

Effect of tax non-compliance on the performance of small and medium scale enterprise in Kaduna metropolis, Kaduna State

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Abstract

This study investigates the impact of tax non-compliance on the performance of Small and Medium Scale Enterprises (SMEs) in Kaduna Metropolis. SMEs are vital for economic development, providing employment and contributing to Nigeria's GDP. However, tax non-compliance presents a significant challenge, undermining fair competition and reducing government revenue for public services. The research aims to assess the influence of tax knowledge, tax penalties, and tax complexity on SMEs' compliance and overall performance. Utilizing a survey methodology, data was gathered from registered SMEs, and analyzed using multiple regression analysis. Findings reveal that inadequate tax knowledge, complex tax regulations, and ineffective penalties contribute to tax non-compliance, negatively affecting SME performance. The study highlights the need for enhanced tax education, simplified tax systems, and balanced penalties to foster compliance and support SME growth. These insights can inform policymakers in creating a more supportive tax environment for SMEs, promoting sustainable economic development in the region.

Key words: Tax Non-Compliance, Small and Medium Scale enterprise, Tax Penalty, Tax Knowledge, Tax Complexity

1.1 Introduction

Small and Medium Enterprises (SMEs) are vital to the advancement of the Nigerian economy. Comprising approximately 97% of the economy, they provide employment opportunities, foster innovation, promote competition, and drive economic vitality, all of which contribute to poverty reduction and national development (Saad, 2012). Taxation is an essential element of any economy, acting as the primary method through which governments obtain revenue to support public services such as infrastructure, healthcare, and education. These small enterprises have increasingly been recognized as enterprises that contribute considerably to the creation of jobs, economic growth and eradication of poverty in Africa. According to the World Development Report (2017), the creation of “sustainable” jobs and opportunities for smaller entrepreneurs are the key strategies to take people out of poverty. Small and medium enterprises are mostly private enterprises and they face difficulties when dealing with the government in general and the tax administration in particular, mostly in developing countries. Many of the difficulties with the tax authorities may be deemed as the consequences of poorly conceived tax policies and a lack of certainty regarding future policy changes. However, it would be rare indeed to not observe complaints about the complication and/or ambiguity of the tax laws as well as high tax rates (Baurer, 2015).

According to Mnewa and Maliti (2008), the majority of small businesses are less likely to attain or maintain their growing profitability due to factors including tax policies, which they mostly find adverse. As a policymaker and regulator, Government must consider the factors like access to finance, taxation policies, regulatory environment, market access and infrastructure, skills and education, and innovation and technology that could affect the competitiveness of the small

enterprises. Small and medium enterprises (SMEs) are considered the backbone of economic growth in all countries. Smaller enterprises represent over 90% of private businesses and they contribute to more than 50% of employment and GDP in most African countries (United Nations Industrial Development Organization, 2019).

Small and Medium Scale Enterprises in Kaduna state are also believed to contribute about 70% to Kaduna State GDP and they account for over 90% of businesses in Kaduna State (Aryeetey, 2018). In line with the various statements noted above, it is reasonable to state that SMEs have a crucial role to play in stimulating growth, generating employment, and contributing to poverty alleviation, given their economic weight in African countries. While taxation contributes significantly to Nigeria's GDP, it is essential to consider its potential negative impact on the growth of Small and Medium Enterprises (SMEs). High tax burdens and complex regulations can hinder SME development, despite their critical role in job creation and economic diversification (Ojeka, 2017; Ocheni & Gemade, 2015). This is because SMEs play a crucial role in driving economic growth in both developing and developed countries. As highlighted previously, as a group, they not only generate more new jobs than large firms or macro-enterprises but also introduce innovative ideas, products, and business methods (Hassan, 2017).

Research has not extensively examined the negative impact of tax payments on the financial performance of SMEs in developing nations (Baurer, 2015). This gap highlights a significant concern regarding the alignment of the tax system with the unique growth requirements of a specific country, as it must consider both immediate and long-term effects of the policy. This situation also underscores the necessity for a thorough investigation into how tax obligations influence the development of SMEs. Furthermore, the majority of existing literature and studies on this topic are primarily from foreign and Western contexts, where the dynamics of SME operations differ from those in developing countries such as Nigeria (Oludele & Emilie, 2012).

Small and Medium Enterprises (SMEs) are essential to the economic framework of developing nations such as Nigeria, where they stimulate job creation, promote innovation, and contribute significantly to GDP growth. Nevertheless, despite their importance, SMEs encounter various obstacles, including restricted access to financing, insufficient infrastructure, and complicated regulatory frameworks. A pressing challenge impacting their performance is tax non-compliance, which compromises fair competition and diminishes the financial resources available for government investments in infrastructure and services that support SMEs (Ojeka, 2017; Ocheni & Gemade, 2015). As tax non-compliance continues, compliant SMEs frequently find themselves at a disadvantage, struggling to compete with non-compliant companies that can provide lower pricing, thereby obstructing their growth and longevity. In areas like Kaduna, tax non-compliance has become prevalent, as many SMEs evade tax obligations due to the perceived difficulties of compliance or the lack of enforcement. This leads to a loss of government revenue that could otherwise be reinvested into development projects benefiting SMEs and the wider community. Tax non-compliance also creates an environment where SMEs face higher compliance costs due to

stricter enforcement measures, which further exacerbate their operational challenges (Aderemi, 2013).

This research aims to explore how tax non-compliance influences the performance of small and medium-sized enterprises (SMEs) in Kaduna State, focusing on identifying the main factors leading to non-compliance, evaluating the economic effects on SMEs, and suggesting strategies to encourage equitable tax practices and a more conducive business atmosphere for SMEs in the area. The primary purpose of this study is to investigate the impact of tax non-compliance on the Performance of Small and Medium Scale Enterprises (SMEs) within the Kaduna Metropolis.

2. Literature review

2.1 Theoretical review

2.1.1 Allingham and sandmo theory of tax compliance

This theory, developed by Allingham and Sandmo (1972), is one of the most prominent frameworks used to understand taxpayer behavior. The theory postulates that taxpayers make a cost-benefit analysis when deciding whether to comply with tax regulations. They weigh the potential benefits of non-compliance (e.g., saving money) against the probability of being audited and the severity of penalties if caught. If the perceived costs of non-compliance outweigh the benefits, taxpayers are more likely to comply. This theory provides insights into how tax penalties, tax knowledge, and enforcement can influence SME behavior.

2.2.2 Theory of planned behavior (TPB)

The Theory of planned behavior (TPB), proposed by Ajzen (1991), explains how individual intentions drive behavior. According to this theory, three factors influence behavioral intention: attitude toward the behavior, subjective norms, and perceived behavioral control. In the context of tax compliance, SMEs' attitudes toward tax obligations, perceived social norms about compliance, and their control over tax-related activities affect whether they comply or not. For example, if SME owners believe that tax compliance is beneficial for business growth, they are more likely to comply.

2.2.3 Economic deterrence theory

The economic deterrence theory emphasizes the role of enforcement, audits, and penalties in deterring tax non-compliance. This theory posits that taxpayers are rational decision-makers who weigh the risks and costs of non-compliance against the benefits. The higher the perceived likelihood of an audit or penalty, the more likely taxpayers are to comply. This theory underpins the importance of government enforcement and strict penalties to prevent non-compliance.

2.3 Conceptual framework

The conceptual framework of the study as shown in figure 1 consists of the independent variable of tax non-compliance which is proxied by tax knowledge, tax penalties and tax complexity while the dependent variable of financial performance is proxied by financial stability and growth, operational efficiency and access to opportunities.



Figure 1. Conceptual framework

2.4 Review of empirical studies

Adesina and Obazee (2016) examined the impact of tax awareness on compliance among Nigerian SMEs. Conducting a survey of 500 SMEs and using regression analysis, the study found that increased tax awareness led to a 30% improvement in compliance rates. The findings highlighted the importance of tax knowledge in fostering compliance and reducing errors in tax filings.

Tandfonline (2023) investigated the influence of taxpayer perception on VAT compliance in Nigerian SMEs. Using a mixed-method approach that involved structured interviews, the study concluded that positive taxpayer perception significantly enhanced VAT compliance rates. The study emphasized the need for transparent tax policies to improve trust and participation among SMEs.

2.4.1 Effect of tax knowledge on SME performance

Empirical studies have shown that tax knowledge significantly affects SME compliance and performance. Adesina and Obazee (2016) found that SMEs with higher levels of tax knowledge were more likely to comply with tax regulations, resulting in improved business performance. Their study on Nigerian SMEs revealed that awareness of tax obligations led to better financial planning, reduced penalties, and access to government support programs. Similarly, Pratama (2018) found that SMEs that understand the tax filing process are better positioned to meet tax deadlines, reducing the likelihood of errors and penalties.

H₀₁: There is no significant effect between tax knowledge and the performance of Small and Medium Scale Enterprises in Kaduna State.

2.4.2 Effect of tax penalties on SME performance

Research by Feld and Frey (2007) indicates that the imposition of penalties plays a crucial role in deterring tax non-compliance. Their study suggests that SMEs are more likely to comply when they face the possibility of substantial fines or legal action. In Nigeria, Adebisi and Gbegi (2013) analyzed how penalty structures influence SME compliance and performance. They found that stricter penalty enforcement led to higher compliance rates and better business performance due to reduced risk of fines, court cases, and asset seizures.

H₀₂: There is no significant effect between tax penalty and the performance of Small and Medium Scale Enterprises in Kaduna State.

2.4.3 Effect of tax complexity on SME performance

The complexity of tax laws can negatively affect the performance of SMEs by increasing compliance costs and administrative burdens. Richardson and Sawyer (2001) assert that high tax complexity often leads to unintentional errors and delays in filing, resulting in penalties and reputational damage for SMEs. Empirical studies by Lumumba et al. (2010) also found that reducing tax complexity improves compliance, as simplified processes reduce the time and cost required for tax preparation. This finding supports calls for governments to introduce tax reforms that promote transparency, clarity, and ease of compliance.

H₀₃: There is no significant effect between tax complexity and the performance of Small and Medium Scale Enterprises in Kaduna State.

2.5 Gaps in the Literature

Despite comprehensive studies on tax compliance and its effects on SMEs, several gaps still exist. Most research has concentrated on the compliance behavior of large corporations, while there has been insufficient focus on SMEs, particularly in developing nations such as Nigeria. Moreover, there is a lack of empirical studies examining how factors like tax knowledge, tax penalties, and tax complexity interact to affect SME performance. Additionally, the influence of sector-specific variations on tax compliance has not been thoroughly investigated, as various sectors encounter unique tax challenges. Closing these gaps could equip policymakers with enhanced insights for crafting tax policies that promote SME growth and adherence.

3. Methodology

The research utilized a survey approach to examine how tax non-compliance impacts the performance of Small and Medium Enterprises (SMEs) in Kaduna State. As noted by Cooper and Schindler (2001), research design is essential in directing data collection systematically to meet research goals. The survey method was chosen as it effectively collects data from a large group to assess the influence of various factors, including tax knowledge, tax penalties, and tax complexity, on the performance of SMEs. The target population for this research consists of small and medium-sized business owners in Kaduna State, with a total of 17,473 registered businesses, as reported by the Kaduna State Agency for Business and Innovation (2019). To determine the sample size, Yamane's (1967) simplified formula was utilized, resulting in a sample of 391 respondents. This sample size is adequate to ensure statistical significance and represents a varied cross-section of the SME population in this study.

4. Results and discussion

This section outlines the study's results and discusses its findings. The analysis initiates with a reliability examination to evaluate the internal consistency of the questionnaire items via Cronbach's Alpha. This test assesses whether the questions effectively capture the study's variables, such as tax knowledge, tax penalty, and tax complexity, and their impacts on SME performance. After the reliability assessment, descriptive statistics are evaluated to gain insights into the respondents' views on the study variables. Finally, the results of the regression analysis are presented, illustrating the relationships and effects of tax-related variables on SMEs'

performance in Kaduna Metropolis. The findings are then utilized to test the hypotheses and form conclusions.

4.1 Response Rate

Table 1. Response rate

Questionnaires Distributed	Questionnaires Received	Response Rate (%)
500	391	78.20%

Source: Research Data, 2024

4.2 Demographic characterization

Table 2. Demographic characterization

Demographic Variable	Categories	Frequency	Percentage (%)
Age	Below 25 years	50	12.8
	25–34 years	120	30.7
	35–44 years	140	35.9
	45 years and above	80	20.5
Educational Level	Primary	30	7.7
	Secondary	100	25.6
	Diploma/Certificate	150	38.5
	Bachelor's Degree	90	23.1
Gender	Postgraduate	20	5.1
	Male	230	58.8
Business Ownership Duration	Female	161	41.2
	Less than 5 years	100	25.6
	5–10 years	150	38.5
	Over 10 years	141	36.1

Source: Research Data, 2024

4.3 Reliability analysis

Table 3: Reliability test

VARIABLE	ALPHA	NO OF QUESTIONS
Tax Knowledge,	.995	5
Tax Penalty	.875	5
Tax Complexity	.826	5

Source: SPSS Output, (2024)

Looking at the variables of the study, it is discovered that all the variables had alphas that are above 0.7. Considering the first variable which is tax knowledge of small business has an alpha of .995 and 5 questions. This implies that the variable has internal consistency and has the reliability to be used in the study. Looking at the second variable which is tax penalty, it is discovered that the variable had an alpha of .875. This also implies that there is internal consistency in the variable.

Finally, tax complexity also had an alpha of .826 which signifies that there is internal consistency in the variable. This signifies that there is internal consistency in the questions used to measure tax knowledge. The study concluded based on the decision rule guiding the Cronbach alpha, which states that any Cronbach alpha that is above .6 is reliable (Mouton & Marais, 1996). After the reliability test, the study proceeded to look at the descriptive statistics in the study. The study therefore proceeded to look at the descriptive characteristics of the variables used in the study.

4.5 Descriptive Statistics

This section analyzes the key factors influencing the performance of Small and Medium Enterprises (SMEs) in Kaduna State, focusing on tax knowledge, tax penalties, and tax complexity. Descriptive statistics were employed to summarize the responses from the survey and provide insights into the factors that SMEs perceive as influencing their performance.

Table 4. Descriptive characteristics of tax knowledge

Variable	Mean	Std. Deviation
Inadequate tax knowledge encourages evasion	4.4565	0.80847
Compliance depends on SMEs' tax knowledge level	5.0000	0.00000
Awareness of tax legislation and processes	4.1739	0.73950
Unawareness of tax knowledge shortfalls	3.9565	0.86811
High awareness promotes tax compliance	4.0870	0.58977

Source: SPSS output, (2024).

Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information. The table above shows that most SMEs believe tax knowledge has a positive effect on their performance. The highest mean score (5.00) was for the statement "Performance depends on SMEs' tax knowledge level," showing that respondents strongly agree that having good tax knowledge is important for business success. The second-highest mean score (4.4565) was for "Inadequate tax knowledge reduces SME performance," further supporting the idea that tax knowledge is important for SME performance. This highlights the need to provide SMEs with proper tax education to improve their operations.

Table 5. Descriptive characteristics of tax penalty

Variable	Mean	Std. Deviation
Higher penalties discourage tax evasion	4.4565	0.68982
Penalties enforced by tax agencies impact compliance	4.5	0.58689
Fines discourage SMEs' tax compliance	4.1304	0.61855
Penalties influence compliance behavior positively	4.2826	0.68841
Failure to file returns leads to conviction penalties	4.2826	0.7502

Source: SPSS output, (2024).

Table 5 highlights the perception among SMEs that tax penalties play an important role in influencing their performance. The statement "Penalties enforced by tax agencies positively affect

SME performance" received the highest mean score (4.5000), indicating that respondents agree that penalties are an effective tool for encouraging compliance. This suggests that SMEs view the enforcement of penalties as a motivator for adhering to tax regulations, which, in turn, promotes better organizational practices and improves overall performance.

Table 6. Descriptive characteristics of tax complexity

Variable	Mean	Std. Deviation
Complexity due to sophisticated tax law	4.413	0.49782
Computational and form complexity	4.0435	0.75884
Difficulty in understanding tax-related documents	4.5217	0.58648
Complexity impacts non-compliance determinants	4.2391	0.7655
Compliance improves with less complex tax laws	4.0435	0.81531

Source: SPSS output, (2024)

Complexity occurs as result of problems of understanding the rules, the tax return forms and other relevant written information provided by the tax authority. Table 6 reveals that tax complexity is a significant barrier to SME performance. The highest mean value (4.5217) for "difficulty in understanding tax-related documents affects performance" indicates that SMEs see complexity in tax forms and documentation as a major challenge to their operations. The results underscore the need for simpler tax systems to improve performance.

4.6 Multiple regression analysis

To explore how tax knowledge, tax penalties, and tax complexity affect the performance of SMEs, a multiple regression analysis was conducted. The following results demonstrate how these independent variables contribute to the variation in SME performance.

Table 7. Model summary

R ²	Adj. R ²	Std. Error	Sig.
. 0.782	. 0.773	0.341	.000

Source: SPSS output, (2024)

The model summary shows that 78.2% of the variation in SME performance can be explained by tax knowledge, tax penalty, and tax complexity. The adjusted R² value of 77.3% indicates that the model explains a substantial portion of the variation in performance even after accounting for the number of predictors. The p-value of 0.000 confirms the model's statistical significance.

Table 8. Regression table

Variable	Coefficient (β)	Std. Error	t-value	p-value
Constant	1.213	0.341	3.56	0.001
Tax Knowledge	0.456	0.072	6.33	0.000
Tax Penalty	0.385	0.089	4.33	0.000
Tax Complexity	-0.212	0.061	-3.48	0.001
R ²	0.782			

Adjusted R ²	0.773	
F-statistic	89.34	0.000

Source: SPSS output, (2024)

Table 8 shows the regression coefficients for the model. Tax knowledge and tax penalty have a positive and significant effect on SME performance, with coefficients of 0.456 and 0.385, respectively. This means that increasing tax knowledge and enforcement of tax penalties lead to an improvement in SME performance by 45.6% and 38.5%, respectively. In contrast, tax complexity negatively affects performance ($\beta = -0.212$), suggesting that complex tax regulations hinder SMEs' ability to perform effectively.

Table 9. Coefficient of variables

Variable	Beta Coefficient	Sig.	VIF
Tax Knowledge	0.456	0.000	1.731
Tax Penalty	0.385	0.000	2.075
Tax Complexity	-0.212	0.001	1.302

Source: SPSS output, (2024)

The study reveals that Tax Knowledge has a significant and positive impact on the performance of SMEs in Kaduna State. With a beta coefficient of 0.456, the data suggests that as business owners' understanding of tax regulations increases, their ability to comply improves, leading to better performance outcomes. A 1% increase in tax knowledge correlates with a 45.6% improvement in SME performance, highlighting the importance of tax education. This relationship is statistically significant, with a p-value of 0.000, indicating a strong and reliable association between tax knowledge and SME performance. Furthermore, the Variance Inflation Factor (VIF) for Tax Knowledge is 1.731, showing that it is not highly correlated with the other variables in the model, thus avoiding multicollinearity concerns.

Tax Penalty also shows a positive and significant relationship with SME performance. The beta coefficient of 0.385 indicates that stricter tax penalties encourage greater compliance among businesses, which in turn enhances their performance. A 1% increase in tax penalties is associated with a 38.5% improvement in tax compliance, leading to better management and performance among SMEs. The p-value of 0 confirms the statistical significance of this variable, underlining the effectiveness of penalties in ensuring adherence to tax obligations. With a VIF of 2.075, Tax Penalty is not highly correlated with other variables, which means it is independently contributing to the model without any multicollinearity issues.

In contrast, Tax Complexity demonstrates a negative impact on SME performance, with a beta coefficient of -0.212. This suggests that as the complexity of tax requirements increases, the performance of SMEs decreases. Specifically, a 1% increase in tax complexity leads to a 21.2% decline in SME performance, indicating that more complicated tax systems create obstacles for small businesses. The significance of this relationship is supported by a p-value of 0.001, emphasizing the detrimental effects that complex tax structures have on small businesses'

efficiency and compliance. The VIF for Tax Complexity is 1.302, showing that it does not suffer from multicollinearity with other variables in the analysis.

4.7 Discussion of findings

The examination shows that tax knowledge has a direct and favorable association with the performance of small and medium enterprises (SMEs) in Kaduna. The descriptive statistics illustrate that respondents largely agree that insufficient understanding of tax laws and procedures leads to non-compliance, which can negatively impact business performance. A mean score of 5.00 for the assertion "Compliance depends on SMEs' tax knowledge level" highlights the essential importance of tax awareness. SMEs possessing a greater understanding of tax regulations are more capable of meeting their tax obligations, minimizing the chances of incurring penalties and financial setbacks. This results in greater business stability, enhanced financial planning, and, as a result, improved performance. Therefore, delivering accessible and pertinent tax education can not only increase compliance but also enhance the overall performance and sustainability of SMEs. This conclusion is in line with earlier research by Aryan, Singh, and Singh (2016), who also found advantages in improved tax awareness regarding business compliance.

The results indicate that when effectively implemented, tax penalties significantly enhance the performance of SMEs. The statement "Penalties enforced by tax agencies impact compliance," which received the highest average score of 4.50, demonstrates that these penalties act as a strong deterrent against non-compliance with tax obligations. Increased compliance, motivated by the fear of penalties, can lead to improvements in business performance. By meeting tax obligations, SMEs can steer clear of fines and sanctions, fostering a more favorable financial environment that encourages long-term growth. Therefore, a well-functioning penalty system can improve SME performance by reinforcing tax compliance, subsequently leading to greater business efficiency and stability. These conclusions align with the work of Chigozie, Celestina, and Emmanuel (2018), who also found that penalties can promote enhanced compliance and performance in small enterprises.

The study highlights a negative and significant relationship between tax complexity and SME performance. Respondents strongly agree that "Difficulty in understanding tax-related documents" hinders compliance, with a mean score of 4.52. This complexity creates challenges for SMEs, increasing the likelihood of errors, missed deadlines, and potential penalties—all of which can negatively impact business performance. The data suggest that simplifying tax laws and processes could enhance SME compliance, reducing administrative burdens and allowing businesses to allocate more resources to core operations. Therefore, reducing tax complexity can directly improve SME performance by minimizing compliance costs and operational disruptions, thereby supporting better financial outcomes and business growth. These findings are in line with those of Ibua (2017), who stressed that simpler tax systems could improve business performance by lowering compliance costs.

4.8 Test of Hypotheses

The research investigated the impact of tax non-compliance on the performance of small and medium enterprises (SMEs) within Kaduna Metropolis. This study has three defined hypotheses, and this section evaluates the formulated hypotheses.

H₀₁: There is no significant impact of tax knowledge on the performance of SMEs in Kaduna Metropolis.

The regression findings reveal a significant and positive impact of tax knowledge on SME performance, with a p-value of 0.000 and a beta coefficient of 0.456. This indicates that enhancing tax knowledge results in better SME performance. Therefore, the null hypothesis is dismissed, confirming that tax knowledge has a positive impact on SME performance.

H₀₂: There is no significant impact of tax penalties on the performance of SMEs in Kaduna Metropolis.

The analysis reveals a positive impact of tax penalties on SME performance, with a p-value of 0.000 and a beta coefficient of 0.385. This suggests that stricter tax penalties improve compliance and, in turn, enhance SME performance. As a result, the null hypothesis is dismissed, indicating that tax penalties significantly positively affect SME performance.

H₀₃: There is no significant effect of tax complexity on the performance of SMEs in Kaduna Metropolis.

The regression results reveal a negative and significant effect of tax complexity on SME performance, with a p-value of 0.001 and a beta coefficient of -0.212. This implies that increased tax complexity hinders SME performance. Simplifying tax processes could, therefore, lead to better performance. As a result, the null hypothesis is rejected, indicating that reducing tax complexity can positively influence SME performance.

5. Conclusion and Recommendations

The research indicated that tax non-compliance is a prevalent problem among SMEs in Kaduna Metropolis, adversely affecting their business performance. This result suggests a negative correlation between tax non-compliance and tax compliance, which has a direct impact on the overall performance of SMEs in the area. A higher frequency of tax non-compliance often associates with decreased business performance, implying that enhancing tax compliance could result in improved outcomes for SMEs.

The evaluation of specific independent variables, such as Tax Knowledge, demonstrated a positive and significant influence on the performance of SMEs. Firms with greater levels of tax knowledge are more capable of adhering to tax regulations, thereby improving their operational success. This highlights the importance of raising tax awareness and education as a vital factor in enhancing the performance of SMEs in Kaduna State. Consequently, there exists a strong positive correlation

between tax knowledge and SME performance, underlining the necessity for accessible and targeted tax education programs.

In relation to tax penalties, the research indicated a beneficial effect on the performance of SMEs, suggesting that suitable penalties can deter tax non-compliance and promote improved compliance. Although the favorable impact of tax penalties wasn't statistically significant in all instances, it implies that effectively structured penalty systems can positively affect SME behavior and, consequently, enhance business performance. The rigorous enforcement of tax penalties could serve as a means to encourage compliance among SMEs.

The analysis also emphasized the effect of tax complexity on SME performance. The results revealed that tax complexity has a negative and significant impact, demonstrating that intricate tax regulations impede business efficiency and compliance, which subsequently detrimentally affects overall performance.

Simplifying tax procedures and providing clearer guidance could potentially enhance the performance of SMEs. This emphasizes that there is a negative relationship between tax complexity and the performance of SMEs in Kaduna State, suggesting the need for streamlined and user-friendly tax processes. The study made the following recommendations

Enhance Tax Education and Awareness: The research indicated that a strong understanding of taxes positively influences the performance of small and medium-sized enterprises (SMEs). To boost tax compliance and improve business outcomes, it is advisable for the government and relevant tax agencies to develop thorough and targeted tax education initiatives. These initiatives should aim to enhance SMEs' comprehension of tax regulations, the advantages of compliance, and the necessary procedures. Conducting educational workshops, seminars, and providing online resources can effectively raise awareness and enable business owners to navigate the tax system proficiently.

Review and Strengthen Penalty Frameworks: The existing penalty structures should be evaluated and designed to discourage tax non-compliance while ensuring fairness and clarity. Enforcement practices ought to be uniform, and penalties must reflect the size and scale of the business.

Simplify Tax Processes and Regulations: Streamlining tax procedures and paperwork can lessen the compliance burden faced by SMEs.

Promote Dialogue between SMEs and Tax Authorities: Tax authorities should create opportunities for regular discussions, feedback sessions, and accessible communication channels with SMEs to foster trust and enhance compliance.

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