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Impact of Tax Incentive on Industrial Growth and Development

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***Abstract**: This study examined the impact of the tax incentives on industrial growth and development with case study of selected taxpayers in the Osun State, Nigeria. Primary data was used in this research work and a total number of one hundred and twenty (120) questionnaires were administered to selected taxpayers working in various firms, enterprises, small and medium scale businesses and industries (Kasmo Soap Limited, Abiola Electrical, Sam Ace Pharmaceutical, Nigerian breweries Ilesha, Ergo Multi Venture Nigeria Limited and Newland and Smith Nigeria Limited) in Osun State and a total number of the same quantities of administered questionnaires were retrieved from respondents. Frequency distribution and chi-square were used in the analysis of data and hypotheses testing respectively. The formulated hypotheses were tested by using the chi-square (X^2) method. The findings discovered that the tax incentives beneficiaries develop better than non-beneficiaries industries. It was observed that tax incentives granted by the government to industries and firms are economic booster and enhancer while it can also be used to Proffer Solution to Challenges that Investors may encounter . Finally, recommendations were made as regards the variables which enhanced tax incentives towards industrial development and economic growth because Tax incentives create employment opportunities for the people and it helps to fight economic depression and inflation thereby increasing the equitable distribution of income and wealth. It was also discovered that tax incentives do significantly affect the profitability, staff strength and the growth and development of small scale industries positively. Also it is recommended that tax incentives should be effectively implemented and efforts should be made by relevant tax authority to ensure that firms benefit from these incentives*

Keywords: Tax Incentives, Industrial Growth, Economic Development, Primary data Chi-square, Questionnaire

1. INTRODUCTION

Industrialization is the bedrock of economy sustainability. Today, development and technological advancement of developed countries of the world is as a result of industrial growth and this play a major roles in economic improvement and sustainability. Rapid growth in economy of a country can only be possible through focus on various firms, enterprises and various industries. However, in a situation whereas there is continuous closure of industries and other small and medium scale businesses, then there will be a retrogression and severe set-back in economy of such country and this will results in geometrical increase in unemployment, theft and social vices.

The cumulative effect of increased industrialization is the creation of jobs for growth sustainability and economic diversification. Industrialization also leads to increased household consumption through improvement in the value of product and price efficiency, and the development of other primary sectors through backward linkages that come with the demand for intermediate goods [1]. Industrial growth has also brought new look into all sectors of economy while high rate of unemployment has vanished and all form of social unrest are disappearing gradually.

Despite unquantified beneficial roles of firms to their host and immediate environment, they are faced by arrays of problems that has inhibited their prompt production and processing. Many large manufacturing firms have relocated or restructured their operations, opting to serve the local market through importing from low-cost manufacturing areas therefore resulting in job losses citing turbulent operating environment, theft, persistence attacks by host communities and high operating costs. The problems faced by manufacturing industries also include difficult and unfavorable operating environment due to infrastructural deficiency and unavailability of fund to finance capital projects like expansion [2].

Taxation forms one of the major sources of government income, if not properly applied and administered it may affect manufacturing firms negatively. Excessive taxation is one of the major drivers of high cost of doing business facing most manufacturers industries and ranges from high tax rate, double and multiple taxation. This has brought nothing but set back to industrial development [2]. Higher tax rates serve as disincentive to firms for future savings, expansion and investment as it leaves firms with no or less money to reinvest. This eventually discourages productivity, investment and brings about set back to the level of output by the manufacturing industry [2]. So, the government should provide tax incentives in order to boost development which will bring about an increase in employment opportunities and also cause an improvement in the economy.

As part of measure to mitigate the aforementioned problems and industrial challenges, the government had advanced various tax incentives to the manufacturing sector. Tax incentive is the use of government spending and tax policies to influence the level of national income. This measure encourages the springing up and gradual growth of new enterprises by the reduction of profit tax, which in turn encourages production, influences the production level and curbs unemployment.
As part of measures towards investment and promotion of industrial growth, various governments have put in place various tax incentives to encourage the growth of local manufacturing industries and firms which is majorly aimed at reducing the amount of imported goods. Such tax incentives include tax holidays, tax reduction, capital allowances and also incentives on export processing zones. Most of the tax incentives towards the manufacturing sector were crucial strategies meant to reactivate ailing industries and also increasing the survival rates of firms and in the process, providing employment to thousands of unemployed people [3]. The current study is focus on impact of incentive tax on industrial growth and development, with case study of tax payers in Osun State.

1.1 Statement of the Problem

Over the years, one form of incentives or the other has been adopted by Nigeria government for companies operating in the country. This is targeted at encouraging business growth and development in the public and private sectors. The primary aim behind granting tax relief and incentives to industries and various firms is linked to desire of government to enhance their growth, output performance and development, thus this measure directly or indirectly contribute to the overall economic development of the country. Despite the new dimension towards ameliorating industrial challenges, the effort will be a mirage and result will be in futile in a situation where the would-be beneficiaries are not even aware of the existence of such incentives. Also, the few who aware of these incentives package do not even bother or care to apply for them due to the poor, ineffective and inefficient tax administration. Therefore, there should be continuous effort towards proffering lasting solutions to these menace in order to ensure the growth and development of our economy.

1.2 Objective of the study

The main objective of the study is to examine the impacts of tax incentives on industrial growth and development with case study of selected taxpayers working at various firms, enterprises and industries in Osun state

Specific objectives

- To determine the extent at which beneficiaries of tax incentives develop compare to non-beneficiaries industries
- To assess government tax incentives to industries as economic booster and enhancer.
- To examine solution proffer by tax incentives to Investors during difficulties period.
- To know the effect of tax incentive on reduction of industrial economic burdens

Research Hypotheses

The formulated research hypothesis are as shown below:
Ho: Tax incentives beneficiaries do not develop better than non-beneficiaries industries.
Ho: Tax incentives granted by the government to industries and firms is not an economic booster and enhancer.
Ho: Tax incentives cannot be used to proffer solution to challenges investors may encounter
Ho: Tax incentives does not have effect on reduction of Industrial economic burdens

1.3 Review of Related Literature

1.3.1 Conceptual Review

Tax incentive is a paramount package designated by government to encourage some sectors or units of the economy to improve on the level of their productivity. It is designed to encourage economic growth and development which by extension should increase the gross domestic product of the nation. Tax incentives can be described as incentives designed to encourage investments in certain preferred sectors of the economy, sometimes they are geared towards attracting inflow of foreign exchange to complement domestic supplies for rapid economic development.
According to Bassey [4], tax incentives are those special exclusion, exemptions or deductions from income or tax liability offered to tax payers by the government as an encouragement to engage in specified activities. Government offer different types of incentives to encourage them to behave in certain ways. Examples of tax incentives include; capital allowances, investment allowances, investment tax credit, tax free dividend, loss relief, tax holidays, low tax rate, exemption from interest on certain loans [5]. Tax incentives are granted on sector basic-agriculture, mining, oil and gas, etc. and are reviewed regularly especially during tax reforms and amendments to tax legislation.
Also in the view of Ihe [6], tax incentive is an economic arrangement and strategy where the government asked some companies or individuals to pay less or no tax for certain economic reasons that will encourage development. Tax incentive is needed in the oil and gas sector because; the sector is currently the main stay of the country’s economy [7].

Amadiegwu [8], a tax expert wrote that the objective of tax incentive is that by borrowing rather than taxing, the government has a better chance of expanding investment spending which is essential in enlarging production possibilities and attaining a sustainable improvement in the standard of living of the people.

Dotun and Sanni [9], stated that tax incentives can be targeted on the low income earners, local and developing industries, farmers, which will increase their savings and is necessary for higher investment. Tax incentives create employment opportunities for the people, helps to fight economic depression and inflation thereby increasing the equitable distribution of income and wealth. Petroleum represents a very important mineral in Nigeria economy.

1.3.2 Empirical Review

Ordu [10] carried out a research on 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.

Alhulail [11] examined the effects of tax incentives on sales of eco-friendly vehicles in Japan. The study used a sample of 10 vehicles in Japan that fall under eco-friendly cars for the period April 2006 to March 2013. The study obtained secondary data and analyzed using regression analysis. The study finds that the tax incentives have a significant positive effect on sales of ecofriendly vehicles.

Coleman [12] conducted a research on the impact of tax incentives on industrial development. The study was carried out using primary data and was also analyzed using regression analysis. The findings revealed that there is a significant relationship between tax incentives and industrial development corporate governance and corporate performance. It is recommended that tax incentives should be granted to industries especially new industries for their development.

Yakassi [13] conducted a study on the impact of tax incentives on the investment of upstream petroleum sector. It was tested using primary and was analyzed using regression analysis. It was observed that there is a positive relationship between tax incentives and investment of upstream petroleum sector

2. METHODOLOGY

This aspect deals with the research design, sources of data, population of the study, sampling method, data analysis and techniques. It is meant to establish the way by which obtained data from field work is presented in this study and also to prepare the preliminary plan with which the researcher will use in testing the research question and in interpreting the responses gotten from the questionnaire. The appropriate research method used in this work is survey research method, because this method will give room for selection and chosen of required respondents to attend to arrays of questions in questionnaire related and relevant to this work.

2.1 Research Design

This work adopted the descriptive research design to examine the impacts of tax incentives on industrial growth and development with case study of selected taxpayers working at various firms, enterprises and industries in Osun state. The data used in this study was obtained through questionnaire from primary sources.

2.2 Area of the study

The area of study used in this work is Osun State. The taxpayers were selected from various firms in Osogbo, Ede and Ilesha. These firms includes: Kasmo Soap Limited, Abiola Electrical, Sam Ace Pharmaceutical, Nigeria Breweries Ilesha, Ergo Multi Venture and Newland and Smith Nigeria Limited.

2.3 Population of the Study

The population of this study consists of one hundred and twenty (120) selected taxpayers that are working in different firms, businesses, enterprises and various industrial set up in Osun State. This firms are Kasmo Soap Limited, Abiola Electrical, Sam Ace Pharmaceutical, Nigeria Breweries Ilesha, Ergo Multi Venture and Newland and Smith Nigeria Limited (Table 1).

2.4 Sampling Method

The sampling denotes the portion of the entire population in order to ensure conclusion about the population, in a bid to bring out accurate and perfect information about the research work. This study used judgmental sampling techniques. This method is a non-probability sampling technique and the researcher used knowledge and professional judgment to determine and selects units as well as quantity to be sampled and considered for the work. The taxpayers in six selected business and industrial firms (Kasmo Soap Limited, Abiola Electrical, Sam Ace Pharmaceutical, Nigeria Breweries Ilesha, Ergo Multi Venture and Newland and Smith Nigeria Limited) were considered (Table 1).

2.5 Research Instrumentation

The research instrument for the study is the questionnaire. This was designed to elicit vital information in line with the stated objectives of the work. The questionnaires were distributed to one hundred and twenty (120) respondents in six (6) chosen firms (Table 1). The completed (filled) questionnaires were retrieved back after some days were giving to the respondents to answer the questions. Total number of one hundred and twenty (120) questionnaires were administered and retrieved back from respondents (Table 1).

Table 1: Quantity of Questionnaire Distributed and Retrieved from selected Taxpayers at various firms in Osun State

S/N	Firms	Quantity Of Questionnaire Distributed And Retrieved
1	Kasmo Soap Limited, Osogbo	30
2	Abiola Electrical, Osogbo	20
3	Same Ace Pharmaceutical, Ede N	20
4	Nigerian Breweries, Ilesha	15
5	Ergo Multi –Venture, Ido Osun	20
6	Newland and Smith Nigeria Limited, Osogbo	15
TOTAL		120

Source: Field Survey 2020

2.6 Validity and reliability of research Instrument

The constructed questionnaire was submitted to the experts for critical, analytical and logical appraisal and assessment of contents and statements in the instruments and this then made the instrument valid for the study. To ensure proper reliability of the instrument, the questions were not ambiguous to respondents in order to avoid the impression of different interpretation or constructed in a way that give different meaning that could generate inaccurate and inconsistent responses when instrument is repeatedly objectivity with no leading question as to answer desired.

2.7 Method of data collection

The primary data was obtained using properly and well-structured questionnaires. The questionnaires were administered to the respondents from the considered firms. The questionnaire contained multi –choice question so that the respondents can answer and fill it without much problem, and to know the opinions, ideas and experiences of the respondents on the impacts of tax incentives on industrial growth and development.

2.8 Method of data analysis

The data were analyzed using frequency distribution while the hypotheses were tested using the chi-square test. The tools used in analyzing the data in this work include; tables, frequency and simple percentage method and chi-square method. These tools made it easier and possible to make proper analysis of the data that were collected from the field during the course of this study.

3. RESULT AND DISCUSSION

Table 2: Responses Related to the Demographic Variables of the Respondents

S/N	CLASSIFICATION	ITEMS	FREQUENCY	PERCENTAGE%	TOTAL%
1	Gender	Male	88	73.33	100
		Female	32	26.67	
2	Education Level	HND/B.Sc	70	58.33	100
		MBA	35	29.17	
		M.Sc	15	12.5	
3	Working Experience	0-5 years	65	54.17	100
		6- 10 years	33	27.5	
		11-above years	22	18.33	
4	Position in Job	Top Level	14	11.67	100
		Middle Level	39	32.5	
		Lower Level	67	55.83	
5	Age of working Place	Less than 10 years	69	57.5	100
		More than 10 years	51	42.5	

Source: Field Survey 2020

As regards to the frequencies and percentages of the respondents, from the Table 2 above, 88(73.33%) are males while 32(26.67%) are females. 70(58.33%) have either B.Sc or HND, 35(29.17%) have either MBA, 15(12.5%) are M.Sc among the respondents. 65(54.17%) have a working experience of one to five years, 33(27.5%) have six to ten years working experience, 22(18.33%) have eleven to above years working experience. As regards the position held by the respondents, 14(11.67%) are Top Level Officer, 39(32.5%) are Middle Level Officer while 67 (55.83%) are Lower Level Officer among the respondents. 69 (57.5%) are those working in a place established less than 10 years while those working in a place with over 10 years existence are 51 (42.5%).

Table 3: Respondents View on whether the present levels of incentives granted are adequate for industrial development and economic growth

Responses	Number of Respondents	Percentage (%)
Yes	08	6.67
No	112	93.33
Total	120	100

Source: Field Survey 2020.

From the table above (Table 3), it could be observed that 08 (6.67%) of the respondents agreed that the present level of incentives they enjoy are adequately while 112(93.33%) were of the opinion that the incentives granted are not adequate and should be increased for industrial development and economic growth to be attained.

Table 4: Respondents View on whether tax incentives have a positive impact on organization's investment decision

Responses	Number of Respondents	Percentage (%)
Yes	98	81.67
No	22	18.33
Total	120	100

Source: Field Survey 2020.

From Table 4, it could be observed that 98 (81.67%) respondents agreed that tax incentives have a positive impact on organization's investment decisions while 22 (18.33%) respondents are of the contrary opinion.

Table 5: Respondents View on if tax incentive granted effective in meeting the set fiscal, social and economic objectives

Responses	Number of Respondents	Percentage (%)
Yes	5	4.17
No	115	95.83
Total	120	100

Source: Field Survey 2020.

From above (Table 5), 5(4.17%) of respondents said "yes" while 115(95.83%) of the respondents responded "No" to the fact that the incentives granted are effective in meeting fiscal, social and economic objectives**.**

Table 6: Respondents View on recommendation towards the effectiveness of tax incentives in meeting fiscal, social, economic objectives, and promoting industrial development and economic growth

Responses	Number of Respondents	Percentage (%)
Adequate provision of the incentives should be provided to industries and firms in order to foster greater productivity and expansion which will enhance such aim/desire of granting it.	**40**	**33.33**
The incentives should be extended to all industries and firms to the tone of their operations.	**30**	**25**
Plant and machines should be provided by the government to these industries at a subsidized rate and new but expensive technologies should be Imported at a import free rate.	**20**	**16.67**
Special tax incentives should be granted to industries established in economically backward areas.	**12**	**10**
Research industries should be encouraged by removing import duties on their imports	**10**	**8.33**
Infant industries benefitting from pioneer relief/waiver period should be required to send periodical progress report.	**08**	**6.67**
Total	**120**	**100**

Source: Field Survey 2020.

From Table 6, the respondents made different recommendation towards the effectiveness of meeting/promoting fiscal, social economic objective, industrial development and economic growth by the tax incentives provided by the government. Also shown in the table is the number and percentage of the respondents who made different recommendations of which if adopted will be very beneficial to the economy.

3.1Test of Hypothesis

To carry out this work successfully, four (4) hypotheses formulated were examined through statistical test with the aid of chi square distribution at $P < 0.001$ level of significance to determine the validity or otherwise of the hypothesis. This is computed using the formular:

$X^2 = (O-E)^2 / E$

Where:

Ho: Null hypothesis

Hi: Alternative hypothesis

O = Observed frequency from the respondents.

E = Expected Frequency.

X^2 = Chi-square statistics.
P = Probability Ratio.
Decision Rule: Decision rule has it that Ho (Null Hypothesis) should be rejected and H1 (Alternative Hypothesis) accept if the calculated value is greater than or exceeds the critical value otherwise; do not reject the null hypothesis Ho.

Hypothesis One
H: **Tax incentives beneficiaries do not develop better than non-beneficiaries industries**
Using the chi-square (X^2) Method for Computation

Responses	Observed	Expected	O-E	$(O-E)^2$	$\frac{(O-E)2}{E}$	X^2	P
YES	100	60	40	1600	26.67	53.34	<.001
NO	20	60	-40	1600	26.67		

Source: Field Survey 2020.

From the calculations above, chi-square (X^2) calculated value of 53.34 is greater than chi (X^2) critical value of 3.09 at P <0.001 level of significance. Thus, H_o is rejected and H_1 is accepted. Therefore, industries that benefit from tax incentives will develop better than those industries that do not benefit from tax incentives.

Hypothesis 2
H: Tax incentives granted by the government to industries and firms are not considered as economic booster and enhancer.
Using the Chi-square (X^2) Method for Computation

Responses	Observed	Expected	O-E	$(O-E)^2$	$\frac{(O-E)2}{E}$	X^2	P
YES	115	60	55	3035	50.42	100.84	<.001
NO	5	60	-55	3025	50.42		

Source: Field Survey 2020.
From the calculations above chi(X^2) calculated value of 100.84 is greater than chi (X^2) critical value of 3.09 at P <0.001 level of significance. Thus, Ho is rejected and H_1 accepted. Therefore, tax incentives granted by the government on industries and firms is considered as an industrial and economic booster.

Hypothesis three
H: Tax incentives cannot be used to Proffer Solution to Challenges That Investors may encounter
Using the chi-square (X^2)

Responses	Observed	Expected	O-E	$(O-E)^2$	$\frac{(O-E)2}{E}$	X^2	P
YES	80	60	20	400	6.67	13.34	<.001
NO	40	60	-20	400	6.67		

Source: Field Survey 2020.
From the calculations above, chi (X^2), calculated value of 13.34 is greater than chi (X^2) critical value of 3.09 at P <0.001 level of significance. Thus H_o is rejected and H is accepted. Therefore, tax incentives can be used to off-set other 03 3 disadvantages that investors may face.

Hypothesis four
H4: Tax incentives does not have effect on reduction of Industrial economic burdens
Using the chi-square (X^2)

Responses	Observed	Expected	O-E	$(O-E)^2$	$\frac{(O-E)2}{E}$	X^2	P
YES	77	60	17	289	4.82	9.64	<.001
NO	43	60	-17	289	4.82		

Source: Field Survey 2020.
From the calculations above, chi (X^2), calculated value of 9.64 is greater than chi (X^2) critical value of 3.09 at P <0.001 level of significance. Thus H_o is rejected and H is accepted. Therefore, tax incentives have effect on reduction of Industrial economic burdens

4. CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

This study is centered on the impact of tax incentives on industrial development and economic growth, the research questions and hypotheses played a vital role in modeling the focus of the study.

On the basis of the discussed findings of this research work, the facts have been clearly confirmed that tax incentives are germane to the growth, development and continued sustenance of small and medium enterprises. Tax incentive plays a vital role in ensuring that firms/enterprises thrive because the federal government has made available tax holidays for pioneer companies, the government also grants a number of general and industry specific incentives.

With the above background, the following findings were arrived at:

- Tax incentives have been adopted by governments as a policy tool for accelerating investment in specific economic sectors and shaping the investment environment of the country.
- Tax incentives have a positive impact on the investment decision of an organization and that tax incentive coupled with political stability stimulate economic growth.
- That tax incentives usually lead to a reduction in government's revenue but is compensated with economic development and successful companies.
- That tax incentives brings about a sustainable working capital for industries and firms. That most of the respondents proved that the incentives granted are not adequate.
- That full employment could be achieved through the incentive scheme if well implemented.
- That with the tax incentives granted, local industries could be well equipped to compete with their foreign counterparts in technology and outputs.

After the consideration of the analyzed data, the study was able to conclude that most of the companies, industries and firms have benefited from and are benefitting from the provisions of tax incentives and that they re-invest the funds derived from the incentive scheme towards the expansion of their organization. With Nigeria's quest for both local and foreign investments/investors, tax rate must not be an obstacle bearing in mind that the quest for global capital is highly competitive. The tax incentives will offset other disadvantages that investors may face such as lack of infrastructure, complicated laws, bureaucratic complexities and weak administration in the tax area. The appropriate measure is now to reform the existing tax laws that create inadequacies and build on the necessary incentive administrative capacities and infrastructure to provide an enabling environment for investors. In the course of this research, the study discovered certain factors that hinder the positive impact of tax incentives on industrial development and economic growth.

4.2 Recommendation

However, the study also recommended ways of improving on these problems as outlined below:

- The government should ensure that these firms, industries, and self-employed persons keep a detailed, satisfactory record of the financial position of their business so as to be able to assess their performances after benefitting from the tax incentives.
- The tax incentives should be granted to all industries and firms and not to specific ones so as to record on all round developmental change in the industrial sector which will improve the economic growth level.
- Special tax incentives should be granted to industries and firms established in an economically backward area e.g. investment and special development allowance.
- The government should clearly state what the incentives should be used for or what the incentive is meant for and closely monitor it.
- Governments should provide better company income tax exemptions but there are needs to conduct a cost benefit analysis for tax incentives available in the economy.
- The benefits accrued in terms of increase in level of investments should exceed revenue forgone by the government through tax exemptions. The government should ensure security and political stability and the infrastructure should be improved.
- Finally, for industrial development and economic growth to be achieved to a desired level through tax incentives, the tax incentive policies must consider the implication of any form of changes on the industrial sector of the economy at large.

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