

TAX INCENTIVES AND ENTREPRENEURIAL DEVELOPMENT IN NIGERIA: EMPHASIS ON DELTA STATE ENTREPRENEURS

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Abstract: The study examined the relationship between tax incentive modelling and entrepreneurial development in Nigeria with emphasis on Delta state, Nigeria. The main objective of the study is to ascertain various measures of tax incentives affect entrepreneurship in the Nigerian economy. The main source of data was the distributed questionnaire amongst selected entrepreneurs in Delta state, Nigeria. The study ensured to include only questionnaires that were filled completely by the sampled 385 respondents. The data was compiled and analyzed using descriptive statistics, Cronbach Alpha and linear regression model in testing the hypotheses. The findings revealed that tax holiday and tax exemption impact entrepreneurial development in Nigeria significantly. By implication, the holiday and tax exemption improves entrepreneurship development in Nigeria. Meanwhile, rural location tax incentives exhibited negative insignificant relationship with entrepreneurial development in Nigeria. The study recommended that policymakers in Nigeria should prioritize the implementation of tax policies that specifically target and incentivize entrepreneurial activities. Building upon the findings of this study, efforts should focus on expanding and enhancing tax holidays and exemptions to alleviate financial burdens on businesses, particularly startups and small enterprises.

Keywords: Tax Holiday, Tax Exemption, Rural Location Tax Incentive, Entrepreneurial Development.

1.1 Introduction

Nigeria, as Africa's most populous nation, holds significant entrepreneurial promise crucial for driving sustainable economic growth and development. Scholars such as Ajayi and Ojo (2022) and Aborode and Arowolo (2020) underscore the pivotal role of entrepreneurship in fostering job creation, innovation, and economic inclusivity. This dynamic force not only generates employment opportunities but also fuels technological advancements, diversifies the economy, and empowers marginalized communities (Solomon, 2017). Nonetheless, cultivating a thriving entrepreneurial ecosystem in Nigeria faces numerous challenges, including limited access to finance, inadequate infrastructure, and bureaucratic complexities. In this context, tax

incentives emerge as a potentially powerful tool to stimulate entrepreneurial activity and unleash its transformative potential (Oriakhi & Osemwengie, 2013).

Governments globally increasingly recognize the potency of tax incentives in spurring entrepreneurial ventures. The rationale behind this policy approach is clear: by alleviating the tax burden on startups and small to medium-sized enterprises (SMEs), governments aim to liberate resources, foster investment, and facilitate risk-taking (Olawale & Gariwe, 2010). This, in turn, is anticipated to drive business expansion, job creation, and overall economic vibrancy. Numerous studies have explored the potential of tax incentives in fostering entrepreneurship (Feyitimi et al., 2016; Obafemi et al., 2021). An OECD report (2015) underscores the positive impact of tax breaks, simplified tax regimes, and research and development (R&D) tax credits on entrepreneurial activity and innovation. Similarly, Adebayo and Ojo (2018) contend that well-designed tax incentives can alleviate financial constraints for startups and SMEs, thereby enhancing their growth and survival prospects.

Nigeria boasts a diverse array of tax incentives aimed at promoting entrepreneurship across various sectors, including pioneer status incentives, investment allowances, export processing zone (EPZ) benefits, and tax exemptions for specific industries like agriculture and technology. The Industrial Development Fund (IDF) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) also offer tax relief programs to bolster startups and SMEs (Ocheni & Gemade, 2015). Despite these initiatives, the effectiveness of Nigeria's tax incentive framework remains subject to debate.

Empirical studies by scholars like Okoye (2019) and Okonjo-Iweala and Onwuka (2014) highlight concerns regarding the limited reach and inefficient implementation of existing incentives. Factors such as poor awareness, complex eligibility criteria, and bureaucratic hurdles often hinder access to these benefits, particularly for micro and small enterprises in informal sectors.

Evaluating the impact of tax incentives on entrepreneurship development in Nigeria requires moving beyond merely quantifying the number of businesses benefiting from these schemes. It demands a nuanced understanding of how these incentives shape entrepreneurial behavior, investment decisions, and overall economic outcomes. This includes assessing factors such as job creation, innovation output, and the long-term sustainability of businesses benefiting from tax breaks. Furthermore, investigating the distributional effects of tax incentives is crucial. Do these benefits disproportionately favor established businesses or large corporations, or do they effectively reach and empower budding entrepreneurs with limited resources?

The rest segment of the paper covered the literature review, methodology, results and discussions, alongside conclusion and recommendations

2.1 Literature Review

2.1.1 Entrepreneurial Development in Nigeria

Entrepreneurship serves as a driving force behind innovation, economic growth, and job creation globally, with Nigeria, Africa's most populous nation, poised to harness its immense potential. Despite facing challenges such

as limited access to finance, bureaucratic regulatory environments, and inadequate infrastructure, Nigeria boasts a thriving entrepreneurial ecosystem fueled by approximately 41 million micro, small, and medium-sized enterprises (MSMEs) contributing significantly to the GDP (NBS, 2023). Nigerian entrepreneurs grapple with difficulties in securing loans from traditional banks due to stringent collateral requirements and high-interest rates (Ajayi & Ojo, 2022). Moreover, navigating complex regulatory frameworks diverts resources away from core business activities (Ogunola & Adebayo, 2022), while inadequate infrastructure disrupts operations and increases costs (Aborode & Arowolo, 2020). However, government initiatives, such as tax incentives and loan programs (SMEDAN, 2023), along with the rise of fintech and digital platforms, offer promising avenues for overcoming these challenges. Furthermore, the growing awareness of entrepreneurship's importance and the emergence of support networks and incubators signal a more conducive environment for startups and SMEs, highlighting a hopeful outlook for Nigeria's entrepreneurial future.

2.1.2 Tax Incentives

Taxes serve as essential financial pillars for governments, yet they can also impede economic activity. To mitigate this, tax incentives are deployed as strategic tools to incentivize specific behaviors, stimulate sectors, and promote desired social outcomes (Aribaba et al., 2019). These incentives encompass various instruments, including breaks, exemptions, credits, and deductions, which significantly reduce tax burdens for targeted entities, freeing up resources for investment, expansion, and job creation (Abdul, Aruwa & Adamu, 2014). Nigeria's tax landscape features a rich array of incentives, from pioneer status provisions to R&D tax credits, enriching the environment for startups and SMEs (Adebisi & Gbegi, 2013). However, their effectiveness remains contentious, with concerns about limited access, bureaucratic hurdles, and unintended consequences (Okoye, 2019; Okonjo-Iweala & Onwuka, 2014). Challenges persist in access and awareness, particularly for smaller businesses in informal sectors, compounded by bureaucratic inefficiencies and corruption (Adebayo & Ojo, 2018). Evaluating these incentives requires scrutiny of their impact on investment decisions, entrepreneurial behavior, and economic outcomes, ensuring alignment with broader development goals and equitable distribution (Abdulsalam, Almustapha & El-Mande, 2014). Streamlining eligibility criteria, enhancing transparency, and tailoring incentives to sector-specific challenges are essential for maximizing their impact and realizing Nigeria's developmental aspirations (Ezegwu & Akubo, 2014; Babatunde, 2014; Felix, 2021). Through these efforts, Nigeria can harness the transformative potential of tax incentives, propelling towards a more vibrant, inclusive, and sustainable future. Ighosewe, Uyagu and Iyere (2021) stresses that, tax incentives become more effective with strong corporate governance in place.

2.1.3 Tax Holiday

Tax holidays, temporary exemptions from corporate income tax offered by the Nigerian government to stimulate entrepreneurship development in specific sectors, present a dual-edged sword with both benefits and potential drawbacks. While they hold promise in attracting investment and fostering innovation by alleviating immediate financial burdens for entrepreneurs, nuances must be carefully considered (Babatunde, 2014). By

enabling entrepreneurs to redirect resources towards critical areas such as research and development, infrastructure upgrades, and expansion, tax holidays can facilitate the emergence of new ventures, enhance production capacity, and introduce innovative technologies (Feyitimi et al., 2016). For instance, exemptions granted to industries like glass and glassware manufacturing in Nigeria have incentivized domestic production, potentially reducing reliance on imports and creating new employment opportunities (Aribaba et al., 2019; Igbinoia & Okoye, 2017).

2.1.4 Tax Exemption

In Nigeria, alongside temporary tax holidays, certain types of businesses enjoy permanent tax exemptions, adding further diversity to the landscape of fiscal incentives. Enshrined in the Companies Income Tax Act (CITA), these exemptions primarily target entities engaged in public benefit activities, complementing government efforts in specific domains (Ocheni & Gemade, 2015). For instance, companies established to promote sporting activities, vital for fostering national pride and health, benefit from CITA exemptions, recognizing the social and economic value of sports and encouraging investment in infrastructure, talent development, and employment opportunities within the sector (Shahrodi, 2010; Oriakhi & Osemwengie, 2013; Igbinoia & Okoye, 2017). Similarly, companies dedicated to other public benefit activities like environmental protection, education, and scientific research may also qualify for tax exemptions, acknowledging their contributions to societal well-being and long-term development. However, these permanent exemptions are not unconditional; they often come with caveats and stipulations to ensure that the benefits are directed towards the intended public good (Abdulsalam, Almustapha & El-Mande, 2014; Muritala, Awolaja & Bako, 2012).

2.1.5 Rural Location Tax Incentives

In addition to sector-specific exemptions, Nigeria implements location-based tax reductions tailored for businesses operating in rural areas situated at least 20 kilometers from essential infrastructure such as electricity, water, & motorable (tarred) roads. Recognizing the challenges rural entrepreneurs face and aiming to stimulate economic activity in these underserved regions, this policy features graduated tax reductions based on proximity to basic infrastructure, offering crucial financial relief to businesses grappling with remote location challenges (Aborode & Arowolo, 2020; Ajayi & Ojo, 2022). However, the effectiveness of these incentives relies on transparent eligibility criteria, streamlined application processes, and robust monitoring frameworks to ensure inclusivity and assess their impact on rural development (Ogunola & Adebayo, 2022; Adebayo & Ojo, 2018).

2.2 Theoretical Framework

Neoclassical economics, spearheaded by Alfred Marshall in the late 19th century, posits that rational actors seek to maximize utility and minimize costs, suggesting that tax incentives can indirectly shape entrepreneurial development by influencing investor decisions and resource allocation. According to this framework, tax incentives, such as breaks, exemptions, or credits, aim to reduce the cost of doing business, thereby stimulating entrepreneurial activity and fostering economic growth. However, the effectiveness of these incentives' hinges

on their design, implementation, and the broader socio-institutional context. Poorly targeted or complex incentives may fail to reach intended beneficiaries and could lead to unintended consequences like inefficient resource allocation or tax evasion. Moreover, social norms, institutional factors, and distributional effects need to be considered to ensure that incentives promote inclusive economic growth and benefit underserved communities and nascent entrepreneurs. Continuous monitoring and evaluation of incentive programs are essential for policymakers to refine and adapt schemes to maximize their positive impact on entrepreneurial development (Masud, Aliyu & Gambo, 2014; Adeyemi, 2023; Ekeh, 2023; Adebayo & Ojo, 2018; Okoye, 2019; Okoye, 2023).

2.3 Empirical Review

Several studies have explored the impact of tax incentives on entrepreneurial outcomes and business growth in Nigeria and other developing economies. Atawodi and Ojeka (2012) emphasize the importance of tailoring tax policies to support Small and Medium-sized Enterprises (SMEs), highlighting the influence of incentives like tax exemptions and holidays. Similarly, Feyitimi et al. (2016) and Uwuigbe et al. (2016) underscore the positive correlation between tax incentives & entrepreneurial growth, advocating for the implementation of more favorable tax policies tailored specifically for SMEs. Conversely, Isaac (2015) and Ngure (2018) delve into the direct impact of government tax policy on SMEs' sales revenue and performance, emphasizing the significance of reduced tax burdens for fostering business growth and profitability. Additionally, studies by Adul, Aruwa, and Adamu (2013) and Obafemi, Araoye, and Araye (2021) stress the need for consistent and well-designed government policies to ensure that tax incentives effectively stimulate entrepreneurship without unintended consequences, recommending business-friendly tax policies such as tax holidays for start-up enterprises.

Further research by Twesige and Gasheja (2019) highlights that, tax incentives improves sales growth in Kenyan SMEs, demonstrating the potential of tax breaks to contribute to business success. Moreover, Hammed and Adewole (2020) and Lawal et al. (2022) investigate the impact of tax breaks on manufacturing firms in Nigeria, indicating that tax incentives led to business growth. These findings collectively underscore the importance of strategic tax planning and leveraging available incentives for business expansion and development in emerging economies like Nigeria and Kenya.

3.1 Research Methodology

The study utilized a cross-sectional research design, chosen for its suitability in characterizing a large population at a specific point in time and facilitating detailed analysis of a particular research problem. The research population consisted of several entrepreneurs in Delta state, selected as a representative case study for understanding the role of TAXH and EDEV. For purposes of specificity, 385 respondents were sampled. Questionnaires were employed as the primary data collection instrument, divided into five sections covering demographic information of the respondents, questions on the role of tax holiday, questions around tax exemption, rural location TAXH and EDEV in Nigeria. Data analysis involved descriptive and inferential statistics to examine hypotheses and characterize questionnaire responses.

4.1.1 Descriptive Statistics

The results of the descriptive statistics of the variables are presented in Table 1:

Table 4.1: Summary of Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
EDEV	4.66735	0.51229	1.71428	5	-3.52392	18.6504
TAXH	4.65251	0.53838	1.42857	5	-4.30628	24.53634
TAXEX	4.74363	0.51896	1.42857	5	-5.36312	31.97999
RURLO	4.53436	0.43595	1.71428	5	-5.19822	30.91757

Source: Researcher's Computation, 2024.

The descriptive statistics outlined in Table 4.1 offer crucial insights into the relationship between tax incentives (TAXH) and entrepreneurial development (EDV) in Nigeria. With mean values of 4.65251 for Tax Holiday (TAXH), 4.74363 for Tax Exemption (TAXEX), and 4.53436 for Rural Location Tax Incentives (RURLO), alongside a mean entrepreneurial development score of 4.66735, it is evident that, on average, respondents perceive relatively favorable levels of both tax incentives and entrepreneurial activity. However, the substantial standard deviations (0.53838 for TAXH, 0.51896 for TAXEXM, 0.43595 for RURLO, and 0.51229 for entrepreneurial development) indicate considerable variability within the data, suggesting diverse experiences among respondents. The negative skewness values (-4.30628 for TAXH, -5.36312 for TAXEXM, -5.19822 for RURLO, and -3.52392 for entrepreneurial development) imply a concentration of responses toward higher scores, indicating predominantly positive perceptions. However, the high kurtosis values (24.53634 for TAXH, 31.97999 for TAXEXM, 30.91757 for RURLO, and 18.6504 for entrepreneurial development) suggest heavy-tailed distributions with the potential for extreme values, indicating a wide spectrum of experiences, from highly favorable to unfavorable, regarding TAXH and entrepreneurial development. These statistics underscore the complex nature of the relationship between TAXH and entrepreneurial activity, emphasizing the need for further analysis to elucidate the nuances and implications for policy and practice.

4.1.2 Cronbach Alpha

Item	item-test correlation	item-rest correlation	average covariance	interitem Alpha
EDEV	0.9390	0.8902	0.22481	0.9643
TAXH	0.9676	0.9387	0.20841	0.9510
TAXEX	0.9609	0.9281	0.21583	0.9534
RURLO	0.9590	0.9326	0.24094	0.9564

Source: Researcher's Computation, 2024.

The table presents the results of item analysis for the variables of interest, specifically focusing on item-test correlations, item-rest correlations, average interitem covariance, and Cronbach's alpha coefficients. The high item-test correlations for all variables—0.9390 for EDEV, 0.9676 for TAXH, 0.9609 for TAXEX, and 0.9590

for RURLO—indicate strong relationships between individual items and the overall construct being measured. Similarly, the item-rest correlations, which range from 0.8902 to 0.9387, further underscore the items' coherence within their respective constructs. The average interitem covariance values (0.22481 for EDEV, 0.20841 for TAXH, 0.21583 for TAXEX, and 0.24094 for RURLO) demonstrate the extent of association among items within each construct, with higher values indicating greater covariation. Finally, the Cronbach's alpha coefficients are notably high, ranging from 0.9510 to 0.9643, indicating excellent internal consistency reliability for all variables. Overall, these findings suggest that the measurement scales used to assess entrepreneurial development and tax incentives exhibit strong reliability and validity, thereby enhancing the credibility and robustness of the study's results and conclusions.

4.1.3 Interitem Covariances

	EDEV	TAXH	TAXEX	RURLO
EDEV	0.2624			
TAXH	0.2455	0.2899		
TAXEX	0.2270	0.2503	0.2693	
RURLO	0.1880	0.2140	0.2102	0.1901

Source: Researcher's Computation, 2024.

The interitem covariances presented in the table provide valuable insights into the relationships between pairs of variables under investigation. The positive covariance values across the diagonal and above it indicate that there is a tendency for the variables to vary together in a similar direction. For instance, the covariance between EDEV and TAXH is 0.2455, suggesting a moderate direct positive relationship between EDEV and tax holidays. Similarly, the covariance between EDEV and TAXEX is 0.2270, indicating a similar moderate positive relationship between EDEV and tax exemptions. Likewise, the covariance between EDEV and RURLO is 0.1880, suggesting a moderate positive relationship between entrepreneurial development and rural location tax incentives.

4.1.4 Results of Test of Hypothesis

Dependent Variable: Entrepreneurial Development (EDEV)					
Variables	Symbol	Coefficient	Std. Err	t-Statistics	Sig.
Constant	_CONS	0.53642	0.17784	3.02	0.003
Tax Holiday	TAXH	0.60914	0.07949	7.66	0.000
Tax Exemption	TAXEX	0.29296	0.09154	3.20	0.002
Rural Location Tax Incentive	RURLO	-0.02046	0.11790	-0.17	0.862
(Prob > F)				0.0000	

Source: Researcher's Computation via STATA 13.0

In Table 4.5, the results of the hypothesis test regarding the impact of various tax incentives on EDEV are presented. Firstly, examining the coefficient for Tax Holiday (TAXH), we observe a substantial and statistically

significant positive coefficient of 0.60914 with a low standard error of 0.07949 and a high t-statistic of 7.66. This indicates that tax holidays improve start-up initiatives in Nigeria. The p-value associated with Tax Holiday is very low ($p < 0.001$), indicating strong evidence against the null hypothesis and suggesting that the effect of tax holidays on EDEV in Nigeria is not due to random chance. The finding agrees with those of Atawodi and Ojeka (2012) and Isaac (2015) who revealed that tax holiday can help improve start-up initiatives in Nigeria.

Moving on to Tax Exemption (TAXEX), we find a positive coefficient of 0.29296 with a standard error of 0.09154 and a t-statistic of 3.20. This indicates that tax exemptions also improve start-up initiatives in Nigeria. The p-value for Tax Exemption is also very low ($p = 0.002$), further supporting the rejection of the null hypothesis and indicating that the effect observed is likely not due to random variation. The result is in accordance with those of Uwuigbe, Uwuigbe, Adeyemo and Anowai (2016) and Feyitimi, Odelabu, Babatunde and Obisesan (2016) who reported that tax exemption boosts firm performance.

Conversely, when considering the coefficient for Rural Location Tax Incentive (RURLO), we observe a small and statistically non-significant coefficient of -0.02046, coupled with a relatively high standard error of 0.11790 and a t-statistic of -0.17. The p-value associated with RURLO is notably high ($p = 0.862$), indicating a lack of statistical significance. Therefore, the evidence suggests that rural location tax incentives do not have a significant impact on EDEV in Nigeria. The finding contradicts those of Hammed and Adewole (2020) and Lawal, Oyetunji, Soladoye, Lawal and Alagbe (2022).

The results indicate that tax holidays and tax exemptions significantly stimulate EDEV in Nigeria, whereas rural location tax incentives do not appear to have a statistically significant effect.

4.2 Discussion of Findings

The findings from the regression analysis on the impact of tax incentives on entrepreneurial development in Nigeria reveal significant implications for policy and practice. Specifically, the results highlight the crucial role of tax holidays and exemptions in stimulating entrepreneurial activities, as evidenced by their substantial positive coefficients and statistical significance. This suggests that targeted tax policies that provide relief or exemptions for businesses can effectively incentivize entrepreneurial endeavors, fostering innovation, job creation, and economic growth. However, the lack of significance observed for rural location tax incentives underscores the importance of carefully designing and implementing tax policies to ensure their effectiveness in driving EDEV, particularly in rural areas. Policymakers and stakeholders should therefore prioritize measures that not only alleviate tax burdens but also address broader socio-economic challenges to create an enabling environment for entrepreneurship to thrive across diverse contexts in Nigeria. Additionally, these findings have broader applicability beyond Nigeria, offering insights into the role of tax incentives in promoting entrepreneurial activities in emerging economies and underscoring the need for tailored policy interventions to support entrepreneurship and economic development worldwide.

5.1 Conclusion and Recommendation

The study has shed valuable light on the tax incentives and EDEV linkage in Nigeria. Through rigorous analysis, it has been demonstrated that tax holidays and exemptions play a significant role in stimulating entrepreneurial activities, as evidenced by their positive and statistically significant effects on entrepreneurial development. These findings underscore the importance of targeted tax policies in fostering an environment conducive to entrepreneurship, thereby promoting innovation, job creation, and economic growth. However, the non-significant impact of rural location tax incentives suggests a need for policymakers to reassess and potentially refine their approach to incentivizing entrepreneurship in rural areas. Overall, this study contributes to the growing body of literature on tax policy and entrepreneurship, providing actionable insights for policymakers and stakeholders seeking to support and nurture entrepreneurial ventures in Nigeria and beyond.

As a recommendation, policymakers in Nigeria should prioritize the implementation of tax policies that specifically target and incentivize entrepreneurial activities. Building upon the findings of this study, efforts should focus on expanding and enhancing tax holidays and exemptions to alleviate financial burdens on businesses, particularly startups and small enterprises. Additionally, policymakers should consider devising innovative strategies to effectively stimulate entrepreneurial development in rural areas, where traditional tax incentives may not suffice. This could involve a holistic approach that combines tax incentives with targeted investment in infrastructure, education, and access to finance to create an enabling environment for entrepreneurship outside urban centers. Furthermore, continuous monitoring and evaluation of the effectiveness of tax policies in promoting entrepreneurial activities are essential to ensure that interventions are responsive to evolving economic dynamics and contribute to sustainable long-term growth and development.

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