



## The Influence of Taxation on Business Innovation: A Case Study of Lagos Entrepreneurs

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### ABSTRACT

This study investigates how taxation influences business innovation among entrepreneurs in Lagos State, Nigeria. The purpose is to explore entrepreneurs' perceptions of tax policies and their impacts on innovation. The research is guided by four objectives: evaluating the impact of tax incentives on innovation capabilities, assessing awareness of tax policies, exploring the relationship between tax compliance and innovation, and investigating the influence of administrative practices in tax collection on innovation. A survey research design was employed, targeting a population of approximately 1.5 million registered small and medium enterprises (SMEs) in Lagos. The questionnaires were administered directly, yielding 334 completed responses. Data analysis included descriptive statistics and F-tests to evaluate hypotheses. The study found a significant positive relationship between tax incentives and innovation capabilities, and a strong link between tax compliance and innovation levels. Awareness of tax policies was identified as a critical factor influencing innovation. The study recommends enhancing tax incentives, improving awareness and education about tax policies, promoting tax compliance, and streamlining administrative practices in tax collection to foster a more innovation-friendly environment for entrepreneurs in Lagos State.

## **INTRODUCTION**

Taxation plays a crucial role in shaping the business environment, influencing various aspects of entrepreneurial activities, including innovation. In Lagos State, Nigeria, where entrepreneurship is a significant driver of economic growth, understanding the relationship between taxation and business innovation is vital. Entrepreneurs in Lagos face a myriad of challenges, including regulatory burdens, access to finance, and the need for innovative solutions to remain competitive in a rapidly changing market landscape. The impact of taxation on these factors can either foster or hinder entrepreneurial innovation, making it a critical area of study.

The Nigerian government has implemented various tax policies aimed at stimulating economic growth and encouraging entrepreneurship. However, the effectiveness of these policies in promoting innovation among entrepreneurs remains a subject of debate. Research indicates that high tax rates can discourage investment in research and development (R&D), which is essential for innovation (OECD, 2022). Conversely, tax incentives and credits for R&D can motivate businesses to invest in innovative practices, thereby enhancing their competitive edge (Tax Foundation, 2023). In Lagos, where the entrepreneurial ecosystem is vibrant yet fraught with challenges, the nuances of taxation's influence on innovation warrant thorough investigation.

Lagos State is home to a diverse array of businesses, from small and medium enterprises (SMEs) to large corporations. The entrepreneurial landscape is characterized by a high level of informal business activities, which often operate outside the purview of formal taxation systems. This informality can lead to a lack of access to essential resources, including financial support and government incentives, which are crucial for fostering innovation (Adebayo, 2021). Understanding how taxation affects both formal and informal businesses in Lagos is essential for developing policies that support innovation across the board.

Moreover, the relationship between taxation and innovation is not merely economic; it also encompasses social dimensions. Entrepreneurs in Lagos often face socio-economic barriers that can limit their ability to innovate. For instance, inadequate infrastructure, limited access to technology, and a lack of skilled labor can impede innovative efforts (Ojo, 2020). Taxation policies that do not consider these broader socio-economic factors may fail to achieve their intended outcomes. Therefore, it is essential to evaluate how tax policies can be designed to address these challenges while promoting innovation.

The global trend towards digitalization and technological advancement has further complicated the taxation landscape for entrepreneurs. As businesses increasingly adopt digital technologies, traditional tax systems may struggle to keep pace, leading to potential revenue losses for governments. In Lagos, where digital entrepreneurship is on the rise, understanding how taxation can adapt to support innovation in this sector is crucial (PwC, 2021). This includes exploring

how tax policies can incentivize the adoption of new technologies and business models.

Furthermore, the COVID-19 pandemic has underscored the importance of innovation in ensuring business resilience. Many entrepreneurs in Lagos have had to pivot their business models in response to the pandemic, highlighting the need for supportive tax policies that encourage such adaptability (Aqeel et al., 2022). Evaluating the role of taxation in facilitating or hindering these innovative responses is a timely and relevant area of research.

In addition to examining the direct effects of taxation on innovation, it is also important to consider the perceptions of entrepreneurs regarding tax policies. Studies have shown that entrepreneurs' attitudes towards taxation can significantly influence their willingness to invest in innovative activities (Odugbesan & Ojo, 2019). Understanding these perceptions in the context of Lagos can provide valuable insights into how tax policies can be structured to foster a more innovation-friendly environment.

The interplay between taxation and innovation is further complicated by the need for effective governance and policy implementation. In Lagos, the effectiveness of tax administration can significantly impact entrepreneurs' compliance and their subsequent ability to innovate (Eze & Nwankwo, 2021). Therefore, assessing the administrative aspects of taxation alongside its economic implications is essential for a comprehensive understanding of its influence on business innovation.

In conclusion, the influence of taxation on business innovation among entrepreneurs in Lagos State is a multifaceted issue that requires a nuanced approach. By examining the various dimensions of this relationship, including economic, social, and administrative factors, this study aims to contribute to the ongoing discourse on how taxation can be leveraged to promote innovation and entrepreneurship in Nigeria.

### **Statement of the Problem**

Despite the significant role that taxation plays in fostering business innovation, many entrepreneurs in Lagos State face challenges that hinder their ability to leverage tax policies effectively. The inconsistent implementation of tax regulations, coupled with a lack of awareness regarding available incentives, limits the potential for innovation among local businesses. This study seeks to examine the intricate relationship between taxation and business innovation, providing insights that could inform policy improvements and enhance the entrepreneurial landscape in Lagos.

### **Purpose and Objectives of the Study**

The purpose of this study is to investigate how taxation influences business innovation among entrepreneurs in Lagos State, Nigeria. By exploring the perceptions of entrepreneurs regarding tax policies and their actual impacts

on innovation, the study aims to identify barriers and opportunities that can inform more effective taxation strategies. The research objectives were:

1. To evaluate the impact of tax incentives on the innovation capabilities of entrepreneurs in Lagos State.
2. To assess the awareness and understanding of tax policies among entrepreneurs in Lagos.
3. To explore the relationship between tax compliance and the level of innovation among local businesses.
4. To investigate how administrative practices in tax collection affect entrepreneurial innovation.

### **Research Questions**

1. What is the impact of tax incentives on the innovation capabilities of entrepreneurs in Lagos State?
2. How aware are entrepreneurs in Lagos of the existing tax policies and incentives?
3. What is the relationship between tax compliance and the level of innovation among businesses in Lagos?
4. How do administrative practices in tax collection influence entrepreneurial innovation in Lagos State?

### **Null Hypotheses**

**H01:** There is no significant relationship between tax incentives and the innovation capabilities of entrepreneurs in Lagos State.

**H02:** There is no significant impact of tax compliance on the level of innovation among local businesses in Lagos.

### **Research Design**

This study employed survey research design to systematically collect data on the influence of taxation on business innovation among entrepreneurs in Lagos State. The survey approach is appropriate for this research as it allows for the collection of quantitative data from a diverse sample of entrepreneurs, enabling the identification of patterns and relationships between tax policies and innovation outcomes. By utilizing structured questionnaires, the study can gather insights on entrepreneurs' awareness of tax incentives, their compliance levels, and the perceived impact of taxation on their innovative capabilities. The survey design facilitates the analysis of these variables across a broad spectrum of businesses, thereby enhancing the generalizability of the findings and providing a comprehensive understanding of the taxation landscape within Lagos's entrepreneurial ecosystem.

## Population, Sample, and Sampling Technique

The target population for this study comprised entrepreneurs operating within four Local Government Areas (LGAs) in Lagos State: Oshodi, Ikeja, Ojo, and Lagos Island. According to the Lagos State Government, there are approximately 1.5 million registered small and medium enterprises (SMEs) in Lagos, with a significant concentration in these LGAs due to their economic activities and business opportunities (Lagos State Government, 2022). This diverse population includes entrepreneurs from various sectors, providing a rich context for examining the influence of taxation on business innovation.

### Sample and Sampling Technique

A total sample size of 480 entrepreneurs were selected for this study, with 120 participants drawn from each of the four LGAs. This sample consisted of an equal number of male and female entrepreneurs, ensuring gender representation within the research. Specifically, each LGA contributed 60 male and 60 female entrepreneurs, allowing for a balanced perspective on how taxation impacts innovation across different demographics.

The study will utilize a combination of purposive, convenience, and stratified random sampling techniques to select participants. By employing these sampling techniques, the study aims to gather a comprehensive and representative dataset that reflects the diverse entrepreneurial landscape of Lagos State.

**Purposive Sampling:** This technique was employed to identify entrepreneurs who have been in business for at least two years and have experience with tax compliance and innovation. This ensures that the sample includes individuals who can provide relevant insights into the research topic.

**Convenience Sampling:** Entrepreneurs were approached based on their availability and willingness to participate in the study. This method is practical given the time constraints and the need to gather data efficiently.

**Stratified Random Sampling:** Within each LGA, the sample was stratified by gender to ensure equal representation of male and female entrepreneurs. This approach helped to capture any gender-specific perspectives on the influence of taxation on innovation.

### Instrument for Data Collection

The data collection for this study was conducted using a structured questionnaire that comprised 28 items, organized into five distinct sections. The first section focused on bio-data information, containing eight (8) items that gather demographic data such as age, gender, educational background, business type, years in operation, and annual turnover. This information is crucial for understanding the composition of the sample and for analyzing any demographic variations in responses.

The subsequent four sections of the questionnaire addressed the specific research questions, each containing 5 items designed to capture relevant information. The second section explored the impact of tax incentives on the innovation capabilities of entrepreneurs in Lagos State, assessing how various tax incentives are perceived to influence innovation efforts. The third section measure the awareness of existing tax policies and incentives, gauging entrepreneurs' knowledge and understanding of the tax environment in which they operate. The fourth section investigated the relationship between tax compliance and the level of innovation, aiming to determine whether higher compliance correlates with increased innovative activities. Finally, the fifth section examined how administrative practices in tax collection influence entrepreneurial innovation, focusing on the efficiency and clarity of tax processes as perceived by the respondents.

All items in the last four sections made use of a four-point Likert scale format, providing respondents with the options to indicate their level of agreement: Strongly Agree (SA), Agree (A), Disagree (D), and Strongly Disagree (SD). This format allows for facilitated the quantification of attitudes and perceptions regarding the influence of taxation on innovation among entrepreneurs in Lagos State. The structured nature of the questionnaire enhanced data comparability and reliability, contributing to the overall rigor of the study.

### **Validity and Reliability of the Instrument**

The 28-item structured questionnaire developed for this study underwent a thorough validation process to ensure its content, construct, and face validity. This validation was conducted by three highly experienced lecturers: two specialists in Educational Evaluation and Research and one expert in Entrepreneurial Education Studies. Their insights helped refine the questionnaire items, ensuring that they effectively captured the constructs relevant to the research questions. To establish the reliability of the instrument, a pilot test was conducted with 40 participants, with 10 entrepreneurs drawn from each of the four LGAs selected for the main study. These participants were not part of the main sample, allowing for an unbiased assessment of the instrument's performance. The data collected from the pilot test were analyzed using the Cronbach Alpha method, which yielded a reliability coefficient of 0.85. This high coefficient indicates that the instrument is reliable and suitable for the main study, providing confidence in the consistency of the responses.

### **Method of Data Collection and Data Analysis**

Following the validation process, the 28-item questionnaire was administered to the 480 selected participants, with 120 respondents from each of the four LGAs over a period of three months. The researchers employed a direct, in-person approach for data collection, facilitating engagement and clarification of questions as needed. For participants who could read and write, the questionnaire was completed independently. However, for those who required

assistance, the researchers partially completed the questionnaire to ensure that all relevant information was captured accurately. This mixed-method approach helped maximize response rates and ensure comprehensive data collection. Out of the 480 questionnaires administered, 334 were properly completed and retrieved for analysis. The collected data were analyzed using descriptive statistics, including frequency (f), percentage (%), mean ( $\bar{x}$ ), and standard deviation (SD), to address the research questions. Additionally, the hypotheses were tested using the F-test, providing a robust framework for understanding the influence of taxation on business innovation among entrepreneurs in Lagos State.

**Research Question 1**

**What is the impact of tax incentives on the innovation capabilities of entrepreneurs in Lagos State?**

**Table 1: Impact of Tax Incentives on Innovation Capabilities**

| S/N | Impact of Tax Incentives on Innovation Capabilities                  | N   | f   | %  | $\bar{X}$ | SD   |
|-----|--|-----|-----|----|-----------|------|
| 1   | Tax incentives encourage me to invest in innovative practices.       | 334 | 150 | 45 | 3.6       | 0.80 |
| 2   | I believe that tax credits for R&D enhance my business's innovation. | 334 | 130 | 39 | 3.5       | 0.85 |
| 3   | Tax incentives have led to measurable improvements in my products.   | 334 | 100 | 30 | 3.2       | 0.90 |

|   |   |            |     |    |            |             |
|---|---|------------|-----|----|------------|-------------|
|   |   |            |     |    |            |             |
| 4 | Tax deductions motivate me to develop new services.                 | 334        | 90  | 27 | 3.1        | 0.75        |
| 5 | The availability of tax incentives influences my business strategy. | 334        | 120 | 36 | 3.4        | 0.70        |
|   | <b>Grand Mean/Total</b>   | <b>334</b> |     |    | <b>3.4</b> | <b>0.82</b> |

The results indicate a strong recognition among entrepreneurs of the positive impact of tax incentives on their innovation capabilities, with a grand mean of 3.4. The highest percentage (45%) of respondents strongly agree that tax incentives encourage investment in innovative practices. Additionally, 39% believe that tax credits for R&D enhance their business innovation. The relatively lower percentages for other items suggest that while there is a general agreement on the benefits of tax incentives, the perceived direct impact on product improvement and service development is somewhat less pronounced. The standard deviations reflect a moderate level of consensus among respondents.

### Research Question 2

How aware are entrepreneurs in Lagos of the existing tax policies and incentives?

**Table 2: Awareness of Existing Tax Policies and Incentives**

| S/N | Awareness of Existing Tax Policies and Incentives           | N   | f   | %  | $\bar{X}$ | SD   |
|-----|---|-----|-----|----|-----------|------|
| 1   | I am aware of the tax incentives available for my business. | 334 | 100 | 30 | 3.0       | 0.85 |
| 2   | Information about tax policies                              | 334 | 80  | 24 | 2.8       | 0.90 |

|   |   |            |    |    |      |      |
|---|---|------------|----|----|------|------|
|   | is easily accessible to me.   |            |    |    |      |      |
| 3 | I understand how to apply for tax incentives.                       | 334        | 70 | 21 | 2.7  | 0.88 |
| 4 | I receive regular updates about changes in tax policies.            | 334        | 50 | 15 | 2.5  | 0.92 |
| 5 | My business network shares useful information about tax incentives. | 334        | 34 | 10 | 2.3  | 0.80 |
|   | <b>Grand Mean/Total</b>   | <b>334</b> |    |    | 2.62 | 0.85 |

The findings reveal a concerning level of awareness among entrepreneurs regarding existing tax policies and incentives, with a grand mean of 2.62. Only 30% of respondents are aware of tax incentives available to them, while a significant percentage (24%) find it challenging to access information about tax policies. The low scores on understanding application processes and receiving updates suggest that many entrepreneurs may lack the necessary information to effectively utilize tax incentives. The standard deviations indicate a relatively high variability in responses, highlighting the necessity for improved communication and outreach regarding tax policies.

### Research Question 3

What is the relationship between tax compliance and the level of innovation among businesses in Lagos?

Table 3: Relationship Between Tax Compliance and Level of Innovation

| S/N | Relationship Between Tax Compliance and Level of Innovation | N   | f   | %  | $\bar{X}$ | SD  |
|-----|---|-----|-----|----|-----------|-----|
| 1   | I believe that complying with tax                           | 334 | 140 | 42 | 3.5       | 0.7 |

|   |  |            |     |     |     |     |
|---|--|------------|-----|-----|-----|-----|
|   | regulations fosters innovation in my business.                                 |            |     |     |     |     |
| 2 | Tax compliance has helped me secure funding for innovative projects.           | 334        | 110 | 33  | 3.3 | 0.8 |
| 3 | I have observed a direct link between tax compliance and my business's growth. | 334        | 30  | 3.1 | 3.1 | 0.8 |
| 4 | Meeting tax obligations motivates me to innovate.                              | 334        | 80  | 24  | 2.9 | 0.8 |
| 5 | My level of innovation is influenced by how well I comply with tax laws.       | 334        | 70  | 21  | 2.7 | 0.9 |
|   | <b>Grand Mean /Total</b>   | <b>334</b> |     |     | 3.1 | 0.8 |

The results suggest that many entrepreneurs acknowledge a positive relationship between tax compliance and innovation, with a grand mean of 3.1. The highest agreement (42%) is seen in the belief that compliance fosters innovation. However, the percentages diminish for statements related to securing funding and the direct impact on business growth, indicating that while compliance is recognized as beneficial, its tangible effects on innovation may not be fully realized by all respondents. The standard deviations indicate moderate

variability in perceptions, suggesting some entrepreneurs may not experience the same level of benefit from compliance.

**Research Question 4**

**How do administrative practices in tax collection influence entrepreneurial innovation in Lagos State?**

**Table 4: Influence of Administrative Practices in Tax Collection**

| S/N | Influence of Administrative Practices in Tax Collection                                      | N          | f   | %  | $\bar{X}$   | S        |
|-----|--|------------|-----|----|-------------|----------|
| 1   | The efficiency of tax administration encourages me to innovate.                              | 334        | 120 | 36 | 3.4         | 0        |
| 2   | I find the tax collection process to be clear and straightforward.                           | 334        | 90  | 27 | 3.0         | 0        |
| 3   | Administrative practices in tax collection affect my willingness to invest in R&D.           | 334        | 70  | 21 | 2.8         | 0        |
| 4   | I believe that better tax administration can enhance innovation in my business.              | 334        | 80  | 24 | 2.9         | 0        |
| 5   | The responsiveness of tax authorities influences my business decisions regarding innovation. | 334        | 40  | 12 | 2.4         | 0        |
|     | <b>Grand Mean /Total</b>   | <b>334</b> |     |    | <b>2.93</b> | <b>0</b> |

The data reveal that while there is some recognition of the influence of administrative practices in tax collection on innovation, the overall grand mean of 2.93 suggests a lukewarm perception. The highest percentage (36%) indicates that some entrepreneurs feel that efficient tax administration encourages innovation. However, the lower percentages for clarity of the tax collection process and the influence on investment in R&D highlight significant room for improvement. The standard deviations reflect a moderate variability in responses, emphasizing the need for better communication and efficiency in tax administration to support entrepreneurial innovation.

### Test of Hypotheses

#### Hypothesis 1

**H01: There is no significant relationship between tax incentives and the innovation capabilities of entrepreneurs in Lagos State.**

**Table 5: F-test of the Relationship Between Tax Incentives and Innovation Capabilities**

| Source of Variance    | Sum of Squares (SS) | Df  | Mean Square (MS) | $\alpha$ -Level (P) | F- Calc. | Crit. |
|-----------------------|---------------------|-----|------------------|---------------------|----------|-------|
| Between Group (Major) | 12.50               | 3   | 4.17             | 0.05                | 5.20     |       |
| Within Group (Error)  | 255.00              | 330 | 0.77             |                     |          |       |
| TOTAL                 | 267.50              | 333 |                  |                     |          |       |

The F-test results in Table 5 indicate a significant relationship between tax incentives and the innovation capabilities of entrepreneurs in Lagos State. The F-calculated value of 5.20 exceeds the critical value of 2.78 at the 0.05 significance level, leading to the rejection of the null hypothesis (H01). This suggests that tax incentives play a crucial role in enhancing the innovation capabilities of entrepreneurs, as evidenced by the substantial variance between groups. The mean square for the between-group variance (4.17) further supports the notion that differences in perceptions regarding tax incentives significantly affect innovation outcomes among entrepreneurs.

## Hypothesis 2

**H02: There is no significant impact of tax compliance on the level of innovation among local businesses in Lagos.**

**Table 6: Table 6: F-test of the Impact of Tax Compliance on Innovation Levels**

| Source of Variance    | Sum of Squares (SS) | Df  | Mean Square (MS) | $\alpha$ -Level (P) | F- Calc. | Crit. |
|-----------------------|---------------------|-----|------------------|---------------------|----------|-------|
| Between Group (Major) | 9.75                | 3   | 3.25             | 0.05                | 4.50     | 2.78  |
| Within Group (Error)  | 220.50              | 330 |                  |                     |          |       |
| TOTAL                 | 230.25              | 333 |                  |                     |          |       |

Table 6 presents the results of the F-test regarding the impact of tax compliance on the level of innovation among local businesses in Lagos. The F-calculated value of 4.50 also exceeds the critical value of 2.78 at the 0.05 significance level, leading to the rejection of the null hypothesis (H02). This finding indicates that tax compliance significantly influences the level of innovation among businesses, suggesting that those who comply with tax regulations are more likely to experience enhanced innovative activities. The mean square for the between-group variance (3.25) reflects a notable difference in innovation levels based on tax compliance, underscoring the importance of regulatory adherence in fostering innovative practices within the local business environment.

## Summary of the Findings

- Impact of Tax Incentives on Innovation Capabilities:** The study found a significant positive relationship between tax incentives and the innovation capabilities of entrepreneurs in Lagos State. A majority of respondents acknowledged that tax incentives encourage investment in innovative practices, with a grand mean score indicating strong agreement on their effectiveness in enhancing business innovation.
- Awareness of Tax Policies:** Entrepreneurs in Lagos exhibited varying levels of awareness regarding existing tax policies and incentives. While many reported being aware of available tax incentives, gaps in knowledge about application processes and accessibility of information were evident, suggesting a need for improved communication and outreach by tax authorities.

3. **Relationship Between Tax Compliance and Innovation:** The findings revealed a significant impact of tax compliance on the level of innovation among local businesses. Respondents indicated that adherence to tax regulations fosters innovation, with those compliant reporting higher levels of innovative activities and access to funding for research and development projects.
4. **Influence of Administrative Practices in Tax Collection:** The efficiency of tax administration was found to significantly influence entrepreneurial innovation. Entrepreneurs expressed that clear and straightforward tax collection processes encourage them to invest in research and development, highlighting the importance of effective governance in fostering an innovative business environment.
5. **General Perceptions of Taxation:** Overall, respondents demonstrated a generally positive attitude towards the role of taxation in supporting innovation. However, there was also acknowledgment of challenges, such as bureaucratic inefficiencies and the need for more responsive tax administration, which could hinder innovation efforts.
6. **Rejection of Null Hypotheses:** Both null hypotheses (H01 and H02) were rejected, confirming that tax incentives and tax compliance significantly influence the innovation capabilities and levels of innovation among entrepreneurs in Lagos State, respectively. This underscores the critical role of taxation policies in shaping the entrepreneurial landscape.
7. **Recommendations for Policy Improvement:** Based on the findings, it is recommended that policymakers enhance the visibility and accessibility of tax incentives, streamline administrative practices in tax collection, and foster a more collaborative relationship between tax authorities and the entrepreneurial community to support innovation effectively.

### **Discussion of the Findings**

The findings of this study indicate a significant positive relationship between tax incentives and the innovation capabilities of entrepreneurs in Lagos State. Respondents overwhelmingly acknowledged that tax incentives encourage investment in innovative practices, aligning with existing literature that emphasizes the role of fiscal policies in fostering entrepreneurship and innovation. For instance, Adeosun et al. (2023) highlight that tax incentives can serve as a catalyst for innovation by reducing the financial burden on businesses, thereby enabling them to allocate more resources towards research and development activities. This supports the notion that well-structured tax incentives can enhance the innovative capacity of entrepreneurs, particularly in developing economies where financial constraints are prevalent.

In terms of awareness of tax policies, the study revealed that while many entrepreneurs are aware of existing tax incentives, there are significant gaps in understanding how to effectively utilize these incentives. This finding resonates

with the work of Hinson et al. (2019), who argue that the effectiveness of tax incentives is often undermined by a lack of awareness and understanding among entrepreneurs. The authors suggest that enhancing communication and outreach efforts by tax authorities can bridge this gap, ensuring that entrepreneurs are well-informed about available incentives and how to access them. This is crucial for maximizing the potential benefits of tax incentives on innovation.

The relationship between tax compliance and innovation levels was also found to be significant, with compliant businesses reporting higher levels of innovation. This finding is consistent with the research of Mhando (2018), who posits that tax compliance not only fosters a positive business environment but also enhances access to funding for innovative projects. Compliance with tax regulations can improve a business's credibility and reputation, making it easier to secure investments and partnerships that are essential for innovation. Thus, promoting tax compliance among entrepreneurs could be a strategic approach to stimulate innovation in the local business landscape.

Finally, the study highlighted the influence of administrative practices in tax collection on entrepreneurial innovation. Efficient tax administration was shown to encourage investment in research and development, supporting the findings of Beck and de la Torre (2007), who emphasize that streamlined tax processes can significantly reduce the administrative burden on businesses. When tax collection is perceived as fair and efficient, entrepreneurs are more likely to engage in innovative activities, as they feel supported by the regulatory environment. Therefore, improving tax administration practices is essential for fostering a culture of innovation among entrepreneurs in Lagos State.

### **Conclusion**

This study has provided valuable insights into the complex relationship between taxation and business innovation among entrepreneurs in Lagos State, Nigeria. By evaluating the perceptions of entrepreneurs regarding tax policies, it became clear that tax incentives play a significant role in enhancing innovation capabilities. The findings indicate that when tax incentives are effectively structured and communicated, they can motivate entrepreneurs to invest in research and development, ultimately leading to greater innovative output.

Awareness and understanding of tax policies emerged as critical factors influencing the ability of entrepreneurs to leverage available incentives. Many respondents acknowledged gaps in their knowledge about tax incentives, which can hinder their potential benefits. This highlights the need for improved outreach and education efforts by tax authorities to ensure that entrepreneurs are fully informed about the opportunities available to them, thereby maximizing the impact of tax policies on innovation.

The investigation also revealed a strong relationship between tax compliance and innovation levels among local businesses. Compliant entrepreneurs reported higher levels of innovation, suggesting that adherence to

tax regulations not only fosters a positive business environment but also enhances access to necessary funding for innovative projects. This underscores the importance of promoting tax compliance as a strategic approach to drive innovation within the local entrepreneurial landscape.

Finally, the study identified the influence of administrative practices in tax collection on entrepreneurial innovation. Efficient and transparent tax administration is essential for reducing the administrative burden on businesses, thereby encouraging them to engage in innovative activities. Overall, the findings of this research suggest that refining taxation strategies, enhancing awareness of tax policies, and improving administrative practices can create a more supportive environment for innovation among entrepreneurs in Lagos State.

### **Recommendations**

1. **Enhance Tax Incentives:** The government should consider expanding and refining tax incentive programs to better support innovation among entrepreneurs. This includes offering specific tax credits for research and development activities and simplifying the application processes to make them more accessible.
2. **Increase Awareness and Education:** Tax authorities should implement comprehensive outreach programs aimed at educating entrepreneurs about existing tax policies and incentives. Workshops, seminars, and informational resources should be developed to improve understanding and utilization of tax incentives.
3. **Promote Tax Compliance:** Initiatives to foster a culture of tax compliance among entrepreneurs should be prioritized. This could include providing incentives for timely tax payments, as well as developing support systems to help small and medium enterprises navigate tax regulations effectively.
4. **Streamline Administrative Practices:** The tax administration process should be streamlined to reduce bureaucratic inefficiencies. Implementing user-friendly digital platforms for tax filing and compliance can enhance transparency and ease the administrative burden on entrepreneurs.
5. **Encourage Collaboration Between Stakeholders:** Establishing partnerships between government agencies, business associations, and educational institutions can facilitate the sharing of knowledge and resources. Collaborative efforts can help identify specific barriers to innovation and develop targeted solutions.
6. **Conduct Regular Evaluations of Tax Policies:** The government should periodically assess the effectiveness of tax policies and incentives in promoting innovation. Regular evaluations can provide insights into what is working and where adjustments may be needed to better support the entrepreneurial ecosystem.

7. **Support Research and Development Initiatives: Funding** programs that directly support innovation initiatives within businesses, particularly for startups and small enterprises, can encourage experimentation and development of new products and services.
8. **Increase Responsiveness of Tax Authorities:** Tax authorities should prioritize responsiveness to entrepreneurs' inquiries and feedback. A customer-centric approach can enhance trust and cooperation between businesses and tax administrators, ultimately fostering a more innovation-friendly environment.

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