**Influence of Tax Compliance Cost and Tax Incentives on Financial Performance of Manufacturing Industries**

***Abstract:***

*This study examines the influence of tax compliance costs and tax incentives on the financial performance of manufacturing industries. Descriptive survey research design was used in carrying out this study, with total population of 947 Managers and Accountant of manufacturing industry in Cross River State, Nigeria. The sample size of two hundred and sixty nine (269) Managers and Accountant of manufacturing industry in Cross River State, Nigeria was drawn for the study obtained using Cohen, Mansion and Morison (2018) criteria for a populations sampling at confidence interval level of 95*$\%$ *confidence level were composed using multi-stage sampling. Questionnaire “influence of tax compliance cost and tax incentives on financial performance of manufacturing industries Questionnaire (ITCTIFPMIQ) was used. The questionnaire was validated by 3 lecturers: 2 from Department of vocational technical education and 1 from Department of science education. The reliability; cluster A=0.77, cluster B=0.72, cluster C= 0.81 with an overall reliability coefficient of 0.76 was obtained through Cronbach alpha method. Mean and standard deviation was used to answer research questions. The mean value of 2.5 was used as the bench mark for answering the research questions. Mean values of 2.5 and above was considered as agreed while mean values below 2.5 was considered as disagreed. The null hypotheses was tested using independent t – test statistic at 0.05 level of significance. The null hypotheses was rejected if the probability value was less than the set value of 0.05 level of significance (P< 0.05), but if any probability value was greater than or equal to 0.05 (P≥0.05), such null hypothesis was not rejected. The findings suggest that manufacturing firms need to optimize their tax compliance processes to minimize costs and strategically leverage tax incentives to enhance financial performance. Policymakers should consider simplifying tax regulations and designing more effective incentive programs to support the manufacturing sector's growth and competitiveness.*

***Keywords:*** *Tax Compliance Costs, Tax Incentives, Financial Performance, Manufacturing Industries.*

1. **Introduction**

Tax compliance costs encompass the expenses incurred by firms to adhere to tax regulations. These costs include accounting fees, legal consultations, administrative overheads, and the costs associated with tax audits and disputes. High tax compliance costs particularly burdensome for manufacturing firms, where resource allocation towards tax compliance can divert funds from productive investments and innovation. Slemrod (2024) highlights that such costs can negatively impact firms’ profitability and operational efficiency by consuming financial resources that could otherwise be directed towards growth-oriented activities. Djankov (2020) reveals that firms operating in countries with more complex tax systems face higher compliance costs, which are inversely related to their profitability. This complexity often leads to inefficiencies and additional administrative burdens, making it challenging for firms to manage their tax obligations effectively.

Tax incentives are designed to encourage specific business behaviors by reducing tax liabilities through mechanisms such as deductions, credits, and exemptions. For manufacturing industries, these incentives play a pivotal role in enhancing financial performance by lowering tax burdens and freeing up capital for investment in expansion and innovation. Devereux and Griffith (2023) argue that well-designed tax incentives, such as investment tax credits and accelerated depreciation, can significantly boost capital investment and productivity, thus improving the financial performance of manufacturing firms. Grubert and Mutti (2020) show that tax incentives can influence firms’ investment decisions by altering the after-tax returns on investment. By reducing effective tax rates, these incentives can stimulate investment in new technologies and infrastructure, leading to increased competitiveness and profitability.

Tax incentives are designed to mitigate the financial burden on firms and encourage specific business behaviors, such as investment in capital, research and development (R&D), and expansion into new markets. Recent literature has shown that tax incentives can significantly improve the financial performance of manufacturing firms by reducing their effective tax rates and increasing their post-tax returns on investment (Grubert & Mutti, 2020). Devereux and Griffith (2023) demonstrate that investment tax credits and accelerated depreciation allowances can enhance capital investment and productivity in manufacturing industries. Auerbach and Hassett (2024) indicates that R&D tax credits stimulate innovation and long-term growth by providing firms with financial resources to invest in new technologies. Hines (2020), suggest that well-designed tax incentive programs can lead to substantial improvements in firm performance, including higher profitability, increased investment, and enhanced competitive positioning. These findings underscore the importance of effective tax policy in fostering a favorable business environment.

The interaction between tax compliance costs and tax incentives have complex implications for manufacturing firms. While tax incentives aim to reduce tax burdens and promote investment, high compliance costs can offset these benefits by consuming resources that could be used for productive purposes. Hines (2020) suggests that the effectiveness of tax incentives may be diminished if firms face substantial compliance costs, which can negate the intended benefits of such incentives. The complexity and variability of tax incentive programs can create uncertainty, impacting firms’ financial planning and investment strategies. Auerbach and Hassett (2020) highlight that while tax incentives can encourage investment and growth, their effectiveness is often contingent on their design and the ease with which firms can access and utilize these incentives. Recent developments in tax policy and technology are also shaping the landscape of tax compliance and incentives. The increasing use of digital technologies in tax compliance processes aims to reduce administrative burdens and improve accuracy (OECD, 2020). Simultaneously, there is a growing focus on environmental sustainability, with new tax incentives targeting green technologies and sustainable practices (Brixiová., 2021).

The financial performance of manufacturing industries is influenced by a myriad of factors, among which tax compliance costs and tax incentives play crucial roles. Tax compliance costs refer to the expenses associated with adhering to tax regulations, including accounting, legal services, and administrative overheads. These costs significantly impact the financial health of manufacturing firms, often consuming resources that otherwise be directed towards productive activities or innovation. Tax incentives, on the other hand, are designed to encourage certain business behaviors by offering financial benefits, such as deductions, credits, or exemptions. These incentives can enhance the profitability and competitive edge of manufacturing firms by reducing their tax liabilities and freeing up capital for investment in growth and development. Research has shown that high tax compliance costs reduce the profitability of manufacturing firms by diverting resources away from core operations and imposing financial strain (Slemrod, 2024). Conversely, tax incentives can stimulate financial performance by lowering tax burdens and encouraging investments in key areas such as research and development (Devereux & Griffith, 2023).

The interplay between tax compliance costs, tax incentives, and the financial performance of manufacturing industries is a rich field of study with substantial implications for both business strategy and policy formulation. Tax compliance costs are a significant burden for manufacturing firms. These costs include expenses related to tax planning, preparation, filing, and disputes, which can consume considerable financial resources. The complexity of tax regulations and frequent changes in tax laws can exacerbate these costs (Slemrod, 2024). Recent studies have highlighted that high tax compliance costs can adversely affect firm profitability and operational efficiency. For instance, a study by Djankov. (2020) found that in countries with more complex tax systems, firms face higher compliance costs, which are inversely related to their profitability. Hines and Rice (2024) indicates that firms with higher compliance costs are less likely to invest in new technologies or expand operations, as resources are diverted towards managing tax-related issues rather than productive investments. This diversion of resources can lead to reduced competitiveness in the global market.

Recent developments in tax policy and compliance highlight an ongoing shift towards digitalization and automation. The adoption of advanced technologies in tax compliance, such as artificial intelligence and blockchain, is expected to reduce compliance costs by streamlining processes and improving accuracy (OECD, 2020). On the incentive side, there is a growing trend towards providing targeted incentives for sustainable practices and green technologies, reflecting a broader policy focus on environmental sustainability (Brixiová et al., 2021). The current state of research indicates a complex relationship between tax compliance costs, tax incentives, and the financial performance of manufacturing industries. While high compliance costs can hinder firm performance, well-structured tax incentives have the potential to enhance profitability and growth. The ongoing evolution of tax systems and policies continues to shape these dynamics, influencing how manufacturing firms navigate their financial strategies. Therefore, it is imperative to determine the influence of tax compliance cost and tax incentives on financial performance of manufacturing industries

1. **Statement of Problems**

The interplay between tax compliance costs, tax incentives, and the financial performance of manufacturing industries presents several complex issues that impact firms' financial health and strategic decisions. Manufacturing firms often face substantial costs related to tax compliance, including administrative, legal, and accounting expenses. These costs disproportionately affect smaller and mid-sized firms, which lack the resources to efficiently manage tax obligations (Slemrod, 2024). High compliance costs lead to reduced profitability by diverting funds away from productive investments and core business activities. Djankov,(2020) indicates that complex tax systems exacerbate these costs, leading to inefficiencies and potentially stifling growth. The substantial burden of tax compliance costs influences manufacturing firms' investment decisions. According to Hines and Rice (2024), firms facing high compliance costs are less likely to invest in new technologies or expand operations. This reluctance to invest limit firms’ ability to innovate and remain competitive, ultimately affecting their long-term financial performance.

Tax incentives are designed to stimulate investment and growth; however, their effectiveness vary significantly depending on design and implementation. Devereux and Griffith (2023) shows that well-structured incentives, such as investment tax credits and accelerated depreciation, boost capital investment and productivity. Conversely, poorly designed or inefficient incentive programs may not deliver the expected benefits and could lead to unintended consequences, such as tax avoidance or misallocation of resources (Grubert & Mutti, 2020). The complexity and variability of tax incentive systems create uncertainty for manufacturing firms, making it difficult to plan and forecast financial performance accurately. Studies have highlighted that frequent changes in tax policies and incentives create a volatile business environment, potentially discouraging long-term investment and strategic planning (Hines, 2020). Firms struggle to navigate these uncertainties, impacting their financial stability and growth prospects.

Access to tax incentives uneven, with larger firms often having better resources to take advantage of available benefits compared to smaller firms. This disparity exacerbate competitive imbalances within the manufacturing sector. Auerbach and Hassett (2024) suggests that while large firms effectively leverage tax incentives, smaller firms may not fully capitalize on these opportunities due to limited resources or expertise, affecting their financial performance and market position. The increasing adoption of digital technologies in tax compliance processes is expected to reduce compliance costs by enhancing efficiency and accuracy. However, there is limited research on how digitalization impacts manufacturing firms specifically. The challenge remains in understanding how these technological advancements leveraged to reduce compliance costs ensuring that they are accessible and beneficial to firms of all sizes (OECD, 2020). Therefore, it is imperative to determine the influence of tax compliance cost and tax incentives on financial performance of manufacturing industries

**Purpose of the Study**

 Generally, the purpose of the study was to examine “influence of tax compliance cost and tax incentives on financial performance of manufacturing industries”. Specifically, the study seeks to determine influence of:

1. Accounting Costs on financial performance of manufacturing industries in Nigeria

2. Audit Costs on financial performance of manufacturing industries in Nigeria

3. Tax Exemptionson financial performance of manufacturing industries in Nigeria

**Research Questions**

 The following questions were raised to guide the study

1. What is the influence of Accounting Costs on financial performance of manufacturing industries in Nigeria?

2. What is the influence of Audit Costs on financial performance of manufacturing industries in Nigeria?

3. What is the influence of Tax Exemptionson financial performance of manufacturing industries in Nigeria?

The following null hypotheses guided the study were tested at the 0.05 level of significance:

1. The mean rating of managers and accountant is not significantly related the influence of Accounting Costs on financial performance of manufacturing industries in Nigeria
2. The mean rating of managers and accountant is not significantly related the influence of Audit Costs on financial performance of manufacturing industries in Nigeria
3. **Methodology**

Descriptive survey research design was used in carrying out this study, with total population of 947 Managers and Accountant of manufacturing industry in Cross River State, Nigeria. The sample size of two hundred and sixty nine (269) Managers and Accountant of manufacturing industry in Cross River State, Nigeria was drawn for the study obtained using Cohen, Mansion and Morison (2018) criteria for a populations sampling at confidence interval level of 95$\%$ confidence level were composed using multi-stage sampling. Questionnaire “influence of tax compliance cost and tax incentives on financial performance of manufacturing industries Questionnaire (ITCTIFPMIQ) was used. The questionnaire was validated by 3 lecturers: 2 from Department of vocational technical education and 1 from Department of science education. The reliability; cluster A=0.77, cluster B=0.72, cluster C= 0.81 and cluster D = 0.69 with an overall reliability coefficient of 0.76 was obtained through Cronbach alpha method. Mean and standard deviation was used to answer research questions. The mean value of 2.5 was used as the bench mark for answering the research questions. Mean values of 2.5 and above was considered as agreed while mean values below 2.5 was considered as disagreed. The null hypotheses was tested using independent t – test statistic at 0.05 level of significance. The null hypotheses was rejected if the probability value was less than the set value of 0.05 level of significance (P< 0.05), but if any probability value was greater than or equal to 0.05 (P≥0.05), such null hypothesis was not rejected.

1. **Presentation of Results**

**Question One:** What is the influence of Accounting Costs on financial performance of manufacturing industries in Nigeria?

**Table 1: Mean and Standard Deviation of Respondents on the influence of** Accounting Costs on financial performance of manufacturing industries in Nigeria

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| S/NO | ITEM STATEMENT | N | MEAN | SD | DEC |
| 1 | Accurate cost information allows manufacturers to set prices that cover costs TO achieve desired profit margins. | 269 | 1.3569 | .47997 | D |
| 2 | Accounting data provides a foundation for budgeting via financial forecasting | 269 | 2.8810 | .98533 | A |
| 3 | Effective accounting systems enable better management of variable as well as fixed costs | 269 | 2.8773 | .93631 | A |
| 4 | Accurate accounting helps manufacturing firms track their expenses, such as raw materials, labor | 269 | 3.1561 | .90075 | A |
| 5 | Accounting costs impact decisions about investing in new projects, equipment, or expansions  | 269 | 2.9294 | .88448 | A |
| 6 | Detailed cost analysis helps evaluate the potential return on investment | 269 | 3.0892 | .91802 | A |
| 7 | Accurate accounting helps in calculating taxes correctly by ensures compliance with tax regulations, avoiding penalties as to improving financial stability. | 269 | 2.68032.8700 | .788220.7900 | A |
|  |

Data on table 1 shows the mean and standard deviation of respondents on theinfluence of Accounting Costs on financial performance of manufacturing industries in Nigeria. The result showed that the items have mean ratings of; 1.3569, 2.8810, 2.8773, 3.1561, 2.9294, 3.0892 and 2.6803 with standard deviations of; .47997, .98533, .93631, .90075, .88448, .91802 and .78822 respectively. These mean ratings are above the criterion level of 2.50 set for accepting an item, this means that the following; Accounting data provides a foundation for budgeting via financial forecasting, Effective accounting systems enable better management of variable as well as fixed costs, Accurate accounting helps manufacturing firms track their expenses, such as raw materials, labor, Accounting costs impact decisions about investing in new projects, equipment, or expansions, Detailed cost analysis helps evaluate the potential return on investment and Accurate accounting helps in calculating taxes correctly by ensures compliance with tax regulations, avoiding penalties as to improving financial stability. The mean and standard deviation of for managers and accountants agreed that Accounting Costs influences the financial performance of manufacturing industries in Nigeria.

**Hypothesis1.** The mean rating of managers and accountant is not significantly related the influence of Accounting Costs on financial performance of manufacturing industries in Nigeria

**Table 2: *T-test Analysis of the Mean Ratings of* managers and accountant is not significantly related the influence of Accounting Costs on financial performance of manufacturing industries in Nigeria**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **S/NO** | **ITEM STATEMENT** | Group | N | Mean | Sd | **T** | DF | Sig | Dec |
|  |  |  |  |  |  |  |  |  |  |
| **1** | Accurate cost information allows manufacturers to set prices that cover costs to achieve desired profit margins. | managersaccountant | 17396 | 2.9822.697 | 1.0366.85986 | 2.28 | 267 | .03 | **S** |
| **2** | Accounting data provides a foundation for budgeting via financial forecasting | managersaccountant | 17396 | 2.8902.854 | .99684.82052 | 2.41 | 267 | 000 | **S** |
| **3** | Effective accounting systems enable better management of variable as well as fixed costs | managersaccountant | 17396 | 3.3352.833 | .89102.82929 | .302 | 267 | .000 | **NS** |
| **4** | Accurate accounting helps manufacturing firms track their expenses, such as raw materials, labor | managersaccountant | 17396 | 3.1092.604 | .84535.86425 | .319 | 267 | .000 | **NS** |
| **5** | Accounting costs impact decisions about investing in new projects, equipment, or expansions  | managersaccountant | 17396 | 3.2542.791 | .94256.79361 | 4.53 | 267 | .06 | **S** |
| **6** | Detailed cost analysis helps evaluate the potential return on investment | ManagersAccountant | 17396 | 2.5722.875 | .82246.68441 | 4.63 | 267 | .000 | **S** |
| **7** | Accurate accounting helps in calculating taxes correctly by ensures compliance with tax regulations, avoiding penalties as to improving financial stability. | ManagersAccountant | 17396 | 2.6762.770 | .92721.74663 | 4.66 | 267 | .63 | **S** |
|  |  |  |  |  |  |  |  |  |  |

Data on table2 ***Mean Ratings of* Managers and Accountant is not significantly related the influence of Audit Costs on financial performance of manufacturing industries in Nigeria.** ; The Result showed that all items have mean ratings of: 2.9827,2.6979, .99684,.82052, 3.3353, 2.8333, 3.1098, 2.6042, 3.2543, 2.7917, 2.5723, 2.8750 and 2.6763,2.7708 for managers and accountants respectively .This implies that the influence of **Accounting Costs on financial performance of manufacturing industries in Nigeria are;** Accurate cost information allows manufacturers to set prices that cover costs to achieve desired profit margins, Accounting data provides a foundation for budgeting via financial forecasting, Accounting costs impact decisions about investing in new projects, equipment, or expansions, Detailed cost analysis helps evaluate the potential return on investment and Accurate accounting helps in calculating taxes correctly by ensures compliance with tax regulations, avoiding penalties as to improving financial stability. However, the result shows that there is significant difference between the mean ratings of **Managers and Accountant on the influence of Accounting Costs on financial performance of manufacturing industries in Nigeria.** With a degree of freedom of 267, significant or probability value of 0.00 was obtained. Since the cluster probability value of 0.00 less than 0.05 level of significance (P< 0.05), this means that hypothesis one (1) which stated that The mean rating of managers and accountant is not significantly related the influence of Accounting Costs on financial performance of manufacturing industries in Nigeria is rejected. There is significant difference between the mean ratings of **Managers and Accountant on the influence of Accounting Costs on financial performance of manufacturing industries in Nigeria. This is in agreement with the findings of** Torgler, B., & Schneider, F. (2019), The burden of compliance may deter firms from making new investments or expanding operations, as resources are diverted to manage tax obligations rather than growth initiatives. Zodrow, G. R., & Mieszkowski, P. (2016) High compliance costs erode profit margins, especially for small to medium-sized manufacturing firms with fewer resources to absorb these expenses. This financial strain can impact overall financial performance and competitiveness

**Question Two:** What is the influence of Audit Costs on financial performance of manufacturing industries in Nigeria?

**Table 3: Mean and Standard Deviation of Respondents on the influence of** Audit Costs on financial performance of manufacturing industries in Nigeria

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| s/n | Item statement  | N | mean | SD | DEC |
| 8 | Regular audits ensure that financial statements are accurate | 269 | 2.7100 | .86685 | A |
| 9 | Adhering to these standards helps avoid legal penalties which can otherwise negatively impact financial performance | 269 | 2.7472 | .86992 | A |
| 10 | Audits assess the effectiveness of internal controls by recommending improvements. | 269 | 2.8867 | .50116 | A |
| 11 | Regular audits provide assurance to investors, lenders as well as stakeholders about the accuracy -reliability of financial statements | 269 | 2.7732 | .87921 | A |
| 12 | Audits provide valuable insights into the financial health/ performance of the company. | 269 | 2.9219 | .84058 | A |
| 13 | The direct costs of audits, including fees paid to external auditors, can be significant. | 269 | 2.8885 | .83007 | A |
| 14 | Regular audits enhance a company’s reputation for transparency | 269 | 2.9405 | .81737 | A |
| 15 |  |  | 2.76 | .56000 |  |

Data on table 3 shows the mean and standard deviation of respondents on the **influence of** Audit Costs on financial performance of manufacturing industries in Nigeria. The result showed that the items have mean ratings of; 2.7100, 2.7472, 2.8867, 2.7732, 2.9219, 2.8885 and 2.9405 with standard deviations of; .86685, .86992, .50116, .87921, .84058, .83007, .81737 respectively .These mean ratings are above the criterion level of 2.50 set for accepting an item, this means that the following; Regular audits ensure that financial statements are accurate, Adhering to these standards helps avoid legal penalties which can otherwise negatively impact financial performance, Audits assess the effectiveness of internal controls by recommending improvements, Regular audits provide assurance to investors, lenders as well as stakeholders about the accuracy -reliability of financial statements, Audits provide valuable insights into the financial health/ performance of the company, The direct costs of audits, including fees paid to external auditors, can be significant and Regular audits enhance a company’s reputation for transparency. The cluster mean of 2.77 with a standard deviation of 0.5600 for managers and accountants showed that Audit Costs influences the financial performance of manufacturing industries in Nigeria.

**Hypothses2:** The mean rating of managers and accountant is not significantly related the influence of Audit Costs on financial performance of manufacturing industries in Nigeria.

**Table 4: *T-test Analysis of the Mean Ratings of* managers and accountant is not significantly related the influence of** Audit Costs **on financial performance of manufacturing industries in Nigeria**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Sn | ITEM STATEMNT | GROUP | N | MEAN | SD | T | DF | SIG | DEC |
|  |  |  |  |  |  |  |  |  |  |
| 8 | Regular audits ensure that financial statements are accurate | managersAccount | 17396 | 2.69942.8333 | .89042.82929 | -1.211 | 267 | .049 | NS |
| 9 | Adhering to these standards helps avoid legal penalties which can otherwise negatively impact financial performance | managersAccount | 17396 | 2.94292.7852 | .47976.52501 | -1.236 | 267 | .000 | NS |
| 10 | Audits assess the effectiveness of internal controls by recommending improvements. | managersAccount | 17396 | 2.83242.6667 | .84268.93659 | 2.497 | 267 | .163 | NS |
| 11 | Regular audits provide assurance to investors, lenders as well as stakeholders about the accuracy -reliability of financial statements | managersAccount | 17396 | 3.04622.6979 | .77621.90751 | 2.433 | 267 | .000 | NS |
| 12 | Audits provide valuable insights into the financial health/ performance of the company. | managersAccount | 17396 | 3.00002.6875 | .79241.86222 | 1.484 | 267 | .243 | NS |
| 13 | The direct costs of audits, including fees paid to external auditors, can be significant. | managersAccount | 17396 | 2.97692.8750 | .84876.75742 | 1.440 | 267 |  | NS |
| 14 | Regular audits enhance a company’s reputation for transparency | managersAccount | 17396 | 2.80352.7813 | .86709.74273 | 3.316 | 267 | .001 | NS |
| 15 |  |  |  |  |  | 3.172 | 267 |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

Result on Table 4 is a ***T-test Analysis of the Mean Ratings of* managers and accountant is not significantly related the influence of** Audit Costs **on financial performance of manufacturing industries in Nigeria**. Result shows that there is no significant difference between the mean ratings of Managers and Accountants on all the items. With a degree of freedom of 267 and a significant or probability value of 0.49 were obtained. Since the probability value of 0.49 is LESS than 0.05 level of significance (P>0.05). This means that hypothesis two(2) which stated that; The mean rating of managers and accountant is not significantly related the influence of Audit Costs on financial performance of manufacturing industries in Nigeria., is not rejected. The inference drawn is that, there is no significant difference between the mean ratings of SMEs Managers and Accountants on influence of Audit Costs on financial performance of manufacturing industries in Nigeria.

3. What is the influence of Tax Exemptionson financial performance of manufacturing industries in Nigeria

**Table 5: Mean and Standard Deviation of Respondents on the influence of** Tax Exemptionson financial performance of manufacturing industries in Nigeria

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/O** | **ITEM STATEMENT** | **N** | **MEAN** | **SD** | **DEC** |
|  |  |  |  |  |  |
| 15 | Tax exemptions lower the overall tax liability of manufacturing firms, leading to significant cost savings | 269 | 2.7807 | .88533 | A |
| 16 | tax exemptions make the manufacturing sector more attractive to investors | 269 | 2.9071 | .77910 | A |
| 17 | Tax exemptions contribute to lower overall operating costs which give manufacturing firms a competitive edge | 269 | 2.8742 | .51648 | A |
| 18 | The financial benefits of tax exemptions support long-term strategic planning as well as growth initiatives | 269 | 2.8141 | .91159 | A |
| 19 | Proper utilization of tax exemptions, combined with transparent reporting enhance a company’s reputation | 269 | 2.8030 | .86075 | A |
| 20 | Tax exemptions stimulate growth in the manufacturing sector, contributing to overall economic development | 269 | 2.7993 | .87067 | A |
|  |  |  |  |  |  |

Data on table 5 shows the mean and standard deviation of respondents on theinfluence of Tax Exemptionson financial performance of manufacturing industries in Nigeria. The result showed that the items have mean ratings of, 2.7807, 2.9071, 2.8742, 2.8141, 2.8030 AND 2.7993 with standard deviations of; .88533, .77910, .51648, .91159, .86075 AND.87067 respectively. These mean ratings are above the criterion level of 2.50 set for accepting an item, this means that the following; Tax exemptions lower the overall tax liability of manufacturing firms, leading to significant cost savings, tax exemptions make the manufacturing sector more attractive to investors, Tax exemptions contribute to lower overall operating costs which give manufacturing firms a competitive edge, The financial benefits of tax exemptions support long-term strategic planning as well as growth initiatives, Proper utilization of tax exemptions, combined with transparent reporting enhance a company’s reputation AND Tax exemptions stimulate growth in the manufacturing sector, contributing to overall economic development. The mean and standard deviation for managers and accountants agreed that Tax Exemptions has influence onfinancial performance of manufacturing industries in Nigeria

**Discussions of Findings**

Tax compliance costs represent a significant burden for manufacturing firms. These costs include expenses related to accounting, legal services, and administrative efforts necessary to adhere to tax regulations. Saad (2014), opined, that high compliance costs strain the financial resources of manufacturing companies, reducing their profitability and potentially leading to higher product prices. This strain particularly impact small and medium-sized enterprises (SMEs), which may lack the financial and human resources to manage these costs efficiently. Tax compliance costs erode the competitive advantage of manufacturing firms. As outlined by Slemrod and Vickrey (2024), firms that face higher compliance costs experience reduced margins, making it challenging to compete on price with firms in regions or countries with lower compliance costs. This is crucial in industries where price competition is intense and margins are thin.

 Manufacturers delay or forgo investment opportunities due to the high costs of compliance. Desai and Dharmapala (2019), stressed that firms burdened by substantial compliance costs might be less inclined to invest in new technologies or expand operations, which hinder long-term financial performance and growth. Tax incentives, such as credits, deductions, and subsidies, significantly improve the cash flow of manufacturing firms. These incentives reduce the tax burden, allowing firms to allocate more resources toward capital investments, research and development, and other growth initiatives. Auerbach (2022),stressed that tax incentives stimulate investment by increasing the after-tax return on capital, thus enhancing financial performance.

Tax incentives play a crucial role in attracting foreign direct investment (FDI) into the manufacturing sector. Firms operating in countries with favorable tax policies often experience increased foreign investment. OECD (2021), tax incentives make a location more attractive to multinational companies, which lead to increased industry growth and improved financial performance for local firms. Tax incentives lead to operational improvements. For example, incentives for investing in new technologies or energy-efficient practices lead to cost savings and increased productivity. Zodrow and Mieszkowski (1986), OECD (2021), these improvements enhance the overall financial performance of manufacturing firms by reducing operating costs and increasing output.

 The overall impact of tax compliance costs and tax incentives on financial performance depends on the balance between these factors. Firms that effectively manage compliance costs, taking full advantage of tax incentives will potentially see improved financial outcomes. Conversely, firms burdened by high compliance costs without significant tax incentives face financial challenges. Manufacturing firms that engage in strategic tax planning may mitigate the negative effects of compliance costs and maximize the benefits of tax incentives. Alm and Martinez-Vazquez (2003), strategic planning help firms navigate the complexities of tax regulations, reducing compliance costs and optimizing the use of available incentives to enhance financial performance.

1. **Recommendations**

 Implement advanced tax software to automate and streamline compliance processes. This can reduce the administrative burden and minimize errors.

Advocate for simplified tax regulations and procedures that reduce the complexity of compliance, making it easier for manufacturing companies to adhere to tax laws.

Offer regular training for finance and accounting teams on current tax laws and compliance requirements to ensure they are up-to-date and efficient.

Ensure that the company fully understands and takes advantage of available tax incentives, such as credits for research and development (R&D) or investment in capital assets.

Integrate tax incentive opportunities into the company's strategic planning to optimize the benefits. This could include timing of investments or expenditures to align with incentive periods.

 Manage cash flow efficiently to ensure that compliance costs do not unduly strain financial resources. Implement strategies for better cash flow management, such as timely invoicing and expense management.

Keep detailed records of all transactions related to tax compliance and incentives. This helps in accurate reporting and can be useful in audits or reviews.

### 5.1 Conclusion

The influence of tax compliance costs and tax incentives on the financial performance of manufacturing industries is significant and multifaceted. Tax compliance costs—encompassing administrative expenses, the cost of professional services, and the resources allocated to adhere to regulatory requirements directly impact a company’s bottom line. These costs, if not managed efficiently, can erode profit margins and detract from the resources available for investment and growth.

Conversely, tax incentives present a valuable opportunity for manufacturing industries to enhance their financial performance. Incentives such as tax credits, deductions, and preferential tax rates reduce the effective tax burden and free up capital for reinvestment in the business. Properly leveraged, these incentives improve cash flow, support expansion initiatives, and foster innovation and competitiveness.

 Companies should continuously assess the impact of compliance costs and tax incentives on their financial performance. This involves regular benchmarking and adjusting strategies to align with evolving financial conditions and regulatory landscapes.

Engaging with policymakers and providing feedback on tax regulations can contribute to a more favorable business environment. Advocacy for simplified compliance processes and expanded incentives can benefit the industry as a whole.

 Developing a strong internal culture focused on compliance and efficient use of incentives can drive overall performance improvements and ensure adherence to best practices. Tax compliance costs represent a challenge for manufacturing industries, the strategic use of tax incentives mitigate these costs and enhance financial performance. By adopting best practices in tax compliance and leveraging available incentives, manufacturing companies improve their profitability, competitive position, and long-term financial health.

**5.2 Implications of the Study**

The influence of tax compliance costs and tax incentives on the financial performance of manufacturing industries has several critical implications for both companies and policymakers. These implications help guide strategic decisions and policy formulations.

High tax compliance costs strain financial resources and divert attention from core business activities. Companies need to invest in specialized personnel and technology to manage these costs effectively.

High compliance costs negatively impact cash flow, limiting funds available for growth and capital investments. Strategic planning is required to balance compliance costs with investment opportunities.

Complex and changing tax regulations increase the risk of non-compliance, which lead to fines, penalties, and reputational damage. Companies need robust risk management strategies to navigate these risks effectively.

Complex tax regulations contribute to high compliance costs and disproportionately affect smaller manufacturers. Simplifying tax laws and compliance procedures reduce the burden on businesses and foster a more favorable business environment.

**Disclaimer (Artificial intelligence)**

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc.) and text-to-image generators have been used during the writing or editing of this manuscript.

**References**

Alm, J., & Martinez-Vazquez, J. (2003). "The Effects of Tax Policy on Economic Growth." *Economic Development and Cultural Change*, 51(3), 631-659.

 Auerbach, A. J. (2002). "Taxation and the Financial Performance of Firms." *National Tax Journal*, 55(4), 659-686.

Auerbach, A. J., & Hassett, K. A. (2024). On the Marginal Source of Investment Funds. *Journal of Public Economics, 89*(11), 2127-2147.

Brixiová, Z., & Brixiová, Z. (2021). Green Tax Incentives and the Transition to a Sustainable Economy. *World Development, 137*, 105174.

 Desai, M. A., & Dharmapala, D. (2019). "Corporate Tax Avoidance and High-powered Incentives." *Journal of Financial Economics*, 74(3), 512-534.

Devereux, M. P., & Griffith, R. (2023). Evaluating Tax Policy for Location Decisions. *International Tax and Public Finance, 10*(2), 107-126.

Djankov, S., Ganser, T., McLiesh, C., & Shleifer, A. (2020). The Effect of Corporate Taxes on Investment and Entrepreneurship. *American Economic Journal: Macroeconomics, 2*(3), 31-55.

Grubert, H., & Mutti, J. (2020). Do Taxes Influence Where U.S. Corporations Invest? *National Tax Journal, 53*(4), 825-839.

Hines, J. R. (2020). Treasure Hunts, Tax Havens, and the Value of Government. *National Bureau of Economic Research Working Paper Series, No. 16194*.

Hines, J. R., & Rice, E. M. (2024). Fiscal Paradise: Foreign Tax Havens and American Business. *Quarterly Journal of Economics, 109*(1), 149-182.

OECD. (2020). Tax Administration 2020: Comparative Information on OECD and Other Advanced and Emerging Economies. *OECD Publishing*.

 Saad, R. (2024). "Tax Compliance Costs and the Impact on Firms." *Journal of Financial Reporting and Accounting*, 12(2), 72-92.

Slemrod, J. (2024). The Economics of Tax Compliance. *Journal of Economic Perspectives, 18*(1), 3-20.

 Slemrod, J., & Vickrey, W. (2024). "The Role of Tax Compliance Costs in the U.S. Economy." *Tax Policy and the Economy*, 18, 141-171.

Torgler, B., & Schneider, F. (2019). "The Impact of Tax Morale and Institutional Quality on the Shadow Economy." Journal of Economic Psychology, 30(6), 995-1005.

 Zodrow, G. R., & Mieszkowski, P. (2016). "Pigovian Taxation, Market Distortions, and the Growth of Public Expenditures." *Journal of Public Economics*, 29(3), 351-368