Tax Incentive Practices and Financial Performance of Listed Consumer Goods Firms in Nigeria

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Abstract

Tax incentives are granted to enhance positive financial performance and growth of companies across various industries in the country. It is also encouraging to know that consumer goods companies are ranked as one of the pioneer companies. There is however some air of uncertainties as to the value or rationale behind the continued provision of tax incentives. The study examined the relationship between tax incentive practices and financial performance of listed consumer goods firms in Nigeria. The specific objective was to investigate the relationships between annual allowance and return on assets. Secondary data was obtained from the annual reports of) consumer goods firms listed on the Nigeria Exchange Group (NEG) Fact book on a time series of 2011-2020. Convenience sampling technique was adopted where 5 listed consumer goods were selected. Data sourced were subjected to a battery of robustness test, while Pearson's Product Moment (PPMC), Partial Correlation and Regression analysis used for data analysis and testing the hypothesis formulated. The study result indicated that there is a significant relationship between Annual Allowance and Return of Assets of listed consumer goods in Nigeria. The study recommended that the authorities responsible for administration of tax incentives should prioritize the process of granting tax incentives by making it easier for companies in the consumer goods have unrestrained access to tax incentives, so as to bolster productivity in the sector in order to promote made in Nigeria goods.

Keywords- *Tax Incentive, Financial Performance, Annual Allowance, Return on Assets*

1. Background to the study

Taxation is a fiscal tool used by the government to create wealth, and it is levied on citizens' salaries and corporate profits, property, transactions, and consumptions, from which it is redistributed back to society by the government, for example, through the provision of social amenities, security, governance, and infrastructure development. Therefore, taxation is the engine-room of growth and sustainability of a nation, without which, that nation will be grinded to a halt. According to Chude & Chude (2015), taxation is the compulsory payments that individual and corporate organizations are made to suffer upon earning salaries or profits, and such payments go to the relevant revenue authorities, which could be Federal, State, or Local Government, as the case may be. Ekeocha et al (2012) opined that the Nigerian tax system may have been employed to gain economic objectives at notable periods, it has been however structured as a mechanism to derive revenue for government, with its legacy spanning from the pre-independence base on 1948 British tax laws.

Oriakhi & Ahuru (2014) remarked that the supply-siders were of the opinion that production could be encouraged through the means of economic incentives. He argued further that higher marginal tax rate was capable of creating disincentives to work, investment and savings; even as such disincentive could creep to cause havoc of tax avoidance, tax evasion and reduction in public generated revenue. In the same vein, Gatsi et al (2013) stated that despite the conscious efforts of government to reduce corporate tax rates, tax policies have the potentialities to provide several reliefs and tax rebates that manufacturing companies may benefit from.

In his submission, Imoh (2019) noted that it is vital that the Nigerian government carries out a thorough cost-benefit analysis on tax incentives and make transparent the opportunity cost of these incentives such that it will be clear if the incentives are serving the people or a few individuals.

2. Statement of problem

Tax incentives are intended to attract investment and by extension improve financial performance of firms. Faced with stiff global competition, countries like Nigeria are grappling with the challenge of dwindling markets, hence reduced profitability. There are multiple taxes which government impose on corporate organizations that impede growth and development of the Nigerian economy. Ohaka (2010) rightly observed by stating that the investment climate is troubled by multiplicity of taxes that government impose on the organized private sector in Nigeria. And based on the fact that government intends to create room for infrastructural development that will culminate to sporadic economic expansion nationally, that has led to the conception of the noble idea of granting tax incentives to organized private sector. Despite the many years of operating tax incentives in Nigeria, it is worrisome to note that the country still lacks major boost in investments that will promote massive employment, increase in productivity, improvement in foreign direct investments, boost in the private fixed capital formation, etc. In consistent with the foregoing, Babatunde (2012), observed that tax incentives come with mixed results and the OECD countries and multilateral organizations have always contested against their implementation because of the nature of the suspicious capital flows. Uwaoma & Ordu (2016) pointedly declared that there are serious doubts regarding the relevance and efficacy of tax incentives in Nigeria, hence, the relevant public is unaware of their existence, and most times their modus operandi are vague or ambiguous. It is based on the discovered gap arising from review of extant literature and the abysmal decline in the productivity of the manufacturing companies that necessitated this study.

3. Aim and objective of the study

The main objective of the study is to determine the relationship between tax incentive practices and financial performance of listed consumer goods in Nigeria, with the specific objective as to investigate the relationship between annual allowance and return on assets of listed consumer goods in Nigeria.

4. Research hypotheses

HO_1 There is no significant relationship between annual allowance and return on assets of listed consumer goods in Nigeria.

5. Literature Review

Tax Incentive

In a statement credited to Ohaka and Ironkwe (2014), taxation is described as a support given to government that comes in form of payment for goods and services meant for the socio-economic welfare of the citizenry, and also to meet the basic amenities for the people. Oriakhi & Osemwengie (2013) observed that taxation is a function of sustainable development created from the application of financial contribution from the citizenry in order to provide good living standard, particularly in the absence of, or where resources are limited in quantity. Igboyi (2012) examined taxation to be the aggregate efforts that could lead to collection of the contribution or sacrifices made by firms or individuals to run government business. Worthy of note is the fact that tax taken as a process of administering and receiving funds, which is a duty imposed on the government and not individuals or firms, where the accrued revenues realized/collected are used for the purpose of developmental projects (Zubairu, 2012). In view of the aforesaid, Ola (2001) and Musgrave & Musgrave (2004) responded by saying that taxation is mainly aimed at financing government expenditure and ensuring that redistribution of wealth in the process of expending public fund, is done to finance developmental projects. Zee, et al (2002) put up a definition of tax incentive as the outcome of a statutory and effective terms.

According to Fowowe (2013), tax incentives have been in existence in Africa since 1949 and are still strongly making waves on the agenda of government. This simply implies that tax incentives are very important tools for which governments use in the administration of the economy. Ikpor, et al (2018) showed that tax incentives are usually very important consideration which U.S companies take to cognizance for foreign investment decision. Having curiously studied the commentary made by James (2013) on tax incentives, the submission was that tax incentives would give rise to tax reduction treatments offered to foreign investments while the indigenous investments would be left out, all in a bid to attracting foreign direct investments.

Annual Allowance

This is the total amount of benefits that a company can build up in the scheme, for tax relief purposes. It is a tax relief based on the cost of the asset less initial allowance.

This allowance is claimable over the estimated useful life of the qualifying asset on a yearly basis. Uwaoma and Ordu (2016) observed that annual allowance is granted every year to eligible businesses owing to the fact that assets deployed for the purpose of operating businesses. According to Igboyi (2012), capital allowance is the repayment of the cost of asset through revenue generated by the firm over a long period of time while the asset is in use. Likewise, Zubairu (2012) defined capital allowance as a scarce mitigation measure given to a company or individual who uses qualifying capital expenditure (QCE) prior to the fiscal year of evaluation and productive activity of the entity or individual.

Financial Performance

Performance is a common phenomenon usually employed to measure or evaluate involvement in an activity within a period. Since there is a pooling of resources (finance, human, material, technology) which require harnessing in order to achieve pre-determined objective, there is need to assess the effectiveness or otherwise, of managing the firm's activity, to determine the level of success, stagnation or decline, which the firm would have experienced over the period of time. Also, according to Olaoye and Bamisaye (2018), financial performance could be likened to the application of scientific methods in analyzing firm's productive activities leading to profitability and financial strength. Based on the foregoing, firm performance could be explored in terms of financial performance. Omesi and Timah (2018) stated that firms performance is a financial device that determines the outcome of an entity's activities that can be favourable or zero or unfavourable. Hansen and Mowen (2005) posited that firm performance is crucial to management, being the outcome of what was achieved by the collaborative efforts of individuals in the firm. In evaluating firm performance, Iswatia & Anshoria (2007) remarked that performance is a function of organization's ability to obtain and manage limited resources available to the firm, in diverse ways, so as to attain a competitive edge over other firms.

Return on Assets (ROA)

As a pointer to the meaning of return on assets, Almajali et al (2012) observed that return on assets is listed among the most widely used financial models for assessing performance of firms. In the view of Tangen (2003), Return on assets is a financial tool that evaluates a firm's capacity to utilize its assets. Not leaving out the commentary of Omesi and Maccarthy (2022), return on assets is a profitability ratio that is employed to measure profit after tax or net income produced by the total assets engaged in production within a given period. Given the thought of Siminica et al (2012), return on asset baseline percent that measures the profit contribution needed from new investments. Going further, the response of Haniffa and Hudaib (2006) with regard to return on assets was that the higher the return on assets, the more effective is the use of assets in favour of the primary fund contributors (shareholders).

6. Empirical Review

Omesi and Maccarthy (2022), investigated tax incentives and financial performance of listed consumer goods manufacturing companies in Nigeria. The research adopted ex-post facto design. The population for this study was twenty-one (21) listed consumer goods companies in Nigerian Stock Exchange and a sample size of twenty listed consumer goods companies. The instrument of the study was secondary data obtained from the company's published financial report or statements within the period of eleven (11) years, ranging from 2009-2019. The formulated research questions were analyzed with descriptive statistics. The hypotheses were tested at a significance level of .05 using the multiple regression analysis with the aid of E-view (10). The results of the findings were that there is positive and significant relationship between investment allowance and return on assets of listed consumer goods manufacturing companies in Nigeria. On the other hand, there is positive and significant relationship between annual allowance and return on assets of listed consumer goods manufacturing companies in Nigeria and there is significant influence of share capital in the relationship between tax incentives and financial performance of listed consumer goods manufacturing companies in Nigeria. This study recommends among others that; To continually maintain high return on assets of consumer goods manufacturing industry and foster economic development. Captains of the industries and government should encourage investment by formulating and enacting laws that increase the rate of investment allowance from 15% to 20% on plant and machineries used in manufacturing business. No doubt manufacturing companies are benefiting financially from annual allowances. Also, the tax authority should consider proportionately increase of annual allowances if the period for a year of assessment happens to be a period of more than one year. This will attract more investors thereby improving the economic growth of the country.

Kholbadalov (2021) conducted a study on the effectiveness of tax incentives in the tourism sector of Uzbekistan. The research aimed to assess the effectiveness of tax incentives in the tourism sector of Uzbekistan. To this end, the literature and empirical researches on the assessment of the effectiveness of tax incentives were studied, and on its basis, 11 types of tax incentives provided to the tourism sector of the country in 2018-2019 were analyzed. The study adopted cost-benefit analysis method. The results obtained from the research shows that the lack of a system for granting and monitoring the effectiveness of tax incentives in the tourism sector has led to low efficiency of tax incentives in the study period, as well as out of the existing tax incentives. The analysis of the tax incentives applied in the tourism sector showed that the tax incentives in the form of investment tax incentives (including within the free tourist zone) are highly effective in reducing the tax burden on tourism entities and job creation. Tax benefits in the form of tax deductions have had a negligible effect on reducing the tax burden and creating jobs. It was recommended that there is need to further improve tax holidays and investment tax incentives, which are highly effective in reducing the tax burden on tourism entities in the country and creating jobs in the sector.

Olowo et al. (2020), examined the effect of tax incentives on the growth and development of manufacturing firms in Nigeria. The study employed an ex-post facto research design. The data on corporate income tax incentives, capital allowance incentives, custom duty incentives, excise tax incentives, and return on assets were secondarily sourced from the financial statements of accounts from 2013 to 2018. The data was analysed using the ordinary least square multiple regression technique through E-view 9.0. Based on the analysis of the results, it revealed that corporate income tax incentives (P = 0.00 0.05) have a positive and significant effect on return on assets; capital allowance incentives (P = 0.00 0.05) have a positive and significant effect on return on assets; custom duty incentives (P =0.00 0.05) have a positive and significant effect on return on assets; excise tax incentives (P =0.00 0.05) have a positive and significant effect on return on assets in Nigeria The study concluded from the findings of the study that tax incentives on the growth and development of manufacturing firms in Nigeria. The study recommended the need for the government to conduct cost-benefit analyses in order to ensure that the goals of granting such incentives are achieved.

Kanyanjua (2020) assesed the effect of tax incentives on foreign direct investment in the oil and gas sector in Kenya. The specific objectives included to determine the effect of capital deductions, income tax, VAT incentives and import duty incentives on foreign direct investment in the oil and gas sector in Kenya. The research was informed by the theory of innovation diffusion, social exchange theory and stakeholders' theory. Explanatory research design was used in the study. The target population included five oil and gas companies. The target respondents were 136 senior managers from five oil and gas companies in Kenya. A census of all the managers was done. Primary data was collected using structured questionnaires. The study applied quantitative methods to analyze data. These included descriptive statistics (percentages, means and frequencies). Further, inferential statistics (Pearson's correlation and regression) were conducted to determine the relationship between tax incentives and foreign direct investment. The findings indicated that capital deductions ($\beta1$=0.377, P = .000); income tax ($\beta2$= 0.286, P = .000); VAT incentives ($\beta3$= 0.124, P = .020); and import duty incentives ($\beta4$= 0.375, P = .000) had a positive and significant effect on foreign direct investment. The adjusted R 2 of the regression model was 0.789. The study concluded that tax incentives contribute significantly towards foreign direct investment in the oil and gas sector. Based on the findings, the study recommended that the government should strengthen aspects related to tax incentives. These include; wear and tear allowances, investment allowances, industrial deductions, loss carry-forward, withholding tax incentives, tax credit incentives, allowable deductions, exemption of goods and services from VAT, import duty incentives on machinery, raw materials, office equipment and customs duty.

Chege (2020) examined the effect of tax incentives on financial performance of domestic airline companies in Kenya. The research was guided by Peacock Wiseman Theory of Public Expenditure, optimal tax theory, q theory of investment and Agency theory. The study adopted a descriptive research design where a census was used. The target population was the 15 Domestic airlines in Kenya. Data was collected from audited annual financial reports for individual firms found on the company's website and library. The study collected data for a period of 5 years 2014-2018. The study analyzed data by use of inferential and descriptive statistics that consist of mean, standard deviation, regression and measures of variations. The study concludes capital allowances incentives had a direct effect on the financial performance of domestic airline companies in Kenya. Some of the capital allowances enjoyed by domestic airline companies in Kenya include wear and tear allowances, and investment deduction. during the 5-year period (2014 to 2018) the capital allowance incentives to domestic airline companies has exhibited a dense volatility trend and wear and tear allowances are charged on capital expenditure on machinery and equipment led to positive financial performance of domestic airline companies in Kenya. The study concludes that provision of export promotion incentives promotes financial performance of domestic airline companies in Kenya, there exists a positive correlation coefficient between performance of domestic airline companies and export promotion. The study concludes that tax holidays had a direct significant influence on financial performance of domestic airline companies in Kenya, tax holidays by the current regime enables the domestic airlines to start and stabilize, tax holidays enable domestic airlines firms. The study concludes that VAT exemption incentives had a direct significance on financial performance of domestic airline companies in Kenya. The study recommends that the stakeholders in tax policy should reconsider the economic value of capital allowances incentives. The Government of Kenya should increase the capacity for it to incentives and negotiate for mutual and better benefits with the domestic airlines and other investors. The Government of Kenya should consider increasing the tax incentives granted to attract foreign direct investment, especially those provided to domestic airlines and other investors.

7. Methodology

The study adopted the *ex-post facto* research design. The *ex-post facto* research design is considered in this study because the emphasis of the study is on establishing a relationship between tax incentive practices and financial performance. According to Osuala (2005), the *ex-post facto* research design is appropriate and preferred in a relationship where there is already existing data which cannot be manipulated by the researcher. The population consisted of all the elements that were present in the area of study. Twesige & Gasheja (2019) stated that a study population is a group of elements/items/people in which the study is all about. Consequently, the study was based on all listed consumer goods in Nigeria from 2011 to 2020.

The sampling technique used is the convenience sampling technique. As the name implies, it is a sample chosen purely on the basis of convenience (Baridam, 2005). The variables in this sample are chosen simply because they are accessible or easy to measure. Hence, purposively, data of 5 listed consumer goods firms in Nigeria from 2011 to 2020. Secondary data was used for the study.

8. Presentation of results and Discussion of findings

Tax Incentive Practices

Descriptive Statistics Of Independent variables

	N	Minimum	Maximum	Mean	Std. Deviation
AA	50	43	3201	1294.57	1001.166
Valid N (listwise)	50				

Source (SPSS output of Data, 2021)

From the descriptive statistics table above, Annual allowance has a standard deviation of 1001.166 and a mean amount of 1294.57

Financial Performance indicators

Descriptive Statistics of dependent variables

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	50	4	27	14.63	7.571
Valid N (listwise)	50				

Source (SPSS output of Data, 2021)

From the descriptive result analysis as shown on the table above, return on assets has a standard deviation value of 7.571 (7.6%) and a mean rate of 14.63%. Again with the dependent variables scoring a mean score of greater than criterion mean also indicates that they are evenly distributed.

Table 4.9 Descriptive Statistics of all the variables

	Mean	Std. Deviation	N
ROA	14.6307	7.57107	50
AA	1294.5681	1001.16583	50

Source (SPSS output of Data, 2021)

From the descriptive result analysis as shown on the table above for all the variables, it shows that within the period of study return on assets averaged 14.6307 percentage a year while the variation within months is equal to 7.6% as depicted by the mean and standard deviation values respectively.

Looking at the tax incentive practices, AA has averaged over 1294.6 within the period of study while std. deviation is 1001 (as shown in the mean and standard deviation values respectably.

Test of Hypotheses
This section deals with the testing of the various hypotheses using Pearson's Product Moment (PPMC) correlation coefficient. Salkind (2010), gives the following parameters as the benchmark for interpreting correlation coefficient (r)

±0.80 - 1.00 Very Strong relationships

±0.60 - 0.79 Strong relationships;

±0.40 - 0.59 Moderate relationships;

±0.20 - 0.39 Weak relationship; and

±0.01 - 0.19 Very Weak or no relationship

The positive sign (+) in the value (r) implies a direct positive relationship while a negative sign (-) indicates an inverse relationship.

Decision Rule Accept null hypothesis if Sign F is greater (2 tailed) than 5% (0.05) (Sign F>0.05), otherwise, do not accept null hypothesis.

Hypothesis one
Research Question 1 What is the relationship between annual allowance and return on assets of listed consumer goods in Nigeria?

One-Sample Statistics Result for Research Question one

	N	Mean	Std. Deviation	Std. Error Mean
LROA	50	.80	2.029	.398
LAA	50	6.56	1.421	.279

Source (SPSS output of Data, 2021)

One-Sample Test Result for Research Question One

	Test Value = 2					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
LROA	-3.008	49	.006	-1.197	-2.02	-.38
LAA	16.376	49	.000	4.564	3.99	5.14

Source (SPSS output of Data, 2021)

From the results table (t test table), AA (Mean is 6.56, mean difference 4.564), all greater than the criterion mean of 2.0 indicates that to a great extent, Annual Allowance relates with Return on Assets

Ho$_1$ There is no significant relationship between annual allowance and return on assets of listed consumer goods in Nigeria.

Pearson's (PPMC) Correlations result for Hypothesis one

		LROA	LAA
LROA	Pearson Correlation	1	.491*
	Sig. (2-tailed)		.011
	N	50	50
LAA	Pearson Correlation	.491*	1
	Sig. (2-tailed)	.011	
	N	50	50

*. Correlation is significant at the 0.05 level (2-tailed).

Source (SPSS output of Data, 2021)

The positive value of PPMC (0.491**) indicates a strong correlation between Annual Allowance and Return on Assets, and correlation is significant at 0.05 level. Since the p – value (= 0.011) lower than alpha value (0.05), hence we do not accept the null hypothesis, rather the alternate, thus there is a significant relationship between annual allowance and return on assets of listed consumer goods in Nigeria.

Model Summary for Hypothesis one

Model	R	R Square	Adjusted R Square	Std.Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.491[a]	.241	.209	1.80466	.241	7.604	1	48	.011

a. Predictors (Constant), LAA

Source (SPSS output of Data, 2021)

regression constant and Coefficients for hypothesis one

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-3.794	1.704		-2.226	.036					

LAA	.700	.254	.491	2.758	.011	.491	.491	.491	1.000	1.000

a. Dependent Variable LROA

Source (SPSS output of Data, 2021)

From Table of coefficients above, result suggest that 1% rise in AA leads to 0.700 percent increase in ROA. The probability value (0.011) is less than the test significance level of 0.005.

Discussion of Findings

Annual Allowance and Return on Assets

For $H0_1$ which says that there is no significant relationship between annual allowance and return on assets, based on the PPMC values (**0.491) (50%),** and significant value which was (0.011) is less than the level of significance (alpha) (0.05), the alternate was accepted as there is a moderate and significant relationship between the AA and ROA within the period of study. Furthermore, looking at the results of models and coefficients (tables 4.13, 4.14) it has r squared value of 0.241(24%) of AA and ROA shows that **24%** of the total variation of financial performance in terms of return on assets was due to the effect of Annual Allowance within the period of study. On adjusted bases, 0.209 (21%) ROA was 21% relative to the AA within the period. Considering the coefficient, result suggests that 1% rise in AA leads to 0.700 percent increase in ROA. The probability value (0.011) is less than the test significance level of 0.005. In other words, taking advantage of annual allowance will help quick and increase in return on assets. The findings here is in agreement with the works of Omesi and Maccarthy (2022) whose studies indicated a significant relationship between Annual Allowance and financial performance.

Conclusion and Recommendation

1) The researcher had a major objective of establishing the relationship between tax incentive practices and financial performance of listed consumer goods firms in Nigeria. The regression results presented depicted that while investment allowance of the companies negatively affected the financial performance of listed consumer goods firms in Nigeria, other tax incentive practices positively affected the financial performance of quoted manufacturing companies in Nigeria. The study recommended that the authorities responsible for administration of tax incentives should prioritize the process of granting tax incentives by making it easier for companies in the consumer goods have unrestrained access to tax incentives, so as to bolster productivity in the sector in order to promote made in Nigeria goods

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