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Evaluating the Effectiveness of Tax Exemption Policies on the Growth and Development of Small and Medium-Sized Enterprises (SMEs) in Kaduna State, Nigeria

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Abstract

This study investigated the effectiveness of tax exemption policies on the growth and development of small and medium-sized enterprises (SMEs) in Kaduna State, Nigeria, between 2024 and 2026. Using a mixed-methods approach anchored on Keynesian economic theory, the study analyzed quantitative data through simple linear regression and qualitative data descriptively. The study covered a population of 17,141 SMEs, with a sample size of 391 respondents. The findings showed that tax breaks had a significant positive relationship with the employment capacity of SMEs, with $R = 0.574$ and $R^2 = 0.330$, indicating that tax breaks explained 33.0% of the variation in SME employment capacity. Similarly, tax credits had a significant positive effect on the number of SMEs, with $R = 0.671$ and $R^2 = 0.538$, showing that tax credits accounted for 53.8% of the variation in SME numbers. The results suggest that tax exemption measures contributed positively to SME expansion and employment generation, although other economic, institutional, financial and policy factors also influenced SME performance. The study concluded that effective tax exemption policies can support SME growth when properly implemented and complemented by supportive economic and institutional frameworks. It recommended harmonizing tax policies across local, state, and federal government agencies, improving coordination among stakeholders, and simplifying tax administration processes to promote transparency, accountability, and sustainable SME development.

Keywords: Fiscal Policy; Keynesian Economic Theory; Macroeconomics; Small and Medium Size Enterprises, SMEs Growth and Development, Taxation

1. Introduction

Small and Medium-Sized Enterprises (SMEs) play a significant role in Nigeria's economic development by promoting economic growth, employment generation, innovation, and poverty reduction. According to SMEDAN and NBS (2023), SMEs contribute substantially to business activities and employment opportunities in the country. However, despite their importance, SMEs in Kaduna State continue to experience challenges such as inadequate access to finance, poor infrastructure, high operating costs, multiple taxation, and an unfavorable business environment. These challenges have limited their ability to expand, compete effectively, and achieve sustainable growth (Ibrahim et al., 2023). To address these challenges, the Nigerian government has introduced various tax exemption policies and fiscal incentives aimed at supporting SME development. These measures, implemented through tax laws and investment promotion frameworks such as the Companies Income Tax Act and industrial development incentives, include Pioneer Status Incentives, capital allowances, and rural investment allowances. The main purpose of these incentives is to reduce the tax burden on businesses, encourage investment, promote entrepreneurship, and improve enterprise performance. Based on Keynesian fiscal policy principles, such interventions are expected to create a favorable business environment that encourages private sector expansion and economic development.

Kaduna State, being a major commercial and industrial centre in Northern Nigeria, has numerous SMEs operating in sectors such as agriculture, manufacturing, trade, and services. Although tax exemption policies are designed to improve business profitability, investment capacity, employment creation, and sustainability, their effectiveness remains questionable. Many SMEs encounter difficulties in accessing these incentives due to limited awareness, bureaucratic procedures, restrictive requirements, weak implementation, and the informal nature of many enterprises. Consequently, several eligible businesses may not fully benefit from government tax relief programmes (Obitayo, 2023). Despite the availability of tax credits, tax holidays, tax breaks, and other fiscal incentives, many SMEs in Kaduna State continue to experience slow growth, limited expansion, low survival rates, and inadequate employment creation capacity. This situation raises concerns about whether existing tax exemption policies are achieving their intended objectives of promoting SME growth and development. It also suggests that the existence of tax incentives alone may not be sufficient without effective implementation, accessibility, and proper monitoring. Although several studies have examined taxation, tax compliance, and tax incentives in Nigeria, limited attention has been given to evaluating the specific effectiveness of tax exemption policies on SME growth and development in Kaduna State. Previous studies have

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largely focused on issues such as multiple taxation, tax compliance, and general business performance rather than examining how specific tax exemption measures influence important growth indicators such as the number of SMEs, employment generation, business expansion, and investment capacity.

Therefore, there is a need for further empirical investigation into the effectiveness of tax exemption policies in Kaduna State. Such a study will provide evidence on whether tax credits have contributed to the growth of SMEs and whether tax breaks have improved their employment capacity, thereby assisting policymakers in designing more effective strategies for SME development.

2. Research Question:

i. Does tax credit significantly improve the number of SMEs in Kaduna State between 2024 and 2026?

ii. What is the effect of tax break on the employment capacity of SMEs in Kaduna State between 2024 and 2026?

2.1 Research Objective:

i. To examine the impact of tax credits on the growth in the number of SMEs in Kaduna State between 2024 to 2026. ii. To assess the effect of tax breaks on the employment capacity of SMEs in Kaduna State between 2024 to 2026.

2.2 Research Hypothesis:

i. **(H_0):** Tax credits have not significantly improved the number of SMEs in Kaduna State from 2024 to 2026.

ii. **(H_0):** Tax breaks have not significantly improved the employment capacity of SMEs in Kaduna State from 2024 to 2026?

3. Literature Review: Conceptual Review

Concept of Tax Exemption Policies: Tax exemption policies refer to government fiscal measures that relieve individuals, businesses, or specific sectors from paying certain taxes either partially or completely for a specified period. These policies are designed to stimulate economic activities, encourage investment, promote entrepreneurship, and support the growth of strategic sectors of the economy. For Small and Medium-Sized Enterprises (SMEs), tax exemptions may include relief from corporate income tax, value-added tax (VAT), import duties on machinery and equipment, and other statutory taxes. In Nigeria, tax exemption policies are implemented through various tax laws and incentives administered by the Federal Inland Revenue Service (FIRS), state internal revenue services, and investment promotion agencies (Nnam et al.2022). Small and Medium-. Sized Enterprises (SMEs): are businesses characterized by relatively low capital investment, limited workforce, and moderate annual turnover compared to large corporations. In Nigeria, SMEs are commonly classified according to the National Policy on MSMEs, which categorizes enterprises based on the number of employees and the value of assets excluding land and buildings.

Small enterprises generally employ between 10 and 49 workers, while medium-sized enterprises employ between 50 and 199 workers (Gumus and Aliyu, ,2026).

Concept of Tax Incentives for SMEs: Tax incentives are deliberate fiscal measures introduced by governments to encourage business growth and investment by reducing tax obligations. Tax exemptions represent one category of tax incentives. Other forms include tax holidays, reduced tax rates, investment tax credits, accelerated capital allowances, and duty waivers. For SMEs, tax incentives are intended to improve business liquidity by reducing operating costs and allowing firms to reinvest retained profits into expansion, technology acquisition, employee development, and product innovation. The success of tax incentives depends on effective administration, adequate monitoring, clear eligibility criteria, and minimal bureaucratic obstacles (Yifei, 2024).
Relationship between Tax Exemption Policies and SME Growth and Development: Tax exemption policies are expected to create a favorable business environment by reducing tax burdens and increasing the disposable income available for business operations. Lower tax obligations improve liquidity, enabling SMEs to purchase equipment, expand production, hire additional workers, and improve service delivery. This contributes directly to business growth and long-term development.

3.1 Theoretical Review

The Keynesian Economic Theory, developed by John Maynard Keynes (1936**)**, argues that government intervention through fiscal policies is essential for stimulating economic growth, particularly during periods of weak economic activity. The theory emphasizes that increasing aggregate demand through measures such as tax incentives, subsidies, and public spending can boost investment, production, employment, and consumption. In the context of Kaduna State SMEs, tax incentives such as tax credits and tax breaks reduce the tax burden, allowing businesses to retain more income for expansion, technology adoption, and productivity improvement. These incentives encourage the creation of new SMEs, support the growth of existing ones, and enhance their competitiveness. Keynesian theory also explains that tax breaks improve business liquidity, enabling SMEs to hire more workers, increase wages, provide training, and expand operations. The resulting rise in employment and household income further stimulates aggregate demand, creating a cycle of economic growth. Overall, the Keynesian Economic Theory provides a strong theoretical foundation for examining how tax incentive policies influence SME growth and employment generation, thereby contributing to sustainable economic development.

3.2 Empirical Review

A study investigated the effect of tax incentives on Micro, Small and Medium Enterprises (MSMEs) in Nigeria using a quantitative survey design and regression analysis. The study found that tax exemptions and other government incentives significantly improved tax compliance among MSMEs. It also revealed that many business owners were not fully aware of the available tax incentives, thereby limiting the effectiveness of the policy. According to Ellawule et al. (2024), governments should increase awareness through effective communication and simplify procedures for accessing available tax incentives. Although the study focused on tax compliance rather than business growth, its findings suggest that well-designed tax incentives can encourage business sustainability and expansion.

Another study examined the relationship between tax incentives and the performance of listed manufacturing firms in Nigeria using panel data analysis. The findings indicated that tax incentives positively influenced firm performance by improving profitability and investment decisions. Oyerogba et al. (2024) concluded that tax incentives constitute an effective fiscal policy instrument for stimulating business growth when implemented consistently. Their findings further imply that tax credits can encourage the establishment and expansion of SMEs by reducing their tax burden.

A related study investigated the effect of tax incentives on SME growth in Abuja using a survey research design involving 374 registered SMEs. Structural Equation Modeling (SEM) showed that income tax exemptions and tax holidays had a significant positive effect on SME growth, whereas investment tax credits produced a significant but negative effect, suggesting that not all forms of tax incentives are equally effective. Oise-Amu (2025) therefore recommended regular evaluation of tax incentive programmes and the simplification of procedures for accessing tax benefits to maximize their impact on SME growth.

Similarly, a study examined the role of tax incentives in promoting entrepreneurial development among SMEs in Lagos State using survey data collected from SME operators. The findings showed that tax holidays, tax deductions, and capital allowances significantly enhanced business start-up, growth, and sustainability. Adedipe (2025) concluded that reducing tax burdens encourages entrepreneurship and increases the number of viable SMEs operating within the economy.

The reviewed studies generally indicate that tax credits and related tax incentives contribute positively to business formation and SME expansion. However, most of these studies were conducted outside Kaduna State, while others focused on tax compliance or firm performance rather than changes in the number of SMEs. This creates an empirical gap, thereby justifying the present study, which seeks to evaluate whether tax credits have significantly improved the number of SMEs in Kaduna State between 2024 and 2026.

A study examined the relationship between SMEs and employment creation in Nigeria using annual macroeconomic data covering the period from 1991 to 2019. Employing econometric techniques, the study established that SME activities contributed significantly to employment generation in Nigeria. Aderemi (2023) concluded that government policies which encourage SME expansion would ultimately increase employment opportunities across the country. These findings suggest that fiscal incentives, including tax breaks, can indirectly improve employment by promoting SME growth.

Another study investigated the influence of tax incentives on SMEs in Nigeria using survey data collected from 387 SMEs. The findings showed that tax exemptions and related incentives significantly improved the business environment by reducing operational costs and supporting sustainable business operations. Ogundajo et al. (2026) argued that tax incentives become more effective when they are complemented by policies that improve the ease of doing business. Although employment generation was not the primary dependent variable, the findings imply that financially stronger SMEs are more capable of expanding their workforce.

Tax incentives have been identified as important instruments for promoting the growth and sustainability of Small and Medium-Sized Enterprises (SMEs). In a study on SME development in Gombe State, Hashidu et al. (2024) examined the effectiveness of tax incentives and assessed how such policies contribute to SME growth. The study focused on factors that influence the success of tax incentive programmes, including awareness, accessibility, and effective implementation. The findings revealed that tax incentives can promote SME development when they are properly designed, adequately communicated, and made accessible to eligible businesses.

Furthermore, the study emphasized that inadequate awareness and weak implementation mechanisms may limit the benefits of tax exemption policies.

Similarly, the effectiveness of specific tax relief measures was examined by Zubairu et al. (2025) through their study on Value Added Tax (VAT) exemptions and SME growth in Nigeria. The researchers found that VAT exemptions reduce the financial burden on SMEs and improve their cash flow position. The study revealed that tax savings enable small businesses to invest in business expansion, acquire productive assets, adopt improved technology, and increase operational capacity. These findings suggest that tax exemption policies may contribute to SME growth in Kaduna State by improving business survival and encouraging expansion between 2024 and 2026. In addition, stronger financial positions resulting from tax breaks may enable SMEs to increase their workforce and contribute to employment creation. However, the study concentrated mainly on value added tax exemptions and did not examine wider tax credit policies or their direct influence on SME employment capacity, leaving a gap that the present study seeks to address.

A further study examined the impact of SMEs on employment creation in Makurdi Metropolis using logistic regression analysis. The findings showed that SMEs contributed significantly to employment generation but faced serious constraints, including high taxes, inadequate access to finance, and an unfavorable business environment. Mile et al. (2022) recommended granting tax incentives to newly established enterprises and strengthening tax administration to encourage business expansion and employment creation.

4. Research Methodology

This section outlines the methodology used for the study, covering the research design, population, sampling techniques, data collection methods, reliability testing, and data analysis procedures. The study adopted a mixed-methods research design, combining quantitative and qualitative approaches to provide a comprehensive understanding of the impact of tax exemption policies on SME growth and development. Structured questionnaires using a five-point Likert scale were administered to collect quantitative data, while open-ended interviews with SMEs and relevant government agencies provided qualitative insights into policy implementation and challenges. The study focused on SMEs in Kaduna State, Nigeria, from 2024 to 2026, with emphasis on enterprise creation and employment generation. The population comprised stakeholders involved in SME regulation, taxation, and development. A judgmental sampling technique was used to select relevant government agencies, SME associations, and SME operators, while cluster sampling ensured adequate representation. Based on the SMEDAN and NBS (2023) report, a population of

16,371 registered SMEs was used to determine the sample size, with the Yamane (1967) model producing a sample size of 391 SMEs. The sample size for the study was arrived at using Yamane (1967) sampling model as adjusted by Smith (1983)

Thus: Thus: $n = \frac{N}{3 + N(e)^2} = 390.55 \approx 391$ -- -- -- -- -- (1)

Where: n = the desired sample size, N= the population size, 3= Adjusted constant value, e= Level of precision (significant level). This is usually set at 0.05 and occasionally at 0.01. Data were collected through questionnaires, observations, and interviews. The reliability of the research instrument was tested through a pilot study involving 25 respondents, using Cronbach's alpha coefficient. The overall reliability score was 0.76, with individual clusters ranging from 0.62 to 0.75, indicating that the instrument was reliable and suitable for the study. Quantitative data were analysed using SPSS and Microsoft Excel, with results presented through tables and descriptive statistics. Qualitative interview data were analysed thematically to identify key patterns and themes. Simple linear regression analysis was employed to examine the relationship between tax exemption policies and SME growth indicators, including enterprise creation and employment capacity. The findings were presented through tables and explanations to support interpretation and conclusions.

5. Results of Findings

The data analysed and presented in this part are based on the analysis of questionnaires collected from 391 respondents, as well as interviews with the managers and owners of the SMEs and MDAs selected for the research to address the following hypotheses (H):

H_1: Tax credits significantly increase the number of SMEs in Kaduna State during the years 2024 to 2026

.**H_2:** Tax breaks significantly improved the employment capacity of SMEs in Kaduna State during the years 2024 to 2026.

The study adopted two major research approaches to address the above-listed hypotheses: Knowledge-based assessment, where participants are required to respond to carefully designed test items that measure both the procedural and declarative impact of variables of the Tax Exemption

Garu Academic Journal
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Policy on SMEs development indicators; and Triangulation approach, where the researchers validate the study's results with the extant literature in the field to highlight the study's contributions. The results indicate that tax credits, reduced taxes, and tax breaks have led to an increase in the profitability of SMEs, an increased number of SMEs, and the profitability of SMEs in Kaduna State due to proper tax assessment, excessive tax increases, double taxation, and political class to follow through with the policy implementation for SMEs on paying taxes as provided by the government.

Table 1: Cronbach's Alpha Reliability Test Results for the Research Instrument

Instrument cluster	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Cluster 6
Cronbach's Alpha Coefficients	0.69	0.70	0.75	0.75	0.62	0.62
Interpretation	Acceptable reliability	Acceptable reliability	Good reliability	Good reliability	Acceptable reliability	Acceptable reliability

Source: Pilot Test Data (2026)

The reliability coefficients for the individual clusters were as follows: Cluster 1 recorded 0.69, Cluster 2 recorded 0.70, Cluster 3 recorded 0.75, Cluster 4 recorded 0.75, Cluster 5 recorded 0.62, and Cluster 6 recorded 0.62. Since all clusters achieved coefficients above the minimum acceptable threshold of 0.50, the instrument demonstrated satisfactory reliability. These findings suggest that the items within each cluster consistently measured the intended concepts, reducing measurement errors and increasing the dependability and trustworthiness of the data collected (Middleton, 2019; Haradhan, 2017).

H_1: Tax credits significantly improved the number of SMEs in Kaduna State during the year 2024 to 2026

Table 2: ***Regression analysis of the impact of tax credits on the number of SMEs in Kaduna State during the year*** 2024 to 2026

Model	SS	Df	MS	F	R	R^2	β	Sig.	Effect Size (f^2)	95% CI for β
Regression	833.994	1	833.994	136.76	.671	.538	.37	.000	.16	(0.34, 0.48)
Residual	5214.002	855	6.098							
Total	6047.995	856								

Key: SS = Sums of Square; Df = Degree of Freedom; MS = Square; F = ANOVA statistics; R= Correlation Coefficient; R^2 = Coefficient of determination; β=Beta; Sig. = Significant value; f^2 = Effect size, CI= Confidence Interval; independent variable = tax credits; dependent variable = number of SMEs.

Table 2 presents the results of the simple linear regression analysis examining the impact of tax credits on the number of small and medium-sized enterprises (SMEs) in Kaduna State between 2024 and 2026. The findings indicate that the regression model was statistically significant, $F(1, 855) = 136.76$, $p < .001$, demonstrating that tax credits significantly predicted the number of SMEs. The correlation coefficient ($R = 0.671$) indicates a strong positive relationship between tax credits and the number of SMEs. The coefficient of determination ($R^2 = 0.538$) shows that tax credits explained 53.8% of the variation in the number of SMEs, while the remaining 46.2% of the variation was attributable to other factors not included in the model. The standardized regression coefficient ($\beta = 0.37$) indicates that tax credits had a positive effect on the number of SMEs. Specifically, an increase in tax credits was associated with an increase in the number of SMEs. The 95% confidence interval for the regression coefficient (0.34 to 0.48) does not include zero, further confirming the statistical significance and reliability of the estimated effect. Furthermore, the effect size ($f^2 = 0.16$) suggests a medium practical effect, indicating that tax credits made a meaningful contribution to explaining variations in the number of SMEs. Overall, the results suggest that tax credits played a significant role in promoting SME growth in Kaduna State during the study period, although other economic, financial, institutional, and policy-related factors also influenced the number of SMEs.

Table 3: Regression analysis of the significant impact of tax breaks on the improved employment capacity of SMEs in Kaduna State during the year 2024 to 2026

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Model	SS	Df	MS	F	R	R^2	β	Sig.	Effect Size (f^2)	95% CI for β
Regression	2000.710	1	2000.710	420.635	.574	.330	.57	.000	.49	(0.92, 1.10)
Residual	4066.729	855	4.756							
Total	6067.440	856								

Key: SS = Sums of Square; Df = Degree of Freedom; MS = Square; F = ANOVA statistics; R= Correlation Coefficient; R^2 = Coefficient of determination; β=Beta; Sig. = Significant value; f^2 = Effect size, CI= Confidence Interval; Independent variable = Tax breaks; Dependent variable = Employment capacity of SMEs.

Table 3 presents the results of the simple linear regression analysis examining the impact of tax breaks on the employment capacity of small and medium-sized enterprises (SMEs) in Kaduna State between 2024 and 2026. The regression model was statistically significant, $F(1, 855) = 420.635$, $p < .001$, indicating that tax breaks significantly predicted the employment capacity of SMEs. The correlation coefficient ($R = 0.574$) indicates a moderate positive relationship between tax breaks and the employment capacity of SMEs. The coefficient of determination ($R^2 = 0.330$) shows that tax breaks accounted for 33.0% of the variation in SMEs' employment capacity, while the remaining 67.0% of the variation was explained by other factors not included in the model. The standardized regression coefficient ($\beta = 0.57$) indicates a positive and substantial effect of tax breaks on employment capacity. This suggests that increases in tax breaks were associated with improvements in the employment capacity of SMEs during the study period. The 95% confidence interval for the regression coefficient (0.92 to 1.10) does not include zero, confirming the statistical significance and precision of the estimated effect. The effect size ($f^2 = 0.49$) indicates a large practical effect, suggesting that tax breaks made a substantial contribution to explaining variations in the employment capacity of SMEs. Overall, the findings demonstrate that tax breaks significantly enhanced the employment capacity of SMEs in Kaduna State between 2024 and 2026, although other economic, financial, institutional, and policy-related factors also contributed to employment outcomes.

Garu Academic Journal
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6. Discussion of Findings

The study findings demonstrate that tax incentives, particularly tax credits and tax breaks, significantly contribute to SME development in Kaduna State. The regression results revealed that tax credits had a positive and significant effect on the number of SMEs between 2024 and 2026, explaining 53.8% of the variation in SME growth. This indicates that tax credit policies reduce financial constraints, encourage business establishment, and support SME expansion. The finding is consistent with previous studies, including Ellawule et al. (2024), Oyerogba et al. (2024), OiseAmu (2025), and Adedipe (2025), which confirmed that effective tax incentives improve business sustainability, investment, and entrepreneurial development.

The study also found that tax breaks significantly improved the employment capacity of SMEs in Kaduna State, explaining 33.0% of the variation in employment growth. This suggests that reducing tax obligations enables SMEs to retain more resources for business expansion and workforce development. The finding supports previous research by Aderemi (2023), Ogundajo et al. (2026), and Mile et al. (2022), which highlighted the role of supportive government policies and tax incentives in promoting SME expansion and employment creation.th study findings also confirmed that tax incentives are effective fiscal policy tools for enhancing SME growth and job creation. Tax credits encourage the establishment and expansion of SMEs, while tax breaks strengthen the capacity of existing enterprises to create employment opportunities. However, the effectiveness of these incentives depends on improved awareness, simplified access procedures, and efficient implementation of tax incentive programmes.

7. Conclusion

This study examined the impact of tax exemption policies, including tax credits, free economic zones, and tax breaks, on the development of small and medium-sized enterprises (SMEs) in Kaduna State between 2024 and 2026. Guided by Keynesian economic theory and using a mixedmethods research approach, the study assessed how fiscal incentives influence SME growth, business expansion, and employment generation. The findings revealed that tax incentives, particularly tax credits and tax breaks, significantly contribute to SME development in Kaduna State. Tax credits were found to have a positive and significant effect on the growth of SMEs by reducing financial constraints, encouraging business formation, and supporting enterprise expansion. Similarly, tax breaks significantly improved the employment capacity of SMEs by enabling businesses to retain more resources for operational growth and workforce development. These findings demonstrate that well-designed tax incentive policies can serve as effective

Garu Academic Journal
August, 2026, Vol 5, No. 1
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instruments for promoting entrepreneurship, private sector development, and employment creation. The study further established that the effectiveness of tax exemption policies depends not only on their availability but also on proper implementation, accessibility, and awareness among SME operators. Although tax incentives provide financial relief and growth opportunities, inadequate awareness, complex procedures, and implementation challenges may limit their full potential. Therefore, achieving the desired socioeconomic outcomes requires a stronger alignment between government policy design and the practical realities faced by SMEs. Summary, tax exemption policies remain important fiscal tools for enhancing SME development in Kaduna State. Tax credits support the creation and expansion of enterprises, while tax breaks improve the capacity of existing SMEs to generate employment. However, for these policies to achieve sustainable impact, government agencies must improve communication, simplify access procedures, strengthen monitoring mechanisms, and ensure that incentive programmes are responsive to the needs of SMEs. Effective implementation of tax incentives will contribute significantly to business sustainability, economic growth, and employment generation in Kaduna State.

8. Recommendations

1. Harmonization and coordination of tax policies: The government should harmonize tax exemption policies across local, state, and federal government agencies to reduce inconsistencies, multiple taxation, and administrative burdens on SMEs. A coordinated tax framework will improve policy effectiveness and create a more predictable business environment for Small and Mediumsized Enterprises operators.
2. Simplification of tax administration processes: Tax authorities should simplify tax registration, assessment, and compliance procedures by adopting more transparent and accessible systems. Reducing bureaucratic obstacles and improving taxpayer education will enable more SMEs to benefit from available tax breaks and tax credit schemes.
3. Strengthening complementary support measures for Small and Medium-sized Enterprises: Government and relevant stakeholders should complement tax exemption policies with other SME development initiatives, such as improved access to finance, business training, infrastructure support, and institutional assistance. Since tax incentives alone do not account for all variations in Small and Medium-sized Enterprises growth, combining fiscal incentives with broader economic support measures will enhance sustainable SME expansion and employment generation.

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