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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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TAX INCENTIVES AND INVESTMENT BEHAVIOUR: AN EMPIRICAL REVIEW OF THE TAX PAYERS PERCEPTIONS

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ABSTRACT

This paper focused on tax incentives and investment behaviour via the taxpayer's perspective in Nigeria. In achieving this data for this paper were gathered from primary source, and these data gathered from elite respondents (firms and investors) with use of questionnaire duly administered and in analysing these data the Z-test was used. And the paper concluded that tax incentives do not significantly influences operational behaviour among firm in Nigeria. while on recommendations the paper recommended Nigeria government should publish tax incentives bulletins for distributions to companies so as to promote greater awareness, the government should ensure massive public enlightenment through the ministry of commerce, also that the government should make legal basis for incentives, their economic consequences and their administration procedures transparent and use simple qualifying criteria to ease enforcement and monitoring

KEYWORDS
Taxation, Tax Incentives and Investment Decision.

INTRODUCTION

Taxation is an important part of every contemporary civil society. In particular, tax law plays a crucial role in economics by generating revenue for governments to finance public services, facilitates growth, increase productivity, improve their investment climate and enhance the overall quality of life of their people Obaretin (2010). Yet tax generally raises the cost of doing business and weakens the link between investment activities and the resultant economic rewards, thereby impeding economic growth and development. Tax incentives laws have consequently been used by government as a tool for accelerating investment in specific economic sectors, shaping the investment environment of a country or economic region and so overcoming some of the challenges posed by adverse investment condition.

The question that arises on this issue of the incentives, are firms fully aware of relevant existing incentives and if aware to what extent are they utilizing them? With this on hand, it become essential that government of every country to put in place or set up institution to ensure proper dissemination of this available information. So as to attract the right type of investors as well as encourage the existing business to expand their operation by taking advantage of these incentives

However, to say that countries engage in battle in attracting these investors, retain existing once within their border would not be an oversight. Countries (i.e government) are aware that firms do not invest arbitrarily nut rather engage in serious internal research and evaluation before taking investment decisions. Firms due to their limited resources would determine amongst several nations or countries where their investment would be most profitable, secured, safe and have greater future prospects.

In making these countries investment friendly, government among other things would put in place fiscal instrument more precisely favourably tax system to achieved such a purpose. Taxes incentive are perhaps the most popular inducement within the tax system offered to firms operating within an economy, as well as investors of foreign firms yet to come. Most government, especially of the less developed countries (LOCs) believe that they would attract foreign direct investment, revitalise their economy, promote employment and reduce inflation though the use of tax incentives

However, Aguolu (1999:17) defined tax incentives as an exemption or relief granted to an individual or a company to reduce the effect of taxation and thus encourage saving and investment. While in the opinion of Oyetude (2006) tax incentives typically utilized in sub- Saharan African economies were describe and they include tax holidays, investment allowances, tax credit, reduced corporate taxes, VAT and duty exemption, subsidies, special regulatory exemption and investment zones and accelerated investment write offs. He further stated that if these incentives are misconceived or ineptly handled, tax incentives laws might hinder the very ends their wielders seek to advance. Interactions between host country tax concessions and alterative tax laws in capital exporting home countries may distort or negate the incentive value of such initiatives if there are not carefully considered.

The objective of this paper is to examine the relationship between tax incentives and investment behaviour in Nigeria from the taxpayer's perspective and in achieving this, the paper is divided into five section, closely following this, is the review of literatures while three is on research method, four on empirical result and discussion and five on conclusion and recommendation.

LITERATURE REVIEW

Firms see tax incentives as cost saving devices. These incentives appear to be one of the most enticing devices for investment and organisation growth and expansion. But whether organisations are actually taken full advantage of them is another issue entirely. However, incentives are things that motivate or encourage action, work or performance such as extra money paid to a worker to increase his level; of productivity. Tax incentives according to ifeuko (2009) can be seen as deliberate acts of government to motivate or encourage action as would support the development of an industry. They are designed to stipulate investment on certain preferential sector of the economy and are also at times geared towards attracting inflows of foreign income to complement the domestic supplies for rapid economic growth and development.

She stated further that not many people, firms truly advantage of the incentives existing in their sector of operation as even when they do, they rather suggest an individual corporate approach rather than an industry wide approach

In a study conducted by Alter, Rolfe & Frederic(1993) it reveals that all firm convert tax incentives but however, differ in the type they desire depending on the timing of the investment and the type of process (manufacturing or services). He opines that start up firms prefer incentives that reduce their initial expenses or start up cost, while expanding firms will prefer tax related incentives that affect profit, manufacturing firm requiring large investments in fixed assets are more likely to appreciate incentives relating to depreciable assets than those in the service industries.

Bergsman (1991) states that a significant number of multinational companies have policies of making investment decision in complete disregard of existing taxes and fiscal incentives, him his opinion multinational companies take into account only what they consider to be more basic factors and after a positive internal decision, bargain as hard as possible for any incentives available.
Tax incentives are exemption or relief which are not part of the essential structure of the tax system but have been introduced to achieve a purpose other than raising reserve. There are basically two categories of tax incentives; direct and indirect incentives. Direct tax incentives; these incentives generally fall within two board types which are corporate profit and more attractive term for recovering investment costs. However, both share the same goal, which is lower effective corporate income tax burden on business investment but have very different policy and investment and administration implications. While the indirect tax incentives are incentives which can take the form of partial or full exemption from import tariffs; excises and sales tax (including the value added tax) on imports. Though these incentives are commonly provided to export-oriented industry, the drawback of indirect tax incentives is many and serious; they are prone to abuse and are difficult to justify on policy grounds

THE NIGERIA BUSINESS OPPORTUNITIES AND INVESTMENT INCENTIVES IN NIGERIA
Nigeria is the most populous African country with a population of over 150 million in fact, in short it is believe that for every four Africans is a Nigeria. It should therefore be appreciated that business opportunities exist is virtually all sectors of the economy such as oil and gas, banking, agriculture, manufacturing, construction, transportation, information technology, telecommunication, education; health and water resources as well as professional services. The return of democracy and civil rule to Nigeria in May 1999 has brought with it a welcome boost to business friendly legislation which had hitherto remained comatose in nation's statute books
As a part of the effort to provide an enabling environment that is conducive to the growth and development of industries, inflow of foreign direct investment (FDI), shield existing investment from unfair competition, and stimulate the expansion of domestic production capacity. Federal government of Nigeria has developed a package of incentive for various sectors of the economy. These incentives, it is hoped will help revive the economy, accelerate growth and development and reduce poverty.
In Nigeria, government accept the private sector as the engine of growth and the creator of wealth, while government's major responsibility is to promote the enabling environment for the private investors to operate. However, laws which had hitherto hindered private sector investments have been either amended or repealed and a national council on privatisation has been established to oversee orderly divestment to private operators in vital areas of the economy such as mining, transportation, electricity, telecommunications, petroleum and gas. In addition, the government policy on economic deregulation and liberation has opened up new windows of opportunity to all investors wishing to invest in the country's economy's in this connection.
In addition, the Nigeria investment promotion council (NIPC) has been strengthened, to enable it serve as a one stop office for clearing all the requirements for investment in the country. The tariff structure is being reformed with a view to boosting local production. Complementing the above is the fact that the government has introduced a new visa policy to enable genuine foreign investors to procure entry visa to Nigeria within 48 hours of submission of required documentations.

TAX INCENTIVES IN THE SERVICE AND MANUFACTURING SECTORS
Tax incentives granted companies could be as numerous as necessary to achieve a timely, effective and successive implementation of government's schedule and policy for economic growth through private investments. To achieve this, each country has total and utmost prerogative to enact and institute adequate tax incentives that would encourage, attract and increase investment by firms. Some of the incentives in the services industry include;
- Tax relief for research and development (R&D) up to 120% of the expenses on R&D are tax deductible provided that such R&D activities are carried out in Nigeria and are connected with businesses to which allowances are granted. The result of such research could be patented and protected and accordance with internationally accepted property and copy right laws
- Labour intensive mode of production ; 15 % of tax concession for five years, the rate is granted in such a way that an industry employing one thousand persons or more will enjoy 15 % tax concession while an industry employing one hundred people will enjoy 6% while those employing two hundred will enjoy 75 % and so on
- In-plant training; 2 % tax concession for five years of the cost of the facilities for training
- Infrastructure : 20 % of the cost of providing basic infrastructure such as roads, water, electricity, where they do not exist is tax deductible once and for all
- Investment in economical disadvantage area; 100% tax holiday for seven years and additional 5 % depreciation
- Guarantees against Expropriation: by the provision of section 25 of the NIPC decree, no enterprise shall be nationalised or expropriated by any government of the federation, unless the acquisition is in the national interest or for public purpose, and no person who owns either wholly or in part the capital of any enterprise should be compelled by law to surrender his interest in the capital to any other person. However, it can only be possible when payment of fair and adequate compensation is made, right of access to the courts for the determination of the investor's inters or right and the amount of determination to which he is entitled in addition to all safeguards, the Nigerian government is prepaid to enter into investment protection agreement with foreign enterprises wishing to invest in Nigeria
- Access to land : any company incorporated in Nigeria is allowed access to land rights for the purpose of its activity in any state in the country. It is, however, a requirement that industrial companies comply with regulation on use of land for industrial purposes and with environmental regulations. Land lease is usually for a term of 99 years unless the company stipulates a shorter duration
- Tourism ; this sector was accorded prefereral sector status oin1991. This makes it qualify for such incentives as tax holidays, longer year of moratorium and import duty expansion on tourism related equipment, state government are prepared to facilitate acquisition of land through the issuance of certificate of occupancy for the purpose of tourism development; 25 % of income derived from tourist by hotels in convertible currencies are tax exempt provided such income is put in a reserve fund to be utilized within 5 years for explosion or the construction of new hotels, conferences centre, etc that are useful for tourism development
- Telecommunications: government provides non-fiscal incentives to private investors in addition to a tariff. Structure that ensures that investors recover their investment over a reasonable period of time, bearing in mind the need for differential tariffs between urban and rural areas. Rebate and tax relief are provided for the local manufacture of telecommunication equipment and provision for the local manufacturer of telecommunication equipments and provision of telecommunication services. This sector is rapidly being deregulated and privatised. This has led to the emergence of many operators amongst are MTN, GLOBACOM, ETISALAT, AIRTEL and so on. Teledensity has now expanded as a result, in leaps and bounds. On the manufacturing sector they include;
- Pioneer status; this is a concession to pioneer companies located in economically disadvantages areas; providing a tax holiday period of five to seven years. These incentives must be considered by the government to be beneficial to the country's economy and in the interest of the public. Also, companies that are involved in local raw material development; local value added, labour intensive processing, export oriented activities in plant training are also qualified for additional concessions.
- Local raw material utilisation; 3% tax concession for five years to industries that attain minimum local raw materials utilization as follows; agro 80%, agro allied 70%, engineering 65% chemical 60% petrol chemical 70%
- Local value added; 10% tax concession for five years. This applies essentially to engineering industries, while some finished imported products serve as inputs. This is aimed at encourage local fabrication rather than the mere assembly of completely knocked down parts.
- Export oriented industries;10% tax concession for five years. This concession will apply to industries that export not less 6% of their products.

- Import duty rebate: a 25% import duty rebate was introduced in 1995 to ameliorate the adverse effect of inflation and to ensure an increase in capacity utilisation in the manufacturing sector. Investors are however, advised to ascertain the current operative figures at the time of making an investment, because there concession have undergo some amendment in the past few years.
- Re-investment allowance; this incentive is given to manufacturing companies that incur capital expenditure for purpose of approved expansion of production capacity; modernization of production facilities, diversification into related products. It is aimed at encouraging reinvestment of products.

HYPOTHESIS

Ho; Tax incentives do not influence operational behaviour among firms in Nigeria

METHODOLOGY

This paper adopted the survey design, data were gathered from primary source with the aid of a well structured questionnaire duly administered to elite respondents in the service and manufacturing firms located in Edo State, Delta State, and Rivers State as well as investors (existing and potential) in these area of operations. In selecting firm for this studies the simple random (lottery method) was used.

A total of one hundred (100) questionnaires were administered to these respondents and a total of seventy (70) questionnaires were retrieved. Thereafter, the binomial test (Z test) statistics which tests the association between two variables was used to analyze the data generated.

The decision rule for this test statistics is that the null hypothesis was rejected where the calculated value of Z-cal was found to have exceeded the table value at 5% level of significance.

EMPIRICAL RESULTS

This section of the study provides the relevant data for validating or rejecting the null hypothesis:

Ho; Tax incentives do not influence operational behaviour among firms in Nigeria

TABLE 1: RESPONSE TO QUESTION TWO (INVESTMENT DECISIONS IN NIGERIA ARE STRONGLY MOTIVATED BY THE EXISTING TAX INCENTIVES IN THE AREA OF OPERATIONS)

RESPONSES	NUMBER	PERCENTAGES (%)
Strongly Agree	**10**	**14**
Agree	**17**	**24**
Undecided	**1**	**1**
Disagree	**22**	**32**
Strongly Disagree	**20**	**29**
Total	**70**	**100**

Source: Field Survey, 2011

From above table, it reveals that thrity-eight (38) percent of the respondents agree that investment decisions are motivated by presence of tax incentives in that area of operation, while one percent is undecided and the remaining sixty- one (61) percent disagree to the question asked.

Using Binomial P, the null hypothesis (Ho) as regarding the above table is tested using one tail test as follows and given level of significance used in this test is 5% or 0.05:

Ho: $P \leq 0.05$, Hi: $P > 0.05$, Z cal is computed using

$$Z = \frac{x - npo}{\sqrt{npo\,(1 - po)}}$$

Where: Z = Symbol used to denote z-test, x = number of positive response received, n = number of response analyzed and po = critical value of the level of significance

$$Z = \frac{27 - (70 \times 0.5)}{\sqrt{70 \times 0.5\,(1 - 0.5)}}$$

$$Z = \frac{27 - 35}{\sqrt{17.5}} = \frac{-8}{4.18}$$ = Z cal = -1.91 and $Z_{0.05} = 1.645$

Decision: Since Z cal is -1.91 and is lesser than z value at 5% which is 1.645, we accept the null hypothesis which states that tax incentives do not influence operational behavior among firms in Nigeria and reject the alternate hypothesis.

CONCLUSION, DISCUSSION AND RECOMMENDATIONS

The essence of this paper was to ascertain the operational effect of tax incentive on investment behavior among the Nigeria firms via the taxpayer's perspective. In order to achieve this objective relevant data were gathered from both the primary source and these data were further analysis using the Z- test a binomial test statistics

And from the analysis, it was reveal that tax incentives are not major determinant of investment behavior among firms operating in Nigeria and on the basis of the above the paper recommended that; the Nigeria government should make legal basis for incentives, their economic consequences and their administration procedures transparent and used simple qualifying criteria to ease enforcement and monitoring, that the government should ensure massive public enlightenment through the ministry of commerce, in choosing appropriate tax incentives, only tax incentives that ensure a faster recovery of investment costs should be adopted and also that the government should publish tax incentives bulletins for distributions to companies so as to promote greater awareness.

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