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PIONEER STATUS INCENTIVES AND FINANCIAL PERFORMANCE OF LISTED AGRIBUSINESSES IN NIGERIA

Nwanyanwu, Kingdom Uchenna*[1] and Uzoma, Chidoka Nnamaka*[2]

[1]Department of Accounting, Faculty of Business Studies, Ignatius Ajuru University of Education, Port Harcourt, Nigeria
([*]Corresponding author E-mail: nwanyanwuku@gmail.com)
[2]Department of Accounting, Faculty of Business Studies, Ignatius Ajuru University of Education, Port Harcourt, Nigeria. E-mail: chidoka1@yahoo.com)

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Abstract

This study investigated the relationship between Pioneer Status incentives and financial performance of listed agribusinesses in Nigeria. There are divergent views among scholars as to the benefit of the Pioneer Status incentives. This study sought to evaluate the relationship between the independent variable, Pioneer Status incentives, proxied by tax holiday, and the dependent variable, financial performance, measured by net profit margin and return on equity of listed agribusinesses in Nigeria. Primary data were obtained from the published audited financial statements of the five listed agribusinesses in Nigeria, according to the records of the Nigerian Stock Exchange. The data were collected and analysed with the aid of the Statistical Package for Social Science (SPSS). Specifically, descriptive statistical tools were used to assess the frequency of the study variables. To test the null hypotheses, regression analyses were performed to determine the effects of the explanatory variable on the dependent variables. It was established that tax holiday has a direct positive relationship with net profit margin and return on equity of listed agribusinesses in Nigeria. The study recommended that the Nigerian government should continue to strengthen its tax policy to properly administer the Pioneer Status incentives to companies in the agribusiness sector in Nigeria. And that other militating factors such as poor infrastructural development and power supply should be addressed so that the full benefit of the Pioneer Status incentives can be enjoyed.

Keywords: Agribusinesses, Pioneer Status, tax holiday, net profit margin, return on equity.

1. INTRODUCTION

Tax collection is a necessity for the government because it is one of the major ways it raises revenue. The unavailability of funds may hinder governments from executing projects that individuals alone cannot implement. Therefore, individuals and organisations that generate revenue are required to pay taxes, while those without income also have the right to enjoy the results of the applications of tax revenues through the provisions made available for everyone (Fakile & Uwaigbe, 2013). As a part of its fiscal policy aimed at promoting indigenous investments in Nigeria, it became necessary that the government put tax incentives in place so that local manufacturing companies can grow, expand, and reduce the number of imported goods by their ability to produce goods in large quantity locally. The Nigerian Investment Promotion Commission Act established the Nigerian Investment Promotion Commission (NIPC) to encourage, promote and coordinate investment in Nigeria. The NIPC provides services necessary to issue permits, licenses, authorisations, and incentives to companies in the country.

Fiscal incentives in Nigeria have been in existence for decades and still very much available today (Fowowe, 2013). "There are various forms of tax incentives. These incentives are expected to bring about investment growth and eventually a better and stronger economy. These incentives are used to stimulate and attract both foreign and internal investment in choice sectors of the economy, and they include pioneer status (tax holiday). This is a tax incentive that exempts qualified companies in certain industries and service sectors from paying the company's income tax in the early years so that they can make a significant profit for reinvestment in the business. It is expected that granting fiscal incentives such as tax holidays to genuine manufacturing companies would not only bring back ailing industries to life but will also provide employment opportunities for millions of youths who are either underemployed or idle."

In their submission, Uche and Demilade (2020) admitted that the Nigerian agricultural sector is full of huge investment opportunities along the value chain, for both domestic and foreign investors, with the government's current policy of making the sector a viable economic base. The Pioneer Status Incentive is a tax incentive that is granted to support eligible business entities through a tax exemption for a given period that can be extended. Companies that cultivate, produce, and process agricultural products, as well as engage in other activities in the agricultural value chain, are granted pioneer status with corresponding tax exemption. Dividends paid by the pioneer company during the tax holiday period are tax exempt. It is encouraging to know that companies in the agro-allied sector are ranked as pioneer companies. This is very important in view of the place the agro-allied sector now occupies in the Nigerian economy.

Financial performance is key to the sustenance, stability, and survival of every business entity. As a result of this, the government charges less tax and gives tax holidays to encourage investments and economic activities in those areas which help to improve production capabilities, activate economic growth as well as the allocation of resources in a manner that is considered socially desirable. However, Organisation for Economic Cooperation and Development (OECD, 2007), in its research on tax incentives for investments in the Middle East and North Africa (MENA) and Non-MENA countries, established that generous tax incentives cannot compensate for a poor business environment. Consequently, most tax incentives offered will mainly erode the tax base, resulting in low tax revenues rather than increase the flow of investments to a country. The study pointed to Mauritius, Costa Rica, Ireland, and Malaysia as outstanding examples of countries that attracted investments without giving tax breaks.

Some other studies have been conducted to ascertain the relationship between tax incentives and financial performance of companies in various sectors. For example, Otumba (2005), investigated the relationship between tax incentives and financial performance of small and medium scale enterprises (SME) in Accra, Ghana. The study found that tax incentives measures were used to stimulate SME performance. This led to improved profitability. The identified research gap is that the study focused on SMEs in Ghana, not on listed Agribusinesses companies.

The findings of Abdulrahman and Kabir (2017) revealed that the tax incentives granted were not sufficient enough to sustain the desired development for which it was granted. The identified research gap is that the empirical study focused on four different incorporated industries and selected firms in Jos, Plateau State. not on listed Agribusinesses companies in Nigeria.

Fernando (2009) found a relationship between tax incentives and the performance of the oil sector. Coleman (2008) found a significant relationship between tax incentives and corporate financial performance. The Mayende (2013) found that firms with tax incentives performed better in gross sales and value-added than their counterparts.

With all the laudable fiscal incentives available in Nigeria, there continue to be many ailing industries in the country. One of the factors noticed include unfavourable operating environments as a result of a deficiency in infrastructural development. To make up for this and many other factors, the government provided tax holidays for qualifying companies in some selected industries. All the research work discussed above focused on other sectors, not on agribusinesses in Nigeria. This constitutes a research gap. This research work intends to fill this identified gap by investigating the relationship between Pioneer Status incentive (proxied by tax holiday) and financial performance (as measured by net profit margin and return on equity) of listed agribusinesses in Nigeria.

RESEARCH HYPOTHESES

To guide this study, the following null hypotheses were formulated:

Ho1: There is no significant relationship between tax holiday and net profit margin of listed agribusinesses in Nigeria.

Ho2: There is no significant relationship between tax holiday and return on equity of listed agribusinesses in Nigeria.

2. LITERATURE REVIEW

2.1. Conceptual Review: Pioneer Status Incentives (Tax Holiday)

As Brodzka (2013) posited, with tax holidays, new companies are exempted from the burden of income taxation for a certain period. Sometimes this grace period can be extended to a subsequent period of taxation at a reduced rate. Klemm (2009) viewed tax holidays as temporary exemption of a new firm or investment from certain specified taxes, typically at least corporate income tax.

Tax holidays, according to the United Nations Conference on Trade and Development (UNCTAD, 2000), are a common form of tax incentives used by developing countries and countries with economies in transition to attract foreign direct investment. Under a tax holiday, qualifying "newly established firms" are exempt from paying corporate income tax for a specified period (e.g. five years). The provisions may exempt firms from other tax liabilities as well.

According to United Nations Conference on Trade and Development (UNCTAD, 2000), in Nigeria, tax holidays are available for pioneer products, and companies licensed 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. In most countries, tax holidays are granted to newly created projects. If the activity is carried out by an existing company, the project eligible for tax exemption must be maintained as a separate entity. The holiday lasts for a given number of years, after which the company begins paying taxes. Pioneer status may permit foreign nationals to own land or domestic companies and provide full or partial relief from corporate income taxes, business taxes, and import duties, and from withholding taxes and personal income taxes on dividends.

Brodzka (2013) submitted that tax holidays have an important advantage as they provide a simple solution for foreign investors – within such a regime there is no need to calculate taxes in the early years of operation, at a time when the tax systems are not yet fully developed. As a consequence, investors perceive tax holidays as a simple incentive with a relatively low compliance burden. This perception tends to make this form of incentive attractive, particularly to countries that are only at the start of establishing a corporate tax system. A tax holiday may also be targeted at new business entities in a specific region and/or industry sector.

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 (e.g. depreciation costs and interest expense), tending to offset at least in part any stimulative effect (UNCTAD, 2000), Sometimes administrative requirements are also waived, notably the need to file tax returns. Partial tax holidays offer reduced obligations rather than a full exemption. Tax holidays and geographically-confined tax incentives are usually used to encourage foreign direct investment and to foster the creation of new activities and jobs in designated sectors. Yet, there is no assurance that such policy measures will meet governments' expectations. These incentives often generate large revenue losses and administrative and welfare costs for the government Although a company qualifying for a tax holiday must file an income tax form, the qualifying activity is taxed at a zero or lower-than-standard rate (nonholiday activities remain taxed). If the firm has a taxable loss, it may be allowed to carry it forward to apply to post-holiday income (Klemm, 2009).

As contained in the revised National Tax Policy (2017), Pioneer Status is a fiscal incentive that qualifies a company for a tax-holiday period of three to five years, during which it enjoys full tax exemption on profits derived from a particular line of business. Capital expenditure on qualifying assets incurred during the tax relief period is treated as having been incurred on the first day following the tax-relief period. Losses incurred during the period are deemed to be incurred on the first day following the tax relief period and are available for carrying forward indefinitely. Also, dividends paid out of pioneer profits are tax-free in the hands of the shareholders of the company. The agriculture and agro-allied sector in Nigeria enjoy Pioneer Status with attendant tax exemption to all companies operating therein. Processing of agricultural produce is a pioneer industry; consequently, there is a 100 percent tax-free period for 5 years or projects into the processing of agricultural produce.

Holland and Vann (1998) described some dark sides of tax holiday, stating that several transition countries have experienced serious unexpected shortfalls in revenues during the transition period, caused partly by tax holidays as they provide avenues for firms to arrange their affairs to avoid paying taxes on income ordinarily subject to taxation. Similarly, OECD (2007), pointed out several drawbacks or disadvantages of tax holidays. Such disadvantages include that it discriminates between old and new investments, denies certain tax deductions such as interest expenses and depreciation costs, over the tax holiday period, and that amount of relief depends on starting period of holiday and treatment of losses

Tax holidays have been particularly susceptible to tax planning, much of which is especially problematic for taxation authorities. Tax planning can lead to significant income leakage, which can exceed the foregone incentive income received for legitimate activities. This result further reduces the benefits of tax incentives. Tax avoidance strategies are often used in combination with fictitious foreign investment. Tax holidays in many countries target companies with a sufficiently high percentage of foreign ownership. It appears that significant tax revenues have been lost through the creation of fictitious foreign-owned companies that continue to operate locally in the country. One way they do this is to transfer funds from a domestic company to an offshore company which, in turn, reinvests in the home country as if it were a foreign-owned company. This way, such investment is considered eligible for the incentive (Holland & Vann, 1998).

Furthermore, as Johnson and Toledano, (2013) pointed out, tax holidays risk attracting investment types that are relatively less beneficial for the economy in terms of spill-over effects through backward linkages. Projects that are aimed at specific skills, resources, or market characteristics are less responsive to tax policies than efficiency-seeking investment projects, which are usually of the more footloose, export-oriented kind with fewer potential spill-over eûects. Tax holidays also provide opportunities for abuse and tax avoidance. As companies are usually not audited during a tax holiday there are opportunities for tax avoidance by shifting proûts from audited and taxed enterprises to ones beneûting from the holiday through transfer pricing. (Zee, Stotsky, & Ley 2002; Fletcher 2002)

Although OECD (2007), mentioned the advantages of tax holidays include reduction in tax liabilities, relative low compliance costs, and it is simple to administer, the existence of a tax exemption introduces the possibility of transferring earnings from activities that do not qualify for the tax holiday to a company that does. For example, a domestic company may transfer a small part of its business to a joint venture with a foreign-owned company; the joint venture is eligible for the incentive; the original domestic company transfers revenue to the joint venture by manipulating the allocation of costs and charges on transactions between the companies, such as the domestic company selling intermediate products to the joint venture at a price that causes the total profit from the transaction to arise at the joint project. Other costs, such as financing costs, can be borne by the domestic company on behalf of the joint venture. These types of transactions are difficult for tax authorities to detect and even more difficult to successfully challenge.

Holland and Vann (1998) argued that tax holidays also jeopardise the revenues of neighbouring jurisdictions. Exporting companies would normally pay taxes on their profits from sales in the country. However, if these companies establish transshipment companies in a neighbouring state that offer a tax exemption to buy the goods from the exporting company and then sell them to the actual buyer in the destination country, they can avoid taxes through transfer pricing. To achieve this, the merchandise is sold at cost to the transshipment company so that all profits from the sale are transferred to this company in order to protect it from taxes through tax holidays. As UNCTAD (2000) opined, tax holidays are viewed as a simple incentive with a relatively low compliance burden, for example, there is 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. For long-term investment projects, investors will often be required to keep records of capital expenditures and other items prior to, and during the holiday period in order to comply with the tax system following the tax holidays.

Tax holidays may be prescribed by law and automatically assigned if certain conditions are met. Alternatively, the rights are at the discretion of the respective authorities. Discretionary tax holidays can be granted when certain requirements are met, but It can also be part of various concession agreements between the investor and the developing country. Tax holidays are targeted at types of investment which the developing country views as desirable. The incentive can target new investments in general, investments in specific sectors or industries, or investments in underdeveloped regions in the country. Tax holidays can also be offered to investors that carry out specific activities or at companies that meet certain criteria, e.g. in relation to the size or the nature and importance of the investment project.

2.1.1. The Pioneer Legislation in Nigeria

According to Federal Inland Revenue Services (FIRS, 2012), one of the fiscal incentives available to industries in Nigeria is tax holiday, which grants tax-free periods to companies in the industries that meet the conditions of being designated Pioneer industries. The Federal Executive Council may declare any industry as a pioneer industry and its products pioneer products if the following conditions are met:

> (1). "Any Industry that is not being carried on in Nigeria on a scale suitable to the economic requirements of Nigeria, or at all, or there are favourable prospects of further development in Nigeria of any industry"; or (2). "It is expedient in the public interest to encourage the development or establishment of any industry in Nigeria by declaring the industry to be a Pioneer industry and any product of the industry a pioneer product."

To apply for the grant of this status, the application must be on the prescribed forms duly signed and accompanied with a fee of a hundred naira. FIRS (2012), stated that the application should state the grounds on which it relies and indicate:

i) "Whether the company or proposed company is indigenously controlled. ii). Particulars of the assets on which capital expenditure will be incurred, stating their sources and costs as at or before production day; and during a period of three years following production day. Such particulars should also include where the assets are to be situated and the probable date of production. iii). Any product and by-product (not being a pioneer product) to be produced, stating reasonable estimate of volumes and values of such product and by-product, during a period of first twelve months from the production day, that is when production in commercial quantity commences. iv). Particulars of loans and share capital (or proposal in this regard) and the source from which capital is to be raised or has been raised. v). For a company already incorporated, give name, address, and the nationality of each Director and their respective shareholdings; and for a proposed company, the names, addresses, and the nationality of each promoter of the company. vi). Qualifying capital expenditure incurred during the pioneer period is deemed to have been incurred on the day immediately after the pioneer period for capital allowance" (Olatunji *et al,* 2001).

2.1.2 Cancellation of Pioneer Certificate

Akinyomi and Akinyomi (2011) admitted that the Council reserves the right to cancel Pioneer certificate issued to any company under the following situations:

1) Where the production day has been certified as a date which is more than one year later than the estimate thereof given the company's application for a pioneer certificate, except the Council is satisfied that the delay is due to causes outside the control of the company or to other good and sufficient cause. 2). Where it comes to light that the qualifying capital expenditure incurred on or prior to the production day is less than fifty thousand Naira for an indigenously controlled firm and one hundred and fifty thousand Naira in any other case. 3). The pioneer company concerned applies for the cancellation of the certificate. 4). The pioneer company has contravened any other provision of the Industrial Development Act or has failed to fulfill any estimate or proposal made in its application for a pioneer certificate or any condition contained in its pioneer certificate.

2.1.3 Advantages of Pioneer Status (Tax Holiday)

ICAN (2006) submitted that the following are among the benefits of the pioneer status in Nigeria:

A) A company holding a pioneer certificate shall be on tax holiday for a period stated on the certificate. The relief is given by way of complete exemption from income tax during the period covered by the pioneer certificate. This is usually for a period of three years at the first instance commencing on the production day. B). Pioneer status stimulates economic development in industry and trade so essential products are made available to the populace. C). It provides an investment incentive to corporations whether domestic or foreign and in the case of the latter, paves way for the inflow of foreign equity capital. D). It enhances employment opportunities since more companies will take advantage of the pioneer income tax relief, there will also be more entrants to the industries. E). It enhances the inflow of foreign exchange and consequently helps to stabilize the exchange rate. F). It allows for carry forward loss reliefs and capital allowance on qualifying capital expenditure. G). The retrospective operation of pioneer provisions allows pioneer certificate to operate from a prospective date such that any taxes already paid which would not have been paid if the pioneer certificate had been issued on a retrospective date will be refunded to the company within a stipulated period. If the company pays dividends out of profits earned during the period, such dividends will be exempted from tax in the hands of the recipients.

2.1.4. Rules Applicable to Pioneer Companies in Nigeria

The following rules apply to pioneer companies in Nigeria as enumerated by FIRS (2012):

A) Where the government approves an application made on behalf of a proposed company, the company must be incorporated within four months of approval. B). An application must be submitted to the Board of Inland Revenue within one month of the grant of pioneer certificate of its qualifying expenditure. C). A pioneer company must not carry on any business different from its pioneer enterprises, where it does, the income derived therefrom shall be subject to tax. This is to say that any profit earned by a pioneer company from any operations or activities whatsoever other than its pioneer enterprises shall be deemed to be derived from Nigeria and shall be liable to tax. D). A pioneer company should not grant any loan unless permission has been granted by the Ministry. E). In calculating the allowable business loss, only a reasonable amount of directors' fees, interest, or expenses paid to shareholders or anyone controlled by them will be allowed as a deductible for income tax purposes. F). A pioneer company can only carry losses that exceed the sum of all its profits, while the net losses thus calculated are considered to have occurred on the first day after the tax holiday. G). The allowance in respect of all qualifying capital expenditure incurred during the tax-free period may only be relieved against trading profits arising after the holiday period. H). Dividends may not be distributed more than a certain balance on the profit and loss account. This account is described as an account to which profits exempt from tax are credited as well debited with the dividend also exempted from tax and bonus issues to shareholders. I). Any profits on the statement issued by the Board in respect of the income of a pioneer company for each of the assessable profits of the pioneer company for any year of assessment and shall be exempt from tax under CITA (2007). J). During its tax relief period, a pioneer company shall:

- not make any distribution to its shareholders by way of dividend or bonus, above the amount by which the account maintained for the exempt profits is in credit at the date of such distribution;
- not grant any loan without first obtaining the consent of the Minister. The consent of the Minister shall only be given if he is satisfied that the pioneer company is obtaining adequate security and a reasonable interest for any such loan.

2.1.5. Tax Holiday and Conditions of Extension

Once a company a pioneer certificate it is entitled to enjoy a tax holiday which begins on the production day and continues for the first three years. Which is subject to an extension either for a period of one year and thereafter for one year, or one period of two years.

As stipulated by Industrial Development (Income Tax Relief) Act Cap 17 LFN 2004, the conditions for extension are as follows:

1) The company must apply in writing to the Federal Inland Revenue Board (the Board). 2). The application must be made within one month after the expiration of the initial tax relief period or any extension thereof. 3). The application shall contain particulars of all capital expenditure incurred by the company by the required date.

Akinyomi and Akinyomi (2011) indicated that the Act provided that before granting extension to pioneer company, the Board shall be satisfied that:

a) The rate of expansion, the standard of efficiency, and the level of development of the company. b). The relative importance of the industry to the economy. c). The need for extension having regard to the location of the industry. d). The implementation of any scheme; for the utilization of local raw materials for the processes of the company, and the training and development of Nigerian personnel in the relevant industry. e). Any other matter as the need may be.

2.1.6. Certificates Associated with Tax Holiday

i) A pioneer certificate is issued by the National Council of Ministers. ii). The production day certificate is issued by the Inspectorate Division of the Federal Ministry of Industries. iii). The certificate of qualifying capital expenditure is issued by the Federal Inland Revenue Service. iv. After obtaining all the certificates, after a period not exceeding thirty days, the company shall notify the Federal Board of Inland Revenue in what respect the proposals and estimates in his application have not been fulfilled. v). A pioneer company may apply to the Minister for its pioneer certificate to be amended under the following conditions:

   a. The application must be in writing
   b. It must state any additional products or by-products to be included in the certificate; and
   c. Give reasons why the application is being made.

Upon the approval by the Council of the application for amendments, it shall amend the pioneer certificate of such company in such terms and conditions as may be specified by the Council. Tax Implication of Pioneer Status and Accounting Dates If a company continues to carry on the same business during and after the pioneer period, it means the following will be implied:

1) The trade or business developed by the pioneer company is deemed to be permanently discontinued at the end of its tax exemption period. 2). With respect to that trade or business, the pioneer business is deemed to have established and commenced a new business the day after the end of the tax holiday period. 3). The pioneer company must account for its old trading or business activities for the following: a period not exceeding one year from the date of manufacture; consecutive periods of one year thereafter; and a period of up to one year ending on the dates your tax credit period ends. 4). The closing figures regarding the assets and liabilities of the pioneer company as shown in the last accounts relating to its tax relief period will be the opening figures for the accounts of the new activity of the company, deemed to start after the firm's tax relief period.

2.1.7. Parameters for Accessing Pioneer Status by Companies

According to CBN (2013), the Nigerian Investment Promotion Commission considers the following parameters, among others in granting pioneer status to companies.

Employment Generation: Job creation is one of the key criteria in processing pioneer status for any prospective investors. The company is expected to provide jobs, show evidence for capacity building, transfer of technology, and boost entrepreneurship and investment in the economy.

Value Addition: The value addition a business creates in the production process is weighted and scored in the granting of pioneer status. The higher the value addition, the more acceptable in the issuance of pioneer status.

Local Content: this is the promotion of value addition in Nigeria through the use and application of local raw materials, products, and services to stimulate the growth of indigenous capacity.

Corporate Social Responsibilities: is the potential that a company would contribute to sustainable development and make its impact felt in the community in which it operates.

Investment in economically disadvantaged areas: this attracts a 100 percent tax holiday for seven years. Such a company is also entitled to a 5 percent depreciation allowance in addition to the initial capital depreciation allowance.

2.1.8. Tax Holiday Application- Matters Arising

The Nigerian Investment Promotion Commission recently released Pioneer Status Incentive Regulations which took effect from 30th January 2014. The Regulation provided some additional conditions to be met by companies that want to apply for pioneer status.

According to Oyedele, Erikume, and Baba (2014), there is an additional requirement that is very prominent. It is a service charge of 2 per cent of estimated tax savings to be paid to the Nigerian Investment Promotion Commission. This new regulation provides that the company seeking to attain Pioneer Status must apply. There are prerequisites:

- That it must be a body corporate registered in Nigeria and
- That it must have incurred capital expenditure of not less than N10 million.

After the form is filled, it will be submitted along with other requirements listed such as a relevant regulatory license to operate in the chosen sector of the applicant's business entity and a copy of the Nigerian Investment Promotion Commission registration certificate. It must be noted that the application form before this time, costs 40,000 Naira but is now free. The application form will also be submitted along with a non-refundable fee of N200,000 which, before this time, was N100,000 only.

As Oyedele, Erikume, and Baba (2014) noted above, the applicant company is expected to pay 2 percent of its estimated tax saving, which will be derived from the company's projected profit for the next five (5) years. Where a company records a loss in its projection, the service charge will be calculated on the higher of any of the following:

i) 0.5 percent of its net assets or ii). 0.25 percent of its turnover

This charge indicates that the pioneer status currently places a financial burden on a company that is expected to operate tax-free for the period it is granted the Pioneer Status. That the fee will be charged regardless of projected loss means that the tax holiday is actually not free. There is also another aspect to it. The regulation did not specifically determine how the financial projection will be arrived at. Leaving this to the discretion of the company will simply create a loophole for them to be conservative with their projected profits.

After the 2 percent of the company's estimated tax savings which is derived from its financial projection, a notification letter, accompanied by an invoice will be issued to the applicant company by the Nigerian Investment Promotion Commission within two days of the determination of the service charge to the company. When the company presents evidence of payment of the invoice amount, then and an approval letter will be issued to the applicant company. this letter of approval must be presented to the Industrial Inspectorate Division (IID) of the Federal Ministry of Industry Trade and Investments. This will enable them to process the company's Production Day Certificates. These Production Day Certificates issued by the IID, in addition to the approval letter will then be presented to the Nigerian Investment Promotion Commission before a Pioneer Status Certificate will be issued (Oyedele, Erikume, & Baba, 2014).

2.2. Theoretical Framework: The Stakeholder Theory

Stakeholder theory was first described by Freeman (1984), It suggests that shareholders are merely one of many stakeholders in a company. Freeman's theory opines that a company's real success is determined by its ability to satisfy all its stakeholders, not just those who might profit from its stock. It emphasizes the inter-relationship between business and all those who have a stake in it, such as customers, employees, suppliers, investors and the community. Studies by Pearce (1982), Freeman (1984), Hill and Jones (1992) defined stakeholder theory that suggests that companies are part of a large society. Jensen (2001) submitted that traditional stakeholder theory argued that the managers of the firm should take account of the interests of all stakeholders.

The stakeholder theory is the anchor theory of this research. It applies to this research because it focuses on what the government, as a stakeholder, does to affect the financial outcomes of companies in the agro-allied sector in Nigeria. The management of those companies has a responsibility to act ethically and responsibly towards the government by contributing to national development when it is in their position to do so. Managers who wish for their firms to reach their full potential will take the interests of the stakeholders into account. This is where studies on how businesses, government, and other stakeholders interact with each other must be considered. By granting numerous tax holidays to agribusinesses, the government has been showing interest in and willingness to stimulate the growth of the sector. Agribusinesses in return have the responsibility of considering the interests of the government as well, and not just the monetary interests of the owners or shareholders.

2.3. Empirical Review

Olaleye, Riro, and Memba (2016) conducted a study intended to find out if tax holidays encourage the inflow of foreign direct investment. The results indicate that majority of the respondents agreed that tax holidays encourage the inflow of foreign direct investment. In the study carried out by Oyetunde (2008), findings indicate that tax holidays are attractive to investment authorities in developing and transition economies with rudimentary corporate tax systems given their ease of administration.

On the contrary, Klemm (2009) conducted a study on how tax incentives such as tax holidays affected foreign direct investment in 40 Latin American, Caribbean, and African countries during 1985–2004. The study found that extending tax holidays by 10 years increased foreign direct investment by 1 percentage. This translates to a very insignificant relationship between tax holidays and financial performance. Based on such low impact, the OECD (2002) concluded that tax holidays and similar incentives cannot compensate for a generally weak or unattractive business environment.

Ohaka, and Agundu, (2012), studied tax incentives for industry synergy in Nigeria, using a pragmatic proprietary system advocacy. This study evaluated the potency of tax incentives in redefining corporate financial performance, proxied by return on equity (ROE). The study used financial statement as secondary data obtained from a net sample of 58 firms quoted on the Nigerian Stock Exchange (NSE). The correlation, regression, and Z-test analytical results were clearly in the affirmative. It is therefore expected that these tax incentives and appeals would conscientiously facilitate the growth of critical industries in Nigeria to greater productive and competitive heights. Additionally, Rolfe and White (1991) found that tax holidays had a small effect on foreign direct investment.

There is however some air of uncertainties as to the value or rationale behind the continued provision of tax incentives. A study by Tembur (2016) found that there is a weak positive relationship between tax incentives and financial performance of EPZ firms in Kenya. Adefeso (2018) maintained that the Federal Government of Nigeria should either minimize or remove tax holidays granted to some manufacturing firms in Nigeria, as the study viewed it as another form of tax evasion.

3. MATERIAL AND METHOD

Data for this research were collected from secondary sources. The secondary data were collected by accessing and downloading the published audited financial statements for the period under review from the website of the Nigerian Stock Exchange (NSE). The dimensions of financial performance (net profit margin, and return on equity) were computed from the financial statement figures, using their respective formulas. Data were analysed using the regression analysis to describe and evaluate the relationship between dependent and independent variables, which in this case are financial performance (proxied by net profit margin and return and equity) and pioneer status incentive (proxied by tax holiday). The period reviewed was 2013-2020.

3.1. Model Specification

Regression analysis was used to describe the relationships between the independent variable and the dependent variable. Based on the model adopted by Ibanichuka and Ihendinihu (2012) this study specifies a model which attempts to determine the relationship between Pioneer Status incentives and financial performance of listed agribusinesses in Nigeria. The dependent variable is proxied by net profit margin (NPM), and return on equity (ROE); while the independent variable is proxied by tax holiday (TXH).

In line with Akenbor and Mafiana (2019), the model specification for this study is as follows:

$$NPM = f\ (TXH) \quad (1)$$

$$ROE = f\ (TXH) \quad (2)$$

From the above functions, testable models, are derived:

$$NPM = \beta 0 + \beta 1 \log TXH1 + \mu \quad (3)$$

$$ROE = \beta 0 + \beta 1 \log TXH1 + \mu \quad (4)$$

Where:
NPM = Net Profit Margin
ROE = Return on Equity
TXH = Tax Holiday
β = Beta Coefficient
μ = Error term

Analysis of variance (ANOVA) was used to test the fitness of the model with a test of significance of 95 percent confidence level.

4. RESULT

Data presentation was done by means of frequency tables and percentages.

Table 1: Correlations

		NPM	*ROE*	*Log10TXH*
NPM	Pearson Correlation	1	.864**	.664
	Sig. (2-tailed)		.006	.072
	N	8	8	8
ROE	Pearson Correlation	.864**	1	.802*
	Sig. (2-tailed)	.006		.017
	N	8	8	8
Log10TXH	Pearson Correlation	.664	.802*	1
	Sig. (2-tailed)	.072	.017	
	N	8	8	8

Source: Researchers' analysis, 2021

H_{01}: There is no significant relationship between tax holiday and net profit margin of listed agribusinesses in Nigeria.

$$NPM = \beta_0 + \beta_1 \log TXH_1 + \mu \quad (3)$$

Table 2: Descriptive Statistics

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
NPM	8	11.51	61.82	25.7259	16.03460
Log10TXH	8	8.31	9.34	8.8041	.33504
Valid N (listwise)	8				

Source: Researchers' analysis, 2021

Table 3: Correlations

		NPM	*Log10TXH*
Pearson Correlation	NPM	1.000	.664
	Log10TXH	.664	1.000
Sig. (1-tailed)	NPM	.	.036
	Log10TXH	.036	.
N	NPM	8	8
	Log10TXH	8	8

Source: Researchers' analysis, 2021

Table 4: Regression Model Summary

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.664[a]	.441	.348	12.94511

a. Predictors: (Constant), Log10TXH

Source: Researchers' analysis, 2021

Table 5: ANOVA[a]

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	Regression	794.303	1	794.303	4.740	.072[b]
	Residual	1005.455	6	167.576		
	Total	1799.758	7			

a. Dependent Variable: NPM b. Predictors: (Constant), Log10TXH

Source: Researchers' analysis, 2021

Table 6: Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*		
		B	*Std. Error*	*Beta*	*t*	*Sig.*
1	(Constant)	-254.190	128.652		-1.976	.096
	Log10TXH	31.794	14.603	.664	2.177	.072

a. Dependent Variable: NPM

Source: Researchers' analysis, 2021

Table 1: Correlation analysis determines the relationship between the dependent variable and the independent variable of the study. Pearson correlation coefficient, which is denoted by R measures the strength of a linear relationship between two variables. Table 1 above shows a summary of the correlation between net profit margin which represents the dependent variable and tax holiday which represents the independent variable. Tax holiday has a significant positive relationship of .664 with net profit margin. The p-value is 0.072 which is >0.05, this research used a 1-tailed test. Therefore, we divide the 2-tailed result by 2: 0.072/2=0.036 as can be confirmed from table 3)

The *R v*alue on table 4 (Regression Model Summary) is the correlation between the observed and predicted values of the dependent variable, and indicates the proportion of variance in the dependent variable (net profit margin) which can be predicted by the independent variable (tax holiday). R-Square was found to be 0.441. This value indicates that 44.1 per cent of the variance in net profit margin can be predicted by tax holiday. Although tables 5 (ANOVA), and 6 (Coefficients) reveal the p-value level as 0.072, which is higher than the acceptable significance level of 0.05, we divide the 2-tailed result by 2: 0.072/ 2=0.036 (see table 2) as this research used a 1-tailed test. The result shows that tax holiday has a significant positive relationship of .664 with net profit margin. Therefore, we reject the null hypothesis.

This implies that from the result on table 6, a unit increase in tax holiday will lead to an increase in net profit margin by 31.79 units. Hence tax holiday shows a statistically significant relationship with net profit margin. Based on this, we hereby reject the null hypothesis which states that there is no relationship between tax holiday and the net profit margin of listed agribusinesses in Nigeria. This result is in line with the findings of Oyetunde (2008) that tax holidays are attractive to investment authorities in developing and transition economies.

Table 7: Descriptive Statistics

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
ROE	8	9.61	35.66	19.0020	9.95425
Log10TXH	8	8.31	9.34	8.8041	.33504
Valid N (listwise)	8				

Source: Researchers' analysis, 2021

H_{o2}: There is no significant relationship between tax holiday and return on equity of listed agribusinesses in Nigeria.

$$ROE = \beta 0 + \beta 1 logTXH1 + \mu \tag{4}$$

Table 8: Correlations

		ROE	*Log10TXH*
Pearson Correlation	ROE	1.000	.802
	Log10TXH	.802	1.000
Sig. (1-tailed)	ROE	.	.008
	Log10TXH	.008	.
N	ROE	8	8
	Log10TXH	8	8

Source: Researchers' analysis, 2021

Table 9: Regression Model Summary

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.802[a]	.642	.583	6.42909

a. Predictors: (Constant), Log10TXH

Source: Researchers' analysis, 2021

Table 10: ANOVA[a]

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	Regression	445.611	1	445.611	10.781	.017[b]
	Residual	247.999	6	41.333		
	Total	693.610	7			

a. Dependent Variable: ROE b. Predictors: (Constant), Log10TXH

Source: Researchers' analysis, 2021

Table 11: Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*		
		B	*Std. Error*	*Beta*	*t*	*Sig.*
1	(Constant)	-190.657	63.894		-2.984	.025
	Log10TXH	23.814	7.253	.802	3.283	.017

a. Dependent Variable: ROE

Source: Researchers' analysis, 2021

Tables 1 and 8 (Correlation analysis) show the Pearson correlation coefficient, denoted by R, which measures the strength of a linear relationship between two variables. Tax holiday is shown to have a strong positive relationship of 0.802 with return on equity of listed agribusinesses in Nigeria. Table 9 (Regression Model Summary) shows the *R square* value. R-Square was found to be 0.642. This value indicates that 64.2 per cent of the variance in return on equity can be predicted by tax holiday. Tables 10 (ANOVA), and 11 (Coefficients) reveal the p-value level as 0.017 which is <0.05 significance level. This shows that tax holiday has a significant positive relationship of .802 with return on equity of listed agribusinesses in Nigeria. Therefore, we reject the null hypothesis.

The implication as shown in table 11, a unit increase in tax holiday will lead to an increase in return on equity by 23.81 units. Hence there is a statistically significant relationship between tax holiday and return on equity of listed agribusinesses in Nigeria. This result supports the findings of Ohaka and Agundu (2012) that tax holiday increases productivity in manufacturing companies in Nigeria.

5. CONCLUSION AND RECOMMENDATIONS

This study concludes that the government grants pioneer status as an incentive to selected industries as a way of making the sectors economically viable. Statistical analyses were carried out and the findings show that the proxy of pioneer status incentive has a statistically significant relationship with net profit margin and return on equity of listed agribusinesses in Nigeria. As revealed by the findings of this study, a unit increase in tax holiday will lead to an increase in return on equity by 23.81. Also, a unit increase in tax holiday will lead to an increase in net profit margin by 31.79 units. This study therefore, concludes that increase in the level of tax holiday will have a tremendous impact on the financial performance of listed agribusinesses in Nigeria.

The study therefore, recommends:

i) that the government should continue to strengthen its tax policy to properly administer the pioneer status incentives to companies in the agribusiness sector in Nigeria, and

ii) that other militating factors such as poor infrastructural development and power supply should be addressed so that the full benefit of the pioneer status incentives can be enjoyed.

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