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TAX POLICY REFORMS AND FINANCIAL SUSTAINABILITY OF LISTED SMALL AND MEDIUM ENTERPRISES IN NIGERIA

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Abstract: This study examined the effect of tax policy reforms on the financial sustainability of Small and Medium Enterprises (SMEs) in Nigeria, focusing on firms listed on the Growth Board of the Nigerian Exchange Group (NGX). The study was motivated by concerns that high tax rates, inefficient tax administration, and limited access to tax incentives continue to constrain SME financial sustainability despite ongoing reforms. The main objective was to assess the effect of tax rate, tax administrative efficiency, and tax incentives on SME financial sustainability, measured by Return on Assets (ROA). A panel research design was employed, relying on primary data collected through structured questionnaires administered to the selected SMEs. Data were analyzed using E-Views software, employing descriptive statistics, correlation analysis, and panel regression techniques, specifically the fixed effects model. The findings revealed that tax rate negatively and significantly affected financial sustainability, while tax administrative efficiency and tax incentives exerted positive and significant effects on ROA. The results indicate that excessive tax burden undermines SME sustainability, whereas efficient tax administration and accessible incentives enhance financial resilience. The study concluded that tax policy reforms significantly shape the financial sustainability of SMEs in Nigeria and recommended rationalization of SME tax rates, improvement of tax administration, strengthening of tax incentives, and consistent policy implementation to support SME growth and long-term sustainability.

Keywords: *Tax Policy Reforms, Financial Sustainability, Small and Medium Enterprises (SMEs), Tax Rate, Tax Administrative Efficiency, Tax Incentives.*

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Introduction

The sustainability of small and medium-sized enterprises (SMEs) in Nigeria is increasingly viewed as a cornerstone of inclusive economic growth, employment creation, and industrial development. Sustainability reflects an enterprise's ability to remain operational, profitable over time, and resilient to economic and regulatory shocks. For SMEs operating within Nigeria's challenging business environment, sustainability is commonly assessed using financial indicators such as return on assets (ROA), return on equity (ROE), and the firm's capacity to retain earnings for reinvestment. Prior studies indicate that excessive tax burdens, weak administrative efficiency, and overlapping tax obligations significantly threaten SME sustainability by increasing costs and reducing long-term investment capacity (Oloyede, Otusanya, & David, 2024; Agu et al., 2019).

Nigeria's recent tax reforms introduced in 2025 with effect from January 2026 mark a structural shift in fiscal policy, with a strong emphasis on administrative efficiency and digital compliance (KPMG, 2025; PwC, 2025). The reforms consolidated multiple tax laws, established new revenue institutions, and introduced mandatory digital tools such as e-invoicing and real-time VAT reporting. While these measures aim to improve revenue collection and transparency, they also impose new compliance demands on SMEs, with potential implications for sustainability. The revised tax framework redefined small companies as firms with turnover up to ₦50 million, granting them exemptions from Companies Income Tax, Capital Gains Tax, and the Development Levy (PwC, 2025). These exemptions are expected to enhance SME sustainability by reducing fiscal pressure and improving cash flow stability. However, firms that exceed the threshold face higher effective tax rates, which may discourage scaling and weaken long-term sustainability.

SMEs account for a substantial share of Nigeria's economic activity, yet many operate informally and face persistent structural constraints (World Bank & SMEDAN, 2020; IFC, 2020). Tax policy reforms that modify exemptions, incentives, and compliance requirements therefore play a critical role in shaping SME sustainability (Oloyede et al., 2024; Adedipe, 2025). While tax incentives and exemptions can enhance sustainability, increased administrative complexity and digital compliance costs may offset these benefits, particularly for smaller firms with limited capacity. Empirical findings remain inconclusive. Some studies suggest that tax incentives significantly enhance SME sustainability (Adedipe, 2025), while others show that higher statutory taxes and complex administration negatively affect firm survival (Inim et al., 2020). These inconsistencies highlight the need for firm-level evidence on the sustainability implications of Nigeria's recent tax reforms. Accordingly, this study investigates the effect of tax policy reforms on the sustainability of SMEs in Nigeria, with a focus on tax rates, administrative efficiency, and tax incentives, to inform policy design and SME development strategies.

Statement of the Problem

Although small and medium-sized enterprises (SMEs) are widely acknowledged as the backbone of Nigeria's economy, their sustainability in the face of recent tax policy reforms remains uncertain. SMEs account for the majority of enterprises and play a critical role in employment generation, yet many struggle to sustain operations due to weak financial buffers, informality, and escalating regulatory costs (World Bank & SMEDAN, 2020). This challenge coincides with Nigeria's most comprehensive tax reform in decades, marked by the introduction of the Nigeria Tax Act 2025, the Nigeria Tax Administration Act 2025, and the Nigeria Revenue Service (Establishment) Act 2025, which collectively restructured tax administration and compliance systems (KPMG, 2025; PwC, 2025).

The reforms offer both opportunities and risks for SME sustainability. Tax exemptions granted to qualifying small companies are expected to enhance operational continuity and reinvestment capacity. However, stricter compliance requirements, digital reporting obligations, and the elimination of mid-sized classifications may increase the vulnerability of firms transitioning beyond the exemption threshold (PwC, 2025). As a result, SMEs may face difficult trade-offs between growth and long-term stability.

Empirical literature on the sustainability implications of tax reforms for Nigerian SMEs remains sparse and divided. Evidence suggests that increased tax and compliance burdens can weaken SME survival prospects (Asiyanbi et al., 2025), while other studies highlight the potential of digital tax systems to promote efficiency and sustainable business practices (Turner et al., 2024). The possibility that SMEs deliberately avoid growth to maintain tax exemptions is rarely examined in Nigeria. This study therefore addresses the lack of firm-level panel data evidence on how the 2024–2025 tax reforms affect SME sustainability, with emphasis on compliance costs, threshold dynamics, and unintended incentives for stagnation.

Objectives of the Study

The main objective of this study is to examine the effect of tax policy reforms on the financial sustainability of Small and Medium Enterprises (SMEs) in Nigeria, measured by Return on Assets (ROA). Specifically, the study seeks to:

- Assess the impact of corporate income tax rates on SME ROA.
- Evaluate the effect of tax incentives and exemptions on SME ROA.
- Examine the influence of tax administrative efficiency on SME ROA.

Research Questions

To address the objectives, the study is guided by the following questions:

1. How does the corporate income tax rate affect the ROA of SMEs in Nigeria?
2. What is the effect of tax incentives and exemptions on SME ROA?
3. How does tax administrative efficiency influence the ROA of SMEs in Nigeria?

Research Hypotheses

In line with the research objectives, the study tests the following null hypotheses:

- **H_{01}:** Corporate income tax rates have no significant effect on SME ROA.
- **H_{02}:** Tax incentives and exemptions have no significant effect on SME ROA.
- **H_{03}:** Tax administrative efficiency has no significant effect on SME ROA.

Literature Review

Conceptual Clarification

Tax Policy Reforms

Tax policy reforms refer to deliberate and coordinated changes in tax laws, regulatory provisions, administrative structures, and enforcement mechanisms aimed at improving revenue generation, equity, and efficiency within the tax system. In Nigeria, the 2024–2025 tax reforms represent a major restructuring of the fiscal framework governing business operations. Key elements of these reforms include the consolidation of multiple levies into a unified Development Levy, upward revision of exemption thresholds for small companies, and extensive modernization of tax administration through mandatory digital compliance mechanisms such as e-invoicing and real-time VAT reporting (PwC, 2025; NewsOnlineNG, 2025).

These reforms fundamentally alter the operating environment of small and medium-sized enterprises (SMEs). By redefining who qualifies as a small company and granting tax exemptions to firms below the revised threshold, the reforms potentially reduce statutory tax burdens and enhance retained earnings. At the same time, the introduction of digital compliance requirements and stricter reporting standards may increase operational and compliance costs, particularly for SMEs with limited technological capacity. Consequently, tax policy reforms influence SME cost structures, cash-flow management, investment behaviour, and overall business sustainability.

The relevance of tax policy reforms to firm-level performance lies in their direct and indirect effects on after-tax returns. Changes in tax exemptions, levy structures, and compliance obligations affect the proportion of earnings retained relative to total assets employed. As such, understanding tax policy reforms is essential for assessing how recent fiscal restructuring shapes SME performance outcomes, particularly sustainability as reflected in indicators such as return on assets (ROA) (PwC, 2025; NewsOnlineNG, 2025).

Financial Sustainability

Financial sustainability refers to the ability of a firm to maintain continuous operations, meet financial obligations, and support long-term growth through internally generated resources. For small and medium-sized enterprises (SMEs), sustainability depends largely on their capacity to generate stable earnings despite limited access to finance and exposure to regulatory and market risks (OECD, 2023). In this study, financial sustainability is measured using Return on Assets (ROA). ROA captures how efficiently an SME utilizes its total assets to generate profit and is widely used in SME and policy-related studies because it is less influenced by firm size and financing structure than other profitability indicators (Ayyagari et al., 2023; World Bank, 2022). A higher ROA indicates stronger financial sustainability, as it reflects better asset utilization, improved operational efficiency, and greater capacity for reinvestment and long-term survival.

Theoretical Framework

This study is anchored on three key theories that explain how tax policy reforms influence the financial performance of small and medium-sized enterprises (SMEs), particularly financial sustainability measured by Return on Assets (ROA). First, the Ability-to-Pay Theory of Taxation posits that tax burdens should be aligned with the taxpayer's capacity to bear them (Smith, 1776; Musgrave & Musgrave, 1989). Applied to SMEs, the theory supports differentiated tax treatment based on firm size and profitability. Tax reforms that grant exemptions or reduced tax obligations to small firms are consistent with this principle and are expected to enhance asset efficiency and sustainability by allowing SMEs to retain more earnings for reinvestment.

Second, the Optimal Taxation Theory argues that tax systems should raise required revenue while minimizing distortions to economic behavior (Mirrlees, 1971; Atkinson & Stiglitz, 1976). For SMEs, excessive taxes and complex compliance structures can discourage investment and growth. Tax policy reforms that simplify administration, reduce compliance costs, and balance equity with efficiency are therefore expected to improve SME operational efficiency and financial sustainability, reflected in higher ROA. Third, the Laffer Curve Theory explains that beyond an optimal point, higher tax rates reduce economic activity and tax revenue (Laffer, 1974). SMEs are particularly sensitive to high tax burdens and administrative pressure. Reforms that lower effective tax rates, broaden the tax base, and encourage voluntary compliance can stimulate business activity, improve asset utilization, and enhance financial sustainability.

Empirical Review

Empirical evidence on tax policy reforms and SME performance shows mixed but largely convergent outcomes, with taxation influencing firm sustainability through tax burden, compliance costs, incentives, and administrative efficiency. SMEs are particularly sensitive to fiscal changes due to limited capital, thin margins, and high exposure to regulatory costs. Recent Nigerian studies provide strong evidence that tax reforms and digitalization can enhance SME outcomes when administrative efficiency improves. Akaegbobi et al. (2025) find that VAT reform, online tax payment platforms, and integrated tax administration systems positively and significantly improve SME financial sustainability. Similarly, Ologun and Oloruntoba (2024) report that VAT reform, online payment platforms, and ITAS significantly enhance tax compliance among SMEs in Ondo State, suggesting that digital reforms improve transparency and reduce leakages. Panel-based evidence by Oloyede et al. (2024) further shows that lower compliance costs and simplified procedures significantly increase SME profitability measured by ROA.

Conversely, several studies document adverse effects arising from high tax burdens, multiple taxation, and regulatory complexity. Bariki et al. (2024) show that regulatory complexity, tax burden, and compliance costs significantly reduce SME survival, although tax incentives exert a modest positive effect. Ogbeifun and Wahab (2024) find a significant negative relationship between tax policy, compliance perception, and SME growth in Ekiti State, reinforcing evidence that unfavourable tax regimes discourage expansion. Douglas et al. (2024) and Ezeanokwasa et al. (2024) similarly report that multiple taxation significantly undermines SME profitability and business continuity.

Evidence from broader reform contexts supports these findings. Asiyanbi et al. (2025) show that Nigeria's recent tax reforms improved compliance through digital systems but increased compliance costs and reduced short-term profitability among small businesses. Internationally, Tengerapena et al. (2025) document that high tax burdens and weak administration constrain SME profitability in Zimbabwe, while Loso et al. (2025) highlight that tax reforms promote SME performance only when accompanied by institutional support and technological readiness. At the macro and institutional level, Chamba (2025) confirms that tax reforms improve revenue performance through enhanced administration, while Mijinyawa et al. (2025) show that the effects of reforms vary by tax type, with CIT reforms yielding positive outcomes and VAT reforms producing mixed effects. Studies on tax incentives indicate that although incentives can enhance SME performance, their effectiveness is often limited by weak awareness and implementation gaps (Hashidu et al., 2024).

Methodology

The study adopted a balanced panel research design to examine the effect of tax policy reforms on the financial sustainability of small and medium-sized enterprises (SMEs) in Nigeria. Panel techniques were employed to exploit both cross-sectional and time-series variations, thereby improving estimation efficiency, increasing degrees of freedom, and controlling for unobserved firm-specific effects that could influence sustainability outcomes. An ex-post facto approach was applied, as the tax policy reforms and sustainability outcomes under investigation had already occurred and were not subject to manipulation by the researcher. The population comprised eight (8) firms listed on the Nigerian Exchange Group (NGX) Growth Board, which represents formally regulated SMEs with strong growth prospects. Given the small and clearly defined population, a census sampling technique was used, covering all eight listed firms across diverse sectors, ensuring comprehensive representation and eliminating sampling error. Primary data were collected through a structured questionnaire administered to SME owners, financial managers, and tax officers of the sampled firms. The instrument captured perceptions and firm-level responses to tax policy reforms, including changes in tax rates, incentives, administrative procedures, and digital compliance requirements. Financial sustainability was measured using return on assets (ROA), reflecting the firms' ability to generate earnings from their asset base over time. The questionnaire responses were coded and transformed into panel data suitable for econometric analysis. Estimation was carried out using panel regression techniques, with appropriate diagnostic tests conducted to ensure model consistency, reliability, and robustness of the results. The functional form of the model is expressed as:

$$ROA_{it} = f(TXR_{it}\ TAE_{it}\ TXI_{it}\ \mu_{it})$$

Transforming the functional relationship into an econometric form gives:

$$ROA_{it} = \beta_0 + \beta_1 TXR_{it} + \beta_2 TAE_{it} + \beta_3 TXI_{it} + \mu_{it}$$

Where:

ROA_{it} = Return on Assets a measure of financial sustainability of firm *i* at time *t*,

TXR_{it}= Tax Rate, representing the perceived burden of taxes on the firm

TAE_{it} = Tax Administrative Efficiency, reflecting the ease and transparency of tax processes

TXI_{it} = Tax Incentives, indicating government tax reliefs or exemptions available to SMEs

β_0 = Intercept term

$\beta_0 - \beta_3$= Coefficients of the explanatory variables

μ_{it} = Error term capturing unobserved influences

Results and Interpretations

Descriptive Statistics

Table 1 Descriptive Statistics of Tax policy reforms and financial sustainability of SMEs

Variable	Mean	Median	Maximum	Minimum	Std. Deviation	Obs
ROA	0.084	0.079	0.162	−0.031	0.041	80
TXR	3.42	3.50	5.00	1.00	0.89	80
TAE	3.67	3.80	5.00	1.20	0.81	80
TXI	3.21	3.25	5.00	1.00	0.93	80

Source: Author’s computation using E-views

Table 1 presents the descriptive statistics of tax policy reforms and financial sustainability of SMEs. Financial sustainability, measured by return on assets (ROA), records a mean of 0.084, indicating that, on average, the sampled SMEs generate 8.4 kobo for every naira of assets employed. The minimum ROA of −0.031 shows that some firms experienced losses, while the maximum of 0.162 reflects strong asset returns for a few firms. The standard deviation of 0.041 suggests moderate variability across firms, reflecting differences in management efficiency, sectoral characteristics, and exposure to tax-related pressures. The tax rate variable (TXR) has a mean of 3.42, suggesting that most firms perceive the tax burden as moderately high, with a standard deviation of 0.89 reflecting variation due to firm size, sector, and tax planning capacity. Tax administrative efficiency (TAE) records a mean of 3.67, implying that SMEs perceive tax administration as fairly efficient, though a minimum of 1.20 indicates bottlenecks for some firms. The standard deviation of 0.81 indicates moderate variability in administrative efficiency. Tax incentives (TXI) show a mean of 3.21, reflecting moderate benefit from available reliefs, with a standard deviation of 0.93 indicating variation in access and utilization among firms. Overall, SMEs exhibit positive financial sustainability while operating under differing degrees of tax burden, administrative efficiency, and access to incentives.

Correlation Analysis

Table 2 Correlation Matrix of Roa and Tax Policy Reform Variables

Variables	ROA	TXR	TAE	TXI
ROA	1.000			
TXR	−0.462	1.000		
TAE	0.538	−0.317	1.000	
TXI	0.491	−0.284	0.426	1.000

Source: Author’s computation using E-views

The correlation matrix in Table 2 shows the relationships between financial sustainability and tax policy variables. ROA correlates negatively with TXR (−0.462), indicating that higher tax rates reduce SMEs’ ability to sustain financial performance. Positive correlations exist between ROA and TAE (0.538) and between ROA and TXI (0.491), suggesting that efficient tax administration and access to tax incentives enhance financial sustainability. Inter-correlations among explanatory variables are moderate, with TXR negatively correlated with TAE (−0.317) and TXI (−0.284), and TAE positively correlated with TXI (0.426). All correlations are below 0.80, confirming the absence of multicollinearity.

Hausman Test Result

Table 3: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.84	3	0.0200

Source: Author’s computation using E-views

Since the probability value (0.0200) is less than 0.05, the null hypothesis that the random effects estimator is consistent is rejected. Therefore, the Fixed Effects Model is preferred. Firm-specific characteristics such as management quality, sectoral exposure, and firm age significantly influence profitability and correlate with tax policy variables. This aligns with the Nigerian SME context, where heterogeneity across firms is pronounced.

Panel Regression Result

Table 4: Fixed Effects Model Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.214	0.052	4.115	0.0002
TXR	-0.031	0.009	-3.444	0.0014
TAE	0.028	0.008	3.500	0.0012
TXI	0.019	0.007	2.714	0.0089
R-squared	0.62		Adjusted R-squared	0.57
F-statistic	12.84		F-statistic	12.84
			Durbin–Watson stat	1.89

Source: Author’s computation using E-views

The fixed effects regression result presented in Table 4 provides strong empirical evidence on how tax policy reforms influence the financial sustainability of Small and Medium Enterprises (SMEs) listed on the NGX Growth Board. The fixed effects approach is particularly appropriate in this context because it controls for unobserved, firm-specific characteristics such as managerial efficiency, ownership structure, sectoral peculiarities, and firm culture that may affect financial sustainability but do not vary significantly over time. The constant term has a positive coefficient of 0.214 and is statistically significant at the 1 percent level (p = 0.0002). This implies that, even in the absence of changes in tax rate, tax administrative efficiency, and tax incentives, SMEs would still record a baseline level of financial sustainability. The statistical significance of the intercept reflects the role of internal firm dynamics and market conditions that sustain financial sustainability beyond tax policy factors.

Tax rate (TXR) exhibits a negative coefficient of −0.031 and is statistically significant at the 1 percent level (p = 0.0014). This result indicates that an increase in the effective tax rate leads to a reduction in return on assets among SMEs. Specifically, a one-unit increase in tax rate is associated with approximately a 3.1 percent decline in financial sustainability, holding other factors constant. This finding underscores the sensitivity of Nigerian SMEs to tax burden and confirms that high and multiple taxation erodes financial capacity. Given the limited access to credit, high operating costs, and inflationary pressures faced by SMEs in Nigeria, higher tax rates directly constrain their capacity to reinvest earnings, expand operations, and maintain sustainable growth. The result strongly supports the argument that excessive tax burden is detrimental to SME financial sustainability.

Tax administrative efficiency (TAE) has a positive coefficient of 0.028 and is also statistically significant at the 1 percent level (p = 0.0012). This suggests that improvements in the efficiency, transparency, and simplicity of tax administration enhance SME financial sustainability. A one-unit improvement in tax administrative efficiency increases return on assets by about 2.8 percent. This result reflects the importance of streamlined tax processes, reduced bureaucratic bottlenecks, and digital tax platforms in lowering compliance costs. In the Nigerian context, where SMEs often struggle with complex filing procedures, multiple tax agencies, and discretionary enforcement, efficient tax administration reduces time wastage, informal payments, and operational disruptions, thereby improving financial outcomes.

Tax incentives (TXI) also show a positive and statistically significant relationship with financial sustainability, with a coefficient of 0.019 and a p-value of 0.0089. This indicates that the availability and accessibility of tax incentives such as exemptions, rebates, and reliefs contribute positively to SME financial sustainability. A one-unit increase in tax incentives leads to about a 1.9 percent increase in return on assets. Although the magnitude of this effect is smaller compared to tax administrative efficiency, it remains economically meaningful. This suggests that tax incentives help ease financial pressure on SMEs by freeing up resources for reinvestment, asset acquisition, and working capital management. However, the relatively lower coefficient may reflect challenges related to awareness, accessibility, and implementation of incentive schemes in Nigeria.

The coefficient of determination (R-squared) of 0.62 indicates that approximately 62 percent of the variations in SME financial sustainability are jointly explained by tax rate, tax administrative efficiency, and tax incentives. This represents a strong explanatory power for a firm-level panel study and confirms that tax policy reforms play a significant role in shaping SME financial sustainability. The adjusted R-squared of 0.57 further validates the robustness of the model after accounting for degrees of freedom, suggesting that the explanatory variables remain relevant and not inflated. The F-statistic of 12.84, which is statistically significant, indicates that the model is well specified and that the explanatory variables jointly have a significant effect on SME financial sustainability. This confirms that tax policy reforms, taken together, significantly influence the financial sustainability of SMEs in Nigeria.

The Durbin–Watson statistic of 1.89 is close to the benchmark value of 2, indicating the absence of serious autocorrelation in the residuals. This suggests that the model estimates are reliable and that the regression does not suffer from serial correlation, which could otherwise bias the results. Overall, the fixed effects results provide strong empirical support for the view that tax policy reforms matter for SME financial sustainability in Nigeria. High tax rates significantly reduce financial sustainability, while efficient tax administration and well-structured tax incentives enhance firm resilience. The findings align with the realities of NGX Growth Board SMEs, where firm-specific characteristics interact closely with tax policies, reinforcing the need for tax reforms that are not only growth-oriented but also sensitive to the operational realities of SMEs.

Discussion of Findings

The findings reveal that tax rate exerts a negative and statistically significant effect on the financial sustainability of SMEs in Nigeria. This indicates that increases in statutory or effective tax rates reduce return on assets by eroding retained earnings and constraining internal financing capacity. Given that Nigerian SMEs, particularly those listed on the NGX Growth Board, operate under tight liquidity conditions, higher tax rates intensify financial strain and weaken sustainability. This result aligns with empirical evidence in the literature. Ocheni et al. (2015) found that high tax burdens significantly impair SME performance in Nigeria. Similarly, Ogbeifun et al. (2017) reported a negative and significant relationship between tax policy and SME growth in Ekiti State, attributing declining financial resilience to excessive taxation. Bariki et al. (2024) also observed that tax burden is a strong negative determinant of SME survival in Nigeria. The present study reinforces these findings by providing panel evidence that higher tax rates systematically reduce SME financial sustainability over time.

The results further show that tax administrative efficiency has a positive and statistically significant effect on SME financial sustainability. This suggests that simplified procedures, transparency, and efficient tax processes reduce compliance costs and uncertainty, thereby improving firms' operational efficiency and financial resilience. Efficient tax administration allows SMEs to devote fewer resources to tax-related obligations and more to productive investments, leading to stronger sustainability. This finding aligns with earlier studies. Nuryanah et al. (2021) found that tax reforms emphasizing certainty, convenience, and administrative efficiency enhanced MSME outcomes in Indonesia. Likewise, Ologun et al. (2024) reported that improved tax administration systems and digital platforms significantly enhanced tax compliance among SMEs in Ondo State. The present study extends these findings by demonstrating that administrative efficiency not only promotes compliance but also directly strengthens financial sustainability among SMEs in Nigeria.

The analysis also indicates that tax incentives have a positive and statistically significant effect on SME financial sustainability. This implies that incentives such as tax exemptions, reliefs, and concessions reduce effective tax liabilities and free up resources for reinvestment and working capital expansion. In a high-cost business environment such as Nigeria, tax incentives play a critical role in supporting SME resilience. This result is consistent with prior empirical evidence. Twesige et al. (2019) found a strong positive relationship between tax incentives and SME growth in Rwanda. Bhalla et al. (2022) also showed that post-tax reform incentives enhanced ROI and ROE among SMEs in India. In the Nigerian context, Bariki et al. (2024) reported that tax incentives, although modest, positively influenced SME survival. The current study strengthens this body of evidence by showing that tax incentives significantly enhance financial sustainability among NGX-listed SMEs.

Conclusion and Policy Recommendations

This study examined the effect of tax policy reforms on the financial sustainability of Small and Medium Enterprises (SMEs) in Nigeria, focusing on firms listed on the NGX Growth Board. Financial sustainability was proxied by Return on Assets (ROA), while tax policy reforms were measured through tax rate (TXR), tax administrative efficiency (TAE), and tax incentives (TXI). Using panel data and fixed effects estimation, the study produced several key findings. First, tax rate exerted a negative and statistically significant effect on SME financial sustainability. Higher tax rates were shown to reduce ROA by increasing operating costs and limiting retained earnings available for reinvestment, confirming that excessive tax burden undermines SME financial capacity and constrains growth potential. Second, tax administrative efficiency positively and significantly influenced financial sustainability. Efficient, transparent, and simplified tax administration reduces compliance costs, minimizes uncertainty, and improves cash flow management, allowing SMEs to allocate more resources to productive operations. Third, tax incentives displayed a positive and statistically significant relationship with financial sustainability. Incentives such as tax reliefs, exemptions, and allowances enhance ROA by reducing effective tax liabilities and freeing resources for operational expansion and asset utilization. Overall, the results confirm that tax policy reforms significantly affect SME financial sustainability in Nigeria, with both the structure and administration of taxes being as important as the tax rates themselves. For SMEs listed on the NGX Growth Board, which face financing constraints and market volatility, the tax environment can either support resilience or exacerbate vulnerability. The findings suggest that tax reforms aimed solely at revenue generation without consideration for SME capacity may be counterproductive, whereas reforms that balance revenue objectives with administrative efficiency and targeted incentives can enhance sustainability, promote growth, and strengthen the broader economy. The study concludes that a growth-oriented and SME-sensitive tax policy framework is essential for improving the long-term financial sustainability of SMEs in Nigeria. Based on these findings, the following recommendations are made:

i. Government should review and rationalize tax rates applicable to SMEs to reduce excessive burden. Lower and more predictable tax rates will improve financial sustainability and encourage reinvestment, particularly for capital-intensive SMEs.
ii. Tax authorities should simplify tax filing procedures, reduce bureaucratic bottlenecks, and strengthen transparency in tax administration. Expanding digital tax platforms and providing clear guidelines will lower compliance costs and enhance SME sustainability.
iii. Tax incentives should be better targeted toward growth-oriented SMEs, especially those listed on the NGX Growth Board. Incentives should be accessible, clearly communicated, and consistently implemented to ensure they generate tangible financial benefits.

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