RESEARCH ARTICLE

Tax Revenue and Profitability of Small-Scale Enterprises in Rivers State

Ajinwo Bright PhD, ACA[1] & David Kennedy Dokubo[2]

[1&2]Department of Accounting, Faculty of Administration and Management, Rivers State University, Port Harcourt, Nigeria.

[1]bright.ajinwo@ust.edu.ng   [2]kendokubo2@gmail.com

ABSTRACT

This study examined tax revenue and profitability of small-scale enterprises in Rivers State. The focus of this study was to examine the relationship between tax revenue and profitability of small-scale enterprises in Rivers State. The objectives were to the effect of companies' income tax, value added tax, return on assets and net profit margin. Secondary data were used for the research by the researcher. The population of the study consists mostly of food, grocery, and other small-scale enterprises in Rivers State. The random sampling technique was used for the study. The t-stat, R-square, adjusted R-square, and P-values were used to test the reliability of the research instrument in this study. The study made use of Least Square (LS) regression analysis as data analysis method. The study found that the two dimensions of tax revenue used; companies' income tax and value added tax have a significant positive relationship with both measures of profitability as they were used; return on assets and net profit margin, thus, concluded that tax revenue have a significant relationship with profitability of small-scale enterprises in Rivers State. Based on the empirical findings, the study recommends that, when there is good tax revenue generation system, it will be able to increase the profitability of businesses drastically; as the system is being improved, the staff should also be trained to cope with the remittance of the tax liabilities (revenue) as this will give them a good business environment to work on and how demanding their job may be to remit those revenue; managers should be motivated to do their best. Absolutely to remit all the tax revenue and increase operating capacity leading to an increased profitability; the staff of the business should be reasonably remunerated to enable them put in their best in the business activities.

Keywords: Company's Income Tax, Profitability, Return on Asset, Tax Revenue, Value Added Tax.

1.   Introduction

The major sources of government revenue in Nigeria can be classified into tax revenue and non-tax revenue. Tax revenue is sometimes referred to as tax payers' money, to properly distinguish it from all other forms of money paid to the government. It is the total amount of tax collected by the government or its agents from tax payers who may be individuals or companies within a particular location, for a given period and made available for government expenditure. According to Ironkwe and Ndah, (2016), tax revenue is revenue generated by the government within its geographical confinement for the exclusive use by the government in the provision of public goods and services. However, for the past two decades the government of Nigeria has not been able to generate enough revenue, each year to cover its expenses and to worsen matters, government expenditure has been increasing over the years. According to World Bank Report (2019) global revenue performance has been falling steadily since 2004 in terms of tax revenue and Nigeria is far behind among other African countries.

Initially, the tax revenue collected by the Nigerian government was exclusively used to pay for the cost of governance and the money burden was borne directly by tax payers, who are individuals and companies. Later, the use of tax revenue was diversified by the government so as to augment the shortfall in the nontax revenue for the provision of public goods and services. Somewhere later at this point in time, the money burden was not necessarily borne alone by the tax payers directly but indirectly because it was passed on to the final user or consumer of the taxable goods or services at the point of purchase. In recent times, the use of tax revenue has been diversified further to include the financing of various goals of government such as to stimulate growth and development in the economy. In the drive to generate more revenue, the Nigerian government has

always had to ensure proper resource mobilization (Musa and Sanusi 2013). For example, some efforts had been made and recommended changes have also come into effect. In 1997 the Income Tax Act was made for the purpose of giving guidance in assessment and computation of taxes (Campsy, 1997). The taxes paid by companies not engaged in petroleum operations in Nigeria include Company Income Tax (CIT) and Value Added Tax (VAT). According to Kiabel & Nwokah (2009) the state's economic and social goal is to embrace an effective tax system that is relevant to a nation's economic growth. Since the signing into law of the Finance Act 2019, there are currently three (3) CIT rates based on turnover to promote development. Thus, the tax revenue of a company today in Nigeria be it small, medium or large company is effectively classified by the turnover of the company and not necessarily by number of employees. In Nigeria, a considerable fraction of the businesses are sole traders operating small scale businesses, locally owned and managed by individuals or families and often with very few employees working at a single location (Nigeria Development Bank report, 1988). The era of over dependence by the government on the oil producing companies in Nigeria to realize the tax revenue goal through Petroleum Profit Tax (PPT) and Personal Income Tax (PIT) has fast been eroded. The common belief currently is in favour of expanding the tax base to include nonoil revenue sources such as, small scale enterprises. However, the government in a bid to collect more tax revenue subsequently increased tax rates on VAT and imposed more taxes on the direct tax payers thereby subjecting same net profit of a given company possibly to multiple taxations. One way that the 3 tiers of government in Nigeria are actively working together in this line of expanding the tax base and to resolve the ensuing problems of getting more tax revenue is by ensuring that small scale enterprises first comply with the rule of incorporation according to the company laws of Nigeria and to drive for the payment of CIT. In effect, the net profits of the operating companies especially, locally owned small-scale enterprises are gaining more and more attention by the government and the issue of tax revenue has given rise to several research studies recently.

Some scholars have argued that profitability is a definitive measure that must be considered by the government and not just the net profit, as it is unlikely that there will be business continuity if adequate profits are not made and if the government fails to invest in the business environment. The profitability is the total wellbeing of an enterprise in its environment and it is a definitive measure in terms of a set of Key Performance Indicators (KPI's) set by the owners. While profits are an important indicator of success, the relationship of profit to size of profit is only evident in aggregate of firms or over long periods for individual firms (Bahiigwa et al., 2004). It is normal for owners of small-scale enterprises to want a healthy growth in their assets and to hold to a reasonable portion of the profit for purposes of reinvestment in the enterprise. The government in its attempts to realize higher tax revenue, targets to meet up with its budgeted expenditures without giving serious thoughts to the profitability of the enterprises in the business environments they find themselves. In most African countries, the business environment is not conducive to enterprise development (Bercy, 2005). This has led to the closure or exit of some large companies from Nigeria in the past two decades and the wind up of some affiliated small-scale enterprises in Nigeria. From the foregoing, it is clear that the profitability of the small-scale enterprises in Rivers State is a matter of grave concern to both the owners and stakeholders in the environments of the small-scale enterprises.

Many of the small-scale enterprises in Rivers State show obvious signs of distress and has for a long time been struggling to survive. Apparently, their inability to perform effectively is as a result of internal and external factors. In some cases, the internal factors can be adduced to deviations or the obvious absence of Key Performance Indicators (KPI's) by the owners which hinge on poor planning, inadequate funding, financial indiscipline, poor internet services, poor profitability and corruption. Other factors which are external and outside the control of the small-scale enterprises can be adduced to corruption and insecurity, poor infrastructure, high foreign exchange rate, difficulty in accessing credit facility, high inflation, competition and fraud in the business environments. These constitute challenges to deductions of tax revenue from small scale enterprises in Rivers State and to usage of the tax revenue by the government. The components or elements of infrastructure are electricity, telecommunication, transport (road, rail, ocean, air, pipeline) etc. (Ajakaiye, 2002). However, there are still some small-scale enterprises in Rivers State that are doing well due to healthy profitability and contributing to tax revenue. In the circumstance, it may be worth examining the closure of Michelin tyre producing factory located in Port Harcourt, Rivers State in 2007. Michelin Nigeria

Limited had paid significant tax regularly to the government, was the predominant tyre producer in Nigeria and West Africa and operated in affiliation with several small-scale industries within and outside of Rivers State. The closure of the factory was a sudden blow to both management and employees of the company, not to mention the stakeholders who were small scale enterprise owners. The consequences were grave as many within Rivers State folded up and some others relocated. The main reasons attributed for the closure were unfavourable government policy and high energy cost arising from irregular supply of electricity. Interestingly, it was not because the company was not making profit or not contributing to government tax revenue. The stakeholders at the headquarters in France simply did not see any future in the business environment of Michelin Nigeria Limited, relatively.

In most developed economies of the world, a significant proportion of the tax revenue generated is from numerous small scale and medium scale enterprises. A number of these small-scale enterprises in those countries operate as normal commercial entities producing and selling goods and services that are demanded by the industrial and commercial markets. The key thinking and usage of the tax revenue generated from aggregate enterprises by the government is essentially to provide infrastructure and the various supports that are given to the enterprises in the business environments. These considerations enhance performance and growth that is transparent. Unfortunately, in Nigeria the usage and accountability of tax revenue generated is still being debated. The level of infrastructural decay in Nigeria is high and this raises question of whether government revenue meant for infrastructural development is really channeled to it, while Nigeria has continued to occupy the list of the most corrupt countries in the world (Transparency International, 2009). A relationship exists between the tax revenue and the net profit in respect of the CIT because as the CIT deductions increases, so the tax revenue collected increases. However, where the net profit is on a downward trend, it signifies a decrease in ROA hence; the profitability measure must be properly taken into consideration and not just the net profit. On the realization that tax revenue has a linear relationship with company income tax deducted, it purports to be profitable to the small-scale enterprises hence, the present study.

The main purpose of the study is to examine the relationship between tax revenue and profitability of small-scale enterprises in Rivers State.

HO_1: There is no significant relationship between companies' income tax and return on assets of small-scale enterprises in Rivers State.

2.   Literature Review

Mika, Andrew and Shiv (2012) in a study to explore impact of tax system on the growth of SME's in Shinyanga, Tanzania, had the objective to determine the managers/executive officers' perception of tax system effectiveness in promoting SME's growth in Tanzania. The study found that, whenever prices increase due to increase in tax rates, prices of goods and services increase and there is a drop in the consumption rate and a decrease in sales volumes which leads to retarded growth of SME's. Tax payment is among the outflows of cash from the business which reduce the purchasing power of an enterprise. This is due to the fact that a large amount of cash collected is used to pay taxes rather than to expand the business. The study showed that the purchasing power of an enterprise drops immediately an organization pays taxes. The study is based on a survey of 120 respondents and used descriptive analysis. It recommends reforming of the tax policies in the country. Adereti, Adesina and Sanni (2011) examined the relationship between Value Added Tax and economic growth in the Nigerian economy. The study employed time series data on both the dependent and independent variables such as Gross Domestic Product (GDP), VAT Revenue, Total Tax Revenue and Total federal Government Revenue over a period of 14 years ranging from 1994 -2008. The study's methodology comprised of a combination of descriptive and inferential statistics. The outcome of the study suggested a positive relationship exists between revenue generated from VAT and GDP. Olaoye (2009) studied the administration of VAT in Nigeria with the objective of seeking ways of improving government revenue generation base in order to improve the economy. The study recommended that the government should increase people's awareness on the existence of VAT. Jens and Schwellnus (2008) examined the effects of companies' income taxes on two of the main drivers of growth, profitability and investment of firms in European OECD member countries over the time period of

1996 – 2004, through stratified sampling this is found to be true across firms of different size and age classes, except for young and small firms. The results suggest that companies' income taxes reduce investment through an increase in the user cost of capital. This may be partly explained by the negative profitability effects of companies' income tax if there is an increase in the applied tax rate.

Omedoro & Dandogo (2019), in their book tax revenue and public service delivery. The paper employs ordinary least squares technique to investigate the impact of tax revenue on public service delivery in Nigeria from 1981 to 2017. The specific objective is to determine the extent to which tax revenue influences service delivery indicators such as education and health care services in the country. The findings reveal that tax revenue impacts positively and significantly on education and health care services. The study therefore recommends among others that the government should exploit all tax revenue sources and use same to maintain the health sector in the country and provide adequate education including skill acquisition and entrepreneurship development programmes for the citizens.

An empirical study carried out by Mawejje & Sebudde (2019) on tax revenue potential and effort shows that domestic revenue mobilization has gained renewed attention in the post 2015 period owing in part to the "billions to trillions" drive to mobilize resources to finance the sustainable development goals. While authorities now realize the importance of strengthening efforts to collect more taxes, attempts to quantify the tax potential, and consequently the magnitude of the gap to close by countries wishing to improve their tax revenue outcomes, have been limited. This study provides estimates of tax potential and effort in a panel of 150 countries around the world. Using stochastic frontier methods, the analysis is based on a new Government Revenue Dataset from the International Centre for Tax and Development and spans a 20-year period during 1996–2015. Results indicate that while there is marked heterogeneity in individual country outcomes, countries that operate closer to their tax potential have high levels of income, large shares of non-agricultural output, large trade shares in GDP, invest more in human capital development, have more developed financial sectors, more stable domestic environments (with low inflation), more urbanized populations, and lower corruption. Ofori and Nketiah-Amponsah (2021), carried out a study on forecasting VAT revenue in Ghana and the study shows that governments need accurate tax revenue forecast figures for good economic planning but there seems to be no consensus on which method is the most suitable to deliver reliable results leading to differences in the choice of technique from one country to another. This study therefore forecasts Ghana's Value Added Tax (VAT) Revenue by comparing two methods, ARIMA with Intervention and Holt linear trend methods to establish the one with more precise predictive powers for VAT Revenue. Monthly VAT revenue data from the year 2002 to 2019 is used in the analysis. The findings show that ARIMA with Intervention method outperformed the Holt linear trend model in terms of accuracy and precision. A comparison of predicted results from the ARIMA with intervention model from 2017 to 2019 with Ghana Revenue Authority's VAT revenue targets based on their in-house forecasting model for the same period reveals that the ARIMA with intervention approach performs better than the in-house forecasting model of the VAT authority. In this case, the study recommends the ARIMA with intervention method to the tax authority for consideration in its forecasting.

Beyond the Global System for Mobile Communications, the advent of the Internet and its related infrastructures in the recent times have accounted for the significant shifts and restructuring in the manner that business is transacted across the universe. A sizeable percentage of commercial activities is already being carried out electronically. However, considered from a different perspective, the growth in internet has been presenting some disturbing challenge to the tax authorities" traditional approaches to both direct and indirect taxation globally. For instance, E-commerce business model has several tax implications such as disintermediation, increased magnitude of cross-border transactions and digitization of information - to mention a few. These characteristics of E-commerce make it difficult to identify the source and destination of transactions. Consequently, they create opportunities for high-level tax avoidance schemes and the resultant tax losses. These intrinsic challenges of E-commerce taxation explain the much debate and discussions that have taken the center-stage among stakeholders on how to regulate the internet while preserving the interests of all. This debate on the full implications of E-commerce for tax revenues is yet to be settled, this paper seeks to explore the development of internet taxation and the related issues globally

with particular emphasis on Nigeria. The study observes that issues such as tax loss and tax evasion are significant just as the challenges like uncertainty and double taxation make the parties of E-commerce reluctant and affect the development of E-commerce negatively. As is the case with many other developing nations, Nigeria is gradually embracing E-commerce (Agbo and Nwadialor, 2020).

Agunbiade & Idebi (2020) in their work tax revenue and economic growth examined the relationship between tax revenue and economic growth in Nigeria over 1981–2019 periods, with special focus on Companies Income Tax, Value Added Tax and Petroleum Profits Tax. The data were sourced from the National Bureau of Statistics (NBS) and the Federal Inland Revenue Service (FIRS). The study employed the Vector Error Correction Model (VECM) to establish the nature and strength of the relationship between taxation and economic growth. The Johansen test of co integration reveals that there is at least one co integrating equation in the long-run between the variables. Granger causality test found a causal relationship among Real GDP and the different tax components. The impulse response functions and the variance decomposition analysis uphold the findings that the impact of the shock in the indirect tax (VAT) and direct tax (CIT and PPT) on GDP growth does not die out over the specified period under consideration. Variance decomposition analysis found that the effect of the shock to the direct tax (CIT and PPT) on GDP growth tends to be low, whereas the effect of the shock to the indirect tax (VAT) on GDP growth tends to be significant to increase over the period. Therefore, this study recommended that in order to expand tax revenue, there should be a broad base tax strategy, focusing on all key areas of the tax system with measurable outcomes. Emphasis should be on simplification of the tax system and ease of implementation with priority given to quick wins and low hanging fruits, while more challenging aspects should be deferred until positive results are being recorded. The regulatory authorities charged with the responsibility of collecting tax should further be strengthened to enforce compliance by taxpayers, among other recommendations.

Yahaya (2022), in his article on impact of tax reforms on revenue generation asserts that global tax revenue performance has been falling steadily for the past two decades which have forced both developed and developing countries to embark on tax reforms with a view of enhancing revenue performance. However, studies to determine the impact of the tax reforms are scarce. This study examines the impact of tax reforms introduced in 2007 on the revenue performance of the Federal Inland Revenue Service in Nigeria. The main objective of the study was to assess the impact of the reform on tax revenue of FIRS. The ex-post factor research design was employed because secondary data were used. Secondary data spanning twenty- four years was collected and analysed using dependent sample t-test to benchmark the revenue performance before (1995-2006) and after (2007-2018) the reform. The result shows revenue performance after the reforms was statistically significant and higher than the revenue performance before the tax reform. The study recommends that the reforms should be sustained.

Ojo (2020) in his book, impact of tax administration on government revenue in developing economy examined the contribution of company's income tax on Nigerian economic development. The study utilized secondary data sourced from Central Bank of Nigeria (CBN) Statistical Bulletin and Federal Inland Revenue Service (FIRS). The study employed Statistical packages for social science (SPSS) technique for the analysis collected data, where Natural logarithm of Gross Domestic Product (GDP), the dependent variable stands as a proxy for economic development, and Company Income Tax (CIT), stands as the independent variables. The results of the analysis showed that company income tax does not have significant and positive contribution on the Nigeria economic development from the period of 2011 to 2015. In accordance with the findings, the study recommended that government should improve the level of supervision and regulating the activities of all agencies vested with responsibility of tax collections and administration, so that same amount realized as tax to be remitted to the federation. Government officials or leaders need to be transparent and accountable in public monies. Monies collected from companies in form of company income tax (CIT) should be properly channeled to developmental project to benefit the citizens. And tax authorities should design penalties for defaulting companies. And finally, Tax clearance should also be presented when an individual company's wants to transact with government agencies. Khalaf (2013) using a sample of 45 manufacturing companies listed on the Amman Stock Exchange were used for a study on companies' income tax (CIT) and manufacturing sector performance in Nigeria,

which covers a period of five (5) years from 2005 to 2009. Multiple regression analysis was applied on performance indicators such as return on assets (ROA) and profit margin (PM) as well as short term debt to total assets (STDTA), long term debt to total assets (LTDTA) and total debt to equity (TDE) as capital structure variables. The results show that there is a negative and insignificant relationship between STDTA and LDTDA, and ROA and PM; while TDE is positively related to ROA and negatively related with PM. STDTA is significant using ROA while LTDTA is significant using PM. The study concludes that statistically, capital structure is not a major determinant of a firm's performance. It recommends that managers of manufacturing company's should exercise caution while choosing the amount of debt to use in their capital structure as it affects their performance negatively. Chude and Chude (2015) investigated the impact of taxation on the profitability of companies in Nigeria. Employing secondary data with error correction model to test the variables that most likely to impact the profitability of companies in Nigeria, the study revealed that the level of company tax had significant effect on profitability. They concluded that the positive and significant relation between the profitability and the taxation explanatory variables indicated that policy measures should be employed to expand tax through more effective tax administration, this will impact positively on the growth of a company's profitability.

Ojeka (2011) studied on Tax policy and the Growth of SME's and found that small and medium enterprises play a very significant role in development of the Nigerian economy, making up about 97 percent of the entire economy. The research work sought to establish if any relationship exists between the growth of SMEs and the tax policy in Nigeria. It was found that most SMEs surveyed 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. Data was collected for 107 respondents and analysed using Spearman's Rank Correlation which measures strength of association between two variables. Rohaya, et al. (2010) conducted a study on companies' income tax and revealed an association between income tax and profitability of corporate institutions. The study related to the impact of companies' income tax liabilities on different dependent variables of a firm. Samples of 730 companies' were taken from the hotels and restaurants sector. This includes 6,594 in business services and 1,484 in transport manufacturing sectors, for the accounting periods 1995 to 2000. The conclusion was that companies' income tax adversely affects the profitability of corporate institutions but has a positive relationship with the firm size and age of companies.

3. Methodology

The researcher adopted the ex-post facto research design technique because of the fact that the researcher has no power to influence the data to be collected for the study. The adoption of this research design will enable the researcher to examine the influence of tax revenue on the profitability of small-scale enterprises in Rivers State. The population of the study is made up of small-scale enterprises in Rivers State. The small-scale enterprises in Rivers State as at 29th June, 2024 were twenty-one (21) and the researcher will consider six (6) of such enterprises for the study population. In this case, the population size of the study will be six (6) enterprises.

The source of data collection was secondary because the study is quantitative research and the data was available in the financial statements of the sampled enterprises already prepared by the management. The data for the study was obtained from the annual reports of the small-scale enterprises in Rivers State selected as sample for the study. The data collected from the annual reports of the small-scale enterprises was the ones obtained from their published financial statements. The type of data that was used is the time series data obtained from 2019 to 2023. The choice of the period is to capture only the financial statements of small-scale enterprises in Rivers State presented in IFRSs requirements. This is due to the fact that from 2019 to 2023, small-scale enterprises in Rivers State must have adopted IFRSs and it was expected that financial statements from 2013 should be presented in IFRSs format.

The descriptive statistics, multiple linear regression model, correlation coefficient (R), R-square, adjusted R-square, t-statistics (t-stat), Durbin-Watson (DW), statistics and P-value was used to analyse the data collected and to test the hypotheses stated as well. The level of significance was 5%.

4. Results

The variables are Return on Assets (ROA), Net Profit Margin (NPM), Companies' Income

Tax (CIT), and Value Added Tax (VAT). These variables were the main focus of the researcher as to examine the relationship of tax revenue on the profitability of the small-scale enterprises in Rivers State. Their calculations were based on the figures or values obtained from the annual reports of the sampled small-scale enterprises in Rivers state from 2019 to 2023.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Deviation
ROA	30	-.48924	.49000	.5931976	.74517142
NPM	30	-.02516	1.36640	.0826678	.14340097
CIT	30	.00324	35.42430	.8045233	.43341488
VAT	30	-.99394	28.61827	.2549534	.60497874

Source: *Researcher's Computation, 2024*

Return on Assets (ROA) ranged from a minimum value of -0.48924 to a maximum value of 0.49000, with an average value of 0.5931976. This suggests that, on average, these listed companies maintained a ROA of 0.5931976, indicating their overall solvency during the study period. The minimum ROA recorded was -0.48924, signifying the lowest point of profitability, while the maximum ROA reached 0.49000, representing the highest profit margin. The relatively high standard deviation of 0.74517142 indicates considerable fluctuation and variation in ROA throughout the study. Net Profit margin (NPM) exhibited a minimum value of -0.02516 and a maximum value of 1.36640, with an average of 0.0826678. This implies that, on average, these small-scale enterprises generated a profit of 0.0826678 for the study period. The lowest NPM observed was -0.02516, indicating a minimal loss, while the highest NPM achieved was 1.36640, representing significant profitability. The standard deviation of 0.14340097 suggests notable variations in NPM from the mean, indicating fluctuation in profitability. Companies' Income Tax (CIT) ranged from a minimum value of 0.00324 to a maximum value of 0.42430, with an average of 0.8045233. This indicates that, on average, these companies had a high CIT of 0.8045233 during the study period. The lowest CIT reported was 0.00324, while the highest CIT reached 0.42430, demonstrating a high level of companies' income taxes. The standard deviation of 0.43341488 indicates significant fluctuations in CIT during the study. Value Added Tax (VAT) showed a minimum value of -0.99394 and a maximum value of 0.61827, with an average of 0.2549534. This suggests that, on average, these companies got and remitted a high VAT of 0.2549534 during the study period. The lowest VAT recorded was -0.99394, indicating minimal tax benefits, while the highest VAT reached 0.61827, signifying significant tax inputs. The standard deviation of 0.60497874 indicates substantial fluctuations in VAT during the study.

Table 2. Summary of Analysis

Variable	Beta (β)	t-Statistic	P-Value	Remark
CIT	0.091	0.450	0.006	Significant
VAT	0.126	0.622	0.009	Significant

Source: Researcher's Computation, 2024
*Dependent Variable=ROA

CIT indicated positive and significant relationship with ROA (P-value>0.05); VAT showed positive and significant relationship with ROA (P-value<0.05). A percentage increase in CIT brought about 9.1% increases in ROA; an increase in VAT brought about 12.6% increases in ROA.

Table 3. Summary of Analysis

Variable	Beta (β)	t-Statistic	P-Value	Remark
CIT	0.049	0.242	0.010	Significant
VAT	0.139	0.687	0.048	Significant

Source: Researcher's Computation, 2024
*Dependent Variable=NPM

CIT indicated positive and significant relationship with NPM (P-value<0.05); VAT showed positive and significant relationship with NPM (P-value<0.05). A percentage increase in CIT brought about 15.5% increases in NPM; an increase in VAT brought about 1.2% increases in NPM.

Table 4. Summary of Analysis

Variable	Beta (β)	t-Statistic	P-Value	Remark
CIT	0.091	0.450	0.006	Significant

Source: Researcher's Computation, 2024
*Dependent Variable=ROA

Ho₁: There is no significant relationship between companies' income tax and return on assets of small-scale enterprises in Rivers State.

Since the p-value<0.05 for CIT, therefore, the alternative hypothesis was accepted and the null hypothesis was rejected and concluded that there is significant relationship between Companies' Income Tax and return on assets of small-scale enterprises in Rivers State.

Table 5. Summary of Analysis

Variable	Beta (β)	t-Statistic	P-Value	Remark
VAT	0.126	0.622	0.009	Significant

Source: Researcher's Computation, 2024
*Dependent Variable=ROA

Ho₂: There is no significant relationship between Value Added Tax and return on assets of small-scale enterprises in Rivers State.

Since the p-value<0.05 for VAT, therefore, the alternative hypothesis was accepted and the null hypothesis was rejected and concluded there is significant relationship between Value Added Tax and return on assets of small-scale enterprises in Rivers State.

Table 6. Summary of Analysis

Variable	Beta (β)	t-Statistic	P-Value	Remark
CIT	0.049	0.242	0.010	Significant

Source: Researcher's Computation, 2024
*Dependent Variable=NPM

Ho₃: There is no significant relationship between companies' income tax and net profit margin of small-scale enterprises in Rivers State.

Since the p-value<0.05 for CIT, therefore, the alternative hypothesis was accepted and the null hypothesis was rejected and concluded that there is significant relationship between companies' income tax and net profit margin of small-scale enterprises in Rivers State.

Table 7. Summary of Analysis

Variable	Beta (β)	t-Statistic	P-Value	Remark
VAT	0.139	0.687	0.048	Significant

Source: Researcher's Computation, 2024
*Dependent Variable=NPM

Ho₄: There is no significant relationship between value added tax and net profit margin of small-scale enterprises in Rivers State.

Since the p-value>0.05 for VAT, therefore, the alternative hypothesis was accepted and concluded that there is a significant relationship between value added tax and net profit margin of small-scale enterprises in Rivers State.

5.   Discussion of the Findings

The relationship between Companies' Income Taxes and Return on Assets is positive and significant. This means that when a company pays higher Companies' income tax, it tends to experience an increase in its return on assets. Companies' income tax is an example of taxes that businesses pay to the government through the relevant tax agencies. Furthermore, the positive and significant relationship between companies' income tax and return on assets highlights the potential benefits of prudent capital investment decisions. When businesses make investments that results in a more companies' income tax and remit the taxes as at when due, they not only improve their operational efficiency but also enjoy the financial advantage of reduced tax liability by way of discount. This tax relief can free up capital for further investments, research and development, or other growth initiatives, ultimately contributing to increased profitability.

It is worth noting that while the relationship between companies' income tax and return on assets is generally positive and significant, it can vary from one industry to another and may depend on the specific tax regulations in a given jurisdiction. When charging value added tax, businesses can

retain a larger portion of their earnings due to indirectly transferring tax burdens to the ultimate consumer thereby having no tax obligations. This surplus capital can be reinvested into the company for expansion, research and development, or other growth-oriented activities, directly impacting the return on assets. The positive correlation between value added tax and return on assets underscores the role of government policies in influencing corporate profitability and encourages businesses to be tax compliant to enhance their returns. This study was in line with Holland and Vann (2015) who conducted a study on the impact of value added tax on firms' performance: Evidence from Pakistan. It is worth noting that while the relationship between companies' income tax and net profit margin is generally positive and significant, it can vary from one industry to another and may depend on the specific tax regulations in a given jurisdiction. Therefore, it is crucial for businesses to consult tax professionals and financial experts to optimize their income tax strategies and maximize their returns on assets within the bounds of the applicable tax laws. The relationship between value added tax and net profit margin is positive and significant. This means that when a business benefits from a value added tax, it tends to experience an increase in its net profit margin. A value added tax is a form of tax that is paid to the government on consumables; it's a form of indirect tax that is remitted to the government through the relevant tax authority.

In conclusion, a positive and significant relationship between value added tax and return on assets underscores the potential advantages of such government incentives for businesses seeking to enhance their profitability. Still, it requires careful consideration, strategic planning, and ongoing monitoring to ensure the long-term sustainability of improved profitability and it is worthy to note that small businesses are tax exempt companies.

6.   Conclusion and Recommendations

This study was carried out to meet the following purposes which are; to examine the relationship between tax revenue and profitability of small-scale enterprises in Rivers State, which is the major purpose and other objectives such as; to determine the relationship between companies' income tax and return on assets of small-scale enterprises in Rivers State, to determine the relationship between companies' income tax and return on investment of small-scale enterprises in Rivers State, to analyse the relationship between value added tax and return on assets of small-scale enterprises in Rivers State, Ascertain the relationship between value added tax and return on investment of small-scale enterprises in Rivers State, among others.

The researcher found the following after analysing the data obtained from the firms' financial statements; that companies' income tax is affected by the return on assets of small-scales enterprises, that value added tax is affected by the net profit margin of small-scale enterprises in Rivers State, among others and this led the researcher to a conclusion that tax revenue has a significant relationship to profitability of small-scale enterprises.

References

Adereti, S. A., Sanni, M. R., & Adesina, J. A. (2011). Value Added Tax and Economic Growth in Nigeria. European Journal of Humanities and Social Sciences, 10, 456-471.

Agbo, E. I., & Nwadialor, E. O. (2020). E–commerce and tax revenue. Noble International Journal of Economics and Financial Research, 5(8), 80-91.

Agunbiade, O., & Idebi, A. (2020). Tax revenue and economic growth nexus: Empirical evidence from the Nigerian economy. European Journal of Economic and Financial Research. 4(10).46-82.

Ajakaiye, O. (2002) "Infrastructure Development and Economic Growth in Nigeria" paper presented at the Eleventh Annual Conference of the Zonal Research Units, Research Department, Central Bank of Nigeria, June 3 7.

Alm, J., Jackson, B.R., & McKee, M. (1992). Estimating the Determinants of Taxpayer Compliance with Experimental Data. National Tax Journal, 45(4), 107-114.

Arnold, J. & Schwellnus, C. (2008). Do Corporate Taxes Reduce Productivity and Investment at the Firm Level? Cross-Country Evidence from the Amadeus Dataset. CEPII research center, Working Papers.

Bercy, R. (2005). Dependence, Government Revenue, and Economic Growth. Studies in Comparative International Development, XII (2): 3-28

Bahiigwa, G., Ellis, F., Fjeldstad, O. H., & Iversen, V. (2004). Rural taxation in Uganda: Implications for growth, income distribution, local government revenue and poverty reduction. EPRC Research Series, 35.

Campsy. (1997). Impact of taxation on the performance of small-scale enterprise.

Chenery, H., & Syrquin, M. (1975). Patterns of development. A World Bank research publication Washington, D.C.: World Bank Group.

Chude, D.I., & Chude, C.N.P. (2015). Impact of company income taxation on the profitability of companies in Nigeria: A study of Nigerian breweries, European Journal of Accounting, Auditing and Financing Research, 3(8), 1-11.

Fjeldstad, O. H., Collette, S. H., & Ingrid, H. S. (2012). Peoples' views of taxation in Africa: A review of research on determinants of tax compliance.

Fubara, B., (1982). Personal Income Tax and Government Revenue: Evidence from Oyo State. International Journal of Social and Administrative Sciences, 02(2): 45-51.

Ironkwe, C., & Ndah, A. (2016). Impact of internally generated revenue on performance of Local Government in Rivers State, Nigeria. International Journal of Business & Law Research, 4(4), 42-58.

Khalaf, B.N.J. (2013). Comparative analysis of paying taxes indicators: Evidence from Western Balkans Countries and Turkey. International Journal of Management, Accounting and Economics, 3(4), 222-232.

Kiabel, B.D. & Nwokah, G.N. (2009). Boosting revenue generation by state governments in Nigeria: The tax consultants option revisited. European Journal of Social Sciences, 8(4): 532–539.

Litina, A., & Palivos, T. (2016). Corruption, tax evasion and social values. Journal of Economic Behavior & Organization, 124, 164-177.

Mawejje, J., & Sebudde, R. K. (2019). Tax revenue potential and effort: Worldwide estimates using a new dataset. Economic Analysis and Policy, 63, 119-129.

Mika, M., Andrew, H. M. & Shiv, K. T. (2012). Study of Tax System Impact on the Growth of Small and Medium Enterprises (SMES); with Reference to Shinyanga Municipality, Tanzania. International Journal of Management and Business Studies 2(3).99-105.

Moore, M. (2004). Revenues, state formation, and the quality of governance in developing countries. International Political Science Review, 25(8), 297-319.

Musa, Y., & Sanusi, J. A. (2013). Analyzing the impact of value added tax (VAT) on Economic Growth in Nigeria. Mathematical Theory and Modeling.

Ofori, M. S., Fumey, A., & Nketiah-Amponsah, E. (2021). Forecasting Value Added Tax Revenue in Ghana. Journal of Economics and Financial Analysis, 4(2), 63-99.

Ojo, L. O. (2020). Impact of tax administration on government revenue in developing economy: A case study of Nigeria. Advance Journal of Financial Innovation and Reporting, 4(4).

Olaoye, C. (2009). A review of value added tax (VAT) administration in Nigeria. 3. 61-68.

Omodero, C., & Dandago, K. (2019). Tax Revenue and Public Service Delivery: Evidence from Nigeria. International Journal of Financial Research, 10(8), 2-10.

Regoniel, P.A., (2015). Conceptual framework: A step-by-step guide on how to make one. Simply Educate. Me.

Syadullah, M., & Wibowo, T., (2015). Governance and tax revenue in Asian countries. Journal of Social and Development Sciences, 6(2), 76-88.

Tanzi, V. (2008). Corruption, public investment, and growth. In The welfare state, public investment, and growth, Springer, Tokyo, 41-60.10.1007/978-4-431-67939-4_4.

Yahaya, A.H. (2022). Impact of Tax Reforms on Revenue Performance of Federal Inland Revenue Service of Nigeria. Lapai journal of management science (lajomas), vol. 11 no.1 april 2022 - issn: 2315 9243

Rohaya, M. N., NurSyazwani M. F. & Nor'Azam, M. (2010). "Corporate Tax Planning: A Study on Corporate Effective Tax Rates of Malaysian Listed Companies", International Journal of Trade, Economics and Finance, 1(2), 1-5.