EFFECTIVENESS OF TAX INCENTIVES IN PROMOTING SME DEVELOPMENT IN GOMBE STATE: A CONCEPTUAL REVIEW

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Abstract
Small and Medium Enterprises (SMEs) are widely recognized as critical drivers of economic growth, employment, and innovation, particularly in developing economies like Nigeria. In response to their strategic importance, various tax incentives have been introduced to stimulate SME development. This paper conceptually reviews the effectiveness of tax incentives in promoting SME growth in Gombe State, Nigeria. Drawing on relevant theoretical frameworks (namely, the Tax Incentive Theory, Compliance Cost Theory, and Resource-Based View) alongside recent empirical and policy literature, the study explores the awareness, accessibility, and impact of tax incentives on SME performance. The review reveals that despite the existence of favorable tax policies, their effectiveness in Gombe State remains limited due to low awareness, high informality, institutional weaknesses, and poor policy localization. The study concludes that a more context-specific, inclusive, and transparent implementation of tax incentives is essential to enhance their developmental impact in the state. Key recommendations include simplification of tax processes, localized awareness campaigns, institutional reforms, and coordinated efforts between government agencies. The paper further suggests empirical research to assess tax incentive uptake and their direct impact on SME performance in Northern Nigeria.

Keywords: Tax incentives, SME development, Informal sector, Fiscal policy, Gombe State, Nigeria, Conceptual review

INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in fostering economic development, employment generation, and innovation, particularly in developing economies like Nigeria. Globally, SMEs contribute significantly to GDP and provide the majority of employment opportunities (Bello, Dandago & Samaila, 2023; Bello, et al. 2024, Bello, et al. 2021; OECD, 2022). In Nigeria, SMEs account for over 90% of businesses and contribute nearly 48% to the national GDP (Bello, et al. 2021; SMEDAN & NBS, 2021). Despite this significance, the SME sector continues to face numerous growth-inhibiting challenges, including limited access to finance, inadequate infrastructure, and burdensome tax policies.

One of the strategies adopted by governments to support SMEs is the provision of tax incentives (such as tax holidays, reduced tax rates, and investment allowances) with the goal of reducing the financial burden on these enterprises and encouraging reinvestment and expansion (UNCTAD, 2021). In Nigeria, various tax incentive policies have been introduced under the Companies Income Tax Act (CITA), the Industrial Development (Income Tax Relief) Act, and more recently, the Finance Acts of 2019–2023, all aimed at fostering SME growth.

However, the effectiveness of these tax incentives in promoting SME development remains questionable. Several studies (e.g., Adebisi & Gbegi, 2021; Bello, et al. 2021; Okonkwo et al., 2022) have suggested that many SMEs are either unaware of these incentives or unable to access them due to administrative bottlenecks, corruption, or lack of capacity. In Gombe State, a region characterized by a largely informal SME sector, the situation may be more complex due to weak institutional frameworks and limited taxpayer education.

While tax incentives are designed to stimulate SME growth, there is limited empirical and conceptual evidence to demonstrate their effectiveness in Gombe State. Many SMEs in the state operate informally, and as such, may not benefit from formal tax incentive frameworks. Additionally, the absence of clear monitoring and evaluation mechanisms makes it difficult to assess the actual impact of these incentives on SME development. Consequently, this raises critical concerns: Are the existing tax incentives truly effective in promoting SME growth in Gombe State? Or do they merely exist as policy intentions without tangible developmental outcomes?

Objectives of the Study

The main objective of this conceptual review is to examine the effectiveness of tax incentives in promoting SME development in Gombe State. Specifically, the paper aims to:

1. Explore the types of tax incentives available to SMEs in Nigeria and their relevance to Gombe State.
2. Identify challenges hindering SMEs in Gombe State from accessing and benefiting from tax incentives.
3. Assess the conceptual link between tax incentives and SME development based on existing literature.
4. Offer policy recommendations for enhancing the effectiveness of tax incentives in supporting SME growth in Gombe State.

LITERATURE REVIEW

Conceptual Review

Tax Incentives

Tax incentives are deliberate policy tools used by governments to reduce tax burdens on specific groups or sectors to stimulate investment, growth, and compliance (OECD, 2022). Common forms of tax incentives include tax holidays, investment allowances, accelerated depreciation, and reduced corporate tax rates. In Nigeria, SMEs may benefit from incentives such as pioneer status, exemption from minimum tax, and micro-enterprise thresholds under the Finance Acts (2019–2023) (FIRS, 2023).

Small and Medium Enterprises (SMEs)

SMEs are generally characterized by their limited size in terms of employment and financial capacity. According to the Small and Medium Enterprises Development Agency of Nigeria (Bello, et al. 2021; SMEDAN, 2021), SMEs in Nigeria are classified based on the number of employees (less than 200) and asset base (less than ₦500 million, excluding land and buildings). SMEs are recognized as vital engines of job creation, income generation, and economic inclusion.

SME Development

SME development refers to the sustained growth of small and medium businesses in terms of capital formation, access to markets, innovation capacity, and employment expansion. Effective development often depends on enabling environments such as favorable regulatory frameworks, infrastructure, and financial incentives, including tax reliefs (UNCTAD, 2021).

Empirical Review

Several studies have examined the link between tax incentives and SME development, with mixed findings.

Adebisi and Gbegi (2021) investigated tax incentives and SME performance in Nigeria and found that while incentives theoretically encourage SME growth, poor awareness, bureaucratic hurdles, and informal sector dominance dilute their effectiveness. Similarly, Onwuchekwa and Aruwa (2022) assessed tax reliefs under Nigeria's Finance Acts and observed that many SMEs, especially in the North-East, are unaware or incapable of accessing these benefits due to low literacy and poor record-keeping.

A study by Hassan and Adesina (2023) on tax policy and SME sustainability in Northern Nigeria revealed that most SMEs in Gombe State operate outside formal tax systems, making them ineligible for many incentive schemes. They also highlighted a gap in government outreach and monitoring.

Conversely, Olatunji and Adegbite (2020) found a significant positive relationship between tax incentives and SME capital investment in Lagos

State, suggesting that effectiveness may vary by region and institutional strength. These studies point to regional disparities, policy implementation challenges, and a disconnect between policy design and grassroots realities, particularly in northern states like Gombe.

Theoretical Review

Several economic and fiscal theories help explain the relationship between tax incentives and SME development:

Tax Incentive Theory

This theory posits that tax reductions can stimulate investment by increasing post-tax returns on capital (Stiglitz, 2015). It supports the idea that SMEs will reinvest tax savings into business expansion, innovation, and employment.

Resource-Based Theory (RBT)

RBT emphasizes that internal resources (such as retained earnings boosted by tax savings) can become sources of competitive advantage (Barney, 1991). Tax incentives thus serve as financial slack that SMEs can use to enhance productivity and scalability.

Compliance Cost Theory

According to this theory, the administrative burden of complying with tax policies often deters SMEs from formalizing or accessing incentives. This is especially relevant in developing countries, where complex tax systems increase the cost of compliance (Evans et al., 2014). Hence, simplification and education are critical to the effectiveness of tax incentives.

METHODOLOGY

This study adopts a qualitative, conceptual review approach, which involves a systematic examination of relevant literature, policy documents, and institutional reports to assess the effectiveness of tax incentives on SME development, with a particular focus on Gombe State, Nigeria. The methodology is non-empirical and does not involve primary data collection; instead, it synthesizes secondary data from credible sources.

The review process entailed:

Literature Sourcing

Scholarly articles, policy papers, and government reports published between 2015 and 2024 were sourced from databases such as Google Scholar, JSTOR, ResearchGate, ScienceDirect, and the websites of institutions like FIRS, SMEDAN, UNCTAD, NBS, and OECD.

Inclusion Criteria

1. Studies focused on tax incentives and SME development.
2. Literature that analyzed policy impacts in Nigeria or Sub-Saharan Africa, with emphasis on Northern Nigeria.
3. Research with clear methodological approaches and policy relevance.

Analytical Framework

The literature was analyzed thematically, using theoretical lenses such as the Tax Incentive Theory**,** Compliance Cost Theory**,** and Resource-Based View, to identify recurring patterns, contradictions, and knowledge gaps.

This method is suitable because it allows for a contextualized and interpretive understanding of how tax incentives influence SME outcomes, without the limitations of field data collection in regions with high informality like Gombe.

RESULT AND DISCUSSION

Results

The conceptual review yielded several critical insights related to the design, accessibility, and real-world outcomes of tax incentives for SMEs in Gombe State:

Existence of Robust Legal Framework

The Nigerian government, through its fiscal and industrial policies, has introduced various tax incentives to boost enterprise development. These include:

1. Tax exemptions for small companies under the Companies Income Tax Act (amended by the Finance Acts 2019–2023),
2. Pioneer status incentives under the Industrial Development Act,
3. Value-added tax (VAT) exemptions on certain SME inputs and services,
4. Microenterprise thresholds exempting businesses with turnover below ₦25 million from company income tax.

However, most of these are national policies with limited adaptation to sub-national contexts**,** especially states like Gombe.

Low Awareness and Utilization

Evidence from the literature (e.g., Adebisi & Gbegi, 2021; Onwuchekwa & Aruwa, 2022) shows that a significant number of SMEs are unaware of existing tax incentives. In Gombe State, this challenge is exacerbated by:

1. Low levels of financial and tax literacy among SME owners,
2. Limited government outreach and sensitization, and
3. Poor access to digital platforms that disseminate tax information.

Informality as a Structural Constraint

SMEDAN (2021) reports that over 70% of SMEs in Northern Nigeria operate informally. In Gombe, many small businesses do not have Tax Identification Numbers (TINs), are not registered with the Corporate Affairs Commission (CAC), and lack formal records. This disqualifies them from accessing most tax-based support schemes.

Institutional Weaknesses and Policy Gaps

Even where tax incentives exist and SMEs are eligible, issues such as:

1. Bureaucratic delays in processing tax relief applications,
2. Corruption, and
3. Lack of inter-agency coordination between tax authorities and SME support institutions have significantly limited policy effectiveness.

Discussion

The findings demonstrate that while Nigeria's tax incentive policies are well-intentioned and theoretically supportive of SME development, their practical impact in Gombe State is severely limited due to structural, institutional, and informational barriers.

Theoretical Interpretation

Using the Tax Incentive Theory, one would expect SMEs to respond positively to reduced tax burdens by increasing reinvestment, innovation, and employment. However, this theory assumes that businesses are aware of and can access these incentives, a condition that does not hold true for most SMEs in Gombe.

The Compliance Cost Theory further explains that the high cost (time, documentation, fees) of becoming formal and maintaining tax compliance discourages SME participation in the tax system. SMEs in Gombe often see tax formalization as a liability rather than a benefit, partly due to weak enforcement and lack of clear benefit communication.

The Resource-Based View (RBV) suggests that internal financial resources, such as those freed up through tax savings, can be used to build competitive advantage. However, SMEs in Gombe State, lacking both awareness and access, do not realize these benefits and therefore do not improve capacity or scale through tax incentives.

Regional Disparities in Policy Impact

Studies (Hassan & Adesina, 2023; Olatunji & Adegbite, 2020) show that SMEs in Southern Nigeria benefit more from tax incentives than those in the North due to better institutional support, awareness programs, and digital infrastructure. These points to asymmetric policy impact, where tax incentives may be reinforcing regional inequality instead of reducing it.

Policy Implications

To address the above issues, several actionable insights emerge:

1. Localization of tax incentive policies: Federal incentives should be complemented with state-specific guidelines that address the unique realities of states like Gombe.
2. Massive sensitization and capacity building: Tax authorities and SME support agencies must launch coordinated campaigns in local languages, using radio, town halls, and informal markets.
3. Simplification of compliance processes: Create mobile tax clinics, online registration hubs, and streamlined CAC/FIRS collaboration for micro-enterprises.

4. Incentivize formalization: Offer immediate and visible benefits (like access to soft loans, government contracts, or market linkages) to SMEs that become tax compliant.

Conclusion

This paper conceptually examined the effectiveness of tax incentives in promoting SME development in Gombe State, Nigeria. The review found that while Nigeria has introduced a range of progressive tax incentives through the Finance Acts and other fiscal reforms, their practical impact on SMEs in Gombe remains limited and uneven. This ineffectiveness is largely attributed to low awareness, high levels of informality, institutional inefficiencies, and regional disparities in policy access and implementation.

The analysis showed that most SMEs in Gombe operate outside the formal tax and business regulatory environment, thereby excluding themselves from incentive schemes that could improve their productivity, competitiveness, and sustainability. Moreover, even for formal enterprises, administrative bottlenecks, weak policy enforcement, and lack of tailored regional strategies hinder full benefit realization.

The study concludes that for tax incentives to be truly effective in Gombe State, they must be embedded in a broader ecosystem of support, which includes awareness creation, compliance facilitation, institutional reform, and region-specific policy customization.

Recommendations

Based on the findings, the following recommendations are offered:

Launch Aggressive Sensitization and Tax Education Campaigns

Government agencies such as FIRS, SMEDAN, and Gombe State IRS should collaborate to educate SME operators (particularly microenterprises) on the nature, benefits, and eligibility criteria for tax incentives using mass media, local influencers, and market associations.

Simplify Registration and Tax Filing Processes

Many SMEs avoid formalization due to complex registration and compliance procedures. A simplified, mobile-based or one-stop digital platform should be deployed in Gombe State to facilitate easy access to CAC and FIRS registration and filing systems.

Introduce Targeted State-Level Incentives

Gombe State Government should design state-specific tax waivers, rebates, or simplified presumptive tax schemes for micro and small businesses, especially those in the informal sector transitioning to formality.

Strengthen Institutional Coordination and Monitoring

There should be improved coordination between tax authorities, development agencies, and local government councils to streamline incentive delivery and reduce bureaucratic red tape. A state-level Tax Incentive Impact

Monitoring Unit can also help track performance and adjust policies dynamically.

Link Tax Incentives with Access to Finance and Markets

To encourage formalization, tax incentives should be bundled with non-fiscal benefits such as priority access to government grants, loans, or public procurement schemes, thereby demonstrating tangible returns to tax compliance.

Encourage Research and Data-Driven Policymaking

Finally, academic institutions and research bodies in Gombe State should be funded to conduct periodic studies on SME behavior, tax compliance trends, and incentive uptake to guide evidence-based policy formulation and revisions.

Suggestions for Further Research

Given the conceptual nature of this study, the following areas are recommended for future empirical investigations:

1. Quantitative assessment of the relationship between specific tax incentives and SME performance metrics (e.g., employment, revenue growth) in Gombe State;
2. Survey-based research to evaluate SME owners' awareness, perception, and satisfaction with existing tax incentive programs;
3. Comparative studies between states (e.g., Gombe vs. Lagos or Kano) to identify best practices in tax incentive administration and regional policy adaptation;
4. Longitudinal studies to assess the long-term effects of tax reforms (e.g., Finance Acts 2019–2023) on SME formalization and survival in Northern Nigeria.

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