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TAX HOLIDAY AND INDUSTRIAL GROWTH IN SUB – SAHARAN AFRICA: A STUDY OF SELECTED SMES IN NIGERIA

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ABSTRACT

This study assessed the impact of tax holiday on industrial growth of Sub-Sahara African States using selected small and medium enterprises in Nigeria as case studies. The study adopts an explanatory non-experimental research design. The data were obtained from Federal Inland Revenue Services (FIRS). A linear model of Tax Internal Revenue, VAT and Economic Growth, proxied by GDP, was estimated using the Multiple Regression technique. The result, amongst others, indicate positive effect of tax holiday on industrial growth, suggesting that increasing tax holidays to productive and priority sectors of African economy will increase the continent's gross domestic products. It was therefore recommended that Sub-Sahara African States should grant more incentives to those sectors and monitor closely the administration of such incentives through special parastatals so as to generate relevant financial data of the actual amount of incentives relative to the economic growth regularly to evaluate the efficiency of tax incentives in the economy.

Keywords: Tax Holiday, Industrial Growth, Sub-Saharan Africa, SMEs.

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1. Introduction

Virtually all countries in the world strive to increase their revenue base so as meet the needs of the citizen and compete globally in terms of Gross Domestic Product. One of the ways by which revenues are generated is through taxation which is normally enhanced by the introduction of various incentives to motivate the citizens to willingly pay as at when due. These incentives normally come in the form of tax holiday, tax abatement, tax subsidy or tax reduction with a view to boosting industrial growth in areas where such incentive is introduced by the government. To this end, the government normally use tax holiday to stimulate investment into the priority sectors they want to focus on a particular financial year. This is why incentives are introduced as part of the fiscal policies of the government in support of the budget for the period.

Oriakhi and Osemwengie (2013) state that tax holiday was first introduced in Nigeria for industrial development in 1958 and this was in form of pioneer companies' relief (5 years tax freedom for the companies designed as pioneer); capital allowances extended to companies on their investments in machinery, building and loss relieve; import duties concessions were also granted to selected pioneer companies on imported inputs. Kuewumi (2008) traced the history of tax incentives in the US to the time of President Hoover in 1920s when tax rates were slashed 5 times to raise the number of effective tax payers and tripled tax receipts.

Several authors have explained the reasons for granting tax holidays but the one that is more elaborate is that of Philip (2006). According to him, tax incentives are deliberate reductions in tax liability granted by the government in order to encourage particular economic units to act in some desirable ways. To him the incentives would motivate the beneficiary to either invest more, produce more, employ more, export more, save more, conserve less, or even pollute less. All these adjectives point to the fact that the incentive would lead to higher investment in the country once the beneficiary invests more. It will also lead to high production, thus increasing the Gross Domestic Products of the nation. The company will be able to employ more, thus helping the government of the day to fulfill their political objective of providing full employment to the populace. Export will improve, thereby reducing importation to only essential goods that are not available locally, and therefore reduce pressure on foreign exchange.

Save more for the raining days, thereby increasing the external reserve of the nation. Conserve less, thereby increase the output. Pollute less, thereby improving the environment and become a good corporate citizen. All these qualities are traceable to tax incentives to corporate bodies as distinct from those available to individual hence the definition is perfect for the industrial growth of the economy. And the growth of a nation's economy can be measured by the level of its Gross Domestic Products. Thus, the objective of this paper is to assess the impact of tax holiday on the industrial growth of sub-Sahara African states using selected SMEs in Nigeria as a case study. Specifically, the study examines the impact of Value Added Tax and Tax Internal Revenue on the GDP of selected SMEs in Nigeria

The study proposes the following hypothesis in its null form below:

Ho_1: There is no significant impact of Value Added Tax and Tax Internal Revenue on the GDP of selected SMEs in Nigeria

2. Review of Related Literature

2.1 Conceptual Framework

2.1.1 Tax

Akanle (1991) defined tax as a compulsory levy imposed on a subject or upon his property by the government having authority over him. This definition reflects the fact that tax is compulsorily imposed on a person, including corporate bodies, by government, be it federal, state or local government, as they all have authority over the citizens residing within the locality of their respective jurisdictions. This definition was expanded by the current National Policy on Taxation, where taxation was defined as any compulsory payment to government imposed by law without direct benefit or return of value or service whether it is called a tax or not.

2.1.2 Tax Holiday

Tax holiday is a temporary reduction or elimination of a tax. Governments usually create tax holidays as incentives for business investment. Tax holidays have been granted by governments at national, sub-national, and local levels, and have included income, property, sales, VAT, and other taxes. Some tax holidays are extra-statutory concessions, where governing bodies grant a reduction in tax that is not necessarily authorized within the law. In developing countries, governments sometimes reduce or eliminate corporate taxes for the purpose of attracting foreign direct investment or stimulating growth in selected industries. A tax holiday may be granted to particular activities, in particular, to develop a given area of business, or to particular taxpayers. Researchers found that on sales tax holidays, households increase the quantities of clothing and shoes bought by over 49% and 45%, respectively, relative to what they buy on average.

2.1.3 Industrial Growth

Chete, Adeoti, Adeyinka, and Ogundele (2011) classified industrial sector in Nigeria into manufacturing, mining and utilities. To them, this constitutes a tiny proportion of the economy, in all 6% (4% for manufacturing and 2% for the others) based on 2011 GDP. Reasons adduced for this tiny proportion range from power outage, high crime rates, corruptions and transportation problems. The sectors face inadequate power supply, hence resorting to the use of generators to power their machines, with a huge sum of money spent to maintain the generators in term of fuelling, thus increasing the cost of production, thereby eroding their profit margin and competitiveness in the global market. Manufacturers were induced to fly to neighbouring countries such as Ghana and Benin Republic, where there are adequate infrastructures, aside from better tax incentives that made their cost of doing business relatively cheaper than is the case with Nigeria. Conclusively, industrial growths are only possible when there is adequate infrastructure to stimulate production. This makes the difference between developed and developing countries. To stimulate industrial growth, pioneer status is granted to certain companies under Industrial Development Income Tax Relief Act 1971 CAP 179, LFN, (1990). The Act provides incentives by exempting all companies enjoying pioneer status from paying tax for the period of 5 years of commencing a business, other incentives are also granted to the companies under this category.

2.1.4 Tax Incentives

Tax incentives are designed to encourage investments in priority sectors of the economy. According to Somorin (2015), tax incentives in Nigeria are in the form of tax holidays, tax cuts, reliefs and allowances, credits and exemptions. Tax incentives are directed at attracting inflow of foreign earnings to complement domestic suppliers to grow the economy. Such sectors of the economy where incentives are normally granted are the manufacturing, agriculture, solid minerals and export promotion.

Individuals also derive tax incentive from the government. Relevant incentives for industrial promotions include: capital allowance, investment allowance, annual allowance, loss relief, pioneer company relief, export processing zone relief and others. According to Uwaoma and Odu (2016), incentives act as a catalyst to industrial development through reduction of the import content of domestic production, thereby improving the balance of payment and enhance the impact of industrialization on income and employment within the nation. In Nigeria virtually all the tax laws have provisions for tax incentives, specifically CITA grants various incentives to manufacturing companies.

2.1.5 Arrays of Tax Holiday to stimulate Industrial growth in Nigeria

The Nigerian Government has put in place a number of investment incentives for the stimulation of private sector investment from within and outside the country. While some of these incentives cover all sectors, others are limited to some specific sectors. The nature and application of these incentives have been considerably simplified. The incentives include:

1. **Pioneer Status:-** The grant of Pioneer Status to an industry is aimed at enabling the industry concerned to make a reasonable level of profit within its formative years. The profit so made is expected to be ploughed back into the business. Pioneer status is a tax holiday granted to qualified or (eligible) industries anywhere in the Federation and seven-year tax holiday in respect of industries located in economically disadvantaged local government area of the Federation. At the moment, there is a list of 69 approved industries declared pioneer industries, which can benefit from tax holiday. To qualify, a joint venture company or a wholly foreign-owned company must have incurred a capital expenditure of not less than five million Naira whilst that of a qualified indigenous company should not be less than N150,000.00. In addition, an application in respect of Pioneer Status must be submitted within one year the applicant company starts commercial production otherwise the application will be time-barred.

Table 1: List of Pioneer Industries/Products

S/NO	INDUSTRIES	PRODUCTS
1	Cultivation, Processing and Preservation of food crops and fruits	Preserved canned foodstuff and fruits, tea, coffee, refined sugar, tomato puree/juice etc.
2	Integrated dairy production	Butter, cheese, fluid milk and powder, ice cream (by products, livestock, minor edible products).
3	a) Deep sea trawling and	Preserved sea foods, fish and shrimps, fishmeal

	processing b) Coastal fishing and shrimping	
4	Mining lead, zinc, and iron and steel from iron ore	Iron and steel products
5	Manufacture of iron and steel from Iron ore	Iron and steel products
6	The smelting and refining of non-ferrous base metal and the manufacture of their alloys	Refined non-ferrous base metal and their alloys
7	Mining and processing of barytes, bentonites and associated minerals	Barytes, bentonites and associated minerals
8	Manufacture of oil well drilling materials containing a predominant proportion of Nigerian raw materials	Barytes, bentonites and associated minerals
9	The manufacture of cement	Cement, clinker
10	Manufacture of glass and glassware	Sheet glass, pharmaceuticals and laboratory glasswares
11	Manufacture of lime from local limestone	Lime
12	Quarrying and processing of marbles	Marbles and processed marbles
13	Manufacture of ceramic products	Refractory and heat-insulating constructional products, laboratory ware
14	Manufacture of basic and intermediate	i) Basic and intermediate organic chemical; ii) Basic and intermediate in-organic chemicals;iii) Fertilizers;iv) Petro-chemical;v) Caustic soda and chlorinevi) Pesticide and insecticide
15	Formulation and manufacture of pharmaceuticals	Pharmaceuticals, health vitamins
16	Manufacture of yeast, alcohol and related products	Yeast, industrial alcohol and related products
17	Manufacture of paper pulp	Paper pulp
18	Manufacture of yarn and man-made fibres	Yarn and synthetic fibres
19	Manufacture of machinery involving the local manufacture of substantial proportion of components thereof	Office and industrial machinery, equipment and apparatus (whether or not electrical)
20	Manufacture of products made wholly or mainly of mental	Pipes and tubes structure metal products
21	Manufacture of nets from local	Fishing nets, mosquito nets and related products

	raw materials	
22	Manufacture of gas cylinders	Gas cylinders
23	The processing of local wheat flour materials	Flour and Offal
24	Rubber plantation and processing	Rubber
25	Gum/Arabic plantation and processing	Gum Arabic
26	Manufacture of fertilizers Ammonia, Urea	Superphosphate and nitrogenous fertilizers
27	Vehicle Manufacture	Motor Vehicles and Motor-cycles, Tri-cycles and Automotive components
28	Oil palm plantation and processing	Palm Oil, palm kennel and Offal's
29	Manufacture of automotive and other components	Automotive and other components.
30	Book printing	Books
31	Large Scale Mechanized Farming	Wheat, Maize, Rice and Sorghum
32	Cattle ranching and piggery of not less than 500 herds	Cattle and pigs of not less than 500 herds
33	Manufacture of Gypsum	Gypsum
34	Re-refining or re-cycling of waste oil	Low power oil
35	Manufacture of electrical appliances/ equipment/components and parts	Generators, transformers, meter, control, pressing irons, switch gears, test equipment, ballets/ starters/ lighters, discreet components, resistor/capacitors/coils/semi-conductors/ conductors
36	Ship building, repairs and maintenance of ocean-going vessels	Ships, boats and barges.
37	Manufacture of computer and computer chips	Computer hard and software chips
38	Manufacture of cameras, photographic equipment and other materials	Cameras, photographic equipment or any component thereof
39	Diving and underwater engineers	Underwater engineering services.
40	Local fabrications of machinery, equipment	Machinery
41	Manufacture of tools	Machines and hand tools
42	Installation of facilities for aircraft manufacture and	Aircraft maintenance and manufacture

	maintenance of aircraft	
43	Installation of scientific instruments and communication equipment	Scientific instruments, radio, audio play-back/recorders, loudspeaker units, amplifying systems, microphones, video playbacks/ recorders, PBX, telephone handset, tele-printers, trans-receivers, autophones/aerials.
45	Manufacture of gas and distribution	Gas and gas distribution
46	Manufacture of Solar energy powered equipment and gadgets	Solar panels, refrigerators, water pumps, calculators, etc Fish and shrimps
47	Large-scale inland fishing farms	Fish and shrimps
48	Bitumen mining and processing	Bitumen
49	Salt production	Salt
50	Manufacture of firefighting equipment and detection systems	Firefighting equipment and detection systems
51	Manufacture of cables	Electrical, telephone and other cables
52	Manufacture of medical equipment	X-ray, oxygen equipment, etc
53	Mineral oil prospecting and production	Petroleum
54	Manufacture of lubricants	Grease, hydraulic/engine oil, gear oil, etc
56	Manufacture of flat sheets	Flat sheets
57	Manufacture of oven, cookers, cold rooms, refrigerators, fridges, freezers, air conditioner	Oven, cookers, cold rooms, refrigerators, fridges, freezers, air conditioner
58	Manufacture of agricultural machinery and equipment	Ploughs, harvesters, threshers, planters etc
59	Manufacture of materials handling and equipment	Cranes, forklifts etc
60	Establishment of foundries	Moulds, casting, etc
61	Manufacture of alum	Alum
62	Manufacture of enzymes	Enzymes
63	Manufacture of concentrates	Food/fruits concentrates
64	Manufacture of welding electrodes	Welding electrodes
65	Manufacture of nails	Nails, related items
66	Manufacture of iron rods	Rods from billets
67	Manufacture of hops	Brewing hops
68	Information and communication technology (ICT)	Manufacture/production of ICT equipment, hardware and software

69	Tourism	Development of holiday resorts, hotels, sporting and recreational facilities
70	Real Estate Development	– Rental income from residential and commercial premises;- Capital gains from any real estate disposed of within a specified period
71	Utility services	– Independent power generation utilizing gas, coal and renewable energy sources;- All aspects of transportation such as rail, road and waterways- Indigenous telecommunications companies other than GSM operations

Source: Author's compilation (2018)

2. **Tax Relief for Research and Development:-** Industrial establishments are expected to engage in Research and Development (R&D) for the improvement of their processes and products. Up to 120 per-cent of expenses on (R&D) are tax-deductible, provided that such R&D activities are carried out in Nigeria and are connected with the business from which income or profits is derived. Also, for the purpose of R&D on Local raw materials, 140 per-cent of expenses are allowed. Where the research is long-term, it will be regarded as a capital expenditure and will be written off against profit. The result of such research could be patented and protected in accordance with internationally accepted Industrial Property Rights.

Table 2: The current rates applicable in respect of capital allowances are:

S/N	**Qualifying Expenditure in Respect of:-**	**Initial Allowance (%)**	**Annual Allowance (%)**
1	Building Expenditure	5	10 per Annum
2	Industrial Building Expenditure	15	10
3	Mining	20	0
4	Plant excluding furniture and fittings	20	10
5	Furniture and Fittings	15	10
6	Motor Vehicle Expenditure	25	20
7	Plantation equipment expenditure	20	33
8	Housing Estate Expenditure	20	10
9	Ranching and Plantation Expenditure	25	15
10	Research and Development Expenditure	25	12
11	Public Transportation Motor Vehicle	30	–

Source: Author's compilation (2018)

3. **Capital Allowances:-** The amount of capital allowance to be enjoyed in any year of assessment is restricted in Nigeria to 75% of assessable profit in case of manufacturing companies and 66% in case of others, except such companies in agro-allied industries that are not affected by this restriction. If leased assets are used in agro-allied ventures, the full (100%) capital allowance claimed will be granted. Moreover, where the leased assets are agricultural plants and equipment, there will be an additional investment allowance of 10% on such expenditure.

4. **In-Plant Training:-** This is applicable to industrial establishments that have set up in-plant training facilities. Such industries enjoy a two percent tax concession for a period of five years.

5. **Investment in Infrastructure:-** This is a form of incentive granted to industries that provide facilities that ordinarily, should have been provided by the government. Such facilities include access roads, pipe-borne water and electricity. Twenty percent (20%) of the cost of providing these infrastructural facilities, where they do not exist, is tax-deductible.

6. **Investment in Economically Disadvantaged Areas:-** Without prejudice to the provision of the pioneer status enabling law, a pioneer industry sited in economically disadvantaged Local Government Area is entitled to 100% tax holiday for seven years and an additional 5% capital depreciation allowance over and above the initial capital depreciation allowance.

7. **Labour Intensive Mode of Production:-** Industries with high labour/capital ratio are entitled to tax concessions. These are industries with plants, equipment and machinery, which essentially are operated with minimal automation. Where there is automation, such automation should not be more than one process in the course of production. The rate is graduated in such a way that an industry employing 1,000 persons or more will enjoy 15 percent tax concession, while an industry employing 200 will enjoy 7 percent and those employing 100 will enjoy 6 percent and so on.

8. **Local Value Added:-** 10% tax concession for five (5) years. This applies essentially to engineering industries, where some finished imported products serves as inputs. The concession is aimed at encouraging local fabrication rather than the mere assembly of completely knocked down parts.

9. **Re-Investment Allowance:-** This incentive is granted to companies engaged in manufacturing which incur qualifying capital expenditure for the purposes of approved expansion, et cetera. the incentive is in the form of a generalized allowance of capital expenditure incurred by companies for the following:
   * Expansion of production capacity
   * Modernization of production facilities
   * Diversification into related products

10. **Minimum Local Raw Materials Utilization:-** A tax credit of 20% is granted for five years to industries that attain the minimum level of local raw material sourcing and utilization. The minimum levels of local raw materials sourcing and utilization by sectors are: –

Agro-allied	–	70%
Engineering	–	60%
Chemicals	–	60%
Petrochemicals	–	70%

11. **Industrial Sectoral Incentives**

(i) INDUSTRY

(a) Companies with a turnover of less than N1 million are taxed at a low rate of 20% for the first five years of operation if they are in the manufacturing business.

(b) Dividend from companies in the manufacturing sector with a turnover of less than N1 million is tax-free for the first five years of their operation.

(c) Dividends derived from manufacturing companies in petrol chemical and liquefied natural gas sub-sector are exempted from tax.

(ii) AGRICULTURE

(a) Companies in the agro-allied business do not have their capital allowance restricted. It is granted in full that is 100%.

(b) The payments of minimum tax by companies that make small or no profits at all do not apply to agro-allied business.

(c) Agro-allied plant and equipment enjoy enhanced capital allowances of up to 50%.

(d) Processing of agricultural produce is a pioneer industry; consequently, there is 100% tax-free period for 5 years or projects into the processing of agricultural produce.

(e) Agricultural and Agro-allied Machinery: All agricultural and agro-industrial machines and equipment to enjoy 1% duty.

(f) Agricultural Credit Guarantee Scheme Fund (ACGSF) administered by the Central Bank of Nigeria: Up to 75% guarantee for all loans granted by commercial banks for agricultural production and processing.

(g) Interest Drawback Program Fund: 60% repayment of interest paid by those who borrow from banks under the ACGS, for the purpose of cassava production and processing provided such borrowers repay their loans on schedule.

(iii) SOLID MINERALS

The following incentives are available in the solid minerals sector:

i. 3 to 5 years tax holiday;

ii. Low-income tax of between 20% and 30%;

iii. Deferred royalty payments depending on the magnitude of the investment and the strategic nature of the project;

iv. Possible capitalization of expenditure on exploration and surveys;

v. Extension of infrastructure such as roads and electricity to mining sites;

vi. The holder of a mining lease shall, where qualified, be entitled to:

   i. Depreciation or capital allowance of 75% of the certified true capital expenditure incurred in the year of investment and 50% in subsequent years

   ii. Investment allowance of 5%

   iii. Exemption from payment of customs & import duties

   iv. Expatriate quota & resident permit for approved expatriate personnel

vii. In addition to roll-over relief under the capital gains tax (CGT), companies replacing their plants and machinery are to enjoy a once-and-for-all 95% capital allowance in the first year with 5% retention value until the assets are disposed, 15% will be granted for replacement of an asset.

(iv) PETROLEUM

The incentives in this sector are granted to companies that are into joint ventures with the Nigerian National Petroleum Corporation and have signed Memorandum of Understanding. The incentives are:

- Guaranteed minimum margin of USS2.50 bl;
- Accelerated capital allowances which provide that the capital allowances can be carried forward indefinitely;
- Graduate royalty rates approved for oil companies.

Onshore production in territorial waters and continental shelf areas beyond 100 meters.

Investment tax allowances (ITA) is granted to a company in respect of any asset for the accounting period. The ITA is graduated as follows:

Onshore	–	5%
Offshore in depth of up to 10m	–	10%
Offshore in depth of between 100-200m	–	15%
Offshore in depth of over 200m	–	20%

12. **Tax Incentives To Gas Industry**

In view of the enormous potentials in this sector, the Government has approved the following fiscal incentives:

GAS PRODUCTION PHASE

- The applicable tax rate is the same as the company income tax which is currently at 30%
- The capital allowance at the rate of 20% per annum in the first four years, 19% in the fifth year and the remaining 1% in the books
- Investment tax credit at the current rate of 5%
- Royalty at the rate of 7% onshore and 5% offshore

GAS TRANSMISSION AND DISTRIBUTION

- Capital allowance as in production phase above
- Tax rate as in production phase
- Tax holiday under pioneer status

LNG PROJECTS

- The applicable tax rate under PPT is 45%
- Capital allowance is 33% per year on-straight line basis in the first three years with 1% remaining in the books
- An investment tax credit of 10%
- Royalty 7% on-shore 5% off-shore, tax-deductible

GAS EXPLOITATION (UPSTREAM OPERATION)

Fiscal arrangements are reviewed as follows:

- All investments necessary to separate oil from gas from reserves into a suitable product is considered part of the oil field development.
- Capital investment facilities to deliver associated gas in usable form at utilization or transfer points will be treated for fiscal purposes as part of the capital investment for oil development.
- Capital allowances, operating expenses and basis for assessment will be subjected to the provisions of the PPT Act and the revised Memorandum of Understanding (MOU).

GAS UTILISATION (DOWN STREAM OPERATION)

- Companies engaged in gas utilization are to be subjected to the provisions of the Companies Income Tax Act (CITA)
- An initial tax-free period of three years renewable for an additional two years
- Accelerated capital allowances after the tax-free period in the form of 90% with 10% retention in the books
- 15% investment capital allowance, which shall not reduce the value of the asset.

In 1998, the government approved additional incentives to support the gas industry in the following areas:

- All gas developmental projects, including those engaged in power generation, liquid plants, fertilizer plants, gas distribution/transmission pipelines are taxed under the provisions of Companies Income Tax (CITA) and not the Petroleum Profit Tax;
- All fiscal incentives under the gas utilization downstream operations since 1997 are to be extended to industrial projects that use gas i.e. power plants, gas to liquids plants, fertilizer plants, gas distribution/transmission plants;
- The initial tax holiday is to be extended from three years to five years;

- Gas is transferred at 0% PPT 0% Royalty;
- Investment capital allowance is increased from 5% to 15%;
- Interest on loan on a gas project is to be tax-deductible provided that prior approval was obtained from the Federal Ministry of Finance before taking the loan; and
- All dividends distributed during the tax holiday shall not be taxed.

13. **Telecommunications**

The Government provides non-fiscal incentives to private investors in addition to a tariff structure that ensures that investors recover their investment over a reasonable period of time, bearing in mind the need for differential tariffs between urban and rural areas. The tariff structure as approved by the regulatory authority, Nigerian Communication Commission, also provides adequate cross-subsidy between the profitable trunk and local calls of the urban and non-profitable operation of the rural areas.

Other Incentives in place are:-

a) Manufacture/installation of telecommunications-related equipment is considered a pioneer activity. As a result, they enjoy 5 to 7 years tax holiday depending on location.
b) Taxes and duties do not exceed those charged on essential electrical goods.

14. **Energy (Electricity)**

Among the incentives put in place by the Government to encourage investors in the sector are:

Tax holiday of 5-7 years is granted to companies that manufacture:

a) Transformers, meters, control panels, switchgear, cable and other electrical related equipment, which are considered pioneer products/industries
b) Power plants using gas are assessed under the company income tax act at a reduced rate of 30%.

15. **Tourism**

The following incentives have been put in place to encourage domestic and foreign investors' participation in the tourism industry in Nigeria:

a) The tourism sector was accorded preferred sector status in 1999. This makes the sector qualify for incentives (available to similar sectors of the economy) such as tax holiday, longer years of moratorium and import duty exemption on tourism-related equipment.
b) Provision of basic infrastructure that is, road, water, electricity, communications etc. to centre of attraction. Some states have specific areas as tourism development zones thereby making the acquisition of land easier.
c) Provision of land for tourism development at concessional rates.
d) Availability of soft loans with a long period of moratorium.

16. **Transport**

The following incentives are in place to encourage investment in the sector:

a) Shipbuilding, repairs and maintenance of vessels, boat, barges, diving and underwater engineering services, aircraft maintenance and manufacturing are considered pioneer products. As a result, they enjoy 5-7 years tax holiday depending on location.

17. **Export Incentives**

Export incentives are aimed at encouraging and assisting exporters to increase and diversify the total value and volume of non-oil exports from Nigeria. These incentives are designed to address the major problems of supply, demand and price competitiveness of Nigeria’s export. Some of the incentives now take the form of Negotiable Duty Credit Certificate (N-DCC) and are as indicated below:

i. Manufacture – In – Bond Scheme:- The Manufacture – in – Bond Scheme is designed to encourage manufacturers to import raw material inputs and other intermediate products duty-free for the production of exportable goods, backed by a bond issued by any recognized financial institution. The bond will be discharged after evidence of exportation and repatriation of foreign exchange has been produced.
ii. Duty Drawback Scheme:- Duty Drawback scheme provides for refunds of duties/sur-charges on raw materials including packing and packaging materials used for the manufacture of products upon effective exportation of the final products. The new Duty Drawback scheme shall give automatic refunds (60%) on initial screening by the Duty Drawback Committee and upon the presentation of bond from a recognized Bank, Insurance Company or other financial institution. The Bond will cover 60% of the refund

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to be made to the exporter and will only be discharged after final processing of the application has been made. At the end of the processing of exporters claims, the Duty Drawback Committee shall grant any balance where applicable or request for refunds for any overpayment made.

iii. Duty Drawback Facilities:- The scheme provides for fixed drawback and individual drawback facilities. The fixed Drawback facility is for those Exporters/Producers whose export products are listed in the Fixed drawback schedule to be issued from time to time by the Committee. When the import content of the export produce is more or less constant, and import prices (including exchange rate), tariff rates and technology used are relatively stable or "fixed", it is possible to calculate a standard Impute-Output Co-efficient Schedule (ICS) for these category of products on the basis of which a fixed drawback rate can be computed to be rebated per unit of export product. Whereas the individual drawback is for producers/exporters who do not qualify under the fixed drawback facilities. It is, therefore, a straight forward traditional drawback mechanism under which duty is paid on all import inputs. The duties are subsequently, rebated on inputs used for export production. As a general case, the final export/producer can apply for the Scheme.

a. **Eligibility:** A trading Company which collects industrial products from one or more manufacturers, as well as a trading Company which imports raw material inputs including packaging and packaging materials used for the production of goods exported by him, could also apply for the scheme. Such a trading company must have entered into a contract with the final producer of the product in such a way that Duty drawback Committee can obtain necessary information and documents to enable the Committee act appropriately. Applications must be companies incorporated in Nigeria.

b. **Time Limit:** Duty Drawback application must be filed within a maximum of two years from the date of exportation. In order to qualify for the drawback payment (both individual and fixed drawback) exportation of the product which was produced with imported inputs must be completed within 18 months after the importation of the inputs.

c. **Application Procedure:** Application for either Fixed or individual Drawback Facilities should file the following documents to the Duty Drawback Committee.

(i) Completed new application form for Duty Drawback Rate/Refund obtained from the Duty Drawback Rate/Refund obtained from Duty Drawback Secretariat and all Zonal Offices of the Nigerian Export Promotion Council

(ii) Attach clear photocopies of the following documents in triplicates:

Import bill of entry for Home use (Customs and Excise Form C 188) for the respective raw material inputs used for the export production.

Import bill of landing for the raw material inputs used for the export production.

Letter of contract agreement between the Trading Company and producer in cases where the Trading Company is applying for the facility

Current registration certificate with NEPC

(iii) In addition to the above documents, all applications for refunds should be filed with the following in triplets:

Export Bill of Entry for Non-Domestic Goods (Customs and Excise Form sale 98)

Form NXP

(iv) Bank Bond to be issued by a recognized Bank or Insurance Company to the tune of 60 per cent upfront payment approved by the Committee as duty drawback refund and to guarantee the refund of any overpayment made to the exporter.

d. **Rules of Duty Drawback Application and Processing:** The following rules have to be observed to simplify the processing procedures:

(h) For the same export product defined in an export entry documents, all inputs used to produce a given export article should be treated as part of a single application and therefore cannot be divided into separate duty drawback applications. If imported inputs, registered in a single import entry document are sub-divided and used for the production of more than one export consignment, the import entry document should include information on the production of inputs and the balance remaining to be used.

18. **Export Expansion Grant (EEG) Scheme**

Incentive rates: The scheme will operate the "Weighted Eligibility Criteria" in assessing an application for EEG. The baseline data as supplied by the individual applicant company would be used in its assessment. Thus the method of assessment is company-specific. A company's EEG assessment would be conducted once yearly and the determined rate will apply throughout the year. The weighted eligibility criteria have four bands: 30% 20%, 10%, and 5%. The following template will be used in assessing the incentive rate for every EEG applicant.

Table 3: Determination of Export Performance – Eligibility Criteria

S/N	Eligibility Criteria	Company Data	Threshold	Weight	Company Score
1	Local value added			25%	
2	Local content			20%	
3	Employment (Nigerians)			20%	
4	Priority Sector			10%	
5	Export Growth			20%	
6	Capital Investment			5%	
	Total Weight			100%	

Source: Author's compilation (2018)

A new entrant into the EEG scheme shall provide prior period financial statement or where applicable an investment plan for its assessment.

Eligibility:

a. Export must be registered with the Nigerian Export Promotion Council (NEPC).
b. Eligible exporter shall be a manufacturer producer or merchant of products of Nigeria origin for the export market (i.e. the products must be made in Nigeria).
c. An exporter must have a minimum annual export turnover of N5million and evidence of repatriation of proceeds of exports.
d. Exporter-company shall submit its baseline data which includes Audited Financial statement and information on operational capacity to NEPC.

Validity for EEG Application

Qualifying export transaction must have the proceeds fully repatriated within 180 days, calculated from the date of export.

19. **Export Development Fund Scheme**

The Scheme provides financial assistance to private sector exporting companies to cover part of their initial expenses in respect of the following export promotion activities:

a) Participation in training courses, symposia, seminars and workshops in all aspects of export promotion
b) Advertising and publicity campaigns in foreign markets

c) Export market research and studies
d) Production design and consultancy
e) Participation in trade missions, buyer-oriented activities, overseas trade fairs, exhibitions and sales promotion
f) Cost of collecting trade information, and
g) Backing up the development of export-oriented industries.

20. **Trade Liberalization Scheme (TLS) of Economic Community of West African States (ECOWAS)**

This is an export liberalization incentive that focuses on the ECOWAS sub-region. The Scheme is an incentive primarily geared towards export activities within the ECOWAS sub-region. The objective is to significantly expand the volume of intra-community trade in the sub-region via the removal of both tariff and non-tariff barriers to trade in good originating from ECOWAS countries. This affords preferential access to the ECOWAS market from Nigeria.

21. **Oil and Gas Free Zone**

The Oil and Gas Export Free Zone Act No. 8 of 1996 established an Oil and Gas Free Zone Authority to manage, control and coordinate all the activities within the zone. This zone encompasses three oil and gas service centres around the ports of Onne (near Port Harcourt), Calabar and Warri. All three ports have enhanced stacking and warehousing facilities awaiting subscribers. Incentives and fiscal measures approved by the government that favour and encourage large investments in the region include:

- No personal income tax
- 100% repatriation of capital and profit
- No pre-shipment inspection for goods imported into the free zone.

22. **Nigeria Export Processing Zones**

The Federal Government of Nigeria has passed an aggressive Free Zone Law which has created a business-friendly environment benefiting from the following incentives:

- Complete tax holiday for all Federal, State and Local Government taxes, rates, custom duties and levies.

- One-stop approval for all permits, operating licences and incorporation papers.
- Duty-free, tax-free import of raw materials for goods destined for re-export.
- Duty-free introduction of capital goods, consumer goods, components, machinery, equipment and furniture.
- Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian Market.
- When selling into the domestic market, the amount of import duty on goods manufactured in the free zones is calculated on the basis of the value of the raw materials or components used in the assembly, not the finished product.
- 100% foreign ownership of investments.
- 100% repatriation of capital, profits and dividends.
- Waiver of all import and export licenses.
- Waiver on all expatriate quotas for companies operating in the zones.
- Prohibition of strikes and lockouts.
- Rent-free land during the first 6 months of construction.

Table 4: The proliferation of tax incentives in sub-Saharan Africa

Type of investment tax incentive	**Proportion of countries offering incentives in…**	
	1980	**2005**
Tax holidays	45%	69%
Reduced CIT rates	10%	51%
Investment allowances	59%	56%
Incentives for exports	10%	28%
Free zones	3%	46%
Investment code	31%	74%

Source: International Monetary Fund (2005)

2.2 Theoretical Framework

2.2.1 Laffer Curve Theory

The study is anchored on Laffer curve theory. This theory originates from an economist, Arthur B. Laffer, whose work had its root from Ibn Khaldun and John Keynes. The work of Khaldun, the Muqaddimah, reveals that tax yields higher revenue from small assessments but smaller revenue from large assessment, while Keynes posits that higher taxation defeats its object but a reduction of taxation stands a better chance than an increased balanced budget

(2004). The curve propounded by Laffer presumes that revenue from taxation will change in response to changes in tax rate or what we can call tax revenue elasticity. The higher the tax rate, the lower the tax revenue and vice versa. All these statements boil down to tax incentives to encourage people to pay tax.

The assumption in Laffer's theory is that changes in tax rates have two effects on tax revenue. These are arithmetic and economic effects. The arithmetic effect presumes direct relationship between tax rate reduction and tax revenues, that is the lower the tax rate the lower the tax revenue accruing to the government and vice versa. The economic effect can be likened to the ratchet effects as lowering tax rate would translate to increased output and productivity of employees, while increased tax rate would make employees exhibit ratchet behaviour by not performing to the optimal level. In effect, lowering tax rates is an incentive to increase activities as well as the tax base and vice versa. Once enough tax incentives are given to taxpayers, there is every tendency that they would always want to comply with tax laws and be eager to pay the amount of tax due from them as captured by Alm (1991), tax compliance includes voluntary reporting of all incomes and paying all taxes in line with applicable laws and regulations.

2.3 Empirical Review

In the earlier work of Okafor (2009), it was emphasised that the nation's economy can be healthy through generous tax incentives to corporate taxpayers for them to invest their scarce resources. Action aid International (2015), regards tax incentive as revenue losses. Tax incentive if not well managed could lead to a drain on government revenue, CBN was of the view that tax incentives create loopholes for tax avoidance and further erode the tax base. The CBN (2016) went further to state that incentive complicates tax administration as well as making revenue collection to be less efficient.

This view was also anchored by Hassett and Hubbard (2002) when they found that the investment incentive creates significant distortion by encouraging inefficient investment. But Bernstein and Shah (1995) in an earlier work posit that selective tax incentives (investment credit and investment allowances) could be more cost-effective for promoting investment than company income tax rate reduction.

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Oyedele (2015) was worried that in spite of the efforts of Nigerian government at raising revenue through the introduction of luxury taxes and more tax incentives, it has not really addressed various tax disincentives that hinder growth and distort diversifications, hence the difficulty in earning enough revenue from tax, which was not the case with oil. But now that revenue from oil has nose-dived government has no choice but to remove all those disincentives and at the same time introducing more of those luxury taxes and tax incentives in order to increase revenue from the tax in place of oil that is no longer a cash cow as before.

3. Design and Methodology

The study adopts the explanatory non-experimental research design to investigate the relationship between industrial growth, proxied by GDP and tax holiday. The study relied on secondary data collected from the Federal Inland Revenue Service, Nigerian Investment Promotion Commission. The formulated hypothesis was analysed using regression analysis.

3.1 Model Specification

The model for the study is given as;

SSGDP = f (VAT, IR)

$SSGDPit = \alpha i + \beta_1 VATit + \beta_2 IRit + \varepsilon t$

Where:

SSGDP = Small Scale Gross Domestic Product
VAT = Value Added Tax
IR = Internal Revenue
αi = Constant
β_1 β_2 = Regression coefficients
εt = Error terms
it = Time dimension

4. Data Analysis and Results

Below is the descriptive statistic of the data

Table 5: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SSGDP(million)	15	1127.2265946830	8973.7731533780	4242.186724498234	2907.715080728522
VAT(million)	15	52.63200000000	397.06414144546	232.164107612511	132.100590129914
Internal Revenue(million)	15	89.60690000000	801.29000000000	437.733252075087	270.096859237213
Valid N (listwise)	15				

Source: SPSS Ver. 23

The table above shows that the average SME GDP is NGN4242.1867; VAT showed an average value of 232.16; and, the Internal Revenue showed an average value of 437.73.

Table 6: Correlation output

		SSGDP(N,million)	VAT	Internal Revenue
SSGDP(N,million)	Pearson Correlation	1	.938**	.877**
	Sig. (2-tailed)		.000	.000
	N	15	15	15
VAT	Pearson Correlation	.938**	1	.947**
	Sig. (2-tailed)	.000		.000
	N	15	15	15
Internal Revenue	Pearson Correlation	.877**	.947**	1
	Sig. (2-tailed)	.000	.000	
	N	15	15	15

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Ver. 23

Table 6 above shows a Pearson product-moment correlation to determine the nature of the relationship between tax holiday and economic growth. The result revealed a strong positive correlation between Small Scale GDP (SSGDP) and Value Added Tax (VAT), as shown in the result were (r = .938, N=15, and p = .000). Also, a strong positive correlation between Small Scale GDP (SSGDP) and Internal Revenue, as shown in the result were (r = .877, N=15, and p = .000).

4.1 Test of Hypothesis

4.1.1 Test of Hypothesis One

H_1: There is a significant impact of Value Added Tax and Tax Internal Revenue on the GDP of selected SMEs in Nigeria

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.939[a]	.881	.862	1081.975902235271400

a. Predictors: (Constant), Internal Revenue, VAT

Source: SPSS Ver. 23

The table above shows the Goodness of Fit Test (R^2) where (R^2) shows the amount of the variation in the dependent variables (SME GDP) that are explainable by the explanatory variables. The (R^2) which measures the overall goodness of fit of the entire regression shows the value of 0.939= 93.9% approximately 94%. This indicates that the independent variables account for about 94% of the variation in the dependent variable.

Table 7: ANOVA Output

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	104319235.634	2	52159617.817	44.555	.000[b]
	Residual	14048062.236	12	1170671.853		
	Total	118367297.870	14			

a. Dependent Variable: SSGDP(N, million)
b. Predictors: (Constant), Internal Revenue, VAT

Source: SPSS Ver. 23

The table above showed a statistically significant F-statistic of 44.555 (which revealed from our ANOVA table a p-value <.05). Thus, we reject the null hypothesis and conclude that there is a significant impact of Value Added Tax and Tax Internal Revenue on the GDP of selected SMEs in Nigeria.

Table 8: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-565.605	581.254		-.973	.350
	VAT	22.894	6.809	1.040	3.362	.006
	Internal Revenue	-1.159	3.330	-.108	-.348	.734

a. Dependent Variable: SSGDP(N, million)

Source: SPSS Ver. 23

4.2 Discussion of Findings

The findings of this study indicate a sharp fall in industrial production for the period between 2015-2016. with the exchange rate having an upward left to right spiral movement indicating an increase from 118 in 2008 to 450 in 2016. The study revealed that all the economic indicators employed in this study have a negative relationship with Tax Holiday. This is an indication that an increase in tax incentives generally will bring about a corresponding increase in SME Gross Domestic Product.

5. Conclusion and Recommendations

The study espoused the impact of tax holiday on the industrial growth of Sub-Sahara African. It believes in African nations to improve on the tax drive now that revenue from petroleum products is declining by the day. Increasing tax incentives in the productive sectors would go a long way in reducing the cost of production thereby increasing the productivity of industrial sectors, with multiplier effects on the economic growth of the nation (GDP). Even though incentive stimulates growth in tax revenue in a way, Actionaid (2015) sees incentive as loss of total tax revenue accruing to the nations. Their report revealed a total annual loss of $5.8 billion to three countries (Nigeria, Ghana and Senegal) in West Africa, $2bn annual loss was also reported in selected East African states as Tanzania, Kenya, Uganda and Rwanda. This view aligns with Somorin (2015) when she reported tax revenue loss of N56.8bn, N71.2bn and N54.9bn respectively for 2004, 2005 and 2006 resulting from various tax incentives granted by Nigerian Customs Services.

Considering the positive and meaningful multiplier effect tax holiday can bring to the growth in economic and industrial activities of a nation, we recommend that African states should grant more of such holiday to productive and priority sectors of their economy. Governments should closely monitor the administration of such holiday through a special parastatal expected to keep track of the policy, generate relevant financial data of the actual amount of incentive relative to the economic growth from one period to another. By so doing they will be able to confirm the efficiency of tax incentive policy in the economy.

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Appendix I

Year	SSGDP(N, million)	VAT	Internal Revenue
2002	1127.23	52.632	89.6069
2003	1304.07	65.8876	118.7535
2004	1516.05	96.1956	134.1953
2005	1778.73	87.4498	122.7378
2006	2082.49	110.5668	125.2289
2007	2401.19	144.3728	305.7063138
2008	2761.55	198.0653	441.1458792
2009	3170.82	229.3232	461.2245055
2010	3578.64	275.5746	757.9
2011	4527.45	318	509.3
2012	5588.82	347.6882	548.1202724
2013	7233.32	389.5263	657.0154653
2014	8685.43	388.85	801.29
2015	8973.77	381.2652	755.754708
2016	8903.24	397.0641	738.0192368

Source: CBN Statistical Bulletin, 2016