

**THE IMPACT OF TAX INCENTIVES ON GROWTH AND
DEVELOPMENT OF SMALL AND MEDIUM SCALE INDUSTRIES
IN NIGERIA. (A CASE STUDY OF: INDUSTRIAL PROMOTERS
NIGERIA LIMITED, SPRINGFIELD NIGERIA LIMITED AND DELUZ
PAINTS INDUSTRIES LIMITED, ENUGU).**

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AUGUST, 2012.

TITLE PAGE

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**BEING A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE
DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA) IN
ACCOUNTANCY.**

**DEPARTMENT OF ACCOUNTANCY
FACULTY OF BUSINESS ADMINISTRATION
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AUGUST, 2012.

APPROVAL PAGE

The undersigned do hereby certify as follows: That the project is accepted for the partial fulfillment for the award of Master of Business Administration (MBA).

The candidate bears full responsibility for the content of this work.

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Date:

Date:.....

DECLARATION

I hereby declare that this project has not been previously presented either wholly or in part for the award of any other Degree in any university or higher institution in this country.

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Researcher

DEDICATION

This project is dedicated to my lovely wife - Mrs Maureen Chinyere Jiakponna.

ACKNOWLEDGEMENT

I remain most grateful to the almighty God for his infinite mercy and kindness for making it possible for this program to come to a successful end. I am very grateful and appreciate the kindness and cooperation received from my Supervisor Dr.(Mrs) Onyeonu E.O, thank you and God bless you.

My owe my allegiance to my wife Mrs. Maureen Jiaiponna for her encouragement .To my siblings for their various challenges.

I cherish the friendliness and concern of my course mates: Uche, Kingsley, Nosike, Chidinma, Emma, Chris and the rest of you, God bless you.

ABSTRACT

The impact or effect of tax incentives and its associated economic and industrial development is studied in this research project. The study specifically focused on three selected industries (small scale) : Industrial Promoter Nigeria Limited Aba, Spring Field Nigeria Limited, Deluz Paints Industrial Limited - Enugu

The problem for this research work is to ascertain if the available tax incentives in Nigeria have achieved its objectives.

The purpose of the study is to establish the type of relationship that exist between tax incentives and growth and development of small scale industries in the state. To ascertain if really tax incentives stimulate small scale industries to improve on the level of their investments.

Questionnaires were distributed to the staff, interviews were used to extract information where questionnaire could not perfectly clarify. Firstly, frequency distribution tables and further, correlation coefficient and chi-square were used to test hypothesis one and hypothesis two respectively.

A number of findings were made, and it was discovered that small scale industries that benefited from tax incentives experienced an increase in their productive assets, capital investment and working capital formation. Also, tax incentives do not only play a stimulant role to the small scale industries but act as an indicator to the industries signaling them to the specific sector of the economy that should prioritize their investment decision. Among the findings in the effect of the incentives on the employment level. These incentives influences positively the investment development that leads to diversification thus increasing employment level.

The researcher further discovered that five year tax relief period for small scale industries is not enough for realization of the objectives of these schemes.

In view of these findings, the research recommends that the five year tax relief period to small scale industries be extended to ten year period. This is to ensure that they can favorably content with the competition from bigger firms. Finally, government should adjust the system of tax administration. The tax administrators should be adequately educated and more tax enlightenment programs be extended to the public to create enough awareness about the tax existence and objectives of the tax incentives scheme.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The year 1926 was a year of depression-slack in overall economic activities in Britain which led to decline of the total earnings of the economies, shortage of fund in the private sector and reduction in income per capita in Britain.

It was at this juncture that the economic world formulated various fiscal policies. The main and prime objective of these policies was to revive, rehabilitate and mobilize enough capital to provide for economic and social expenses and to raise the crunched standard of living of citizens. It was this period that the term, Fiscal Policy called TAXATION came into existence.

The direct taxation in its reformed pattern was introduced in Nigeria in 1904 by Lord Lugard, the then British High commissioner for Northern Nigeria with the issue of the land revenue proclamation for Northern Nigeria. In other words, income tax was introduced into Nigeria in 1904 and that was when community tax became very operative in Northern Nigeria.

It is important to realize that the present tax laws in Nigeria were developed or formulated from the Raisman's commission of enquiry of 1957. Before now, there were the income tax ordinances for colonies and which was rather common in all the colonies and the provisions were similar. Raisman's recommendation was the basis for providing in section 70; subsection 1 of the Nigerian constitution Order in council of 1960 which conferred an exclusive power on parliament to make for Nigeria or any part thereof with respect to personal income tax.

In exercise of these powers, the Federal Government enacted the Income Tax management Act, 1961 (ITMA) on April 1. But before ITMA, Lagos territory was being administered as a region and the personal income tax (Lagos) Act, 1961 was enacted for it separately. But when ITMA '61 came into operation, all the other regional laws on taxation were amended to bring them into conformity with federal law.

As previously mentioned, the earliest trace of any form of direct taxation in Nigeria according to Ezejelue (1981:33) even before the British administration “was in Northern Nigeria” it was relatively easy to introduce the reformed system in the North because the tax-paying tradition had already been established there. Unlike the South, the North had a form of organized central administration under the Emirs. The spirit of Mohammedanism which made it possible for people to contribute towards charity, afforded a religious foundation for direct taxation in the North.

This tradition of direct taxation found expression in a number levies and forms of taxes existing in the North long before 1914.

These included in Zakat, Kurdin Kassa, Shukka Shukka, Jangeli and Kharat which according to Mrs. Iheduru were grain tax, agricultural tax, plantation tax, livestock, and community tax respectively.

According to Okigbo (1955:80) they were so varied, perplexing and complex that in the 1880's the problem as seen by the Royal Niger Company (RNC) was not how to introduce new tax forms but how to simplify the existing forms.

All this time, southern Nigeria was separately administered until 1914 when North and South were amalgamated. It was not easy to impose direct taxation on the

south. They resisted it until after some experiments, the native Revenue Ordinance of 1917 was grudgingly accepted in the western providences of the South in 1918.

Discussions were held in 1924 and 1925 to find ways and means of modifying the ordinances I its application in the Igbo taste. Since there were no traditional natural rulers like in the North and some areas in the West that could be used in revenue matters. Suspensions and oppositions wee evoked over the issue of nominating warrant chiefs by the government.

In Aba, Calabar, and Owerri, there was riot that were in attempt to resist taxation. Particularly in Aba in the then Eastern Region the women's riot was of such a dimension that a probe was instituted to look into the causes, though government finally succeeded in extending the Native Revenue Ordinances in amended form to Eastern providences in 1928.

Taxation is divided into two (2) viz:

- i. Direct taxation and
- ii. Indirect taxation

i. Direct taxation

This is based on the ascertainment of income and assessment of income either on individual, a group of individuals, corporate bodies and institutions. This is a tax paid to the state for the maintenance of government as well as its services and not just for a specific service rendered to the payers.

Again the direct taxation is further divided into two viz:

- 1. Personal income tax and
- 2. Companies income tax

The personal income tax is assessed and collected by the state from those individuals resident in the state. While the companies income tax is charged on corporate bodies and it is the responsibility of Federal Board of Inland Revenue (FBIR).

ii. Indirect tax can come in the following types:

Types	Activities
Sales or Purchases now replaced by Value Added Tax (VAT).	Buying and selling
Entertainment tax	Cinema/Theater
Excise Duty	Manufacturing
Airport tax	Traveling

With the clear understanding of what taxation is all about, we can now go ahead to mention the tax incentives enjoyed by companies and individuals whose profit or income is accruing in, derived from, brought into or received in Nigeria.

The incentives are:

- Personal Allowance
- Investment Allowance
- Capital Allowance
- Loss Relief
- Roll over Relief
- Pioneer Relief
- Exploration Incentives.

Tax incentives policy is guide by the following legislation enacted in Nigeria:

- Industrial Development Income tax relief Act 1971.
- Income Tax Management Act 1961 as amended.
- Capital gains Tax Act 1979.
- Companies Income Tax 1979 as amended
- Capital Transfer Act 1979.
- Petroleum Profit Tax Act 1959 as amended.

It is pertinent to point out that individuals, corporate bodies engage in tax evasions and tax avoidance. This is an attempt to pay less or avoid tax completely.

Ezejelue (1981:19) asserted that in view of the compulsory nature of, and strong aversion to tax payment, efforts must be constantly made to make any tax system as attractive and as convenient as possible.

1.2 STATEMENT OF PROBLEM

This title “THE IMPACT OF TAX INCENTIVES IN GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM SCALE INDUSTRIES IN NIGERIA” clearly attempts to determine the level or extent the tax incentives (as a fiscal policy measure) will be used to re-direct the investment pattern of individual and corporate bodies and how this has contributed to growth and industrial development of Small and Medium Scale Organisations.

According to Crowningshield and Gorman (1982:72) “taxes being cash disbursement are capable of playing an important role in investment decision by influencing the quantum and the timing of cash flow”.

In view of this, presence of tax incentives is assumed to be a motivator, expense relieving-syndrome and also a kind of encouragement to the investors, and corporate bodies, to boost their investment scope.

So the problem for this research work is to ascertain if the available tax incentives in Nigeria, particularly as regards to small and medium scale have achieved its objectives.

1.3 OBJECTIVE OF THE STUDY

Investment is a function of savings that is:

$$I = f(S, G, \text{etc})$$

Where

I = Investment

S = Savings

G = Government expenditure

William (1990:15) affirmed that taxes have drastic reduction effect on profit, wealth, disposal income, capital budgeting, in fact, the over ally investment decision. So the exemption leads to rise in the investment level and stimulates capital formation.

Therefore, the objectives of the study are as follows:

- To ascertain if the available tax incentives given to industries enhances and motivate their investment.
- To ascertain the relationship that exist between tax incentives and investment.
- To evaluate the impact of the tax incentives with the quality of products produced by industries.

- To determine how these incentives schemes motivate companies to establish industries which will create employment opportunities.
- To show how these incentives schemes are helping the existing industries and companies in expanding their areas of operations.
- To ascertain the adequacy of the available incentives to industrial growth.
- To offer some solutions to any problem discovered in the above objectives.

1.4 RESEARCH QUESTIONS

1. What are the effects of tax incentives in the productive assets, investment patterns and capital formation of small and medium scale industries?
2. What are the impacts of tax incentives on the employment and investment levels of small scale industries?

1.5 RESEARCH HYPOTHESES

To be able to examine adequately the effects of tax incentives in growth and development of small and medium scale industries with three selected firms in the state, the researcher has formulated the following hypothesis and is given in their null form in accordance with university directives:

HYPOTHESIS 1

Tax incentives given to small scale industries have negative influence on the investment patterns and capital formations of small and medium scale industries.

HYPOTHESIS 2

Tax incentives available to small scale industries are not enough to motivate and stimulate the industries to invest or expand their existing investment and employment level.

1.6 SCOPE OF STUDY

The Nigerian tax regulations are too wide and vary according to the analyst area of interest. No study of this nature can afford to test all the tax laws. For this reason, only Company Income Tax Act (CITA) 1979 as amended will be analyzed.

However, mention will be made of other tax laws where necessary. Also, since the field of investment and development is too vast. This study will focus on growth and development of small and medium scale manufacturing industries in Nigeria.

1.7 SIGNIFICANCE OF THE STUDY

Tax incentive scheme is a strong fiscal measure as well as industrial and economic policy for which there exist so many competing alternatives.

On this note, the completion of this research work shall prove useful to the following:

- a. Government
- b. Business organizations
- c. Academics
- d. Researcher.

a. Government: This research work will help government to know the impact of incentives grant to individuals and corporate bodies. That is, since tax incentives constitute an opportunity cost, the research work will help the government to know the best alternative and its corresponding benefits.

- b. Business Organizations:** This work will help these organizations or investors to know the available incentives thus encourage them in their investment pattern.
- c. Academics:** This study will help academics in understanding the effects of tax incentives and the effectiveness of its administration . It will also go a long way to serving as a basis for further research.
- d. Researcher:** This is a course requirement, a study in partial fulfillment for the award of Master's Business Administration (MBA) in Accountancy.

1.8 LIMITATION OF THE STUDY

Sidney (1991:12) in his study observed that people tend to be unnecessarily fast, tricky and at times crafty when it comes to the area of paying tax. Taxation is a sensitive issue; it is not easy to get some vital information. Most industries are tax averters. Some pay tax but they do not reveal accurate profit; some do not reveal/present their actual profit in their annual financial statement. So their responses to questions are biased.

The core of all the limitations is:

Difficulty in getting at the companies audited financial statements.

1.9 Definition of Terms:

Income: The earnings, profits, and gains arising from the productive investments or use of the property constituting the principal or estate of fund.

Disposable Income: This refers to the income after tax has been deducted and which is available for the tax payer.

Corporate Bodies: This relates to companies incorporated in Nigeria under the companies decree No.55 of 1968.

Capital Allowance: This includes initial, annual investment and the balancing allowance granted in respect to all qualified capital expenditure. The aim is to amortize the cost of the asset over its useful life.

Alimony: This refers to the allowance granted for the support of a wife while the marriage relationship discontinues to exist.

Tax Avoidance: This refers to the manipulations within the law to reduce liabilities for tax. It refers to the tax payers' efforts to avoid paying tax by finding a legal loophole in the law that is an unclearly stated rule of law.

Fiscal Policy: These are measures employed by the government to influence economic activities specifically by manipulating levels of taxes and government expenditure.

Tax Evasion: This includes manipulation outside the law to reduce liabilities for tax; it is an illegal attempt not to pay tax, that is by not declaring all of one's earnings.

Transfer Inter-VIVOS: These are transfers made during the life time of the transferee. Example of such transfer is a gift.

Transfer on Death: Property passing either immediately on the death or after.

“Received In”: This applies or refers to the emoluments collected by the employees for doing his job.

“Accruing In”: This applies where you have income producing activities.

“Derived From”: This refers to the income producing activity. An income shall be deemed to be derived from Nigeria if;

The duties of employment are fully or partly performed in Nigeria and if the employer is a Nigerian.

“Brought Into”: This refers to remittances brought into Nigeria.

1.10 ORGANIZATION OF THE STUDY

For a sharp understanding of the work done, this study is organized in such a Given the articulate presentation of the work, all the relevant matters which are contained in the university guidelines are all accommodated hence the table of contents that shows the table of relevant issues and the manner in which they are presented (has received the approval of my supervisor Dr.(Mrs) Onyeonu E.O.

The title page which conveys the title of the research study is first in the sequence. There is normally the cover page and the assessment page before the title page. The title page is followed by the declaration page. Next is the certification page, dedication page comes next which is followed by acknowledgement page. This is followed by the table of contents. At this point comes the list of tables and figures. The last in the preliminary pages is the abstract. First in the table of content is the chapter one – Introduction.

The chapter one contains example of significant issues that explain the basic idea of the research work. It is on this chapter that the foundation of the work is based. Next is chapter two – Review of related literature. Under this is the review of similar literature of the research work.

Following chapter two is chapter three – Research methodology. This chapter states the methods used in the data analysis of chapter four. This chapter does mainly an explanatory work in the sequential order-presentation and analysis of data. All the data collected, all the information received both from primary and secondary sources are analyzed and presented. The methods stated in chapter three are put to use here.

Finally before bibliography is chapter five – Summary, conclusion and recommendation. The totality of work done put together and summarized. In a

nut shell all the long descriptive and brainstorming quantitative works are concluded.

After chapter five comes the bibliography. The list of authors and their books from where the referencing was done.

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CHAPTER TWO

REVIEW OF RELATED LITERATURE

THEORY AND ADMINISTRATION OF TAX

According to Tabansi (1980:15), “Tax is defined as a levy imposed by the government against the income, profit or wealth of the individual, partnership and corporate organization”. Taxation is divided into various types such as income tax, capital gains tax, capital transfer tax etc.

Ezejelue (1981:33) defined tax as “a major source of public revenue, a compulsory payment for which the government need offer no service or explanation. It is an obligatory transfer of money from private individuals or groups of individual to a public authority”.

Furthermore, Taxation can also be defined as a compulsory levy imposed by the government against the income, profit or wealth of an individual, partnership and corporate transfer of resources from private to public sector which must be levied on the basis of well established criteria of equity, certainty, convenience, economy and productivity.

The reformed pattern of direct taxation was introduced in Nigeria in 1904 by Lord Lugard who was British High Commissioner for Northern Nigeria. The present Nigerian tax were formulated from the enquiry of Raisman’s commission of 1957. Raisman’s recommendation was the basis for providing in section 70 (1) of the Nigerian (constitution) order in council of 1960 which conferred an exclusive power upon parliament to make for Nigeria or any part thereof with respect to

personal income tax. Federal Government enacted the Income Tax Management Act (ITMA) 1961 as amended.

In Nigeria, tax is levied on the authority of the Federal Government Income Tax Management Act 1961 as amended and subsequent amendments including – the finance (Miscellaneous provisions) decree 1993.

For tax assessment purposes, the fiscal year is based on the normal calendar year and runs from January 1 to December 31 in the same year. This income tax year is also known as the year of assessment.

To highlight this more, Ezejelue (1981: 33) in his criteria for improving the system of Direct taxation in Nigeria stated that Our taxation laws and policies will not operate themselves. Tax assessments, collection and accounting must be generated through human machinery. No matter how efficient the tax laws and policies are, unless the implementation execution machineries are equally efficient and effective, the entire system may crumble. It is obvious that many of our problems in tax assessment and collection are purely administrative.

Therefore, for efficient tax administration, attention will be paid to the following:

- Right orientation of staff
- Right working condition/environment
- Staff Development Programme
- Need for information procurement and contribution approach to decision making
- Enforcement of penalties and additional assessment provision

- Fast disposition of tax cases
- Management of the affairs of the revenue
- Establishment and or revitalization of statistics section of the revenue
- Remedying the imbalances in tax assessment

Right orientation of staff

The total environment of all the categories of staff in the whole system and in its successful implementation must be procured. This involves seeing that all staff understand, realize, and accept the nature, commitments, risks, and the challenges of the system. Therefore, the staff requires proper indoctrination and orientation.

The quality, ambition, and background of the staff are very essential ingredient. Therefore, recruitment of high caliber manpower should be encouraged. An ignorant, indolent, cheerless and corrupt staff will render the administrative machinery inefficient and ineffective.

Right working environment

The right staff with the right orientation may be impeded by a poor working environment and poor working tools. The work of the tax man is so onerous that he must not lack the facilities, such as the right quality of personnel, accommodation, mobility, stationery, and other fixtures and fittings, necessary for carrying out his duties. More money should be spent on tax administration, and performance appraisal schemes for upgrading tax zones and advancing tax officers should be designed. This will have a motivating effect towards increased tax revenue in order to justify the additional expenditure.

Staff development program

Constant training and re-training of staff must be encouraged. Staff development program may take the form of long or short courses scheduled to accommodate all

categories of staff at different periods and or an effective in-services training scheme. Learning is a continuous process and as tax laws are usually very dynamic, the staff must be given the opportunity to develop and keep abreast.

Need for information procurement and dissemination

Efficient tax administration requires gathering reliable up-to-date information about persons liable to tax and their income. Unless a tax man knows a potential tax payer and his source of income, he is lacking a good to do his work. Where possible, efforts should be made to verify not only the sources of income but also the claims of tax payers for relief. This may be by a way of empirical, evidential or perceivable facts.

It is also necessary to find ways of disseminating tax information to the tax payers for guidance. A useful source of information dissemination is through various explanatory tax information bulletins, pamphlets, and circulars issued from time to time by tax officials to explain or restate the official attitude on various taxation matters. Although these provide useful guide, they should not have the force of law. The constant use of television, radio, newspaper and public address system to educate the public as to the place of taxation in the society is also essential.

This two information traffic which will tend to bridge the gap between the tax payers and the tax administrators will be under a separate department in every tax zone of tax area.

Use of budgetary system for tax collection

This involves forecasting, planning or projecting the amount of tax to be collected in each tax area and through a feedback process reporting on any variances between actual and planned collection. This will give rise to either revising future projections or strengthening future collection efforts. A control system of this

nature will encourage, compelled planning, and lead to co-ordination and motivation of the staff, provided that the target always aimed at will be scientifically realistic and currently attainable.

Use of relevant cost analysis and contribution approach to decision making

Homgren et al (1994:94) in their study observed that “Decision making is essentially choosing among several courses of action”. The decision is based on the difference in the effect of two courses of action of future performance. The key question is, what difference does it make? The relevant information is the expected future data that will differ among alternatives”.

Contribution approach, when used intelligently has some advantages over other approaches, it highlights on different costs behaviour pattern” Homgren (1994:94). Obviously, the contribution approach offers more detailed information because variable cost (VC) and fixed cost (FC) behaviour patterns are displayed separately. Ezejelue (1981:33) made the assertion in his criteria for improving the system of direct taxation in Nigeria that “the idea of penny wise pound foolish” should not be brought into tax administration. If one must make omelet, one must break some eggs, so if government wants some more money or revenue, she must spend more money to get it”. The end will always justify the means. For example, if any tax zone or area projects an additional collection of say N30,000.00 each by hiring three additional staff each earning N7,000.00 per annum and acquiring a car with five-year useful life, at the cost of N10,000.00, it will be advantageous to spend this money for the additional revenue of N30,000.00 per year. Thus assumes that no other cost will be incurred, the driver of the van, for instance is an already hired driver who has remained idle and there is no immediate better use of the fund.

The point here is not the total cost but what costs are relevant in taking this decision and what the contribution margin is. The formula for contribution margin is:

Revenue	xxx
Less variable cost	<u>xx</u>
Contribution	<u>xxx</u>

Enforcement of penalties and additional assessment provisions

Adequate authority, expressed or implied, should be given to the tax administrators to enforce penalties where necessary, for non-compliance with some tax requirements. This may generate a forced compliance attitude on the part of the tax payers. Also the provisions on additional assessment should be re-enforced and resorted to whenever necessary. Every information or evidence which raises the issue of the need for additional assessment must be followed up.

Fast disposition of tax cases

It will help administrative machinery if tax cases brought to the courts are disposed off with dispatch. Delaying tax cases will not help the recovery efforts of the tax administrators. Like the Federal Revenue Courts which deal with all federal public revenue cases, it may be advisable to designate certain Magistrate Courts in each zone or area to specifically handle state revenue matters in such zone or area.

Management of the affairs of the revenue

The practice of letting the Ministry to control the affairs, of the Revenue is unhealthy. The revenue with its own controlling board should be left alone to operate out of usual ministerial red-tapism. The duties and powers of the controlling Board should be restricted to the usual assessing, collecting, and

accounting for taxes but will include, as the law often puts it, “all such things as may be deemed necessary or expedient for the assessment and collection of taxes” (Finance Law Edict, 1978). All such things should be construed to include not only the appointment of assessment authorities and committees, tax collectors and collecting agents, tax inspectors, bailiffs, pointurs, and messengers, but also formulation and implementation of the overall policy of the Board, developing its independent scheme of service and controlling the appointment, promoting, training, termination and discipline of all its staff, approval of all its staff, approval of its expenditure included in the Approval Estimates and award of its contracts.

As it is the case in many states, Finance Law 1978 section 3 (2), as amended “very top officials should represent certain ministries on the controlling board of the revenue and the commissioner in-charge of Finance who should rely on the controlling Board for guidance will continue to represent the revenue on executive council meetings”.

Establishment and/or revitalization of revenue statistics section of the revenue

This section will be responsible for collecting data for purposes forecasting, assessment and revenue collection. Such estimate could be shown by revenue sources such as Pay as you Earn (PAYE), Direct Assessment, Entertainment tax, etc and also by occupational grouping such as civil servants, traders, architects, accountants, lawyers, etc. The section will also publish at intervals tax returns showing estimated and actual collections with some comparative figures by tax zones or areas, by occupational groupings and by revenue sources. It will also publish annually lists of defaulting government departments and other employers in submitting of PAYE annual returns. Some of these statistics should be made

public property in order to same poor performers and defaulters groups into being more active in future.

Remedying the in-balance in assessment

Many, otherwise honest, citizens tend to develop tax evasion attitude in respect to their reaction to the perceived inequalities in tax assessment. A good number of direct assessment taxpayers, for example, are apt to submit tax returns which are ridiculously incompatible with their life styles in life, and at times with the assistance of some low priced tax clerks. In addition, these taxpayers tend to either corrupt the tax assessment system or make advantage of an already corrupt system to get a manipulated assessment. This makes the tax burden heavier on the few honest taxpayers who either deliberately or otherwise cannot falsify their tax returns or deviously tamper with the assessments.

Basically, much importance is attached to the theory and administration of tax as this forms the major source of government revenue.

According to Franklin (1979:16), “in this world, nothing is certain but death and taxes. In his own, Ola (1984:99);Government owes its citizens certain responsibilities like water supply, electricity, land and at times incentives (like tax incentives) in order to justify the tax they pay.

Adam (1937:301), enumerated the following responsibilities of government towards its citizens:

- To establish and maintain public institutions which provide service to the citizens at a rate lower than the private entrepreneurs would usually charge (non-profit oriented governmental corporations or organizations).
- To protect every member of the society from the justice of every other member of the society. This reflects the obligation of establishing an administration of justice, which provides law and order within the society.

- To protect the society from violence and invasion from other independent states (National Defense).
- To meet the expense in support of the sovereignty.

Finally, another importance of taxation according to Douglas (1976:16) states that, apart from the main aspect of meeting the government's expenditure, taxation is raised for the purposes of the redistribution of income, the stimulation of investment, the redistribution of industry and the regulation of economic activities among others.

The principle guiding the code of conduct or the obligations of individuals and companies, with regards to their tax liability, time and mode of payment is usually enveloped in the various tax laws of the country. (Ola 1884:94), which include:

1. Companies income Tax Act, as amended (CITA)
2. Companies income Tax Act Decree, 1979 (CITA)
3. Finance (Miscellaneous Taxation Provisions) Decree, 1979
4. Finance Law 1962 as amended (FL)
5. Income Tax (Amendment) decree 1966 (ITA)
6. Income Tax (Armed Forces and other persons) special Provisions Decree 1972 (ITAF)
7. Income Tax Management (Uniform Taxation provisions Decree 1972 (ITM)
8. Income Tax Management Act 1961, as amended (ITMA)
9. Income Tax Management (Amendment Decree) 1971 (ITMAD)
10. Personal income Tax (Lagos) Act 1961, as amended (PIT)
11. Personal Tax Law 1962, as amended
12. Petroleum Profits Tax (Amendment no 3) Decree 1979 or decree 95 of 1959 (PPT)

13. Tax Management Act 1970 (TMA)
14. Western state Income tax Law 1957, as amended (WSITL)
15. Industrial Development Income Tax Act 1971, (IDITA)” 13.

This Act empowers the Federal Government to publish the list of Industries and protects as pioneer industries and products provided it is satisfied that;

- a. The industry is carried on in Nigeria on a scale to the economic development of Nigeria.
- b. There are favourable prospects of further development of such industry in Nigeria.
- c. It is expedient in the public interest to encourage the development or establishment of such industries in Nigeria.

The Act was to stimulate economic development of the country. It was first relief ordinance NO. 18 1958. It was latter transformed into pioneer companies' Temporary taxation Provision Decree No. 52 2968. But in 1971, the Decree was changed to industrial development income Tax Act, 1971 (IDITA).

2.2 IMPACT OF TAX INCENTIVES ON ECONOMIC AND INDUSTRIAL DEVELOPMENT

Tax is a burden on individuals and business organizations. According to Sotinwa (1971:10), “taxes cause heavy distortions in the financing and investment decision making”. Taxes on personal income, for instance, from the corporate sector result in investors receiving less than the gross paid to them. The difference between the pre-corporate tax rate of return earned by companies and the post tax receipts an individual gets is a measure of the total distortion (total tax “wedge”) caused by taxes-walker (1989:47).

Business activities, the domestic flow of capital, services and technology will increase if taxes and most other non-tax barriers should be removed.

According to Norregard (1992:223); Capital markets in the CECD countries are increasingly integrated as member countries have removed tax controls on the international investment and foreign regulations. At the same time, the proportion of international activities accounted for by large multinational companies has increased. One consequence of this gradual liberalization and globalization is that international capital flow may become more sensitive to difference in the tax regimes as between countries. Differences in taxation of corporate profit may now be one of the few remaining potential barriers to a better international allocation of capital.

So, we can undoubtedly establish that taxation is an obstacle of economic impediment that hinders individuals and organizations from improving their business activities and economic development. For instance, Carter (1992:42) noted that taxes such as those on payroll and social security contributions, may affect costs, and thus the location of investment, particularly in the short run.

There is the case of economic double taxation which the financial experts accept that it is capable of distorting the financing and investing decisions of the enterprise.

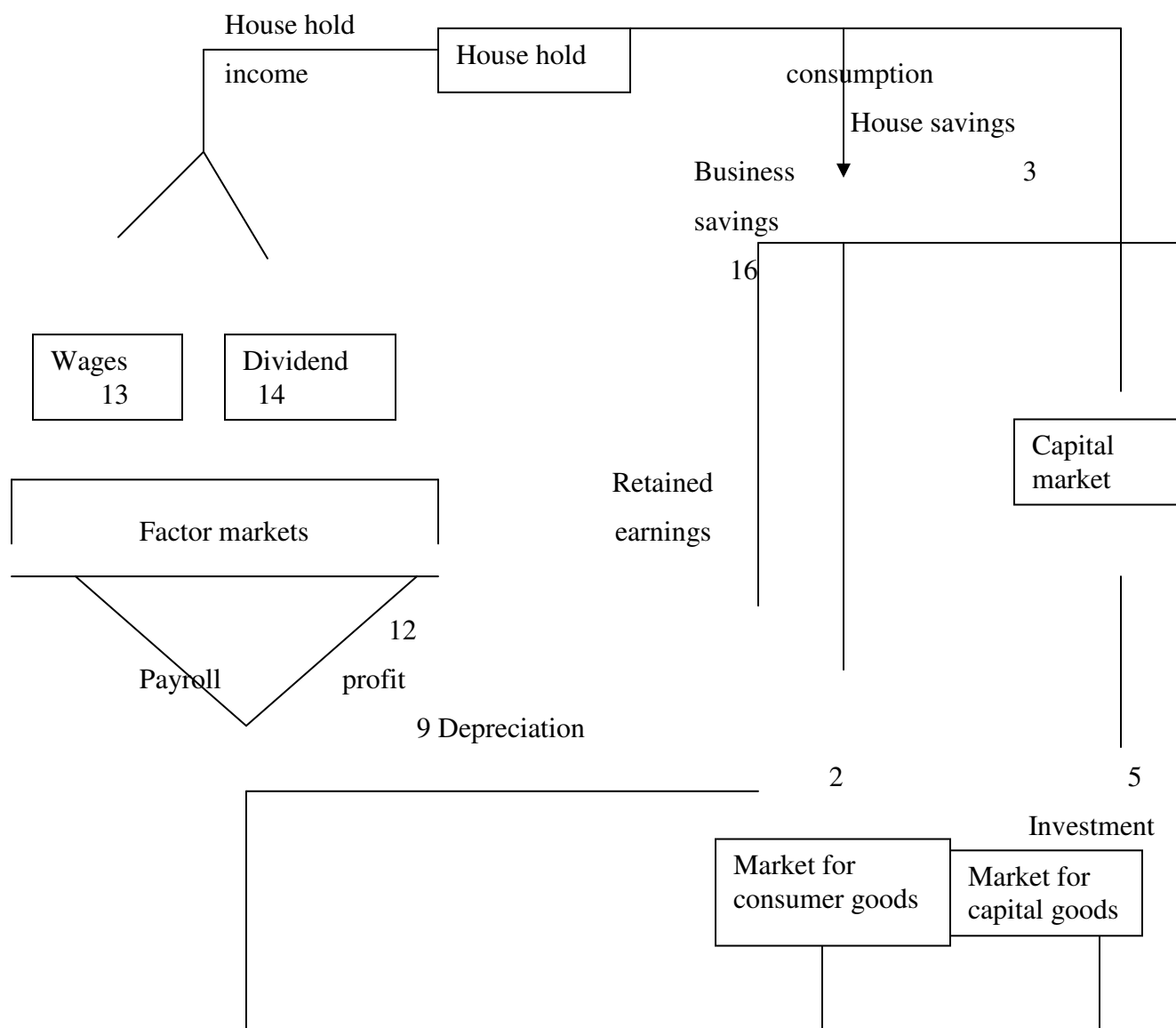
Carter (1992:342) hinted also that taxation, though, is a major source of government revenue but we should be aware of the fact that taxation reduces the efficiency gains which otherwise would have been raised through tax relief. Therefore, the state or the country as a whole is denied the opportunity of reaping the potential efficiency gains which includes: increased salary of workers,

increased rate of diversification, more job opportunity, improved standard of living, ability to utilize the opportunities open to business organizations etc.

Government can gain even more than what she thinks she gets from taxation if tax incentives reliefs are allowed.

Precisely, the researcher is saying that taxes have an adverse effect on the income/profits of individuals and companies. The capital structure of firms is affected by the taxes at the impact points. In every economy, with a tax system, there are points in economic activities where incomes/profits are realized and these points where taxes are calculated and collected. These points are known as impact points of taxes.

Diagrammatically, it can be shown thus:





8

Cross

Receipts

17

Source: Richard A. Musgrave and P.B.Musgrave; Public finance in Theory and practice: (1981:221)

Impact points in the circular flow of income and expenditure in the income helps to distinguish between types of taxes.

In the diagram, the monetary flow of income and expenditure moves in a clockwise direction whereas the real flow of factors inputs and product output (not shown in the diagram) moves in a counter clockwise direction.

It goes like this, when household receives an income

(1). It is divided into consumer expenditure (2) and household saving (3) then consumer expenditure evaporate into the market for consumer goods and accordingly transforms into receipts (4) of the companies selling goods and services. On the other hand, savings flow through the capital market and are diverted into investment (5) of course, when this happens, the savings then become expenditure in the market for capital goods and turn into receipts (6) of firms producing the goods. Gross business receipts (7) together with the remainder (8) goes to purchase the services of labour as payroll (9) of capital as profit and

interest (10) so jointly, these represent the various factor shares in national income, these shares are paid out to suppliers of factors as wages (11) and dividend (12) interest, rent and so on which on the part of the receiver is an income (1) of households. Out of the total income, some are withheld as retained earnings (13) this retained earnings joins with the depreciation allowances to form business savings (14), and ultimately combines with household savings to finance investments or purchase of capital goods.

From the diagram, we can further depict the points of Tax impact for an industry. They are (4), (7), and (10) which represent the business and business receipts not of depreciation respectively.

So from this analysis, one can be convinced that it is an expenditure on the business and has an impact (adverse) on the profit of the industries which undoubtedly withholds the future investment speed of these industries.

2.3. TYPES OF TAX INCENTIVE SCHEME

The tax incentives enjoyed by the individuals and companies which their profit or income is accruing in, derived from, brought into or received in Nigeria include:

a. Personal	Allowance
(i) Wife	”
(ii) Child	”
(iii) Dependent Relative	”
(b) Capital	
(c) Investment	
(d) Loss Relief	
(e) Tax off-sets	
(f) Roll over relief	
(g) Pioneer relief	

- (h) Explorative incentives
- (i) Life Assurance Policy Premium
- (j) Pension and Provident fund.

2.4 OBJECTIVES OF TAX INCENTIVES

According to Donald (1980:72), Tax incentives are meant to encourage and stimulate the economic activities of enterprises and investments. It is simply fiscal policies that are employed by the government to revive, rehabilitate and stabilize individuals and corporate bodies. Government also uses the incentives at the same time to channel some specific economic activities towards the vital or desired sectors of the economy where they are considered less active or entirely not existing.

Okelie (1995:2) asserted that Nations economy can be healthy through generous tax incentives to corporate tax payers to invest scarce resources into valuable projects, the profitability of which many not likely materialize until about three to five years time.

Philips (1969;10) noted that “Tax incentives will not only generate employment but will motivate self employed to incorporate into limited liability companies (Ltd)”.

But Otumba in his ICAN’s 1995 budget review made a warning that, “tax incentives are measures used to stimulate private investment but such measures cannot work effectively if the economy is not resilient and properly solidified to absorb these incentives schemes”.

“Some of these structural criteria to which tax incentives devices may be addressed include:

- a. Development of Domestic market,
- b. Balanced Regional Development,
- c. Reduction in Unemployment,
- d. Better utilization of Existing capital,
- e. Diversification of output,
- f. Balance of payment consideration,
- g. Re-direction of investment pattern”.

As highlighted by IBRD Report (1962:7).

2.5 CRITICISMS OF TAX INCENTIVE SCHEME

Tax incentives scheme as a measure of improving investments in developing countries has been criticized by tax experts and analysts, despite the fact that the government of these countries see the scheme as completely useful. Some of the criticisms are:

According to Ross et al (1963:21) in their study of Mexico’s experience in utilizing tax concessions for industrial and economic development concluded that, “tax incentives pay a relatively insignificant role in the formation of new business”. They found out that exception was not a decisive consideration for any firm and that most firms did not actually take it into account. According to their report, fourteen (14) firms stated that they would definitely have started their business without the tax incentives.

On the inducement effect of tax incentives, Taylor (1963:586) argued that, “investments respond to a multiplicity of factors of which tax incentives only pay a less marginal significance”. He argued vehemently that removing the hindrance that defers investments rather than including investment through concession policy is the best option.

Taylor (1963:587) also criticized that “there are certain general problems of serious proportions that must be faced in the use of tax concessions”. One of these is relative treatment to be given to different types of firms within an industry particularly between new and growing firms and related stagnant firms. The variations among firms in this respect pose a dilemma, for if the exemption privilege is not granted to all firms in an industry, there is a tendency for the programme to degenerate into general subsidy instead of a method of encouraging new investments.

It is for these reasons that there is consensus of informed opinion to the effect that tax incentives should not be used continuously and imprudently. It is recognized that tax incentives have a legitimate place in an over-all development programme for purpose of including resources in more desired uses and reducing in more their employment in less desired areas. There is justification to use fiscal policy instruments for the purpose of helping particular firms to become established and grow.

Further contributions to the criticisms according to Lent (1957:210) that, “tax concession is a costly device. Governments of developing countries due to their inability to collect tax effectively, given the high tax evasion rate deception”. Even if tax concession is to be used, it should be used with absolute care and diligence.

The ineffectiveness could be attributed to the levels of taxation in the under-developed countries being not generally high enough to inhibit investment seriously or because barriers like political instability and restrictions on foreign exchange, conversion loom so much larger than the tax barrier. Tax payers are always on the watch to gain tax benefits by meeting the formal requirements of the concession without carrying out the underlying intent and purpose.

Chen-Young (1989:36) in a similar survey of fifty-five (55) Jamaican firms concluded that, “there were no concessions to most of the firms under the pioneer

industrial law. It was just only two (2) firms out of the 55 firms interviewed that mentioned tax incentives as an important factor influencing investments in Jamaica”.

Nwokolo (Vanguard 30th January, 1995), equally asserted that “for tax incentives to materialize solely depend on the consumption patterns and attitude of individuals”. Persons who for long have been saving enough out of his disposable income may create industrial expansion if he invested fund individual consumption pattern is not directed towards making enough savings”. It is worthy of note that the incentives attract foreign investors into the country. The more the offer, the more the potential investors into the country. The more the offer the more the potential investors are attracted to invest in the country.

Ola (1984:98-100) made the assertion that, “the allowance for capital wastage to entrepreneurs in arriving at their taxable income has been criticized in many quarters as being unfair because a comparable allowance is not given for the wastage of earnings capacity in the case of an employee (due to his limited working life) nor for the expenditure of capital in acquiring skill, knowledge or qualification. Furthermore, many experts are against the granting of relief for business losses because their very existence means that more money has been spent than received which effectively means that the activity has led to depletion of the country’s capital resources, as well as possibly encouraging the uneconomic use of limited resources at the expense of the population as a whole”.

Ola further noted that “tax concession of any type result in gross tax losses to the government treasury which are not always compensated for by increased “real” economic activity and prosperity for the country as a whole. Indeed, it can be argued that a government might be better advised not to grant so many concessions and to use the increase itself to increase the country’s GNP through its own spending on beneficial project rather than relying on entrepreneurs who

simply/comply with the formal requirements of the tax incentive provisions without effectively carrying out the underlying intention of increased economic development”.

2.6. TAX INCENTIVES AND INDUSTRIAL DEVELOPMENT

The industrial development (Income Tax Relief) act, 1971 was founded to attract and sustain industries where:

- i) Industry does not exist at all,
- ii) The scale of operations of an industry is less than or is suitable to the economic requirement of the country.
- iii) There are favourable prospects for further development of an industry.

“This act was not imposing tax as such but provided for an incentive by way of exemption from tax on all companies that might be accorded a pioneer status by the Federal Ministry of commerce and industry” Sotinwa (1982:50).

Pioneer status is granted to manufacturing of certain products which were considered important in terms of being the first in the country or of some importance in technology and of help to the need of the masses, example, agricultural sector was granted pioneer legislation on application.

Section 16 of the Act specified that while the company is enjoying such tax holiday, a pioneer company is not allowed to carry out on any trade or business which is not within the provision of the pioneer certification issued to it. But if a company is carrying on such trade, any profit made thereby is not subject to pioneer relief but subject to tax in full. Similarly, if a pioneer company produces items which are not covered by its certificate, the profits from sale of those items

are liable to tax in the normal way. The non-pioneer profits in effect are deemed to be derived from Nigeria even if the business is carried on outside the country.

Tax relief period should or can be extended on application if the council is satisfied as to:

1. The rate of expansion, standard of efficiency, and the level of development of the company.
2. The implementation of any scheme of:
 - a. The utilization of local raw materials in the process of the company.
 - b. The training and development of Nigeria personnel in the relevant industry.
 - c. The relative importance of the industry in the economy of the country.
3. The need for extension having regard to the location of the industry.

The net loss is deemed to have been incurred on the first day following the pioneer; period and it is available as a set-off against the total profit in the first year of the post pioneer business.

Another valuable incentive provided under this Act is the capital Allowances. Annual allowance and initial allowance where applicable will be granted in respect of all qualified expenditure made by such company within the pioneer period. In ascertaining the profits of a company during the relief period, capital allowances are ignored. Capital expenditure incurred on an asset during the relief period is deemed to have been incurred on the day following the end of relief period. Moreover, additional incentive is granted to companies engaging in agricultural production in respect of treatment of losses.

2.7 TAX INCENTIVES AND PETROLEUM PROFIT TAX ACT 1959

The act is applicable only to a company engaged in petroleum operation and affects chargeable oil.

Petroleum as defined in the Act means mineral oil or relative hydrocarbon or natural gas existing in its natural condition, in Nigeria, but does not include liquefied natural gas, coal or bituminous shale or other stratified deposits from which oil can be extracted by destructive distillation.

Petroleum operations mean the mining or obtaining of crude oil by drilling, mining, extraction and other like processes and the transportation of such oil. It excludes refining at the refinery.

INCENTIVES

There are so many tax incentives granted to companies engaging in petroleum operations. These incentives provide to a large extent, the basis for stimulating industrial and economic development.

These incentives are:

- Exploration incentives
- Investment Tax credit
- Annual Allowance
- Loss Relief
- Tax off-sets.

2.8 COMPANIES INCOME TAX ACT 1979 AND INCENTIVES

Section 20- of company income tax Act of 1979 provided the various tax concessions available to companies. This section allows a corporate taxpayer to “deduct all expenses” for the period by that company wholly, exclusively, necessarily and reasonably, incurred by the company in the production of the profit

chargeable to tax. There are other incentives available for companies in specific industries. Banks are granted investment allowance on the capital investments on branches opened up in the rural areas. This will definitely promote our banking institutions to speed up their rural expansion programme. In addition, there exists tax exemption on interest earned on loans granted by banks to companies manufacturing goods for export.

However, this exemption is subject to insurance of certificate by the Nigeria Export promotion council (NEPC) stating that no less than half of the manufacturing goods during the relevant year of account are sold outside Nigeria. These incentives came into effect from April 1, 1980.

2.9 INCOME TAX MANAGEMENT ACT (ITMA) 1961 AND INCENTIVES

Section 4 of this Act imposes tax income as it falls within the following:

- a. Gains or profits from any trade, business, profession or vocation.
- b. Income from property
- c. Pension charge and annuity
- d. Any profits or gains not falling within the preceding categories.

The tax is payable for each year of assessment upon the income of an individual accruing in, derived from, brought into and received in Nigeria in respect of the above mentioned items.

PERSONAL RELIEFS

The following reliefs are available to taxpayers and are deductible from the amount of total income:

- ❖ Wife Allowance (Alimony)

- ❖ Child allowance
- ❖ Dependent Relative Allowance
- ❖ Life Assurance policy premium
- ❖ Pension and Provident fund.

It is important to note that all these reliefs provide more funds available in the hands of the taxpayer. This he may invent properly.

According to the 1998 Federal Budget, in order to alleviate to burden of multiple taxes particularly the low income group, the following shall in addition to other allowances apply in respect to personal income tax in accordance with the implementation of Value Added tax (VAT).

- Personal Allowances: This was N5000 plus 20% of earned income.
- Children's Allowances: This was N2500 p.a. per unmarried child subject to a maximum of four (4) children.
- Dependent relative allowance- This was N2000 subject to a limit of two (2) dependents
- Life assurance premium relief: This with effect from January 1, 1996, only the premium paid in respect of life assurance policy certificate qualifies to earn tax relief. It is only the assurance policy in respect of a named spouse will attract tax relief.
- Transport allowance: The decree on Transport Allowance still maintains that any excess over N2436 should be added back to the basic salary of the employee. This is also effective in 1998.
- New tax rates for 1998: With effect from January,1, 1998 (as amended), the tax rates shall be as follows:

Taxable income	Rates of tax
1 st N20, 000	5%

Next N20, 000	10%
Next N40, 000	15%
Next N40, 000	20%
Over N20, 000	25%

- Minimum rate of tax: This shall be at 0.5%. the statement in the federal Government budget of 1998, that taxpayers earning income of N30, 000 and below are tax exempt. This however should not be taken to mean that such affected employees have been exempted from paying their taxes. What it simply mean is that such employees will pay tax at the rate of 0.5% of their total income which is below N30, 000. it is the total earned income of the employee that is the determining factor and not his basic salary. It is only the Board of internal Revenue that is empowered to determine who earns N30, 000 and below as his total earned income after adding all the details of payments made to the employee by his employer.

However, this minimum tax rate does not affect businessmen, traders, technicians, artisans and any other self employed person.

CHANGE OF INTEREST ON OUTSTANDING TAX

Failure to pay tax as from 1998 attract interest equivalent to the prevailing commercial rate, this in addition to the prescribed penalty for late payment.

It is worthy to note that federal Government in the 1999 budget maintained the 1998 tax rates, as its rates for the fiscal year.

According to Ola (1984:99) “Tax incentives have passed the stage of simply being machine for the revenue collection for the Government”. Taxation should be regarded as an active and potentially creative force in economic planning and development and above all, as a very useful agent of social change”.

They further emphasized that “these incentives are used or fashioned to achieve for the public the following goals:

- I. To reduce the inequality of wealth distribution.
- II. To generate and make available for economic development the maximum flow of human and other economic resources.
- III. To generate and increase the rate of capital formation and rationalization so that production level will steadily increase.
- IV. To secure a stable price level within which the economy can grow.
- V. To minimize the conspicuous gap in income levels; and,
- VI. To maintain and sustain social and political justice without reducing the motivation of the entrepreneur and managerial groups.

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CHAPTER THREE

3.1 RESEARCH METHODOLOGY

Taxation has a wide range. The benefits attributable to tax exemption (incentives) linger from household to private business, partnership, co-operative societies and limited liability companies. It is a tedious job to assemble, examine and analyze all the benefits derived from tax incentives, though it is not an impossible task. But for the purpose of this study, the researcher has limited his research only on three small scale industries in . The study concentrates only on three small scale industries in Nigeria. Industrial Promoters Nigeria Limited , Springfield Nigeria Limited and Delux Paint Industries Limited Enugu.

The researcher also chose the following classes of personnel's- the management level staffs, the intermediate and the junior staffs, to whom questionnaires were given and other oral interviews were carried out.

These three companies are typical small and medium scale industries that have grown from strength in recent years in terms of capital base cum expansion and their staff strengths. Thus, enjoy all the necessary tax incentives granted to small and medium scale industries in Enugu States.

Their responses to the questionnaires and oral interviews conducted in these companies represent the cross levels of the opinions on this issue as all the levels in any establishment are adequately represented.

Therefore, the data collected, analyzed and presented on the average is representing that on the entire small and medium industries. The result of the findings and the final reports is binding on the entire companies in the states.

Invariably, in attempt to depict the relationship between the growth and development of industrial activities and the tax incentives available to them, the above three mentioned industries are used as case study.

Undoubtedly, their reports are taken to be accurate, reliable and authentic. So given the information gotten from them, the growth and development of small and medium scale industries in Nigeria is hereby objectively analyzed and reported based on the benefits derived from the incentives.

3.2. SELECTION OF DATA

For the purpose of this work, the researcher used two types of data, namely;

- a. Primary data
- b. Secondary data

This research work is essentially a field of study. So in the process, data were communicated and observations made. Therefore, the primary data were collected through:

- i). Interviews
- ii) Questionnaires
- iii) Observations

While secondary data were collected mainly from documented information.

3.3 COLLECTION OF DATA

The collection of data for this research work was personally done by the researcher. The data collection was multi-dimension, involving a wide spectrum of research instruments namely:

Questionnaires, personal interviews, library research, observations, documented information from Board of Inland Revenue and Federal Inland Revenue Enugu.

Questionnaire

In all, a total of 12 questionnaires were distributed. Actually three small and medium scale industries in Nigeria were selected namely: Industrial Promoters Nigeria Ltd , Springfield Nigeria Limited and Delux Paint Industries Limited Enugu.

So each industry received a total of four questionnaires of which all the industries returned full number of questionnaires.

In fact, the researcher's main purpose of distributing more than one questionnaire to the above selected industries was to be sure of valid and reliable information. Despite this, one questionnaire could have served the same purpose from each of the industries.

Secondary Data

The collection of the secondary data comprises of University library, Imo State University Library, public and private libraries like: Imo State National Library, Centre for Management development Aba. Other sources are valuable journals, magazines, newspapers, Official documents (Gazette, Degree, Statute) and periodicals.

3.3.1. DESIGN AND ADMINISTRATION OF QUESTIONNAIRE

The questionnaire contains a number of twenty-two (22) questions. The questions have been designed and structured in such a way that it is not ambiguous, easily understandable and not too long. In all, the questionnaires were designed to find out the opinion of the respondents.

The researcher has adopted this design to allow the respondents a limited range of responses.

However, a copy of the questionnaire shall be included in the final work as Appendix A.

3.4. SAMPLE SIZE DETERMINATION

From the list of industrial staff of the three industries, twenty seven members of the staff of the three industries were chosen. The number includes the twelve staff who answered the questionnaires and the fifteen (15) who were interviewed through oral interview. All the questionnaires were returned. This makes it a total of 27 different staff which the study covers as the population of the study. The primary objectives of the researcher is to select a manageable sample size, not too large or too small, so as to ensure its reliability, not only as a source of information, but as a good estimator of the population characteristics with guided influence from Lipin (1993:25) and Dickson (1976:145) who suggested that figures which range more than 20 and less than 30 as a reliable population size.

3.4.1. SAMPLING TECHNIQUE

The case study method was adopted for the collection of primary data. Thus was considered most feasible and most effective because the research into the whole small and medium scale industries in Nigeria would have posed problems of gathering the needed information from individual companies for the study. A

structural designed questionnaire was adopted by the researcher and administered to the industrial staff comprising the management staff, middle and junior staff of the selected industries. This is to ensure opinion representation of the whole levels of workers. The questionnaires were collected instantly on completion by the staff administered.

Also discussions and oral interviews were held with the staff on the issue of the study - The Impact of Tax Incentives in Growth and Development of Small and Medium Scale Industries in Nigeria which helped the researcher in making deductions in his study.

The data collected were analyzed through sorting, grouping, cross-tabulation and collection. From these, deductions and inferences were drawn and percentages used to arrive at a satisfactory conclusion.

3.5. OPERATIONAL MEASURES OF VARIABLES

The variables used in the research are both qualitative and quantitative variables. Some of which are dependent, while others are independent of the hypotheses.

For a better understanding of the variables to be measured, we can operationalize the variables by using the percentage analysis, for the quantitative variables;

For testing the hypothesis, the Chi-square (χ^2) will be used.

The formula is thus

$$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$$

$\chi^2 =$

Where

χ^2 = Chi square

f_o = observed frequency (value)

fe = expected frequency (value)

n = period

E = summation.

3.6. DATA ANALYSIS TECHNIQUE

The statistics tool to be used by the researcher in data analysis include percentage analysis (used to analyze most of the questions in the questionnaire which are mainly quantitative) and empirical tests using the Coefficient of correlation (r) and Chi-square (χ^2).

THE CHI-SQUARE χ^2 TECHNIQUE

Hoel (1980:223) defined chi-square as the sum of the ratio of differences between observed and expected values. The chi-square (χ^2) is a statistical distribution derived from abstract mathematics. It is used to test whether the observed facts accord with some hypotheses. It is a way of measuring the reliability and significance of data to ascertain if the deviation of the actual observation (observed frequency) from the expected (expected frequency) is significant. So that it may lead to the acceptance or rejection of the null hypotheses.

The formula is thus:

$$\chi^2 = \sum_{t=i}^n \frac{(f_o - f_e)^2}{f_e}$$

t = i

Where

χ^2 = Chi square

f_o = observed value (frequency)

f_e = expected value (frequency)

n = period

E = summation.

Chi-square is a measure of the discrepancy between observed and expected frequencies.

After calculating the chi-square (χ^2) with the formula shown above, comparison is then made between the calculated χ^2 and the “Critical value” of χ^2 obtained from χ^2 table.

DECISION RULE

1. Accept null hypothesis (H_0) if the calculated χ^2 is less than or equal to the critical value of χ^2 and reject the alternative hypothesis (H_1).
2. Reject the null hypothesis (H_0) if the calculated χ^2 is greater than the critical value of χ^2 and accept the alternative hypothesis (H_1).

THE DEGREE OF FREEDOM (D.F)

According to Anderson and Zeldith (1958:259) “the element that determines which Chi-square (χ^2) distribution applies in a given case is called the number of degree of freedom (n.f) in the Chi-square table.

To carry out the χ^2 test, the degree of freedom and the level of significance are very imperative. The degree of freedom refers also to the components of chi-square which are free to vary randomly and independently once the border total have specified.

The DF are calculated thus:

$$DF = (r-1) (c-1)$$

Where

r = The number of rows in the particular table of our concern

c = The number of columns in the particular table of our concern

The Level of Significance

The levels of significance (8) are given in the χ^2 table. The researcher would employ 0.05 and 0.95 levels of significance in testing of hypotheses.

Finally, the calculated χ^2 and tabulated χ^2 are compared and decision made.

The chi-square distribution will be attached in Appendix C.

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CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF DATA

4.1 PRESENTATION OF DATA

Ordinarily, a response from the chief executive or the accountant would have served the purpose for the response to the questionnaires. The researcher chose to distribute a total of 4 questionnaires to top management personnel in each industry who represent the crux of the company's management. The essence of this was to be sure of a reliable, accurate and valid response.

Out of a total of 12 questionnaires distributed, 10 were returned in this order.

INDUSTRIAL PROMOTER NIGERIA LIMITED

SPRING FIELD NIGERIA LIMITED

DELUZ PAINTS INDUSTRIAL LIMITED

For the purpose of the analysis, the 10 questionnaires returned are to be assumed a complete 100%

Table 4.1

COMPANIES	FREQ	%	TOTAL		GRADE OF	WORKERS
	FREQ	%	FREQ	%	MANAGERIAL HEADS	ACCOUNTS STAFF
Industrial Promoter Nigeria Limited Aba	4	100	4	40	2	2
Spring Field Nigeria Limited	4	100	4	40	2	2
Deluz Paints	2	100	2	20	1	1

Industrial Limited Enugu						
TOTAL	10	100	10	100	5	5

In accordance with what was stated in chapter three, statistical tables using percentages are used in the data analysis while chi-square and coefficient of correlation technique are used in the testing of the hypotheses

4.2 ANALYSIS OF DATA

QUESTIONNAIRE ANALYSIS:

QUESTION NO. 3: Are you aware of the existence of tax incentives scheme?

Table 4.2 Analysis of Question 3

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	4	100	4	100	2	100	10	100
No	-	-	-	-	-	-	-	-
Total	4	100	4	100	2	100	10	100

100% of the respondents accept the awareness of the existence to tax incentives scheme.

Question No. 4: What are the basis for granting these incentives?

Table 4.3 Analysis of Question 4

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Profit margin	-	-	1	25	-	-	1	10
Nature of goods	3	75	1	25	2	100	6	60
Staff strength	1	25	2	50	-	-	3	30
Sales volume	-	-	-	-	-	-	-	-
Total	4	100	4	100	2	100	10	100

75% of the respondents at industrial promoters said that tax incentives are based on the nature of goods produced and its importance to the general public while 25% agreed that tax incentives are based on the staff strength.

At Spring Field Nigeria Limited, 50% believed that tax incentives are based on staff strength. At the same time, 25% said that nature of goods produced is the basis while the remaining 25% agrees that the incentives basis while the remaining 25% agrees that the incentives basis is focuses on profit margin.

At Deluz paints industries limited, 100% agrees that tax incentives basis is on nature of goods produced.

On the whole, 10% of the respondents agreed that tax incentives is based on profit margin, 60% said that it is based on the nature of goods produced while 30% believed that it is on staff strength.

Question 5: Are the tax incentives you receive adequate for your company to enhance them in terms of investment and employment levels of your company?

Table 4.4 Analysis of question No. 5

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	1	2	-	-	-	-	1	10
No	3	75	4	100	2	100	9	90
Total	4	100	4	100	2	100	10	100

75% of the respondents at industrial promoters agree the inadequacy of the tax incentives their firm receives while 27% of the respondents feel that the incentives are enough.

At Spring Field Nigeria Limited, 100% of the respondents totally agree on the inadequacy of the incentives.

Also at Deluz Paint Industrial Limited, 100% said the incentives are not enough.

On the whole, 10% believe that the incentives are enough while 90% believe that the tax incentives provided are not enough.

Question 6: Do you think that the tax incentives have positive influence on the investment pattern of small scale industries?

Table 4.5 Analysis of question No. 6

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	4	100	2	50	2	100	8	80
No	-	-	2	50	-	-	2	20
Total	4	100	4	100	2	100	10	100

100% of respondents at industrial promoters Nigeria Ltd believe that tax incentives positively influenced the investment pattern of small scale industries.

At Spring Field Nigeria Limited, 50% think that tax incentives have positive influence while the other 50% has a contrary opinion.

At Deluz Industrial Limited, 100% feels that these incentives have positive influence.

So on the whole, 80% of the respondents think that tax incentives have positive influence on the investment pattern of small scale while 20% oppose the view.

Question No. 7: What is your industry's position both in capital during the relief period when compared to periods of non-existence of tax relief?

Table 4.6 Analysis of question No. 7

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Stable	1	25	-	-	-	-	4	10
Increasing	3	75	4	100	2	100	9	90
Decreasing	-	-	-	-	-	-	-	-
Total	4	100	4	100	2	100	10	100

At industrial promoters, 25% of the respondents agreed that both capitals during the relief periods while 75% believes that there was an increase.

Subsequently, at Spring Field Nigeria Limited, 100% agrees that there was an increase and similar response was collected from respondents at Deluz Paint Industrial Limited.

On the whole, 10% believes that there was a stable position while 90% believes that there was an increase.

Question No. 8: If your firm's business operations successfully increased during the relief periods, do you think it is function of the relief?

Table 4.7 Analysis of question No. 8

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	2	50	3	75	1	50	6	60
No	2	50	1	25	1	50	4	40
Total	4	100	4	100	2	100	10	100

50% of respondents at the industrial promoters are of the view that the increase in the firm's business operations is a function of tax reliefs while the complementary 50% are of the negative view.

Then at Spring Field Nigeria Limited, 75% of the respondents believe that the increase was caused by tax reliefs 25% said no.

Also at Deluz Industrial Limited, 50% believes that the increase was the function of the incentives whereas 50% oppose the opinion.

So on the whole, 60% of the opinion that the increase is a function of tax incentives while 40% do not believe so.

Question No. 10: Have you thought of diversification or to go into expansion moves due to the surplus arising from these incentives?

Table 4.9 Analysis of question No.10

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	-	-	4	100	2	100	6	60
No	4	100	-	-	-	-	4	40
Total	4	100	4	100	2	100	10	100

100% of the respondents at industrial promoters said that they have not thought of diversification.

At Spring Field Nigeria Limited, 100% of the respondents agree that it has been their major pre-occupation.

Also at Deluz Industrial Limited, 100% responded positively and even gave instances.

On the whole, 60% of the respondents agree that they have thought of expansion and diversification due to surplus from tax reliefs while 40% did not think in that direction.

Question No. 11: Do you believe that entrepreneurs are motivated primarily by these tax incentives?

Table 4.10 Analysis of question No. 10

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	3	75	3	75	1	50	7	70
No	1	25	1	25	1	50	3	30
Total	4	100	4	100	2	100	10	100

75% of the respondents at the industrial promoters believe that entrepreneurs are motivated by these incentives while 25% does not believe so.

At Spring Field Nigeria Limited, 75% also agrees while 25% disagrees.

50% at Deluz Industrial Limited have the belief that entrepreneurs are motivated by these incentives whereas the other 50% does not believe so.

75% of the respondents at the industrial promoters believe that entrepreneurs are motivated by these incentives while 25% does not believe so.

At Spring Field Nigeria Limited, 75% also agrees while 25% disagrees.

50% at Deluz Industrial Limited have the belief that entrepreneurs are motivated by these incentives whereas the other 50% does not believe so. On the whole, 75% of the respondents agree that entrepreneurs are primarily motivated by tax incentives while 30% opposing view.

Question No. 11: Generally, how would you rate the effects of tax incentives on the small scale industrial development?

Table 4.10 Analysis of question No. 11

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Very significant	4	100	2	50	1	50	7	70
significant	-	-	2	50	1	50	3	30
No significant	-	-	-	-	-	-	-	-
Total	4	100	4	100	2	100	10	100

100% of the respondents of industrial promoters are of the opinion that tax incentives have very significant impact on the industrial development.

At Spring Field Nigeria Limited, 50% has the opinion that the effect is very significant while the other 50% holds the views that the impact is just significant.

Finally at Deluz Paint Industrial Limited, 50% are of the opinion that it has very significant impact while the other 50% holds that the impact is just significant.

On the whole, 70% of the respondents view it a just significant impact.

Question No. 12: What would you say is the effect of the scheme on your employment pattern over the relief periods?

Table 4.11 Analysis of question No. 12

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Very significant	1	25	-	-	-	-	1	10
significant	2	50	2	50	1	50	5	50
NoT significant	1	25	2	50	1	50	4	40
Total	4	100	4	100	2	100	10	100

25% of the respondents of industrial promoters are of the opinion that the effects of tax incentives on the employment level is very significant, 50% feels the impacts is just significant, while 25% feels it has no impact at all.

At Spring Field Nigeria Limited, 50% has the opinion that the effect is very significant while the other 50% holds the views that the impact is just significant.

Finally at Deluz Paint Industrial Limited , 50% are of the opinion that it has very significant impact while the other 50% holds that the impact is just significant.

On the whole, 10% of the respondents views believe that the impact is very significant. 50% thinks the impact is just significant, while 40% believes it has no impact.

Question No. 13: Would you want these incentives to be abolished?

Table 4.12 Analysis of question No. 13

Options	Industrial Promoter	Spring Field	Deluz Paints	Total
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	Nigeria Limited		Nigeria Limited		Industrial Limited			
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	-	-	-	-	-	-	-	-
No	4	100	4	100	2	100	10	100
Total	4	100	4	100	2	100	10	100

The whole respondents do not want the incentives to be abolished?

Question No. 14: Do you feel that the period of 5 years tax relief for small scale industries is ideal for the objective of the scheme to be achieved?

Table 4.13 Analysis of question No. 14

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	2	50	1	25	-	-	3	30
No	2	50	3	75	2	100	7	70
Total	4	100	4	100	2	100	10	100

50% of the respondents at industrial promoters, believe that the period of 5 years tax relief is ideal for small scale industries for the achievement of the objectives of the scheme. 50% do not agree with the period.

At Spring Field Nigeria Limited, 25% feels that the period is ideal while 75% feels that the period is not ideal at all.

At Deluz Industrial Limited, 100% feels that the period is not ideal at all.

So on the whole, 30% of the respondents are of the view that 5 years is ideal while 70% feels that the period is not ideal.

Question No16:How would you rate the capital outlay requirement of the scheme?

Table 4.14 Analysis of question No. 15

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Too high	1	25	-	-	-	-	1	10
Moderate	2	50	3	75	2	100	7	70
Low	1	25	1	25	-	-	2	20
Total	4	100	4	100	2	100	10	100

25% of the respondents at industrial promoters, believe that the capital outlay requirement of the scheme is too high. 50% of the respondents feel that it is just moderate while the remaining 25% feels it is low.

At Spring Field Nigeria Limited, 75% thinks it is low.

At Deluz Industrial Limited, 100% feels it is moderate.

So on the whole, 10% of the respondents believe the outlay is too high. 75% agrees that it is moderate while 20% said that it is low.

4. TESTING OF HYPOTHESES:

This section attempts to test the hypotheses formulated at the chapter one of this project. The hypotheses are tested with two techniques;

1. Coefficient of correlation
2. Chi-square

TESTING OF HYPOTHESES 1:

Ho: Tax incentives have negative influence on the investment pattern of the small scale industries.

Hi: Tax incentives have positive influence on the investment pattern of the small scale industries.

Correlation coefficient technique is used. Two variables x and y are used.

X represents the amount of tax incentives granted to the industries (small scale) for the period of five (5) years that ranged from 2006 to 2010.

These figures were collected from the office of the Accountants of the selected industries. While Y represents the levels of investment pattern during that period.

TAX INCENTIVES AND INVESTMENT LEVELS OF INDUSTRIAL PROMOTERS ABA

PERIODS	X	Y	X - $\bar{X}$	Y - $\bar{Y}$	(X - $\bar{X}$)(Y - $\bar{Y}$)	(X - $\bar{X}$) ²	(Y - $\bar{Y}$) ²
	N,000	N,000					
2006	430	1800	-0.2	-1	0.2	0.04	1
2007	400	1700	-3.2	-11	-35.2	10.24	121
2008	400	1650	-3.2	-16	51.2	10.24	256
2009	450	1900	1.8	9	16.2	3.24	81
2010	480	2000	4.8	19	91.2	23.04	361
	$\Sigma 2160$	$\Sigma 9050$			$\Sigma 194$	$\Sigma 46.8$	$\Sigma 820$

$$R = \frac{(X - \bar{X})(Y - \bar{Y})}{\sqrt{\Sigma (X - \bar{X})^2} \sqrt{\Sigma (Y - \bar{Y})^2}}; \bar{X} = 43.2$$

$$\frac{194}{\sqrt{46.8}} \quad \frac{1}{\sqrt{820}}$$

$$\frac{194}{\sqrt{6.84}} \times \frac{1}{\sqrt{28.64}}$$

$$R = 0.99$$

Therefore, since the value of R is 0.99 i.e. between 0 and 1, the researcher accepts the alternative hypothesis and rejects the null hypothesis thus the tax incentives have positive influence on the investment levels of small scale industries.

Analyzing the data collected from spring field Nigeria Limited;

$$R = \frac{(X - \bar{X})(Y - \bar{Y})}{\sqrt{\Sigma (X - \bar{X})^2} \sqrt{\Sigma (Y - \bar{Y})^2}}$$

TAX INCENTIVES AND INVESTMENT LEVELS OF SPRING FIELD NIGERIA LIMITED ABA

PERIODS	X	Y	$X - \bar{X}$	$Y - \bar{Y}$	$(X - \bar{X})(Y - \bar{Y})$	$(X - \bar{X})^2$	$(Y - \bar{Y})^2$
2006	400	1800	-0.8	-1	0.8	0.64	1
2007	380	1700	-2.8	-11	30.8	7.84	121
2008	360	1600	4.8	-12	100.8	23.04	441
2009	450	1900	4.2	9	37.8	17.64	81
2010	450	2050	4.2	24	100.8	17.64	576
	$\Sigma 2040$	$\Sigma 9050$			$\Sigma 271$	$\Sigma 66.8$	$\Sigma 1720$

$$X = 204/5 = 40.8; \quad Y = 905/5 = 181$$

$$R = \frac{271}{\sqrt{66.8} \sqrt{1720}}$$

$$= \frac{271}{8.17 \times 41.47}$$

$$= \frac{271}{338.80}$$

$$R = 0.80$$

So, since the value of R is 0.80 i.e. $0 < R < 1$, the researcher accepts the alternative hypothesis and rejects the null hypothesis thereby concluding that tax incentives influence positively the investment levels of small scale industries.

Analyzing the data collected from Deluz Paints Industrial Limited

$$R = \frac{(X - \bar{X})(Y - \bar{Y})}{\sqrt{(X - \bar{X})^2} \sqrt{(Y - \bar{Y})^2}}$$

TAX INCENTIVES AND INVESTMENT LEVELS OF DELUZ PAINTS INDUSTRIAL LIMITED

PERIODS	X	Y	X - $\bar{X}$	Y - $\bar{Y}$	(X - $\bar{X}$)(Y - $\bar{Y}$)	(X - $\bar{X}$) ²	(Y - $\bar{Y}$) ²
	N,000	N,000					
2006	300	1500	-9	-37	333	81	1369
2007	350	1700	-4	-17	68	61	289
2008	350	1650	-4	-22	88	16	484
2009	450	2000	6	13	78	36	169
2010	500	2500	11	63	693	121	3969
	$\Sigma 1950$	$\Sigma 9350$			1260	$\Sigma 270$	$\Sigma 6280$

$$\bar{Y} = \frac{935}{5} = 187$$

$$\bar{X} = \frac{195}{5} = 39$$

$$R = \sqrt{\frac{1260}{270} \times \frac{6280}{79.25}}$$

$$= \frac{1260}{16.43 \times 79.25}$$

$$= \frac{1260}{1302.08}$$

$$R = 0.97$$

Therefore, since the value of R is 0.80 that is 0 < R < 1, the researcher accepts the alternative hypothesis and rejects the null hypothesis thus concluding that tax incentives have positive correlation with the investments pattern of small scale industries.

TESTING OF HYPOTHESES 1I:

Ho: The available tax incentives are not enough to motivate and stimulate the small industries to invest or expand their existing investment and employment level.

Hi: The available tax incentives are enough to motivate and stimulate the small industries to invest or expand their existing investment and employment level.

To Test this hypothesis, analysis of question number 5 will be used. The response from the question could be obtained from table 4.5

Question 5: Are the tax incentives you receive adequate for your company to enhance them in terms of investment and employment levels of your company?

Using Chi-square technique, the hypothesis can be tested thus:

This hypothesis will be tested using analysis of question 5 above.

Table 4.4 Analysis of question No 5

Options	Industrial Promoter Nigeria Limited		Spring Field Nigeria Limited		Deluz Paints Industrial Limited		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Yes	1	25	-	-	-	-	1	10
No	3	75	4	100	2	100	9	90
Total	4	100	4	100	2	100	10	100

Using Chi-square

Options	Industrial Promoter Nigeria Limited	Spring Field Nigeria Limited	Deluz Paints Industrial Limited	Total
Yes	1(0.4)	-	-	1
No	3(3.6)	4(3.6)	2(1.8)	9
Total	4	4	2	10

To calculate expected frequency (FE)

$$FE = \frac{(E \text{ ROW}) (E \text{ COLUMN})}{\text{GRAND TOTAL}}$$

$$1 = \frac{1 \times 4}{10} = 0.4$$

$$3 = \frac{9 \times 4}{10} = 3.6$$

$$4 = \frac{9 \times 4}{10} = 3.6$$

$$2 = \frac{9 \times 2}{10} = 1.8$$

Observed freq	Expected freq	Deviation	Deviation squared	Squared/weighted deviation
F _o	F _e	F _o -F _e	(F _o -F _e) ²	$\frac{(F_o - F_e)^2}{F_e}$
1	0.4	0.6	0.36	0.90
3	3.6	(0.6)	0.36	0.10
4	3.6	0.4	0.16	0.04
2	1.8	0.2	0.04	0.02
				1.06

Level of significance = 0.05

Degree of freedom = (r-1) (c-1)

= (2-1) (3-1) = 1 x 2 = 2

X² calculated = 1.06

X² table = 5.99

Decision Rule:

Accept H₀, if X² ≤ X²_t

Reject H₀, if X² ≥ X²_t

X² = 1.06

X² = 5.99

Since $X^2_{\text{calculated}} \leq X^2_{\text{table}}$, the researcher thereby accepts the null hypotheses hence proves that the available tax incentives are not enough to motivate and stimulate small scale industries to invest and expand the existing investment and employment level .

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 RESULT OF FINDINGS

From the questionnaire distributed and responses analyzed, the researcher can summarize the finding thus:

The majority of the respondents are aware of the existence of tax incentives. These tax incentives are based on the production zone. The importance of the goods and the extent the goods go to satisfy people's wants determine the extent of tax exemption to be granted to the industry.

It is fact that these incentives are consistently granted to the industries that merit them. But at the same time, it was observed that the available incentives are not enough to boost the morale and motivate the industries in order to achieve the desired level of development in the state.

These notwithstanding, the management of these industries have been committing the surplus from these incentives to fund-generating-investment. This gives them greater strength to exploit the opportunities around and open to them.

Consequently, the capital base and the level of working capital increased significantly during the period of effective tax exemption. This led to the expansion in the scope of business activities of these industries which subsequently created the need for an increase in the level of employment thereby reducing the

rate of unemployment. So from the respondents, one could understand that the money government is losing is well justified.

Invariably, it can be deduced that tax incentives have very significant impact or effect on the small scale industrial development in the state. Though, the respondents on the majority feel bad about the tax administration.

Finally, the respondents also feel that the period of 5 years tax relief to small scale industries is not just ideal.

5.2 SUMMARY

In evaluating the effect of tax incentive's inducement effect on small scale industries, there seems to be a typical wave-like-movement in the investment pattern of these industries with tax playing significant role.

Tax incentives influence significantly the investment decisions of organizations. So this study looked into the extent of these influence.

Based on the results of the questionnaires distributed and response obtained by the researcher, the work can be summarized thus:

There is implicit awareness of the existence of tax incentives. There is however a slight complication along the line. There exist conflict of interest between the interest of government and the interest of the individual companies. At times, instead of achieving the government objectives, they tend to pursue their own personal objectives. For instance, government may grant an incentive to increase

the level of employment in the state but instead of using the surplus fund to diversify into other investment so as to employ more workers, the industries may use the surplus to increase the level of welfare of workers already in their payroll.

One can also understand that the incentives are not adequate for attainment of the level of growth and development the government has in mind. This notwithstanding, the available incentives increased the employment pattern of industries. The marginal liquidity bestowed on the industries by the government from the scheme is justified, in that desired effect (increased investment) is realized.

The researcher found out that investors are not pleased with the system of tax administration in the state. That this bad administration adds to the causes of complication in the understanding of the purpose of tax incentives.

Finally, from the survey, small scale industries feel that five (5) year period should be extended to ten years on the grounds that at the end of the exemption period, the benefiting industry must have grown enough to bear its tax liability without much effect on its production capacity.

5. 3. CONCLUSION

Based on the findings of this study, it is conclude that most companies are incentive-induced. Though, this is not noticed at a glance. The industries have invested more when there were higher profits which tax incentives would have been instrumental to. Heavy taxes without these concessions will automatically lower the profit after tax.

From the correlation between tax incentives and capital outlay an investment, one can say that the existence of these incentives are not optimally appreciated by most investors in the state especially the ignorant ones. They understand these incentives as one of those things which have been there as far as tax is concerned without understanding that it is meant to help and encourage them in their financial activities.

But this notwithstanding, the researcher from the data collected and analyzed, could conclude that a studied were able to commit additional fund on investment during the effective tax relief period. Furthermore, it was understood that the more incentives are offered in an area, the more investors are attracted to such area.

5.4 RECOMMENDATION

The following recommendations are for ensuring effective impact of tax incentives:

1. Industrialists should be educated more on objectives of tax incentives scheme so that they will reconcile their personal objectives with that of the government. And when this is done, the full benefit of the incentive is achieved.
2. These tax incentives should effectively be extended to private entrepreneurs. The accurate records/accounts of their financial activities should be properly kept for future tax purposes.
3. The government should set up monitoring committees to be looking into the activities of tax administrators. This is to curb the illegality in their system. This committee should be suggesting ways of collecting taxes in order to minimize the incidence of tax evasion.
4. Also government should devise a means of eliminating the incidence of double-taxation hence this tends to weigh down the ability of private entrepreneurs.
5. Government should extend more incentive to export producers and agricultural produce companies in order to encourage and uplift the level of international trade which may bring about a state of equilibrium in trade.

of payment. Consequently, this will increase the value of naira which is in a deteriorate condition.

6. The given year tax relief period should be extended to ten years. This will enable the small scale industries to increase both their assets base and working capital level. Hence this will help them to meet as at when due, their short term financial liabilities. Also the extension will give the benefiting industries enough fund and time, so as to contend with some aggressive competitions from large scale industries and scorching economic conditions of the country.

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Appendix A:

School of postgraduate Studies
Faculty of Business administration
Department of Accountancy
University of Nigeria
Enugu Campus.
8th July 2012

Dear Sir/Madam,

I am an MBA student of the above mentioned university.

I request for your assistance in filing the following questionnaire for my research work on the Impact of Tax Incentives in Growth and Development of Small and Medium Scale Industries in Nigeria.

I will be very grateful if you can provide the most reliable and precise answers to the questions.

All information will be treated in strict confidence and purely used for academic purpose alone.

Thanks,

Yours faithfully,

Jiakponna Chinedu

QUESTIONNAIRE

Instruction: Tick (✓) in the box to indicate your choice(s)

1. Indicate your position: Senior staff ☐ intermediate staff ☐ , junior staff ☐

2. How long have you been in this position: some months ☐ , between 1-5yrs ☐ , above 5 ☐ ☐

3. Are you aware of the existence of tax incentives scheme? Yes ☐ No ☐

4. What is the basis for granting these incentives? Profit margin ☐ nature ☐ of goods ☐ strength ☐ les volume ☐

5. Are these incentives consistently granted to you? Yes ☐ No ☐

6. The tax incentives you receive is it adequate for your firm? Yes ☐ No ☐

7. Do you think that tax incentives have positive influence on the investment pattern of small pattern of small scale industries? Yes ☐ No ☐

8. What is your industry's position both in capital asset base and working capital during the relief period when compared to periods of non-existence of tax relief? Stable ☐ In ☐ ng ☐ d ☐ ing ☐

9. If your firm business operations successfully increased during the relief period, do you think it is a function of the relief? Yes ☐ No ☐

10. Have you ever thought of establishing a new business or go into expansionary move due to the surplus arising from these incentives? Yes ☐ No ☐

11. In your belief that private entrepreneurs are motivated primarily by these incentives Yes ☐ No ☐

12. Do you think that the benefit of the incentives scheme accounts for what the government is losing in terms of revenue it would have derived from tax? Yes ☐ No ☐

13. Generally, how would you rate the effect of tax incentives on industrial development? Very significant ☐ significant ☐ Not significant ☐

14. What would you say is the impact of the scheme on your employment pattern over the relief period? Very significant ☐ significant ☐ Not significant ☐

15. What would be the effects of tax incentives, holidays granted to industries if abolished? Very significant ☐ significant ☐ Not significant ☐

16. Specifically, what incentives do you enjoy?.....

17. Have these incentives given you more money to go into extravagant spending instead of increasing your business profit base? Yes ☐ No ☐

18. Would you want these incentives to be abolished? Yes ☐ No ☐

19. If no, could you please suggest any method of improving the system of tax incentives administration

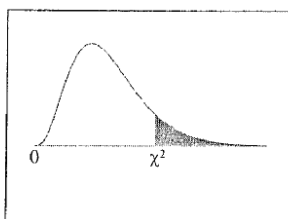
20 What problems do you encounter while pursuing the incentives?.....

21. How would you rate the existing administration of the scheme? Good ☐
fair ☐ bad ☐

22. Do you feel that the period of 5 years tax relief for small scale industries is ideal for the objectives of the scheme to be achieved? Yes ☐ No ☐

23. How would you rate the capital outlay requirement of the scheme? Too high
moderate ☐ low ☐ ☐

Chi-Square Distribution Table



The shaded area is equal to α for $\chi^2 = \chi^2_{\alpha}$.

df	$\chi^2_{.995}$	$\chi^2_{.990}$	$\chi^2_{.975}$	$\chi^2_{.950}$	$\chi^2_{.900}$	$\chi^2_{.100}$	$\chi^2_{.050}$	$\chi^2_{.025}$	$\chi^2_{.010}$	$\chi^2_{.005}$
1	0.000	0.000	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	15.987	18.307	20.483	23.209	25.188
11	2.603	3.053	3.816	4.575	5.578	17.275	19.675	21.920	24.725	26.757
12	3.074	3.571	4.404	5.226	6.304	18.549	21.026	23.337	26.217	28.300
13	3.565	4.107	5.009	5.892	7.042	19.812	22.362	24.736	27.688	29.819
14	4.075	4.660	5.629	6.571	7.790	21.064	23.685	26.119	29.141	31.319
15	4.601	5.229	6.262	7.261	8.547	22.307	24.996	27.488	30.578	32.801
16	5.142	5.812	6.908	7.962	9.312	23.542	26.296	28.845	32.000	34.267
17	5.697	6.408	7.564	8.672	10.085	24.769	27.587	30.191	33.409	35.718
18	6.265	7.015	8.231	9.390	10.865	25.989	28.869	31.526	34.805	37.156
19	6.844	7.633	8.907	10.117	11.651	27.204	30.144	32.852	36.191	38.582
20	7.434	8.260	9.591	10.851	12.443	28.412	31.410	34.170	37.566	39.997
21	8.034	8.897	10.283	11.591	13.240	29.615	32.671	35.479	38.932	41.401
22	8.643	9.542	10.982	12.338	14.041	30.813	33.924	36.781	40.289	42.796
23	9.260	10.196	11.689	13.091	14.848	32.007	35.172	38.076	41.638	44.181
24	9.886	10.856	12.401	13.848	15.659	33.196	36.415	39.364	42.980	45.559
25	10.520	11.524	13.120	14.611	16.473	34.382	37.652	40.646	44.314	46.928
26	11.160	12.198	13.844	15.379	17.292	35.563	38.885	41.923	45.642	48.290
27	11.808	12.879	14.573	16.151	18.114	36.741	40.113	43.195	46.963	49.645
28	12.461	13.565	15.308	16.928	18.939	37.916	41.337	44.461	48.278	50.993
29	13.121	14.256	16.047	17.708	19.768	39.087	42.557	45.722	49.588	52.336
30	13.787	14.953	16.791	18.493	20.599	40.256	43.773	46.979	50.892	53.672
40	20.707	22.164	24.433	26.509	29.051	51.805	55.758	59.342	63.691	66.766
50	27.991	29.707	32.357	34.764	37.689	63.167	67.505	71.420	76.154	79.490
60	35.534	37.485	40.482	43.188	46.459	74.397	79.082	83.298	88.379	91.952
70	43.275	45.442	48.758	51.739	55.329	85.527	90.531	95.023	100.425	104.215
80	51.172	53.540	57.153	60.391	64.278	96.578	101.879	106.629	112.329	116.321
90	59.196	61.754	65.647	69.126	73.291	107.565	113.145	118.136	124.116	128.299
100	67.328	70.065	74.222	77.929	82.358	118.498	124.342	129.561	135.807	140.169