TAX INCENTIVES AND ECONOMIC DEVELOPMENT IN NIGERIA: (2005-2015)

FRANKLINE C. S. A. OKEKE
Department of Accounting
Faculty of Management Sciences
University of Port Harcourt
Port Harcourt
Nigeria
Email: frankcsa31@gmail.com

And

OGBONNA, G. N., PhD.
Department of Accounting
Faculty of Management Sciences
University of Port Harcourt
Port Harcourt
Nigeria

ABSTRACT

The study examined tax incentive and economic development of Nigeria from 2005 – 2015. To estimate economic development, Real Gross Domestic Product (RGDP), Employment Rate (ER) and Per Capita income (PCI) were selected as the proxies, while tax incentives proxy selected include interest allowance, pioneer status grant and investment allowance. The main objectives of this study are to analyse the trend and impact of the proxies of the independent variable on the proxies of the dependent variable. Data used were purely secondary and were extracted from publications of (CBN) statistical bulletin, (NBS), (FIRS) and Price Water Coopers (PWC). Descriptive statistics, trend analysis and multiple regression analysis, Augmented Dickey Fuller test for the stationarity, hetroskedasticity and Durbin Watson tests were used to analyse the data with the aid of E-Views statistical package. The trend analysis shows various fluctuations, more so pioneer status grant and investment allowance are key and have significant impact on economic development. Based on findings and recommendations, the study recommends that policy makers should be strategic, periodic reforms should be implemented, more awareness on pioneer grants and investment allowance, operational costs should be curtailed and more investment allowance should be given.

Keywords: Tax, Incentive, and Economic development.

INTRODUCTION

The studies on tax have been on the increase especially in the past years thus yielding variations on tax related issues. Most studies focuses on the cost and benefits of tax incentive while some emphasis on public funds which could have been better spent or if the incentives were really justifiable. The advocacy for favorable tax incentives and their uses to stimulate the economic activities of most nations show clear indications of great concern for sustainable economic development and growth. Economic growth can either be achieved by increasing tax reliefs or reducing tax rates thereby increasing the disposable incomes of tax payers and more money will be available for investment and re-investment purposes (Nworji, 2004:2). The tax incentives includes export processing zone (EPZ), capital allowance, tax holiday, re-investment allowance, accelerated depreciation, interest subsidy, tax-payers' right of election, and investment tax credit. It is assume to yield more investments, thus translates into great future output in the nation.

Politically, economically and socially, developments of many nations depend on the volume of revenue generated for infrastructures. However, a major means of generating huge revenues for such needed infrastructure is through a structured tax system – Ogbonna & Appiah (2011). Azubike (2009), taxes are crucial and a key motivator in all economy. Its system is avenues for every government to raise enough revenue thus enabling them discharge its basic responsibilities. Ogbonna & Appah (2011), a tax system is an effective means of mobilizing and harnessing natural resources of a state. Also guarantees a favorable environment for nation's advancement. Tax incentive itself, uses government spending and tax policies to affect the level of national income. This measure encourages 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. So the government should provide such tax incentives in order to boost development which will bring about an increase in employment opportunities and also cause an improvement in the economy.

Amadiegwu (2008:74), a tax expert wrote that the objective of tax incentive is that by borrowing instead taxing, the government has a better chance of expanding investment spending which is essential in growing production and attaining a sustainable improvement on the living standard of the people. Dotun and Sanni (2009:265), in their Nigerian companies' taxation stated that these incentives can be targeted on the low income earners, local and developing industries, and farmers, which will increase their savings and in turns yield higher investments. Tax incentives create employment opportunities for the people; help fight economic depression and inflation thus increases the distribution of income and wealth equitably. Offering tax incentive as an economic development strategy is controversial and complex. Although economist have varying opinion on incentives – based strategies, state development officials continue to offer large tax and other financial incentives to new, relocating and expanding firms (Bartik1991, Dabney 1991, Friedman et al. 1992).

Nigeria being a developing nation needs to encourage investors to come into the country to invest so as to enhance rapid development. Perhaps, it is with this in mind, that there are certain tax incentives that are offered by the government to encourage investors in Nigeria (Ogbonna & Appah 2011). In fact, as far back as 1950, tax incentives have been offered by Nigerian government as part of industrial policy to private firm. Other countries both developed and developing have also in their industrial policy used tax incentives to influence investment decision in private firms. It is however to be noted that incentives in the form of tax alone will not only be determining factors for investing in Nigeria by investors. Other factors like market size, expansion of sales into new markets, forestallment of major competitors etc. will be taken into consideration in their choice of place of investment.

The system/process is packaged to enable government meet up its obligations in settling for goods and services available for general wellbeing of the citizens, and provision of basic infrastructure in niches where people live and do carry out daily activities.
The federal government of Nigeria partners with the private sector for economic development initiatives through embracing the tax system. Varieties of tax expenditure are aimed to lure or keep companies and individuals within a said region or country.

STATEMENT OF PROBLEM

Nigeria in its quest to develop the economy encounters some bottlenecks or factors that militate against such attempts. It is necessary to study such problems and proffer solutions. They include:

1. Studies of (Dotun1996) and (Sani, 2002) show divergent views about tax incentives. Most scholars affirm that the subject of discuss encourages eco - development whereas others agrees that it lessens income accruing to the government as such it doesn't stimulate economy. N/B most measures taken by government to put the economy in good shape haven't yielded positive results.
2. Excessive taxation in the form of high tax rate, double and multiple taxations.
3. The naira exchange rate hasn't been able to stimulate the economy likewise the poverty alleviation program geared towards lessening the rate of hunger and sickness among citizens which was initiated. The program covers availability of work for unemployed youths, facilities to business at a small rate.
4. Tax incentive that should be extended to corporate bodies and individuals are not extended to them, thus de-motivates payer to pay tax.
5. Policy insufficiency makes firms and individual embark on tax avoidance and evasion by over stating their relief and paying less money as tax

AIMS OF THE STUDY

The object of this research is to analyse trends, impact and causal relationship of variables of tax incentives and economic development.

RESEARCH QUESTIONS

1. What are the trends of tax incentives on economic development of Nigeria?
2. What's the impact of Investment allowance on economic development?
3. What impact has tax holidays on economic development?
4. What impact has grant of pioneer status on economic development?
5. What impact has tax free interest on Economic Development?
6. Is there any relationship between tax incentive and economic development?
7. How do these incentives stimulate individuals/companies to establish new enterprises which will boost development in the economic?

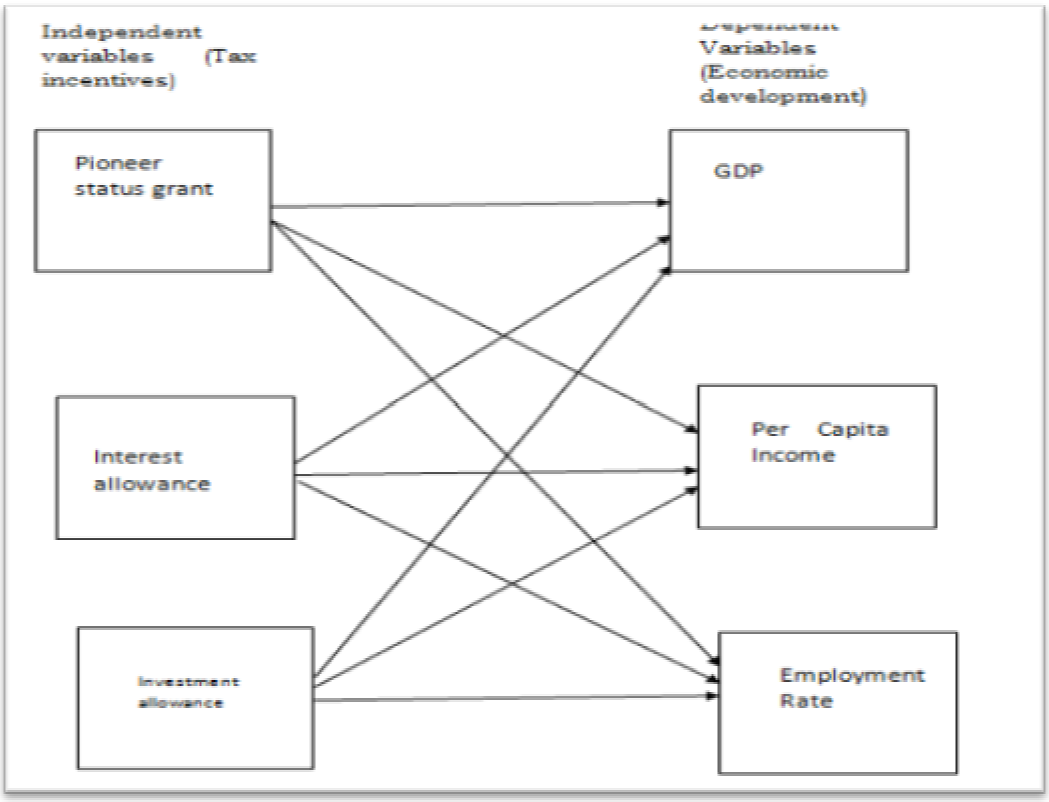
STATEMENT OF HYPOTHESES

The following hypotheses were formulated to guide the study.

HO$_1$. Investment allowance, interest allowance and grant of pioneer status have no significant impact on the Gross domestic Product

HO2. Investment allowance, interest allowance and grant of pioneer status have no significant impact on the per capita income

HO3. Investment allowance, interest allowance and grant of pioneer status have no significant impact on the employment rate



OPERATIONAL FRAMEWORK

THEORETICAL REVIEW

Many practitioners and professional have x-rayed the various tax incentives scheme available with standards for qualifying one as a beneficiary of the incentive. A broad writing has delivered persuading results concerning the effects of assessment motivating forces on investing. In Stiglitz (1973), Sandmo (1974), King (1974) &Boadway (1979) broadening the Jorgenson's traditional way of venture conduct (1967) to decide on impacts of tax assessment in speculation choices. Underlining its significance on expense arrangement, organization for residential and global speculators, Stone 2008) continues by contrasting the focal points and impediments of assessment motivations, he said that tax collection influences the worldwide intensity. In understanding the behaviour between fiscal policy, financial policy and their effect on development, Strulik (2003) directly contrasted the approaches of firms in various financial settings.

TAXATION AND TAX INCENTIVES IN NIGERIA

Taxation is packaged to enhance government activities. Tax being an avenue for government income everywhere in the world is utilized by Government. Their expenses continues and are used to render their conventional obligations, for example, the procurement of open merchandise, support of peace, resistance against outer animosity, control of exchange and business to guarantee social and monetary upkeep (Azubike, 2009). Musgrave and Musgrave (2004) likewise expressed that the financial impacts of expense incorporate miniaturized scale consequences for the appropriation of pay and proficiency of asset use and in addition full scale impact on the level of limit yield, occupation, costs, and development. In any case, the utilization of duty as an instrument of monetary approach can't be accomplished as a result of diminishing level of income produced as an aftereffect of insufficiency of government

Before defining Tax Incentive, one may ask what tax is and why does government collects tax. If government was to impose taxes, what should they tax? How should the tax those things proportional, regressively or progressive? A thorough understanding of possible answers to these questions is not mandatory to the determination of a particular tax liability, such an understanding often makes intelligible what otherwise appears to be a wholly arbitrary tax provision. It is important to know conceptually, what **tax** means. In spite of the fact that the Nigerian assessment laws does not characterize the expression "TAX" a few authors, case laws and books have characterized it. Hence, charge speaks to:

i. Necessary installment given by people in a general public to the administration (Kaldor and Hume, 2004);

ii. Demand forced by government on wage, benefit/abundance of people, associations, and organization (Due, 1980); and

According to S.M. Adesola, “tax is a burden which every citizen must bear to sustain his or her government”.

WHY TAX INCENTIVES?

As part of the efforts to provide working environment favorable for growth and development of industries, inflow of foreign direct investment (FDI), shield existing investments from unhealthy rivalry, and stimulate the expansion of local production capacity; the government of Nigeria has packaged incentives for various sectors and it is assumed to revive the economy, accelerate growth/development and reduce poverty. Government sole responsibilities still remain to provide the enabling environment for the private investors to operate since the private sector is the engine of growth and the creator of wealth. In this regard, laws which had hitherto hindered private sector investments have been either amended or repealed and a national council on privatization has been established to oversee orderly divestment to private operators in vital areas of the economy such as mining, transportation, electricity, telecommunications, petroleum and gas.

Nigerian government's policy of economic deregulation and liberalization has opened up new windows of opportunity to investors wishing to invest in the country's economy. In addition, the Nigerian investment promotion council (NIPC) has been strengthened to enable it serve as a one-stop office for clearing all the requirements for investment in the country. The tariff structure is being reformed with a view to boosting local production. Incentive is something that encourages you to do more that’s the concept of laymen. Hence, tax incentive is a generic term for all the measures adopted by the government to deliberately manipulate the tax system to the advantage of a potential tax-payer (Dotun, 1996). Tax incentive is a deliberate reduction in or total elimination of tax liability granted by the government in order to encourage a particular economic unit (e.g. corporate body) to act in some desirable ways. The desirable ways may be to invest more, produce more, employ more, export more, sell more, consume less, import less, and pollute less.

According to the SADC Memorandum of Understanding on taxation (2002) tax incentives are "fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country."

Summarily tax incentives are special arrangements in the tax laws to:

1. Attract, retain or increase investment in a particular sector
2. Stimulate growth in specific areas.
3. Assist companies or individuals carrying on identified activities.

The underlying basis is to ensure overall growth of the Nigerian economy and even development of all sectors. Government of Nigeria depends heavily on tax for revenue generation. The revenue generated is used for social, economic, political and cultural development etc. A good tax system creates jobs and a tax rise should not lead to wasteful expenditure. With a good tax system, countries like Nigeria will not borrow funds rather cut down public spending, rate of corruption and should not devalue the naira to avoid crumbling the economy. Here, the role of tax incentives which include both the effectiveness and impact on the nation development. "Effectiveness" means the extent to which tax incentives stimulate additional productive investment, whereas "Impact" refers to the broader effects on revenue, tax administration, economic efficiency, social equity, and, ultimately, prospects for economic growth.

Generally, tax incentives includes those provisions of the tax law which are applicable to most resident and non-resident companies and individuals which lessen the tax burden on income derived from investments.

BENEFITS OF TAX INCENTIVES

There are some benefits derived from tax incentives even though, it is said to play a minor role in influencing investment decision into the country. Some of them are:

1. Tax incentives is used to attract investment into the country
2. It is a convenient tool to attract industries that will help to solve unemployment problem.
3. It improves the commercial profitability of investment.
4. It draws attention to the profit prospects of investing in a certain types of business that a country seeks to promote.
5. It assists firms to compete in the international capital market.

CLASSIFICATION OF TAX INCENTIVES

Different countries use various forms of incentives which are suitable for the purpose it was meant for and in line with the economic realities. The tax incentives used in Nigeria as spelt out by the NEPC (2001) are:

1. Reduced Corporate Income Tax Rate
2. Loss Carry advances
3. Tax Holidays
4. Investment Allowance
5. Zero/Reduced Tax on Dividend
6. Zero/Reduced Tariffs
7. Investment Tax Credit
8. Export Promotion Zones (EPZ)

CRITICISMS OF TAX INCENTIVES

The laws are new and empirical studies of their operation are so scanty, thus no definite appraisal on their contribution to new investment. Also it doesn't measure the cost of tax incentives against the received.

1. It has been criticized that the resultant proliferation of tax holiday and the keen competition among developing countries especially in offering tax incentives for new incentives has to a great extent diluted its promotional values.
2. The grant of tax incentives has been criticized because it is said to be disproportionate as the benefit derived there from firm to firm and as such, firms that are more profitable will likely enjoy more benefits than those with little or no profit has been countered by SeyiOjo who said that if the most profitable business enjoys more benefit, there is nothing wrong as it should encourage other firms to work hard towards being profitable which will enhance the nation's wealth.
3. It is also said that such large benefits to highly profitable because business will result in a serious loss of revenue to the government which is almost short of revenue. It has in fact, been reported by Adedotun Philips, that the cumulative effect of the incentives provided in Nigerian between 1958 and 1966 was loss of revenue equivalent of four percent 4% of the total revenue of government.

CONCEPTUAL REVIEW

In developing nations, the administration needs to contribute actively in advancing financial development and improvement since private activity and capital are constrained. Monetary arrangement or spending plan has turned into a critical instrument in advancing development and advancement in such economies. Tax assessment is an essential piece of monetary strategy which can be utilized successfully by government in creating economies. Tax collections assume an exceptionally crucial part in financial advancement of a nation which includes: assets assembly, lessening in disparities of pay, change in social welfare, remote trade, local improvement, control swelling etc.

According to the classical economists, the main goal of tax assessment is to raise state revenue. With recent adjustment and belief systems, the duties have likewise change now separate from the object of raising people in public income, charges level influence utilization, raising and circulating with a perspective to assuring the social welfare through the financial growth of a nation, expense can be used as an imperative device. Ideal assignment is access ible assets, raising government income, empowering reserve funds and speculation, speeding up of monetary development, value steadiness, control component and so forth the one and real issue to be location in this work "is the poor monetary order in the portion of assets and the operation of an ineffectual duty administration in Nigeria". To fundamentally evaluate the effect of assessment motivator on the financial improvement of Nigeria, duty impetuses considered in this study incorporate pioneer stipend status, speculation remittance and interest recompense which influence the monetary development intermediary by the Real Gross Domestic Product (RGDP), per capita pay and vocation rate in Nigeria. The similarity is cleared introduced.

EMPIRICAL REVIEW

Tax incentives are normal around the globe, particularly in creating nations. A developing writing talks about their presumable impacts, including their advantages and dangers. Regardless of a for the most part doubtful evaluation by financial specialists, they stay famous strategy apparatuses. Also, while there are a ton of conclusions and some hypothesis on expense impetuses, there is moderately minimal exact confirmation. The minimal observational work that exists falls into three principle classifications. To start with, there are scopes of contextual analyses on specific nations. While these are frequently, extremely intriguing to peruse and reach conceivable conclusions, it is difficult to sum up their discoveries, which were acquired by watching one nation and the advancement of its motivating force framework. Second there various studies, which ascertain viable minimal assessment rates. Again, these are regularly valuable activities, as they can uncover the motivators for speculation made by the duty framework (in any event at the edge), and record the variety of expense rates crosswise over segments or areas, subject to various expense rules.

Stone (2008) continues by looking at the focal points and burdens of duty motivators, he said that tax collection influences the worldwide intensity. By treating the relationship between monetary arrangement and budgetary approach inside the firm and its effect on development, Strulik (2003) was looking at the strategies of firms in various financial connections. The effects recognized by the creator are acquired in utilizing a public balance model in light of generation elements of Cobb Douglas, itemizing its record on the firm (in light of venture, job, result operation ...). They outcomes shown by the creator demonstrate that a lessening of 10% duty will expand the firm pick up of 5%. The creator focuses on that the standard models (not considering the economy all in all) overestimate the impact of the expense change on speculation and gainfulness since they disregard the budgetary conformities of the organization. Birk (2006), utilizing measurements gave by various OECD nations contend that duty change can diminish unemployment and enhance monetary development by enhancing the budgetary execution of the firm. Charge motivating forces are an empowering element of the area of outside direct financial specialists. Through a study by poll on an example of 600 administrators of expansive international firms from seven nations including Honkong Singapore, Australia, Canada, PR China, U.S. furthermore, UK, Simmons (2003) demonstrates a huge positive connection between's files of appeal on the duty arrangement of nations chose and the size sections of FDI.

Notwithstanding, in a turbulent financial environment described by various changes, the organization is progressively confronting a harder focused space, because of the expansion of its extent of exercises and the interconnectedness of various markets. To adjust to this environment and adapt to this opposition, the organization must have the capacity to free the different monetary and vital difficulties to guarantee its manageability, in addition to other things is to be focused and enhance its monetary and money related execution. In the realm of administration science, reflections on the execution have been the wellspring of numerous inquiries. To be sure, Lebas (1995b) considers that"there is no universal and comprehensive definition of performance and yet every business must define the term for its internal and external communication." Besides, the criteria for assessing execution add to the absence of a general definition. For sure, in 60s the means of execution is the nature (deals, resources). At that point in the 70s, it's called net salary or profit per offer to assess execution.

In 80s, the execution assessment is done within the organization's capacity to produce liquidity. As of late, it compares the execution capacity to make esteem. So with regards to measuring execution, business analysts tends to utilize its advantage as the measure permits the segment to fertilize and "inventiveness" (wage part) and segment "discipline" (segment cost) important to take after a business sector economy. With respect to salary, the measure of execution is savvier to the degree that expenses are steadier. Frydman (1999) contends that the measure most utilized by directors who frames thought on expenses and costs that this firm will bear. Unmistakably, assessment is a substantial expense for organization who wishes to diminish its costs.

Decrease in duties clearly lessens transaction costs which enhance its budgetary execution. Bartik (1991) has done likely the most sweeping and late audit of observational studies, compressing each distributed and unpublished work in the twelve years from 1979 to 1991. Out of a sum of 123 studies he found that 73 percent had no less than one factually huge negative duty impact on business area. Out of 100 of these which were generally similar he found the normal mean versatility of business movement concerning charges to be –0.88. At the end of the day, a one hundred percent expansion in charges would bring about business movement to diminish by 88 percent, or the other way around. His audit drove him to infer that the negative impact of charges on business area developed more claimed as the center of the study moved from interstate choice regions to intra-metropolitan regions.

This is a perception we would expect in a precise exact study, following instinctively assess impacts are prone to be variables more vital to business area choices when picking between two regions close to each other with comparative attributes than when picking between two wide geographic areas, for example, states. In view of the studies which concentrated on various sizes of basic leadership, he assessed that the long run versatility of business action regarding duties to be in the scope of – 0.1 to – 0.6 for between metropolitan and interstate area choices and amongst –1.0 and –3.0 for intra-metropolitan choices. From these discoveries he finishes up the accompanying: "… most business area contemplates have discovered some proof of huge negative impacts of state and nearby expenses on local business development," and consequently, "state and neighborhood arrangements can altogether influence the long-run level of business movement in a neighborhood economy.

RESEARCH DESIGN AND ANALYSIS

This study adopts the Ex-post facto method. This is because data needed for analysis already exists. The study will cover Nigeria's economy with time series. Data pertaining to tax incentives from different tax components, investment expenditure and RGDP were gotten (2005-2015) from CBN of Nigeria document (2010), NBS, PWC and Federal Inland Revenue Service (FIRS). The study will use econometric method of analysis (Ordinary Least Square regression model, Augmented Dickey Fuller (ADF) tests, and granger causality test) with the aid of E-Views statistical package. Some statutory time series tests will be conducted such as the Unit Root test and Durbin Watson Test.

MODEL SPECIFICATION

The ADF test consist of estimating the following regression

$\Delta Y_t = \beta_1 + \beta_1 + \delta Y_{t-1} + \Sigma^m{}_t{=}1\propto{}_i \Delta Y_{t-1} + e_t$ ....(1)

Where

Y is the series, t is trend factor,

e_t is the stochastic error term

t_1 is the lag length.

MODEL 1

H_{01}: Investment allowance, interest allowance and pioneer grant status have no significant impact on GDP.

GDP = F (InvA, IA, PIO) ....(2)

When transformed into a linear equation form, equation 1 becomes

GDP= $\alpha_0 + \alpha_1\ IA + \alpha_2\ InvA + \alpha_3\ PIO + U$ .... (3)

MODEL 2

H_{o2} Investment allowance, interest allowance and pioneer grant status have no significant impact on Per Capita income.

See model formulated below

PCI= F (InvA, IA, PIO) ....(4)

When transformed we have

PCI = $\alpha_0 + \alpha_1\ IA + \alpha_2\ InvA + \alpha_3\ PIO + U$ ....(5)

MODEL 3

H_{o3} Investment allowance, interest allowance and pioneer grant status have no significant impact on employment rate.

The model is formulated below

EMP = F (InvA, IA, PIO) ....(6)

When transformed we have

EMP = $\alpha_0 + \alpha_1\ IA + \alpha_2\ InvA + \alpha_3\ PIO + U$ ....(7)

Where RGDP = Real Gross Domestic Product in Naira

EMP= employment rate

IA= Interest allowance in Percentage

InvA= Investment allowance in percentage
PIO= pioneer grant status measure by the number of beneficiaries
U= error term

TEST OF HYPOTHESES

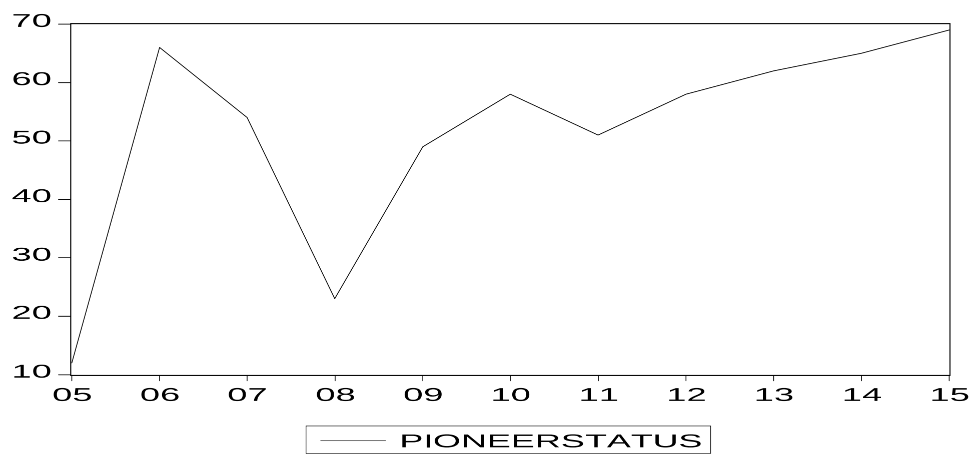
The following hypotheses were tested in this study:

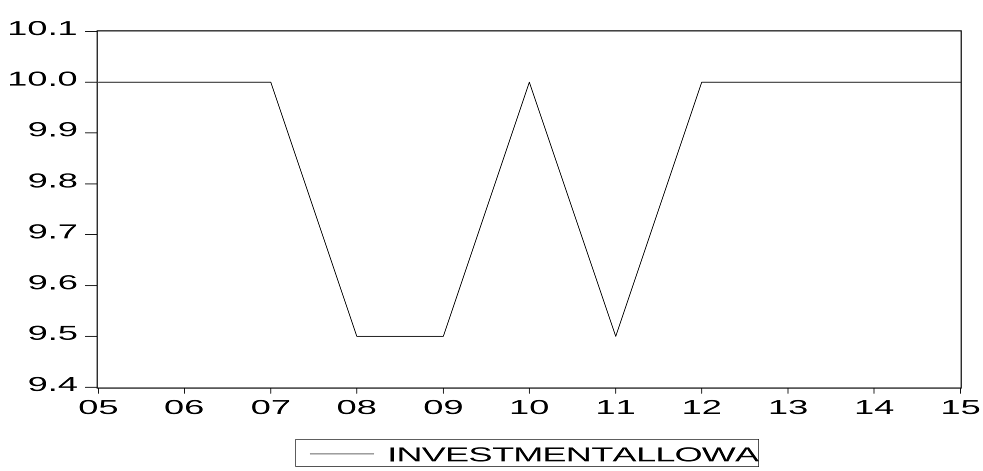
Table 1 UNIT ROOT TEST OF THE VARIABLES

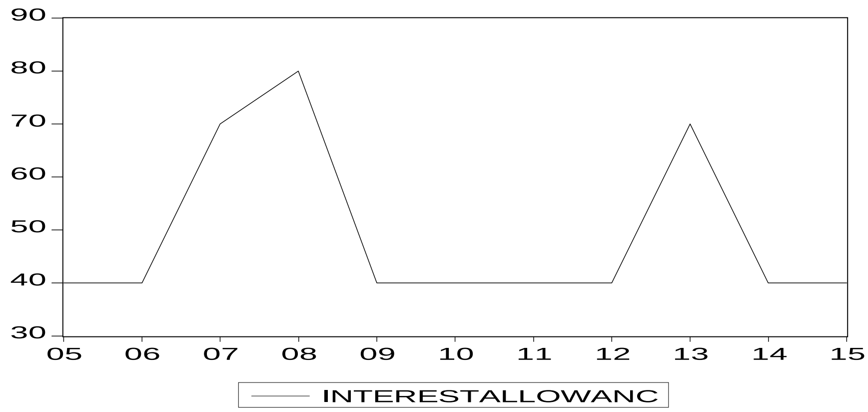
Variables	Level	first difference	second difference	Decision
Investment allowance	-1.73205	-2.73861	-4.7274	I(1)
Pioneer status	-2.89364	-2.86524	-3.05937	I(1)
Interest allowance	-1.53774	-10.5016	-16.1995	I(1)
RGDP	-0.88797	-2.62199	-4.16505	I(1)
Employment rate	-0.28459	-3.86695	-2.70286	I(1)
Income per capita	-1.87932	-4.67699	-8.78734	I(1)

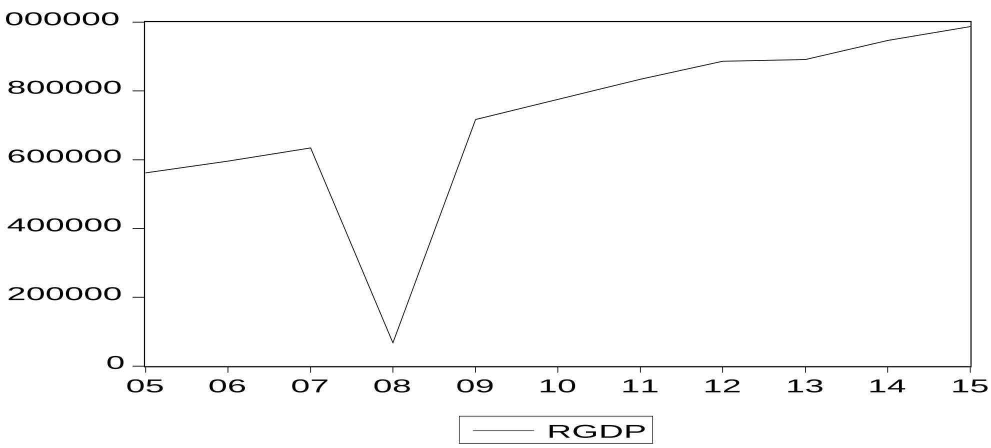
Source: CBN statistical bulletin and PWC reports

TREND OF TAX INCENTIVE AND ECONOMIC DEVELOPMENT IN NIGERIA






90
80
70
60
50
40
30
05 06 07 08 09 10 11 12 13 14 15
INTERESTALLOWANC


000000
800000
600000
400000
200000
0
05 06 07 08 09 10 11 12 13 14 15
RGDP

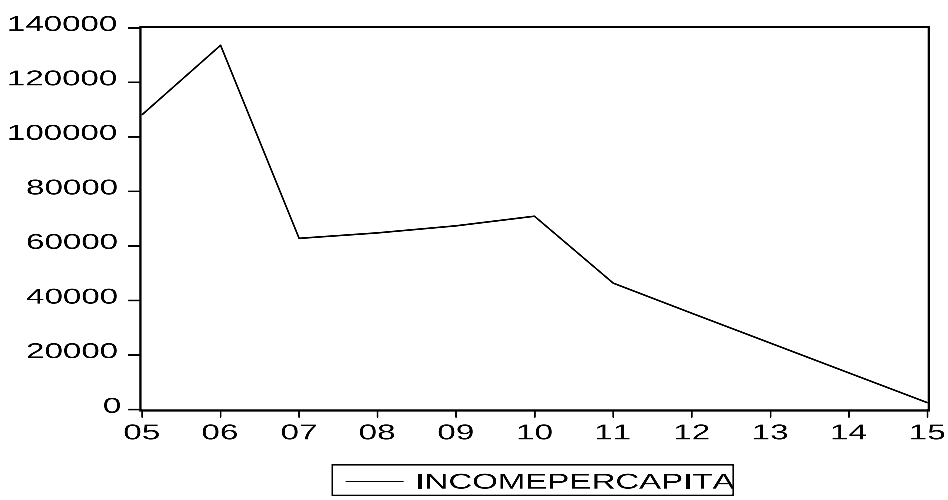

140000
120000
100000
80000
60000
40000
20000
0
05 06 07 08 09 10 11 12 13 14 15
INCOMEPERCAPITA

Table 2: Descriptive Statistics of the Variables

	EMPLOYMENT RATE	INCOMEPER CAPITA	RGDP	INTEREST ALLOWANC	INVESTMENT ALLOWA	PIONEER STATUS
Mean	20.46127	57241.83	717933.5	49.09091	9.863636	51.54545
Median	21.10000	62797.15	775525.7	40.00000	10.00000	58.00000
Maximum	30.52000	133638.0	986876.9	80.00000	10.00000	69.00000
Minimum	11.90000	2512.270	67220.60	40.00000	9.500000	12.00000
Std. Dev.	6.742234	39235.34	258783.4	15.78261	0.233550	18.10726
Skewness	0.007071	0.498170	-1.443508	1.115201	-1.020621	-1.283453
Kurtosis	1.619709	2.547458	4.661062	2.392749	2.041667	3.370907
Jarque-Bera	0.873310	0.548849	5.084746	2.449078	2.330657	3.083013
Probability	0.646194	0.760009	0.078679	0.293893	0.311820	0.214058
Sum	225.0740	629660.1	7897268.	540.0000	108.5000	567.0000
SumSq. Dev.	454.5773	1.54E+10	6.70E+11	2490.909	0.545455	3278.727
Observations	11	11	11	11	11	11

Source: E-views output from CBN bulletin, PWC report, NBS various reports

WHITE HETEROSKEDASTICITY TEST:

REGRESSION ON IMPACT OF TAX INCENTIVES ON RGDP

F-statistic	0.119615	Probability	0.989708
Obs*R-squared	2.400213	Probability	0.934422

Source: E-views output from CBN bulletin, PWC report, NBS various reports

REGRESSION ON IMPACT OF TAX INCENTIVES ON RGDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1204741.	1595576.	-0.755051	0.4749
INTERESTALLOWANC	-6498.288	2838.519	-2.289323	0.0559
INVESTMENTALLOWA	185962.1	158585.4	1.172631	0.2793
PIONEERSTATUS	7904.082	2995.216	2.638902	0.0335
R-squared	0.699247	Mean dependent var		717933.5
Adjusted R-squared	0.570353	S.D. dependent var		258783.4
S.E. of regression	169625.9	Akaike info criterion		27.19587
Sum squared resid	2.01E+11	Schwarz criterion		27.34056
Log likelihood	-145.5773	F-statistic		5.424979
Durbin-Watson stat	2.190358	Prob(F-statistic)		0.030383

Source: E-views output from CBN bulletin, PWC, NBS various reports

WHITE HETEROSKEDASTICITY TEST:
REGRESSION ON IMPACT OF TAX INCENTIVES ON PER CAPITA INCOME

F-statistic	0.334442	Prob. F(7,3)	0.8948
Obs*R-squared	4.821491	Prob. Chi-Square(7)	0.6817
Scaled explained SS	3.674366	Prob. Chi-Square(7)	0.8164

Source: E-views output from CBN bulletin, PWC report, NBS various reports

REGRESSION ON IMPACT OF TAX INCENTIVES ON PER CAPITA INCOME

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-70025.97	230564.7	-0.303715	0.7702
INTERESTALLOWANC	-503.0023	413.5145	-1.216408	0.2632
INVESTMENTALLOWA	21446.84	23171.48	0.925570	0.3855
PIONEERSTATUS	-1155.934	448.6591	-2.576420	0.0367

R-squared	0.42798	Mean dependent Var	57241.83
Adjusted R-squared	0.81717	S.D. dependent var	39235.34
S.E. of regression	40806.97	Akaike info criterion	24.34638
Sum squared resid	1.17E+10	Schwarz criterion	24.49107
Log likelihood	-129.9051	Hannan-Quinn criter.	24.25517
F-statistic	0.748186	Durbin-Watson stat	1.9232187
Prob(F-statistic)	0.556980	Wald F-statistic	12.75089
Prob(Wald F statistic)	0.003179		

Source: E-views output from CBN bulletin, PWC, NBS reports.

WHITE HETEROSKEDASTICITY TEST:
REGRESSION ON IMPACT OF TAX INCENTIVES ON EMPLOYMENT RATE

F-statistic	6.075134	Probability	0.300977
Obs*R-squared	7.786386	Probability	0.254175

Source: E-views output from CBN bulletin, PWC, NBS various reports

REGRESSION ON IMPACT OF TAX INCENTIVES ON EMPLOYMENT RATE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.018899	1.788342	2.247277	0.0879
INTERESTALLOWANC	-0.040813	0.019173	-2.128671	0.0344
INVESTMENTALLOWA	0.595848	0.866426	0.687708	0.5294
PIONEERSTATUS	0.023952	0.041808	0.572914	0.5974

R-squared	0.507870	Mean dependent var	2.026250
Adjusted R-squared	0.381773	S.D. dependent var	1.264460
S.E. of regression	1.173449	Akaike info criterion	3.464624
Sum squared resid	5.507926	Schwarz criterion	3.504344
Log likelihood	-9.858495	F-statistic	1.735979
Durbin-Watson stat	2.182793	Prob(F-statistic)	0.070889

Source: E-views output from CBN bulletin, PWC, NBS reports

APPENDIX

Year	Investment Allowance	Interest Allowance	Pioneer Status Grant	Employment Rate	RGDP	Income Per Capital
2005	10	40	12	11.9	561931.4	108147
2006	10	40	66	12.3	595821.6	133638
2007	10	70	54	12.7	634251.1	62797.15
2008	9.5	80	23	14.9	67220.6	64773.45
2009	9.5	40	49	19.7	716949.6	67427.29
2010	10	40	58	21.1	775525.7	70856.78
2011	9.5	40	51	22.47	834000.7	46295.92
2012	10	40	58	24.484	886,393.00	35350.01
2013	10	70	62	26.49	891432.11	24404.09
2014	10	40	65	28.51	946865.76	13458.18
2015	10	40	69	30.52	986876.913	2512.27

Source: NBS, CBN Bulletin, FIRS, PWC

UNIT ROOT TEST RESULTS

Unit root test

ADF Test Statistic	-1.732051	1% Critical Value*	-4.4613
		5% Critical Value	-3.2695
		10% Critical Value	-2.7822

*MacKinnon critical values for rejection of hypothesis of a unit root.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(INVESTMENTALLOWA)
Method: Least Squares
Date: 04/06/16 Time: 14:21
Sample(adjusted): 2007 2015
Included observations: 9 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Variable	Coefficient	Std. Error	t-Statistic	Prob.
INVESTMENTALLOWA(-1)	-1.000000	0.577350	-1.732051	0.1340
D(INVESTMENTALLOWA(-1))	2.28E-13	0.408248	5.60E-13	1.0000
C	9.833333	5.678093	1.731802	0.1340
R-squared	0.500000	Mean dependent var		0.000000
Adjusted R-squared	0.333333	S.D. dependent var		0.353553
S.E. of regression	0.288675	Akaike info criterion		0.614172
Sum squared resid	0.500000	Schwarz criterion		0.679914
Log likelihood	0.236226	F-statistic		3.000000
Durbin-Watson stat	2.000000	Prob(F-statistic)		0.125000
	-2.738613	1% Critical Value*		-4.6405
ADF Test Statistic				
		5% Critical Value		-3.3350
		10% Critical Value		-2.8169

*MacKinnon critical values for rejection of hypothesis of a unit root.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(INVESTMENTALLOWA,2)
Method: Least Squares
Date: 04/06/16 Time: 14:23
Sample(adjusted): 2008 2015
Included observations: 8 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INVESTMENTALLOWA(-1))	-2.000000	0.730297	-2.738613	0.0409
D(INVESTMENTALLOWA(-1),2)	0.333333	0.421637	0.790569	0.4650
C	0.000000	0.129099	0.000000	1.0000
R-squared	0.777778	Mean dependent var		0.000000
Adjusted R-squared	0.688889	S.D. dependent var		0.654654
S.E. of regression	0.365148	Akaike info criterion		1.102970
Sum squared resid	0.666667	Schwarz criterion		1.132761
Log likelihood	-1.411882	F-statistic		8.750000
Durbin-Watson stat	1.541667	Prob(F-statistic)		0.023279
ADF Test Statistic	-4.727397	1% Critical Value*		-4.8875
		5% Critical Value		-3.4239
		10% Critical Value		-2.8640

*MacKinnon critical values for rejection of hypothesis of a unit root.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(INVESTMENTALLOWA,3)
Method: Least Squares
Date: 04/06/16 Time: 14:27
Sample(adjusted): 2009 2015
Included observations: 7 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INVESTMENTALLOWA(-1),2)	-2.750000	0.581715	-4.727397	0.0091
D(INVESTMENTALLOWA(-1),3)	0.650000	0.318619	2.040056	0.1109
C	0.071429	0.155470	0.459436	0.6698
R-squared	0.930331	Mean dependent var		0.071429
Adjusted R-squared	0.895496	S.D. dependent var		1.272418
S.E. of regression	0.411335	Akaike info criterion		1.358709
Sum squared resid	0.676786	Schwarz criterion		1.335528
Log likelihood	-1.755482	F-statistic		26.70712
Durbin-Watson stat	2.547889	Prob(F-statistic)		0.004854

ADF Test Statistic	-2.893637	1% Critical Value*	-4.4613
		5% Critical Value	-3.2695
		10% Critical Value	-2.7822

*MacKinnon critical values for rejection of hypothesis of a unit root.

SUMMARY OF FINDINGS

- The results of trend analysis in this study shows that the number of companies that benefited from pioneer status grant was less than 30% in 2008 and more than 60% in 2015. The investment allowance has always been 10% with few fluctuations to 9.5% in 2008, 2009 and 2011. Interest allowance was at the highest value in 2008 at 80% and was mainly 40% most of the years. The RGDP of Nigeria fell sharply in 2008 since then has always experienced marginal increases. Employment rate of Nigeria rose from 12% in 2005 to 32% in 2015. The per capita income of Nigeria was above 120,000 in 2006 but fell below 20,000 in 2015.
- Pioneer status grant and investment allowance were statistically significant at 10% and positively influencing the **RGDP** while interest allowance was significant at 10% and negatively influencing the **RGDP.**
- Pioneer status grant and interest allowance were statistically significant at 10% and negatively influencing the per capita income while investment allowance contributes positively
- Investment allowance and pioneer status grant were significant and positively influenced employment rate where as interest allowance had negatively affects the employment rate

CONCLUSION

The study examined tax incentives and economic development of Nigeria from 2005 to 2015. From the findings it is concluded that tax incentives such as pioneer status grant and investment allowance have a significant role in employment rate and RGDP. Tax incentives (interest allowance) influence the per capita income, RDGP, and Employment rate negatively.

RECOMMENDATION

Based on the above conclusions, the following policy recommendations are:

- Policy objectives should be properly shaped
- An increase in awareness and strengthening of tax incentives mostly pioneer status grant and investment allowance
- The application can go concurrently with other entrepreneurial demand side when the comparative advantage is seen and felt
- Government should review and also put restrictions so as to avoid tax incentive diminishing over time
- The administrative cost associated in operation is a huge waste and has no impact. The cost should be curtailed.
- A government aiming to increase the rate of economic development by enhancing the income per capita of the citizen should be careful and look for other policy measures as tax incentives were found to affect per capita income negatively.

CONTRIBUTIONS TO KNOWLEDGE

- The results of this study have successfully modeled 'TAX INCENTIVES AND ECONOMIC DEVELOPMENT IN NIGERIA' and have fully provided answers to those questions which previous researches have not answered with the models formulated inn this study.
- The study underscores an important guiding principle to tax management and policy formulation in Nigeria as it calls for thorough and meticulous formulation of tax incentive policies to stimulate economic development in the area of the RGDP, Employment Rate and Per Capita Income.

REFERENCES

Adedotun, P. (2001). Reforming Nigeria's Incentives System. Quarterly Journal of Administration, 4: 421 – 426.

Adesola S.M (1995). Income Tax law and Administration in Nigeria, Ile Ife Nigeria University of Ife press Ltd.

Agaolu, Osita (2004). Taxation and Tax Management in Nigeria, Uwani Enugu Meridian Associates.

Agyel, A.K (1990). The Principle of Personal Income Taxation in Nigeria Lagos.

Amadiegwu, N. O. (2008). Taxation an Indispensable Tool for Economic Development. Enugu: Aries Publication.

Anayfo, A. M. O (1996). Public Finance in a Developing Economy: The Nigeria Case. B & F Publication, Unec.

Asher, Mukul (1997). "Reforming The Tax System in Indonesia", pp127-166 in Thirsk.

Ayau, I.A (1996). The Nigerian tax law Ibadan: spectrum law publishing p305.

Azubuike J.U.B (2009). Challenges of tax authorities, tax payers in the management of tax reforms process, Niger account 42(2): 36-42.

Bartik, Timothy J. (1989). ‘Small Business Start-Ups in the United States: Estimates of the Effects of Characteristics of States’, in Southern Economic Journal, volume 55, pages 1004-18.

Bartik, T. (1991). 'Who benefits from state and local economic development policies? Kalamzoo, Michigan: W.E Upjohn institute for employment research.

Bhartia, H.L. (2004). Public Finance. New Delhi. Vikas publishing house PVT Ltd.

Black, Harry. “Achieving Economic Development Success: Tools that Work” ICMA.1991.

Black's law distionary (1990): 6th edMinnosota: West Washington: Brookings.

Blair, John P. (1995). Local Economic Development: Analysis and Practice. Sage Publication.

Bird, Richard M. (1992). Tax policy and economic development Baltimore, Johns Hopkins.

Bird R. M & Oliver O. (1990). taxation in developing Countries 4th ed. Baltimore: Johns Hopkins.

Broadway. R. (1979). Investment incentives, corporate taxation, and efficiency in the allocation of capital. Available: http://www.jstor.org/pss/22320475. [Online] (September 12, 2009).

Broadway, R., Dale C., & Frank F. (1995). "Investment Incentives and the Corporate Tax System in Malaysia", pp.341-374, and "Indirect Taxes and Investment Incentives in Malaysia", pp375-398, in shah.

Bruce, B. (2004), Effectiveness and economic Impact of Tax incentive in SADC regions. Submitted to the SEDC tax subcommittee. United Nations, New York and Geneva (2000), Tax incentives and Foreign Investment: A global survey.

Business dictionary.com 2010.

Dabney, D.Y (1991). ‘Do Enterprise Zone Incentive Affect Business Location Decision’ *Economic Development Quarterly, 5pp* 325-334.

Dotun, S.O. & Sanni O.E. (2009). Corporate Tax Incentives and Economic Growth in Nigeria. Ibadan: University of Ife Press Ltd.

Due, F. (1980). Tax policy and economic development for Africa development London: Hutchinson.

Due F. (1968). Finance, Economics of the Public Sector, Richard D Irwin Inc Illinois p389.

Frydman.R, Gray.C, Hessel &Rapaczynski. A. (1999). When Does Privatization Work? The Impact of Private Ownership and Corporate Performance in Transition Economies. Ideas.uqam.ca. [Online] Available: http://home.cergeei.cz/hanousek/jel_survey/Table%205/Frydman,%20Gray,%20Hessel%20and%20Rapac zynski%20(1999).pdf (July 11, 2011).

Holland & Vann (1996): 'Income Tax Incentives for Investment'. Tax design and drafting, vol2 pg986.

Ibid at p305.

Ibid at p322-326

Kaldor, N. & Hume, S. (2004). Tax Incentives Applications and Development. Journal of Modern African Studies, 2 (2): 1-5.

Longe, F (1997). Modern Economics of West Africa. London Macmillan.

Lebas. M. (1995b). Oui il faut définir la performance. [Online] Available : www.compta-online.com/revue-francaise-comptabilite-t260 (June 2,2008). Mihir A. Desai, C. Fritz Foley & James R. Hines Jr. (2006) "Taxation and Multinational Activity: New Evidence, New Interpretations. [Online] Available: http://www.bea.gov/scb/pdf/2006/02february/0206_mnc.pdf (October 25, 2008).

Musgrave R.A. & P.B. Musgrave (2004). Public finance in theory and practice. New Delhi. Tata McGraw Hill.

NEPC (2001). Export Incentives in NIGERIA. Federal government printing press, Lagos Nigeria.

Nina N. Lester (2005). Assessing Economic Development Incentives: Central Texas City Manager Perspectives.

Nworji (2004) Ilaw/CA/E.

OECD (1998). Tax Sparing: Reconsideration. Paris.

OECD (2000). Framework for a collective Memorandum of Understanding on Eliminating Harmful Tax Practices Paris.

OECD (2001). The Oecd's Project on Harmful Tax Practice: the 2001 progress report. Centre for tax policy and administration. Paris.

OECD (2001). Corporate tax incentives for foreign direct investment, oecd tax policy studies No.4 Paris.

Ogbonna G.N & Appah Ebimobowei (2011). The Impact of Tax Reforms and Economic Growth of Nigeria: A Time Series Analysis.

Ojo, S. (2009). Fundamental Principles of Nigerian Tax. 2nd Ed. Sabribatax publications, Lagos.

Ola S.C (1991). Nigerian taxation, Bedfordshire: graham.

Onah, J (200c). A Model of Export Promotion for Nigeria.

Onyeonoru I. (2003). 'Globalization and Industrial performance in Nigeria', Africa development, vol.xxviii no 3&4 pp36-66.

Opara B.C and Opara N.C (2010). Analysis of Govt Policies and Nigeria firms export marketing strategies. International bulletin of business administration.

Philips A. (2006). Significance of Nigerian income tax relief incentives. The Nigerian Journal of Economics and Public Finance.

Sandmo A. (1974). Investment incentives and the corporate income tax. [Online].

Stiglitz J.E. Stiglitz. (1985). Credit markets and the control of capital. [Online] Available: http://www.sciencedirect.com (April 08, 2010).

Stone A. (2008). De l'efficacité des incitations fiscales pour promouvoir l'investissement. [Online] Available: http://www.oecd.org/dataoecd/1/40/40560300.pdf (July 17, 2009).

Strulik H. (2003). Capital tax reform, corporate finance and economic growth and welfare. [Online] Available: http://econpapers.repec.org/article/eeedyncon/v_3a28_3ay_3a2003_3ai_3a3_3ap_3a595 615.htm (January 05, 2011).

Soyode, L. & kajola, S. (2006). Taxation: Principles and Practice in Nigeria 1st edsolicin press Ibadan.