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Evaluation of Tax Reforms on the Performance of Small and Medium-Scale Enterprises (SMEs) in Nigeria: Implications for Corporate Governance

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ABSTRACT

Small and Medium-Scale Enterprises (SMEs) (SMEs) play a critical role in Nigeria's economic development through employment generation, poverty reduction, and wealth creation. This study examined the effect of tax reforms on the performance of SMEs in Nigeria with implications for corporate governance. The study adopted a descriptive survey research design and targeted a population of 7,468 registered SMEs operating within Ibadan metropolis, Oyo State. A sample size of 380 SMEs operators was determined using the Taro Yamane formula, while 268 duly completed questionnaires were retrieved and analyzed. Data were analyzed using descriptive statistics and multiple regression techniques. The results revealed that awareness and compliance with tax reforms ($\beta = 0.322$, $p < 0.05$), tax clarity ($\beta = 0.228$, $p < 0.05$), tax incentives ($\beta = 0.417$, $p < 0.05$), and governance practice adoption ($\beta = 0.270$, $p < 0.05$) exert significant positive effects on The performance of SMEs. The study further identified poor taxpayer education, complex tax filing procedures, and multiple taxation as major challenges limiting the effectiveness of tax reforms. The regression model produced an R^2 of 0.581, indicating that tax reform variables explained 58.1% of the variation in the performance of SMEs, while the F-statistic of 3.594 confirmed the overall significance of the model. The study concluded that effective tax reforms can significantly boost the growth of SMEs, sustainability, compliance, and corporate governance in Nigeria. The study recommends enhancing taxpayer education, simplifying tax administration, expanding access to incentives, eliminating multiple taxation, and strengthening governance frameworks to improve tax reforms and the performance of SMEs.

Keywords: Tax Reforms, SME Performance, Tax Compliance, Tax Incentives, Corporate Governance

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1. Introduction

Small and Medium-Scale Enterprises (SMEs) (SMEs) occupy a central position in Nigeria's economy, accounting for over 90 percent of registered businesses and contributing about 48 percent of the country's Gross Domestic Product (GDP) (Hamza et al., 2025). Beyond their contribution to economic output, SMEs play a vital role in employment generation, innovation, poverty reduction, and the promotion of local economic development (Ibrahim & Momoh, 2020). Despite their significance, however, many SMEs operate in a challenging business environment characterised by limited access to finance, inadequate infrastructure, and a complex tax system. The Nigerian tax structure, administered at the federal, state, and local government levels, imposes multiple obligations on businesses, including Company Income Tax (CIT), Value Added Tax (VAT), Education Tax, and various local levies (Taiwo & Oyedokun, 2022). For many SMEs, these tax obligations constitute a substantial burden due to their relatively limited financial and administrative capacity (Bariki et al., 2025).

A major concern within the Nigerian tax system is the issue of multiple taxation, whereby businesses are subjected to overlapping taxes and levies from different tiers of government. This practice has been widely identified as a constraint to SME growth, formalisation, and competitiveness because it increases operational costs and diverts managerial resources away from productive activities (Ocheni, 2015; Bello & Hamzat, 2023). In response, successive governments have introduced various tax reforms aimed at simplifying tax administration, broadening the tax base, and improving compliance. Notable among these reforms are the provisions of the Finance Act 2020, which exempted small companies with annual turnover below ₦25 million from Company Income Tax and reduced the tax burden on medium-sized enterprises, as well as the introduction of the TaxPro-Max platform to facilitate electronic tax filing and payment processes (PricewaterhouseCoopers, 2021; Nnamdi & Uche, 2024; Usman & Fatima, 2023). While these reforms were designed to support business growth and improve tax administration, evidence regarding their effectiveness remains mixed. Some studies report improvements in compliance procedures and taxpayer convenience, whereas others highlight continuing challenges such as regulatory complexity, limited taxpayer awareness, and inadequate access to available tax incentives (Nnamdi & Uche, 2024; Bariki et al., 2025).

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Furthermore, while existing studies have examined the relationship between taxation and SME performance, findings remain inconclusive. Some researchers report that tax reforms and tax incentives enhance business growth and sustainability, while others argue that persistent challenges such as poor taxpayer awareness, regulatory complexity, inadequate access to incentives, and inefficient tax administration continue to undermine the effectiveness of these reforms (Taiwo & Oyedokun, 2022; Nnamdi & Uche, 2024). In addition, limited attention has been given to the role of tax reforms in advancing good corporate governance practices among SMEs, particularly in areas such as transparency, accountability, financial reporting, and governance practice adoption. Given these inconsistencies and knowledge gaps, there is a need to empirically evaluate whether tax reforms have significantly improved SME performance and contributed to the advancement of good corporate governance in Nigeria. It is against this backdrop that this study investigates the effect of tax reforms on the performance of Small and Medium-Scale Enterprises (SMEs) (SMEs) in Nigeria with a view to advancing the path towards good corporate governance.

Hypothesis of the Study

H_{01}**:** Tax reforms have no significant effect on the performance of Small and Medium-Scale Enterprises (SMEs) (SMEs) in Nigeria and do not significantly advance good corporate governance practices.

2. Literature Review

2.1 Conceptual Review

Tax Reforms

Tax reforms refer to deliberate changes in tax laws, policies, administrative procedures, and tax rates aimed at improving revenue generation, promoting economic growth, enhancing tax compliance, and creating a conducive business environment. Tax reforms are designed to improve the efficiency, equity, and effectiveness of a country's tax system while minimizing distortions in economic activities (Musgrave & Musgrave, 2019). In Nigeria, tax reforms have been implemented to broaden the tax base, reduce tax evasion, simplify tax

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administration, and stimulate the growth of Small and Medium-Scale Enterprises (SMEs) (SMEs). Recent reforms, including exemptions for small businesses from Company Income Tax, the introduction of the Finance Acts, and the adoption of digital tax administration systems, are intended to reduce compliance burdens and encourage the formalisation of business activities (Taiwo & Oyedokun, 2022). According to Adejare (2015), an effective tax system should facilitate economic growth while ensuring adequate revenue generation for government expenditure. Similarly, Omodero and Amah (2018) argue that tax reforms can improve the investment climate by reducing administrative bottlenecks and enhancing taxpayers' confidence in the tax system. Effective tax reforms are therefore expected to create a balance between government revenue objectives and the sustainability of business enterprises, particularly SMEs, which constitute a significant proportion of Nigeria's productive sector (Bariki et al., 2025; Taiwo & Oyedokun, 2022).

SME Performance

SME performance refers to the extent to which small and medium-sized enterprises achieve their financial and non-financial objectives. Financial indicators include profitability, return on assets (ROA), return on investment (ROI), sales growth, liquidity, and business survival, while non-financial indicators include customer satisfaction, employee growth, innovation, and market expansion (Liargovas & Skandalis, 2010). Financial performance is widely recognized as a critical measure of business success because it reflects the ability of a firm to generate profits and sustain operations over time (Babatunde, Ibukun & Oyeyemi, 2017). SMEs play a vital role in employment generation, poverty reduction, industrial development, and economic growth in Nigeria. However, their performance is often constrained by inadequate financing, poor infrastructure, policy inconsistencies, regulatory complexities, and tax-related challenges (Adeosun & Shittu, 2022). According to Okwara and Amori (2017), access to finance significantly influences SME profitability, growth, and sustainability. Furthermore, Taiwo and Oyedokun (2022) noted that government fiscal policies, including taxation, can either enhance or hinder SME performance depending on the level of tax burden imposed on businesses. Therefore, the success and sustainability of SMEs largely depend on supportive fiscal policies, access to finance, and an enabling business environment that promotes innovation and competitiveness.

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Tax Burden

Tax burden refers to the financial and administrative costs imposed on taxpayers as a result of tax obligations. It encompasses direct tax payments, compliance costs, multiple taxation, tax audits, record-keeping expenses, and the time spent meeting tax requirements (Bandara & Weerasooriya, 2019). The concept reflects the extent to which taxation affects the financial resources and operational capacity of businesses. Excessive tax burdens can reduce profitability, limit business expansion, discourage investment, and threaten the survival of SMEs. Studies have shown that multiple taxation, regulatory complexity, and high compliance costs significantly affect SME growth and sustainability in Nigeria (Bariki et al., 2025). Eluro (2018) found that the complexity of tax filing procedures constitutes a major challenge to tax compliance among businesses. Similarly, Orumwense, Esosa and Aiwoho (2021) reported that tax policy complexity and compliance costs negatively influence business performance and taxpayer morale. However, a fair, transparent, and efficient tax system with appropriate incentives can enhance business performance, improve voluntary tax compliance, and encourage formal sector participation (Alabede et al., 2021). Consequently, reducing the tax burden through targeted reforms remains an important strategy for improving SME productivity, competitiveness, and long-term sustainability.

2.2 Theoretical Review

Benefit Theory of Taxation

The Benefit Theory of Taxation posits that taxpayers should contribute to government revenue in proportion to the benefits they receive from public goods and services. The theory assumes that taxes paid by businesses and individuals should translate into improved infrastructure, security, transportation networks, and other public services that support economic activities. In the context of SMEs, tax reforms are expected to create an enabling business environment through better service delivery, reduced operational constraints, and enhanced access to public facilities. When tax revenues are effectively utilized, SMEs are more likely to perceive the tax system as fair, thereby increasing voluntary compliance and supporting business growth and sustainability (Musgrave & Musgrave, 2019; Taiwo & Oyedokun, 2022).

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The theory is particularly relevant to this study because it establishes a link between tax reforms, SME performance, and good corporate governance. Effective tax reforms that promote transparency, accountability, and efficient utilization of public resources can strengthen taxpayer confidence and improve compliance behaviour. Empirical studies have shown that governance quality, transparency, and accountability positively influence tax compliance and taxpayer trust in government institutions (Alabede, Ariffin, & Idris, 2021; Johnson & Omodero, 2021; Ige, Igbekoyi, & Dagunduro, 2023). Therefore, the Benefit Theory provides a useful framework for evaluating whether tax reforms in Nigeria have enhanced SME performance by creating a supportive business environment while advancing the principles of good corporate governance.

Deterrence Theory

Deterrence Theory posits that taxpayers comply with tax regulations due to the fear of audits, penalties, and legal sanctions associated with non-compliance. The theory suggests that effective tax enforcement mechanisms, such as regular audits and stricter penalties, can improve tax compliance among SMEs and enhance government revenue generation. In the context of tax reforms in Nigeria, measures aimed at strengthening tax administration and monitoring systems are expected to encourage compliance and reduce tax evasion. However, excessive enforcement and high compliance costs may increase the financial burden on SMEs and negatively affect their performance if not accompanied by fair and transparent tax policies (Allingham & Sandmo, 1972; Bandara & Weerasooriya, 2019; Taiwo & Oyedokun, 2022).

Fiscal Exchange Theory

Fiscal Exchange Theory argues that taxpayers are more willing to comply with tax obligations when they perceive that government effectively utilizes tax revenues to provide valuable public goods and services. The theory emphasizes reciprocity, trust, transparency, and accountability between taxpayers and government. For SMEs, access to quality infrastructure, security, transportation, and business support services can improve productivity, profitability, and business sustainability. Empirical studies have shown that governance quality, accountability, and trust in government positively influence tax

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compliance and taxpayer confidence (Alabede, Ariffin, & Idris, 2021; Johnson & Omodero, 2021; Ige, Igbekoyi, & Dagunduro, 2023). Therefore, Fiscal Exchange Theory provides a useful framework for assessing how tax reforms can enhance SME performance while advancing the principles of good corporate governance through improved transparency, accountability, and public service delivery.

Empirical Review

Numerous studies have examined the relationship between taxation and SME performance in Nigeria. Taiwo and Oyedokun (2022) investigated the effect of corporate taxes on the financial performance of SMEs in Nigeria and found that Company Income Tax had a positive but insignificant effect on SME performance, while Education Tax exhibited a significant negative effect on financial performance. The study concluded that excessive tax obligations could undermine business profitability and sustainability. Bandara and Weerasooriya (2019) reviewed the determinants of tax compliance and found that tax rates, tax information, taxpayers' attitudes, legal frameworks, and tax compliance costs are major drivers of taxpayer behaviour. Their study emphasized that complex tax regulations and high compliance costs discourage business compliance and may negatively affect enterprise performance. Similarly, Eluro (2018) examined tax compliance under the self-assessment scheme and reported that the complexity of tax filing procedures was one of the most significant causes of tax non-compliance among taxpayers. Bariki, et al. (2025) examined the challenges of tax policies on SME survival in Gwagwalada Area Council, Abuja. Their findings revealed that regulatory complexity, tax burden, and compliance costs significantly reduced SME survival, while tax incentives had a positive impact on business sustainability. The study recommended comprehensive tax reforms aimed at reducing multiple taxation, simplifying tax administration, and enhancing access to tax incentives. Ige, Igbekoyi and Dagunduro (2023) investigated the relationship between good governance and tax compliance among SMEs in Nigeria. The study found a significant positive relationship between transparency, accountability, responsiveness, and tax compliance. The authors concluded that effective governance practices encourage voluntary tax compliance and strengthen trust between taxpayers and government institutions, thereby promoting sustainable business operations and economic development.

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Johnson and Omodero (2021) examined governance quality as a determinant of tax revenue generation in Nigeria using time-series data. Their findings revealed that governance quality significantly influences tax revenue mobilization and taxpayer confidence. The study argued that transparent and accountable governance structures improve tax administration and strengthen citizens' willingness to fulfill their tax obligations. Judijanto et al., (2025) reported that recent tax reforms designed to reduce the tax burden on SMEs produced positive outcomes; however, the benefits were constrained by persistent multiple taxation and economic challenges. Similarly, Uzochukwu and Okoro (2024) found that tax incentives such as tax holidays and reduced tax rates significantly enhanced SME growth and employment generation, although inadequate awareness limited their effectiveness. Despite these contributions, important research gaps remain. Many previous studies focused mainly on taxation and SME performance without fully examining the corporate governance implications of tax reforms. Others concentrated on tax compliance, tax revenue generation, or isolated tax variables such as Company Income Tax, Education Tax, tax incentives, or tax compliance costs. This creates a gap because tax reforms affect not only SME profitability but also governance practices such as accountability, transparency, financial reporting, internal control, and regulatory compliance.

Finally, the present study therefore contributes to knowledge by evaluating tax reforms more comprehensively in relation to SME performance and corporate governance. It addresses the gap by examining how tax reforms influence SME growth, survival, profitability, and compliance, while also showing how effective governance practices strengthen tax administration and business sustainability. Unlike earlier studies that treated taxation and corporate governance separately, this study links both concepts and demonstrates that tax reforms can only improve SME performance when supported by transparent, accountable, and business-friendly governance structures.

3. Methodology

The study adopted a descriptive survey research design complemented by an ex post facto approach to evaluate the effect of tax reforms on the performance of Small and Medium-Scale Enterprises (SMEs) (SMEs) in Nigeria. The target population comprised 7,468 registered SMEs operating within the five urban local government areas of Ibadan metropolis, Oyo State, from which a sample size of 380 respondents was determined using the Taro Yamane formula, while 268 valid questionnaires were eventually retrieved and analyzed. A stratified random sampling technique was employed to ensure adequate representation across business sectors and local government areas. Primary data were collected through a structured questionnaire designed on a five-point Likert scale. The instrument was subjected to content validation by experts in taxation and SME management, while reliability testing produced a Cronbach's Alpha coefficient of 0.81, indicating satisfactory internal consistency. Data were collected through direct administration of questionnaires to selected SME operators and analyzed using E-Views version 10. Descriptive statistics such as frequencies, percentages, means, and standard deviations were used to summarize respondents' characteristics and perceptions, while inferential techniques including multiple regression analysis, Breusch-Godfrey Serial Correlation LM test and Breusch-Pagan-Godfrey heteroskedasticity test approach were employed to examine the relationships among tax reform variables, SME performance, and corporate governance practices. All hypotheses were tested at the 5% level of significance.

Model Specification

$$SMEP = \beta_0 + \beta_1 AC + \beta_2 TXC + \beta_3 DTA + \beta_4 TIN + \beta_5 TCG + \beta_6 TRP + \beta_7 GPA + \beta_8 TBD + \varepsilon$$

Where:

SMEP = SME Performance

AC=Awareness and compliance with tax reform

TXC = Tax Clarity

DTA = Digital Tax Reforms and Administration

TIN = Tax Incentives

TCG = Tax Reforms advanced good corporate governance

TRP= Tax Reform advanced business transparency in financial reporting

GPA=Governance Practice adoption

TBD= Tax reform compliance improves business decision-making

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4. Results and Discussion

4.1 Demographic Characteristics of the Respondents

The findings show that the majority of respondents were business owners (60.4%), followed by managers (22.8%), accounting consultants (8.2%), and others (8.6%). This indicates that the study largely captured the views of individuals directly involved in business management, tax compliance, and decision-making processes. As such, the responses provide reliable insights into the effects of tax reforms on SME performance and corporate governance practices in Nigeria.The sectoral distribution revealed that manufacturing firms constituted the largest proportion of respondents (54.9%), followed by trading (17.5%), services (13.8%), agriculture (9.3%), ICT (3.7%), and other sectors (0.8%). This indicates that the study adequately represented key sectors of the Nigerian economy, particularly manufacturing enterprises that are often more affected by tax regulations and compliance requirements. Consequently, the findings highlight the importance of effective tax reforms and sound corporate governance in enhancing the productivity, competitiveness, and sustainability of SMEs. The results further showed that most SMEs had been in operation for 4–6 years (47.4%), indicating a moderate level of business maturity and experience. In addition, a significant majority of respondents (76.1%) were registered with the Corporate Affairs Commission (CAC), while only 5.2% were unregistered. This demonstrates a high level of business formalisation among the sampled SMEs, suggesting that they are directly influenced by tax policies and governance regulations. The findings imply that tax reforms can strengthen corporate governance by promoting legal registration, regulatory compliance, transparency, accountability, and improved financial management practices among SMEs in Nigeria.

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Table 1: Demographic Characteristics of Respondents

Characteristics	Frequency	Percentage
Positions of respondents		
Manager	61	22.8
Business owner	162	60.4
Accounting Consultants	22	8.2
Others:	23	8.6
Total	**268**	**100.0**
Sector of Operation		
Manufacturing	147	54.9
Trading	47	17.5
Services	37	13.8
Agriculture	25	9.3
ICT	10	3.7
Others	2	0.8
Total	**268**	**100.0**
Years in Operation		
< 1 year	34	12.7
1-3 years	50	18.7
4-6 years	127	47.4
7-10 years	34	12.7
Above 10 years	23	8.5
Total	**268**	**100.0**
Business registration status (BRS)		
CAC Registered	204	76.1
Registered with FIRS	23	8.6
Registered with SIRS	27	10.1
Not registered	14	5.2
Total	**268**	

Source: Field Survey, 2026

Descriptive Statistics

Table 2 presents the descriptive statistics of the variables used to evaluate tax reforms and SME performance in Nigeria. The mean score for SME performance is 3.0346, indicating a moderate level of performance among the sampled SMEs. Tax burden and decision-making improvement recorded the highest mean of 3.6471, suggesting that respondents generally believe tax reform compliance influences business decision-making. Tax reforms advancing

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business transparency also recorded a relatively high mean of 3.2321, while tax reforms promoting good corporate governance recorded 3.1404, showing that tax reforms moderately support transparency and governance practices. However, tax incentives recorded the lowest mean of 2.2296, implying that SMEs may not be sufficiently benefiting from tax reliefs or incentive schemes. Hence, the table suggests that although tax reforms have contributed moderately to SME performance and governance, areas such as tax incentives, awareness, and tax clarity require improvement.

Table 2: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
SMEP	268	1.00	5.00	3.0346	0.63139
AC	268	1.00	5.00	2.4513	1.22443
TXC	268	1.00	5.00	2.8410	1.22301
DTA	268	1.00	5.00	3.1156	1.53004
TIN	268	1.00	5.00	2.2296	0.78587
TCG	268	1.00	5.00	3.1404	0.76480
TRP	268	1.00	5.00	3.2321	1.19796
GPA	268	1.00	5.00	2.8406	0.97214
TBD	268	1.00	5.00	3.6471	1.24337

Source: Researcher's Compilation (2026).

Reliability Statistics

Table 3 shows the reliability statistics of the research instrument. The Cronbach's Alpha value of 0.873 and standardized alpha of 0.897 indicate a high level of internal consistency among the nine items used in the study. This means that the questionnaire items are reliable and suitable for measuring tax reforms, SME performance, and corporate governance-related constructs. Since the reliability value is above the acceptable threshold of 0.70, the instrument can be considered dependable for drawing meaningful conclusions on the evaluation of tax reforms and SME performance in Nigeria.

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Table 3. Table Reliability Statistics.

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.873	0.897	9

Source: Researcher's Compilation (2026).

Heteroskedasticity Test

Table 4 presents the Breusch-Pagan-Godfrey heteroskedasticity test. The probability values of 0.2944, 0.2868, and 0.7105 are all greater than 0.05, indicating that there is no evidence of heteroskedasticity in the model. This means that the error variance is stable across the observations, making the regression results more reliable. In relation to the study, this implies that the model used to examine the influence of tax reforms on SME performance is statistically appropriate and not weakened by unequal variance problems.

Table 4: Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.220658	F-statistic F(8, 259)	0.2944
Obs*R-squared	9.698997	Prob. Chi-Square (8)	0.2868
Scaled explained SS	5.432385	Prob. Chi-Square (8)	0.7105

Source: Researcher's Compilation (2026).

Collinearity Statistics

Table 5 records the collinearity statistics for the independent variables. The tolerance values are all above 0.10, while the VIF values range from 1.050 to 1.314, which are far below the common threshold of 10. This indicates that there is no serious multicollinearity among the explanatory variables. Therefore, awareness and compliance, tax clarity, digital tax administration, tax incentives, governance practices, and related tax reform variables are sufficiently independent and can be included in the regression model without creating distortion in the results.

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Table 5. Collinearity Statistics

Variables	Tolerance	VIF
AC	0.792	1.263
TXC	0.761	1.314
DTA	0.771	1.297
TIN	0.921	1.086
TCG	0.952	1.050
TRP	0.876	1.142
GPA	0.842	1.188
TBD	0.794	1.259

Source: Researcher's Compilation (2026).

Heteroskedasticity Test

Table 6 shows the Breusch-Godfrey Serial Correlation LM test. The probability values of 0.2897 and 0.2571 are greater than 0.05, showing that the model is free from serial correlation. This implies that the residuals are not systematically related across observations. In the context of the study, the absence of serial correlation strengthens the reliability of the regression model and supports the validity of the findings on tax reforms and SME performance.

Table 6: Heteroskedasticity Test

Breusch-Godfrey Serial Correlation LM Test			
F-statistic	0.143894	Prob. F(2, 257)	0.2897
Obs*R-squared	0.342252	Obs*R-squared Chi-Square (2)	0.2571

Source: Researcher's Compilation (2026).

Regression Results

Table 7 presents the regression results showing the effect of tax reform variables on SME performance. The results reveal that awareness and compliance with tax reform, tax clarity, tax incentives, and governance practice adoption have positive and statistically significant effects on SME performance. This means that SMEs perform better when they understand tax reforms, operate under clear tax rules, benefit from tax incentives, and adopt sound governance practices. However, digital tax administration, tax reforms promoting corporate governance, transparency in financial reporting, and tax reform compliance for decision-

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making are not statistically significant, suggesting that their influence on SME performance is weak in the present model. The R value of 0.667 indicates a moderate relationship between tax reform variables and SME performance, while the R^2 value of 0.581 suggests that the model explains about 58.1% of the variation in SME performance. The F-statistic probability of 0.001 confirms that the overall regression model is statistically significant. Therefore, the findings indicate that tax reforms significantly influence SME performance in Nigeria, particularly through awareness, clarity, incentives, and governance practice adoption, thereby supporting the argument that effective tax reforms can advance good corporate governance among SMEs.

Table 7. Regression Results

Variables	Unstandardized		Standardized				
	B	St. Error	Beta	T-value	Sig	Tolerance	VIF
Constant	1.493	0.543	–	2.749	0.0064	–	–
AC	0.322	0.074	0.432	4.351	0.0001**	0.792	1.263
TXC	0.228	0.066	0.297	3.455	0.0007**	0.761	1.314
DTA	-0.037	0.065	-0.152	-0.569	0.5698	0.771	1.297
TIN	0.417	0.092	0.390	4.532	0.0001***	0.921	1.086
TCG	0.017	0.097	0.107	0.175	0.8612	0.952	1.050
TRP	-0.029	0.065	-0.038	-0.446	0.6561	0.876	1.142
GPA	0.270	0.083	0.310	3.253	0.0013**	0.842	1.188
TBD	-0.068	0.073	-0.215	-0.931	0.3528	0.794	1.259
Statistic	Value						
R	0.667		Durbin-Watson	2.160			
R^2	0.581		F-statistic	3.594			
Adjusted R^2	0.358		Probability (F-statistic)	0.001			
Standard Error of Estimate	0.67132		Sample Size (N)	268			

Source: Researcher's Compilation (2026).

Challenges of Tax Reforms

The study identified poor taxpayer education as the leading challenge for SMEs in Nigeria in Table 8 with a mean score of 1.96, highlighting inadequate awareness of tax reforms. The complexity of tax filing processes also ranked high, with a score of 1.96, indicating significant difficulties due to cumbersome procedures. Multiple taxes from various agencies

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and high tax rates were noted as concerns, scoring 1.68 and 1.59, respectively. Lastly, harassment by tax officials was considered less critical, with a score of 1.51. The weighted mean of 1.74 suggests a general perception of these factors as challenges impacting SME performance and tax reform effectiveness, underscoring the need for enhanced taxpayer education and streamlined tax processes.

Table 8: Challenges of Tax Reforms

Variables	N	Mean	Std. Deviation	Rank
Poor Taxpayer Education (PTP)	268	1.96	0.88	1st
Complex Filing Process (CFP)	268	1.96	0.90	2nd
Multiple Taxes from Different Agencies (MT)	268	1.68	0.85	3rd
High Tax Rates (HTR)	268	1.59	0.83	4th
Harassment by Tax Officials (HTO)	268	1.51	0.93	5th
Weighted Average	268	1.74	0.88	

Source: Researcher's Compilation (2026).

Discussion of Findings

The study investigated the effect of tax reforms on the performance of SMEs in Nigeria with emphasis on promoting good corporate governance. The findings revealed that awareness and compliance with tax reforms significantly enhance SME performance. This implies that SMEs with a better understanding of tax regulations and compliance requirements are more likely to experience improved operational efficiency, profitability, and long-term sustainability. The result supports previous studies which emphasized that taxpayer awareness reduces compliance costs and encourages business growth. Similarly, tax clarity was found to exert a significant positive effect on SME performance, indicating that simple, transparent, and understandable tax regulations enable business owners to make better financial decisions and allocate resources more effectively.

The study further established that tax incentives significantly improve SME performance. This demonstrates that tax reliefs, exemptions, and reduced tax rates provide financial flexibility that encourages investment, expansion, and business survival. Governance practice

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adoption also recorded a significant positive effect on SME performance, implying that tax reforms indirectly strengthen accountability, transparency, and managerial efficiency within SMEs. These findings support the Benefit Theory and Fiscal Exchange Theory, which argue that effective governance systems and transparent public institutions create confidence and foster economic development. The findings also corroborate the view of Ige, et al. (2023). However, digital tax administration, tax reforms promoting corporate governance, transparency in financial reporting, and tax reform compliance for decision-making did not significantly affect SME performance. This outcome may be attributed to inadequate awareness, limited technological infrastructure, weak implementation mechanisms, and low adoption rates among SME operators. Furthermore, the challenge analysis revealed that poor taxpayer education and complex tax filing procedures are the most critical obstacles limiting the effectiveness of tax reforms. This is also in line with Uzochukwu and Okoro (2024). Finally, the regression model explained 58.1% of the variation in SME performance, while the significant F-statistic confirmed that tax reforms collectively influence SME performance and governance outcomes in Nigeria.

Conclusion and Recommendations

This study concluded that tax reforms constitute an important determinant of SME performance and an effective mechanism for strengthening corporate governance in Nigeria. Specifically, awareness and compliance with tax reforms, tax clarity, tax incentives, and governance practice adoption significantly improve enterprise performance by enhancing operational efficiency, profitability, accountability, and long-term sustainability. These findings demonstrate that the effectiveness of tax reforms depends not merely on legislative changes but also on the extent to which SMEs understand, access, and implement the reforms within supportive institutional environments. The study further reveals that persistent challenges including poor taxpayer education, complex filing procedures, and multiple taxation continue to undermine the expected benefits of tax reforms. Consequently, the broader implication is that tax policy should move beyond revenue mobilisation toward creating an enabling environment that promotes enterprise development, voluntary compliance, and responsible corporate governance. For policymakers, the findings underscore the need to formulate SME-oriented tax policies that balance revenue objectives

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with business sustainability. For tax administrators, they highlight the importance of simplifying tax administration, improving taxpayer education, and strengthening digital support systems. For SMEs, the findings demonstrat that improved governance practices and proactive tax compliance are strategic assets that enhance competitiveness, sustainability, and resilience within Nigeria's dynamic business environment.

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