IC Value 2016 : 61.33| SJIF Impact Factor(2018) : 8.003| ISI Impact Factor (2017):1.365 (Dubai)

Research Paper | Volume - 6, Issue- 7, July 2018 | e-ISSN : 2347 - 9671| p- ISSN : 2349 - 0187

EPRA International Journal of Economic and Business Review

TAX INCENTIVES AND ENTERPRISE GROWTH OF AGRO-BUSINESS FIRMS IN RIVERS STATE

Okwurume, Clarance Nkasirim
Department of Management, Faculty of Management Sciences, University of Port Harcourt. Port Harcourt, Nigeria.

B. Chima Onuoha PhD
Professor, Department of Management, University of Port Harcourt, Port Harcourt, Nigeria.

ABSTRACT

This study sought to ascertain the role of tax incentives on the growth of agro-businesses in Rivers state. Six agro-businesses make up the target population. 202 staffs from the six agro firms formed the accessible population. Sample size is 136 using taro Yamane. 124 copies of the questionnaire were retrieved. Data was collected with copies of questionnaire. The findings of the study revealed that tax incentives such as tax holiday and capital allowances promote the growth of agro-businesses. It recommended that agro-business firms should use the opportunity provided by governments to apply for tax incentives in their first year of operations in order to enhance their growth.

KEYWORDS:
Tax incentives, enterprise growth, tax holiday, capital allowance, return on investment, return on assets.

INTRODUCTION

The enterprise growth is depicted by a procedural advancement in terms of development both in internal and external resource. It is a consistent upsurge in the level of business stability from little to huge. It is a stage-by-stage procedural development that ensures that are no delays (Moa, 2009). The need to develop an economic base has been a source of worry to many governments in the world over (Klemm, 2009). During the growth stage of a business venture, managers are exposed to series of challenges which includes limited financial resource and competition. However, provision of tax incentive to new entrants enterprise has been considered to be a source of motivation to firms by governments (Chen and Mintz, 2011; Zhao, 2013).

Enterprise growth can be appreciated from diverse perspective depending on the firm orientation and economic policies. The asset the firm controls and its legal position in the industry are essential factors that shape enterprise growth. It is therefore, critical to study how an enterprise manages its growth transitions and what pattern they follow (Gupta *et al*, 2013). Gupta *et al*, (2013) identified major perspectives of enterprise growth which are the “resource-based perspective”, the “motivation perspective”, the “strategic adaptation” perspective and the “configuration perspective”. Resource-based perspective dwells more on the inimitable assets of firm in terms of employee strength, financial resource etc. According to the resource-based view, there firms have access to unlimited resources that are always difficult to be copied by any firm. Firm who are eager for growth and development deploys these scarce resource to ensure a strategic positioning of their organization beyond the reach of other competing firms in the industry. Thus, in this study the perspective of enterprise growth are those linked with Resource-based perspective and this include financial resources. The reasons for adopting financial resource as the measure of enterprise growth is because finance in the livewire of any business. Typically, the resource-based is centred on assessing how financial performance can influence enterprise growth (Ryan, 2013).

Klemm (2009) identified tax incentives to include tax holiday, special zones, investment tax credit, investment allowance, accelerated depreciation, reduced tax rate, exemptions from various taxes and financing incentives. However, Ottih (2000) noted that the tax incentives that promote enterprise development are tax holidays in the form of pioneer legislations and capital allowance which involves initial allowance; annual allowance; balancing adjustment; and investment. Consequently, in this study, the tax incentives noted by Ottih (2000) are adopted.

Typically, tax incentives are identified by scholars that people indulge in business to make profit and remain in business. Business is an economic system where goods and services are exchanged for one another or for money (Johansson *et al*, 2008). Tax incentives are given in the form of tax holiday and capital allowance in order to help boast the financial strengths of companies and to make them to be in business. However, the crux of the matter is does firms have the knowledge of tax incentives provided by the government? Are the tax authorities adequately providing tax incentives to investors? Do tax incentives actually influence enterprise growth? Based on this, the specific objectives of the study are to ascertain how tax holiday affects return on investment;

ascertain how tax holiday affects return on assets; ascertain how capital allowance affects return on investment. And ascertain how capital allowance affects return on assets.

OBJECTIVES OF THE STUDY

The essence of this study is to examine the effect of tax incentives on enterprise growth of agro-business firms in Rivers state.

RESEARCH HYPOTHESES

The following hypotheses were developed based on the review of related literature.

$H0_1$: Tax holiday has no link with return on investment.

$H0_2$: Tax holiday has no link with return on assets.

$H0_3$: Capital allowance has no link with return on investment.

$H0_4$: Capital allowance has no link with return on assets.

LITERATURE REVIEW

For various reasons, governments offer incentives on tax to some firms to encourage growth, development, and to enjoy economies of scale (Tax Policy Center, 2010). In the view of Roberts (2014) tax incentive when properly appropriated by enterprises help the economy to growth in terms of employment generation. In a developing economy like Nigeria, the major yardstick used in determining the level of impact a firm has in the economy is in the level of employment generated by the firm. Tax incentives are arrangement by the government to ensure a specific reduction in the amount of tax levied on firms (Ottih, 2000; Klemm, 2009). The essence is attract new investors, encourage existing ones and stimulate the economy for growth.

Tax Incentives

Taxes are compulsory payments levied to individuals and organizations by the government which helps in the stimulation of the economy especially, when there are limited resources. Tax incentives are often used as tool to lure new investors in a developing economy (Okauru, 2009). "Tax incentives are provisions used to encourage an aspect of the economy that is yet to gain significant development in order to boost its development" (Otiih, 2000). "Globally, a lot of governments have created tax incentive programs to maintain businesses, attract businesses from other states, and stimulate new start-ups" (Klemm, 2009). Tax-related incentives is an age-long concept that have attracted series of scholarly debate. The major aim of adoption of tax incentive by government according to Zhao, (2013) is to induce firms to invest in a particular sector. In most developing economies such as Nigeria, tax incentives are inducements used to motivate investors in the agricultural, mining and manufacturing sectors.

Dimensions of Tax Incentives

According to Saha (1995) tax incentives are methods utilized by government to urge citizens or firms to respond positively on their responsibilities to pay taxes. Under the Nigerian law, there are different tax categories namely; "tax holiday", "investment allowance", "rural investment allowance", "tax free interest, "deductible capital allowance", "research and development", "tax-free dividend", "tax treaties", "relief and allowances" and "capital allowances" (Oriakhi and Osemwengie, 2013). Commonly, Ottih (2000) recognized expense motivating forces for organizations to incorporate pioneer status and capital remittance. Thus, in this study, the dimensions of tax incentives adopted are pioneer status and capital allowance.

(1)Tax Holiday: Tax holiday is a form of tax incentive hinged on pioneer status (Saha, 1995). Pioneer status is given to enterprise for a specified period of time within 3 to 5 years which is being administered by Industrial Development and Co-Ordination Department (IDCD). Pioneer Status is given to only manufacturing firms who engage in promoting products and services are legal and acceptable by the government (Chen and Mintz, 2011). According to Ottih, (2000) this category of tax "permits accumulated losses to be carried forward and deducted from the post pioneer income of the company" (Ottih, 2000).

According to Okauru (2009), is a type of tax holiday granted to firms in some industries which is payable within a three year period and can be renewed depending on payment.

(2)Capital Allowance: Capital Allowance is a procedure of diminishing the measure of company tax payable, offered as a motivating force for interest in large scale ventures (that increase a country's production capacity and stock of capital) (Okauru, 2009). A certain percentage of the capital asset's cost is allowed as capital allowance during the accounting period in which it was purchased. This amount is greater than the depreciation charge on the asset during that period (Ottih, 2000).

This incentive is for businesses engaged in manufacturing, construction, agriculture and public transportation. These businesses are given 5 percent capital allowance for all expenditure on plant and machinery (Ottih, 2000). Just the same with Pioneer Status, companies that are into promoted activities has the qualification to seek for such tax waver from Investment Tax Allowance (ITA) which has 60% allowance eligibility (Okauru, 2009).

Empirical Evidence

Tax holiday the most common form of tax incentive in Nigeria specially designed to accommodate firms locating their business in economically disadvantaged areas, and five years for others. Consequently, Okauru (2009) noted that more than sixty-nine companies in different sectors of the economy have benefited from tax holiday in Nigeria. The qualification to this type of tax is dependent of paying a minimum capital of around $2500, while foreign companies pay within $40,000. It is observed by Thuronyi (1998) that companies wishing to claim pioneer status must apply within one year of starting commercial operations.

A study carried out by Abou and Takor in 2003 on the topic "the Relevance of Tax Incentives in Export-oriented Enterprises in Lebanon", revealed that tax incentive can be used to promote export-oriented business. Correspondingly, Gomes (2006) studied the applicability of tax incentive in Brazil and found several forms of tax incentives applicable to businesses. They include-reduced "corporate tax rate", "loss carry forward", "tax holidays", "investment tax credits", "investment allowance", "reduced taxes on dividends: and "interest paid abroad", "preferential treatment of long-term capital gains", "deductions for qualifying expenses", "zero or reduced tariffs", "employment based deductions", "tax credits for value addition", "tax reductions/credits for foreign hard currency earnings".

Jayeola Olabisi (2009) in a study on "Tax incentives as a catalyst for Economic Development in Nigeria" claimed that tax incentive has a positive significant impact on investment decision, but usually leads to reduction in government revenue. In addition, Iyare and Alabi (2001)

conducted a study on the "impact of tax incentives on the stock price of selected manufacturing companies quoted in the Nigerian Stock Exchange" of which the result showed that tax incentives enhance the stock price of manufacturing firms.

Also, Holland (1996) investigated empirically on the dissertation titled "income tax incentives for investment in agro-allied business". The result showed that investment allowance and loss relief has a positive significant impact on corporate investment of agro-allied businesses.

In conclusion, a study carried out by Oghoghomeh in 2014 on. "An Assessment of Agribusiness Tax Incentives in Nigeria", revealed that there are strong synergies between agribusiness and the performance of agriculture for development. Dynamic and efficient agribusiness spurs economic growth and a strong link between agribusiness and smallholders can reduce rural poverty.

ENTERPRISE GROWTH

According to Moa (2009), growth of an enterprise can be measured on in terms industry health and versatility. It can be gauged by ascertaining the rate of speed between production processes and result relative to industry development property. Growth indicator should dwell more on practical development ability and growth potential which is a reflection of exterior representation and character. To achieve an effective analysis growth measurement should be analyzed completely, systematically and comprehensively. To determine the tenacity of a firm an industry requires estimating the firms' ability to survive which is dependent on new technology adoption and product originality in creating competitive edge. In order to achieve efficient measurement standard, growth must be measured using different indicators and cannot be simply concluded as the character in certain one aspect in the development process of enterprise (Moa, 2009).

MEASURES OF ENTERPRISE GROWTH

Finance and natural human resources play a critical role in the actualization of enterprise profit (return on investment and return on assets) (Ryan, 2013). Finance has been recognized over the years as the livewire of any organization and an organizational weapon employed to protect and equip their operations in the business environment (Jaja and Okwandu, 2006). Financial performance is determined by the level of success an organization records in monetary terms which can be measured using profitability (Ryan, 2013).

(1) **Return on Investment:** Way (2012) noted that return on investment (ROI) is profitability indicator. It is the most common form of financial performance indicator available for most companies Investors look at a company's invested assets and find out how much return management has been able to generate; managers will undertake new investment projects only if they promise satisfactory returns.

According to Ryan (2013), Return on Investment (ROI) is a straightforward financial tool that measures the economic return of a project or investment. "ROI measures the effectiveness of the investment by calculating the number of times the net benefits (benefits minus costs) recover the original investment" (Ryan (2013). ROI measures key aspects of the department regarding products with adequate attention on increases in sales volume or asset which combines diverse factors to ensure success is achieved. **Return on Assets:** According to King and Levine (1993) "Return on Assets (ROA) provides a measure for assessing the overall efficiency with which bank assets are used to produce net income from operations" According to Brown (2004) ROA shows managerial effectiveness and efficiency in terms of utilization of capital. Return on assets is probably the single best overall measure of operating performance. It ties together the results of operations with the resources used to produce those results (King and Levine, 1993). It is also relatively easy to interpret.

RESEARCH METHODOLOGY

Research Design: This study adopted the cross-sectional field survey of the quasi-experimental research design. A cross-sectional survey collects data to make inferences about a population of interest (universe) at one point in time.

Population: The target population of this study is the entire agriculture companies in Rivers State. Conversely, due to the inability of the researcher to travel the entire landscape of Rivers State to obtain data for the study, the study was limited to accessible population. Thus, the accessible population of the study is all the Agricultural Companies in Rivers. The records from the Rivers State Chambers of Commerce, Mines, Industries and Agriculture as at April 2017 revealed a total of six Agricultural Companies. Consequently, a total number of workers in these six companies are 202.

Sampling and Sample Size Determination: A convenience sampling procedures was employed in this study. Taro Yamane formula was used to determined the sample size which is 134.

Reliability/Validity of Instrument: The facts from the surveyed Agro-business firms are generated from the fact book of Rivers State Chambers of Commerce, Mines, Industries and Agriculture. These records are reliable and valid for obtaining information on agro-businesses in Rivers State.

Data Collection Methods: Primary data serves as a method of data collection. 134 copies of questionnaire were distributed out of which 126 were retrieved.

Data Analysis Technique: The research hypotheses developed in this study were analyzed and tested by the use of the Spearman's Order Correlation Coefficient (rho). The statistical package for social sciences (SPSS) was used to test the hypotheses.

DATA ANALYSIS

Hypotheses Testing

The formulated hypotheses of the present study were tested using the Pearson's Product Moment correlation coefficient and the regression analysis based on the application of SPSS version 20.0 in order to find out the degree of relationship between the independent and dependent variables. There are various ways of analyzing and interpreting decision framework scale of tested hypotheses (Dana, 2001). According to Dana (2001), the correlation decision framework are; a) $\pm$ 0.00 – 0.19 (very weak); b) 0.20 – 0.39 (weak); c) 0.40 – 0.59 (moderate); d) 0.60 – 0.79 (strong); e) 0.80 – 0.99 (very strong); and e) 1 (perfect). The outcomes of the tested hypotheses are displayed in tables as follows:

Test of Hypothesis 1:

$H0_1$: There is no significant relationship between tax holiday and return on investment.

Correlations

			Tax holiday	Return on investment
Spearman's rho	Tax holiday	Correlation Coefficient	1.000	.783**
		Sig. (2-tailed)	.	.000
		N	126	126
	Return on investment	Correlation Coefficient	.783**	1.000
		Sig. (2-tailed)	.000	.
		N	126	126

**. Correlation is significant at the 0.05 level (2-tailed).

The correlation coefficient between tax holiday and return on investment is .783 which indicates a strong relationship. Therefore, tax holiday has a positive strong relationship with return on investment which means that the null hypothesis will be rejected and alternate hypothesis accepted. Essentially, tax holiday is given to encourage formation of domestic capital needed for rapid industrialization in a country; attract direct foreign investment; and maintain sectoral balance in industry (Saha, 1995). Therefore, the null hypothesis is rejected, while the alternative hypothesis is accepted. Thus, we would state that a very strong and significant relationship exists between tax holiday and return on investment.

Test of Hypothesis 2:

$H0_2$: There is no significant relationship between tax holiday and return on assets.

Correlations

			Tax holiday	Return on assets
Spearman's rho	Tax holiday	Correlation Coefficient	1.000	.822**
		Sig. (2-tailed)	.	.000
		N	126	126
	Return on assets	Correlation Coefficient	.822**	1.000
		Sig. (2-tailed)	.000	.
		N	126	126

**. Correlation is significant at the 0.05 level (2-tailed).

The correlation coefficient between tax holiday and return on assets is .822 which indicates a strong relationship. Therefore, tax holiday has a positive strong relationship with return on assets which means that the null hypothesis will be rejected and alternate hypothesis accepted. The test result confirms with a high rate of return on assets, the organizations could greatly influence how it manages its tax holiday (Okauru, 2009). This is because tax holiday is given to firms to enhance their profit in the initial stage of their operation. Tax holiday is an incentive for pioneer status of firms. The pioneer status incentive is a tax holiday given to companies for a period of time to encourage the growth and development of an economy.

Test of Hypothesis 3:

$H0_3$: There is no significant correlation between capital allowance and return on investment.

Correlations

			Capital allowance	Return on investment
Spearman's rho	Capital allowance	Correlation Coefficient	1.000	.828**
		Sig. (2-tailed)	.	.000
		N	126	126
	Return on investment	Correlation Coefficient	.828**	1.000
		Sig. (2-tailed)	.000	.
		N	126	126

**. Correlation is significant at the 0.05 level (2-tailed).

The correlation coefficient between capital allowance and return on investment is .828 which indicates a strong relationship. This confirms that return on investment has substantial impact on capital allowance. This is because capital allowance are provisions made to firms to have the opportunity to make claims on commercial property as a method of providing tax relief on qualifying expenditure on certain assets (plant and machinery) used in a business (Saha, 1995). Therefore, the null hypothesis is rejected, while the alternative hypothesis is accepted. Thus, we would state that a strong and significant relationship exists between capital allowance and return on investment.

Test of Hypothesis 4:

$H0_4$: There is no significant association between capital allowance and return on assets.

Correlations

			Capital allowance	Return on assets
Spearman's rho	Capital allowance	Correlation Coefficient	1.000	.741**
		Sig. (2-tailed)	.	.000
		N	126	126
	Return on assets	Correlation Coefficient	.741**	1.000
		Sig. (2-tailed)	.000	.
		N	126	126

**. Correlation is significant at the 0.05 level (2-tailed).

The correlation coefficient between capital allowance and return on assets is .741 which shows a strong relationship. Therefore, capital allowance has a positive strong relationship with return on assets which means that the null hypothesis will be rejected and alternate hypothesis accepted. This confirms that return on assets has substantial impact on capital allowance in organizations. This is because when agro-business firms are reliable and have assets to produce their products, they are given capital allowance or the use of their equipment and tools. Capital allowance is tax deductions given on a reducing balancing basis to help the firms have more resources to invest in other areas that are relevant in their production process (Ottih, 2000). Therefore, the null hypothesis is rejected, while the alternative hypothesis is accepted. Thus, we would state that a strong and significant relationship exists between capital allowance and return on assets.

DISCUSSION OF FINDINGS

The study examines the effect of tax incentives on enterprise growth. Consequently, the discussion is based on the hypotheses tested on the relationship between tax incentives and enterprise growth. Globally, in the management of different sectors of a nation's economy, governments provides approaches in assessing the impact of taxes on business growth and suggests the need to consider incentives that would be more effective in encouraging business growth and would also improve the neutrality of the existing tax system (Saha, 1995). In recent years, governments have provided various corporate tax incentives to businesses with the aim of helping them grow (Klemm, 2009). The essence of tax incentives is to encourage job and wealth creation and motivate investors to carry out businesses in sectors that the government wants to develop for economic improvement.

CONCLUSION

This study found that tax incentives are techniques used by government to offer some relief to firms especially those whose activities have direct positive impact to the economy using tax holidays and capital allowance. The study found that an effective tax system has the capacity to lure companies to invest in an economy. Regrettably, most developing countries have not embraced this developmental strategy to improve on the industrialization of the economy which may be attributed to the desire of the government to meet the needs of the poor populace with the money realized from taxation. The reasons for providing tax incentives are to encourage the development of sectors neglected in an economy. Typically, the purpose of providing tax incentives is to encourage businesses and individuals to engage in behavior that is socially responsible and/or benefits the community. Based on this, we conclude that tax **incentives are ways of reducing taxes for businesses and individuals in exchange for specific desirable actions or investments on their parts.**

RECOMMENDATIONS

By taking the findings of this study into consideration, the following recommendations were made.

1. Agro-business firms should use the opportunity provided by governments to apply for tax incentives in their first year of operations in order to enhance their growth with additional financial resources based on the available tax incentives in operation in the business environment.
2. Government should have tax policies that could improve enterprise formation and development. This is because a lot of human and material resources in an economy cannot be tapped due to financial paucity and lack of finance.
3. The growth of an economy is dependent on the innovation, creativity and enterprising behavior of the individuals in an economy. Thus, efforts should be geared towards the provisions of incentives in order to encourage innovation, creativity and entrepreneurship among individuals and firms.
4. Enterprises are catalyst for societal development, especially in the areas of job and wealth creations. Thus, the government should encourage the provisions of tax incentives.

REFERENCES

1. *Brown, D.L, (2004). Corporate Governance and Firm Performance. Georgia State University Press*
2. *Chen, D. & Mintz, J. (2011). Small Business Taxation: Revamping Incentives to Encourage Growth. SPP Research Papers, Volume 4, Issue 7, May. A Publication of the School of Public Policy, University of Calgary*
3. *Dana, S.D. (2001). Statistics and Data Analysis for Behavioral Science. New York: McGraw Hill Co.*
4. *Gupta, P.D., Guha, S. & Krishnaswami, S.S. (2013). "Firm growth and its determinants,"Journal of Innovation and Entrepreneurship, December, pp. 2:15*
5. *Jaja, S. A., & Okwandu, G. A. (2006). Understanding Business Management: Insights and Critical Issues. Port Harcourt: Pearl Publishers.*
6. *Johansson, A., Heady, C., Arnold, J., Brys, B., & Vartia, L. (2008). Tax and Economic Growth, Report of the OECD, ECO/WKP, 28.*

7. *King, R. G. & Levine, R. (1993). Finance, Entrepreneurship and Growth Theory and Evidence, Journal of Monetary Economics, Vol. 32, 513-522*
8. *Klemm, A. (2009). Causes, Benefits, and Risks of Business. A working paper of the International Monetary Fund, WP/ 09/21*
9. *Oghoghomeh, T. (2014). An Assessment of Agribusiness Tax Incentives in Nigeria." International Journal of Business and Economic Development Vol. 2 N0. 1, March.*
10. *Okauru, I. O. (2009). Tax Incentives for Foreign Investors in Nigeria. A Paper Delivered at the Nigeria Investors Business Forum, Berne, Switzerland, 20th – 21st November. Retrieved from: http://www.nbf-swiss.org/nbf-swiss/ 2009Forum/TAX- INCENTIVES-IN-NIGERIA-%20FIRS.pdf.*
11. *Ottih, L.O. (2000). Entrepreneuring: Towards Preparedness. Port Harcourt: Pearl Publishers.*
12. *Ryan, V. (2013). Business Performance Measurement Tools .Retrieved from: http://*
13. *www.ehow.com/list_6635166 _business-performance-measurement-tools.html.*
14. *Solomon, C. (2013). Why would the government provide tax incentives to businesses? Retrieved from: http://www. chacha.com/question/why-would-the-government-provide-tax-incentives-to-businesses*
15. *Tax Policy Center (2010). Tax Incentives for Economic Development: What are tax incentives for economic development? Retrieved from: http://www. taxpolicycenter.org/briefing-book/key-elements/economic-development/what-is.cfm*
16. *Thuronyi, V. (1998). Income Tax Incentives for Investment. Tax Law Design and Drafting (volume 2). A Report of the International Monetary Fund. Retrieved from: http://www. ieo-imf. org/external/ pubs/nft/1998 /tlaw/eng /ch23.pdf.*
17. *Way, J. (2012). The Advantages of Using Return on Investment. Retrieved from:*
18. *http://www.ehow.com/list_6754512_ advantages -using-return-investment.html.*
19. *Zhao, Z. (2013). Literature Survey: The Effect of State Economic Development Incentives on Regional Economic Growth. A Report of the OECD, April 20*
20. *Mao, H. (2009). Review on Enterprise Growth Theories. International Journal of Business and Management, vol 4, No. 8,20-23.*