TAX INCENTIVES AND GROWTH OF INFORMAL SECTOR SMALL AND MEDIUM ENTERPRISES IN SOUTH WEST, NIGERIA.

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Abstract
The informal sector Small and Medium Enterprises (SMEs) growth is very important to the development and expansion of an economy. Studies have revealed that SMEs in the informal sector are liquidated at infant stage and also not captured in the tax net. The study examined the impact of tax incentives on the growth of SMEs in the informal sector of South West, Nigeria. The study used survey research design. The population consisted of 2,708 registered SMEs with Small and Medium Enterprises Development Agency SMEDA. Using stratified and proportionate quota sampling method to administered questionnaire to 386 selected samples. The study administered 772 copies of the questionnaire with a retrieval rate of 88%. Reliability ranged between 0.70 and 0.87. Descriptive and inferential statistics were used to analyze the data. The results showed that tax incentives have significant impact on gross margin growth with Adj. $R^2 = 0.890; F$-statistics of 455.530 and $p$-value of 0.000. Also tax incentives have significant impact on asset tangibility growth with Adj.$R^2$ of 0.781, $F$-Statistics $= 60.220$ and $p$-value $= 0.000$. The study concluded that tax incentives have the predictive power to grow the informal sector SMEs in Nigeria. The study recommended that Federal Inland Revenue Service and State Internal Revenue Board should introduce policies that enable the SMEs in the informal sector to be captured in the tax net through tax incentives. The will expand the tax revenue generation to both the federal and state governments of Nigeria.

Keywords: Economy, Economic development, Growth, Informal sector, Poverty, Small and Medium Enterprises, Tax incentives.

Introduction: Informal sector in any economy of the world is that sector that contains many businesses which are not recognized or registered by the government of the nation. The informal sector consists of economies outside government operations and activities. The economic activities of the informal sector save many citizens from poverty and joblessness. Their activities are based on low level of cash operations or cash budget, and their profits or losses are determined on transactions basis, which makes it difficult to tax them. Also because they are not registered makes it difficult to recognize and record then into tax net of the nations. (Akeju, 2018).
Akeju (2018) opined that the Small Medium Enterprises (SMEs) dominate the sector in Sub-Saharan Africa’s economies. The large rate of unemployment and economic recession in many nations has directed the attention of the nations to developing the informal sector. The informal sector is essential for the economic development of the nation’s informal sector is a key factor to be recognized by a national government for survival and sustainable economy because many individuals who are unemployed want to engage in one activities or the other for survival and maintenance of good health. Informal sector is a key phenomenon in low income and emerging economic of the word with the following features: Taxes in the sector is not in quantum because of lack of registration formally with the government, some have no addresses, some of them have no knowledge of tax payment, some see no reasons for paying tax because of tax injustice, hence many state and local governments suffer for inadequate financial resources to support development from state taxation. These all have negative effect on public sector corporate governors (Kundt, 2017). Kundt highlighted the following characteristics of informal sector:

i. Their activities are in retail and constructions which are widely spread in emerging and developing countries of the world.

ii. The expected tax income from the sector may be in large quantum, but the administration cost pose a challenge if the taxes realized will not have cost and benefit factor.

iii. They are not of high production like the formal sector

iv. The benefits from the sector depended on other factor (which this study was designed to cover)

v. The sector suffers from accountability, transparency and poor tax compliance.

vi. Taxation in the informal sector will strengthened the political economy of the nation if adequate corporate governance is established and implemented.

Joshi, Princhard and Heady (2013) defined the informal sector as various employment outside the formal labour market of an economy, and see it as dynamic growth sector not recognized by government that has no right focus for growth and development.

Civic Society Legislative Advocacy Centre –CISLAC (2017) described the informal sector as the total economic activities or business transactions that take place outside government regulators and controls. They don’t operate under conventional accounting principles and concepts, accounting standards and theories. According to the survey, the informal sector occupy about 65% of the economic activities of Nigeria. They stated that, the sector covers agriculture, mining, small scale enterprises, construction, machine-shop manufacturing, traditional Nigerian crafts in clothing and furniture, vehicles and mechanical repair, utility service, parallel finance structure operating unwritten rules and providing credit services to individuals. The sector accounted for 90% of new jobs 80% of non-agricultural employment 60% of turban jobs created, mechanical and electrical works, dressmaking, information technology and communication, footwear, gold and silver smitten and traditional healing to mention a few with characteristics of low income, sole trading with self-employed proprietors. All the above mentioned can be categorized as Small and Medium scales Enterprises with entry barriers to the formal sector of the economy.

CISLAC explain the following that are responsible for the growth of the formal sector in Nigeria: unfriendly regulatory system in the economy, low/non-tax compliance by operators of this sector, the entry cost to the formal sector, spreading and celebrated corruption in the economy unabated unemployment in the public sector, entrepreneurship attitude, low level of education, low income at the public sector, high cost of living in Nigeria economy and decay infrastructures in the whole on Nigeria economy. Businesses that operate in the informal sector of the economy are classified as small and medium enterprises (SMEs) in any economy of the world.
Udofot and Etim (2017) emphasized the positive position of SMEs to reshape and turn around the economic stability and sustainability of the economies of nations. They are the pillars of growth and development of economies. Studies have shown that Nigeria government is yet to enjoy the benefits which SMEs bring into an economic system, as they contribute greatly to developed and emerging economies. Oyelaran-Oyeyinka (2007) opined that International Finance Corporation statistics showed that 95% of businesses in Nigeria are SMEs, 53% in United States of America and 63% in Europe. Further SMEs contribute 40% to Gross Domestic Product (GDP) in Nigeria, 50% in United States of America. Liu (2018) expressed that after China’s economy was opened as market economy, SMEs have been playing a great role in the economic growth and development of China. Ojochogwu and Ojeka (2012) gave tax related factors are responsible for untimely liquidation of SMEs in Nigeria. This was supported by Agot and Ugwuoke (2018) with the argument that Nigeria tax system in complex and rigid to growth of SMEs in Nigeria. Various taxes are imposed on the low income of the small enterprises like income tax, rent income, indirect taxes ranging from Value Added Tax, import and excise duties which have negative impact on the liquidity, profitability and survival of the SMEs. Peace, Ajike and Ezejiofor (2017) explained various policies introduced by the government of Nigeria to grow SMEs for the positive contribution to GDP. Some of the policies are the incentives for fiscal and export, tariff regime and financial support and technical assistance programme to protect the small and medium enterprises. Government supports the SMEs through attractive investment policies. Studies have shown that with all theses policies and reforms, SMEs have not shown significant impact to a level that they will contribute a high percentage to the GDP of Nigeria. Taiwo and Falodun (2016) also opined that SMEs contribution is very low to expectation because of high tax rate, multiple taxation, intricate tax regulations, difficulty in education, deficiency in education and enlighten on tax matters and high rate of non-tax compliance since they are not in the tax net. The study examined the impact of tax incentives on growth of informal sector in Nigeria Two hypotheses were tested:

H₀₁: Tax Incentives have no significant impact on the gross margin of informal sector SMEs in South West, Nigeria

H₀₂: Tax Incentives have no significant impact on assets tangibility of informal sector SMEs in South-West, Nigeria

2. Literature Review

2.1. Conceptual Review

**Informal Sector:** This sector is dominated by economic and business activities that transact outside the formal sector. The formal sector is controlled by policies and regulations which are not applicable in the informal sector. The transactions are mainly on cash basis with profit/losses determined on daily basis or based on transactions. The economic recession and reduced flow of foreign direct investment and income has focused many nations to restructure the informal sector for growth and development (Akeju, 2018). Kundt (2017) opined that informal sector has gained International development agenda and focus in on how to generate more revenue from taxation. The sector is dominated by retail businesses, construction firms and enterprises. While the informal sector belief in tax justice, the state has the responsibility to demonstrate transparency, accountability and fairness in the distribution of amenities for democratic participation and owners of resources. Joshi, Princhard and Heady (2013) compared the informal sector as subsistence firms, microenterprises and small business, small and medium enterprises with the formal sector as small, medium and large businesses’ with registered labour. Ameyaw, Korana, Twun and Asante (2016) in analyzing informal sector explained that they are SMEs with small firms with annual turnover of 2million sterling pounds, 200 or fewer paid employees in UK. In Japan, SMEs are in the tune of 100million Japanese Yen as paid up capital. In Nigeria, SMEs are firms with turnover of ₦500,000, bank loan of ₦2million maximum and ₦5million capital.
Gross Margin: Gross margin is the difference between the turnovers and cost of sales/production. It guides the firms to fix appropriate price for the products/services. The financial statements guide the firms to compute the gross margin. The formula is as stated: Gross Margin: Turnover minus operating cost which includes cost of sales/cost of production. Gross profit margin is company net sale revenue minus cost of goods sold. Gross Profit Margin is shown as a percentage while gross profit is an absolute figure. The gross margin ratio determines the efficiency of internal control of the organization, and transparency of the managers. (Lucy, 2015).

Assets Tangibility: These are assets that have monetary value and are in the physical form. Asset tangibility is the ratio of receivables and inventories x fixed capital to the book value of total assets. Tangible assets are physical and measurable assets used for business operations of the firm. Tangible assets are property, plants & machinery/equipment. Nasution, Sireger and Panggabean (2017) opined that assets are long term that the firm can use as collateral to obtain loans from the banks. They are earning assets used to generate income for the firms. Baker and Martin (2011) explain that the high ratio of tangible assets to total assets provide confidence to the creditors and shareholders what to fall back to in the case of bankruptcy and liquidation of the firms. Mamoun and Ziad (2012) asserted that asset tangibility is the ratio of fixed assets over the total assets of the SMEs. There is a significant relationship between the tangible assets and the income of the SMEs. The increase in tangible assets is hinged on the retained earnings or undistributed profits of the firms.

Tax Incentives: The informal sector to enter the tax net hinges on the agenda of formalization so as to enjoy the potential benefits embedded therein. Studies have shown that formalization is rational choice for firms but the benefits must outweigh the cost. The firms will consider the following cost of formalization time and resources for registration for licences, cost of tax computation, and cost of loans. Some of the benefits of formalization are assess to credit and capital market, government services and facilities, avoiding cost of informality and incentives from taxation (Joshi, Prichard and Heady, 2012). CISLAC (2017) asserts that in addition to the provision of goods and services for motivation as tax justice, national awards for tax compliance could be extended to those who fulfilled their obligations. More importantly, tax incentives and allowances can be granted to SMEs. There can be tax allowances and tax rebates for those who adopt voluntary compliance by participants in the informal sector. Afolabi (2013) expressed the view that the growth and development of SMEs can be made possible by government charging less tax and extend tax holidays in order to encourage investments and economic activities. Broersma and Gautier (2017) explained that tax incentives are used to encourage acquisition of new technology so that Nigerian economy can benefit from the SMEs. Some of the incentives are investment allowance which according to Oyedele and Erukume (2015) is granted at the rate of 10% on qualifying capital expenditure incurred. Tax holidays are incentives used by emerging and developing countries to stimulate the SMEs for growth and expansion. The incentive is that five years tax holiday is granted for newly established firms. The modality is tax holiday for the first three years to be extended by another two years subject to application and effective utilization of resources accrued from tax holiday for the first three years. Twegie and Gasheja (2019) discovered that tax holiday has a significant and positive relationship with growth of SMEs in Nigeria. According to Adamu (2014) investment tax credit is earned as a fixed percentage on investment in new capital expenditure at a future date so that investment can grow.

2.2 Theoretical Review: Two theories underpinned this study: The first is the theory of optimal taxation popularized by Mirrless in 1971 begun with Ramsey. The approach is to reduce inefficiency and maximize social welfare of the citizens. That taxes paid should be in proportional position with the level of income. Mirrless assumes that revenue be raised through taxation and resources must be redistributed without distortion of any sort. It assumes tax burden distribution relative to level of income which will ensure effectiveness in tax policy in the informal sector. Ramsey according to Mirrless discovered the problem of raising revenue by commodity taxes from a single consumption. That large sum taxation considers optimal pricing by government organizations which are always limited by budget. Optimal taxation is to design and implement tax that will maximize the social welfare of the citizens subject to avoiding economic constraints. The second theory is the Ibn-Khaldun’s theory of taxation. This theory was propounded by Ibn-Khaldun in 1345 which assumes that tax should be lowered on amounts earned which is capable of undertaking cultural/private enterprises. The tax payer will be disposed psychologically to undertake to pay with the confidence that the enterprise will make profit. The advocacy is that burden of taxation be decreased on enterprises and products so as to encourage them to invest for greater profits. The assumption is that when tax assessments and impositions are low, there will be opportunities to expand and grow business. The low taxes paid will bring satisfaction and ensure liquidity in the firms.
2.3: **Empirical Review:** Akeju (2018) evaluated the compliance of informal sector to tax laws and the impact of belonging to association. The study was based on 600 artisans in South West Nigeria. Using inferential statistics, the study discovered that members of association have strong influence on tax compliance. The study differed from our study which focused on tax incentives as financial strategy to growth the informal sector. Kundt (2017) examined opportunities and challenges for taxing the informal sector based on theoretical review and content analysis. The study which reviewed the characteristics of the informal sector enterprises observed that informal sector non-inclusion in the tax net can cause negative impact on development in the developing countries. The study was a debate and theoretical while our current study was based ex-post factor design and empirical research using inferential statistics. Joshi, Prichard and Heady (2013) investigated the taxing of the informal sector, the challenges and possibilities. The study was based on content analysis and discussion as working paper at the International Centre for tax and development in UK. They were of the opinion that taxing the informal sector is essential to sustain tax morale and tax compliance. That government must be effective plus political accountability to gain the maximum objective. Twesige and Gashega (2019) analyzed the effect of tax incentive on the growth of SMEs in Rwanda. They considered 49,000 SMEs through survey design. They discovered that wear and tear, loss carried forward and VAT refund were the incentives granted to encourage SMEs in the country. The study discovered the strong and significant impact of tax incentives on the growth of SMEs in Rwanda, our study is based in Nigeria. Aremu and Adeyemi (2011) evaluated SMEs indices to determine the relationship between tax and business capability to expand the scope. They found out that high tax rate can hinder growth of SMEs in Nigeria. Adebisi and Gbeji (2013) evaluated the chain effect of multiple taxation on SMEs in Ogun State. They did the study on West African Ceramics, Ajaokuta and discovered that multiple taxation has negative impact on SMEs survival. Their study centered on survival while this study centered on growth of SMEs. Ochei and Gemade (2015) studied the effect of taxes on SMEs. While Okolo, Okpalola and Okolo discovered that noteworthy association exist among SMEs and their capability to pay tax, Ochei and Gemade discovered that multiple taxes have adverse effect on SMEs survival. Kehinde and Sikiru (2014) studied growth of SMEs and the factors responsible for it. They argued that growth is a process that is attractive over time. This overtime can be viewed as changes in some variables over time. That growth can be measured through profit, sales in monetary units or market value or average bill. The study did not consider tax incentives. Akinyomi and Tasi (2011) investigated the impact of tax incentives on the performance of registered SMEs in Rivers State. Based on eleven selected SMEs through survey research method with the administration of 260 copies of questionnaire. They found out that tax incentives have impact on the growth and development of SMEs. This study was survey while our study was an ex-post facto using secondary data. Mamoun and Ziad (2012) studied concluded there is a significant effect of growth in assets and income earned and stated that what companies pay out is a function of its profit level. Those assets have a great impact on the earnings of the firms. They further argued that the more the tangible assets of a company, the more income they will generate for the organization. The study is justified because many of the studies reviewed did not have the same focus with our study. The analyzed the position of informal sector dominated by SMEs and tried to investigate the reasons for their early liquidation and non-performance. The study considered two unique theories of optimal taxation and Ibn-Khaldun’s theory of taxation which linked tax incentives to the growth of SMEs in the informal sector.

3. **Methodology:** The study used a survey research design which provided confidence method of taking opinion from respondents about the characteristics and features of the measured variables. The population consisted 2708 registered SMEs in Ondo and Ekiti states with Small and Medium Enterprises Development Agency as at 2018, broken into Ondo State with 1,679 and Ekiti State with 1,029 respectively. Using Taro Yamane statistical formula, the sample consisted of 386.

Formula:
\[ n = \frac{N}{1 + \left( \frac{e^2}{2} \right)N} = \frac{2708}{1 \left( \frac{0.05^2}{2} \right) 2708} = 7.77 \approx 386. \]

The study used multistage sampling techniques of stratified sampling method and proportional quota for the distribution of the sample to various sections as indicated in the table below.

Two copies of questionnaire were administered to each responded totaled 772 out of which 679 copies representing 88% were retrieved.

The formula for the proportionate distribution is stated thus:
H = \frac{y}{N(n)} = \frac{534}{2708(386)} = 76

Statistical Package for Social Sciences (SPSS) version 21 was used to analyze the data

### Table 1 Proportionate distribution of sample amongst the selected SMEs in Ondo and Ekiti States

<table>
<thead>
<tr>
<th>S/N</th>
<th>Divisions</th>
<th>Population Size for each Division</th>
<th>Total study Population</th>
<th>Sample Size</th>
<th>Sample Proportionate Size (%)</th>
<th>Sample percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ondo Central</td>
<td>534</td>
<td>2708</td>
<td>386</td>
<td>76</td>
<td>24.55%</td>
</tr>
<tr>
<td>2</td>
<td>Ondo North</td>
<td>361</td>
<td></td>
<td>51</td>
<td>13.2%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Ondo South</td>
<td>784</td>
<td></td>
<td>111</td>
<td>28.8%</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Ekiti North</td>
<td>140</td>
<td></td>
<td>19</td>
<td>0.05%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Ekiti South</td>
<td>503</td>
<td></td>
<td>71</td>
<td>18.4%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Ekiti Central</td>
<td>386</td>
<td></td>
<td>58</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2708</td>
<td></td>
<td>386</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source:** Research Work (2020)

The data collected were from the respondents through the administration of copies of the questionnaire. Five likert scale questionnaire was used as analyzed thus: Strongly Agree (SA)=5; Agree (A)=4; Undecided (U)=3; Disagree (D)=2; Strongly Disagree (SD)=1

The reliability rate for the variables ranged from 0.70 to 0.87. Descriptive and Inferential statistics were used to analyze the data.

**Operationalization of variables and Models**

\[ Y=f(X) \]

\[ Y=\text{Dependent variable}=\text{Growth of SMES in informal sector}=\text{GSMEs} \]
\[ X=\text{Independent variable}=\text{Tax Incentive}=\text{TI} \]
\[ Y=\text{GSMEs}= \]
\[ .y_1=\text{Gross Margin Growth} - \text{GMG} \]
\[ .y_2=\text{Tangible Assets Growth} - \text{TAG} \]

\[ X=x_1,x_2,x_3,x_4. \]
\[ .x_1=\text{Investment Allowance} - \text{IA} \]
\[ .x_2=\text{Tax Holiday} - \text{TH} \]
\[ .x_3=\text{Tax Credit} - \text{TC} \]
\[ .x_4=\text{Tax Deferment} - \text{TD} \]

\[ \text{GMG}=f(\text{IA,TH,TC,TD}) \dots \text{Equation 1} \]
\[ \text{GMG}=\beta_0+\beta_1\text{IA}+\beta_2\text{TH}+\beta_3\text{TC}+\beta_4\text{TD}+\mu \text{---Model 1} \]
\[ \text{TAG}=f(\text{IA,TH,TC,TD}) \dots \text{Equation 2} \]
\[ \text{TAG}=\beta_0+\beta_1\text{IA}+\beta_2\text{TH}+\beta_3\text{TC}+\beta_4\text{TD}+\mu \text{---Model 2} \]
4. Results Analysis and Discussion of Findings

4.1 Test of Hypothesis 1
Objective 1: To evaluate the significant impact on informal sector SMEs in South West, Nigeria
Hypothesis 1 (H₀) Tax incentives have no significant impact of informal sector SMEs in South West, Nigeria

Table 2  Multiple Regression Analysis Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.468</td>
<td>.215</td>
<td>3.796</td>
<td>.000</td>
</tr>
<tr>
<td>Investment Allowance</td>
<td>.656</td>
<td>.018</td>
<td>.682</td>
<td>22.350</td>
</tr>
<tr>
<td>Tax Holiday</td>
<td>.910</td>
<td>.017</td>
<td>.946</td>
<td>2.102</td>
</tr>
<tr>
<td>Tax Credit</td>
<td>.801</td>
<td>.010</td>
<td>.833</td>
<td>7.180</td>
</tr>
<tr>
<td>Tax Deferment</td>
<td>.792</td>
<td>.028</td>
<td>.824</td>
<td>7.238</td>
</tr>
</tbody>
</table>

R = 0.954; Adjusted R² = 0.890; F= 455.530 p=0.0000 Level of significance 0.05

Dependent Variable: Gross Margin Growth(GMG)


Independent variables
IA-Investment Allowance
TH-Tax Holiday
TC=Tax Credit
TD=Tax Deferment

GMG=f(IA,TH,TC,TD)……………….Equation 1
GMG=β₀+β₁IA+β₂TH +β₃TC+β₄TD +μ---Model 1
GMG=.468+.656IA+.910TH+.801TC+.792TD

Table 1 reveals the multiple result of the test of hypothesis one. The Adjusted R-squared is 0.890 which shows the composition of all the independent variables of IA,TH,TC and TD in the dependent variable GMG which is 89% while the balance of 11% is found in factors not considered in this study. The coefficient of the constant is positive with statistic of 0.468. These show that the model has a line of best fit and good for prediction. All the independent variables have positive coefficients with investment allowance (IA) of 0.656 with significant p-value of 0.001; tax holiday(TH) of 0.910 with significant p-value of 0.002; tax credit(TC) of 0.801 with significant p-value of 0.000 and tax deferment of 0.792 with significant p-value of 0.001. This position shows that the model is good and fit to predict the future of informal sector SMEs in south west, Nigeria. The study used 0.05 level of significance to test the hypothesis. The F-statistics is 455.530 with p-value of 0.000 which is less than 0.05. Therefore the study rejected the null hypothesis which means tax incentives have significant impact on informal sector SMEs in south west, Nigeria.
4.2. Test of Hypothesis 2

**Objective 2:** To examine the effect of tax incentives on asset tangibility of informal sector SMEs in South West, Nigeria

**Hypothesis 2:** Tax incentives have no significant impact on the asset tangibility growth in informal sector SMEs in South West, Nigeria.

Table 3: Multiple Regression Analysis Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.918</td>
<td>.872</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Allowance</td>
<td>.623</td>
<td>.076</td>
<td>.685</td>
<td></td>
</tr>
<tr>
<td>Tax Holiday</td>
<td>.772</td>
<td>.068</td>
<td>.849</td>
<td></td>
</tr>
<tr>
<td>Tax Credit</td>
<td>.689</td>
<td>.095</td>
<td>.758</td>
<td></td>
</tr>
<tr>
<td>Tax Deferment</td>
<td>.520</td>
<td>.029</td>
<td>.572</td>
<td></td>
</tr>
</tbody>
</table>

R = 0.919; Adjusted R² = 0.781; F = 60.220 p-value 0.000 Level of significance = 0.05

**Source:** Research Work, 2020.

**Independent variables**
- IA=Investment Allowance
- TH=Tax Holiday
- TC=Tax Credit
- TD=Tax Deferment

TAG=f(IA,TH,TC,TD) \[ \text{Equation 2} \]

TAG= \[ \beta_0 + \beta_1IA + \beta_2TH + \beta_3TC + \beta_4TD + \mu \] \[ \text{Model 2} \]

TAG=3.918 + 0.623IA + 0.772TH + 0.689TC + 0.520TD

Table 3 shows the multiple regression results of the test of hypothesis 2. The Adjusted R-squared reflects that the composition of all the independent variables sub-variables of IA, TH, TC, TD composition in the dependent variable TAG is 0.781 which means that 78.1% while the balance of 21.9% is found in factors not represented in this study. The coefficient of the constant(TAG) is 3.918 positive. The adjusted R-squared and the constant positive coefficient show that the model has a line of best fit and good for prediction of the growth of informal sector SMEs in South West, Nigeria. Other results as revealed by table 3 show that all the independent variables have positive coefficient and significant p-values which are all less than 0.05 level of significance adopted for this study. Investment Allowance (IA) has 0.623 with a significant p-value of 0.000; Tax Holiday (TH) has 0.772 with significant p-value of 0.000, Tax Credit (TC) has p-value of 0.689 with a significant p-value of 0.000 while Tax Deferment (TD) has 0.520 with significant p-value of 0.000. The result further reveals that the F-Statistics is 60.220 with a p-value of 0.000. The study rejected the null hypotheses which means that tax incentives have significant impact on the tangible assets growth of informal sector SMEs in South West, Nigeria.
4.3 Discussion of Findings:

Two hypotheses were tested to determine the impact of tax incentives on the gross margin growth and assets tangibility growth in informal sector SMEs in South West, Nigeria. The results show the importance and significant position of tax incentives to enhance the growth of informal sector of SMEs. Past research works that the early liquidation of the SMEs has not allowed their impact in the growth and development of the economy of Nigeria. The result found that the management of SMEs need to liaise with the regulation in the economy to have a policy to see how investment allowance, tax holiday, tax credit and tax deferment can be granted to the SMEs for growth, sustainability. The results are in tandem with the result of the study of Twesigie and Gasheja (2019), Joshi, Prichard and Heady (2013) and Adamu (2014). The result in contrary to the result of Akeju (2018) which focused on associational membership.

5. Conclusion and Recommendations:

The study evaluated the impact of investment allowance, tax holiday, tax credit and tax deferment on the growth of informal sector SMEs which have been facing insolvency position in Nigerian economy. The study discovered that individual independent variable has the predictive power to impact positively the growth of informal sector SMEs. The combined effect through multiple regressions also has the predictive power to enhance the growth of the informal sector SMEs. The study therefore concluded that tax incentives significant impact the growth of SMEs in the informal sector of South West, Nigeria.

The study recommended that:

i. The Regulators of taxation in Nigeria-Federal Inland Revenue Service should establish a policy that will introduce tax incentives for the informal sector SMEs so that they can be captured in the tax net of Nigeria. This will enhance the income generated through taxation in Nigeria, and will also expand the participation of more entrepreneurs in SMEs in Nigeria.

ii. The investors in SMEs should reorganize their operations so as to enjoy tax incentives in order to grow their businesses.

iii. The management of SMEs should focuses on how to growth gross income through good internal control of cost, and also ensure tangible assets are purchased to enhance operational efficiency for growth, stability and sustainability of business.

The study has significantly contributed to knowledge in the following two major areas:

i. The study discovered that theory of optimal taxation and Ibn-Khaldun theory of taxation have direct link between tax incentives and the growth of the SMEs. The two theories are practical to the successful operation of SMEs.

ii. The two models discovered that gross margin and asset tangibility can be predicted for growth if implement by SMEs in Nigeria. The two models are good for accounting practice in Nigeria.
References


