IMPACT OF TAX INCENTIVES ON FIRM'S PERFORMANCE: EVIDENCE FROM LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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Abstract

The study examined the effect of tax incentives on financial performance of listed consumer goods companies in Nigeria. The study used data collected from published annual report and accounts of the sampled companies, and tax related submission from the investment promotion commission and Federal Inland Revenue Services. The study covered only seven (7) companies out of twenty-one (21) listed consumer goods companies in Nigeria which were published with available data for the period of eighteen (18) years (2000-2017). The study used parson's correlation and multiple regressions to establish the influence of tax incentive on financial performance of the sampled firms. The study found that capital allowance and loss relief had positive and significant influence on the performance of the sampled firms while investment allowance had positive but insignificant influence on the financial performance of the sampled firms. The study recommends that companies should take more advantage of tax incentives available to them especially, the incentives related to investments that will help in straightening the productivity of the firms. While tax authorities should consider means of introducing more incentives for investors to critical sectors like consumer goods that have direct relationship with agricultural output and country export. Tax authorities should also provide an easy enlightenment mechanism on the importance and advantages of tax incentives, especially the rural investment allowance that is geared towards increase in the provision of social amenities to rural areas among others.

Keywords: Capital, investment, loss, relief, return, asset, allowance

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1. Introduction

Nations use either fiscal or monetary policies of their respective countries to control and enhance its economic activities. These policies are usually geared towards improving the economic activities and standard of living of a nation and this makes taxation to be a key in the fiscal policy of a country as it helps in improving the living standards and increasing the economic output of a country. Whenever the government wants to trigger increase and concentration of investors in a certain aspect of the economy, tax is used likewise for discouraging consumption or importation of certain goods or services.

Taxation is viewed as a claim made by the central state of an economy for an obligatory payment of a specified sum of money from the household, employee and business organization with the aim of generating adequate resources to support government activities and also to coordinate and stimulate the economic activities by providing better living conditions to citizens. The system has to be backed by certain laws and regulations which will make it binding upon every citizen to align and obey the prescribed process and procedures (Czarnitzk, Hanel & Rosa 2011). The government uses tax to boost investment in some specific segments such as mining, manufacturing, agriculture and other small and medium enterprises which are believed to have significant influence on the fiscal wellbeing of the country especially in the area of employment generation and export (Ojochogwu & Ojeka, 2012). It can be seen clearly that tax is the key government policy that is capable of fostering economic growth and stability by encouraging or discouraging investments in certain areas of the economy or consumption of certain commodities.

Tax incentive are given in form of tax holidays or reduction of the tax burden because investing in engagement in certain businesses, which are mostly manufacturing, mining, oil, gas, export, agriculture and other sectors that will trigger development or reduce the burden of compatriots. Tax incentives include but are not limited to 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 (FIRS, 2018).

The tax law in Nigeria concerning the granting of capital allowances are contained in the Fifth Schedule of the Personal Income Tax Act (PITA) 2004. The reasons for granting capital allowances are to amortize the qualified capital expenditure incurred over the asset life span for tax purposes. Capital allowances are statutory depreciation deductible from a taxpayer's total assessable income/profit, and in order to arrive at his or her chargeable profit, such reduction is given on expenditure that are capital in nature which are recognized as qualifying expenditure. According to the Fifth Schedule, the following capital expenditure are: 1) Qualified plants expenditure, 2) Qualified Building Expenditure, 3) Qualified Ranching Expenditure and Plantation (Agriculture and 4) Qualified Mining exploration Expenditure etc. Abdullahi, (2014), stated that 'in order to ensure uniformity in tax practice, capital allowances, granted in place of depreciation to all companies at specified rates in spreading the capital expenditure over the useful life of the asset.' There are conditions attached to granting of capital allowances, such as 1) the taxpayer must make a claim in writing to revenue authority to claim the capital allowances. 2) The qualified capital expenditure must be incurred and put into use during the year of assessment.

The tax laws in Nigeria also provide for investment allowance which capture any money or revenue which are redundant, as deposits in banks or transacted in the stock market especially existing assets and securities which will trigger improved future earnings as well as future value generation. These allowances should cover; 1) Reconstruction Investment Allowance 2) Rural Investment Allowance and 3) Pioneer incentive. This will go a long way in achieving the tax initial values, which are geared toward redistribution of resources among the country men and women. Tax payers put much attention on the changes in the tax rate and policies and these influence their routine business decisions, especially in the area of investment location choice, level (scale) of investment, risk- taking, type of investment (Material and equipment building, intangibles), financing instrument (debts and equity, hybrid), and financing structure (direct, indirect/triangular), payment of earnings of foreign affiliates methods (dividends, gains, interest, royalties).

Under section 36 of PITA, 2004, any loss suffered in routine business transactions should be taken from other sources of income of the tax year in which the loss occurred and if not completely deducted, such loss should be carried forward to be deducted from subsequent year profits. Etim J. S (2009), where the business had not gained any profit but only suffered a loss with no tax is attributable to such income while it implies that no assessment will be made for the particular. This is also supported by the tax laws requirement in Nigeria under section 36 of Personal Income Tax Act (PITA), 2004 loss relief granted to the taxpayer for losses incurred. Before the relief to be granted, a claim should be written by the taxpayer, which must be made to the relevant tax authority within 12 months after the end of the year of assessment in which the loss was incurred. Whereas, in a year of assessment a taxpayer makes a loss, he would not be assessed for tax and his tax liability will be nil.

Firms have been benefiting from the tax incentive granted to them by the country as their liabilities go down and their liquidity position increases. The increase in liquidity position will translate to increase in performance where the firm in question reinvested such claimed tax incentives into the business. Therefore, taxation have a reasonable influence on the performance, growth and productivity of firm in a given economy even though other factors exist but tax policy is key, especially in the area of innovation and diversification.

The firm's performance is the growth in the total asset of the firm and its ability to settle the most of the required liability of the business. Lumpkin and Dess (1999) opined that several methods and means of measuring of corporate performance exist which include return on equity, liquidity ratios, profitability ratios, asset management ratios, leverage ratios and market value ratios. Tax can be quantified by using these major ratios of productivity and growth: return on asset (ROA), return on investment (ROI), return on equity (ROE) , return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity and operational efficiency (Mainelli & Giffords, 2010). This study utilized return on asset as a measure of the financial performance as it captured most of what is required in the performance measurement of the firm.

Nigeria, as one of the developing countries, is struggling to have some stability in its economic activities as such there is greater need for diversification to other sectors of the economy. This is expected to contribute to the critical sector of the economy that will have an impact of the living standards and the economic growth of the country. Consumer goods (Manufacturing) companies are critical in any country's development as it serves as a means of providing sustenance, employment opportunities and food security which will trigger export of the produced goods and as a result improve the country's GDP and the currency power.

Over the years, there is serious outcry on the contribution of non-oil sector to the economic growth of Nigeria, this becomes glaring with the dwindling in the oil price at the International market, which necessitates attention on the neglected sectors like manufacturing firms. In 1970s and 1980s, manufacturing firms have been contributing tremendously to the country's GDP, which rang from 21 to 17% throughout the period. However, from 1990s the percentage started going down from 20% in 1994 to 8% in 2017. Therefore, study assessed the effect of tax incentives on the financial performance of the listed consumer goods companies in Nigeria for the period 2000 to 2017.

2. Literature Review

The Federal government in Nigeria in recent time has focused on improving thee revenue generation activities, especially tax revenue and this necessitates applying a series of incentives to attract foreign and domestic investors to engage in certain businesses that has the capacity of boosting economy of a given country. The nature and application of these incentives differ from business to business and the aim that the incentives initiated to achieve. The governments all over the world use tax as a fiscal policy tool to stimulate economic activity.

Several studies were conducted by many scholars in the aspect of incentives, corporate profitability of various companies within and outside the country. The most relevant studies on these variables are discussed below as it relates to the topic under discussion.

Lee (1996) examined the impact of the Korean government's industrial-promotion and business safety policies on productivity growth in the manufacturing sector. The study found that while business safety such as charges and import restrictions negatively correlate with value addition, capital formation, and total factor productivity, industrial-promotion policies and tax incentives in particular positively corre with increased output and higher rates of capital formation. However, Ohaka and Agundu (2012) concluded that incentives granted to businesses and corporations had successfully increased the productivity and competitiveness of strategic sectors in Nigeria. Using propensity score matching, Chukwumerije and Akinyomi (2011) evaluated the influence of the tax incentives on the general performance of quoted small-scale industries in Rivers State, Nigeria. The sample of 11 was selected out of the 22 listed small-scale food and beverages businesses in Rivers State using a random sampling technique. Structured surveys questions were issued out to the selected 260 respondents. The collected data were analyzed using frequency distribution and chi-square to test the study hypotheses. The study found that many incentives exist for businesses operating in the study area and the tax payers are properly informed about the presence of such incentives and its application and as such they were able to harness and utilize such incentives and this has positively and significantly affected the growth and profitability of the sampled firms.

Ojochogwu and Ojeka (2012) examined the tax strategy association with the growth of SMEs in Nigeria. The study covered the SMEs in Zaria, North Central Nigeria as the working population and data were collected using a structured questionnaire for selected samples which were arrived at, by using judgmental sampling. The collected data were analyzed using a Spearman's Rank Correlation so as to test the study hypothesis. The study revealed that negative relationship exist between tax and business sustenance of the sampled SMEs. It is therefore necessary that vibrant and bold sensitization need to be embarked upon by the stakeholder to trigger growth in the sector and the economy at large.

Musyoka (2012) assessed the relationship that exist between tax incentives and foreign direct investments. The data on the study variables were collected from published annual data on investments, incentives related to trade, import duty exemption and FDI inflows for the study period. The collected data were analyzed using correlation and regression techniques of analysis so as to to know the level of association among the study variables. The study found that incentives given to firms have resulted in reduction in the government generated revenue as the company utilizes such avenue to evade and avoid tax, contrary to the general belief that tax incentives attract foreign direct investment. This finding is only focused on revenue aspect of tax while providing such incentives will encourage new business, such business will pay employees and they will be tax to the government. This finding is supported by the study of Rapuluchukwu et al. (2016) which found that multiple types of fiscal incentives—including import duty exemptions, profit tax exemptions, and export financing—had a positive effect on firm productivity.

Githaiga (2013) studied the influence of tax incentives on FDI inflows of firms listed on the floor of Nigeria secondary market. The data for the study were obtained from the published accounts of the 10 sample companies between the period of 2008 to 2011. The time series data of the study were analyzed using correlation techniques to ascertain whether those incentives granted to businesses has influenced on FDI. It was found strong relationship exist among the granted allowance and the FDI inflows while on the other hand, there is an insignificant relationship between industrial building and investments allowance with FDI inflows.

Tirimba, Muturi and Sifunjo (2016) studied the association of tax incentives and firm's profitability. Their study covered the 61 companies listed with the NSE where 150 were selected as a working sample. The required study data were gathered from the majorly primary sources and secondary sources and the collected data were analysed using descriptive statistics, correlation and multiple regression. They found that tax incentive has insignificant influence on cooperate performance. This result suggests that tax incentives do not play a critical role in boosting the performance of the sampled businesses.

Amendola, Boccia, Mele, and Sensini (2018) studied the influence of tax incentives on the cooperate profitability in Dominican Republic where they utilized a company base data for the period of 2006 to 2015. The panel data analytical techniques were used in analyzing the collected data of the study, this was to ascertain the kind of association that exist among the study variables. The study confirmed that corporate income tax freedoms have a positive impact on the profitability of the listed companies in the Dominican Republic, however, the irregular tax assessment between corporate entities misrepresents the competition in the most sectors especially in the area of industries and this resulted in the overall negative effects of the incentives on the economic efficiency. The result is in line with Mayende (2013) who examined the effect of tax incentives on sampled firms' value added taxes and gross sales in Uganda and he found that streamlining the tax-incentive structure would improve firms' overall performance. However, most of these studies did not capture manufacturing firm especially in the developing economies like Nigeria considering its contribution to employment generation and food security

There are many theories that relate to the study base on its variables, but this study anchored on the benefit-received theory of taxation as it tries to explain that the main essence of taxation is to balance the relationship between the taxpayers and the society together with the benefit accruing therein. The theory further explained that tax could be based on a relationship that exist with tax obligation and government actions as suggested by (Anyanfo, 1996). This theory and the reason for tax policies were based on the need of the government to provide social services to her citizens which could be funded through allotting a tax burden to the society member, especially the working and the business class. On the other hand, if the benefits accrued by giving tax incentives and reliefs will outweigh the benefit of imposing the payment such as tax should not imposed on the taxpayers.

3. Research Methodology

The study adopted non-survey research design, the data were gathered from published yealy report and account of the companies under study, and tax related submission from the investment promotion commission and Federal Inland Revenue Services. The study covered all the thirteen (13) listed consumer goods companies traded in security market of the Nigeria Stock Exchange (NSE) as at 19/02/2019. However, the study used only the seven (7) companies representing 54% of the population as those with the available data required for the study period as the selected companies had been publishing their annual reports and accounts during the period under the study of eighteen (18) years (2000-2017). The seven (7) selected companies are presented in the Table 1.

Table 1: Selected sample of consumer goods companies listed in Nigeria

S/N	Company/Firm	Date Listed	Date of Incorporation
1	Champion Brewery Plc.	1st September, 1983	31st July, 1974
2	Flour Mills Nig. Plc.	14th August, 1979	29th September, 1960
3	Guinness Nig. Plc.	2nd January, 1965	29th April, 1950
4	NASCON Allied Industries Plc.	20th October, 1992	30th April, 1973
5	Nestle Nigeria Plc.	20th April, 1979	25th September,1969
6	Nigerian Brewery Plc.	5th September, 1973	16th November, 1946
7	Unilever Nigeria Plc.	1st January, 1973	4th November, 1923

Source: Nigeria Stock Exchange daily listing, 2019

The dependent variables of the study is performance measured by Return on Assets (ROA) while the independent variables are tax incentives measured by total capital allowance CAL, Investment allowance (INVAL) and Loss Relief Incentives (LRI) granted to the companies. The study employed ordinary least square (OLS) in analyzing the collected data. The study model is thus:

$$PERF = f(TINCV) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (I)$$

$$PERF = \beta_{1it} + \beta_1 CAL_{it} + \beta_2 INVA_{it} + \beta_3 LRI_{it} \ldots\ldots\ldots\ldots (II)$$

Where:

PERF Performance
TINCV tax incentives (CAL, INVA and LRI)
CAL Capital Allowances

INVA	Investment Allowances
LRI	Loss Relief Incentives
β: β_3	Estimated parameters

4. Result and Discussion

This section analysed the study data so as to establish the influence of tax incentives on the performance of sampled firms. Data collected were analysed using correlation matrix, which establishes the level of associations between the variables and the multiple regression used to establish the level of influence of the tax independent variables of capital, investment and loss relief allowances on the financial performance (ROA) of the sampled firms. Table 2 present the level of relationship among the variables and Table 3 shows the extent of the influence of each of the independent variables on the dependent variable.

Table 2: Correlation matrix of the variables

Variables	ROA	CAL	INVA	LRL
ROA	1			
CAL	.182*	1		
INVA	-.071	-.216**	1	
LRL	.089	-.032	.159*	1

Note: **Correlation is significant at the 0.01 and 0.05 level
Source: SPSS Computation (2019)

The result from table 2 shows that positive and significant relationship exist between the company performance and the capital allowance which was indicated by the coefficient 0.182. This showed that ROA and capital allowance are moving in one direction. The result also showed that allowances granted on investment has a negative but insignificant relationship with return on asset. This indicted that return on asset and investment allowance are not moving in the same direction. On the other hand, the table 2 also shows that positive but insignificant relationship exist among loss relief and return on asset of the sampled companies covered during the study period.

Consequently, the independent variables relationship with each other showed that capital allowance had negative and significant relationship while it had negative but insignificant relationship with loss relief. This showed that whenever the capital allowances increased the investment allowance and loss relief decreased. This is in line with the reality that most businesses cannot claim all the allowances at the same time, as they are interconnected. Contrarily, investment allowance has positive and significant relationship with loss relief, which means that a change in one will result in similar change in the other. This aligned with normal practice where businesses that invested so much will have less profit to report and as such the tax liability is affected which grants the business a relief as a result of not reporting a profit for that period.

Considering the relationship among the variables, especially the independent variables the overall result indicates a moderate relationship that cannot affect the output from the analysis in the case of multicollinearity because the variables are not highly correlated with each other. This assertion can be supported by VIF result in table 3 which indicates all the VIF value are greater than 1 and less than 5. It is a sign of absence of muticollinearity.

The study also conducted a series of diagnosis tests that include normality test, heteroscedasticity and Hausman specification test. The result of the normality, which was confirmed and extracted from normal Probability Plot, indicates a good fit as the dots on the plot appears to be centered on the best fit line where most of the points are concentrated close to the line signifying that the data are normality distributed as per the assumption of the normality test. Likewise, the result of the heteroscedasticity test in this study showed that there was no presence of heteroskedasticity as the p-value is 0.7232 which was insignificant. On the other hand, the Hausman specification test showed the chi-square probability value of 0.8642, which was insignificant and conclusively the Random Effect (RE) model result should be presented and discussed for the study.

Table 3: Regression result of the effect of tax incentives on financial performance

Variables	Standardized Coefficients	Std. Error	P-Value	VIF
(Constant)	43.709	2.820	.000**	
CAL	.207	.040	.024**	1.049
INVA	.032	.049	.151	1.075
LRL	.202	.055	.043*	1.026
R Square 0.563				
Adjusted R2 0.337				
Sig. F-Value 0.001				

Note: *, ** significant at the 0.05 level and 0.01 level.
Source: SPSS Computation output, 2019

Table 3: presents the multiple regression result random effect for the effect of tax incentives (capital, investment and loss relief allowances) on financial performance of the companies. The table shows an Adjusted R square value of 0.337. This implies that 34% of the disparity in the company's performance is accounted by the combination of capital allowance, investment allowance and loss relief. This shows that the independent variable has an ability of explaining the better proportion of the dependent variable and this suggests the model is fit and the result thereafter would be relied upon.

The table shows that capital allowance has positively and significantly impacted the financial performance of the sampled companies as shown by the coefficient of 0.207 and a p-value of 0.024. This implies that for every one percent increase in capital allowance granted to the firms under study the financial performance of such firm's increases by 21%. This result goes with the aim of introducing the capital allowance and with the idle situation where reduction in tax liability will have a positive impact on the cooperate profitability. This result agrees with that of Ohaka and Agunda (2012) who found that capital allowance increases performance of firms.

The result with respect to investment allowance shows that the firms' performance is positively but insignificantly influenced by granting the allowances on investment in firms under consideration. This can be seen clearly from the coefficient of 0.032 and a p-value of 0.151. This shows that whenever an allowance on investment is given to the sampled firm the performance of such firm increases in small pace. This is attributed to the fact the investment allowance is granted to business at the early stage of their operation and such allowances were only granted to the settled business when there is so much invested in the new area of the business and this affect its liquidity and as a result the performance will increase much. These findings are in contrast to the findings of Trimba et.al (2018) who found that and increase in investment allowance will lead to increase in the performance and in consonance with the findings of Githaiga (2013) who found that incentive is not necessarily impacting performance of businesses. The study also found that there is positive and strong influence of loss relief on financial performance of the sampled firms. This was evidenced by the 0.202 coefficient with a p-value of 0.043 which implied for every one percent increase in the loss relief to the firms under study the performance of those firm increased by 20%. This result aligned with the fact that loss relief are granted to the firm that is facing some performance and it is expected that when relief are granted the performance of such firms will improve. This result aligned with the study of Amendola et al (2018) who indicated tax relief granted to business helps in improving performance.

5. Conclusion and Recommendation

The study concluded base on the result and interpretation that tax incentives has positive and significant influence on profitability of the sampled companies listed in the country under study. However, the study found that firms did not bother much about the incentives especially the investment allowance that are granted to firms investing in some area such rural areas where they will gain rural investment allowance.

The study recommends that companies should take more advantages of tax incentives available to them especially the incentives related to investment which will help in straightening the productivity of the firms while tax authorities should consider means of introducing more incentives for investors to critical sectors like consumer goods which have direct relationship with agricultural output and country export. However, the authorities should provide and easy enlightenment mechanism on the importance and advantages of tax incentives, especially the rural investment allowance which is geared toward increasing in the provision of social amenities to rural areas among others.

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