The instrument contained both closed-ended and open-ended questions. Closed-ended questions were used to obtain quantifiable responses on taxation policies and SME performance using a five-point Likert scale (ranging from Strongly Agree to Disagree Strongly). Open-ended

questions allowed respondents to express their opinions and experiences freely. The questionnaire was pre-tested among a small group of SME owners to identify ambiguities and ensure clarity before complete administration. Questionnaires were distributed in person and electronically to enhance response rates.

3.6 Validity and Reliability of the Instrument

The questionnaire's validity was established through expert review. Academics in taxation and business management, along with SME consultants, examined the items to ensure content validity and relevance to the research objectives.

To assess reliability, a pilot study was conducted with 20 SME operators within AMAC who were not part of the final sample. The responses from the pilot test were analysed using Cronbach's Alpha to measure internal consistency. A reliability coefficient of 0.78 was obtained, which exceeds the acceptable threshold of 0.70, indicating that the instrument was reliable and consistent for data collection.

3.7 Method of Data Analysis

The data collected were coded and analysed using the Statistical Package for the Social Sciences (SPSS) software, version 25. Both descriptive and inferential statistical techniques were employed. Descriptive statistics, such as frequency, percentage, mean, and standard deviation, were used to summarise responses and describe general trends.

Inferential statistics, specifically the Chi-square (χ^2) test, were applied to test hypotheses and determine the significance of relationships between government taxation policies (independent variable) and SME performance (dependent variable). The results were presented in tables and charts to enhance clarity and understanding.

4.0 Data Presentation and Analysis of Results

This section presents the data collected from 180 respondents who operate Small and Medium Enterprises (SMEs) within the Abuja Municipal Area Council (AMAC). The data were analysed using frequency tables, percentages, and chi-square statistical tests to assess the research hypotheses.

4.1 Socio-Demographic Characteristics of Respondents

Table 4.1.1: Distribution of Respondents by Sex.

Sex	Frequency	Percentage
Male	110	61%

Female	70	39%
Total	180	100%

Source: Field Survey, 2025

Table 4.1.1 reveals that 61% of the respondents are male, while 39% are female. This indicates that male SME operators constitute a slightly higher proportion of the sampled population in AMAC. The distribution further suggests that men are more active in small business ownership in the area, although female participation remains substantial.

Table 4.1.2: Distribution of Respondents by Age.

Age Group	Frequency	Percentage
18–25 years	25	13.9%
26–35 years	60	33.3%
36–45 years	55	30.6%
45 years & above	40	22.2%
Total	180	100%

Source: Field Survey, 2025

Table 4.1.2 shows that the most significant proportion of respondents (63.9%) falls between the ages of 26 and 45 years, representing the economically active and productive age bracket. Only 13.9% are between 18 and 25 years, indicating lower youth involvement in SME operations in AMAC. This suggests that SME ownership is concentrated among mature, experienced individuals.

Table 4.1.3: Distribution by Marital Status

Marital Status	Frequency	Percentage
Single	90	50%
Married	80	44%
Divorced	10	6%
Total	180	100%

Source: Field Survey, 2025

Table 4.1.3 reveals that 50% of respondents are single, 44% are married, and 6% are divorced. This distribution demonstrates that both single and married individuals are significantly involved in SME activities in AMAC. However, the slight dominance of single respondents may indicate greater entrepreneurial flexibility among unmarried individuals.

Table 4.1.4: Distribution by Educational Background.

Educational Level	Frequency	Percentage
B.Sc	1	0.6%

HND	5	2.8%
NCE/ND	53	29.4%
WAEC	121	67.2%
Total	180	100%

Source: Field Survey, 2025

Table 4.1.4 reveals that most SME operators (67.2%) possess WAEC qualifications, indicating that secondary-level education is the most common educational attainment among respondents. Only 29.4% hold NCE/ND, while a tiny proportion (3.4%) possess tertiary degrees (HND or B.Sc). This suggests that SME participation in AMAC is primarily driven by individuals with basic to intermediate educational qualifications.

Table 4.1.5: Distribution by Years of Business Operation.

Years in Business	Frequency	Percentage
Less than 1 year	20	11.1%
1–3 years	55	30.6%
4–6 years	60	33.3%
Over 6 years	45	25.0%
Total	180	100%

Source: Field Survey, 2025

Table 4.1.5 shows that 33.3% of respondents have operated their businesses for 4–6 years, while 25% have operated for more than 6 years. This indicates that a large number of SMEs in AMAC have developed substantial operational experience and stability. Additionally, 11.1% of respondents represent new businesses less than one year old, demonstrating a steady influx of emerging enterprises. Overall, the range of business years enhances the study's comprehensiveness.

4.2 Analysis of Research Questions

Table 4.2.1: Responses to Questionnaire Statements.

S/N	Questionnaire Items	SA	A	SD	D
1	Tax compliance affects my business's profitability	92 (51.1%)	58 (32.2%)	20 (11.1%)	10 (5.6%)
2	Multiple taxation affects my business growth	110 (61.1%)	60 (33.3%)	5 (2.8%)	5 (2.8%)
3	Tax rates imposed on SMEs are too high	121 (67%)	53 (29%)	5 (3%)	1 (1%)
4	Tax policies influence my business decisions	115 (64%)	60 (33.3%)	3 (1.7%)	2 (1%)
5	Tax incentives are accessible to my business	28 (15.6%)	36 (20%)	64 (35.6%)	52 (28.8%)
6	Tax awareness campaigns in AMAC enhance	70	65	25	20

	understanding of SME tax obligations	(38.9%)	(36.1%)	(13.9%)	(11.1%)
7	SMEs in AMAC have received training or orientation on taxation	40 (22.2%)	55 (30.6%)	50 (27.8%)	35 (19.4%)
8	SMEs in AMAC maintain proper records for taxation purposes	65 (36.1%)	70 (38.9%)	25 (13.9%)	20 (11.1%)
9	Tax payment has impacted the profitability of SMEs in AMAC	78 (43.3%)	62 (34.4%)	250 (13.9%)	15 (8.3%)
10	The government effectively uses tax revenue to support SME development in AMAC	40 (22.2%)	55 (30.6%)	50 (27.8%)	35 (19.4%)
11	Taxation policies in AMAC affect the growth of SMEs	82 (45.6%)	70 (38.9%)	18 (10%)	10 (5.5%)
12	Multiple taxation is a significant burden on SMEs in AMAC	95 (52.8%)	60 (33.3%)	15 (8.3%)	10 (5.6%)
13	The current tax rate in AMAC is favourable to SMEs	20 (11.1%)	40 (22.2%)	65 (36.1%)	55 (30.6%)
14	Tax policies in AMAC are transparent and predictable	25 (13.9%)	50 (27.8%)	60 (33.3%)	45 (25%)
15	Tax incentives in AMAC are accessible to small business operators	28 (15.6%)	36 (20%)	64 (35.6%)	52 (28.8%)
16	There is a high correlation between VAT and overall tax revenue in Nigeria	53 (29.4%)	121 (67.2%)	1 (0.6%)	5 (2.8%)
17	Training and re-training of VAT administrators improve government revenue	115 (64%)	63 (35%)	2 (1.1%)	0 (0%)
18	Collaboration between tax authorities and SMEs enhances voluntary tax compliance	88 (48.9%)	67 (37.2%)	15 (8.3%)	10 (5.6%)

Source: Field Survey, 2025

The results in Table 4.2.1 indicate that taxation has a strong and largely negative influence on the profitability, growth, and strategic decisions of SMEs in Abuja Municipal Area Council. A large majority of respondents agree that tax compliance, high tax rates, and especially multiple taxation significantly reduce profitability and hinder business growth, with many SMEs facing overlapping levies from different levels of government. Tax policies are shown to influence pricing, investment, and expansion decisions strongly, yet tax incentives are widely perceived as inaccessible, limiting their intended supportive role. While awareness campaigns and record-keeping practices appear relatively encouraging, training and orientation on taxation remain inadequate for many operators. Perceptions of government effectiveness in using tax revenue to support SME development are mixed, reflecting limited trust in fiscal accountability. Additionally, most respondents view current tax rates and policy transparency as unfavourable, reinforcing concerns about unpredictability in the tax system. At the same time, respondents acknowledge the importance of VAT to Nigeria's national revenue and strongly agree that improved training for tax administrators and collaboration

between tax authorities and SMEs can enhance revenue generation and voluntary tax compliance.

4.3 Hypothesis Testing

Chi-square was used to test relationships between taxation and SME performance.

4.3.1 Hypothesis One

H_{o1}: Tax payment has no significant effect on SME profitability in AMAC

4.2.2   Test Variable: Response to Q9 (effect of tax payment on profitability)

Response	O	E
SA	78	45
A	62	45
SD	25	45
D	15	45
Total	180	180

Result: $\chi^2 = 59.51$, df = 3, critical $\chi^2 = 7.815$

Decision: Since 59.51 > 7.815, reject H_o.

Table 4.2.2 presents the chi-square test results assessing respondents' views on the effect of tax payment on business profitability. The observed frequencies (O) show that a large proportion of respondents either strongly agreed (78) or agreed (62) that tax payment affects profitability, compared to much lower responses for strongly disagree (25) and disagree (15). In contrast, the expected frequencies (E) assume an equal distribution of responses (45 each), highlighting substantial deviations between observed and expected values. The calculated chi-square statistic ($\chi^2 = 59.51$) with 3 degrees of freedom is significantly higher than the critical chi-square value of 7.815, leading to the rejection of the null hypothesis (H_o). This result indicates a statistically significant relationship between tax payments and SME profitability, confirming that tax obligations have a meaningful impact on SMEs' financial performance.

4.3.2 Hypothesis Two

H_{o2}: Access to tax incentives has no significant relationship with SME sustainability

4.2.3 Test Variable: Response to Q15 (accessibility of tax incentives)

Response	O	E
SA	28	45
A	36	45
SD	64	45
D	52	45
Total	180	180

Result: $\chi^2 = 17.33$, df = 3, critical $\chi^2 = 7.815$

Decision: Since $17.33 > 7.815$, reject H_0.

Table 4.2.3 presents the chi-square test examining the relationship between access to tax incentives and SME sustainability. The observed responses show that fewer respondents strongly agreed (28) or agreed (36) that tax incentives are accessible. At the same time, a larger number strongly disagreed (64) or disagreed (52), compared to the expected frequency of 45 for each category. The calculated chi-square value ($\chi^2 = 17.33$) with 3 degrees of freedom exceeds the critical value of 7.815, leading to the rejection of the null hypothesis (H_0). This indicates a statistically significant relationship between access to tax incentives and SME sustainability, suggesting that limited access to tax incentives negatively affects SMEs' ability to maintain and grow their operations.

4.5 DISCUSSION OF FINDINGS

The findings of this study reveal that government taxation policies in AMAC, Abuja, significantly affect SMEs' profitability, growth, and sustainability. Analysis of questionnaire responses shows that a substantial proportion of SME operators perceive tax compliance, high tax rates, and multiple taxation as significant constraints on profitability and business expansion. Chi-square results confirm that tax payment significantly affects SME profitability ($\chi^2 = 59.51$, df = 3, $p < 0.05$), indicating that tax obligations directly influence financial performance. Furthermore, the study highlights that tax policies strongly shape business decisions, including pricing, investment, and reinvestment strategies. In contrast, inadequate access to tax incentives limits the intended support for SMEs ($\chi^2 = 17.33$, df = 3, $p < 0.05$). These outcomes align with prior research showing that complex, inconsistent, and overlapping tax regimes undermine SME growth and create compliance challenges (Adegbite & Adebayo, 2021; Ocheni & Gemade, 2022).

Additionally, the findings underscore the importance of transparency, predictability, and education in taxation for SME sustainability. Respondents report limited awareness of tax incentives and inadequate training on compliance procedures, which reinforces mistrust in tax authorities and encourages informal operations. While digital platforms and awareness campaigns exist, low adoption and engagement reduce their effectiveness, limiting SMEs' ability to benefit from government support. The study suggests that harmonising tax policies, simplifying compliance procedures, and fostering proactive communication between authorities and SMEs could enhance voluntary compliance, profitability, and long-term

sustainability. These results demonstrate that the design and implementation of taxation policies must consider the operational realities and financial capacity of SMEs to foster equitable economic growth in AMAC (Musgrave, 1959; Ibrahim & Momoh, 2020; Ezenwa & Okoye, 2019).

5.0 CONCLUSION AND RECOMMENDATIONS

The study concludes that government taxation policies in AMAC, Abuja, significantly influence the profitability, growth, and sustainability of SMEs. Findings indicate that tax compliance, high tax rates, and multiple taxation impose substantial financial and administrative burdens on small businesses, reducing their ability to reinvest, expand, and maintain operations. Limited access to tax incentives and inadequate tax education further exacerbate these challenges, leading to informal business operations, reduced compliance, and restricted business growth. The study also underscores that, while digital tax systems and awareness campaigns exist, low adoption and engagement hinder their effectiveness, highlighting the need for more inclusive, practical approaches. Overall, the study affirms that the structure, administration, and enforcement of taxation policies are critical determinants of SME performance and sustainability in AMAC.

Based on the findings, it is recommended that government authorities in AMAC adopt a more equitable and SME-friendly taxation framework. This includes harmonising taxes across federal, state, and local levels to eliminate duplication, implementing graduated or income-based tax assessments to reflect businesses' financial capacity, and simplifying compliance procedures through digital platforms with adequate support for SMEs. Additionally, targeted tax education programs, workshops, and awareness campaigns should be conducted to improve understanding of obligations and incentives, while ensuring that tax incentives are transparent, accessible, and effectively communicated. By fostering collaboration between tax authorities and SME operators, these measures can enhance voluntary compliance, improve profitability, and promote long-term sustainability, thereby strengthening SMEs' overall contribution to local economic development.

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