

## TAX INCENTIVES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN RIVERS STATE

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### ABSTRACT

*The study was conducted to investigate the relationship between tax incentives and financial performance in Rivers State. The study adopted nine research questions and hypotheses. The research adopted descriptive survey research design. The population for this study was two thousand, six hundred and thirty-four and a sample size of one hundred and fifty knowledgeable and competent staff of the selected small and medium scale enterprises in Rivers State. The study used questionnaire instrument, and data were analyzed in the Statistical Package for Social Sciences Version 22. The research questions were analyzed using mean and standard deviation and hypotheses were tested using Simple bivariate regression analysis at a significance level of .05. The results of the findings showed that there was a very strong positive significant relationship between capital allowance and measures of financial performance, also it was revealed that there is a strong positive significant relationship between investment allowance and measures of financial performance, the study further shows a strong positive relationship between tax holiday and measures of financial performance. This study recommends that the small and medium scale enterprises should adopt and comply with the tax laws provisions in order to claim the available Tax incentives in order to trigger capacity for improved performance as well as maintain a high level of net profit margin and efficiency. Small and medium scale enterprises should strengthen their database security mechanism as this is one of the major drivers in increasing Financial Performance. The Small and medium scale enterprises should continuously improve on financial management through proper record keeping, internal control system implementation and timely filing of returns, as this will go a long way in enhancing the firms' satisfaction with easy and equal access to quality services for improving performance.*

**KEYWORDS:** Tax incentives, Financial Performance, capital allowance, tax holiday, NPM, ROI, ROA

### INTRODUCTION

The Nigeria government is providing a wide range of tax incentives to businesses to attract greater level of Financial Performance into the country. Studies have shown that incentives leads to very large revenue losses for the government. promoting harmful tax competition in the country, it is shown that the government losses over \$2.9 billion a year from incentives and exemptions. It is worthy to note that not all of these mechanisms are bad, some such as VAT, reductions, can help reduce poverty. That is because government collects taxes to fund public services. Tax incentives, according to Philip (2005) is 'a deliberate reduction in or total elimination of tax liability granted by government in order to encourage particular economic units (e.g. corporate bodies to act in some desirable ways (e.g. invest more, produce more, employ more, save more, consume less, import less, pollute less and so on). Any tax is amenable to being modified to create a tax incentive. Okauru (2009) and Aguolu, (2011) described tax incentive as an exemption or relief granted to an individual or a company to reduce the effect of taxation and thus encourage savings and investment. At another level, it can be difficult to distinguish between provisions that are deemed to be part of the general tax structure and those that provide special treatment. This distinction will become more important as countries may be limited in their ability to adopt targeted tax incentives.

It has been said that people are not aware of the available incentives being made available to them. Moreover, the few who are aware of these incentives do not even bother to apply for them due to the Poor and inefficient tax administration, Therefore, there is to proffer solutions to our institutions to benefit from tax savings to enhance economic growth. Tax incentives are much easier to provide than to correct deficiencies in the system. For example, in infrastructure or skilled labour they do not require an actual expenditure funds or skilled labour, they do not require an actual expenditure funds or cash subsidies to investors, they are therefore political easier to provide than funds. At another level it can be difficult to distinguish between provisions that are deemed to be part of the general tax structure and those that provide special treatment. This distinction will become more important as countries may be limited in their ability to adopt target tax incentives.

Marina and Danijela, (2008) argued that taxation is the only known practical manner for collecting resources in order to finance public expenditure for goods and services consumed by the citizen. However, this is not strictly true as in the case of developing countries like ours that get revenue from other sources besides taxation which includes non-tax revenue, such as sale of crude oil, licenses charged for services rendered by ministries departments and agencies, agriculture, sale of government properties and privatization etc. Beside taxes are used in the redistribution of wealth and incomes and to regulate economic activities. To this end tax policy decisions have different impact on different individual, businesses and the economy at large, Government need to develop tax policies and tax systems that are guided by certain tenets. Since taxation affects income and prices of goods and services, individuals and business react differently in response to changes in income, and in relative prices, emanating from taxation.

Small businesses are seen a one key source of economic growth. For this reason, myriad economic policies have been devoted to promote the economic activity within small businesses (Buss 2012). Small and medium enterprises (SMEs) form the core of majority of the world's economies. A study carried out by the Federal Officer of Statistics shows that in Nigeria, small and medium enterprises make up 97% of the economy (Ariyo, 2008). Although smaller in size, they are the most important enterprises in the economy due to the fact that when all the individual effects are aggregated, they surpass that of the larger companies. The social and economic advantages of small and medium enterprises cannot be overstated. SMEs are seen as a source of employment, competition, economic dynamism, and innovation which stimulate the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, SMEs also contribute to better income distribution. Over the years, small and medium enterprises have been an avenue for job creation and the empowerment of Nigeria's citizens providing about 50% of all jobs in Nigeria and also for local capital formation being highly innovative, they lead to the utilization of our natural resources which in turn translates to increasing the country's wealth through higher productivity. Small and medium scale enterprises have undoubtedly improved the standard of living of so many people especially those in the rural areas.

### **Statement of the Problem**

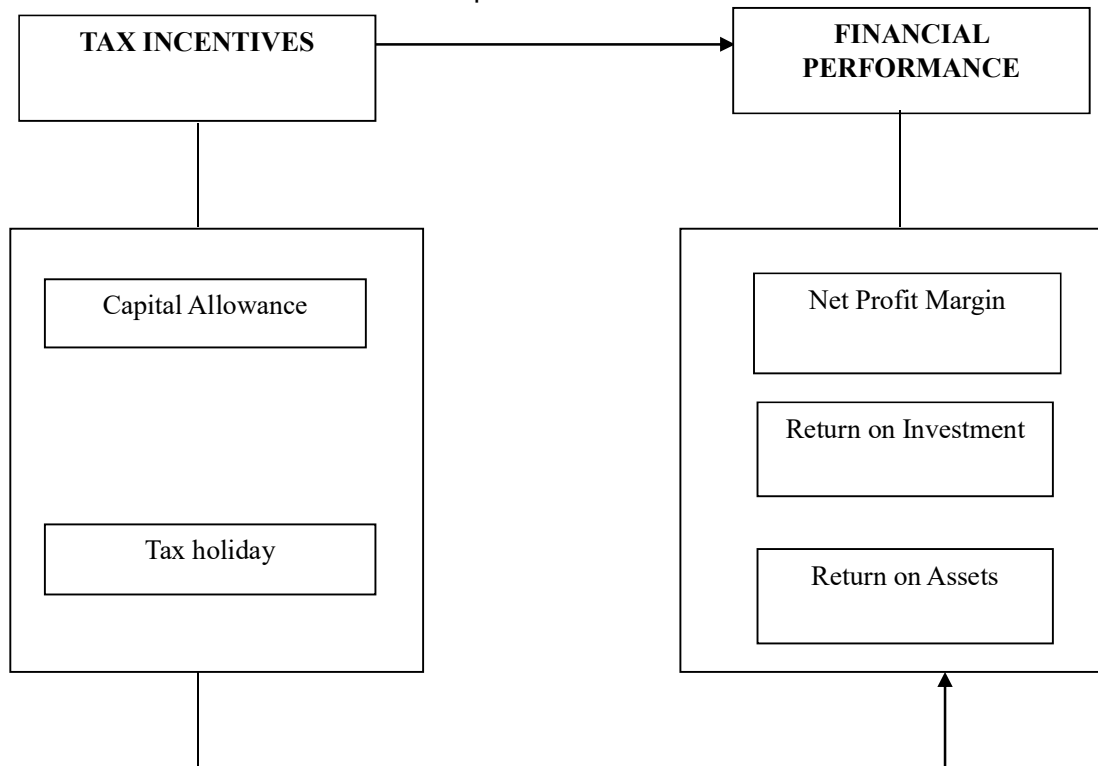
The problems are that in Nigeria, tax incentive granted to individuals, businesses and organizations have not resulted in job creation, whereas tax incentive is suppose to enhance job creation through the direction of the government financial relief to businesses and/or organizations through tax incentive to a more productive venture aim at providing employment to the unemployed.

Again in an effort to alleviate poverty in Nigeria, Government and non government organizations have established various programmes geared towards job creation for the masses. Few of such numerous are the National poverty Eradication programme (NAPEP) at the grass root level; small and medium enterprise equity investment scheme (SMEEIS) by the central bank of Nigeria for the ranting of tax incentives to small and medium scale enterprise from the funds approved and set aside by the bank for equity participation; NDE sponsored micro credit scheme for Nigeria graduates to participate in the manufacture and export of locally produced goods; Agricultural credit guarantee scheme fund to assist small and medium scale farmers across the country to have access to fund

expansion; family economic advancement programme (FEAP) Federal government sponsored programme to assist rural dwellers to have access to fund as well as engage themselves in productive economic activities and the youth empowerment scheme (YES). A Federal government sponsored programme through (NAPEP) to empower idle youth economically to mention but a few. It is expected that the financial services provided by the above named organizations and government agencies are aimed at to a reasonable extent enhancing the access of both small and medium scale industries to financial resources which will assist them in expanding their businesses. However, in spite of all these lofty programmes across the length and breadth of Nigeria high level of unemployment and poor performance of small scale industry still prevails, and this calls for investigation on why governmental grant through tax incentives has not been able to solve the Nigeria unemployment problem.

**Conceptual Framework:**

The framework in figure 1 below shows the relationship between the dimensions of the independent variable and the measures of the dependent variable, as shown in the framework, the independent variable is tax incentives and its dimensions include: capital allowance, investment allowance and tax holiday, while the dependent variable is financial performance of SMEs, and its measures include: net profit margin and return on investment. The study is aimed at ascertaining the relationship between tax incentives and financial performance of SMEs in Rivers State.



**Fig. 1: Conceptual Framework of tax incentives and financial performance of small and medium enterprises in Rivers State**

**Purpose of the study**

This study examines the relationship between tax incentives and financial performance of Small and Medium Scale Enterprises in Rivers State. The specific objectives of this study are to:

- i. Ascertain the relationship between capital allowance and financial performance of small and medium scale enterprises in Rivers State.

- ii. Ascertain the relationship between tax holiday and financial performance of small and medium scale enterprises in Rivers State.

### **Research Questions**

The following research questions are formulated to guide this study and the answers provided will aid the achievement of the research objectives:

- i. What is the relationship between capital allowance and financial performance of small and medium scale enterprises in Rivers State?
- ii. What is the relationship between exemption and financial performance of small and medium scale enterprises in Rivers State?

### **Research Hypotheses**

The following hypotheses in the null context have been found suitable and formulated to guide the study.

- H0<sub>1</sub>: There is no significant relationship between capital allowance and net profit margin of small and medium scale enterprises in Rivers State.
- H0<sub>2</sub>: There is no significant relationship between capital allowance and return on investment of small and medium scale enterprises in Rivers State.
- H0<sub>3</sub>: There is no significant relationship between capital allowance and return on assets of small and medium scale enterprises in Rivers State.
- H0<sub>4</sub>: There is no significant relationship between tax holiday and net profit margin of small and medium enterprises in Rivers State.
- H0<sub>5</sub>: There is no significant relationship between tax holiday and return on investment of small and medium enterprises in Rivers State.
- H0<sub>6</sub>: There is no significant relationship between tax holiday and return on assets of small and medium enterprises in Rivers State.

### **Significance of the Study**

This study has both theoretical and practical significance in the following manner. Theoretically, this study will add to the already existing body of knowledge on the subject matter, hence researchers in management sciences will find this study very useful as it will add to their knowledge and guide their research on what the situation on tax incentives and performance of small and medium enterprises is in Rivers State.

### **Scope of the Study**

The scope of this study covers the content scope, geographical scope and the unit of analysis.

**Content Scope:** the content scope of this study covers literature on tax incentives and its dimensions of capital allowance; investment allowance and tax holiday, as well as literature on financial performance of small and medium enterprises and its measures of net profit margin, return on investment and return on assets.

**Geographical Scope:** the geographical scope of this study covers Rivers State.

**Unit of analysis:** the unit of analysis will comprise of selected sample representatives derived from the study population.

## **REVIEW OF LITERATURE**

### **Theoretical Review**

#### **Personal income distribution theory**

The theory of personal income distribution propounded by Power in (1995) posit that majority of families or households rely on labor market earnings for most of their income. Consequently, a rise

in unemployment may result to large income declines particularly among those whose income are low, to begin with. Hence the theory predicts appositive relationship that may b& mitigated by government transfer payments which reduce the role of income earned. With respect to inflation (another variable reflecting the macroeconomic condition of a country), the theory is unambiguous. It is well known that during periods of inflation, those depending on fixed income payments such as pensioners suffer. Thus, households are driven into poverty when inflation rises. This phenomenon according to the theory is consistent with the positive relationship predicted between unemployment and inflation rate. This theory also suggests that policies to eradicate poverty should reduce inflation, inequality as well as deal with the problem of unemployment.

This study is anchored on personal income distribution theory. This theory is chosen because it best explains the most acceptable tax system (to both the government and the tax-payers) in a step to raising tax revenue. The ability-to-pay principle holds that those who have a greater ability to pay taxes (measured by income and wealth), should pay more. One idea behind "ability to pay" is that those who have enjoyed success should be willing to give back a little more to the society that helped make that success possible.

## **Conceptual Review**

### **Concept of Tax Incentives**

Taxation may be defined as the demand made by the Government of a country for a compulsory payment of money by citizens of the country with the objectives of raising revenue to finance government expenditures, satisfy collective wants of the people and regulate economic and social policies. Simply put, taxation is a compulsory payment to the government backed up by the force of law and for which the government need not offer explanation or services (Ezejelue & ihendinihu, 2006). Tax incentives, according to Philip (2015), is 'a deliberate reduction in (or total elimination of) of tax liability granted by government in order to encourage particular economic units (e.g. corporate bodies to act in some desirable ways (e.g. invest more, produce more, employ more, save more, consume less, import less pollute less and so on). Any tax is amenable to being modified to create a tax incentive. The reduction in tax liability which a tax incentive constitutes can be achieved through reduction in tax rate, reduction in tax base, tax deferment or outright tax holiday (Kibel & Nwakpasi, 2012). Taxation is used to encourage investment and boost local industries among others. Consequently, priority sectors of the economy such as agriculture, mineral, oil and gas, export and manufacturing are given incentives in order to influence purchasing power and production costs both of which are crucial for the growth of industries (Kibel & Nwakpasi, 2012). In recognition of the need to attract foreign investment into the country, diversifying and enduring the expansion of the export of Nigeria as a means to speed up economic development and encouraging existing companies and potential firms to continue operation in Nigeria, various forms of tax incentives packages have been put in place in Nigeria. Incentive is something that motivate or encourages you to do something. Hence tax incentive is a measure adopted by government which is a means of encouraging individuals and businesses to act in some desirable ways such as to spend money by reducing the amount of tax they have to pay. Tax incentives are special adaptation in the tax laws to entice, retain or increase investment n a particular sector, encourage growth in specific areas and assist businesses and individuals arriving on identified activities. The underlying basis is to ensure overall growth in the economy and an even development of all sectors (Ibanichuka, 2016).

### **Capital Allowance**

As discussed by Kibel (2012) capital expenditure is not an admissible expense in earning profits. But capital expenditure often results in the creation of fixed assets, such as plant or machinery, building etc, which are used for the purpose of earning profits. It is only therefore reasonable to give relief for the purpose of taxation in respect of these items of expenditure. Special allowances usually referred to as capital allowances are designed to provide this form of relief. When a fixed asset is put into use by a business, its value gets eroded as a results of physical wear and tear, the

passage of time or as a result of obsolescence. Moreover, income tax laws supported and strengthened by accounting practice, do not allow the cost of creating these assets as direct debits or charges against the profit of the business. It therefore becomes reasonable for the taxpayer to set aside some portions of the profit annually with which to replace the asset in question once its usefulness has expired (Onuoha, 2014).

### **Tax Holidays**

Pioneer companies investing in specified industrial activities may, on application, be granted a tax holiday for three years initially, which may be extended for up to two years upon satisfaction of specified conditions. Examples of economic activities that may be granted a tax holiday include glass and glassware manufacturing, manufacturing of fertilisers, and steel manufacturing. A new company that engages in the mining of solid minerals is exempt from tax for the first three years of its operation. Small or medium sized companies engaged in primary agricultural production are eligible for an initial tax-free period of four years, which may be extended for an additional two-year period, subject to satisfactory performance.

### **Concept of Financial Performance**

A company's financial performance forms the backbone on which a profit seeking entity would continue to exist. Financial performance relates to the degree to which financial or monetary objectives are being realized by an entity (Uadiale, 2017). It is also the process of gauging the monetary achievements of the business affairs by implementing policies and strategies in specific point in time. Financial performance is the overall measure of a company's ability to maximize its cost of operations, efficiently use its assets and maximize shareholder value. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the economy at large (Babalola, 2018). Financial performance has been defined as an attempt of an organization to meet its goals or being effective in productivity (Oguntade, 2017). In the same vein, financial performance was described as a measure of an organization's earnings, profits and appreciation in its value which is reflected by the rise in price of the entity's shares (Duke, 2019). Financial performance is measured at a given point in time or over a period of time. It can also be compared with similar firms across the same industry or be used to compare industries or sectors in aggregation.

From the foregoing, financial performance is a measure of an organization's earnings, profits and appreciation in its value which are reflected by the rise in price of the entity's shares and the degree to which financial objectives are being met or has been accomplished.

### **Net Profit Margin (NPM)**

A company's net profit is the revenue after all the expenses related to the manufacture, production, and selling of products are deducted. No business can survive for a significant amount of time without making a profit, though measuring a company's net profit margin, both current and future, is critical in evaluating the company. Although a company can use financing to sustain itself financially for a time, it is ultimately a liability, not an asset. An income statement shows not only a company's net profit margin but also its costs and expenses during a specific period, usually over the course of a year. Net profit margin measures the portion of the company's sales remaining after it pays all expenses (including product costs) and realizes any extraordinary gains or losses.

$NPM = \text{Net income} \div \text{Net sales}$

### **Return on Investment (ROI)**

ROI gives net profit on investment of the firm after meeting all expenses and taxes (Anderson, 2009). It measures the profit of the firm after tax for each money invested in investment. It is an indicator of managerial performance. When assessing a business' financial fitness, it is important to know how successful it is at turning what it already has into additional profits for owners and

shareholders. The ROI formula is a straight forward calculation, and its component parts are easily located on a company's financial statements. So, higher value of this ratio means better managerial performance. ROI can be increased by increasing profit margin or investment turnover. This research will use the return on investment (ROI) as one of the proxies to measure financial performance. ROI is not only a standard measurement of corporate performance within corporate social literature; it is also commonly used in the majority of strategy research. ROI is calculated as the net profit in relation to total investment (Riodan, 2018). This outcome gives an idea of what the company can do with what it has, *i.e.* how many additional earnings they derive from each amount of investment they control. It gives an indication of the capital intensity of the company, which will depend on the industry; companies that require large initial investments will generally have lower return on investment. ROIs over 5% are generally considered good.

### **Return on Asset (ROA)**

ROA gives profitability on assets of the firm after meeting all expenses and taxes (Anderson, 2009). It measures the profit of the firm after tax for each money invested in assets. It is an indicator of managerial performance. When assessing a business' financial fitness, it is important to know how successful it is at turning what it already has into additional profits for owners and shareholders. The ROA formula is a straight forward calculation, and its component parts are easily located on a company's financial statements. So, higher value of this ratio means better managerial performance. ROA can be increased by increasing profit margin or asset turnover. This research will use the return on assets (ROA) as one of the proxies to measure financial performance. ROA is not only a standard measurement of corporate performance within corporate social literature; it is also commonly used in the majority of strategy research. ROA is calculated as the net profit in relation to total assets (Riodan, 2018). This outcome gives an idea of what the company can do with what it has, *i.e.* how many additional earnings they derive from each amount of assets they control. It gives an indication of the capital intensity of the company, which will depend on the industry; companies that require large initial investments will generally have lower return on assets. ROAs over 5% are generally considered good.

This ratio indicates how profitable a company is related to its total assets the return in assets (ROA) ratio illustrates how well management is employing the company's total assets to make a profit (Ogbodo, Amahalu, & Abiahu, 2017). The higher the return, the more efficient management is in utilizing its asset base (Loth 2006). A positive ROA ratio usually indicates an upward profit trend. It can be calculated with the formula:

Return on Assets= Net Income/Total Assets.

### **Concept of Small and Medium Enterprises**

In its continued search for solutions towards a vibrant and virile micro, small, and medium enterprises sector, and to entrench the sector into the main stream of the Nigerian economy, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established in 2003. The Agency is a "one stop shop" for nursing and nurturing micro, small, and medium enterprises in Nigeria. Consequently, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) has since inception been in the forefront of developing and promoting Micro, Small and Medium enterprises and entrepreneurs in Nigeria. The mission of SMEDAN is "to facilitate the access of micro, small, and medium entrepreneurs/investors to all resources required for their development." The vision of SMEDAN is "to establish a structured and efficient micro, small, and medium enterprises sector that will enhance sustainable economic development of Nigeria."

### **Total Number of Small and Medium Enterprises by Sector**

The data collected and analysed in the MSMEs Survey Report (2010) showed that, manufacturing sector has the highest number of enterprises, followed by Wholesale and Retail Trade, Repairs of motor vehicles and household goods. All sectors in 10-49 employees have above fifty per cent

enterprises. While those in 50-199 employment size band, only four sectors have ten percent and above enterprises. Other enterprises have less than ten percent in the employment size band.

**METHODOLOGY**

**Research Design**

The research design adopted survey design in its assessment of the relationship between tax incentives and financial performance of SMEs in Rivers State. The design is considered suitable because it allows for the descriptive examination of the variables across several units in a convenient way. The survey adopted is suitable because the variables are outside the control and manipulation of the researcher.

**Population of the Study**

The population of this study consists of all Small and Medium Scale Enterprises. The target population for this study shall be because this institution is charged with the responsibility of administrating tax related matters with SMEs. The population of the study was chosen based on the twenty-two thousand nine hundred and eighteen (22918) registered SMEs Nigeria and seven hundred and twenty-two (722) with the Rivers State Ministry of Commerce and Industry in 2023. (see table 3.1).

The study adopt a sample size of 347 respondents to be issued questionnaires in the SMEs across all sectors in Rivers State.

**Method of Data Collection**

The study utilized Primary method of data collection through the use of questionnaires. The questionnaire was used to enable the researcher find out the attitude, knowledge and feelings of respondents on questions asked with respect to the study variables in order to enable the researcher achieve the study objectives.

**Methods of Data Analysis**

To empirically evaluate the relationship between the independent and dependent variable of this study (including their dimensions and measures), the spearman’s rank order correlation coefficient (RHO) was adopted. This as a tool is considered to be more flexible and it is not limited or confined to parameters statistical assumption such as applicable in the Pearson’s product moment correlation. The multivariate analysis which examines the moderating effect of the contextual variables, leadership and competence on the relationship between the independent and dependent variable is tested using the partial correlation techniques at 95% confidence interval. The analysis is carried out using the scientific package for social sciences (SPSS) version 21 software. Also, the descriptive analysis was carried out using percentages, mean and standard deviation.

**DATA PRESENTATION, ANALYSIS**

**Analysis on Tax incentives**

For the purpose of this study, we adopted 5point likert scale in our questionnaire, having response categories in the order of SA =5, A=4, U=3, D=2 and SD=1. Going by this, the interpretation of our mean was according to Asawo (2009) categorization where all responses with mean value between 1-2 as being low, 2.5-3.5 as being moderate, 3.5 – 4.5 as high and 4.5 above as very high.

**Table 1: Response Rates and Descriptive Statistics for Capital allowance**

<b>A1- Capital allowance</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>	<b>Mean</b>	<b>Std.</b>	<b>Remarks</b>
1. In our business, capital allowance is claimed annually and consistently.	4	6	13	60	57	4.46	1.351	High
2. The claim of capital allowance has so far boosted our	5	5	12	50	58	4.16	1.114	High

	financial performance through net profit margin.								
3	Our reduction in tax burden through capital allowance has better increased our return on investment.	3	5	8	54	60	4.25	1.298	High

**Source: Field Survey Data, 2024**

Table 1 illustrates the response rates and frequency for Capital allowance measured on a 3-item instrument and scaled on a 5-point Likert scale.

**Table 2: Response Rates and Descriptive Statistics for Tax holiday**

Tax holiday	SD	D	N	A	SA	Mean	Std.	Remarks
1. Our firm is exempted from tax for a specified period of time as regulated by law.	3	3	7	63	54	4.25	1.151	High
2. Tax holiday is a key motivational factor for investment	5	4	4	64	52	4.17	1.112	High
3. Tax holiday has boosted our financial performance as no tax is paid.	1	1	3	71	54	4.35	1.252	High

**Source: Field Survey Data, 2023**

Table 2 illustrate the response rates and frequency for tax holiday measured on a 3-item instrument and scaled on a 5-point Likert scale.

**Relationship between Capital allowance and Financial Performance.**

Table 3 shows the result of correlation matrix obtained for Capital allowance and Financial Performance. Also displayed in the table is the statistical test of significance (p - value), which makes us able to generalize our findings to the study population.

**Table 3 Correlations for Capital allowance and Financial Performance**

			Capital allowance	NPM	ROI	ROA
Spearman's rho	<b>Capital allowance</b>	Correlation Coefficient	1	.562**	.508**	.628**
		Sig. (2-tailed)		.000	.000	.000
		N	130	130	130	130
	<b>Net profit margin</b>	Correlation Coefficient	.562**	1	.543**	.653
		Sig. (2-tailed)	.000		.000	.000
		N	130	130	130	130
	<b>Return on investment</b>	Correlation Coefficient	.609**	.609**	1	.598
		Sig. (2-tailed)	.000	.000		.000
		N	130	130	130	130
	<b>Return on Assets</b>	Correlation Coefficient	.628**	.653**	.598**	1
		Sig. (2-tailed)	.000	.000	.000	
		N	130	130	130	130

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

**Source: Research Data , 2023 (SPSS output, version 21.0)**

Table 3 illustrates the test for the two previously postulated bivariate hypothetical statements.

**Relationship between Tax holiday and Financial Performance**

Table 4 shows the result of correlation matrix obtained for Tax holiday and Financial Performance. Also displayed in the table is the statistical test of significance (p - value), which makes us able to generalize our findings to the study population.

**Table 4 Correlation Matrix for Tax holiday and Financial Performance**

			Tax holiday	NPM	ROI	ROA
Spearman's rho	<b>Tax holiday</b>	Correlation Coefficient	1	.812**	.611**	.716**
		Sig. (2-tailed)		.000	.000	.000
		N	130	130	130	130
	<b>NPM</b>	Correlation Coefficient	.812**	1	.611**	.684**
		Sig. (2-tailed)	.000		.000	.000
		N	130	130	130	130
	<b>ROI</b>	Correlation Coefficient	.543**	.611**	1	.675**
		Sig. (2-tailed)	.000	.000		.000
		N	130	130	130	130
	<b>ROA</b>	Correlation Coefficient	.716**	.684**	.675**	1
		Sig. (2-tailed)	.000	.000	.000	
		N	130	130	130	130

**Source: Research Data, 2024 (SPSS output, version 21.0)**

Table 4 illustrates the test for the two previously postulated bivariate hypothetical statements.

## **SUMMARY**

This study examined the relationship between Tax incentives and Financial Performance of Small and medium scale enterprises in Rivers State. The study was operationalized with the dimensions of Tax incentives being Capital allowance and Tax holiday. Financial Performance was measured by net profit margin, return on investment and return on assets. The study was guided by three research questions and six research hypotheses.

In today's challenging business environment, no company can claim to be efficient, without maintaining adequate Return on investment and being known for positively growing its Net profit margin as well as its return on assets. It is, therefore, imperative to inspire, encourage and motivate small and medium scale enterprises to enhance financial performance through Tax incentives. Good and adequate Tax incentives such as Capital allowance and Tax holiday, do not only helps in enhancing Financial Performance, but also provide motivation to investors for more investment decision making. The specific organizational objectives should be clear, effective supervision, coupled with equality and fairness, recognition. The study concludes that Tax incentives through Capital allowance and Tax holiday significantly influences Financial Performance by way of increasing net profit margin, Return on investment and Return on assets.

## **CONCLUSION**

Given the findings of the study, it concludes that business valuation models were an indispensable tool for listed price in manufacturing companies in Nigeria. This is particularly because business valuation models dimensions exert positive influence on listed in the manufacturing sector under study. Furthermore, in line with the three (3) research questions and hypotheses raised in this study in relation to its objectives, these conclusions are summarized below as follows:

1. Asset based valuation has a strong positive and significant influence on the manufacturing companies in Nigeria.
2. Income based valuation has a strong positive and significant influence on stock price of manufacturing companies in Nigeria.
3. Dividend based valuation has a very strong positive and significant influence on the stock price of manufacturing companies in Nigeria.

However, there are different business valuation models analytics dimensions that have to be utilized to get a certain result in the manufacturing companies. When those dimensions are effectively harnessed, they help the organization achieve set goals and objectives.

## **RECOMMENDATIONS**

Based on the discussion and conclusion above, the following recommendations are hereby made:

- i. The Relevant Tax Authority (RTA) should grant adequate Tax incentives to Small and medium scale enterprises so as to motivate more investment.
- ii. Small and medium scale enterprises should adopt and comply with the tax laws provisions in order to claim the available Tax incentives in order to trigger capacity for improved performance as well as maintain a high level of net profit margin and efficiency.
- iii. Small and medium scale enterprises should strengthen their database security mechanism as this is one of the major drivers in increasing Financial Performance.
- iv. The Small and medium scale enterprises should continuously improve on financial management through proper record keeping, internal control system implementation and timely filing of returns, as this will go a long way in enhancing the firms' satisfaction with easy and equal access to quality services for improving performance.

## **Contribution to Knowledge**

This research was thoroughly carried out on tax incentives which has been a major factor affecting some firms especially as it relate to its financial performance. This study provides a broader base in assessing the financial performance of small and medium scale enterprises in Rivers State as it

changes with regards to compliance to tax laws. The existing dimensions of tax incentives and financial performance of small and medium scale enterprises in Rivers State were operationalized in relation to Capital allowance and Tax holiday. Financial Performance was measured by net profit margin, return on investment and return on assets. This study will serve as an eye-opener to managers, tax authorities, policy makers and a reference point to future researcher.

### **Suggestions for Further Research**

Although the study has significantly contributed to the body of knowledge, the researcher however identified some gaps that subsequent studies should fill having provided the springboards into such areas;

1. The industrial and geographical scope of the study is confined to the small and medium enterprises operating in Rivers State, Nigeria; it becomes necessary that subsequent studies should seek to widen the scope by examining the workability of the variables in other industrial enclaves and within other geographical domains so that more valid conclusions can be reached.
2. Methodology adopted in carrying out this study was not without its peculiar shortcomings; cross sectional survey, the instruments for data collection as well as statistical tools used; however successive studies should employ other research methodologies in investigations.
3. Having examined the response of tax incentives and financial performance, further studies should endeavor to ascertain the effect of other predictor variables on financial performance in this era of heightened competition; such variables could include electronic tax system, tax compliance and tax fraud, moreover, other prevailing contextual factors such as size, degrees of technology adoption etc.

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