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Effectiveness of Capital Allowances on SMEs Growth in North Central, Nigeria

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ABSTRACT: This study investigates the effectiveness of capital allowances on the growth of Small and Medium Enterprises (SMEs) in North Central Nigeria, with specific focus on four dimensions: utilization of capital allowances, impact on profitability, effect on asset acquisition, and influence on employment generation. Using a descriptive survey research design, primary data were collected from 320 SME operators across the region through a structured questionnaire built around a 5-point Likert scale. Descriptive statistics and multiple regression analysis were employed to examine the relationship between the study variables and SME growth. The regression result indicates that capital allowance-related factors significantly influence SME growth, albeit modestly. Findings show that while awareness and perceived benefits related to asset acquisition and competitiveness are relatively high, skepticism remains regarding the clarity of policies and their impact on profitability and administrative burden. The study concludes that capital allowances contribute meaningfully to SME development but are limited by structural and implementation barriers. It recommends enhanced awareness programs, simplification of procedures, periodic policy reviews, and integration of capital allowances into broader SME development strategies. These measures are essential for unlocking the full potential of tax incentives as catalysts for regional economic growth.

KEYWORD: Capital Allowances, SME Growth, Tax Incentives, Asset Acquisition, Profitability, Employment Generation

INTRODUCTION

Small and Medium Enterprises (SMEs) play a pivotal role in the economic development of emerging economies, particularly in Nigeria, where they contribute significantly to employment creation, income generation, poverty alleviation, and Gross Domestic Product (GDP). According to a collaborative survey by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the National Bureau of Statistics (NBS), SMEs account for approximately 48% of Nigeria's GDP, over 96% of all businesses, and about 84% of total employment (SMEDAN & NBS, 2021). Despite their importance, SMEs in Nigeria, and more specifically in the North Central region, continue to face systemic challenges such as poor access to finance, inadequate infrastructure, regulatory bottlenecks, and limited knowledge of tax relief mechanisms.

To mitigate these challenges and promote enterprise development, the Nigerian government has implemented several fiscal policies, among which capital allowances stand out as a key tax incentive. Capital allowances are deductions allowed on capital expenditures incurred in acquiring or upgrading fixed assets used for business purposes. These allowances, provided for under the Companies Income Tax Act (CITA) 2004 (as amended), reduce the taxable income of businesses, thereby increasing the net income available for reinvestment and growth (Federal Inland Revenue Service [FIRS], 2021). Capital allowances typically include initial allowance, annual allowance, and in some cases, investment allowance. For example, SMEs engaged in manufacturing are eligible for an initial allowance of up to 95% on qualifying assets, followed by annual allowances over the useful life of the asset (FIRS, 2021).

However, the effectiveness of these allowances in stimulating the growth of SMEs remains a subject of debate. While tax reliefs such as capital allowances are theoretically designed to encourage reinvestment and enhance competitiveness, empirical evidence suggests that many SMEs in Nigeria do not fully benefit from them due to low tax literacy, lack of access to professional advisory services, and administrative complexities. A survey by PwC Nigeria (2022) revealed that only 26% of SME owners were aware of and understood how to apply tax incentives, including capital allowances. This low level of awareness is compounded by bureaucratic barriers and a lack of transparency in Nigeria's tax administration.

The North Central region of Nigeria comprising Benue, Kogi, Kwara, Nasarawa, Niger, Plateau, and the Federal Capital Territory hosts over 4.8 million SMEs engaged in various sectors such as agriculture, manufacturing, and services (SMEDAN & NBS, 2021).

Despite this entrepreneurial potential, the region remains under-industrialized, with most businesses operating at subsistence or micro levels. Challenges such as inadequate infrastructure, multiple taxation, insecurity, and weak enforcement of business-friendly policies continue to hinder SME development. These constraints raise critical questions about whether fiscal incentives such as capital allowances are effectively contributing to enterprise growth in the region.

Moreover, the macroeconomic context further complicates the policy landscape. Nigeria's tax-to-GDP ratio, which stood at 10.86% in 2022, is one of the lowest in sub-Saharan Africa, indicating an underperforming tax system (FIRS, 2023). While the Federal Government has attempted to widen the tax net, SMEs are frequently overburdened by overlapping taxes imposed at federal, state, and local government levels, thereby negating the benefits of capital allowances. The Nigerian Economic Summit Group (NESG, 2023) highlighted the inefficiency in the implementation of tax incentives and the absence of targeted SME support as critical issues affecting the productivity and growth of small businesses.

Given this context, there is a pressing need to investigate the practical impact of capital allowances on SME performance, especially in the North Central zone of Nigeria. While national tax policies are often uniformly applied, their effects may vary across regions due to differences in institutional capacity, business structure, and compliance behavior. This study aims to fill the existing knowledge gap by empirically assessing the extent to which capital allowances influence the growth of SMEs in terms of profitability, asset acquisition, employment generation, and expansion within the North Central geopolitical zone. The findings will provide evidence-based recommendations for policymakers, tax authorities, and SME development agencies on how to make fiscal incentives more accessible, effective, and impactful.

Despite the well-documented significance of Small and Medium Enterprises (SMEs) in driving economic development, employment creation, and poverty reduction in Nigeria, the sector continues to face persistent structural and financial challenges. One of the key fiscal interventions introduced by the Nigerian government to support business growth is capital allowance a tax incentive intended to reduce the tax burden on businesses and promote reinvestment in productive assets (FIRS, 2021). However, the extent to which capital allowances are achieving this goal, particularly among SMEs in the North Central region, remains unclear.

The North Central geopolitical zone, comprising states like Benue, Kwara, Kogi, Nasarawa, Plateau, Niger, and the Federal Capital Territory, is home to over 4.8 million SMEs (SMEDAN & NBS, 2021). Yet, despite the region's entrepreneurial activity, most SMEs continue to operate on a subsistence level, struggling to scale operations or improve productivity. There is a noticeable gap between the availability of tax incentives like capital allowances and their actual utilization by SME operators. According to PwC Nigeria (2022), only 26% of SME owners nationwide are aware of how to apply available tax incentives, with the majority citing poor tax literacy, inadequate financial advisory services, and a complex regulatory environment as barriers. Furthermore, the problem is worsened by the issue of multiple taxation across the three tiers of government, which undermines the potential benefits of capital allowances. Even where SMEs are tax-compliant, bureaucratic hurdles and inconsistent enforcement of tax policies diminish the effectiveness of these incentives. The Nigerian Economic Summit Group (NESG, 2023) has highlighted inefficiencies in tax administration and the poor design of SME-targeted incentives as significant impediments to the growth and formalization of small businesses.

Another critical issue is the lack of empirical evidence demonstrating the effectiveness of capital allowances in facilitating tangible growth outcomes such as increased revenue, business expansion, asset acquisition, or employment generation among SMEs in North Central Nigeria. While national tax policies assume a uniform impact across the country, regional disparities in infrastructure, institutional support, and awareness levels may result in different outcomes, thus calling for region-specific studies. Therefore, the problem this study seeks to address is the apparent disconnect between the intent of capital allowances as a fiscal stimulus and the actual experiences of SMEs in the North Central region of Nigeria. It is imperative to determine whether capital allowances are merely a theoretical incentive or a practical tool capable of enhancing SME growth in a challenging business environment.

Research Objectives

1. To assess the extent to which SMEs in North Central Nigeria utilize available capital allowances.
2. To examine the impact of capital allowances on the profitability of SMEs in the region.
3. To evaluate the effect of capital allowances on asset acquisition by SMEs.
4. To analyze the influence of capital allowances on employment generation among SMEs.

LITERATURE REVIEW

Concept of Capital Allowances

Capital allowances are tax deductions granted by tax authorities that allow businesses to write off the cost of certain fixed assets against their taxable income. These assets typically include machinery, equipment, buildings, and other tangible capital expenditures used in the business. Unlike expenses that are fully deductible in the year incurred, capital allowances allow businesses to recover the cost of capital assets over time, reflecting their depreciation or wear and tear (Adewale, 2020). In Nigeria, capital allowances are governed by the Companies Income Tax Act (CITA) and administered by the Federal Inland Revenue Service (FIRS), providing initial, annual, and investment allowances to qualifying businesses (FIRS, 2021).

Capital allowances are applied as a fiscal incentive to reduce the taxable profits of businesses, thereby lowering their tax liabilities. For SMEs, these allowances aim to encourage investment in productive assets, which can lead to improved operational capacity, efficiency, and competitiveness (SMEDAN, 2022). For example, an SME investing in new machinery can claim an initial allowance of up to 20-95% of the asset cost, depending on the asset category, with annual allowances spread over subsequent years (FIRS, 2021). The reduced tax burden increases the after-tax cash flow available for further reinvestment, promoting business expansion and growth. In practice, capital allowances also serve to formalize SMEs by encouraging compliance with tax regulations, though the degree of utilization varies widely due to awareness and administrative factors.

Concept of small and medium enterprises

Small and Medium Enterprises (SMEs) are businesses characterized by their relatively small size in terms of workforce, capital investment, and revenue compared to large-scale enterprises. Definitions of SMEs vary across countries and institutions, often based on criteria such as the number of employees, annual turnover, or asset base. In Nigeria, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021) defines SMEs as enterprises with fewer than 200 employees and an asset base (excluding land and buildings) ranging between ₦5 million and ₦500 million. Small enterprises typically have fewer than 50 employees, while medium enterprises have between 50 and 199 employees. SMEs operate across diverse sectors including agriculture, manufacturing, trade, and services, and are considered vital to economic diversification and inclusive growth.

SMEs contribute substantially to employment generation, income distribution, and economic resilience, especially in developing economies like Nigeria. They serve as a source of innovation and local entrepreneurship, often filling gaps left by large corporations (World Bank, 2020). SMEs provide livelihoods for a large segment of the population, particularly in semi-urban and rural areas such as North Central Nigeria, where formal employment opportunities are limited (SMEDAN & NBS, 2021). Policymakers focus on SMEs in economic planning by designing support programs including access to credit, capacity building, and fiscal incentives like tax holidays and capital allowances to stimulate their growth and formalization.

Concept of small and medium enterprises Growth

SME growth refers to the expansion and development of small and medium enterprises in terms of various measurable indicators such as revenue, profit, market share, asset base, workforce size, and operational capacity. Growth can be organic, resulting from increased sales or market penetration, or through acquisition of new assets and investment in productive capacity (Storey, 1994). In a Nigerian context, SME growth is often tracked by increases in turnover, employment generation, and capital investment, reflecting the firm's ability to scale operations and enhance competitiveness (SMEDAN, 2021). SME growth can be explained through the Stages of Growth Theory (Greiner, 1972), which posits that enterprises go through identifiable phases characterized by different challenges and resource needs. Capital allowances, as financial incentives, play a vital role especially in the early expansion stages by easing capital costs and encouraging investment in fixed assets, thereby facilitating transitions to subsequent growth phases.

From an empirical perspective, numerous studies underscore the positive relationship between access to fiscal incentives and SME growth metrics. Okafor and Chukwuemeka (2021) demonstrated that Nigerian SMEs that effectively utilize capital allowances exhibit significant improvements in profitability, asset base, and employment levels. Similarly, studies in other developing economies indicate that capital allowances reduce effective tax burdens and encourage reinvestment, which accelerates SME growth (OECD, 2018). However, the impact is often moderated by factors such as awareness, bureaucratic processes, and the overall business environment (Owolabi et al., 2022). In North Central Nigeria, while SMEs show growth potential, empirical data highlight that poor utilization of capital allowances due to low tax literacy and infrastructural challenges limits their growth prospects (SMEDAN & NBS, 2021). Therefore, investigating the effectiveness of capital allowances in stimulating SME growth in this region remains crucial for targeted policy formulation.

EMPIRICAL REVIEW

In their recent study, Yusuf and Ojo (2023) focused on examining the impact of capital allowances on the export growth of SMEs in Nigeria, with their research spanning from 2018 to 2023. The researchers used a quantitative approach, analyzing export data from 200 SMEs through panel data analysis. The results indicated that capital allowances significantly boosted export growth, with SMEs utilizing these allowances experiencing a remarkable 35% increase in export revenues. Although the panel data analysis provided valuable insights, the study could have benefited from qualitative interviews to explore the challenges SMEs face in accessing and utilizing capital allowances. Furthermore, a focus on specific sectors within the export market could enhance understanding of how capital allowances impact export performance.

Ibrahim and Usman (2023) analysed the effect of capital allowances on the financial resilience of SMEs in Nigeria, with a study period covering 2018 to 2023. Using a quantitative approach, they surveyed 200 SMEs and employed structural equation modeling (SEM) to explore the relationship between capital allowances and financial resilience indicators, such as cash flow stability and profitability. Their findings indicated a significant positive correlation, with firms utilizing capital allowances reporting enhanced financial resilience, characterized by improved cash flow stability by 25%. While the SEM provided a robust framework for analysis, the study could have benefitted from a qualitative dimension to explore the nuances of financial resilience. The authors also did not address the potential impact of external economic shocks on financial performance, highlighting a need for further research to examine these dynamics in real-world contexts.

Olatunji and Bamidele (2023) explored the impact of capital allowances on the sustainability of SMEs in Nigeria’s manufacturing sector, conducting their study from 2018 to 2023. Using a quantitative approach, they surveyed 160 manufacturing SMEs and employed panel data analysis to assess the relationship between capital allowances and sustainability metrics, such as resource efficiency and waste reduction. The findings indicated a positive correlation, with SMEs benefiting from capital allowances reporting a 20% increase in sustainability practices. While the panel data analysis provided valuable insights, the study's focus on sustainability metrics could benefit from a broader context, including social and economic sustainability aspects. The authors also did not address the long-term implications of capital allowances on sustainability, indicating a need for future research to examine these dynamics over time.

Tunde and Ayo (2023) assessed the impact of capital allowances on the technological adoption of SMEs in Nigeria. Conducted from 2018 to 2023, their mixed-methods approach involved surveying 200 SMEs alongside qualitative interviews with 25 technology managers. Their findings indicated that capital allowances significantly facilitated technological adoption, resulting in a 30% increase in technology utilization among SMEs that leveraged these tax incentives. While the mixed-methods design enriched the findings, the small qualitative sample limited the diversity of perspectives on technological adoption. The study also did not explore how external factors, such as access to training or market competition, influence technological adoption among SMEs. Future research should consider a broader scope of qualitative insights to enhance understanding of these dynamics.

Suleiman and Abdullahi (2022) examined the effects of capital allowances on the growth of SMEs in the construction industry, focusing on the period from 2019 to 2022. They utilized a quantitative survey method, collecting data from 140 construction SMEs and applying regression analysis. Their results revealed that capital allowances positively impacted business growth, with a reported increase of 15% in project turnover for firms that utilized these tax incentives. While the regression analysis provided strong evidence, the study did not explore the qualitative aspects of how capital allowances influence operational decisions within the construction sector. Additionally, the authors could have incorporated external factors, such as regulatory changes or market demand, which may affect the growth trajectory of construction SMEs. Future research should seek to integrate these dimensions to provide a more comprehensive understanding.

Nwokedi and Chukwu (2022) conducted research to evaluate the influence of capital allowances on the competitiveness of SMEs in Nigeria's ICT sector from 2017 to 2022. Their quantitative study collected data from 200 SMEs and employed econometric modeling to analyze the relationship between capital allowances and competitive advantage. The results showed that capital allowances significantly enhanced competitiveness, leading to a 25% increase in market share among SMEs utilizing these tax benefits. Despite the robust statistical analysis, the study did not address potential confounding factors, such as industry-specific competition or technology trends, that could influence competitiveness. Moreover, the authors could have enriched their findings by incorporating qualitative data to capture the entrepreneurs' perspectives on how capital allowances affect their competitive strategies, suggesting avenues for future research.

Jibril and Abba (2022) investigated the role of capital allowances in promoting innovation among SMEs in Nigeria's agricultural sector. Their research, covering the period from 2016 to 2022, used a mixed-methods approach that combined quantitative data from 180 agricultural SMEs with qualitative interviews from 20 entrepreneurs. The quantitative analysis revealed that firms leveraging capital allowances reported a 22% increase in innovation outputs, such as new product development and process improvements. While the mixed-methods design provided valuable insights, the small qualitative sample limited the depth of understanding regarding the innovation processes. Furthermore, the study did not explore how external factors, such as access to technology or market conditions, may impact the relationship between capital allowances and innovation. Future research could consider a broader range of factors influencing innovation in the agricultural sector.

Adebayo and Olawale (2022) investigated the impact of capital allowances on the operational efficiency of SMEs in Nigeria. The research spanned from 2017 to 2022 and employed a quantitative approach, gathering data from 300 SMEs across various sectors. They utilized regression analysis to assess how capital allowances influence operational efficiency metrics such as production costs and turnaround times. The results indicated a significant positive effect, with operational efficiency improving by an average of 20% among SMEs leveraging capital allowances. Despite the robust statistical findings, the study faced limitations due to its focus on operational efficiency without considering broader organizational outcomes such as employee satisfaction or customer retention. Additionally, the use of a single analytical method may not capture the complexity of operational improvements, suggesting future studies could benefit from mixed method approaches to explore qualitative insights alongside quantitative data.

Okeke and Mbah (2022) assessed the role of capital allowances in enhancing the competitiveness of SMEs in Nigeria's construction sector from 2018 to 2022. Utilizing a survey method and collecting data from 180 construction SMEs, they conducted regression analysis to understand the relationship between capital allowances and competitiveness. Their findings indicated that capital allowances significantly enhanced competitiveness, with SMEs utilizing these allowances reporting a 30% increase in market share. However, the study's focus on a single sector construction may limit the applicability of the results to other industries. Additionally, while the regression analysis demonstrated significant relationships, the authors did not explore potential confounding factors that could also influence competitiveness, emphasizing the need for future research that examines these dynamics across multiple sectors.

Raji and Salami (2022) assessed the effect of capital allowances on the sustainability of SMEs in the food and beverage sector in Nigeria, conducting their research from 2016 to 2021. Their quantitative study utilized data from 150 SMEs and employed structural equation modeling (SEM) for analysis. The findings revealed a significant relationship between capital allowances and sustainability, with firms utilizing these tax benefits experiencing a 22% increase in their sustainability metrics. While the SEM provided a robust analytical framework, the study's reliance on quantitative data may overlook qualitative factors influencing sustainability. Furthermore, the authors did not address external economic factors that could affect sustainability, indicating the necessity for broader contextual research that considers these influences.

Theoretical Framework

This study is anchored on the Investment Incentive Theory, originally developed by Jack Hirshleifer in 1958 and further elaborated in the 1970s. The theory provides an economic rationale for the use of fiscal instruments, such as capital allowances, to influence investment behavior within an economy. Hirshleifer's foundational work emphasized that investment decisions by firms are largely determined by the expected returns on capital relative to its cost. When the cost of acquiring capital assets is reduced through government incentives, firms are more likely to increase their level of investment due to improved net returns.

The Investment Incentive Theory posits that government policies and incentives such as tax reliefs, subsidies, and capital allowances are designed to stimulate private investment by reducing the effective cost of capital. According to Hirshleifer (1958), firms make investment decisions based on expected returns relative to the cost of investment. When government incentives lower the cost of acquiring capital assets, the expected return on investment improves, making investment more attractive.

The theory assumes that rational economic agents (in this case, businesses) are profit-maximizing and respond positively to changes in the investment environment. These incentives shift the investment frontier by increasing the net present value (NPV) of new projects, especially for smaller firms that are often capital-constrained. As a result, incentives like capital allowances not only improve firm-level investment behaviour but also lead to macroeconomic benefits, such as employment creation and industrial growth.

Capital allowances, a key fiscal incentive under the theory, help firms offset the depreciation of fixed assets used in income-generating activities. By allowing firms to deduct a portion of the cost of such assets from their taxable income over several years, capital allowances enhance the internal funds available for reinvestment, thereby promoting enterprise growth and expansion (OECD, 2018).

This theory underpins the current study by providing a logical framework to understand how capital allowances influence the growth of SMEs in North Central Nigeria. SMEs often face significant barriers to growth, including limited access to finance, weak infrastructure, and high tax burdens (SMEDAN & NBS, 2021). In this context, capital allowances serve as a mechanism to ease financial pressure and enable investment in growth-enhancing assets like machinery, tools, and vehicles.

The theory is particularly relevant for this study because it connects fiscal policy instruments such as capital allowances to firm-level economic outcomes like profitability, asset acquisition, and employment generation. Studies such as Okafor and Chukwuemeka (2021) and Owolabi et al. (2022) confirm that when SMEs effectively utilize capital allowances, they experience improved financial performance, increased capital investment, and business expansion consistent with the predictions of the Investment Incentive Theory.

Moreover, in regions like North Central Nigeria where SME growth is critical to regional economic development, the application of this theory helps to evaluate whether existing tax policy instruments are achieving their intended objective. If SMEs are not growing despite the availability of capital allowances, the theory also encourages an investigation into potential constraints, such as awareness, compliance costs, or institutional inefficiencies, which may be undermining the policy's effectiveness (FIRS, 2021; SMEDAN, 2022).

METHODOLOGY

The study employed a survey research design, utilizing structured questionnaires as the primary instrument for data collection. These questionnaires were administered to SME owners across the North-Central states of Nigeria to gather relevant data needed to test the study's hypotheses. The total population consisted of 10,000 SME owners from Benue, Kogi, Kwara, Nasarawa, Niger, Plateau, and the Federal Capital Territory. Based on Krejcie and Morgan's (1970) sample size determination table, a representative sample of 370 respondents was selected using purposive sampling. This technique was appropriate given the specialized nature of the study, which required informed insights from SME operators familiar with capital allowances and tax policies. The sample was proportionately distributed to ensure coverage across different departments within the SMEs, capturing diverse perspectives relevant to tax incentive implementation and SME operations.

In analyzing the collected data, the study applied both descriptive and inferential statistical techniques. Descriptive statistics provided summaries of key variables, including measures of central tendency and dispersion, to highlight patterns and trends in the data. Inferential statistics, particularly multiple regression analysis, were used to determine the relationship between various tax incentives such as capital allowances, tax holidays, and deductions and SME growth. The regression model specified SME growth indicators as the dependent variable and different forms of tax incentives as independent variables. Hypotheses were tested by examining the statistical significance of the regression coefficients, thereby assessing the effectiveness of capital allowances on SME growth in North-Central Nigeria.

RESULTS AND DISCUSSION OF FINDINGS

Table 1: Descriptive Statistics

Descriptive Statistics	N	Mean	Std. Deviation	Variance
The rules and procedures governing capital allowances in Nigeria are clear and easily accessible to SME operators.	320	3.9906	1.37484	1.890
Government policies on capital allowances are well-aligned with the strategic growth needs of Nigerian SMEs.	320	2.8750	1.53435	2.354
The current rate of capital allowances provided by the Nigerian government is adequate to stimulate SME growth.	320	2.8313	1.44804	2.097
The benefits of capital allowances outweigh the administrative burdens associated with their implementation.	320	2.7437	1.43292	2.053
Capital allowances significantly reduce the effective tax burden for SMEs by allowing the deduction of capital expenditure.	320	2.9438	1.50546	2.266
The use of capital allowances contributes significantly to increased profitability and market expansion for SMEs.	320	2.9719	1.60987	2.592
Capital allowances enable SMEs to retain a greater portion of their earnings for reinvestment.	320	3.0375	1.54509	2.387
Capital allowances have a positive long-term impact on the growth and sustainability of SMEs in Nigeria.	320	2.8000	1.54067	2.374
The availability of capital allowances improves the cash flow of SMEs, enabling them to reinvest in business growth.	320	3.1031	1.44664	2.093
SMEs that make use of capital allowances are more likely to invest in modern equipment and technology.	320	3.3406	1.55553	2.420
Capital allowances encourage SMEs to upgrade their production capacity and expand their operations.	320	3.5437	1.61438	2.606
The availability of capital allowances encourages SMEs to pursue more capital-intensive investments that drive business expansion.	320	3.2219	1.44627	2.092
SMEs that utilize capital allowances tend to achieve higher growth rates compared to those that do not.	320	3.2406	1.41916	2.014

Capital allowances enable SMEs to reduce financing costs when acquiring new capital assets.	320	3.2094	1.50336	2.260
Capital allowances play a crucial role in making SMEs more competitive in both local and international markets.	320	3.6063	1.62503	2.641

Source: Fieldwork, 2025

The descriptive statistics presented in Table 1 provide insight into the perceptions of SME operators in North Central Nigeria regarding the effectiveness of capital allowances across four key dimensions: awareness/utilization, profitability, asset acquisition, and employment growth. The table presents responses from 320 participants, summarized by their mean, standard deviation, and variance. The item "The rules and procedures governing capital allowances in Nigeria are clear and easily accessible to SME operators" recorded the highest mean score (M = 3.99, SD = 1.37), suggesting that a substantial portion of the respondents agree that they understand the procedures related to capital allowances. This reflects moderate to high awareness, which is crucial for policy uptake and effective utilization.

In contrast, the perception of government policy alignment with SME needs scored relatively low (M = 2.88, SD = 1.53), indicating skepticism about whether tax policies are genuinely targeted at or beneficial to SMEs. Similarly, the mean scores for the adequacy of capital allowance rates (M = 2.83) and the balance between benefits and administrative burden (M = 2.74) suggest that many respondents are either uncertain or disagree that current capital allowance structures are sufficient or user-friendly. This implies potential underutilization due to either design flaws or bureaucratic inefficiencies. The effectiveness of capital allowances in reducing tax burdens and increasing profitability yielded moderate responses. For example, the item "Capital allowances significantly reduce the effective tax burden" had a mean of 2.94 (SD = 1.51), and "Capital allowances contribute significantly to profitability and market expansion" scored M = 2.97. These values hover near the neutral point, suggesting that many SME operators may not fully recognize or experience direct profitability benefits, possibly due to inconsistent application or lack of adequate follow-through from policy to practice.

On a more positive note, the item "Capital allowances enable SMEs to retain a greater portion of their earnings" recorded a slightly higher mean of 3.04, indicating mild agreement that such policies support reinvestment, a key profitability metric. This objective reflects stronger perceived outcomes. The statement "Capital allowances encourage SMEs to upgrade production capacity and expand operations" had one of the highest overall means (M = 3.54, SD = 1.61), closely followed by "SMEs that make use of capital allowances are more likely to invest in modern equipment" (M = 3.34), and "Availability of capital allowances improves cash flow for reinvestment" (M = 3.10).

These figures suggest that capital allowances may be particularly effective in encouraging SMEs to acquire fixed assets and expand production capabilities. The slightly above-neutral responses indicate tangible, although not overwhelmingly strong, perceptions of benefit in this area. On indicators of growth potential and competitiveness, capital allowances again fared relatively well. The statement "Capital allowances play a crucial role in making SMEs more competitive in both local and international markets" received the highest mean score overall (M = 3.61, SD = 1.63), signifying a strong perception that these incentives are enabling firms to scale up and compete more effectively.

Likewise, "SMEs that utilize capital allowances tend to achieve higher growth rates" (M = 3.24) and "Capital allowances help reduce financing costs for new capital assets" (M = 3.21) also reflect moderate agreement. These perceptions suggest that capital allowances may indirectly foster employment by facilitating growth and competitiveness, though the direct employment impact might require further analysis through regression or inferential testing.

Tabel 2: Analysis Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.457	4	5.114	2.539	.040[b]
	Residual	634.530	315	2.014		
	Total	654.988	319			

a. Dependent Variable: SMEs Growth

b. Predictors: (Constant), Obj 1, Obj 2, Obj 3, Obj 4

Source: Fieldwork, 2025

The results presented in Table 2 show that the regression model assessing the relationship between capital allowance-related objectives and SME growth in North Central Nigeria is statistically significant. The model yielded an F-statistic of 2.539 and a p-value of 0.040. Since the p-value is less than the 5% significance threshold, the null hypothesis which assumes no significant relationship between the independent variables (Objective 1: utilization of capital allowances, Objective 2: impact on profitability, Objective 3: effect on asset acquisition, and Objective 4: influence on employment generation) and the dependent variable (SME growth) is rejected. This implies that, taken together, the four explanatory variables significantly contribute to explaining the variation in SME growth within the region.

Although the model's F-ratio is relatively modest, the significance level indicates that capital allowances, when considered across their various functions ranging from tax reduction to business expansion do indeed exert a measurable influence on how SMEs evolve and expand. These findings support the broader theoretical assumptions about fiscal incentives as a tool for economic stimulation. Specifically, capital allowances function as an indirect subsidy, allowing businesses to deduct eligible capital expenditures from taxable income, which in turn increases retained earnings, encourages reinvestment, and facilitates expansion. This result aligns with previous findings in literature. For instance, Ezejiofor and Olise (2021) demonstrated a positive correlation between capital allowance claims and increased investment in fixed assets among SMEs in Enugu State, Nigeria. Similarly, Oladele and Ogundipe (2022) found that capital allowances have a meaningful impact on the profitability of manufacturing SMEs in Lagos. These findings are further reinforced by international studies such as those of the OECD (2021), which highlight capital allowances as an effective instrument for boosting SME productivity and competitiveness, particularly when implemented transparently and with adequate institutional support.

However, despite the statistical significance of the model, the regression sum of squares (20.457) is relatively small when compared with the residual sum of squares (634.530). This suggests that while capital allowances play a role in explaining SME growth, a substantial proportion of the variance in growth outcomes remains unaccounted for by the model. Factors such as infrastructural deficiencies, limited access to credit, market volatility, weak managerial capacity, and informal business practices may also play major roles in determining the growth trajectories of SMEs in the region.

The implication of this finding is that while capital allowances have the potential to stimulate SME growth, their current structure and implementation in Nigeria may not be sufficiently robust to fully unlock this potential. The results from the descriptive analysis previously discussed indicated that SME operators expressed concerns about the adequacy and accessibility of capital allowances. For example, the statement on whether government policies are well-aligned with SME strategic needs received a mean score below 3.0, suggesting that many business owners either do not feel well-supported by current tax policies or find them too complex to engage with effectively.

In light of this, the significant regression result calls for a more focused effort by policy makers to enhance the visibility, simplicity, and strategic targeting of capital allowance programs. Awareness campaigns led by the Federal Inland Revenue Service (FIRS), in collaboration with institutions like SMEDAN and state-level tax authorities, could help close the gap between policy intent and business-level implementation. Furthermore, there is a clear need for procedural reforms that would make claiming capital allowances less bureaucratic and more accessible to smaller firms with limited administrative capacity.

Finally, the result supports the notion that government tax policies should not operate in isolation. Capital allowances must be accompanied by complementary policies in finance, infrastructure, business development services, and digital technology adoption to ensure that SMEs are equipped to take advantage of tax reliefs and reinvest them in productive ways. As the World Bank (2021) noted in its report on SME tax reform in Africa, integrated policy frameworks tend to produce more sustainable growth outcomes than fragmented fiscal incentives.

The regression results confirm that capital allowances have a statistically significant, though partial, effect on SME growth in North Central Nigeria. The finding affirms the policy relevance of capital allowances but also underscores the need for reforms that enhance their practical utility, ensure broader awareness, and align them more closely with the operational realities of small and medium-scale enterprises.

CONCLUSION AND RECOMMENDATIONS

This study examined the effectiveness of capital allowances on the growth of Small and Medium Enterprises (SMEs) in North Central Nigeria, focusing on four critical dimensions: the extent of utilization, the impact on profitability, the effect on asset acquisition, and the influence on employment generation. The findings from both the descriptive statistics and the regression analysis provide meaningful insights into how SMEs perceive and respond to capital allowance incentives provided under Nigeria's tax framework.

Capital allowances in their current form play a relevant, albeit limited, role in SME growth within North Central Nigeria. For their full potential to be realized, a more supportive and accessible tax environment is required one that bridges policy design with SME realities on the ground.

Based on the findings and the conclusion drawn, the following recommendations are proposed:

Government agencies such as the Federal Inland Revenue Service (FIRS), in collaboration with SMEDAN and state-level tax authorities, should conduct regular sensitization programs targeted at SME operators. These programs should explain the types, benefits, and procedures of capital allowances in simple and practical terms, using workshops, local radio, and digital platforms.

The complexity of accessing capital allowances often discourages eligible SMEs from claiming them. There is a need to streamline the application and documentation process, including the use of digital portals for filing tax relief claims, to reduce bureaucratic bottlenecks and compliance costs.

The current allowance rates and classifications under the Companies Income Tax Act should be reviewed periodically to reflect inflationary pressures, technological advancement, and sector-specific realities. A differentiated incentive structure could be introduced, offering enhanced allowances for high-impact sectors such as agriculture, ICT, and manufacturing.

To encourage inclusive growth, government could consider linking eligibility for certain capital allowance schemes to verifiable employment generation or innovation milestones. This would align tax incentives with broader national development goals, such as job creation and economic diversification.

To improve accountability and policy refinement, the government should invest in the regular tracking and evaluation of the impact of capital allowance utilization on SME performance. This can be achieved through annual surveys, audits, and collaboration with research institutions and SME associations.

Capital allowances should not be treated in isolation. Instead, they should form part of a coordinated support system that includes access to finance, infrastructure development, skills training, and market access. Only through such an integrated approach can SMEs fully leverage fiscal incentives for sustainable growth.

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