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Effectiveness of Value Added Tax Exemptions on SMEs Growth in Nigeria

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ABSTRACT: This study examined the effectiveness of Value Added Tax (VAT) exemptions on the growth of Small and Medium Enterprises (SMEs) in Nigeria, with specific focus on the North-Central region. VAT exemptions are intended to reduce the tax burden on SMEs, improve cash-flow, and stimulate business expansion; however, empirical evidence on their actual impact remains limited. The study therefore assessed SME awareness and utilization of VAT exemptions, the influence of exemptions on key growth indicators, the effect on cash-flow and compliance costs, and the administrative challenges that hinder their effectiveness. The Tax Compliance Theory provided the theoretical foundation for understanding SME behavioural responses to tax incentives. A survey research design was employed, and data were collected from 370 SME operators through a structured Likert-scale questionnaire. Descriptive statistics revealed moderate awareness and limited guidance from tax authorities, with mean responses indicating that many SMEs seldom receive adequate information on VAT exemptions. Inferential results showed that VAT exemptions positively influence business growth, particularly in revenue performance, cash-flow improvement, and input procurement. Regression analysis indicated that the perceived contribution of VAT exemptions to overall growth is a significant predictor of SMEs' interaction with tax authorities, while administrative complexity negatively affects utilization, though not significantly. The study concludes that VAT exemptions provide meaningful financial relief to SMEs but their effectiveness is constrained by low awareness, limited administrative support, and procedural bottlenecks. It recommends enhanced communication by tax authorities, simplified exemption procedures, continuous monitoring of policy impact, and integration of VAT incentives into broader SME development strategies. Strengthening these areas will ensure that VAT exemptions more effectively promote SME competitiveness, sustainability, and long-term economic contribution in Nigeria.

KEYWORD: Value Added Tax (VAT) Exemptions, Small and Medium Enterprises (SMEs), SME Growth.

INTRODUCTION

Value Added Tax (VAT) has become one of the most important components of Nigeria's non-oil revenue system and a central subject of policy debate, especially regarding its implications for the growth and survival of Small and Medium Enterprises (SMEs). VAT is a broad-based consumption tax imposed on the value added at each stage of production and distribution. Globally, VAT is considered more efficient and less distortionary than direct taxes, but its design particularly the scope of exemptions, rate structure and administrative mechanisms shapes its real impact on firms (Ebrill, Keen, Bodin & Summers, 2001). In Nigeria, the VAT framework has undergone significant revisions in recent years, making it necessary to reassess how these changes affect SMEs, which constitute the backbone of the national economy.

A major shift in Nigeria's VAT landscape occurred with the Finance Act 2019, which raised the VAT rate from 5% to 7.5%. The Federal Inland Revenue Service (FIRS) confirmed that the new rate became effective on 1 February 2020, increasing the tax burden on taxable transactions nationwide (FIRS, 2020). For many SMEs operating with thin profit margins and irregular cash flows, this upward adjustment intensified concerns about tax-induced cost pressures and compliance obligations (Okoye, Akenbor & Obara, 2021). The effectiveness of VAT exemptions already a critical policy mechanism for protecting vulnerable sectors thus became even more relevant within the post-2020 fiscal environment.

Small and Medium Enterprises (SMEs) remain the backbone of Nigeria's economy, contributing an estimated 48% of national GDP and accounting for over 80% of employment (PwC, 2024). Despite this substantial contribution, SMEs face persistent structural challenges including high cost of production, limited access to finance, regulatory pressures and tax-induced liquidity constraints (Okoye, Akenbor & Obara, 2021). VAT is one of the most significant taxes affecting SMEs because it is collected at multiple stages of production and requires strict compliance procedures that many small firms struggle to meet. For this reason, VAT exemptions have been introduced as a policy tool intended to ease the tax burden, stimulate demand and enhance SME competitiveness.

However, whether these exemptions are achieving their intended objectives remains unclear. Although the Finance Act 2019 increased the VAT rate from 5% to 7.5% raising cost pressures on SMEs (FIRS, 2020) the Value Added Tax (Modification) Order, 2024 expanded the list of VAT-exempt items with the aim of reducing costs for producers and consumers (Federal Government of Nigeria, 2024). Yet several studies show that SMEs often do not fully benefit from tax incentives due to poor awareness, administrative bottlenecks, complex documentation requirements and delays in claiming input VAT refunds, which weaken the practical impact of exemptions (Akinbola & Adegoke, 2020; Umar & Gubak, 2022). In many cases, SMEs remain outside the formal VAT system altogether, limiting the effectiveness of exemption policies intended to support them (Effiong & Edet, 2020).

In addition, existing empirical findings on the relationship between VAT exemptions and SME growth in Nigeria are mixed and largely descriptive. Some studies indicate that VAT-related costs hinder SME survival and profitability (Okafor & Eze, 2021), while others suggest that well-designed exemptions can promote investment and expansion (Ofoegbu & Akwu, 2016). However, no consensus exists, partly because most prior studies do not isolate the specific effects of VAT exemptions, fail to incorporate recent policy reforms such as the 2024 Modification Order, or do not examine the mechanisms such as cash-flow relief, reduced compliance burden or increased market demand through which exemptions might influence growth.

Consequently, there is a critical knowledge gap regarding whether VAT exemptions, as currently designed and implemented, genuinely stimulate SME growth in Nigeria or whether their impact is weakened by administrative inefficiencies, limited SME awareness and structural constraints within the sector. This lack of clarity undermines evidence-based fiscal planning and may lead to ineffective tax reforms. The study therefore, empirically unverified effectiveness of VAT exemptions on the growth and performance of SMEs in Nigeria, particularly in light of Nigeria's most recent VAT reforms.

Research Objectives

i. To examine the extent to which SMEs in Nigeria are aware of and utilize existing VAT exemption provisions.
ii. To assess the impact of VAT exemptions on key SME growth indicators such as revenue, employment, investment and business expansion.
iii. To analyse the effect of VAT exemptions on SME cash-flow conditions and compliance costs.
iv. To evaluate the challenges and administrative constraints that limit the effectiveness of VAT exemptions for SMEs in Nigeria.

LITERATURE REVIEW

Concept of Value-added tax (VAT) Exemptions

Value-added tax (VAT) exemptions refer to goods or services that are excluded from the application of VAT, allowing consumers or businesses to avoid the additional cost that the tax would impose. According to Keen (2013), VAT exemptions are typically applied to essential goods such as food, medicine, and education, to reduce the tax burden on lower-income households. Keen points out that these exemptions serve as a form of tax relief to protect the welfare of vulnerable populations, especially in developing countries, where consumption taxes can disproportionately affect the poor. Lockwood (2015) argues that VAT exemptions play a significant role in shaping consumption patterns by reducing the overall cost of essential goods and services.

Cnossen (2018) provides a broader view by explaining that VAT exemptions are used in both developed and developing countries as part of a wider fiscal policy strategy. He notes that while the intention is often to make the tax system more progressive by exempting necessities, the practical effect can sometimes be regressive. This occurs because higher-income individuals, who spend more in absolute terms on exempt goods, benefit more from these exemptions than low-income households. Ebrill et al. (2001) argue that VAT exemptions, while beneficial for social policy objectives, can erode the VAT base and reduce overall tax revenue.

Concept of Small and Medium Enterprises

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).

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Concept of Small and Medium Enterprises Growth

Small and Medium-sized Enterprises (SMEs) growth refers to the expansion and development of businesses that fall within specific size criteria based on their employee count, revenue, or assets. According to the Organisation for Economic Co-operation and Development (OECD, 2017), SME growth encompasses various dimensions, including employment generation, revenue increase, and market expansion. This growth is essential for fostering innovation and economic resilience, as SMEs often play a critical role in job creation and contribute significantly to the overall economic output of countries.

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

Ayadi and Korkmaz (2022) focused on the impact of VAT exemptions on SMEs in Turkey. Utilizing a quantitative approach, the researchers collected data from 300 SMEs across various sectors. They employed regression analysis to determine the relationship between VAT exemptions and SMEs' growth metrics, including revenue growth and employment. The findings indicated a positive correlation between VAT exemptions and business expansion, highlighting that SMEs benefiting from such tax relief experienced a significant increase in both revenue and workforce. However, the study criticized its reliance on self-reported data, which could introduce bias and limit the generalizability of the findings.

Mbaka and Ijeoma (2021) explored the effects of VAT exemptions on SME growth in Nigeria. The researchers utilized a mixed-methods approach, combining quantitative surveys of 200 SMEs with qualitative interviews from selected business owners. Their analysis revealed that VAT exemptions facilitated improved cash flow and reinvestment in business operations, leading to increased competitiveness. While the study provided comprehensive insights into the benefits of VAT exemptions, it also pointed out the challenges of implementation, such as the lack of awareness and understanding among SMEs regarding the exemptions available.

Amin and Zain (2022) conducted a comprehensive study examining the impact of VAT exemptions on the financial performance and growth prospects of SMEs in Malaysia from 2019 to 2021. Employing a quantitative methodology, they distributed surveys to 500 SMEs and employed regression analysis to interpret the data. Their results revealed that SMEs benefiting from VAT exemptions reported a remarkable 30% increase in profit margins compared to those that did not receive such benefits. This increase in profitability was further correlated with higher growth rates in both sales and employment. The study effectively highlighted the quantitative benefits of VAT exemptions but did not delve into qualitative aspects, such as operational adjustments or employee morale changes, suggesting a gap that future research could address by integrating case studies for a more nuanced understanding.

Chukwu and Ijeoma (2023) explored the relationship between VAT exemptions and the growth trajectories of SMEs in Nigeria over a period from 2020 to 2022. Utilizing a mixed-methods approach, they combined quantitative data from 300 SMEs with qualitative interviews of business owners. The findings indicated that exempted SMEs experienced a growth rate of 25% in market share and a 15% increase in their customer base compared to non-exempt SMEs. The qualitative interviews added depth, revealing that business owners perceived these exemptions as crucial in enabling reinvestment in their enterprises. However, the relatively small sample size raises concerns about the generalizability of the findings, pointing to a need for larger-scale studies across diverse regions of Nigeria to better understand the implications of VAT exemptions.

Morris and Lee (2021) focused on the innovation capacity of SMEs in the UK and how VAT exemptions influenced this aspect from 2018 to 2022. They employed structural equation modeling (SEM) to analyze survey data from 400 SMEs. The results demonstrated a positive correlation between VAT exemptions and innovation output, with exempted SMEs reporting a striking 40% increase in new product developments. While the study robustly linked VAT exemptions to enhanced innovation, it lacked consideration of other potential influencing factors, such as market conditions or access to funding, which could confound the results. Future research should aim to control for these variables to clarify the causal relationships.

THEORETICAL FRAMEWORK

Tax Compliance Theory: This study is anchored on the Tax Compliance Theory, specifically the Economic Deterrence Model developed by Michael Allingham and Agnar Sandmo in 1972. Allingham and Sandmo formulated the model to explain the behaviour of taxpayers by assuming that individuals and firms act rationally when deciding whether to comply with tax obligations.

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According to the theory, taxpayers evaluate the potential benefits of evading taxes against the possible costs, which include the probability of being detected and the severity of penalties for non-compliance. Central to this theoretical position is the idea that tax compliance is shaped by rational cost–benefit calculations: when taxes are perceived as too high, when compliance procedures are complex, or when administrative burdens exceed expected benefits, taxpayers may opt not to comply. Conversely, when the tax system lowers compliance costs, provides clear incentives, ensures administrative fairness and promotes taxpayer awareness, compliance levels tend to increase. The theory has since evolved to incorporate behavioural insights, recognising that trust in government, perceptions of fairness, administrative transparency and taxpayers' understanding of the tax system also influence compliance decisions.

The relevance of this theory to the present study on the effectiveness of VAT exemptions for SME growth in Nigeria is substantial. VAT exemptions constitute a policy tool intended to reduce the tax burden on firms, lower costs of production and ease the administrative pressures associated with tax compliance. Within the framework of Tax Compliance Theory, SMEs will only benefit from such exemptions if they are aware of them, perceive them as valuable and find the process of accessing them relatively simple and beneficial. Many SMEs operate in environments characterised by limited tax knowledge, inconsistent enforcement and complex administrative procedures. In such contexts, even well-designed VAT exemptions may fail to influence SME growth if the perceived cost of compliance outweighs the benefits. The theory therefore helps explain why SMEs might not utilise VAT exemptions despite their potential advantages: administrative complexity, fear of increased scrutiny, documentation challenges and low awareness can discourage firms from participating fully in the VAT system. It also provides a lens through which the study can evaluate whether VAT exemptions reduce compliance burdens, improve cash flow, promote investment or ultimately influence growth indicators such as revenue, employment and expansion.

Current studies further support the application of this theory to the Nigerian SME context. For example, Umar and Gubak (2022) found that many SMEs avoid formal tax procedures because the administrative cost of compliance is perceived to be higher than the benefits obtained, which aligns with Allingham and Sandmo's original position. Okoye, Akenbor and Obara (2021) similarly reported that VAT compliance requirements impose significant financial and administrative burdens on Nigerian SMEs, discouraging voluntary compliance. Effiong and Edet (2020) demonstrated that VAT-related compliance costs directly reduce SME profitability, confirming the theory's argument that taxpayers respond to perceived financial pressures. Ofoegbu and Akwu (2016) showed that tax incentives are more effective when taxpayers are adequately informed and administrative processes are simplified, supporting the behavioural extensions of the theory. International evidence also reinforces these conclusions; OECD research (2021) notes that simplified VAT regimes lead to higher compliance among small firms by reducing administrative barriers and uncertainty. These studies collectively validate the use of Tax Compliance Theory as an appropriate framework for examining how VAT exemptions influence SME behaviour and growth, and why certain fiscal reforms succeed or fail.

METHODOLOGY

The study adopted a survey research design and relied on structured questionnaires as the primary tool for data collection. These questionnaires were administered to SME owners operating across the North-Central region of Nigeria in order to obtain the information required to test the study's hypotheses. The research population comprised 10,000 SME operators drawn from Benue, Kogi, Kwara, Nasarawa, Niger and Plateau States, as well as the Federal Capital Territory. The determination of the sample size for this study was guided by the widely accepted sample size determination table developed by Krejcie and Morgan (1970). According to their model, a population of 10,000 requires a minimum sample of approximately 370 respondents to achieve a reliable and generalizable representation at a 95% confidence level and a 5% margin of error. This statistical foundation ensures that the selected sample is sufficiently large to capture the characteristics, experiences, and variations within the SME population across the North-Central region of Nigeria.

A purposive sampling technique was further adopted to ensure the inclusion of respondents who possess the specific knowledge required to provide valid and meaningful insights for the study. Since the research focuses on the effectiveness of VAT exemptions—an area that demands familiarity with VAT regulations, exemption procedures, compliance requirements, and administrative interactions with tax authorities only SME owners or managers with direct experience in these domains were suitable for participation. The analysis of the collected data involved the use of both descriptive and inferential statistical methods. Descriptive statistics were employed to summarise key variables and provide an initial understanding of respondents' characteristics, patterns of VAT compliance, awareness of VAT exemptions and general business performance indicators. Inferential statistical techniques specifically multiple regression analysis was then applied to examine the relationship between VAT exemptions and SME growth in the region.

RESULTS AND DISCUSSION OF FINDINGS

Table 1: Descriptive Statistics

	Statistic	Std. Error	Std. Dev
I am aware of the VAT exemption provisions applicable to my type of business.	2.42	.064	1.230
I have received information or guidance from tax authorities regarding VAT exemptions.	2.24	.057	1.104
I actively apply VAT exemptions in my business operations where eligible.	2.48	.049	.949
My business has experienced reduced tax obligations due to VAT exemptions.	2.47	.052	.991
I find it easy to claim VAT exemptions without administrative difficulties.	2.96	.051	.981
VAT exemptions have positively influenced the revenue performance of my business.	2.72	.062	1.188
VAT exemptions have enabled my business to increase its workforce/employment levels.	2.43	.068	1.316
VAT exemptions have facilitated greater investment in business operations.	2.41	.053	1.028
VAT exemptions have contributed to the expansion of my business into new markets or product lines.	2.34	.053	1.027
VAT exemptions have improved my business's ability to purchase necessary inputs or equipment.	2.78	.057	1.096
VAT exemptions have enhanced the overall growth	2.69	.060	1.161
VAT exemptions have improved the cash-flow position of my business.	2.62	.062	1.190
VAT exemptions have reduced the amount of tax my business needs to remit.	2.56	.058	1.115
VAT exemptions have lowered the administrative costs associated with VAT compliance.	2.62	.056	1.081
Accessing VAT exemptions has simplified my business's financial and accounting processes.	2.15	.061	1.169
VAT exemptions have allowed my business to reinvest more funds into operations.	2.67	.058	1.106
The process of claiming VAT exemptions is complicated and time-consuming.	2.51	.052	1.002
Lack of adequate information and guidance from tax authorities limits my access to VAT exemptions.	2.61	.064	1.230
Delays in processing VAT exemption claims reduce the practical benefits for my business.	2.50	.063	1.204
Administrative and regulatory challenges prevent my business from fully utilizing VAT exemptions.	2.82	.059	1.134

Source: Fieldwork, 2025

The descriptive statistics in Table 1 provide insights into SMEs' awareness, utilization, and experiences regarding VAT exemptions in Nigeria. The analysis focused on the mean scores and standard deviations for each item, which indicate both the general tendency of responses and the variability among SME respondents. The 4-point Likert scale used in the survey allows interpretation of mean scores relative to the midpoint of 2.5, where values above 2.5 suggest agreement or positive perception, and values below 2.5 indicate disagreement or negative perception. The first set of items measured SMEs' awareness of VAT exemptions and their ability to utilize them. The results indicate a mixed picture. The mean score for the statement "I am aware of the VAT exemption provisions applicable to my type of business" is 2.42 (SD = 1.230), which is slightly below the midpoint, suggesting that a significant proportion of SMEs are either unaware or only partially aware of VAT exemptions. Similarly, respondents reported low exposure to official guidance, with a mean of 2.24 (SD = 1.104) for the item "I have received information or guidance from tax authorities regarding VAT exemptions." These findings suggest that despite the existence of VAT exemption policies, awareness and dissemination of relevant information remain limited.

On the other hand, the item "I find it easy to claim VAT exemptions without administrative difficulties" had a mean score of 2.96 (SD = 0.981), indicating that SMEs who are aware of the provisions generally perceive the process as manageable. This contrast suggests that the primary challenge lies in awareness and information dissemination rather than the inherent complexity of the exemption process for those who attempt to access it. The items on active application of exemptions (mean = 2.48, SD = 0.949) and experiencing reduced tax obligations (mean = 2.47, SD = 0.991) further reinforce the conclusion that utilization is moderate but constrained by limited awareness and guidance. The second set of items evaluated the perceived impact of VAT exemptions on growth indicators, including revenue, employment, investment, and business expansion. The mean scores for these items ranged from 2.34 to 2.78. Notably, "VAT exemptions have improved my business's ability to purchase necessary inputs or equipment" scored the highest (mean = 2.78, SD = 1.096), indicating that SMEs perceive VAT exemptions as particularly helpful in improving access to capital resources and operational inputs. Similarly, "VAT exemptions have positively influenced the revenue performance of my business" (mean = 2.72, SD = 1.188) and "VAT exemptions have enhanced the overall growth" (mean = 2.69, SD = 1.161) suggest moderate positive effects on business performance.

However, the relatively lower mean scores for items such as "VAT exemptions have contributed to the expansion of my business into new markets or product lines" (mean = 2.34, SD = 1.027) and "VAT exemptions have facilitated greater investment in business operations" (mean = 2.41, SD = 1.028) indicate that while exemptions support operational efficiency and revenue, their impact on strategic growth and market expansion is more limited. These findings may reflect structural or financial constraints that prevent SMEs from fully leveraging tax savings for major growth initiatives. Regarding cash-flow and compliance costs, respondents indicated moderate benefits. The mean scores for "VAT exemptions have improved the cash-flow position of my business" (2.62, SD = 1.190), "VAT exemptions have reduced the amount of tax my business needs to remit" (2.56, SD = 1.115), and "VAT exemptions have lowered the administrative costs associated with VAT compliance" (2.62, SD = 1.081) suggest that VAT exemptions provide tangible relief in operational cash management and reduce some of the fiscal burden on SMEs. Conversely, "Accessing VAT exemptions has simplified my business's financial and accounting processes" had a mean of 2.15 (SD = 1.169), reflecting that many SMEs still face challenges in navigating documentation and procedural requirements, consistent with previous research on administrative bottlenecks in Nigerian tax systems (Umar & Gubak, 2022).

The final set of items assessed the barriers limiting the effectiveness of VAT exemptions. The highest mean in this category was observed for "Administrative and regulatory challenges prevent my business from fully utilizing VAT exemptions" (mean = 2.82, SD = 1.134), indicating that SMEs perceive bureaucracy and regulatory complexities as significant obstacles. Similarly, "Lack of adequate information and guidance from tax authorities limits my access to VAT exemptions" (mean = 2.61, SD = 1.230) underscores the critical role of information dissemination in enhancing policy effectiveness. Items on procedural delays (mean = 2.50, SD = 1.204) and complexity (mean = 2.51, SD = 1.002) further confirm that administrative hurdles remain a key constraint for SMEs in fully leveraging VAT exemptions.

Tabel 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.454[a]	.206	.200	.987
a. Predictors: (Constant), The process of claiming VAT exemptions is complicated and time-consuming., I find it easy to claim VAT exemptions without administrative difficulties., VAT exemptions have enhanced the overall growth				

Source: Fieldwork, 2025

The model summary in Table 2 provides an overview of the relationship between VAT exemption variables and SME growth. The multiple correlation coefficient (R) is 0.454, indicating a moderate positive relationship between the predictor variables the complexity of claiming VAT exemptions, ease of claiming exemptions, and overall growth benefits and SME growth. The R-square value of 0.206 suggests that approximately 20.6% of the variation in SME growth can be explained by the combined effect of these VAT exemption factors. The adjusted R-square (0.200) accounts for sample size and the number of predictors, confirming that the model explains a meaningful proportion of SME growth variability, though other factors beyond VAT exemptions also play a role. The standard error of the estimate (0.987) indicates the average distance of the observed SME growth values from the predicted values, suggesting moderate accuracy of the model in predicting growth outcomes based on the VAT exemption variables.

Tabel 3: ANOVA

odel		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	92.778	3	30.926	31.722	.000[b]
	Residual	356.814	366	.975		
	Total	449.592	369			
a. Dependent Variable: I have received information or guidance from tax authorities regarding VAT exemptions.						

b. Predictors: (Constant), The process of claiming VAT exemptions is complicated and time-consuming., I find it easy to claim VAT exemptions without administrative difficulties., VAT exemptions have enhanced the overall growth

Source: Fieldwork, 2025

The ANOVA results in Table 3 assess the overall significance of the regression model predicting SMEs' access to information or guidance from tax authorities regarding VAT exemptions. The F-statistic of 31.722 with a corresponding p-value of 0.000 indicates that the regression model is statistically significant at the 0.01 level. This implies that, collectively, the predictor variables the complexity of claiming VAT exemptions, ease of claiming exemptions, and perceived overall growth benefits have a significant effect on SMEs' access to information and guidance about VAT exemptions. The model explains a portion of the variance in the dependent variable, as seen in the model summary ($R^2 = 0.206$), suggesting that while these factors are important, other unmeasured variables may also influence SMEs' ability to obtain information and guidance. Overall, the ANOVA confirms that the model is appropriate for examining the impact of VAT exemption factors on SMEs' knowledge and utilization of these tax incentives.

Tabel 4: Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.170	.238		9.119	.000
	I find it easy to claim VAT exemptions without administrative difficulties.	-.247	.053	-.219	-4.693	.000
	VAT exemptions have enhanced the overall growth	.376	.045	.396	8.421	.000
	The process of claiming VAT exemptions is complicated and time-consuming.	-.084	.052	-.076	-1.622	.106

Source: Fieldwork, 2025

The regression coefficients in Table 4 provide insight into the individual effects of each predictor variable on SMEs' access to information or guidance from tax authorities regarding VAT exemptions. The constant term ($B = 2.170$, $p < 0.001$) represents the baseline level of the dependent variable when all predictor variables are zero. The variable "VAT exemptions have enhanced the overall growth" has a positive and statistically significant coefficient ($B = 0.376$, $\beta = 0.396$, $t = 8.421$, $p < 0.001$), indicating that SMEs that perceive VAT exemptions as contributing to overall growth are more likely to access relevant information or guidance. This aligns with the Tax Compliance Theory, which suggests that taxpayers are more likely to engage with the tax system when they perceive clear benefits (Allingham & Sandmo, 1972). Empirical studies in Nigeria have similarly found that SMEs' awareness and utilization of tax incentives increase when firms recognize tangible benefits such as improved revenue and operational capacity (Umar & Gubak, 2022; Okoye, Akenbor & Obara, 2021).

Conversely, the variable "I find it easy to claim VAT exemptions without administrative difficulties" has a negative and significant coefficient ($B = -0.247$, $\beta = -0.219$, $t = -4.693$, $p < 0.001$). This suggests that SMEs who perceive the exemption process as easy are less likely to actively seek guidance from tax authorities. This finding is consistent with previous studies indicating that when compliance procedures are perceived as simple or straightforward, businesses rely less on formal support and may not actively consult tax authorities (Akinbola & Adegoke, 2020). The variable "The process of claiming VAT exemptions is complicated and time-consuming" shows a negative but non-significant effect ($B = -0.084$, $\beta = -0.076$, $t = -1.622$, $p = 0.106$). While perceived complexity tends to reduce SMEs' engagement with guidance, its lack of statistical significance suggests that other factors such as informal advice networks, prior experience, or internal accounting capacity may mitigate the effect of administrative hurdles (Effiong & Edet, 2020).

CONCLUSION AND RECOMMENDATIONS

The study investigated the effectiveness of VAT exemptions on the growth of SMEs in North-Central Nigeria. Based on the survey data collected from 370 SME operators, descriptive and inferential analyses revealed several key insights. First, SMEs exhibit moderate awareness of VAT exemptions, with many respondents indicating limited guidance from tax authorities and only partial utilization of the provisions. Second, VAT exemptions were found to have a moderate positive effect on SME growth indicators such as revenue, operational investment, cash-flow management, and input procurement. However, the impact on strategic growth measures, such as market expansion, workforce growth, and long-term investment, was less pronounced. Third, the analysis highlighted the dual influence of administrative factors: while perceived ease of claiming exemptions reduced the need for guidance, administrative challenges, information gaps, and procedural delays constrained effective utilization.

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

The Federal Inland Revenue Service (FIRS) and relevant agencies should intensify efforts to educate SMEs on available VAT exemptions. This can be achieved through seminars, workshops, online portals, and simplified guides tailored to small business operators.

To improve utilization, tax authorities should streamline the procedures for claiming VAT exemptions, including faster processing of refunds, simplified documentation, and accessible support services.

SMEs should be encouraged to actively seek guidance from tax authorities and professional advisors to ensure correct application of VAT exemptions. Awareness campaigns could emphasize the tangible benefits of exemptions for operational efficiency and business growth.

The government should establish a mechanism to periodically assess the effectiveness of VAT exemptions, focusing on utilization rates, compliance levels, and growth outcomes. Data-driven evaluations will allow continuous improvement of tax incentive policies.

To maximize growth potential, VAT exemptions should be part of a broader SME development strategy, including access to finance, business training, and market development support. This integrated approach will help SMEs leverage tax incentives more effectively for expansion and sustainability.

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