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Impact Of Tax Incentives On Investment Decisions In Some Selected Establishment In Yobe State, Nigeria

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ABSTRACT
This study examined the effect of tax incentives on investment decision in some selected establishment in Yobe state, Nigeria. Eighty nine (89) correctly responded copies of questionnaire out of 100 administered were obtained for the analysis. Correlation analysis statistical tool was used in testing the hypothesis using Statistical Package for Social Sciences software (SPSS). The results of the empirical finding shows that tax incentive encourage the existing industries to pursue vigorous expansionary policies. The findings also show that tax incentives encourage individuals to establish new enterprises as well as attracting foreign investment to Nigeria. The finding recommended that tax incentives should be properly managed and sustained to encourage the existing industries to pursue vigorous expansionary, motivate individuals to establish new enterprises and also attract foreign investors in Nigeria.
Keywords: tax incentive, investment decision, expansionary policies, and foreign Investment

INTRODUCTION

Tax incentives are reliefs granted to tax payers or industries in form of an off-set from the total profit before tax liability is determined. In case of industries and firms, tax incentives are given inform of tax holidays which is established by the legislative authorities on such payment of taxes. UNCTAD (2000) in Gina, Osarobo & Amibor (2023) define tax incentives as any measure that reduces the tax burden on a company to encourage it to participate in certain projects or industries. Reduced corporate tax rates, tax credits, accounting rules that allow depreciation and loss carry forward for tax purposes, and reduced tariffs on imported equipment, components and raw materials are all examples of exemptions from the tax system.

Government often use these incentives to pursue specific economic goals such as tax base diversification, job creation, business retention, and expansion that are usually set by the government which consists of both the federal, state and local practice. The use of financial incentives to benefit private parties introduces risk factors which are not generally present in other public financial management areas. For this reason, economic incentives must be based on a policy that establishes parameters for their appropriation in relation to the economic developmental goals of the government (Chukwu (2009)).

The granting of tax incentives in Nigeria can be traced back to the early 1950s. The relief was first granted under the Pioneer Industries Ordinance of 1952 this was during the last years of colonial rule in Nigeria (1952-1954), the colonial government adopted an industrial development policy which was continued by the incoming indigenous government. The government of the time recognized the importance of foreign investment in filling the domestic savings, foreign exchange and technology gaps between the level of industrialization in Nigeria and in the developed world (Kuziie, 2016).

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. The implication of tax incentive is that incentive tend to complicate the tax effort and therefore to place an extra cost on tax administration

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 (Kuziie, 2016). It is a worldwide fiscal measure right before Adam Smith'. In the light of the above, this research work examines the impact of tax incentives on investment decisions in some establishment in Yobe state, Nigeria.

Theoretical review

There are several theories which explain the influence of tax incentive on corporate investment. Lawrence (1981) postulated a theory on tax in a "q" theory of investment. It was seen as a procedure for using corporate investment equation base on Tobin's q as a yardstick for estimating the impact of tax policies incentive on both corporative investment and the stock market. Tobin assumed that where there is a nice approximation, the market value of additional unit of capital equals the average market value of the existing capital stock to which is called the average "q" which is the ratio of the market value of the capital stock to its replacement cost and it is the nice proxy for the value of marginal "q" on additional dollar investment.

Empirical Review

Osirim, Ahiakwo & Barigbon, M. (2024) assesses the impact of tax incentives and infrastructural development on entrepreneurship in Nigeria. To achieve the set objective, primary data was used through administered questionnaire. The collected data was empirically analyzed using descriptive analysis and the Kendall's tau_b"t" non-parametric statistics correlation coefficient given that the study is about the strength of the relationship between tax incentives and entrepreneurial development on one hand and infrastructural support for entrepreneurship development on the other hand. A sample of two hundred and twenty seven (227) respondents drawn from entrepreneurs in the agriculture, telecommunication, service and manufacturing sectors were used to conduct the study. The outcomes of the study show that there is negative and no significant relationship between tax incentives (pioneer status, export incentives and general incentives) and entrepreneurship in Nigeria and that there is positive and no significant relationship between infrastructural development and entrepreneurship in Nigeria.

Abdulhamid, Yusuf, Bala & Naziru (2024) investigated the effect these tax incentives (the Nigerian government tax exemption to MSMEs with income of a particular threshold and low-interest financing) have on the tax compliance of MSMEs in Nigeria. The study adopted quantitative research and administered questionnaires to MSMEs in Nigeria. Guided by the theories of social influence and slippery slope, the study employed the regression technique for the analysis and concluded that tax incentives have a significant effect on the tax compliance of MSMEs in Nigeria.

Gina., Osarobo & Amibor (2023).examined the effect of tax incentive on economic growth in Nigeria. Data were extracted from Central Bank of Nigerian Statistical Bulletin from 1999 to 2021. The data were analyzed and tested with regression analysis via E-view 9.0. From the foregoing analysis, the study found that effect of tax incentive has significant effect on economic growth in Nigeria. To encourage investment in the manufacturing industry, decision-makers and the government should develop and implement laws that increase the percentage of investment support for factories and machinery used in the industry beyond what is acceptable.

Okoth (2023) investigated the potential effectiveness of tax incentives and subsidies in promoting economic development and growth in developing countries. This study uses secondary data from World Bank, IMF and OECD reports for the target period 2010-2022. The study examines how tax incentives affect economic development in developing countries, focusing on Indonesia, Kenya, Malaysia and Turkey. The researcher used STATA version 15 to examine the relationship between the variables. The researcher conducted a panel data regression analysis using a generalized estimating equation approach.

The P-value approach used by the researcher evaluates the importance of the variables under study, with the p-value set at 0.05. The study found a positive and significant effect of subsidies on investments and economic growth. Production, sales and transfer tax incentives and taxes on profit and capital gains did not have a significant positive impact on investments. However, the effects on economic growth were insignificant and negative.

Lawal, Oyetunji, Soladoye, Lawal and Alagbe (2022) investigated tax incentives and business growth in Nigerian manufacturing firms. This study used a retrospective survey. The base population consisted of all the listed manufacturing companies in Nigeria and the sample size was determined to be ten companies using purposive sampling technique. Collected data were analyzed using descriptive statistics (e.g. tables, mean analysis) and inferential statistics (e.g. regression analysis). The results showed a significant positive relationship between tax incentives and income growth and retained earnings. However, the study concluded that there is a relationship between the variables under study.

Sebele-Mpofu, Gomera and Sibanda (2022) aim to review the literature on tax incentives in developing countries with the aim of assessing whether tax incentives have been a problem or a solution in promoting economic growth and development in developing countries. This study was a critical literature review, so a literature review was used as a separate methodology. Analyzing the results of the review was based on thematic analysis. They were grouped into two main themes and were arguments for and against tax credits. It exposed controversies and contradictions in providing incentives, their effectiveness and impact on economic growth, pass-through, revenue mobilization efforts (tax base) and future tax compliance.

Sule, et al; (2022) investigated the impact of tax incentives on industrial development in Nigeria between 1985-2020 employing secondary data sourced from the Central Bank of Nigeria, the Federal Inland Revenue Services and the National Bureau for Statistics. The multiple regression result produced showed that companies income tax has a negative impact on industrial development while the lag of industrial output, value added tax and gross domestic product have a positive impact on the industrial output during the period covered. The study recommends that certain taxes should be waived for firms at the early stage of their take off and available tax incentives should be legalized and made known to all.

Using both primary and secondary data for their analysis Meiryani et al. (2022) stated that tax incentives have a significant effect on tax compliance of MSMEs. Furthermore, Sari et al. (2022) stated that tax incentives have a positive and significant effect on tax compliance of MSMEs.

Naitili et al. (2022) investigated the effect of tax incentives on taxpayer compliance of MSMEs during Covid 19 and found that tax incentives have a positive effect on taxpayer compliance. Budiman et al. (2022) investigated the influence tax incentives have in boosting MSMEs' tax compliance during Covid-19. The authors employed a purposive sampling technique and moderated regression analysis for the analysis. They split tax incentives into knowledge of tax incentives and the use of tax incentives and the study concluded that knowledge of tax incentives has a significant influence on tax compliance of MSMEs. However, the use of tax incentives does not have a significant influence on the tax compliance of MSMEs. This study equally measured the effect of tax incentives on the compliance of MSME owners in Nigeria but not as a moderating variable.

Apriadi et al. (2022) researched the effect of tax incentives on corporate taxpayers during Covid-19 and concluded that tax incentives have a significant effect on corporate taxpayers' compliance. This study also conducted research on tax incentives and tax compliance but on MSMEs and not on corporate taxpayers.

Similarly, Safiq and Bhisri (2022) investigated the role of tax incentives in the relationship between tax socialization and tax compliance. They employed the SmartPLS technique and found that tax incentives moderate the relationship between tax socialization and tax compliance. This study, however, employed SPSS in measuring the effect of tax incentives and tax compliance and was not used as a moderation variable.

Appiah-Kubi et al (2021) studied the effects of tax incentives in 40 African countries using economic modeling and found that FDI is associated with a lower corporate tax rate and that foreign investors prefer locations with longer tax holidays and lower withholding tax. However, the author was also interested in

possible negative effects. The study recommended restructuring tax incentive systems in most African countries, which could lead to a reduction in tax revenues.

Supriyati (2021), tested the role of tax incentives on the relationship between tax knowledge and tax compliance. The study concluded that tax incentives mediate the relationship between tax knowledge and tax compliance. Further, Sari et al. (2021) in a study found that tax amnesty has a positive and significant effect on individual taxpayers' compliance. Tax incentives were also tested in this study but the focus is on tax compliance of MSMEs, not individual taxpayers.

Olowo, Anisere-Hammed and Adewole (2020) examine tax incentives for the growth and development of manufacturing firms in Nigeria. This study used a retrospective survey. Information on corporate income tax benefits, capital reduction benefits, customs benefits, excise benefits and return on assets was mainly obtained from 2013-2018. From the annual accounts of the year, Data were analyzed with E-view 9.0 using ordinary least squares multiple regression. According to the findings of the study, corporate income tax credits, capital credits, customs credits and excise credits all had a positive and significant impact on the return on assets of the selected Nigerian manufacturing firms.

Hypothesis Development

The hypothesis is developed from the literature reviewed and based on the concepts in the adopted theoretical framework of the study

H_{O1}: tax incentives does not encourage the existing industries to pursue vigorous expansionary policies

H_{O2}: tax incentives do not motivate individuals to establish new enterprises

H_{O3}: there is no significant relationship between tax incentives and foreign investment in Nigeria

RESEARCH METHODOLOGY

Research Design

The research design will follows the descriptive design. 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 will be used in collecting data from correspondents to examine the extent to which tax incentives affect investment decision.

Population of the Study

The population of this study includes taxpayers, management and members of staff of some selected companies in Yobe state. 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.

Sample and Sampling Techniques

Using the judgmental sampling technique, a sample of twenty small and medium manufacturing companies was selected in Yobe state. In eliciting data from the selected samples, five copies will be administers to administrative managers, accounts managers, internal auditors, and marketing and production staff in the selected firm, (making a total of 100 copies)

Source of Data

Primary data involves carrying out an original investigation to obtain data. For the purpose of this work, primary data will be obtained by interviews and questionnaires.

Research instrument

For the purpose of this study, a questionnaire in five-point Likert scale stated and interpreted with points of agreement as Strongly Agree (5), Agree (4), Neutral (3), Disagree (2) and Strongly Disagree (1) was adopted. The questionnaire was designed in such a way as to provide vital answers for the research questions and hypotheses testing.

Table 1

Strongly Agreed (SA)	5 points
Agreed (A)	4 points
Neutral (N)	3 points
Disagreed (D)	2 points
Strongly Disagreed (SD)	1 point

The mean of the above was determined by calculating the average.

$$\bar{X} = \sum \frac{fn}{n}$$

Where,
X= mean
F= frequency
x= nominal value of option
∑= summation sign
n= number of the respondent
A cut- off point of 3.0 was used to determine the mean which is thus:

$$\frac{5+4+3+2+1}{5}$$

$\frac{15}{5} = 3.0$

This means that any mean score equal to or greater than was considered as agreed response and any mean score less than (<) 3 was considered as disagreed responses.

Data Analysis

One of the analyses that were used is the quantitative analysis of the questionnaire items. Also, the use of a correlation coefficient technique was employed for the analysis using the statistical package for the social sciences (SPSS).

DATA PRESENTATION AND ANALYSIS

Descriptive Statistics

This section provides descriptive statistics of the variables of the study, using mean and standard deviation. The result is presented on Table 4.

Table 2: Descriptive Statistics of Variables

Variables	sample	mean	Std. Deviation
Tax incentives	89	3.59	0.98
Vigorous expansionary policies	89	3.42	1.01
New enterprises establishment	89	3.56	0.99
Foreign Investment attraction	89	3.36	1.14

Source: Field Survey, 2025

Table 2 presents the descriptive statistics of the variables of the study. They are tax incentives, vigorous expansionary policies, new enterprises establishment, and foreign Investment attraction. All the variables of the study were measured on a five-point Likert scale. Table 2 showed a mean response of 3.59 on tax incentive, having a standard deviation of 0.98. A mean response of 3.42 on vigorous expansionary policies with a standard deviation coefficient of 1.01 shows that respondents agreed to statements that tax incentives encourage the existing industries to pursue vigorous expansionary policies. New enterprises establishment has a mean of 3.56, having a standard deviation of 0.99 which mean respondents also agreed to statement tax incentives motivate individuals to establish new enterprises. Foreign Investment attraction has a mean of 3.36 and a standard deviation of 1.14. This average means that tax incentives attract foreign investors.

Table 3: Correlation between Tax incentives and Vigorous expansionary policies

		Tax incentives	***Expansionary policies***
Tax incentive	Pearson correlation	1	0.72
	Sig. (2-tailed)		
Expansionary policies	N	89	
	Pearson correlation		
	Sig. (2-tailed)	.000	
	N	89	

Source: Author's Computation, SPSS

Table 3 indicates that tax incentive is positively correlated to Vigorous expansionary policies given the correlation coefficient of 0.72; the valve of 0.000 is less than 0.5. This implies that there is a strong relationship between the tax incentives and vigorous expansionary policies

Table 4: Correlation between tax incentives and new enterprises establishment

		Tax incentive	***New enterprises Establishment***
Tax incentive	Pearson correlation	1	0.68
	Sig. (2-tailed)		
New enterprises establishment	N	89	
	Pearson correlation		
	Sig. (2-tailed)	.000	
	N	89	

Source: Author's Computation, SPSS

Table 4 indicates that tax incentive is positively correlated to new enterprises establishment given the correlation coefficient of 0.68; the valve of 0.000 is less than 0.5. This implies that there is a strong relationship between the tax incentive and new enterprises establishment.

Table 5: Correlation between tax incentive and Foreign Investment attra*ction*

		Tax incentive	***Foreign Investment attraction***
Tax incentive	Pearson correlation	1	0.23
	Sig. (2-tailed)		
Foreign Investment attraction	N	89	
	Peasrson correlation		
	Sig. (2-tailed)	.000	
	N	89	

Source: Author's Computation, SPSS

Table 5 indicates that tax incentive is positively correlated to foreign Investment attraction given the correlation of 0.23; the valve of 0.000 is less than 0.5. This implies that there is a weak relationship between tax incentive and foreign Investment attraction.

Test of Hypotheses

Table 6: presents the result of the test of hypotheses.

Path Coefficient

Hypotheses	***Beta Value***	***Std. Error***	***T Stat***	***P Value***	***Decision***
H01: TI->NEE	*0.55*	*0.01*	*14.86*	**** 0.00*	*Rejected*
H02: TI->VEP	*0.42*	*0.01*	*2.72*	**** 0.01*	*Rejected*
H03: TI->FIA	*0.13*	*0.05*	*2.72*	**** 0.01*	*Rejected*
Adjusted R^2	*0.345*				

Source: Field Survey, (2025)

*** p< 0.01; **p< 0.05; *p <0.1

From Table 8, it can be deduced that tax incentive has a positive effect on Vigorous expansionary policies. It is significant at P value <.01. This means a unit change in tax incentives will lead to 55%

Vigorous expansionary policies. Therefore, H_{01} that states that tax incentives do not encourage the existing industries to pursue vigorous expansionary policies is hereby rejected.

Similarly, tax incentive has a positive significant effect establishment of new enterprise, significant at *<.01. This means as tax incentive increase by one unit, establishment of new enterprise increases by 42%. Thus, H_{o2} that states* tax incentives do not motivate individuals to establish new enterprises which will boost industrial development and economic growth *is also rejected.* Tax incentives also have positive effect on attraction of foreign investment at 0.05 significant levels. This implies that as tax incentives increases by five units, foreign investment increases by 13%

Adjusted R square for this study is 34.5 per cent. Therefore, 34.5% of Vigorous expansionary policies, new enterprises establishment and Foreign Investment attraction are explained by tax incentives.

CONCLUSION AND RECOMMENDATIONS

Government normally uses tax incentives to induce investors and to increase the profit margin of companies. From the analysed data, it has been deduced that adequate tax incentives are beneficial to the firms and also motivate them in making more investment. Tax incentives encourage the existing industries to pursue vigorous expansionary, motivate individuals to establish new enterprises and also attract foreign investors in Nigeria.

Based on the findings, it is recommended that tax incentives should be properly managed and sustained to encourage the existing industries to pursue vigorous expansionary, motivate individuals to establish new enterprises and also attract foreign investors in Nigeria.

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