

## The Influence of Tax Policy on the Growth and Profitability of Small and Medium-Sized Enterprises in Kasoa

Nicholas Addo-darko

*Heritage Christian University, Ghana*

**Corresponding Author:** Nicholas Addo-darko, **E-mail:** nad023a@hcuc.edu.gh

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### ABSTRACT

This study examined the influence of tax policy on the growth and profitability of Small and Medium-Sized Enterprises (SMEs) in Kasoa, Ghana. The study sought to determine how existing tax policies affect the performance of SMEs, particularly in terms of business expansion and profitability. A descriptive research design employing a quantitative approach was adopted. The target population comprised 102 registered and active SMEs operating in Kasoa, from which a purposive sample of 50 enterprises was selected. Primary data were collected using structured questionnaires and analyzed using the Statistical Package for the Social Sciences (SPSS) Version 27. Descriptive statistics, correlation analysis, and regression analysis were employed to examine the relationship between tax policy and SME growth and profitability. The findings revealed that supportive and well-implemented tax policies have a significant positive influence on both the growth and profitability of SMEs. Specifically, tax policies that provide incentives, simplify tax procedures, and create a predictable tax environment enhance business expansion, improve profitability, and strengthen the financial sustainability of SMEs. Conversely, restrictive or poorly implemented tax policies were found to hinder business performance by increasing operational challenges and limiting growth opportunities. Based on these findings, the study recommends that policymakers formulate and implement SME-friendly tax policies that promote business growth while ensuring tax compliance. The government should expand tax incentive programs, simplify tax regulations, and strengthen stakeholder engagement during tax policy formulation to create a more supportive business environment. The study further recommends periodic reviews of tax policies to ensure they remain responsive to the changing needs of SMEs. Future research should examine the long-term effects of tax policy reforms on SME sustainability, compare the effectiveness of different tax policy frameworks across regions, and investigate the interaction between tax policy and other business support mechanisms in enhancing SME performance.

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### 1. Introduction

Globally, small and medium-sized businesses (SMEs) play a crucial role in the economic development of the world's economies. SMEs form most registered businesses in developed and developing countries (Cusmano & Koren, 2017). In the United States of America, small and medium-sized businesses make up 99.7% of all firms registered (Flores, Andrés-Rosales, & Villarreal, 2016). SMEs contribute significantly to employment, innovation, and competition. In Europe, SMEs are crucial for economic dynamism and resilience, particularly in times of economic crisis (Nartey, 2023).

In Africa, SMEs also constitute a substantial part of the economic fabric. A study by Oladipupo and Obazee (2016) in Nigeria revealed that SMEs comprise 97% of the businesses in the Nigerian economy. SMEs are pivotal in promoting economic diversification and industrialization across the continent. Despite their importance, SMEs face numerous challenges, including access to finance, market access, and a burdensome tax environment. Osei (2023) highlights that high tax rates and complex tax

compliance procedures are significant barriers to SME growth in many African countries. The situation is similar in the Ghanaian context. Amin (2024) reports showed that SMEs constitute about 92% of firms registered in Ghana. The survey also indicated that SMEs provide 85% of manufacturing employment and contribute about 70% to Ghana's national GDP. Though SMEs are more miniature than larger firms, they are the most important undertakings in the economy, given that when all their individual effects are aggregated, they surpass that of larger firms. Šeba (2016) observed that SMEs are a source of employment, competition, economic dynamism and innovation, stimulating the entrepreneurial spirit and diffusion of skills. As evidenced in the preceding discussions, governments must institute enabling business environments for SMEs to grow and survive. One such area that needs government intervention is the taxation of SMEs.

Recent studies indicate that tax policies and compliance challenges significantly impact SME growth in Ghana. For instance, Nartey (2023) highlights how institutional pressures and perceptions of tax fairness influence compliance among SMEs. Osei (2023) examines the specific impacts of VAT, corporate income tax, and customs duties on economic growth in Ghana, providing a detailed analysis of how these tax components affect GDP. Agyemang and Yeboah (2024) critically review the broader tax policies and their implications for SME growth, suggesting necessary reforms for enhanced compliance and support. Furthermore, a recent article by the Business & Financial Times (2023) discusses the practical challenges SMEs face with the current tax systems, including high rates and complex filing procedures, which strain their financial resources. Finally, Boateng (2023) evaluates the effectiveness of tax incentives, such as tax holidays and capital allowances, in promoting SME performance, revealing a need for better awareness and access to these incentives among SME owners.

High and unfavourable fiscal policies only discourage innovation by causing a drawback to the access of adequate financial resources to small businesses aimed at empowering research and development (Agyemang & Yeboah, 2024). However, to the best of the researcher's knowledge, more research needs to be done to establish the relationship between taxation and SME growth in Kasoa. Therefore, the current study examines taxation's effect on SMEs' growth and profitability in Ghana, focusing on the SMEs within Kasoa. The study will share essentiality in exploring the influence of tax policy on the growth of SMEs. Taxation provides a crucial revenue stream for Ghana, supporting economic policies and infrastructure. This study aims to help policymakers understand how tax policies impact SMEs' financial performance and growth. With this understanding, policymakers can create more supportive tax regulations, enhance economic stability, promote sustainable development, and improve policy effectiveness, ultimately fostering a favourable environment for SME growth and contributing to Ghana's economic health.

## **2. Literature Review**

The extant literature was reviewed to align with the study objective, focusing on related studies and their outcomes for comparison with the current research. Several recent studies have explored the impact of taxation on small and medium-sized businesses (SMEs) spanning various regions, including Africa, with a specific focus on Ghana. The following summarizes the key findings:

In the United States, recent research by Smith (2023) highlighted that high tax rates on personal income negatively affect SME growth. Smith's study emphasized the need for tax policies that support rather than hinder SME development (Smith, 2023).

Brown (2023), analyzing data from Iran, emphasized that improving taxation methods and leveraging IT could enhance tax compliance. Brown's findings suggested that technological integration and procedural simplification are crucial for improving tax administration efficiency (Brown, 2023). Research in Nigeria by Jones et al. (2024) found a significant negative relationship between tax policies and SME growth, advocating for more supportive tax structures. Their study recommended policy reforms aimed at reducing tax burdens on SMEs to foster economic growth (Jones et al., 2024). Ocheni and Gemade (2024), examining multiple taxations in Nigeria, concluded that such taxes negatively influence SME survival. Their findings underscored the importance of streamlining tax systems to reduce complexity and compliance costs for SMEs (Ocheni & Gemade, 2024).

Nyamwanza et al. (2024) studied Zimbabwe's presumptive tax system, revealing an inverse relationship between presumptive taxes and SME profitability. Their research highlighted the unintended consequences of tax policies on business profitability and called for targeted reforms to support SMEs (Nyamwanza et al., 2024).

Recent studies by Davis (2024) explored tax compliance among SMEs in Kenya, attributing low compliance to poor management practices and informal business approaches. Davis's findings underscored the importance of effective management and regulatory clarity in enhancing tax compliance among SMEs (Davis, 2024).

Machogu and Amayi (2024) investigated the tax system's impact on SME growth in Tanzania, finding that increased taxes reduced consumption and hindered business expansion. Their research highlighted the broader economic implications of tax policies on SMEs and recommended policy adjustments to stimulate growth (Machogu & Amayi, 2024). Tee et al. (2024) examined tax payments' effects on SME performance in Ghana, noting significant adverse impacts on SME growth. Their study emphasized the need for balanced tax policies that support SMEs' sustainability and economic contribution (Tee et al., 2024).

## **2.1 Conceptual Review**

### **2.1.1 Definition of SMEs**

Small businesses were described differently, but the most frequently used criterion is the business staff amount. Confusion often occurs concerning the arbitrariness and cut-off points used by multiple official sources when implementing this definition. The Ghana Statistical Service (GSS) considers businesses with fewer than 10 employees as Small-Scale and their counterparts with more than 10 employees as Medium and Large Businesses, as contained in its Industrial Statistics. Ironically, the GSS regarded businesses with up to 9 staff as Small and Medium-sized businesses in its domestic accounts (Agyapong, 2020). The vibrant position of SMEs in developing nations has long been recognized as a conduit for achieving developing nations' development goals. In the least developed nations, SMEs are projected to employ 22% of the adult population (Osei-Assibey, 2019). The sector employs about 15.5% and 14.09% of the labour force in Ghana and Malawi, respectively (Adjei, Amegbe, & Wayo, 2019), and has experienced higher employment growth than micro and large-scale businesses (5% in Ghana and 11% in Malawi) (Quartey & Kayanula, 2019). In Ghana, the sector's output as a percentage of GDP accounts for a significant portion of the economy (Boateng, 2018).

Many policymakers have been interested in small-scale rural and urban companies to accelerate the rate of development in low-income countries. These undertakings have been recognized as the motors by which developing countries' development goals can be accomplished. In many developing nations, they are prospective sources of jobs and revenue (Dzansi & Xesha, 2020).

### **2.1.2 Measurement of SMEs' growth**

The growth of SMEs is measured by some employment generated by the business; expansion rates are shown by an increase in the number of branches, account for a major share jobs created and key players in economic growth (Kumar & Rao, 2015). Additionally, Kumar and Rao (2015) opined that SMEs display higher net job creation rates than larger firms as they engage in a wide-ranging population of businesses. Bannier and Zahn (2012) postulate that firm age is one of the critical distinguishing traits, and there is evidence in empirical literature linking age, size, and (proportional) growth. For any given size, the proportional growth rate of businesses tends to diminish with age. Likewise, older businesses have a greater likelihood of survival than younger ones. These observations are consistent, for instance, with models of firm selection as market entrant stake time to learn about the relative efficiency in the industry (Bannier & Zahn, 2012).

Rojsurakitti (2015) postulates that continuous growth is relatively infrequent, as few businesses enjoyed steady growth over a period of seven years or more. Some firms followed an irregular trajectory with only two to five years of stable growth. As a result, the overwhelming number of businesses experiencing strong growth did not grow increasingly. The model of the firm with an annual increase in its workforce has been used in many studies as an indicator of the growth of a business (Bannier & Zahn, 2012).

### **2.1.3 Tax Policy on SME Growth and Profitability**

The resources SMEs direct towards tax compliance could have been used for reinvestment, leading to the growth of SMEs in the future (Nguyen, 2020). Therefore, there is the notion that taxes and a complex tax system disproportionately burden smaller businesses. Slemrod (2018) observed that the same compliance requirement and cost of compliance for small and larger companies constitute discrimination against smaller companies. When compliance costs and tax rates are revised downwards, the profit margin of SMEs will increase. Also, government revenue from taxation will increase since the less complex provisions for a small business reduce the size of the shadow economy and the number of non-complying registered taxpayers (Joshi et al., 2019).

Moreover, an overbearing regulatory environment with a myriad of regulatory authorities and agencies, multiple taxes, cumbersome importation procedures, and high port charges contently put undue pressure on the operations of SMEs. As a result of these complexities, a significant number of businesses also failed to register or honour their tax obligations (Lisi, 2015).

This increases the burden on those taxpayers who try to comply with the tax law and discourages their future compliance. A tax regulatory system that is complex and excessively regulated tends to be unduly onerous and has a detrimental effect on the growth of SMEs as they try to transform into forms that offer a lower tax burden or no tax burden at all (Harju, 2014). If the tax

system is poorly implemented, it leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and low amounts received and the eccentricity of optimal allocation of resources (Loo et al., 2012).

### **3. Methodology**

#### **3.1 Research Design**

The study employs a descriptive survey design, which identifies the characteristics of an observed phenomenon. It surveys the impact of taxation on SMEs' growth and profitability in Kasoa. A survey design provides a description of some important characteristics of the population and permits inferences of cause and effect (Mutai, 2015).

#### **3.2 Area of Study**

The Awutu Senya East Municipal Assembly (ASEMA) was removed from the former Awutu Senya District in 2012 and established as a Municipality by Legislative Instrument (L.I) 2025 with Kasoa as its capital. It shares common boundaries with Ga South Municipal Assembly (in the Greater Accra Region) at the East, Awutu Senya District to the North and Gomoa East District to the West and South, respectively. The Municipality covers a total land area of about 108.004 sq km, about 18% of the total area of the Central Region. Kasoa, the Municipal Capital, is located in the south-easting part, about 31km off the Accra-Capital. Other significant settlements are Opeikuma, Adam Nana, Kpormertey, Ofaakor, Akweley, Walantu and Zongo (ASEMA, 2019).

The rationale was to facilitate the government's decentralisation programs and local governance system. The total population in the Municipality stood at 137,831 as of 2018 (projected with a growth rate of 2.8%). This is about 4.9% of the Central region's population. The Awutu Senya East Municipality is mainly urban, with a population of 129,699. The 2010 Population and Housing Census results indicate that the Municipality has few rural settlements. The economically productive group of the population covers 15-60 years, with 46.% being males and 53.10% being females of the total population. The population is usually youthful.

#### **3.3 Sample and Sampling Procedure**

##### **3.3.1 Sample**

The study focused on fifty (50) Kasoa SMEs that have been in business for at least five (5) years. The number of SMEs that satisfied the requirements for study inclusion was used to determine the sample size. The sample was chosen using purposeful sampling. According to Sekaran and Sougie (2016), Purposive sampling is a non-probability sampling technique in which participants are chosen based on certain traits or details pertinent to the study subject.

##### **3.3.2 Sampling Procedure**

**Identify the Population:** The study's population consists of one hundred and two (102) SMEs registered with the Ghana Revenue Authority (GRA) and actively operating in the Kasoa area. These SMEs were chosen to offer a representative sample of businesses within the area, guaranteeing that the research findings are pertinent and applicable to the larger context of SMEs in Kasoa.

**Define the inclusion criteria:** The particular qualities that participants must have to be included in the study population are known as inclusion criteria. These standards guarantee the study's quality, relevance, and focus. The following inclusion criteria have been set for the study on how taxes affect the expansion and financial success of small and medium-sized businesses in Kasoa. **Duration of Existence:** SMEs must be around for at least five years. This criterion guarantees that the companies have been in operation long enough to offer trustworthy data on growth and profitability and that they have been exposed to different tax laws for a significant amount of time. **Willingness to Provide Tax Data:** For the study to be conducted, SMEs must be willing to provide their tax data. Financial records, tax returns, and other pertinent paperwork fall under this category.

**Select the Sample:** Using the Purposive Sampling method, fifty (50) SMEs were chosen as a subset from this sampling frame. Their desire to participate in the study and their ability to supply financial and tax-related data will be considered when making the decision. This guarantees that companies that can supply precise and comprehensive information required for the study are included in the sample. **Contact the selected companies and participants:** Reach out to the selected SMEs via formal invitation letters or emails, explaining the purpose of the study, its significance, and what participation entails. Conduct follow-up phone calls or visits to confirm participation, address questions or concerns, and obtain formal consent.

**Data Collection:** Financial information about taxes, specifically corporate income taxes, value-added tax (VAT), withholding taxes, and profitability performance, was gathered for additional study after gaining permission from the chosen businesses and participants. The willingness of the SMEs to give the financial data and its availability were prerequisites for this.

#### **3.4 Research Instrument**

The primary research instrument for this study is a close-ended structured questionnaire specifically designed to meet the study's objective related to the impact of tax variables on the growth and profitability of SMEs in Kasoa. The objectives is to

determine the influence of tax policies on SME performance. The structured questionnaire allows for response consistency, enabling efficient quantitative analysis (Saunders, Lewis, & Thornhill, 2021). The close-ended format ensures that responses are easily quantifiable and provides clear insights into the factors affecting SME growth and profitability (Creswell & Creswell, 2023).

### 3.5 Data Analysis

This study uses both descriptive and inferential statistical methods to examine the impact of taxes on SME growth and profitability. Use descriptive statistics to summarise the basic features of the data, such as means, medians, modes, standard deviations, and frequency distributions. Create tables, charts, and graphs to represent the data and highlight key findings visually. Perform regression analysis to examine the relationship between tax variables (corporate income tax, VAT, withholding tax) and profitability metrics. Use hypothesis testing to determine the statistical significance of observed relationships. Apply other relevant statistical techniques to explore causality and correlation. Interpret the results in the context of the research objectives and existing literature. Discuss the implications of the findings for SMEs, policymakers, and future research.

### 3.6 Ethical Considerations

Ethical considerations are paramount in conducting research involving human participants and sensitive data. This study adheres to ethical standards to ensure participants' protection and respect and the research process's integrity. Obtain informed consent from all participants, ensuring they are fully aware of the study's purpose, procedures, risks, and benefits. Provide participants with the option to withdraw from the study at any time without any penalty. Ensure that all personal and financial data collected from participants are kept confidential and secure. The study uses data anonymisation techniques to protect participants' identities when reporting results. Ensure that the research does not harm participants in any way, physically, psychologically, or financially. Address any potential risks and take steps to mitigate them. Conduct the research with honesty and transparency, reporting findings accurately and objectively. Avoid any conflicts of interest that could bias the research process or outcomes.

## 4. Findings and Discussion

### 4.1 Demographic Characteristics of Respondents

This part indicates and discusses the following information about the respondents: age, gender, work position, SME years of operation, level of education, and No. Of employees.

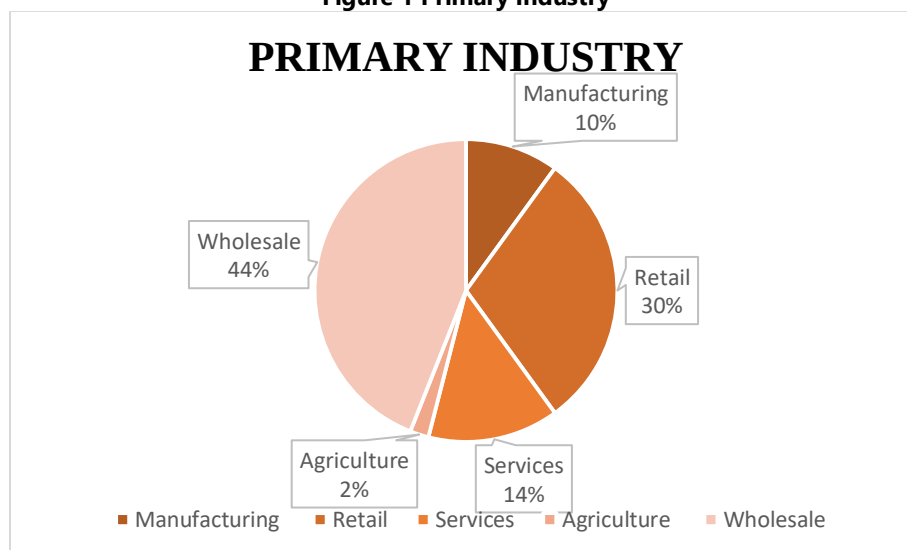
**Table 1** Distribution of Respondents' Demographic Characteristics

|                           |                     | Frequency | Per cent |
|---------------------------|---------------------|-----------|----------|
| <b>Gender</b>             | Male                | 22        | 44.0%    |
|                           | Female              | 28        | 56.0%    |
| <b>Age</b>                | 18 – 25 years       | 4         | 8.0%     |
|                           | 26 – 35 years       | 7         | 14.0%    |
|                           | 36 – 45 years       | 19        | 38.0%    |
|                           | 46 - 55 years       | 15        | 30.0%    |
|                           | 56years and Above   | 5         | 10.0%    |
| <b>Educational Level</b>  | No Formal Education | 5         | 10.0%    |
|                           | Primary             | 9         | 18.0%    |
|                           | High School         | 23        | 46.0%    |
|                           | First Degree        | 10        | 20.0%    |
|                           | Master's Degree     | 3         | 6.0%     |
| <b>Years of Operation</b> | less than 1 year    | 1         | 2.0%     |
|                           | 1-3 years           | 11        | 22.0%    |
|                           | 4-6 years           | 10        | 20.0%    |
|                           | 7-10 years          | 17        | 34.0%    |
|                           | 10 years and above  | 11        | 22.0%    |
| <b>Position</b>           | Owner               | 33        | 66.0%    |
|                           | Manager             | 7         | 14.0%    |
|                           | Employee            | 10        | 20.0%    |
| <b>Primary Industry</b>   | Manufacturing       | 5         | 10.0%    |
|                           | Retail              | 15        | 30.0%    |
|                           | Services            | 7         | 14.0%    |
|                           | Agriculture         | 1         | 2.0%     |

|                         |           |           |            |
|-------------------------|-----------|-----------|------------|
|                         | Wholesale | 22        | 44.0%      |
| <b>No. of Employees</b> | 1-5       | 26        | 52.0%      |
|                         | 6-10      | 18        | 36.0%      |
|                         | 11-20     | 3         | 6.0%       |
|                         | 21-50     | 3         | 6.0%       |
| <b>Total</b>            |           | <b>50</b> | <b>100</b> |

A total of 50 respondents participated in the surveys. The respondents were 28 (56.0%) females and 22 (44.0%) males, which indicates a higher number of female respondents. Additionally, 19 (38.0%) respondents were between 36 and 45 years old. This was followed by 15 (30.0%) respondents between the age group of 46-55 years old. This suggests that most (38.0%) respondents were in their last youthful ages, indicating a young workforce. Concerning the educational background of respondents, 23 (46.0%) were high school leavers, 10 (20.0%) held first degrees, 3 (6.0%) had master's degrees, and 5 (10.0%) had no formal education. Again, concerning the SME's years of operation, 17 (34.0%) of the SMEs have been in operation for 7-10 years, 11 (22.0%) of the SMEs have been in operation for over 10 years and above, 11 (22.0%) of the SMEs also have been in operation for 1-3 years, and 1 (2.0%) of the SMEs have been in operation for less than 1 year.

**Figure 1 Primary Industry**



Furthermore, about the Positions, 33 (66.0%) were the Owners of the SMEs, 10 (20.0%) were the Employees of the SMEs, and 7 (14.0%) were the Managers of the SMEs. Again, concerning primary industries, the SMEs, 22 (44.0%) of them are into Wholesale, 15 (30.0%) of them are into Retail, 7 (14.0%) of them are into Services, 5 (10.0%) of them are into Manufacturing, and only 1 (2.0%) is into Agriculture. Lastly, about the No. Of Employees, 26 (52.0%) of the SMEs had 1-5 employees, 18 (36.0%) of the SMEs had 6-10 employees, 3 (6.0%) of the SMEs had 11-20 employees, and 3 (6.0%) of the SMEs had 21-50 employees.

**4.2 Correlation (Taxes and SMEs Growth)**

| Table 2 Correlations                                         |                     |              |                     |                          |                 |             |
|--------------------------------------------------------------|---------------------|--------------|---------------------|--------------------------|-----------------|-------------|
|                                                              |                     | Tax Policies | Tax Compliance Cost | Tax Rates & Complexities | Different Taxes | SMES Growth |
| Tax Policies                                                 | Pearson Correlation | 1            |                     |                          |                 |             |
|                                                              | Sig. (2-tailed)     |              |                     |                          |                 |             |
|                                                              | N                   | 50           |                     |                          |                 |             |
| Tax Compliance Cost                                          | Pearson Correlation | -.627**      | 1                   |                          |                 |             |
|                                                              | Sig. (2-tailed)     | .000         |                     |                          |                 |             |
|                                                              | N                   | 50           | 50                  |                          |                 |             |
| Tax Rates & Complexities                                     | Pearson Correlation | -.345*       | .322*               | 1                        |                 |             |
|                                                              | Sig. (2-tailed)     | .014         | .022                |                          |                 |             |
|                                                              | N                   | 50           | 50                  | 50                       |                 |             |
| Different Taxes                                              | Pearson Correlation | .418**       | -.224*              | -.437**                  | 1               |             |
|                                                              | Sig. (2-tailed)     | .003         | .017                | .002                     |                 |             |
|                                                              | N                   | 50           | 50                  | 50                       | 50              |             |
| SMES Growth                                                  | Pearson Correlation | .365**       | -.361*              | -.253*                   | -.477**         | 1           |
|                                                              | Sig. (2-tailed)     | .009         | .003                | .016                     | .000            |             |
|                                                              | N                   | 50           | 50                  | 50                       | 50              | 50          |
| **. Correlation is significant at the 0.01 level (2-tailed). |                     |              |                     |                          |                 |             |
| *. Correlation is significant at the 0.05 level (2-tailed).  |                     |              |                     |                          |                 |             |

Table 2 demonstrates that the correlation between tax policies and SME growth is .365 (36.5%), showing a medium or moderate positive relationship between the two variables. Furthermore, the table also shows that the two variables are statistically significant with a p-value of .009, which is less than .05 (i.e.,  $p=0.009$ ;  $p<0.05$ ). This result means that a rise in good tax policies might positively affect the growth of SMEs in the study area and vice versa. Again, a p-value of 0.009 shows that the distribution did not happen by chance. Therefore, this calls for the acceptance of the third alternative hypothesis of the study, which says that there is a significant relationship between the two variables and rejects its null hypothesis despite the moderate effect. This finding helps to confirm a study conducted by Jones et al. (2024), which found a significant negative relationship between tax policies and SME growth, advocating for more supportive tax structures.

#### 4.3 Correlations (Taxes and SMEs Profitability)

| Table 3 Correlations                                         |                     |              |                     |                          |                 |                       |
|--------------------------------------------------------------|---------------------|--------------|---------------------|--------------------------|-----------------|-----------------------|
|                                                              |                     | Tax Policies | Tax Compliance Cost | Tax Rates & Complexities | Different Taxes | Profitability Of SMES |
| Tax Policies                                                 | Pearson Correlation | 1            |                     |                          |                 |                       |
|                                                              | Sig. (2-tailed)     |              |                     |                          |                 |                       |
|                                                              | N                   | 50           |                     |                          |                 |                       |
| Tax Compliance Cost                                          | Pearson Correlation | -.627**      | 1                   |                          |                 |                       |
|                                                              | Sig. (2-tailed)     | .000         |                     |                          |                 |                       |
|                                                              | N                   | 50           | 50                  |                          |                 |                       |
| Tax Rates & Complexities                                     | Pearson Correlation | -.345*       | .322*               | 1                        |                 |                       |
|                                                              | Sig. (2-tailed)     | .014         | .022                |                          |                 |                       |
|                                                              | N                   | 50           | 50                  | 50                       |                 |                       |
| Different Taxes                                              | Pearson Correlation | .418**       | -.224*              | -.437**                  | 1               |                       |
|                                                              | Sig. (2-tailed)     | .003         | .017                | .002                     |                 |                       |
|                                                              | N                   | 50           | 50                  | 50                       | 50              |                       |
| PROFITABILITY OF SMES                                        | Pearson Correlation | .435**       | -.493**             | -.499**                  | -.231*          | 1                     |
|                                                              | Sig. (2-tailed)     | .002         | .000                | .000                     | .006            |                       |
|                                                              | N                   | 50           | 50                  | 50                       | 50              | 50                    |
| **. Correlation is significant at the 0.01 level (2-tailed). |                     |              |                     |                          |                 |                       |
| *. Correlation is significant at the 0.05 level (2-tailed).  |                     |              |                     |                          |                 |                       |

Table 3 demonstrates that the correlation between tax policies and SME profitability is .435 (43.5%), showing a medium or moderate positive relationship between the two variables. Furthermore, the table also shows that the two variables are statistically significant with a p-value of .002, which is less than .05 (i.e.,  $p=0.002$ ;  $p<0.05$ ). This result means that a rise in good tax policies might positively affect the profitability of SMEs in the study area and vice versa. Again, a p-value of 0.002 shows that the distribution did not happen by chance. Therefore, this calls for the acceptance of the third alternative hypothesis of the study, which says that there is a significant relationship between the two variables and rejects its null hypothesis despite the moderate effect.

#### 4.4 Regression (Taxes and SMEs Growth)

| Table 4. ANOVA <sup>a</sup>                                                                             |            |                |    |             |       |                   |
|---------------------------------------------------------------------------------------------------------|------------|----------------|----|-------------|-------|-------------------|
| Model                                                                                                   |            | Sum of Squares | df | Mean Square | F     | Sig.              |
| 1                                                                                                       | Regression | 165.907        | 4  | 41.477      | 5.186 | .002 <sup>b</sup> |
|                                                                                                         | Residual   | 359.904        | 45 | 7.998       |       |                   |
|                                                                                                         | Total      | 525.811        | 49 |             |       |                   |
| a. Dependent Variable: SMEs GROWTH                                                                      |            |                |    |             |       |                   |
| b. Predictors: (Constant), DIFFERENT TAXES, TAX COMPLIANCE COST, TAX RATES & COMPLEXITIES, TAX POLICIES |            |                |    |             |       |                   |



| Table 5 Model Summary                                                                                   |                   |          |                   |                            |
|---------------------------------------------------------------------------------------------------------|-------------------|----------|-------------------|----------------------------|
| Model                                                                                                   | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1                                                                                                       | .562 <sup>a</sup> | .316     | .255              | 2.82805                    |
| a. Predictors: (Constant), DIFFERENT TAXES, TAX COMPLIANCE COST, TAX RATES & COMPLEXITIES, TAX POLICIES |                   |          |                   |                            |

The ANOVA table shows a regression analysis of the variables. The table depicts a p-value of 0.002, which shows that statistically, there is a strong significant relationship between Taxes and SMEs Growth (i.e.,  $p=0.002$ ;  $p<0.05$ ); Table 5 depicts an R-squared value of 0.316, implying 31.6 percent variability in SMEs Growth. While the R-square of 0.316 suggests that the model explains a moderate portion of the variance in SMEs Growth, it also indicates that there is a substantial amount of unexplored factors.

#### 4.5 Coefficients

| Table 6 Coefficients <sup>a</sup>  |              |                             |            |                           |        |      |
|------------------------------------|--------------|-----------------------------|------------|---------------------------|--------|------|
| Model                              |              | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|                                    |              | B                           | Std. Error | Beta                      |        |      |
| 1                                  | (Constant)   | 45.681                      | 7.785      |                           | 5.868  | .000 |
|                                    | Tax Policies | -.264                       | .117       | -.386                     | -2.265 | .008 |
| a. Dependent Variable: SMEs GROWTH |              |                             |            |                           |        |      |

Table 6 shows the individual contributions of the components of the independent variable to the dependent variable. The table depicts that Tax Policies contribute to SME growth as their p-values are less than 0.05, where their p-value is  $p=0.008$ . Therefore, these findings call for the acceptance of the Alternative Hypothesis (H1) that says there is a significant relationship between Tax Policies and SMEs Growth.

#### 4.6 Regressions (Taxes and SMEs Profitability)

| Table 7. ANOVA <sup>a</sup>                                                                             |            |                |    |             |       |                   |
|---------------------------------------------------------------------------------------------------------|------------|----------------|----|-------------|-------|-------------------|
| Model                                                                                                   |            | Sum of Squares | df | Mean Square | F     | Sig.              |
| 1                                                                                                       | Regression | 104.678        | 4  | 26.169      | 7.005 | .000 <sup>b</sup> |
|                                                                                                         | Residual   | 168.117        | 45 | 3.736       |       |                   |
|                                                                                                         | Total      | 272.795        | 49 |             |       |                   |
| a. Dependent Variable: PROFITABILITY OF SMEs                                                            |            |                |    |             |       |                   |
| b. Predictors: (Constant), DIFFERENT TAXES, TAX COMPLIANCE COST, TAX RATES & COMPLEXITIES, TAX POLICIES |            |                |    |             |       |                   |

| Table 8. Model Summary                                                                                  |                   |          |                   |                            |
|---------------------------------------------------------------------------------------------------------|-------------------|----------|-------------------|----------------------------|
| Model                                                                                                   | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1                                                                                                       | .619 <sup>a</sup> | .384     | .329              | 1.93286                    |
| a. Predictors: (Constant), DIFFERENT TAXES, TAX COMPLIANCE COST, TAX RATES & COMPLEXITIES, TAX POLICIES |                   |          |                   |                            |

The ANOVA table shows a regression analysis of the variables. The table depicts a p-value of 0.000, which shows that statistically, there is a strong significant relationship between Taxes and SMEs' Profitability (i.e.,  $p=0.000$ ;  $p<0.05$ ); Table 8 depicts an R-squared value of 0.384, implying 38.4% variability in SMEs Profitability. While the R-square of 0.384 suggests that the model explains a moderate portion of the variance in SMEs' profitability, it also indicates a substantial number of unexplored factors.

## 4.7 Summary of Hypothesis and Discussion of Findings

### 4.7.1 Summary of Hypothesis

**Table 9. Summary of Hypotheses**

| Hypothesis | Independent Variables | Dependent Variable | Significance (P - Value) | Decision             |
|------------|-----------------------|--------------------|--------------------------|----------------------|
| H1         | Tax Policies          | SMEs Growth        | .008                     | Accept hypothesis*** |
| H2         | Tax Policies          | SMEs Profitability | .368                     | Reject hypothesis    |

Table 9 above indicates the hypotheses in the mode and reveals that Tax policies have a significant relationship with SME growth (H1). Again, Tax policies have no significant relationship with SMEs' Profitability (H2).

### 4.7.2 Discussion of Findings

The study reveals a moderate positive correlation between tax policies and SME growth, indicating that better tax policies could promote SME growth. This is statistically significant, supporting the alternative hypothesis while rejecting the null. These findings echo Jones et al. (2024), who also highlight the importance of tax policies for SME success, though their research noted a negative impact, stressing the need for supportive reforms.

Similarly, a positive relationship is found between tax policies and SME profitability. Improved tax structures enhance SME profitability, with the study again accepting the alternative hypothesis. The significance of the p-value confirms that this correlation is not by chance, reinforcing the importance of developing favourable tax environments to improve SME financial outcomes.

## 5. Conclusion

The study assessed the influence of tax policy on the growth and profitability of SMEs, revealing a moderate positive correlation. The findings indicate that well-structured and supportive tax policies can significantly contribute to SMEs' growth and profitability. Conversely, unfavourable tax policies could impede these businesses, highlighting the urgent need for tax reforms that foster a more favourable environment for SMEs. Supportive tax policies tailored to the needs of SMEs can create a conducive business environment. Such measures could include reduced tax rates, incentives for reinvestment, and simplified tax filing processes. The findings suggest that these supportive policies not only lessen the financial burden on SMEs but also encourage entrepreneurship and innovation. Policymakers are urged to implement reforms that simplify the tax code and provide tax credits or deductions for investments that bolster business expansion. Based on the study's conclusions, policymakers should adopt a more comprehensive approach by integrating tax reforms with broader SME support measures, such as improving access to financing, investing in infrastructure, and providing training programs for SME owners and managers.

### 5.1 Study Limitations and Suggestions for Further Study

The study is limited to Fifty (50) SMEs in Kasoa, which may not represent all SMEs in the region or country. This limits the generalizability of the findings. The study relies on the willingness of SMEs to provide financial data. Some businesses may be reluctant to share sensitive information, which could impact the completeness and accuracy of the data. The study focuses on financial data from the past five years. Changes in tax policies or economic conditions outside this period are not considered, potentially affecting the findings. Participants may provide socially desirable answers or withhold negative information, leading to response bias. The study does not account for external factors such as economic downturns, political instability, or global events like the COVID-19 pandemic, which could influence the results. Further research could explore a longitudinal study on the effects of tax reforms on SME performance over time. Tracking SMEs' performance in response to tax policy changes could reveal whether benefits from reduced tax rates or simplified systems are sustained in the long term and how these reforms influence business survival and growth.

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