PFM practices that result in greater responsiveness to the needs of citizens.

**ENTREPRENEURSHIP DEVELOPMENT AND TAX INCENTIVES IN NIGERIA**

By

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Why am here is to contribute to cross-fertilization of research ideas in government role in entrepreneurship and taxation

AGENDA

Introduction
Motivation/ Statement of the problem
Aim and objective
Research questions
Hypotheses
Limitations of the study
Review of Literature
Research method
Result and discussions
Conclusion
Recommendations
Contribution to knowledge
Suggestion for future study
Abstract

This study aims to investigate empirically, the value relationship of entrepreneurship development with tax incentives, for an improved job creation and economic empowerment in Nigeria. A sample of two hundred and fifty-five (255) respondents drawn among entrepreneurs in the manufacturing, agriculture, oil and gas, telecommunication and services sectors in Lagos, Nigeria are used for achieving the set objectives of this study.

The study employs Kendall’s $\tau_b$, a non-parametric statistical correlation coefficient for analysis of the data collected.

The study finds that tax incentives have a not significant relationship with entrepreneurship development in Nigeria but tax incentives are needed to encourage the continuous existence of business in the Country. The implication of this finding is that entrepreneurship requires attention other than tax incentives so that the consequences of unemployment are reversed.

Therefore, government needs to be very calculative on the type of tax incentives to be granted to the target taxpayers, in order to harness the gains of tax incentives towards achieving the sustainable economic development agenda of a country.

Keywords: Entrepreneurship; Tax Incentives; Taxpayers; Sustainable Economic Development
1. INTRODUCTION

1.1 Background

Nigeria is endowed with the main requirements for entrepreneurship, such as natural resources in oil, water, land, agriculture and human capital.

Nigeria has engaged in many macro-economic reforms:
- Tax incentives approach- enactment of Industrial Development (Income Tax Relief), Act, Cap 17.

Sometimes tax incentives are not as beneficial as expected (Klemm, 2009; Bazo, 2008; Surrey, 1974).

Reforms did not yield the desired effect for instance poverty is high for lack of production and employment (Litwack, 2013; Gberevbie, Duruji, and Bankole, 2013).

Giriuniene & Giriunas (2014), links tax system with entrepreneurship. This study relates entrepreneurship with tax incentives.
1.2. MOTIVATION FOR THE STUDY PROBLEM STATEMENT

- Unemployment
- Nigeria has not taken full advantage of globalization as it relates to trade liberalization.
- It trades only two products crude oil and agriculture.
- Gberevbie, Duruji and Bankole (2013) argue that high unemployment rate requires that personal income needs to be self-achieved through entrepreneurship because unemployment results in poverty.

- Poverty remains significant with GDP growth rate of 7.4% ([http://www.worldbank.org/ng](http://www.worldbank.org/ng)).

- Litwack (2013) argues, that seventy million Nigerians are poor. According to World Bank (2012) Nigeria country profile statistics indicates an income inequality of 0.49; this is correlated with differential access to infrastructural amenities.

- Devastating consequences of unemployment on wellbeing: (Ayegba 2015; Nwosa, 2014; Adejimola, and Olufunmilayo, 2009; Gurtner, and Christensen, 2008; Bazo, 2008; Abolo, 2001) See figure 1
1.2. MOTIVATION FOR THE STUDY/PROBLEM STATEMENT CONT'D.

Figure 1: Consequences of poor entrepreneurship

Lack of entrepreneurship = Unemployment

- Dashed hopes
- Inadequate health care
- Failed self esteem
- Failed self actualisation
- Ego injury
- Insecurity
- Corruption
- Poor education
- Deprivation
- Failed dreams
- Lack of infrastructure
- Unemployment
Motivation

• “A proactive preventive approach to the problem requires a critical evaluation of existing tax incentives available to pioneer companies to determine the growth of entrepreneurship in the nation to ensure that tax activities are carried out in accordance with established goals, policies and procedures” (Valenduc, 2009, p.4).
Motivation contd.

• Hence, the main argument of this study is based on the pressures caused by unemployment,

• and tax incentives are analysed as one tool of entrepreneurship attraction to reduce the pressure of unemployment.

• This research focuses on an empirical analysis of the relationship between tax incentives and entrepreneurship in Nigeria.

• It is expected that tax incentives would not have a significant relationship with entrepreneurship development in Nigeria.
This study is guided by the agency theory, as explained by Weisbach (2006), which argues that tax incentives decision is an agency/principal issue, where the government is acting as agent for the public as principal. Government preferences and finances are based on public choice. The study also touches on Marxist relative deprivation and frustration aggression theory as explained in Ayegba (2015).

Five issues distinguish this research from earlier studies.

First it promotes a discussion on the link between tax incentives and economic development in terms of employment creation, through entrepreneurship development.

Second, it brings to light the more worrisome issue of ignorance of the real likely cost of tax incentives as an omission in the government appropriations.

Third, earlier studies on tax incentives have not paid adequate attention to transitional economy. This study breaches this gap; it focuses on the Nigerian economy.

Forth, efficient allocation of resources in governance is emphasised to reduce the menace of tax evasion and corruption in a transitional economy, as a scholarly contribution to employment strategy, with emphasis on economic development and sustainability.

Fifth, it modifies the method used in Mayburov and Leontyeva (2014). It utilizes a unique methodological style in the assessment of the relationship between tax incentives and entrepreneurship, by using the concept of cost/benefit analysis procedure, with tax incentives as cost end entrepreneurship development as a benefit.
Figure 2: Unemployment rate in Nigeria 2006-2013

Source: http://www.tradingeconomics.com/Nigeria/Unemployment

Figure 2 shows that unemployment rate in Nigeria depicts a worsening trend from 2008 to 2013 as shown in Figure 2.
1.2. AIM AND OBJECTIVE

Aim
This study aims to empirically investigate the value relationship of tax incentives with entrepreneurship, for an improved job creation. The focus is on tax incentives as tools considered of necessities for entrepreneurship development in Nigeria.

Objective
To examine the level at which entrepreneurship is sustainable in Nigeria through tax incentives.

1.3. RESEARCH QUESTION FORMULATION

Tax incentives research tradition has established what constitutes tax incentives but its efficiency over the set goal of economic development remain an empirical question (Giriuniene, and Giriunas, 2014; Klemm 2009; Valenduc, 2009; Surrey, 1976). Hence, tax incentive and entrepreneurship variables are analysed by finding answers to the following research question:

To what extent do tax incentives have significant relationship with entrepreneurship development in Nigeria?
1.4 HYPOTHESIS

‘Developing countries do not have the guidance to implement a certain established system in order to achieve the economic goals intended. Most of the times the tax policies implemented in developing countries are based on “trial and error” (Bazo, 2008, p.7), and as such could not provide a clear basis for relationship measurement. In order for clearer basis of policy implementation, this study hypothesises that:

- \( \text{Ho}: \) Tax incentive does not have a significant relationship with entrepreneurship development in Nigeria.

1.4 SIGNIFICANCE OF THE STUDY

- Tax regulators and policy makers will find this study useful in the area of developmental reforms and policy review. Multinationals and home countries shall have information on other avenues to explore for tax incentives information as it relates to their investments.

- Students and researchers.
2. REVIEW OF LITERATURE

2.1 Tax incentives and entrepreneurship development

- Tax incentives implies that government would have deprived itself of the revenue that it would have generated if the incentives had not been granted (Mayburov, and Leontyeva, 2014; Klemm 2009, Surrey, 1976, Surrey 1974). Klemm (2009).

- Stanley, Surrey and McDaniel (1985), argue that the logic of the sacrifice is that the reduction would yield higher, social, economic and political dividends in the long run, through increased output, lower prices and employment generation.

- Ironically, Gurtner and Christensen (2008) argue that tax incentives shift the burden to workers and consumers, which reduce job creation and slow down economic development.

- Giriuniene, and Giriunas, 2014; Moore (2007) argues that it is important that governments should get tax policy right.

- The Pioneer companies tax incentives are shown in Appendix 1 of this paper.
• 3. RESEARCH METHOD

• 3.1 Research design

• Scope: Entrepreneurs in Lagos metropolis.
• According to Nigeria business directory index (2013), Lagos is the nation’s economic nerve centre where 65% of the country’s commercial activities are carried out.

• Survey design.

3.2 Sampling technique

• Population = one thousand, nine hundred and twenty-five (1925) small scale entrepreneurial industries in Lagos state.

• Sample = three hundred and thirty-one (331).

• Sampling method, Cluster random sampling.

• Using the style in Unam (2012). The sample size was determined using the Slovin’s formula \( n = \frac{N}{1 + N(e)^2} \), where \( n \) is the sample size, \( N \) is the population size, and \( e \) is the margin of error.

• Therefore, the sample size for this study was determined as follows:
• \( N = \) Population = 1925, \( e = \) Margin of error of 5%, \( n = \frac{N}{1 + N(e)^2} \), \( n = \frac{1925}{1 + 1925(.005)^2} \)
• \( n = 1925/1+4.8125, n = 1925/5.8125, n = 331. \)
• Copies of questionnaire distributed to 331 respondents.
• Copies of questionnaire retrieved = 273.
• Copies of questionnaire adequately analysed = 255.
3.3 Research instrument

- Questionnaire in five-point Likert scale form was adopted.
- The questionnaire contained a set of questions classified into two major sections.
- Section ‘A’ featured seven questions on bio-data of the respondents.
- Section ‘B’ comprised of fourteen statements of assertion and open-ended questions in the Likert scale form.
- The questionnaire is outlined and interpreted with points of degree of agreement, as Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and Strongly Disagree (1).

3.4 Instrument validation

The research instrument was subjected to content validation to ensure that the content of the instrument measures the variables investigated in the study.

3.5 Method of data analysis

- Quantitative descriptive statistics of frequency, percentages and parametric statistics in the form of the Kendall’s tau_b correlation coefficient, \( \tau \)

- The hypothesis is tested with the aid of Statistical Product and Service Solutions (SPSS) version 17.0.
Table 1: Sampling of entrepreneurs in four industrial clusters of Lagos metropolis.

<table>
<thead>
<tr>
<th>Description</th>
<th>Ikeja</th>
<th>Oshodi/Agege</th>
<th>Akoka/Yaba/Surulere</th>
<th>Lagos Island</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>114</td>
<td>100</td>
<td>107</td>
<td>79</td>
<td>400</td>
</tr>
<tr>
<td>Sample &amp; Copies of questionnaire distributed</td>
<td>80</td>
<td>70</td>
<td>75</td>
<td>55</td>
<td>280</td>
</tr>
<tr>
<td>Copies of questionnaire returned</td>
<td>72</td>
<td>76</td>
<td>65</td>
<td>60</td>
<td>273</td>
</tr>
<tr>
<td>Copies of questionnaire rejected</td>
<td>5</td>
<td>8</td>
<td>1</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Copies of questionnaire analysed</td>
<td>67</td>
<td>68</td>
<td>64</td>
<td>56</td>
<td>255</td>
</tr>
</tbody>
</table>

*Source: Field survey 2010*
4. DATA PRESENTATION AND ANALYSIS

4.1 Presentation of data

Questionnaire response rate is about 77% of the total sample. 72.2% of the respondents are in the informal sector and 27.8% in the formal sector. As shown in Figure 3.
Figure 3: Respondents job sector

**Respondents job sector**

- **Formal**: 28%
- **Informal**: 72%
4.2 ANSWER TO RESEARCH QUESTION

Figure 4: Adequacy of tax incentive for research in entrepreneurship development in Nigeria.

Source: Field survey 2010
Figure 5: Support of Pioneer status tax incentives on entrepreneurship in Nigeria

Source: Field survey 2010
4.2 ANSWER TO RESEARCH QUESTIONS

4.2.1 Answer to the research question

Figure 4 shows that, 55.4% of respondents either strongly disagree, disagree or undecided that there is adequate tax incentives towards research development for entrepreneurship development in Nigeria.

Figure 5 indicates that 67.2% of respondents strongly disagree and disagree that pioneer status tax incentives support entrepreneurship in Nigeria.

Therefore, the answer is that tax incentive does not have a relationship with entrepreneurship to a large extent in Nigeria.
4.3 RESULTS OF KENDALL’S TAU\_b CORRELATION

Table 2: Correlations between tax incentives and entrepreneurship

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>ENTREPRENEURSHIP</th>
<th>TAX INCENTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENTREPRENEURSHIP</td>
<td>CORRELATION COEFFICIENCE</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>SIGNIFICANCE</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>255</td>
</tr>
<tr>
<td>TAX INCENTIVES</td>
<td>CORRELATION COEFFICIENCE</td>
<td>-.028</td>
</tr>
<tr>
<td></td>
<td>SIGNIFICANCE</td>
<td>.570</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>255</td>
</tr>
</tbody>
</table>

*Source: Field survey 2010*
4.3.1 Hypothesis
- Table 2 predicts a not significant and negative correlation between tax incentive and entrepreneurship in Nigeria at a correlation of -.028 at .570 level of significance, two-tailed.

- This study fails to nullify the null hypothesis.

4.4 RESULT DISCUSSIONS
- This result is not disappointing,
  - Respondents are helpless in their entrepreneurship efforts.
  - Respondents express their dissatisfaction.
- This study concludes that there is negative, not significant relationship between tax incentives and entrepreneurship in Nigeria.
- This result supports the findings in Klemm (2009); Valenduc (2009); Gutner and Christensen (2008); Gupta and Hofmann (2003).
4.4 RESULT DISCUSSIONS contd.

- Youths are to be employed, they have the energy and sometimes untapped endowment that could be promising for a nation’s development.

- Therefore, this study shows a deep analysis of how far tax incentives can go in entrepreneurship development.

- A mixed system of minimum taxation regulatory standards and policies would better harness the power of tax incentives, in developing the Nigerian economy in a cost effective manner.

- In a situation where it is believed that government is powerful and has command of a substantial level of resources, good practice necessitates improved tax incentives strategy.
This result concludes that entrepreneurship development requires something other than tax incentives in Nigeria.

This result evidences that the objective of Industrial Development (Income Tax Relief) Act, Cap 17, LFN 2004. - Pioneer status is not achieved.

This result calls for concern in view of the fact that it points out that developmental reforms such as National Economic Empowerment Development Strategy (NEEDS) 2004 has not contributed much to the deployment of entrepreneurship in Nigeria.

The Mileneum Development Goal of the 189-member countries in the United Nations of halving unemployment by 2015 is not achievable.

Nigerian idle youths are hungry, some of them engage in truancy, militancy, kidnapping and insurgency.

Some youths have become militants and terrorists. They kidnap and sometime kill the more vulnerable members of the society, in cold blood. It is a case of ‘‘idle hands do the devils work’’.

tax incentive initiative in Nigeria addresses only the output end of capacity development.

To address the input end, a complementary approach in the form of entrepreneurship growth of self-employment may be required (Inyang & Simon 2012; Oyedeji 2012; Adejimola and Olufunmilayo 2009; Bazo 2008).
5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary/ policy implication of findings

- An objective is set, backed up by the research question and a hypothesis. The result predicts a not significant and negative correlation between tax incentive and entrepreneurship in Nigeria at a correlation of -.028 at .570 level of significance, two-tailed.

5.2 Conclusion

- This study concludes that tax incentives do not represent adequate policy in the face of unemployment, as they do not adequately impact on entrepreneurial development in Nigeria.

- The solution to effectiveness of tax incentive lies in with the re-invention of the nature and purpose of government to develop the nation, in order to make sustainable economic development a reality in Nigeria.

- Nigerian youths are interested in self-sustenance through entrepreneurship. They create their own jobs, toil day and night for survival, they hawk wares on roads, they sweat while filling the potholes on the streets, they sleep in the streets hoping for a good life which is sometimes difficult.

- The expected good life is not approaching because the fundamental necessity to eradicate poverty is missing for too long.
5.3 RECOMMENDATIONS

- The killings and kidnapping across the country must stop through engagement of idle hands in entrepreneurship and tax incentive policies.

- Encouragement of entrepreneurship by increasing the number of micro, small and medium enterprises (MSMEs) with sufficient tax incentives would go a long way to improve the country’s fortunes.

- Need to provide a more ‘open’ government in order for tax incentives to achieve the desired relationship with entrepreneurship development in Nigeria.

- Youth entrepreneurship sensitisation.

- Policy thrusts such as the National Economic Empowerment and Development Strategy (NEEDS) effectiveness.
• **5.2 CONTRIBUTION TO KNOWLEDGE**

• It covers a transitional economy yearning for development. It utilizes a sound research methodology to challenge policy makers on the need to refocus policies in problem identification backed up by appropriate solutions.
5.4 SUGGESTION FOR FUTURE STUDY

This study utilises primary data based on respondents’ perception and mixed feelings.

Thus, it is only possible to discuss evidence based on individual opinion.

Future research should combine evidences that are available in the public domain that is secondary data on tax incentives and entrepreneurship in Nigeria with primary data.
## APPENDIX
### MAIN INCENTIVES FOR PIONEER STATUS IN NIGERIA

<table>
<thead>
<tr>
<th>S/N</th>
<th>Specification</th>
<th>Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>General Incentives</td>
<td>Preferential tax rates, Tax holidays, Accelerated depreciation allowance, Investment Tax Credits</td>
</tr>
<tr>
<td>2.</td>
<td>Export Incentives</td>
<td>100% tax-free holiday, Export credit guarantee scheme &amp; Insurance scheme against risks.</td>
</tr>
<tr>
<td>3</td>
<td>Minimum raw materials importation.</td>
<td>Duty drawback/suspension scheme</td>
</tr>
<tr>
<td>4</td>
<td>Infrastructure</td>
<td>Investment in infrastructure incentives</td>
</tr>
<tr>
<td>5</td>
<td>Research and Development</td>
<td>20% cost on R &amp; D exempted from tax</td>
</tr>
<tr>
<td>6</td>
<td>Local raw materials utilization</td>
<td>Five years tax credit of 20% for commercial industries, 70% for Agro-allied, 60% for engineering and chemical.</td>
</tr>
<tr>
<td>7</td>
<td>Foreign Investors</td>
<td>Protection from double taxation</td>
</tr>
<tr>
<td>8</td>
<td>Capital Importation</td>
<td>Business permit for foreign investment</td>
</tr>
<tr>
<td>9</td>
<td>Foreign currency domiciliary account</td>
<td>Resident permit and Expatriate Quota</td>
</tr>
</tbody>
</table>

thank you for your attention