Differential impact of tax incentive mechanisms on financial performance of listed oil and gas companies in Nigeria

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Abstract

This study examines the effect of tax incentives on the financial performance of listed oil and gas firms in Nigeria. Using panel data from nine firms on the Nigerian Exchange Group (2005–2024) and a Fixed Effects Model guided by the Hausman test, the analysis focuses on Investment Tax Allowance (ITA), Tax Exemption (TEX), and Tax Credit (TCR) as proxies for tax incentives, with Return on Assets (ROA) as the performance measure. Results show that ITA has a significant positive effect on ROA, demonstrating that investment-focused tax relief enhances asset efficiency. Conversely, TEX and TCR display no significant impact, suggesting their limited role in improving profitability. Among control variables, firm size negatively affects ROA, while firm age exerts a positive effect. These findings are consistent with Ibn Khaldun's Theory of Taxation, which emphasizes the role of moderate taxation in stimulating economic activity. The study concludes that ITA is the most effective tax incentive for strengthening financial performance in the Nigerian oil and gas sector. It recommends continued implementation of ITA, strategic use of tax credits for reinvestment, and broader adoption of exemptions to reduce fiscal burdens.

Keywords: *Financial Performance, Return on Assets, Investment Tax Allowance, Tax Exemption, Tax Credit, Tax Incentives*

Introduction

The financial performance of Nigeria's oil and gas firms has been on a steady decline despite the sector's significant contribution to the nation's economy. Several listed oil and gas companies have reported dwindling profitability, declining returns on investment, and weak shareholder value, raising concerns about the financial sustainability of the industry (Adebayo & Salawu, 2020). Key financial indicators such as Return on Assets (ROA), Return on Capital Employed (ROCE), and Earnings per Share (EPS) have shown downward trends, reflecting inefficiencies in financial management and structural challenges in the sector (Egbunike et al., 2020). This persistent decline in financial performance is attributed to factors such as rising operational costs, regulatory uncertainties, high tax burdens, and fluctuations in global crude oil prices (Oseni, 2023).

One major factor influencing financial performance in the oil and gas industry is taxation. The sector is subject to multiple tax obligations, including Petroleum Profit Tax (PPT), replaced as Hydrocarbon Tax, Company Income Tax (CIT), Value-Added Tax (VAT), and other fiscal levies, which collectively increase financial pressures on these firm (Ogbonna & Ebimobowei, 2017). In response, the Nigerian government has introduced various tax incentives, including Investment Tax Allowance, Tax Exemption, and Tax Credit, to ease the financial burden on these firms, promote capital reinvestment, and enhance corporate performance (Federal Inland Revenue Service [FIRS], 2021). Theoretically, tax incentives

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are expected to stimulate financial performance by reducing tax liabilities, improving liquidity, and enabling firms to allocate resources efficiently (Ali & Arome, 2022).

Tax incentives have emerged as a critical tool in offering financial relief to companies operating in the oil and gas sector and encouraging further investment (Nguyen, 2023). These incentives are designed to reduce the tax burden on companies, thereby improving their cash flow and enabling them to invest in capacity expansion, technology upgrades, and efficiency improvements. According to Liu et al. (2019) and Zwick et al. (2017), there is a perceived symbiotic link between tax incentives, and firm performance. The former provides the required stimulus for greater performance, while the latter justifies the maintenance and growth of such incentives.

Despite the implementation of various tax incentives measures to enhance the performance of Nigeria's oil and gas sector, the industry continues to face significant challenges that hinder its growth and efficiency (Adefunke & Usiomon, 2022). The intended investment attracted to boost the operational capacity, has not yielded the desired outcomes. The sector is also grappling with inadequate refining capacity, which forces the country to rely heavily on imported refined petroleum products (Osemeke & Okere 2020). This reliance not only drains foreign exchange reserves but also exacerbates the volatility of domestic fuel prices with infrastructure deficits, regulatory instability, and widespread corruption, all of which undermine the effectiveness of the tax incentives offered (KPMG Nigeria, 2024).

Empirical studies on tax incentives and financial performance have produced mixed results. Some studies suggest that tax incentives significantly enhance financial performance by increasing profitability and investment efficiency (Adegbite et al., 2018; Uchenna & Agbasi, 2021), while others argue that the impact of tax incentives is minimal due to poor implementation, corruption, and firms' inability to effectively utilize tax reliefs (Okafor et al., 2021). Additionally, majority of the existing studies focus on general tax policies rather than analyzing the distinct effects of investment tax allowance, tax exemption, and tax credit on key financial indicators such as ROA. Therefore, this study seeks to answer the following research questions by examining how different forms of tax incentives shape financial outcomes. Specifically, it investigates the effect of investment tax allowance on the return on assets of oil and gas firms in Nigeria, explores the influence of tax exemptions on return on assets, and assesses the extent to which tax credits impact the return on assets of these firms.

Literature Review

Financial performance is a critical concept in corporate finance, representing a firm's ability to generate profits, manage assets efficiently, and sustain long-term growth. It is widely recognized as a key determinant of business success, influencing investment decisions, market valuation, and overall financial stability (Egbunike et al., 2020). Scholars have defined financial performance from various perspectives, with Hansen and Mowen (2018) describing it as a measure of how effectively a company utilizes its resources to achieve financial goals. Brigham and Ehrhardt (2021) emphasize that financial performance provides insights into a firm's ability to meet obligations, mitigate risks, and maximize shareholder value, making it a crucial indicator of corporate health.

Financial performance is commonly measured through different financial ratios that

assess profitability, efficiency, liquidity, and market value (Ross et al, 2020). Return on Assets (ROA) one of the most famous measure of financial performance and was also adopted in this study to evaluate how well oil and gas firms in Nigeria are performing financially. ROA measures a firm's ability to generate profit from its assets, with a higher ROA indicating better resource utilization (Oseni, 2023).

A higher ROA indicates that a company is using its asset base effectively to produce profits, which is a key indicator of operational efficiency and sound asset management. Conversely, a lower ROA suggests inefficiencies, which may be linked to aging infrastructure, underutilization of assets, or operational challenges. For example, companies that fail to maintain or modernize their factory, pipelines, or distribution networks may experience higher operational costs, resulting in a lower ROA (Okafor & Akinrinade, 2020).

In Nigeria, the Investment Tax Allowance (ITA) was introduced under the Petroleum Profits Tax Act (PPTA) 1959, later incorporated into the PPTA 2004. The ITA was designed to incentivize oil and gas companies by providing tax relief on qualifying capital expenditures, thereby encouraging investment in petroleum operations. Specifically, it allowed companies to deduct a percentage of their qualifying expenditures from their assessable profits, reducing their tax liability and improving cash flow. The investment tax allowance (ITA) aimed to stimulate exploration, development, and production activities, particularly in a sector characterized by high capital intensity and operational risks. However, significant reforms introduced by the Petroleum Industry Act (PIA) 2021 replaced the Petroleum Profit Tax with the Hydrocarbon Tax (HT) regime, signaling a shift toward aligning Nigeria's oil and gas taxation with global best practices (Jolaoso, 2023) seems to have positive impact in near future.

Investment tax allowance promote infrastructure development in the oil and gas sector. Investments in refining capacity, pipelines, and distribution networks are essential to ensure the oil and gas segment of the industry operates efficiently. Without these tax incentives, the financial feasibility of large infrastructure projects, which require long-term capital investments, are perceived to be significantly undermined. Companies can use the investment tax allowance, for instance, to partially deduct the cost of constructing pipelines, refineries, and other necessary infrastructure, increasing the viability of these projects (Okafor & Akinrinade, 2020). Investment tax allowance is therefore essential to guaranteeing ongoing investment in vital infrastructure, which in turn promotes the expansion of the oil and gas industry as a whole and benefits the Nigerian economy as a whole.

Governments offer tax credits to people and corporations as incentives to lower their tax obligations and promote certain actions that support the objectives of public policy. Tax credits are a more valuable type of tax relief than tax deductions since they directly lower the amount of tax payable on a dollar-for dollar basis, as opposed to lowering the amount of taxable income (Okafor & Uchenna, 2021). Tax credits can be either non-refundable or refundable. Non-refundable tax credits reduce the tax liability to zero but do not result in a refund if they exceed the total tax owed, whereas refundable tax credits can lead to a refund if the credit amount is greater than the taxpayer's liability (Adebayo & Musa, 2022).

The primary purpose of tax credits is to incentivize certain activities or investments that

are considered beneficial to the economy or society. To promote investment in R&D, infrastructure projects, human capital development, and renewable energy, governments provide tax credits. When it comes to corporate taxation, tax credits can incentivize companies to invest in particular industries or ventures, such as developing local industries, supporting job creation, or investing in socially and environmentally responsible practices (Ikpe & Nwankwo, 2022). Reducing the overall tax burden on these activities, governments aim to stimulate economic growth, enhance corporate social responsibility, and support sustainable development.

Tax exemption refers to the exclusion of certain types of income or transactions from taxation, effectively enabling businesses or individuals to avoid paying taxes on specific earnings or activities (Martha, 2020). Governments often grant tax exemptions as part of their fiscal policies to promote targeted economic activities, stimulate growth in specific sectors, or attract foreign investments (Wells, 2019). Exemptions are typically applied to areas where the government seeks to encourage growth, such as in the case of new industries, startups, or sectors critical to national development. The reduction or eliminating tax liabilities, these exemptions provide financial relief to businesses, enabling them to reinvest in operations, expand their capacities, and enhance their overall competitiveness.

Under the PIA, hydrocarbon tax is applied primarily to onshore and shallow water petroleum operations, with significant exemptions granted to encourage deeper offshore and gas-based investments. Specifically, deep offshore and natural gas production activities are exempt from the Hydrocarbon Tax (Allen-Ameri, 2023). This exemption is strategically designed to foster exploration and development in Nigeria's deep water and natural gas sectors, both of which require substantial capital and advanced technology to develop. The excluding of these high-cost operations from hydrocarbon tax liabilities attracts foreign and local investment, thus promoting diversification within the sector and boosting the country's capacity for energy production. This targeted approach aligns with the PIA's broader goal of ensuring Nigeria remains competitive in the global energy landscape, encouraging sustainable, long-term investments in areas critical to future energy needs (Abu et al., 2023).

The Ibn Khaldun Theory of Taxation posits that there is an inverse relationship between tax rates and tax revenue, meaning that while moderate tax rates can stimulate economic activity and increase government revenue, excessively high tax rates can deter production, reduce investment, and eventually lead to a decline in total revenue. This concept parallels the modern Laffer Curve, which suggests that there is an optimal tax rate that maximizes revenue without harming economic growth (Al-Harran, 2020). Therefore tax incentives will enhance optimum tax level as individual or businesses are motivated with the income they can retain after tax incentives. Businesses are more likely to invest and more committed, knowing they can retain and reinvest a significant portion of their earnings (Bashir, 2020).

Tax incentives are a vital policy mechanism aimed at stimulating growth, investment, and performance across various sectors, especially in capital-intensive industries like the oil and gas sector. Kimani and Wanjiru (2019) examined how tax breaks affected Kenyan manufacturing companies' return on assets (ROA), concentrating on a sample of 15 listed

companies between 2012 and 2018 on the Nairobi Stock Exchange. The study revealed tax holidays and capital allowances stimulated investments in productive assets and had statistically significant beneficial effects on ROA. Also, Nguyen and Tran (2019) examined how tax incentives might increase the return on assets (ROA) of Vietnamese textile companies by analyzing financial data from 20 companies over a ten-year period (2009-2019). The study concludes that advantageous tax rates significantly increased ROA and promoted investment in high-yield assets.

Yeboah and Antwi (2021) studied the influence of tax incentives on return on assets (ROA) in Ghana's hotel sector between 2010 and 2019, using a sample of 25 businesses. According to their analysis, tax credits allowed businesses to maintain asset efficiency and profitability, which greatly increased ROA. Adebayo and Bolarinwa (2021) conducted a panel data analysis on a sample of 30 Nigerian firms across different industries from 2014 to 2020. Their scope included firms benefiting from tax holidays and investment tax allowances. The findings showed a positive effect of tax incentives on ROA, as tax savings allowed firms to reinvest in income-generating assets, improving their ability to convert assets into profits.

Chukwu and Udo (2021) examined the effects of tax incentives on ROA in the Nigerian oil and gas sector, using data from 8 companies between 2015 and 2020. The study highlighted that tax relief policies, such as pioneer status incentives, significantly boosted ROA by reducing operational costs and increasing net income. Also, Okoro and Nwachukwu (2021) analyzed the relationship between tax incentives and ROA among Nigerian SMEs, studying a sample of 50 firms between 2015 and 2020. Their findings, based on regression analysis, indicated a positive correlation between tax relief programs and ROA, suggesting that reduced tax burdens allowed firms to optimize asset utilization and increase profitability.

Adeoye and Adebayo (2022) examined the connection between tax benefits and return on assets for Nigerian manufacturing companies listed on the Nigerian stock exchange. The research, which used a sample of 30 companies from 2011 to 2020, indicates tax breaks like export grants increased ROA by allowing businesses to reinvest in export growth. Similarly, Abdullahi and Ibrahim (2022) studied the impact of tax incentives on the financial performance of pharmaceutical companies in Nigeria, using data from 10 listed firms between 2010 and 2020. The analysis showed that investment tax credits positively influenced ROA, as the firms reinvested the savings in technology and infrastructure.

Ibrahim and Musa (2022) focused on the construction sector, using OLS regression to evaluate the impact of tax incentives on ROA. The study has a sample of 20 construction firms in Nigeria from 2015 to 2021. Findings showed that firms with access to tax incentives, such as capital allowances, were able to generate higher ROA by improving asset efficiency through reinvestment in equipment and infrastructure.

Mustapha and Hassan (2022) utilized a difference-in-differences (DID) methodology to evaluate the effect of tax incentives on ROA in the African energy sector. The study spanned from 2010 to 2020 and included firms operating in both renewable energy and traditional oil and gas industries. The findings revealed that tax incentives led to increased ROA in firms that reinvested tax savings into infrastructure and asset optimization, especially in firms that were transitioning toward cleaner energy sources; while Oduma and Egbo (2023) utilized a fixed-effects panel model to analyze the contribution of tax breaks to raising ROA

in Nigeria's manufacturing sector. The analysis of 35 industrial firm between 2016 and 2022, discovered that tax breaks helped them increase their asset bases and boost productivity, which raised ROA.

Research Method

This study employ an *expost-facto* research design to assess the effect of tax incentives on Nigeria oil and gas firms' financial performance with a particular emphasis on firms listed on the Nigerian Exchange Group. The research focused on tax incentives which was proxied with investment tax allowance, tax exemption and tax credits, while financial performance was measured with ROA, firm size and firm age serving as the control variable.

The population for this study encompasses all nine (9) oil and gas firms currently listed on the Nigerian Exchange Group (NGX).Census sampling technique was used to select the entire nine (9) oil and gas firms listed on the Nigerian Exchange Group. The data for this study was collected from the annual published financial statement of the listed oil and gas firms and publication of the Nigeria Exchange Group (NGX) covering a period from 2005 to 2024. The study employed panel data regression techniques, using either a Fixed Effects Model (FE) or a Random Effects Model (RE) to analyze the data, depending on which model better suits the dataset based on the Hausman test. The method allows for more informative datasets, greater variability, less multicollinearity, more degrees of freedom, and higher efficiency in estimates. Specification model is of the following form:

$ROA_t = \beta_0 + \beta_1 ITA_t + \beta_2 TE_t + \beta_3 TC_t + FMZ_{t+} FMA_{t+} u_t$

Where:

ROA= Return on Asset

ITA= Investment Tax Allowance

TE= Tax Exemption

TC= Tax Credit

FMZ= Firm Size

FMA= Firm Age

μ= error term used to account for other factors that may affect the model but were not captured

it=identify for each of the oil and gas firm and different years in the sampled.

4. Data Analysis and Discussion of Findings

Table 1. Presents the descriptive statistics for examining the relationship between firm performance (ROA) and tax incentive measures. Return on Assets (ROA) demonstrates strong analytical potential with a positive mean of 4.66%, indicating profitable performance across the sample firms. The moderate standard deviation (4.05%) suggests reasonable variability for regression analysis (Wooldridge, 2020), providing sufficient variation to detect meaningful relationships with tax incentive variables.

For the tax incentives, Tax Exemption (TEX) exhibits excellent distributional properties for regression analysis, with a mean of 24.95% and relatively moderate skewness (1.24). The normality assumption in regression requires residuals to follow a normal distribution, and TEX's moderate departure from normality can be effectively addressed through standard econometric techniques. Tax Credit (TCR) shows substantial variation (mean = 214.76, SD = 774.99), which is advantageous for regression analysis as it

provides rich variation to identify policy effects. The large range suggests diverse utilization of tax credits across firms, enabling robust estimation of their impact on performance. Investment Tax Allowance (ITA) presents similar advantages with significant variation (mean = 198.42, SD = 420.51), offering substantial cross-sectional variation essential for identifying tax policy effects on firm performance.

Table 1. Descriptive Statistics

	ROA	TCR	TEX	ITA	FSZ	FAG
Mean	4.663	214.756	24.946	198.418	12.366	43.833
Median	3.721	78.118	25.25	93.48	12.417	43
Maximum	26.202	5282.42	92.038	2561.33	13.175	67
Minimum	-3.98	1.895	2.303	6.73	11.666	20
Std. Dev.	4.05	774.99	14.254	420.507	0.283	12.914
Skewness	2.026	6.316	1.242	4.572	0.189	-0.09
Kurtosis	10.825	41.551	7.185	24.287	3.74	1.972
Jarque-Bera	291.159	6171.604	88.807	2012.671	2.589	4.086
Probability	0	0	0	0	0.274	0.13
Sum	419.686	19328.05	2245.1	17857.61	1112.906	3945
Sum Sq. Dev.	1460.06	53454172	18081.93	15737532	7.117	14842.5
Observations	90	90	90	90	90	90

ROA is Return on Asset, ITA is Investment Tax Allowance, TEX is Tax Exemption, TCR is Tax Credit, FSZ is Firm Size, FAG is Firm Age

The substantial variation in tax incentive variables is particularly valuable for policy analysis. The level of corporate tax burden can directly impact enterprises' profitability and investment decisions, subsequently influencing operational performance and market competitiveness and this variation enables precise estimation of these relationships.

FSZ (Firm Size) demonstrates near-normal distribution (skewness = 0.19, kurtosis = 3.74) with acceptable Jarque-Bera probability (0.274), making it an excellent control variable. FAG (Firm Age) similarly shows favorable distributional properties (probability = 0.130), providing robust controls for firm heterogeneity.

The Jarque-Bera test results indicating non-normality for some variables, should not be viewed as prohibitive. Modern econometric practice recognizes that normality assumptions can be relaxed with appropriate techniques and the substantial sample size supports asymptotic inference even under non-normality. The significant variation in the dependent variable (ROA ranging from -3.98% to 26.20%) provides excellent power for detecting meaningful relationships with tax incentive variables, essential for drawing policy-relevant conclusions.

With 90 observations, the dataset meets standard requirements for multiple regression analysis. With relatively large samples, a central limit theorem can be invoked such that

hypothesis testing may proceed using asymptotic approximations supporting the validity of statistical inference even with some non-normality.

Table 2: Correlation Matrix

	ROA	TCR	TEX	ITA	FSZ	FAG
ROA	1					
TCR	0.058	1				
TEX	0.166	-0.260	1			
ITA	0.058	0.208	-0.361	1		
FSZ	-0.195	0.031	-0.061	0.052	1	
FAG	0.273	-0.223	0.250	-0.350	-0.106	1

The correlation matrix in Table 2 examines the relationships among the study's independent variables to check for multicollinearity. Since none of the correlation coefficients exceed 0.7, multicollinearity is not considered a problem. The highest observed correlation is 0.208 between Investment Tax Allowance and Tax Credit, which is moderate and acceptable. Therefore, the study concludes that multicollinearity does not affect the regression analysis.

Table 3: Estimation Model on Tax Incentives on the Return on Assets

Variable	Coefficient	Std. Error	t-Statistic	Prob
ITA	0.004	0.002	1.932	0.049
TEX	0.016	0.029	0.549	0.584
TCR	-0.001	0.001	-1.169	0.246
FSZ	-2.544	1.139	-2.231	0.028
FAG	0.120	0.028	4.206	0.000
C	29.799	14.362	2.074	0.041
Methods: Fixed Effect Model		R-squared	0.333	
Dependent Variable: ROA		AdjustedR-squared	0.208	
		S.E. of regression	3.844	
		F-statistic	2.675	
		Prob(F-statistic)	0.003	

The estimation model presented in Table 5 examined the effect of tax incentives on Return on Assets (ROA) using a Fixed Effects Model. The dependent variable in this model is ROA, while the independent variables include Investment Tax Allowance (ITA), Tax Exemption (TEX), Tax Credit (TCR), and the control variables were Firm Size (FSZ), and Firm Age (FAG). The findings indicate that Investment Tax Allowance (ITA) has a positive coefficient of 0.004547, indicating that an increase in ITA lead to an increase in ROA. With its t-statistic 1.9325 and probability of 0.049 indicated that this effect is significant at 5% significant level. Similarly, Tax Exemption (TEX) also has a positive coefficient of 0.016117, indicating a positive effect with ROA, but the t-statistic of 0.5499 and the corresponding probability of 0.5840 indicated that the effect is not statistically significant. In contrast, Tax Credit (TCR) has a negative coefficient of -0.001307, implying a reduction in ROA, but its t-statistic of -1.1693 suggests that the relationship is not statistically significant.

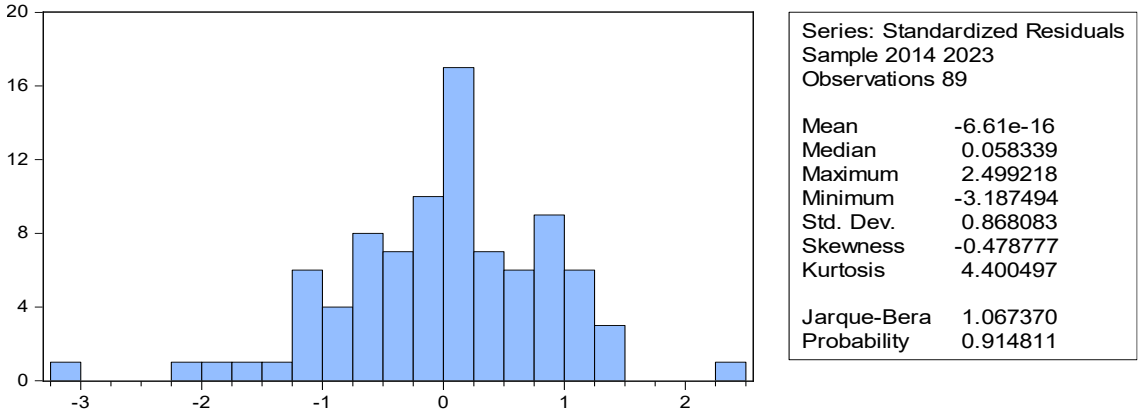
Firm Size (FSZ) has a significant negative coefficient of -2.544253, with a t-statistic of -2.2319, and probability of 0.0286 indicating that larger firms tend to have lower ROA. On the other hand, Firm Age (FAG) has a strong and statistically significant positive coefficient of 0.120939, with a high t-statistic 4.2065 and corresponding probability value of 0.0001. This suggests that older firms tend to perform better in terms of ROA, likely due to their

experience, established market presence, and more efficient financial management practices. The constant term (C = 29.79962) is statistically significant, implying that other unobserved factors also contribute significantly to ROA.

The adjusted R-squared value (0.2086) depicts that 20.86% of the variations in ROA are explained by the independent variables, which indicates moderate explanatory power. The F-statistic (2.6755) and its probability (0.0032) indicate that the model is statistically significant as a whole, meaning that at least one of the independent variables has a meaningful impact on ROA. In conclusion, the study concluded that tax incentives have significant effect on return on Assets of listed oil and gas companies in Nigeria.

The model reports an adjusted R-squared value of 0.2086, meaning that 20.86% of the variation in ROA is accounted for by the independent variables. The F-statistic of 2.6755 and a corresponding p-value of 0.0032 indicate that the model is statistically significant, implying that tax incentives significantly impacts ROA.

Table 4. Post Estimation Test



Normality test chi-square value of 1.067 and the corresponding p-*values of* 0.915 are not statistically significant at 5% levels. These suggest that the model is normally distributed.

Table 5. Cross-Sectional Dependence Test Results

Test employs centered correlations computed from pairwise samples			
Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	34.217	36	0.553
Pesaran scaled LM	-1.270		0.203
Pesaran CD	-1.948		0.051

The Breusch-Pagan LM test produces a statistic of 34.21793, with 36 degrees of freedom and a p-value of 0.5535, which is greater than 0.05. This indicates that we fail to reject the null hypothesis, indicating that cross-section dependence is not a concern. Similarly, the Pesaran scaled LM test (-1.270679, p = 0.2038) and the Pesaran CD test (-1.948916, p = 0.0513) both yield p-values above 0.05, further supporting the conclusion that cross-sectional dependence is not statistically significant. Overall, these results imply that the residuals in the model are not significantly correlated across firms, confirming the validity of the estimation method and reducing concerns about biased results due to cross-sectional dependence. Thus, the model appears to be robust in capturing the effects of tax incentives on financial performance without cross-section interference.

Ho1. The result of on table 3, Investment Tax Allowance (ITA) has a t-statistic = 1.933, p-

value = 0.0491. Therefore, Investment Tax Allowance has a statistically significant positive effect on Return on Assets. A one-unit increase in ITA increases ROA by 0.0045 percentage points, supporting the policy effectiveness of investment incentives

Ho2. Tax Exemption result on table: t-statistic = 0.550, p-value = 0.5840. Therefore, Tax Exemption does not have a statistically significant effect on ROA. Despite the positive coefficient (0.016), the relationship is not statistically distinguishable from zero.

Ho3. From table 3, Tax credit has t-statistic = -1.169, p-value = 0.2460 which indicates Tax Credit does not have a statistically significant effect on ROA. The negative coefficient suggests a potentially detrimental effect, but this is not statistically significant.

Findings from the study on the impact of tax incentives on Return on Assets (ROA) show that Investment Tax Allowance (ITA) has a positive and significant effect on ROA, while Tax Exemption (TEX) and Tax Credit (TCR) do not have statistically significant impacts. However, Firm Size (FSZ) negatively affects ROA, possibly due to higher operational costs, while Firm Age (FAG) has a strong positive impact, indicating that older firms benefit from experience and efficient financial management.

The findings support the postulations of the Ibn khadun theory of taxation, which asserts moderate tax rates can stimulate economic activity and increase government revenue, excessively high tax rates can deter production, reduce investment, and eventually lead to a decline in total revenue. The significant positive effect of Investment Tax Allowance suggests that firms that strategically align their operations to take advantage of tax reliefs can enhance asset efficiency and profitability. In addition, these results align with some previous studies while contradicting others. In line with this study, Eze and Obi (2020) found that tax breaks in Nigerian telecommunications enterprises had a limited impact on ROA, indicating that tax incentives alone may not be sufficient to drive profitability. Similarly, Mensah and Ofori (2020), who studied the Ghanaian mining sector, found that although tax holidays contributed to asset growth, their effect on ROA was dependent on how efficiently firms deployed the incentives. Likewise, Nguyen and Tran (2019) emphasized that the impact of tax incentives on ROA varies depending on industry dynamics and investment strategies, supporting the notion that not all tax incentives directly enhance financial performance.

While prior studies found that firms actively reinvest tax savings into income-generating assets, the findings of this study suggest that Nigerian oil and gas firms may not be maximizing tax incentives for asset efficiency or profitability. Another possible explanation is that tax incentives alone may not be the primary drivers of ROA, and other macroeconomic factors, such as economic stability, access to credit, and firm-level management strategies, may play a more significant role

Conclusion

This study examined the influence of tax incentives on the financial performance of listed oil and gas companies in Nigeria. The findings revealed that tax incentives significantly influence financial performance, through the return on asset. Meaning the investment tax allowance has significant level of effect while tax exemption and tax credit did not show a significant effect, implying that tax exemptions and tax credits alone may not contribute to better asset performance. Based on the findings, this study recommends that the government should maintain consistency in the implementation of the existing Investment

Tax Allowance (ITA), as stability in this policy will encourage further investment in the Nigerian oil and gas sector. In addition, the management of oil and gas firms is advised to intensify efforts in utilizing the opportunities provided through tax credits, particularly by channeling them into reinvestment initiatives that can strengthen the sector's growth and sustainability. Furthermore, firms are encouraged to strategically adopt tax exemption options in their operations as a means of reducing their overall tax burden, thereby improving financial efficiency and competitiveness.

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