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Tax Incentives and Corporate Profitability of Industrial Manufacturing Firms in Nigeria

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ABSTRACT

The study analysed tax incentives and corporate profitability in Nigeria. It aimed at determining the influence of tax holidays, investment allowances and tax credits on the net profit margin of industrial manufacturing firms in Nigeria. Ex-post-facto design was adopted. Three (3) companies were selected from thirteen (13) industrial manufacturing firms listed on the floor of the Nigerian Exchange Group (NXG) from 2013 to 2023. Ordinary Least Squares (OLS) of the multiple regression models were used to analyze data. The result revealed that Tax Holidays had a positive effect on the Net Profit Margin while Investment Allowance had no statistically significant impact on the Net Profit Margin and Tax Credit had a moderate positive relationship with the Net Profit Margin. Hence, it was concluded that the findings highlight the varying impacts of different tax incentives on firm profitability, with Tax Holidays showing the most significant influence, followed by a moderate effect from Tax Credits, and no impact from Investment Allowance. The researchers recommended that manufacturing firms should participate in policy dialogues and advocacy efforts to influence the design and implementation of tax incentives. Engaging with policymakers can help ensure that the incentives are aligned with industry needs and contribute to sustainable business growth.

Keywords: *Tax Incentives; Corporate Probability, Industrial Manufacturing Firms*

1.0 INTRODUCTION

Tax incentives are used by governments to spike economic growth, attract investment, and enhance the competitiveness of businesses. Tax incentives, therefore, are government measures designed to encourage individuals and corporate bodies to engage in business activities, and make investments by reducing the amount of taxes obligations. These incentives can take various forms, such as tax credits, deductions, exemptions, or reduced tax rates. By bringing down the tax burden on businesses, tax incentives can increase the profitability of businesses through increasing after-tax profits which can lead to increased rates of investment, job creation, and economic activity. The relationship between tax incentives and corporate profitability, however, could be a complex one depending on various factors such as; the design of the incentives, the overall business environment, and the specific characteristics of the businesses involved. Though tax incentives can provide short-term benefits for businesses, their long-term impact on profitability may differ depending on the factors involved.

Tax Incentives have several importance in corporate profitability in Nigeria and indeed the world over such as investment attraction. In the case where tax incentives are used to attract domestic and foreign investment by the reduction of a tax burden on businesses, it can stimulate economic growth, create jobs, and improve the standard of living. Corporate profitability is closely linked to economic growth, as profitable businesses are more likely to invest, expand, and create jobs. Tax incentives that enhance corporate profitability can therefore contribute to the overall economic growth in Nigeria, improve competitiveness of businesses by reducing their tax burden and increasing their after-tax profits. This in turn helps businesses to invest in new technologies, expand operations, and improve their level of competitiveness in the domestic and international markets and lead to corporate profitability. Tax incentives also encourages individuals and businesses to comply and pay their taxes as at when due when such incentives are well designed and helps broaden the tax base thus improve the tax revenue collection in Nigeria. In all, tax incentives and corporate profitability are crucial for Nigeria's economic development. It will attract investment, promote industrialization, stimulate economic growth, and enhance competitiveness, thereby contributing to a more vibrant and sustainable economy.

The Nigerian Companies and Allied Matters Act 1990 as amended, alongside other subsequent amendments includes different legal provisions that offer tax incentives to corporate businesses and individuals. The stimulation of investment in specific areas of the Nigerian economy is the main aim of tax incentives while promoting the inflow of foreign exchange, complementing local suppliers, and encouraging rapid economic growth.

1.1 Statement of the Problem

Various tax incentives have been implemented by the Nigerian government, with the sole aim of attracting investment and enhancing economic growth. These incentives, which include tax holidays, investment allowances, tax credits, and industry-specific incentives, are designed to reduce the tax burden on businesses and encourage economic activities. However, despite all that has been done, there seems not to be effective in enhancing corporate profitability in Nigeria. The knowledge gap presents a crucial challenge for policymakers and business leaders. Without a vivid understanding of how tax incentives influence corporate profitability, it is a strenuous process to assess the true value and effectiveness of these policies. Are businesses able to leverage these tax incentives to achieve higher profitability? Do these incentives translate into long-term economic benefits, or are they simply just for short-term financial relief? These are questions that remain largely unanswered.

The lack of empirical evidence makes it hard to optimize tax incentives, making robust data essential for policymakers to design effective tax policies. Thus, some tax policies may not achieve their full potential, which leads to inefficient resource allocation and a missed chance of economic growth. Businesses need a clear knowledge of the benefits and downsides of tax incentives to make informed decisions to enhance profitability and competitive advantage. This study investigates the relationship between tax incentives and corporate profitability in Nigeria by analyzing empirical data. It aims to identify available tax incentives, measure corporate profitability, and assess the impact of these incentives. The findings will provide policymakers with evidence-based recommendations for designing effective tax incentives and offer businesses strategic guidance on utilizing these incentives for sustainable growth. This research will contribute to better economic policy and a prosperous business environment in Nigeria, ensuring that tax incentives promote economic development and corporate success.

1.2 Research Objective

The main objective of the study is to analyse tax incentives and corporate profitability of Industrial Manufacturing Firms in Nigeria.

1.3 Hypothesis of the Study

The research hypotheses are stated as follows:

$H_0$1: Tax holidays do not have a significant effect on the Net Profit Margin of manufacturing corporations in Nigeria.

$H_0$2: Investment Allowances do not have a significant effect on the Net Profit Margin of manufacturing corporations in Nigeria.

$H_0$3: Tax credits do not have a significant impact on the Net Profit Margin of manufacturing corporations in Nigeria.

1.4 Significance of the Study

This study seeks to explore a subject of great national significance for Nigeria and the corporate world - tax incentives and corporate profitability in Nigeria. The findings have the potential to provide valuable insights and benefits to a diverse range of stakeholders, including government policymakers, business leaders and corporate managers, tax authorities, investors, academics and researchers, government agencies, and the general public. By examining the relationship between tax incentives and corporate profitability in the Nigerian context, it offers a detailed understanding of how tax incentives affect corporate profitability in Nigeria

Government policymakers will benefit from this study through the provision of empirical evidence on the effectiveness of various tax incentives in enhancing corporate profitability. This will enable the policymakers to design and implement more targeted and effective tax incentive policies that promote economic growth and also enhance corporate profitability. Business leaders and corporate managers through this study will gain knowledgeable and practical insight into the use of tax incentives for profitability enhancement, business leaders will also be able to use the information derived from this study to make good decisions concerning investments and strategic planning. The understanding acquired on how different tax incentives can affect profitability will make them capitalize on the benefits more effectively.

Tax authorities will benefit from this study as it gives a clear understanding of how different tax incentives impact corporate profitability and economic activity. This knowledge will help in the effective administration and monitoring of tax incentive programs, ensuring that they achieve their intended objectives. Improved implementation and insight can lead to better compliance and more efficient tax revenue collection.

Investors; both domestic and foreign normally depend on tax policies' stability and effectiveness when making investment decisions, as a result of this study, investors will have a clearer understanding of how tax is viewed in Nigeria. The knowledge of how tax incentives affect corporate profitability will reduce investment risks and increase confidence due to the data for assessing the potential returns on investment, particularly in sectors where tax incentives are prevalent.

Academics and researchers will also benefit from this study since it will contribute to the academic literature on tax incentives and corporate profitability, particularly in emerging economies like Nigeria. It will serve as a foundation for future research in this area.

The general public will also indirectly benefit from this study of tax incentives and corporate profitability through the potential economic improvements as a result of more efficient tax policies and business practices. The increase in corporate profitability and economic activity, it can lead to job creation, improvement in the standard of living, and improved public services funded by the increase in tax revenues. By contributing to a more prosperous and stable economy, the study will ultimately improve the quality of life for Nigerian citizens.

Through the understanding of how tax incentives impact corporate profitability, this study can contribute to fostering economic development in Nigeria. Effective tax incentives can attract investment, stimulate growth, and create employment opportunities, ultimately contributing to a more prosperous and stable economy.

2.0 REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

The conceptual relationships between the variables were depicted in Figure 1

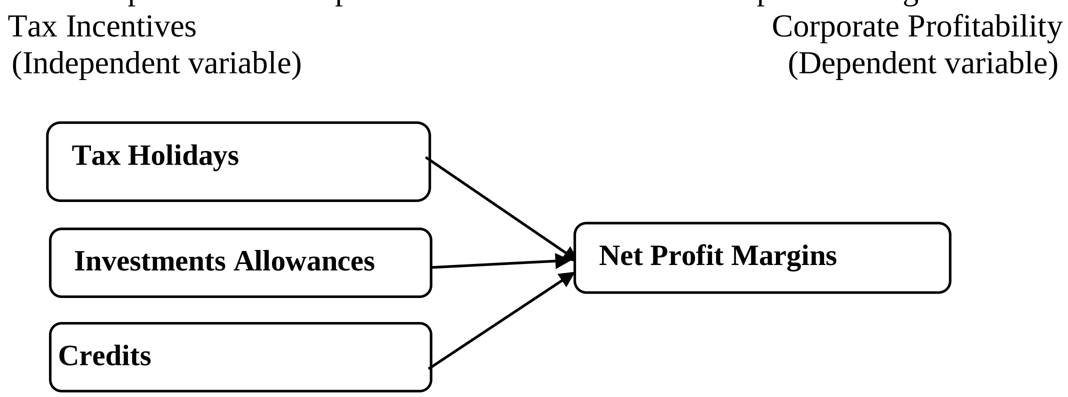

Figure 1: Conceptual framework of variables
Source: Researchers' Conceptualization (2024)

2.1.1 Corporate Profitability

The profitability of a company refers to its ability to generate earnings relative to its expenses, costs, and overall capital used during a certain period. It is a key indicator of the company's financial health, usually assessed using multiple profit margins, net income, and return on investment. All these provide necessary insight into a specific part of a company's financial performance. Different aspects show the level of corporate profitability such as gross profitability which shows how efficient a company is in generating revenue from its core activities; labor, raw materials, and other supplies, while operating profitability another aspect of a company's profitability accounts for both direct and indirect costs, offering a clearer picture of the company's operational efficiency. Net profitability, the bottom line, indicates the overall effectiveness in managing all expenses, including taxes and interest.

There are three valuable metrics used in the evaluation of a company's profitability which are; return on assets (ROA), return on equity (ROE), and return on investment (ROI). ROA measures how efficiently a company is using its assets to generate earnings, thereby providing insight into how well the company is utilizing its resources. ROE evaluates the profitability relative to shareholders' equity, indicating how effectively a company is using the investors' capital to generate profits. ROI assesses the efficiency of an investment, comparing the magnitude and timing of gains to the cost of the investment.

Tax incentives significantly enhance corporate profitability by reducing tax burdens, increasing cash flow, encouraging investment, and fostering a competitive business environment. They enable companies to allocate more resources towards growth and development, leading to sustained profitability and economic benefits. For example, the temporary reductions or eliminations of taxes for new businesses or investments in certain regions can lead to substantial short-term profitability improvements. Also, tax credits for research and development expenditures can significantly lower tax liabilities, making it more feasible for companies to invest in innovation.

2.1.2 Tax Incentives

Tax incentive is an aspect of a government's taxation policy designed to incentivize or encourage a particular economic activity by reducing tax payments. Tax incentives has long been a tool used by governments to stimulate economic activity and drive investment in desired sectors. These incentives, in their various forms, aim to reduce the financial burdens on businesses, encouraging growth and innovation. Tax incentives can have both positive and negative impacts on an economy. Among the positive benefits, if implemented and designed properly, tax incentives can attract investment to a country. Other benefits of tax incentives include increased employment, higher number of capital transfers, research and technology development, and also improvement to less developed areas. Elements of tax incentives include tax credits, holidays, deductions, exemptions and accelerated depreciation. Tax incentives of firms can be assessed using three typical costs; resource allocation costs, compliance costs, and revenue costs.

Despite the benefits derived from tax incentives, they are not without controversy and challenges. There are still primary concerns about the cost of government revenue. By reducing the amount of tax collected, extensive tax incentives can lead to budget shortfalls, impacting public services and infrastructure. For instance, generous tax incentives might result in reduced funding for essential services like education and healthcare, necessitating a careful balance of priorities. Additionally, the complexity and compliance associated with tax incentives can be burdensome for businesses. The detailed eligibility criteria and regulatory requirements create administrative hurdles and increase the cost of tax planning and compliance. Small and medium-sized enterprises (SMEs), in particular, may struggle to navigate these complexities, putting them at a disadvantage compared to larger corporations.

The link between tax incentives and corporate profitability is complex and significant. By reducing tax liabilities, encouraging capital investments, stimulating innovation, supporting market expansion, and improving cash flow, tax incentives create a favorable financial environment for businesses. Furthermore, by reducing financial risks, attracting talent, and enhancing corporate reputation, tax incentives contribute to long-term profitability and sustainable growth. Policymakers and business leaders must continue to design and implement tax incentives strategically to maximize their positive impact on corporate profitability and overall economic health.

2.1.3 Tax Holidays

A tax holiday is a time when certain taxes are dismissed or reduced, often for certain types of spending. This is intended to encourage consumer spending or make certain necessary purchases less costly (Safane, 2022). A tax holiday is often set through legislation. It can be done either at the federal or state level. The government passes a law that lowers or gets rid of certain taxes for a certain time. In many states, the same sales tax holidays happen every year.

2.1.4 Investment Allowances

An investment allowance is a tax break extended to companies, motivating them to invest capital in various ventures. By providing this incentive, the economy benefits as capital investment grows, ultimately contributing to overall economic health. Businesses can divert a portion of their earned income into eligible investment opportunities, subject to criteria set by tax agencies. These allowances vary based on factors like industry type and business size. The goal is to promote business growth and financial stability, benefiting both companies and consumers.

There are limitations imposed in terms of how much of a company’s resources can be diverted into investments, usually in the form of an annual investment allowance set by each of the relevant tax agencies.

With an investment allowance, a business has the opportunity to divert a portion of its earned income into investment opportunities that meet the basic criteria established by a tax agency. Not all forms of investment will meet the qualifications set by the revenue agency in question, making it necessary for business owners to become familiar with all investment types that would be eligible for the tax break. According to Tatum (2024), it is not unusual for national tax agencies to develop a scale of how much of an allowance a given company may claim each tax year, based on factors such as industry type and the size of the business operation in terms of generated revenue or net profit. The goal of investment allowance to companies that qualify is to enhance the chances that those businesses will be able to continue operations and contribute to the health of the economy.

The synchronization between investment allowances and corporate profitability is clear though diverse and comprehensive. By reducing tax liabilities, encouraging capital investments, improving cash flow, fostering innovation, mitigating investment risks, enhancing competitive advantage, and promoting long-term growth, investment allowances play a crucial role in enhancing a company's financial performance. Investment allowances incentivize businesses to invest in modern equipment, technology, and infrastructure. These investments drive productivity improvements, cost reductions, and innovation, leading to competitive advantages in the market. Companies that continuously upgrade their capabilities are better positioned to offer superior products and services, capture larger market shares, and achieve higher profitability.

2.1.5 Tax Credit

Tax credit refers to an amount of money that taxpayers can subtract directly from the taxes they owe. This is different from tax deductions, which lower the amount of an individual’s taxable income Segal (2024). The value of a tax credit depends on the nature of the credit. Certain types of tax credits are granted to individuals or businesses in specific locations, classifications, or industries. Unlike tax deductions, which reduce taxable income, tax credits directly reduce the amount of tax owed, making them a powerful financial incentive. Understanding how tax credits influence corporate profitability is essential for both policymakers and businesses. Tax credits are categorized into refundable and nonrefundable. Refundable credits, such as the Earned Income Tax Credit, can result in a refund if they exceed your tax liability. Nonrefundable credits, however, only reduce your tax owed to zero and do not contribute to a refund.

Tax credits can be a valuable way to reduce your tax bill, but it's important to understand the difference between refundable and nonrefundable tax credits. Refundable tax credits are beneficial because they cannot only reduce the amount of tax you owe, but they can also result in a tax refund if the credit exceeds the amount of tax you owe. On the other hand, nonrefundable tax credits can only reduce your tax liability to zero, and any excess credit is typically lost. It's crucial to carefully consider which tax credits you qualify for and how they will impact your overall tax situation. Understanding the intricacies of refundable and nonrefundable tax credits can help you take full advantage of the benefits available to you and ensure you maximize your tax savings (Sepulveda 2023).

2.2 Theoretical Framework

The connection between Tax Incentives and Corporate profitability of firms cannot be determined effectively without taking theories into view; for this cause, the Resource based view theory and Growth theory.

2.2.1 Resource-Based View Theory

The Resource-Based View (RBV) theory, introduced by Jay B. Barney in 1991, emphasizes the internal resources and capabilities of a firm as the foundation for competitive advantage and superior performance. According to RBV, firms can achieve sustained competitive advantage by acquiring and leveraging valuable, rare, inimitable, and non-substitutable resources and capabilities (Barney, 1991). The theory posits that resources such as technology, human capital, brand reputation, and organizational culture are critical determinants of a firm's ability to create value and outperform competitors.

Resource Based View (RBV) analyzes and interprets resources of the organizations to understand how organizations achieve sustainable competitive advantage. The RBV focuses on the concept of difficult-to-imitate attributes of the firm as sources of superior performance and competitive advantage (Hamel and Prahalad, 1996). Resources that cannot be easily transferred or purchased, that require an extended learning curve or a major change in the organization's climate and culture, are more likely to be unique to the organization and, therefore, more difficult to imitate by competitors. According to Conner (1991), performance variance between firms depends on its possession of unique inputs and capabilities.

This study is anchored on RBV theory because it provides a framework for understanding how tax incentives can contribute to corporate profitability. By viewing tax incentives as valuable resources, this study can examine how firms exploit these resources to improve their profitability. The importance of RBV theory to this study lies in its ability to explain how tax incentives can lead to sustained competitive advantage and profitability, highlight the importance of resource exploitation and leveraging, and provide a theoretical foundation for understanding the relationship between tax incentives and corporate profitability. By applying RBV theory, this study can contribute to the existing literature on tax incentives and corporate profitability, providing new insights into the mechanisms by which tax incentives influence firm performance.

2.3 Empirical Review

Table 1: Summary of Empirical Review

S/N	Authors	Country	Title	Methodology	Findings
1	Garibov (2024)	Russia	Tax incentives for investments in NPOs in a mobilization economy.	The study primarily used analysis and synthesis, analogy and description, induction and deduction, and statistical grouping.	The study established the effectiveness of proposed legislative changes based on the calculation of the shortfall in State budget revenues and the allocation of advantages of these proposals

Source: Researchers' Compilation (2024)

S/N	Authors	Country	Title	Methodology	Findings
2	Rohan and Pushpa (2024)	India	Analysing The Impact of Tax Incentives on Savings and Investments	The study primarily used primary data, i.e., a questionnaire. The study primarily used primary data, i.e., a questionnaire.	The findings indicated tax incentives significantly impact savings habits, investment portfolio checks, and awareness among respondents.
3	Sonjaya *et al.* (2024)		Analysis of the Effectiveness of Tax Incentives on Energy Sector Investments	Methodologically, the study synthesized existing literature and integrated insights from economics, environmental science, and policy studies. The study used multi-perspective approaches, drawing upon empirical studies, theoretical insights, and practical considerations to provide a comprehensive analysis.	The findings indicated an underscored the importance of collaborative action among policymakers, industry stakeholders, and researchers to drive effective energy transition strategies.

Source: Researchers' Compilation (2024)

S/N	Authors	Country	Title	Methodology	Findings
4	Camino-Mogro (2023)	Spain	Tax incentives, private investment, and employment: Evidence from an Ecuadorian reform.	This research used event study designs and difference-in-differences models.	Findings indicated that the policy implementation does not have an effect on the attraction of new investments and the creation of new employment for prioritized sectors compared to non-prioritized sectors over the last quarter of 2018 and 2019.
5	Gitonga, Kuria, and Kamau (2023)	Kenya	Effects of Tax Incentives on Financial Performance of Manufacturing Firms in Nyeri County.	A descriptive research design was adopted.	The study established a significant relationship between capital allowance and the financial performance of manufacturing firms in Nyeri County.

6	Jinming and Din (2023)	China	The Relationship Between Tax Incentives, Financial Performance and CSR - Evidence from Chinese listed companies.	This research used listed company data from the China A-share market from 2008 to 2018; financial performance as the mediator, and used the mediation test model.	Findings revealed that direct tax incentives can better stimulate the CSR of all companies and part of the incentive effect is realized through financial performance, especially for state-owned enterprises and non-manufacturing enterprises.

Source: Researchers' Compilation (2024)

S/N	Authors	Country	Title	Methodology	Findings
7	Nazar and Mawarni (2023)	Indonesia	Return on Asset, Return on Equity, And Net Profit Margin: Influence Stock Price.	Panel data regression with a quantitative data approach was employed.	The findings indicated that ROA, ROE, and NPM simultaneously show a 16% effect on stock prices and partially ROA, ROE, and NPM are significant factors that influence stock prices.
8	Aguirre-Quezada (2022)	America	Tax incentives and financial performance: empirical evidence of Ecuadorian companies.	The researcher adopted multiple regression model and comparative analysis using economic indicators.	The findings indicated that companies that apply tax incentives reflect position; therefore, the smaller the size of the company, the higher levels of profitability demonstrated in terms of business investment.

Source: Researchers' Compilation (2024)

S/N	Authors	Country	Title	Methodology	Findings
9	Akomolafe and Ohanyelu (2022)	Nigeria	Tax Incentives and Firm's Profitability: Evidence from Manufacturing Companies.	The researcher employed a primary source of data which was questionnaire.	Findings revealed that tax incentives hurt the profitability of firms of listed manufacturing companies in Nigeria.
10	Oludi and Onowu (2022)	Nigeria	Tax Incentive Practices and Financial Performance of Consumer Goods Companies in Nigeria.	The researcher employed secondary data. Multiple regression analysis was conducted with E-View to evaluate the hypotheses.	The findings demonstrated that capital allowance and return on assets have a strong relationship for Nigerian consumer products companies. The investment tax allowance and the return on assets of consumer products companies in Nigeria are not strongly associated. The return on assets of Nigerian businesses that produce consumer items and the tax holidays do not significantly correspond to shareholder value.

Source: Researchers' Compilation (2024)

S/N	Authors	Country	Title	Methodology	Findings
11	Anim *et al*. (2021)	Ghana	Tax Administration, Tax Incentive and SMEs' Growth: The Moderating Effect of Firms Size.	An explanatory research design supported by the quantitative research approach was employed.	Findings revealed that tax administration accounts for a statistically weak variance in SMEs' growth, whilst tax incentives account for a statistically moderate variance in SMEs' growth.
12	Chinwendu (2021)	Nigeria	Impact of Tax Incentives on Industrial and Economic Growth in Nigeria	The researcher employed questionnaires duly showing the opinions of the management of basic manufacturing and service firms. The frequency distribution, the Linkert scale, and the t-test were used in analyzing the data.	The findings revealed that tax incentives affect economic and industrial growth as well as attract foreign direct investment.

Source: Researchers' Compilation (2024)

S/N	Authors	Country	Title	Methodology	Findings
13	Enwereuzor (2021)	Nigeria	Impact of Tax Incentives on Profitability of Manufacturing Firm.	The method for data collection is the questionnaires.	Findings revealed that 45% of the firms and individuals were not aware; this shows up to 70% in support.
14	KwameAppiah-Kubi *et al.* (2021)	Nigeria	Impact of Tax Incentives on Foreign Direct Investment: Evidence from Africa.	The research employed panel data on forty (40) African countries and an econometric model of four proxies of tax incentives, after controlling other variables, with robust Random Effect.	Findings revealed that FDI responds to lower corporate income tax (CTR). Furthermore, foreign direct investment predominates in African economies with longer tax holidays and withholding tax.

Source: Researchers' Compilation (2024)

S/N	Authors	Country	Title	Methodology	Findings
15	Philip (2021)	Nigeria	Tax Incentives and The Growth of Nigerian Manufacturing Sector.	The method of analysis adopted was the Ordinary Least Square regression technique.	The findings indicated that based on 2016 tax data from 15 quoted manufacturing firms in Nigeria, Investment allowance was found to be significant to a change on manufacturing firms' ROCE with a coefficient value of 0.35.
16	Tsegba *et al*. (2021)	Nigeria	Impact of Tax Incentives on Investment Performance of Listed Manufacturing Companies in Nigeria.	The study used a sample of twelve (12) firms on the Nigerian Stock Exchange as at 31st December 2019. The dependent variable was measured by Return on Investment (ROI). The	Findings from the study proved that tax exempt income has a significant effect on investment performance (ROI) while loss relief has negative and significant effect on return on investment.

				study engaged data from the annual reports and accounts of sampled firms and NSE website.	

Source: Researchers' Compilation (2024)

S/N	Authors	Country	Title	Methodology	Findings
17	Umar, Fajri, and Indriani (2021)	Indonesia	The Effect of Debt-To-Equity Ratio (DER), Net Profit Margin (NPM), And Return-On-Investment (ROI) On Profit Growth.	The research employed panel data regression with least-squares equation and hypothesis testing using t-statistics to test the partial regression coefficients.	Findings revealed (1) Debt to Equity Ratio (DER) had a positive effect on Profit Growth; (2) Net Profit Margin (NPM) has a significant effect on Profit Growth; (3) Return on Investment (ROI) has a negative but not significant effect on profit growth; (4) Debt to Equity Ratio (DER), Net Profit Margin (NPM) and Return on Investment (ROI) have a significant effect on profit growth.
18	Mauda and Saidu (2020)	Nigeria	Impact of Tax Incentives on Firm's Performance: Evidence from Listed Consumer Goods Companies In Nigeria.	The research employed data from published annual reports and accounts of the sampled companies, and tax-related submissions from the Investment Promotion Commission and Federal Inland Revenue Services.	Findings revealed that capital allowance and loss relief had a significant influence on the performance of the sampled firms while investment allowance had a positive influence on the financial performance of the sampled firms.

S/N	Authors	Country	Title	Methodology	Findings
19	Mouau (2020)	Nigeria	Effect of Tax Incentives on the Growth of Manufacturing Firms in Nigeria: A Case Study of7up Bottling Company pie.	The survey research design was used. The non-probability sample technique was adopted. The researcher employed data from primary and secondary sources.	The findings revealed a positive relationship between efficient tax incentive schemes and the firm's growth.
20	Oluwole *et al.* (2020)	Nigeria	Effect of Tax Incentives on The Growth and Development Of Manufacturing Firms in Nigeria.	The researcher employed an ex post facto research design.	Findings revealed that corporate income tax incentives have a significant effect on return on assets; capital allowance incentives have a significant effect on return on the asset; custom duty incentives have a significant effect on return on asset, excise tax incentives have a positive effect on return on asset in Nigeria.

Source: Researchers' Compilation (2024)

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3.0 METHODOLOGY

3.1 Research Design

The research design employed was an *ex post facto* research design.

3.2 Population of the Study

The population consisted of fifteen (13) quoted industrial manufacturing firms in Nigeria as of 31st December 2023 (NGX, 2023).

3.3 Sample Size and Sampling Technique

The sample of the listed industrial manufacturing firms in Nigeria was selected using a convenience (accidental) sampling technique. Three (3) industrial manufacturing firms were drawn from the industrial manufacturing firms on the floor of the Nigerian Exchange Group. The sampled firms include Beta Glass Plc, Lafarge Africa and Dangote Cement Plc.

3.4 Sources and Nature of Data

The data collected, presented, analyzed, and discussed were from secondary sources. The data used in the study were obtained from the annual report of the selected quoted industrial manufacturing firm. The researcher specifically made use of data on Tax Holiday, Investment Allowances, Tax Credits, and Net Profit margins for the period 2013 to 2023, both years inclusive.

3.5 Method of Data Collection

The data were obtained from the quoted selected company's financial statement on the Nigerian Exchange Group (NGX). The data obtained were time series data from 2013 to 2023, both years inclusive.

3.6 Variables of the Study

Corporate Profitability being the dependent variable was measured by the metrics Net Profit Margin (NPM). Independent variables of the research were the proxies for Tax Incentives which include Tax Holidays, Investment Allowances, and Tax Credits.

3.7 Measurement and Description of Variables

Variables	Description	Measurement	Source	*A priori* expectation
Net Profit Margin	NPM (dependent variable)	Net Profit ∕ Total Revenue x 100	Handayani *et al.* (2020)	

Source: Researchers' Compilation (2024)

3.8 Model Specification

The model used in this study was based on the description of the effect of the independent variable on the dependent variable of this research work. In other words, the multiple linear regression models were adopted. It is given as the following models:
Explicitly, the equation was defined as:
Corporate Profitability = f (Tax Incentive) + μ
Further defined as:
NPM= f (TH, IA, TC) + μ
The regression model is given as; Model 1

$$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu \qquad \textit{Equation 1.1}$$

Where;
Y = Corporate Profitability (dependent variable)
X = Tax Incentive (independent variable)
Therefore, the broad model for this study was modified as;

$$NPM_{it} = \beta_0 + \beta_1 TH + \beta_2 IA_{it} + \beta_3 TC_{it+} \mu_{it} \qquad \textit{Equation 1.2}$$

Where;

NPM_{it}	=	Net Profit Margin of firm *i* in period *t*
TH_{it}	=	Tax Holiday of firm *i* in period *t*
IA_{it}	=	Investment Allowances of firm *i* in period *t*
TC_{it}	=	Tax Credit of firm *i* in period *t*
β_0	=	Intercept or regression constant
$\beta_1, \beta_2, \beta_3$	=	Regression coefficients to be estimated for firm *i* in period *t*
μ	=	Stochastic error term.

3.9 Method of Data Analysis/Statistical Tools

The data were analyzed using the Ordinary Least Square (OLS) of the multiple regression models with the aid of the Statistical tool for Social Sciences (SPSSv20.0). Regression analysis is a statistical process for estimating the relationships among variables. The minimum, maximum, mean, and standard deviation values for each variable, insights into the distribution and variability of the data were analysed.

3.10 Decision rule

The study hypotheses were tested at a 5% level of significance. The decision rule is to accept the null hypothesis if the probability value of the corresponding t-statistics is greater than 0.05, in other, words reject the alternative hypothesis. Otherwise, Reject the null hypothesis if the probability value of the corresponding t-statistics is less than 0.05, in other words, accept the alternative hypothesis.

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4.0 RESULTS AND DISCUSSIONS

Table 2: Descriptive Statistics

Variables	N	Min	Max	Mean	Std. Deviation
Tax holidays	33	0	65152245.00	14491816.45	21088573.72
Investment Allowance	33	0	9954179.00	1045957.82	2094504.37
Tax credit	33	0	49682000.00	5809899.48	11005561.53
NPM	**33**	**-7.46**	**86.41**	**27.45**	**21.18**

Source: Researchers' Computation (2024)

Table 2 presents the four key variables: Tax Holiday, Investment Allowance, Tax Credit, and Net Profit Margin (NPM) across the 33 observations. For the Tax Holiday, the mean value is ₦14,491,816.45, with a standard deviation of ₦21,088,573.72, indicating that there is considerable variation in the tax holidays granted to the sampled firms. The minimum value of 0 suggests that certain firms did not benefit from any tax holidays during the study period, while the maximum value of ₦65,152,245 shows that at least one firm received substantial tax relief.

In the Investment Allowance, the average amount received by the firms is ₦1,045,957.818, with a standard deviation of ₦2,094,504.375. The disparity between the minimum (₦0) and maximum (₦9,954,179) values highlights the uneven distribution of investment allowances among the firms. Some firms received no investment allowances, while others received significant amounts, reflecting differing levels of government support or eligibility. The Tax Credit variable has a mean value of ₦5,809,899.485, with a standard deviation of ₦11,005,561.53. The wide variation in tax credits, ranging from ₦0 to ₦49,682,000, indicates that while some firms received no tax credits, others benefited significantly from this form of incentive. This suggests a diverse impact of tax credits on the sampled firms, likely influenced by their individual financial and operational circumstances.

Finally, the Net Profit Margin (NPM) shows an average of 27.45%, with a standard deviation of 21.18%. The NPM ranges from a minimum of -7.46% to a maximum of 86.41%, indicating that while some firms experienced losses (negative NPM), others achieved high levels of profitability. This broad range in profitability underscores the varied financial performance of the firms within the industrial manufacturing sector, potentially influenced by the differing levels of tax incentives received.

Table 3: Correlation Matrix

Variables	TH	IA	TC	NPM
TH	1			
IA	0.5635	1.00		
TC	0.6999	0.2042	1.00	
NPM	**0.8195**	**0.4466**	**0.5472**	**1.00**

Source: Researchers' Computation (2024)

The correlation matrix indicates a positive relationship between all the independent variables (Tax Holiday, Investment Allowance, and Tax Credit) and the dependent variable, Net Profit Margin (NPM). The strongest correlation is observed between Tax Holiday and NPM, with a coefficient of 0.8195. This suggests a strong and positive linear relationship, indicating that as tax holidays increase, the net profit margin also tends to increase significantly.

The Tax Credit variable also shows a positive correlation with NPM, with a coefficient of 0.5472. This moderate positive relationship suggests that higher tax credits are associated with an increase in net profit margins, though the relationship is less pronounced compared to the tax holiday. Investment Allowance has the lowest positive correlation with NPM, with a coefficient of 0.4466. Although this relationship is weaker, it still indicates that increases in investment allowances are associated with increases in net profit margins.

Additionally, the correlation coefficients among the independent variables themselves are noteworthy. Tax Holiday and Tax Credit have a strong positive correlation (0.6999), indicating that firms receiving substantial tax holidays are also likely to receive significant tax credits. The correlation between Tax Holidays and Investment Allowances is moderate (0.5635), while Investment Allowances and Tax Credits show a weaker correlation (0.2042).

4.3 Test of Hypothesis

4.3.1 Test of Hypothesis 1

$H_0$1: Tax holidays do not have a significant effect on the Net Profit Margin of industrial goods corporations operating in Nigeria.

Table 3: Model summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	**.685a**	**.469**	**.452**	**.30132**	**.469**	**27.374**	**1**	**31**	**.000**

a Predictors: (Constant), TH

Source: Researchers' Computation (2024)

The regression analysis reveals that the R-value of 0.685 indicates a strong positive correlation between Tax Holidays and Net Profit Margin. The R Square value of 0.469 suggests that approximately 46.9% of the variance in Net Profit Margin is explained by the Tax Holiday. This relatively high value of R Square indicates that Tax Holiday is a significant predictor of Net Profit Margin.

The Interpret R-Square value of 0.452, which is close to the R-Square value, confirms that the model is a good fit, even when adjusted for the number of predictors. The standard error of the estimate (0.30132) is a measure of the average distance that the observed values fall from the regression line. A lower standard error would indicate a more precise estimate, and in this case, the value is relatively low, suggesting a good model fit.

The F-statistic value of 27.374, with a significance level (Sig. F Change) of less than 0.001, indicates that the model is statistically significant. This means that the relationship between Tax Holiday and Net Profit Margin is unlikely to have occurred by chance, and the Tax Holiday is a significant predictor of Net Profit Margin.

Based on the results of the regression analysis, we reject the null hypothesis that there is no significant relationship between Tax Holidays and Net Profit Margins. The analysis shows that Tax Holidays positively and significantly influence Net Profit Margins, explaining a substantial portion of its variance. Therefore, it can be concluded that firms that receive higher tax holidays are likely to experience higher net profit margins.

4.3.2 Test of Hypothesis 2

$H_0$2: Investment Allowances do not have a significant effect on the Net Profit Margin of industrial manufacturing corporations in Nigeria.

Table 4: Model Summary IA and NPM

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	**.488a**	**.238**	**.210**	**.91663987**	**.238**	**8.427**	**1**	**27**	**.007**

a. Predictors: (Constant), IA
Source: Researchers' Computation (2024)

The regression analysis reveals that the R-value of 0.488 indicates a moderate positive correlation between Investment Allowances and Net Profit Margins. This suggests a notable relationship between the two variables.

The R Square value of 0.238 shows that Investment Allowance explains 23.8% of the variance in Net Profit Margin. This indicates that Investment Allowance contributes significantly to predicting Net Profit Margin, although other factors also play a role in determining profitability. The Adjusted R-Square value of 0.210 is close to the R-Square value, confirming that the model is a good fit even when accounting for the number of predictors. This adjusted value suggests that the model explains about 21% of the variability in Net Profit Margin, which is a meaningful proportion. The standard error of the estimate (0.91663987) represents the average distance that the observed values fall from the regression line. While this value indicates some dispersion in the data, it's relatively low considering the scale of the

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variables, suggesting a reasonable model fit. The F-statistic value of 8.427, with a significance level (Sig. F Change) of 0.007, indicates that the model is statistically significant. This p-value is well below the conventional alpha level of 0.05, suggesting strong evidence against the null hypothesis. It implies that the relationship between Investment Allowances and Net Profit Margins is unlikely to have occurred by chance.

Based on the regression analysis results, we reject the null hypothesis that there is no significant relationship between Investment Allowances and Net Profit Margins. The analysis indicates that Investment Allowance has a statistically significant impact on Net Profit Margin.

Therefore, it can be concluded that Investment Allowance does play a significant role in influencing the Net Profit Margin for the firms studied. This finding suggests that firms benefiting from higher investment allowances are likely to experience improved net profit margins. The positive relationship implies that as investment allowances increase, there tends to be a corresponding increase in net profit margins, although other factors also contribute to this financial outcome.

It highlights the importance of investment allowances as a policy tool for enhancing the profitability of industrial manufacturing corporations in Nigeria. Policymakers and corporate strategists should consider the potential positive impact of investment allowances when formulating economic policies or business strategies aimed at improving firm profitability.

4.3.3 Test of Hypothesis 3

H$_0$3: Tax credits do not have a significant impact on the Net Profit Margins of industrial goods manufacturing firms.

Table 5: Model Summary between TC and NPM

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	**.442a**	**.195**	**.169**	**.37097**	**.195**	**7.513**	**1**	**31**	**.010**

a Predictors: (Constant), TC

Source: Researchers' Computation (2024)

The regression analysis shows that the R-value of 0.442 indicates a moderate positive correlation between Tax Credit and Net Profit Margin. The R-Square value of 0.195 suggests that 19.5% of the variance in Net Profit Margin is explained by the Tax Credit. This indicates that while Tax Credit does have some explanatory power, a significant portion of the variance in Net Profit Margin remains unexplained by this model.

The Interpret R-Square value of 0.169, which is slightly lower than the R-Square value, suggests that the model is a reasonable fit, even when accounting for the number of predictors. The standard error of the estimate (0.37097) indicates the average distance that the observed values fall from the regression line. In this context, a moderate standard error suggests that the predictions made by the model are somewhat close to the observed data points but could be improved.

The F-statistic value of 7.513, with a significance level (Sig. F Change) of 0.010, indicates that the model is statistically significant. This means that the relationship between Tax Credit and Net Profit Margin is unlikely to have occurred by chance, and Tax Credit is a significant predictor of Net Profit Margin.

Based on the regression analysis, we reject the null hypothesis that there is no significant relationship between Tax Credit and Net Profit Margin. The analysis shows that Tax Credit has a statistically significant influence on Net Profit Margin, although it only explains a moderate portion of its variance. Therefore, it can be concluded that firms that receive higher tax credits are likely to experience an improvement in their net profit margins.

4.4 Discussion of the Findings

Our finding that tax incentives generally have a positive impact on firm profitability is consistent with several studies in the empirical review. For instance, Gitonga, Kuria, and Kamau (2023) established a significant relationship between capital allowance and the financial performance of manufacturing firms in Kenya. Similarly, Oludi and Onowu (2022) found that capital allowance and return on assets have a strong relationship for Nigerian consumer products companies.

The strong positive relationship we observed between Tax Holidays and Net Profit Margin (NPM) aligns with the findings of Kwame Appiah-Kubi *et al*. (2021), who revealed that foreign direct investment predominates in African economies with longer tax holidays. This suggests that Tax Holidays not only improve profitability but also attract investment, which can further enhance firm performance.

Our results on Investment Allowances showing a positive relationship with NPM provide an interesting contrast to some previous studies. For example, Mauda and Saidu (2020) found that investment allowance had a positive but insignificant influence on the financial performance of sampled firms in Nigeria. Our findings suggest that the impact of Investment Allowances may be more substantial than previously thought, at least in the context of industrial manufacturing firms.

The positive relationship we found between Tax Credits and NPM is supported by the work of Oluwole *et al*. (2020), who reported that corporate income tax incentives have a positive effect on return on assets in Nigerian manufacturing firms. This consistency across studies reinforces the importance of tax credits as a tool for enhancing firm profitability.

Interestingly, our findings somewhat contradict those of Akomolafe and Ohanyelu (2022), who concluded that tax incentives have an insignificant impact on the profitability of listed manufacturing companies in Nigeria. This discrepancy could be due to differences in methodology, the specific incentives studied, or changes in the economic environment between studies.

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The varying degrees of impact we observed across different tax incentives align with the nuanced findings of several studies in the empirical review. For instance, Tsegba *et al*. (2021) found that tax-exempt income has a significant effect on investment performance, while loss relief has a negative and significant effect. This underscores the importance of carefully designing and implementing tax incentive policies to maximize their positive impact.

Our results also support the broader economic implications highlighted by studies like Chinwendu (2021), who found that tax incentives affect economic and industrial growth as well as attract foreign direct investment. The positive relationships we observed between various tax incentives and NPM suggest that these policies can indeed contribute to broader economic development goals.

5.1 Summary of the Findings

This study examined the impact of three key tax incentives - Tax Holiday, Investment Allowance, and Tax Credit - on the Net Profit Margin (NPM) of industrial manufacturing firms in Nigeria. The findings reveal a clear hierarchy in the effectiveness of these incentives, with Tax Holiday emerging as the most influential factor in boosting firm profitability.

Tax Holiday demonstrated the strongest positive relationship with Net Profit Margin, showing a robust correlation ($R = 0.685$) and explaining nearly half of the variance in NPM ($R^2 = 0.469$). This significant impact underscores the critical role that temporary tax exemptions play in enhancing company performance, likely by providing firms with the financial flexibility to reinvest in operations, expand market presence, or directly improve their bottom line.

While not as potent as Tax Holidays, Investment Allowances also showed a positive impact on Net Profit Margin. The moderate correlation ($R = 0.488$) and explanatory power ($R^2 = 0.238$) indicate that Investment Allowances account for approximately 24% of the variance in NPM. This finding highlights the importance of incentives that encourage capital investment, which can lead to improved efficiency, increased production capacity, or technological advancements that ultimately enhance profitability.

Tax Credits demonstrated the least impact among the three incentives studied, but still showed a moderate positive relationship with Net Profit Margin ($R = 0.442$, $R^2 = 0.195$). This suggests that while the ability to offset tax liabilities directly contributes to improved profit margins, its effect is not as pronounced as that of Tax Holidays or Investment Allowances.

Importantly, all three tax incentives were found to have statistically significant relationships with NPM, leading to the rejection of all null hypotheses. This confirms that each incentive plays a meaningful role in influencing the profitability of industrial manufacturing firms in Nigeria. The varying degrees of impact observed across these tax incentives provide valuable insights for both policymakers and corporate strategists, suggesting that a comprehensive approach incorporating all three incentives could provide firms with a robust framework for financial success.

These findings collectively emphasize the importance of a well-structured tax incentive system in fostering a competitive and profitable industrial sector. While Tax Holidays offer the most substantial immediate impact on profitability, the positive influences of Investment Allowances and Tax Credits suggest that a balanced policy approach could yield comprehensive benefits for industrial manufacturing firms in Nigeria.

5.2 Conclusion

In conclusion, our findings largely corroborate existing research on the positive impact of tax incentives on firm performance, while also providing new insights into the relative effectiveness of different types of incentives in the Nigerian industrial manufacturing sector. These results have important implications for both policymakers and corporate strategists in designing and leveraging tax incentive programs to enhance firm profitability and drive economic growth. This study provides compelling evidence that tax incentives play a crucial role in enhancing the profitability of industrial manufacturing firms in Nigeria. Tax Holidays emerge as the most potent tool, followed by Investment Allowances and Tax Credits, each demonstrating significant Net Profit Margin. These findings underscore the effectiveness of government fiscal policies in stimulating industrial growth and financial performance.

5.3 Recommendations

i. ***Prioritize Tax Holiday Opportunities:*** Given the strong positive impact of Tax Holidays on Net Profit Margin, firms should actively seek out and capitalize on tax holiday opportunities. This may involve strategically timing major investments or expansions to coincide with available tax holiday periods or exploring new business ventures in sectors or regions that offer such incentives.

ii. ***Optimize Investment Allowance Benefits:*** While not as impactful as Tax Holidays, Investment Allowances still significantly affect profitability. Firms should carefully plan their capital investments to maximize these allowances. This could involve accelerating planned investments to take advantage of current allowances or structuring investments to qualify for the most beneficial allowance rates.

iii. ***Leverage Tax Credits Effectively:*** Although Tax Credits showed the least impact among the three incentives, they still contribute positively to profitability. Firms should develop a comprehensive strategy to identify and utilize all available tax credits. This may include investing in research and development, employee training, or other activities that qualify for tax credits in Nigeria.

iv. ***Adopt a Holistic Approach to Tax Incentives:*** Given that all three incentives positively impact profitability, firms should aim to incorporate a combination of Tax Holidays, Investment Allowances, and Tax Credits in their financial planning. This balanced approach can help maximize overall tax benefits and enhance profitability.

v. ***Enhance Tax Planning Capabilities:*** Firms should invest in strengthening their tax planning capabilities, either by developing in-house expertise or engaging external tax consultants. This will ensure they stay informed about available incentives and can quickly adapt their strategies to take advantage of new opportunities.

vi. ***Align Business Strategy with Tax Incentives:*** When making major business decisions such as expansion, diversification, or entering new markets, firms should consider the available tax incentives as part of their decision-making process. This alignment can significantly enhance the financial outcomes of these strategic moves.

5.4 Contribution to Knowledge

This study makes several significant contributions to the existing body of knowledge on tax incentives and corporate profitability in Nigeria's industrial manufacturing sector:

i. ***Hierarchical Impact of Tax Incentives:*** The research provides empirical evidence of the varying degrees of impact that different tax incentives have on Net Profit Margin. By demonstrating that Tax Holidays have the strongest positive effect, followed by Investment Allowances and then Tax Credits, this study offers a nuanced understanding of the relative effectiveness of these policy tools. This knowledge can inform more targeted and efficient policy-making.

ii. ***Quantification of Incentive Effects:*** The study quantifies the relationship between each tax incentive and Net Profit Margin, providing specific correlation coefficients and explanatory power (R^2 values). This quantitative analysis adds precision to the understanding of how much each incentive contributes to profitability, moving beyond general assumptions about their benefits.

iii. ***Sector-Specific Insights:*** By focusing on industrial manufacturing firms in Nigeria, this research provides sector-specific insights that were previously lacking. This contribution is particularly valuable given the importance of the manufacturing sector to Nigeria's economic diversification efforts.

iv. ***Empirical Support for Policy Effectiveness:*** The study provides empirical support for the effectiveness of tax incentives as a policy tool for enhancing corporate profitability. This evidence can be used to justify the continuation or expansion of such policies, contributing to the ongoing debate about the role of tax incentives in economic development.

v. ***Framework for Corporate Strategy:*** The findings offer a framework for corporate financial strategists to optimize their approach to tax incentives. By highlighting the relative importance of different incentives, this study contributes to more informed decision-making at the firm level.

vi. ***Methodology for Incentive Analysis:*** The research methodology employed in this study, including the use of regression analysis to examine the relationship between tax incentives and profitability, provides a template that can be applied or adapted in future studies, both in Nigeria and in other developing economies.

vii. ***Time-Relevant Data:*** By using data from 2013 to 2023, this study provides up-to-date insights into the current effectiveness of tax incentives in Nigeria, contributing contemporary knowledge to a field where economic conditions and policy impacts can change rapidly.

These contributions collectively enhance our understanding of the relationship between tax incentives and corporate profitability in Nigeria's industrial manufacturing sector, offering valuable insights for academics, policymakers, and corporate strategists alike.

5.5 Suggestions for Further Study

i. Investigate the long-term impacts of tax incentives on firm sustainability beyond profitability, including effects on innovation, employment generation, and market expansion over extended periods.

ii. Conduct sector-specific analysis within the manufacturing industry to determine whether certain types of tax incentives are more effective in specific sectors, such as consumer goods, industrial goods, and or petroleum manufacturing.

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