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TAX INCENTIVES AND FINANCIAL PERFORMANCE OF LISTED AGRICULTURAL FIRMS IN NIGERIA

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ABSTRACT

This study investigated tax incentives and financial performance of listed agricultural firms in Nigeria. The specific objectives were to: Investigate the relationship between capital allowance and return on equity of listed agricultural firms in Nigeria; ascertain the relationship between capital allowance and net profit margin of listed agricultural firms in Nigeria. This study adopted the Ex Post Facto Research design. The target population of this study are all the five (5), listed agricultural firms in Nigeria. Their published audited financial statements for the period of ten (10), years (2014-2023), was used for analyses. This research used census approach since all the five (5), listed agricultural firms in Nigeria are involved. The period covered in this study was eight years (2014-2023). This study adopted descriptive statistics, Correlation, Unit Root Test and Multiple Regression method of data analysis. The finding revealed that the effect of capital allowance on net profit margin of listed agricultural firms in Nigeria is not significant; The effect of capital allowance on return on equity of listed agricultural firms in Nigeria is not significant. The study concluded concludes that not all the tested variables have a positive and significant effect on financial performance of listed agricultural firms in Nigeria. Hence, we accepted three null hypotheses and rejected one. Therefore, the study suggested amongst other that the authorities concerned with granting tax incentives should make it easier and seamless for companies to access tax incentives in record time. In order to boost the impact of tax incentives, the management of Agricultural companies in Nigeria should create awareness programs in terms of operation, application and benefits of capital allowance.

Keywords: capital allowance, return on equity, net profit margin and agricultural firms

INTRODUCTION

Tax incentives are special tax policy arrangements provided for in the tax laws with a view to attracting, retaining or increasing investment in a particular sector (Etim et al 2019). It is also intended to stimulate growth in specific areas and to assist companies or individuals carrying on identified activities. ‹Tax incentive is a deliberate reduction in or total elimination of tax liability granted by the government in order to encourage a particular economic unit to act in some desirable ways. The desirable ways maybe to invest more, employ more, export more, sell more, consume less, import less and pollute less and so on (Nnubia & Obiora 2018). Tax incentives (also referred to as tax policy incentives), is also defined as any special tax provisions that are granted to qualified investments or investors and which affords such investors a favorable deviation from the general tax code (Ndajiwo, 2018). In other words, tax incentives grant some tax exceptions, deductions or exclusions to the beneficiaries (Berkeley, 2019). Tax incentives policies are the series and array of deliberate actions that are undertaken by the government in a way that will promote the tax system attract and retain foreign direct investment to a country through fiscal incentives (Oriakhi & Ahuru, 2014). Tax incentives (sometimes, called fiscal incentives), are the end-result of policies that are part of the tax system which is common in developing countries, and usually established by governments in order to grant multinational companies and foreign investors more attractive conditions to invest in their domestic economy (Fakile & Adegbile, 2011; Kaplan, 2001). Tax

incentives are monetary measures that are utilized to draw in home or oversee investments to certain financial exercises or specific regions in a nation.

Tax incentives may take different structures. For instance, Holland and Vann (2015), assert that, these incentives include: personal allowance, capital allowance, investment allowance, loss relief, and roll over relief, annual allowance, pioneer relief, tax free dividend, export processing zones relief, research and development and tax-free holiday. Oriakhi and Osemwengie (2013), identified the following tax incentives used in Nigeria: tax exemptions, investment allowances, investment reliefs in rural tax-free interest, tax deductible, research and development, tax-free dividends, tax breaks and tax breaks, and capital allowances. According to Siyanbola et al (2017), the Nigerian government had to allow tax incentives, including pioneering companies (in the form of a tax exemption), an export-free zone, mining of solid minerals, hotel revenues, spare parts production, locally produced installation, replacement of an outdated factory, investment relief, investment relief, rural investment relief, tax-free interest relief, deductible *inve*stment relief, research and development, tax-free dividends, tax agreements with other countries, incentives for the gas industry and rate for small businesses. A company's policies, actions, and operational outcomes are measured financially as financial performance. Naz et al. (2016), claim that it is used to evaluate a company's performance, compliance, and financial standing. These results are reflected in the company's profitability, return on investment, and assets, equity, and capital employed. It refers to how a company's financial health has evolved through time. By managing a company's current and non-current assets, financing, equity, revenues, and expenses, it is possible to boost sales, profitability, and value for its owners. Its main objective is to give shareholders and stakeholders thorough information so they may make informed decisions. It can be applied to analyze comparable businesses in the same industry or to compare industries. For investors and shareholders, financial success is crucial. It generally depicts business sector outcomes and results that show the industry's overall financial health over a certain period of time and show how effectively an entity is making a profit from its resource use. Financial ratios are the most widely used performance measurement in the field of finance, even though a thorough analysis of a firm's financial performance involves many other sorts of metrics.

Statement of the Problem

Tax incentives are intended to attract investment and by extension improve financial performance of firms. Faced with stiff global competition, countries like Nigeria are grappling with the challenge of dwindling markets, hence reduced profitability. There are multiple taxes which government impose on corporate organizations that impede growth and development of the Nigerian economy. Nmehielle (2022), rightly observed by stating that the investment climate is troubled by multiplicity of taxes that government impose on the organized private sector in Nigeria. And based on the fact that government intends to create room for infrastructural development that will culminate to sporadic economic expansion nationally, that has led to the conception of the noble idea of granting tax incentives to organized private sector. Despite the many years of operating tax incentives in Nigeria, it is worrisome to note that the country still lacks major boost in investments that will promote massive employment, increase in productivity, improvement in foreign direct investments, boost in the private fixed capital formation, etc. In consistent with the foregoing, Babatunde (2014), observed that tax incentives come with mixed results and the OECD countries and multilateral organizations have always contested against their implementation because of the nature of the suspicious capital flows.

Therefore, from the review of extant literature, it became clear that tax incentives have no significant effect on firm performance in Nigeria, which is consistent with the position of Uremadu and Onyekachi (2018), who observed that a search through literature exposed the fact that tax incentives did not create any significant impact on investment and productivity outcome of corporate organizations in Nigeria. Ogbonna (2018), opined that the Nigerian manufacturing sector had performed dismally due to poor export incentives, lack of access to financial credit, technological

backwardness, and dearth of foreign investment flow to the manufacturing sector, among other factors. Although, Adenikinju & Chete (2002), revealed some satisfactory growth performance in Nigeria's manufacturing sector from 1970 to 1980. But after 1980, the productivity and growth experienced in the sector started going down rather than surging up. It is pertinent to note that company income tax regimes in Nigeria experienced gradual reduction in tax rates, i.e., (1987-1991: from 45% to 40%; 1992-1995: from 40% to 35%; and 1996-to date: from 35% to 30%), which is indicative of government intention to provide incentives that will culminate to boosting productivity in the manufacturing sector, and has however not been the case, as the manufacturing sector is seen to be contracting due to rampant closure of ailing companies that operate below installed capacity, thereby causing wide-spread unemployment and massive economic misfortune to the nation. Corroborating this viewpoint, Dotun (1995), cited in Uwaoma & Ordu (2016), pointedly declared that there are serious doubts regarding the relevance and efficacy of tax incentives in Nigeria, hence, the relevant public is unaware of their existence, and most times their modus operandi are vague or unambiguous. It is based on the discovered gap arising from review of extant literature and the abysmal decline in the productivity of the manufacturing companies that necessitated this study.

This study therefore, is focused to fill this gap, and to investigate the relationship between tax incentive practice and financial performance of quoted agro allied companies in Nigeria.

Conceptual Framework

This study is conceptualized on the following framework as displayed in the conceptual model given in 1.1 below:

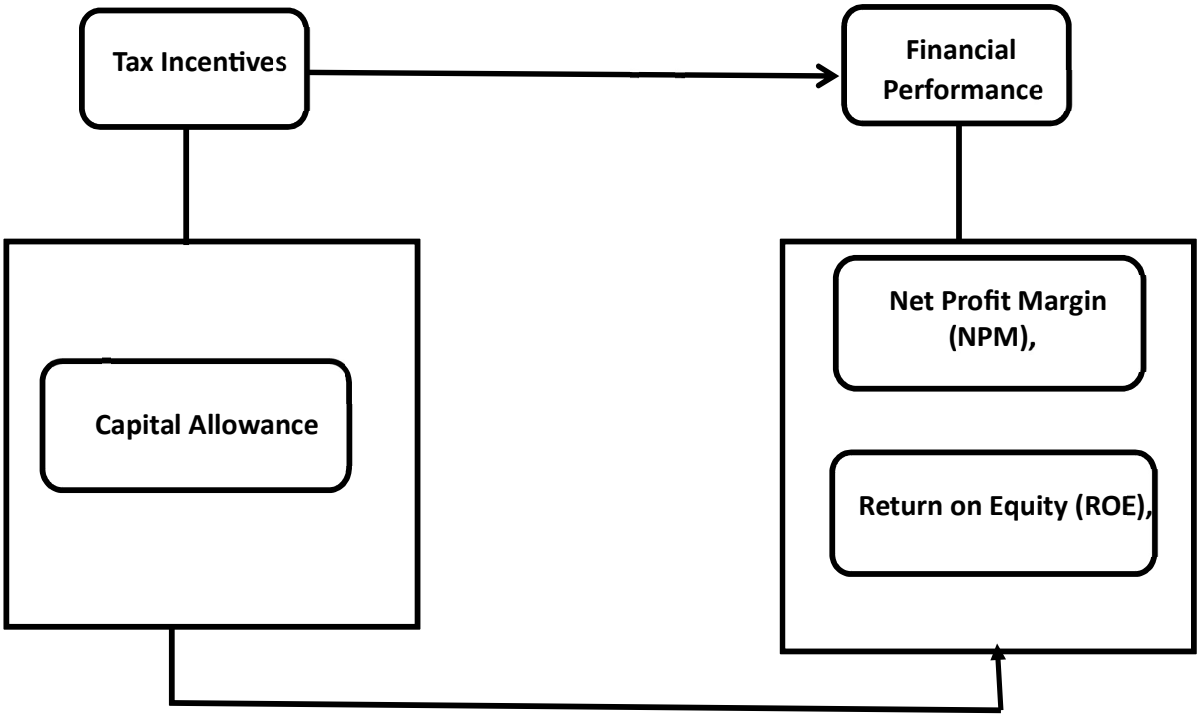

Figure 1.1: Conceptual framework showing the relationship between Tax Incentive and Financial Performance

Source: Maccarthy, 2022**;** Kiabel, 2014;

Aim and Objectives of the Study

This research work intends to carefully evaluate the relationship between tax incentives and financial performance of listed agricultural firms in Nigeria. Specifically, this research attempts to:

i. Determine the effect of capital allowance on net profit margin of listed agricultural firms in Nigeria.

ii. Investigate the effect of capital allowance on return on equity of listed agricultural firms in Nigeria.

Research Questions

This research work will provide answers to the following questions:

i. What is the effect of capital allowance on net profit margin of listed agricultural firms in Nigeria?

ii. What is the effect of capital allowance on return on equity of listed agricultural firms in Nigeria?

Research Hypotheses

To guide this research work, the following hypotheses are formulated:

Ho1: There is no significant effect of capital allowance on net profit margin of listed agricultural firms in Nigeria.

Ho2: Capital allowance has no significant effect on return on equity of listed agricultural firms in Nigeria

LITERATURE REVIEW

Tax Incentives

Tax incentives can be defined as a reduction made by the government in the amount of tax that a particular group of people or type of organization has to pay or a change in the tax system that benefits those people (Kaplan, 2013). Incentive refers to anything that encourages one to do something. Hence, a tax incentive is a generic term for all the measures adopted by the government to deliberately manipulate the tax system to the advantage of potential tax-payer (Dotun, 2016). According to (Wikipedia, 2020), a tax incentive is an aspect of a country's tax code designed to motivate or encourage a particular economic activity by reducing tax payments for the company in the said country. Tax incentive can also be defined as a deliberate reduction in or total elimination of tax liability granted by the government in order to encourage a particular economic unit to act in some desirable ways. The desirable ways maybe to invest more, employ more, export more, sell more, consume less, import less and pollute less and so on (Sanni, 2017). The Oxford Advance Learners Dictionary defines tax incentives as reduction in the effective tax burden on the favored activity as against that currently imposed upon it in the hope that the reduction in government revenue (due to tax forgone), will be compensated by an expected expansion of the national economy and ultimately by resulting increases in total revenue from such broadened economic basis. Holland and Vann (2015), assert that, these incentives include personal allowance, capital allowance, investment allowance, loss relief, and roll over relief, annual allowance, pioneer relief, tax free dividend, export processing zones relief, research and development and tax-free holiday. Oriakhi and Osemwengie (2013), also identified the following tax incentives used in Nigeria tax exemptions, investment allowances, investment reliefs in rural tax-free interest, tax deductible, research and development, tax-free dividends, tax breaks, and capital allowances. The granting of tax incentives for investment is often done outside of a country's tax laws and administration, sometimes under multiple pieces of legislation. The design and administration of tax incentives may be the responsibility of several different Ministries (e.g., finance, trade, investment). Where various Ministries are involved, they may not coordinate their incentive measures (tax and non-tax), with each other or the national revenue authority, with the result that incentives may overlap, be

inconsistent, or even work at cross-purposes. Administrative discretion in the management of incentives can seriously increase the risk of corruption and rent seeking.

Capital Allowance

Capital allowance in Nigeria is a claim against the assessable profits of a company. It spreads the tax relief for the cost of a qualifying capital expenditure (QCE), over some years. Capital allowance is granted on tangible non-current assets in lieu of accounting depreciation. Other than Research and Development, intangible non-current assets are generally not regarded as qualifying capital expenditures for capital allowance. A company cannot reduce its taxable profits with depreciation expense and capital allowance. Kalu (2019), simply defined; capital allowance as a way of reducing tax bill of a person that spent money on certain item used to benefit his business in the long term. The money incurred in procuring the item is termed 'qualifying expenditure'. Capital allowance is also described as a scheme of allowing a company to get tax relief in respect of certain capital expenditures by allowing them to be expensed against the business annual assessable profits. According to Modugu, et al. (2012), Technically, capital allowance is a form of tax relief granted by the relevant tax authority in accordance to the extant tax laws to a person for incurring a qualifying expenditure on a certain asset used for the purpose of trade or business carried on by it in producing income in the basis period for which that asset was used. From this definition, it is pertinent to understand that capital allowance is claimed by a company only when it has incurred a qualifying expenditure in respect of certainasset, and the asset acquired must be owned and used by the company at the end of the basis period for the purposes of a trade or business carried on by that company.It is thus, granted when a company acquired certain commercial assets for use to generate profits. Also, capital allowance is set against the taxpayer's taxable profits reducing the amount of tax payable. Since it is an allowance against taxable profits, a person has to be a taxpayer to benefit; therefore, the scheme does not normally apply to assets owned bycompanies exempted by section 23 of the CITA 2007 (as amended), from paying taxes.Capital allowances claimable in any year are restricted to two-thirds of assessable profits for all companies, except companies in the manufacturing and agricultural sectors, which are excluded from this restriction, 95% initial allowance for plant used in agricultural production; others 50%.

Financial Performance

The concept of financial performance has been a topic of discussion among researcher and financial analysts alike. Financial performance principally reflects business sector outcomes and results that shows overall financial health of the sector over a specific period of time. It indicates how well an entity is utilizing its resources to maximize the shareholders wealth and profitability (Naz et al., 2016). In other words, it is a financial action used in order to generate higher sales, profitability and worth of a business entity for its shareholders through managing its current and non-current assets, financing, equity, revenues and expenses. Its main purpose is to provide complete information to shareholders and stakeholders to encourage them in making decisions. It can be used to evaluate similar companies from the same industry or to compare industries in aggregation. Financial performance is the result of a firm's policies and operations in monetary terms. It is the result of many different activities undertaken by an organization (Rotich et al., 2015). The objective of measuring financial performance according to Ngui (2010), is to establish the maximum return on the capital employed in the business. Financial performance and Liquidity management are essential considerations in determining the growth and performance of companies. One of the dilemmas in liquidity management is the achievement of the desired trade-off between liquidity and profitability (Reheman & Nasr, 2007). Owalabi and Obida (2012), contend that profitability does not translate to liquidity in all cases and that a firm can be profitable even without maintaining liquidity. Financial performance of companies can be accessed through analysis of the financial statement. Analysis of financial statements can be used to measure the development and financial performance of a company in the past as well as the present which can also be used to estimate

the company's financial condition so that it is used to know the weaknesses and opportunities that exist (Nufus & Awaluddin, 2019). Financial performance can be assessed with several analytical tools. According to Subramanyan and Wild (2014), as cited by Nufus et al. (2020), there are five important tools for financial analysis. These are Comparative financial statement analysis, carried out by examining the statement of financial position, income statement, or sequential cash flow statement from one period to the next period. Analysis of common-size financial statements (common financial statement analysis). In this analysis, the statement of financial position, total assets (or liabilities plus equity), are usually expressed as 100%. likewise, the sales value in the income statement. Ratio analysis (ratio analysis). This is one of the most popular and widely used financial analyzes measures. Ratio analysis can reveal important relationships and be the basis of comparison in finding conditions and trends that are difficult to detect. Cash flow analysis (cash flow analysis), mainly used as a tool to evaluate the source and use of funds. Valuation is an important matter from various types of business analysis and financial statements. Valuations usually refer to the estimated intrinsic value of a company or its shares. The basis of valuation is the present value theory. Although a complete evaluation of a firm's financial performance takes into account many other different kinds of measures but the most common performance measurement used in the field of finance and statistical inference is financial ratios (Naz et al., 2016).

Net Profit Margin (NPM),

Net Profit Margin also known as operating profit margin is a financial ratio used to calculate the percentage of profit a company made from its total revenue. Operating profit margin is greatly influenced by the cost of goods sold. If the cost of goods sold increases, the operating profit margin will decrease, and vice versa (Yoshua, 2012). Anwaar (2016), described net profit margin or net profits ratio as the percentage of post-tax and interest profits to sales. It shows how much of the earnings by the company are translated into profits. It is also seen as the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of profit that a business can extract from its total sales. Net profit margin measures the amount of net profit a company obtains per naira of revenue gained. Net profit margin help investors assess if a company's management is generating enough profit from its sales and whether operating costs and overhead costs are being contained. It is a key indicator of the financial health of an organization (Murphy, 2021).

It is calculated mathematically as;

$$\text{Net Profit margin} = \frac{\text{Profit After Tax}}{\text{Total Revenue}} * 100$$

When a company's net margin exceeds the average for its industry, it is said to have a competitive advantage, meaning it is more successful than other companies that have similar operations. While the average net margin for different industries varies widely, businesses can gain a competitive advantage in general by increasing sales or reducing expenses or both (Murphy, 2021). Husna and Desiyanti (2016), described net profit margin as a ratio of net profit after taxes and total selling. Net margin serves as one of the most essential financial ratios which measure how successful a company has been at profit making. Net margin includes all the factors that influence profitability whether under management control or not. The higher the ratio, the more effective a company is at cost control. When compared with industry average, it reveals to investors how well the management and operations of a company are performing against its competitors. If compared with different industries, it tells investors which industries are relatively more profitable than others. Net profit is the final profit calculation on the income statement, also known as the bottom line. Net profit is the remaining revenue after accounting for every business expense, including taxes and interest. The bottom line truly indicates how healthy a business is by showing how much revenue remains after paying all expenses and costs. To calculate net profit, subtract tax and interest costs from operating profit. Companies can use gross profit, operating profit and net profit

to calculate their profit margin, or how effectively the company uses its profits. High profit margin ratios indicate significant profit per revenue Naira. External stakeholders such as investors, can also use profit margins to compare the value of different-sized companies.

Return on Equity (ROE)

Return on equity (ROE), is the amount of net income returned as a percentage of shareholders equity. Return on Equity is a ratio that provides investors with the insight into how efficiently a company (or more specifically, its management team), is managing the equity that shareholders have contributed to the company (Bashari & Mohammed, 2019). It is about the earning capacity by using shareholder's funds. It is the responsibility of managers to effectively manage the equity. ROE explains net earnings by using the equity given by the shareholders. It also indicates the portion of total assets provided by shareholder equity. Return on equity (ROE), is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. ROE is considered a measure of how effectively management is using a company's assets to create profits. ROE is especially used for comparing the performance of companies in the same industry (Awuah et al., 2017). ROE considered as an important measure profitability of the company. The higher values generally mean that the company is effective in the generation of income on the new investments. Investors should be compared to the return on the rights of shareholders of different companies, as well as the verification of the trend in the rules of engagement with the passage of time. However, only relying on the return the rights of shareholders and make investment decisions are not safe. The management can be affected in unclear way, for example, when the use of debt financing to reduce capital, there will be an increase in the return on equity even if remain fixed income (Kurniaty et al., 2019). Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested (Amahalu et al., 2017). The denominator for ROE is equity, or more specifically shareholders' equity. Shareholders equity is assets minus liabilities on a firm's balance sheet and is the accounting value that is left for shareholders should a company settle its liabilities with its reported assets. The return on equity can be used internally by a company or can be used by an investor to evaluate how well the company is turning a profit relative to its stockholder's equity. ROE is more than a measure of profit; it is a measure of efficiency. A rising ROE suggests that a company is increasing its ability to generate profit without needing as much capital. It also indicates how well a company's management is deploying the shareholders' capital. ROE is calculated as Return on Equity = profit after taxes/Shareholder's Equity. Return on equity (ROE), indicates the return on owners' equity, hence the higher the better. Liquidity is also a measure of financial performance. Liquidity measures the ability to meet financial obligations as they fall due without disrupting the operations of the firm2006- 2021 (Mwirie et al., 2015). Return on equity (ROE), 2006- 2021is often translated as Rentability of Own Share in Indonesian. For an investor who buys the shares, they will be attracted to this profitability ratio, or part of total profitability that can be allocated to shareholders. As known, shareholders have residual claim on obtained profits. Profit obtained by the company firstly will be used to pay any interest of debts, then preference share, and then (if any), will be given to common shareholders. Return on equity (ROE), is the profitability ratio to measure the company ability to generate profit based on share capital owned by the company. ROE provides a simple metric for evaluating investment returns. By comparing a company's ROE to the industry's average, something may be pinpointed about the company's competitive2006- 2021 advantage. ROE may also provide insight into how the company management is using financing from equity to grow the business. A sustainable and increasing ROE over time can mean a company is good at generating shareholder value because it knows how to reinvest its earnings wisely, so as to increase productivity and profits. In contrast, a declining ROE can mean that management is making poor decisions on reinvesting capital in unproductive assets.

Theoretical Framework

Agency Theory

Agency theory has its roots in economic theory exposited by Alchian and Demsetz (1972), and further developed by Jensen and Meckling (1976). The theory focuses on the consequences of separation of ownership and control (Bhimani, 2008). It highlights relationship between principals (e.g. shareholders), and agents (e.g. Management). The theory postulates that managers tend to pursue their selfish interests at the detriment of shareholders' interests, when shareholders (who are the owners or principals of the company), hire agents to perform work wherein the principals delegate the running of the business to agents (Clarke, 2004). Thus, agency problems can arise when one party (the 'principals'), contracts with another party (the 'agents'), to make decisions on behalf of the principals. Agency problems may occur as agents can hide information and manage firms in their own interest. According to Jensen and Meckling (1976), agency problem is concerned with the consumption of perquisites by managers and other types of empire building. (La Porta et al., 2000).Thus agency theory suggests that public company owners should always exercise cautious vigilance in delegating controlling authority to managers over the affairs of the company. This is why corporate governance is necessary to intricately align the interest of managers (i.e. the agents), to that of the shareholders (i.e. the principals). In the agency theory shareholders expect the agents to act and make decisions in the principal's interest, but on the contrary, the agent may not necessarily make decisions in the best interest of the principals (Paddilla 2000). They (agents), may be succumbed to selfinterest, opportunistic behavior and falling short of congruence between the aspiration of the principal and the agent's pursuits. Thus, conflict of interest (agency problem), may occur as agent can hide information and manage firms in their own interest. Richardson (1998), noted that managers (agents), have an access to private information about the firm and its earnings which might not be available to the shareholders (principals).

Empirical Review

Jinming and Din (2023), This research uses listed company data from the China A-share market from 2008 to 2018 as its research sample takes financial performance as the mediator, and uses the mediation test model to study the effect of China's tax incentive policies on corporate social responsibility. The results show that direct tax incentives can better stimulate the CSR of all companies, and part of the incentive effect is realized through financial performance, especially for state-owned enterprises and non-manufacturing enterprises. Indirect tax incentives have a significant incentive effect just on the CSR of non-manufacturing enterprises, and part of the impact is also realized through financial performance. Nwokoye et al (2023), investigated the impact of fiscal incentives on the tax compliance behavior of firms in industrial clusters in Nigeria. Data from 800 firms drawn from three industrial clusters in South-East Nigeria were collected using a structured questionnaire through a multi-stage sampling procedure. Descriptive statistics and the logistic regression model were applied to estimate the survey responses. The major findings of the study show that regular tax audit, firm size, simplifying the communication on tax requirement, communicating deterrent messages, educational attainment of the firm owner and political legitimacy of the current government as well as fiscal incentives (tax credit, tax reduction, capital allowance, investment incentives), significantly influence the tax compliance behavior of firms in Nigeria's industrial clusters. Similarly, the study finds that fiscal incentives significantly enhance firm performance in Nigeria's industrial clusters. Implications and policy suggestions are presented for adoption by concerned stakeholders in the tax and industrial sectors. Afandi et al (2023). This study investigated the effect of tax incentives on the performance of Indonesian MSMEs and determining on the innovations that mediate these two variables. The data was collected from 110 business actors and analyzing with a partial least squares feature model approach (SEM-PLS). The result approved all the hypotheses as the tax incentives and innovation had a significant effect on MSME performance and tax incentives had a significant effect on business innovation. The innovation is considered as mediator on the relationship between tax incentives and the performance of

Indonesian MSMEs. This research has expected to contribute for regulators to continue the supervision of MSMEs so that they use tax incentives properly for the sustainability of Indonesian MSMEs. The government needs to supervise the provision of final PPh tax incentives to MSMEs so that they run according to policy objectives.

Fang et al (2022). This paper examined how China's Income Tax Revenue Sharing Reform in 2002 affects corporate financial performance. Unlike general tax policies that directly adjust the nominal tax rate or depreciation allowance, this reform indirectly affects the effective Enterprise Income Tax (EIT), rate by switching tax administration, thereby affecting corporate financial performance. We use a firm-level data-set from Annual Survey of Industrial Firms (ASIF), and test the impact by using a quasi-natural experimental design through regression discontinuity design (RDD). We find that after the reform, the effective EIT rate (ETR), of enterprises collected EIT by State Administration of Taxation (SAT), was 10% lower than that of enterprises collected EIT by the Local Administration of Taxation (LAT). If the ETR reduces by 1%, corporate financial performance, more specific, Return on Asset (ROA), increases by 1.7%. There are two available channels: increasing fixed asset investment (FAI), and alleviating external financial constraints. Additionally, the impact can be weakened for locally SOEs, large firms, firms with low SA index and those in less competitive industries.

METHODOLOGY

This study adopted Ex-post facto research design. The targeted population of this study consists of all the listed five (5) agricultural firms in the Nigerian Exchange Group (NGX) and the time frame considered for this study was 2014-2023 for the purpose of secondary data collection. The sampling technique used in this study was census sampling technique. As the name implies, it is a sample chosen purely on the basis of convenience. Five (5) listed agricultural firms were chosen simply because as at the time of this research work and analysis. Only five agricultural firms that were listed in Nigerian Exchange Group formally known as Nigeria Stock Exchange.

Data Analysis

Test of Hypotheses

In an attempt to test for the hypothesis stated in chapter one of this study, the variables were tested using Panel Generalized least square (EGLS) model through the use of E-views version 10 to determine the extent to which the independent variables influences the dependent variables.

Regression Analysis of NPM

Dependent Variable NPM
Method Panel Least Squares
Date 10/9/24 Time 15:06
Sample 2014 2023
Periods included 10
Cross-sections included 5
Total panel (balanced) observations 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.027058	0.020707	1.306714	0.1953
CA	-0.000475	0.000380	-1.247946	0.2159

R-squared	0.527838	Mean depend ent var	0.040922
Adjusted R-squared	0.502656	S.D. dependent var	0.204024
S.E. of regression	0.143883	Akaike info criterion	-0.979167

Sum squared resid	1.552680	Schwarz criterion	-0.830290
Log likelihood	44.16668	Hannan-Quinn criter.	-0.919478
F-statistic	20.96091	Durbin-Watson stat	2.814362
Prob(F-statistic)	0.000000		

Source *Authors own computation Using E View 10*

The result in table 4.3 discovered a correlation coefficient of (R^2= 0.527, Adjusted R^2= 0.502) which illustrated that relationship exist jointly between independent variable (capital allowance) and dependent variable (net profit margin). The coefficient of determination R-Square represented the proportion of variance of dependent variable (NPM) that has been explained by the independent variables (CA) in the model. This implied that 50% of the increase in Net profit margin (NPM) is due to increase in capital allowance (CA) while 50% was explained by unknown variables that were not included in the model. The F – statistic, 20.96 with a Prob (F-statistic) value of 0.000 showed that the model satisfies the overall goodness-of-fit statistical test. It implies that NPM measures, are able to predict CA of the sampled listed agricultural firms in Nigeria. The Durbin-Watson Statistic of 2.814 suggests that the model does not contain serial correlation.

Test of Hypotheses

Statement of Hypotheses

Ho_1 The effect of capital allowance on net profit margin of listed agricultural firms in Nigeria is not significant.

Decision Rule Accept Ho if P > 0.05. Otherwise reject

Decision The result in table above discovered a significant level between capital allowance (CA) and net profit margin (NPM). The probability value P= 0.2159 which is greater than 0.05 and it implied that, the significant effect of capital allowance (CA) on net profit margin (NPM) is statistically insignificant at 0.05 alpha level. Thus, the null hypothesis one is accepted which implied that the effect of capital allowance on net profit margin of listed agricultural firms in Nigeria is not significant.

Regression Analysis of ROE)

Dependent Variable ROE
Method Panel Least Squares
Date 10/9/24 Time 15:09
Sample 2014 2023
Periods included 10
Cross-sections included 5
Total panel (balanced) observations 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	27.09365	10.56518	2.564429	0.0113
CA	-10.10102	8.843355	-1.142216	0.1552

R-squared	0.658724	Mean depend ent var	5.800205
Adjusted R-squared	0.537013	S.D. dependent var	14.03329
S.E. of regression	13.03651	Akaike info criterion	-8.004136
Sum squared resid	2634.305	Schwarz criterion	-8.100236
Log likelihood	-635.3309	Hannan-Quinn criter.	-8.043159
F-statistic	7.310970	Durbin-Watson stat	1.198857
Prob(F-statistic)	0.000020		

Source *Author own computation Using E View 10*

The result in table 4.4 discovered a correlation coefficient of (R^2= 0.658, Adjusted R^2= 0.537) which illustrated that relationship exist jointly between independent variable (capital allowance) and dependent variable (return on equity). The coefficient of determination R-Square represented the proportion of variance of dependent variable (ROE) that has been explained by the independent variables (CA) in the model. This implied that 53.7% of the increase in Return on Equity (ROE) is due to increase in capital allowance (CA), while 46.3% was explained by unknown variables that were not included in the model. The F – statistic, 7.3109 with a Prob (F-statistic) value of 0.000 showed that the model satisfies the overall goodness-of-fit statistical test. It implies that ROE measures are able to predict CA of the sampled listed agricultural firms in Nigeria. The Durbin-Watson Statistic of 1.198 suggests that the model does not contain serial correlation.

Test of Hypotheses

Statement of Hypotheses

Ho_2 The effect of capital allowance on return on equity of listed agricultural firms in Nigeria is not significant.

Decision Rule Accept Ho if P > 0.05. Otherwise reject

Decision The result in table 4.4 discovered a significant level between capital allowance (CA) and return on equity (ROE). The probability value P= 0.1552 which is greater than 0.05 and it implied that, the significant effect of capital allowance (CA) on return on equity (ROE) is statistically insignificant at 0.05 alpha level. Thus, the null hypothesis two is accepted which implied that the effect of capital allowance on return on equity of listed agricultural firms in Nigeria is not significant.

Discussion of Findings

Capital allowance and Financial Performance

The findings from hypothesis one in table 4.3 revealed that capital allowance has an insignificant effect with the financial performance variable net profit margin under study which implied that as capital allowance decrease, the net profit margin of companies also decreases. The finding corroborates the findings of Abdulrahman and Kabir (2017) that the tax incentives granted did not significantly affect profitability as they were not sufficient enough to sustain the desired development for which they were granted and Akenbor and Mafiana (2019) who found a positive but insignificant relationship between capital allowance, (proxied initial allowance, annual allowance) and financial performance of quoted agribusinesses in Nigeria and a positive and significant investment allowance and financial performance of quoted agribusinesses in Nigeria. However, the finding contradicted this study result, of Amaka and Ezeudaka (2019) which indicated that tax incentives policy change the flow of FDI into non-oil sector. ›

Furthermore, the findings from hypothesis two in table 4.4 revealed that capital allowance has an insignificant effect with the financial performance variable return on equity under study which implied that as capital allowance decrease, the return on equity of companies also decreases. This finding is in agreement with that of Akenbor and Mafiana (2019) who found a positive but insignificant relationship between capital allowance, (proxied initial allowance, annual allowance) and financial performance of quoted agribusinesses in Nigeria and a positive and significant investment allowance and financial performance of quoted agribusinesses in Nigeria, it also agrees with Ngure (2018) that capital allowance incentives have a positive and significant. effect of on the performance of manufacturing firms in Kenya

CONCLUSIONS

This study assessed tax incentives and tax incentives and financial performance of listed agricultural firms in Nigeria by means of a quantitative analysis, which makes obvious that in attendance are ample substantiations that the components of tax incentives investigated by this existing study were

optimistically connected with financial performance, presenting a good judgment to assert that these branded variables (capital allowance and investment allowance) have the latent to activate financial performance, Therefore, this study concludes that not all the tested variables have a positive and significant effect on financial performance of listed agricultural firms in Nigeria. Hence, we accepted three null hypotheses and rejected one

RECOMMENDATIONS

In consonance with this study's findings, it is recommended that

1. The authorities concerned with granting tax incentives should make it easier and seamless for companies to access tax incentives in record time.
2. In order to boost the impact of tax incentives, the management of Agricultural companies in Nigeria should create awareness programs in terms of operation, application and benefits of capital allowance, and investment allowance.

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