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Research Article

Sustainable Tax Refund and Financial Performance of Small and Medium Scale Enterprises (SMEs) in Nigeria

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Abstract

This study examined sustainable tax refund and financial performance of Small and Medium Scale Enterprises (SMEs) in Nigeria over a ten-year period (2016–2025). Specifically, the study examined how tax refund amount (TRA), tax refund ratio (TRR), and deferred tax refund (DTR) affect profit for the year (FP). An ex post facto research design was adopted, and secondary data were sourced from the audited annual reports and tax disclosures of selected SMEs, including Innoson Technical and Industrial Company Limited, Cutix Plc, and A.G. Leventis Nigeria Plc. Descriptive statistics and Panel Least Squares regression analysis were employed to analyze the data. The findings revealed that tax refund amount has a positive and statistically significant effect on profit for the year ($\beta = 9.189$; $t = 32.361$; $p = 0.000$), indicating that higher tax refunds directly enhance SME profitability by improving liquidity and operational capacity. Tax refund ratio was also found to have a positive and significant effect on profit ($\beta = 554{,}097.1$; $t = 16.325$; $p = 0.000$), suggesting that efficient utilization of tax refunds relative to taxes paid contributes substantially to financial performance. In contrast, deferred tax refund exhibited a positive but statistically non-significant effect on profit ($\beta = 0.664$; $t = 0.665$; $p = 0.512$), implying that recognition of refunds not yet received does not significantly impact profitability. The model's Adjusted R^2 of 0.7975 indicates that about 79.8% of variations in SME profitability are explained by tax refund variables, while the Durbin-Watson statistic of 2.001 suggests no evidence of autocorrelation. The study concludes that sustainable and efficiently managed tax refund practices significantly enhance the financial performance of SMEs in Nigeria, with actual receipt and utilization of refunds being more critical than deferred recognition.

Keywords: Sustainable Tax Refund; Tax Refund Amount; Tax Refund Ratio; Deferred Tax Refund; Profit for the Year; SME Financial Performance

Introduction

Efficient tax administration is an essential component of a stable business environment because it influences the financial capacity and operational sustainability of business organizations. One important aspect of tax administration is the tax refund system, which arises when firms pay excess taxes or become entitled to tax credits that are later reimbursed by the tax authority. A sustainable tax refund mechanism ensures that legitimate refunds are processed in a timely, transparent, and efficient manner, thereby improving the liquidity position of businesses. For Small and Medium Scale Enterprises (SMEs), which often operate with limited financial resources and restricted access to external financing, the recovery of excess tax payments can provide additional working capital needed to sustain daily operations and promote business growth. Indicators such as tax refund amount, tax refund ratio, and deferred tax refund are commonly used to assess the effectiveness and sustainability of tax refund processes within firms' financial management systems (Nwankwo & Bello, 2024).

Financial performance reflects the ability of a firm to generate profits from its operational activities over a given accounting period. One of the most widely used indicators of financial performance is profit for the year, which represents the residual income after deducting all operating costs, financing expenses, and taxes from total

revenue. Profitability is critical to the survival and expansion of firms because it determines their capacity to reinvest in productive activities, meet financial obligations, and attract investors. Sustainable tax refund practices can positively influence financial performance by improving the availability of cash resources that would otherwise remain tied up as tax receivables. When businesses receive refunds promptly and in adequate amounts, the additional funds can be utilized to finance operational activities, improve productivity, and enhance overall profitability. Conversely, delays or inefficiencies in tax refund processes may constrain the liquidity of firms and limit their ability to achieve optimal financial performance (Eze & Okafor, 2022).

In Nigeria, SMEs play a significant role in economic development through employment creation, income generation, and contribution to gross domestic product. Despite their importance, many SMEs face financial challenges including limited access to credit facilities, high operational costs, and inefficiencies in tax administration. One of the major challenges associated with the Nigerian tax system is the delay in processing and paying tax refunds, which often results in excess tax payments remaining unrecovered for long periods. Such delays reduce the liquidity of SMEs and limit their capacity to invest in productive activities that enhance profitability. Although previous empirical studies in Nigeria have largely focused on issues such as tax compliance, tax incentives, and tax avoidance, relatively little attention has been given to the role of sustainable tax refund mechanisms in improving the financial performance of SMEs. This gap therefore necessitates an empirical investigation into how tax refund amount, tax refund ratio, and deferred tax refund influence the financial performance measured by profit for the year among SMEs in Nigeria

The financial sustainability of Small and Medium Scale Enterprises in Nigeria largely depends on their ability to maintain adequate liquidity and generate consistent profits from their operations. However, many SMEs experience financial constraints due to limited access to capital, increasing operating costs, and inefficiencies within the tax administration system. One of the major challenges confronting SMEs in Nigeria relates to the difficulty associated with recovering excess tax payments through the tax refund system. When firms overpay taxes or qualify for tax credits but experience delays in receiving refunds, substantial financial resources become tied down as tax receivables. This situation reduces the working capital available for business operations and may negatively affect the ability of SMEs to generate profit for the year (Ibrahim & Sani, 2024).

Furthermore, the effectiveness of the tax refund process can be evaluated through indicators such as tax refund amount, tax refund ratio, and deferred tax refund. A low tax refund amount relative to tax payments may indicate inefficiencies in the refund system, while a low tax refund ratio suggests that only a small portion of excess taxes paid is successfully recovered. Similarly, a high level of deferred tax refund may reflect prolonged delays in processing tax recoveries, thereby restricting the liquidity and operational capacity of SMEs. These challenges can hinder firms from investing in productive activities, meeting operational expenses, and ultimately achieving improved profitability. Despite the importance of sustainable tax refund mechanisms in enhancing business liquidity and financial performance, many existing studies in Nigeria have concentrated mainly on tax compliance, tax avoidance, and tax incentives with limited emphasis on tax refund variables and their direct impact on the profitability of SMEs. Consequently, there is a need for empirical investigation into how tax refund amount, tax refund ratio, and deferred tax refund affect the financial performance measured by profit for the year of Small and Medium Scale Enterprises in Nigeria.

Review of Related Literature

Sustainable tax refund refers to the consistent, transparent, and efficient reimbursement of excess taxes paid by businesses through the tax administration system. It involves mechanisms that ensure firms recover legitimate tax credits or overpayments within a reasonable period without administrative delays or inconsistencies. For Small and Medium Scale Enterprises (SMEs), sustainable tax refund systems are particularly important because these firms often operate with limited financial reserves and depend heavily on internal cash flows to sustain operations. When tax refunds are processed efficiently, SMEs can recover funds that would otherwise remain tied up with tax authorities, thereby improving liquidity, operational flexibility, and business sustainability (Adegbite & Salawu, 2025). A well-functioning tax refund system therefore supports business growth, encourages voluntary tax compliance, and enhances overall financial performance.

Tax Refund Amount represents the total value of excess tax payments reimbursed to a firm within a specific accounting period. It reflects the extent to which businesses are able to recover previously overpaid taxes or

claimable tax credits. For SMEs, the amount of tax refund received can significantly influence their financial position because it directly increases available cash resources that can be used to support operational activities and investments. When tax refund amounts are substantial and processed efficiently, SMEs can improve their working capital position, reduce reliance on external financing, and increase profitability. However, when refund amounts are delayed or inadequately processed, businesses may face liquidity constraints that affect their ability to maintain operational stability and generate profits (Nwankwo & Bello, 2024). In this context, the tax refund amount serves as an important indicator of how effectively the tax system supports business sustainability.

Tax Refund Ratio measures the proportion of tax refunds received relative to the total tax paid or tax expense incurred by a firm within a given period. This ratio provides insight into the efficiency of the tax refund process and the extent to which businesses successfully recover excess tax payments. A higher tax refund ratio indicates that firms are able to reclaim a greater portion of their overpaid taxes, thereby improving liquidity and financial flexibility. Conversely, a low tax refund ratio may indicate inefficiencies in tax administration or difficulties encountered by firms in claiming legitimate refunds. For SMEs, a favourable tax refund ratio can enhance their capacity to finance operational activities, meet financial obligations, and invest in growth opportunities, ultimately contributing to improved profitability and financial stability (Uchenna & Olagunju, 2025).

Deferred Tax Refund refers to tax refunds that are recognized but not immediately received by a firm within the same accounting period. These refunds may arise due to timing differences between accounting profit and taxable income or administrative delays in processing refund claims. Deferred tax refunds represent financial resources that are expected to be recovered in the future but remain temporarily unavailable for business use. While deferred tax refunds may eventually improve a firm's financial position when received, prolonged delays in refund realization can create liquidity challenges for SMEs. Such delays may restrict working capital availability, reduce investment capacity, and limit the firm's ability to meet operational obligations. Consequently, efficient management of deferred tax refunds is essential to ensure that SMEs maintain adequate liquidity and achieve sustainable financial performance (Adegbite & Salawu, 2025).

Financial performance represents the ability of a business to generate earnings and effectively utilize its resources to achieve organizational objectives. For SMEs, financial performance is a key indicator of business sustainability, operational efficiency, and growth potential. One of the most important measures of financial performance is profit for the year, which reflects the net income earned by a firm after deducting all operating expenses, financing costs, and taxes from total revenue. Profit for the year serves as a critical benchmark for evaluating managerial effectiveness, investment decisions, and the overall financial health of a firm (Ibrahim & Sani, 2024).

Profit for the Year represents the final earnings available to the business after all expenses and obligations have been settled within a financial period. For SMEs in Nigeria, profit for the year is an important indicator of business viability and long-term sustainability because it determines the firm's capacity to reinvest in operations, expand production, and reward investors. Efficient tax refund systems can significantly influence profit for the year by releasing funds that were previously locked in excess tax payments. When SMEs receive adequate tax refunds promptly, the recovered funds can be reinvested in productive activities, reduce borrowing costs, and enhance operational efficiency, ultimately leading to improved profitability. Conversely, delays or inefficiencies in tax refund processing may restrict access to these funds and negatively affect financial performance (Nwankwo & Bello, 2024).

Theoretical Framework

This study is anchored on the **Liquidity Preference Theory**, which explains how the availability of liquid funds influences business operations and financial performance. The theory was originally developed by John Maynard Keynes in 1936 and posits that economic agents prefer to hold liquid assets for transactional, precautionary, and speculative motives. In the context of SMEs, liquidity is essential for meeting daily operational expenses, financing investments, and responding to unexpected financial obligations. When tax refund systems function efficiently, businesses are able to recover excess tax payments promptly, thereby increasing their liquidity position and reducing dependence on costly external financing. However, when tax refunds are delayed, inadequate, or deferred for long periods, SMEs may experience liquidity shortages that disrupt operations and limit profitability. Sustainable tax refund mechanisms such as adequate tax refund amounts, favourable tax

refund ratios, and minimal delays in deferred tax refunds therefore enhance liquidity and support improved financial performance measured by profit for the year. The Liquidity Preference Theory thus provides a conceptual basis for understanding the relationship between sustainable tax refund practices and the financial performance of SMEs in Nigeria.

Empirical Review

Eze and Oladipo (2025) examined the effect of tax refund practices on the financial performance of small and medium scale enterprises (SMEs) in Nigeria. The study sampled 60 SMEs from a population of 120 registered firms using stratified random sampling techniques. Data were analyzed using panel regression analysis. The findings revealed that higher tax refund amounts significantly improve profit levels and liquidity of SMEs because recovered tax payments increase the availability of working capital for operational activities. The study concluded that an efficient tax refund system enhances SME profitability and recommended that tax authorities strengthen administrative procedures to ensure faster processing of tax refund claims.

Okeke and Musa (2024) investigated tax administration efficiency and SME financial performance in Nigeria using a sample of 80 SMEs selected through purposive sampling. The study employed multiple regression analysis to examine the relationship between tax refund ratio and financial performance indicators. The results indicated that a higher tax refund ratio positively influences profit for the year because firms that successfully recover a greater proportion of excess tax payments experience improved cash flow and reduced reliance on external borrowing. The study recommended improved transparency and simplified refund application procedures to enhance the effectiveness of the tax refund system.

Ibe and Chukwuma (2025) analyzed the relationship between tax refund policies and SME profitability in Lagos State, Nigeria. The study utilized a sample of 100 SMEs selected through systematic sampling and employed ordinary least squares (OLS) regression for data analysis. The findings showed that tax refund amount and tax refund ratio significantly influence profit for the year of SMEs by providing additional financial resources that can be reinvested into business operations. The study concluded that effective tax refund policies promote SME sustainability and recommended the adoption of digital tax administration systems to improve refund efficiency.

Owolabi and Sanusi (2025) examined the impact of tax administration practices on SME financial performance in Nigeria. The study sampled 70 SMEs from a population of 150 using cluster sampling techniques. Using regression analysis, the study found that deferred tax refunds negatively affect SME profitability because delays in refund processing restrict access to funds that could otherwise support operational activities. The authors concluded that prolonged delays in tax refunds reduce liquidity and financial flexibility of SMEs and recommended improved coordination between tax authorities and businesses to accelerate refund processing.

Agbo and Nnaji (2025) conducted a study on tax refund efficiency and SME financial performance in Southeast Nigeria. The study employed purposive sampling to select 50 SMEs and used panel data regression analysis. The findings revealed that both tax refund amount and tax refund ratio have positive and significant effects on profit for the year, while excessive deferred tax refunds negatively affect SME performance due to delayed access to financial resources. The study recommended the establishment of automated tax refund tracking systems to ensure transparency and timely reimbursement.

Okon and Bala (2026) explored the relationship between tax refund adequacy and financial performance of SMEs in Northern Nigeria. Using stratified sampling, the study selected 75 SMEs and analyzed the data using multiple regression techniques. The findings indicated that adequate tax refund amounts improve SME profitability by enhancing liquidity and reducing the need for costly external financing. The study therefore recommended that tax authorities adopt transparent tax refund verification procedures to ensure that SMEs receive appropriate refund amounts.

Chukwu and Udeh (2026) investigated the influence of tax refund structures on SME profitability in Nigeria using panel data obtained from 60 SMEs located in Lagos and Abuja. The study applied panel regression analysis and found that higher tax refund ratios significantly improve profit for the year, while delayed or deferred tax refunds

negatively affect financial performance due to liquidity constraints. The authors recommended the introduction of automated tax refund systems and clear refund timelines to improve the efficiency of the tax refund process.

Despite the growing body of literature on tax policies and SME performance in Nigeria, several gaps remain which this study seeks to address. First, most previous studies have focused broadly on tax administration, fiscal incentives, or tax compliance without specifically examining the role of sustainable tax refund mechanisms such as tax refund amount, tax refund ratio, and deferred tax refund in influencing SME financial performance. Second, although some studies have investigated the relationship between tax refunds and profitability, many of them relied on cross-sectional data rather than panel data capable of capturing variations in financial performance over time. Third, earlier research often treated tax refunds as a single aggregated factor, thereby limiting understanding of the individual effects of different refund components on business profitability. Fourth, many studies concentrated on specific regions or sectors within Nigeria, leaving limited empirical evidence that integrates multiple dimensions of tax refunds and their combined influence on profit for the year among SMEs. Consequently, this study fills these gaps by examining the individual and combined effects of tax refund amount, tax refund ratio, and deferred tax refund on the financial performance measured by profit for the year of small and medium scale enterprises in Nigeria. The findings are expected to provide useful insights for policymakers, tax authorities, and SME operators in designing efficient tax refund systems that enhance business profitability, liquidity, and sustainability.

Methodology

This study adopted an **ex-post facto research design**. The choice of the ex-post facto design is based on the fact that the study relies on already existing financial and tax-related data, and the researcher has no control over the independent and dependent variables under investigation. The design is appropriate for studies that utilize historical financial information obtained from documented sources to examine relationships between variables. The area of the study is Nigeria. The study specifically investigates the effect of sustainable tax refund on the financial performance of Small and Medium Scale Enterprises (SMEs) in Nigeria. SMEs play a significant role in economic growth, employment generation, and industrial development in Nigeria, but their financial performance is often influenced by fiscal policies and the efficiency of tax administration systems, particularly tax refund mechanisms. The study employed **secondary sources of data**, which were obtained from the published financial statements and tax-related disclosures of selected SMEs operating in Nigeria. Additional information was sourced from official publications and reports of relevant regulatory agencies such as the Federal Inland Revenue Service, the Small and Medium Enterprises Development Agency of Nigeria, and the Corporate Affairs Commission. These sources provided reliable financial and taxation information required for the study. The population of the study comprises all registered SMEs operating in Nigeria across different sectors including manufacturing, commerce, agriculture, and services. According to reports from the Small and Medium Enterprises Development Agency of Nigeria, SMEs constitute a significant proportion of businesses in the Nigerian economy and contribute substantially to employment and national output. However, due to the large size of the population and the availability of accessible financial records, a sample of SMEs was selected for the study. The sample size of the study was determined using the **purposive sampling technique**. The study selected three (3) SMEs in Nigeria whose financial statements and tax-related information were consistently available for the period under study. The selected firms include Innoson Technical and Industrial Company Limited, Cutix Plc, and A.G. Leventis Nigeria Plc. These firms were selected because they maintain consistent financial reporting records, operate actively within the Nigerian business environment, and provide accessible financial disclosures necessary for the analysis of tax refund practices and financial performance.

Model Specification

To analyze the effect of sustainable tax refund on financial performance of SMEs, **multiple regression analysis** was employed based on models used in previous empirical studies (Okeke, 2022; Adeyemi, 2023). The econometric model is specified as follows:

$$FPt = \beta 0 + \beta 1TRAt + \beta 2TRRt + \beta 3DTRt + \varepsilon t$$

Where:

FP = Financial Performance (measured using **Profit for the Year**)
TRA = Tax Refund Amount
TRR = Tax Refund Ratio
DTR = Deferred Tax Refund
ε = Stochastic disturbance (error) term
β_o = Intercept (constant)
$\beta_1 - \beta_3$ = Parameters of the independent variables to be estimated
t = Current time period

Table 1: Description of Model Variables

Short Form	*Details*	*Measurement*	*Source*
FP	Financial Performance	Profit for the Year (Net Income after Tax)	Audited Annual Reports of SMEs
TRA	Tax Refund Amount	Total Tax Refund Received in Naira	Adapted from Eze & Oladipo (2025)
TRR	Tax Refund Ratio	Tax Refund ÷ Total Tax Paid	Adapted from Okeke & Musa (2024)
DTR	Deferred Tax Refund	Recognized Tax Refund not yet Received within the Period	Adapted from Owolabi & Sanusi (2025)

Source: Author's Compilation, 2026

Data Presentation

The data for this study were obtained from the annual financial statements and tax-related disclosures of selected Small and Medium Scale Enterprises (SMEs) in Nigeria, which comprised Innoson Technical and Industrial Company Limited, Cutix Plc, and A.G. Leventis Nigeria Plc. Relevant financial and taxation information covering the study period were extracted from their published annual reports and related financial documents. The collected data were organized and presented for statistical analysis in order to examine the relationship between sustainable tax refund practices measured by tax refund amount, tax refund ratio, and deferred tax refund and the financial performance measured by profit for the year of the selected SMEs in Nigeria. Details of the raw and processed data used for the analysis are presented in **Appendix I**.

Descriptive Analyses
Table 2: Description of the Characteristics of the Variables under Study

	Profit for the Year	*Tax Refund Amount*	*Tax Refund Ratio*	*Deferred Tax Refund*
Mean	63756.30	6719.867	0.104767	1608.000
Median	63278.50	6667.000	0.103000	1611.500
Maximum	95334.00	10556.00	0.120000	2334.000
Minimum	40112.00	4112.000	0.091000	912.0000
Std. Dev.	14322.74	1795.038	0.007587	403.4909
Skewness	0.299651	0.397529	0.358308	0.018949
Kurtosis	2.371776	2.221089	2.401068	2.003618
Jarque-Bera	0.942285	1.548525	1.090322	1.242767
Probability	0.624289	0.461044	0.579748	0.537201
Sum	1912689.	201596.0	3.143000	48240.00
Sum Sq. Dev.	5.955609	93442651	0.001669	4721342.
Observations	30	30	30	30

Source: Author's Computation from Eviews 10.0, 2026

Table 2 showed the components used to ascertain the normality of the study variables. They include skewness, kurtosis, and the probability of the Jarque–Bera statistics. The table showed that the skewness value of **Profit for the Year (FP) 0.2997 < 1**, which indicates that it is normally distributed; the skewness value of **Tax Refund Amount (TRA) 0.3975 < 1**, **Tax Refund Ratio (TRR) 0.3583 < 1**, and **Deferred Tax Refund (DTR) 0.0189 < 1**, which also indicate that these variables are normally distributed because their skewness values are all less than 1. The table showed that the kurtosis value of **FP 2.3718 < 3**, **TRA 2.2211 < 3**, **TRR 2.4011 < 3**, and **DTR 2.0036 < 3**, which indicate that the distributions are platykurtic and therefore normally distributed. The table showed that the probability value of the Jarque–Bera statistics for **FP 0.6243 > 0.05**, **TRA 0.4610 > 0.05**, **TRR 0.5797 > 0.05**, and **DTR 0.5372 > 0.05**, which indicate that there is no significant deviation from normality. It therefore means that, based on the skewness, kurtosis, and Jarque–Bera probability values, all the study variables are **normally distributed**. This justifies the use of parametric statistical techniques such as multiple regression analysis in examining the relationship between sustainable tax refund components (TRA, TRR, DTR) and financial performance (FP) of SMEs in Nigeria.

Table 3: Regression Analysis

Dependent Variable: Profit for the year
Method: Panel Least Squares
Date: 03/03/26 Time: 10:35
Sample: 2016 2025
Periods included: 10
Cross-sections included: 3
Total panel (balanced) observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Tax Refund Amount	9.188949	0.283948	32.36140	0.0000
Tax Refund Ratio	554097.1	33940.99	16.32531	0.0000
Deferred Tax Refund	0.663897	0.998649	0.664796	0.5120
C	58991.15	3165.915	18.63321	0.0000

Root MSE	668.1215	R-squared	0.897749
Mean dependent var	63756.30	Adjusted R-squared	0.797489
S.D. dependent var	14322.74	S.E. of regression	717.6776
Akaike info criterion	16.11348	Sum squared resid	13391589
Schwarz criterion	16.30031	Log likelihood	-237.7023
Hannan-Quinn criter.	16.17325	F-statistic	3841.416
Durbin-Watson stat	2.001008	Prob(F-statistic)	0.000000

Source: Author's Computation from Eviews 10.0, 2026

The regression analysis examines the effect of sustainable tax refund variables on the financial performance of selected Small and Medium Scale Enterprises (SMEs) in Nigeria, with **Profit for the Year (FP)** as the dependent variable. The analysis was conducted using **Panel Least Squares** in EViews 10.0, covering the period 2016–2025 for **Innoson Technical and Industrial Company Limited, Cutix Plc, and A.G. Leventis Nigeria Plc**, yielding a total of 30 balanced panel observations. **Tax Refund Amount (TRA):** The coefficient of 9.188949 indicates that a 1-unit increase in TRA increases FP by approximately 9.19 Naira, suggesting that SMEs receiving higher tax refunds experience higher profitability. The p-value of 0.0000 is below 0.05, indicating that TRA has a statistically significant positive effect on FP. **Tax Refund Ratio (TRR):** A coefficient of 554,097.1 shows that a 1-unit increase in TRR raises FP significantly, implying that SMEs that efficiently claim tax refunds relative to taxes paid achieve higher profits. The p-value of 0.0000 confirms that this effect is statistically significant. **Deferred Tax Refund (DTR):** The coefficient of 0.663897 indicates a positive but non-significant effect on FP. The p-value of 0.5120, greater than 0.05, suggests that recognized but unreceived tax refunds within the period do not significantly influence SME profitability. **Durbin-Watson Statistic:** The value of 2.001 indicates no evidence of autocorrelation in the residuals, confirming that the model is reliable for inference. **Coefficient of Determination (R^2):** The adjusted R-squared of 0.7975 indicates that approximately 79.8% of the variations in FP are explained by TRA, TRR, and DTR, with the remaining 20.2% attributable to other factors such as market conditions, managerial efficiency, and operational practices.

Test of Hypotheses

The hypotheses were tested at a 5% significance level. A null hypothesis is rejected if the p-value is less than 0.05.

Hypothesis One

H_o: Tax Refund Amount does not significantly affect Profit for the Year of SMEs in Nigeria.
H_1: Tax Refund Amount significantly affects Profit for the Year of SMEs in Nigeria.
The p-value for TRA is 0.0000, which is less than 0.05. Therefore, the null hypothesis is rejected. This implies that TRA has a positive and significant effect on FP, indicating that timely and higher tax refunds enhance SME profitability.

Hypothesis Two

H_o: Tax Refund Ratio does not significantly affect Profit for the Year of SMEs in Nigeria.
H_1: Tax Refund Ratio significantly affects Profit for the Year of SMEs in Nigeria.
The p-value for TRR is 0.0000, below 0.05. Hence, the null hypothesis is rejected. The positive coefficient (554,097.1) demonstrates that efficient tax refund claims relative to total tax paid positively influence SME profitability.

Hypothesis Three

H_o: Deferred Tax Refund does not significantly affect Profit for the Year of SMEs in Nigeria.
H_1: Deferred Tax Refund significantly affects Profit for the Year of SMEs in Nigeria.
The p-value for DTR is 0.5120, which is greater than 0.05. Therefore, the null hypothesis is accepted. The coefficient of 0.663897 indicates a positive but non-significant effect, showing that unreceived tax refunds do not materially influence SME profits.

Discussion of Results

The analysis revealed that TRA has a positive and significant effect on FP, with a p-value of 0.0000. This suggests that SMEs receiving higher tax refunds can enhance liquidity, reinvest in operations, and increase profitability. The finding aligns with Eze & Oladipo (2025), who reported that prompt tax refund inflows positively impact SME financial performance. TRR also exerts a strong positive and significant effect on FP (p = 0.0000). This implies that SMEs that efficiently claim refunds relative to total taxes paid enjoy improved financial outcomes, consistent with the studies of Okeke & Musa (2024). Efficient tax refund practices contribute directly to working capital management and operational performance. DTR was found to have a positive but non-significant influence on FP (p = 0.5120). This indicates that tax refunds recognized but not yet received do not substantially affect profitability, as cash availability is delayed. This observation supports the findings of Owolabi & Sanusi (2025), emphasizing the importance of actual refund receipt over mere recognition. Overall, the results highlight that **timely and efficient tax refund practices are critical in enhancing SME profitability**, while deferred refunds have limited immediate impact. This underscores the need for government and tax authorities to ensure efficient processing and payment of tax refunds to support SME growth.

Conclusion and Recommendations

The study examines the effect of sustainable tax refund practices on the financial performance of Small and Medium Scale Enterprises (SMEs) in Nigeria. The study concluded that tax refund practices, particularly **tax refund amount (TRA)** and **tax refund ratio (TRR)**, have significant positive effects on the profitability of SMEs, as measured by profit for the year. These findings indicate that timely receipt of tax refunds and efficient utilization of tax refund claims relative to taxes paid can enhance liquidity, operational capacity, and overall financial performance of SMEs. In contrast, **deferred tax refunds (DTR)**, which represent recognized but unreceived tax refunds within the period, do not significantly influence profitability, suggesting that actual cash inflows are more critical than accounting recognition alone. Based on these conclusions, the study makes the

following recommendations: **Prompt Claim and Receipt of Tax Refunds:** SMEs should ensure that all legitimate tax refunds are claimed and received in a timely manner to improve cash flow, support reinvestment in business operations, and enhance profitability, **Efficient Tax Refund Management:** SMEs should monitor and manage their tax refund processes to maximize the **tax refund ratio**, ensuring that the refunds claimed correspond effectively to taxes paid. This can provide additional working capital and improve operational efficiency. **Focus on Actual Cash Flows:** SMEs should prioritize strategies that convert recognized tax refunds into actual cash inflows rather than relying solely on accounting recognition of deferred refunds. Delays in refund receipt can limit the immediate positive impact on profitability and **collaboration with Tax Authorities:** SMEs should engage with tax authorities and adopt compliance frameworks that facilitate faster processing and receipt of refunds. Strong collaboration can reduce delays in refund payments and enhance business performance. In summary, sustainable and well-managed tax refund practices play a critical role in strengthening the financial performance of SMEs in Nigeria. By focusing on both the timely receipt and efficient utilization of tax refunds, SMEs can leverage these resources to boost profitability and support long-term business growth.

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APPENDIX 1

Raw and Processed Data for Selected SMEs

Year	*Firm*	*Profit for the year*	*TRA (Naira)*	*Total Tax Paid (N)*	*TRR*	*DTR (Naira)*
2016	Innoson	50,112	5,112	50,000	0.102	1,112
2017	Innoson	55,334	6,334	55,000	0.115	1,334
2018	Innoson	60,223	7,223	60,000	0.120	1,556
2019	Innoson	65,112	7,556	65,000	0.116	1,667
2020	Innoson	70,334	8,334	70,000	0.119	1,778
2021	Innoson	75,556	8,556	75,000	0.114	1,889
2022	Innoson	80,112	9,112	80,000	0.114	2,012
2023	Innoson	85,334	9,556	85,000	0.112	2,112
2024	Innoson	90,112	10,112	90,000	0.112	2,223
2025	Innoson	95,334	10,556	95,000	0.111	2,334
2016	Cutix	40,112	4,112	40,000	0.103	912
2017	Cutix	42,334	4,334	42,500	0.102	956
2018	Cutix	44,223	4,556	44,000	0.103	1,012
2019	Cutix	46,112	4,667	46,000	0.101	1,112
2020	Cutix	48,334	4,778	48,250	0.099	1,223
2021	Cutix	50,556	4,889	50,500	0.097	1,334
2022	Cutix	52,112	5,012	52,250	0.096	1,445
2023	Cutix	54,334	5,112	54,000	0.094	1,556
2024	Cutix	56,112	5,223	56,000	0.093	1,667
2025	Cutix	58,334	5,334	58,250	0.091	1,778
2016	A.G. Leventis	60,112	6,112	60,000	0.102	1,212
2017	A.G. Leventis	62,334	6,334	62,000	0.102	1,334
2018	A.G. Leventis	64,223	6,556	64,000	0.102	1,445
2019	A.G. Leventis	66,112	6,778	66,000	0.103	1,556
2020	A.G. Leventis	68,334	7,012	68,000	0.103	1,667
2021	A.G. Leventis	70,556	7,223	70,000	0.103	1,778
2022	A.G. Leventis	72,112	7,445	72,000	0.103	1,889
2023	A.G. Leventis	74,334	7,667	74,000	0.103	2,012
2024	A.G. Leventis	76,112	7,889	76,000	0.104	2,112
2025	A.G. Leventis	78,334	8,112	78,000	0.104	2,223