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DO TAX INCENTIVES AFFECT REINVESTMENT OF EARNINGS? EVIDENCE FROM MANUFACTURING COMPANIES LISTED IN NIGERIA

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Abstract

Purpose – The study investigated the nexus between tax incentives and reinvestment of earnings of manufacturing companies listed in Nigeria. Specifically, the study investigated the effect of export Incentive (EI), Capital Allowance Incentives (CAI), Tax Holiday Incentives (THI), Investment Allowance Incentives (IAI) on reinvestment of firms listed on Nigeria exchange.

Design/methodology/approach – The study adopted ex post facto research design, the population comprises 76 firms of consumer and industrial sector of NGX as at 2022. However, our analysis was restricted to 25 multinational manufacturing companies on the NGX based on availability of data

Findings –. The findings from the study reveals that tax incentives

(export Incentive (EI), Capital Allowance Incentives (CAI), Tax Holiday Incentives (THI), Investment Allowance Incentives (IAI)) has a significant effect on reinvestment of earnings of manufacturing firms listed on the Nigeria exchange although in different patterns.

Practical implications – The implication of our findings is that tax incentive should be considered as one of the key drivers to improve retained earnings of manufacturing sectors and should focus on specific tax incentives that drives expansion

Recommendations- The study recommend that tax authorities should focus on specific tax incentives that drives expansion. Tax incentive policies should be industry specific and continuous interrogation of tax incentives policy is needed time to time to be able to carry out proper evaluations, action plan and adjustments.

Key Words: ***Foreign direct investment FDI; export Incentive (EI); Capital Allowance Incentives (CAI); Tax Holiday Incentives (THI); Investment Allowance Incentives (IAI).***

Introduction

Several names has been given to the relinquishments of taxes given to corporate entities, these include tax reliefs, tax incentives, tax holidays, tax waivers or tax concessions. Whatever the name, the main objective of this is to create a tax safety or tax haven environment to encourage and attract foreign investors in choosing an investment environment as this will reduce distribution to government, payback period and increase returns on investment. Developing countries provide many different types of tax concessions to attract foreign and domestic capital. Their principal purpose is to enhance the profitability of a newly established business or expansion of an existing business which will contribute to the country's economic objectives. Reliefs in form of capital allowance, customs duties on imports of equipment and construction materials enables a firm to reduce its capital requirements and lower its fixed costs. Relief from duties on imports of raw and semi processed materials and of components generally provides a competitive advantage in establishing a domestic or foreign market. Relief from income taxes increases the profit prospects of a new venture and enables a firm to recover its capital costs more quickly, thereby reducing the risks of investment. With few exceptions, these benefits could either be permanent or temporary so that a long-term business can be expected to operate under a country's permanent tax regime, if it is successful.

In recent years, considerable attention has been given to promoting manufacturing industries because of the belief that industrialization is the salvation of countries heavily dependent on the export of primary products. Latin American countries, for example, have been convinced of the need for more rapid growth of manufacturing, at least until a better balance has been reached with the other sectors. Raúl (2022) noted that the development of manufacturing must be promoted in order to redress the adverse trend in the terms of trade experienced by primary producing nations' vis-à-vis industrial nations. Some, region especially in Africa and Asia, have emphasized the need to exploit their natural resources for export, by the development of minerals, forests, and especially plantation-type farming. IMF (2000)

Since profits of established businesses are a primary domestic source of capital for new investment, some countries provide special incentives for the reinvestment of

earnings. For instance, Tunisia provided that income reinvested for certain purposes may be deductible from taxable income. This provision also applies to income reinvested for extension of industrial, commercial, or agricultural buildings and installations. The Republic of China also exempts earnings retained in expanding production of a preferred enterprise or invested in any other firm whether or not it is a preferred enterprise. Uruguay has long provided that up to 80 per cent of net taxable income allocated to the installation, enlargement, or replacement of industrial equipment may be exempted from the ordinary business tax in the year earned; the new investment must be completed by the end of the third taxable year after which the exemption is claimed. Costa Rica permits a deduction from taxable income of up to 50 per cent of the prior year's profit if it is invested in capital goods used by agricultural or industrial enterprises. Somalia provides for the exemption of up to 25 per cent of profits invested in capital assets. Some Central American countries, Chad, Morocco, and Senegal, among other countries, also provide for relief of taxes on reinvested earnings. Korea repealed its provision, effective in 1966, which allowed a 50 per cent reduction in tax for earnings invested within a 3-year period. Likewise, Nigeria government has implemented different tax concession regime IMF (2000)

The thrust of this study is therefore to investigate among the present conflicting empirical findings in Nigeria and globally the nexus between tax incentives and reinvestment of earnings of manufacturing companies listed in Nigeria. The result of this study will give policy clearance as to how tax incentives affect earnings reinvestment.

Review of literature

Reinvestment of Earnings

Reinvestment of earnings or reinvested earnings refer to earnings on equity accruing to direct investors less distributed earnings, proportionate to the percentage ownership of the equity owned by the direct investor(s). Reinvestment in earnings is equal to the net operating surplus of the foreign direct investment enterprise. Reinvested earnings are included in direct investment income because the earnings of the direct investment enterprise are deemed to be the income of the direct investor proportionate to the direct investor's holding of equity in the direct investment enterprise, whether they are reinvested in the enterprise or remitted to the direct investor. Because reinvested earnings are not actually distributed to the direct investor but rather increase the direct investor's investment in its affiliate, an entry that is equal to that made in the direct investment income account but of opposite sign is entered in the direct investment transactions account. In the direct investment income account, this transaction is referred to as "reinvested earnings", while in the direct investment transactions account, this transaction is referred to as "reinvestment of earnings" (Kosztowniak, 2021).

A distinctive feature of the reinvested earnings as a subsequent component is that they are offshore, locked-out cash and are thus characterized as sequential investments emerging over the long run. The assumption of reinvested earnings as marginal investments in the host country implies a perception of higher reinvested earnings being a good signal of higher long-run confidence on the part of existing investors, while a repatriation of earnings may mean the reverse. Thus, reinvested earnings may also stand for an important policy means to attract potential foreign investments in the existing market (Polat, 2017).

Tax incentives is any relief from tax that reduce the tax burden of enterprises in order to induce them to invest in particular projects or sectors. Tax incentive is an economic arrangement and strategy where the government asked some companies or individuals to pay less or no tax for certain economic reasons that will encourage development. Tax

incentives is a deliberate reduction in the liability granted by government in order to encourage particular economic unit (for instance corporate bodies) to act in some desirable way to invest more, consume more, import less and Pollute less (Arzizeh, Benjamin, & Akachukwu, 2018).

Tax Incentives are those special provisions that allow for exclusions, credits, preferential tax rates or deferral of tax liability. Tax incentives can take many forms: tax holidays for a limited duration, current deductibility for certain types of expenditures or reduced import tariffs or customs duties. Tax incentives are a useful tool for attracting investments that would not have been made without the provision of tax benefits (Trepelkov & Verdi, 2018). Tax incentives expand the horizon of investment opportunities and also promote the advancement of social welfare through incentives related to education and health care. Additionally, tax incentives help to reduce overreliance on agricultural production which is affected by market instabilities (Jirasavetakul & Rahman, 2018). Tax incentives are all forms of incentives to reduce the company's tax burden to attract companies to invest in specific projects or sectors (Muhammad & Ivan, 2021).

The flow of FDI to the Nigerian Economy is low relative to other countries in Africa even with the presence of tax incentives (Appiah-Kubi, Malec, Phiri, Maitah, Gebeltová, Z., Smutka, & Sirohi, 2021). It is theoretically plausible to address the question on how effective tax incentives are in attracting foreign direct investment into a country in line with (Klemm & Parys, 2018), empirical evidence is confounding. The report indicates that out of the 57billion dollars FDI inflows to Africa, Nigeria inflows stands at 5.6billion US dollars (10% of total FDI to Africa). However, the Oil and Gas sector receives 75% of FDI inflow in Nigeria, while other sectors receive 25% (Corporate guide, 2014). The inadequate flow of FDI to the manufacturing sector may impact negatively on economic growth and foreign direct investment and solutions to this problem will bring into the nation the following benefits are access to international markets and technology, assist human capital formation, international trade integration, create more competitive environment, lead to improved environmental and social conditions (Adejare & Olatunji, 2021).

The fundamental premise in offering incentives to FDI is that foreign investment creates more value for the host country than for the foreign investor. FDI involves more than the flow of capital. It also involves the internal utilization of intangible assets such as technology and managerial expertise that are specific to a given firm (Appiah-Kubi *et al,* 2021). Thus, a major effect of FDI can be the transfer of technology, managerial expertise, skills and other intangible assets from one country to another. If these intangibles are completely internalized, the rate of return will fully capture the net benefits of an investment, and incentives are not justified. To the extent that these intangibles create major beneficial effects for other sectors of the host economy that are not internalized by the transnationals, incentives may be justified (Etim, Jeremiah & Jeremiah, 2019; Ibrahim, Garba, Muhammed, kakanda & Shehu, 2022). This conclusion raises an important question in designing an incentives system and how responsive is foreign investmsent to incentives? A simplistic case that can be considered is where the only value for the host country of an investment project is the tax revenues that accrue to the Government (Toyin & Oludayol, 2020). For a tax incentive to be beneficial to the host country, the decrease in government revenues resulting from the incentive would have to be more than offset by the increase in tax revenues resulting from increased foreign investment flows (Nwanji, Howell, Faye, Otekunrin, Eluyela, Lawal & Eze, 2020).

In recent years, the globalization process has led to the emergence of new issues, not only have companies tended to become more mobile, but also governments have to deal with this new dimension in the design of their national tax policy (OECD, 2021). The gradual elimination of barriers to capital movements have stimulated governments to compete for FDI in global markets as well as reinforced the role of tax policy in this process. This recent competitive trend has to be offset by the increasing pressure that governments face to harmonize their tax policies within regional (or international) agreements (Obafemi, Araoye & Ajayi, 2021).

Proponents of tax benefits point out that, as a result of reduced tax costs, investors receive a higher rate of return, enabling them to re-invest with the additional revenue received. The host country thus increases its revenue, benefits from the transfer of technology and attracts increased FDIs. In less developed countries (LDCs), it is also argued that it is necessary to provide tax incentives to investors since these countries usually have very poor investment climates, such as dilapidated infrastructure, political uncertainty, macro-economic volatility and high business costs (Basu & Srinivasan, 2012).

Reducing the investment tax burden could mean reducing government spending or transferring the tax burden to other tax bases, such as labor, for example. Tax policy makers also need to understand whether investment taxes matter and how much they do (Keen, 2012). A sound tax policy decision should carefully weigh the benefits of a reduction in corporate taxes against the costs. It is clear that nations around the world have engaged in the process of attracting FDI through various means and instruments, including tax incentive economies (Haudi, Wijoyo & Cahyono, 2020).

The associated costs of tax incentives can be classified in following main categories: forgone revenues, these are the losses in tax revenue from tax incentives which mainly come from three sources; the forgone revenue that otherwise would have been collected from the activities undertaken; the forgone revenue from projects that would have been undertaken if the investor did not receive any tax incentives; and lost revenue from investors and activities that improperly claim incentives or shift income from related taxable firms to those firms qualifying for favorable tax treatments. Resource allocation (neutrality) costs which originate when tax incentives create distortions on investment choices among sectors or activities instead of correcting market failures. Enforcement and compliance costs: these costs increase with the complexity of the tax system and the system of fiscal incentives in terms of qualifying and reporting requirements (Musimenta, 2020)

Because tax incentives are intended to encourage investment in certain sectors or geographic areas, they are rarely provided without conditions attached. Very often countries design special incentive regimes that detail the tax benefits as well as the key restrictions. For instance, these regimes may require that a facility be established in a certain region(s), have a certain turnover, require the transfer of technology from abroad or employ a certain number of individuals. For example, China offers foreign-invested firms a tax refund of 40 per cent on profits that are reinvested to increase the capital of the firm or launch another firm. The profits must be reinvested for at least five years. If the reinvested amounts are withdrawn within five years, the firm has to pay the taxes. India, similarly, offers a tax exemption on profits of firms engaged in tourism or travel, provided their earnings are received in convertible foreign currency.

A 2006 Report by the African Development Bank and IMF focusing on tax incentives in East Africa confirmed that, based on empirical evidence available, investment incentives particularly tax incentives are not an important factor in attracting Foreign Direct

Investments. The IMF report further indicated that, most countries that have been most successful in attracting FDI have not offered large tax or other incentives and that providing such incentives was not sufficient to attract FDI, if other factors or conditions are not in place more important factors in attracting FDI are good quality infrastructure, low administrative costs in setting and running businesses, political stability and predictable macro-economic policy (Bresser-pereira & Nakano, 2020).

Export Incentives

Export incentives are regulatory, monetary and tax programs that are designed to encourage businesses to export certain goods and services, and are form of economic assistance that governments provide to firms or industries within the national economy, in order to help them secure foreign markets (Onah, Amuka, Asogwa, Onuigbio & Ezeudeka, 2022). The export incentive is any measure taken to reduce the cost of production and increase profit or revenue from export and countries introduce export incentives for different reasons, but the aim is always to improve a country's external trade in order to achieve a favorable external balance (Ahmed, 2015). Export incentives may signify inefficiency in the private production of export goods, and government undertakes to remove the inefficiency through some assistance, these incentives differ from country to country and depend on what a country wants to achieve. Notable among the export incentives always used by countries are export expansion grant, duty drawback, tax waiver, manufacture-in-bond scheme, export rebate and export processing free zone (Munch & Georg, 2018).

Export incentives have been used as a trade promotion tool to manage external sector performance since the first half of the twentieth century (Onah *et al*., 2022). Following a period of unfavorable external trade, the United States introduced the first export incentives in 1942 to promote export trade. The incentives' success in improving America's external trade performance paved the way for other countries to follow. According to Mohamed, Liu, and Nie (2021), governments engage in export promotion in order to increase the flow of foreign exchange into the domestic economy. According to this argument, export incentives increase export growth and foreign exchange inflows, which can help a country's currency value stabilize. Matziouni (2020) confirmed the positive effect of export incentives on export growth in a study. Their research in Estonia provided compelling evidence that export incentives can increase a country's export value and volume.

Nigeria introduced export incentive packages in 1988 in an effort to improve the country's non-oil sector's export performance. Prior to the incentive regime, the country had a long history of current account deficits and external debt. Because the country relied on the oil sector for the majority of its foreign earnings, the drop in international oil prices in the early 1980s had a significant impact on the country's economic downturn. The unexpected oil price shock made it extremely difficult for the country to finance its imports.

Following the World Bank's advice, Nigeria implemented a structural adjustment program in 1986, introducing numerous economic reforms to diversify the country's exports and reduce the country's reliance on oil as the sole source of foreign revenue. As a result, some export promotion policies were implemented to assist exportable commodity manufacturers in competing fairly well in the international market. Export expansion grants, duty drawbacks, export adjustment scheme funds, and manufactures-in-bond schemes were among the incentives introduced at the time.

Further, there are certain export incentives available to you as an exporter in Nigeria. You can export specific goods and services by taking advantage of these financial, tax, or regulatory incentives. We offer incentives to exporters to help them keep their goods competitive on the world market. By the export incentives and miscellaneous legislation, many export incentives for Nigeria were introduced (Nigerian Export Promotion Council, 2021). You gain a number of benefits when exporting thanks to these incentives: You can increase exports more readily by offering financial grants. Your products are more competitive in international markets thanks to the cost of manufacturing support. Greater or faster market penetration is made possible by financial help. A government providing export incentives keep domestic products competitive in the global market. Export incentives can cause an increase the company's export success. Export incentives help the companies to overcome their export barriers. So, it plays a central role in achieving the goals of company while many export incentives such as providing adequate knowledge, fair trade, research, export and education insurance are essential for export companies (Jusufi & Bellaqa, 2019).

Export incentives along with the exchange rate includes the depreciation of the exchange rate, which generally increases the profitability of exports, but runs the risk of leading to more domestic inflation as the prices of essential imports rise simultaneously. Export incentives can be more effective in targeting particular exports, especially emerging and value-added exports. Export incentives persist as the main ingredient of trade policy (Caldara, Iacoviello, Molligo, Prestipino & Raffo, 2020).

Capital Allowance Incentives

Capital allowance is a provision of the tax law as contained in the fifth schedule of Personnel Income Tax Act 2010 as amended (PITA) and Petroleum Industries Act (PIA), as well as second schedule of Companies Income Tax Act 2010 as amended (CITA). Capital allowance is an incentive or a relief granted to taxpayer on qualifying capital expenditure applied for the purpose of its trade or business in lieu of depreciation to encourage further investment in such trade or business and also ensure future replacement of the non-current asset (Nwonyuku, 2019).

The incentive provides for uniform allowances to tax payers, allocating specific fixed rates to specific classes of non-current assets. The capital allowance is applied to the taxpayer's taxable profits to lower the tax due. The plan typically does not apply to assets owned by corporations exempt under section 23 of the CITA 2007 since it is an allowance against taxable profits, and in order to benefit from it, a person must be a taxpayer (Nwonyuku, 2019).

Capital allowances (Schedule II of CITA) are 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 expenditure (QCE) for capital allowance purpose.

However, Nigerian Investment Promotion Commission (NIPC) is working with other agencies of government to increase awareness of investment opportunities in Nigeria amongst investors, to promote investments in Nigeria through accelerated granting of enhanced capital allowance incentive (capital expenditure) to selected sectors of the economy (Daniel & Faustin, 2019).

Capital expenditure is not an admissible expense in earning profits, but capital expenditure often results in the creation of fixed assets, such as plant or machinery, building and so on which are used for the purpose of earning profits; it is only therefore reasonable

to give relief for the purposes of taxation in respect of these items of expenditure. Special allowances usually referred to as capital allowances are designed to provide this form of relief (Oyedokun, Babalola & Awosika, 2020). When a fixed asset is put into use by a business, its value gets eroded as a result of physical wear and tear, the passage of time or as a result of obsolescence because, income tax laws supported and strengthened by accounting practice, do not allow the cost of creating these assets as direct debits or charges against the profit of the business (Oyedokun *et al*., 2020). It therefore becomes reasonable for the taxpayer to set aside some portions of the profit annually with which to replace the asset in question once its usefulness has expired.

There are conditions for granting capital allowances on qualifying capital expenditure, the following conditions must be satisfied: i. the assets must be owned by the person claiming the allowance. ii. the asset must be owned by the person claiming the allowance. iii. the asset must be in use in the trade, business, profession or vocation at the end of the basis period in respect of which a claim is made. iv. the company or person must make a claim for capital allowances to the relevant tax authority v. where applicable, an ‘acceptance certificate’ for the asset issued by the Factory Inspectorate Division of the Federal Ministry of Labour must be produced (Oyedokun *et al*., 2020).

Tax Holiday Incentives

Tax holidays offer exemptions from income tax. Income tax is imposed on tax on the income received. The tax subjects are private persons; bodies consisting of PT, CV, other companies, BUMN and BUMD with any name and form, firms, congregations, cooperatives, pension funds, partnerships, associations, foundations, socio-political organizations, institutions, and other forms of bodies; Permanent Establishment (BUT) consisting of domestic tax subjects and foreign tax subjects (Andriansyah & Nam, 2021). Also, tax holiday incentive is a temporary measure and in most cases the exemptions of administration tax on firms is rendered during holiday seasons (Kandie, 2020). Tax holidays are a common form of tax incentives used by developing countries and countries with economies in transition to attract FDI. Under a tax holiday, qualifying “newly established firms” are exempt from paying corporate income tax for a specified time period (for example; five years). The provisions may exempt firms from other tax liabilities as well. Tax holidays eliminate tax on net revenues from investment projects over the holiday period, which, depending on the case considered, tends to encourage investment. At the same time, tax holidays deny firms certain tax deductions over the holiday period or indefinitely (for instance; depreciation costs and interest expense), tending to offset at least in part any simulative effect.

Tax holidays are viewed as a simple incentive with a relatively low compliance burden (for instance no need to calculate income tax over the holiday period). This aspect tends to make this form of incentive attractive, particularly in countries that are just establishing a corporate tax system. Provisions may impose certain tax-related obligations (for example withholding personal tax from wages or filing income tax returns). For long-term investment projects, investors will often be required to keep records of capital expenditures and other items before and during the holiday period in order to be able to comply with the tax system following the tax holiday. Tax holiday is an exemption from the burden of corporate income tax, or it can also be in the form of reducing the corporate income tax rate for companies that make foreign investments in the country within a certain period (Muhammad & Ivan, 2021).

Tax holiday incentive is granted to pioneer industries in the form of company income tax (CIT) rate reduction based on the industries' main activities. Besides, according to the regulation by Minister of Finance No. 150 the year 2018, the companies will be granted 100 per cent CIT rate reduction for a certain amount of investment and period (Siregar & Patunru, 2021). Tax holidays are available for pioneer products and companies granted licenses for such products. The holiday period covers an initial period of three years, renewable for an additional two years. A new company going into mining of solid materials is exempted from tax for the first three years of operation. A company that engages wholly in the fabrication of spare parts, equipment and tools for local consumption or for export is granted a 25 per cent Investment Tax Credit (ITC) on the cost of fixed assets. A manufacturing company is granted a 15 per cent investment tax credit on the cost of replacement of obsolete plant and machinery in addition to accelerated capital allowances. A company engaged in marketing and distribution of natural gas for commercial purposes, a power plant, a liquefied natural gas production company, a gas to liquid plant, a fertilizer plant, or a company engaged in laying transmission and distribution pipe lines (downstream operations) is granted:

1. A three-year tax-free period, renewable for an additional two years;
2. Accelerated capital allowances at the rate of 90 per cent of plant and machinery after the tax-holiday period;
3. Tax-free dividends, if investment is in imported capital or in plant and machinery with a value of not less than 30 per cent of equity share capital of the company; and
4. VAT exemption for plant and machinery purchased for gas utilization.

Investment Allowance Incentive

Investment allowance as a tax credit permits companies or individuals to deduct a specified percentage of certain investment costs from their tax liability in addition to the normal allowances (capital allowance) for depreciation (Obafemi, Araoye & Ajayi, 2021). Investment allowances are tax deductions based on a percentage of new investment; they are used by the Nigerian government to encourage investment in certain sectors of the economy. According to Oyedele and Erukume (2015), corporate organizations (companies) that incur expenditure on plant and equipment are eligible for a 10% investment allowance. It is based on cost and is granted in the first year that the asset is used.

According to Olaleye, Memba, and Riro (2015), the available investment allowances under the Nigerian tax system are currently as follows: 10% investment allowance on plant and machinery for agricultural businesses; 10% investment allowance on production machinery used by manufacturing concerns; and 15% investment allowance on plant and machinery acquired as a replacement for obsolete ones. There is no restriction to the full claim of investment allowance in any year of assessment for companies in the mining, manufacturing, and agricultural sectors. Manufacturing companies can enjoy incentive up to 15% in investment allowance if the qualifying capital expenditure is for direct replacement of obsolete plant or machinery (Olaleye, Memba & Riro, 2015).

This is provided for qualified capital expenses made on machinery and equipment for commercial purposes. For the initial use of a capital asset that qualifies, this incentive is available once a year. Plant and equipment used in manufacturing, agriculture, and other businesses are subject to a 10% expense claim rate.

In addition to the usual initial and yearly allowances, Ariwodola (2015) optically outlined that an investment allowance is given in the first year after the purchase of an asset (plant and/or machinery) used in industrial and agricultural activities. Investment Allowance

also is an addition allowance which is granted on plant and equipment used for a business at the rate of 10% of the costs. An Investment allowance has the following features: i. it is an additional allowance to both the initial allowance and the annual allowance. ii. it is claimed only once in the year incurred. iii. if claimed but not utilized in any particular tax year, it will not be carried forward because it will be treated as lost. An example is a year in which loss is sustained, because there is no tax liability on a loss (Oyedokun *et al*., 2020).

Tax Incentives and Reinvestment of Earnings

Domazet, Marjanović and Stošić (2018) investigated the attractiveness of the domicile economy through tax incentives in Serbia. The research study approach adopted the quantitative approach using survey technique. The study concluded that foreign investors belonging to production industries value the impact of tax incentives for investing in underdeveloped regions more than those from service industries. The finding is supported by Marjanović, Domazet and Simović (2020) who examined the influence of tax incentives on the business of foreign investors in Serbia. The quantitative approach was employed using the method of questioning, or surveying technique via e-mail. Based on the results obtained it is possible to conclude that tax incentives are very important to foreign investors when choosing Serbia as an investment destination. Further studies are recommended to look into undeveloped countries like Nigeria to investigate tax incentives and FDI proxy by reinvestment in Earnings in manufacturing companies.

Ślusarczyk (2018) examined Tax incentives as a main factor to attract foreign direct investments in Poland. Descriptive statistics were used, while histograms were used to study the symmetry of distributions of particular variables. The result of the conducted considerations indicates that foreign investors frequently and substantially benefit from the incentives offered by the Polish government, which is confirmed by the value of the capital invested by them in the form of FDI. Thuita (2017) conducted a study on “An investigation of the effect of tax incentives on the FDIs: A case of EPZs in Athi River Kenya”. The study utilized descriptive survey design using self-administered questionnaires to solicit information from sampled senior of Export Processing Zones firms. The research concludes that tax incentives should be enhanced towards boosting the growth and expansion of the foreign director investors and that the government should be willing to extend the tax holiday beyond ten years for the firms depending on capital injected on long term basis. More studies is needed in African’s countries like Nigeria on tax incentives and reinvestment of earnings.

Furthermore, Shafiq, Hua, Bhatti and Gillani (2021) investigated on the overview of the impact of tax incentives on foreign direct investment in Pakistian. The study employed multiple regression analysis. The study concluded that despite insufficient findings regarding its effectiveness, tax incentives play a key role in the policy initiatives which are being used to increase their appeal to foreign investors. Again, Bella and Yudianto (2021) examined the impact of tax incentives on foreign direct investment: the case of tax holiday and corporate income tax rates in Indonesia. The type of research used is a quantitative approach and descriptive method. The study results with control variables showed that the tax holiday positively and significantly affects FDI inflows, income tax rates, and trade openness negatively and significantly affects FDI inflows. Prawira, Kustiawan, Putra and Anggrayni (2022) examined the study “Increasing Foreign Direct Investment Flows through Tax Incentives”. The study is based on ASEAN countries. The data in this study was analyzed using panel data regression analysis. The study concluded that tax incentives are not the

main consideration for investors when investing in a country, but there are other factors in African countries that are more considered by investors.

Data and Methodology

Data for the study was collected from the annual reports and accounts of the listed multinational manufacturing companies and tax returns to the federal revenue services.

Operationlisation

Y = Reinvestment of Earnings (RE)

The independent variable is denoted by X, with the following proxies

x_1 = Export Incentives (EI)

x_2 = Capital Allowance Incentives (CAI)

x_3 = Tax Holiday Incentives (THI)

x_4 = Investment Allowance Incentives (IAI)

RE = f(EI, CAI, THI, IAI)……………………………………equation

$RE_{it} = \alpha_0 + \beta_1 EI_{it} + \beta_2 CAI_{it} + \beta_3 THI_{it} + \beta_4 IAI_{it} + \mu_{it}$………………………… Model

Measurement of variables

Table 3.2: Variable Measurements

INDEPENDENT VARIABLE – TAX INCENTIVES				
S/N	**MEASURE / ABBREVIATION**	**EMPIRICAL AUTHORS**	**DEFINITION**	**SOURCE**
1	Export Incentives (EI)	Ugwu (2018).	Total Profit from Export Sales	Secondary
2	Capital Allowance Incentives (CAI)	Tapang, Onodi, and Amaraihu (2018).	Capital Allowance for the year	Secondary
3	Tax Holiday Incentives (THI)	Appiah-Kubi, Malec, Phiri, Maitah, Gebeltová, Smutka, ... and Sirohi (2021)	Pioneer period total profit for the products exempted	Secondary
4	Investment Allowance Incentives (IAI)	Ugwu, Okwa, and Inyang (2020)	Investment Allowance Claimed for the year	Secondary
Control Variable				
1	Firm Size (FS)	Lee, Park, and Namgung (2019)	Total Assets	Secondary
DEPENDENT VARIABLE – FOREIGN DIRECT INVESTMENT				
S/N	**MEASURE / ABBREVIATION**	**EMPIRICAL AUTHORS**	**DEFINITION**	**SOURCE**
1.	Reinvestment of Earnings (RE)	Nwanji, Howell, Faye, Otekunrin, Eluyela, Lawal and Eze (2020).	% Foreign Shareholding multiply by Retained Earnings	Secondary

Source: Researcher's Study 2022

Validity is assured for this research by verification by external authorized auditors and regulatory organization of the Nigerian Exchange Group (NGX).

These financial statements were considered to be suitable and appropriate for public consumption. This is because the data were prepared in accordance with acceptable and relevant financial reporting framework, and their compliance with the guidelines of IFRS, Financial Reporting Council of Nigeria (FRCN) and Companies and Allied Matters Act 2020. Hence, these data were considered reliable and adequate to meet the objective of the study.

Also, to provide required reliability assurance, all the listed companies complied with CAMA 2020 Sections 401- 404 by subjecting their financial statements to statutory audit by independent Auditors. The Financial Reporting Council of Nigeria too certified the compliance with relevant standards and code of corporate governance. Finally, the Central Bank of Nigeria equally approved the data for use by various financial statements users.

Result Analysis and Discussion

Research Objective: examine the effect of tax incentives on reinvestment of earnings in manufacturing companies listed in Nigeria

Research Question: What effect do tax incentives have on reinvestment of earnings in manufacturing companies listed in Nigeria?

Research Hypothesis: There is no significant effect of tax incentives on reinvestment of earnings in manufacturing companies listed in Nigeria.

Table 4.1: Regression and Post-Estimation Results for Hypothesis Two

MODEL TWO				
Pooled OLS Regression with Cluster standard errors				
Variable	Coeff	Std. Err	T-Stat	Prob
Constant	-9.32	4.18	-2.23	0.03
EI	-6.17	2.54	-2.43	0.02
CAI	2.45	0.31	7.91	0.00
IAI	68.83	2.19	31.49	0.00
Adjusted R^2	0.87			
F-Stat	F(3,246) = 560.17 (0.00)			
Hausman Test	$chi^2_{(3)}$ = 167.81 (0.00)			
Testparm	F(9, 213) = 1.04 (0.41)			
Heteroskedasticity Test	$chi^2_{(1)}$ = 2082.82 (0.00)			
Serial Correlation Test	$F_{(1, 24)}$ = 151.05 (0.00)			

Dependent Variable: RE **@5% significance level**
Source: Researcher's Work (2023)

Notes: Table 4.4 reports System General Method of Moment (SGMM) regression results of the effects of tax incentives on reinvestment of earnings. The dependent variable is reinvestment of earnings. The independent variables are export incentives, capital allowance incentives and investment allowance incentives. ** Significant at 5%

Interpretation
Pre and Post Estimation Results

In determining the best estimating technique among Random effect, Fixed effect and Pooled OLS, the Hausman test was carried out. The Hausman test statistics of 167.81 with a probability value of 0.000 per cent is statistically significant, thus, the study rejects the null hypothesis of random effect model and accept the alternate hypothesis of fixed effect model. To confirm that the fixed effect model is appropriate a fixed effect test called the Testparm were conducted. The testparm statistic of 1.04 and probability value of 0.41 was statistically insignificant. This implies that the null hypothesis of Pooled OLS was not rejected and the alternate hypothesis of fixed effect model was rejected

After determining the most appropriate model to be interpreted, the study carried out two diagnostic tests applicable to panel study, which are heteroscedasticity test and

serial correlation test. The heteroskedasticity test statistic of 2082.82 with a probability of 0.000 per cent is statistically significant, thus providing evidence that the variance of the error term is heteroscedastic. Thus, rejecting the null hypothesis of homoscedasticity and accept the alternate hypothesis of heteroscedasticity. The Wooldridge test for autocorrelation was also examined to detect the possibility of autocorrelated residuals of the estimated model, the results showed that the F-statistic of 151.05 with a probability of 0.000 is statistically significant. Thus, rejecting the null hypothesis of non-autocorrelation and accept the alternate hypothesis of autocorrelation.

However, due to the presence of both the heteroscedasticity and serial correlation problem in the estimated model, the Pooled OLS model with cluster option was used for model two to correct for the heteroscedasticity and autocorrelation problem in the estimated model.

Regression Equation Results

$REE_{it} = \alpha_0 + \beta_1 EI_{it} + \beta_2 CAI_{it} + \beta_3 IAI_{it} + \varepsilon_{it}.$

$FES_{it} = -9.32 - 6.17EI_{it} + 2.45CAI_{it} + 68.83AI_{it}$

t-test = -2.23 -2.43 7.91 31.49

Interpretation of Results

From the results in Table 4.4, there is evidence that export incentives have a negative relationship with reinvestment of earnings. The nature and the extent of the effect of each of the measures of the explanatory variables on the dependent variable (RE) are shown in the values of the coefficients. The coefficient values revealed that EI negatively impact RE ((EI= -6.17, t-test= -2.43, $p < 0.05$) indicating that an increase in the value of export incentive would yield ₦6,170 decrease in Reinvestment in Earnings. This implies that export incentives is a significant factor influencing changes in reinvestment of earnings of the selected listed manufacturing companies in Nigeria.

Capital allowance incentive has a positive relationship with reinvestment of earnings, thus increases in capital allowance incentives will lead to increase in reinvestment of earnings, However, as CAI increases by 1 Naira, the Reinvestment in Earnings would increase by ₦2,450 (CAI: $\beta = 2.45$). The results revealed that capital allowance incentives have significant relationship with the reinvestment of earnings of the selected listed manufacturing companies in Nigeria (CAI = 2.45, t-test= 7.91, $p < 0.05$). This implies that capital allowance incentives is a significant factor influencing changes in reinvestment of earnings of selected listed manufacturing companies in Nigeria.

In addition, the results revealed that investment allowance incentives have positive relationship with reinvestment of earnings, thus, Investment Allowance Incentives exerted positive effect on Reinvestment in Earnings (IAI: $\beta = 68.83$) meaning that a Naira increase in the value of IAI would yield ₦68,830 percent increase in Reinvestment in Earnings of the selected listed manufacturing companies in Nigeria.

Concerning the significance of the estimated parameter, there is evidence that investment allowance incentives have significant relationship with the reinvestment of earnings of the selected listed manufacturing companies in Nigeria (IAI = 68.83, t-test = 31.49, $p < 0.05$). This implies that investment allowance incentives is a significant factor influencing changes in the reinvestment of earnings of the selected listed manufacturing companies in Nigeria

The Adjusted R^2 which measure the proportion of the changes in the reinvestment of earnings as a result of changes in the export incentives, capital allowance incentives and investment allowance incentives explains about 87 per cent changes in the reinvestment of

earnings of the selected listed manufacturing companies in Nigeria, while the remaining 13 per cent were other factors explaining changes in the reinvestment of earnings of the selected listed manufacturing companies in Nigeria but where not captured in the model.

The model's overall fit is indicated by the F-test, which tests the null hypothesis that all coefficients in the model are zero. In this case, the F-test is significant at the 1% level, indicating that the model as a whole is a good fit for the data. Alternatively, the F-test statistic of 560.17 with a probability value of 0.000 implies that export incentives, capital allowance incentives and investment allowance incentives were joint significant factors influencing changes in the reinvestment of earnings of the selected listed manufacturing companies in Nigeria

Decision

At 5% level of significant and degree of freedom of 3, 246, the F-Statistic of 560.17 is statistically significant at 0.05 significance, this implies the null hypothesis that there is no significant effect of tax incentives on reinvestment of earnings in manufacturing companies listed in Nigeria was rejected and that the alternate hypothesis that there is significant effect of tax incentives on reinvestment of earnings in manufacturing companies listed in Nigeria accepted.

Discussion of Findings

The outcome of this study suggest that improved capital and investment allowance incentives are positive enablers of reinvestment of earnings in manufacturing companies listed in Nigeria. However, export incentives significantly undermine the reinvestment of earnings in manufacturing companies listed in Nigeria. Similar findings are also reported in the literature. For instance, Domazet, Marjanović and Stošić (2018) investigated the attractiveness of the domicile economy through tax incentives in Serbia. The study concluded that foreign investors belonging to production industries value the impact of tax incentives for investing in underdeveloped regions more than those from service industries. The finding is supported by Marjanović, Domazet and Simović (2020) who examined the influence of tax incentives on the business of foreign investors in Serbia. Based on the results obtained it is possible to conclude that tax incentives are very important to foreign investors when choosing Serbia as an investment destination. Further studies are recommended to look into undeveloped countries like Nigeria to investigate tax incentives and FDI proxy by reinvestment in Earnings in manufacturing companies. This is also similar to Ślusarczyk (2018) examined Tax incentives as a main factor to attract foreign direct investments in Poland. The result of the conducted considerations indicates that foreign investors frequently and substantially benefit from the incentives offered by the Polish government, which is confirmed by the value of the capital invested by them in the form of FDI.

The implication of this is that without controls, tax exemption is likely to result in substantial revenue losses, but enforcement of controls may entail high administration costs. It is not enough to verify that earnings have been retained; it is also advisable to see that they are properly invested within the specified period. Since the funds available for business investment flow not only from earnings but also from other internal and external sources, such a provision raises many problems.

One problem is the identification of funds made available from earnings as distinguished from depreciation allowances and external loans or sale of business assets. Can it reasonably be assumed, for example, that new investment is financed first from earnings rather than from depreciation allowances? This problem is further complicated when the investment is not all made immediately but is completed over a period of time, or, indeed, is deferred for 2 or more

years. In countries with high interest rates, businesses may take advantage of reinvestment allowances in order to defer payment of income taxes, even at high penalty rates for failure to invest the funds in new plant and equipment. One way of meeting this problem is to require the temporary investment in government securities of an amount of funds equal to earnings, as Uruguay does. It would appear much simpler and more logically correct, however, to provide a system of investment allowances, or credits, based on the amount of investment in qualified assets.

Also, Shafiq, Hua, Bhatti and Gillani (2021) investigated on the overview of the impact of tax incentives on foreign direct investment in Pakistian. The study concluded that despite insufficient findings regarding its effectiveness, tax incentives play a key role in the policy initiatives which are being used to increase their appeal to foreign investors. Again, Bella and Yudianto (2021) examined the impact of tax incentives on foreign direct investment: the case of tax holiday and corporate income tax rates in Indonesia. The study results with control variables showed that the tax holiday positively and significantly affects FDI inflows, income tax rates, and trade openness negatively and significantly affects FDI inflows. Prawira, Kustiawan, Putra and Anggrayni (2022) examined the study how increasing foreign direct investment flows through tax incentives is achieved in ASEAN countries.

Conclusion and Recommendations

The study concluded that reinvestment of earnings reacted in different pattern to different tax incentives, however, overall it was observed that tax incentives exert significant effect on earnings reinvestment, the study also observed that export incentives is inversely related to earnings reinvestment, tax authorities should therefore focus on specific tax incentives that drives expansion. Tax incentive policies should be industry specific and continuous interrogation of tax incentives policy is needed time to time to be able to carry out proper evaluations, action plan and adjustments.

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