International Journal of Economics, Commerce and Management
United Kingdom Vol. IV, Issue 3, March 2016
http://ijecm.co.uk/ ISSN 2348 0386

THE IMPACT OF TAX INCENTIVES ON ECONOMIC DEVELOPMENT IN NIGERIA (EVIDENCE OF 2004 – 2014)

Ironkwe Uwaoma
Department of Accounting, Faculty of Management Sciences
University of Port Harcourt, Nigeria

Promise A. Ordu
Department of Accounting, Faculty of Management Sciences
University of Port Harcourt, Nigeria
promise_ordu@yahoo.com ; macpromise@hotmail.com

Abstract

This study examined the impact of Tax incentives on economic development in Nigeria that is seen in terms of industrial growth in the nation with evidence from years 2004 to 2014. The population of this study includes 51 respondents drawn from taxpayers, management and members of staff of some selected manufacturing companies in the South-South geo-political zone of Nigeria and Federal Inland Revenue Services. Using probability method, a sample size of 45 respondents were used whilst Thirty (30) companies were studied. The classes of personnel included in the research were administrative managers, accounts managers, internal auditors, and marketing and production staff. Survey method including the use of questionnaire and interview was adopted, whilst correlation method of analysis was adopted. Twenty eight (28) correctly responded copies of questionnaire out of 30 administered were obtained for the analysis, Spearman's Rank Correlation Coefficient (rho) statistical tool was used in testing the hypothesis using Statistical Package for Social Sciences software (SPSS). The findings reveal that sufficient tax incentives enhances industrial growth and economy whilst in conclusion, it was recommended among others that, government should waive certain taxes on corporate bodies to help them develop and mature especially at their early stage. Government should not focus on the revenue that may be lost at this point because in the long-run the benefit surpasses what is lost at the initial time.

Keywords: Development, Industrial growth, Manufacturing firms, Nigeria, Tax Incentives

INTRODUCTION

The administration and payment of tax by taxable adults in Nigeria dates back to pre-colonial era. Both the administration and collection of taxes were carried out by the Emirs, Chiefs, and their appointed agents. The system as it was though functional for that time was extremely croaked and arbitrary. It is important to note that tax collection developed from the Northern states of the country and gradually percolated to the Southern states.

On the advent of the British in about 1900, the administration of tax effected through several ordinances (now acts and decrees), which principally entrusted the responsibility of collection of taxes on local authorities. In 1940, the direct taxation ordinances were introduced to Nigeria through the administration and collection of taxes was still shared between the British administration and the local authorities.

When Nigeria became a federation in 1952, the regional governments (Northern, Western, and Eastern regions and the Federal Territory of Lagos) took full responsibility for assessment and collection of taxes in their regions. Thus each of the regions including the federal territory of Lagos made their respective personal income law.

However, income tax Management Act 1961 failed to unify the rates of taxes, relief and allowance through the country. The defects of ITMA 1961 were rectified by(income tax management Uniform Taxation Provision Act,1957).Subsequent amendment took place before the enactment of personal income Tax Decree No.104 of 1993, which was later amended.

Ezejelue and Ihendinihu (2006) defined taxation as the demand made by the government of a country for a compulsory payment of money by the citizens of the country with the objectives of raising revenue to finance government expenditures, satisfy collective wants of the people and regulate economic and social policies.

Black's dictionary describes a tax as a rateable portion of the produce of the property and labour of the individual citizens taken by the nation in exercise of its sovereign right for the support of government, for the administration of the laws and as a means for continuing in operation, the various legitimate functions of the state.

Taxation is a civil responsibility which its assessment is in accordance with all established cannon; the principle of equity, convenience and productivity. The Nigeria tax system features a wide and mixed range of statutes by which various governments in the country seek to change and collect for public expenditure. Of these, the most widely used was based on income and are personal income tax and company's income tax. Whilst, in the Oil rich nations, petroleum profit tax is used as well (Ordu, 2015). Taxation is divided into two namely: - Direct and indirect taxes. Direct tax in Nigeria consists of personal income tax and company's income tax. Indirect taxes are levied against goods and services e.g. stamp duties, entertainment, pool and casino taxes, industrial training funds, custom duties and exercise duties. Assessment and collection of direct taxes is by the State Board of internal Revenue on resident individuals while companies incomes tax is by Federal Board of Inland Revenue on corporate bodies.

In a wider sense, there are three (3) main methods open to most developing countries such as ours in financing economic expenditure namely, tax's on other currency receipts, loans and grants. Taxation perhaps is the most important of all these because revenue generated by the system determines expenditure. The objectives which taxation might be used to accomplish are mostly social and economic and among others include the following:

a. Provision of additional revenue for government.

b. Encouragement of saving and regulation of expenditures on luxuries.

c. Provision of investment incentives in industries.

d. Protection of new industries from foreign completion and

e. Adjustment of trade – imbalance through imposition of discriminatory tariffs.

f. Provision of free social services e.g. health care, education etc.

g .Correction of balance of payment disequilibrium.

Taxation has encouraged some activities in the private sector depending on how favourable the policy is on the company's return on investment and balance available for private saving only payment to the state Internal Revenue Services.

The Nigeria law of companies and Allies Mather Act of 1990 as amended incorporating all legal provision have made provision for certain tax incentives for corporate bodies and individuals.

Basically, tax incentives are designed to encourage investment in certain preferred sectors of the economy and sometimes they are geared towards attracting in-flow of foreign exchange to compliment domestic suppliers for rapid economic development. Generally, these incentives are in the areas of manufacturing, export, agriculture and solid mineral, VAT, individuals and other areas. These incentives include: Personal allowance, Capital allowance, Investment allowance, Loss relief, Roll over relief, Annual allowance, Pioneer relief, Tax free dividend, Export Processing Zones Relief, Research and development and Tax free holiday.

It is good to note that the incentives are to ease off the burden of tax on tax payers. Tax evasion and avoidance encourage investors, which in turn will enhance economic growth and development for purposes of influencing the structure and character of private investment. As the Nigeria market become more responsive, potential competitors are at an advantage For example, if within the textile industry, a firm that import yarn for weaving is denied a tax holiday which a similar firm that undertake both spinning and weaving is granted, the former is likely to seek to maintain its competitive positions by carrying its backward integration further to spinning stage.

Thus incentives to industries act like a catalyst to industrial development by reducing the import content of domestic manufacture improve the balance of payment and enhance the total impact of industrialization on income and employment within the Nigerian economy. This research therefore intends to evaluate the impact of tax incentives on economic development that is seen in terms of industrial growth in Nigeria.

Statement of Problem

Over the years, the economies of different nations have had significant changes structurally and this has consequently resulted to the classification of nations by experts as developed, developing and underdeveloped or third world country. According to the UN, a developing country is a country with a relatively low standard of living, undeveloped industrial base, and moderate to low Human Development Index (HDI) (Educational Pathway International, 2010). Since the introduction of the structural adjustment programme in September, 1996, Nigeria economy has experienced instability and dwindling growth rate. This was traceable to inadequacy of tax incentives available to our industries. Consequent upon this, many firms were put out of business and some strictly confined to growth and retardation thereby worsening income inequalities through reduced tax savings.

It has also been found that most of the owners of the companies (potential owners inclusive) have great difficulty in obtaining fund for business to the extent that some even resort to informal financial institution with high rate of interest, and this is inimical to growth. The establishment of Nigeria Bank for Commerce and Industry (NIDB) in 1964 by Decree No.22 of 1973 are bold steps to encourage industrial development. Fund is required to start, maintain and expand a business but lack of it.

The question has been to what extent and how effective has the established institutions contributed to alleviate this fund problem. It is not uncommon to find many prospective businessmen who feel very frustrated and complain of long delays in their dealings with bank executives, who after a lengthy discussion with the manager only get denied the requested funds. Related to this problem is the address of certain government policies on corporate development especially in Nigeria where the relationship between government and business is principally that of regulation and control. For instance, protectionist policies and controlled / highly regulated economic system are to a great extent anti-development. Whereas developed countries made it easier to trade among themselves, tariffs among them fall from 40% to 5% by

1990, efforts are still being made to reduce them further, African countries e.g. Nigeria tried to protect their industries from international competition.

Another very important angle to this is the activities / effects of such international finance organization as the IMF, and the World Bank, Paris Club, London Club and many others on the assumption that they are agents of economic and technological development. Using IMF as a case study, its conditions amongst are which are inimical to developing countries include:

a. Currency devaluation

b. Wage freeze / retrenchment of workers.

c. Reduction in government social and welfare expenditure-removal of subsides.

d. Trade liberation to allow free flow of capital, labour technology.

e. Privatization and commercialization of public enterprises (Economic helps.org:2008)

These objectives have left developing countries with almost no discretion in determining their own economic policies. The report of South Commission, (1993) explains that counter IMF policies can hardly point to success stories among recipient countries of its loan conditions. Government should only embrace appropriate macro-economic policies, and from ideological basics. Lastly corruption among the human machinery is not without notice. No matter how efficient the policies and the incentive policies, if implementation and execution machinery are not effective, the system will crumble.

In view of the aforementioned developments, it has become expedient to encourage firms and industrial growth through various concessions these can lead to economic growth and development as the output from increased industries can be seen, hence this study, to highlight the critical and pivotal roles tax incentives play among other factors in economic and industrial growth of Nigeria.

Objectives of the Study

Tax incentives is fiscal policy from government to corporate bodies as means of motivating their engagement into manufacturing ,investing or even trading and other business activities that can help develop the economy.

It is therefore the objectives of this research, in specific terms to:

a. Examine how the existence of tax incentives has encouraged corporate growth.

b. Determine to what extent lack of awareness of available tax incentives has relationship with the level of development seen in investments in the economy.

c. Ascertain the level of tax incentives that motivate people to go into business enterprise

Research Questions

a. To what extent does sufficient or insufficient tax incentives encourage corporate and industrial growth?
b. To what extent does lack of awareness of available tax incentives affect the level of investment in the economy?
c. To what extent do available tax incentives motivate people to go into business enterprises?

Research Hypotheses

Ho_1: Sufficient tax incentives do not enhance industrial growth and economy.

Ho_2: Lack of awareness of the available incentives does not have any significant negative effect on the level of investment.

Ho_3: Availability of tax incentives do not motivate people into business enterprises.

Significance of the Study

The importance of tax incentives in corporate growth and development in Nigeria as a developing country cannot be over emphasized**.** This research is therefore of immense significance to the industrialist, entrepreneur, (potential inclusive). It will help to keep Nigerians informed on the available packages provided by government. To the government, it will help to uncover the problems encountered by the businessmen and how to curb them. As regards to prospective entrepreneurs, it will serve as an encouragement for them to engage into their own businesses.

With regards to the general public, it is a welcomed study because if there is improvement in the business sector, it will help create more favourable economic environment and a better standard of living. Finally, the academia can use this work as a reference material on this issue of tax incentives and economic development.

Limitations of the Study

This research work is encompassed with many limitations and restrictions and encumbrances: The researcher was initially faced with the problem of relevant research materials but this was overcome by searching the website and other hard copies far and wide for these literatures. There was also the issue of non-disclosure of information by the organisations approached. Attitude of Nigerian managers and their constraints to disclose the desired information needed in spite of their academic levels and exposure, however, tenacity was applied to prod them to divulge relevant information.

Definition of Terms

Tax Incentives

Tax incentives are relief's granted to tax payers or industries in the form of set-offs from the total income before tax liability is determined. It could be in form of tax holidays or waivers. It is established by legislations or statute authorizing such payment of tax.

Qualifying Capital Expenditure

In this study, this is seen as the approval expenditure on specified items or assets of a company as approved by the law.

Relevant Tax Authority

There are two relevant tax authorities in Nigeria. The Board of Internal Revenue which is responsible at the state and the Federal Inland Revenue Board which takes charge of federal tax matters.

Scope of the Study

This study is of the tax incentives and economic growth measured in terms of industrial growth. The scope of this study consists of tax-payers, management and staff of some selected companies in the South-South geo-political zone of Nigeria. The researcher intends to particularize this study to some companies in this region because they serve as simples representing other growing firms in Nigeria. The classes of personnel included in the research were administrative manager, accounts, internal auditor, and marketing and production staff. The staff level was covered because they are all involved in one way or the other in the benefits accruing from government tax incentives.

THEORITICAL LITERATURE REVIEW

Theoretical/Conceptual Framework

There are several theories that can be used to explain the issue of tax revenue as well as economic development. These are theories relating to tax compliance as well as theories of economic development. Some of these theories are explored here whilst highlighting its relevance on the study concept. Firstly, those on tax compliances are looked out and then followed by those of economic development.

Theories of Taxation

According to Bhartia (2009) in (Ogbonna and Ebimobowei, 2012), a taxation theory may be derived on the assumption that there need not be any relationship between tax paid and benefits received from state activities. In this group, there are two theories, namely, a. Socio-political theory and b. The expediency theory.

Also, a taxation theory may be based on a link between tax liability and state activities. This reasoning justifies the imposition of taxes for financing state activities and also providing a basis for apportioning the tax burden between members of the society. This reasoning yield the benefit received theory and cost of service theory. There is also the faculty theory of taxation (Ogbonna and Ebimobowei,2012).

Socio Political Theory

This theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole.

Expediency Theory

This theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the state as also the effects of a tax system should be treated irrelevant (Bhartia, 2009) in (Ogbonna and Ebimobowei,2012).

Benefit Received Theory

This theory proceeds on the assumption that there is basically an exchange relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). Anyanfo (1996) in (Ogbonna and Ebimobowei ,2012) argues that taxes should be allocated on the basis of benefits received from government expenditure.

Cost of Service Theory

This theory is similar to the benefits received theory. It emphasizes the semi-commercial relationship between the state and the citizens to a greater extent. In this theory, the state is being asked to give up basic protective and welfare functions. It is to scrupulously recover the cost of the services and therefore this theory implies a balanced budget policy(Ogbonna and Ebimobowei ,2012).

Faculty Theory

According to Anyanfo (1996) in (Ogbonna and Ebimobowei, 2012) this theory states that one should be taxed according to the ability to pay. It is simply an attempt to maximize an explicit value judgment about the distributive effects of taxes. Bhartia (2009) in (Ogbonna and Ebimobowei,2012) argue that a citizen is to pay taxes just because he can, and his relative share in the total tax burden is to be determined by his relative paying capacity. This study anchors on these theories as they explain the concepts of taxation and tax incentives as they encourage compliance.

The Theory and Concept of Under-Development and Development

According to Gbosi (2005), many historical theories of economic development have evolved and they simply postulate that the existence of different phases or stages of a developmental process. The proponents of these theories include W W Rostow, Alexander Gerschenkron and others. One of the most vocal of it is the classical liberal theorist. The Classical liberal theorists have it that development is understood as economic growth and capital-formation. The key to economic growth was capital formation, and that this leads to an emphasis on large-scale infrastructure projects and on foreign aid loans. Secondly, in the "stages" version of this approach, undeveloped countries were thought of largely as "primitive" or "early" versions of Western countries. However, lesser Developed Countries needed to follow the pattern of development set by the west (Gbosi, 2005). There is also the Social Theories of Development, whose proponents include Schumacher and the rest. They emphasize the importance of "human capital" in development. The key to economic growth and development was education, health, fertility, etc. Secondly, there is a Shifted concerns from the overall rate of economic growth to considerations of poverty, inequality, urbanization and other social ills (Ordu, 2015). There is also the Structural Theories as well as the Neo-classical Theories. The former and its theorist emphasized on the conditions unique to Third World countries. The key to economic growth was recognizing that the experience of Europe could be duplicated in the context of former colonies. It Shifted concerns to "import substitution," high tariffs and government protectionism. Proponents include Karl Marx. The latter, however are also known as the modern theories of development and are widely practiced both in developed and developing economies. The Proponents include Michael Friedman. This theory emphasizes the negative role often played in development, that the key to economic growth is free markets. It Shifted concerns from the role of government—often considerable in structural theories—to private investment and market efficiency.

It is believed that if government provides the needed infrastructure and market for the economy to function, then private sector should also be allowed to freely participate in the economic development process (Ordu, 2015). In line with this, one of the ways government can provide and stir up development in the economy is through enabling environment to allow industries thrive. With tax incentives the industrial sector can be revolutionized that will translate to economic development in a broader sense.

Furthermore, some theories of under-development explains under-development by means of a summary of certain typical features or factors hindering or limiting development. Such theories usually specify the typical features and limiting factors by comparing the given static states of the developed capitalist countries with the similarly static states of the under-developed countries in both cases certain surface phenomenon are used. Below are the characteristics of under-developed countries: 1) A very high proportion of the population of the population usually 70%-90 is engaged in agriculture. 2) Absolute over population in agriculture, that is, it could be possible to reduce the number of workers in agriculture and still obtain some total output. 3) Evidence of considerable 'Disguised unemployment' and lack of employment opportunities. 4) Practically zero savings for the large mass of people. 5) Major proportion of expenditure on food and necessities. 6) The output in agriculture is made of mostly cereals and Primary raw materials with relatively low output of protein foods. 7) Poor housing and poor credit and marketing facilities.

Demographic Factors

a. High fertility rate usually above 50% per thousand.
b. The output in agriculture is made up of mostly cereals and primary raw materials with relatively low output of protein foods.
c. Inadequate nutrition and dietary deficiencies.
d. Rudimentary hygiene, public health and sanitation.
e. Rural overcrowding

Cultural and Political

a. Rudimentary education and usually a high degree of illiteracy among most of the people.
b. Extensive prevalence of child labour.
c. General weakness or absence of middle class.
d. Inferiority of women status and position.
e. Traditionally determined behaviour for the bulk of the population.

Technological and Miscellaneous

a. Low yield per acre
b. No training facilities or inadequate facilities for the training of the technicians and engineers.
c. Inadequate and crude communication and transportation facilities in the rural areas.
d. Crude technology.

Under-development in these theories is no longer the aggregate of individual deficiencies of obstacle but an inter-dependent system of their relations. Under-development is the result of the process of industrialization and the entire development of an economy and the special relationship which have been established between the industrialized countries on one hand and on the other hand under-development. In light of the above ,it becomes glaring that there is significant relationship between theories of development, under-development and industrialized countries as well as critical roles tax incentives play in industrial development hence the need for this study. Again identifying the characteristics of under-developed economy will equally enable the government appreciate the urgent need for tax incentives as a catalyst to speed up the process of development.

CONCEPTUAL REVIEW

Taxation and Tax Incentives Defined

Taxation may be defined as the demand made by the Government of a country for a compulsory payment of money by citizens of the country of the country with the objectives of raising revenue to finance government expenditures, satisfy collective wants of the people and regulate economic and social policies. Simply put, taxation is a compulsory payment to the government backed up by the force of law and for which the government need not offer explanation or services (Ezejelue and Ihendinihu 2006). Tax incentives, according to Philip (1995), is 'a deliberate reduction in (or total elimination of) of tax liability granted by government in order to encourage particular economic units (e.g. corporate bodies to act in some desirable ways(e.g. invest more, produce more, employ more, save more, consume less, import less, pollute less and so on).Any tax is amenable to being modified to create a tax incentive. The reduction in tax liability which a tax incentive constitute can be achieved through reduction in tax rate, reduction in tax base, tax deferment or outright tax exemption (Kiabel and Nwakpasi 2012).Taxation is used to encourage investment and boost local industries among others. Consequently, priority sectors of the economy such as agriculture, mineral, oil and gas ,export and manufacturing are given incentives in order to influence purchasing power and production costs both of which are crucial for the growth of industries (Kiabel and Nwakpasi,2012).In recognition of the need to attract foreign investment into the country, diversifying and enduring the expansion of the export of Nigeria as a means to speed up economic development and encouraging existing companies and potential firms to continue operation in Nigeria, various forms of tax incentives packages have been put in place in Nigeria. Below are some of them, relevant to this study.

Forms of Tax Incentives: Tax Incentives to Manufacturers

Capital Allowances

As discussed by Kiabel (2012) Capital expenditure is not an admissible expense in earning profits. But capital expenditure often results in the creation of fixed assets, such as plant or machinery, building etc. which are used for the purpose of earning profits. It is only therefore reasonable to give relief for the purposes of taxation in respect of these items of expenditure. Special allowances usually referred to as capital allowances are designed to provide this form of relief. When a fixed asset is put into use by a business, its value gets eroded as a results of physical wear and tear, the passage of time or as a result of obsolescence. Moreover, income tax laws supported and strengthened by accounting practice, do not allow the cost of creating these assets as direct debits or charges against the profit of the business. It therefore becomes reasonable for the taxpayer to set aside some portions of the profit annually with which to replace the asset in question once its usefulness has expired. The setting aside to the profit and loss account portions of the cost of a fixed tangible asset to those periods benefiting from the use of the asset is referred to as depreciation. In the absence of such a charge the amount of profit shown by the accounts would be overstated by the need to make good periodically the wear and tear on or obsolescence of the asset used. This apart, depreciation charge ensures that the resources necessary for the replacement of fixed assets are retained in the business.

The amount provided for in the Profit and Loss Account of a business for the depreciation of fixed asset is to some extent subjective because it is a product of the influence of experience, the nature of the business and other factors peculiar to the business. Hence the rate of depreciation for a fixed asset varies from business to business. A business , for instance may decide to write-off the cost of a plant in five years while another business having a similar plant in a similar establishment and in the same locality may write –off in fifteen years. To overcome this problem, income tax laws disallow depreciation charges as expenses against taxable profit and instead substitute for them with a series of capital allowances at regulated rates. Thus capital allowances are granted in lieu of depreciation as allowable deductions in arriving at the chargeable income of a business.

Capital allowance is therefore seen as a relief that is granted to the taxpayer who incurred qualifying capital expenditure during a basis period in respect of assets in use for the purposes of the trade or business. The relevant provisions specifying the rates and the circumstances under which the allowances are granted is to be found in the 5th schedule to PITD ,1993.The rates are subject to changes from time to time with the passing of the appropriate legislation**.**

Purposes of Capital Allowance

According to Kiabel (2012) once qualifying expenditure has been incurred the Act operates to give reliefs as follows:

i. An initial allowance to give immediate relief.
ii. An annual allowance of equal amount, during the period of ownership and use to give to give gradual relief.
iii. A balancing allowance of exact amounts to give final relief and to bring aggregate allowances up to actual losses sustained.
iv. A balancing charge to withdraw any excess of aggregate allowances.
v. A balancing charge to withdraw any excess of aggregate allowances.

Conditions for Granting Capital Allowances

For capital allowances to be granted on qualifying capital expenditure, the following conditions must be satisfied:

i. The assets must be owned by the person claiming the allowance.
ii. The asset must be owned by the person claiming the allowance.
iii. The asset must be in use in the trade, business, profession or vocation at the end of the basis period in respect of which a claim is made.
iv. The company or person must make a claim for capital allowances to the relevant tax authority
v .Where applicable ,an ‘acceptance certificate’ for the asset issued by the Factory Inspectorate Division of the Federal Ministry of Labour must be produced.

It is worthy of note that the value of capital expenditure requiring certificate was N20,000 before 1995.With effect from 1995 tax year this has been increased toN 500,000.

Types of Capital Allowances

Initial Allowances

Kiabel (2012) goes further to explain that an allowance granted a business which has incurred qualifying Capital Expenditure in the year of Assessment in which the asset representing such expenditure was first put to use for the purpose of the business. The amount of the Initial

Allowance is arrived at by applying the relevant percentage on the cost of the asset. This amount of allowance is not prorated in relation to the length of the basis period of the year of assessment. It is also not reduced because the asset was acquired at any date during the basis period. Therefore, initial allowance is claimable in full irrespective of the length of the basis period during which the asset was first put into use, as it is once and for all allowance. One situation where initial allowance can be apportioned is where there is an element of private use of the asset .Also it can be reduced by the tax authority if it is of the opinion that the seller or buyer has control over each other or both are controlled by another person. Here, the tax authority may determine what amount is reasonable and just for Initial Allowance.

Annual Allowance

As the name implies, the annual allowance is granted every year to a business owing an asset that was used for the purpose of the business. The allowance is granted in the first year applying the relevant percentage on the cost of the asset less any initial allowance granted .In the second and subsequent year, the same amount as was given in the first year is also given. Thus the annual amount is given on straight line basis. Where an initial allowance had been given both initial and annual allowances may be claimed in the first year. Where the basis period for a year of assessment is a period of less than one year, the annual allowance are not proportionately reduced. However, annual allowances are not proportionately increased if the period for a year of assessment happens to be a period of more than one year. It shall be limited to a period of 12 months. This situation is applicable when the commencement provisions are involved and when qualifying capital expenditure is incurred in the middle of a basis period.

It should be noted that the tax laws by prescribing the straight lines basis for calculating the annual allowance implicitly fixed the life span of the asset.

Thus, if the annual allowances rate for an asset is given as 20%,this implies that the asset will be written-off for tax purposes in 5 years (i.e.,100/20).If the rate is given as 10%,the asset is to be written –off in 10 years. The implication of this is that an asset could be written off for tax purposes yet the business could be using the asset to earn income. To avert a situation, the tax laws provide that the annual allowance is to be granted such that a nominal sum N 10 is left in the books for each asset until is eventually sold or otherwise disposed of by the business. Clearly, what this means is that the business continues to use the asset after the end of the asset's useful life.

It should be noted that the straight –line method of arriving at the annual allowance was introduced with effect from the 1985 year of assessment. Before then, annual allowance was calculated using the Reducing Balance Method .In using the straight-line method to calculated annual allowance, we use the formula.

$$\text{Annual Allowance (A.A)} = \frac{\text{Cost (c)} - \text{Initial Allowance (I.A)}}{\text{No. of years the cost of the asset will be written-off (N)}}$$

$$\text{i.e., A.A} = \frac{C - I.A}{N}$$

Therefore, where the rate of annual allowance is given, N may be determined using the formula. N = 1/A.A rate.

Investment Allowance

As an incentive for investments, an investment allowance of 10% was granted to companies in the business of agricultural production (other than in marketing and process).This allowance is given in addition to the initial allowance granted on such assets. The allowance, like the initial allowance, is granted once on an asset and is not affected by the length of the basis period during which the asset was first put to use. But unlike the initial the initial allowance, it is not deducted from the cost of the asset in arriving at the tax written down value of the asset. Like the initial allowance, investment allowance is granted on the cost of the asset in the year the asset is first put to use. Also, investment allowance is claimable and hence deductible from profit only in respect of production machinery in the year of expenditure and cannot be carried forward if not claimed or not relieved. Therefore if a business sustains a loss in a year that investment allowance is claimable for tax purposes, the allowance will be lost even when a claim is made as it cannot be relieved from a loss.

In order to encourage investment in the manufacturing industry, the 1996 Finance miscellaneous Decree increased the rate of investment allowance from 10 % to 15% on plant and machineries used in manufacturing business .Thus, the rate of investment allowance is now 15% effective from1st January 1996.

Investment allowance is also granted on qualifying capital expenditure incurred on new assets on or after 1st April 1969 as a replacement of an asset of a business destroyed or damaged in any part of Nigeria during the period commencing 16th July,1967 and ending 15th January,1970 as a direct result of any military operation or other operation connected with civil war. The amount of investment allowance is increased to 25% of the capital expenditure incurred.

Rural Investment Allowance

In order to stimulate and encourage investment in the rural areas, a new capital allowance called Rural Investment Allowance was introduced effective from 1993 year of assessment .This new allowance is granted to companies that incur expenditures on the provision of such facilities such as electricity, water, tarred road or telephone where such facilities are not provided by the government in the area where the business is located. For the allowance to be granted the facilities on which the expenditure is made must be for the purpose of the trade or business and must be located at least 20 kilometres away from such facilities provided by the government.

Table1: Rates of Rural Investment Allowance

a. No electricity, water, tarred road or by government.	100% expenditure
b. No electricity by government.	50% of the expenditure
c. No water by government.	30% of the expenditure
d. No tarred road by government.	15% of the expenditure
e. No telephone by government.	5% of the expenditure

Balancing Allowance and Balancing Charge

Whenever an asset created by the incurrence of a qualifying capital expenditure on which allowances have been granted is disposed of there is the need to make a balancing adjustment. This adjustment takes the form of a balancing allowance and a balancing charge. A balancing allowance emerges when the sales value (proceed from disposal) of the asset on the date of disposal is less than the residual (i.e. the tax written down value) of the qualifying expenditure. What this means is that the cost of the asset has not been fully relieved as capital allowance. Balancing allowance then is the additional allowance needed to fully grant capital allowances relief on the qualifying capital expenditure. By providing for balancing allowance in tax laws, the intention therefore is to ensure that the total capital allowances claimed equals the cost of the assets over its life determined by the annual allowance rate.

On the other hand, a balancing charge occurs where the sales value (proceed from disposal) of an asset on the date of disposal is greater than the residual value (i.e., the written down value) of expenditure. A balancing charge therefore represents the excess of relief that the taxpayer has received on the asset concerned. This excess relief is regarded as income in the hands of the taxpayer and so added to assessable income and subjected to the asset. However, the amount of balancing charge is restricted to an amount not exceeding the aggregate of the previous allowances granted on the asset. This restriction is made by deducting the residue of expenditure (i.e., the tax written down value) on the date of disposal from the acquisition cost of the asset. Thus the intention of the tax laws is to ensure that the taxpayer does not claim capital allowances in excess of the cost of the asset over its life.

Pioneer Certificate

Application may be made at any point in time in relation to any such pioneer industry or pioneer product. One of the investment incentives available to industries in Nigeria is that under the Industrial Development (Income Tax Relief) Act 1971 which grant tax holiday to companies in the industries that meet the conditions of being designated pioneer industries. Tax holiday is usually for an initial period of three years but can be extended for an additional two years maximum period. The Industrial Development Act 1971 came into force on 1st April,1970 and applied through the country.

According to the Act, there are certain conditions stipulated by the federal executive council satisfying the existence of a pioneer industry. These are:

a. That any industry is not being carried on in Nigeria on a scale suitable to the economic requirement of Nigeria or at all or there are favourable prospects of further development in Nigeria.
b. It is expedient in the public interest to encourage the development or establishment of any product of the industry to be a pioneer product.

Application for Pioneer Status

The application for pioneer status can be made by a company incorporated in Nigeria or by a group of persons on behalf of a company which is to be incorporated later. The application shall be on a prescribed form. Every such application shall state the grounds upon which the applicant relies and if the application is for the issue of a pioneer certificate to any company, the applicant shall:

a. State whether the company is or the proposed company when incorporated shall be an indigenous-controlled company.
b. Give particulars of the assets on which qualifying capital expenditure will be incurred by the company, including their source and estimated cost.
   i. On or before production day; and
   ii. During a period of three years following production day.
a. Specify the place in which the assets are to be situated.
b. State the probable date of production day.

c. Specify any product and by-product (not being a pioneer product) to be produced and give a reasonable estimates of the quantities and value of such product and by-product during a period of one year from production day.
d. Give particulars of the loan and share capital (for proposal in this regard) including the amount and the date of each issue and the source from which the capital is to be or has been raised.
e. In the case of a proposed company, give the name, address and nationality of each promoter of the company.

Tax Relief for Pioneer Companies

As reported by Ahmed Ibrahim Aliyara of Vanguard Newspaper on 10th March,2014 ''The Nigerian Government has over the years put in place many different and overlapping incentive schemes to attract both local and foreign investment. Tax exemption is generally regarded as an industrial investment device; many developing countries like Nigeria offer it as one of their major incentives.

Basically, tax incentives are designed to encourage investments in certain preferred sectors of the economy and sometimes geared towards attracting inflow of foreign exchange to complement domestic supplies for rapid economic development.

Tax exemption otherwise known as Tax holiday is one of the most widespread tax incentive. Tax exemption simply means a period of exemption from payment of taxes imposed by the government and this may be complete or partial. The grant of pioneer status, therefore, gives a company a preferred position in getting established, usually through exemption from income tax.

A pioneer company is a company that engaged manufacturing, processing, mining, servicing and agricultural industries whose products have been declared pioneer products on satisfying certain conditions in as determined by Industrial Development Coordinating Committee (IDCC) of the Government under the Industrial Development (Income Tax Relief) Act Cap 179 LFN 1990. The pioneer Tax holiday is for an initial period of three years or subject to further extension of two years or five years (ones and for all without further extension).

Enabling Act

Act Chapter 179 laws of the federation of Nigeria (LFN) 1990 but first enacted by Decree No22 of 1971 and commenced on 1/4/1970. Commencement Date 1st April, 1970

•"An Act to repeal and re-enact, with major changes, the Industries Development (Income Tax Relief) Act and to make provision for Tax relief for certain industries that may be issued with pioneer certificates by the minister and other matters ancillary thereto"

Conditions that Qualifies Companies to Enjoy Pioneer Status

i. Industry is not being carried out on a suitable scale as required and there are prospects for further development in the country or its product.

ii. If it is in the public interest to encourage the industry or its product.

iii. Application may be made for the inclusion of a product on the pioneer list

Mode of Application

i. All application to be addressed to the Minister

ii. State the status of the company

iii. Give details of qualifying capital expenditure to be incurred

iv. Give sources of qualifying capital expenditure and estimated cost

v. Specify location of Assets

vi. Date of production of pioneer products

vii. Any by product not being a pioneer product

Terms of Pioneer Certificate

i. Must be in terms of the application to which it relates.

ii. Specify permissible by-products to be produced.

iii. Specify period within which company must be incorporated and conditions to be endorsed

iv. Pioneer status will only be issued from a date when company was incorporated and shall be effective from a date not earlier than the date on which the application was submitted to the minister or date of incorporation, whichever is the later.

V. Any other condition will be specified by the minister

vi. The minimum Tax relief period not exceeding five years to be stated 3(6)(a-b)

Amending of Pioneer Certificate to Add New Product

Section 4 (1) – (3) allowed a company during its pioneer period to make application in writing to the Minister to add a new product.

Retrospective Pioneer Operation

Where a pioneer certificate is to be operative from a retrospective date, all Acts shall be treated as not having been closed or not having happened and all taxes paid (if any shall be repaid as soon as may after the expiration of three months from the production day.

Production Date

i. No later than one month when the company is going into commercial production (marketable quantity), the company shall apply in writing for the certification of its production date.

ii .Not later than one month after the production date or any extended period granted by the Board, the company shall make application in writing to the Board for the certification of the amount incurred as qualifying capital expenditure prior to the production date.

Cancellation of Pioneer Certificate

i. Company may apply for cancellation

ii. If company contravened any provision of the Act or failed to meet conditions set.

Tax Relief Period

i) Commencing from the production date, it shall continue for three years (but can be extended):-

ii) For another one period of two years (if the standard and rate of expansion are satisfactory), local raw material utilization expansion, Training and Development of Nigerians, Government Policy Priority)

iii) Five years (once and for all).

Transition from Pioneer Status: Conditions of Old Trade or Business of a Pioneer Company

i. The old trade shall be deemed to be ceased permanently at the end of the tax relief period.

ii. The pioneer company deemed to have set up a new trade on the day next following the end of its relief period

iii .All capital expenditures incurred and used by a pioneer company shall be deemed have been incurred on that day next following the end of its tax relief period

iv. Where it incurs a Net loss, that loss shall be deemed to have been incurred on the date on which its new trade commences i.e. it will be allowed to deduct all the losses brought forward from the pioneer period

vi. The company must submit to the Board a list of its assets for certification.

vii. At the end; the Board will issue a certificate of qualifying expenditure

viii. The Board is expected to issue the company for each year, the amount of income as ascertained and loss as arrived at (if applicable).

Treatment of Capital Allowances and Losses

i. A capital expenditure incurred shall be deemed to have been incurred on that day next following the end of the pioneer period. i.e. regardless of the number of years granted a pioneer company, all capital expenditures incurred in line with the provision of the second schedule within the periods shall be deemed to have been incurred after the Tax relief period.

ii. For losses incurred within the pioneer period, the cumulative amount will be deemed for computing total profits to have been incurred on the day, next following the pioneer period i.e. it will be allowed as a deduction in the new business.

Loss Relief

Business is chargeable to tax on profits earned. It is therefore reasonable and acceptable to all parties concerned that in a basis period when losses are incurred, no tax is payable in the relevant year of assessment.

Types of Loss Relief

Current Year Loss Relief

This is the current year relief which could be set of against income from all sources in the fiscal year during which the loss occurred.

Carry Forward Loss Relief

Where a company makes a loss for any year which forms the basis period for a year of assessment, the assessment for that year will be nil in respect of the trade or business where the loss has occurred , unlike current year loss relief which involves setting off the trading loss incurred in an accounting year against other incomes that are assessable to tax in the assessment year which the loss occurred.

In other trade, loss relief is granted for a maximum period of four years while in manufacturing and agricultural sector, the relief continues indefinitely.

Tax Incentives to Encourage Importation of Raw Materials for Local Firms

Import Duties Exemption

Approved User (Import Duty Relief) Scheme

Under this scheme, importation of certain materials for manufacturing or processing were either exempted from import duties or granted concessionary low duty for a period not exceeding three years.

The Approved User Scheme was abolished in 1984 duly to be re-introduced in 1988 under a new tariff structure designed to be in force for seven years. The tariff structure was aimed at providing appropriate levels of effective protection to domestic industries.

To further ensure the competitiveness of locally produced good within domestic market, related competing imports had to attract additional tax equal to the excise duty levied on domestically produced substitutes. Also all intermediate products were exempts from excise duty.

Import duties exemption helps manufacturing companies save some money that could have been used in paying tax to government and by so doing the company will produce its goods at a cheaper cost and also sell at a cheaper, thereby making it affordable by most people. But if there are no import duties exemptions, the company will pay for import duties to the government and this will make the company increase its cost of production thereby increasing the selling price of its product.

Import duties exemption helps manufacturing companies to import the best raw materials and machineries available into the country ,so as to use them to make standard and quality products at a cheaper cost.

Incentives for Industrial Investment

With the past few years, the government has progressively introduced a number of incentives designed to promote investment, employment, product mix and various other aspect of industry. These incentives encompass**:**

a. Fiscal measure on taxation
b. Effective protection of local industries with import tariffs
c. c. Export promotion of Nigeria made products and
d. Foreign currency facility for international trade.

Enterprises which fulfil the necessary criteria are free to apply for the following specific incentives:

Pioneer Status

100 percent tax free period for 5 years for pioneer industries that produce products declared as "pioneer products" under the industrial development (Income Tax Relief) Act or, such other deserving enterprises as may be approved by the council of National Investment Promotion Commission (NIPC).

Local Raw Material Utilization

30 percent concession for five years to industries that attain minimum local raw materials utilization as follows:

Table 2: Industrial Sectorwise levels

INDUSTRIAL SECTOR	MINIMUM LEVEL
Agricultural	80%
Agro-Allied	70%
Engineering	60%
Chemical	60%
Petro-chemical	70%

Labour Intensive Mode of Production

15 per cent tax concession for five years. The rate is graduated in such a way that an industry employing 1,000 person or more will enjoy 15% tax concession while an industry employing 100 will enjoy only 6%, while those employing 200 will enjoy 7% and so on.

Local Value Added

15% tax concession for five years. This applies essentially to engineering industries where some finished imported products serve as inputs. The concession is aimed at encouraging local fabrication rather than the mere assembly of completely knocked down parts.

In-Plant Training

2 per cent tax concession for five years of the loss of facilities provided for training.

Export – Oriented Industries

10 per cent tax concession for five years. This concession will apply to industries that export not less than 60% of their product. The emphasis is on the encouragement at the pre-establishment stages of export –oriented enterprises.

Infrastructure

20 per cent of cost of providing basic infrastructure such as roads ,water ,electricity, where they do not exist ,tax is deductible once and for all.

Investment in Economically Disadvantaged Areas

100 per cent holiday for 7 years additional 5 per cent depreciation allowance over and above the initial depreciation.

Research and Development (R & D)

120 per cent tax deductible expenses provided the research and development is carried out in Nigeria and 140 per cent for R & D on local raw materials.

Abolition of Excise Duty

In order to boost local industries, stimulate trade and reduce cost, government has decided that all excise duties are abolished with effect from 1st January,1998.

25% Import Duty Rebate

The import duty rebate was introduced to ameliorate the adverse effect of inflation and to ensure increase the capacity utilization in the manufacturing sectors. In order to sustain the moderating effect of duty rebate on the economy, the following will apply with effect from January, 1998.

i. The 25% per cent import duty rebate policy will be retained in 1998.
ii. The item which in 1997 did not benefit from 29% duty rebate will remain excluded from the concession in 1998.
iii. All items removed from the import prohibition list in 1998.
iv. All items removed from the prohibition list in 1998 shall not attract import duty rebate.

Double Taxation Agreement

Double taxation agreement are being negotiated and concluded with various countries. The effect is to eliminate double taxation on investment income.

Re-Investment Allowance

This incentive is granted to companies engaged in manufacturing which incur qualifying capital expenditure for the purpose of approval , expansion etc. The incentive should be inform of generous allowance of capital expenditure incurred by companies for the following :

v. Expansion of production capacity

vi. Modernization of production facilities and

vii. Diversification into related products

This scheme aims to encourage re-investment of profits.

Tax Incentives to the Oil Industry

Upstream Activities

Memorandum of Understanding (MOU)

In view of the fact that investment in this sector is capital intensive, investors require assurances and guarantees of a minimum return on their investment. This led the federal government of Nigeria to enter into Memorandum Of Understanding with all the major companies engaged in petroleum operations in 1986.This document was received and updated in 1991.

Incentives other than MOU

- Petroleum investment allowance which is all an allowance granted over and above the cost of capital assets employed in petroleum operation.

-Lower rate of royalties for crude oil produced offshore, that is, the deeper the water depth, the lower the rate of royalty.

-Higher investment tax credit for offshore production, that is, the deeper the depth from where is produced, the higher the rate of investment tax credit.

The Gas Sub-Sector

Until recently Nigeria vast natural gas reserve was flared and wasted. However, the government and oil companies have floated a multi-billion dollar company, Nigeria Liquefied Natural Gas Limited which has already commenced shipment of natural gas to Europe. By virtue of special legislation, Nigeria LNG (Fiscal Incentives, Guarantee and Assurance) Decree, 1990, the company enjoys the following incentives:

i. Tax liability for a period of 10 years.

iii. Exemption from taxation of interest and dividend payable to any non-Nigeria company in respect of loan or other financial arrangements made with the company.

iv. Exemption from withholding tax provision as regards payment of interest, rent, hire and other payment normally subjected to withholding taxes.

iv. Exemption from withholding tax of dividend paid out of pioneer profit.

v. Exemption from tax of income accruing to a non-Nigeria company or citizen in respect of any work or services provided from outside Nigeria to the company.

vi. Exemption from payment of import duties and other duties Including but not limited port surcharged by the company, its Contractor and subcontractors in respect of all necessary import of plant ,machinery, good all material for use in the company.

vii. Capital allowance accumulated during the pioneer period shall not be subject to restrictions at the end of its pioneer period when the company shall be liable to pay tax. Apart from above which are specific to the Nigeria LNG Ltd, the following incentives are available for upstream and downstream activities within gas sub-sectors.

Gas Exploitation (Upstream Activities)

i. All investment necessary to separated oil and gas from reservoir into usable products are considered as part of the oil field development.

ii. Capital investment facilities to deliver associated gas in useable from at utilization custody transfer point will be treated for fiscal purposes as part of the capital investment for oil development.

iii. The capital allowance, operating expenses and basis of assessment will be subjected to the provision of petroleum profit tax and fiscal incentives under the revised memorandum of understanding (Effective 1991).

Gas Utilization

Downstream Activities

The Finance **(**Miscellaneous Taxation Provisions) Decree 1998 in S.28G provides for the grant of tax incentives to companies engaged in gas utilization (downstream operations). The provisions of this section include:

i. Tax holiday for an initial period of 5 years, renewable for additional 2 years.

ii. Gas is transferable from upstream operations at 10% of PPT and 0% royalty.

iii. Investment allowance of 15% on the cost of fixed assets employed.

iv. Interest on loan for gas projects is to be tax deductible provided that prior approval is obtained from the finance ministry.

iv. All dividend distribution during the tax holiday shall be paid free of tax.

v. Duty and VAT free concession for imports of machinery and equipment.

Those incentives have been promulgated into law through Decree No.18 and 19 of 1998.

Tax Incentives on Certain Foreign Loan

a. When after January,1991 any loan of an amount not less than N 150,000.00 is granted by a foreign company to any person in Nigeria for the purpose of carrying a trade or vocation, any interest derived by the foreign company shall be exempted from tax as follows :

Repayment	**Tax Exemption**
10 years and above	100%
5-10 years	50 %

b. Interest on foreign load granted after April, 1998

Repayment period	**Moratorium**	**Tax Exemption**
Above 7 years	not less than 2 years	100%
5-7 years	not less than 18 months	70%
2-4 years	not less than 18 months	40%
Below years nil	nil	

In order to enjoy the above incentives, the agreement for all foreign loan must be approved by the federal ministry of finance and copies thereof deposited with both federal ministry of finance and Federal Board of Inland Revenue.

Tax Incentives to Attract Foreign Capital Into Nigeria and Promote Export

Export Processing Zones

For special development purposes, the government has created export processing zones where manufacturing can be undertaken under condition that exempt companies within a zone from all federal ,state, and local government taxes ,levies and rates. This in effect means that company's value added tax, withholding tax, capital gain tax, all state taxes and local government taxes, levies and rate will not apply to companies operating within the export processing zone.

The Export Processing Zones (EPZ) was established in order to attract foreign capital into the country and also promote exports. Under the Nigeria Processing Zones (EPZ) (Decree no.34 of 1991),the president of the Federal Republic of Nigeria may by order designate any area as he deems necessary to be under the Nigeria Export Processing Zone. Calabar is a zone known to have been so designated. The following incentives are available to approved enterprises within an Export Processing Zone:

i. Legislative provision pertaining to taxes, levies, duties and foreign exchange obligations shall not apply within the zone.

ii. Unrestricted repatriation of foreign of capital investment in the zone at any time with capital appreciation of the investment.

iii. Remittance of profits and dividend earned by foreigner without any hindrance.

iv. No import or export license shall be required.

vi. Up to 50% of production within a zone may be sold in custom territory against a valid permit and on payment of appropriate duties.

vi. Employment of foreign managers and qualified personnel by companies operating within in the zone is allowable. Apart from Decree 34 of 1991 on the establishment of EPZ generally, Decree no.8 of 1996 established the Oil and Gas Export Free Zone with the designation of Onne /Ikokiri area of Rivers State as one of such export free zones. The objective is equally to attract capital investment at the zone and the incentives granted under the Nigeria Export Processing Zone, Decree No.34 of 1991 are applicable.

Incentives to Agriculture

Without prejudice to government's commitments to deregulation of the financial sectors, banks have been enjoined to recognize in the gestation periods within each category of agricultural projects and observe the grace periods on agricultural loan and below are such categories:

Crops

i.12 – 18 months for seasonal stages and cash crops e.g. cotton.

ii. 5-7 years for tree crops including palm oil, cocoa, citrus, kolanut and other trees and plant and

iii. A minimum period of years for rubber plantation.

Livestock

i. 6 months for broiler (poultry)

ii. 24 months for layers (poultry)

iii. 24 months for swine breeding

iv. 24-30 months for sheep and goat breeding

v. 6 months for sheep ,goat and cattle fattening

vi. 12 months for rabbit

vii. 7 years for cattle ranching/diary production

Fisheries

i. 12- 18 months for agriculture.

Forestry and Wildlife

i. 8- 10 years for short long fibre pulpwood production and swan timber production
ii. 8 years for fuel wood /firewood production
iii. 1-2 years

Loans By Banks for Agricultural and Export Business

Interest received by banks from April 1, 1971 in respect of loan granted for agricultural trade or business and from April ,1980 for purposes of manufacturing goods for export were up to December 31,1990,exempted from tax on graduated rates which varied between 40% and 100% depending on repayment and grace periods. From January 1,1991 such interest is fully exempted from tax provided the following are met :

i. The moratorium period is not less than 18 months.
ii. The rate of interest on the loan is not more than the '' Base lending rate'' (defined in the law to mean the weighted average of the cost of funds to a bank).

Agriculture, trade or business is defined as any trade or business connected with:

i. The establishment or management of plantation for the production of rubber, oil palm, cocoa, coffee, tea and similar crops.
ii. The cultivation or production of cereal crops, tuber, fruits of all kinds, beans, groundnut, shaenut, beniseed, vegetables, pineapple, bananas and plantain.
iii. Animal husbandry i.e. poultry, piggery, cattle rearing and like fish farming.

Incentives to Small Manufacturing Companies

Small manufacturing companies are those with less than one million naira in turnover (N 1,000,000.00).These category of business is:

i. To pay income tax at a concessional rate of 20% for the first five years of commencement of business.
ii. Dividends there from are exempted from tax for the first five years of operation (Kaibel and Nwakpasi, 2012).

Incentives to Companies Engage in Export Trade

a. With effect from 1st January,1996 profit of any Nigerian company in respect of goods exported from Nigeria are exempted from tax provided that the proceeds from such exports are repatriated to Nigeria and are used exclusively for the purchase of raw materials, plant and equipment and spare parts.

b. The profit of a company whose products are exclusively inputs to manufacturing of products for exports is tax exempt provided the exporter gives a certificate of purchase of the input of exportable goods to the seller, the profit would be eligible for tax exemption (Decree 32 of 1996).

Tax Incentives to Export –Oriented Enterprises

a. The profit of export-oriented enterprises shall be exempted from tax for the three consecutive assessment years provided that: i. The undertaking is 100% export oriented; ii. The undertaking is not formed from an existing business; iii. The undertaking engages in exporting products in the relevant years and this must constitute at least 75% of its turnover for the year; iv. The plant and equipment are not transferred to the undertaking from other undertakings where they were used for other purposes, or where these plants were transferred, from other undertakings, the written down value shall not exceed 25% of the total value of the plant and machinery in the new undertaking; v. The enterprise must repatriate at least 75% of the export earnings to Nigeria and places this in the domiciliary account with a bank in Nigeria.
b. Companies engage in wholly export business with turnover of N1 million and below in the year of assessment are to pay below rate of 20% for the first five years.
c. Dividends paid wholly to export –oriented business is exempted from tax.
d. Interest by banks on loans granted to export business is exempted from tax.

Tax Incentives to Mining of Solid Minerals

Beginning from 1996 companies engage in the mining of solid minerals started enjoying a 3 –year tax holiday. The initial allowance has been increased from 30% to now 95% effective from 1/1/1996.This is a once and for all claim. The balance of 5% is retained in the books until the asset is sold or otherwise disposed of.

Tax Incentive for Hoteliers and Tourism Services

With effect from 1996 , 25% of incomes in convertible currencies derived from tourists by a hotel shall be exempted from tax .The exemption can only be made on the condition that such incomes are set aside and put in reserve fund to be utilized within 5 years in expansion or the facilities useful for tourism development.

Tax Incentives to Income Earned Abroad Repatriate Into Nigeria

i. With effect from 1/1/1988 ,interest ,dividend, rent, and royalty earned abroad by a Nigerian Company and duly repatriated to Nigeria are exempted from tax on the condition that the income was brought into Nigeria through authorised channels; i.e, the Central Bank of Nigeria (CBN) or any other bank so authorised by government.

ii. Similarly under the personal Income Tax Act, income earned ,accrued or received abroad by the following categories of individuals are exempted from tax provided the incomes are brought into Nigeria in a convertible currency and deposited in a domiciliary account with a recognized bank. The recognized individuals under the act include:

   i. Doctors, nurses, lecturers and other professionals who earn salaries, fee, bonuses, allowances, and commissions.

   ii. Foreign based authors, playwrights, sportsmen, artist and musicians who earn royalties and fees on contract.

   iii. Nigerians who earn dividend ,interest, rent, royalties, fees, commissions etc. from investment abroad.

Tax Incentives to Foreign Loans (Tax-Free Interest)

Interest on Foreign Loans

With effect from 1st April, 1978, interest earned by a non-resident lender to a Nigerian company is exempted from tax fully or partially based on the repayment grace period as follows:

Repayment period	Grace period	Tax Exemption Allowed
Above 7 years	Not < 2 yrs	100%
5-7 yrs	Not < 18 months	70 %
2-4 yrs	Not < 12 months	40%
Below 2 yrs	Nil	Nil

This incentive has the objective of encouraging foreigners to lend to Nigerian companies on long repayment period. This exemption is also applicable to interest earned by a bank on loans granted to companies manufacturing for export.

As observed by Kiabel and Nwikpasi (2012),it should be noted that the bank is required to present a certificate issued by the Nigerian Promotion Council (NEPC) stating that at least 50% of the goods manufactured by the company which obtained the loan was exported and not re-exported to Nigeria. However in 2001 Budget; the Minister of Finance, Mallam Adamu

Ciroma, while briefing the press on ''Year 2001 fiscal measures, Tariff changes and Amendments to the Nigerian Tax Laws' announced the following:

i. That at least 50% of the manufactured goods must be exported; and
ii. That no less than 75% the exported proceeds are repatriated to Nigeria through government approved channels.

These requirements now qualify the interest on the loan granted by a bank to such a company to be exempted from income tax. Commentators on the Budget proposals see the removal of the NEPC certification as a welcome development and hoping also that banks will avail themselves of this incentive and expand credit facilities to export –oriented companies in order to boost foreign exchange earnings

Interest on Foreign Currency Domiciliary

As the country encourages the inflow of foreign currency interest earned by a company on its foreign currency domiciliary accounts is not taxable.

Interest Earned on Deposit by Non-Residents

With effect from 1/1/1990,a non-resident company which makes a deposit in Nigeria wholly with foreign currencies transferred to Nigeria will have interest earned exempted from tax.

iii. Other Interest Income earned by a bank;
vi. Local fabrication of plant and machinery;
vii. Agricultural trade and business
viii. As working capital for any cottage industry established by a company under the Family Economic Advancement Programme (FEAP) shall be exempted from tax. The exemption (100%) is on the condition that the moratorium is not less than 18 months and the rate of interest on the loan is not more than the base – lending rate at the time of granting the loan.

Criticism of Tax Incentive Scheme

According to Easson and Zolt (2002) "the following are among the more common abuses / criticisms associated with tax incentives:

Round – Tripping

Round-tripping typically occurs where tax incentives are restricted to foreign investors or to investments with a prescribed minimum percentage of foreign ownership. It seems to be a common phenomenon in China, and partly accounts for the very high level of FDI in that country, as well as for the high levels of both inward and outward investment in Hong Kong.

Typically, money leaves China and returns in the form of "foreign" investment from Hong Kong. Similar practices have occurred in a number of transition economies, especially in connection with the privatisation of state-owned firms, where the existing management has acquired ownership of the firm through the vehicle of an offshore company.

Double – Dipping

Many tax incentives, especially tax holidays, are restricted to new investors. In practice, such a restriction may be ineffective and may be counter-productive. An existing investor that plans to expand its activities will simply incorporate a subsidiary to carry on the activity, and the subsidiary will qualify for a new tax holiday. A different type of abuse occurs where a business is sold towards the end of the tax holiday period to a new investor who then claims a new tax holiday. Sometimes the "new" investor is related to the seller, though the relationship is concealed. A more satisfactory approach may be to use investment allowances or credits, rather than tax holidays, so that new investments, rather than investors, qualify.

Transfer Pricing

Transfer pricing has been described as "the Achilles heel of tax holidays,"56 though it can be a problem with other forms of investment incentives as well. The tendency is to think of transfer pricing as a phenomenon that occurs internationally in transactions between related enterprises in different countries. Transfer pricing can also take place in a single country where an investor has two or more operations within a country or where the investor derives income from more than one activity. If one of those operations, or one type of income, enjoys a tax preference, profits will tend to be allocated to the preferred activity.

Transfer pricing is likely to take place where: (i) an investor undertakes two or more activities, one of which qualifies for an incentive (e.g., manufacturing, exporting) and another does not; (ii) an investor has operations in two or more locations, one of which is in a tax-privileged region and another is not; or (iii) an investor owns two or more subsidiaries, one of which enjoys a tax holiday and another does not. In each of these cases the investor will wish to allocate as much profit as possible to the tax-exempt (or tax-privileged) entity or activity. (In cases (i) and (ii) there may be only a single entity, in which case there is no transfer-pricing as such but an equivalent result is achieved through the allocation of revenues and expenditures.)

Round tripping is not always undertaken in order to meet foreign ownership requirements: often it is done to take advantage of favourable tax treaty provisions McLure (1999) 'Bulletin for International Fiscal Documentation 326, at p. 327.

The problems of monitoring transfer-pricing, especially for small or less-developed countries, are well known and do not need repeating here. The best advice would seem to be to use those tax incentives, if any are to be used, that are less prone to transfer-pricing abuses. For example, in contrast to tax holidays, investment allowances or credits provide an exemption from tax of a given amount, rather than for a given period. Consequently, artificial transfers of profits to a firm that has been granted an investment allowance or credit may result in tax liability being postponed but not eliminated.

Over-Valuation

Over-valuation (or sometimes under-valuation) is a constant problem in any tax system. Tax incentives, however, may provide additional temptations to inflate the values of assets. For example, where a tax holiday is conditional upon a certain minimum amount being invested, the value of assets contributed to the new firm can be manipulated to achieve the target figure. Sometimes this is done legitimately. For example, firms may purchase machinery rather than lease property from independent lessors. Other times, however, an inflated value is attributed to the property contributed, especially in the case of intellectual property. In cases where investors also receive an exemption from customs duty for newly contributed capital no compensating motivation exists to correctly or understate the value, and no reason exists for customs authorities to pay much attention to the declared value.

Abuse of Duty-Free Privileges

As noted in Section III, a common investment incentive takes the form of an exemption from customs duty on imported equipment. A danger is that, once imported, items may be resold on the domestic market. A partial solution is to restrict the exemption to those assets that are contributed to the charter capital of the enterprise. Even so, it may be necessary to verify periodically that the assets remain in the enterprise. Another approach is to restrict the exemption to assets such as machinery (which are less likely to be resold) and to exclude items such as passenger vehicles and computer equipment.

Asset Stripping and "Fly-By-Night" Operations

Many countries have experienced problems with "fly-by-night" operators that take advantage of tax incentives to make a quick, tax-free, profit and then disappear to begin operations in some other country that offers tax privileges. This problem most often arises with the use of tax holidays and export processing zones. A further problem sometimes occurs where a foreign investor acquires control of an existing local enterprise, sometimes as part of the privatisation process, at a relatively low price. Instead of contributing new capital to modernize the enterprise, the investor strips it of its useful assets and simply disappears.

Some countries have attempted to counter the “fly-by-night” problem by introducing “clawback” provisions. In China, for example, joint ventures with foreign participation enjoy a tax holiday of 2 years, with a further 3 years at half rate, but only provided the venture continues for a period of 10 years. If the joint venture is terminated before the end of the 10-year period, any tax “spared” must be repaid. The difficulty with such a provision is that the investor may have vanished before it is possible to claw back any of the forgiven tax liability.

Sometimes there is a further problem. Foreign investment agencies have an incentive to boost their investment figures, so that there is almost a conspiracy between the agency and the investor to inflate the amount of the investment. It is thus important for the tax administration to be involved in the valuation process.

This latter problem is not necessarily linked to the availability of tax incentives, though the ability to make a tax-free capital gain is an added attraction to the assets stripper.

Corruption

The existence of corruption can constitute a major barrier to foreign investment in a country. This does not, however, prevent foreign investors from being beneficiaries of a corrupt system. The granting of tax incentives, especially where the process involves a substantial degree of discretion, is one situation where there is a strong risk of corruption. In a recent report, one country disclosed that, of 35 foreign investment contracts that had been concluded, only 6 were untarnished by any kind of controversy.

Bodies such as the OECD and the World Bank are now taking firm action to try to reduce corruption and provide assistance to countries to establish anti-corruption programs. One element of such programs should be the monitoring of foreign investment projects and, especially, the granting of investment incentives. If a tax incentive is subsequently found to have been improperly obtained then, in addition to any other legal sanctions, the privileges should be withdrawn and any tax that has been avoided should be repaid Easson and Zolt (2006)

When government cuts taxes or exempts certain persons or corporate bodies from tax, it contracts its own source of revenue. On the part of the government, granting tax incentives is similarly a sort of sacrifice of her revenue towards assisting tax payer or manufacturing industries to continue to support the government either financially or morally

Dotun (1995) stated that clearly, there are serious doubts regarding the relevance and efficacy of tax incentives in Nigeria. According to him, the relevant public is hardly aware of their existence, often the relevant policy statement and laws regarding these tax incentives are not clear or unambiguous. He also pointed out the bureaucratic hassles which accompany the administration of tax incentives contribute to encouraging potential beneficiaries from taking advantages of the scheme. In this paper on tax incentives the ‘’Preliminary results in recent survey of Nigeria reveals that taxation in general in general ranks very low among the adverse factors in investment and production decision, while tax incentives did not feature at all among the positive factors mentioned by the respondents .The seven (7) mentioned factors in Nigeria investment climate were :

1. Foreign exchange rate and availability.
2. Liquidity shortage.
3. High inflation.
4. Low purchasing power of customers.
5. Safety and security of life and property.
6. Custom tariff.

Omolehinwa (1996) asked “Have the incentives granted the Nigeria companies growth; my answer is NO ,he said ”. Rose and Christainson in their study of Mexico’s experiences utilizing tax concessions for industrial and economic development concluded that tax incentives play a relatively minor role in the formation of new business or company. They found out that exemption was not a decisive consideration for any firm and that firms state that they definitely would have started the business without incentives.

The logic of the sacrifice of revenue that tax incentive denote is that the fiscal gap will be compensated for in the long run by a growth in the tax capacity of the favoured tax base and this will be filled in the short-run by revenue from other taxes or sources, government enterprises or borrowing or by reliance on surplus revenue from savings. Critics of tax incentives believe that tax incentives to investment have been generally wasteful and inequitable thereby making them to reject all tax incentives devices. One fact to note is that, where the revenue sacrifice is not adequately compensated for, the tax incentives easily run government into budget deficit especially where public revenue is dominated by taxes. Many observers believe that a tax system that aspires to buoyancy may do well with reduction in the number of nuisance levies than with a reduction in the rate of number of effective taxes. The implication of tax incentive is that incentive tend to complicate the tax effort and therefore to place an extra cost on tax administration. For instance, tax allowance deductions and credit do inflict loopholes on the tax system which clever taxpayers may exploit. It may cost tax administration some extra funding to detect and investigate such practices. Tax incentives can therefore widen the scope for corrupting the tax system. From various studies already conducted, not all target beneficiaries of tax incentives do actually enjoy them, that is, tax incentives can easily be wasted. Tax incentives may help a company increase its project but cannot create profit for any company or firm. For example, any company or firm that records no taxable profit or that incurs no tax liability can benefit from tax credit or accelerated depreciation allowances. The most obvious demerits of incentive is that it can lead to an erosion of the tax base. It can even be asserted that tax incentives are some kind of official erosion of the statutory tax base. This poses danger to compliance, especially in the long run where incentives have inadvertently turned into subsidies. By carrying with them the disadvantages of tax expenditure, tax incentives can be equalled to a kind of subsidy which in many countries including Nigeria has been identified as a source of inefficiency and unproductively of enterprise. While reflecting on the level of ineffectiveness, some Nigerian scholars have opposed the fact that tax incentives granted to Nigeria companies promote economic growth and the development of manufacturing firms and companies.

Political pressure for tax incentives most times brings about inefficiency in the economy. Most times, government cut taxes with hope of optimizing its popularity but this may turn around to boomerang against the government. Mr. Jacques Chirac one time in his run up election as the French president promised to the French people tax cut to attract investments and ease burden of financing the bureaucracy. When he assumed office, Jacques observed that the tax problem of French is not a dearth of incentives, but the existence of large –scale tax erosion.

The granting of tax incentives may even be an imposition on government or a limitation on its sovereignty. A case is when a nation joins a common market that country subscribes to the harmonization of its fiscal policy with those of other member nations. Article 13(1) of the treaty of Economic Community of West African States (ECOWAS) calls all member states to reduce and ultimately eliminate custom duties. It then means that tax incentives that are internationally imposed may impose and may not reflect the domestic needs of that particular country (John D, 2007).

Arguments In Favour of Tax Incentives

Notwithstanding, the rather dismal experience of certain tax incentives previously granted, total rejection is not justified. Despite criticisms, tax incentives are inevitable and favoured by large scholars as a means of allocating resources and stabilizing the effect of market forces on production and consumption, if they are efficiently designed. This can be proven by close examination of the following points as enumerated by Osememe (2004) where he said 'the issue of tax incentives is not Nigeria phenomenon. It is a worldwide fiscal measure right before Adam Smith'. He enumerated the following reasons: Investment, Social Development; Voluntary

Compliance, Special Sector; Tax revenues; Inflation; Tax revenue; International trade as well as Protection.

Investment

Investment can be encouraged by a series of special measures of which tax relief and incentives are inclusive. Tax incentives are normally used by the government to induce investors and to widen the profit margin of companies. With investment in place, as a result of tax incentives, they will increase or widen profit margin of companies through reduction in various tax liabilities. He sees tax incentives as a “sharp stimulus” which increase the rate of investment to such an extent that real output per capital rises and the initial increase carries with it radical change in production and techniques. It is characterized by a rapid expansion of a small group of sector.

Social Development

By introducing tax incentives, the capacity utilization of companies will be enhanced and this will lead to employment in the country .This in the long run will lead to employment in the country. This in the long run will lead to social equilibrium and stability in the economic system of the nation.

Special Sectors

Government at times stimulates a particular sector of the economy by giving or allowing generous tax incentives to attract investors in that sector .These could be seen in the case of pioneer companies and agricultural sectors.

Voluntary Compliance

By the granting of tax incentives to companies to engender voluntary compliance which gives rise to increased revenue to the government .The reduction in the rate of tax or the increase in the capital allowance rate will enable companies to avoid avoidance strategy and hence comply.

Inflation

By the use of tax incentives the purchasing power of consumer in an inflationary economy is enhanced .This leads to the increase in the real income of the consumer because of the enhanced value of their disposable income.

Production and Consumption

In most situations, people concentrate on increasing the productive capacity and disposal income with tax incentives; these twin objectives for economic growth are achieved. With increased disposable income there will be saving which will lead to capital formation and production that was why in 1994 ,Italy announced that its economic recovery programmes would be based chiefly on increased tax incentives which it said would boost industrial performance, create job opportunities and cause the listing of more companies in the stock exchange market.

Protectionism

*T*he potent use of tax incentives to protect local industries is not limited to Nigeria. The United States of America for instance has little of Japanese cars. This is a way of protecting local automobiles in the USA.As a result, tax incentives is one of the weapons of protecting local industries as it will make their prices cheaper than the imported ones**.**

International Trade

Some economy especially third world countries find their economic being dominated by foreign monopoly capital. In Nigeria for instance, the key sectors of the economy are dominated by foreign private investment companies.

The oil sector-the main stay of the economy is dominated by oil companies such as Shell Bp,Gulf Oil,Texaco, Ash Land, EiF, Chevron, Agip, Mobil,Total, Oando etc. Moreover, the International Oil Filled is dominated by seven(7) sister oil companies namely Standard Oil of New Jersey, Standard Oil of California, Mobil, Gulf, Texaco, Shell Bp. This is also in the building and construction sector which is dominated by foreign legalistic conglomerates such as Julius Berger, M.C.C, Strabag etc. Even in the beverage and food industry, the story is the same .This form of dependence guide the industrialized countries and has given them opportunities through the use of foreign owned companies to plunder the economy of host countries. The after effect or implication is mass capital flight which is actualized through the repatriation of profit, over-invoicing, under-invoicing, transfer pricing etc. Tax incentives are at times used to stem capital flight and attract foreign trade by giving export commodities bountiful tax incentives to enable it compete favourably in international trade. This has resulted to tax free processing zones in Nigeria.

Tax Revenue

Tax cut induce tax payer to be more tax compliant by making tax evasion and avoidance unattractive. Tax cut may in the long run imply little (or even no) loss in the federal revenue.

Also tax incentive such as capital allowance, tax relief, low tax rate or non-taxation of dividend and interest on deposits and loans spur people into capital formation. Be that as it may, it is good to state that a good understanding of available tax incentives packages is a Sino-qua-non for good investment appraisal either at micro or macro levels. There is the need to be well informed of the available tax incentive and the relevant legislations to enable any investor have good appraisal of the available opportunities.

EMPERICAL REVIEW

Tax Incentives and Foreign Direct Investment: A Global survey (2000): By UNCTAD

According to the study, the role of tax incentives in promoting Foreign Direct Investment (FDI) has been the subject of many studies, but their relative advantages and disadvantages have never been clearly established. The study revealed that as a factor in attracting FDI tax incentives are secondary. There are fundamental determinants such as size of market, access to raw materials and availability of skilled labour amongst others.

The Effect of Tax Incentives on Business Performance: An evaluation of manufacturing firms in Rivers State. By Dunu Ezekiel Okonkwo (2009)

The study observed that not all the companies are aware of the available tax incentives scheme as a result of poor administration of tax incentives scheme hence firms less attention to tax incentives scheme. It equally revealed that the government does not lose revenue in the administration of tax incentives based on the fact that the revenue sacrifice would be compensated for in the long run through multiplier effect. The study however concludes that tax incentives are available but the degree of awareness of tax incentives packages are minimal hence the urgent need to increase awareness on its availability. According to the research, tax incentives are secondary to fundamental determinant factors like market size, skilled labour, security and infrastructure.

Using Tax Incentives to Compete for Foreign Investment: By Orighoye Rewane (2004)

Orighoye in his study observed that foreign direct investment (FDI) as an important factor in the economic development of countries coupled with the gradual elimination of barriers to foreign investment in other states with similar attractive features ,has led to host governments to actively competing among themselves to promote their countries as investment location, with more countries, despite the heated debate surrounding their efficacy as FDI determinants, resorting to the use of tax incentives as part of these promotional efforts. The study however aimed at establishing whether using tax incentives to compete for FDI in oil and gas projects actually work. The paper concludes that although it cannot be said that tax incentives have absolutely no effect on FDI, they are however poor FDI determinants, and further suggest that perhaps collective action by harmonizing tax policies under regional or global arrangements, interlia would be in better interest of those governments.

Effect of taxes on Business Financing Decision and Firm Value in Nigeria: By Adelegan Olatundun (2007)

The study sets out to measure how taxation of dividend and debt affects firm value. Tax hypothesis predicts that firm value is negatively related to dividends and positively related to debt. The study concludes that dividend and debt convey information about profitability of firms. This information about firm's profitability obscures any tax effect of financing decisions. However, it was found that earnings and investment are key determinants of firm value in Nigeria.

Tax Investment and growth: Evidence from Firm and Industry Level Data in Nigeria .By Olatundum Janet Adelegan (2007)

This study seeks to examine the link between tax and real investment and address the effect of the incentive and disincentive structures of different taxes on investment at firm and industry level in Nigeria**.** The results in this study show that Q adjusted for tax ,cash flow ,debt shield and cost of capital has significant positive effects on investment, while marginal tax rates and interest expenses have significant negative effects on firm investment.

RESEARCH METHODOLOGY

Research Design

The research design follows the descriptive design. In research design, the researcher addressed the fundamental questions of how the study subjects would be brought into the scope of the research setting to yield the required data: Abdellab and Levin (1979 in Baridam 2001).This also agrees with Obodoeze (1996) who also described research design as a number of decisions which need to be taken regarding the collection of data before ever the dada are collected. Research design therefore can be seen as a framework or plan that is used as a guide in collecting and analysing the data for a study, Baridam (2001). This study is descriptive in the sense that it tries to portray the ways and manners the performances of firms in some areas are influenced by tax incentives. A survey technique was considered the most appropriate design. The survey was used in collecting data from correspondents to examine the extent to which tax incentives affect industrial growth in Nigeria using such indices like capital investment, profit, job creation, transfer of technology, research and development etc.

Population of the Study

The population of this study includes taxpayers, management and members of staff of some selected manufacturing companies in the South-South geo-political zone of Nigeria and Federal Inland Revenue Services. Thirty (30) companies were studied. The researchers intend to particularize this study to this zone and establishment because they serve as a sample representing other firms in Nigeria. The classes of personnel included in the research were administrative managers, accounts managers, internal auditors, and marketing and production staff. The staff level was covered because they are involved in one way or the other in the benefits accruing from government tax incentives. Therefore a target population of 51 respondents were targeted.

Sample and Sampling Techniques

For the purpose of this study, random sampling techniques are used. It is an appropriate technique for such a research because every member or element of the population has an equal and known chance of being selected. Again its ultimate purpose is to ensure that a set of element is drawn from the study population in such a way that statistics obtained will accurately portray the population from which it was selected. In this study, after a thorough examination of a target population of 51 people, a sample size of correspondents was targeted based on their conceptual knowledge of the researcher's subject matter. In all, there were a high degree response rate of 88%.In other words, out of 51 target population sample respondents, some of them responded accurately to the questionnaire and timely too. As a result only 16 respondents representing 12% of the sample size were unable to return their questionnaire. The researcher arrived at the target sample size through the following formula:

$n = N / 1 + N (x)^2$

Where n= sample size

N = population size

X = Level of significance (i.e maximum level of tolerable research error).

In other words, the level of rejection at 5%

Hence ,

$n = 51 / 1 + 51 (0.05)^2$

=45. Therefore, the sample size becomes 45.

Nature/Source of Data

Primary Data

Primary data involves carrying out an original investigation to obtain data. According to Eboh (1996) primary data are sampling or study units regarding which information is to be collected on first hand bases. Data from such sources are usually obtained through surveys, observations and experiments. For the purpose of this work, primary data is obtained by observation, interviews and questionnaires.

Secondary Data

The secondary data source used in this study include journals, newspapers and articles, textbooks, periodicals, government officials gazette, documents from Board of Internal Revenue Services and information from experts in the field of taxation and computerized searches, the includes information on tax incentives, various relief and allowances to various sectors. These were for the periods of 2004 -2014

Method of Data Collection/Instrumentation

The data collection instrument used by the researcher is personal interview and questionnaire. The questionnaires were carefully scrutinized and approved by the project supervisors before they were administered to the staff concerned. The first deals with background information of the respondents and the other enables the respondents to respond clear to questions. Questionnaires were taken to various respondents personally and collected by hand and e-mail by the researcher. A total of 30 copies of questionnaires were distributed to three basic levels of staff, namely senior management, middle management and junior staff of 30 selected companies in the South-South Geo-Political Zone of Nigeria.

Operational Measures of Variable

a. A variable is an entity that can vary or remain constant. In research method, variables are the measurable concepts studied which are outlined in the research hypothesis. These hypotheses would either be accepted or rejected based on the dependent and independent variable.

b. For the first hypothesis, the variables to be tested include tax incentives and industrial growth. The independent variable is tax incentives while enhancement of industrial growth is the dependent variable.

c. For the second hypothesis, the variables are awareness and response..

d. For the third hypothesis, we have effectiveness of the incentives in motivating people into business. The dependent variable is motivation, while the independent variable is tax incentives.

Method of Data Analysis

The researcher, in this work made use of the percentage frequency and Spearman's rank correlation analysis with the aid of SPSS, this is determined and used for analysis.

Percentage Frequency Distribution

Percentage frequency distribution is employed for analysing the data collected .The percentages frequency distribution is a fraction of a number in hundreds and it is gotten

$$: \frac{{}^{x}x^{100}}{N}$$

Where x = number in a distribution (say column or row)

100, which is constant

The 100 is assumed to be the maximum units of numbers. This (%) is to make for easy comparison of the data. For instance, as will be observed in the next chapter, he respondents were classified according to their responses and expressed in the percentages representations.

ANALYSIS

Descriptive Statistics

Table 1: Distribution and Collection of Questionnaire

RESPONDENTS	NO DISTRIBUTED		NO RETURNED		NO NOT RETURNED	
	NO	%	NO	%	NO	%
Senior mgt	6	20	5	16.7	1	3.3
Middle mgt.	11	36.7	11	36.7	0	0
Junior mgt.	13	43.3	12	40	1	3.3
Total	30	100	28	93.4	2	6.6

Table 1 above shows that 30 questionnaire were distributed to various levels staff of some selected companies in the South-East geo-political zone of Nigeria and Federal Inland Revenue Services for completion and return for statistical analysis. Out of these 28 questionnaires, representing 93.4% were returned while 2 questionnaires representing 6.6% were not returned.

Table 2: Companies Pay Tax and what forms of Taxes they pay

Opinions	Undecided (0)	Strongly disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Total
In order to get incentives a Company should pay tax regularly	**0**	**0**	**2**	**4**	**10**	**16**
Company should pay all the various taxes applicable to it including VAT	**1**	**0**	**1**	**8**	**2**	**12**
Total	**1**	**0**	**3**	**12**	**12**	**28**
Total Weight	**0X1 = 0**	**0X1= 0**	**3X2 =6**	**12X3=36**	**12X4 =48**	**90**
Percentage (%)			**6.7**	**40.0**	**53.3**	**100%**

The above table (table 2) showed that 53.3% of the respondents strongly agreed that companies pay taxes of different forms while 40% of the respondents agreed, whilst 6.7% disagreed. These are in questions 9a. and question 9b. From the analysis above, it can be deduced that many employees know that companies pay different forms of taxes.

Table 3: Awareness of Existence of Tax incentives and the Various Forms it takes

Opinions	Undecided (0)	Strongly disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Total
Do you agree that tax incentives scheme that exists has the capability to attract investments?	**1**	**0**	**0**	**7**	**10**	**18**
Companies enjoy various forms of tax reliefs such as loss relief, investment allowance, capital gains etc and these are part of tax incentives to encourage investments?	**0**	**0**	**1**	**4**	**5**	**10**
Total	**1**	**0**	**1**	**11**	**15**	**28**
Total weight	**0**	**0**	**2**	**33**	**60**	**95**
Percentage (%)	**0**	**0**	**2.1**	**34.7**	**63.2**	**100%**

The table above showed that 63.2% of the respondents strongly agreed, 34.7%agreed while 2.1% disagree whilst the rest were undecided. These are in question 10 and 12.

From the analysis, it can be asserted that the level of awareness about the availability of the incentives is moderately high while some are still unaware of its existence. Again the awareness about the various forms it takes is not very high, therefore more awareness campaign should be launched on the availability of these incentives.

Table 4: Improvement in Corporate Growth and Economy Through Adequate Tax Incentives

Opinions	Undecided (0)	Strongly disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Total
The existence of tax incentives contributes to growth or expansion of businesses?	**0**	**1**	**1**	**2**	**6**	**10**
The existence of tax incentives also contribute to industrial growth in the economy	**1**	**1**	**1**	**6**	**9**	**18**
Total	**1**	**2**	**2**	**8**	**15**	**28**
Total weight	**0**	**2**	**4**	**24**	**60**	**90**
Percentage (%)	**0**	**2.2**	**4.4**	**26.7**	**66.7**	**100%**

In question 15, and 16, 66.7% of respondents strongly agreed, while 26.7 % disagreed, 4.4% disagreed and 2.2% strongly disagreed. The response from the respondents on the two questions above has shown that sufficient tax incentives can bring about improvement, expansion and growth to corporate bodies/companies.

Table 5: Tax Incentives can Motivate People into Business and Attract Foreign Investment

Opinions	Undecided (0)	Strongly disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Total
Tax incentives can motivate people into business?	**1**	**0**	**1**	**3**	**4**	**9**
Tax incentives can attract foreign investments?	**1**	**1**	**2**	**5**	**10**	**19**
Total	**2**	**1**	**3**	**8**	**14**	**28**
Total weight	**0**	**1**	**6**	**24**	**56**	**87**
Percentage (%)	**0**	**1.2**	**6.9**	**27.5**	**64.4**	**100**

The above table showed that 64.4% of the respondents strongly agreed, while 27.5% disagreed, 6.9% disagreed and 1.2% strongly disagreed. These are in question 20 and 21. From the analysis, it can be deduced that tax incentives can motivate people into business and attract foreign investments since majority is of that opinion.

Hypothesis Testing

Hypothesis one: $H0_1$: Sufficient Tax Incentives do not enhance Industrial Growth and Economy

Using the SPSS output of the spearman's correlations result below, the hypothesis is tested.

Table 6: Correlation Analysis

			x1	y1
Spearman's rho	x1	Correlation Coefficient	1.000	.986**
		Sig. (2-tailed)	.	.000
	y1	Correlation Coefficient	.986**	1.000
		Sig. (2-tailed)	.000	.

**. Correlation is significant at the 0.01 level (2-tailed)

From the table above, the Spearman' rank coefficient is 0.986 showing a positive relationship between sufficient tax incentives and enhanced industrial growth and economy. The probability value = .000 which is less than 0.05 thus revealing a significant relationship between sufficient tax incentives and enhanced industrial growth and economy. Based on this, the null hypothesis is rejected while the alternate is accepted, which states that sufficient tax incentives enhances industrial growth and economy.

$H0_2$: Lack of Awareness of the Available do not have any Significant Negative effect on the level of Investment

Table 7: Correlation Analysis b

			x2	y2
Spearman's rho	x2	Correlation Coefficient	1.000	1.000**
		Sig. (2-tailed)	.	.
	y2	Correlation Coefficient	1.000**	1.000
		Sig. (2-tailed)	.	.

**. Correlation is significant at the 0.01 level (2-tailed)

Similarly, from the SPSS table above, spearman's rank coefficient is 1.000 showing a positive relationship between lack of awareness of available incentives and negative effect on the level of investment. The probability value is PV = .and less than 0.05 revealing a perfect significant relationship between lack of awareness and incentives and negative effect of the level of investment. Therefore, the null hypothesis is rejected and alternate accepted which states that lack of awareness of the available incentives have significant negative effect on the level of investment.

$H0_3$: Availability of Tax Incentives does not motivate people into Business Enterprise

Table 8: Correlation Analysis c

			x3	y3
Spearman's rho	x3	Correlation Coefficient	1.000	.986**
		Sig. (2-tailed)	.	.000
	y3	Correlation Coefficient	.986**	1.000
		Sig. (2-tailed)	.000	.

**. Correlation is significant at the 0.01 level (2-tailed).

Looking at the table above for hypothesis three, the spearman's rank coefficient is 1.000, showing a positive relationship between availability of tax incentives and business enterprise start up motivation, the probability value = .000 and is less than 0.05 revealing a positive relationship between availability of tax incentives and motivation for business enterprise. Therefore, the null hypothesis was rejected and alternate accepted which states that availability of tax incentives motivates people into business enterprise.

DISCUSSION OF FINDINGS

From the findings of the study, sufficient tax incentives enhance growth and economy. It implies that tax incentives regime encourages economic development, more industries, more jobs and overall economic development is witnessed. In addition, the findings also reveal that lack of awareness has a negative effect on the economy. It implies that even when there are tax incentives, when the targeted industries or industrialist are not aware of it, it makes no sense in the economy. It only leads to more growth of industries which will translate into economic development when people are aware of the tax incentives. Further, incentives are high motivators to establishment of business enterprises. It implies that where incentives are not there, it will not only demotivate people, it can also lead to the closure of already existing industries, as such incentives should be there so as to keep motivating people and business owners to establish and expand on their enterprises

Finally, it can seen as earlier mentioned that one of the reasons for encouraging private investment (foreign and indigenous) is the expectation that investment activities will generate employment opportunities for Nigerian nationals. The aim of development planning is that economic growth should be accompanied by general development .In other words, benefit of economic advancement should be distributed as widely as possible over the entire society. Government therefore as the most important institution for ensuring the translation of institutional growth in economic development through economic and social services, must have at its disposal favourable policies on investments sufficient for achieving these goals of the society. As the Nigerian market becomes more competitive, industrial incentives can be effective if administered in such a way that favours industrial activities with high value added potentials. The important roles of tax incentives to economic growth of any country cannot be over emphasized. This is due to the fact that it is the bedrock to a solid foundation for long-term growth and developments of the industrial sector. Many financial analyst, Accountants, Economists and academics have given thought and attention on the various types of tax incentives schemes. In studying the objectives of the scheme, attention are focused on the comparison of the incentives as it affects a particular country, person and state and the relevance of such policy to the general problems of the economy and industrial sector.

In Nigeria for instance, industrial development, income tax relief granted for a period of 5 years for companies having pioneer status. The aim is to attract and sustain the establishment of indigenous owned industries in the sectors .Also under the import duty, importers can in certain situations claim repayment of import duties (Draw back regulations) abolished in 1984 to mention just this two.

However, to consider the chance of success of the scheme there is usually an assessment of the adequacy of the regulation also the suitability of the administration. A lot of these incentives are determined by analysing the opportunity cost of the forgone alternative. To determine the fiscal sacrifice, the total gain must be subtracted from the total loss. It is agreed that: Such tax will be sacrifice where the corporate bodies and individual would have made the same and pattern of investment without any fiscal incentives. The cost of administering the incentive scheme is easily calculated and make up part of the fiscal sacrifice. The magnitude of the cost is determined by the extent to which company and individuals are able to declare their gains among others. Such tax will not be a fiscal sacrifice where corporate bodies and individuals are usually induced to invest because the profit/loss made is not taxed.

Finally, drawing from the above discussion, it becomes certain that tax incentives and corporate growth are inseparable elements of economic development that can be physically seen in terms of high industrial growth that will create more jobs for the nation.

CONCLUSION

In order to promote the growth of the economy, the federal government has at various promulgated tax laws conferring incentives on companies and individuals carrying on business in Nigeria. It therefore follows that without adequate tax incentives no firm can usefully achieve the objectives for which it is being set up especially at nurturing stage considering the high cost of production in Nigeria owing power challenges and absence of other infrastructural facilities. Effort has been made in this study to show how important the effect of tax incentives is in firms' development. It is therefore no more a surprise that government has come to the realization that they contribute immensely to economic development of the country.

From the analysed data ,it has become an established fact that adequate tax incentives are not only beneficial to the firm but also motivate them in making more investment .However ,it must be noted that there are other demographic, social and political activities which are supportive of industrial growth and overall lead to sustainable economic development. Moreso, tax incentives act like catalyst to industrial development by reducing the impact content of domestic manufacturers, improve the balance of payment and enhance the total impact of industrialization on income employment within Nigeria economy.

RECOMMENDATIONS

Having x-rayed the cardinal role of tax incentives in the advancement of industrial growth and development and base on the findings and conclusion of this work, it is pertinent to make valuable recommendation, these includes:

1. The government should waive certain taxes on corporate bodies to help them develop and mature especially at their early stage. They should not focus on the revenue that may be lost at this point because in the long-run the benefit surpasses what is lost at the initial time.
2. A wider awareness campaign through workshops, seminars, advertisements, all be made to enable the public know of the available business opportunities especially now that many of our youths (graduates) are roaming the streets because of lack of job. They can help motivate them into investing their utilized human resources.
3. The administrative machinery should be well assisted and equipped to enable them render the necessary services and achieve the objectives for which they are established. The financial institutions established to assist on fund raising also need to be given a re-

orientation so that fund could be made available when needed at attainable cost and procedures.

4. Government should enact tax incentive legislation with emphasis on the utilization of local inputs i.e. raw materials, labour and fabricated machinery against imported ones.
5. In fact, industries benefiting from pioneer relief or waiver period should be required to send periodic progress report and physical monitoring exercise put in place by the industry of industries, trade and co-operations.
6. Government should not embark or embrace such policies that will expose our local industries to hard business environment e.g. foreign loan from World Bank, Structural Adjustment Programmes and their associated conditions which normally do more harm than good thereby exposing the economy to long standing spiral inflation and other problems.

REFERENCES

Adams, Smith. (1776). *Wealth of Nations*. London: W. Strahan and T. Cadell.

Alabi, S. (2001). Tax Planning*: A paper delivered at the workshop on Nigerian Corporate and Personal Income Tax Management, Yaba Lagos August15th.*

Companies Income Tax (Amendment) Act (CITA) (2007): *Federal Government Printing Press Lagos.* Embassy of Federal Republic of Nigeria, Washington D.C http://www.nigeriaembassyusa.org/index?page=investment incentives. Assessed July, 2014

Ezejelue, A.C and Ihendinihu, J.U (2006). Personal Income Taxation in Nigeria. *Lins Consult Nig, Okigwe.*

Ezejelue, A.C.(2001). *A Primer on International Accounting*, Port Harcourt: *Educational Books and Investments Ltd.*

Ezirim C.B (2005). *Finance Dynamics*. Port Harcourt: Markowitz Centre for Research and Development.

Fasoto F.(2007). *Nigerian Tax Companion*. Lagos: Hartosaf Associates Ltd. Federal Inland Revenue Services (1995). Annual Report.

Gbosi, A. (2005).*Contemporary issues in International Trade and development Finance*. Port Harcourt, Nigeria: Sodek Associates, Pp 271 -279.

John, D. (2007). Recent Development in International Taxation. *The Official Journal of Chartered Institute of Taxation of Nigeria.Vol.9 No1, (Jan. - June), p21 -23*.

Kiabel, B.D.(2001).Tax Incentives as a tool of Economic Developments, *Paper presented at the Mandatory Continuous Professional Education (MCPE) programme of the Institute of Certified Public Accountants of Nigeria (ICPAN), Port Harcourt.*

Nwaezeaku, N, C. (2005). *Taxation in Nigeria: Principles & Practice*, Owerri: Springfield Publishers Ltd.

Ogbonna G.N and Ebimobowei A, (2012). Impact of tax reforms and Economic Growth of Nigeria: Time Series Analysis. *Current Research Journal of Social Sciences 4(1) 62-68.*

Okpe I.I (1999). *Guide to Nigerian Taxation*. Enugu: Ochumba Printers.

Olatundum, A, (2007). Effect of Taxes on Business Financing Decisions and Firm Value in Nigeria: A Review .*Htt://www.eurojournals.com/finance.htm*

Ordu, P.A. (2015). The Impact Of Tax Revenue On Economic Development In Nigeria (years 1994-2010), MBA Thesis presented at University of Port Harcourt, Nigeria.

Orighoye, R. (2004). Using Tax Incentives to Compete for Foreign Investment: A Review Available at: *Htt://www.dundee.ac.uk/cepmlp/journal/html/vol15* Value Added Tax (Amendment) Act No.12 of 2007: *Federal Government Printing Press Lagos*.