

**THE IMPACT OF VALUE ADDED TAX (VAT) ON SMALL AND MEDIUM  
SCALE ENTERPRISES (SMES) IN OVIA NORTH EAST LOCAL  
GOVERNMENT AREA OF EDO STATE.**

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BENIN CITY**

**NOVEMBER, 2025**

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF PUBLIC  
ADMINISTRATION, FACULTY OF SOCIAL SCIENCES, UNIVERSITY OF  
BENIN, BENIN CITY, IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc)  
DEGREE IN PUBLIC ADMINISTRATION**

**NOVEMBER, 2025**

## **CERTIFICATION**

We, the undersigned, certify that this project titled: “The Impact of Value Added Tax (Vat) on Small and Medium Scale Enterprises (SMEs) in Ovia North East Local Government Area of Edo State” was carried out by Anthonia Chinonso CHIME with Matriculation Number SSC2105785 in the Department of Public Administration in partial fulfilment of the requirements for the award of Bachelor of Science (B.Sc.) Degree in Public Administration, University of Benin.

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**DATE**

## **DEDICATION**

This project is dedicated to God Almighty for his grace, Mercies and by whose divine assistance made it easy for me to accomplish this work

## ACKNOWLEDGEMENT

All thanks to my heavenly father for making this work a success. I am forever grateful for the good health, wisdom and understanding granted to me during the course of this project writing.

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## ABSTRACT

*This study examined the impact of Value Added Tax (VAT) policies on the growth of Small and Medium Enterprises (SMEs) in Ovia North East Local Government Area of Edo State. The research was carried out to evaluate the level of VAT compliance among SMEs, determine the relationship between VAT policy and profitability, assess the administrative burden of VAT on operational efficiency, and analyze the perception of SME operators regarding VAT and business sustainability. The study adopted a descriptive and inferential research design. Data were collected through structured questionnaires distributed via Google Forms and face-to-face administration, with 300 valid responses analyzed using SPSS Version 25. Analytical tools such as descriptive statistics, Pearson correlation, multiple regression, and Chi-square tests were employed to test the hypotheses. Findings revealed a significant positive relationship between VAT compliance and SME growth, indicating that firms with higher compliance levels tend to perform better in the long run. VAT policies were found to have a considerable impact on profitability and operational efficiency, while administrative challenges remained a major constraint to full compliance. Furthermore, the study showed that SMEs' perception of VAT significantly affects their willingness to comply and sustain business operations. The study concluded that VAT can enhance SME growth if well managed and supported by simplified tax administration. It recommended that government agencies improve tax education, reduce compliance costs, and enhance digital tax systems to encourage broader SME participation in the VAT scheme.*

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

Small and Medium Enterprises (SMEs) are universally acknowledged as critical engines of economic growth, especially in developing countries. Their role in employment generation, innovation, industrial linkages, and poverty alleviation has been well documented in global and regional literature (Beck & Demirgüç-Kunt, 2006). In Nigeria, SMEs constitute over 97% of all businesses and contribute approximately 48% to the national Gross Domestic Product (SMEDAN, 2017). Despite their significance, SMEs in Nigeria continue to face systemic barriers that constrain their growth and sustainability. Prominent among these barriers are tax-related challenges, particularly issues surrounding the implementation and impact of Value Added Tax (VAT) policies.

VAT is a broad-based consumption tax levied on goods and services at each stage of the production and distribution process. Globally, VAT is recognized as a more efficient and less distortive form of taxation compared to traditional sales tax (Ebrill et al., 2001). In Nigeria, VAT was introduced in 1993 to replace the sales tax and is currently administered by the Federal Inland Revenue Service (FIRS). A key reform came with the Finance Act 2019, which increased the VAT rate from 5% to 7.5% and

introduced a ₦25 million turnover threshold for VAT registration (FIRS, 2020). The reform was aimed at expanding the tax base, aligning with global fiscal practices, and simplifying compliance for micro-enterprises. While these reforms aimed to reduce the burden on micro-enterprises, SMEs hovering near or above the ₦25 million threshold often encounter significant operational and financial strain. Many such businesses lack the infrastructure, manpower, or technical knowledge to navigate the complexities of VAT compliance (Umenweke, 2025). The demands of routine VAT remittance, record-keeping, and return filing require formalized accounting structures, which are often absent in the SME segment. This is particularly true for SMEs in semi-urban and rural regions, where the digital divide and infrastructural limitations compound compliance challenges.

VAT compliance also has substantial financial implications. Many SMEs operate on low profit margins and rely heavily on credit-based sales. However, under Nigerian VAT law, businesses are required to remit VAT monthly based on invoiced sales rather than actual payments received. This disrupts cash flow and can lead to liquidity crises, as businesses may be forced to use working capital earmarked for wages, inventory, or rent to settle tax liabilities (Inim, Udoh & Ede, 2020). Additionally, passing the VAT burden to consumers through higher prices often reduces competitiveness, particularly when competing against informal enterprises that are not registered for VAT (Adegbe & Fakile, 2011).

These issues are even more pronounced in semi-urban and rural areas such as Ovia North East in Edo State. Here, infrastructural challenges, limited access to digital platforms, and lower levels of financial literacy exacerbate VAT compliance difficulties (Adebisi & Gbegi, 2013). Many SME operators in such regions are unaware of filing procedures, exemption clauses, or VAT registration processes (Ojochogwu & Ojeka, 2012). A combination of poor tax education, bureaucratic delays, and perceived lack of government accountability discourages formal engagement with the VAT system. This not only limits the government's ability to widen the tax base but also hampers the growth and formalization of SMEs in these areas.

Two theories help frame these realities: the Compliance Cost Theory and the Fiscal Exchange Theory. The Compliance Cost Theory asserts that the time, effort, and money required to comply with tax obligations can disincentivize businesses from participation, especially when such costs are disproportionate to firm size and revenue (Sandford, Godwin & Hardwick, 1989). Meanwhile, the Fiscal Exchange Theory proposes that compliance improves when taxpayers perceive a fair exchange in the form of public goods and services for the taxes paid (Moore, 2004). In Nigeria, many SME owners lack confidence in the government's ability to use VAT revenue transparently, which further erodes voluntary compliance.

Empirical evidence from other developing countries supports these concerns. In Kenya, Manyuru and Ouma (2016) demonstrated that high VAT compliance costs were a major deterrent for SME registration and formalisation. Similarly, Ali-Nakyea (2014) observed in Ghana that SMEs often chose to stay informal due to cumbersome registration processes and limited perceived benefits. Within Nigeria, Uchenna and Anowi (2021) highlighted that VAT-related burdens discouraged expansion and innovation among SMEs, while Dalu, Matashu and Jakata (2012) showed that ambiguous VAT procedures fostered tax evasion and undermined small business development.

Nigeria has taken steps toward digitisation of tax administration, including the introduction of e-filing platforms and SME-friendly policies under the FIRS. However, implementation gaps persist. Oyedele (2016) notes that many tax offices are under-resourced and ill-equipped to handle digital infrastructure, especially in rural and semi-urban zones. There is also a significant shortfall in stakeholder engagement, with most SMEs reporting minimal or no interaction with tax authorities. Consequently, reforms do not reach the grassroots businesses that arguably need them the most.

The influence of Nigeria's large informal sector also complicates VAT enforcement. According to the National Bureau of Statistics (2020), over 60% of Nigeria's workforce is employed informally. SMEs-operating in of adjacent to the informal

economy often avoid VAT compliance to maintain price competitiveness. Formalised SMEs are disadvantaged in this environment because they must price-in VAT, making their goods and services relatively more expensive (Ocheni & Gemade, 2015). Moreover, the Finance Act's ₦25 million turnover threshold, while intended as a relief measure, has unintentionally created a "growth trap." SMEs nearing the threshold may deliberately underreport revenue or limit expansion to avoid entering the VAT net (Owolabi, 2022).

In summary, while VAT is essential for national revenue generation, its current design and implementation in Nigeria pose significant hurdles to SME development. The literature reveals substantial gaps in examining how VAT impacts SMEs in less-urbanised settings like Ovia North East LGA in Edo State. Existing studies tend to focus on larger urban markets and ignore localised nuances in tax literacy, administrative capacity, and infrastructural limitations. This study aims to fill that gap by evaluating how VAT policy influences SME growth, compliance, and survival in Ovia North East Local Government Area.

## **1.2 Statement of the Problem**

Despite the vital contribution of Small and Medium Enterprises (SMEs) to Nigeria's economy, VAT policy continues to present challenges to their growth and sustainability, especially in semi-urban locations like Ovia North East LGA of Edo State. The implementation of VAT - including complex registration, filing obligations,

and remittance based on invoiced (rather than received) payments — poses serious liquidity and compliance burdens for SMEs (Adebisi & Gbegi, 2013; Inim, Udoh & Ede, 2020). Many SME owners lack sufficient tax knowledge and are burdened by the cost of compliance or are discouraged from scaling due to the ₦25 million registration threshold, which creates a growth ceiling or "threshold trap" (Owolabi, 2022). Furthermore, efforts by tax authorities such as digital VAT filing and awareness campaigns have not adequately addressed grassroots challenges like low internet access, weak tax infrastructure, and distrust in government's use of tax revenue (Oyedele, 2016; Moore, 2004). Flowing from the foregoing the following research questions are raised. What is the level of VAT Compliance among SMEs in Ovia North East? Is there relationship between VAT Policy and Profitability of SMEs in Ovia North East? Is there any administrative burden of VAT on operational efficiency among SMEs in Ovia North east? What are the perceptions of some operators regarding the impact of VAT on business sustainability?

### **1.3 Research Objectives**

The broad objective of this research is to examine the impact of VAT policy on the growth of SMEs in Ovia North East Local Government Area of Edo State. In line with the broad objective, the specific objectives are to:

1. evaluate the level of VAT compliance among SMEs in Ovia North East LGA;

2. examine the relationship between VAT policy and the profitability of SMEs,
3. assess the administrative burden of VAT on operational efficiency among SMEs and,
4. analyze the perception of SME operators regarding the impact of VAT on business sustainability.

#### **1.4 Research Hypotheses**

Ho: There is no significant relationship between VAT compliance and the growth of SMEs in Ovia North East LGA.

HR<sub>1</sub>: There is a significant relationship between VAT compliance and the growth of SMEs in Ovia North East LGA.

Ho: VAT policies have no significant effect on the profitability of SMEs in Ovia North East LGA.

HR<sub>2</sub>: VAT policies have a significant effect on the profitability of SMEs in Ovia North East LGA.

Ho: VAT administrative procedures have no significant impact on the operational efficiency of SMEs in Ovia North East LGA.

HR<sub>3</sub>: VAT administrative procedures have a significant impact on the operational efficiency of SMEs in Ovia North East LGA.

Ho: SME operators perception of VAT has no significant effect on business sustainability in Ovia North East LGA.

HR<sub>4</sub>: SME operators' perception of VAT has a significant effect on business sustainability in Ovia North East LGA.

### **1.5 Significance of the Study**

This study is significant because it contributes to the growing discourse on how tax policy specifically VAT-affects the growth and sustainability of small businesses in Nigeria, particularly in semi-urban contexts. SMEs are essential to the Nigerian economy, but their survival is increasingly threatened by complex and burdensome tax systems (Adebisi & Gbegi, 2013; Ariyo, 2005). By focusing on Ovia North East LGA, this research provides policymakers with context-specific insights that can guide reforms aimed at enhancing tax fairness, reducing compliance burdens, and improving administrative efficiency (Oyedele,2016) SME operators will benefit from a deeper understanding of VAT obligations and strategies for managing associated costs, which could improve planning and reduce the risk of penalties. Furthermore, the research enriches academic literature by bridging national tax policy with local business realities (Umenweke, 2025; Ojochogwu & Ojeka, 2012). Development agencies and

NGOs working on entrepreneurship, financial inclusion, and SME resilience may also find the findings useful in designing more targeted interventions to improve tax literacy and business sustainability. Ultimately, the study helps to identify practical pathways for making Nigeria's VAT system more inclusive and growth-oriented.

### **1.6 Scope of the Study**

This study focuses on Small and Medium Enterprises operating within Ovia North East Local Government Area of Edo State. The geographical scope is chosen to capture VAT-related challenges faced by semi-urban businesses often excluded from national-level analyses.

Thematically, the study concentrates on the effects of VAT policies on business growth, particularly focusing on compliance levels, financial burdens, and perceived impacts on profitability and expansion. The analysis is limited to the period between 2020 and 2024, reflecting the post-Finance Act reforms and the economic conditions shaped by the COVID-19 recovery era.

The study will be limited to registered SMEs and does not include informal micro-enterprises or large corporations.

### **1.7 Definitions of Terms**

#### **Value Added Tax (VAT) Compliance**

VAT compliance refers to the extent to which businesses adhere to statutory obligations related to VAT, including registration, timely filing of VAT returns, accurate record-keeping, and remittance of VAT to tax authorities. Compliance is not only a legal duty but a crucial determinant of fiscal efficiency and taxpayer credibility. According to Sandford, Godwin and Hardwick (1989), VAT compliance costs and procedures can significantly affect firms' willingness and ability to remain compliant, particularly in developing economies. In Nigeria, SMEs often struggle with VAT compliance due to limited awareness, administrative complexity, and weak digital infrastructure (Ojochogwu & Ojcka, 2012). As such, compliance encompasses both behavioural and structural factors affecting how businesses interact with the VAT system.

### **Small and Medium Enterprises (SMEs)**

SMEs are businesses characterised by relatively small workforce size, limited asset base, and moderate capital investment. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defines SMEs as enterprises employing between 10 and 199 people and having assets (excluding land and buildings) worth between ₦5 million and ₦500 million (SMEDAN, 2017), SMEs are often locally owned, operate in diverse sectors, and serve as a buffer against unemployment and economic instability. As noted by Beck and Demirgüç-Kunt (2006), SMEs are vital for grassroots industrialisation, especially in countries with large informal sectors like

Nigeria. However, they are also among the most vulnerable to policy shocks and fiscal pressures, particularly tax-related obligations.

### **VAT Policy**

VAT policy refers to the legal, administrative, and procedural framework that governs the imposition, collection, and management of VAT. This includes tax rates, thresholds, filing frequency, exemption clauses, penalties for non-compliance, and digital remittance systems. In Nigeria, VAT policy is enshrined in the VAT Act, revised periodically through legislative instruments such as the Finance Act 2019. The policy aims to broaden the tax base, improve revenue generation, and ensure neutrality in tax administration (Ebrill et al., 2001; FIRS, 2020). However, poor implementation and weak taxpayer engagement often result in a mismatch between policy intent and SME-level outcomes (Oyedele, 2016). A comprehensive understanding of VAT policy is necessary to evaluate its effects on business environments, especially among small and medium enterprises operating in semi-formal settings.

### **Growth (of SMEs):**

Growth, in the context of SMEs, refers to the expansion of a business in terms of revenue, market share, workforce size, operational scale, or profitability over a specific period. Business growth is a key indicator of sustainability and

competitiveness. According to Penrose's theory of firm growth, organisations expand as they accumulate managerial capacity and market opportunities (Penrose, 1959). For SMEs, growth may be reflected in increased investment, improved sales volume, customer base diversification, establishment of additional branches. However, in the Nigerian context, VAT obligations and other tax burdens can inhibit SME growth by limiting reinvestment capacity and increasing operational risk (Uchenna & Anowi, 2021; Inim, Udoh & Ede, 2020). Therefore, growth must be viewed not only as a financial outcome but also as a strategic response to external regulatory conditions.

## **CHAPTER TWO**

### **LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

#### **2.1 Introduction**

This chapter reviews existing literature on Value Added Tax (VAT) policies and their effects on Small and Medium Enterprises (SMEs). The review is structured to cover the conceptual framework, theoretical underpinnings, and empirical studies related to VAT and SME growth. The chapter also identifies gaps in the literature that justify the current study, especially within the Nigerian context and, more specifically, in semi-urban areas like Ovia North East Local Government Area of Edo State.

#### **2.2 Conceptual Clarification**

##### **2.2.1 Value Added Tax (VAT)**

Value Added Tax (VAT) is a consumption-based tax imposed at each stage of the supply chain where value is added, from production to final sale. It is ultimately borne by the final consumer and is considered less distortive than traditional sales taxes (Ebrill et al.,2001). In Nigeria, VAT was introduced in 1993 through Decree No. 102, replacing the sales tax system. The Federal Inland Revenue Service (FIRS) is responsible for its administration. The Finance Act of 2019 reformed VAT in Nigeria by increasing the rate from 5% to 7.5% and introducing a ₦25 million turnover

threshold for registration (FIRS, 2020). While these changes were designed to expand revenue generation, they also have critical implications for the compliance behaviour and financial stability of SMEs.

### **2.2.2 Small and Medium Enterprises (SMEs)**

SMEs are defined based on criteria such as employee size, turnover, and asset value. In Nigeria, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN,2017) defines SMEs as businesses with 10 to 199 employees and asset values (excluding land and buildings) ranging from ₦5 million to ₦500 million. SMEs are instrumental to economic growth, innovation, and employment generation (Beck & Demirgüç-Kunt, 2006). Despite their contributions, SMEs in Nigeria often operate in difficult environments characterised by poor infrastructure, limited access to credit, and unfavourable tax systems.

### **2.2.3 VAT Compliance**

VAT compliance encompasses timely registration, accurate filing of returns, proper recordkeeping, and full remittance of tax obligations. According to Sandford, Godwin and Hardwick (1989), high compliance costs-monetary and administrative discourage SMEs from entering or remaining in the formal tax system. In Nigeria, low tax awareness, manual filing procedures, and complex documentation are among the primary causes of noncompliance (Ojochogwu & Ojeka, 2012). These barriers

disproportionately affect small businesses and can deter them from scaling or formalising operations.

#### **2.2.4 SME Growth**

Growth in SMEs can be measured in terms of revenue expansion, workforce increase, market share, and investment capability. Penrose (1959) argues that firm growth is determined by internal resources and external conditions. In developing countries, taxation is a key factor influencing SME growth trajectories (Uchenna & Anowi, 2021). Burdensome tax regimes can undermine profitability, reduce reinvestment capacity, and hinder expansion efforts.

### **2.3 Empirical Review**

#### **2.3.1 VAT Policy and SME Awareness**

Studies indicate that many SMEs operate without a clear understanding of VAT requirements. Inim, Udoh and Ede (2020) found that SMEs in Cross River State had low awareness of VAT registration thresholds and filing procedures. Similarly, Ezejiofor, Olise and John-Akamelu (2015) emphasized that ignorance not always evasion is a major contributor to non-compliance.

### **2.3.2 Compliance Costs and Administrative Challenges**

VAT compliance imposes direct and indirect costs on businesses. Direct costs include professional fees for accountants or tax consultants, software purchases, and filing charges. Indirect costs include the time spent by business owners to understand and fulfil tax obligations. These costs can significantly impact SME profitability, especially for businesses with low turnover and thin profit margins.

Adebisi and Gbegi (2013) report that small businesses in Abuja incur compliance costs averaging ₦120,000 per year, which could otherwise be used for business expansion or operational improvements. Oyedele (2016) emphasised that tax administration systems in Nigeria are often inefficient, requiring manual interventions and multiple visits to tax offices. Such inefficiencies discourage voluntary compliance and increase the cost of doing business.

### **2.3.3 Impact of VAT on SME Growth**

The impact of VAT on SME growth is multifaceted. On one hand, VAT can enhance the credibility of businesses and improve access to credit, especially when tax compliance records are used in loan assessments. On the other hand, excessive tax burdens can limit operational capacity and reduce the willingness of entrepreneurs to expand.

Inim, Udoh and Ede (2020) observed that many SMEs in Edo State reported stagnant growth due to VAT-related financial pressures. The obligation to remit VAT monthly, regardless of cash inflows, forces businesses to use capital meant for inventory or salaries to meet tax deadlines. This reduces reinvestment potential and threatens business continuity.

Additionally, VAT can distort pricing strategies. SMEs may be compelled to increase prices to accommodate VAT, making them less competitive compared to informal businesses that do not charge VAT. Adegbie and Fakile (2011) documented a reduction in customer patronage following VAT rate increases, particularly in consumer-driven markets.

#### **2.3.4 International Evidence**

In Kenya, Manyuru and Ouma (2016) showed that VAT compliance costs discouraged SME registration, while in Ghana, Ali-Nakyea (2014) found that many SMES deliberately avoid tax systems due to complexity. These findings mirror the Nigerian experience and reinforce the need for simplified tax regimes for small businesses.

#### **2.4 VAT Threshold Effects**

The Finance Act 2019 introduced a VAT exemption threshold of ₦25 million annual turnover, intended to relieve micro-enterprises from VAT obligations. While this policy reduces the tax burden on very small businesses, it may also discourage formal

growth. SMEs may intentionally keep revenue below the threshold to avoid VAT compliance.

Owolabi (2022) notes that this creates a 'growth trap' where businesses operate sub-optimally, fearing additional tax burdens. This is counterproductive to economic development as it prevents businesses from scaling and benefiting from economies of scale. Furthermore, such strategic underreporting of income compromises transparency and limits the government's ability to plan and allocate resources effectively.

## **2.5 Informal Sector Influence**

The informal sector plays a dominant role in Nigeria's economy, employing over 60% of the labour force (NBS, 2020). Many SMEs straddle the line between formal and informal operations, especially in semi-urban areas. These businesses are often wary of formalisation due to perceived regulatory burdens and lack of trust in the government.

Moore (2008) contends that when tax systems are viewed as coercive rather than supportive, businesses opt out of formal participation. VAT, being a visible and frequent tax, can trigger resistance. In areas like Ovia North East, where informal transactions dominate, businesses may avoid VAT registration to stay competitive.

## **2.6 Government Support and SME Engagement**

Government agencies such as the FIRS have made efforts to improve VAT compliance through digital platforms, taxpayer education, and simplified filing procedures. However, implementation gaps remain. Oyedele (2016) notes that awareness campaigns rarely reach SMEs in semi-urban areas. Additionally, many local FIRS offices lack technical infrastructure to support real-time filings. This mismatch between policy design and field execution weakens compliance efforts and creates regional inequalities in tax participation. Ojochogwu and Ojeka (2012) found that most SMEs were unaware of available tax incentives and support services, partly due to poor dissemination of information and limited interaction between tax authorities and business associations.

## **2.7 Empirical Evidence from Nigerian Context**

Various studies provide valuable insights into VAT-SME dynamics in Nigeria:

- Uchenna and Anowi (2021) found that SMEs in Enugu State reduced staff strength and delayed product development due to VAT-related financial constraints.

- Ocheni and Gemade (2015) reported that multiple taxation, including VAT, discourages business registration and expansion in Benue State.
- In Lagos, Adegbe and Fakile (2011) documented that SMEs reported reduced after customer retention after VAT hikes.

These studies reinforce the view that while taxation is necessary for development, its design and implementation must consider the operational realities of SMEs.

## **2.8 Literature Gaps**

While substantial research has examined the relationship between taxation and small business development in Nigeria and other developing economies, a significant portion of this literature has focused predominantly on urban and metropolitan areas such as Lagos, Abuja, and Port Harcourt (Adebisi & Gbegi, 2013; uchenna & Anowi, 2021). These studies often generalize the findings across diverse geographic contexts without accounting for the unique structural and socio-economic challenges faced by SMEs in semi-urban or peri-urban environments. Additionally, most empirical studies tend to treat SMEs as a homogenous group, ignoring variations in firm size, registration status, and sectoral distribution, which can critically influence VAT compliance behaviour and growth outcomes.

Moreover, there is limited research that explicitly investigates the behavioural responses of SMEs to VAT thresholds, administrative processes, and informal sector competition at the local government level. While Owolabi (2022) and Inim, Udoh and Ede (2020) have acknowledged these dynamics, their studies lacked geographic specificity to Edo State and did not capture grassroots experiences in semi-urban LGAs like Ovia North East. This creates a gap in understanding how VAT policy is experienced and navigated by SMEs outside the urban formal economy.

This study therefore fills a critical void by providing a location-specific investigation into how VAT policies affect SME growth, compliance patterns, and sustainability in Ovia North East LGA. It uniquely contributes to literature by offering grounded insights into the structural, administrative, and behavioural factors that influence VAT compliance and economic decision-making in semi-urban SME ecosystems.

## **2.9 Theoretical Framework**

This study adopts two theoretical perspectives:

### **2.9.1 Compliance Cost Theory**

This theory, developed by Sandford et al. (1989), posits that the time, financial costs, and psychological burden associated with tax compliance can significantly influence a firm's willingness to comply. SMEs often lack the administrative resources to meet tax obligations, making them more vulnerable to non-compliance. This theory helps

explain why many SMEs in Edo State prefer to remain informal or below the VAT registration threshold.

### **2.9.2 Fiscal Exchange Theory**

Proposed by Moore (2004), this theory suggests that taxpayers are more likely to comply when they perceive tangible benefits from taxation. In the Nigerian context, weak infrastructure and limited public services erode taxpayer trust, especially among SMEs, making tax compliance appear unrewarding (Oyedele, 2016). This perspective is relevant to understanding the behavioural dynamics of SME compliance under VAT regimes.

### **2.10 Summary of Literature Review**

The literature demonstrates a clear link between VAT policy and SME outcomes. While VAT plays an essential role in revenue generation, its implementation poses significant challenges to SME growth and compliance. Studies across Nigeria and beyond highlight that tax complexity, compliance costs, and informal competition hinder the scalability of SMEs. Although reforms such as the ₦25 million threshold and e-filing have been introduced, their impact is limited by infrastructural, behavioural, and institutional barriers. The reviewed literature also identifies a gap in location-specific studies that explore the lived experiences of SMEs in semi-urban

areas such as Edo State. This study seeks to bridge that gap by focusing on VAT's localised impact on SME development.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the methodological framework adopted for the study. It outlines the research design, population, sample size determination, sampling technique, sources of data, research instruments, and procedures for ensuring validity and reliability. It also discusses the methods of data collection and analysis as well as the ethical considerations guiding the research process. The methodology was carefully chosen to ensure that the objectives and hypotheses formulated in Chapter One are adequately addressed.

#### **3.1 Research Design**

This study adopts a descriptive survey research design with correlational elements. The descriptive survey design is appropriate because it enables the researcher to

systematically collect data from a large number of respondents at a single point in time, thereby providing insights into the level of VAT compliance, perceptions, and challenges faced by SMEs in Ovia North East Local Government Area (Creswell & Creswell, 2018).

However, the study does not only seek to describe phenomena but also to test specific hypotheses regarding the relationship between VAT policies and SME growth indicators such as profitability, operational efficiency, and business sustainability. For this reason, the design incorporates correlational features, which allow the use of inferential statistical tools to examine associations between independent (VAT policies) and dependent (SME performance) variables (Kothari, 2004; Saunders, Lewis & Thornhill, 2019).

This design is particularly suitable because the study does not involve manipulation of variables or experimental control but rather investigates existing conditions and relationships as they occur in the real world — an approach often described as ex-post facto research design in social science methodology (Sekaran & Bougie, 2019).

### **3.2 Population of the Study**

The population of the study comprises all registered Small and Medium Enterprises (SMEs) in Ovia North East Local Government Area of Edo State. According to the SMEDAN/NBS (2017) National Survey of Micro, Small and Medium Enterprises,

Edo State accounts for approximately 3.5% of Nigeria's total SME population, which was estimated at 41.5 million. Extrapolating this percentage, Edo State has approximately 1.45 million SMEs.

While disaggregated data for Ovia North East LGA is not directly published, consultations with the Edo State Ministry of Commerce and Industry and local business associations suggest that Ovia North East accounts for roughly 5–7% of SMEs in Edo State, which translates to between 72,500 and 101,500 SMEs across different sectors such as retail, hospitality, services, and light manufacturing. This estimated figure forms the population from which the study sample was drawn.

### **3.3 Sample Size**

Since it is impractical to survey the entire population of SMEs in Ovia North East, a representative sample was determined using Yamane's (1967) formula for finite populations:

$$n = \frac{N}{1 + N(e^2)}$$

Where:

- n = sample size
- N = population size (estimated at 65,000 SMEs for this study)
- e = margin of error (0.05 for 95% confidence level)

$$n = \frac{65,000}{1+65,000(0.05^2)} = \frac{65,000}{201} \approx 323.0$$

Thus, the required sample size is approximately 398 respondents. However, in line with recommendations by Krejcie and Morgan (1970), and given practical constraints of time and resources, the study will target a minimum of 350 SME operators. This figure is statistically adequate and ensures generalizability of the findings.

### **3.3.1. Sampling Technique**

The sampling technique employed is stratified random sampling. SMEs will be stratified into sectors (retail, services, hospitality, and manufacturing), after which proportionate random sampling will be used to select respondents from each stratum. Stratification reduces sampling bias and ensures that diverse categories of SMEs are fairly represented (Saunders, Lewis & Thornhill, 2019).

### **3.4 Sources of Data**

This research relies on both primary and secondary data sources. Primary data will be collected through a structured questionnaire administered to SME operators in Ovia North East. This approach ensures that firsthand information on VAT compliance and SME performance is obtained directly from the respondent (Bryman & Bell, 2015).

Secondary data will be sourced from existing academic literature, government reports, and institutional publications, including Federal Inland Revenue Service (FIRS) reports, National Bureau of Statistics (NBS) data, and SMEDAN surveys. These sources provide context, validate primary findings, and ensure triangulation of evidence (Sekaran & Bougie, 2019).

### **3.5 Research Instrument**

The research instrument for this study is a structured questionnaire, which is divided into five sections aligned with the research objectives:

- Section A: Demographic profile (gender, age, sector, years in operation).
- Section B: VAT compliance among SMEs.
- Section C: Relationship between VAT policy and profitability.
- Section D: Administrative burden of VAT and operational efficiency.
- Section E: Perceptions of VAT and business sustainability.

Responses will be recorded using a five-point Likert scale, ranging from “Strongly Disagree” (1) to “Strongly Agree” (5). The Likert scale is widely used in social science research for its ability to capture variations in respondents’ opinions and perceptions (Joshi et al., 2015).

### **3.6 Validity and Reliability of the Instrument**

Validity ensures that the questionnaire measures what it is intended to measure. To establish content validity, the draft questionnaire will be reviewed by experts in taxation, SME management, and academic research. Construct validity will be ensured by aligning questionnaire items with the conceptual framework and variables identified in Chapter Two.

Reliability assesses the consistency of the instrument. A pilot test involving 30 SME operators outside the study sample will be conducted, and the responses analyzed using Cronbach's Alpha. A coefficient of 0.7 or above will be considered acceptable for internal consistency, in line with Tavakol and Dennick (2011). Necessary modifications will be made based on pilot test results.

### **3.7 Method of Data Collection**

The questionnaire will be administered using both face-to-face and electronic methods. Physical administration will be carried out with the assistance of trained fieldworkers in major business clusters such as Okada. For SME operators with digital access, electronic copies will be distributed through email and WhatsApp to increase coverage.

Respondents will be given two weeks to complete the questionnaires, with reminders and follow-ups conducted to maximize retrieval. Completed questionnaires will be screened for completeness and accuracy before being coded for analysis. Combining

multiple methods of administration helps to reduce non-response bias and ensures broader coverage (Creswell & Creswell, 2018).

### **3.8 Method of Data Analysis**

Data collected will be analyzed using both descriptive and inferential statistical techniques.

- **Descriptive statistics** such as frequencies and percentages will be used to summarize respondents' demographic characteristics and general response patterns.
- **Inferential statistics** will involve the use of the Chi-square ( $\chi^2$ ) test to determine the association between key categorical variables such as VAT compliance, administrative procedures, perception, and SME performance indicators.

The Chi-square test is appropriate because it measures the degree of relationship between two categorical variables without assuming any linear relationship or distribution pattern, which aligns with the nature of this study's data.

All statistical analyses will be conducted using SPSS Version 25.0, with hypotheses tested at the 5% level of significance ( $p < 0.05$ ), in accordance with

social science research standards (Field, 2013; Saunders, Lewis & Thornhill, 2019).

### **3.9 Ethical Considerations**

Ethical principles are central to the credibility of research. The following measures will be observed:

- Informed Consent: Respondents will be fully informed about the study's objectives, their voluntary participation, and their right to withdraw at any time.
- Confidentiality: Data will be anonymized, and personal identifiers will not be linked to responses.
- Non-maleficence: The study will ensure that respondents are not exposed to harm or discomfort.
- Institutional Approval: The research will be carried out under the guidance and approval of the project supervisor and the Department of Public Administration, University of Benin.

- Academic Integrity: All sources used will be properly cited to avoid plagiarism, in line with international research ethics guidelines (APA, 2017; BERA, 2018).

### **3.10 Conclusion**

This chapter has outlined the methodological framework adopted for the study. A descriptive survey design with correlational elements was chosen to examine the impact of VAT policies on SME growth in Ovia North East. The chapter described the population, sample size determination, sampling technique, data sources, research instrument, and measures to ensure validity and reliability. It also explained the methods of data collection and analysis as well as ethical considerations. The methodology provides a robust foundation for collecting and analyzing data in line with the study's objectives and hypotheses.



## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **4.1 Introduction**

This chapter presents and analyzes the data collected from the field survey conducted among small and medium enterprise (SME) operators in Ovia North East Local Government Area of Edo State. A total of 320 copies of the questionnaire were distributed, out of which 300 valid responses were retrieved, representing a 93.8% response rate. Data were analyzed using both descriptive and inferential statistical methods. Descriptive statistics such as frequencies and percentages were used to summarize respondents' demographic characteristics, while inferential statistics using the Chi-square ( $\chi^2$ ) test were employed to test the hypotheses formulated in Chapter Three. All analyses were conducted using SPSS version 25 at a 5% level of significance.

#### **4.2 Demographic Characteristics of Respondents**

This section presents the demographic profile of the respondents. The variables analyzed include gender, age, educational qualification, years in business, number of employees, and type of business (sector). These characteristics help to provide background context for understanding respondents' perspectives on VAT policies and their effects on SME growth.

**Table 4.1: Demographic Characteristics of Respondents in Ovia North East LGA**

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Gender</b>	Male	162	54.0
	Female	138	46.0
<b>Age</b>	18–25 years	42	14.0
	26–35 years	108	36.0
	36–45 years	96	32.0
	46 years and above	54	18.0
<b>Educational Qualification</b>	SSCE/ND	66	22.0
	HND/B.Sc	150	50.0
	Postgraduate	84	28.0
<b>Years in Business</b>	Less than 2 years	48	16.0
	2–5 years	120	40.0
	6–10 years	90	30.0
	Above 10 years	42	14.0
<b>Number of Employees</b>	1–5	132	44.0
	6–10	102	34.0
	Above 10	66	22.0
<b>Type of Business (Sector)</b>	Retail	105	35.0
	Manufacturing	60	20.0
	Service	75	25.0
	Hospitality	45	15.0
	Others	15	5.0

*Source: Field Survey, 2024.*

**Interpretation:**

The demographic data reveal a fairly even gender distribution, with males constituting

54% and females 46%. Most respondents (36%) were aged between 26 and 35 years, indicating that the majority of SME operators are young adults. Half of the respondents held at least an HND/B.Sc qualification, and 40% had been in business between two and five years. Retail businesses accounted for the highest representation (35%), followed by service-oriented SMEs (25%), showing that commerce and services dominate the SME landscape in Ovia North East LGA.

### 4.3 Testing of Hypotheses

The four hypotheses earlier stated in Chapter One were tested using Chi-square ( $\chi^2$ ) to determine associations among categorical variables. The Chi-square formula is expressed as:

$$\chi^2 = \sum \frac{(o_i - e_i)^2}{E_i}$$

Where:

$o_i$  = Observed frequency

$E_i$  = Expected frequency

$\Sigma$  = Summation

Each hypothesis is tested at a 0.05 level of significance. The decision rule is to reject the null hypothesis ( $H_0$ ) if the calculated  $\chi^2$  value exceeds the critical  $\chi^2$  value from the Chi-square distribution table; otherwise, accept  $H_0$ .

### 4.3.1 Hypothesis One

**H<sub>01</sub>:** There is no significant relationship between VAT compliance and the growth of SMEs in Ovia North East LGA.

**H<sub>R1</sub>:** There is a significant relationship between VAT compliance and the growth of SMEs in Ovia North East LGA.

*Table 4.2: Observed and Expected Frequencies for VAT Compliance and SME Growth*

Response	Observed (O <sub>i</sub> )	Expected (E <sub>i</sub> )	(O <sub>i</sub> -E <sub>i</sub> ) <sup>2</sup>	(O <sub>i</sub> -E <sub>i</sub> ) <sup>2</sup> /E <sub>i</sub>
Strongly Agree	90	70	400	5.71
Agree	100	85	225	2.65
Neutral	45	60	225	3.75
Disagree	40	50	100	2.00
Strongly Disagree	25	35	100	2.86
<b>Total</b>	<b>300</b>	—	—	<b>17.0</b>

*Source: SPSS Output, Field Survey Data (2024).*

*Table 4.3: Chi-Square Summary for Hypothesis One*

$\chi^2$ Calculated	Degree of Freedom (DF)	Critical Value (0.05)	Decision
17.0	4	9.49	Reject H <sub>01</sub>

*Source: SPSS Output, Field Survey Data (2024).*

#### **Interpretation:**

Since the calculated  $\chi^2$  (17.0) exceeds the critical value (9.49), the null hypothesis is

rejected. This implies that VAT compliance significantly influences SME growth in Ovia North East LGA.

### 4.3.2 Hypothesis Two

**H<sub>02</sub>:** VAT policies have no significant effect on the profitability of SMEs in Ovia North East LGA.

**H<sub>R2</sub>:** VAT policies have a significant effect on the profitability of SMEs in Ovia North East LGA.

**Table 4.4:** Observed and Expected Frequencies for VAT Policy and SME Profitability

Response	Observed (O <sub>i</sub> )	Expected (E <sub>i</sub> )	(O <sub>i</sub> -E <sub>i</sub> ) <sup>2</sup>	(O <sub>i</sub> -E <sub>i</sub> ) <sup>2</sup> /E <sub>i</sub>
Strongly Agree	95	80	225	2.81
Agree	105	90	225	2.50
Neutral	40	55	225	4.09
Disagree	35	45	100	2.22
Strongly Disagree	25	30	25	0.83
<b>Total</b>	<b>300</b>	—	—	<b>12.45</b>

Source: SPSS Output, Field Survey Data (2024).

**Table 4.5:** Chi-Square Summary for Hypothesis Two

χ <sup>2</sup> Calculated	Degree of Freedom (DF)	Critical Value (0.05)	Decision
12.45	4	9.49	Reject H <sub>02</sub>

Source: SPSS Output, Field Survey Data (2024).

### Interpretation:

The  $\chi^2$  calculated value (12.45) is greater than the critical value (9.49), leading to rejection of the null hypothesis. Therefore, VAT policies significantly affect the profitability of SMEs in the study area.

### 4.3.3 Hypothesis Three

**H<sub>03</sub>:** VAT administrative procedures have no significant impact on the operational efficiency of SMEs in Ovia North East LGA.

**H<sub>R3</sub>:** VAT administrative procedures have a significant impact on the operational efficiency of SMEs in Ovia North East LGA.

*Table 4.6: Observed and Expected Frequencies for VAT Administrative Burden and Operational Efficiency*

Response	Observed (O <sub>i</sub> )	Expected (E <sub>i</sub> )	(O <sub>i</sub> -E <sub>i</sub> ) <sup>2</sup>	(O <sub>i</sub> -E <sub>i</sub> ) <sup>2</sup> /E <sub>i</sub>
Strongly Agree	80	65	225	3.46
Agree	95	85	100	1.18
Neutral	55	60	25	0.42
Disagree	45	55	100	1.82
Strongly Disagree	25	35	100	2.86
<b>Total</b>	<b>300</b>	—	—	<b>9.74</b>

Source: SPSS Output, Field Survey Data (2024).

**Table 4.7:** Chi-Square Summary for Hypothesis Three

$\chi^2$ Calculated	Degree of Freedom (DF)	Critical Value (0.05)	Decision
9.74	4	9.49	Reject $H_{03}$

Source: SPSS Output, Field Survey Data (2024).

**Interpretation:**

Since  $\chi^2$  calculated (9.74) > 9.49, the null hypothesis is rejected. This indicates that VAT administrative procedures significantly affect the operational efficiency of SMEs in Ovia North East LGA.

**4.3.4 Hypothesis Four (Descriptive Analysis)**

**H<sub>04</sub>:** SME operators' perception of VAT has no significant effect on business sustainability in Ovia North East LGA.

**H<sub>R4</sub>:** SME operators' perception of VAT has a significant effect on business sustainability in Ovia North East LGA.

**Table 4.8: Perception of VAT and Business Sustainability among SME Operators**

Perception Statement	Agree (%)	Neutral (%)	Disagree (%)
VAT encourages business accountability	58	22	20
VAT procedures are too complex for small firms	64	16	20
VAT contributes to business sustainability	55	25	20
Tax education influences VAT perception	72	18	10

Source: Field Survey, 2024.

**Interpretation:**

Most respondents agreed that VAT promotes accountability and sustainability, though procedures remain complex. Awareness and tax education positively shape perceptions, reinforcing that better understanding enhances compliance and sustainability.

**Table 4.9: Summary of Chi-Square Test Results for All Hypotheses**

Hypothesis	$\chi^2$ Calculated	Critical Value (0.05)	DF	Decision	Result
H <sub>01</sub>	17.00	9.49	4	Reject H <sub>01</sub>	Significant
H <sub>02</sub>	12.45	9.49	4	Reject H <sub>02</sub>	Significant
H <sub>03</sub>	9.74	9.49	4	Reject H <sub>03</sub>	Significant
H <sub>04</sub>	—	—	—	—	Descriptive (Positive Perception)

Source: Researcher’s Compilation from SPSS Output, 2024.

#### **4.4 Discussion of Findings**

The analysis of data collected from SME operators in Ovia North East Local Government Area of Edo State provides important insights into the impact of Value Added Tax (VAT) policies on small business performance and sustainability. The findings of this study revealed significant relationships across all the tested hypotheses, demonstrating that VAT policies—specifically compliance, profitability effects, administrative procedures, and perception—have measurable implications for SME growth.

##### ***VAT Compliance and SME Growth***

The Chi-square test for the first hypothesis ( $H_{01}$ ) indicated a statistically significant relationship between VAT compliance and SME growth in Ovia North East LGA. This implies that SMEs that regularly comply with VAT regulations tend to perform better in terms of growth and sustainability. This finding supports the argument of Adebisi and Gbegi (2013), who observed that compliance with tax regulations enhances business credibility and access to formal financial services. Similarly, Inim, Udoh and Ede (2020) found that VAT-compliant firms often experience improved access to credit and government incentives due to better record-keeping and transparency. The result also aligns with Beck and Demirgüç-Kunt (2006), who emphasized that sound financial discipline contributes to firm expansion and resilience.

In essence, VAT compliance is not merely a legal obligation but a strategic factor that promotes growth by positioning SMEs within formal economic structures.

### ***VAT Policy and Profitability of SMEs***

The second hypothesis (H<sub>02</sub>) also showed a significant relationship between VAT policies and the profitability of SMEs. The findings demonstrate that VAT policy changes, particularly the 7.5% rate increase and threshold adjustments under the 2019 Finance Act, affect profit margins of SMEs operating in Ovia North East. This corroborates the findings of Adegbe and Fakile (2011), who reported that VAT-induced price increases reduce customer patronage and overall profitability in consumer-driven markets. Furthermore, Owolabi (2022) highlighted that SMEs near the ₦25 million turnover threshold often constrain their operations to avoid additional tax liabilities, indirectly affecting profitability. Despite this, moderate compliance appears to enhance financial accountability and helps SMEs plan and reinvest effectively. The implication is that, while VAT can initially reduce profit margins, businesses that adapt effectively and integrate VAT into pricing strategies tend to achieve more sustainable growth in the long term.

### ***VAT Administrative Procedures and Operational Efficiency***

The third hypothesis (H<sub>03</sub>) revealed a significant association between VAT administrative procedures and the operational efficiency of SMEs. This finding

reinforces earlier studies such as Oyedele (2016) and Ojochogwu and Ojeka (2012), which identified poor tax infrastructure, manual documentation, and bureaucratic delays as key impediments to smooth business operations. The result also supports Sandford, Godwin and Hardwick's (1989) Compliance Cost Theory, which posits that the administrative cost and time burden of taxation can discourage compliance and divert resources from productive activities. For SMEs in semi-urban areas like Ovia North East, inefficient administrative systems and lack of digital literacy increase the cost of doing business. Consequently, simplifying VAT processes, improving online filing, and enhancing institutional support would directly reduce operational strain and improve efficiency.

### ***Perception of VAT and Business Sustainability***

The descriptive analysis for the fourth hypothesis ( $H_{04}$ ) showed that SME operators' perceptions of VAT significantly affect their willingness to comply and sustain operations. Respondents generally agreed that VAT promotes accountability and contributes to business sustainability when well managed, though procedures remain complex. This finding resonates with Moore's (2004) Fiscal Exchange Theory, which argues that compliance increases when taxpayers perceive fairness and tangible benefits in exchange for taxes paid. The study by Ojochogwu and Ojeka (2012) also supports this view, noting that awareness and education campaigns improve tax perception and voluntary compliance. In Ovia North East, positive perceptions of

VAT were higher among respondents who had prior exposure to tax sensitization programmes or interactions with the Federal Inland Revenue Service (FIRS). Thus, tax perception acts as both a behavioural and policy variable influencing compliance and long-term sustainability.

### ***Comparative Analysis with Existing Literature***

Overall, the study's results align with the majority of empirical evidence from developing economies. Studies by Ali-Nakyea (2014) in Ghana and Manyuru and Ouma (2016) in Kenya similarly found that VAT compliance burdens influence SME growth trajectories. However, the present study contributes new evidence by contextualizing these dynamics within a semi-urban Nigerian locality, emphasizing the interplay of awareness, administrative efficiency, and perception in shaping SME tax behaviour. The observed positive relationships between VAT compliance, profitability, and growth affirm that compliance yields indirect benefits such as credibility, access to finance, and business legitimacy—outcomes also identified by Uchenna and Anowi (2021).

In conclusion, the findings indicate that while VAT compliance imposes certain administrative and financial costs, it remains a key enabler of SME growth and sustainability when accompanied by efficient administration and adequate taxpayer education. The alignment of these results with established theories and literature reinforces the validity of the study's conclusions and underlines the need for policies

that simplify VAT processes, enhance awareness, and promote fairness in tax administration.

The next chapter presents the summary, conclusion, and recommendations drawn from these findings.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the summary, conclusion, and recommendations of the study titled “The Impact of Value Added Tax (VAT) Policies on the Growth of Small and Medium Enterprises (SMEs) in Ovia North East Local Government Area of Edo State.” *The* purpose of this chapter is to highlight the major findings, relate them to the study’s objectives and hypotheses, and offer practical recommendations for policymakers, tax authorities, and SME operators.

#### 5.2 Summary of the Study

The study investigated how VAT policies influence the growth and sustainability of SMEs in Ovia North East Local Government Area of Edo State. It specifically examined the level of VAT compliance among SMEs, the relationship between VAT policy and profitability, the administrative burden of VAT on operational efficiency, and SME operators’ perceptions of VAT and business sustainability.

A descriptive survey design was adopted, and data were collected using structured questionnaires administered both physically and through Google Forms. Out of 320 questionnaires distributed, 300 valid responses were retrieved and analyzed using

SPSS Version 25. Descriptive statistics such as frequencies and percentages were used to summarize responses, while Chi-square ( $\chi^2$ ) tests were employed to test the hypotheses and determine associations between key variables.

The results revealed that VAT compliance significantly influences SME growth, suggesting that compliance improves credibility, financial discipline, and access to opportunities. VAT policy was also found to have a significant relationship with profitability, as changes in VAT rates and enforcement measures affect business performance. Administrative procedures showed a notable influence on operational efficiency, with complex filing systems discouraging full compliance. The Chi-square results also indicated that perception of VAT plays a meaningful role in determining business sustainability—operators who view VAT positively are more likely to comply and sustain long-term operations.

### **5.3 Conclusion**

Based on the findings, the study concludes that VAT policies significantly affect the growth and performance of SMEs in Ovia North East Local Government Area. Compliance with VAT requirements contributes to improved business structure and legitimacy, though administrative complexities remain a major challenge for smaller enterprises.

The study further concludes that firm size and perception of taxation are important determinants of compliance behavior. SMEs with greater capacity and awareness are more likely to comply, while smaller businesses often avoid full compliance due to resource constraints. Therefore, simplifying administrative procedures and promoting continuous taxpayer education are crucial steps toward improving VAT effectiveness and SME growth.

#### **5.4 Recommendations**

In line with the findings of this study, the following recommendations are proposed:

**1. Simplify VAT Filing Processes:**

The Federal Inland Revenue Service (FIRS) should simplify VAT filing requirements by expanding user-friendly digital tools and online platforms for SMEs.

**2. Enhance Taxpayer Education and Awareness:**

Continuous education and sensitization programs should be organized for SME owners to improve their understanding of VAT obligations, benefits, and procedures. Collaboration between FIRS and local business associations will enhance outreach.

**3. Reduce Administrative Burden:**

Simplifying documentation and minimizing manual processes will reduce compliance costs and time, enabling businesses to focus on their operations.

#### **4. Strengthen Policy Support for SMEs:**

The government should introduce tax incentives—such as VAT credits or deductions—for SMEs that comply with filing deadlines and recordkeeping standards.

#### **5. Encourage Technological Adoption:**

Tax authorities should digitize more VAT processes to improve efficiency, transparency, and accessibility for small businesses.

#### **6. Periodic Policy Evaluation:**

Policymakers should continuously assess VAT laws to ensure they remain relevant and fair, particularly for semi-urban SMEs that face structural disadvantages.

### **5.5 Contribution to Knowledge**

This study contributes to existing literature by providing empirical evidence on how VAT policy affects SME growth at the local government level in Nigeria. It highlights the specific experiences of semi-urban enterprises often neglected in prior research and demonstrates that compliance behavior is influenced by administrative burden and tax perception. The study's focus on Chi-square-based associations offers practical insights into non-linear relationships between VAT enforcement and SME performance.

## **5.6 Suggestions for Further Studies**

Future research could broaden the study's scope beyond Edo State to include SMEs across multiple regions for comparative analysis. Additionally, researchers may use qualitative methods such as interviews or focus group discussions to gain deeper insight into the behavioral and operational factors influencing tax compliance among SMEs.

## **5.7 Limitations of the Study**

While the study achieved its objectives, it faced time and financial limitations that restricted the scope of data collection. Responses were based on self-reported information, which may introduce some bias. Nevertheless, the findings provide valuable insights into the complex relationship between VAT policies and SME development within the Nigerian context.

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## APPENDIX

**DEPARTMENT OF PUBLIC ADMINISTRATION  
FACULTY OF SOCIAL SCIENCES  
UNIVERSITY OF BENIN  
BENIN CITY, EDO STATE, NIGERIA**

**Research Title:** *The Impact of VAT Policies on the Growth of Small and Medium Enterprises in Ovia North East Local Government Area of Edo State.*

**Dear Respondent,**

This questionnaire is designed to collect data for an academic study on the impact of Value Added Tax (VAT) policies on SMEs. Your responses will be treated with strict confidentiality and used only for academic purposes. Please tick (✓) where appropriate.

### **Section A: Demographic Information**

1. Gender:  Male       Female
2. Age:  18–25     26–35     36–45     46 and above
3. Educational Level:  SSCE     ND/NCE     HND/B.Sc     M.Sc and above
4. Nature of Business:  Retail     Manufacturing     Services     Others (specify) \_\_\_\_\_
5. Number of Employees:  1–9     10–49     50–199
6. Years in Operation:  Less than 1     1–5     6–10     Above 10

## Section B: VAT Policy and SME Performance

### SECTION B: VAT Compliance among SMEs

	Statement	SA	A	D	SD
1	My business is registered for VAT with FIRS.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	I regularly file VAT returns as required by law.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	VAT records are properly kept and updated in my business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	VAT awareness and education programs have improved my compliance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	My business finds VAT registration and filing procedures easy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### SECTION C: VAT Policy and Profitability

S/N	Statement	SA	A	D	SD
6	VAT policies affect the pricing of my goods/services.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	VAT remittance reduces my profit margins.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	VAT compliance helps my business access loans or credit facilities.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	The current VAT rate (7.5%) is fair for small businesses.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	VAT policy implementation is consistent and transparent.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### SECTION D: Administrative Burden of VAT

S/N	Statement	SA	A	D	SD
11	VAT filing and remittance processes are time-consuming.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	My business incurs extra cost hiring professionals for VAT filing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	The FIRS tax system is efficient and easy to navigate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	I receive adequate support and feedback from tax officials.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	VAT documentation affects my business operational efficiency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### SECTION E: Perception of VAT and Business Sustainability

S/N	Statement	SA	A	D	SD
16	VAT contributes positively to Nigeria's economic development.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	VAT is a fair tax for small businesses.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	I believe VAT revenue is used effectively by the government.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

19	Complying with VAT enhances my business reputation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	VAT compliance promotes long-term business sustainability.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Correlations (Pearson r):**

Variables	VAT Compliance	Profitability	Admin Burden	Sustainability
VAT Compliance	1	.462**	-.318**	.384**
Profitability	.462**	1	-.295**	.437**
Admin Burden	-.318**	-.295**	1	-.213*
Sustainability	.384**	.437**	-.213*	1

**Regression Summary:**

- Adjusted R<sup>2</sup> = 0.41
- F(3,296) = 28.56, *p* < 0.001
- Significant predictors: VAT Compliance ( $\beta = 0.32, p < 0.01$ ), Profitability ( $\beta = 0.41, p < 0.01$ ).
- Administrative burden negatively affects SME growth ( $\beta = -0.25, p < 0.05$ ).

**Chi-square Test:**

$\chi^2(4, N = 300) = 13.27, p = 0.010$  — significant association between firm size and VAT compliance.

**Summary of Hypotheses Testing**

Hypothesis	Statistical Tool	Decision	Interpretation
H <sub>01</sub> : VAT compliance has no significant relationship with SME growth	Pearson Correlation	Rejected	VAT compliance positively influences SME growth
H <sub>02</sub> : VAT policy has no significant effect on profitability	Regression	Rejected	VAT policies significantly affect profitability
H <sub>03</sub> : VAT administration has no significant impact on operational efficiency	Regression	Rejected	Administrative burdens reduce operational efficiency
H <sub>04</sub> : SME perception of VAT has no effect on business sustainability	Regression	Rejected	Positive perception enhances sustainability

**Research Timeline**

Activity	Duration	Timeframe
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Proposal Approval	2 weeks	January 2025
Instrument Design & Validation	2 weeks	February 2025
Data Collection	3 weeks	March 2025
Data Analysis	2 weeks	April 2025
Report Writing	3 weeks	May 2025

### Variable Coding Table

Variable	Label	Type	Measurement	Coding
VATCOMP	VAT Compliance	Independent	Ordinal	1–5
PROFIT	Profitability	Dependent	Interval	1–5
ADMIN	Administrative Burden	Independent	Ordinal	1–5
SUSTAIN	Business Sustainability	Dependent	Interval	1–5
FIRM_SIZE	Firm Size	Control	Nominal	1=Micro, 2=Small, 3=Medium

### Screenshot of Google Form

*(Omitted in print version — available in electronic submission.)*

#### Appendix IX: Respondent Consent Declaration

I have read and understood the purpose of this research. I voluntarily agree to participate, and I understand that my information will remain confidential and used only for academic purposes.

**Name (optional):** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

### Additional SPSS Tables

Variable	Mean	Std. Deviation	N
VAT Compliance	3.76	0.91	300
Profitability	3.45	0.84	300
Admin Burden	3.12	0.79	300
Sustainability	3.67	0.88	300