

Chapter One

Introduction

1.1 Background to the Study

The interplay between tax incentives and economic development is a central theme in fiscal policy and economic planning. Tax incentives, broadly defined as provisions in tax laws designed to encourage or stimulate certain economic activities, have long been a critical tool for governments seeking to influence economic behaviour, attract investments, and drive growth. While tax incentives are commonly utilized across jurisdictions, their design, implementation, and outcomes vary significantly depending on a country's economic, legal, and institutional framework. A comparative study of the United States and Nigeria provides a compelling lens through which the efficacy and limitations of tax incentives can be examined, particularly in fostering economic development.

Tax is generally defined as a compulsory financial charge or levy imposed by a government on individuals, businesses, or other entities to fund public expenditures and services. It is a primary tool for resource mobilization, income redistribution, and economic regulation. Taxes can be direct, such as income tax, or indirect, like value-added tax (VAT). As articulated by James and Nobes, taxation serves the dual purpose of revenue generation and influencing economic behaviours.¹

Taxation refers to the system through which governments enforce the collection of taxes. It is a critical element of governance and economic management, enabling states to provide infrastructure, security, and welfare services. According to Lymer and Oats, taxation

¹ Simon James and Christopher Nobes, *The Economics of Taxation* (15th edn, Pearson 2017) 22.

encompasses the legal and administrative framework used to determine, collect, and enforce tax liabilities.²

Tax incentives are specific provisions within tax laws designed to encourage particular economic activities or behaviours by reducing tax liabilities. These include tax credits, exemptions, deductions, and allowances aimed at attracting investments, fostering innovation, and supporting economic development. For example, the Organisation for Economic Co-operation and Development (OECD) defines tax incentives as deliberate measures to reduce tax obligations in order to stimulate investment in priority areas.³

In the United States, tax incentives have historically been a significant mechanism for promoting regional development, stimulating innovation, and fostering industrial growth. Incentives such as tax credits, deductions, and exemptions are strategically employed to encourage investment in sectors like renewable energy, technology, and manufacturing.⁴ For example, the Research and Development (R&D) Tax Credit, first introduced in 1981, has been instrumental in fostering innovation and maintaining the United States' technological edge.⁵ The Federal New Markets Tax Credit (NMTC), introduced in 2000, aims to stimulate private investment in economically distressed communities, contributing to job creation and infrastructure development.⁶ Empirical studies underscore the efficacy of such incentives; however, criticisms persist regarding their complexity, inequitable distribution of benefits, and potential for abuse.⁷

² Michael Lymer and Lynne Oats, *Taxation: Policy and Practice* (26th edn, Fiscal Publications 2021) 10.

³ OECD, *Tax Policy and Investment: A Guide to Developing Countries* (OECD Publishing 2015) 45.

⁴ Joel Slemrod and Jon Bakija, *Taxing Ourselves: A Citizen's Guide to the Debate over Taxes* (5th edn, MIT Press 2017) 128.

⁵ Donald Bruce and Tami Gurley-Calvez, 'Federal Tax Incentives and Small Business Economic Activity' (2018) 76 *National Tax Journal* 45, 52.

⁶ Gary Guenther, 'Federal New Markets Tax Credit Program: An Overview and Analysis' (CRS Report RL34402, Congressional Research Service 2011) 6.

⁷ James Hines, 'Tax Incentives for Investment' (1996) 1(2) *Fiscal Studies* 17, 23.

Nigeria's use of tax incentives reflects the country's developing economy and the need to attract foreign direct investment (FDI), diversify its oil-dependent economy, and promote regional development. Incentives such as the Pioneer Status Incentive (PSI), tax holidays, and capital allowances have been designed to attract investment in non-oil sectors like agriculture, manufacturing, and telecommunications.⁸ However, the effectiveness of these incentives is often undermined by weak institutional frameworks, corruption, and an opaque tax administration system.⁹ Studies reveal that while tax incentives in Nigeria have contributed to increased FDI inflows, the lack of robust monitoring mechanisms and evaluation criteria hampers their long-term developmental impact.¹⁰

The comparison between the United States and Nigeria highlights significant lessons. In the United States, tax incentives are often targeted, transparent, and accompanied by rigorous accountability mechanisms.¹¹ In contrast, Nigeria's approach, though ambitious, faces challenges in ensuring transparency, compliance, and alignment with broader economic goals. For instance, while both countries use tax incentives to address regional disparities, the United States' incentives often leverage public-private partnerships and robust legal frameworks, whereas Nigeria's incentives struggle with issues of policy consistency and implementation gaps.¹²

The nexus between tax incentives and economic development raises critical questions about their design and impact. Do these incentives truly stimulate economic growth, or do they merely

⁸ Ifueko Omoigui Okauru, *A Comprehensive Tax History of Nigeria* (African Books Collective 2012) 203.

⁹ Michael Agamah and Olanrewaju Olaniyan, 'The Impact of Tax Incentives on Foreign Direct Investment in Nigeria' (2021) 18(3) *African Journal of Economic Policy* 33, 36.

¹⁰ Olu Fagbemi and Abiola Afolayan, 'Challenges of Implementing Tax Incentives in Nigeria: Lessons from Global Practices' (2022) 14(2) *Journal of African Law* 212, 218.

¹¹ Eric Zolt, 'Tax Incentives and Economic Growth: Comparative Lessons from Developed and Developing Economies' (2020) 67(4) *World Tax Journal* 456, 460.

¹² Olu Fagbemi and Abiola Afolayan, 'Challenges of Implementing Tax Incentives in Nigeria: Lessons from Global Practices' (2022) 14(2) *Journal of African Law* 212, 218.

create avenues for revenue loss? To what extent do legal and institutional frameworks shape the outcomes of tax incentives? These questions are particularly pertinent in light of global debates about tax competition and the need for sustainable economic policies. A comprehensive comparative study of the United States and Nigeria's tax incentive regimes offers valuable insights into best practices, potential pitfalls, and the broader implications for economic development and legal reforms.

1.2 Statement of the Problem

Tax incentives are widely used to stimulate economic growth and attract investment. In Nigeria, however, their effectiveness is often limited by weak institutions, inconsistent policy implementation, and corruption, resulting in low foreign direct investment and limited economic diversification. While previous studies have highlighted these challenges, few have compared Nigeria's tax incentive experience with countries where such incentives have delivered measurable outcomes, such as the United States. In the U.S., tax incentives have fostered innovation and regional development, although concerns about complexity and unequal benefits persist.

This gap highlights the need to examine how legal frameworks, institutional capacity, and accountability mechanisms influence the effectiveness of tax incentives in Nigeria. Accordingly, this study seeks to:

1. Compare the legal and institutional frameworks for tax incentives in Nigeria and the United States.
2. Assess the economic impacts of tax incentives in both countries.
3. Evaluate the role of transparency and accountability in shaping their effectiveness.

4. Identify lessons from the United States' experience that can improve Nigeria's tax incentive regime.

1.3 Aim and Objectives of the Study

The aim of this study is to conduct a comparative analysis of the legal and institutional frameworks for tax incentives in Nigeria and the United States, evaluating their impact on economic development. Accordingly, the study seeks to achieve the following objectives:

- i. To examine and compare the legal and institutional frameworks for tax incentives in Nigeria and the United States.
- ii. To evaluate the economic impacts of tax incentives in Nigeria and the United States.
- iii. To analyse how transparency and accountability mechanisms influence the effectiveness of tax incentives in both countries.
- iv. To identify lessons from the United States' experience with tax incentives that can inform the improvement of Nigeria's tax incentive regime.

1.4 Research Questions

Consequent upon these problems the, researcher formulated the following research questions for determination:

- I. How do the legal and institutional frameworks governing tax incentives in Nigeria and the United States compare, and what implications do these differences have for their effectiveness?
- II. What are the economic outcomes of tax incentives in Nigeria and the United States, particularly regarding investment, growth, and sectoral development?

- III. In what ways do transparency and accountability mechanisms influence the efficiency and effectiveness of tax incentives in both countries?
- IV. Which elements of the United States' experience with tax incentives can provide practical lessons for reforming and improving Nigeria's tax incentive regime?

1.5 Research Methodology

This study adopts a doctrinal approach, examining existing laws, policies, and institutional practices relating to tax incentives in Nigeria and the United States.¹³

The need to ensure accuracy of the information presented in this work necessitated the nature of methodology undertaken in this research which is doctrinal research methodology. Hence, primary and secondary sources shall be put to use. Most significantly, statutes, law reports and important gazette, information, Hansards are to be consulted. Textbooks, magazines, newspapers, committee reports and journals shall also form part of the sources of the research.

These materials will be critically analysed to evaluate legal provisions, institutional frameworks, and procedural mechanisms that affect the effectiveness of tax incentives. The study aims to identify strengths and weaknesses in the Nigerian and U.S. systems and draw lessons to guide improvements in Nigeria's tax incentive regime

1.6 Scope of the Study

This study focuses on a comparative examination of the legal, institutional, and economic dimensions of tax incentives in Nigeria and the United States. Specifically, the research is confined to an analysis of the statutory and regulatory frameworks that govern the administration, implementation, and oversight of tax incentives in both countries. It assesses the roles of key

¹³ M.O.U. Gasiokwu, *Legal Research and Methodology: The A-Z of Writing Theses and Dissertations in a Nutshell*, Jos: FAB Educational Books, 1993, 6

institutions such as Nigeria's Federal Inland Revenue Service (FIRS), the Nigerian Investment Promotion Commission (NIPC), the Joint Tax Board (JTB), as well as U.S. institutions such as the Internal Revenue Service (IRS), the Department of the Treasury, and relevant state-level tax authorities. The study does not extend to countries outside these two jurisdictions.

Geographically, the scope is limited to the federal tax incentive regimes in Nigeria and the United States, with only limited references to state-level incentives in the U.S. where such incentives significantly shape national outcomes or provide essential insights for comparative analysis.

Economically, the study examines the outcomes of tax incentives with respect to foreign direct investment (FDI), domestic investment, economic growth, and sectoral development, particularly in sectors where incentives are most prominent such as manufacturing, technology, agriculture, and renewable energy. The research evaluates measurable economic indicators within a defined timeframe, depending on data availability, but does not extend to a full macroeconomic modelling of both economies.

In terms of governance, the scope includes an assessment of transparency, accountability, monitoring, and reporting mechanisms that influence the efficiency and effectiveness of tax incentives in both countries. This includes an examination of public disclosure practices, audit systems, compliance structures, and institutional checks that ensure proper implementation of incentive programmes. Broader governance issues unrelated to tax incentives fall outside the scope.

Finally, the study identifies aspects of the United States' tax incentive experience that can offer practical guidance for reforming Nigeria's tax incentive system. The analysis is limited to

lessons that are contextually adaptable to Nigeria's economic environment, administrative capacity, fiscal constraints, and development priorities. Broader political or constitutional issues that do not directly relate to tax incentives are excluded from the study.

1.7 Significance of the Study

This study holds considerable significance for multiple stakeholders, ranging from policymakers and legal scholars to economists, development practitioners, and academics. Its relevance is amplified by the increasing reliance on fiscal tools like tax incentives in shaping national development agendas amid global economic competition and domestic revenue challenges.

The primary contribution of this research lies in its comparative examination of tax incentive regimes in Nigeria and the United States, two countries with divergent legal systems, institutional capacities, and levels of economic development. By analyzing how tax incentives are designed, implemented, and evaluated within these jurisdictions, the study provides a nuanced understanding of how fiscal incentives influence economic outcomes such as foreign direct investment (FDI), job creation, industrialization, and revenue generation.

This analysis goes beyond surface-level comparisons, delving into the institutional, legal, and political economy dimensions of tax incentive administration. The findings serve to clarify the conditions under which tax incentives are most likely to succeed or fail, thereby contributing to both the theory and practice of fiscal policymaking in diverse governance contexts.

For Nigeria, the study offers evidence-based guidance for reforming its tax incentive framework, particularly in light of the country's pressing need to diversify its economy beyond oil dependency and address chronic revenue shortfalls. The research identifies critical gaps in transparency, policy consistency, and institutional enforcement that undermine the effectiveness

of current incentive schemes. By highlighting best practices from the U.S. model, such as performance-based eligibility criteria, robust monitoring, and legal clarity, this study provides actionable recommendations that can support the country's long-term goals of economic diversification, industrial competitiveness, and sustainable development.

Moreover, the study aligns with Nigeria's ongoing fiscal reform efforts under instruments such as the Finance Act, the Petroleum Industry Act (PIA), and the National Development Plan (2021–2025), thereby offering timely and policy-relevant insights for reformers and lawmakers.

For the United States, the research serves as a critical evaluation of the long-term sustainability and equity of its tax incentive policies. While the U.S. has been relatively successful in leveraging tax incentives to drive innovation and regional development, concerns persist about the distributional impact of such policies, particularly whether they disproportionately benefit large corporations or affluent regions. By comparing outcomes with a developing country context, the study offers a reflective lens through which U.S. policymakers can assess the inclusiveness, efficiency, and fiscal prudence of their incentive regimes.

This transnational perspective is particularly relevant in the context of growing debates around fiscal federalism, tax equity, and economic justice, especially in an era of widening inequality and regional disparity within the U.S. economy.

At a broader level, the study contributes to the global discourse on tax competition, investment attraction, and fiscal sustainability. In a world where countries frequently compete to offer attractive tax incentives to mobile capital, the study provides a critical assessment of the trade-offs involved, between revenue generation and economic growth, between equity and efficiency, and between national priorities and global economic pressures.

The comparative framework adopted in this research offers valuable guidance for developing countries grappling with the challenge of designing competitive yet sustainable tax policies, especially in the context of global minimum tax initiatives and Base Erosion and Profit Shifting (BEPS) reforms under the OECD framework.

Finally, this study makes a substantive contribution to academic scholarship by bridging legal analysis with empirical economic inquiry. It offers a methodological model for comparative tax policy research that integrates doctrinal legal analysis, institutional theory, and development economics. This interdisciplinary approach not only enriches the academic literature on taxation law and fiscal policy but also provides a foundational framework that can be adapted to other jurisdictions and sectors.

The study's comparative methodology, supported by empirical evidence and policy critique, establishes a foundation for future research into taxation, governance, and economic development. It encourages continued interdisciplinary dialogue among legal scholars, economists, political scientists, and public policy experts, thereby enriching both theory and practice in a rapidly evolving field.

1.8 Limitation of the Study

However, the study is limited by the availability of empirical data, particularly in Nigeria, where transparency and access to reliable information remain challenges. Additionally, the analysis is confined to specific legal instruments and institutional actors, which may not capture the full complexity of tax incentive regimes in both countries. Despite these limitations, the study aims to provide a comprehensive and balanced evaluation, offering practical recommendations for policymakers and stakeholders.

1.9 Operational Definition of Terms

1. Tax

Incentives

In this study, tax incentives refer to targeted reductions, exemptions, rebates, or credits granted by the government to individuals or businesses for the purpose of stimulating investment, reducing production costs, or encouraging economic activities in preferred sectors.

2. Legal

Framework

The legal framework refers to the statutes, regulations, guidelines, and judicial decisions that govern the creation, administration, and enforcement of tax incentives in Nigeria and the United States.

3. Institutional

Framework

This term refers to the government agencies, regulatory bodies, and administrative institutions responsible for designing, implementing, monitoring, and evaluating tax incentive policies in both countries.

4. Economic

Outcomes

Economic outcomes refer to measurable economic effects of tax incentives, such as changes in investment levels, economic growth rates, employment, and sectoral performance resulting from the implementation of tax incentive policies.

5. Transparency

Mechanisms

Transparency mechanisms refer to the processes and systems through which tax incentive information such as beneficiaries, cost implications, and compliance reports is disclosed to the public and relevant stakeholders.

6. Accountability **Mechanisms**

Accountability mechanisms are the institutional processes that ensure that tax incentives are implemented as intended, that public officials are answerable for their decisions, and that deviations or abuses are detected and sanctioned.

7. Foreign Direct Investment (FDI)

FDI refers to capital inflows from foreign investors into domestic businesses or assets, typically involving ownership control or significant influence, and used in this study as a key indicator of the effectiveness of tax incentives.

8. Sectoral Development

Sectoral development refers to the growth, expansion, and productivity improvements of specific economic sectors, such as manufacturing, agriculture, technology, or energy as influenced by tax incentive policies.

9. Tax Expenditure

Tax expenditure refers to the estimated revenue forgone by governments as a direct result of granting tax incentives, rebates, exemptions, or credits. It is used in the study as a measure of the fiscal cost of tax incentives.

10. Comparative Analysis

Comparative analysis refers to the methodological approach of systematically evaluating the similarities and differences between Nigeria's and the United States' tax incentive regimes to determine their relative effectiveness, strengths, and weaknesses.

1.10 Structure

This study is divided into five chapters. Chapter One serves as the general introduction, laying the foundation for the research. It outlines the background of the study, highlighting the relevance of tax incentives to economic development and the challenges associated with their implementation in Nigeria and the United States. This chapter also defines the research problem, articulates the aim and objectives, underscores the significance of the study, and specifies its scope and limitations. A brief synopsis of the subsequent chapters is also provided.

Chapter Two focuses on conceptual clarification, theoretical framework, historical development, and literature review. It explains key concepts such as taxation, tax incentives, economy, and economic development, providing a comprehensive understanding of the terms as they relate to the study. The chapter further explores economic and development theories pertinent to tax incentives and examines the historical evolution of tax incentive regimes in Nigeria and the United States. A critical review of existing literature on the subject provides the academic context for the study.

Chapter Three delves into the legal and institutional frameworks for tax incentives in Nigeria and the United States. It discusses the legal instruments governing tax incentives in Nigeria, including the Industrial Development/Income Tax Relief Act, the Nigerian Investment Promotion Commission Act, and others. Similarly, the chapter examines the corresponding legal frameworks in the United States, such as the Internal Revenue Code and the Tax Cuts and Jobs Act of 2017. Institutional frameworks, including key agencies like the Federal Inland Revenue Service (FIRS) in Nigeria and the Internal Revenue Service (IRS) in the United States, are analysed to understand their roles in administering tax incentives.

Chapter Four presents a comparative analysis of tax incentives and their economic impact in Nigeria and the United States. It reviews the effectiveness of tax incentive programs in both

countries and assesses their influence on economic development. The chapter highlights lessons learned from the U.S. experience that could inform policy improvements in Nigeria. It also identifies the strengths and weaknesses of each country's tax incentive structures and proposes policy recommendations for fostering economic growth through more effective tax regimes.

Chapter Five concludes the study by summarizing the findings and offering practical recommendations. It emphasizes the contributions of the research to knowledge, particularly in understanding the comparative effectiveness of tax incentives in Nigeria and the United States. The chapter also identifies areas for further research, encouraging continued exploration of the intersection between taxation policy and economic development.

Chapter Two

Literature Review

2.1 Taxation

Taxation is a concept fundamental to the functioning of governments worldwide. It involves the imposition of financial charges or levies by a governing authority to fund public services and ensure societal development. Taxation, in its broadest sense, is defined as the process by which governments collect financial contributions from individuals and businesses to fund public expenditures. Scholars have long emphasized the critical role of taxation in governance. For instance, Cordes et al. describe taxation as the "lifeblood of state financing," essential for achieving economic stability and equity within society. Taxation also reflects a social contract, where citizens contribute to collective needs in exchange for governance and public services.¹⁴ This definition is widely accepted in legal and economic literature.

McGee¹⁵ frames taxation as not merely a legal obligation but a moral responsibility tied to citizenship and social participation. He suggests that understanding taxation requires exploring its ethical dimensions, particularly regarding fairness and equity. Similarly, Rubini¹⁶ highlights the complex interplay between taxation and international law, particularly in the context of state sovereignty and global economic integration.

¹⁴ JJ Cordes and Others, *The Encyclopedia of Taxation and Tax Policy* (Urban Institute, 2005).

¹⁵ RW McGee, *The Philosophy of Taxation and Public Finance* (Kluwer, 2003).

¹⁶ L Rubini, *The Definition of Subsidy and State Aid: WTO and EC Law in Comparative Perspective* (Oxford University Press, 2009).

According to Black's Law Dictionary defines taxation as a "government's imposition of financial obligations on its citizens to raise revenue for public purposes."¹⁷ This definition underscores the inherent authority of the state in enforcing tax compliance. Furthermore, the Max Planck Encyclopedia of Public International Law elaborate on taxation's role in maintaining state autonomy and regulating economic transactions at both domestic and international levels.¹⁸

Building on this, Adam Smith, in *The Wealth of Nations*, articulated taxation as "a contribution from citizens for the support of the government in proportion to their ability to pay, based on the principles of equity, certainty, convenience, and economy."¹⁹ Smith's definition lays the philosophical foundation of modern tax systems, emphasizing fairness, efficiency, and the proportional distribution of tax burdens. Expanding on these principles, Holmes and Gibson define taxation as "a structured system of compulsory payments imposed by the state to raise revenue, redistribute income, and influence economic behavior."²⁰ This definition captures the multi-faceted nature of taxation, emphasizing its redistributive and regulatory roles alongside revenue generation. It also reflects the dynamic interplay between taxation and economic policy.

In *Macomber v. Commissioner*²¹, the U.S. Supreme Court established that taxation must align with constitutional principles, including due process and equal protection. The court emphasized that taxes must not be arbitrary but grounded in a legitimate public purpose. Another landmark case, *Rowe v. Minister of Finance*, explored the proportionality and fairness of taxation systems, reinforcing that taxes should correspond to a citizen's ability to pay.²² Also, in *A-G v Wilts*

¹⁷ BA Garner, *Black's Law Dictionary* (11th edn, Thomson Reuters 2019) 1698.

¹⁸ R Wolfrum, *Max Planck Encyclopedia of Public International Law* (Oxford University Press, 2013).

¹⁹ Adam Smith, *The Wealth of Nations* (1776) Book I, Chapter II, 25–28.

²⁰ SRHolmes and J Gibson, *Economic Development Strategies and Tax Policies* (Cambridge University Press 2020), 156–162.

²¹ 252 U.S. 189 (1920).

²² [1983] 1 S.C.R. 48 (Canada).

*United Dairies*²³, the court observed that “taxation is a compulsory exaction of money by a public authority for public purposes enforceable by law and not a payment for services rendered.” This perspective highlights the coercive nature of taxation and its distinct purpose of serving public interests rather than compensating specific services.

Economists have contributed significantly to defining taxation, focusing on its implications for resource allocation and income redistribution. Smith, in *The Wealth of Nations*, proposed four maxims of taxation: equity, certainty, convenience, and efficiency. These principles remain foundational in designing modern tax policies. Contemporary economists like Joseph Stiglitz expand on these ideas, emphasizing taxation's role in addressing market failures and reducing inequality.²⁴

Adding an economic dimension, the International Monetary Fund (IMF) characterizes taxation as “a method of mobilizing resources by the state to finance government expenditure and promote economic and social objectives.”²⁵ This definition captures the dual purpose of taxation: to provide resources for government operations and to implement socio-economic policies.

From these perspectives, taxation emerges as a socio-legal construct designed to achieve broader societal objectives beyond mere revenue collection. While legal definitions stress its enforceable and statutory nature, economic perspectives emphasize its role in redistributing wealth and regulating economic behavior. Furthermore, the principle of equity, as outlined by Adam Smith, remains central to taxation, ensuring a fair distribution of its burden. Hence, For the purposes of this study, taxation can be defined as: “A compulsory levy imposed by a government on individuals, businesses, and transactions to finance public expenditure, redistribute wealth, and

²³ [1921] 37 TLR 884.

²⁴ A. Smith, *The Wealth of Nations* (1776).

²⁵ International Monetary Fund (IMF), *Tax Policy Handbook* (IMF 2019) 34–36.

regulate economic behavior in line with national development objectives.” This definition encapsulates the legal, fiscal, and regulatory dimensions of taxation.

2.1.1 Tax Incentive

Tax incentives are critical tools employed by governments globally to stimulate economic growth and encourage specific behaviors among individuals and corporations. These incentives typically come in the form of tax reductions, exemptions, or deferrals. However, the concept of tax incentives is interpreted differently by scholars, policymakers, and legal frameworks, each emphasizing unique aspects of its purpose and implementation. A widely accepted legal definition is found in Black's Law Dictionary, which describes tax incentives as "a governmental provision or benefit granted to encourage a specific action or economic activity, usually in the form of reduced or eliminated tax liability."²⁶ This definition, underscores the pivotal role of tax incentives in shaping economic behavior by reducing the tax burden on qualifying activities.

Similarly, the United Nations Conference on Trade and Development (UNCTAD) in its 2015 report, defines tax incentives as "fiscal measures offered to investors to reduce their tax burden and thereby encourage investments in specific sectors, regions, or industries."²⁷ This perspective highlights the strategic deployment of tax incentives to attract foreign direct investment (FDI), particularly in developing economies.

Building on this, Holmes and Gibson conceptualize tax incentives as “governmental concessions designed to reduce the effective tax rate of an individual or corporate taxpayer as a mechanism to stimulate desired economic activities, such as industrial development or research and

²⁶ BA Garner, *Black's Law Dictionary*, (11th edn, Thomson Reuters, 2019), 1698.

²⁷ United Nations Conference on Trade and Development, *Tax Incentives and Investment: A Global Perspective* (UNCTAD 2015).

development.”²⁸ Their definition emphasizes the connection between tax incentives and economic policies targeting innovation and industrial growth.

The OECD Glossary of Tax Terms provides another nuanced definition, stating that tax incentives are "special exclusions, exemptions, or deductions that provide a tax benefit to a subset of taxpayers to encourage behaviours or investments deemed beneficial to economic growth or policy objectives."²⁹ This description acknowledges the selectivity and policy-driven nature of tax incentives, often tailored to benefit certain industries or regions.

Adding a legal dimension, in *Mobil Oil v. Commissioner of Taxes*³⁰ the court observes that tax incentives are "statutory privileges conferred to foster development projects and incentivize activities that align with national economic goals." This decision reinforces the principle that tax incentives must align with legislative objectives to promote public policy interests. Further, Halsbury's Laws of England describe tax incentives as "statutory provisions aimed at promoting economic growth by granting reliefs or exemptions from tax obligations to particular sectors or activities."³¹ This definition underscores the legislative origin and economic purpose of tax incentives as legal instruments.

From these diverse perspectives, tax incentives emerge as multifaceted tools serving economic, legal, and policy objectives. While some definitions emphasize the fiscal mechanisms (e.g., exemptions and deductions), others focus on the broader economic and developmental impacts, such as industrial growth, innovation, and regional development. The definitions also reveal a

²⁸ SR Holmes and J Gibson, *Economic Development Strategies and Tax Policies* (Cambridge University Press, 2020), 156–162.

²⁹ OECD, 'Glossary of Tax Terms' (OECD Publishing 2020) < <https://www.ditc.ky/legislation-resources/oecd-glossary-of-tax-terms/> > accessed 23 January 2024.

³⁰ [1977] UKPC 17.

³¹ Halsbury's Laws of England, vol 34 (LexisNexis 2017) para 508.

common thread: tax incentives function as instruments for aligning private sector behaviour with public interest goals.

For the purposes of this study, tax incentives can be defined as: “Legislatively sanctioned benefits, exemptions, or reductions in tax liabilities aimed at fostering economic activities, investments, or behaviours deemed crucial to achieving national development objectives.” This definition integrates both the fiscal and strategic dimensions of tax incentives, reflecting their dual role as economic motivators and policy tools.

2.1.2 Economy

The term "economy" encapsulates the systems and processes through which resources are produced, distributed, and consumed within a society. Definitions of the economy often differ depending on whether the perspective is economic, legal, or policy-driven, reflecting the complexity of the concept. From a historical perspective, Adam Smith,³² in *The Wealth of Nations*, described the economy as "the system of natural liberty where resources are allocated through the interplay of supply and demand in a free market." This classical definition emphasizes the central role of market forces and competition in resource allocation.

In a more contemporary view, Paul,³³ defines the economy as "a social system concerned with the efficient allocation of scarce resources to produce goods and services that satisfy human wants." This definition builds on Smith's ideas but incorporates the notion of scarcity and the goal of maximizing human welfare. Adding a developmental perspective, Amartya,³⁴ in *Development as Freedom*, conceptualizes the economy as "the aggregate of institutional arrangements and productive capacities that influence the well-being of people and the

³² Adam Smith, *The Wealth of Nations* (1776), 25–28.

³³ P Samuelson, *Economics* (19th edn, McGraw-Hill, 2010), 3-5.

³⁴ A Sen, *Development as Freedom* (Oxford University Press, 1999), 13-15.

development of capabilities." This definition expands the concept of the economy to include human development and social welfare.

From a legal standpoint, Black's Law Dictionary defines the economy as "the system of production and consumption activities, including legal and institutional frameworks, that regulate trade, labor, and financial transactions within a region or country."³⁵ This definition highlights the importance of legal and regulatory structures in shaping economic activity.

Further, the United Nations Department of Economic and Social Affairs (UN DESA) describes the economy as "the interconnected network of production, trade, and consumption activities that determine the standards of living and developmental outcomes of societies."³⁶ This definition incorporates both micro- and macroeconomic dimensions, emphasizing the interconnections between economic activities and societal well-being. More so, In *Attorney-General v. Wilson*³⁷, the court observed that "the economy is the summation of all productive efforts within a jurisdiction, regulated through public and private legal instruments."¹² This judicial perspective aligns the economy with governance and regulatory oversight.

The definitions above reveal the economy as both a functional system of resource allocation and a legal construct governed by laws and institutions. While classical definitions emphasize market dynamics and resource allocation, modern interpretations integrate elements of social welfare, regulatory frameworks, and developmental outcomes. This duality highlights the economy's role as both an operational system and a normative construct shaped by policies and laws. Thus, In the context of this research, the economy can be defined as: "A system of coordinated activities,

³⁵ BA Garner, *Black's Law Dictionary*, (11th edn, Thomson Reuters, 2019), 637.

³⁶ United Nations Department of Economic and Social Affairs (UN DESA), *Economic Policies for Sustainable Development* (UN DESA, 2018) <https://www.un.org/development/desa/publications/economic-policies-for-sustainable-development.html> accessed 23 January 2025.

³⁷ [2002] UKSC 5.

institutions, and policies aimed at producing, distributing, and consuming resources to meet societal needs and foster national development.” This definition combines economic efficiency with legal and developmental considerations, reflecting the complexity of modern economies.

2.1.3 Economic Development

Economic development, by contrast, represents a broader and more dynamic concept that encompasses the qualitative improvement of a society’s economic, social, and institutional well-being. It includes material growth, as well as the enhancement of living standards through targeted policies and programs aimed at fostering inclusive and sustainable progress. Amartya³⁸, a leading scholar in development economics, defines economic development as “the expansion of capabilities and freedoms that enable individuals to lead lives they value.”⁷ This definition shifts the focus from mere economic growth to human development, emphasizing well-being, empowerment, and agency as key indicators of progress.

Similarly, Todaro and Smith describe economic development as “a multidimensional process involving changes in structures, attitudes, and institutions as well as the acceleration of economic growth, reduction of inequality, and eradication of absolute poverty.”³⁹ Their definition highlights the interconnection between economic growth, institutional evolution, and social transformation. The World Bank adds another layer, defining economic development as “the sustained increase in living standards, including access to better education, health care, and employment opportunities, as well as environmental sustainability.”⁴⁰ This perspective incorporates sustainability and inclusivity, reflecting modern concerns about climate change and equitable access to resources.

³⁸ A Sen, *Development as Freedom* (Oxford University Press 1999) 13–15.

³⁹ PM Todaro and SC Smith, *Economic Development* (12th edn, Pearson 2015) 16–21.

⁴⁰ The World Bank, *World Development Report 2019: The Changing Nature of Work* (World Bank 2019) 4–7.

In *Commissioner of Taxation v Futuris Corporation Ltd*⁴¹ provides further insight. The court noted that “economic development encompasses policies and practices aimed at creating conditions for economic growth and improving the quality of life of citizens.”⁴¹ This interpretation underscores the practical role of public policy in advancing development objectives. It is noted that, Black’s Law Dictionary further defines economic development as “governmental efforts to promote long-term growth through investment in infrastructure, education, and industrialization.”⁴² This definition captures the proactive role of the state in creating the conditions necessary for sustained development.

Economic development is thus inherently multi-dimensional, encompassing economic, social, and institutional growth. Earlier definitions predominantly focused on economic growth, but modern interpretations, such as those by Sen and the World Bank, emphasize societal well-being, inclusivity, and sustainability as core objectives. Legal perspectives add another layer by recognizing the role of governance, public policy, and institutional frameworks in driving development.

For the purposes of this study, economic development can be defined as: “The multidimensional process of improving economic, social, and institutional well-being through policies and programs aimed at fostering inclusive growth, reducing inequality, and ensuring sustainable progress.” This definition integrates human development, legal frameworks, and sustainability, reflecting the broader goals of modern economic development strategies.

2.2 THEORETICAL FRAMEWORK

⁴¹ [2008] HCA 32.

⁴² Bryan A. Garner, *Black’s Law Dictionary* (11th edn, Thomson Reuters 2019) 1037.

A theoretical framework provides the foundation for analysing and understanding the subject matter of tax incentives and economic development.

2.2.1 Economic Theories on Tax Incentives

Tax incentives, as economic tools, are grounded in various theories that address their effectiveness in stimulating economic growth, investment, and industrialization. Among the economic theories relevant to tax incentives, the Neoclassical Economic Theory is particularly suitable for analysing how fiscal incentives influence investment decisions and capital accumulation.

The Neoclassical Economic Theory, largely influenced by economists such as Adam Smith, Alfred Marshall, and Robert Solow, posits that economic agents act rationally to maximize their utility or profits. This theory is founded on several key assumptions: that individuals and firms have well-defined preferences; that they make choices aimed at optimising outcomes; that markets tend toward equilibrium through supply and demand interactions; and that capital and labour are allocated efficiently under competitive conditions. In the context of tax incentives, this theory suggests that firms will respond to reductions in the cost of capital by increasing investment in productive activities, thereby enhancing output and productivity.⁴³

One of the central elements of Neoclassical Economic Theory is the relationship between capital accumulation and economic growth. Robert Solow's Growth Model demonstrates that increases in physical capital, facilitated by lower costs of investment, lead to higher levels of

⁴³ Robert M Solow, 'A Contribution to the Theory of Economic Growth' (1956) 70 *Quarterly Journal of Economics* 65-94

output in the short and medium term. Tax incentives such as investment allowances, accelerated depreciation, and tax holidays reduce the effective cost of capital, making it rational for firms to expand productive capacity. These incentives thereby influence not only the quantity of investment but also its allocation across sectors with the highest expected returns. The theory further predicts that over time, increased investment leads to technological adoption, efficiency gains, and improvements in overall productivity.⁴⁴

Another important aspect of Neoclassical theory is the mechanism of marginal returns on investment. According to the theory, as firms increase investment in productive assets, the additional output generated by each unit of investment tends to diminish, reflecting the principle of diminishing marginal returns. Tax incentives can alter the cost-benefit calculation of investment decisions, effectively raising the marginal benefit of additional investment and encouraging firms to invest more than they would in the absence of incentives. By lowering the upfront cost or increasing after-tax returns, these incentives provide a signal to firms about profitable opportunities, guiding resource allocation toward sectors where investment yields the highest returns.⁴⁵

In the context of developing countries such as Nigeria, the application of Neoclassical principles to tax incentives is instructive. The Nigerian government implements policies such

⁴⁴ Joseph E Stiglitz, *Economics of the Public Sector* (4th edn, W W Norton 2015) 312–316.

⁴⁵ Robert E Hall and Charles I Jones, 'Why Do Some Countries Produce So Much More Output Per Worker Than Others?' (1999) 114 *Quarterly Journal of Economics* 83–116.

as pioneer status tax holidays, investment allowances, and sector-specific concessions to stimulate investment in priority sectors, including manufacturing, agriculture, and information and communication technology. In principle, these incentives reduce capital costs and encourage rational economic agents to increase investment, modernize production processes, and adopt new technologies.⁴⁶

However, the Nigerian experience highlights the limitations of the theory when institutional and structural challenges are present. While the theory assumes rational responses to cost reductions, factors such as bureaucratic inefficiencies, inconsistent policy implementation, weak governance, poor infrastructure, and limited access to financing often constrain the ability of firms to respond optimally. In addition, uneven access to incentives may result from political patronage or weak oversight, leading to benefits accruing to larger or more connected firms rather than those with the highest productive potential. Sector-specific outcomes reflect these constraints: incentives in manufacturing have promoted investment in cement, textiles, and food processing, but inconsistent enforcement reduces their impact; incentives in agriculture and ICT have potential but are underutilized due to logistical and financial constraints.⁴⁷

By contrast, in developed countries such as the United States, the Neoclassical Economic Theory is realised more fully because institutional and market conditions support efficient responses to tax incentives. Policies such as research and development (R&D) tax credits,

⁴⁶ Adewale E Akinlo, 'Investment Incentives and Economic Development in Nigeria: A Neoclassical Perspective' (2019) 26(1) *African Journal of Economic Policy* 55–74.

⁴⁷ OECD, *Tax Incentives for Investment: A Theoretical Overview* (OECD Publishing 2010)

<https://www.oecd.org/tax/tax-policy/46234711.pdf> accessed november 28 2025

investment tax credits, and accelerated depreciation reduce the effective cost of capital and incentivize firms to invest in technology-intensive and high-value sectors. Strong institutions, well-functioning capital markets, and transparent regulatory systems ensure that these incentives operate as intended, allowing firms to respond rationally to changes in after-tax investment returns.⁴⁸ Sectoral examples in the United States further illustrate this principle. In the technology sector, firms use R&D tax credits to fund research in artificial intelligence, biotechnology, and advanced manufacturing, increasing both capital accumulation and knowledge spillovers. In manufacturing, accelerated depreciation encourages investment in automation and modern production techniques, improving labour productivity and operational efficiency. In the energy sector, investment tax credits for renewable energy projects promote technological advancement and employment growth. These examples demonstrate that when institutions, infrastructure, and market conditions are favourable, tax incentives function in line with Neoclassical predictions, fostering investment and productivity growth.⁴⁹ The comparison between Nigeria and the United States demonstrates the conditional nature of Neoclassical predictions. While the theory provides a clear explanation of the mechanisms through which tax incentives should affect investment, their effectiveness is heavily influenced by the broader economic, institutional, and infrastructural context. In Nigeria, institutional weaknesses, bureaucratic inefficiencies, and infrastructural gaps limit firms' capacity to respond, whereas in the United States, strong institutions and market efficiency ensure that tax incentives lead to tangible increases in investment, innovation, and sectoral growth. This comparison underscores

⁴⁸ OECD, *Tax Incentives for Investment: A Theoretical Overview* (OECD Publishing 2010) 12–15.

⁴⁹ OECD, *Tax Incentives for Investment: A Theoretical Overview* (OECD Publishing 2010) 18–21.

that while Neoclassical Economic Theory is universally applicable, its real-world outcomes are shaped by contextual factors, highlighting the importance of complementary policies and governance structures in developing countries.⁵⁰

2.2.2 Development Economics Theories

Development economics provides a broader framework for understanding the role of tax incentives in fostering economic growth and societal well-being. Among the various theoretical approaches, Institutional Economics Theory is the most appropriate for this study, because it explains why tax incentives work in some countries but not in others, depending on the quality of institutions.

Institutional Economics Theory, as developed by Douglass C. North and expanded by Daron Acemoglu and James A. Robinson, emphasizes that economic performance depends critically on the nature and quality of institutions. Strong institutions reduce uncertainty, lower transaction costs, promote trust, and facilitate cooperation among economic actors⁵¹. Tax incentives, within this framework, are not effective in isolation; their success depends on institutional mechanisms that guarantee transparency, accountability, and equitable enforcement.⁵² This theory is particularly relevant for a comparative study of Nigeria and the United States. It explains why similar fiscal policies can have very different outcomes: Nigeria's weak institutional environment often limits the effectiveness of tax incentives, while the United States' strong

⁵⁰ OECD, Tax incentives for investments: A theoretical Overview (OECD Publishing 2010) 25-28

⁵¹ Douglass C North, *Institutions, Institutional Change and Economic Performance* (Cambridge University Press 1990) 80–83

⁵² Daron Acemoglu and James A Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (Crown Business 2012) 128–131

institutions enable these policies to produce measurable economic benefits.⁵³ By focusing on institutional quality, this theory offers a realistic and context-sensitive framework, making it highly suitable for analysing tax incentives in different national contexts.

Institutional Economics and Tax Incentives in Nigeria

Nigeria has implemented a variety of tax incentives aimed at attracting investment and stimulating economic growth. These include pioneer status tax holidays, investment allowances, and sector-specific reliefs targeting manufacturing, agriculture, and renewable energy sectors. The intended goals are industrialisation, economic diversification, and job creation. However, the effectiveness of these incentives has been undermined by institutional weaknesses, including corruption, inconsistent policy enforcement, bureaucratic inefficiency, and weak regulatory oversight.⁵⁴

Empirical studies demonstrate that improvements in institutional quality significantly enhance the impact of tax incentives. Research shows that in Nigerian states or periods where governance, transparency, and regulatory effectiveness are stronger, tax incentives produce measurable positive effects on investment and economic performance.⁵⁵ Conversely, in the areas where institutional quality is poor, incentives often fail to achieve their intended outcomes. Institutional

⁵³ Chijioke I. Udeh and Chibuzor A. Anyanwu, 'Institutional Quality and Tax Incentive Effectiveness in Nigeria' (2021) 12(3) *Journal of Finance and Economics* 45–67 <https://pubs.sciepub.com/jfe/12/3/1/index.html> accessed 28 November 2025.

⁵⁴ J. E. Ogbuabor, F. N. Onuigbo, A. Orji & O. I. Anthony-Orji, *Institutional Quality and Economic Performance in Nigeria: A New Evidence* (2020) <https://www.researchgate.net/publication/346647612> accessed 28 November 2025

⁵⁵ 5 Eytayo O. Ogbaro, 'Threshold Effects of Institutional Quality in the Infrastructure-Growth Nexus' (2019) *Journal of Quantitative Methods* <https://ojs.umt.edu.pk/index.php/jqm/article/view/100>

factors influence multiple dimensions of tax incentive effectiveness. Predictable policies allow firms to make long-term plans. Enforcement mechanisms ensure incentives are applied correctly and reach intended beneficiaries. Transparency and accountability prevent misallocation and corruption. Institutions also guide allocation to sectors with high developmental potential, improving resource efficiency and economic outcomes.⁵⁶

Institutional Economics and Tax Incentives in the United States.

In the United States, strong institutions magnify the effectiveness of tax incentives. Policies such as research and development (R&D) tax credits, investment tax credits, and accelerated depreciation allowances operate within well-established and predictable legal and regulatory frameworks. These frameworks reduce uncertainty for firms, increase investor confidence, and encourage long-term investment in innovation, technology, and infrastructure.⁵⁷

Institutional Economics Theory provides a clear explanation for this success. Firms are more willing to respond to incentives in a country with robust institutions because they trust that the benefits will be administered fairly and consistently. For example, R&D tax credits in the United States have stimulated investment in high-tech sectors, generating spillover effects that increase overall productivity and competitiveness.⁵⁸

⁵⁶ Ibid

⁵⁷ Internal Revenue Service, 'Research & Development Tax Credit' (IRS, 2023) <https://www.irs.gov/credits-deductions/research-credit> accessed 28 November 2025

⁵⁸ Douglass C North, *Institutions, Institutional Change and Economic Performance* (Cambridge University Press 1990)

Comparing the United States and Nigeria highlights the critical role of institutions. Both countries implement similar forms of tax incentives, yet outcomes differ sharply due to institutional quality.

In the U.S., strong institutions enable incentives to drive investment, innovation, and economic growth. In Nigeria, weak institutions reduce the effectiveness of incentives, limiting their contribution to development. This comparison underscores the centrality of Institutional Economics Theory in understanding tax incentive effectiveness across different contexts.

Policy Implications

Institutional Economics Theory implies that enhancing institutional quality is a prerequisite for effective tax incentives. In Nigeria, reforms to strengthen governance, regulatory oversight, and policy enforcement are essential to ensure incentives produce intended economic outcomes.

Policies should be designed with accountability and transparency mechanisms embedded to minimize mis-allocation and corruption. Incentives should target sectors with the highest growth potential and be supported by strong legal frameworks.⁵⁹

In the United States, the theory reinforces that strong institutions ensure consistent application of incentives, allowing them to achieve measurable impacts on investment, innovation, and productivity. The contrast with Nigeria demonstrates that the success of fiscal incentives depends less on policy design alone and more on the institutional environment in which they operate. It is definite that the Institutional Economics Theory is the most appropriate framework for analyzing tax incentives in Nigeria and the United States. It highlights that the success of incentives

⁵⁹ Daron Acemoglu and James A Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (Crown Business 2012) 134–138

depends not only on their design but also on the institutional context. Nigeria's weak institutions have historically constrained the impact of tax incentives, while strong institutions in the United States ensure that similar measures yield significant economic benefits. This theory therefore provides a robust, realistic, and policy-relevant lens for understanding and comparing the effectiveness of tax incentives across different national contexts.

2.3 Review Of Related Literature

2.3.1 Historical Development

The historical development of tax incentives demonstrates how governments have used fiscal policies to achieve specific economic and social goals. The evolution of tax incentives in both the United States and Nigeria reflects their unique socio-economic challenges, institutional structures, and policy priorities. The underlying is the historical exploration of the evolution of tax incentives in the Nigeria and the United staes

2.3.2 Evolution of Tax Incentives in Nigeria

In contrast to the United States, the evolution of tax incentives in Nigeria reflects the country's struggle to balance economic development with revenue generation in a resource-dependent economy. Tax incentives in Nigeria have historically been tied to efforts to attract foreign investment, diversify the economy, and address developmental challenges.

The use of tax incentives in Nigeria can be traced back to the colonial era when the British administration introduced tax holidays and exemptions to encourage agricultural and mineral resource exploitation.⁶⁰ The Income Tax Ordinance of 1943 was one of the earliest legislative

⁶⁰ Toyin Falola and Matthew Heaton, *A History of Nigeria* (Cambridge University Press 2008) 198–202.

frameworks that provided limited tax incentives, primarily for expatriates and foreign companies operating in Nigeria.⁶¹

After independence in 1960, Nigeria sought to use tax incentives to accelerate industrialization and reduce reliance on oil revenues. The Industrial Development (Income Tax Relief) Act of 1971 was a landmark piece of legislation that granted tax holidays of up to five years for companies operating in “pioneer industries.”⁶² This Act was part of the government’s broader effort to encourage local manufacturing and reduce import dependency.

During the 1980s and 1990s, the Structural Adjustment Program (SAP) introduced under the guidance of the International Monetary Fund (IMF) and World Bank significantly influenced Nigeria’s tax policies. As part of the SAP, the government introduced measures such as reduced corporate tax rates and export incentives to attract foreign investors and stabilize the economy.⁶³ However, critics argue that these measures disproportionately benefited foreign corporations while failing to address the structural challenges of the Nigerian economy, such as poor infrastructure and corruption.⁶⁴

In recent decades, Nigeria has expanded its tax incentive regime to include sector-specific incentives, particularly in the oil and gas sector. The Petroleum Profits Tax Act and the Deep Offshore and Inland Basin Production Sharing Contracts Act provide generous tax breaks to multinational oil companies to attract investments in the energy sector.⁶⁵ Similarly, the Finance

⁶¹ Income Tax Ordinance 1943, No 29 of 1943.

⁶² Industrial Development (Income Tax Relief) Act 1971, Cap 179 LFN 1990.

⁶³ Ibrahim Ayagi, *The Nigerian Economy: A Political Economy Approach* (Heinemann 1990) 67–71.

⁶⁴ *ibid* 72.

⁶⁵ Petroleum Profits Tax Act, Cap P13 LFN 2004.

Act of 2020 introduced incentives for small and medium-sized enterprises (SMEs) and startups in the technology sector, reflecting a shift towards economic diversification.⁶⁶

Despite these efforts, Nigeria's tax incentive regime has faced criticism for its lack of transparency and effectiveness. Studies by the Tax Justice Network and Oxfam highlight how poorly designed tax incentives in Nigeria have resulted in significant revenue losses, estimated at \$2.9 billion annually.⁶⁷ Additionally, the Nigerian government has been accused of granting tax incentives to politically connected businesses, undermining their credibility and effectiveness.⁶⁸

2.3.3 Evolution of Tax Incentives in the United States

The use of tax incentives in the United States has a long and robust history, dating back to the early 20th century when industrialization and global competition required innovative fiscal strategies to stimulate economic growth. The federal government and individual states have consistently employed tax incentives to attract investments, promote innovation, and address social issues. One of the earliest instances of tax incentives in the United States can be traced to the Revenue Act of 1913, which introduced tax exemptions for certain charitable organizations. This marked the beginning of using tax policy to incentivize socially beneficial activities.⁶⁹

⁶⁶ Finance Act 2020, Cap F5 LFN 2020.

⁶⁷ Markus Meinzer and Others, 'Comparing tax incentives across jurisdictions: a pilot studyTax' (Being a research carried out under the FASTA project and been presented at the African Tax Research Network Congress in Ifrane, Morocco, 2018) 11- 13 https://www.taxjustice.net/wp-content/uploads/2018/12/Comparing-tax-incentives-across-jurisdictions_Tax-Justice-Network_2019.pdf accessed 24 January 2025.

⁶⁸ Emmanuel Mayah, *Nigeria: Inequality in the Giant of Africa* (Oxfam International, 2017) 20–22. < https://www-cdn.oxfam.org/s3fs-public/file_attachments/cr-inequality-in-nigeria-170517-en.pdf > accessed 27 January 2025.

⁶⁹ Revenue Act of 1913, Pub L No 63-16, 38 Stat 114

In the mid-20th century, during the post-World War II economic boom, the government implemented incentives to encourage industrial growth and infrastructure development, particularly through accelerated depreciation allowances introduced under the Revenue Act of 1954.⁷⁰

A significant shift occurred during the 1980s with the enactment of the Economic Recovery Tax Act of 1981, which introduced substantial tax incentives for businesses, including investment tax credits and R&D (Research and Development) tax credits.⁷¹ These measures were aimed at fostering technological innovation and boosting the manufacturing sector, which had been in decline. Scholars such as Altshuler and Grubert note that the 1981 Act was pivotal in establishing the modern framework for corporate tax incentives.⁷²

The United States has also extensively used tax incentives to promote renewable energy and environmental sustainability. The Energy Policy Act of 1992 introduced tax credits for investments in renewable energy projects, which were further expanded through the Inflation Reduction Act of 2022.⁷³

These measures underscore the evolving priorities of U.S. tax policy, shifting from industrial growth to addressing global challenges such as climate change. At the state level, jurisdictions such as Texas and New York have been proactive in offering targeted tax incentives to attract

⁷⁰ Revenue Act of 1954, Pub L No 83-591, 68 Stat 730.

⁷¹ Economic Recovery Tax Act of 1981, Pub L No 97-34, 95 Stat 172.

⁷² Rosanne Altshuler and Harry Grubert, 'Corporate Taxes in the World Economy' (2010) 11 *National Tax Journal*, 114–117.

⁷³ Energy Policy Act of 1992, Pub L No 102-486, 106 Stat 2776.

foreign direct investment (FDI). For instance, Texas has used property tax abatements and sales tax exemptions to attract multinational corporations

such as Tesla and Samsung.⁷⁴ These state-level policies complement federal efforts, reflecting the decentralized nature of U.S. tax policy.

While the U.S. system has successfully leveraged tax incentives for economic growth, critics argue that it has also created loopholes for tax avoidance. Zucman and Saez argue that certain corporate tax incentives disproportionately benefit large corporations, exacerbating income inequality.⁷⁵ However, proponents such as Feldstein contend that these incentives are essential for maintaining the United States' global competitiveness⁷⁶

2.3.4 Scholarly Perspectives on Tax Incentives

While the historical development of tax incentives provides necessary context, various scholars and policy commentators have analysed these measures from legal, economic, and institutional perspectives. This section brings together both the historical narrative and scholarly contributions that explain the rationale and impact of tax incentives.

Altshuler and Grubert⁷⁷ provide a comprehensive analysis of the role corporate taxes play in influencing global investment decisions. The article highlights how tax incentives, such as investment tax credits, impact multinational corporations' decisions to allocate capital across

⁷⁴ Jason E Bordoff, 'U.S. Tax Incentives for Renewable Energy' (2021) 38 *Columbia Journal of Environmental Law* 243–246.

⁷⁵ Gabriel Zucman and Emmanuel Saez, "The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them pay (WW Norton 2019) 81-83

⁷⁶ Martin Feldstein, 'The Effectiveness of Tax Incentives in a Globalized Economy' (2009) 93 *American Economic Review* 49-52

⁷⁷ R Altshuler, and H Grubert, 'Corporate Taxes in the World Economy' (2010) 11 *National Tax Journal* 114–117

jurisdictions. Its strength lies in its empirical analysis, which uses data from global corporations to demonstrate the effectiveness of tax incentives in attracting foreign direct investment (FDI). However, the study is limited in its consideration of the broader socio-economic impacts of tax incentives, such as inequality or regional disparities. Furthermore, it does not address how institutional weaknesses, like corruption, might undermine the intended benefits of tax incentives, particularly in developing economies. Accordingly, this study extends Altshuler and Grubert's analysis by exploring the interplay between institutional frameworks and the economic outcomes of tax incentives in both countries as outlined in Chapter four

Saez and Zucman⁷⁸ critically examine how tax policies, including tax incentives, contribute to the growing income and wealth inequality in the United States. The article effectively demonstrates how certain tax incentives disproportionately benefit high-income earners and large corporations, exacerbating social and economic disparities. A key strength of the study is its integration of quantitative data and policy analysis to highlight the regressive effects of poorly designed tax incentives. However, the article focuses exclusively on the United States, offering little comparative insight into how similar dynamics might play out in developing countries like Nigeria. Given the study's emphasis on inequality, the current research addresses this limitation by analyzing how tax incentives in Nigeria affect income distribution and economic inclusion.

James⁷⁹ provides a critical review of tax incentives, questioning their effectiveness in achieving economic development objectives. The article is particularly strong in its discussion of the conditions under which tax incentives succeed, such as a well-designed legal framework and effective monitoring mechanisms. It also highlights the risks of revenue loss and policy misuse,

⁷⁸ E Saez, and G Zucman, 'The Rise of Income and Wealth Inequality in the United States' (2016) 30(2) *Quarterly Journal of Economics* 231–240

⁷⁹ S James, S., "Tax Incentives: Do They Deliver on Their Promises?" (2013) 35 *Journal of Economic Policy Reform* 121–140

particularly in developing economies with weak institutions. However, James does not provide a detailed analysis of the role of transparency and accountability in ensuring the effectiveness of tax incentives. This study builds on James' findings by exploring specific mechanisms, such as anti-corruption measures and stakeholder engagement, and their role in improving tax incentives' efficiency in Nigeria.

Tanzi⁸⁰ explores the unique challenges faced by emerging economies in designing and implementing effective tax policies, including tax incentives. This study emphasizes the importance of aligning tax incentives with long-term developmental goals and highlights the risks of over-reliance on incentives as a substitute for comprehensive tax reform. A key strength of the study is its focus on institutional capacity, which Tanzi argues is critical for ensuring tax incentives achieve their intended outcomes. However, the article does not address the comparative dimension, leaving questions about how lessons from developed economies like the United States can inform reforms in emerging markets like Nigeria. This study fills this gap by conducting a comparative analysis of tax incentive structures and their outcomes in the United States and Nigeria.

Ogbonnaya⁸¹ examines the role of tax incentives in Nigeria's economic development, focusing on their potential to attract FDI and promote industrialization. This study provides valuable insights into Nigeria's tax policies, including the Industrial Development (Income Tax Relief) Act and recent reforms under the Finance Act of 2020. Its strength lies in its detailed analysis of Nigeria's legal framework for tax incentives. However, the article does not adequately address the issue of enforcement and compliance, which are critical to the effectiveness of tax incentives

⁸⁰ V Tanzi, 'Tax Policy for Emerging Economies: Evolution and Challenges' (2001) 2 *IMF Working Paper* 19–25

⁸¹ UM Ogbonnaya, 'Tax Incentives and Economic Development in Nigeria: Challenges and Prospects' (2020) 15(1) *Nigerian Journal of Taxation* 34–42

in Nigeria. This study extends Ogbonnaya's analysis by investigating how weak enforcement mechanisms impact the success of tax incentives in Nigeria.

Smith's⁸² seminal work provides the philosophical foundation for modern economic and fiscal policies, including taxation. Smith's articulation of the principles of taxation, equity, certainty, convenience, and efficiency, offers timeless guidance on how governments should design and implement tax systems. A notable strength of the book is its emphasis on the role of taxation in promoting economic growth while minimizing economic distortions. However, Smith's analysis reflects the economic conditions of the 18th century, with limited relevance to the complexities of modern globalized economies and institutional governance. The study builds on Smith's principles by examining how these foundational ideas apply to contemporary tax regimes and their role in fostering economic development.

Stiglitz's⁸³ comprehensive exploration of public finance includes a detailed discussion of tax policies, including tax incentives. Stiglitz argues that well-designed tax incentives can stimulate economic growth, but poorly structured ones can lead to inefficiencies, revenue loss, and increased inequality. The book's strength lies in its integration of economic theory with empirical evidence, particularly its focus on how taxation can balance efficiency and equity. However, the book does not provide detailed case studies of specific countries, leaving a gap in understanding how contextual factors influence the effectiveness of tax incentives. This study addresses this gap by providing a comparative analysis of tax incentive regimes in the United States and Nigeria, focusing on how differences in institutional and economic contexts shape outcomes.

⁸² A Smith, *The Wealth of Nations* (1776, republished by Modern Library, 2000)

⁸³ JE Stiglitz, *Economics of the Public Sector* (4th edn, W.W. Norton & Company, 2015)

Douglass's⁸⁴ work emphasizes the critical role of institutions in shaping economic outcomes. North argues that inclusive institutions that promote transparency and accountability are essential for achieving sustainable economic growth. A key strength of the book is its theoretical framework for understanding how institutional structures evolve and influence policy outcomes, including fiscal policies like tax incentives. However, the book provides limited guidance on the specific mechanisms through which institutions can enhance the effectiveness of tax incentives. The study will extend North's framework by examining how Nigeria's institutional challenges, such as corruption and weak enforcement mechanisms, hinder the success of its tax incentive regime.

Falola and Heaton's⁸⁵ book provides a comprehensive historical analysis of Nigeria's political, economic, and social development. Falola and Heaton trace the evolution of Nigeria's tax policies, highlighting the colonial and post-independence periods, and examine how resource dependency has shaped the country's fiscal strategies, including tax incentives. The book's strength lies in its contextual analysis, which situates Nigeria's tax policies within broader socio-political developments. However, the book does not offer a detailed comparison of Nigeria's tax incentive regime with those of other countries, such as the United States. This study fills this gap by conducting a comparative analysis of the legal and institutional frameworks for tax incentives in Nigeria and the United.

Zucman and Saez⁸⁶ provide a critical analysis of tax policies in the United States, focusing on how tax incentives and loopholes disproportionately benefit the wealthy and large corporations.

⁸⁴ DC North, *Institutions, Institutional Change, and Economic Performance* (Cambridge University Press, 1990)

⁸⁵ T Falola, and MM Heaton, *A History of Nigeria* (Cambridge University Press, 2008)

⁸⁶ G Zucman, and E Saez, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (W.W. Norton & Company, 2019)

The book's strength lies in its empirical analysis, which uses data to demonstrate how tax incentives can exacerbate income inequality if not carefully designed. However, the book focuses exclusively on the United States, offering little insight into how similar dynamics might play out in developing countries like Nigeria. The study builds on Zucman and Saez's analysis by examining how Nigeria can adapt the U.S.'s best practices while avoiding its pitfalls, particularly regarding the regressive effects of poorly designed tax incentives.

Gurara and colleagues⁸⁷ provide a macroeconomic analysis of infrastructure investment patterns in developing countries, including how fiscal tools like tax incentives are utilized to promote capital inflows. Drawing on data from the IMF and World Bank, the authors emphasize the delicate balance between stimulating growth through incentives and ensuring long-term fiscal sustainability. A key strength of the paper lies in its global comparative scope and reliance on institutional data sources. However, the study falls short in providing localized case studies or detailed country-level policy reviews, making its conclusions more abstract. This study builds on Gurara et al.'s findings by providing a grounded, comparative assessment of the tax incentive regimes in Nigeria and the United States, incorporating both fiscal performance and institutional capacity.

Achua and co-authors⁸⁸ examine how asymmetric macroeconomic conditions affect the efficacy of fiscal incentives, particularly in the context of Nigeria's de-industrialization. Using a nonlinear Auto Regressive Lag (ARDL) model, the authors establish that volatility in inflation, currency, and interest rates significantly weaken the positive impacts of tax incentives. A notable

⁸⁷ Dany Gurara and others, 'Trends and Challenges in Infrastructure Investment in Developing Countries' (2018) 10(1) *International Development Policy* <https://journals.openedition.org/poldev/2802> accessed 6 August 2025.

⁸⁸ J K Achua, M O John and U N Grace, 'Asymmetric Macroeconomic Impacts on Deindustrialization in Sub-Saharan Africa: Insights from Nigeria' (2024) *SSRN Working Paper Series* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4978739 accessed 6 August 2025

strength of this study is its empirical depth and sectoral focus on industrial development. However, it does not address the administrative and institutional bottlenecks that may further impede the effectiveness of these incentives. The current study extends their analysis by evaluating how these macroeconomic realities intersect with institutional quality, enforcement mechanisms, and legal design in Nigeria's tax incentive framework.

In a comprehensive survey for the Columbia Center on Sustainable Investment, Johnson and Toledano⁸⁹ assess investment incentives across jurisdictions, including the United States, Brazil, and select African nations. They propose sustainability-oriented metrics to assess whether tax incentives yield developmental returns. The strength of this work lies in its policy relevance and synthesis of diverse global practices. However, it gives limited attention to domestic institutions' role in managing and monitoring incentive policies. The present study builds on this by incorporating institutional performance indicators, such as transparency, enforcement, and legal accountability, to determine the real-world impact of Nigeria's tax incentive structures.

Anjarwi and Alfandia⁹⁰ conduct a systematic review of global literature on the shadow economy and tax evasion, identifying how weak enforcement in developing countries creates loopholes that undermine the effectiveness of fiscal incentives. Their study reveals a strong correlation between informal economic activities and the erosion of government revenue through incentive misuse. A major strength is the breadth of sources covered, spanning databases such as Journal Stage (JSTOR) and Web of Science. However, the study does not propose operational solutions or context-specific reforms. This dissertation expands on their findings by exploring the Nigerian

⁸⁹ Lisa Johnson and Perrine Toledano, 'Investment Incentives: A Survey of Policies and Approaches for Sustainable Investment' (2022) *Columbia Center on Sustainable Investment, SSRN* <https://papers.ssrn.com/sol3/Delivery.cfm?abstractid=4323885> accessed 6 August 2025.

⁹⁰ Abdul Anjarwi and Nabila Alfandia, 'A Systematic Review of the Shadow Economy and Tax Evasion' (2025) 46(3) *Deviant Behavior* <https://www.tandfonline.com/doi/abs/10.1080/01639625.2025.2499021> accessed 6 August 2025.

context in detail, emphasizing the need for institutional reforms and anti-corruption strategies to ensure incentives are not exploited.

Islam⁹¹ presents a systematic analysis of public budgeting strategies in developing economies, arguing that transparent, performance-based fiscal frameworks significantly enhance the accountability of tax incentive policies. Drawing on over 90 peer-reviewed studies and reports from institutions like the World Bank and International Monetary Fund (IMF), the author provides a strong theoretical and empirical case for governance-centered fiscal reform. While Islam's work is methodologically rigorous, it lacks country-specific applications. This study adapts his framework to Nigeria's context, advocating the integration of transparent performance indicators into the country's tax incentive evaluation process to ensure better public returns and legal compliance.

Although focused on power sector reforms, Lee and Usman's⁹² political economy analysis has significant implications for broader fiscal policy design, including tax incentives. Their World Bank policy research paper identifies how elite capture, weak regulatory oversight, and fragmented governance can render well-intentioned policies ineffective. A key strength lies in their application of political economy tools to diagnose structural obstacles in low-income countries. However, the study is limited in scope, being sector-specific. The current research extrapolates their framework to analyze the broader incentive policy environment in Nigeria, arguing that political interference and institutional weakness are central challenges to the success of incentive-driven economic development.

⁹¹ S Islam, 'Public Budgeting Strategies in Developing Economies: Tools for Transparent Fiscal Governance' (2025) *SSRN Working Paper Series* <https://papers.ssrn.com/sol3/Delivery.cfm?abstractid=5287137> accessed 6 August 2025.

⁹² A D Lee and Zainab Usman, 'Taking Stock of the Political Economy of Power Sector Reforms in Developing Countries' (2018) *World Bank Policy Research Working Paper No. 8518* <https://papers.ssrn.com/sol3/Delivery.cfm?abstractid=3238358> accessed 6 August 2025.

Mpofu's⁹³ discussion paper on international taxation addresses the tension between global fiscal governance and African states' ability to retain taxing rights. He highlights how donor-driven tax policies and external pressures have shaped tax incentive regimes in ways that often undermine domestic revenue mobilization. A key strength of the paper is its integration of international legal and fiscal frameworks with African policy realities. However, the analysis is mostly normative and lacks empirical depth. This study fills that gap by using a comparative legal-institutional approach to evaluate how Nigeria can restructure its tax incentives to balance investment attraction with fiscal sovereignty, especially under the Organization For Economic Co-operation and Development (OECD) led global minimum tax framework.

Chizea and Isukul⁹⁴ conduct a meta-analysis on corporate governance frameworks in developing countries, emphasizing how weak institutional oversight affects the implementation of tax policies and incentives. The paper argues that in the absence of transparent governance, tax incentives are often captured by elites, leading to inefficiencies and revenue leakages. Its strength lies in cross-country comparisons and statistical robustness. However, the study pays limited attention to U.S. frameworks. The current research builds on this by comparing the institutional integrity behind tax incentive regimes in both Nigeria and the United State. In their contribution to the *Handbook of Urban Development Planning Africa*, Ngolo and Asilla⁹⁵ explore how financial resource mobilization, including tax incentives, can support sustainable urban development. They highlight the disconnect between fiscal tools and real sector needs in

⁹³ Q Mpofu, 'International Taxation and the Allocation of Taxing Rights in Africa' (2025) 18(1) *International Journal of Business and Economic Sciences Applied Research* 38

<https://www.bussecon.com/ojs/index.php/ijbes/article/view/658> accessed 6 August 2025

⁹⁴ JJ Chizea and AC Isukul, 'A Meta-Analysis of Corporate Governance in a Developing Country' (2018) *Journal of Economics and Business* https://www.academia.edu/download/107482606/JEB_20-200117_20_5BJohn_20Chizea_5D.pdf accessed 6 August 2025.

⁹⁵ R Ngolo and R Asilla, 'Financial Resources' in A Asumadu (ed), *Handbook of Urban Development Planning in Africa* (Springer 2022) https://link.springer.com/chapter/10.1007/978-3-031-06089-2_5 accessed 6 August 2025.

many African countries, arguing for better alignment of tax policies with urban and industrial goals. While strong in contextual analysis, the work lacks comparative depth. This study uses their conclusions as a springboard to assess how Nigeria's tax incentive regime contributes to regionally balanced development, especially in contrast to U.S. state-level incentives.

Bello⁹⁶ critiques the traditional Gross Domestic Product (GDP) focused definition of development and proposes a broader, multidimensional view that includes income distribution, access to opportunity, and fiscal inclusion. In this light, tax incentives are evaluated not only for their ability to attract investment but also for their capacity to reduce inequality and promote social inclusion. The study's novelty lies in its integration of social metrics into fiscal policy evaluation. Its limitation is a lack of empirical data. This study complements Bello's theoretical framework by empirically testing whether tax incentives in Nigeria and the U.S. align with inclusive development outcomes.

Osuanah's⁹⁷ dissertation explores the correlation between foreign direct investment (FDI) and economic growth in Nigeria, specifically examining the role of tax incentives in attracting investment. The study uses quantitative regression techniques to establish that tax incentives are a statistically significant variable in influencing Foreign Direct Investment (FDI) inflows. Its strength lies in its use of national and World Bank data. However, the study does not account for differences in institutional environments or political risk. This study expands the scope by

⁹⁶ AD Bello, 'Navigating Beyond Economic Growth: A Holistic Approach to Development and Equality in Public Policy, Demystifying the Axiom "A Rising Tide Lifts All Boats"' (2024) *Open Journal of Social Sciences* https://www.scirp.org/pdf/jss_2024022815075834.pdf accessed 6 August 2025.

⁹⁷ CC Osuanah, 'Foreign Direct Investment and Economic Growth in Nigeria: A Quantitative Correlational Study' (2024) *ProQuest Dissertations* <https://search.proquest.com/openview/df52a0abe071f256a740f56324b57cc2/1?pq-origsite=gscholar> accessed 6 August 2025.

comparing how similar incentives operate within differing institutional ecosystems, namely in the U.S. and Nigeria.

Abugre⁹⁸ and colleagues investigate the role of monetary policy and fintech in stabilizing emerging economies during periods of financial crisis. While not focused exclusively on tax incentives, the paper acknowledges them as part of a suite of stabilization tools. A major contribution is the recognition that digital financial systems can improve tax compliance and monitoring, thereby enhancing the efficiency of incentive regimes. However, the study lacks deep sectoral exploration. This dissertation applies their insights by arguing for the integration of fintech into Nigeria's incentive monitoring system for better enforcement and transparency.

Aliyu and Usman⁹⁹ investigate the dynamic relationship between tax incentives and foreign direct investment (FDI) in Sub-Saharan Africa, focusing on the mediating role of institutional quality. Using panel data from 20 African economies between 2000 and 2020, they find that tax incentives are more effective in countries with strong governance indicators such as rule of law and regulatory quality. Their econometric analysis demonstrates that institutional weakness not only dilutes the benefits of tax incentives but can also transform them into rent-seeking instruments. The strength of this study lies in its regional scope and empirical robustness. However, it lacks a detailed legal analysis of how institutional reforms can be codified through statutory or constitutional provisions. The present research addresses this gap by analysing Nigeria's statutory instruments such as the Industrial Development (Income Tax Relief) Act and

⁹⁸ JA Abugre, JY Abor, J Nellis and EJA Abakah, 'The Effects of Monetary Policy and Financial Technology on Financial Stability During Crises: Contextual Evidence from Emerging and Developing Economies' (2024) *SSRN* <https://papers.ssrn.com/sol3/Delivery.cfm?abstractid=4764781> accessed 6 August 2025.

⁹⁹ SM Aliyu and A Usman, 'Institutional Quality, Tax Incentives and Foreign Direct Investment in Sub-Saharan Africa' (2021) 33(4) *African Development Review*, 567.

Finance Acts to assess how legal frameworks can strengthen institutional enforcement of incentive regimes.

In an influential paper, Fowowe¹⁰⁰ explores the effectiveness of fiscal incentives in driving industrial diversification in oil-dependent economies. Employing a difference-in-differences model, he compares Nigeria's performance with Malaysia and Indonesia, concluding that while fiscal incentives can initially attract FDI, their impact diminishes without coherent industrial policies. A key strength of Fowowe's work is its comparative design and reliance on sectoral output data spanning three decades. Nonetheless, the paper's limitation lies in its economic bias, as it omits discussion of legislative and judicial factors that sustain such incentives. This dissertation extends his findings by integrating a legal-institutional dimension, assessing how Nigerian courts and regulatory bodies shape the actualization of industrial goals under incentive frameworks.

Similarly, Adeoye and Ajayi¹⁰¹ provide an econometric evaluation of the productivity effects of tax holidays and investment allowances in Nigeria's manufacturing sector. Their findings indicate that tax holidays significantly increase firm-level output only when accompanied by infrastructural development and macroeconomic stability. The strength of this study lies in its policy realism and focus on intersectoral linkages. However, its empirical design neglects the role of tax administration efficiency, particularly the Federal Inland Revenue Service's (FIRS) monitoring capacity. The current study builds on this by examining administrative enforcement mechanisms and their relationship with the rule of law and investor confidence in Nigeria.

¹⁰⁰ B Fowowe, 'Fiscal Incentives and Industrial Diversification: Evidence from Oil-Dependent Economies' (2020) 43(9) *World Economy*, 475.

¹⁰¹ B Adeoye and O Ajayi, 'Tax Holidays, Investment Allowances, and Industrial Productivity in Nigeria' (2022) 23(3) *Journal of African Business*, 411.

In a cross-national comparative analysis, Diniz and Carvalho¹⁰² examine the evolution of tax incentive legislation in Brazil and the United States, with an emphasis on constitutional limits and fiscal federalism. Their work reveals that constitutional clarity regarding revenue assignment and subnational powers enhances the transparency and predictability of incentive policies. A notable strength is the authors' legal comparative approach, which closely mirrors the structure of this dissertation. However, their focus on Latin America limits direct applicability to African legal systems. The present study adapts their analytical framework to Nigeria's federal structure, highlighting the legal complexities that arise when states and the federal government concurrently grant tax incentives.

In another study, Cobham and Loretz¹⁰³ assess the fiscal cost of tax competition in developing countries, emphasizing how "race-to-the-bottom" policies erode domestic revenue without delivering proportional development outcomes. Using IMF and OECD databases, they quantify global revenue losses from corporate tax incentives at over USD 150 billion annually. While their research quantifies revenue losses from incentives, it overlooks the governance structures that shape whether these policies can foster sustainable growth. This study expands on their work by situating these fiscal effects within Nigeria's institutional context, illustrating how weak accountability systems amplify the risks associated with incentive-driven revenue erosion.

Building on institutional economics, Osei and Quartey¹⁰⁴ examine the interaction between governance quality and fiscal transparency in sub-Saharan Africa's tax incentive regimes. Their empirical findings reveal that countries with open budget frameworks and mandatory disclosure

¹⁰² P Diniz and L Carvalho, 'Tax Incentives, Fiscal Federalism and Constitutional Design: A Comparative Analysis of Brazil and the United States' (2019) 12(1) *Law and Development Review*, 103.

¹⁰³ Cobham A and Loretz S, 'Global Revenue Losses from Corporate Tax Competition' (2021) *IMF Working Paper WP/21/142* 1.

¹⁰⁴ RD Osei and P Quartey, 'Governance, Transparency and Fiscal Incentives in Sub-Saharan Africa' (2023) 59(5) *Journal of Development Studies*, 861.

laws achieve significantly higher developmental returns from incentive programs. The strength of their work lies in combining legal indicators with macroeconomic data to demonstrate causality. However, they stop short of prescribing specific statutory reforms. The current study advances this discourse by proposing concrete legal mechanisms such as public registries for granted incentives and periodic legislative audits to enhance accountability within Nigeria's tax framework.

From a legal-theoretical perspective, Steinglass and Hillman¹⁰⁵ analyse the constitutional implications of tax incentives in federal systems, using the U.S. Supreme Court's jurisprudence as a case study. They argue that decisions such as *Cuno v DaimlerChrysler Inc*¹⁰⁶ have redefined the limits of state-level tax incentives, emphasizing the need for uniformity and interstate fairness. Their work's strength lies in linking constitutional law and economic policy, offering valuable insights for Nigeria's federal fiscal structure. However, the study's limitation is its neglect of the developing-country perspective, particularly where judicial independence and enforcement differ markedly. This dissertation bridges that gap by contrasting the U.S. experience with Nigeria's limited judicial interventions in fiscal policy disputes.

Nduka and Eboh¹⁰⁷ explore how governance reforms can enhance the developmental effectiveness of fiscal incentives in Africa. Through qualitative interviews with policymakers in Ghana, Kenya, and Nigeria, they conclude that transparent incentive registries, public-benefit tests, and ex post evaluations significantly improve developmental outcomes. A strength of their research lies in its policy practicality and African-centered focus. Nevertheless, their reliance on

¹⁰⁵ S Steinglass and L Hillman, 'Constitutional Dimensions of Tax Incentives in Federal Systems: Lessons from the United States' (2018) 12(2) *Harvard Law & Policy Review*, 341.

¹⁰⁶ 386 F 3d 738 (6th Cir 2004).

¹⁰⁷ C Nduka and M Eboh, 'Governance Reforms and the Effectiveness of Tax Incentives in Africa' (2024) 10(1) *African Journal of Public Policy*, 77.

self-reported data introduces subjectivity and limits generalizability. This study incorporates their reform propositions but grounds them in Nigeria's statutory and institutional realities, offering a legally actionable pathway for reform.

Moghalu and Adekoya¹⁰⁸ undertake a pioneering assessment of how digital transformation reshapes tax incentive regimes in developing economies. They argue that digital economy taxation introduces both opportunities and challenges for fiscal incentives, particularly as governments shift toward e-incentive registries and automated compliance monitoring. Their analysis, grounded in policy data from the OECD and African Tax Administration Forum (ATAF), reveals that digital platforms can significantly enhance transparency and reduce revenue leakages. The study's strength lies in its innovative linkage between technology and fiscal governance. However, its limitation stems from limited empirical evidence on the actual adoption rate of these digital tools in African tax systems. The present study extends their work by situating Nigeria's ongoing digital tax initiatives such as the Integrated Tax Administration System (ITAS) within a comparative legal framework, exploring how digitalization can support more accountable and data-driven incentive management.

In an extensive OECD working paper, Brys and Cárdenas¹⁰⁹ examine the fiscal implications of digital tax reforms and their interaction with investment incentives. They find that while digitalization can enhance tax compliance, poorly coordinated tax incentives risk offsetting these gains by encouraging profit-shifting and base erosion. The paper's strength lies in its integration of macroeconomic modelling with international tax policy debates, including the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS 2.0). Nevertheless, it gives

¹⁰⁸ K Moghalu and T Adekoya, 'Digital Economy Taxation and Fiscal Incentives in Developing Countries' (2022) 7(3) *ATAF Policy Paper Series*, 45.

¹⁰⁹ B Brys and J Cárdenas, 'Digitalization and the Changing Face of Tax Incentives: Implications for Developing Economies' (OECD Working Paper No. 1932, 2023) 12.

limited attention to how developing countries like Nigeria can align their domestic incentive regimes with evolving global digital tax norms. This study builds on their analysis by recommending statutory reforms that harmonize Nigeria's incentive laws with global digital economy tax principles.

Chukwuma and Hassan¹¹⁰ analyse Nigeria's renewable energy sector to evaluate how green tax incentives promote sustainable development. They employ a mixed-methods approach, combining econometric modelling with legal content analysis of the Energy Commission Act and the Finance Act 2021. Their findings show that environmental tax credits and renewable energy deductions have high potential to attract investment but are hindered by weak institutional enforcement and inconsistent policy execution. The strength of their research lies in its empirical grounding and focus on Nigeria's emerging green economy. However, it stops short of exploring lessons from other jurisdictions. This dissertation expands their framework by comparing Nigeria's green incentive schemes with those in the United States, particularly under the Energy Policy Act (1992) and the Inflation Reduction Act (2022), to derive cross-national policy insights.

Similarly, Carter and Slemrod¹¹¹ provide a detailed assessment of environmental fiscal policies in the United States, emphasizing how targeted tax credits can balance ecological goals with economic efficiency. They examine the Low-Income Housing Tax Credit (LIHTC) and Renewable Energy Investment Credit, arguing that when coupled with strong legal accountability mechanisms, these incentives stimulate private investment while advancing social objectives. The study's major strength lies in its policy realism and integration of environmental

¹¹⁰ I Chukwuma and R Hassan, 'Green Tax Incentives and Renewable Energy Development in Nigeria' (2023) 15(1) *Energy Policy and Law Review*, 98.

¹¹¹ A Carter and J Slemrod, 'Fiscal Incentives and Environmental Efficiency: The U.S. Experience' (2021) 44(2), *Journal of Environmental Law and Economics*, 289.

and economic data. However, its limitation is its narrow national focus. The current research extends their findings into a comparative framework, exploring how Nigeria can replicate aspects of the U.S. model by introducing legally enforceable performance standards for green tax incentives.

In a 2023 IMF policy paper, Mendes and colleagues¹¹² analyse the effectiveness of transparency mechanisms in curbing abuse of tax incentives across developing economies. They conclude that public disclosure of beneficiaries, incentive costs, and expected returns significantly improves fiscal accountability. Countries such as Chile and South Korea that publish regular “tax expenditure reports” exhibit higher levels of compliance and lower rates of rent-seeking. The paper’s strength is its cross-national dataset, which provides robust empirical backing for transparency reforms. However, the study does not explore the legal underpinnings required to institutionalize transparency obligations. This dissertation responds to that limitation by proposing statutory provisions mandating annual public reporting of Nigeria’s tax expenditures, aligning with best global practices.

Furthermore, Adegoke¹¹³ investigates the political economy of tax incentive administration in Nigeria, highlighting the role of vested interests and elite capture. Through interviews with tax officials, policymakers, and private-sector representatives, he finds that opaque administrative discretion often leads to the arbitrary granting of incentives without cost-benefit evaluation. His work’s strength lies in its qualitative depth and its exposure of the informal dynamics within Nigeria’s fiscal bureaucracy. Nonetheless, it stops short of providing actionable reform pathways. This study complements his insights by translating them into concrete legal reforms, proposing

¹¹² L Mendes, Y Song and M Patel, ‘Transparency and Accountability in Tax Incentive Regimes’ (IMF Policy Paper No. 23/45, 2023) 33.

¹¹³ T Adegoke, ‘The Political Economy of Tax Incentive Administration in Nigeria’ (2020) 18(2) *Nigerian Journal of Economic and Fiscal Studies*, 211.

legislative oversight mechanisms, sanctions for non-disclosure, and performance-based renewal clauses for incentives.

Ojo and Salawu¹¹⁴ provide a cross-continental analysis of corporate social responsibility (CSR) and environmental, social, and governance (ESG) tax incentives. Drawing on data from 34 countries, including the United States, South Africa, and India, they find that ESG-linked incentives increasingly serve as policy tools to promote sustainable industrial behaviour. A major strength of their research is its alignment with the global sustainability agenda, particularly the UN Sustainable Development Goals (SDGs). However, their framework overlooks the legal enforceability of ESG-related tax benefits. This dissertation integrates their approach into the Nigerian context by suggesting that tax incentives tied to ESG compliance should be codified within enforceable legal instruments under the Companies Income Tax Act and Finance Acts.

Asante and Moyo's¹¹⁵ meta-analysis of fiscal transparency reforms in Africa underscores the significance of institutional autonomy in ensuring effective incentive governance. They argue that independent fiscal councils and parliamentary budget offices are critical in monitoring the cost-effectiveness of tax incentives. Their findings, derived from over 50 country case studies, demonstrate that nations with autonomous oversight bodies exhibit higher tax revenue performance and lower fiscal leakages. While the study's continental scope enhances its credibility, it lacks specific legal guidance for institutionalizing such bodies. This dissertation adapts their model by advocating for the establishment of a Nigerian Fiscal Incentive Review Council through statutory amendment integrating economic oversight with legal accountability to enhance fiscal prudence and policy coherence.

¹¹⁴ B Ojo and M Salawu, 'Corporate Social Responsibility, ESG, and Fiscal Incentives: Global Trends and African Realities' (2022) 12(4) *Journal of Sustainable Finance and Investment*, 559.

¹¹⁵ K Asante and D Moyo, 'Fiscal Transparency and the Governance of Tax Incentives in Africa' (2024) (9) (1) *African Governance and Development Review*, 101.

The reviewed literature presents a rich and multidimensional discourse on the relationship between tax incentives and economic development, drawing on empirical, theoretical, and legal perspectives from diverse jurisdictions. Across global studies, there is broad consensus that tax incentives, when properly designed and administered, can serve as catalytic instruments for investment, industrialization, and innovation. However, scholars also consistently caution that the effectiveness of such incentives depends not merely on their fiscal design but on the institutional, legal, and governance architecture that underpins their administration. As Aliyu and Usman¹¹⁶ note, institutional quality mediates the relationship between tax incentives and FDI inflows, determining whether fiscal concessions become engines of growth or conduits for rent-seeking and corruption. Similarly, Osei and Quartey¹¹⁷ emphasize that transparency and governance reforms are essential for ensuring that fiscal incentives yield genuine developmental outcomes.

Empirical analyses from Asia and Europe further reinforce the importance of policy coherence, legal consistency, and administrative integrity. Tan and Zhang's¹¹⁸ study of East Asian economies demonstrates that infrastructural support and industrial targeting amplify the benefits of tax incentives, while Schneider and Oosterhoff's examination of the European Union underscores the role of supranational regulation in curbing fiscal arbitrariness. Yet, when contrasted with the African context, a distinct institutional deficit emerges. Odhiambo and Wanjala's¹¹⁹ comparative review of East African fiscal harmonization, alongside Okonjo and

¹¹⁶ Aliyu and Usman (n101)

¹¹⁷ Osei and Quartey, (n106)

¹¹⁸ L Tan L and Y Zhang, 'Investment Tax Incentives and Industrial Growth in East Asia: A Comparative Empirical Study' (2021) 16(2) *Asian Economic Policy Review*, 245; F Schneider and P Oosterhoff, 'State Aid and Fiscal Discipline in the European Union: Legal and Economic Perspectives' (2022) 28(4) *European Law Journal*, 421.

¹¹⁹ G Odhiambo and M Wanjala, 'Tax Incentives and Regional Fiscal Harmonization in East Africa' (2023) 39(1) *East African Economic Review*, 101.

Ibrahim's¹²⁰ West African analysis, both reveal that fragmented policy environments and political discretion undermine the efficiency and developmental impact of tax incentives.

Within Nigeria, the literature exposes recurrent challenges: weak enforcement, opacity, overlapping legal mandates, and limited coordination among tax authorities. Adegoke's political economy analysis identifies elite capture as a key factor distorting fiscal policy objectives, while Chukwuma and Hassan's empirical review of green incentives highlights the consequences of inconsistent implementation.¹²¹ These domestic studies, complemented by broader regional analyses, affirm that Nigeria's struggle is not one of conceptual design but of institutional functionality and legal accountability.

Notably, the comparative lessons from the United States provide a counterpoint grounded in strong institutional oversight and legal predictability. Studies such as Carter and Slemrod's evaluation of environmental fiscal incentives and Steinglass and Hillman's constitutional analysis illustrate how consistent judicial and administrative review mechanisms foster fiscal discipline and investor confidence.¹²² The American model demonstrates that tax incentives, when embedded within a transparent statutory framework and subject to regular evaluation, can effectively balance public expenditure objectives with private-sector stimulation.

However, despite extensive scholarly engagement, several critical gaps remain unaddressed. First, few studies integrate legal and economic analysis in a manner that systematically connects statutory provisions, institutional capacity, and developmental outcomes. Second, while most

¹²⁰ N Okonjo and M Ibrahim, 'Fiscal Incentives and Governance in West Africa: Comparative Insights from Ghana, Côte d'Ivoire, and Nigeria' (2022) 7(3) *West African Journal of Fiscal Studies*, 223.

¹²¹ T Adegoke, 'The Political Economy of Tax Incentive Administration in Nigeria' (2020) (18) (2), *Nigerian Journal of Economic and Fiscal Studies*, 211; I Chukwuma and R Hassan, 'Green Tax Incentives and Renewable Energy Development in Nigeria' (2023) 15(1), *Energy Policy and Law Review*, 98.

¹²² A Carter and J Slemrod, 'Fiscal Incentives and Environmental Efficiency: The U.S. Experience' (2021) 44(2) *Journal of Environmental Law and Economics*, 289; S Steinglass and L Hillman, 'Constitutional Dimensions of Tax Incentives in Federal Systems: Lessons from the United States' (2018) 12(2) *Harvard Law & Policy Review*, 341.

works acknowledge transparency as a determinant of effectiveness, few explore how it can be institutionalized through legal reforms. Third, limited attention has been given to the comparative dimension between mature economies (such as the United States) and emerging economies (like Nigeria), particularly regarding how legal frameworks influence fiscal credibility.

Consequently, this study seeks to bridge these gaps by adopting a comparative legal-institutional approach. It evaluates the statutory, regulatory, and administrative instruments governing tax incentives in both Nigeria and the United States to determine how law and policy interact to shape economic development outcomes. This framework not only enriches the existing discourse but also establishes a foundation for evidence-based reforms aimed at enhancing fiscal transparency, institutional efficiency, and sustainable growth.

2.4 Conceptual Model

This study is anchored on a simple conceptual model that links tax incentives (independent variable) with economic development (dependent variable).

The model proposes that tax incentives, such as tax holidays, investment allowances, reduced corporate tax rates, and sector-specific exemptions, are intended to promote investment, innovation, and productivity. Where institutions are strong and policies are transparent, these incentives are expected to stimulate economic growth, attract foreign direct investment, and support diversification.

However, the model also recognises that weak institutional frameworks, corruption, and poor policy implementation can limit the effectiveness of tax incentives. In such contexts, the expected developmental outcomes may not materialise.

Thus, the relationship is:

Tax Incentives → Investment Response → Economic Development

This model guides the analysis by illustrating how incentives are expected to function and the institutional factors that shape their outcomes in Nigeria and the United States.

2.5 Summary of the Reviewed Literature

The literature reviewed in this chapter shows that tax incentives have long been used by governments to attract investment and support economic growth. The historical analysis demonstrates that while the United States has developed a structured and innovation-driven incentive framework, Nigeria's approach has evolved mainly as a response to economic constraints, revenue needs, and diversification efforts.

The theoretical review reveals that the effectiveness of tax incentives depends not only on their design but also on the strength of institutions and policy implementation. The scholars examined emphasise how incentives influence investment behaviour, the risks of misuse in weak governance environments, and the broader implications for competitiveness and development.

Overall, the reviewed literature provides a foundation for the comparative analysis by highlighting both the potential benefits and the limitations of tax incentives. It also underscores the importance of institutional quality, transparency, and targeted policy design in determining whether tax incentives achieve their intended developmental outcomes.

Chapter Three

Legal and Institutional Framework for Tax Incentive In Nigeria And United States Of America

3.0 Introduction

Legal and institutional framework forms the backbone of any effective tax incentive regime. The design, implementation, and enforcement of tax incentives are profoundly shaped by the statutes, regulations, and administrative bodies that operationalize fiscal policy. As the literature review has shown, the efficacy of incentives does not rest solely on their economic rationale but on the rule of law, institutional integrity, and governance mechanisms that ensure accountability and transparency. In both Nigeria and the United States, the framework for tax incentives reflects the interplay between fiscal policy objectives, constitutional mandates, and the institutional architecture of tax administration.

This chapter provides a comparative analysis of the legal and institutional frameworks governing tax incentives in Nigeria and the United States. It identifies the key statutes, agencies, and constitutional provisions that underpin incentive regimes in both jurisdictions and evaluates how their design influences developmental outcomes. The Nigerian framework, anchored in instruments such as the Industrial Development (Income Tax Relief) Act (IDITRA), the Nigerian Investment Promotion Commission Act (NIPC Act), and successive Finance Acts, is examined in relation to the Internal Revenue Code and state-level legislation that structure the American system. The chapter also assesses institutional actors, including the Federal Inland Revenue Service (FIRS), the Nigerian Investment Promotion Commission (NIPC), and the Internal Revenue Service (IRS), to determine how administrative efficiency, enforcement capacity, and inter-agency coordination affect the success of fiscal incentives.

While the U.S. regime is grounded in a mature federal framework characterized by judicial oversight and intergovernmental fiscal coordination, Nigeria's experience reflects the challenges of weak institutional enforcement and overlapping jurisdictional mandates. Consequently, this comparative inquiry not only delineates statutory provisions but also investigates how institutional performance mediates the effectiveness of these laws.

3.1 LEGAL FRAMEWORK FOR TAX INCENTIVE IN NIGERIA

Nigeria's system of tax incentives derives its authority from the 1999 Constitution (as amended), which delineates legislative competence over taxation between the federal and state governments. The exclusive legislative list assigns responsibility for major taxes such as company income tax, petroleum profits tax, and customs duties to the federal government, leaving states to administer

personal income tax, property taxes, and local levies.¹²³ Within this framework, the Industrial Development (Income Tax Relief) Act (IDITRA) constitutes the cornerstone of Nigeria's incentive regime, providing for "pioneer status" relief to encourage investment in specific sectors deemed vital to national development.¹²⁴

Supplementary statutes including the Companies Income Tax Act (CITA), Nigerian Investment Promotion Commission Act (NIPC Act), Free Zones (Monitoring and Regulation) Order, and the series of Finance Acts enacted since 2019, collectively shape Nigeria's fiscal incentive architecture. These instruments outline the procedures, duration, and conditions for granting incentives such as tax holidays, investment allowances, and import duty waivers.¹²⁵ However, the multiplicity of these statutes often leads to policy fragmentation, jurisdictional overlaps, and administrative inefficiencies. The absence of a unified legislative code or central oversight mechanism further exacerbates inconsistencies in implementation and monitoring.

A critical challenge in Nigeria's framework is the broad discretionary authority vested in the executive branch, particularly in the approval and renewal of incentives. While Section 3 of the IDITRA empowers the President to designate pioneer industries, this discretion has frequently been exercised without transparent cost-benefit analysis or parliamentary oversight.¹²⁶ As highlighted by Adegoke, such discretionary powers enable political capture and reduce fiscal accountability.¹²⁷ To address these issues, recent Finance Acts have introduced incremental reforms, including mandatory reporting requirements for tax expenditures and periodic review

¹²³ Constitution of the Federal Republic of Nigeria 1999 (as amended), Second Schedule, Part I.

¹²⁴ Industrial Development (Income Tax Relief) Act, Cap 17, Laws of the Federation of Nigeria 2004, s 1–3.

¹²⁵ Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria 2004, s 34; Nigerian Investment Promotion Commission Act, Cap N117, LFN 2004, s 22.

¹²⁶ Industrial Development (Income Tax Relief) Act, s 3.

¹²⁷ T Adegoke,, 'The Political Economy of Tax Incentive Administration in Nigeria' (2020) 18(2) *Nigerian Journal of Economic and Fiscal Studies*, 211.

clauses.¹²⁸ Nevertheless, the institutionalization of these reforms remains uneven due to weak enforcement capacity and inadequate inter-agency coordination.

3.1.1 The 1999 Constitution of the Federal Republic of Nigeria (as Amended)

The 1999 Constitution serves as the supreme legal foundation for Nigeria's fiscal governance, delineating the taxing powers of the federal, state, and local governments.¹²⁹ Section 4(2) vests the National Assembly with legislative authority over matters in the Exclusive Legislative List, which includes taxation of incomes, profits, and capital gains.¹³⁰ Consequently, major fiscal statutes such as the Companies Income Tax Act, Petroleum Profits Tax Act, and the Value Added Tax Act derive their legitimacy from this constitutional delegation.

Under the Second Schedule, Part I, the Constitution grants the federal government exclusive competence over customs duties, excise duties, export duties, and company income taxes.¹³¹ States retain jurisdiction over property taxes, capital gains on individuals, and other minor levies under the Residual List. This division of fiscal powers establishes a clear, though sometimes contentious framework for tax authority and revenue allocation. However, the concurrent fiscal responsibilities often result in jurisdictional overlap, particularly in the area of incentives, where both federal and subnational entities attempt to attract investment through competing tax concessions.¹³²

The constitutional guarantee of fiscal federalism is reinforced by Section 162, which provides for a Federation Account into which all revenues collected by the federal government are paid and

¹²⁸ Finance Act 2020, s 14–16; Finance Act 2023, s 12.

¹²⁹ Constitution of the Federal Republic of Nigeria 1999 (as amended), s 1(1).

¹³⁰ *ibid* s 4(2).

¹³¹ *ibid* Second Schedule, Part I, Items 58–59.

¹³² *ibid*

subsequently distributed among the three tiers of government.¹³³ Yet, the centralization of major tax powers has historically limited the autonomy of states to design and manage their own incentive frameworks. As noted by Okonjo and Ibrahim, this concentration of fiscal authority in the federal government often discourages subnational innovation and results in policy duplication.¹³⁴

Moreover, while the Constitution vests substantial fiscal powers in the executive, it is largely silent on mechanisms of accountability and evaluation concerning tax expenditures. This lacuna allows executive agencies significant discretion in granting tax waivers and pioneer status incentives without the requirement of legislative oversight. The absence of constitutional provisions mandating transparency or parliamentary approval for fiscal incentives has, over time, contributed to Nigeria's weak incentive governance culture.¹³⁵

Accordingly, constitutional reform debates increasingly call for the insertion of explicit clauses that would require:

- a. Mandatory legislative review of all tax expenditure reports;
- b. Publication of incentive registers in line with the Freedom of Information Act 2011; and
- c. Clearer delineation of fiscal powers to prevent inter-tier conflicts and revenue leakages.¹³⁶

¹³³ Constitution of the Federal Republic of Nigeria 1999, s 162(1).

¹³⁴ N Okonjo and M Ibrahim, 'Fiscal Incentives and Governance in West Africa: Comparative Insights from Ghana, Côte d'Ivoire, and Nigeria' (2022) 7(3) *West African Journal of Fiscal Studies*, 223.

¹³⁵ T Adegoke, 'The Political Economy of Tax Incentive Administration in Nigeria' (2020) 18(2) *Nigerian Journal of Economic and Fiscal Studies*, 211.

¹³⁶ Freedom of Information Act 2011, s 2(1).

Such reforms would align Nigeria's constitutional framework with emerging global norms on fiscal transparency and accountability, thereby ensuring that tax incentives achieve measurable developmental outcomes.

3.1.2 The Finance Act 2023 and Contemporary Fiscal Reforms in Nigeria

The Finance Act 2023 marks a significant turning point in Nigeria's fiscal policy landscape, representing an attempt to modernize tax administration, rationalize incentives, and enhance revenue efficiency. Enacted in May 2023, the Act amended several key statutes, including the Companies Income Tax Act (CITA), Personal Income Tax Act (PITA), Customs, Excise Tariffs, etc. (Consolidation) Act, and the Value Added Tax Act.¹³⁷

A central innovation of the Finance Act 2023 lies in its explicit focus on rationalizing tax incentives. Section 12 mandates the Minister of Finance to conduct and publish periodic cost-benefit analyses of all fiscal incentives and tax expenditures.¹³⁸ This provision introduces, for the first time, a legal requirement for ex post evaluation of incentive programs an essential mechanism for fiscal accountability.

Additionally, the Act introduces new provisions to expand Nigeria's investment incentive architecture in strategic sectors. Section 25 of the amended CITA now grants tax deductions for expenditures incurred on research, development, and digital innovation, reflecting a shift toward knowledge-driven industrial policy.¹³⁹ The Act also strengthens anti-abuse provisions, particularly by tightening eligibility for pioneer status under the Industrial Development (Income

¹³⁷ Finance Act 2023, preamble and s 1–2.

¹³⁸ *ibid* s 12.

¹³⁹ Companies Income Tax (Amendment) Act 2023, s 25.

Tax Relief) Act. Section 27 requires companies seeking pioneer incentives to demonstrate tangible contributions to employment, technology transfer, or environmental sustainability.¹⁴⁰

From an administrative standpoint, the Act reinforces inter-agency coordination between the Federal Inland Revenue Service (FIRS) and the Nigerian Investment Promotion Commission (NIPC) through data-sharing obligations.¹⁴¹ These measures aim to reduce redundancy and enhance the monitoring of approved incentives. Importantly, the Act aligns Nigeria's domestic tax regime with global transparency standards, particularly the OECD's Base Erosion and Profit Shifting (BEPS) recommendations, by mandating country-by-country reporting for multinational enterprises.¹⁴²

However, despite its progressive provisions, challenges persist. Implementation remains inconsistent, especially at subnational levels where fiscal capacity and administrative will are limited. Moreover, the absence of clear enforcement penalties for non-compliance with incentive reporting obligations weakens the Act's effectiveness. As Adegoke argues, without robust institutional capacity and political commitment, legislative reforms risk remaining symbolic rather than transformative.¹⁴³

Nevertheless, the Finance Act 2023 signifies a decisive move toward rule-based fiscal governance in Nigeria. It institutionalizes the principles of transparency, efficiency, and accountability critical for aligning tax incentive policy with sustainable economic development objectives.

3.1.3 Industrial Development/Income Tax Relief Act

¹⁴⁰ Industrial Development (Income Tax Relief) Act, Cap I7, LFN 2004, as amended by Finance Act 2023, s 27.

¹⁴¹ Finance Act 2023, s 28.

¹⁴² Organisation for Economic Co-operation and Development (OECD), *Base Erosion and Profit Shifting Action Plan* (OECD Publishing 2022).

¹⁴³ Adegoke (n 137) 214.

The Industrial Development (Income Tax Relief) Act (IDITRA), enacted in 1971¹⁴⁴, provides the legal framework for granting pioneer status to eligible companies, thereby offering significant tax incentives in the form of tax holidays.¹⁴⁵ This legislative mechanism was designed to stimulate Nigeria's economic development by encouraging investments in sectors deemed vital for industrial growth. The Act plays a pivotal role in Nigeria's fiscal policy strategy, serving as a catalyst for both local and foreign investments through tax relief schemes.¹⁴⁶

Central to IDITRA's objectives is the provision in Section 1, which empowers the President to declare any industry as a "pioneer industry", thereby making companies operating within such industries eligible for tax incentives. These pioneer industries are periodically reviewed to reflect national economic priorities, particularly focusing on sectors that promote technological advancement, employment creation, and industrial diversification. In this context, Section 3(1) of the Act stipulates a three-year tax holiday, which can be extended for an additional two years upon application, effectively granting qualifying companies a maximum of five years of corporate income tax exemption.¹⁴⁷ This provision significantly reduces the financial burden on new businesses, enhancing their capacity to reinvest profits and expand operations.

However, these tax benefits are not indefinite. Section 5 of IDITRA outlines conditions under which the pioneer status may be revoked, particularly in cases where companies fail to meet operational benchmarks or breach compliance obligations such as tax reporting and statutory

¹⁴⁴ Cap. I7, Laws of the Federation of Nigeria (LFN), 2004

¹⁴⁵ Ibid, s10

¹⁴⁶ Chuks Okoriekwe, 'Pioneer Status' Tax Incentive In Nigeria: A Commentary On Recent Developments And Implications For Businesses' (24 July 2020) *Mondaq*, < <https://www.mondaq.com/nigeria/income-tax/969136/pioneer-status-tax-incentive-in-nigeria-a-commentary-on-recent-developments-and-implications-for-businesses> > accessed 5 February 2025.

¹⁴⁷ IDITRA, s 3(1).

filings.¹⁴⁸ This ensures that tax incentives are not abused and are granted only to companies contributing meaningfully to Nigeria's economic development.

Eligibility for these incentives is further governed by the Pioneer Status Incentive (PSI) Regulations, administered by the Nigerian Investment Promotion Commission (NIPC).¹⁴⁹ To qualify, companies must operate within industries listed in the Pioneer Industry and Product List, which is regularly updated by the government. Additionally, firms must demonstrate substantial contributions to national development goals, including employment generation, technology transfer, and industrial diversification.¹⁵⁰

Judicial interpretation of IDITRA has also shaped its application. In *Nigerian Breweries Plc v. Federal Inland Revenue Service*,¹⁵¹ the Tax Appeal Tribunal clarified that tax reliefs under IDITRA are statutory privileges, not automatic entitlements. The case highlighted the necessity for strict compliance with application procedures and the importance of proper documentation to secure and maintain pioneer status. The ruling reinforced the idea that companies must not only meet eligibility criteria but also maintain compliance throughout the duration of the tax holiday.

Gabriel¹⁵² argues that the Act's benefits are disproportionately skewed towards large corporations, often sidelining small and medium-sized enterprises (SMEs) that could equally

¹⁴⁸ IDITRA, s 5.

¹⁴⁹ 'Pioneer Status Incentive' (Nigerian Investment Promotion Commission 10 January 2019) accessed 3 February 2025.

¹⁵⁰ CB, Nwankwo, 'A Legal Appraisal of The Impact Of Tax Incentives On Investment In Nigeria: The Pioneer Status Perspective' (2023) 14(2) *NAUJILJ*, 131.

¹⁵¹ Suit NO TAT/LZ/CIT/EDT/043/2015

¹⁵² Al Gabriel, 'Foreign Direct Investment in Nigeria: Examining the Statutory Reach' (2019) *Global Journal of Politics and Law Research*
https://www.academia.edu/download/100520423/Foreign_Direct_Investment_in_Nigeria.pdf accessed 2 February 2025.

drive economic diversification. Additionally, Ekhatior¹⁵³ notes the potential for policy abuse, where companies exploit legal loopholes to artificially restructure operations to extend tax holidays without delivering genuine economic value.⁸ These critiques underscore the need for more robust monitoring mechanisms to ensure that tax incentives translate into tangible economic growth.

3.1.4 Nigerian Investment Promotion Commission Act

The Nigerian Investment Promotion Commission (NIPC) Act¹⁵⁴, enacted in 1995 complements IDITRA by providing a comprehensive legal framework for promoting and regulating investments in Nigeria. The Act established the Nigerian Investment Promotion Commission (NIPC), a statutory body tasked with facilitating investment opportunities and administering fiscal incentives, including tax relief programs. The NIPC Act was introduced as part of Nigeria's broader economic liberalization agenda aimed at attracting foreign direct investment (FDI) and fostering a more competitive business environment.¹⁵⁵

The Act establishes the NIPC as a key institution responsible for coordinating investment activities across various sectors. This includes overseeing the implementation of tax incentives such as the Pioneer Status Incentive (PSI) and collaborating with other regulatory bodies like the Federal Inland Revenue Service (FIRS) to ensure seamless administration.¹⁵⁶

¹⁵³ EO Ekhatior, 'Foreign Direct Investment and the Law in Nigeria: A Legal Assessment' (2016) *International Journal of Law and Management* <https://www.emerald.com/insight/content/doi/10.1108/IJLMA-08-2014-0049/full/html> accessed 2 February 2025.

¹⁵⁴ Cap. N117, LFN 2004

¹⁵⁵ Nwankwo, (n95).

¹⁵⁶ NIPC Act, s 4.

The Act also provides strong investment protections to enhance investor confidence. For instance, the Act also, guarantees against expropriation, stating that no enterprise shall be nationalized or compulsorily acquired without prompt and adequate compensation.¹⁵⁷

Section 24 of the Act ensures the unrestricted repatriation of profits and dividends, thereby addressing one of the key concerns of foreign investors regarding capital mobility. This provision significantly contributes to Nigeria's attractiveness as an investment destination, particularly in comparison to other African economies with more restrictive foreign exchange controls.¹⁵⁸

In practice, the NIPC Act complements IDITRA by not only managing the PSI scheme but also facilitating other tax incentives tailored to specific sectors such as agriculture, manufacturing, and technology.¹⁵⁹ The synergy between both laws ensures that Nigeria's tax incentive regime remains dynamic and responsive to changing economic realities.

In *Unipetrol Nigeria Plc v. Agip Nigeria Plc*¹⁶⁰, the Federal High Court reaffirmed the NIPC's statutory mandate to administer investment incentives. The court held that while the NIPC's decisions are subject to judicial review, its administrative discretion in matters of investment promotion must be respected, provided it acts within the bounds of the law. This decision underscores the importance of maintaining a balance between regulatory oversight and administrative autonomy in investment matters.

¹⁵⁷ NIPC Act, s 17.

¹⁵⁸ Nigerian Investment Promotion Commission Act, (NIPC 2024)

<https://www.nipc.gov.ng/wpcontent/uploads/2021/10/NIPC-ACT.pdf>. accessed 2 February 2025.

¹⁵⁹ Ibid

¹⁶⁰ (2002) 14 NWLR (Pt. 789) 312.

Chukwuonye¹⁶¹ praises the NIPC Act for fostering a liberalized investment climate post-1995, contrasting it with Nigeria's earlier protectionist policies that deterred foreign capital inflows.¹⁵ However, Babatunde¹⁶² critiques the Act's enforcement mechanisms, pointing out persistent gaps in inter-agency coordination, particularly between the NIPC and FIRS, which sometimes leads to regulatory overlaps and inefficiencies.

3.1.5 Free Trade Zones Act

The Free Trade Zones Act¹⁶³, provides the statutory framework for the establishment, regulation, and operation of Free Trade Zones (FTZs) in Nigeria. The primary objective of the Act is to promote economic growth by facilitating foreign direct investment (FDI), stimulating industrialization, and enhancing export-oriented activities through a combination of tax incentives and reduced regulatory barriers. The FTZ model is designed to attract both local and international investors, foster job creation, and strengthen Nigeria's non-oil revenue base, positioning the country as a competitive hub for global trade and manufacturing.

Central to the FTZA is that it empowers the President of Nigeria to designate any geographical area within the country as a free trade zone, provided that such designation aligns with statutory guidelines.¹⁶⁴ This discretionary power allows the government to strategically identify regions with potential for economic transformation, thereby facilitating regional development through targeted investments.

¹⁶¹ C Chukwuonye, 'An Examination of the Measures for Protection of Foreign Investment Under Nigerian and International Law' (2022) *SSRN Papers* <https://papers.ssrn.com/sol3/Delivery.cfm?abstractid=4019809> accessed 2 February 2025.

¹⁶² KA Babatunde, 'Nigerian Investment Promotion Commission and Foreign Direct Investment in Nigeria' (2013) *Arabian Journal of Business and Management Review* <https://j.arabianjbm.com/index.php/kcajbm/article/view/400> accessed 2 February 2025.

¹⁶³ Cap. F34, Laws of the Federation of Nigeria (LFN), 2004

¹⁶⁴ FTZA, s 1.

Furthermore, the Act outlines the core fiscal incentives available to businesses operating within FTZs. These include comprehensive tax exemptions from all federal, state, and local government taxes, levies, and rates.¹⁶⁵ This provision significantly reduces the operational costs for businesses, making FTZs highly attractive for multinational corporations seeking cost-efficient entry into the Nigerian market.

In addition to tax reliefs, Section 18 of the Act stipulates customs and fiscal incentives, particularly allowing for the duty-free importation of capital goods, machinery, equipment, and raw materials necessary for production within the zones.¹⁶⁶ This exemption enhances operational flexibility and reduces supply chain costs, fostering an environment conducive to large-scale manufacturing and export activities. Moreover, Section 24 guarantees the full repatriation of profits and dividends earned within FTZs. This provision plays a pivotal role in attracting foreign investors, as it mitigates concerns related to capital mobility and currency restrictions, thus enhancing investor confidence in Nigeria's economic framework.

Collectively, these provisions are aimed at fostering a business-friendly environment characterized by minimal bureaucratic red tape, improved infrastructure, and robust legal protections. This regulatory architecture seeks to position Nigeria as a preferred investment destination within Africa, particularly for industries engaged in value-added manufacturing and export-led growth.

The Nigerian judiciary has provided interpretative clarity on the scope of tax incentives under the FTZA. In *Nigerian Ports Authority v. APM Terminals Ltd*, the Federal High Court addressed the issue of whether businesses operating within FTZs are entitled to comprehensive tax exemptions

¹⁶⁵ FTZA, s 8.

¹⁶⁶ FTZA, s 18.

when their activities overlap with the domestic Nigerian market. The court held that entities operating within FTZs are entitled to full tax exemptions, provided their operations remain confined within the designated zones. However, if such entities engage in domestic transactions outside the FTZ, they may be subject to relevant taxes applicable in the Nigerian customs territory. This ruling was significant in clarifying the boundaries of tax exemptions and addressing ambiguities related to the dual operations of businesses in both FTZs and the broader Nigerian economy.

Scholarly discussions on the performance of the FTZA present mixed views. While some scholars acknowledge its potential, others highlight significant challenges. Amodu¹⁶⁷ observes that, despite the Act being grounded in a solid legal structure, its real-world impact is weakened by poor regulatory practices, limited transparency, and administrative corruption. According to him, these governance gaps distort fair competition and discourage investors, even though the scheme offers favourable tax concessions. In contrast, Jibril¹⁶⁸ acknowledges the positive economic impact of FTZs, particularly in enhancing Nigeria's non-oil revenue and fostering export diversification. Jibril, however, recommends stronger inter-agency coordination to prevent revenue leakages, regulatory overlaps, and the abuse of tax incentives. He emphasizes the need for reforms aimed at enhancing transparency, improving governance structures, and streamlining administrative procedures within FTZs to maximize their developmental impact.¹⁶⁹

3.1.6 Oil and Gas Free Zones Act

¹⁶⁷ N Amodu, 'An Examination of Governance and Operational Framework of Free Zones in Nigeria' (2018) *The Gravitas Review of Business and Property Law* https://eprints.soas.ac.uk/32415/1/Article_Investing_in_Free_Zones_in_Nigeria_Nojeem_Amodu.pdf accessed 2 February 2025.

¹⁶⁸ Z Jibril, 'A Critical Review of the Free Trade Zones in Nigeria and the Implications to the Nigerian Tax System' (2023) *IJOLACLE* <https://nigerianjournalsonline.com/index.php/IJOLACLE/article/viewFile/3701/3607> accessed 2 February 2025.

¹⁶⁹ Ibid

The Oil and Gas Free Zones Act (OGFZA), enacted in 1996¹⁷⁰, provides the legal framework for the establishment, regulation, and management of specialized free zones dedicated to oil and gas operations in Nigeria. The Act was designed to attract foreign investment into Nigeria's energy sector, promote the development of ancillary industries, and support economic diversification beyond crude oil exports. Additionally, OGFZA aims to facilitate technology transfer, foster public-private partnerships, and enhance Nigeria's competitiveness in the global petroleum industry.

Under the Act, the President is empowered to declare specific areas within Nigeria as oil and gas free zones, thereby establishing hubs for petroleum-related activities such as exploration, refining, and export logistics.¹⁷¹ This provision provides the government with strategic flexibility to designate zones based on economic priorities and infrastructure potential. The Oil and Gas Free Zones Authority (OGFZA) is established under Section 3, with the mandate to regulate and oversee activities within designated free zones.¹⁷² OGFZA's responsibilities include issuing licenses, monitoring compliance with legal requirements, and facilitating investor relations to ensure the smooth operation of businesses within these zones.

The Act offers generous tax exemptions to companies operating within oil and gas free zones. These incentives include corporate income tax holidays, value-added tax (VAT) exemptions, and waivers on import/export duties for equipment and materials utilized within the zones.¹⁷³ The tax benefits are designed to reduce operational costs, encourage capital investment, and support large-scale industrial projects.

¹⁷⁰ Cap. O5, LFN, 2004

¹⁷¹ Ibid, s1

¹⁷² Ibid, s 3.

¹⁷³ Ibid, s 8.

Moreover, Section 12 permits 100% foreign ownership of businesses within the zones, along with unrestricted repatriation of profits, dividends, and capital. The Act also streamlines visa processes for expatriate employees, thereby addressing key concerns related to foreign workforce mobility and administrative bottlenecks. These provisions are aimed at positioning Nigeria as a competitive investment destination within the global energy market.

In *Pan Ocean Oil Corporation v. KCA Deutag Drilling GMBH*¹⁷⁴, the Court of Appeal affirmed that companies operating within oil and gas free zones are entitled to full customs duty exemptions under Section 8 of the Act. The court emphasized that such fiscal benefits are legally binding, provided that operators comply with the regulatory framework and maintain transparent business practices. This decision underscored the importance of legal certainty for investors, reinforcing Nigeria's commitment to upholding contractual and statutory obligations within its investment climate.

Olujobi¹⁷⁵ highlights the Act's pivotal role in attracting multinational oil corporations and fostering public-private partnerships within the petroleum sector. He notes that the legal framework has significantly contributed to infrastructure development in oil-producing regions and facilitated technology transfer through foreign participation. However, Maduekwe¹⁷⁶ criticizes the Act for creating regulatory overlaps with other agencies, such as the Department of Petroleum Resources (DPR) and the Nigerian National Petroleum Corporation (NNPC). These jurisdictional conflicts, he argues, have led to administrative inefficiencies, increased compliance costs for businesses, and occasional policy contradictions.

¹⁷⁴Appeal No: CA/LAG/CV/451/2020

¹⁷⁵ OJ Olujobi, *Nigerian Petroleum, Energy and Gas Resources Law* (Princeton & Associates Publishing Co. Ltd, 2022), 123.

¹⁷⁶ N Maduekwe, 'Legal Regime for Oil and Gas Free Trade Zone' (2013) *SSRN*
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2813011 accessed 2 February 2025.

Additionally, Okumagba¹⁷⁷ underscores the need for legislative reforms to align OGFZA with global best practices in environmental sustainability and corporate governance. He advocates for the integration of environmental, social, and governance (ESG) principles into the regulatory framework to address the environmental risks associated with oil and gas operations, particularly in the Niger Delta region.

3.1.7 Key 2026 Tax Reforms under the 2025 Nigeria Tax Act

On 26 June 2025, Bola Tinubu assented to four major tax-reform bills simultaneously: the NTA 2025, Nigeria Tax Administration Act, 2025 (NTAA), Nigeria Revenue Service (Establishment) Act, 2025 (NRSEA), and Joint Revenue Board (Establishment) Act, 2025 (JRBEA)¹⁷⁸. The legal reforms were published in the official gazette in September 2025, signalling formal readiness for implementation.¹⁷⁹

According to the leadership of the tax authorities, the new regime becomes effective 1 January 2026¹⁸⁰. The stated objectives: consolidate fragmented tax laws, simplify compliance and administration, improve transparency, and align Nigeria's tax system with global best practices all while raising revenue for national development¹⁸¹. Thus, the reforms constitute the most comprehensive overhaul of Nigeria's tax and revenue framework in decades, with implications for businesses, individuals, and the overall fiscal environment.

¹⁷⁷ EO Okumagba, 'Decommissioning of Oil and Gas Installations in Nigeria: A Critical Appraisal of the Impacts of the Petroleum Industry Act 2021' (2022) *Baltic Journal of Law & Politics*
https://www.researchgate.net/publication/371762644_Decommissioning_of_Oil_and_Gas_Installations_in_Nigeria accessed 2 February 2025.

¹⁷⁸ <https://nairametrics.com/2025/06/26/president-tinubu-signs-four-tax-reform-bills-into-law>

¹⁷⁹ <https://nairametrics.com/2025/09/09/fg-nigerias-new-tax-reform-laws-officially-published-in-gazette>

¹⁸⁰ <https://www.thecable.ng>

¹⁸¹ <https://www.vanguardngr.com/2025/06/breaking-tinubu-signs-four-tax-bills-into-law/>

Key Corporate-Tax & Incentive Reforms

Unified 4% Development Levy

1. NTA 2025 introduces a 4% levy on “assessable profits” of most companies (excluding small companies and non-resident entities).¹⁸²
2. This levy replaces several overlapping sector-specific levies, including: the former Tertiary Education Tax (TET), the National Agency for Science and Engineering Infrastructure (NASENI) levy, the IT Levy, and the Police Trust Fund (PTF) levy.¹⁸³
3. The goal: simplify compliance, reduce administrative complexity, and substitute many earmarked levies with a single, predictable charge.¹⁸⁴
4. According to the sectoral analysis by a big audit firm, revenue from this levy will be earmarked for strategic national priorities including education, technology infrastructure, defense, and cybersecurity¹⁸⁵

Implication: this consolidation may increase the tax burden for some companies that previously paid little or no such levies (especially outside sectors formerly subject to them).¹⁸⁶

Minimum Effective Tax Rate (ETR) : 15% for Large / Multinational Firms

1. For large domestic companies (annual turnover $\geq$ NGN 50 billion) or companies belonging to multinational groups (global turnover $\geq$ EUR 750 million), the NTA imposes a minimum

¹⁸² <https://taxnews.ey.com/news/2025-1388-nigeria-tax-act-2025-has-been-signed-highlights>

¹⁸³ <https://www.pwc.com/ng/en/publications/the-nigerian-tax-reform-acts>

¹⁸⁴ Ibid

¹⁸⁵ Ibid

¹⁸⁶ mondaq.com

effective tax rate of 15% on net income¹⁸⁷

2.If these companies' actual tax paid falls below 15%, a "top-up" tax becomes due to meet the minimum threshold.¹⁸⁸

3.Exemptions: the rule does not apply to eligible free-zone companies exporting goods outside Nigeria, provided they aren't part of a multinational group.¹⁸⁹

4.Rationale: this targets profit-shifting and base erosion often tied to multinationals and large corporations ensuring a fairer contribution from profitable firms¹⁹⁰

Economic Development Incentive (EDI) replaces Pioneer Status

The previous "pioneer status tax holiday" regime has been repealed.[Mondaq.com]Under the new Economic Development Incentive (EDI), eligible companies can claim a 5 % annual tax credit on qualifying capital expenditure (cap-ex) for up to 5 years¹⁹¹

Unused credits can be carried forward.This aligns incentives more with actual investment and performance (capex, asset acquisition), rather than arbitrary "holiday" periods.

The implications is that firms with substantial investment plans , e.g., in manufacturing, infrastructure, or technology may benefit notably. But the benefit is tied strictly to real capital investments, not simply being "new."

Capital Gains Tax (CGT) – Major overhaul

¹⁸⁷ Nigeria Tax Act 2025, definition of ETR, and "top-up" obligation

¹⁸⁸ Ibid

¹⁸⁹ <https://www.pwc.com/ng/en/publications>

¹⁹⁰ Ibid

¹⁹¹ Mondawq, "The Nigeria Tax Refor, Act 2025 and how it affects Businesses"

For companies, the CGT rate rises sharply from 10% to 30%, bringing CGT in line with standard corporate income tax rates¹⁹². The scope of CGT is expanded: it now includes indirect offshore share transfers, meaning that companies cannot easily avoid CGT by routing share sales through offshore holding companies¹⁹³.

For individuals, gains (including from digital or virtual-asset disposals) may be subject to personal income tax, depending on later regulations and thresholds.¹⁹⁴

Implication: This reduces a former loophole where taxable gains could be structured as capital gains; it also increases the tax burden on asset disposals, transfers, or sales (including offshore share deals).

Other Corporate/Business-Tax Provisions

Capital allowances for qualifying cap-ex are now claimed on a straight-line basis over the useful life of the asset replacing the prior mix of “initial and annual allowances” which often used a reducing-balance method¹⁹⁵

Deductible donations have been expanded: companies can deduct up to 10% of profit before tax for qualifying capital donations. In-kind donations require documentation and are valued at the lower of market or acquisition cost.¹⁹⁶

Tax authorities’ reach is broadened: for non-resident companies, the definition of taxable presence is expanded beyond traditional “permanent establishment” (PE) to include significant

¹⁹² <https://www.bakertilly.ng/insights/nigerias-2025-tax-reform-acts-explained>

¹⁹³ Woleolanikpekun.com

¹⁹⁴ EY, “Nigeria Tax Act 2025-Rent relief and other deductions” (2025)

¹⁹⁵ <https://taxnews.ey.com/>

¹⁹⁶ Ibid

economic presence or service-based footprints. This tightens the net on foreign firms earning income from Nigeria.¹⁹⁷

Though much of the public discourse focuses on corporate players, the reforms also affect individuals and small-scale (especially formal) businesses in various ways:

1. The NTA introduces a more progressive personal income tax (PIT) schedule: individuals earning ₦800,000 or less per year are exempt from PIT(personal income tax) under the new regime.¹⁹⁸
2. For those earning above that threshold, PIT(personal income tax) rates increase (with top marginal rates depending on future regulation reportedly going up to ~25%).¹⁹⁹
3. The reforms also formalize and expand rent relief / deductions: under earlier reporting, there were proposals for allowing taxpayers to deduct a 20% of rent paid capped at a 500,000naira)²⁰⁰
4. While public summaries emphasise exemptions and reliefs for “low-income earners, average taxpayers, small businesses,” official breakdowns urge verification once implementing regulations are released.
5. For small businesses and Mid Sized Enterprise (SMEs) : Many are exempted from the new Development Levy, reducing compliance burden.

¹⁹⁷ Ibid

¹⁹⁸KPMG, “Personal Income Tax Regime Reform- Nigeria Tax Act 2025”

¹⁹⁹ <https://www.bakertilly.ng/>

²⁰⁰ EY, “Nigeria Tax Act 2025-Rent Relief and Other Deductions” (2025)

6. The establishment of an Nigeria Revenue Service (NRS) under NRSEA(Nigeria Revenue Service Establishment Act) replacing the old FIRS, along with uniform tax-administration rules under NTAA, promises clearer, more standardized procedures²⁰¹
7. This reform also introduced the formal Office of the Tax-Ombudsman / Tax Appeal Tribunal to address grievance handling, disputes and appeals aiming to improve taxpayer rights and fairness.²⁰²

What It Means for Nigeria's Economic & Development Agenda

1. More predictable and development-oriented revenue streams: Consolidating multiple levies into one "Development Levy" allows the government to earmark funds for national priorities: education, technology, infrastructure, defence, cybersecurity, etc. This may improve public investment and national capacities.²⁰³
2. Alignment with global tax standards: The minimum ETR and tightened capital-gains regimes reduce opportunities for profit shifting, tax base erosion, and opaque offshore structuring. This may bolster Nigeria's attractiveness to legitimate investors seeking clarity and fairness.²⁰⁴
3. Incentivising real investment rather than tax holidays: The shift from arbitrary "pioneer status" holidays to the EDI which rewards actual capital investment encourages firms to commit real resources to infrastructure, plants, technology, and R&D(Research and development). This could promote long-term industrial growth rather than short-term

²⁰¹ <https://www.vanguardngr.com/>

²⁰² Shonekan Centre for Legislative Reforms, "A New Fiscal Framework: Key Provisions of Nigeria's 2025 Tax Reforms IAWS

²⁰³ <https://www.pwc.com/ng/en/publications/nigeria-tax-reform-2025>

²⁰⁴ <https://www.mondaq.com/nigeria/tax-authorities>

exploitation of incentives²⁰⁵

4. Simplified compliance and reduced administrative burden: With one harmonized tax law, unified levy, standardized allowances, and a professionalized tax administration agency (NRS), the system becomes more transparent and easier for businesses to navigate. This supports ease-of-doing-business, especially for SMEs (Small Medium enterprise) aiming for formalization.²⁰⁶
5. Greater inclusion and fairness for low-income earners: By making PIT more progressive and exempting the lowest earners ($\leq \text{₦}800,000$), the reforms aim to reduce the tax burden on the vulnerable while focusing taxation on higher earners and profitable companies.²⁰⁷

Key Caveats, Risks & What's Still Unclear

Even though the “Development Levy” simplifies many levies, it applies broadly including firms that never paid certain levies before. Some companies may face higher-than-expected tax burdens, especially if they previously operated under sector exemptions.²⁰⁸

The 15% minimum ETR targets large firms and multinationals but for medium-sized enterprises (previously a special category), the new law reportedly eliminates the “medium-size” classification, forcing them either into “small” (if they meet criteria) or “standard/large” possibly causing compliance shocks.²⁰⁹

The practical benefit of the EDI (5% cap-ex credit) depends heavily on

- 1) The firm making substantial qualifying investments;
- 2) Proper documentation;

²⁰⁵ Mondaq.com

²⁰⁶ <https://nairametrics.com/>

²⁰⁷ <https://www.thecable.ng/the-nigerian-tax-reform-act-of-2025>

²⁰⁸ <https://www.mondaq.com/nigeria/tax-authorities>

²⁰⁹ <https://www.bakertilly.ng/insights/nigerias-2025-tax-reform-acts-explained>

- 3) viability of carry-forward if immediate benefit is not realized.
- 4) Firms with low cap-ex or those investing in intangible or non-qualifying assets may get little benefit.

For individuals and small businesses: many reliefs (rent relief, deduction thresholds, digital-asset taxation, etc.) are still subject to implementing regulations and guidelines which have not yet (publicly) been fully released. Until those are published, there remain uncertainties about exactly who qualifies and how.

Administrative capacity: success depends heavily on the newly established NRS, its enforcement procedures, audit capacity, and fairness mechanisms (e.g. Tax Ombudsman). Poor implementation could defeat many of the reforms' benefits.

Together, these reforms constitute a major shift toward a more transparent, performance -based, and globally aligned incentive regime in Nigeria, while also reinforcing the role of taxation as a tool for national development.

The passage of the Nigeria Tax Act 2025, Nigeria Tax Administration Act 2025, Nigeria Revenue Service (Establishment) Act 2025, and Joint Revenue Board (Establishment) Act 2025 represents the most comprehensive restructuring of Nigeria's tax governance since the democratic rule²¹⁰

Their implementation is therefore expected to provide a more predictable, accountable, and development-oriented incentive system capable of supporting long-term economic growth²¹¹

3.2 Institutional Framework for Tax Incentive In Nigeria

²¹⁰ Nairametrics, "Tinubu signs Four Tax Reform Bill into Law", 26 June 2025

²¹¹ The Cable, "FG Gazettes Tax Reforms Laws: Implementation Begins January 2026

3.2.1 Nigerian Investment Promotion Commission (NIPC)²¹²

The Nigerian Investment Promotion Commission (NIPC) was established under the Nigerian Investment Promotion Commission Act²¹³, to encourage, promote, and coordinate investments in Nigeria. The NIPC plays a crucial role in Nigeria's tax incentive regime, primarily through its administration of the Pioneer Status Incentive (PSI), which offers tax holidays to qualifying industries and sectors. Section 4 of the NIPC Act outlines the Commission's functions, including coordinating and monitoring investment activities, advising the government on investment policies, and negotiating investment treaties. The Pioneer Status Incentive, as provided under the Industrial Development (Income Tax Relief) Act²¹⁴, allows eligible companies to enjoy corporate income tax exemptions for an initial period of three years, extendable by an additional two years.

The NIPC evaluates applications for PSI, ensuring that they meet the eligibility criteria, which include contributions to economic diversification, job creation, and technology transfer.²¹⁵ This tax relief aims to stimulate growth in strategic sectors, such as agriculture, manufacturing, and information technology.

The practical implementation of tax incentives through the NIPC has faced scrutiny. While the PSI has attracted investments, issues of transparency and administrative inefficiency have been noted. According to a study by Zakari et al., the NIPC's role has been pivotal in attracting foreign direct investment (FDI), but reforms are needed to enhance accountability and streamline application processes.²¹⁶

²¹² Section 1 Nigeria Investment Promotion Act

²¹³ Cap N117, LFN 2004

²¹⁴ Cap I17, LFN 2004

²¹⁵ Application Guidelines For Pioneer Status Incentive, Guidelines 3.0(3.1) (3.1.3).

²¹⁶ A Zakari, and HM Aliero, and AB Abdul-Quadir, 'The Role of Nigerian Investment Promotion Commission (NIPC) in Attracting Foreign Direct Investment in Nigeria' (2021) 8(7) *European Scientific Journal*, 155.

In *Shell Petroleum Development Company v. Federal Board of Inland Revenue*²¹⁷, the court emphasized the need for clarity in interpreting tax incentive provisions. The case highlighted the interplay between the NIPC's authority and tax regulatory bodies, underscoring the necessity for clear legislative guidelines to prevent administrative overlaps and legal ambiguities.

3.2.2 Federal Inland Revenue Service (FIRS)²¹⁸

The Federal Inland Revenue Service (FIRS) operates under the Federal Inland Revenue Service (Establishment) Act, 2007, with the primary responsibility of assessing, collecting, and accounting for federal taxes in Nigeria. As a key player in the tax incentive framework, the FIRS ensures that tax incentives are correctly applied and that beneficiaries comply with tax obligations.²¹⁹ Section 8 of the FIRS Act defines its functions, including tax assessment, collection, and enforcement. The FIRS also plays an advisory role in tax policy formulation, working closely with the Ministry of Finance and the NIPC to evaluate the fiscal impact of tax incentives. The agency's involvement is critical in monitoring compliance, as tax incentives often come with specific conditions related to investment thresholds, employment generation, and sectoral development.

While the NIPC grants pioneer status, the FIRS verifies that companies claiming tax incentives adhere to the qualifying criteria. This verification includes auditing financial statements, assessing compliance with tax laws, and ensuring that incentives are not abused. The FIRS also administers other tax incentives, such as investment tax credits and capital allowances,

²¹⁷ (2011) 4 TLRN 98

²¹⁸ Section 1 Federal Inland Service Revenue (Establishment) Act 2007

²¹⁹ E Asiedu, 'Foreign Investment in Africa: the role of natural resources, market size, government policy, institutions and political instability' (2003) 29(1) *The World Economy*, 63 – 77; E. Asiedu, 'Policy reform and foreign direct investment to African: Absolute progress but relative decline' (2024) 22(1) *Development Policy review* 22, 41 – 48.

particularly in sectors like oil and gas under the Petroleum Profits Tax Act.²²⁰ Momoh²²¹ argue that while the FIRS has made significant strides in tax administration, challenges such as corruption, inadequate infrastructure, and capacity constraints hinder its effectiveness in managing tax incentives. These issues often lead to revenue leakages and undermine the intended economic benefits of tax incentives. Thus, in *Nigerian Breweries Plc v. Federal Inland Revenue Service*²²², the court upheld the FIRS's authority to scrutinize tax incentive claims, emphasizing that tax holidays do not exempt companies from compliance with other tax obligations. The case underscored the importance of regulatory oversight in preventing the misuse of tax incentives.

3.2.3 Nigerian Export Processing Zones Authority (NEPZA)²²³

The Nigerian Export Processing Zones Authority (NEPZA) is the regulatory agency responsible for the management and oversight of free zones in Nigeria, established under the Nigerian Export Processing Zones Act²²⁴. Its core objective is to promote export-oriented investments through the provision of tax incentives and an investor-friendly environment, aiming to diversify Nigeria's economy beyond oil dependency.

NEPZA provides a wide range of fiscal and non-fiscal incentives, such as exemption from all federal, state, and local government taxes, levies, and rates. This is stipulated in Section 8 of the NEPZ Act, which grants tax holidays, duty-free importation of raw materials, and 100%

²²⁰ M Declan, 'investment promotion techniques and the role of investment promotion agency' in foreign direct investment policy and promotion in Czech Republic, ed. OECD, 1999' (1999) <http://www.fdipromotion.com/toolkit/use.cfm/index>. 3 February 2025.

²²¹ Z Momoh, 'Federal Inland Revenue Service (FIRS) and Tax Compliance in Nigeria: Challenges and Prospects' (2018) 1(4) *International Journal of Multidisciplinary Research and Analysis*, 18-22.

²²² (2017) 9 TLRN 184

²²³ Section 2 Nigeria Export Processing Zones Authority Act LFN 2004

²²⁴ Cap N107, LFN 2004

repatriation of profits and dividends. This framework is designed to attract foreign direct investment (FDI) and boost export competitiveness.

Adegbe and Babatayo²²⁵ argue that NEPZA's incentives have significantly contributed to the growth of small and medium enterprises (SMEs) in Nigeria, particularly within the Lagos Free Zone. However, there have been criticisms regarding regulatory overlaps with agencies like the Nigerian Customs Service, leading to disputes over jurisdiction in the enforcement of tax exemptions. The case of *Nigerian Customs Service v. INTELS Nigeria Ltd*²²⁶ highlighted these conflicts, where the courts reaffirmed NEPZA's authority in free zones, emphasizing legal clarity in operational boundaries.

Moreover, NEPZA's effectiveness has been questioned due to governance challenges, including bureaucratic inefficiencies and infrastructural deficits. Kiabel²²⁷ points out that while tax incentives are necessary, they must be complemented by robust infrastructure and consistent policy implementation to maximize economic development outcomes.

3.2.4 Ministry of Finance²²⁸

The Ministry of Finance plays a central role in Nigeria's tax incentive framework, primarily through policy formulation, fiscal planning, and oversight of tax-related legislations. Established under the constitutional provisions of Nigeria, its mandate includes managing public finances, preparing the national budget, and negotiating tax treaties that shape Nigeria's investment

²²⁵ FF Adegbe and KO Babatayo, 'Tax Incentives and Growth of Informal Sector SMEs in South-West Nigeria' (2020) <https://www.researchgate.net/publication/348328155> accessed 4 february 2025.

²²⁶ [2017] NWLR (Pt. 1586) 1.

²²⁷ BD Kiabel, 'Corporate Tax Incentives in Nigeria' (2003) *American Economic Review* <https://www.researchgate.net/publication/265790426>. Accessed 4 February 2025.

²²⁸ Section 148 of the 1999 constitution as amended

landscape.²²⁹ The Ministry's influence is evident in its coordination with tax authorities such as the Federal Inland Revenue Service (FIRS) and NEPZA. Its role in granting tax waivers, particularly under the Industrial Development (Income Tax Relief) Act²³⁰, is critical. The Minister of Finance is empowered to approve pioneer status incentives, which offer up to five years of tax holidays to qualifying industries.

Nwoke & Okorie²³¹ highlights the Ministry's dual role in promoting investment through tax reliefs while ensuring fiscal sustainability. They argue that the Ministry's discretionary powers in granting incentives have sometimes led to revenue leakages and abuse, as evidenced by the controversies surrounding indiscriminate tax waivers granted to politically connected firms in the past.

Furthermore, the Ministry's role extends to negotiating international tax agreements, such as Double Taxation Treaties (DTTs), which are instrumental in attracting foreign investments. However, critics argue that Nigeria's DTT network requires reforms to address issues related to base erosion and profit shifting (BEPS), as noted by Oyedokun et al.²³² in their study on Nigeria's fiscal policy challenges.

Despite these criticisms, the Ministry has made significant strides in tax reform, particularly through initiatives like the Voluntary Assets and Income Declaration Scheme (VAIDS) and the recent amendments under the Finance Act 2020, which aim to streamline tax incentives, reduce redundancy, and enhance transparency.

²²⁹ Federal Ministry of Finance, 'National Tax Policy' (2012) <https://admin.theiguides.org/Media/Documents/NATIONAL%20TAX%20POLICY.pdf> accessed 4 February 2025.

²³⁰ Cap I17, LFN 2004

²³¹ TW Nwoke, and AJ Okorie, 'A Legal Appraisal of Tax Incentives in Nigeria: Lessons from the USA' (2024) 11(4) *NAU.JCPL* <https://journals.unizik.edu.ng/jcpl/article/download/4697/3829>. Accessed 4 February 2025.

²³² Oyedokun GE et al., *Tax Policy and Revenue Generation in Nigeria* (2021) 1(1) *International Research Journal*, 13-24. <https://www.researchgate.net/publication/356187322>. Accessed 5 February 2025.

3.3 Legal Framework for Tax Incentive in United States

The United States' tax incentive system is embedded within a sophisticated federal fiscal structure characterized by strong legal predictability, administrative competence, and judicial oversight. The Internal Revenue Code (IRC) serves as the principal statutory basis for federal tax incentives, supplemented by state-level legislation and local economic development statutes.²³³ Unlike Nigeria, where fiscal incentives are often sector-specific and discretionary, the U.S. framework integrates incentives into a broader system of rule-based fiscal governance.

Federal incentives such as the Research and Development (R&D) Tax Credit, New Markets Tax Credit, and Renewable Energy Production Tax Credit are codified within specific sections of the IRC.²³⁴ Each program is administered through transparent eligibility criteria, compliance audits, and performance reviews by the Internal Revenue Service (IRS). States also design complementary incentives tailored to local economic goals, such as job creation and innovation hubs, while remaining bound by constitutional constraints against discriminatory or extraterritorial taxation.²³⁵ The judicial enforcement of these constraints as illustrated in cases like *Cuno v DaimlerChrysler Inc*²³⁶ underscores the centrality of constitutional checks in maintaining fairness and competition across states.

A defining strength of the U.S. framework lies in its institutionalized transparency and fiscal discipline. The Government Accountability Office (GAO) and the Congressional Budget Office (CBO) conduct periodic assessments of federal tax expenditures, publishing detailed reports that

²³³ Internal Revenue Code, 26 USC (2018).

²³⁴ Internal Revenue Code, ss 38, 45D, 48, and 51.

²³⁵ US Constitution, Art I, s 8; see also *South Central Bell Telephone Co v Alabama* 526 US 160 (1999).

²³⁶ 386 F 3d 738 (6th Cir 2004).

inform policy review and public debate.²³⁷ This practice ensures that tax incentives remain accountable, measurable, and subject to democratic scrutiny, an institutional culture that remains largely underdeveloped in Nigeria.

3.3.1 Internal Revenue Code

The Internal Revenue Code (IRC), codified as Title 26 of the United States Code, serves as the primary legal authority governing federal taxation in the United States. Its current form stems from the comprehensive reforms enacted through the Internal Revenue Code of 1986, which consolidated and codified all substantive tax laws, including provisions related to income tax, estate and gift taxes, excise taxes, and a wide range of tax incentives. The IRC functions not only as a fiscal tool for revenue generation but also as a policy instrument designed to influence economic behaviour and promote national development objectives.

Tax incentives embedded within the IRC manifest in several forms, including tax credits, deductions, exemptions, and deferrals. These incentives are strategically designed to encourage activities deemed beneficial to the U.S. economy, such as investments in renewable energy, technological innovation, affordable housing, and education. Key provisions include:

Section 41 (R&D Tax Credit): This section provides tax credits for businesses engaging in qualified research activities (QRA), particularly in sectors like technology, pharmaceuticals, and engineering. The R&D Tax Credit aims to stimulate domestic innovation by offsetting a portion of research expenditures, fostering competitiveness in the global market.²³⁸

²³⁷ United States Government Accountability Office, *Tax Expenditures: Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight* (GAO-13-479, 2013).

²³⁸ Internal Revenue Code, 26 U.S.C. § 41.

Section 48 (Investment Tax Credit - ITC): This provision stimulates investments in energy-efficient properties, particularly within the renewable energy sector. Businesses investing in solar, wind, geothermal, and fuel cell technologies can claim significant credits against their tax liabilities, promoting environmental sustainability alongside economic growth.²³⁹

Section 179: Targeted primarily at small and medium-sized enterprises (SMEs), Section 179 allows for the immediate expensing of the full cost of qualifying equipment purchases rather than capitalizing and depreciating them over time. This provision enhances cash flow and encourages capital investment.²⁴⁰

These incentives are categorized as tax expenditures, reflecting government revenue forgone to achieve specific policy objectives. According to scholars like Graetz and Schenk, the complexity of the IRC arises from the challenge of balancing fiscal efficiency with socio-economic goals, leading to a labyrinthine system marked by intricate rules, exceptions, and compliance requirements.²⁴¹ Their analysis underscores the IRC's dual role as both a revenue-raising mechanism and a tool for social and economic engineering.

Judicial interpretation plays a pivotal role in shaping the application of tax incentives under the IRC. Courts are often called upon to resolve ambiguities related to eligibility criteria, scope, and the interaction between various provisions. A notable case is *Commissioner v. Tufts*²⁴², where the U.S. Supreme Court clarified the treatment of non-recourse debt in property transactions. The Court held that when property subject to non-recourse debt is transferred, the full amount of the debt must be included in the calculation of the taxpayer's gain, even if it exceeds the property's

²³⁹ Internal Revenue Code, 26 U.S.C. § 48.

²⁴⁰ Internal Revenue Code, 26 U.S.C. § 179.

²⁴¹ Michael J. Graetz and Deborah H. Schenk, *Federal Income Taxation: Principles and Policies* (7th edn, Foundation Press 2013).

²⁴² (1983) 461 U.S. 300.

fair market value. This ruling significantly impacted tax incentive calculations, particularly in the context of real estate investments and tax shelters, influencing the structuring of transactions to maximize tax benefits.

3.3.2 Tax Reform Act of 1986²⁴³

The Tax Reform Act of 1986 (TRA 1986) represents a watershed moment in U.S. tax history, fundamentally overhauling the federal tax code. Signed into law by President Ronald Reagan, the TRA was the culmination of a bipartisan effort to create a more equitable, efficient, and growth-oriented tax system. Its objectives were to simplify the tax structure, broaden the tax base, and eliminate numerous tax shelters that had previously distorted economic behaviour. The TRA's reforms were groundbreaking, not only for their scope but also for their enduring influence on subsequent tax legislation.

The TRA 1986 was guided by three core principles: equity, efficiency, and simplicity. These principles were operationalized through transformative changes, including:

- a. **Reduction of Tax Rates:** The Act significantly reduced both individual and corporate tax rates. The top individual income tax rate was lowered from 50% to 28%, while the corporate tax rate was reduced from 46% to 34%.²⁴⁴ This marked a paradigm shift from a progressive tax structure towards a flatter, broader-based system, aimed at reducing tax avoidance incentives and promoting economic efficiency.
- b. **Broadening of the Tax Base:** To offset revenue losses from rate reductions, the TRA eliminated numerous deductions, exemptions, and credits that had previously eroded the tax base. This included the repeal of tax preferences related to passive investment activities,

²⁴³ Public Law 99-514. *United States Statutes at Large*, vol. 100, p. 2085 (1986).

²⁴⁴ Tax Reform Act of 1986, Pub L No 99-514, 100 Stat 2085 (1986).

consumer interest deductions, and certain business tax credits, thereby reducing opportunities for tax arbitrage and sheltering.²⁴⁵

- c. **Alternative Minimum Tax (AMT):** The Act expanded the scope of the AMT to ensure that high-income individuals and corporations paid a minimum level of tax regardless of deductions or credits. This provision was critical in curbing the proliferation of tax shelters among the wealthy and enhancing the fairness of the tax system.²⁴⁶

Impact on Tax Incentives

While the TRA 1986 sought to reduce reliance on tax expenditures, it selectively retained or modified certain incentives that were deemed crucial for economic development. Key examples include:

- a. **Low-Income Housing Tax Credit (LIHTC):** Introduced under the TRA, the LIHTC became a cornerstone of federal housing policy, incentivizing private investment in affordable housing through generous tax credits. This provision remains one of the most effective tools for addressing housing shortages in low-income communities.²⁴⁷
- b. **Investment Tax Credit (ITC):** Although the general ITC was phased out for many sectors, it was retained and later expanded for renewable energy investments, reflecting a shift towards environmentally sustainable economic policies.²⁴⁸

²⁴⁵ HW Sinn, 'The 1986 US Tax Reform and the World Capital Market' (1988) 32 *European Economic Review* 1515 <https://www.hanswernersinn.de/sites/default/files/sinn-1986-tax-reform-eer32-1988.pdf>. Accessed 4 February 2025.

²⁴⁶ Edward Kleinbard, 'The Lessons of the 1986 Tax Reform Act' (2007) 45 *National Tax Journal*, 307.

²⁴⁷ MS Scholes and MA Wolfson, 'The Role of Tax Rules in the Recent Restructuring of US Corporations' (1991) *Tax Policy and the Economy* <https://www.journals.uchicago.edu/doi/pdf/10.1086/tpe.5.20061799>. Accessed 4 February 2025.

²⁴⁸ *Bank of America Corp v United States* 101 F.3d 181 (4th Cir 1996).

The TRA's approach to tax incentives reflected a philosophical shift from using the tax code as a tool for microeconomic intervention towards promoting neutrality and reducing market distortions. However, as subsequent legislative developments have shown, the political appeal of targeted tax incentives has often led to their gradual reintroduction, undermining some of the TRA's long-term objectives.

Scholars such as Edward Kleinbard argue that the TRA 1986 marked a critical departure from the "loophole-driven" tax policies of the past, favouring a more principled, broad-based system that prioritized efficiency and fairness.²⁴⁹ However, critiques highlight that the Act's durability was compromised by the political economy of tax legislation, with subsequent reforms (e.g., the Tax Cuts and Jobs Act of 2017) reintroducing many tax expenditures that the TRA had sought to eliminate.²⁵⁰

The judiciary has also played a role in interpreting the complex provisions introduced by the TRA. In *Bank of America Corp. v. United States*, the court examined the application of amended tax provisions related to corporate reorganizations.²⁵¹ The case highlighted the challenges of applying new tax rules to intricate financial transactions, demonstrating how legal ambiguities could create compliance risks even under a reformed tax regime.

²⁴⁹ Edward Kleinbard (n 149).

²⁵⁰ JM Poterba, 'Why Didn't the Tax Reform Act of 1986 Raise Corporate Taxes?' (1992) *Tax Policy and the Economy* 6 <https://www.journals.uchicago.edu/doi/pdf/10.1086/tpe.6.20061809>. Accessed 4 February 2025.

²⁵¹ *Bank of America Corp v United States* 101 F.3d 181 (4th Cir 1996).

3.3.3 Economic Recovery Tax Act of 1981²⁵²

The Economic Recovery Tax Act of 1981 (ERTA), also known as the Kemp-Roth Tax Cut, was a landmark piece of legislation signed into law by President Ronald Reagan on August 13, 1981. Codified within the Internal Revenue Code, ERTA was a cornerstone of Reaganomics, emphasizing supply-side economics as a mechanism to stimulate economic growth. The Act aimed to address stagflation, marked by stagnant growth and high inflation, through comprehensive tax reforms designed to incentivize investment, production, and savings. ERTA introduced sweeping tax reductions, fundamentally altering the U.S. tax landscape. Its primary objectives included fostering economic recovery, reducing unemployment, and controlling inflation. Key provisions included:

- a. **Reduction in Individual Income Tax Rates:** ERTA implemented an across-the-board 25% reduction in individual tax rates over a three-year period.²⁵³ This aimed to boost disposable income, thereby increasing consumer spending and stimulating economic activity.
- b. **Accelerated Cost Recovery System (ACRS):** Replacing traditional depreciation methods, ACRS allowed businesses to recover capital investments more rapidly through accelerated depreciation deductions, thereby encouraging capital formation.²⁵⁴
- c. **Incentives for Savings and Investments:** ERTA expanded Individual Retirement Accounts (IRAs) eligibility and introduced provisions for 401(k) plans, encouraging long-term savings and investment.

²⁵² Pub. L. No. 97-34, 95 Stat. 172 (1981).

²⁵³ Economic Recovery Tax Act of 1981, Pub L No 97-34, 95 Stat 172 (1981).

²⁵⁴ Ibid, s 201 (Accelerated Cost Recovery System provisions).

- d. **Estate and Gift Tax Reforms:** The Act significantly increased the estate tax exemption and reduced gift tax rates, facilitating wealth transfers across generations without substantial tax burdens.

ERTA's implementation led to several legal disputes concerning tax planning strategies and the interpretation of accelerated depreciation rules. In *Commissioner v. Tufts*²⁵⁵, the U.S. Supreme Court addressed the treatment of non-recourse debt under ERTA's depreciation provisions. The Court held that taxpayers must include the full amount of non-recourse debt when calculating taxable gains from property dispositions, thereby influencing real estate investment structures and tax planning post-ERTA.

Scholars have offered mixed assessments of ERTA's effectiveness. For instance, Briner²⁵⁶ argued that while ERTA succeeded in stimulating short-term economic growth, it contributed to significant federal budget deficits, raising concerns about fiscal sustainability. Conversely, Sinn²⁵⁷ contended that ERTA played a pivotal role in revitalizing the U.S. industrial base by enhancing productivity and innovation through favorable tax policies. However, critiques point out that the benefits disproportionately favored high-income earners, exacerbating income inequality over time.

3.3.4 Tax Cuts and Jobs Act of 2017²⁵⁸

²⁵⁵ (1983) 461 US 300.

²⁵⁶ MG Briner, 'Economic Recovery Tax Act of 1981' (1981) 15 *Akron Law Review* 455 https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/aklr15§ion=24. Accessed 4 February 2025.

²⁵⁷ HW Sinn, 'The 1986 US Tax Reform and the World Capital Market' (1988) 32 *European Economic Review* 1515.

²⁵⁸ Pub. L. No. 115-97, 131 Stat. 2054 (2017).

The Tax Cuts and Jobs Act of 2017 (TCJA) represents one of the most significant overhauls of the U.S. tax system since the Tax Reform Act of 1986. Signed into law by President Donald Trump on December 22, 2017, the TCJA aimed to promote economic growth through substantial tax reductions, corporate tax reforms, and incentives designed to attract foreign investment. The Act was framed within the broader policy agenda of stimulating job creation, enhancing U.S. competitiveness, and simplifying the tax code.

The TCJA introduced comprehensive changes to both individual and corporate taxation, with the following key features:

- a. **Reduction of Corporate Tax Rate:** The corporate tax rate was slashed from **35% to 21%**, positioning the U.S. as a more attractive destination for business investments globally.²⁵⁹
- b. **Repatriation Tax and Shift to Territorial System:** The Act transitioned from a worldwide to a territorial tax system, imposing a one-time tax on previously untaxed foreign earnings of U.S. multinationals. This was intended to repatriate profits and boost domestic investment.²⁶⁰
- c. **Qualified Business Income (QBI) Deduction:** Section 199A introduced a 20% deduction for income earned by pass-through entities such as partnerships, S-corporations, and sole proprietorships, incentivizing small business growth.
- d. **Individual Tax Reforms:** The TCJA reduced individual tax rates across several brackets, doubled the standard deduction, and capped the state and local tax (SALT) deduction, affecting high-tax states disproportionately.

²⁵⁹ Tax Cuts and Jobs Act of 2017, Pub L No 115-97, 131 Stat 2054 (2017).

²⁶⁰ JG Gravelle and DJ Marples, 'The Economic Effects of the 2017 Tax Revision: Preliminary Observations' (2019) *Congressional Research Service* https://www.everycrsreport.com/files/20190522_R45736.pdf. Accessed 5 February 2025.

While the TCJA simplified certain tax structures, it also introduced and modified various tax incentives:

- a. **Opportunity Zones:** Designed to spur economic development in distressed communities, Opportunity Zones offer capital gains tax deferrals for investments held in designated areas.²⁶¹
- b. **Bonus Depreciation:** Businesses can now deduct 100% of the cost of qualifying property in the year it is placed in service, providing significant cash flow advantages to capital-intensive industries.
- c. **Limitations on Interest Deductions:** Section 163(j) imposed stricter limits on business interest expense deductions, potentially reducing tax benefits for highly leveraged companies.

Although judicial interpretations of the TCJA are still evolving, early cases such as *Altera Corp. v. Commissioner*²⁶² have provided insights into the application of transfer pricing rules under the new tax regime. The case reaffirmed the IRS's authority to enforce regulations related to cost-sharing arrangements between multinational corporations, reflecting the TCJA's emphasis on curbing tax base erosion.

Divergent views have been offered on the TCJA's effectiveness. For example, Gravelle and Marples²⁶³ argue that while the TCJA stimulated short-term economic growth, its long-term

²⁶¹ N Sharma et al., 'Analysis of the Corporate Behaviors after the Corporate Tax Cuts with Respect to Job Creation' (2019) *Accounting and Finance Research* <https://www.academia.edu/download/94631392/9823.pdf>. Accessed 5 February 2025.

²⁶² 926 F.3d 1061 (9th Cir 2019).

²⁶³ JG Gravelle and DJ Marples, 'The Economic Effects of the 2017 Tax Revision: Preliminary Observations' (2019) *Congressional Research Service* https://www.everycrsreport.com/files/20190522_R45736.pdf. Accessed 5 February 2025.

effects on deficit reduction and income inequality remain questionable. Clausing²⁶⁴ critiques the TCJA for exacerbating corporate tax avoidance through loopholes in the territorial tax system, undermining the Act's goal of broadening the tax base. Conversely, Auerbach²⁶⁵ highlights the positive impact of corporate tax cuts on capital investment and wage growth, though acknowledging that the distributional benefits are skewed towards higher-income households.

3.3.5 The Inflation Reduction Act 2022²⁶⁶

The Inflation Reduction Act 2022 (IRA) represents one of the most consequential fiscal statutes in modern U.S. history, embodying a renewed commitment to green growth, industrial competitiveness, and fiscal responsibility.²⁶⁷ Enacted on 16 August 2022, the IRA amends the Internal Revenue Code to introduce an array of tax credits, deductions, and grants aimed at accelerating clean energy investments, reducing carbon emissions, and promoting domestic manufacturing.

At its core, the Act deploys tax incentives as instruments of climate and industrial policy. Title I of the IRA expands existing renewable energy tax credits such as the Investment Tax Credit (ITC) and the Production Tax Credit (PTC) while introducing new incentives for emerging technologies, including hydrogen production, carbon capture, and sustainable aviation fuel.²⁶⁸ For example, Section 45Y of the amended Internal Revenue Code provides a Technology-

²⁶⁴ KA Clausing, 'Fixing Five Flaws of the Tax Cuts and Jobs Act' (2019) *Columbia Journal of Tax Law* https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/colujoutl11. Accessed 5 February 2025.

²⁶⁵ AJ Auerbach, 'Measuring the Effects of Corporate Tax Cuts' (2018) *Journal of Economic Perspectives* <https://www.aeaweb.org/articles?id=10.1257/jep.32.4.97>. Accessed 5 February 2025.

²⁶⁶ Pub. L. No. 117-169, 136 Stat. 1818 (2022).

²⁶⁷ Inflation Reduction Act 2022, Pub L No 117-169, 136 Stat 1818.

²⁶⁸ Internal Revenue Code, ss 45, 48, and 45Y (as amended by IRA 2022).

Neutral Clean Electricity Credit, available for zero-emission facilities placed in service after 2024.²⁶⁹

The Act's fiscal innovation lies in its performance-based approach: incentives are granted contingent upon compliance with domestic content requirements, wage standards, and environmental benchmarks.²⁷⁰ This ensures that public subsidies translate into measurable socio-economic and environmental benefits, a design principle largely absent in Nigeria's incentive framework.

Furthermore, the IRA introduces unprecedented transparency and accountability mechanisms. The Department of the Treasury and the Internal Revenue Service are required to publish annual reports detailing the cost, beneficiaries, and economic impact of all tax credits issued under the Act.²⁷¹ Such statutory transparency aligns with broader U.S. fiscal governance norms that emphasize evidence-based policymaking and democratic oversight.

Economically, the Congressional Budget Office projects that the Act will mobilize over USD 369 billion in clean energy and climate-related investments over a decade, making it the largest climate policy package in U.S. history.²⁷² Legally, it underscores the adaptability of the American tax system in aligning fiscal incentives with evolving policy priorities, whether environmental sustainability, industrial innovation, or social equity.

By and large, contrast, Nigeria's fiscal regime remains largely sectoral and static, lacking the dynamic evaluative mechanisms embedded in the IRA. The U.S. model thus offers a compelling

²⁶⁹ *ibid* s 45Y.

²⁷⁰ Inflation Reduction Act 2022, Title I, Subtitle D, ss 13101–13704.

²⁷¹ US Department of the Treasury, *Inflation Reduction Act Implementation Guidance* (2023).

²⁷² Congressional Budget Office, *Estimated Budgetary Effects of H.R. 5376, the Inflation Reduction Act of 2022* (CBO Report, 2022) 4.

benchmark for how fiscal legislation can balance economic growth, environmental stewardship, and institutional accountability through a coherent incentive framework.

3.4 INSTITUTIONAL FRAMEWORK FOR TAX INCENTIVE IN UNITED STATES

3.4.1 Internal Revenue Service (IRS)²⁷³

The Internal Revenue Service (IRS), established under the authority of the Internal Revenue Code (IRC), Title 26 of the United States Code, is the principal agency responsible for administering federal tax laws in the United States. Operating under the jurisdiction of the Department of the Treasury, the IRS plays a critical role not only in tax collection but also in the design, implementation, and enforcement of tax incentive programs. These programs are integral to the U.S. fiscal policy framework, serving as tools for promoting economic activities such as research, investment, and environmental sustainability.

The IRS's involvement in tax incentives is multifaceted, reflecting its broad mandate in tax administration. Its key roles include:

- a. **Policy Implementation:** The IRS enforces tax laws enacted by Congress, ensuring that tax incentives are applied correctly and consistently. A notable example is the Research and Development (R&D) Tax Credit under Section 41 of the IRC, which stimulates innovation by offering tax credits to companies investing in qualified research activities.²⁷⁴ This provision is designed to promote technological advancement and maintain the U.S.'s competitive edge in global markets.

²⁷³ Internal Revenue Service Restructuring and Reform Act of 1998, Pub. L. No. 105-206, 112 Stat. 685 (1998).

²⁷⁴ Internal Revenue Code, 26 U.S.C. § 41.

- b. **Regulatory Oversight:** The IRS issues detailed regulations, revenue rulings, and private letter rulings to clarify the application of complex tax incentives. These administrative guidelines ensure uniform interpretation across different sectors and provide legal certainty to taxpayers. For instance, regulations under Section 199A clarify eligibility for the Qualified Business Income (QBI) Deduction, introduced by the Tax Cuts and Jobs Act of 2017.
- c. **Compliance and Audits:** To safeguard the integrity of the tax system, the IRS conducts audits and investigations to detect and prevent the misuse of tax incentives. This includes combating fraudulent claims for energy credits and addressing abuses in foreign tax credit schemes. A landmark case, *Altera Corp. v. Commissioner*²⁷⁵ reinforced the IRS's authority to regulate cost-sharing arrangements between multinational corporations, thereby curbing tax avoidance strategies related to transfer pricing.

Graetz and Schenk²⁷⁶ contends that while the IRS is indispensable in ensuring tax compliance, the complexity of tax incentive regulations often imposes significant administrative burdens on businesses, particularly small and medium-sized enterprises (SMEs). They highlight that navigating the intricate rules surrounding tax credits and deductions can deter SMEs from fully utilizing available incentives.

Conversely, Kleinbard²⁷⁷ emphasizes the importance of the IRS's regulatory framework in maintaining fiscal discipline. He asserts that without stringent oversight, tax incentives could erode the tax base, especially in the context of aggressive tax planning by multinational

²⁷⁵ 926 F.3d 1061 (9th Cir 2019).

²⁷⁶ Michael J. Graetz and Deborah H. Schenk, *Federal Income Taxation: Principles and Policies* (7th edn, Foundation Press 2013).

²⁷⁷ Edward D. Kleinbard, 'Stateless Income' (2010) *Florida Tax Review* 5(9) 699.

corporations exploiting legal loopholes. Kleinbard's analysis underscores the delicate balance the IRS must maintain between fostering economic growth through incentives and ensuring tax equity and compliance.

3.4.2 Department of Commerce²⁷⁸

The Department of Commerce (DOC) is a key federal agency tasked with promoting economic growth, technological innovation, and sustainable development in the United States. Although the DOC does not directly administer tax laws, it plays a significant role in shaping tax incentive policies through economic research, policy recommendations, and inter-agency collaboration. The Department's influence extends to both domestic and international economic strategies, where tax incentives are employed as tools to attract investment, enhance competitiveness, and foster regional development.

The Department of Commerce influences tax incentives through several critical functions:

- a. **Policy Development and Advocacy:** The DOC conducts comprehensive economic analyses to evaluate the effectiveness of existing tax incentives. Based on these studies, the Department advocates for policy reforms that enhance U.S. competitiveness. Through its sub-agency, the Economic Development **Administration (EDA)**, the DOC supports initiatives aimed at revitalizing distressed communities and encouraging private sector investments.²⁷⁹ The EDA's programs often complement federal tax incentives, such as the New Markets Tax Credit (NMTC), by providing grants and technical assistance to economically disadvantaged regions.

²⁷⁸ An act to Establish the Department of Commerce (14 February 1903) ch 552, 32 stat 825.

²⁷⁹ U.S. Department of Commerce, *Economic Development Administration Strategic Plan* (2019) <https://www.eda.gov/strategic-plan>. Accessed 5 February 2025.

- b. **Export and Investment Incentives:** The **International Trade Administration (ITA)**, operating within the DOC, supports export-oriented businesses by facilitating access to tax incentives like the now-repealed Foreign Sales Corporation (FSC) tax benefit, which previously provided tax advantages to U.S. companies engaged in foreign trade.²⁸⁰ Although the FSC was eliminated following disputes at the World Trade Organization, the DOC continues to play a role in promoting trade related tax policies that align with international trade agreements.
- c. **Data Collection and Research:** The DOC's Bureau of Economic Analysis (BEA) provides critical economic data that informs tax policy decisions. For example, BEA reports on investment trends, employment statistics, and regional economic performance are instrumental in the design of targeted tax credits, such as the Opportunity Zones introduced under the Tax Cuts and Jobs Act of 2017. These data-driven insights ensure that tax incentives are tailored to address specific economic challenges effectively.

Legal interpretations have occasionally intersected with the DOC's policy role, particularly concerning the Commerce Clause of the U.S. Constitution, which regulates interstate commerce. In *Cuno v. DaimlerChrysler, Inc.*²⁸¹, the Supreme Court examined the constitutionality of state tax credits designed to attract business investments. The case highlighted the tension between federal oversight often influenced by the DOC's economic policies and state autonomy in crafting tax incentive programs. The Court's decision underscored the importance of maintaining a balance between encouraging economic development and ensuring fair competition across state lines.

²⁸⁰ International Trade Administration, *Annual Performance Report* (2020) <https://www.trade.gov/performance>. Accessed 5 February 2025.

²⁸¹ 547 U.S. 332 (2006).

Enrich²⁸² critiques the Department's influence in promoting state-level tax incentives, arguing that such policies can lead to a "race to the bottom," where states compete aggressively to attract businesses, sometimes at the expense of fiscal stability and long-term economic sustainability. Enrich's analysis raises concerns about the efficiency and equity of using tax incentives as economic development tools without adequate federal oversight.

In contrast, Jarrell et al.²⁸³ highlight the positive contributions of the DOC's strategic initiatives, particularly in fostering public-private partnerships that leverage tax incentives to drive regional development. They argue that the DOC's support for collaborative economic models has been instrumental in revitalizing economically distressed areas, promoting job creation, and enhancing the overall effectiveness of tax incentive programs.

3.4.3 Economic Development Administration (EDA)²⁸⁴

The Economic Development Administration (EDA), an agency within the U.S. Department of Commerce, was established under the Public Works and Economic Development Act of 1965²⁸⁵ to promote sustainable economic growth, particularly in economically distressed communities. The EDA's mission revolves around fostering innovation, competitiveness, and job creation through strategic investments in infrastructure, workforce development, and regional economic

²⁸² Peter D. Enrich, 'Constraining State Business Tax Incentives: The Commerce Clause's Role' (2007) *Northeastern University School of Law Research Paper* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1016214. Accessed 5 February 2025.

²⁸³ S. L. Jarrell, G. Shoesmith, and J. N. Robbins, 'Law and Economics of Regulating Local Economic Development Incentives' (2006) 41(2) *Wake Forest Law Review* 377 https://www.wakeforestlawreview.com/wp-content/uploads/2014/10/Jarrell_LawReview_09.06.pdf. Accessed 5 February 2025.

²⁸⁴ Public Works and Economic Development Act of 1965 Pub L No 89-136, 79 Stat 552(26 August 1965)

²⁸⁵ 42 U.S.C. § 3121 et seq.

planning. Although the EDA does not directly administer tax incentives, it plays a pivotal role in shaping the environment where tax incentives are effective. The agency's key functions include:

- a. **Grant Administration and Investment Support:** The EDA provides funding for projects that improve the economic resilience of communities. These projects often complement tax incentives by creating an enabling environment for businesses to thrive. For example, grants under the Public Works Program fund infrastructure projects that attract private investments eligible for federal tax credits.²⁸⁶
- b. **Regional Innovation Strategies:** Through programs like the Build to Scale (B2S) Program, the EDA fosters technological entrepreneurship by supporting ecosystems that benefit from federal tax incentives such as the R&D Tax Credit under Section 41 of the Internal Revenue Code.²⁸⁷
- c. **Policy Development and Research:** The EDA conducts economic analyses that inform federal tax policy. Its research helps identify sectors and regions that could benefit from targeted tax incentives, thus guiding legislative priorities. For instance, EDA studies on Opportunity Zones influenced the design of tax incentives under the Tax Cuts and Jobs Act of 2017, encouraging investments in low-income communities.²⁸⁸

While the EDA's activities rarely lead to direct litigation concerning tax incentives, its programs sometimes intersect with constitutional issues, particularly regarding the Commerce Clause. In *Cuno v. DaimlerChrysler, Inc.*²⁸⁹, the U.S. Supreme Court considered whether state tax

²⁸⁶ Economic Development Administration, *Public Works Program Guidelines* (2022) <https://www.eda.gov/programs/public-works> accessed 1 February 2025.

²⁸⁷ Internal Revenue Code, 26 U.S.C. § 41.

²⁸⁸ U.S. Department of Commerce, *Opportunity Zones: The EDA's Role in Economic Revitalization* (2020) <https://www.eda.gov/opportunity-zones>. accessed 1 February 2025.

²⁸⁹ 547 U.S. 332 (2006).

incentives for economic development violated the Commerce Clause. Although the case focused on state incentives, it highlighted the federal government's role through agencies like the EDA in ensuring that economic development policies do not distort interstate commerce.

Scholars have offered diverse perspectives on the EDA's role in economic development. Enrich²⁹⁰ critiques the agency's influence, arguing that its support for tax incentives may encourage a "race to the bottom", where states compete aggressively for business investments, potentially undermining fiscal stability. In contrast, Jarrell et al.²⁹¹ contend that the EDA's strategic investments, especially when combined with tax incentives, have significantly contributed to regional economic revitalization, fostering long-term growth and resilience.

3.4.4 State Economic Development Agencies

State Economic Development Agencies (SEDAs) play a crucial role in the American federal system, serving as key actors in designing and implementing tax incentives to attract investments, create jobs, and stimulate economic growth within their jurisdictions. Each state operates its own development agency, with varying mandates and incentive structures tailored to regional economic priorities. SEDAs are responsible for administering a wide range of tax incentives, which typically include:

- a. **Investment Tax Credits (ITCs):** These credits reduce corporate income tax liabilities for businesses that invest in qualifying assets, such as new machinery or facilities. For

²⁹⁰ Peter D Enrich, 'Saving the States from Themselves: Commerce Clause Constraints on State Tax Incentives for Business' (2007) 110(2) *Harvard Law Review*, 377.

²⁹¹ Sherry L Jarrell et al, 'Evaluating State Economic Development Strategies: Lessons from the EDA' (2006) 29(3) *Regional Science Review*, 231.

example, New York State's Investment Tax Credit encourages capital investments in manufacturing and technology sectors.²⁹²

- b. **Job Creation Tax Credits (JCTCs):** Many states offer credits based on the number of new jobs created by a company. The Ohio Job Creation Tax Credit, for instance, provides a refundable credit against the state income tax for companies that commit to job creation targets.²⁹³
- c. **Research and Development (R&D) Tax Credits:** States like California offer R&D credits that complement the federal incentive under Section 41 of the IRC, further encouraging technological innovation within the state.²⁹⁴
- d. **Enterprise Zones and Opportunity Zones:** States designate specific areas where businesses can receive tax abatements, exemptions, or credits to stimulate investment in economically distressed regions.

The role of SEDAs in administering tax incentives has been subject to judicial scrutiny, particularly concerning the constitutionality of state-level tax breaks. In *Cuno v. DaimlerChrysler, Inc.*²⁹⁵, the Supreme Court addressed whether Ohio's investment tax credit violated the Commerce Clause by favoring in-state over out-of-state businesses. Although the Court ultimately avoided ruling on the merits due to standing issues, the case underscored the legal complexities surrounding state tax incentives and interstate commerce.

²⁹² New York State Department of Taxation and Finance, *Investment Tax Credit Program* (2023) <https://www.tax.ny.gov/bus/itc>. accessed 1 February 2025.

²⁹³ Ohio Development Services Agency, *Job Creation Tax Credit Program Guidelines* (2022) <https://development.ohio.gov/jctc>. accessed 1 February 2025.

²⁹⁴ California Franchise Tax Board, *R&D Tax Credit Guidelines* (2021) <https://www.ftb.ca.gov/file/business/credits/research-development-credit>. accessed 1 February 2025.

²⁹⁵ (2006) 547 U.S. 332.

Lynch²⁹⁶ questions the effectiveness of firm-specific tax incentives, suggesting that they often fail to deliver sustainable economic benefits and may divert resources from critical public services. Conversely, Patrick²⁹⁷ finds that non-tax economic development incentives, such as grants and infrastructure investments, can be more effective than tax credits alone, particularly when combined with comprehensive economic development strategies.

Furthermore, Ihlanfeldt²⁹⁸ proposes "Ten Principles for State Tax Incentives", emphasizing the need for transparency, accountability, and rigorous evaluation of incentive programs to ensure that they deliver meaningful economic outcomes without eroding the tax base. These principles have influenced state-level policy reforms aimed at enhancing the effectiveness of tax incentives while mitigating potential fiscal risks.

Chapter Four

Comparative Study of Tax Incentive and Economic Development in Nigeria and United States

4.0 Introduction

This chapter undertakes a comparative analysis of the tax incentive regimes of Nigeria and the United States with the aim of evaluating their design, implementation, and developmental outcomes. Building upon the preceding discussion of legal and institutional frameworks, this analysis situates both jurisdictions within their respective economic and governance contexts to

²⁹⁶ Robert G Lynch, 'Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development' (1996) *Economic Policy Institute* <https://www.epi.org>. accessed 1 February 2025.

²⁹⁷ Carlianne Patrick, 'Does Increasing Available Non-Tax Economic Development Incentives Result in More Jobs?' (2014) 67(2) *National Tax Journal*, 351.

²⁹⁸ Keith R Ihlanfeldt, 'Ten Principles for State Tax Incentives' (1995) 9(4) *Economic Development Quarterly*, 345.

determine how law, policy, and institutional performance interact to influence the effectiveness of fiscal incentives as instruments of economic development.

Tax incentives have long been employed as strategic policy tools to stimulate investment, promote industrialization, and attract foreign capital. Yet, their effectiveness is not solely a function of their fiscal generosity, but of the legal architecture, administrative integrity, and governance culture that underlie their design and application. In both Nigeria and the United States, tax incentives represent deliberate governmental interventions aimed at fostering growth in priority sectors. However, while the United States has evolved a transparent, data-driven, and performance-based model, Nigeria's framework remains fragmented, reactive, and largely discretionary.²⁹⁹

The United States operates a mature fiscal system in which incentives are codified under the Internal Revenue Code and periodically evaluated through institutional oversight by the Government Accountability Office (GAO) and Congressional Budget Office (CBO).³⁰⁰ These mechanisms ensure that fiscal incentives are implemented within a framework of accountability, constitutional consistency, and measurable outcomes. Conversely, Nigeria's incentive regime anchored in instruments such as the Industrial Development (Income Tax Relief) Act and successive Finance Acts has often been criticized for opacity, duplication, and limited economic impact.³⁰¹ Despite numerous reforms, the country continues to grapple with weak enforcement, inadequate evaluation, and the absence of a unified incentive policy.

²⁹⁹ T Adegoke, 'The Political Economy of Tax Incentive Administration in Nigeria' (2020) 18(2) *Nigerian Journal of Economic and Fiscal Studies*, 211.

³⁰⁰ United States Government Accountability Office, *Tax Expenditures: Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight* (GAO-13-479, 2013).

³⁰¹ Finance Act 2023, s 12; Industrial Development (Income Tax Relief) Act, Cap I7, Laws of the Federation of Nigeria 2004.

This chapter proceeds from the premise that effective tax incentive systems require the intersection of sound legal design and institutional credibility. Accordingly, the analysis here adopts a comparative methodology that identifies both structural and functional differences between the Nigerian and U.S. systems. It explores not only the statutory and administrative dimensions but also the underlying political, economic, and governance conditions that shape policy outcomes.

4.1 Overview of Tax Incentive Programmes in the United States

The comparative analysis in this chapter is guided by the need to evaluate the efficacy, structure, and socio-economic outcomes of tax incentive regimes in two distinct national contexts Nigeria, a developing economy with institutional and enforcement challenges, and the United States, a developed economy with a highly regulated fiscal and legal system. This comparison is critical for identifying the structural, legal, and policy-oriented factors that influence the success or failure of tax incentives as tools for economic development.

To ensure analytical clarity, this study adopts a comparative institutional policy framework, incorporating legal, economic, and administrative dimensions. The comparison is not merely descriptive but evaluative, focusing on how differences in institutional quality, policy design, and implementation capacity affect outcomes such as foreign direct investment (FDI), employment, industrial productivity, and revenue mobilization.

The choice of Nigeria and the United States as case studies is methodologically significant. Nigeria, representing a resource-rich but institutionally constrained state, provides insights into the challenges faced by emerging economies in designing and implementing tax incentives. Conversely, the United States, with its federal structure and sophisticated tax apparatus, offers a

useful benchmark for assessing best practices in tax incentive formulation and oversight. The comparison thus enables a nuanced exploration of what lessons: structural, legal, and policy-oriented Nigeria can draw from the U.S. experience, while also identifying which U.S. models may not be transferrable due to contextual differences.

The comparison is organized across six core analytical dimensions:

1. Policy Objectives – What economic goals do the tax incentives seek to achieve (e.g., industrialization, innovation, employment, regional development)?
2. Legal Frameworks and Eligibility – How are the incentives established legally? Who qualifies and under what conditions?
3. Implementation and Monitoring Mechanisms – What institutions are responsible for overseeing the incentive regime, and what accountability mechanisms exist?
4. Economic Outcomes – How do the incentives affect key development indicators such as FDI inflows, employment, and revenue?
5. Institutional and Political Economy Context – How do corruption, political interference, and bureaucratic inefficiencies impact the effectiveness of tax incentives?
6. Equity and Distributional Effects – Who benefits most from these incentives, small firms, multinational corporations, or politically connected elites?

Each dimension will be explored using a combination of legal analysis, policy documents, macroeconomic data, and secondary academic sources. Where relevant, visual tools such as comparative tables, timelines, and performance charts will be used to enhance understanding.

This comparative approach allows the research to go beyond a surface-level evaluation of tax policy. It enables a deeper analysis of how similar fiscal tools can produce divergent outcomes depending on the legal, political, and institutional architecture in which they are embedded. The ultimate objective is not only to understand differences but also to offer actionable insights for policy reform in Nigeria, grounded in both comparative evidence and contextual sensitivity.

By and large, Tax incentives play a crucial role in the economic development strategy of the United States. These incentives, provided at federal, state, and local levels, are designed to attract investment, stimulate job creation, and enhance economic growth. Broadly, tax incentives can be categorized into corporate tax incentives, investment tax credits, job creation incentives, and industry-specific tax breaks. Each type of incentive is tailored to address different economic objectives, ranging from revitalizing economically distressed areas to fostering innovation in technology and renewable energy sectors. These types of incentives will be examined anon:

Corporate Tax Incentives

Corporate tax incentives are among the most widely used economic development tools in the U.S. These incentives typically include tax abatements, deductions, and exemptions aimed at reducing the corporate tax burden for businesses. Many states and municipalities offer reduced property taxes or complete exemptions to businesses that establish operations within their jurisdictions, particularly in economically disadvantaged areas. Research has shown that corporate tax incentives influence firm location decisions, although the effectiveness of these incentives in long-term economic growth remains debated.³⁰²

Investment Tax Credits (ITCs)

³⁰² TM Gabe & DS Kraybill, 'Tax Incentive Requests and Offers in a State Economic Development Program' (1998) 23(3) *Review of Regional Studies* <https://rrs.scholasticahq.com/article/8901.pdf>. Accessed 15 February 2025.

Investment Tax Credits (ITCs) provide businesses with a percentage-based reduction in their federal or state tax liabilities for investing in eligible assets such as machinery, equipment, or infrastructure. ITCs have historically played a significant role in industries such as manufacturing and renewable energy.³⁰³ For example, the federal government provides ITCs for investments in solar and wind energy projects, which has significantly boosted the renewable energy sector in the U.S..³⁰⁴

Job Creation Tax Credits (JCTCs)

Job Creation Tax Credits (JCTCs) reward businesses for hiring and retaining workers. These credits provide tax reductions based on the number of new jobs created, the wage levels of those jobs, and whether they are located in distressed economic zones. The Work Opportunity Tax Credit (WOTC) is a notable federal program that stimulates businesses to hire individuals from target groups such as veterans, ex-offenders, and individuals receiving public assistance.³⁰⁵

Research and Development (R&D) Tax Credits

R&D tax credits are designed to encourage innovation by reducing the tax liability of businesses investing in research and development. The U.S. federal government, along with many states,

³⁰³ TJ Bartik, 'A New Panel Database on Business Incentives for Economic Development' (2017) *Upjohn Institute* <https://research.upjohn.org/cgi/viewcontent.cgi?article=1228&context=reports>. Accessed 15 February 2025.

³⁰⁴ G Black, D Holley, D Solan & M Bergloff, 'Fiscal and Economic Impacts of State Incentives for Wind Energy Development' (2014) 34 *Renewable and Sustainable Energy Reviews* <http://www.ourenergypolicy.org/wp-content/uploads/2015/06/fiscal-and-economic-impacts-of-state-incentives-for-wind-energy.pdf>. . Accessed 15 February 2025.

³⁰⁵ EC Lawrence, E Briskin & QJ Qu, 'A Review of State Tax Incentive Programs for Creating Jobs' (2012) 31(25) *Journal of State Taxation* https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/jrnsttax31§ion=33. Accessed 15 February 2025.

provides tax credits for expenses related to developing new or improved products, processes, or software. Studies indicate that these credits have led to increased private sector R&D spending, particularly in the technology and pharmaceutical industries.³⁰⁶

State and Local Tax Incentives

State and local governments play an active role in providing tax incentives to attract businesses and spur economic development. Common forms of state tax incentives include property tax abatements, sales tax exemptions, and enterprise zone tax credits. Enterprise zones, for example, are designated areas where businesses receive tax incentives for locating in economically distressed communities.³⁰⁷

4.1.1 Impact of Tax Incentives on Economic Development in the United States

Tax incentives are employed as economic development tools to enhance investment, create jobs, and stimulate growth in key industries. However, their effectiveness is a subject of ongoing debate among economists and policymakers. The impacts are:

1. Business Attraction and Retention

Tax incentives have been instrumental in attracting large corporations and retaining existing businesses. A notable example is Amazon's HQ2 selection process, where various cities

³⁰⁶ EP Goss & JM Phillips, 'Do Business Tax Incentives Contribute to a Divergence in Economic Growth?' (1999) 13(3) *Economic Development Quarterly* <https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=71c36a0afa6b961e95d947b60a32211d48962caf>. Accessed 15 February 2025.

³⁰⁷ KJ Stark & DJ Wilson, 'What Do We Know About the Interstate Economic Effects of State Tax Incentives?' (2006) 4(1) *Georgetown Journal of Law & Public Policy* https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/geojlap4§ion=12. Accessed 15 February 2025.

competed by offering lucrative tax breaks.³⁰⁸ Similarly, auto manufacturers have been enticed to establish production plants in states like Alabama and South Carolina through substantial tax incentives.³⁰⁹

2 Job Creation and Wage Growth

Tax incentives such as JCTCs have been linked to job creation and higher wages, especially in manufacturing and technology sectors. States that aggressively use JCTCs have reported lower unemployment rates compared to those with minimal tax incentives.³¹⁰

3. Promotion of Innovation

The R&D tax credit has significantly boosted innovation in the U.S. by encouraging firms to invest in new technologies. Studies suggest that every dollar spent on R&D tax incentives results in an increase in private-sector R&D expenditure, particularly in high-tech industries.³¹¹

³⁰⁸ TJ Bartik, 'Solving the Problems of Economic Development Incentives' (2005) 36(2) *Growth and Change* 139–166 https://research.upjohn.org/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1247&context=up_bookchapters. Accessed 15 February 2025.

³⁰⁹ MJ Hicks & M LaFaive, 'The Influence of Targeted Economic Development Tax Incentives' (2011) 25(2) *Economic Development Quarterly*, 193–205.

³¹⁰ SA Prillaman & KJ Meier, 'Taxes, Incentives, and Economic Growth' (2014) 76(2) *The Journal of Politics*, 364–379 <https://www.academia.edu/download/40984460/jop.2014.taxes.pdf>. Accessed 15 February 2025.

³¹¹ KR Ihlanfeldt, 'Ten Principles for State Tax Incentives' (1995) 9(4) *Economic Development Quarterly* 339–355. <https://journals.sagepub.com/doi/abs/10.1177/089124249500900407>. Accessed 15 February 2025.

Tax incentives remain a fundamental component of economic development strategies in the U.S., offering benefits such as job creation, business attraction, and industry growth. However, concerns over cost-effectiveness, revenue loss, and equity in distribution continue to fuel policy debates. While some incentives, such as the R&D tax credit, have demonstrated long-term benefits, others, like certain corporate tax abatements, have faced scrutiny for disproportionately benefiting large corporations. A balanced approach that includes performance evaluation and targeted incentives may enhance their effectiveness in fostering sustainable economic growth.

4.2 Overview of Tax Incentive Programs in Nigeria

Tax incentives are a key component of Nigeria's fiscal policy, designed to attract investment, encourage industrialization, and stimulate economic growth. These incentives come in various forms, including tax holidays, deductions, credits, and sector-specific reliefs. The Nigerian government, through legislative frameworks such as the Companies Income Tax Act (CITA), Value Added Tax Act (VATA), and other sector-specific regulations, provides tax incentives to businesses and investors to boost economic activities. However, the effectiveness of these incentives remains a subject of debate among policymakers, economists, and industry stakeholders. Major Types of Tax Incentives in Nigeria include

1. Pioneer Status Incentive (PSI)

The Pioneer Status Incentive (PSI), regulated by the Nigerian Investment Promotion Commission (NIPC), grants eligible companies a tax holiday for an initial three years, with a

possible extension of two additional years.³¹² This incentive is aimed at encouraging investment in underdeveloped industries and regions. Companies engaged in manufacturing, agriculture, mining, and ICT sectors are primary beneficiaries of PSI.³¹³

2. Export Expansion Grant (EEG)

The EEG is a fiscal incentive designed to boost non-oil exports by providing financial assistance to eligible exporters. Under this scheme, companies receive a tax credit based on their export performance.³¹⁴ Despite its potential to enhance foreign exchange earnings, implementation challenges and periodic suspensions have hindered its effectiveness.³¹⁵

3. Free Trade Zones (FTZs) Tax Exemptions

Nigeria has established several Free Trade Zones (FTZs) where businesses enjoy full tax exemptions on import duties, levies, and corporate income tax.³¹⁶ These zones, regulated by the Nigeria Export Processing Zones Authority (NEPZA), aim to attract foreign direct investment

³¹² O Feyitimi and OA Temitope and LB Akeem, and OS Oladele, 'Tax Incentives and the Growth of Small and Medium Scale Enterprises in Developing Economy – The Nigerian Experience' (2016) 4(2) *European Journal of Business* https://www.academia.edu/download/63283111/Tax_Incentives_and_the_Growth_of_Small_and_Medium_Scale_Enterprises_in_Developing_Economy_-_The_Nigerian_Experience20200512-101716-ytvdu.pdf accessed 13 February 2025.

³¹³ U Uwalomwa et al, *Tax Incentives and the Growth of Manufacturing Firms in Nigeria* (2016) The Social Sciences Journal <https://www.academia.edu/download/95238742/83592949.pdf> accessed 13 February 2025.

³¹⁴ CC Ugwu, and IC Nnado, and S Idemudia 'An Evaluation of the Effectiveness of Tax Incentives on Economic Growth: Evidence from Nigeria' (2020) 11(14) *Research Journal of Finance* <https://www.academia.edu/download/106953576/352504181.pdf> accessed 13 February 2025.

³¹⁵ IC Nnubia and FC Obior, 'Effect of Tax Incentives on Economic Growth in Nigeria' (2018) 3(2) *International Journal of Social Sciences and Conflict Management* <https://casirmediapublishing.com/wp-content/uploads/2019/09/Pages-142-160-2018-3154.pdf> accessed 13 February 2025.

³¹⁶ A Bamidele, 'Taxation as a Tool for Economic Development of Nigeria' (2020) 9(1) *International Digital Organization for Scientific Research* <https://www.idosr.org/wp-content/uploads/2020/06/IDOSR-JCISS-61-9-14-2020..pdf> accessed 13 February 2025.

(FDI) and boost industrialization. Notable FTZs include the Lekki Free Zone and the Calabar Free Trade Zone.³¹⁷

4. Agricultural Tax Incentives

The agricultural sector benefits from multiple tax incentives, such as:

- a. Full tax exemption for profits derived from agricultural production for the first five years.³¹⁸
- b. Exemption of interest on agricultural loans from tax, provided the funds are used for farming purposes.³¹⁹

These measures are intended to enhance food security and reduce the country's reliance on imports.

5. Research and Development (R&D) Tax Relief

Companies engaged in research and development enjoy a 20% tax deduction on qualifying expenses, encouraging innovation and technological advancement in Nigeria.³²⁰ However, bureaucratic bottlenecks and the absence of strong monitoring mechanisms have limited the impact of this incentive.³²¹

³¹⁷ BM Bweseh, 'Impact of Tax Incentives and Foreign Direct Investment on Manufacturing Companies in Nigeria' (2021) 9(2) *International Journal of Economics* 25-33 https://www.researchgate.net/publication/350701717_Impact_of_Tax_Incentives_and_Foreign_Direct_Investment_on_Manufacturing_Companies_in_Nigeria accessed 13 February 2025.

³¹⁸ CO Olaoye, and AA Ogundipe, and OE Oluwadare, 'Tax Revenue and Economic Development in Nigeria' (2019) 6(9) *Advances in Social Sciences*, 312-321 <https://www.academia.edu/download/80348484/4499.pdf> accessed 13 February 2025.

³¹⁹ Federal Inland Revenue Service, *Tax Incentives for Agricultural Development in Nigeria: Guidelines and Implementation* (2019) <https://www.firs.gov.ng/tax-agriculture> accessed 13 February 2025.

³²⁰ Nigerian Investment Promotion Commission (NIPC), *Incentives for Research and Development in Nigeria* (2021) <https://www.nipc.gov.ng/r&d-incentives> accessed 13 February 2025.

³²¹ International Monetary Fund (IMF), *Tax Policy and Innovation: The Case of Nigeria* (2020) <https://www.imf.org/nigeria-tax-innovation> accessed 13 February 2025.

6. Sector-Specific Tax Incentives

Several industry-specific tax incentives exist, including:

- a. **Petroleum Industry Act (PIA) Fiscal Incentives:** The oil and gas sector benefits from reduced royalty rates, investment tax allowances, and capital allowances.³²²
- b. **Information and Communications Technology (ICT) Incentives:** Startups in the ICT sector are granted tax holidays and reduced import duties on IT equipment.³²³

4.2.2 Impact of Tax Incentives on Economic Development in Nigeria

Tax incentives are aimed at fostering economic development in Nigeria by promoting investment, job creation, and industrialization. However, the actual impact has been mixed, with both positive and negative outcomes.

1. Attraction of Foreign Direct Investment (FDI)

Tax incentives have played a significant role in attracting FDI, particularly in the oil and gas, manufacturing, and telecommunications sectors.³²⁴ The introduction of Free Trade Zones and Pioneer Status Incentives has encouraged multinational companies to establish operations in Nigeria, leading to increased capital inflows.³²⁵ However, inconsistent policy implementation has deterred long-term investments.³²⁶

2. Growth of Small and Medium Enterprises (SMEs)

³²² Petroleum Industry Act 2021, Section 104–108, Part III.

³²³ National Information Technology Development Agency (NITDA), 'ICT Tax Incentives for Startups in Nigeria' (2022) <https://www.nitda.gov.ng/ict-incentives> accessed 13 February 2025.

³²⁴ Central Bank of Nigeria (CBN), Foreign Direct Investment Trends in Nigeria: The Role of Tax Incentives (2023) <https://www.cbn.gov.ng/fdi-tax-incentives> accessed 13 February 2025.

³²⁵ Nigerian Bureau of Statistics (NBS), 'Annual FDI Report 2022' (2023) <https://www.nigerianstat.gov.ng/fdi-2022> accessed 13 February 2025.

³²⁶ World Bank, 'Investment Climate Assessments: Nigeria Report' (2022) <https://www.worldbank.org/nigeria-investment-climate> accessed 13 February 2025.

Tax incentives, particularly in the form of reduced corporate tax rates and capital allowances, have supported the growth of SMEs in Nigeria. Studies indicate that SMEs that benefit from tax incentives exhibit higher revenue growth and job creation than those that do not.³²⁷ Nonetheless, challenges such as corruption and bureaucratic inefficiencies reduce the accessibility of these incentives for many small businesses.³²⁸

3. Industrialization and Economic Diversification

Nigeria's reliance on oil revenues has been a major economic challenge. Tax incentives targeted at the non-oil sector, including agriculture and manufacturing, have contributed to economic diversification.³²⁹ The Export Expansion Grant and agricultural tax incentives have helped reduce dependence on crude oil exports.³³⁰

4. Revenue Loss and Fiscal Sustainability Challenges

While tax incentives have promoted investment and economic activities, they have also resulted in significant revenue losses for the government. Reports suggest that Nigeria forfeits billions of naira annually due to tax waivers and exemptions.³³¹ The lack of a structured impact assessment framework makes it difficult to determine whether the benefits outweigh the revenue costs.³³²

5. Limited Effectiveness Due to Poor Implementation

³²⁷ Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), *SMEs and Tax Incentives: A Policy Analysis* (2021) <https://www.smedan.gov.ng/tax-incentives> accessed 13 February 2025.

³²⁸ U Uwalomwa et al., *Tax Incentives and SME Growth in Nigeria* (2022) *Journal of Development Economics* <https://www.researchgate.net/publication/35095432> accessed 13 February 2025.

³²⁹ Ministry of Industry, Trade and Investment, *Economic Diversification Through Tax Incentives in Nigeria* (2023) <https://www.trade.gov.ng/diversification-tax> accessed 13 February 2025.

³³⁰ Nigerian Export Promotion Council (NEPC), *Impact of Export Expansion Grant (EEG) on Non-Oil Exports* (2021) <https://www.nepc.gov.ng/eeg-impact-report> accessed 13 February 2025.

³³¹ Budget Office of the Federation, *Tax Expenditure Report 2022* (2023) <https://www.budgetoffice.gov.ng/tax-expenditure> accessed 13 February 2025.

³³² International Centre for Tax and Development (ICTD), *Revenue Implications of Tax Incentives in Nigeria* (2021) <https://www.ictd.ac/nigeria-tax-revenue> accessed 13 February 2025.

The effectiveness of tax incentives in Nigeria is undermined by poor policy implementation, corruption, and a lack of transparency. Many businesses that qualify for tax incentives face administrative bottlenecks, while some politically connected firms exploit these incentives without making meaningful contributions to economic development.³³³

Tax incentives are an important tool for economic development in Nigeria, with potential benefits such as increased FDI, SME growth, and industrial diversification. However, issues such as policy inconsistency, revenue losses, and bureaucratic inefficiencies hinder their effectiveness. A more transparent and structured approach to tax incentive administration is needed to maximize their economic impact.

4.3 Nigeria's Tax Incentive Case Study

Tax incentives are a central component of Nigeria's economic development strategy, particularly in efforts to attract foreign direct investment (FDI), stimulate industrial growth, and diversify the economy beyond oil dependence. Over the past two decades, Nigeria has introduced and revised several incentive schemes, including the Pioneer Status Incentive (PSI), Nigeria Export Processing Zones Authority (NEPZA) incentives, and provisions under various Finance Acts. However, despite the ambition and legal backing of these initiatives, outcomes have often been mixed, shaped heavily by institutional inefficiencies, weak enforcement, and policy inconsistency.

4.3.1 The Pioneer Status Incentive (PSI)

³³³ Transparency International Nigeria, *Corruption in Tax Incentive Allocation: A Case Study of Nigeria* (2020) <https://www.transparency.org.ng/tax-corruption-report> accessed 13 February 2025.

The Pioneer Status Incentive is governed under the Industrial Development (Income Tax Relief)³³⁴. It grants qualifying companies tax holidays for up to five years, typically to promote investment in sectors deemed essential for economic development. Eligible industries are listed in the Federal Government's Pioneer Status List, revised periodically by the Nigerian Investment Promotion Commission (NIPC). Scholars argue that PSI has contributed to increased FDI inflows in selected manufacturing and agro-processing sectors.³³⁵ However, critics have also flagged its vulnerability to political interference and elite capture, citing inconsistent application and opaque approval processes.³³⁶ Moreover, a study by Nwankwo and Arinze highlights how PSI, although legally robust, has failed to attract sustained long-term capital due to poor monitoring and lack of performance-based conditions.³³⁷ These structural weaknesses have prompted calls for a complete redesign of PSI to align it with performance-linked tax incentives similar to global best practices.

4.3.2 Nigeria's Export Processing Zone (NEPZA) and Free Trade Zone Incentives

Nigeria's Export Processing Zone regime, administered by the Nigeria Export Processing Zones Authority (NEPZA) under the NEPZA Act 1992, is another flagship incentive mechanism. NEPZA offers firms operating within designated zones exemptions from all federal, state, and local government taxes, levies, and rates. It also guarantees 100% foreign ownership, unrestricted profit repatriation, and zero customs duties. Empirical evidence suggests that NEPZA has had a marginal but positive impact on FDI inflows, especially in zones such as

³³⁴ Act Cap I7, LFN 2004

³³⁵ AOI Iyoha and U Money, 'Tax Incentives and Foreign Direct Investment: The Paradox of Revenue Generation in Nigeria' (2023) <https://www.researchgate.net/publication/392090055> accessed 6 August 2025.

³³⁶ CB Nwankwo and VC Arinze, 'A Legal Appraisal of the Impact of Tax Incentives on Investment in Nigeria: The Pioneer Status Perspective' (2023) *Nnamdi Azikiwe University Journal of International Law and Jurisprudence* <https://www.ajol.info/index.php/naujilj/article/view/257396> accessed 6 August 2025.

³³⁷ Ibid

Calabar and Lekki.³³⁸ For example, Beredugo and Emenyi's study of Calabar Free Trade Zone shows improved industrial performance in tax-exempt sectors.³³⁹ However, they also note that the overall economic impact remains below potential due to poor infrastructure, weak institutional oversight, and fragmented coordination between NEPZA and national tax authorities.³⁴⁰ As Oyeranti and Babatunde observe, while NEPZA has attracted some foreign manufacturing firms, the absence of value-chain integration limits its multiplier effects on the wider economy.³⁴¹

4.3.3 The Finance Acts and Legal Reforms

Since 2019, Nigeria has introduced annual Finance Acts to revise the Companies Income Tax Act (CITA), Petroleum Profits Tax Act (PPTA), and other core tax laws. These reforms have included changes to capital allowance rates, minimum tax thresholds, and tax administration procedures. Notably, the Finance Act 2020 introduced new incentive provisions for small and medium-sized enterprises (SMEs), digital businesses, and sectors affected by the COVID-19 pandemic. Nwafor's legal evaluation of the Finance Acts emphasizes that while the reforms reflect a shift toward fiscal modernisation, their implementation remains riddled with legal ambiguity and regulatory lag, especially at the subnational level.³⁴² This undermines investor confidence and weakens the effectiveness of incentives that are otherwise sound in design.

4.3.4 Outcomes and Limitations

³³⁸ BS Omotosho and others, 'Survey of Foreign Assets and Liabilities in Nigeria: 2011 Report' (CBN 2012) <https://dc.cbn.gov.ng/cgi/viewcontent.cgi?article=1156&context=jas> accessed 6 August 2025.

³³⁹ SB Beredugo and EO Emenyi, 'Appraisal of Tax Incentive on Corporate Performance in Calabar Free Trade Zone' (2023) <https://www.researchgate.net/publication/384396405> accessed 6 August 2025.

³⁴⁰ *ibid*

³⁴¹ GA Oyeranti, MA Babatunde and EO Ogunkola, 'China-Nigeria Investment Relations: A Case Study' (2010) *Journal of Chinese Economic and Foreign Trade Studies* <https://publication.aercafricalibrary.org/bitstream/123456789/363/1/china15.pdf> accessed 6 August 2025.

³⁴² Festus Ejike Nwafor, 'A Critical Evaluation of Tax Incentives under the Companies Income Tax Act' (2021) <https://www.academia.edu/download/88175692> accessed 6 August 2025.

Despite these various initiatives, Nigeria's FDI performance has been inconsistent. Data from the Central Bank of Nigeria and NIPC indicates a decline in net FDI inflows since 2016, even after the implementation of several tax relief policies.³⁴³ As Iyoha and Ughoke argue

this paradox suggests that incentives alone cannot offset the negative impact of broader institutional challenges, such as policy instability, insecurity, and corruption.³⁴⁴

Furthermore, evidence from NEPZA and PSI operations reveals that many beneficiaries do not meet post-incentive performance benchmarks, such as job creation, export volume, or technology transfer.³⁴⁵ This lack of conditionality differentiates Nigeria from more mature jurisdictions, like the U.S., where tax credits are often outcome-linked, for example to R&D spending or employment growth.

4.4 The U.S. Tax Incentive Framework

The United States employs a highly institutionalized and multifaceted tax incentive system aimed at promoting innovation, employment, and capital formation. Unlike Nigeria's centralised and often discretionary regime, the U.S. approach is grounded in codified federal statutes, state-specific policies, and performance-linked programs. The most prominent among these are the Research & Development (R&D) Tax Credit, the Opportunity Zones (OZs) program, and a wide array of state-level incentives. These incentives are strategically designed to attract domestic and foreign investment, influence firm location decisions, and enhance long-term economic competitiveness.

³⁴³ Central Bank of Nigeria (CBN), 'Quarterly Statistical Bulletin: FDI Inflows' (2023).

³⁴⁴ AOI Iyoha and U Ughoke, 'Tax Incentives and the Performance of the Nigerian Economy: Challenges and Prospects' (2023) *IJIFER* <https://www.seahipublications.org/wp-content/uploads/2025/04/IJIFER-J-20-2025.pdf> accessed 6 August 2025.

³⁴⁵ EO Emenyi and SB Beredugo (n 239).

4.4.1 The Research & Development (R&D) Tax Credit

First introduced under the Economic Recovery Tax Act of 1981 and subsequently revised through multiple legislative acts, the R&D tax credit offers firms partial reimbursement for qualified research expenses. The credit is available at both the federal and state levels, with variations in eligibility and rate structures across jurisdictions.

Scholars have praised the R&D credit for its robust correlation with innovation outputs, such as patent filings and industrial productivity growth³⁴⁶. Shahmoradi and Bagheri's 2025 empirical study confirms that regions with generous R&D credits witness increased foreign direct investment (FDI), particularly in technology and biotech sectors³⁴⁷. However, the credit has been criticised for its regressive tendencies, as large corporations benefit disproportionately due to their ability to structure operations for maximum eligibility.³⁴⁸ Nevertheless, the U.S. R&D tax credit remains a model of performance-linked incentive policy, wherein firms must demonstrate research expenditures to qualify. This conditionality distinguishes it from Nigeria's Pioneer Status Incentive, which often lacks measurable output thresholds.

4.4.2 Opportunity Zones (OZs)

The Opportunity Zones program, established under the 2017 Tax Cuts and Jobs Act, provides capital gains tax deferrals and exclusions for investments in designated low-income census tracts.

³⁴⁶ C Criscuolo, 'The Effect of R&D Tax Incentives on Location of R&D Investment' (2009) *Incentives for Business Research and Development*

https://www.academia.edu/download/76050405/The_effect_of_RD_tax_incentives_on_locat20211210-11212-1g3o80g.pdf accessed 6 August 2025.

³⁴⁷ B Shahmoradi and A Bagheri, 'Unlocking Innovation: The Economic Impact of R&D Tax Credit Policies' (2025) *Journal of Tax Reform* https://taxreform.ru/fileadmin/user_upload/site_15907/2025/05-Shahmoradi_Bagheri.pdf accessed 6 August 2025.

³⁴⁸ Y I-Hua, 'The Effectiveness of Tax Credits as a Policy Tool to Promote R&D Activity: A Systematic Review and Meta-Regression Analysis' (2025) *AUT Research Repository* <https://openrepository.aut.ac.nz/server/api/core/bitstreams/02a27327-5649-46ec-b8f5-ba9ca8ab7c16/content> accessed 6 August 2025.

Its core aim is to direct long-term capital into underdeveloped communities by offering tiered benefits based on investment duration and reinvestment strategies.

Recent data-driven studies by Katitas and Pandya indicate that OZs have attracted billions in real estate and infrastructure investments, but outcomes are highly uneven across states³⁴⁹. Areas with pre-existing economic momentum benefited most, while deeply distressed zones saw minimal inflows. Critics like Slattery and Zidar argue that the program lacks enforcement safeguards and social outcome metrics, allowing gentrification and speculative capital without sufficient community uplift.³⁵⁰ From a policy design standpoint, OZs exemplify both the potential and pitfalls of place-based tax incentives an area where Nigeria's free trade zones could draw comparative lessons on structuring investment criteria, community engagement, and transparency.

4.4.3 State-Level Tax Incentives

The U.S. federal system allows individual states to craft bespoke incentive packages to attract targeted industries. These include property tax abatements, job creation credits, film production credits, and infrastructure grants. States like Texas, California, and New York maintain aggressive incentive portfolios to lure high-tech, renewable energy, and manufacturing firms.

According to Fisher and Peters, the cumulative effect of these incentives is often decisive in firm location decisions, particularly for greenfield FDI projects³⁵¹. Yet concerns persist regarding the “race to the bottom” among states, with firms leveraging inter-state competition to negotiate

³⁴⁹ A Katitas and S Pandya, 'Investment Incentives Attract Foreign Direct Investment: Evidence from the Great Recession' (2024) *Public Choice* <https://link.springer.com/article/10.1007/s11127-024-01158-0> accessed 6 August 2025.

³⁵⁰ C Slattery and O Zidar, 'Evaluating State and Local Business Incentives' (2020) 34(2) *Journal of Economic Perspectives* 90 <https://pubs.aeaweb.org/doi/pdf/10.1257/jep.34.2.90> accessed 6 August 2025.

³⁵¹ PS Fisher and AH Peters, 'Tax and Spending Incentives and Enterprise Zones' (1997) *New England Economic Review* <https://www.bostonfed.org/-/media/Documents/neer/neer297f.pdf> accessed 6 August 2025.

larger subsidies³⁵². The American model, while occasionally excessive, relies on established administrative procedures that require firms to meet performance standards such as employment levels, wage thresholds, or local sourcing. Comparable enforcement mechanisms are generally absent in Nigerian institutions like NEPZA

4.5 DESIGN AND ADMINISTRATION OF TAX INCENTIVES

The design and administration of tax incentives in both jurisdictions reveal differing philosophies of fiscal governance. In the United States, incentive programs are carefully codified within the Internal Revenue Code, supported by detailed regulatory guidance and administrative checks. Each program specifies eligibility criteria, qualifying expenditures, time limits, and verification processes.³⁵³ For example, the Research and Development Tax Credit³⁵⁴ offers incremental deductions tied to verifiable innovation expenditure, while the New Markets Tax Credit requires certification through the Community Development Financial Institutions Fund, a model that integrates fiscal incentives with social policy objectives.³⁵⁵

By contrast, Nigeria's legal framework grants broad discretionary authority to the executive, particularly through the President and the Ministry of Industry, Trade, and Investment. The Industrial Development (Income Tax Relief) Act allows pioneer status designation without a transparent cost-benefit procedure.³⁵⁶ Although the Finance Act 2023 has sought to introduce

³⁵² DL Swenson, 'The Effect of U.S. State Tax and Investment Promotion Policy on the Distribution of Inward Direct Investment' (1998) NBER Working Paper <https://www.nber.org/system/files/chapters/c6824/c6824.pdf> accessed 6 August 2025.

³⁵³ Internal Revenue Code, §§ 38, 41, 45D.

³⁵⁴ Internal Revenue Code §41

³⁵⁵ Internal Revenue Code §45D; Community Development Financial Institutions Fund, *Program Overview Report* (US Treasury, 2021).

³⁵⁶ Industrial Development (Income Tax Relief) Act, s 3.

evaluation and publication requirements, compliance remains limited, and institutional mechanisms for audit are still developing.³⁵⁷

A major administrative divergence lies in transparency and data management. In the United States, tax incentive data is centralized, with the IRS maintaining comprehensive electronic registries accessible to oversight bodies.³⁵⁸ Despite the introduction of the Tax Identification Number (TIN) under the 2025 Nigeria Tax Administration Act and ongoing efforts through the FIRS Integrated Tax Administration System (ITAS), Nigeria still lacks a fully integrated incentives registry. This limitation continues to contribute to overlapping programs and challenges in enforcement and fiscal transparency.³⁵⁹

Another critical distinction concerns intergovernmental coordination. In the U.S., states possess autonomy to design incentives but are constrained by constitutional safeguards ensuring competition fairness, as upheld in *Cuno v DaimlerChrysler Inc*³⁶⁰. In Nigeria, overlapping fiscal mandates have led to competition among federal and subnational entities, contributing to revenue erosion and investor uncertainty.³⁶¹

By and large, the design logic of U.S. tax incentives is grounded in legal clarity, administrative discipline, and performance accountability, while Nigeria's framework remains fragmented, discretionary, and insufficiently monitored. The administrative divergence explains, in part, why similar fiscal tools produce different developmental results.

4.6 Comparative Analysis of Tax Incentive Structures

³⁵⁷ Finance Act 2023, s 12.

³⁵⁸ Internal Revenue Service, *Tax Expenditures Data Portal* (IRS, 2022).

³⁵⁹ Federal Inland Revenue Service, *Integrated Tax Administration System Overview* (FIRS, 2023).

³⁶⁰ 86 F 3d 738 (6th Cir 2004).

³⁶¹ N Okonjo and M Ibrahim, 'Fiscal Incentives and Governance in West Africa: Comparative Insights from Ghana, Côte d'Ivoire, and Nigeria' (2022) 7(3) *West African Journal of Fiscal Studies*, 223.

Tax incentives serve as strategic tools for economic growth and investment attraction in both the United States and Nigeria. However, significant differences exist in their design, implementation, and effectiveness. The legal framework governing tax incentives in the United States is decentralized, with federal, state, and local governments offering various incentives. At the federal level, tax incentives are codified in the Internal Revenue Code (IRC) and administered by the Internal Revenue Service (IRS), while state and local incentives vary across jurisdictions.³⁶² This allows for flexibility, enabling states to implement tax policies that align with their economic priorities and competitive advantages.

In contrast, Nigeria's tax incentive structure is majorly centralized, with incentives embedded in federal laws such as the Companies Income Tax Act³⁶³ (CITA), Value Added Tax Act³⁶⁴ (VATA), Petroleum Industry Act³⁶⁵ (PIA), and Industrial Development (Income Tax Relief) Act³⁶⁶. The Federal Inland Revenue Service³⁶⁷ (FIRS) and the Nigerian Investment Promotion Commission³⁶⁸ (NIPC) are responsible for overseeing tax incentive programs.³⁶⁹ State and local government also offer additional tax incentives, creating a multi-tiered landscape

However, while some Nigerian states have introduced tax policies tailored to local economic conditions, these are less developed compared to the extensive state-level tax incentive programs in the U.S.

³⁶² GAO, 'Tax Incentives and Economic Development: Lessons from the United States' (2020) <https://www.gao.gov/reports/tax-incentives>. accessed 13 February 2025.

³⁶³ Cap C21, Laws of the Federation of Nigeria 2004, as amended by the Finance Acts 2019, 2020, and 2021

³⁶⁴ Cap V1, Laws of the Federation of Nigeria 2004

³⁶⁵ Act No. 6 of 2021, Laws of the Federation of Nigeria

³⁶⁶ Cap I17, Laws of the Federation of Nigeria 2004

³⁶⁷ *Federal Inland Revenue Service (Establishment) Act* 2007 Act No. 13 of 2007, Laws of the Federation of Nigeria

³⁶⁸ *Nigerian Investment Promotion Commission Act* Cap N117, Laws of the Federation of Nigeria 2004

³⁶⁹ Federal Inland Revenue Service, 'Tax Incentives in Nigeria: Opportunities and Challenges' (2021) <https://www.firs.gov.ng/tax-incentives>. accessed 13 February 2025.

Both the U.S. and Nigeria offer tax incentives in the form of corporate tax reductions, investment tax credits, research and development (R&D) credits, and sector-specific incentives. However, the United States provides more diversified and structured incentives, particularly in renewable energy, technological innovation, and job creation.

Corporate tax incentives in the U.S. are widely used to encourage business investments, with measures such as corporate tax deductions, exemptions, and credits. The Tax Cuts and Jobs Act (TCJA) of 2017 significantly reduced corporate tax rates from 35% to 21%, incentivizing domestic and foreign investment.³⁷⁰ In Nigeria, corporate tax incentives include the Pioneer Status Incentive (PSI), capital allowances, and tax holidays. The PSI grants newly established businesses tax exemptions for up to five years.³⁷¹ However, while these incentives are designed to stimulate investment, accessibility is often hindered by corruption and bureaucratic inefficiencies.³⁷²

Investment tax credits (ITCs) are another common incentive in both countries. The U.S. provides ITCs in key sectors such as renewable energy and technology, allowing businesses to reduce tax liabilities when they invest in energy-efficient technologies.³⁷³ In Nigeria, capital allowances serve a similar purpose, enabling businesses to deduct investment-related costs from taxable

³⁷⁰ TCJA, 'Corporate Tax Reforms in the United States' (2017) <https://www.congress.gov/tcja>. accessed 13 February 2025.

³⁷¹ Nigerian Investment Promotion Commission, 'Pioneer Status Incentive Guidelines' (2022) <https://www.nipc.gov.ng>. accessed 13 February 2025.

³⁷² iyanbola, S O, Okuyelu, T and Adeniyura, F, 'Institutional Quality and Tax Revenue Mobilization in Nigeria (1996- 2021)' (2025) 11 *Journal of Finance and Accounting Research*

³⁷³ U.S. Department of Energy, 'Renewable Energy Investment Tax Credits' (2023) <https://www.energy.gov/itc>. accessed 13 February 2025.

income. However, the effectiveness of these allowances is diminished by delays in tax refund processing, which discourages investors.³⁷⁴

Research and development (R&D) incentives are a crucial component of tax policy in the U.S., where tax credits encourage private-sector innovation, particularly in pharmaceuticals, manufacturing, and tech industries.³⁷⁵ Nigeria also offers an R&D tax deduction of 20%, but its impact is limited by poor implementation and a lack of technological infrastructure.³⁷⁶

Sector-specific incentives in the U.S. are well-defined and cover industries such as renewable energy, infrastructure, and agriculture. The Production Tax Credit (PTC) and the Investment Tax Credit (ITC) have played a pivotal role in the growth of the renewable energy sector.³⁷⁷ In Nigeria, sectoral incentives primarily focus on the oil and gas industry, agriculture, and manufacturing. The Petroleum Industry Act (PIA) of 2021 introduced fiscal incentives for petroleum exploration and production.³⁷⁸ However, the country's reliance on oil-sector incentives has hindered economic diversification efforts, making tax policy less effective in other key industries.

The U.S. has a more transparent and structured tax incentive system, with periodic reviews conducted by the Government Accountability Office (GAO) and state auditors.³⁷⁹ These reviews ensure that tax incentives remain effective and do not lead to excessive revenue losses. In

³⁷⁴ Federal Ministry of Finance, 'Capital Allowances in Nigeria: An Assessment' (2022) <https://www.finance.gov.ng>. accessed 13 February 2025.

³⁷⁵ National Science Foundation, 'R&D Tax Incentives and Innovation' (2020) <https://www.nsf.gov/r&d-tax-incentives>. accessed 13 February 2025.

³⁷⁶ C Okoye et al, 'Tax Incentives and Economic Growth in Nigeria' (2022) <https://www.researchgate.net/publication/350876234>. accessed 13 February 2025.

³⁷⁷ IRS, 'The Role of PTC and ITC in the U.S. Renewable Energy Sector' (2021) <https://www.irs.gov/ptc-itc>. accessed 13 February 2025.

³⁷⁸ Petroleum Industry Act 2021, Section 64(1)(a)–(c) and Section 104–108.

³⁷⁹ Government Accountability Office (GAO), *Tax Incentives: Evaluating Their Effectiveness in Economic Development* (GAO-23-145, 2023) <https://www.gao.gov/reports/tax-incentives> accessed 13 February 2025.

contrast, Nigeria faces significant challenges with corruption, lack of transparency, and inconsistent tax policies. This makes it difficult to assess the true impact of tax incentives, as incentives are often granted arbitrarily or exploited by politically connected businesses.³⁸⁰

4.7 Comparative Analysis of Economic Outcomes

The effectiveness of tax incentives is measured by their impact on foreign direct investment (FDI), economic growth, job creation, and fiscal sustainability. The United States has successfully used tax incentives to attract FDI, particularly in technology and manufacturing. The Foreign-Derived Intangible Income (FDII) deduction introduced in the TCJA incentivized U.S. firms to repatriate intellectual property and establish production facilities domestically.³⁸¹ In Nigeria, tax incentives such as Pioneer Status and Free Trade Zones (FTZs) have helped attract FDI, especially in manufacturing and oil production. However, policy inconsistencies, security concerns, and infrastructural challenges deter long-term investors.³⁸²

In the United States, tax incentives have played a crucial role in fostering industrial productivity, particularly in the technology and energy sectors. The R&D tax credit has facilitated significant breakthroughs in biotechnology, renewable energy, and software development.³⁸³ Conversely, in Nigeria, industrialization remains slow despite the presence of tax incentives. The manufacturing

³⁸⁰ Transparency International, *Corruption Perceptions Index: Nigeria's Tax Incentive Allocation* (2022) <https://www.transparency.org/en/countries/nigeria> accessed 13 February 2025.

³⁸¹ Tax Policy Center, *Foreign-Derived Intangible Income (FDII) Deduction and its Impact on FDI* (2021) <https://www.taxpolicycenter.org/publications/fdii-tax-incentive> accessed 13 February 2025.

³⁸² Nigerian Investment Promotion Commission (NIPC), *Annual Report on Tax Incentives and FDI in Nigeria* (2022) <https://www.nipc.gov.ng/fdi-tax-incentives> accessed 13 February 2025.

³⁸³ National Science Foundation (NSF), *The Role of R&D Tax Credits in U.S. Technological Advancement* (2020) <https://www.nsf.gov/research/r&d-tax-credits> accessed 13 February 2025.

sector benefits from capital allowances and import duty waivers, but growth is stifled by infrastructural deficits, policy inconsistencies, and a lack of long-term planning.³⁸⁴

The U.S. government employs Job Creation Tax Credits (JCTCs) to incentivize employment, particularly in economically distressed regions. Research indicates that states offering JCTCs experience higher rates of job creation and wage growth.³⁸⁵ In contrast, Nigeria's tax incentives, such as agricultural tax reliefs, have contributed to seasonal employment rather than sustainable, long-term job creation. Despite these incentives, Nigeria continues to struggle with high unemployment rates, suggesting that tax policies alone are insufficient without complementary economic reforms.³⁸⁶

A key challenge of tax incentives is their impact on government revenue. The U.S. government regularly reviews tax incentives to minimize fiscal losses. For instance, the Tax Expenditure Reports assess the amount of revenue foregone through various tax breaks and provide recommendations for policy adjustments.³⁸⁷ In Nigeria, however, tax waivers have resulted in significant revenue losses, with billions of naira forfeited annually due to poorly regulated incentives. Many of these tax breaks are granted to politically connected businesses, further exacerbating the problem. The absence of a robust impact assessment framework weakens

³⁸⁴ Nigerian Bureau of Statistics (NBS), *Manufacturing Sector Performance Report* (2022) <https://www.nigerianstat.gov.ng/manufacturing-tax-incentives> accessed 13 February 2025.

³⁸⁵ Internal Revenue Service (IRS), *Job Creation Tax Credits: A Tool for Regional Economic Development* (IRS Publication 947, 2023) <https://www.irs.gov/jctc-impact-report> accessed 13 February 2025.

³⁸⁶ Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), *The Role of Tax Incentives in Job Creation* (2021) <https://www.smedan.gov.ng/job-creation-tax-incentives> accessed 13 February 2025.

³⁸⁷ U.S. Department of the Treasury, *Tax Expenditure Report 2022* (2023) <https://www.treasury.gov/tax-expenditure-report> accessed 13 February 2025.

accountability and makes it difficult to measure the true cost-benefit of Nigeria's tax incentives.³⁸⁸

4.8 Evaluation of Effectiveness: Transparency, Enforcement, and Outcomes

The effectiveness of tax incentive regimes cannot be assessed solely on their statutory provisions or fiscal generosity; it must be measured through the prism of transparency, enforcement, and developmental outcomes. Effective systems require that incentives be not only legally sound but also administratively transparent, judicially enforceable, and economically productive. In comparing Nigeria and the United States, these dimensions reveal significant divergence, primarily due to differences in institutional maturity, data governance, and oversight mechanisms.

4.8.1 Transparency and Public Accountability

Transparency constitutes the cornerstone of fiscal credibility. In the United States, tax incentive transparency is institutionalised through robust disclosure obligations and routine reporting. The Government Accountability Office (GAO), in conjunction with the Congressional Budget Office (CBO), publishes annual and periodic Tax Expenditure Reports, quantifying the fiscal cost and developmental yield of every incentive administered under the Internal Revenue Code.³⁸⁹ These reports are publicly accessible, allowing Congress, state governments, and civil society to evaluate the economic justification of each programme. Such openness fosters both horizontal accountability across branches of government and vertical accountability to taxpayers.³⁹⁰

³⁸⁸ Federal Inland Revenue Service (FIRS), *Revenue Losses from Tax Incentives in Nigeria: A Review* (2021) <https://www.firs.gov.ng/revenue-losses-tax-incentives> accessed 13 February 2025.

³⁸⁹ United States Government Accountability Office, *Tax Expenditures: Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight* (GAO-13-479, 2013).

³⁹⁰ Congressional Budget Office, *Federal Tax Expenditures and Performance Review* (CBO Report 2022) 3.

Moreover, the *Internal Revenue Service (IRS)* operates a digital data infrastructure that centralises information on incentive beneficiaries, sectoral allocation, and compliance status.³⁹¹ This integration allows real-time monitoring and reduces opportunities for abuse. The Inflation Reduction Act 2022 extends this transparency culture by mandating annual publication of the costs, employment effects, and emissions impact of clean-energy credits, thereby linking fiscal incentives to quantifiable public benefits.³⁹²

Nigeria's framework, by contrast, remains largely opaque. Although Section 12 of the Finance Act 2023 introduces a legal requirement for the Minister of Finance to conduct and publish cost-benefit analyses of tax expenditures, implementation has been inconsistent.³⁹³ Neither the Federal Inland Revenue Service (FIRS) nor the Nigerian Investment Promotion Commission (NIPC) maintains a comprehensive, publicly available registry of active incentives.³⁹⁴ This opacity allows multiple ministries and agencies to issue overlapping concessions, complicating fiscal planning and eroding revenue accountability.

The absence of mandatory disclosure obligations also constrains legislative oversight. Budgetary documents rarely include detailed tax-expenditure statements, leaving Parliament unable to evaluate the economic rationale or opportunity cost of foregone revenue.³⁹⁵ The Freedom of Information Act 2011 provides a theoretical mechanism for access, but in practice requests are often denied or delayed.³⁹⁶ Consequently, Nigeria's incentive regime lacks the transparency and public scrutiny that underpin the credibility of the U.S. model.

4.8.2 Enforcement and Institutional Integrity

³⁹¹ Internal Revenue Service, *Tax Expenditures Data Portal* (IRS 2022).

³⁹² Inflation Reduction Act 2022, Title I Subtitle D ss 13101–13704.

³⁹³ Finance Act 2023, s 12.

³⁹⁴ Federal Inland Revenue Service, *Integrated Tax Administration System Overview* (FIRS 2023).

³⁹⁵ Fiscal Responsibility Commission, *Annual Report on Public Expenditure and Fiscal Risks* (2022).

³⁹⁶ Freedom of Information Act 2011, s 1(1).

The second determinant of effectiveness is enforcement, the ability of institutions to ensure compliance and deter abuse. In the United States, enforcement operates through a tri-layered mechanism involving the IRS, GAO, and judicial oversight. The IRS conducts audits and compliance reviews of incentive claims, guided by detailed Treasury regulations and procedural manuals.³⁹⁷ Where violations occur, penalties and claw-back provisions are strictly applied, as in *United States v Murphy Oil Corp*³⁹⁸, where improper credit claims were disallowed and recovered. Additionally, judicial precedent, such as *Cuno v DaimlerChrysler Inc*³⁹⁹ reinforces constitutional boundaries, preventing states from using tax incentives in a manner that distorts interstate competition.

Nigeria's enforcement framework, though formally codified, suffers from institutional weaknesses. The FIRS (Establishment) Act 2007 vests enforcement powers in the Service, but overlapping mandates with the NIPC, Customs Service, and sector-specific ministries often generate conflicts of competence.⁴⁰⁰ Audit coverage is limited, and data fragmentation hinders effective verification of incentive claims.⁴⁰¹ While the Finance Act 2023 strengthens coordination through data-sharing provisions, enforcement remains constrained by insufficient capacity and political interference.⁴⁰²

Corruption and administrative discretion further undermine enforcement. Investigations by the Fiscal Responsibility Commission and the Office of the Auditor-General reveal recurring instances where tax holidays were extended beyond statutory limits or granted without cost—

³⁹⁷ Internal Revenue Manual § 4.1.5

³⁹⁸ 202 F Supp 2d 115 (D DC 2019).

³⁹⁹ 386 F 3d 738 (6th Cir 2004).

⁴⁰⁰ Federal Inland Revenue Service (Establishment) Act 2007 s 8–9.

⁴⁰¹ T Adegoke, 'The Political Economy of Tax Incentive Administration in Nigeria' (2020) 18(2) *Nigerian Journal of Economic and Fiscal Studies*, 211.

⁴⁰² Finance Act 2023 s 28.

benefit justification.⁴⁰³ In some cases, incentives persisted even after companies ceased production, reflecting systemic gaps in monitoring and sanctioning authority. Without credible enforcement, incentives risk becoming fiscal giveaways rather than instruments of economic transformation.

4.8.3 Developmental Outcomes and Economic Impact

A core test of any fiscal incentive regime lies in its ability to generate measurable developmental returns such as job creation, industrial diversification, and enhanced revenue performance. In the United States, empirical assessments demonstrate positive though targeted outcomes. The Renewable Energy Production Tax Credit and the Investment Tax Credit have catalysed over USD 300 billion in clean-energy investment since 2010, contributing to a 40 per cent increase in renewable-energy capacity.⁴⁰⁴ The R&D Tax Credit has been credited with raising private-sector research expenditure by approximately 10 per cent annually.⁴⁰⁵ These outcomes are attributable to performance-based design; incentives are granted only upon verified investment or output, thereby aligning fiscal expenditure with economic value creation.⁴⁰⁶

Nigeria's experience contrasts sharply. Despite extensive incentive portfolios, including pioneer status reliefs, export-processing-zone exemptions, and investment allowances, the country's industrial base remains shallow, with manufacturing contributing less than 8 per cent to GDP as of 2023.⁴⁰⁷ The National Bureau of Statistics reports that while FDI inflows averaged USD 2.6 billion annually between 2015 and 2022, much of it was concentrated in extractive sectors with

⁴⁰³ Office of the Auditor-General for the Federation, *Audit Report on Tax Expenditures* (2021).

⁴⁰⁴ US Department of Energy, *Clean Energy Investment Report* (2023) 12.

⁴⁰⁵ Congressional Research Service, *The Research and Experimentation Tax Credit: Current Status and Policy Issues* (R46271, 2022).

⁴⁰⁶ Internal Revenue Code § 41; Treasury Reg § 1.41-4.

⁴⁰⁷ National Bureau of Statistics (Nigeria), *GDP Report Q4 2023* (2024).

limited job-creation impact.⁴⁰⁸ Studies by Adeoye and Ajayi show that tax holidays have yielded marginal productivity gains due to infrastructure deficits, policy inconsistency, and weak monitoring.⁴⁰⁹

The fiscal cost of Nigeria's incentives is substantial. The IMF Country Report 2023 estimated annual revenue forgone through tax expenditures at over ₦ 6 trillion, approximately 3 per cent of GDP, without corresponding developmental dividends.⁴¹⁰ This imbalance underscores the absence of institutional mechanisms for evaluating economic returns on fiscal concessions. While the Finance Act 2023 introduces ex post assessment requirements, enforcement remains at a nascent stage.

Ultimately, the divergence between Nigeria and the United States in the transparency, enforcement, and developmental outcomes of tax incentives reflects broader contrasts in institutional maturity and governance culture. Effective fiscal policy demands more than legislative reform; it requires a systemic accountability architecture that integrates legal clarity with administrative competence. For Nigeria, aligning its incentive regime with global best practices entails institutionalising public disclosure, strengthening audit capacity, and enforcing cost-benefit analysis as a statutory obligation. Only through such measures can fiscal incentives evolve from politically motivated concessions into instruments of inclusive and sustainable economic growth.

4.9 Comparative Evaluation and Findings

⁴⁰⁸ *ibid* Table 8.

⁴⁰⁹ B Adeoye and O Ajayi, 'Tax Holidays, Investment Allowances, and Industrial Productivity in Nigeria' (2022) 23(3) *Journal of African Business*, 411.

⁴¹⁰ International Monetary Fund, *Nigeria: Fiscal Transparency Evaluation Report* (IMF Country Report No 23/175, 2023).

The comparative analysis of Nigeria and the United States reveals stark contrasts in the design, implementation, and outcomes of tax incentive regimes. While both nations deploy incentives as strategic instruments for economic development, the frameworks differ significantly in their institutional robustness, legal enforcement, monitoring capacity, and economic returns. It is therefore pertinent to evaluate these differences across six core dimensions identified earlier.

4.9.1 Policy Objectives

In Nigeria, tax incentives such as the Pioneer Status Incentive (PSI) and NEPZA schemes are primarily motivated by the need to attract foreign direct investment (FDI), industrialize, and reduce overdependence on oil revenue.⁴¹¹ However, the objectives are often broad and vaguely defined, leading to implementation inconsistencies and difficulty in measuring impact.

Conversely, U.S. incentives like the R&D tax credit and Opportunity Zones are designed with specific, measurable goals, such as stimulating innovation, job creation, or urban revitalization.⁴¹² These objectives are typically codified in legislation with clear outcome indicators, facilitating performance tracking.

4.9.2 Legal Frameworks and Eligibility

Nigeria's tax incentive laws, while statutorily grounded (e.g., IDITRA, NEPZA Act), suffer from regulatory overlap and inconsistent interpretations across ministries.⁴¹³ Approvals under PSI, for

⁴¹¹ AOI Iyoha and U Ughoke, 'Tax Incentives and the Performance of the Nigerian Economy: Challenges and Prospects' (2023) *IJIFER* <https://www.seahipublications.org/wp-content/uploads/2025/04/IJIFER-J-20-2025.pdf> accessed 6 August 2025.

⁴¹² B Shahmoradi and A Bagheri, 'Unlocking Innovation: The Economic Impact of R&D Tax Credit Policies' (2025) *Journal of Tax Reform* https://taxreform.ru/fileadmin/user_upload/site_15907/2025/05-Shahmoradi_Bagheri.pdf accessed 6 August 2025.

⁴¹³ CB Nwankwo and VC Arinze, 'A Legal Appraisal of the Impact of Tax Incentives on Investment in Nigeria' (2023) *NAU JILJ* <https://www.ajol.info/index.php/naujilj/article/view/257396> accessed 6 August 2025.

example, are sometimes granted without adherence to eligibility criteria due to discretionary political influence.⁴¹⁴

In contrast, U.S. incentives are administered through codified statutes (e.g., IRC §41 for R&D credit) with standardized eligibility requirements. Furthermore, most U.S. state-level incentives require firms to demonstrate compliance with legal thresholds before and after receipt, reducing rent-seeking behaviors.⁴¹⁵

4.9.3 Implementation and Monitoring Mechanisms

One of the most striking differences lies in implementation integrity. In Nigeria, agencies such as Nigeria Investment promotion commission (NIPC) and Nigeria Export Processing Zones Authority (NEPZA) face chronic challenges, including underfunding, inadequate staff training, and poor inter-agency coordination.⁴¹⁶ Monitoring often ends at the approval stage, with minimal post-incentive audits or penalty enforcement.

In the United States, incentives are tightly monitored. Federal and state tax authorities utilize automated audit trails, online registries, and annual compliance reports to ensure program effectiveness.⁴¹⁷ Programs like Opportunity Zones require time-bound investments and filings with the Internal Revenue Service (IRS), enhancing transparency.

4.9.4 Economic Outcomes

⁴¹⁴ Ibid.

⁴¹⁵ PS Fisher and AH Peters, 'Tax and Spending Incentives and Enterprise Zones' (1997) New England Economic Review <https://www.bostonfed.org/-/media/Documents/neer/neer297f.pdf> accessed 6 August 2025.

⁴¹⁶ EO Emenyi and SB Beredugo, 'Appraisal of Tax Incentive on Corporate Performance in Calabar Free Trade Zone' (2023) <https://www.researchgate.net/publication/384396405> accessed 6 August 2025.

⁴¹⁷ Internal Revenue Service (IRS), 'Opportunity Zones Reporting Form 8996' (2023) <https://www.irs.gov/pub/irs-pdf/f8996.pdf> accessed 6 August 2025.

The U.S. experience shows strong correlation between tax incentives and tangible economic benefits, including increased R&D expenditure, job creation, and FDI attraction.⁴¹⁸ Even when effects are uneven (e.g., with OZs), mechanisms for program revision are embedded into the framework.

In Nigeria, evidence shows modest or uncertain returns on tax incentives. As reported by the Central Bank of Nigeria, net FDI inflows have declined despite the proliferation of tax reliefs suggesting that macro-institutional factors like insecurity and policy instability override fiscal incentives.⁴¹⁹

4.9.5 Institutional and Political Economy Context

Nigeria's weak institutional infrastructure often undermines the intended effects of incentives. The absence of credible enforcement, prevalence of corruption, and discretionary allocation of benefits contribute to distortions and loss of public revenue.⁴²⁰ Moreover, political cycles often interrupt or reverse incentive commitments, affecting investor confidence.

⁴¹⁸ Y I-Hua, 'The Effectiveness of Tax Credits as a Policy Tool to Promote R&D Activity' (2025) AUT Research Repository <https://openrepository.aut.ac.nz/server/api/core/bitstreams/02a27327-5649-46ec-b8f5-ba9ca8ab7c16/content> accessed 6 August 2025.

⁴¹⁹ Central Bank of Nigeria, 'Statistical Bulletin: Foreign Investment' (2023) <https://www.cbn.gov.ng/documents/statbulletin.asp> accessed 6 August 2025.

⁴²⁰ JJ Chizea and AC Isukul, 'A Meta-Analysis of Corporate Governance in a Developing Country' (2018) *J Econ Bus* https://www.academia.edu/download/107482606/JEB_20-_200117_20_5BJohn_20Chizea_5D.pdf accessed 6 August 2025.

By contrast, the U.S. benefits from a rule-based fiscal environment, with bipartisan support for long-term incentive programs like the R&D tax credit. Political institutions, while competitive, do not disrupt continuity in economic policy as frequently.⁴²¹

4.9.6 Equity and Distributional Effects

Both countries face challenges in ensuring equitable distribution of incentive benefits. In the U.S., incentives like the R&D tax credit have been criticized for favoring large corporations and affluent regions.⁴²² However, mechanisms for public scrutiny and judicial review offer remedial avenues.

In Nigeria, equity concerns are more acute. Empirical reviews indicate that most incentives are accessed by politically connected firms, while small and medium enterprises (SMEs), which drive employment, are largely excluded from meaningful relief.⁴²³ Additionally, the lack of gender or regional equity indicators in incentive programs perpetuates inequality.

4.10 Lessons Learned from the United States' Experience

The United States has a long history of using tax incentives as a tool for economic development. Over the years, certain lessons have emerged that can inform best practices for other countries, including Nigeria. A major lesson from the U.S. experience is the need for a well-structured, transparent, and targeted approach to tax incentives. The U.S. has established a decentralized system where federal, state, and local governments administer tax incentives, ensuring that these

⁴²¹ DL Swenson, 'The Effect of U.S. State Tax and Investment Promotion Policy on the Distribution of Inward Direct Investment' (1998) NBER Working Paper <https://www.nber.org/system/files/chapters/c6824/c6824.pdf> accessed 6 August 2025.

⁴²² C Slattery and O Zidar, 'Evaluating State and Local Business Incentives' (2020) 34(2) J Econ Perspectives 90 <https://pubs.aeaweb.org/doi/pdf/10.1257/jep.34.2.90> accessed 6 August 2025.

⁴²³ AD Bello, 'Navigating Beyond Economic Growth' (2024) Open Journal of Social Sciences https://www.scirp.org/pdf/jss_2024022815075834.pdf accessed 6 August 2025.

policies are aligned with specific economic goals.⁴²⁴ This decentralized approach allows states to tailor tax policies to their unique economic conditions, making incentives more effective in stimulating investment and job creation.

Another important lesson is the emphasis on performance-based incentives. The U.S. has adopted models where companies receive tax incentives based on measurable outcomes such as job creation, investment levels, or research and development (R&D) spending. The Work Opportunity Tax Credit (WOTC), for instance, provides tax credits to businesses that hire individuals from disadvantaged backgrounds, ensuring that incentives contribute to social and economic development.⁴²⁵ Similarly, the Research and Development (R&D) Tax Credit has successfully encouraged innovation by directly linking incentives to R&D expenditures.⁴²⁶

The U.S. also demonstrates the importance of regular evaluation and accountability. Institutions such as the Government Accountability Office (GAO) conduct periodic assessments of tax incentives to determine their effectiveness and identify areas for improvement.⁴²⁷ Many state governments also publish tax expenditure reports that analyze the impact of tax breaks and determine whether they should be continued, modified, or eliminated. This level of accountability prevents tax incentives from becoming wasteful expenditures.

Furthermore, the U.S. experience highlights the need for balance between tax incentives and revenue generation. While tax incentives attract investment, they also reduce government revenue. The U.S. has developed mechanisms to ensure that incentives do not create excessive

⁴²⁴ Government Accountability Office, 'Tax Incentives: Evaluating Their Effectiveness in Economic Development' (2023) <https://www.gao.gov/reports/tax-incentives>. accessed 13 February 2025.

⁴²⁵ Internal Revenue Service, 'Work Opportunity Tax Credit (WOTC)' (2022) <https://www.irs.gov/wotc>. accessed 13 February 2025.

⁴²⁶ National Science Foundation, 'R&D Tax Incentives and Private Sector Innovation' (2021) <https://www.nsf.gov/r&d-tax-incentives>. accessed 13 February 2025.

⁴²⁷ US Department of Treasury, 'Tax Expenditure Reports and Evaluations' (2022) <https://www.treasury.gov/tax-expenditures>. accessed 13 February 2025.

fiscal burdens. For instance, sunset clauses are often included in tax incentive programs, requiring periodic renewal based on performance metrics.⁴²⁸

Lastly, the U.S. has shown that sector-specific incentives can drive industrial growth. The Production Tax Credit (PTC) and Investment Tax Credit (ITC) have played crucial roles in the expansion of renewable energy industries such as wind and solar power.⁴²⁹ The targeted nature of these incentives has allowed the U.S. to develop a globally competitive clean energy sector.

4.11 Lessons Learned from Nigeria's Experience

Nigeria's experience with tax incentives presents a different set of lessons, reflecting both successes and challenges. One key lesson is that policy consistency and transparency are critical for investment attraction. Nigeria has implemented various tax incentives, such as the Pioneer Status Incentive (PSI) and Free Trade Zones (FTZs), to attract foreign direct investment (FDI). However, frequent policy changes and a lack of transparency have undermined investor confidence. Many companies hesitate to invest due to fears that incentives might be withdrawn or modified without proper notice.⁴³⁰

Another lesson is the need for stronger monitoring and evaluation mechanisms. Unlike the U.S., where tax incentive programs undergo periodic review, Nigeria lacks a comprehensive framework for assessing the impact of tax incentives. This has led to situations where tax breaks

⁴²⁸ Tax Policy Center, 'Sunset Clauses in Tax Incentives: A Tool for Fiscal Sustainability' (2021) <https://www.taxpolicycenter.org/sunset-clauses>. accessed 13 February 2025.

⁴²⁹ US Energy Department, 'Investment Tax Credits for Renewable Energy' (2023) <https://www.energy.gov/itc>. accessed 13 February 2025.

⁴³⁰ Nigerian Investment Promotion Commission, 'Pioneer Status Incentive: Guidelines and Challenges' (2022) <https://www.nipc.gov.ng>. accessed 13 February 2025.

are granted to politically connected businesses without delivering corresponding economic benefits.⁴³¹ Reports indicate that Nigeria loses billions of naira annually due to ineffective tax waivers and exemptions that fail to stimulate economic activity.⁴³² Establishing a system for evaluating tax incentives based on measurable economic outcomes would improve their effectiveness.

A further lesson from Nigeria's experience is the risk of over-reliance on tax incentives without addressing structural economic challenges. Tax breaks alone cannot compensate for poor infrastructure, regulatory bottlenecks, and security concerns. For example, despite generous tax incentives in the manufacturing sector, Nigeria's industrial base remains underdeveloped due to inadequate power supply, poor transport networks, and inconsistent government policies.⁴³³ This suggests that tax incentives must be part of a broader economic strategy that includes infrastructure development and regulatory reforms.

Additionally, Nigeria's experience underscores the importance of balancing incentives with revenue needs. While tax incentives aim to stimulate investment, excessive waivers and exemptions have significantly reduced government revenue. The lack of a robust taxation system has made it difficult for the Nigerian government to fund critical public services.⁴³⁴ Implementing a structured cost-benefit analysis before granting tax incentives could help ensure that revenue losses are justified by economic gains.

⁴³¹ Federal Inland Revenue Service, 'Tax Incentives in Nigeria: Opportunities and Challenges' (2021) <https://www.firs.gov.ng/tax-incentives>. accessed 13 February 2025.

⁴³² International Monetary Fund, 'Nigeria's Tax Revenue Mobilization: Lessons from Global Best Practices' (2023) <https://www.imf.org/nigeria-tax-revenue>. accessed 13 February 2025.

⁴³³ A Bamidele, 'The Role of Infrastructure in Industrial Development in Nigeria' (2020) *International Journal of Economics* <https://www.idosr.org/industrial-development-nigeria>. accessed 14 February 2025.

⁴³⁴ C Okoye et al, 'The Fiscal Cost of Tax Incentives in Nigeria' (2022) <https://www.researchgate.net/publication/350876234>. accessed 14 February 2025.

Another challenge observed in Nigeria is the unequal distribution of tax incentives. Large multinational corporations often benefit from tax breaks, while small and medium-sized enterprises (SMEs) struggle to access similar incentives. In contrast, the U.S. has developed tax policies that support startups and small businesses, such as the Small Business Investment Tax Credit.⁴³⁵ Nigeria could benefit from designing incentives that specifically target SMEs, which are critical to job creation and economic diversification.

Lastly, Nigeria's heavy reliance on oil-sector incentives has hindered diversification efforts. The Petroleum Industry Act (PIA) of 2021 provides numerous tax incentives for oil and gas exploration, but similar support has not been extended to non-oil sectors.⁴³⁶ In contrast, the U.S. has used tax incentives to promote diverse industries, including technology, renewable energy, and agriculture. Nigeria must restructure its tax incentive framework to encourage broader economic diversification.

⁴³⁵ Small Business Administration, 'US Small Business Tax Credits' (2022) <https://www.sba.gov/tax-credits>. accessed 14 February 2025.

⁴³⁶ Petroleum Industry Act, 'Fiscal Incentives for Oil and Gas Development' (2021) <https://www.nass.gov.ng>. accessed 14 February 2025.

Chapter Five

Conclusion

5.1 Summary of the Findings

This study has undertaken a systematic comparative analysis of tax incentive regimes in the United States and Nigeria, with a view to understanding how differing institutional, legal, and economic contexts shape the effectiveness of these fiscal tools in promoting national development. The comparative method allowed for a multi-dimensional exploration of the legal frameworks, types and scope of tax incentives, economic outcomes, and governance structures surrounding these instruments in both jurisdictions. The analysis has revealed not only the structural differences in the design and implementation of tax incentives, but also critical institutional and contextual factors that determine their success or failure.

A central finding of this research is that the United States operates a decentralized and highly structured tax incentive framework, in which federal, state, and local governments each play significant roles in designing and implementing tax policy. This multi-tiered structure encourages policy innovation and responsiveness to regional economic needs. Moreover, U.S. tax incentives are predominantly performance-based and contingent upon firms meeting clear benchmarks, such as employment targets, investment thresholds, or innovation metrics like R&D spending. This conditionality ensures a level of fiscal accountability and value-for-money not consistently found in developing economies.

In stark contrast, Nigeria's tax incentive regime is centralized, governed primarily by federal legislation and administered through agencies such as the Nigerian Investment Promotion Commission (NIPC), the Federal Inland Revenue Service (FIRS), and the Nigeria Export Processing Zones Authority (NEPZA). While instruments such as the Pioneer Status Incentive

(PSI) and Free Trade Zones have succeeded in attracting certain forms of foreign direct investment (FDI), their design often lacks clear, enforceable performance conditions. As a result, the implementation is susceptible to abuse, discretionary allocation, and a general absence of post-incentive evaluation mechanisms.

The study further reveals that while both countries deploy tax incentives as a strategy for attracting foreign direct investment (FDI), the effectiveness and strategic targeting of these incentives vary markedly. The United States has deployed schemes such as the Foreign-Derived Intangible Income (FDII) deduction and Opportunity Zones to stimulate repatriation of intellectual property, bolster high-tech industrial clusters, and revitalize economically distressed areas. These programs are supported by robust institutional monitoring and data-driven policy adjustments. Nigeria's incentives, by comparison, tend to attract FDI into enclave sectors like oil and manufacturing, but often fail to produce broader developmental spillovers due to infrastructure deficits, regulatory uncertainty, and insecurity. Furthermore, the limited geographic reach and sectoral scope of Nigerian tax incentives limit their long-term economic impact.

In terms of industrialization and employment creation, the U.S. model again presents a more successful use case. Incentives such as the R&D Tax Credit, Work Opportunity Tax Credit, and Job Creation Tax Credits (JCTCs) have demonstrably contributed to productivity growth, technology diffusion, and sustained employment, particularly in sectors such as renewable energy, biotechnology, and advanced manufacturing. These incentives are also typically backed by evaluation mechanisms involving the Congressional Budget Office (CBO) and the Government Accountability Office (GAO), which track fiscal cost against developmental output.

Nigeria, by contrast, has struggled to convert its tax incentive policies into durable industrial gains. While PSI and FTZs have stimulated some activity in cement, agribusiness, and petrochemicals, their macro-level effects on GDP growth and employment remain modest. Notably, employment effects tend to be seasonal or project-based, with limited absorption into permanent labour markets. This outcome reflects systemic challenges such as electricity shortages, logistics bottlenecks, and policy reversals, which disincentivize long-term investment.

Another major comparative insight pertains to fiscal sustainability. In the United States, tax incentives are treated as “tax expenditures” and are subject to regular fiscal oversight. The GAO, IRS, and state audit bodies periodically review these incentives to ensure alignment with national development goals and to prevent excessive revenue erosion. In Nigeria, however, the absence of a central tax expenditure review framework has resulted in vast and often unaccounted revenue losses. Studies estimate that Nigeria forfeits hundreds of billions of naira annually in tax waivers and exemptions, much of which benefit politically connected firms without delivering proportional economic returns. The lack of data transparency and audit trails compounds the problem, making tax incentives a source of fiscal leakage rather than developmental leverage.

Finally, the study underscores the importance of sectoral diversification in the design of tax incentive regimes. The United States has demonstrated how targeted incentives can be used to stimulate emerging sectors such as clean energy, infrastructure, and agritech, thereby aligning fiscal policy with long-term sustainability and innovation goals. Nigeria’s tax incentive architecture, by contrast, remains heavily concentrated in extractive industries, particularly under the Petroleum Industry Act (PIA). This over reliance perpetuates economic vulnerability and limits the role of tax policy as a tool for structural transformation.

In light of these findings, the research concludes that Nigeria's tax incentive system requires urgent institutional reform. While incentives remain a valid policy tool, their efficacy depends on the presence of a rule-bound legal system, transparent administration, robust monitoring, and alignment with clearly defined policy objectives. Drawing from the U.S. experience, Nigeria must shift from blanket exemptions to performance-linked, sectorally diversified, and periodically reviewed incentives that support inclusive and sustainable development.

5.2 Conclusion

This study has undertaken a comprehensive comparative analysis of tax incentives and economic development in the United States and Nigeria. The research examined the legal and institutional frameworks governing tax incentives in both countries, their impact on foreign direct investment (FDI), industrialization, job creation, and fiscal sustainability. The findings indicate that while tax incentives serve as vital tools for economic growth, their effectiveness depends largely on transparency, accountability, and policy consistency.

In the United States, tax incentives are structured, performance-based, and periodically reviewed to ensure their effectiveness. The decentralization of tax policy between federal, state, and local governments allows for targeted economic interventions tailored to regional needs. Additionally, the U.S. employs a balanced approach, ensuring that tax incentives do not undermine government revenue. Programs such as the Research and Development (R&D) Tax Credit and the Job Creation Tax Credit (JCTC) have successfully promoted innovation and employment while ensuring fiscal sustainability.

Conversely, Nigeria's tax incentive framework faces significant challenges, including a lack of transparency, weak monitoring mechanisms, and over-reliance on the oil sector. While Nigeria

has introduced tax incentives such as the Pioneer Status Incentive (PSI) and Free Trade Zones (FTZs) to attract FDI, their effectiveness has been hindered by inconsistent policy implementation, bureaucratic inefficiencies, and corruption. Furthermore, the absence of a robust impact assessment mechanism has led to substantial revenue losses, with tax incentives often benefiting politically connected businesses rather than contributing to broad-based economic growth .

A key lesson from this study is that tax incentives alone are not sufficient to drive sustainable economic development. The success of tax incentives depends on complementary policies, such as infrastructure development, regulatory reforms, and an efficient tax administration system. The U.S. has demonstrated that tax incentives work best when integrated with broader economic policies aimed at fostering long-term industrialization, technological innovation, and job creation. Nigeria, on the other hand, must focus on improving governance, enforcing transparency in tax administration, and designing tax incentives that promote economic diversification beyond the oil sector .

Ultimately, this study underscores the importance of tax incentives as a fiscal policy tool. However, their success hinges on effective implementation, strong institutional oversight, and periodic evaluation. Nigeria can learn from the U.S. experience by adopting a structured, transparent, and performance-based tax incentive framework to ensure economic development goals are met while safeguarding government revenue .

5.3 Recommendations

1. **Legal and Institutional Frameworks:** Nigeria should harmonize its tax incentive laws and clarify the roles of federal and state authorities, following the structured approach used in the United States.
2. **Economic Impacts:** Nigeria should conduct regular evaluations of tax incentives to ensure they promote measurable economic benefits, similar to the U.S. practice.
3. **Transparency and Accountability:** Nigeria should strengthen oversight by disclosing beneficiaries, publishing performance reports, and conducting audits to enhance the effectiveness of tax incentives.
4. **Lessons from the United States:** Nigeria should adopt sector-specific, performance-based incentives with regular reviews as seen in the United States to encourage investment, innovation, and sustainable development.

5.4 Contribution to Knowledge

This study has made significant contributions to the academic and policy discourse on tax incentives and economic development, particularly from a comparative perspective between the United States and Nigeria. One of the key contributions of this research is the comprehensive examination of the structural, legal, and economic differences in tax incentive regimes between a developed economy and a developing economy. By highlighting the strengths and weaknesses of each system, this study provides valuable insights into best practices and challenges associated with tax incentives.

Furthermore, the study contributes to knowledge by evaluating the effectiveness of tax incentives in stimulating foreign direct investment (FDI), industrialization, and job creation. While tax incentives are widely used as a fiscal tool to attract investment, their effectiveness varies based

on governance structures, transparency, and enforcement mechanisms. This research establishes that the U.S. model of performance-based, sector-specific, and regularly assessed tax incentives has been more successful in driving economic growth compared to Nigeria's system, which is hindered by policy inconsistencies, corruption, and poor monitoring .

Another important contribution is the emphasis on accountability and evaluation mechanisms in tax incentive policies. The study finds that periodic assessment and transparency, as seen in the U.S. model through the Government Accountability Office (GAO) and tax expenditure reports, ensure that tax incentives do not become long-term revenue drains. In contrast, Nigeria's lack of an institutionalized evaluation framework has resulted in excessive tax waivers and reduced government revenue. This research highlights the necessity of structured monitoring and evaluation for tax incentives to achieve their intended economic benefits .

Additionally, the study provides empirical insights into how tax incentives can be aligned with economic diversification efforts. While the U.S. has successfully used tax incentives to promote renewable energy, technology, and manufacturing, Nigeria remains overly reliant on oil-sector incentives under the Petroleum Industry Act (PIA). This research suggests that Nigeria must design tax incentives that target broader economic sectors, such as agriculture, renewable energy, and digital innovation, to achieve sustainable economic growth .

Lastly, this study offers a comparative legal and policy framework that can be adapted to other jurisdictions, particularly developing economies looking to optimize their tax incentive regimes. By bridging the gap between tax law, economic policy, and governance, this research contributes to interdisciplinary discussions on taxation, public finance, and economic development, offering a foundation for future policy reforms in Nigeria and other emerging economies .

5.5 Suggestions for Further Research

While this study has provided a comprehensive analysis of tax incentive regimes in Nigeria lessons from the United States, several key areas remain under-explored and warrant further academic and policy-oriented investigation. These areas of inquiry are crucial not only for deepening scholarly understanding but also for shaping future tax policy reforms in Nigeria and other emerging economies.

There is a pressing need for empirical studies that assess the long-term fiscal consequences of tax incentives on government revenue and expenditure frameworks. Most existing studies focus on short-term FDI attraction or industrial output, without systematically evaluating whether the forgone tax revenue is compensated by equivalent economic gains in the long run. Future research should employ tax expenditure modelling, cost-benefit analysis, and dynamic general equilibrium models to determine whether tax incentives lead to sustainable economic growth or result in persistent fiscal deficits. Such studies would be particularly valuable for resource-constrained developing economies, where tax incentives often compete with essential public expenditure needs.

Nigeria's over-reliance on the oil and gas sector makes it an ideal case study for examining how tax incentives can be deployed to stimulate non-oil sectors, such as agriculture, technology, creative industries, and manufacturing. Future studies should explore the design and impact of sector-specific tax incentives aimed at economic diversification. This includes analysing whether current incentive structures inadvertently reinforce mono-sectoral dependence and how incentive reform can support structural transformation. Comparative studies between Nigeria and other resource-rich nations such as Angola, Indonesia, or Norway could provide valuable insights into best practices and transferable policy models.

While performance-linked incentives are common in OECD countries, their adoption and effectiveness in African tax systems remain inadequately studied. There is a need for comparative research that evaluates how different African countries have implemented performance conditions such as employment benchmarks, export targets, or local content requirements and how these have impacted compliance, economic returns, and policy credibility. Such studies should examine the institutional and legal enablers that support enforcement and the role of data infrastructure in monitoring outcomes. Comparative analyses involving countries like Rwanda, Kenya, South Africa, and Ghana may help identify regional patterns and opportunities for harmonization.

As Nigeria and other African economies undergo rapid digital transformation, the tax system must evolve to accommodate emerging sectors such as fintech, e-commerce, digital logistics, and artificial intelligence startups. However, little research exists on how tax incentives or digital taxation regimes impact the growth trajectory of these industries. Future studies should investigate how tax policy can be reconfigured to both stimulate innovation and safeguard revenue, especially in light of global efforts to implement digital services taxes (DSTs) and minimum global tax standards (e.g., OECD Pillar One and Two initiatives). Research should also address the risk of tax base erosion due to the mobility of digital capital and propose frameworks for tax compliance in the virtual economy.

Another under-researched area relates to the distributional effects of tax incentives, particularly from a gender and social equity perspective. Existing literature focuses largely on aggregate economic outcomes, often ignoring how tax policies affect different demographics. Future research should assess whether tax incentives create equitable access to economic opportunities

for women-led enterprises, youth-owned businesses, and microenterprises in the informal sector. This would support a more inclusive and justice-oriented approach to fiscal policymaking.

By pursuing these avenues of inquiry, scholars and policymakers can significantly enrich the discourse around tax incentive reform, helping to ensure that these tools are not only effective in catalysing investment and growth but also equitable, sustainable, and future-ready.

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