



## ROLE OF TAX INCENTIVES IN PROMOTING ENTREPRENEURIAL DEVELOPMENT: A STUDY OF SMES IN LAGOS, NIGERIA

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### Abstract

*Small and Medium Enterprises (SMEs) are widely recognized as critical drivers of economic development, employment generation, and innovation in Nigeria. However, in Lagos State, SMEs continue to face numerous challenges, including high tax burdens and limited government support, which hinder entrepreneurial growth and sustainability. This study investigated the role of tax incentives in promoting entrepreneurial development among small and medium-sized enterprises (SMEs) in Lagos, Nigeria. Using a sample of 150 respondents, the study examined the effects of three major tax incentive components: tax holidays, tax deductions, and capital allowances—on the start-up, growth, and sustainability of SMEs. Data were collected through structured questionnaires and analyzed using simple linear regression and analysis of variance (ANOVA). The findings revealed that tax holidays significantly influenced the early growth of SMEs, tax deductions enhanced their operational performance and reinvestment capacity, while capital allowances positively impacted long-term expansion and sustainability. These results underscore the importance of a well-structured tax incentive framework in supporting entrepreneurial activities. The study concluded that effective and accessible tax incentives play a crucial role in fostering SME development and recommended the expansion, simplification, and strategic implementation of tax relief policies to stimulate entrepreneurship and drive inclusive economic growth in Nigeria.*

**Keywords:** Tax incentives, Tax holidays, Small and Medium Enterprises, Business expansion, Job creation.

### INTRODUCTION

Small and Medium Enterprises (SMEs) are globally acknowledged as vital contributors to economic growth, employment creation, and poverty alleviation. They are particularly instrumental in achieving the United Nations Sustainable Development Goals (SDGs), especially Goal 8, which promotes sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. SMEs serve as the backbone of developing economies, including Nigeria, where they constitute over 90% of businesses and account for a significant portion of employment and income generation (SMEDAN, 2021). As their role in promoting inclusive development becomes more prominent, their sustainability and progression have gained increased attention. However, one of the critical obstacles threatening the full realization of their potential is the burden of taxation, which is often perceived as a hindrance rather than a support mechanism (Onyebuchi, *et al.*, 2025; Oise-Amu & Charity, 2025).

SMEs, according to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), are businesses with fewer than 200 employees and an annual turnover of less than ₦100 million. Tax incentives, on the other hand, refer to special provisions within a country's tax laws that are designed to encourage certain behaviors or investments by reducing tax liabilities for qualifying entities (Zhang *et al.*, 2025; Oyewale & Alabi, 2024). These incentives may include tax holidays, investment allowances, reduced corporate tax rates, and exemptions that are intended to ease financial pressures on SMEs, enhance competitiveness, and promote formalization (Oyerogba, *et al.*, 2024). Ideally, these incentives are structured to stimulate innovation, reinvestment, and growth within the SME sector (Emechebe & Umenweke, 2024).

The Nigerian government has introduced various fiscal and regulatory policies to foster SME development, such as the National Tax Policy (2017) and the Finance Act (2020), which introduced tax exemptions for small businesses earning less than ₦25 million annually. Despite these efforts, many SMEs still face compliance burdens, lack of access to these incentives, and weak institutional frameworks to support tax relief measures. In practice, while some SMEs benefit from available tax incentives, others are excluded due to bureaucratic bottlenecks or lack of awareness. Tax incentives in Nigeria are administered through the Federal Inland Revenue Service (FIRS) and other state tax authorities, often involving complex application processes that discourage participation among smaller enterprises (Jooji *et al.*, 2023; Onwuka *et al.*, 2024).

There exists a divergence in the literature concerning the effectiveness of tax incentives on SME growth. Some scholars argue that tax incentives significantly contribute to enterprise expansion, capital investment, and employment generation (Obafemi *et al.*, 2021; Sinenko, 2024), while others contend that they have limited impact due to issues of misallocation, corruption, and poor implementation (Alabi *et al.*, 2024; Bakari & Jen, 2021). This conflicting evidence places policymakers at a crossroads, making it difficult to determine whether expanding or reducing tax incentives would yield more benefits for SMEs. Hence, the question is what role does tax incentives play on entrepreneurial development among SMEs in Lagos. Therefore, this study investigated the role of tax incentives on entrepreneurial development in Lagos State.

### **Research Questions**

The study addressed the following research questions:

- i. To what extent do tax holidays influence the start-up and early growth stages of SMEs in Lagos, Nigeria?
- ii. How do reduced tax rates affect the profitability and expansion of SMEs in Lagos?
- iii. What is the impact of investment and capital allowances on the reinvestment decisions of SMEs in Lagos State?

### **Research Objectives**

The main objective of the study is to examine the role of tax incentives in promoting entrepreneurial development among SMEs. The specific objectives are to:

- i. examine the extent to which tax holidays influence the start-up and early growth of SMEs in Lagos, Nigeria;
- ii. assess the effect of reduced tax rates on the profitability and expansion of SMEs in Lagos; and,
- iii. evaluate the impact of investment and capital allowances on the reinvestment decisions of SMEs in Lagos State

### **Research Hypotheses**

- H<sub>01</sub>: Tax holidays have no significant influence on the start-up and early growth of SMEs in Lagos, Nigeria.
- H<sub>02</sub>: Reduced tax rates have no significant effect on the profitability and expansion of SMEs in Lagos, Nigeria.
- H<sub>03</sub>: Investment and capital allowances have no significant impact on the reinvestment decisions of SMEs in Lagos State.

## **LITERATURE REVIEW**

### **Conceptual Issues**

Tax incentives are targeted fiscal policies implemented by governments to encourage specific economic behaviors or activities by reducing the tax burden on qualifying businesses or sectors. According to the Obafemi *et al.*, (2021), tax incentives include special provisions such as tax holidays, reduced tax rates, and investment allowances that aim to stimulate investment, innovation, and competitiveness. These incentives are designed to make it financially attractive for enterprises to invest in key areas that contribute to broader economic goals, including job creation, technological advancement, and sustainable growth (Olayemi & Folajimi, 2021).

Entrepreneurial development refers to the process of enhancing the skills, knowledge, mindset, and capacity of individuals or groups to start, manage, and grow successful businesses. It involves a range of activities including training, mentoring, access to finance, and the creation of a supportive policy environment aimed at fostering innovation, competitiveness, and self-employment. According to Onwuka *et al.*, (2025), entrepreneurial development is a vital driver of economic transformation, particularly in developing countries, as it helps to generate employment, reduce poverty, and stimulate local and national economic growth.

In the context of small and medium enterprises (SMEs), tax incentives serve as important tools to lower operational costs and improve cash flow, thereby enhancing entrepreneurial development and business expansion. Adewara *et al.*, (2023) highlight that tax incentives help reduce the financial barriers faced by SMEs by offering reliefs like accelerated depreciation and exemptions, which promote reinvestment and long-term sustainability. These fiscal measures are especially critical in developing economies, where SMEs often struggle with limited access to capital and high tax burdens. Ultimately, well-designed tax incentives can foster a more conducive business environment, encouraging growth and economic development at both micro and macro levels (Etim *et al.*, 2020; Oyerogba *et al.*, 2024).

### **Measures of Tax Incentives**

#### **Tax Holidays**

Tax holidays are a common fiscal incentive granted by governments to newly established or strategically important businesses, allowing them exemption from certain tax liabilities—particularly corporate income tax for a specified period (Falade, 2024). This period typically ranges from three to five years and is intended to reduce the financial pressures on businesses during their initial stages of development. Tax holidays help improve cash flow, lower the cost of doing business, and enhance the ability of entrepreneurs to reinvest in growth. Tax holidays are especially effective in encouraging investment in underdeveloped sectors or regions by providing immediate tax relief to qualifying firms (Dahliah *et al.*, 2024; Ugwu *et al.*, 2020).

### **Reduced Tax Rates**

Reduced tax rates involve the application of lower-than-normal tax rates for specific categories of businesses, particularly small and medium enterprises (SMEs). This measure is designed to make the tax system more equitable and supportive of business growth by lowering the overall tax burden. For instance, instead of paying a standard corporate income tax of 30%, eligible SMEs may be taxed at a concessional rate such as 15% or 20%. As noted by Aringo (2023), reduced tax rates can significantly enhance profitability, encourage formalization, and incentivize business expansion, especially in economies where high tax rates discourage compliance and reinvestment.

### **Investment and Capital Allowance**

Investment and capital allowances are tax deductions granted to businesses for capital expenditures on assets such as machinery, equipment, or buildings (Eke *et al.*, 2021). These incentives allow companies to deduct a portion of their investment costs from their taxable income over time, thereby reducing their effective tax liability. The purpose of these allowances is to encourage long-term investment, modernization, and productivity improvements. Monday (2019) emphasizes that investment allowances are particularly useful for SMEs, as they help offset the high upfront costs of capital acquisition and promote continuous reinvestment in business operations

### **Theoretical Framework**

This study is anchored on the Supply-Side Tax Policy Theory, which was popularized by Arthur Laffer in the late 1970s. The theory is rooted in classical economics and posits that lower tax rates and favorable fiscal policies can lead to increased production, investment, and economic expansion. According to Laffer, reducing taxes incentivizes individuals and businesses to work, invest, and take entrepreneurial risks, thereby fostering job creation and stimulating overall economic growth. The theory gained prominence through the "Laffer Curve," which illustrates the relationship between tax rates and tax revenue, suggesting that there is an optimal tax rate that maximizes revenue without discouraging economic activity.

For this study, the theory provides a solid foundation for understanding how tax incentives such as tax holidays, reduced tax rates, and investment allowances can influence entrepreneurial development among SMEs in Lagos, Nigeria. The theory suggests that favorable tax policies reduce the financial burden on small businesses, allowing them to allocate more resources toward innovation, expansion, and employment. Its strength lies in highlighting the productive impact of tax reliefs on private sector growth and economic dynamism. Several empirical studies, such as those by Obafemi *et al.*, (2021) and Zhang *et al.*, (2024), have applied this theory to analyze the effect of tax policy on business growth and investment behavior, confirming its relevance in developing economies. Therefore, the theory effectively supports the argument that tax incentives can be powerful tools for promoting entrepreneurship and sustainable SME development.

### **Empirical Review**

Izevbigie (2025) investigated the relationship between tax incentives and entrepreneurship development in Nigeria. The study adopted a survey research design. Participant of 384 was used selected from six states that include Lagos, Edo, Kano, Rivers, Anambra, and the Federal Capital Territory as well as staff from the Federal Inland Revenue Service (FIRS), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and the Bank of Industries (BOI). Data were analysed using inferential statistical techniques. The findings revealed a significant positive

Adedipe, O. A. (2025). Role of Tax Incentives in Promoting Entrepreneurial Development: A Study of SMEs in Lagos, Nigeria. *Malete Journal of Accounting and Finance*, 5 (2), 168 -181

relationship between tax exemption and entrepreneurship development, rural location tax incentives and entrepreneurship development, as well as tax holidays and entrepreneurship development in Nigeria.

Chimenka *et al.* (2024) investigated the effect of taxation on the performance of SMEs in Ogun State, Nigeria. The study employed a survey research design, with questionnaires administered to randomly selected SMEs across the state. Both descriptive and inferential statistical methods were used in analyzing the data. Findings from the regression analysis revealed that tax incentives and effective tax utilization have a significant positive impact on the profitability of SMEs, while tax collection was found to exert a significant negative effect on their performance.

Ellawule *et al.* (2024) examined the effect of tax incentives on the tax compliance of Micro, Small, and Medium Enterprises (MSMEs) in Nigeria. Recognizing that tax incentives are commonly used to encourage investment and compliance, the study noted a gap in understanding their specific impact on MSMEs in the Nigerian context. Using a quantitative research approach, questionnaires were administered to MSMEs across the country. Drawing on the theories of social influence and the slippery slope framework, the study employed regression analysis and found that tax incentives significantly influence the tax compliance of MSMEs. Specifically, tax exemptions for businesses below a certain income threshold and access to low-interest financing were both shown to have a significant positive effect on tax compliance among MSMEs in Nigeria.

Oloyede *et al.* (2024) investigated the relationship between taxation and the performance of small and medium enterprises (SMEs) in Lagos State, Nigeria. The study focused on examining the relationship between tax policy and SME effectiveness, the impact of tax administration on profitability, the effect of multiple taxation on productivity, and the influence of tax incentives on efficiency. A survey research design was adopted, and a sample of 396 SME operators was determined from a population of 42,067 using Taro Yamane's formula. Data were collected through self-administered questionnaires and analyzed using correlation and analysis of variance (ANOVA) with the aid of SPSS. The findings revealed that tax policy had a significant relationship with the effectiveness of SMEs, while tax administration did not significantly impact their profitability. The study further showed that multiple taxation had a significant effect on productivity, and tax incentives significantly enhanced SME efficiency.

Ilodigwe (2023) investigated the impact of multiple taxation on the efficiency of selected SMEs in Enugu State, Nigeria. The study was guided by three objectives and two hypotheses, and it employed a survey design using a structured questionnaire. From a population of 17,498 registered SMEs, a sample of 204 was selected using the Taro Yamane statistical formula. Data collected were analyzed using the Statistical Package for Social Sciences (SPSS), with descriptive statistics and Chi-square employed to test the hypotheses. The findings revealed that multiple taxation hindered the ability of SMEs to effectively carry out their production activities, reduced their production and service-rendering capacity, and made the overall management of SMEs more difficult.

Adewara *et al.* (2023) examined the effect of multiple taxation on the financial performance of SMEs in Ekiti State, Nigeria. The study adopted a survey research method and analyzed the data using correlation and multiple regression analysis. The population comprised all registered and

operational SMEs in Ado Ekiti that had been in existence for over five years and possessed valid tax payment records. The findings revealed that both multiple tax burdens and multiple tax administrations had a significant negative relationship with the financial performance of SMEs, while the ability to pay tax exhibited a significant positive relationship. The study concluded that multiple taxation severely undermined the investment potential of SMEs and adversely affected the revenue-generating capacity of the sector in Ekiti State.

## METHODOLOGY

### Research Design

This study adopted a survey research design to examine the role of tax incentives in promoting entrepreneurial development among SMEs in Lagos, Nigeria. This design was chosen because it enables the collection of quantitative data from a large and diverse sample of SME operators, allowing for comprehensive analysis of their perceptions and experiences regarding tax incentives. The survey approach is appropriate for exploring relationships between tax incentives and entrepreneurial growth, providing statistically reliable perceptions that can be generalized to the wider SME population in Lagos. Additionally, using structured questionnaires facilitates efficient data collection within a limited timeframe and resources, making it a practical and effective method for this study's objectives.

### Population of the Study

The population of this study comprises all registered Small and Medium Enterprises (SMEs) operating within Lagos State, Nigeria. Lagos, being the commercial hub of Nigeria, hosts a large and diverse SME sector that plays a critical role in entrepreneurial development and economic growth. Focusing on this population is justified because SMEs in Lagos are directly affected by tax policies and incentives implemented by government agencies, making them ideal respondents for understanding the impact of such incentives on entrepreneurship. Additionally, the large size and heterogeneity of the SME population in Lagos provide a broad and representative base for capturing varied experiences and perspectives, which enhances the reliability and generalizability of the study's findings.

### Sample Size

The sample size for this study was determined using GPower software, which calculated a required sample size of 74 respondents to achieve adequate statistical power for the analysis. GPower was chosen because it is a robust and widely accepted tool for computing sample sizes based on effect size, significance level, and desired power, ensuring that the study results would be statistically reliable and generalizable. Figure 1 shows the minimum sample size as reported by the G\*Power. The study employed a stratified random sampling technique to ensure that SMEs from different sectors, sizes, and locations within Lagos State were adequately represented, thereby enhancing the generalizability and reliability of the findings.

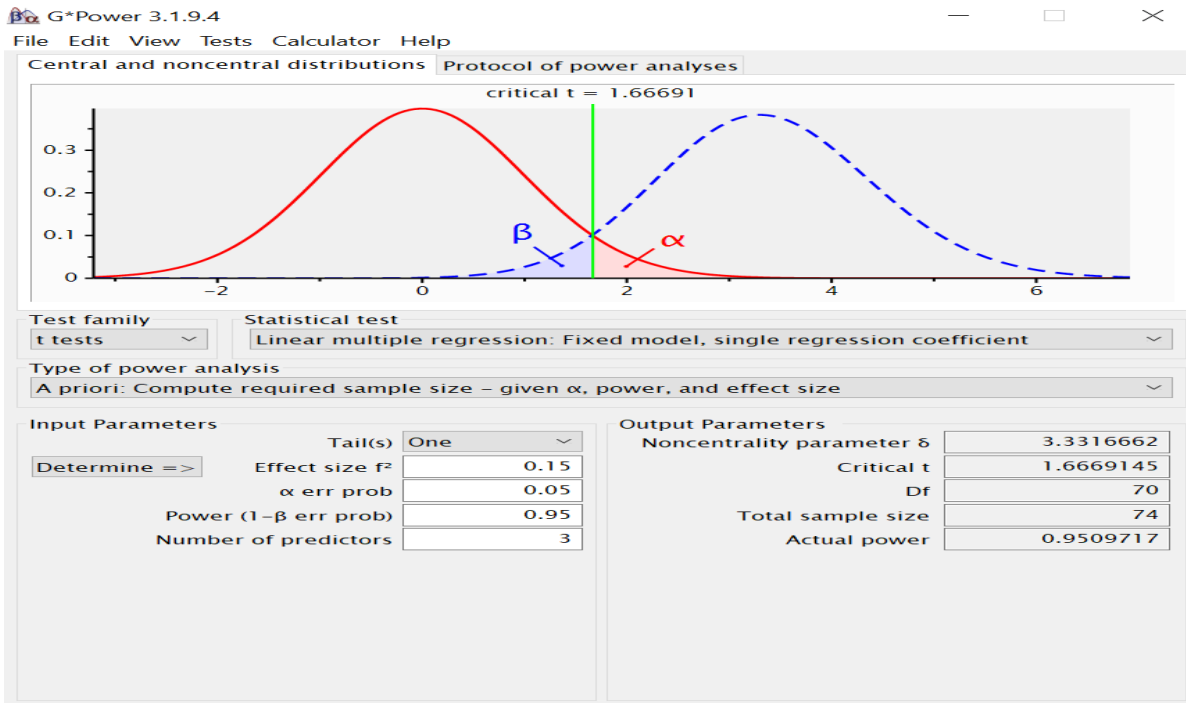


Figure 1: G\*Power Sample Size

## Model specification

### Model I

The first objective of this study is to examine the extent to which tax holidays influence the start-up and early growth of SMEs in Lagos, Nigeria. To address this objective, the following model is specified:

$$SG_i = \beta_0 + \beta_1 TH_i + \varepsilon_i \quad 1$$

Where:

$SG_i$  = Start-up and early growth of SME  $i$ ,  $\beta_0$  = constant,  $\beta_1$  = Coefficient measuring the effect of tax holiday.  $TH_i$  = Tax holiday for SME  $i$ , and  $\varepsilon_i$  = Error term. On a priori we expect that tax holidays will have a positive effect on the start-up and early growth of SMEs. This implies that  $\beta_1 > 0$ .

### Model II

The second objective of this study is to assess the effect of reduced tax rates on the profitability and expansion of SMEs in Lagos. To address this objective, the following model is specified:

$$PE_i = \beta_0 + \beta_1 RTR_i + \varepsilon_i \quad 2$$

Where:

$PE_i$  = Profitability and expansion of SME  $i$ ,  $\beta_0$  = constant,  $\beta_1$  = Coefficient measuring the effect of reduced tax rates.  $RTR_i$  = Reduced tax rate for SME  $i$ , and  $\varepsilon_i$  = Error term. On a priori we expect that reduced tax rates will have a positive effect on the profitability and expansion of SMEs. This implies that  $\beta_1 > 0$ .

### Model III

The third objective of this study is to evaluate the impact of investment and capital allowances on the reinvestment decisions of SMEs in Lagos State. To address this objective, the following model is specified:

$$RD_i = \beta_0 + \beta_1 ICA_i + \varepsilon_i \quad 1$$

Where:

$RD_i$  = reinvestment decisions of SME  $i$ ,  $\beta_0$  = constant,  $\beta_1$  = Coefficient measuring the effect of investment and capital allowances.  $ICA_i$  = investment and capital allowance for SME  $i$ , and  $\varepsilon_i$  = Error term. On a priori we expect that tax holidays will have a positive effect on the start-up and early growth of SMEs. This implies that  $\beta_1 > 0$ .

## RESULTS AND DISCUSSION

**Table 1** showed the demographic characteristics of the respondents involved in the study. Out of the 150 respondents, the majority were male (60.7%), while females accounted for 39.3%. This indicated that male entrepreneurs had dominated the SME sector in Lagos. In terms of age, most of the respondents (38.0%) fell within the 36–45 age group, followed by 32.7% within the 26–35 age range. Only a small proportion of respondents were between 18–25 years (8.7%) and above 56 years (8.0%), suggesting that the majority of SME operators were within the prime working age.

With regard to educational qualifications, a significant portion (54.0%) of the respondents had obtained an HND or a bachelor’s degree. This was followed by 23.3% who had a master’s degree, 15.3% with SSCE/OND, and 7.3% who had other qualifications such as vocational or NCE certificates. These results suggested that the respondents were relatively well-educated, which might have influenced their ability to understand and benefit from tax incentive policies. In terms of business experience, 31.3% of respondents had operated their businesses for 4–6 years, while 28.7% had 1–3 years of experience. Additionally, 20.7% had been in business for 7–10 years, 13.3% for over 10 years, and only 6.0% had been operating for less than a year. This indicated a fair distribution across different stages of business maturity.

The sectoral breakdown revealed that 28.7% of the respondents operated in retail/trade, followed by 26.0% in the service sector and 18.0% in manufacturing. Other respondents were involved in agriculture (10.0%), ICT/Tech (7.3%), and miscellaneous sectors such as transport and fashion (10.0%). This distribution showed that retail and service sectors were the most common among SMEs in Lagos. In terms of ownership structure, 51.3% of the SMEs were sole proprietorships, 30.0% were partnerships, and 18.7% were registered as limited liability companies. These findings reflected that most businesses were individually owned, which might have affected how they accessed and utilized tax incentives.

**Table 1: Demographic Characteristics of Respondents**

Variable	Category	Frequency (f)	Percentage (%)
Gender	Male	91	60.70%
	Female	59	39.30%
	<b>Total</b>	<b>150</b>	<b>100.00%</b>
Age Group (years)	18–25	13	8.70%
	26–35	49	32.70%
	36–45	57	38.00%
	46–55	19	12.70%
	56 and above	12	8.00%
	<b>Total</b>	<b>150</b>	<b>100.00%</b>

Educational Qualification	SSCE/OND	23	15.30%
	HND/Bachelor's Degree	81	54.00%
	Master's Degree	35	23.30%
	Others	11	7.30%
	<b>Total</b>	<b>150</b>	<b>100.00%</b>
Years in Business	Less than 1 year	9	6.00%
	1–3 years	43	28.70%
	4–6 years	47	31.30%
	7–10 years	31	20.70%
	Above 10 years	20	13.30%
	<b>Total</b>	<b>150</b>	<b>100.00%</b>
Sector of Business	Manufacturing	27	18.00%
	Retail/Trade	43	28.70%
	Services	39	26.00%
	Agriculture	15	10.00%
	ICT/Tech	11	7.30%
	Others	15	10.00%
	<b>Total</b>	<b>150</b>	<b>100.00%</b>
Ownership Structure	Sole Proprietorship	77	51.30%
	Partnership	45	30.00%
	Limited Liability Company	28	18.70%
	<b>Total</b>	<b>150</b>	<b>100.00%</b>

Source: Field Survey (2025)

### Hypothesis 1

*H<sub>01</sub>: Tax holidays have no significant influence on the start-up and early growth of SMEs in Lagos, Nigeria.*

The first hypothesis examined whether tax holidays had a significant influence on the start-up and early growth of SMEs in Lagos, Nigeria. To test this, a simple linear regression analysis was conducted alongside ANOVA, as presented in Table 2. The results showed that tax holidays had a statistically significant effect on SME start-up and early growth, as evidenced by the F-statistic ( $F(1, 149) = 11.309, \rho < 0.05$ ). The model yielded an R value of 0.841, with  $R^2 = 0.707$  and adjusted  $R^2 = 0.706$ , indicating that approximately 70% of the variation in SME development was explained by tax holidays. Furthermore, the regression coefficient ( $\beta = .741, \rho < 0.05$ ) confirmed a strong positive influence. These findings aligned with the results reported by Oise-Amu and Charity (2025) and Izevbigie (2025). Based on the result, we concluded that tax holidays had a significant influence on the start-up and early growth of SMEs in Lagos, Nigeria.

**Table 2: Effect of Tax holidays on start-up and early growth of SMEs**

	<b>R</b>	<b>R-Squared</b>	<b>Adjusted R<sup>2</sup></b>	<b>F-value</b>	<b>Sig. of F</b>	<b>Decision</b>
	.841	.707	.706	11.309	0.000	Sig.
	<b>Unstandardized Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>p-value</b>		

Constant	.300	.039	7.683	.000
Tax Holidays	.741	.243	3.049	.000

Source: Researcher's computation (2025)

Dependent Variable: **Start-up and early growth of SMEs**

### Hypothesis 2

**H<sub>02</sub>:** *Reduced tax rates have no significant effect on the profitability and expansion of SMEs in Lagos, Nigeria.*

The second hypothesis examined whether reduced tax rates had a significant effect on the profitability and expansion of SMEs in Lagos, Nigeria. To test this, a simple linear regression analysis was conducted alongside ANOVA, as presented in Table 3. The results showed that reduced tax rates had a significant effect on the profitability and expansion of SMEs in Lagos, Nigeria, as evidenced by the F-statistic ( $F(1, 149) = 8.142, \rho < 0.05$ ). The model yielded an R value of 0.659, with  $R^2 = 0.614$  and adjusted  $R^2 = 0.608$ , indicating that approximately 61% of the variation in profitability and expansion of SMEs development was explained by reduced tax rates. Furthermore, the regression coefficient ( $\beta = .423, \rho < 0.05$ ) confirmed a strong positive influence. These findings aligned with the results reported by Sánchez-Ballesta & Yagüe (2024), as well as Olayemi and Folajimi (2021). Based on the result, we concluded that reduced tax rates had a significant effect on the profitability and expansion of SMEs in Lagos, Nigeria.

**Table 3: Effect of Reduced tax rate on profitability and expansion of SMEs**

	R	R-Squared	Adjusted R <sup>2</sup>	F-value	Sig. of F	Decision
	.659	.614	.608	8.142	0.000	Sig.
	<b>Unstandardized Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>p-value</b>		
Constant	.208	.087	2.390	.000		
Reduced Tax Rate	.423	.106	3.990	.000		

Source: Researcher's computation (2025)

Dependent Variable: **Profitability and expansion of SMEs**

### Hypothesis 3

**H<sub>03</sub>:** *Investment and capital allowances have no significant impact on the reinvestment decisions of SMEs in Lagos State.*

The third hypothesis examined whether investment and capital allowances had a significant influence on the reinvestment decisions of SMEs in Lagos State. To test this, a simple linear regression analysis was conducted alongside ANOVA, as presented in Table 4. The results showed that investment and capital allowances had a significant influence on the reinvestment decisions of SMEs in Lagos State, as evidenced by the F-statistic ( $F(1, 149) = 15.084, \rho < 0.05$ ). The model yielded an R value of 0.759, with  $R^2 = 0.722$  and adjusted  $R^2 = 0.720$ , indicating that approximately 72% of the variation in reinvestment decisions of SME in Lagos State was explained by investment and capital allowances. Furthermore, the regression coefficient ( $\beta = .052, \rho < 0.05$ ) confirmed a strong positive influence. These findings aligned with the results reported by Hamzaha *et al.*, (2020) and Taiwo and Oyedokun (2022). Based on the result, we concluded that reduced tax rates had a significant effect on the profitability and expansion of SMEs in Lagos, Nigeria.

**Table 4: Effect of investment and capital allowances on the reinvestment decisions of SMEs**

	<b>R</b>	<b>R-Squared</b>	<b>Adjusted R<sup>2</sup></b>	<b>F-value</b>	<b>Sig. of F</b>	<b>Decision</b>
	.759	.722	.720	15.084	0.000	Sig.
	<b>Unstandardized Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>p-value</b>		
Constant	.167	.066	2.530	.001		
investment and capital allowances	.052	.019	2.737	.000		

Source: Researcher's computation (2025)

Dependent Variable: **Reinvestment decisions of SMEs**

### CONCLUSION AND RECOMMENDATIONS

This study has examined the effect of tax incentives on entrepreneurial development, with a particular focus on small and medium-sized enterprises (SMEs) in Lagos, Nigeria. Three hypotheses were tested to determine the impact of tax holidays, tax deductions, and capital allowances on the start-up, growth, and sustainability of SMEs. The findings revealed that tax holidays had a statistically significant positive effect on the start-up and early growth of SMEs. Similarly, tax deductions were found to significantly enhance the financial performance and reinvestment capacity of SMEs, while capital allowances had a substantial influence on the expansion and long-term sustainability of these businesses. These results emphasize the importance of well-structured tax incentive schemes in supporting entrepreneurship and driving the development of the SME sector in Lagos.

Based on these findings, the following recommendations are proposed. First, the government should continue and strengthen the implementation of tax holidays, especially for newly established SMEs, to reduce their initial financial burdens and encourage business formalization. Second, tax deduction policies should be made more transparent and easily accessible, particularly for SMEs in critical sectors such as manufacturing and technology, in order to boost their profitability and reinvestment potential. Third, capital allowance schemes should be expanded to cover a wider range of business assets and expenditures, thereby promoting long-term investments and facilitating the scaling up of SME operations. These policy actions will not only enhance entrepreneurial development but also contribute significantly to economic diversification and job creation in Lagos State.

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