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Effect of Tax Incentives on Economic Growth in Nigeria

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Abstract

Objectives: This study examined the effect of tax incentives on economic growth in Nigeria from 2011 to 2023. Specifically, it focused on the impact of annual allowance, investment allowance, and rural technological allowance on Gross Domestic Product (GDP).

Methodology: The study used secondary data sourced from the Central Bank of Nigeria's Statistical Bulletin. An ex-post facto research design was adopted, and multiple regression analysis, employing the Ordinary Least Squares (OLS) method, was used to analyze the data.

Findings: The analysis revealed that annual allowance had a positive and significant effect on GDP, with a t-cal of 5.509105 and a p-value of 0.0004, suggesting that annual allowance contributes positively to Nigeria's economic growth. Investment allowance showed a negative and non-significant effect on GDP, with a t-cal of -1.135036 and a p-value of 0.2857, indicating that it does not significantly impact GDP. Rural technological allowance exhibited a positive but non-significant effect on GDP, with a t-cal of 0.750729 and a p-value of 0.4720, implying it does not have a meaningful impact on GDP.

Recommendations: The government should focus on the proper management of annual allowance to improve GDP, as it has a significant positive effect. The government should not prioritize changes to investment allowance for GDP growth, since it has no significant impact. Similarly, the government should not focus on altering rural technological allowance to improve GDP, as its effect is not significant.

Keywords: *Tax Incentives, GDP, Investment Allowance, Annual Allowance, Rural Technological Allowance.*

1.0 INTRODUCTION

1.1 Background of the Study

The Oxford Advance Learners Dictionary defines incentives as reduction in the effective tax burden on the favored activity as against that currently imposed upon it in the hope that the reduction in government revenue (due to tax forgone) will be compensated by an expected expansion of the national economy and ultimately by resulting increases in total revenue from such broadened economic basis. According to Ukaoha (2023) Tax Incentive Is a reduction In

Taxes That Encourages Companies Or People to do something that will help the Country's Economy such as Initial allowance, Annual Allowance, Investment Allowance and Rural Technological Allowance. It is an aspect of a country's tax code designed to incentivize or encourage a particular economic activity. Tax incentives can have both positive and negative impacts on an economy.

A tax incentive is an aspect of a government's taxation policy designed to incentivize or encourage a particular economic activity by reducing tax payments. Tax incentives can have both positive and negative impacts on an economy. Among the positive benefits, if implemented and designed properly, tax incentives can attract investment to a country. Other benefits of tax incentives include increased employment, higher number of capital transfers, research and technology development, and also improvement to less developed areas Ukpi (2022). Though it is difficult to estimate the effects of tax incentives, they can, if done properly, raise the overall economic welfare through increasing economic growth and government tax revenue (after the expiration of the tax holiday incentive period). However, tax incentive can cause negative effects on a government's financial condition among other negative effects, if they are not properly designed and implemented. According to Fletcher (2022), tax incentives are those special exclusions, exemptions, or deductions that provide special credits, preferential tax rates or deferral of tax liability. Tax incentives can take the form of tax holidays, investment allowances and tax credits, accelerated depreciation, special zones, investment subsidies, tax exemptions, reduction in tax rates and indirect tax incentives. Hence, tax incentives can be defined as fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country.

Agundu (2022) opined that tax incentives are widely used by governments around the world to attract private investment in preferred industries, including tourism. Incentives are often granted to offset actual or perceived differences in the cost of doing business in different political jurisdictions whether the cost differences arise from tax differences or from differences in transportation, labour, or other costs (Peters & Kiabel, 2021). This acts as a catalyst for improved performance (Philips, 2020). Incentives raise the return to capital thereby making investment in a location more attractive and in turn increase profitability of the firm

Tax as an instrument of fiscal policy is seen to be used by the government to encourage certain sectors or areas of the economy, which are construed to essential for economic growth and development. The various ways through which these economic activities are stimulated are referred to as tax incentives. This involves a situation where government charges less or no tax in order to encourage investments and activities in those areas which help to improve the production capabilities, activate economic growth as well as allocation of resources in a more socially desirable manner. Tax incentive in a nutshell, is the use of government spending and tax policies to influence the level of national income. Taxation itself is the process or means by which communities or group are made to contribute part of their income

for the purpose of administering the society. Tax incentives enhance the emergence of new enterprises or re-activation of existing ones, thereby reducing profit tax which will have being earn from them, but ultimately encouraging production to curb the menace of unemployment, youth restiveness and over-dependence on the government for a means of livelihood. This research therefore intends to evaluate the impact of tax incentives on economic development in Nigeria.

1.2 Statement of Problem

Tax policies and the structure of tax incentives in Nigeria is resulting to multiple taxation on businesses, forcing most businesses to run into losses or collapse. Businesses make numerous decisions daily. Their inability to make the right decisions can result in their failure. Since taxation is a liability businesses have to incur, businesses are faced with the option of managing their tax liabilities in such a way that their tax burden is reduced. Their inability to effectively manage taxation brings about negative effects on the financing, investment and dividend decisions of the business.

There is a general lack of consensus among scholars on the contribution of tax incentives to the economic growth of nations. For instance, whereas Ariyo (2021) in his study on productivity of the Nigerian tax system documented a satisfactory level of productivity of the tax system before the oil boom, Festus and Samuel (2021) established that the role of tax revenue in promoting economic activities and growth is not felt in Nigeria. The two studies reflect that the oil boom has not improved the economic state of the country since before the boom, there was a level satisfactory and after the boom, the growth of economic activities deteriorated. The complex nature of tax laws has made it difficult for tax payers to comprehend the pattern of tax administration in Nigeria.

The tax laws are codified in language that sometimes is very difficult for even the educated individuals in the society to understand. It is therefore, not easy for the ordinary tax payers and sometimes even the learned officials to understand due to the problematic nature of our laws. Lack of clarity in the constitution and the National Tax policy has been a major problem in the Nigerian Tax system. Fiscal policy or budget has become an important instrument in promoting growth and development of a nation's economy and taxation is an important part of fiscal policy which can be used effectively by government in developing its economy. Most of the studies testing empirically the relationship between taxation and economic growth have found a negative impact on the aggregate tax on economic growth example; Bonu and Pedro(2009); Saima etal.(2014) showed negative relationship. But there are some articles that do not find such results. Instead it recorded positive relationship between taxation and economic growth like Ogbonna and Appah(2012), Yaya(2013), Some studies suggested no significant relationship between these two major variables, taxation and economic growth like Essoh(2011). While some studies applied the single ordinary least square estimating technique, others utilized co-integration tests, unit root tests, and descriptive techniques. In view of these disparate findings, this study seeks to further investigate both the short run

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dynamics and evaluate the long run relationship between tax incentives and economic growth in Nigeria. The study focuses on the impact of annual allowance, investment A allowance, capital allowances, on Nigeria's Economic growth between 2014 and 2022. The choice of the study period provides an opportunity for a comprehensive assessment of the effect of tax incentive on the Nigerian Economy.

1.3 Objectives of the Study

The general objective of this study is to ascertain the effect of tax incentives on economic growth in Nigeria.

The specific objectives are to:

i. Determine the effect of annual allowance on Gross Domestic product in Nigeria

ii. Ascertain the effect of investment Allowance on Gross Domestic product in Nigeria

iii. Evaluate the effect of Rural Technological Allowance on Gross Domestic product in Nigeria

1.4 Research Questions

The following questions are stated for this study:

1. What is the effect of annual Allowance on Gross Domestic product in Nigeria?
2. What is the effect of Investment Allowance on Gross Domestic product in Nigeria?
3. To what extent does Rural Technological Allowance on Gross Domestic product in Nigeria?

1.5 Statement of Hypotheses

The following Null hypotheses will be formulated for the study:

1. Annual allowance has no significant and positive effect on Gross Domestic product in Nigeria
2. Investment Allowance has no significant and positive effect on Gross Domestic product in Nigeria
3. Rural Technological Allowance has no significant and positive effect on Gross Domestic product in Nigeria

1.6 Significance of the Study

The findings of the study will be of immense significance to the following groups of people:

The Researcher

The study will aid the researcher in partially fulfilling the requirements for the award of Master Degree (M.Sc.) in Accountancy Department in Enugu State University of Science and Technology (ESUT).

Diverse Sectors of Nigeria Economy

The findings of the study will enlighten diverse sectors of Nigeria economy on the essence of tax incentive and the need to pay this incentive as at when due as timely and consistent payment of taxes might attract tax incentives from the government.

Policy Makers

The findings would be of importance to policy makers as they design policies aimed at promoting tax revenue via effective tax system which invariably enhances economic growth and development. Policy makers especially the Federal Inland Revenue Service will use the outcome of the study to gauge its performance and determine the level of input tax incentive would make to impact positively to the growth of Nigerian economy.

Students and Other Researchers

Students, academicians and other scholars who wish to undertake further research on Tax Incentives will find the findings arising from this study to be of great value as it will be added to the existing literature.

Managers of Business Organizations

The managers and consultants will find the report of this research useful as it will provide information so dearly needed to take rightful decisions concerning their Tax Incentives. The study will provide managers with tools for measuring the cost implication of their Tax Incentives related decisions. The information in this research will help managers and consultants in formulating policies on Tax Incentives management.

1.7 Scope of the Study

This study will cover effect of Tax Incentives on Economic Growth of Nigeria from 2011 to 2023. The variables covered in this study are Annual Allowance, Investment Allowance and Rural Technological Allowance as proxies of tax incentive while gross domestic product was used as the proxy of economic growth. These variables was selected because there are the most common Tax incentives that have direct Link to the economic Growth in Nigeria.

2.0 REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Tax Incentives

Ifueko (2019) describes tax incentive as special arrangement in tax laws to: stimulate growth in specific areas, attract, retain or increase investment in a particular sector, assist companies or individuals carrying on identified activities. Tax incentives are monetary measures that are utilized to draw in home or oversee investments to certain financial exercises or specific regions in a nation. Tax incentives may take different structures. Pertinent tax incentives include, exemption from paying tax for some few years after start up, allowances for investments related expenses, tax credits, accelerated devaluation policies, unique zones,

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subsidized investments, tax exemptions, decreased rates of taxation and indirect tax incentives (Easson & Zolit, 2021). Tax is a compulsory levy imposed on a subject (individual or corporate) or upon his property, income and/or consumption by the government in order to generate revenue to provide security, social amenities and create conditions for the economic well-being of the society (Appah,2020; Appah and Oyandonghan,2021).

Anyanfo (2021) and Anyanwu (2021) further buttressed that tax are imposed to regulate the production of certain goods and services, protection of infant industries, control business and curb inflation, reduce income inequalities etc. Danbatta (2015), defined tax as a "compulsory contribution made by individuals and organizations toward defraying the expenditure of the government". Tax can either be direct or indirect: indirect taxes are imposed on the income or consumption of a taxpayer who bear the burden of taxation. Indirect taxes on the other hand, are imposed on goods and services on which the taxpayer does not bear the burden of taxation, but can transfer it to a final consumer who bears the burden, in form of price. The Oxford Advance Learners Dictionary defines incentives as reduction in the effective tax burden on the favoured activity as against that currently imposed upon it in the hope that the reduction in government revenue (due to tax for gone) will be compensated by an expected expansion of the national economy and ultimately by resulting increases in total revenue from such broadened economic basis. Incentive refers to anything that encourages one to do something. Hence, a tax incentive is a generic term for all the measures adopted by the government to deliberately manipulate the tax system to the advantage of 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 to act in some desirable ways.

The desirable ways may be to invest more, employ more, export more, sell more, consume less, import less and pollute less and soon (Sanni,2020). Empirical studies like those of (Sanni, 2021) and (Adedotun2022) have reported different views on tax incentives as a catalyst for economic growth and development. Taxation has been used to encourage savings, investment and re-distribute income.

Also priority sectors like Export Processing Zone (EPZ), solid minerals; oil and gas have been encouraged. The manufacturing sectors have received the right doses of tax incentives. Government also uses taxation to stimulate the economy by using tax policy to influence purchasing power and production costs (Ariwodola,2020). Countries have introduced investment incentives for varying reasons; in some case, the incentives maybe seen as a counter weight to the investment disincentives inherent in the general tax system (Holland and Vann, 2019). UNCTAD defines tax incentives as any incentives that reduce the tax burden of any party in order to induce them to invest in particular projects or sectors. They are exceptions to the general tax regime and may include, reduced tax rates on profits, tax holidays, accounting rules that allow accelerated depreciation and loss carry forwards for tax purposes, and reduced tariffs on imported equipment, components, and raw materials, or

increased tariffs to protect the domestic market. Incentive refers to anything that encourages one to do something.

2.1.2 Types of Tax Incentives

Basically, tax incentives are designed to encourage investment in certain preferred sectors of the economy and sometimes they are geared towards attracting in-flow of foreign exchange to compliment domestic suppliers for rapid economic development. Generally, these incentives are usually in the areas of manufacturing, export, agriculture and solid mineral, VAT, individuals and other areas. These incentives include: 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. Tax incentives are granted to ease off the burden of tax on tax payers, Tax evasion and avoidance encourage investors, which in turn will enhance economic growth and development. There are quite a handful of tax incentives available to investors and businesses in Nigeria. The essence of these measures are obviously to stimulate investors (corporate and individual) to invest more, produce more, employ more, export more, sell more, consume less, import less and pollute less. Wikipedia (2008) enumerated several tax incentives and benefits, few among which are:

2.1.2.1 Capital Allowances for Agricultural Companies

Wikipedia (2018), companies in their agro-allied business do not have their capital allowance restricted, it is granted in full that is 100%. The essence of these tax incentives is to stimulate agro-allied investors to invest more in the sector. This tax incentive policy has therefore been sometimes used by the government of both developed and developing countries at one point or: another to change the level, timing, type, and configuration of investment expenditure in agro-allied businesses. It is not surprising that, in Nigeria, depreciation and capital allowances and corporate income tax have changed repeatedly and investment tax credit (ITC) has been 'introduced in an effort to stimulate investment. Tax provision can give rise to both incentives and disincentives effect.

In Nigeria, Wikipedia (2018), there has been a mixture of tax incentives policy having incentives and disincentives effects on corporate investment the Investment allowance(CIT) rate 40% in 1961, 45% in 1996 and 50% in 1978 / 1979 year of assessment. This was later reduced to 45% in 1980, 35% from 1993 to 1995 and 30% from 1996 to date.

2.1.2.2 Rural Investment Allowance

According to Adelegan (2018), rural investment allowance is granted to manufacturing companies that are sited at 20 kilometers from the provision of electricity, water, tarred road or telephone for the purpose of their tae- and have provided the facilities that the government has failed to provide. The company can claim the rural investment allowance in addition to the initial allowance only in the capital expenditure is incurred. Where there is no telephone, tarred road, water and electricity, a company can claim 5%, 15%, 30% and 50% of capital

expenditure on agricultural assets in use respectively. However; where there is no facility at all a manufacturing firm can claim 100% of expenditure allowance on assets use.

2.1.2.3 Investment Allowance

Wikipedia (2008), a general investment allowance of 10% of the cost incurred on plant and equipment has been allowable to all companies from 1996 to date. Since 19%, there has been an initial allowance of 95% of the cost incurred on plants for agricultural production, while a. 50% Initial allowance and 25% annual allowance has been granted for plant purchase for any other activity. Industrial plant and machinery bought in replacement of old ones are granted a once and for all 95% capital allowance in the first year with 5% retention as the book value until the final disposal of the assets.

Adelegan (2008), an investment allowance of 150/0 is granted for such replacement as well. This in addition to roll - over - relief granted under the capital gains tax (CGT). There is a provision for roll- over - relief if the proceeds from the sale of fixed assets are utilized within a given period in buying similar asset for use by the same tax payer. Investment tax relief is also granted under the same conditions as under the rural investment allowance, excepts that e relief can be claimed for only 3years and is not available to a company which has been granted pioneer status.

2.1.3 Benefit of Tax Incentives

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

1. It is a convenient tool to attract industries that will help to solve unemployment problem; as it is considered neural between capital intensive and labour intensive types of businesses, especially in a country with unemployment problem like Nigeria.
2. It improves the commercial profitability of investment by making available tax-free income within the tax holiday period, which are re-invested.
3. It also serves to establish a favorable investment climate and provide the desire assurance against confiscation and against non-convertibility different problems like currency restrictions, instability of government and the risk that foreign capital investment may be expropriated.
4. Tax incentives helps in drawing attention to the profit prospects of investing in certain types of business that a country seeks to promote.
5. It also increase the profit prospects of a new venture and enables a firm to recover its capital costs more faster so that the risk of investment are reduced considerably.

2.1.4 Criticism of Tax Incentives

1. It has been criticized on the ground that most tax incentive laws are new and empirical studies of their operation are so scanty. Thus, it is not possible to present a definite

appraisal of their contribution to new investment and it is not possible to measure the cost of tax incentives against the benefits received.

2. It is criticise as being ineffective and insufficient stimulus to investment especially in developing countries as it complicates the regular company or busniess tax legislation and tax shelters made available to tax payer through all sort of means is a veritable source of tax avoidance and/or evation for "smart "tax payer who may take the advantage of the yawning loopholes that may result there from.
3. It has been criticized on the ground that if a tax system believes in the sanctity of endless provision of shelters, there will be no end to the erosion of the statutory tax base of such a tax system. According to Seyi Ojo this is made worst by the government scarifying its revenue base on the altar of political gains.
4. It has been criticized that the resultant proliferation of tax holiday and the keen composition among developing countries especially in offering tax incentives for new incentives has to a great extent diluted its promotional value.

2.1.6 Economic Growth

Economic growth refers to an increase in the capacity of the economy to produce goods and services compared from one period to another. It can be measured in nominal terms, where it is not adjusted for inflation, or in real terms, where it is adjusted for inflation. The growth of an economy is thought of not only as an increase in productive capacity but also as an improvement in the quality of life to the people of that economy and it is associated with technological improvements. Gross Domestic Product (GDP) refers to the monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory and is measured annually. GDP is commonly used as an economic indicator of the overall health of an economy, aswell as to measure the standards of living in a country (Lipsey & Chrystal, 2017).

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2.2 Theoretical Review

2.2.1 Ibn Khaldun’s Theory of Taxation

Khaldun theory of taxation was develop by Ibn Khaldun in 1986. The theory was considered an original and one of his most important contributions to economic thought. According to Khaldun “to perform its responsibilities towards the citizens and the economy, every country needs resources which have to be raised by the government through different means, the most important being the taxes". Khaldun believes that a government should impose low taxes. This stimulates business activities and thus creates more wealth, which makes it possible to collect more taxes. However, rulers tend to increase the tax to benefit themselves. Ibn Khaldun believes that tax rates and tax revenues are two distinct things. A high tax rate is no

guarantee that it will maximize tax revenues and collections. Because higher tax rates tend to discourage work effort and encourage tax avoidance and even tax evasion, the tax base will shrink as the rates increases [5]. Taxes also guide the economic behaviour of individuals who can choose work to less if their after-tax income is low which means less saving and investment.

2.2.2 The Laffer Curve Theory of Taxation

The Laffer Curve is a theory developed by an economist Arthur Laffer in 1974 to show the relationship between tax rates and the amount of tax revenue collected by governments. Laffer's argument that sometimes-cutting tax rates can increase total tax revenue. The Laffer curve is based on the assumption that in the case of the spendable income increase after-tax, investors make much more investment. Laffer posits [2] that tax rate cuts can increase revenues by improving tax collection and compliance.

2.2.3 Benefit Received Theory: it is that was developed by Lea Uradu in 1998. This theory proceeds on the assumption that there is basically an exchange relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia,2009). Anyanfo (1996) in (Ogbonna and Ebimobowei, 2012) argues that taxes should be allocated on the basis of benefits received from government expenditure.

2.3 Empirical Review

2.3.1 Annual Allowance and Gross Domestic Product

Edame and Okoi (2015) examines the impact Annual Allowance and economic growth in Nigeria from 1980-2010. The ordinary least square method of multiple regression analysis was used to analyze the data. The annual data were sourced from the central bank of Nigeria statistical bulletin and NBS. The result of the analysis showed in conformity to our prior expectation because the parameter estimates of corporate income tax (CIT) and personal income tax (PIT) appears with negative signs, this means that an inverse relationship exist between annual allowance and investment. Finally, the result therefore showed that taxation is negatively related to the level of investment and the output of goods and services (GDP) and is positively related to government expenditure in Nigeria.

Uwaoma and Ordu (2016) examined the impact of Annual Allowance on economic development in Nigeria that is seen interms of industrial growth in the nation with evidence from years 2004 to 2014. The population of this study includes 51 respondents drawn from taxpayers, management and members of staff of some selected manufacturing companies in the South-South geo-political zone of Nigeria and Federal Inland Revenue Services. Using probability method, a sample size of 45 respondents was used whilst Thirty (30) companies were studied. Spearman's Rank Correlation Coefficient (rho) statistical tool was used in testing the hypothesis using Statistical Package for Social Sciences software (SPSS). The findings reveal that sufficient tax incentives enhances industrial growth and economy whilst

inconclusion,

Onakoya and Afintinni (2017) investigated the co integration relationship between Annual Allowance and Economic growth in Nigeria from 2013 to 2016. The Vector Error correction model was employed to confirm the long run relationship and determine the short run dynamics between the variables. Findings indicated that a long run (but no short run) relationship existed between taxation and economic growth in Nigeria. The result also, revealed a significant positive relationship at 5% level of significance between Petroleum profit tax, Investment allowanceand economic growth, but a negative relationship between economic growth and customs and Excise Duties. However, the tax components are jointly insignificant in impacting the Nigerian economic growth.

2.3.2 Investment Allowance and Gross Domestic Product

Onakoya, Afintinni and Ogundajo (2018) investigated the impact of Investment Allowance on economic growth in Africa from 2014 to 2018. The appropriate fixed and random effect test was employed to determine the fitness of the model using the Hausman test. Findings indicated that tax revenue is positively related to GDP and promotes Economic Growth in Africa. It was significant at 5% level. The study concluded that tax revenue has a significant positive relationship with Gross Domestic Product.

Saidu (2019) examining the impact of Investment Allowance on economic growth and industrial development of companies in Nigeria. The technique used for data analyses was chi-square test and statistical package for social sciences (SPSS.) Findings were made that there are significant relationships between investment allowance and economic growth which was indicated by responses of respondents and test of hypothesis using the SPSS. Findings were also made that tax incentives are found to be available to qualified companies who possess those criteria to qualify for those incentives.

Taufik and Imbarine (2020) applied the square root transformation of ordinary least squared (OLS) and reports positive effect of Investment Allowance on growth in an open trade environment.

2.2.3 Rural Technological Allowance and Gross Domestic

Tanzi (2021) also finds that Rural Technological Allowance has high positive significance to the change in GDP, in which four of the components of tax revenue (GST, IPCT, ITT, and TTR). However, the impacts of tax revenue were not consistent for all countries in the four level of income.

Margareta and Åsa (2023) which deployed the fixed effects regression on a panel data of 25 OECD countries from 2010 to 2021 reports that both Rural Technological Allowance of corporate and personal income negatively influence economic growth. The correlation between corporate income taxation and economic growth is more robust.

2.4 Summary of Empirical Review

Table 1: Summary of Empirical Review

S/N	Authors	Year	Place	Titile	Methodology	Findings
1	Edame and Okoi	2015	Nigeria	To examine the effect of annual allowance revenue on economic growth	Regression analysis	It was revealed that fiscal analysis in Nigeria is hampered by the lack of reliable and comprehensive data on the financial operations of all tiers of government.
2	Uwaoma and Ordu	2016	Nigeria	To examine the effect of annual allowance planning on performance	Cross sectional method of analysis	The study reported that tightening of the tax system is positively associated with higher market performance of firms.
3	Onakoya and Afintinni	(2017)	Nigeria	To determine the effect of annual allowance economic growth of tax changes in OECD countries	Unit root test and ordinary least square	It was shown that while the shares of annual allowance have responded positively to economic growth, shares of the payroll and goods and services taxes have shown a relative decline.
4	Onakoya, Afintinni and Ogundajo	(2018)	Nigeria	To determine the impact of investment allowance revenue on economic growth	Regression analysis	The study found Some revenue yielding items on the exclusive-legislative list in part I of the 1999 constitution should be reassigned to states.
5	Margareta and Åsa	(2023)	Nigerian	To ascertain the relationship between Rural Technological Allowance and Nigerian economic development	Regression analysis	The study found out that there is an efficient and Rural Technological Allowance administration results in increased revenue yield

Source: Author's Compilation, 2024

2.5 Gap in Literature

This study is set to fill diverse gaps left by authors whose works were reviewed empirically by studying Annual Allowance, Investment Allowance and Rural Technological Allowance for the duration 2011 to 2023. For instance, most of the authors reviewed empirically failed to use ordinary least regression model which will be use in this study to arrive at a better result thereby filling the gaps left by these authors. The use of ordinary least regression model aids in addressing the problem of autocorrelation which is prevalent in time series data analysis. And also bring the study to the current year.

3.0 METHODOLOGY

3.1 Research Design

The study adopted *ex-post facto* research design. The choice of the *ex-post facto* design is because the research relied on already recorded events, and researchers do not have control over the relevant dependent and independent variables they are studying with a view to manipulating them (Onwumere, 2020).

3.2 Area of Study

The study on the effect of Tax Incentives on Economic Growth in Nigeria was conducted in Nigeria.

3.3 Sources of Data

This study made use of secondary data covering a period of 13 years i.e. 2011 – 2023 from Central Bank of Nigeria Statistical Bulletin.

3.4 Model Specification

The following model was used to evaluate the study:

$GDP = F (AA, IA, RTA)$ …… (1)

Where:

GDP = Gross Domestic Product (it is used as a proxy for economic growth)

AA = Annual Allowance

IV = Investment Allowance

RTA = Rural Technological Allowance

In a linear regression form, it will become:

$GDP = \beta o + \beta_1 AA + \beta_2 IA + \beta_3 RTA + \mu$ …… (2)

Where

βo = Constant Term

β_1 = Coefficient of Annual Allowance

β_2 = Coefficient of Investment Allowance

β_3 = Coefficient of Rural Technological Allowance

μ = Error Term

3.5 Description of Research Variables

The research work is describing as follows:

Dependent Variable:

Gross Domestic Product:

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Independent Variables

Annual Allowance

Annual allowance is a time of tax incentive given to a tax payer on yearly basis for incurring Qualifying Capital Expenditure

Investment Allowance:

Investment allowance is type tax incentive given to a tax payer who is into Agro- Business and uses Plant and Equipment for His business

Rural Technological Allowance

Rural Technological Allowance is a type of tax incentives that is given to those tax payers who are located in an area where they don't have access to social amenities such good road, water and electricity etc.

3.6 Method of Data Analysis

Data covering a period of 9 years are analyzed using descriptive statistics and unit root test as preliminary test to describe the variables under study while ordinary least square is used for the data analysis.

3.7 Decision Rule

Reject null (H_O) if the t-statistics is greater than 2.0 and the probability value is less than 0.05 (5%), otherwise accept null hypothesis.

4.0 PRESENTATION AND ANALYSIS OF DATA

4.1 Data Presentation

This section comprises of the data presentation, estimation and results of the empirical investigation carried out. It also addresses the relationship between each of the types of tax incentives: Annual allowance, Rural technological allowance and Rural technological

allowance (RTA) and gross domestic product(GDP). Table 1 shows the data that were used in the analysis in this study.

Table 1: Values for AA, IA, RTA and GDP

YR	AA	IA	RTA	GDP
2011	565.70	4,844.59	3,191.94	415
2012	785.10	7,303.67	5,396.09	459
2013	677.54	11,116.85	8,878.97	509
2014	1,264.60	10,654.75	8,025.97	568
2015	1,336.00	9,759.79	6,809.23	481
2016	1,652.65	10,068.85	6,793.82	405
2017	1,907.58	6,912.50	3,830.10	375
2018	2,237.88	5,616.40	2,693.90	397
2019	2,628.78	4,482.00	4,109.80	448
2020	2,950.56	9,551.80	5,545.80	486
2021	3,275.03	10,262.30	5,536.66	543
2022	3,082.41	9,303.2	4,732.5	573
2023	4,922.50	9,6782.00	31237.00	615

Source: CBN Statistical Bulletins of various years

Table 1 shows the data comprising of Annual allowance, company income tax, rural technological allowance and gross domestic product. The data were collected from 2011 to 2023

Table 4.2.2 – Descriptive Statistics of the Variables in Industry Level Analysis

	GDP	AA	IA	RTA
Mean	179.7485	1945.102	15355.52	7444.752
Median	162.5000	1907.580	9551.800	5536.660
Maximum	615000	3275.030	96782.00	31237.00
Minimum	375000	565.7000	4844.590	2693.900
Std. Dev.	62.60923	972.8676	24545.66	7376.416
Skewness	0.781042	-0.063130	3.138554	2.843913

Kurtosis	2.569224	1.545319	10.94311	9.808663
Jarque-Bera	1.422241	1.154855	55.51819	42.63417
Probability	0.491094	0.561341	0.000000	0.000000
Sum	2336.730	25286.33	199621.7	96781.78
Sum Sq. Dev.	47038.98	11357657	7.23E+09	6.53E+08
Observations	13	13	13	13

Source: E-view 10.0 software 2024

Table **4.2.2.** contains the description of the variables using normality test which comprises of Skewness, Kurtosis and Jarque-Bera Statistics. The table shows that GDP, IA and RTA variables are positively skewed while the variables of AA is negatively skewed. The Value of skewness of AA -0.063130 is less than one which means that the variable is abnormally distributed while the values of skewness of GDP 0.781042 is approximately one; this suggests that the data variable is normally distributed, also the values of skewness of IA 3.138554 and RTA 2.843913 are more than one, this suggests that the data variable are abnormally distributed, The kurtosis of IA 10.94311 and RTA 9.808663 are greater than 3 which means it is leptokurtic that means it is not normally distributed, the kurtosis values of AA 1.545319 is less than three which means that they are platykurtic that is they are not normally distributed also the kurtosis value of GDP is approximately 3 which means that it is normally distributed . The table also showed that the Jarque-Bera Statistics of the GDP and AA variables is less greater than 2.0 which means it is not normally distributed while Jarque-Bera Statistics of IA and RTA is greater than 2.0 which means that they are normally distributed. The probability values of GDP 0.491094 and AA 0.561341 are not normally distributed because they are more than 0.05 (5%). While the probability values of IA and RTA is normally distributed because their values are less 0.05 (5%).

Table 4.2.3: Regression Analysis Result of the Variables in Industry Level Analysis

Dependent Variable: GDP

Method: Least Squares

Date: 20/01/24 Time: 04:11

Sample: 2011 2023

Included observations: 13

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
AA	0.064477	0.011704	5.509105	0.0004
IA	-0.002847	0.002508	-1.135036	0.2857
RTA	0.006099	0.008124	0.750729	0.4720
C	52.64201	39.93806	1.318091	0.2200

R-squared	0.803776	Mean dependent var	179.7485
Adjusted R-squared	0.738368	S.D. dependent var	62.60923
S.E. of regression	32.02461	Akaike info criterion	10.01855
Sum squared resid	9230.179	Schwarz criterion	10.19238
Log likelihood	-61.12055	Hannan-Quinn criter.	9.982816
F-statistic	12.28865	Durbin-Watson stat	2.346153
Prob(F-statistic)	0.001556		

Source: E-view 10.0 software

Interpretation of Regression Coefficient Result

Table above indicates that a unit change in AA, IA and RTA will increase gross domestic product by 0.064477, -0.002847 and 0.006099 respectively. This implies that Annual allowance and rural technological allowance have a positive influence on gross domestic product because their coefficient values show positive while Investment allowance has a negative influence on gross domestic product because the coefficient value shows negative. The table also depicts that AA is positive and statistically significant effect on Gross domestic product of Nigeria economy under study because the statistic value (5.509105) is more than 2.0 and Investment allowance is negative and statistically non-significant effect on gross domestic product of Nigeria economy under Study because the statistic (-1.135036) is less than 2.0, also RTA is positive and statistically non-significant because the statistic is less than 2.

Interpretation of Durbin Watson- Statistic

The Durbin Watson statistics from 0 to less than 2 indicate positive autocorrelation and values from 2 to 4 indicate negative autocorrelation. A value 2.0 indicates that there is no autocorrelation. Therefore, in this study the Durbin Watson statistics shows 2.346153 which

means that there is negative autocorrelation because it is more than 2.0. The result indicates the presence of positive serial correlation in the time series data extracted from the annual report from CBN statistical bulletin.

Coefficient of Determination (R^2)

The R-squared 0.803776, The R^2 reveals that about 80% of the variations in Gross domestic product could be explained by Annual allowance, Investment allowance and value added tax while about 20% could be explained by the variables not considered in this study and the error term.

Interpretation of F-Statistic

The P-value of F-Statistic is 12.28865, this indicates that the model used to carry out the research analysis is not well fitted and when the variables are combined together they have a significant effect on gross domestic product.

4.3 Test of Hypotheses

Decision Rule: Reject H0 if P-value is less than the A-value of 0.05

1. **Hypotheses One:** Annual allowance does not have significant effect on gross domestic product under study in Nigeria.

   Decision: The P-Value of 0.0004 is less than the P-Value of 0.05(5%); hypothesis one is therefore rejected in connection to Annual allowance. This implies that Annual allowance has a positive and significant effect on gross domestic product of Nigeria economy under study.

2. **Hypotheses Two:** The hypothesis states that Investment allowance does not have significant effect on gross domestic product of Nigeria economy.

   Decision: The P-Value of 0.2857 is greater than the P-Value of 0.05(5%); hypothesis two is therefore rejected in connection to company income tax. This implies that Investment allowance has a negative and non-significant effect on gross domestic of Nigeria economy under study.

3. **Hypotheses Three:** The hypothesis states that rural technological allowance does not have significant effect on gross domestic product of Nigeria economy

   Decision: The P-Value of 0.4720 is greater than the P-Value of 0.05(5%); hypothesis three is therefore accepted in connection to rural technological allowance. This implies that rural technological allowance has a positive and non-significant effect on gross domestic product of Nigeria economy.

4.4 Discussion of Results

Hypotheses One: The hypotheses state that Annual allowance does not have significant effect on gross domestic product of Nigeria economy. From the regression analysis in table,

Annual allowance was shown to have positive and significant effect on gross domestic product of Nigeria economy. This discovery is in agreement with the finding of ogba and agigy (2018) who studied the impact of Annual allowance on the economic growth of Nigeria economy. The authors found out that a statistical relationship does exist between Annual allowance and economic growth. This implies that Annual allowance by Nigeria promote their performance, indicating that null hypothesis was rejected.

Hypotheses Two: The hypotheses state that Investment allowance does not have significant effect on gross domestic product of Nigeria economy. The result of the analysis revealed that Investment allowance has a negative and non-significant effect to gross domestic of Nigeria economy. This finding is in agreement with the finding of mgboke (2019) who studied the relationship between Investment allowance and economic growth. The author found out that there is no association between Investment allowance and gross domestic growth indicating that null hypothesis was accepted

Hypotheses Three: The hypotheses state that Rural technological allowance does not have significant effect on gross domestic product of Nigeria economy. The result revealed by the regression analysis in table show that rural technological allowance has a positive but non-insignificant effect on gross domestic of Nigeria economy. This discovery is in agreement with the findings of Gladys and Omagwa (2017) who studied the effect of rural technological allowance on economic growth of kenya : A Case of Firms Quoted under Commercial and Services Sector at the Nairobi Securities Exchange, Kenya. The authors found out that rural technological allowance does not have a significant statistical effect on the economic growth. This assertion was also in agreement with the statement of Gamayuni (2015) tested empirically the relationship between rural technological allowance and performance of Nigeria economy. The author found out that rural technological allowance has non-significant influence on performance of Nigeria economy, indicating that null hypothesis was accepted.

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Following the analysis of the study, the researcher deduced the following findings

1. Annual allowance has positive significant effect on Gross domestic product of Nigeria economy.
2. Investment allowance has a negative and non-significant effect to Gross domestic product of Nigeria economy.
3. Rural technological allowance has a positive but non-insignificant effect on Gross domestic product of Nigeria economy.

5.2 Conclusion

This study provides an empirical support on the effect of tax incentives on the economic growth of Nigeria economy under study. There is a positive and significant effect of Annual allowance on the gross domestic product while Investment allowance and Rural technological allowance shows a non-significant effect on the Gross domestic product of Nigeria economy under study. In this case increase in Investment allowance and Rural technological allowance under study will not cause a change in the unit value of Gross domestic product while the increase or decrease in Annual allowance under study will cause change in gross domestic. Therefore, following the data under study the analysis shows that Annual allowance affect GDP while Investment allowance and value added have a non-significant influence on gross domestic product in Nigeria

5.3 Recommendations

Following the result of the analysis of the study, the researcher made the following recommendations:

1. Government agency should concentrate on proper management of Annual allowance in order to improve the Gross domestic product of the economy because Annual allowance has significant effect on Gross domestic product
2. Government should not concentrate on reduction or increase of Investment allowance in order to improving the Gross domestic product of the economy because Investment allowance has no significant effect on Gross domestic product
3. Government should not concentrate on reduction or increase of rural technological allowance in order to improve the Gross domestic product of the economy because rural technological allowance has no significant effect on Gross domestic product

5.4 Contributions to Knowledge

The aim of every research is its contribution to existing knowledge; hence, this study contributes to the existing knowledge by evaluating the effect of tax incentives on Gross domestic product of Nigeria economy. It added to existing knowledge by establishing that Annual allowance has significant effect on gross domestic product of Nigeria economy while Investment allowance and rural technological allowance when considered in a long or short period has no effect on gross domestic product.

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