OPEN ACCESS
Global Journal of Research in Business Management
ISSN: 2583-6218 (Online)
Volume 04 | Issue 04 | July-Aug. | 2024
Journal homepage: https://gjrpublication.com/gjrbm/
Research Article

The Impact of Tax Holidays in the Development of Small and Medium Scale Enterprises (SMEs) in Adamawa State

*Abubakar Mahmud Digil[1], Umar Faruk Abubakar[2] & Joshua Wilfred Mainu[3]

[1,2&3]Department of Banking and Finance, School of Business and Management Technology, Federal Polytechnic Mubi, Adamawa State.

DOI: 10.5281/zenodo.13375245 **Submission Date:** 15 July 2024 | **Published Date:** 26 Aug. 2024

***Corresponding author:** Abubakar Mahmud Digil
Department of Banking and Finance, School of Business and Management Technology, Federal Polytechnic Mubi, Adamawa State.

Abstract
This paper assessed the impact of tax holidays in the development of small and medium scale enterprises in Adamawa state. The study utilized conceptual research and content analysis, where related literatures on the study were reviewed and analysed. The study reviewed the literature in order to identify the impact of tax holidays in the development of small and medium scale enterprises in Adamawa state. The study found that both sales tax holidays and business investment tax holidays have significant impact in the development of small and medium scale enterprises in Adamawa state. However, sales tax holidays display more significant in the development of small and medium scale enterprises in Adamawa state. Therefore, the study recommends that government and other regulatory bodies should maintain and encourage tax holidays as proved to be a valuable tool for stimulating small and medium scale enterprises growth and development.

Keywords: *Tax holidays; Sales tax holidays; Business investment; Tax incentive & Development of SMEs.*

I. Introduction

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide (Pedraza, 2021). Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to our estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world (Richter, 2024). In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs.

However, access to finance is a key constraint to SME growth; it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries. Similarly, small and medium scale enterprises provide employment for the populace. And also stimulate indigenous entrepreneurship; facilitate effective mobilization of local resources which include capital, skill and reduced regional discrimination (Bakhtiari *et al.*, 2020). They contribute about 48% of the national GDP and employ 84% of the country's workforce. This makes them a crucial driver of economic growth and job creation.

However, the development of SMEs is relatively low and not impressive. This arises as result of SMEs is less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises (Watse, 2017). The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. East Asia and Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%). The gap volume varies considerably region to region. Latin America and the Caribbean and the Middle East and North Africa regions, in particular, have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively (Ackah & Vuvor 2011}. About half of formal SMEs don't have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account.

However, the Nigerian government has made efforts to address the challenges faced by SMEs. These efforts include providing financial assistance programs, addressing infrastructure problems and implementing policies to improve the performance of SMEs (Afolabi, 2015). The latest, programme, is the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established in 2003, to facilitate the promotion and development of a structured and efficient Micro, Small, and Medium Enterprises (MSMEs) Sector that will enhance sustainable economic development in Nigeria (Agwu &. Emeti, 2014). The Agency is the apex and coordinating institution for all matters relating to starting, resuscitating and growing MSMEs in Nigeria. The Agency is also saddled with the responsibility of contributing to the attainment of Vision 20-2020. Despite this programmes aimed at improving the development SMEs in Nigeria the result is futile.

Although, several studies were conducted on tax holidays in the development of small and medium scale industries, still the growth and development of SMEs is low and rare. However, tax holidays are a significant fiscal policy tool aimed at promoting the growth and development of Small and Medium Enterprises (SMEs). These temporary exemptions from certain taxes can stimulate investment, enhance productivity, and ultimately contribute to economic growth. Therefore, this study explores the impact of tax holidays on SMEs, drawing insights from various studies and examples from different regions. In trying to achieve this objective; the study examines the impact of sales tax holidays in the development of small and medium scale industries in Adamawa state. It also assesses the impact of business investment tax holidays in the development of small and medium scale industries in Adamawa state.

II. Methodology

For the purpose of this study conceptual and content analysis was used as methodology. This methodology allows the study to observe and analyzes the already present information on a given topic. Conceptual research doesn't involve conducting any practical experiments. Therefore, the previous researches or studies and case studies found in text books and current journal articles that are related to the study, impact of tax holidays in the development of small and medium scale enterprises in Adamawa state, were analysed. Thereafter, conclusion was drawn base on the reviewed, observed and analyzed literature.

Conceptual Model

This study examined the impact of tax holidays in the development of small medium scale enterprises in Adamawa state. The independent variable is tax holidays and has two dimensions namely; sales tax holidays and business investment tax holidays. Meanwhile, the dependent variable is development of SMEs. Based on antecedent literature, a theoretical framework for the working capital management and cooperate performance can be built as follow:

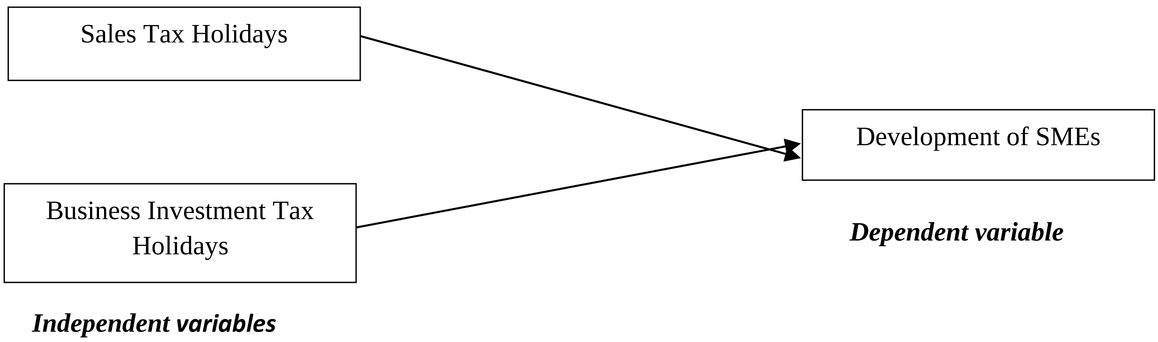

Figure 1: Conceptual Framework of the Study adopted by Researcher (2024)

III. Literature and Empirical Review

SMEs Development

SMEs development is not merely a matter of economics; it's also a social imperative. SMEs are known to drive innovation, foster entrepreneurship, and improve living standards (Gherghina *et al.*, 2020). They act as a breeding ground for new ideas and products, often leading to the development of larger corporations. Moreover, the creation of jobs through SMEs helps alleviate unemployment and poverty in the country. Investing in SME development has a positive domino effect. A thriving SME sector attracts investment, which, in turn, stimulates economic growth. As a result, SMEs have the potential to uplift communities everywhere (OECD, 2023). For SMEs to reach their full potential, they need to adopt effective development strategies. Mentorship and networking are key components of SME growth. Finding experienced mentors who can guide business owners in navigating the complexities of the business world is invaluable. Additionally, building strong networks can open doors to partnerships and access to markets.

Tax Holidays

A tax holiday is a governmental incentive that temporarily reduces or eliminates taxes for consumers or businesses (Guzman, 2023). The objective of a tax holiday is to encourage economic activity and foster growth. Tax holidays may also be offered to businesses as an investment incentive (Nathan & McGranahan, 2010). The tax holiday - an incentive frequently used in developing countries to encourage capital investments - offers benefits for short-term investments but could in fact penalize long-term capital investments. For some countries with high inflation rates and relatively fast writeoffs for depreciable capital, the effective tax rate on long-term investments is higher during the tax holiday than after. For one thing the tax law may require asset. A tax holiday is a temporary tax break. In the United States, tax holidays often suspend state and local sales taxes paid by consumers (Janssen, 2012). Governments also use tax holidays as investment incentives that may exempt a new plant from property taxes for a number of years.

Sales Tax Holidays

A sales tax holiday is a limited-time period where a state allows sales tax to be waived or reduced on categories of items (Grundman, 2019). These holidays are short in duration and are limited to the items listed. Annual holidays are recurring under the legislation. Non-annual holidays require legislation each year. A sales tax holiday is a limited-time period where a state allows sales tax to be waived or reduced on categories of items (Harper *et al.*, 2003). These holidays are short in duration and are limited to the items listed. Annual holidays are recurring under the legislation. Some tax holidays have become an annual tradition. For example, some state and local governments in the U.S. offer a sales tax holiday the weekend before school resumes in the fall to reduce parents' outlays for school supplies. The goal is to increase store traffic, which can boost overall spending. States declaring a tax holiday may also hope to draw consumers from other nearby states.

Business Investment Tax Holidays

National or local governments may also offer a tax holiday for businesses to foster growth. Developing countries sometimes use tax holidays to attract Tax holidays focused on business investment may be defined based on the location of the investment, as with the Opportunity Zones created by the Tax Cuts and Jobs Act of 2017 (Stotsky, 2024). These defer capital gains taxes on funds reinvested in qualifying projects within designated low-income areas. Alternatively, business investment tax holidays may target particular companies or industries. For example, the state of Wisconsin initially offered $2.85 billion in tax credits to Taiwan electronics manufacturer Foxconn. However, it scaled that back to $80 million when Foxconn failed to follow through on plans to invest $10 billion in a new plant in the state. It is directed to new firms and is not available to existing operations. With a tax holiday, new firms are allowed a period of time when they are exempt from the burden of income taxation. Sometimes, this grace period is extended to a subsequent period of taxation at a reduced rate (UN, 2018).

United Nations New York, (2018). Design and Assessment of Tax Incentives in Developing Countries Selected Issues and a Country Experience Stotsky, J. (2024). The Governance Brief Tax Incentives and Investment ISSUE 54 • 2024

Sales Tax Holidays and Development of Small and Medium Scale Industries

Obafemi *et al.,* (2021) reviews the role being played by various governmental tax incentives on the growth and development of SMEs growth in developing economy with special focus on Kwara State SMEs, Nigeria. The study employed descriptive design; thus, primary data was collected on variables contributing to tax influence and their effect on the growth of SMEs. A sample of 260 respondents representing a percentage of targeted population enterprises in the production sector of Kwara State Industrial area was selected through Stratified and Simple Random Sampling techniques. Data collected through questionnaires, interviews and observations when necessary was analyzed using ordinary least square regression model to estimate the contribution of each variable to the growth effect of SMEs. The study found that there was a significant correlation between taxation and SMEs' growth. The study recommends that there should be a friendly tax policy for all start-up businesses preferably a tax holiday, or an introduction of a growth limit which can be said to be a level stable enough to sustain tax payment.

Feyitim *et al.,* (2016) reviews the role being played by various governmental tax incentives on the growth and development of SMEs growth in developing economy with special focus on Nigeria. The study employed descriptive design, thus, primary data was collected on variables contributing to tax influence and their effect on the growth of SMEs. A sample of 100 respondents representing a percentage of targeted population enterprises in the production sector of Osun State Industrial area was selected through Stratified and Simple Random Sampling techniques. Data collected through questionnaires, interviews and observations when necessary was analyzed using ordinary least square regression model to estimate the contribution of each variable to the growth effect of SMEs. The study found that there was a significant correlation between taxation and SMEs' growth. The study recommends that there should be a friendly tax policy for all start up businesses preferably a tax holiday, or an introduction of a growth limit which can be said to be a level stable enough to sustain tax payment.

Ezeagba (2019) assessed the impact of tax holiday on industrial growth of Sub-Sahara African States using selected small and medium enterprises in Nigeria as case studies. The study adopts an explanatory non-experimental research design. The data were obtained from Federal Inland Revenue Services (FIRS). A linear model of Tax Internal Revenue, VAT and Economic Growth, proxied by GDP, was estimated using the Multiple Regression technique. The result, amongst others, indicate positive effect of tax holiday on industrial growth, suggesting that increasing tax holidays to productive and priority sectors of African economy will increase the continent's gross domestic products. It was therefore recommended that Sub-Sahara African States should grant more incentives to those sectors and monitor closely the administration of such incentives through special parastatals so as to generate relevant financial data of the actual amount of incentives relative to the economic growth regularly to evaluate the efficiency of tax incentives in the economy.

Olayemi & Folajimi (2021) reviewed the effect of tax incentives on the growth in sales revenue of Small and Medium Enterprises in Ondo and Ekiti States, Nigeria. The study employed survey design. The study population comprised SMEs registered with Small and Medium Enterprise Development Agency of Nigeria in Ondo and Ekiti States, with the total of 2,708. The Taro Yamane formula was used to obtain a sample size of 386. The owners/managers, employees, accountants and auditors of these SMEs were selected through a multi-stage sampling technique which involved the stratified, proportionate, and simple random sampling methods. Descriptive and inferential statistics were used to analyse the data. The results showed tax incentives (investment allowance, tax holiday, tax credit and tax deferment) have a significant positive effect on the growth in sales revenue of SMEs, F679=313.815, Adj. R 2=0.759, p-value=0.000< 0.005.

Business Investment Tax Holidays and Development of Small and Medium Scale Industries

Adewara et al., (2023) examined the effect of multiple taxations on the financial performance of SMEs in Ekiti State, Nigeria. The study used a survey research method and analyzed it with correlation coupled with multiple regression analysis. The population comprises all registered and functional SMEs located in Ado Ekiti, Nigeria, and have been in existence for over 5 years with valid proof of tax payment. The results found that multiple tax burdens and multiple tax administrations exhibited a significant negative relationship with the financial performance of SMEs in Ekiti State, Nigeria, while the ability to pay tax revealed a significant positive relationship. From the aforementioned results, it was concluded that multiple taxes served as a worm that deeply reduced the investment potential of SMEs and invariably affected the chunk of revenue generated by the sector in the state. It was therefore suggested that the Joint Tax Board in the state and other institutions responsible for multiple tax management should awaken to their functions and harmonize all government revenue to prevent the occurrence of multiple taxes from causing a burden and hindering the survival of SMEs in the state.

Tonwe & Mukoro (2024) examined the relationship between tax incentive modelling and entrepreneurial development in Nigeria with emphasis on Delta state, Nigeria. The main objective of the study is to ascertain various measures of tax incentives affect entrepreneurship in the Nigerian economy. The main source of data was the distributed questionnaire amongst selected entrepreneurs in Delta state, Nigeria. The study ensured to include only questionnaires that were filled completely by the sampled 385 respondents. The data was compiled and analyzed using descriptive statistics, Cronbach Alpha and linear regression model in testing the hypotheses. The findings revealed that tax holiday and tax exemption impact entrepreneurial development in Nigeria significantly. By implication, the holiday and tax exemption improve entrepreneurship development in Nigeria. Meanwhile, rural location tax incentives exhibited negative insignificant relationship with entrepreneurial development in Nigeria. The study recommended that policymakers in Nigeria should prioritize the implementation of tax policies that specifically target and incentivize entrepreneurial activities. Building upon the findings of this study, efforts should focus on expanding and enhancing tax holidays and exemptions to alleviate financial burdens on businesses, particularly startups and small enterprises.

Surbakti *et al.,* (2023) determine the various differences between the application of tax incentives in the form of tax allowances and tax holidays in Indonesia and the application of tax incentives in Thailand, with an emphasis one valuating the application of tax incentives and tax allowances in Indonesia. Researchers used qualitative research methods with a comparative descriptive qualitative design. This study uses two types of data sources, namely primary data and secondary data. Primary data is in the form of interviews with tax practitioners, tax officials, and companies that receive tax incentives. Then secondary data in the form of data from books, laws, and other regulations that lead to tax allowances and tax holidays. Researchers used data collection instruments in the form of a list of interview guidelines and notes on the results of the interviews. The results of this study indicate that the application of tax incentives in Indonesia in terms of processing time and usage is better than that in Thailand. As for the facilities, bureaucracy, application process, investment status, and the facilities provided in Thailand are better. The researcher also made comparisons based on infrastructure, socio-political, and population density factors, and found that these factors sufficiently influence investors to determine investment destination countries. In addition, the researchers also found that there are several conditions for submitting tax incentives that are quite burdensome for business people.

Maliki (2023) examined the impact of government involvement on the development of SMEs. Specifically, the study examined (Tax relief, Loan Facilities, and Government Micro-policies) on the impact of government involvement on the development of SMEs. The study adopted a survey research design through the use of a questionnaire approach, 200 questionnaires were distributed to small and medium enterprises in Yewa South Local Government which 175 were retrieved. The method of data analysis adopted is the frequency percentage analysis in which multiple linear regression analysis was used to test the hypothesis stated for the study. From the findings, the study concluded that there is no significant effect between government involvement and the development of small and medium enterprises. Explicitly, analyzed the independent variables and the researcher concluded from the result that tax relief does not have a significant effect on the development of small and medium enterprises in Nigeria. Loan Facilities do not have a significant impact on the development of small and medium enterprises in Nigeria. Government micro-policies do not have a relationship with the development of small and medium enterprises. In accordance with the findings the study recommended that to ensure the development of small and medium enterprises in Nigeria is optimally maximized through government involvement. Government should create and develop entrepreneurship centers that will be partially funded by the government which will serve the purpose of providing assistance to entrepreneurs and owners of small and medium-scale enterprises in Nigeria.

IV. Conclusion and Recommendations

Tax holidays can play a pivotal role in the development of SMEs, fostering investment, job creation, and competitiveness. However, policymakers must carefully design these incentives to ensure they are equitable, sustainable, and aligned with broader economic goals. By addressing the challenges associated with tax holidays, governments can create a more conducive environment for SMEs to thrive, ultimately contributing to robust economic growth. Based on this, the study examined the impact of tax holidays in the development of small and medium scale enterprises in Adamawa state. After thorough review of the literature, the study found that both sales tax holidays and business investment tax holidays have significant effect in the development SMEs. However, sales tax holidays dimension influenced small and medium scale enterprises development more than business investment tax holidays.

Based on these findings,

i) Government and regulatory bodies should maintain and sustain sales tax holidays because it proved to be a valuable tool for stimulating SMEs growth and development. However, the implementation requires careful consideration to maximize benefits and minimize potential drawbacks.

ii) Government and regulatory bodies should ensure and maintain sustainable business investment tax holidays because it proved to be a valuable tool for stimulating SMEs growth and development. However, the implementation requires careful consideration to maximize benefits and minimize potential drawbacks.

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CITATION

Abubakar M.D., Umar F. A., & Joshua W.M. (2024). The Impact of Tax Holidays in the Development of Small and Medium Scale Enterprises (SMEs) in Adamawa State. In Global Journal of Research in Business Management (Vol. 4, Number 4, pp. 170–175). https://doi.org/10.5281/zenodo.13375245