

Title: Tax Policy and the Growth of SMES: Implication for the Nigerian Economy.

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Abstract: Small and Medium Enterprises play a very important role in development of the Nigerian economy. Making up about 97% of the entire economy, they serve as a source of employment generation, innovation, competition, economic dynamism which ultimately lead to poverty alleviation and national growth. Tax policy is one of the factors that constitute the SMEs' economic environment. This research work tries to establish if any relationship exists between the growth of SMEs and the tax policy environment in which they operate in Nigeria. Questionnaires were distributed to SMEs in Zaria, North Central, Nigeria and non-probability judgmental sampling method was employed. The hypothesis was tested using Spearman's Rank Correlation. It was found out that from most SMEs surveyed, they were faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Although there was a general perception that tax is an important source of fund for development of the economy and provision of social services, the study revealed a significant negative relationship between taxes and the business' ability to sustain itself and to expand. In order to obtain a vibrant and flourishing SME sector, the tax policy needs to be appropriate such that it will neither be an encumbrance to the SMEs nor discourage voluntary compliance. A suggested solution is by increasing tax incentives through reducing tax rates and increasing tax authorities' support services towards small and medium enterprises.