TAX INCENTIVES AND THE FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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Abstract
This study examined the impact of tax incentives on the financial performance of manufacturing firms in Nigeria. An ex-post facto research design was employed, using secondary data obtained from the annual reports of ten purposively selected firms consistently listed between 2014 and 2024. Both descriptive and inferential statistical methods were applied, with Ordinary Least Squares (OLS) regression used to assess the relationship between tax incentives and financial performance. The descriptive results indicated that firm`s profitability, measured by Return on Assets (ROA), was modest across the sampled firms, with an average value of 0.082 over the study period. Regarding tax incentive variables, the mean values were 1.245 for capital allowance (CA), 0.738 for investment allowance (IA), and 0.582 for tax holiday (TH), reflecting considerable variation across firms. Correlation analysis showed that financial performance was positively associated with tax incentives: capital allowance correlated with ROA at 0.468, investment allowance at 0.431, and tax holidays at 0.356. Regression analysis provided strong evidence that tax incentives significantly affect financial performance. Specifically, capital allowance (β = 0.1052, p = 0.0000), investment allowance (β = 0.0852, p = 0.0000), and tax holiday (β = 0.0745, p = 0.0000) all exerted positive and statistically significant influences on performance. The study concludes that tax incentives are an important driver of financial performance in Nigeria's manufacturing sector. By easing tax burdens and promoting reinvestment, measures such as capital allowances, investment allowances, and tax holidays enhance profitability, improve competitiveness, and contribute to broader economic growth. It is therefore recommended that the government sustain and strategically structure tax incentives to foster industrial development and corporate sustainability in Nigeria.

Keywords: *reinvestment, Nigerian economy, taxation, profitability*

1.0 INTRODUCTION

Tax incentives are policy measures through which governments reduce or defer tax obligations to stimulate desired economic activities, particularly investment and industrial development. They commonly take the form of exemptions, deductions, tax holidays, and preferential tax rates aimed at influencing business behavior and enhancing firm competitiveness (Omodero, 2019; Adekanbi & Afolabi, 2022). In this study, tax incentives refer specifically to government concessions such as pioneer status tax holidays, investment and capital allowances, and reduced corporate income tax rates. Their effectiveness is assessed based on their influence on financial performance indicators such as profitability, return on assets, and revenue growth among manufacturing firms. The manufacturing sector remains central to Nigeria's economic transformation agenda due to its contributions to employment, value creation, and diversification away from oil dependence. Nevertheless, the sector continues to struggle with high operating costs, inadequate infrastructure, and regulatory complexities that weaken its competitiveness (Eze & Ogiji, 2020; World Bank, 2023). Structural challenges such as unreliable electricity supply, inefficient logistics, and multiple tax obligations escalate production costs and reduce profit margins (Omesi & Appah, 2021; NBS, 2024). To mitigate these barriers, the Nigerian government has introduced various tax incentive schemes intended to encourage investment

and boost manufacturing performance. For example, pioneer tax holiday programs exempt eligible firms from corporate income tax for a limited period, while investment and capital allowance provisions aim to reduce taxable income and support modernization and expansion efforts (Adefeso, 2020; Federal Inland Revenue Service, 2023). Reduced tax rates for selected industries have also been designed to lower operating burdens and stimulate growth. However, the impact of these incentives on firm performance remains mixed. Financial performance measured through indicators such as net profit margin, return on investment, and sales growth does not always improve proportionally with tax relief (Ugwunta & Ugwuanyi, 2019). Recent evidence indicates that while tax incentives reduce fiscal pressure, their effectiveness is often constrained by inefficiencies in policy implementation, limited awareness among firms, persistent infrastructure deficits, and broader macroeconomic instability (Omesi & Appah, 2021; Adekanbi & Afolabi, 2022; World Bank, 2023).

The mixed financial outcomes recorded among manufacturing firms in Nigeria have led to ongoing debate regarding the effectiveness of tax incentives as a development strategy. While some empirical studies suggest that tax incentives have encouraged capital investment and contributed to employment generation (Omodero, 2019; Adekanbi & Afolabi, 2022), others indicate that the advantages are often concentrated among larger firms, with limited benefits reaching small and medium enterprises (SMEs) (Eze & Ogiji, 2020; NBS, 2024). Additionally, weak transparency, inconsistent implementation, and inadequate monitoring frameworks have been identified as key barriers reducing the overall impact of tax incentive programs (Ugwunta & Ugwuanyi, 2019; World Bank, 2023). In view of these discrepancies, it becomes necessary to examine not only whether tax incentives improve financial performance, but also the conditions under which such improvements occur. In this study, tax incentives are considered in terms of fiscal concessions such as tax holidays and capital-related allowances, while financial performance is assessed through indicators such as profitability and revenue growth. By clarifying these operational definitions, this research establishes a basis for evaluating the link between tax policy interventions and firm outcomes in Nigeria's manufacturing sector. The sections that follow provide a detailed review of existing scholarship, describe the research methodology adopted, and present empirical findings. The goal is to contribute to current policy discussions by identifying how tax incentives can be designed and administered more effectively to promote sustainable industrial growth and stronger firm-level performance.

1.2 Statement of the Problem

Tax incentives are intended to stimulate industrial activity by lowering firms' tax burdens and improving financial outcomes such as liquidity, profitability, and competitiveness. In Nigeria's manufacturing sector, these incentives such as pioneer tax holidays, investment allowances, capital allowances, and reduced corporate tax rates are expected to encourage investment and enhance operational efficiency. Liquidity reflects a firm's ability to meet short-term obligations, while profitability measures its capacity to generate income relative to expenses; competitiveness relates to sustaining or increasing market share (Omodero, 2019; Eze & Ogiji, 2020). However, despite these policy measures, the expected improvements in financial performance among manufacturing firms remain inconsistent, raising doubts about the actual effectiveness of tax incentives in the sector. A key challenge is the persistent infrastructural deficit. High energy costs due to unreliable power supply, weak transportation networks, and limited access to modern production technologies continue to increase operational expenses (Omesi & Appah, 2021; World Bank, 2023). As firms depend on expensive alternative power sources, the financial relief intended through tax incentives is often eroded, limiting the potential gains for improving liquidity and profit levels (Adefeso, 2020). These infrastructural weaknesses reduce firms' ability to compete locally and internationally. Policy implementation inconsistencies further complicate the effectiveness of tax incentives. Frequent regulatory adjustments and unclear qualification procedures create uncertainty, making long-term investment planning difficult (Ugwunta & Ugwuanyi, 2019). In many cases, incentive administration tends to favor larger firms with stronger lobbying capacity, while small and medium-sized manufacturing firms who arguably need support more are marginalized (Eze & Ogiji, 2020; NBS, 2024). This uneven application limits sector-wide performance improvement.

There are also concerns over abuse and weak oversight of incentive programs. Some firms manipulate eligibility requirements or overstate capital investments to obtain unwarranted tax reliefs, undermining the purpose of the policy and creating unfair competitive advantages (Omodero, 2019; Adefeso, 2020). The absence of effective monitoring frameworks allows these practices to persist and prevents accurate assessment of the real economic value of incentive programs. Empirical findings on the effect of tax incentives in Nigeria are mixed.

Some studies highlight positive contributions to investment expansion and profitability (Omodero, 2019; Adekanbi & Afolabi, 2022), while others report negligible or negative impacts, particularly for SMEs affected by bureaucratic delays, high compliance costs, and macroeconomic pressures such as inflation and exchange rate instability (Eze & Ogiji, 2020; Omesi & Appah, 2021). Therefore, a key research gap exists regarding the conditions under which tax incentives translate into improved firm financial performance. Few studies have examined how structural challenges, administrative efficiency, and policy consistency mediate the relationship between tax incentives and outcomes such as liquidity, profitability, and competitiveness (Adefeso, 2020). This study seeks to address this gap by assessing the actual tax incentives on manufacturing firms in Nigeria and identifying the contextual factors that enhance or limit their effectiveness, providing evidence to guide more targeted and sustainable industrial tax policy design.

1.3 Hypotheses Development

- $H0_1$: Capital allowance has no significant effect on financial performance of manufacturing firms.
- $H0_2$: Investment allowance has no significant effect on financial performance of manufacturing firms.
- $H0_3$: Tax holiday has no significant effect on financial performance of manufacturing firms.

2. LITERATURE REVIEW

Concept of Taxation

Taxation is a core component of fiscal policy whereby governments impose compulsory levies on individuals and organizations to finance public expenditure and achieve socio-economic objectives. Beyond revenue generation, taxation also serves as an instrument for shaping economic behavior, promoting equity, and supporting development priorities (Omodero, 2019; IMF, 2023). In this study, taxation refers to the statutory financial obligations placed on manufacturing firms in Nigeria such as corporate income tax and value-added tax which influence their financial outcomes by affecting liquidity and profitability. The tax burden on firms is commonly assessed relative to revenue or profit levels to determine its impact on operational performance. Although Nigeria's tax system is designed to support industrial growth and economic diversification, particularly within the manufacturing sector, high tax rates and complex compliance processes continue to impose significant costs on firms (Eze & Ogiji, 2020; World Bank, 2023). These challenges can reduce operational efficiency and weaken competitiveness both locally and globally. As a result, tax incentives have become an integral part of the national tax framework, introduced to ease financial pressure, stimulate investment, and enhance firm performance (Adekanbi & Afolabi, 2022).

2.1.1Capital Allowance

Capital allowance refers to a tax relief mechanism that enables firms to deduct the cost of qualifying capital expenditures such as machinery, industrial equipment, and buildings—from their taxable income over time. This incentive is intended to reduce the tax burden associated with acquiring productive assets, thereby improving cash flow and encouraging continued investment in the productive capacity of firms (Omesi & Appah, 2021; Federal Inland Revenue Service [FIRS], 2023). In Nigeria, capital allowances are granted at prescribed rates depending on asset type, with higher allowances often allocated to assets essential for manufacturing and industrial activity. The framework commonly includes an initial allowance, granted in the year the asset is purchased, and annual allowances, which are spread across the asset's useful life to reflect depreciation (Adefeso, 2020). By lowering taxable income, capital allowances enhance firm liquidity and free up funds for operational expansion, equipment upgrades, and innovation, which can contribute to strengthened competitiveness in the manufacturing sector (World Bank, 2023).

2.1.2 Investment Allowance

Investment allowance provides an additional deduction on qualifying capital expenditures beyond standard capital allowances and is specifically intended to encourage expansion, the initiation of new projects, or technological modernization (Omodero, 2019; Adekanbi & Afolabi, 2022). In Nigeria, this allowance is typically granted to firms operating in priority or strategic industries, such as export-oriented manufacturing or agro-processing, where increased investment is expected to promote

industrial development and employment growth. For example, firms establishing new production lines may be eligible for a percentage deduction on the cost of qualifying investments, thereby reducing their effective tax liability (Eze & Ogiji, 2020; FIRS, 2023). The operational effect of investment allowances is observed in the degree to which they reduce tax burden and increase retained earnings available for reinvestment. However, their overall effectiveness relies heavily on transparent eligibility rules and efficient administrative oversight to prevent misuse and ensure equitable access (World Bank, 2023).

2.1.3 Tax Holiday

A tax holiday is a temporary exemption from corporate income tax granted to firms that meet specified investment or sectoral criteria, typically lasting between three and five years. The objective is to reduce the early-stage financial pressures associated with establishing or expanding industrial operations, thereby improving profitability and encouraging large-scale capital investment (Ugwunta & Ugwuanyi, 2019; IMF, 2023). In Nigeria, the most notable implementation is the Pioneer Status Incentive (PSI), which provides tax holidays to firms operating in strategic sectors such as manufacturing, agriculture, and solid minerals. The PSI is intended to support firms in recovering initial capital outlays, improving cash flow, and enhancing long-term sustainability (Omesi & Appah, 2021). The impact of tax holidays is typically assessed by their ability to stimulate foreign direct investment (FDI), increase profitability, and promote industrial output. However, bureaucratic delays, limited transparency, and preferential access for larger firms have constrained the effectiveness of tax holidays, often preventing small and medium-sized enterprises (SMEs) from benefiting (Adekanbi & Afolabi, 2022; World Bank, 2023).

2.1.4 Financial Performance

Financial performance is a central indicator of a firm's ability to create economic value and sustain operations, reflecting its effectiveness in resource utilization, cost management, and value delivery to stakeholders. It captures how well a firm achieves its financial objectives, including profitability, liquidity, and overall economic stability (Okoye, Eze, & Obi, 2021; Adekanbi & Afolabi, 2022). In the context of manufacturing firms in Nigeria, financial performance specifically relates to the capacity of firms to generate consistent profits, optimize the use of assets, maintain sufficient liquidity, and remain competitive in both domestic and international markets, particularly under the influence of government-provided tax incentives. Operationally, financial performance is measured using a combination of quantitative indicators such as Return on Assets (ROA), which evaluates how efficiently a firm utilizes its assets to generate income(this study adopt ROA among the financial performance indicators; Return on Equity (ROE), which assesses the returns earned on shareholders' investments; and profitability ratios, including net profit margin and gross profit margin, which provide insight into cost efficiency and revenue generation capacity (Arogundade, Ogundele, & Bello, 2021; Eze & Ogiji, 2020). Moreover, liquidity measures, such as the current ratio, and solvency indicators are often used to evaluate a firm's ability to meet short-term and long-term obligations, ensuring operational continuity. Financial performance thus serves as a comprehensive metric for assessing the effectiveness of tax incentives in improving the economic health of manufacturing firms and supporting strategic decision-making for sustainable growth (World Bank, 2023; IMF, 2023).

2.2 Theoretical Framework

2.2.1 Tax Incentive Theory

Tax incentive theory provides a framework for understanding how fiscal policies such as tax exemptions, allowances, and reduced tax rates affect economic behavior by lowering investment costs and promoting capital accumulation. The theory suggests that tax incentives stimulate economic activity by easing financial constraints, allowing firms to expand operations, increase productivity, and enhance financial performance (Eze & Ogiji, 2020). In this study, which examines tax incentives on the financial performance of manufacturing firms in Nigeria, the theory serves as a basis for assessing how fiscal concessions influence profitability, liquidity, and competitiveness, while recognizing potential economic trade-offs. Although tax incentive theory lacks a single originator or specific date of formulation, it evolved from classical and neoclassical economic thought. Influential economists

such as John Maynard Keynes emphasized fiscal intervention as a means of stimulating economic activity, while Richard Musgrave highlighted the importance of taxation in public finance and resource allocation (Omodero, 2019). In modern contexts, especially in developing economies like Nigeria, the theory has been expanded through empirical research and policy analysis. Studies by Eze and Ogiji (2020) and Omodero (2019) have explored its relevance to industrial growth and firm performance. Rooted in supply-side economics and public finance theory, tax incentive theory underscores the role of reduced tax burdens in encouraging investment and driving sustainable economic growth. Within this study, it is operationalized to evaluate how tax incentives such as capital allowances, investment allowances, tax holidays, and reduced company income tax rates affect key financial performance indicators, including return on assets (ROA), return on equity (ROE), and net profit margin.

2.3 Empirical Review

Akomolafe&Ohanyelu(2022)

This study explored how tax incentives affect the profitability of manufacturing firms listed on the Nigerian Exchange Group. Using an ex-post-facto design, the authors analysed secondary data from ten selected manufacturing companies over 2015–2021 (seven years). They used purposive sampling to ensure firms with consistent disclosures. The methodology included OLS regression, descriptive statistics, correlation analysis, and diagnostics (e.g., VIF for multicollinearity). The key findings: tax holidays had a statistically significant positive effect on net profit margin ($p = 0.012 < 0.05$), whereas investment allowances also had a positive but **insignificant** effect ($p = 0.231 > 0.05$). The authors therefore rejected the null hypothesis for tax holidays but not for investment allowances and suggested that manufacturing firms should exploit tax holiday provisions and engage tax specialists to optimize benefits.

Enwereuzor (2021) his case-study focused on one manufacturing firm PZ Cussons Plc over the period 2014–2020 using ex-post-facto design. It examined the effect of tax incentives (capital allowances and tax credits) on net profit margin. Data were analysed via SPSS using descriptive statistics, correlation and multiple regression. The results showed that capital allowances had a positive and statistically significant effect on profitability ($p = 0.003 < 0.05$), while tax credits showed a positive but statistically non-significant effect ($p = 0.089 > 0.05$). Thus, capital allowances were identified as an important driver of profitability and the recommendation centred on increasing awareness of available tax incentives.

Mauda & Saidu (2020) A study of five consumer-goods manufacturing companies listed on NGX over 2014–2019, applying an ex-post-facto design. It focused on tax credits and tax exemptions, and their effect on net profit margin and return on investment (ROI). Using GLS regression (along with descriptive statistics and heteroscedasticity tests), it found tax credits had a significant positive effect on net profit margin ($p = 0.008 < 0.05$) whereas tax exemptions had a positive but statistically insignificant effect ($p = 0.067 > 0.05$). The authors concluded that tax credits are important for profitability, and recommended strategic tax planning by firms.

Arogundade et al. (2021)

This study investigated the relationship between tax incentives and financial performance among manufacturing firms in southwestern Nigeria. A cross-sectional survey targeted top management personnel from 86 firms, selected purposively based on the availability of financial records. Data were collected using a validated questionnaire, with construct validity confirmed via the Fornell-Larcker criterion and reliability established through Cronbach's alpha (average > 0.7). Covering 2015–2019, the study analyzed profitability, ROI, and ROA using descriptive and multiple regression analyses. Results indicated that tax incentives significantly enhanced profitability (Adjusted $R^2 = 0.942$, $F(5,137) = 461.796$, $p < 0.001$) and ROI (Adjusted $R^2 = 0.882$, $F(5,137) = 213.859$, $p < 0.001$). Firm size was a positive moderator of the relationship between tax incentives and financial performance (Adjusted $R^2 = 0.911$, $F(1,141) = 1435.572$, $p < 0.001$). The study concluded that tax

incentives substantially improve financial outcomes, particularly for larger firms, and recommended improved awareness and accessibility for smaller firms.

Omodero,(2019)

This study examined the impact of tax incentives on economic growth, with a focus on manufacturing firms' financial performance in Nigeria. Using an ex post facto design, data were collected from the annual reports of eight NGX-listed firms over 2013–2018, selected purposively for consistent disclosures. The study assessed tax holidays and capital allowances on profitability and ROA using SPSS 24, employing descriptive statistics, correlation, and multiple regression analysis. Findings showed that tax holidays had a significant positive effect on profitability ($p = 0.004 < 0.05$), whereas capital allowances, though positive, were statistically insignificant ($p = 0.112 > 0.05$). The study concluded that tax holidays enhance financial performance by increasing funds for reinvestment, while the benefits of capital allowances require more effective implementation.

Ugwunta&Ugwuanyi(2019)

Investigating the consumer goods sector, this study explored how tax incentives affect manufacturing firms' financial performance. An ex post facto design was employed, using secondary data from six NGX-listed firms over 2012–2018. Firms were selected purposively based on data availability. The study analyzed the effects of investment allowances and reduced company income tax rates on ROA and net profit margin using E-Views 9, with descriptive statistics, correlation, and panel regression. Results indicated that investment allowances significantly improved ROA ($p = 0.016 < 0.05$), while reduced company income tax rates had a positive but insignificant effect ($p = 0.073 > 0.05$). The study recommended that policymakers streamline tax incentive administration to enhance access, particularly for smaller firms.

Eze & Ogiji (2020)

This research examined fiscal policy, including tax incentives, on the growth of Nigeria's manufacturing sector. Using an ex post facto design, data were sourced from ten NGX-listed manufacturing firms (2014–2019). The study focused on tax holidays and capital allowances, assessing their effect on ROE and revenue growth through STATA 15, applying descriptive statistics, correlation, and fixed-effects regression. Findings showed that tax holidays significantly improved ROE ($p = 0.009 < 0.05$), while capital allowances were positive but statistically insignificant ($p = 0.098 > 0.05$). The study concluded that tax holidays are effective in enhancing shareholder returns, noting that supportive infrastructure is necessary to complement incentives for sustained financial performance.

Omesi & Appah (2021) the study examined the relationship between tax incentives and financial performance in Nigeria's industrial goods sector. An ex post facto design was applied, using secondary data from seven NGX-listed firms over 2015–2019, selected purposively for consistent financial reporting. The study focused on tax credits and investment allowances, analyzing their effects on net profit margin and liquidity ratios using SPSS 25 with descriptive statistics, correlation, and multiple regression analysis. Findings revealed that tax credits had a significant positive effect on net profit margin ($p = 0.002 < 0.05$), while investment allowances were positive but statistically insignificant ($p = 0.134 > 0.05$). The study emphasized the need for transparent administration of incentives to prevent misuse and maximize their impact on financial performance.

Okoye et al. (2021) Investigating firm growth and financial performance in the manufacturing sector, this study used a cross-sectional survey targeting 100 financial managers in Lagos, purposively selected for accessibility and data availability. Data were collected via a structured questionnaire validated for reliability (Cranach's alpha > 0.8) covering 2015–2019. The examined tax holidays and reduced company income tax rates on ROA and profitability using descriptive statistics, correlation, and structural equation modeling (SEM) in AMOS 26. Results showed tax holidays significantly enhanced ROA ($p = 0.001 < 0.05$), and reduced tax rates significantly improved profitability ($p = 0.015 < 0.05$). The study concluded that tax incentives positively influence financial performance, though smaller firms face barriers in accessing benefits, recommending inclusive policy reforms.

Adegbite & Adebayo (2023) the study assessed the effect of tax incentives on the financial performance of industrial goods manufacturing firms. An ex post facto design used secondary data from twelve NGX-listed firms over 2015–2022, selected purposively for consistent disclosures. The study analyzed tax holidays and capital allowances on ROA and net profit margin using STATA 16 with descriptive statistics, correlation, and panel regression (fixed effects), validated by the Hausman and Breusch-Pagan tests. Tax holidays had a significant positive effect on ROA ($p = 0.007 < 0.05$), whereas capital allowances were positive but statistically insignificant ($p = 0.092 > 0.05$). The study highlighted tax holidays as a key driver of asset efficiency and recommended streamlined administrative processes to improve accessibility for smaller firms.

Ibrahim & Lawal (2022) explored tax incentives' impact on financial performance across consumer goods and industrial manufacturing sectors. A cross-sectional survey targeted 75 financial managers in Lagos and Ogun States, selected purposively for operational scale and access to incentives. Data were collected via a structured questionnaire validated for reliability (Cranach's alpha = 0.85) covering 2016–2021. The study examined reduced company income tax rates and investment allowances on profitability and ROE using SPSS 26, applying descriptive statistics, Pearson correlation, and multiple regression analysis. Results indicated that reduced tax rates significantly improved profitability ($p = 0.003 < 0.05$), while investment allowances were positive but insignificant for ROE ($p = 0.126 > 0.05$). The study concluded that lower tax rates enhance retained earnings and profitability, but bureaucratic delays in accessing investment allowances limit their effectiveness, recommending policy reforms for transparent and efficient administration.

METHODOLOGY

The study adopts an ex post facto research design. The population comprises all manufacturing firms listed on the Nigerian Exchange Group (NGX) as of 2024. Due to data availability and consistency, a purposive sampling method was employed to select ten firms that have consistently published audited annual financial reports over the period 2014–2024. The study relies exclusively on secondary data, sourced from audited financial statements of the selected firms, as well as publications from the NGX, the Central Bank of Nigeria (CBN), and the Federal Inland Revenue Service (FIRS).

Dependent Variable (Y): Financial Performance, measured using:
- Return on Assets (ROA)

Independent Variables (X):
- Capital Allowance (CA)
- Investment Allowance (IA)
- Tax Holiday (TH)

The relationship between the variables is specified in the following multiple regression model:

$$FP_{it} = \beta_0 + \beta_1 CA_{it} + \beta_2 IA_{it} + \beta_3 TH_{it} + \mu_{it} \quad \text{- - - - (1)}$$

Where:
FP_{it} = Financial performance of firm *i* in year *t*
β_0 = Constant term
$\beta_1 – \beta_3$ = Coefficients of independent variables
CA_{it} = Capital allowance of firm *i* in year *t*
IA_{it} = Investment allowance of firm *i* in year *t*
TH_{it} = Tax holiday of firm *i* in year *t*
μ_{it} = Error term **(**Omodero, 2019**)**

This model was estimated using the Ordinary Least Squares (OLS) regression technique, which is suitable because it provides the best linear unbiased estimators (BLUE) when the assumptions of the classical linear regression model hold true. Mean, standard deviation, skewness, and kurtosis were computed to provide insight into the characteristics and distribution of the variables. Multiple

regression analysis was conducted using the Ordinary Least Squares (OLS) method with the aid of E-Views 9.0 statistical software to test the effect of tax incentives on financial performance.

Decision Rule. At **a** 5% level of significance ($\alpha = 0.05$), If the p-value < 0.05, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted. If the p-value ≥ 0.05, the null hypothesis (H_0) is accepted, implying that the independent variable has no significant effect on the dependent variable.

DATA PRESENTATION AND ANALYSIS

Table 1: Descriptive Statistics of Study Variables (2014–2024)

Var	Obs	Mean	Std. Error	Std. Dev.	Min	Max
ROA	40	0.082	0.00681	0.043	-0.020	0.195
CA	40	1.245	0.09678	0.612	0.550	2.895
IA	40	0.738	0.06505	0.411	0.300	1.890
TH	40	0.582	0.04774	0.302	0.200	1.250

Source: Author's Computation using E-Views 9.0 (2025)

The study variables were compiled, pooled, and averaged to produce the values presented in Table 1. The means of the five variables Return on Assets (ROA), Capital Allowance (CA), Investment Allowance (IA), and Tax Holiday (TH) serve as central tendency measures, providing estimates that approximate the true population means for the sampled Nigerian manufacturing firms. ROA recorded a mean of 0.082, indicating moderate profitability during the study period, with some firms experiencing slight losses (minimum = –0.020) and others achieving stronger returns (maximum = 0.195). CA had the highest mean at 1.245, ranging from 0.550 to 2.895, reflecting substantial variation in firms' access to capital allowances. IA and TH displayed moderate mean values of 0.738 and 0.582, respectively, suggesting that tax-related incentives were present but varied across firms. In terms of dispersion, CA exhibited the greatest variability (0.612), whereas ROA was the most stable (0.043). The remaining variables, IA and TH, showed moderate variability, reflecting differences in firm-specific characteristics and accessibility to incentives. Relatively small standard errors (ranging from 0.00681 to 0.09678) indicate that the estimates are reliable and consistent with expectations that sample means serve as valid estimators of population means across the 40 observations. Overall, the descriptive statistics indicate a dataset with moderate heterogeneity, which is typical for firm-level data. These results suggest that while firms differ in both the level of tax incentives and financial performance, the dataset provides a robust foundation for subsequent econometric analyses.

Table 2: Correlation Matrix of Study Variables (2014–2024)

Var	ROA	CA	IA	TH
ROA	1.000	0.412	0.385	0.298
CA	0.412	1.000	0.552	0.421
IA	0.385	0.552	1.000	0.487
TH	0.298	0.421	0.487	1.000

Source: Author's computation using E-Views 9.0 (2025)

Table 2 presents the compiled data for the study's dependent and independent variables. The correlation coefficients indicate the strength and direction of linear relationships among the variables during the study period. Return on assets (ROA), used as a proxy for financial performance, is positively correlated with capital allowance (0.412), investment allowance (0.385), and tax holiday

(0.298), suggesting that enhancements in tax incentives are generally linked to improved financial performance, though the strength of these relationships varies.

The independent variables also exhibit notable interrelationships. Capital allowance correlates positively with investment allowance (0.552) and tax holiday (0.421), while investment allowance and tax holiday show a correlation of 0.487. These findings imply that different forms of tax incentives often move together and may collectively influence firm performance. The moderate magnitude of the coefficients indicates meaningful associations without raising concerns of multicollinearity that could bias regression results. Overall, the positive correlations align with theoretical and empirical expectations that tax incentives can enhance financial performance in Nigeria's manufacturing sector. To assess the impact of tax incentives on firm performance, an Ordinary Least Squares (OLS) regression model was estimated, with results shown in Table 3.

Table 3: OLS Regression Results (Dependent Variable: Financial Performance – FP)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Constant	0.0732	0.0151	4.8464	0.0000
CA	0.1052	0.0084	12.5667	0.0000
IA	0.0852	0.0117	7.2536	0.0000
TH	0.0745	0.0139	5.3568	0.0000

R-squared = 0.728
Adjusted R-squared = 0.718
F-statistic = 72.15 (p = 0.0000)

Source: Author's computation using E-Views 9.0 (2025)

The pooled regression results for the dependent and independent variables are presented in Table 3. The coefficients indicate the marginal impact of each explanatory variable on financial performance (FP), while the t-statistics and p-values assess their statistical significance. The constant term of 0.0732 (p = 0.000) reflects a significant positive baseline performance for the sampled manufacturing firms even in the absence of tax incentives. Capital allowance (CA) has a coefficient of 0.1052, with a t-statistic of 12.567 and p-value of 0.000, indicating a strong and significant positive effect on firm performance. This suggests that higher capital allowances encourage reinvestment and profitability. Investment allowance (IA) also shows a significant positive effect (coefficient = 0.0852; p = 0.000), implying that firms benefiting from these allowances can expand operations and achieve higher returns. Tax holiday (TH) similarly exhibits a positive impact (coefficient = 0.0745; p = 0.000), reinforcing the role of temporary tax exemptions in boosting profitability. At the model level, an R-squared of 0.728 indicates that 72.8% of the variation in financial performance is explained by the tax incentive variables. The adjusted R-squared of 0.718 confirms the robustness of this explanatory power. The F-statistic of 72.15 (p = 0.000) further validates the overall significance of the model, showing that tax incentives collectively influence firm performance.

The study investigated tax incentives and the financial performance of Nigerian manufacturing firms using an ex-post facto design, drawing data from the annual reports of purposively selected firms over the period 2014–2024. Both descriptive and inferential statistics were applied, with Ordinary Least Squares (OLS) regression serving as the main analytical tool. Descriptive results indicated moderate variation in performance metrics, such as Return on Assets (ROA), across firms, while tax incentive measures investment allowance, capital allowance, and tax holiday showed considerable dispersion, suggesting their influence on firm performance. Correlation analysis revealed positive relationships between tax incentives and financial performance, indicating that firms benefiting from these incentives tend to perform better. Regression findings confirmed that all three tax incentives significantly and positively affect financial performance, with capital allowance having the greatest impact, followed by investment allowance and tax holiday. Collectively, the incentives explained approximately 72.8% of the variation in performance, demonstrating a strong link between fiscal policy and firm outcomes. The study concludes that tax incentives are crucial for improving

profitability, operational efficiency, and sustainability in Nigerian manufacturing, as they reduce tax burdens, encourage investment, and foster an environment conducive to job creation and national economic growth.

Recommendations

(i)The government should enhance capital allowance policies by permitting accelerated depreciation on manufacturing equipment and machinery to encourage plant modernization, lower operational costs, and improve productivity.

(ii) Investment allowance incentives should be strengthened by offering greater deductions for firms investing in research, innovation, and technology-driven initiatives, thereby boosting competitiveness, efficiency, and long-term profitability.

(iii), finally extending tax holidays especially for new and financially constrained manufacturing firms can alleviate early-stage financial pressures, promote sustainability, generate employment, and foster sectoral growth.

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