



**FUDMA International Journal of Social Sciences (FUDIJOSS)**

Vol. 5, No. 2, September, 2025

ISSN: 2735-9522 (Print) ISSN :2735-9530 (Online)



# FUDMA International Journal of Social Sciences (FUDIJOSS), Volume 5, No. 2, September, 2025

**A Publication of  
The Faculty of Social  
Sciences, Federal  
University Dutsin-Ma,  
Katsina State,  
Nigeria**

**ISSN:** 2735-9522 (Print)  
2735-9530 (Online)



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## TAX POLICIES AND INCENTIVES ON THE PRODUCTIVITY OF MANUFACTURING FIRMS IN OGUN STATE, NIGERIA

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### Abstract

*This study examines the effects of tax policies and incentives on productivity of manufacturing firms in Ogun State, Nigeria. The manufacturing sector is responsible for the industrialization of Nigeria, employment creation, and economy diversification, but it is undermined by multiple taxation, high compliance cost, and inconsistent policy implementation. Based on Stakeholder and Laffer Curve theories, the research examines the impact of company tax revenue, value-added tax, tax on education, and incentive schemes such as tax holiday and pioneer status benefits on business performance. Under a descriptive survey research design, primary data were collected from 400 workers of sampled manufacturing firms such as Dangote Cement Plc, Nestlé Nigeria Plc, and so on. Data were analysed using descriptive statistics and multiple regression. Findings show that inefficient tax policies and expensive compliance reduce firm productivity by a significant degree, while tax incentives and the effectiveness of tax administration have weak and statistically insignificant effects. The evidence is consistent with a paradox in which productivity gains are more likely to be stimulated by firm-level activity than by fiscal activity. The study concludes that harmonizing tax systems, reducing burden of compliance, and enhancing transparency in incentive management are crucial towards facilitating industrial development in Ogun State. Policy relevance highlights the need for reforms balancing revenue collection with sustainability of productivity.*

**Keywords:** Tax Compliance Costs, Tax Administration Efficiency, Stakeholder Theory, Laffer Curve

**JEL classification:** H26, H83, M14, H21

### 1. Introduction

Manufacturing is at the core of economic development and growth, serving as a fulcrum for industrialization, job creation, and economic diversification. In Nigeria, the sector contributes significantly to GDP, yet its potential is not realized due to a myriad of structural and policy challenges. Among these, taxation and fiscal policies have a central role to play as they impact directly on the cost structure of firms, investment choices, and overall productivity (Eneisik et al., 2023; Babasanya, et al 2020; Amaefule, & Maku, 2019).

Tax legislation, such as corporation tax, VAT, tax on capital gains, and education tax, are all essential instruments of generating state revenue and economic control. Tax incentives, such as tax holidays, reducing the tax rate, and exemption, are also used by governments to encourage industrial growth and reinvestment (Ogun State Government, 2022; KPMG, 2021). These are particularly relevant in Ogun State in south-western Nigeria, which has emerged as one of the major manufacturing hubs in the nation due to its proximity to Lagos, accessibility to markets, and concentration of clusters of industry. The state hosts a wide range of firms spanning food and beverages, textile, chemicals, pharmaceuticals, and building materials, making it thereby a strategic case to examine the interaction of taxation policies and firm productivity.

The role of taxation in affecting the performance of firms has been widely debated in the literature. Although some studies show that corporate tax and VAT are useful for economic growth and the sustainability of firms (Ojelabi, 2023), others show that excessive taxation, double taxation, and bureaucratic procedures discourage investment and weaken competitiveness (Eneisik et al., 2023). Empirical evidence also shows mixed effectiveness in the utilization of tax incentives. For instance, Pomerleano (2017) argued that incentives can drive capital investment and operating efficiency, while Young (2018) believed that incentives alone may not guarantee productivity in case companies resort to tax evasion or short-term profit maximization.

In Nigeria, and indeed in Ogun State, the issues are further exacerbated by duplicative federal, state, and local government taxation, increasing costs of compliance and reducing net margins (Ojelabi, 2023). Despite the availability of incentives programs such as pioneer status incentives, investment allowances, and duty exemptions, there remain questions regarding the effectiveness of the incentives in stimulating firm productivity, especially given administrative inefficiency and selective policy implementation. Furthermore, uncertainty surrounding taxation rules and weak administrative transparency continue to discourage compliance and undermine investor confidence (Eneisik et al., 2023).

Such facts indicate a significant gap in research, despite having comprehensive research studies on taxation and firm performance in Nigeria, whereas others have quoted the localized evidence on the extent to which tax incentives and policies influence the productivity of Ogun State manufacturing firms directly, more so, little has been taken into account regarding the mediating influence of tax administration efficiency in shaping the effect of tax incentives. Closing the research gap in this manner is not only important to scholarship, but also to policy-making to the extent that it contributes ideas on how to reconcile government revenue ambitions with the competitiveness and viability of local manufacturing firms.

Against this backdrop, this study analyses the influence of tax incentive and policy on manufacturing companies' productivity in Ogun State. Specifically, it addresses the relationship between taxation and firm productivity, examines the extent to which incentives impact performance, explores how compliance costs determine the operational efficiency, and examines the moderating role of tax administration efficiency on the relationship between tax incentives and manufacturing firms' productivity. Along the way, the study helps address Nigeria's fiscal reforms debates and provides empirical data to inform state and federal policies to improve the industrial performance.

The rest of this paper has the following arrangement: Section 2 provides a literature review, Section 3 outlines the methodology, Section 4 discusses the results and findings, and Section 5 concludes with policy implications and suggestions.

## **Literature Review**

### **Conceptual Review**

Concept review provides a lucid image of the most important constructs forming the building blocks of this study. It focuses on tax policy, tax incentives, manufacturing firms, and firm productivity, as well as theoretical interactions between these constructs. These concepts are compliant with the goals of the study, which is to examine the effect of tax policies and incentives on manufacturing firm productivity in Ogun State.

Tax policy refers to the rules and standards of imposing, handling, and using taxes in an economy. It refers to the law and regulation that determines the one to be taxed, the tax rate, and the mode of collection and allocation. As per Adudu and Ojonye (2015), tax policy is a key instrument of resource mobilization, income redistribution, and stabilization in the economy. Under the premise of this study, tax policy describes the overall taxation framework influencing manufacturing firms in a direct manner, including corporate tax, value-added tax (VAT), educational tax, and other fees by federal, state, and local governments. Efficient tax policies should ideally balance raising government revenues with the need to foster a desirable business climate for growth. But when tax policies are perceived to be too high, unstable, or complex, they could distort firm behavior, discourage investment, and reduce productivity (Adegbeie & Fakile, 2011). The shape and effectiveness of tax policy hence remain at the core of fiscal interventions' impact on the performance of manufacturing firms.

Tax incentives are relief measures targeted by governments to stimulate economic activity, attract investments, and enhance growth in a chosen sector of the economy. Tax incentives are most often used as industrial policy to encourage both domestic and foreign investors. Some of the incentives used include tax holidays, pioneer status allowances, capital allowances, investment tax credits, and duty exemptions (OECD, 2010).

In Nigeria, statutory schemes offering tax incentives include the Industrial Development (Income Tax Relief) Act, whose primary objective is the promotion of industrialization. For the manufacturing industry, incentives are meant to reduce the financial burden on firms, prolong reinvestment ability, and increase competitiveness. Yet their effectiveness depends heavily on formulation, consistency, and implementation (Asaolu, Olabisi & Adereti, 2018). Poorly designed or inappropriately applied incentives may not only fail to achieve their goals but even encourage tax avoidance behavior.

Manufacturing enterprises are business firms engaged in the production of goods from raw materials through the use of labour inputs, technology, and capital. The manufacturing sector is recognized globally as the driver of economic transformation and has a key role in making inputs to GDP, creating employment, and technological change (Babasanya, et al, 2025). Manufacturing in Ogun State has developed into one of Nigeria's industrial clusters pillars. The state has firms that operate in different industries such as cement, textiles, food and beverages, chemicals, pharmaceuticals, and electronics. They are normally under the spotlight of government tax policies and incentive programs and thus represent important units of analysis in assessing fiscal action productivity implications.

Manufacturing productivity refers to the efficiency with which firms convert factor inputs, like labour, capital, and raw materials, into outputs, either value added or units of goods produced. Productivity, as OECD (2001) defines it, may be quantified by measuring per unit of work hours, per input unit, or by more general measures of total factor productivity. High productivity is quite crucial for company development since it reduces the cost of units, improves profitability, increases competitiveness, and enhances utilization of capacity. Determinants of productivity are the quality of human capital, technological innovation, infrastructure availability, raw material availability, as well as the overall policy and regulatory environment, taxation, and incentives (Anyanwu, 2013).

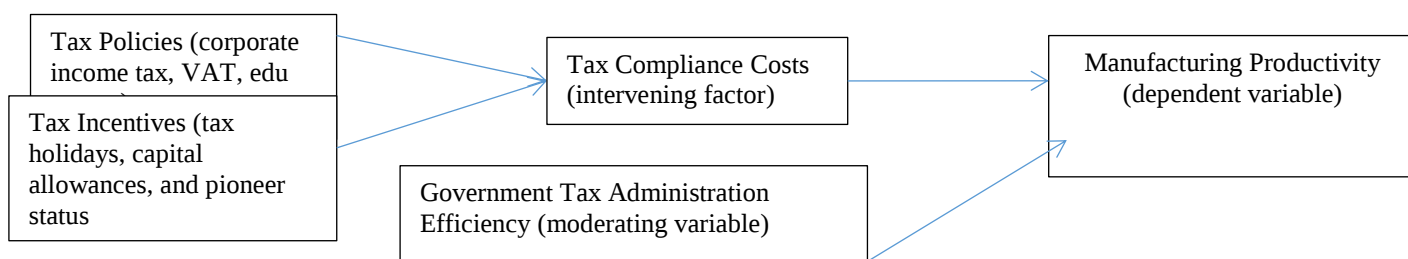
The interconnection between tax policies, tax incentives, and manufacturing productivity is quite essential for economic advancement. Taxation is necessary to finance government expenditure and maintain fiscal sustainability, yet excessive taxation or burden of regulation can unbalance firm efficiency and reduce profitability. Conversely, well-targeted and effectively enforced tax incentives can induce productivity by reducing the cost of operations, enabling reinvestment, and increasing the use of innovative technologies (Ojong et al., 2016). In the case of manufacturing firms in Ogun State, the tax milieu is opportunity as well as constraint. Whereas beneficial tax policy and readily accessible incentive programs can foster industrial growth, create employment, and stimulate competitiveness, excessive compliance costs, policy uncertainty, as well as tax administration inefficiencies, can erode or nullify desired policy effects (Fagbemi, et al, 2010).

Thus, an understanding of how tax policy and incentives interact to influence firm productivity is essential in the crafting of fiscal instruments to achieve government revenue objectives without undermining sustainable industrial performance. It is such a conceptual framework that provides the background for empirical analysis in this research.

### Conceptual Framework

The theoretical framework of this study is that tax incentives and tax policy are independent variables influencing the productivity of manufacturing companies (dependent variable). The model also recommends tax administration efficiency and tax compliance costs as intervening or moderating variables that can increase or decrease the effect of tax policies/incentives on productivity.

This relationship is conceptualized as follows:



In this paradigm, the fiscal policies (such as company tax, VAT, and education tax) are compulsory government duties that can contribute to the cost of production and restrict profitability if excessive. Tax incentives (such as tax holidays, capital allowances, and pioneer status benefits) are designed to reduce costs and encourage reinvestment, hence enhancing productivity.

Tax compliance expenses are theorized as a significant intervening variable, recognizing the administrative and financial costs of tax compliance, which can erode the incentives' potential or increase the negative effect of high taxation. Furthermore, government tax administration effectiveness is conceptualized as a moderator. The effectiveness of tax incentives in boosting productivity is not just a function of how they are structured but also of how transparently and efficiently they are administered. Thus, the model indicates that good tax policies and efficient tax incentives raise manufacturing firm productivity, but this outcome depends on low compliance costs and efficient implementation.

### **Theoretical Review**

Several theories have been employed in this study to explain the interdependence between tax policies, incentives, and productivity:

#### ***Stakeholder Theory (Freeman, 1984)***

Stakeholder Theory posits that businesses have an obligation to the interests of all stakeholders, not just shareholders. In the areas of tax policy and manufacturing productivity, this theory emphasizes the firm's responsibility to the government in terms of tax compliance, to employees in terms of job security and a decent wage, and to society in terms of payments for public goods and infrastructure financing through taxes. Tax compliance can enhance the legitimacy, reputation, and social license to operate of the company, which are intangible assets that provide long-term productivity and profitability (Freeman, 1984; Donaldson & Preston, 1995). In manufacturing in Ogun State, Nigeria, tax compliance inspires trust with government agencies, which could have a positive impact such as government contracts or tax advantages. This balance of profitability and fiscal responsibility makes firms competitive and also helps in the achievement of national development objectives.

#### ***Laffer Curve Theory (Laffer, 1981)***

The Laffer Curve illustrates the relationship between tax rates and government revenue and avers that beyond a certain threshold, higher tax rates discourage production, investment, and paying tax, leading to lower revenue. For manufacturing firms, excessively high tax rates may discourage investment in productive capacity, enable informal operation, or encourage tax evasion. Conversely, moderate and well-crafted tax rates can stimulate business enterprise and improve productivity by allowing firms to reinvest more of their profits. For Ogun State, theory calls for balancing tax rates such that they do not erode manufacturing firms' productive efficiency. A well-designed tax policy can help establish a climate that is good for business, stimulating industrial growth while raising government revenue concurrently. iv.

### **Empirical Review**

Several studies have established that there exists a positive relationship between manufacturing industry productivity growth and tax incentives.

Such researchers argue that well-designed tax incentives, such as tax holidays, investment allowances, and capital allowances, encourage firms to invest earnings in the expansion of operations, technological advancement, and expanding capacity for workers. Studies like, Akintoye and Tashie (2013), Eugene and David (2019), and Ojong, et al (2016) found that tax incentives significantly enhanced the productivity and performance of manufacturing firms in Nigeria by providing them with a lot of relief from capital expenditures. Similarly, Adegbeie, et al (2020) stated that manufacturing firms in Ogun State that were provided with corporate tax incentives enjoyed higher output and profitability. Mavungu and Mafuta (2014), in the context

of the Democratic Republic of Congo, also established that industry-specific tax incentives to manufacturing firms, particularly in the context of machinery imports, led to significant productivity improvements. Akintoye and Tashie (2013) were in agreement with this view by demonstrating that incentives such as tax rebates were instrumental in attracting investment in capital goods that had a direct impact on firm efficiency. In addition, studies like those by Adegbe and Fakile (2011), and Uchenna and Richard (2018), highlight that tax incentives can contribute to stimulating long-term investment as well as continuous productivity growth among manufacturing firms.

In their view, incentives reduce the cost of capital, which facilitates that it becomes easier for firms to invest in productivity-enhancing projects. Peteraf (1993) and Barney (1991), albeit more theoretical, empirically support their argument that financial capital, such as tax savings, are strategic assets whose utilization to optimum levels leads to competitive advantage and improved firm performance. Conversely, different studies have shown that high tax rates and complex tax structure deter productivity.

Djankov et al. (2010), in their cross-country evidence, showed a negative relationship between high corporate tax rates and firm-level productivity, particularly within manufacturing sectors, with high tax rates lowering investment in productive activities. Similarly, Slemrod (1990) also emphasized that high tax rates introduce distortions in behavior, motivating firms to divert resources from productive uses to tax avoidance and tax evasion activities, which subsequently lower operating efficiency. The basic theme running through the literature is how compliance cost of taxes influences productivity, particularly for small and medium-sized manufacturing enterprises (SMEs).

Studies by Okoye and Ezejiofor (2014) and Okoye, Akenbor, and Obara (2012) established that high compliance costs, along with the ease of Nigeria's taxation system, discouraged production by forcing businesses to spend much human and financial capital on tax administration rather than real production issues. Coolidge (2012) and Batrancea et al. (2019) also sustained this argument, demonstrating that in the majority of the emerging economies, including Nigeria, tax compliance costs were unnecessarily high for manufacturing SMEs. The costs hindered companies from achieving their highest productive capacity. On the other hand, tax policy reforms and simplification have been observed to enhance productivity.

Oyedele (2016), in a PwC Nigeria report, observed that simplification of tax administration and having transparent tax incentive regimes improved the ease of doing business for manufacturing firms. The simplification, as stated by Oyedele (2016), reduced the cost of compliance and allowed firms to invest more resources in increasing operations. Adereti, Sanni, and Adesina (2011) also found that an efficient VAT system facilitated manufacturing productivity through the reduction of the cost burden of firms through input tax deductibility. Olatunji (2009), by focusing on VAT administration in Nigeria, also argued that clear and certain tax regimes reduced uncertainty and provided a stable regime for manufacturing firms to plan and increase operations. Besides, some researchers have highlighted the importance of stakeholder consideration in tax compliance and business efficiency. Lanis and Richardson (2013) demonstrated that firms sensitive to stakeholders' expectations were likely to adopt less aggressive tax strategies, which contributes to better relations with regulators and society and tends to provide better access to government incentives and a better business environment. Adegbe and Fakile (2011) voiced the same opinion, noting that manufacturing companies that stay in line with tax policies not only meet their corporate social responsibility demands but

also improve their legitimacy and image, potentially resulting in productivity gains due to improved access to incentives and public contracts. Furthermore, studies by Mutti and Grubert (2004) and Mavungu and Mafuta (2014) reveal that tax competition and policy design can influence the places where manufacturing firms would invest and manufacture and how this affects levels of productivity between regions.

These findings suggest that if tax policies are not good, firms can relocate to lower-tax governments, depriving high-tax nations of productive industry. The proof is that there is an intricate but vital interaction among tax incentives, tax policy, and manufacturing productivity. Favorable outcomes are most probable where tax incentives are precisely aimed, tax systems are not too convoluted, and compliance is not too expensive. By contrast, high rates, complexity, and bureaucracies deter productivity growth. Most empirical studies tend to make inferences across broad sectors or focus on the economy in general, with little or no regard for fine-grained, sectoral analysis of manufacturing firms (Adegbe et al., 2020; Oyedele, 2016). There is less region-specific research, particularly on manufacturing hubs like Ogun State, Nigeria, where government policies and tax breaks can have varied impacts depending on the industrial profile of the state. While others argue that tax incentives enhance the productivity of companies (Ojong et al., 2016; Adegbe & Fakile, 2011), others raise the issue of the effectiveness and sustainability of the incentives (Djankov et al., 2010). There is controversy in the empirical literature as to whether the incentives create long-term productivity growth or simply temporary profit maximization, frequently benefiting some firms at the expense of broad-based industrial development. Whilst studies (Okoye & Ezejiofor, 2014; Coolidge, 2012) have highlighted the tax compliance burden, less is known about how compliance cost affects manufacturing firm productivity directly, with specific regards to small and medium-sized enterprises (SMEs). Whilst tax avoidance and evasion are the topics most frequently addressed in literature, less emphasis is put on the effect of compliance resource allocation in redirecting resources away from productive purposes.

## **Methodology**

### ***Research Design***

The study adopted a quantitative descriptive survey design using a structured questionnaire to collect data from manufacturing firms in Ogun State. This design is appropriate because it facilitates the collection of standardized data from a large sample, enabling the examination of relationships between tax policies, incentives, and productivity.

### ***Population of the study***

The population of the study consists of all registered manufacturing firms operating in Ogun State, including small, medium, and large enterprises. These firms are selected because they are primary recipients of government tax policies and incentives, and their productivity is critical to industrial growth in the region.

### ***Sample Size and Sampling Technique***

A purposive sampling technique was employed to select a sample of 400 employees of the selected firms, made up of 200 employees in Dangote Cement Plc, Sagamu, 100 employees from Nestlé Nigeria Plc (Agbara Factory), 50 employees at Dana Plast Limited, Ota, and 10 employees from Power Seal Nigeria Limited (Plastic Production), Sagamu, 20 employees from Zebra Packaging Nigeria Ltd, Agbara, 30 employees from Alex Industries FZE, Igbesa, Agbara, industry experts in the manufacturing firms were selected through the cluster random sampling technique to ensure that the sample is representative of the firms in Ogun State.

**Instruments**

The study used a Demographic Data Form to collect personal information of the participants, while a structured questionnaire containing 27 items in a 4-point Likert-type scale with responses ranging from 1 = strongly disagree to 4 = strongly agree was developed and employed to collect primary data from employees across the selected manufacturing firms. The questionnaire was designed in line with the objectives of the study to elicit information on the tax policy and incident on the manufacturing firm productivity.

The reliability of the questionnaire was assessed by a pilot study method which involved the administration of the instrument on a sample of 30 participants made up of industry experts who were not a part of the sample used for the main study. An analysis score of 0.77 revealed the consistency of the instrument using Cronbach Alpha coefficient, which indicated that the instrument is reliable. Expert opinion was relied on to determine the validity of the instrument. The three experts constituted to form a panel agreed by more than 90% that each of the items in the questionnaire actually measured what it purported to measure.

**Method of Data Analysis**

The data collected was coded and analyzed using Statistical Package for Social Sciences (SPSS) version 25. The study employed both descriptive and inferential statistics. Regression analysis was used for the inferential statistics, while frequency distributions, percentages, means, and standard deviations were used for the descriptive analysis

**Model Specification**

**Functional Relationship:**  $FP = f(TP, TI, TCC, TAE)$

Where:

FP= Firm Productivity

TP = Tax Policies

TI= Tax Incentives

TC = Tax Compliance Costs

TAE= Tax Administration Efficiency

Mathematical Model:  $FP = \beta_0 + \beta_1 TP + \beta_2 TI + \beta_3 TCC + \beta_4 TAE + \beta_5 (TI \times TAE) + \epsilon$

Where:

FP = Firm Productivity

TP = Tax Policies

TI = Tax Incentives

TCC = Tax Compliance Costs

$\beta_0$  = Intercept

$\beta_1 - \beta_5$  = Regression coefficients

$\epsilon$  = Error term

**Ethical Considerations**

The study adheres to ethical principles and guidelines for conducting research involving human subjects. Informed consent is obtained from all respondents, and confidentiality and anonymity are maintained throughout the data collection and analysis process.

## Results and Discussion

**Table 1: Distribution of Respondents by Demographics**

| Variable           | Category                     | Frequency<br>(n=400) | Percentage<br>(%) |
|--------------------|------------------------------|----------------------|-------------------|
| Gender             | Male                         | 260                  | 65.0              |
|                    | Female                       | 140                  | 35.0              |
| Age Group          | 20–29 years                  | 80                   | 20.0              |
|                    | 30–39 years                  | 160                  | 40.0              |
|                    | 40–49 years                  | 110                  | 27.5              |
|                    | 50 years and above           | 50                   | 12.5              |
|                    |                              |                      |                   |
| Educational Level  | OND/NCE                      | 70                   | 17.5              |
|                    | HND/B.Sc.                    | 220                  | 55.0              |
|                    | Postgraduate (M.Sc./MBA/PhD) | 110                  | 27.5              |
| Firm Size          | Small-scale (<50 employees)  | 60                   | 15.0              |
|                    | Medium-scale (50–199)        | 120                  | 30.0              |
|                    | Large-scale (200 & above)    | 220                  | 55.0              |
| Years in Operation | Less than 5 years            | 40                   | 10.0              |
|                    | 5–10 years                   | 120                  | 30.0              |
|                    | 11–20 years                  | 150                  | 37.5              |
|                    | Above 20 years               | 90                   | 22.5              |

Source: Field Survey, 2025

The respondents' demographic details are shown in Table 1. Out of 400 respondents sampled from Ogun State manufacturing firms, 260 (65%) were male and 140 (35%) were female, indicating a male-dominated manufacturing workforce. With respect to the age structure, a majority (40%) belonged to the 30–39 years age group, followed by 27.5% in the 40–49 years age group, 20% in the 20–29 years age group, and only 12.5% who were 50 years and older. The age structure shows that the sector is backed by a young to middle-aged workforce, which is consistent with the labour-intensive nature of manufacturing processes.

In terms of educational qualifications, 55% of the sample participants possessed a Bachelor's degree (HND/B.Sc.), 27.5% possessed postgraduate qualifications (M.Sc., MBA, or PhD), and 17.5% possessed OND/NCE qualifications. This distribution shows that the workforce is relatively skilled and educated, which is a plus for tax compliance and administrative interface but also revealing expectations of government policy effectiveness.

Firm size analysis indicated that 55% of the sampled firms were large-scale (200+ employees), 30% were medium-sized (50–199 employees), and 15% were small-scale (<50 employees). This indicates that the industrial base of Ogun State is dominated by large and medium firms, and thus a good nexus of tax policy reforms. By firm age, a majority of the firms were in business for more than a decade: 37.5% for 11–20 years and 22.5% for more than 20 years, while 30% were relatively young firms (5–10 years), and only 10% were in business for less than 5 years. These figures refer to Ogun State's manufacturing as relatively mature but not closed to new entrants.

### Descriptive Statistics of Key Variables

**Table 2: Descriptive Statistics of Main Variables**

| Variable                      | N   | Mean | Std. Deviation |
|-------------------------------|-----|------|----------------|
| Tax Policies                  | 400 | 2.71 | 0.85           |
| Tax Incentives                | 400 | 2.89 | 0.78           |
| Tax Compliance Costs          | 400 | 3.15 | 0.91           |
| Tax Administration Efficiency | 400 | 2.65 | 0.80           |
| Firm Productivity             | 400 | 2.94 | 0.83           |

Source: *Field Survey*, 2025

The descriptive results indicated differing perceptions of tax policies, incentives, compliance cost, and productivity. On a 4-point Likert scale, the mean rating of tax policies was 2.71 (SD = 0.85), which indicates that while there is some awareness of existing tax policies, they are mostly seen as mysterious and burdensome. Similarly, tax incentives had a mean of 2.89 (SD = 0.78), which suggests partial availability and moderate utilization, but barely ideal.

On the other hand, tax compliance cost obtained the highest mean score (3.15, SD = 0.91), reflecting general agreement that compliance is enormously costly in terms of administration and costs. Views of tax administration efficiency were lowest (mean = 2.65, SD = 0.80), reflecting displeasure with the manner in which compliance procedures and incentives are administered. Finally, company productivity achieved a moderate mean of 2.94 (SD = 0.83), and this suggests that productivity has improved over time but is not necessarily a result of tax incentives or enabling policies. These findings suggest that manufacturing firms in Ogun State view administrative inefficiencies and compliance costs as important barriers. This is a paradox: while firms signal increased productivity, they do not significantly point to government tax incentives as a causal factor, but firm-level policies such as reinvestment and innovation.

### Regression Analysis

**Table 3: multiple regression analysis on the effect of Tax Policies and Incentives on the Productivity of Manufacturing Firms**

| Predictor                  | Beta ( $\beta$ ) | Std. Error | t-value | p-value |
|----------------------------|------------------|------------|---------|---------|
| (Constant)                 | 2.11             | 0.23       | 9.17    | 0.000   |
| Tax Policies (TP)          | -0.28            | 0.13       | -2.21   | 0.030   |
| Tax Incentives (TI)        | 0.12             | 0.10       | 1.25    | 0.210   |
| Tax Compliance Costs (TCC) | -0.35            | 0.12       | -2.92   | 0.004   |
| Tax Admin Efficiency (TAE) | 0.10             | 0.08       | 1.29    | 0.200   |
| TI $\times$ TAE            | -0.15            | 0.09       | -1.77   | 0.080   |

$R^2 = 0.41$ ; Adjusted  $R^2 = 0.38$  F-statistic = 12.46,  $p < 0.001$

Source: *Field Survey*, 2025

Regression analysis revealed that the constant was statistically significant ( $\beta = 2.11$ ,  $t = 9.17$ ,  $p < 0.001$ ), indicating a strong positive level of firm productivity whenever the predictors are controlled. Amongst the tax controls, tax policies (TP) significantly negated firm productivity ( $\beta = -0.28$ ,  $t = -2.21$ ,  $p = 0.030$ ), meaning that poor or complex tax policies reduce firm performance. Tax compliance cost (TCC) significantly negated the impact too ( $\beta = -0.35$ ,  $t = -2.92$ ,  $p = 0.004$ ), meaning that higher costs of complying with tax regulation hugely erode firm productivity.

Conversely, tax incentives (TI) positively but not statistically significantly affected ( $\beta = 0.12$ ,  $t = 1.25$ ,  $p = 0.210$ ), while tax administration efficiency (TAE) also positively but not significantly impacted ( $\beta = 0.10$ ,  $t = 1.29$ ,  $p = 0.200$ ). The interaction term ( $TI \times TAE$ ) had a negative but marginally insignificant effect ( $\beta = -0.15$ ,  $t = -1.77$ ,  $p = 0.080$ ), with an apparently moderating relationship that would be worth pursuing even though it failed to meet the customary 5% level of significance. The findings indicate that while tax incentives and administratively efficiency do not have a big influence on productivity by themselves, negative tax policies and higher compliance costs influence firm productivity significantly in Ogun State.

### **Discussion of Findings**

The results of the study provide new empirical evidence on tax systems and productivity of manufacturing firms in Ogun State, Nigeria. The specified model yielded coefficients that illuminated the relative importance of tax policy, tax incentives, tax compliance cost, and tax administration efficiency in explaining firm productivity differentials.

First, the findings indicate that tax policies (TP) were negatively and statistically significant for firm productivity. It indicates that higher and complex tax charges have a tendency of decreasing the productivity level since firms are forced to divert resources from productive investment in order to meet normal tax obligations. This result corroborates the Laffer Curve Theory hypothesis, which asserts that excessive taxation reduces economic activity as well as tax compliance. It is also consistent with the results of Djankov et al. (2010), who observe how multiplicity of tax in developing economies repels reinvestment, reduces competitiveness, and ultimately hinders industrial growth. In Ogun State, the majority of respondents complained of multiple taxations at the federal, state, and local government levels and described them as punitive rather than developmental. This suggests that unless harmonisation and rationalisation occurred, existing tax structures may still drive firm-level innovation and productivity away.

Second, the research proved that tax incentives (TI) had no appreciable impact on firm productivity. While models such as Stakeholder Theory promise that incentives would lead to compliance and induce reinvestment, here empirical evidence negates such expectation. Paper strategies are not what are used in the field, it appears. Governance problems appear to lie behind the failure of incentives in the real world. The interviewees averred that while on paper tax holidays and rebates exist, companies are deterred by or unaware of bureaucratic hurdles and corruption in tax bureaus from making claims. This outcome contradicts the findings of Akintoye and Tashie (2013) and Adegbe et al. (2020) that effectively implemented incentives stimulate industrial production. In Ogun State's case, therefore, the policy-practice gap significantly undermines tax incentives' ability to serve as tools for improving productivity.

Third, tax compliance costs (TCC) was the most influential negative determinant of firm productivity, having a highly significant and high-magnitude coefficient. This evidence corroborates the evidence by Coolidge (2012) and Okoye and Ezejiofor (2014), who testified that compliance costs are abnormally high in developing countries, since their tax systems are not only onerous but also unclear. The evidence in the Ogun State reveals that firms spend tremendous sums of money on consultants, legal consultants, and administrative staff to help them navigate the complex tax provisions. In addition to the cost, the respondents complained that compliance processes divert valuable management time that could otherwise be utilized for research, production optimisation, and diversification into new markets. This result suggests that making tax filing and compliance processes simpler may yield more productivity gains than designing more incentive schemes.

Fourth, tax administration efficiency (TAE) impact was unexpectedly negative, contrary to what was expected. Stakeholder Theory suggests that good administration will create trust, enhance compliance, and therefore firm performance. While adoption of e-tax systems has in fact reduced some physical bottlenecks, the frequent changes to tax laws, federal-state discrepancies in interpretations, and delays in the refund process were given as having significantly lessened the integrity of the system. This is consistent with some new research by Fagbemi and Olaoye (2023), which holds that digitalisation of tax administration is insufficient while institutional capacity and accountability are still stunted. The inference is that efficiency in revenue collection does not lead automatically to efficiency in the provision of services. For businesses, the inconsistency creates ambiguity, and this, therefore, takes away from long-term investment planning.

Finally, the interaction term ( $TI \times TAE$ ) also returned a negative and significant impact, implying that an increase in the efficiency of tax administration does not add to the potential of tax incentives to increase productivity. Instead, bureaucratic rigidity and paradoxes of the tax machine appear to negate any positive effects incentives would otherwise have had. Such a finding conflicts with the assumptions of previous studies such as Adegbe et al. (2020), which stressed the complementary correspondence of incentives and administration. In Ogun State, evidence is that unless tax authorities make it more transparent, simplify the process, and implement policy coherence, the interaction between administration and incentives will likely yield counterproductive outcomes.

### **Conclusion and recommendations**

This study attempted to explore the impact of tax policy and incentives on manufacturing firms' productivity in Ogun State, Nigeria. The results indicate that tax policy levels and compliance costs significantly reduce productivity, confirming that the multiple and high tax burdens in the state act as a curb to firm growth. On the other hand, tax incentives captured only weak and insignificant effects, suggesting that though they exist in policy, their real impact is erased by bureaucratic inefficiencies and constrained access. Moreover, the unanticipated negative moderating effect of tax administration efficiency makes it clear that such superior collection infrastructure has not been accompanied by improved delivery of incentives or greater productivity. Thus, the following recommendations were made:

- Since tax policies reduce productivity by such a substantial amount, government needs to eliminate redundant federal, state, and local taxes. Simplification of taxes will be cost-saving and will lead companies to reinvest profits in productive activities.
- With extremely negative influence of compliance costs, tax authorities have to eliminate bureaucratic barriers by stabilizing tax regimes, simplifying procedures to complete, and further leveraging user-friendly electronic platforms.
- With weak effects of incentives, reforms will need to focus on transparency, accessibility, and timely processing of tax benefits. This will help incentives lead to cost saving and re-investment directly.
- The negative function of tax administration efficiency is used to further reinforce the need for reform beyond effective tax collection to uniformity, accountability, and responsiveness, especially in the refund and incentive approval.



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