Effect of Company Income Tax on Foreign Direct Investment in Nigeria

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Abstract
The main objective of this study was to evaluate the effect of company income tax on foreign direct investment in Nigeria. The design adopted for this study was ex-post-facto; data used for analysis were elicited from Central Bank Statistical Bulletin and Federal Inland Revenue Service Annual Reports. To achieve this objective, a model was formulated based on empirical and theoretical reviews. The model used foreign direct investment inflows in to Nigeria as the dependent variable, while company income tax was used as the independent variable in the model. This study employed the Fully Modified Least Squares (FMOLS) Model to analyze data.The findings elicited from this study revealed that company income tax with p-value of 0.0000 had negative and significant effect on foreign direct investment in Nigeria within the scope of this study From the inferential result, the researchers concluded that company income tax had negative and significant effect on foreign direct investment in Nigeria. From the foregoing, the researcher recommended that government and the appropriate monetary authority review company tax policy by giving out tax incentives and tax reliefs to companies operating within Nigeria in order to encourage them to continue investing in Nigeria.

Keywords: *Company Income Tax, Foreign Direct Investment, Central Bank of Nigeria, Fully Modified Least Squares, Tax Incentives.*

Introduction

Tax is a mandatory levy by the government on its citizens. An efficient and effective tax system is capable of ensuring the basic necessities and services in the country and can attract foreign direct investment, achieve economic growth, achieve equity in income and wealth distribution and maintain equilibrium in the economy (Ndagi, 2016).

All countries seek ways to improve their economies either through internal business strategies and re-strategizing or external adventures. When a country goes outside its border for business enhancement, economic emancipation and general improvement in its finances and economy, it is foreign direct investment. Foreign Direct Investment (FDI) is described as the long term investment reflecting a lasting interest and control by a foreign direct investor of an enterprise entity resident in an economy (Onwuchekwa and Aruwa, 2014). Many African countries including Nigeria have reformed their economic policy, investment laws and financial systems, in order to provide a conducive environment for foreign direct investment (African Economic Outlook, 2016). Sub Saharan Africa as a region has to depend heavily on FDI for many reasons, some of which are exchange of scientific research and technological collaboration (Babatunde, 2012). Foreign direct investment (FDI) has increased dramatically in the past twenty years and with an alarming increase to become the most attractive and generally accepted type of flow of capital across borders in both developed, developing and under developed economies.

According to Koojaroenprasit (2012), FDI plays a very big role in economic growth through technology transfer. Foreign Direct Investment inflows contributed to the strengthening of the balance of payments in several African countries including Nigeria. In 2017, foreign reserves in African region as a whole comprised 2.9% of global FDI inflows (in which Nigeria stood at 1.1%) compared to the 49.8% share for developed economies, 33.3% share for developing Asia, and 10.6% share for Latin America and the Caribbean (UNCTAD World Investment Report, 2018). There is considerable evidence that Foreign Direct Investment can affect growth and development by complementing domestic investment (Holger and Greenaway, 2004). And it is perceived to be a key resource for the translation of NEPAD's vision of growth and development into reality. This is because Africa, like many other developing regions of the world, needs a substantial inflow of external resources in order to fill the saving and foreign exchange gaps and leap frog itself to sustainable growth levels in order to eliminate its current pervasive poverty (Raphael, *et al*., 2019).

Basically, taxation is a way of raising revenue for the day to day running of government activities. The modalities on the assessment, collection and administration of tax revenues are specified in the tax policy. Moreover, beyond the popularly known objectives of revenue generation and wealth redistribution, governments adopt tax policy that provides incentives such as tax holidays and lower taxes for foreign investors in order to enhance inflows of FDI (Ndagi, 2016). Different countries effect changes in their tax policies and incentive schemes as they deem necessary, because of the belief that investment-friendly tax policy affords competitive incentives to foreign investors (Effiok, e*t al*., 2013).

In Nigeria, tax policy initiatives that grant some tax incentives have been adopted with a view to enhancing FDI in several other sectors of interest. These tax policy incentives are either cost-based or profit based. The cost-based incentives are ultimately targeted at decreasing cost for the foreign investors while the profit based incentives assist in reducing the proportion of profits paid as tax (Institute for Fiscal Studies (IFS), 2018). Statistics show a series of fluctuations in Nigeria's FDI. From a contribution of 1.693% in 1999, Nigeria's FDI contribution to GDP declined to 1.608% in 2001. It rose to 1.965% in 2002 but two years after, in 2004, it again fell to 1.374%. In 2005, a high FDI to GDP % was recorded (2.829 %) but as usual it fell to 2.056% the very next year, 2006 and struggled to rise to 2.189% in 2007. Since the 1999 tax incentive reforms, the highest net inflow of FDI (% of GDP) was 2.931% reported in 2009 but this raises questions about the tax incentive policy considering the fact that before the 1999 tax incentive reforms, the country had recorded net inflows as high as 4.848 % and 5.791% in 1993 and 1994 respectively (World Bank, 2019).

Statement of the Problem

In Nigeria today, there are many factors that distorts the proper inflow of foreign direct investment. These include: insurgency, kidnapping, corruption, tax rate, tariff, weak public institutions and poor external image. On the other hand, foreign direct investment provides: capital, new technology, marketing and management, they may also lower domestic savings, entrepreneurship and investment rates thus stifling competition through exclusive product agreements with host governments and failing to reinvest much of their profits in the host economy. According to Efanga, *et al*., 2020, Nigeria have been stimulating economic growth with the help of tax revenue resulting from various tax policies that would aim at bringing in foreign investors in the form of foreign capital and technology transfer. The Nigerian government imposes taxes such as corporate income tax, petroleum profit tax, and custom and excise duties and so on to generate revenue. The questions are concerning the tax policies in Nigeria, what is the effect of these taxes on the perception of foreign companies coming to invest in Nigeria? Whether or not these tax policies translate to increase or decrease in FDI in Nigeria is the motivation for this research.

There have been very few studies on the relationship between taxation (tax policies) and foreign direct investment in Nigeria over the years with several different findings elicited from these studies. While some such as Peters and Kiabel (2015), Saidu, (2015) and Amuka and Ezeudeka, (2017) observed significant relationship between tax policies and foreign direct investment, some others such as Ugwu, (2018) and Berkeley, (2019) reported insignificant relationship. This research would differ from past studies in terms of methodology and variables. From the foregoing, it is obvious that there is mix result on the relationship between taxes and FDI in Nigeria. This study is carried out to give independent evidence to the relationship in question with updated data and empirical evidence.

Objective of the Study

The objective of this study is to evaluate the effect of company income tax on foreign direct investment in Nigeria.

Hypotheses of the Study

$H0_1$: There is no significant relationship between company income tax and volume of foreign direct investment in Nigeria.

Conceptual Review

Taxation

It is simply a levy imposed by the government on the income, wealth and capital gains of individuals and businesses, on spending goods and services, and on properties. Taxation involves compulsion. The taxpayers are required to make payment regardless of their feelings or wouldingness. Once the tax has been levied, no individual has the choice of paying or not paying unless, of course, doing it illegally like tax evasion (Aderinton and Abdullahi, 2007). Taxation as an instrument of fiscal policy, performs four economic roles for the development of a nation and state: (i) it helps to allocate resources from private to public needs (ii) taxation is very often used as part of the general public policy instrument to control inflation in a country, (iii) taxation can be used as a promoter of economic growth. In most of the less developed countries, where the level of private saving is poor, taxation can be used to provide necessary funds for investment, (iv) taxation can be, and is often, used as an instrument to promote social equity by redistributing wealth and income. Through varying systems of taxes and subsidies, a country can promote a more egalitarian society.

Company Income Tax

Tax revenue mobilization is one of the major source for funding government activities in Nigeria. Company income tax is one of the component of tax structure around the world. The current rate of companies' income tax is 30% of assessable income. According to Eshghi and Eshghi (2016), tax is primarily payable on profit at the company income rate of 30%. However as former companies liable to such that 20 hundred operate in Nigeria and those accounts to the Federal government of Nigeria with full accounts, reiterated that the law permits federal board of inland to deem a position of the foreign company turnover gross income as profit. Therefore, the deemed income of the company would be 20% of the turnover. Such the income so assessed would itself be liable to tax at the current company tax rate of 30% which final assessment would amount to 6% of total income. Effectively, the company would be assessed for income tax at 1% of its turnover as 5% would have been withheld according to section 57 CITA 1990 mandates company operating in Nigeria stock exchange to find monthly return with the federal board of inland revenue not less than 7 days and after the end of each calendar month.

Companies Income Tax and Foreign Direct Investment

Company Income Tax (CIT) refers to the tax levied on the income and profits of companies operating within the jurisdiction of a country. In Nigeria, CIT is governed by the Companies Income Tax Act (CITA) and is a vital source of revenue for the government. The tax rate for CIT in Nigeria typically ranges from 20% to 30% depending on the size and nature of the business. The revenue generated from CIT contributes significantly to financing public infrastructure, social welfare programs, and other developmental initiatives. Foreign Direct Investment (FDI), on the other hand, involves international businesses and individuals making substantial investments in the Nigerian economy. FDI brings in external capital, technology, expertise, and access to international markets. It can positively impact various sectors such as manufacturing, services, and infrastructure, thereby contributing to economic growth and employment opportunities. Nigeria has worked to attract FDI through policy reforms, incentives, and efforts to create a favorable business environment.

The relationship between CIT and FDI is intricate. A competitive CIT rate can attract foreign investors by making the cost of doing business more attractive. Conversely, high CIT rates may deter FDI, as companies seek to maximize their profits. Therefore, striking the right balance between CIT revenue collection and FDI attraction becomes crucial for sustainable economic development. Nigeria's journey in managing CIT and FDI has seen both successes and challenges. On the CIT front, the government has been working to streamline tax administration, enhance compliance, and minimize tax evasion. According to Margareta and Asa (2012), the introduction of the Voluntary Assets and Income Declaration Scheme (VAIDS) was a notable initiative aimed at encouraging tax compliance and increasing CIT revenue. In terms of FDI, Nigeria has made strides in improving the ease of doing business. The establishment of the Nigerian Investment

Promotion Commission (NIPC) has facilitated the entry and operation of foreign businesses (Kyari, 2020). Additionally, sectors like telecommunications, financial services, and energy have witnessed significant FDI, contributing to their growth. However, challenges persist. Complex tax regulations and inconsistent enforcement can hinder both CIT revenue collection and FDI attraction. Infrastructure gaps, security concerns, and bureaucratic bottlenecks have also posed obstacles to foreign investors. Addressing these challenges requires ongoing reforms in tax administration, legal frameworks, and investment promotion strategies (Odusola, 2016). Company Income Tax and Foreign Direct Investment are vital components of Nigeria's economic ecosystem. An effective CIT system provides revenue for government programs, while a well-managed FDI strategy can drive economic growth and technological advancement. Finding the right equilibrium between CIT rates and FDI incentives, coupled with continuous efforts to improve the business environment, would be instrumental in ensuring Nigeria's sustainable development on the global stage (Kwaji and Dabari, 2017).

Foreign Direct Investment

Investment refers to the acquisition of assets with a view to generating future income or appreciation in value (Chen, 2018). Investment is termed "foreign" if it is acquired in a foreign country, such investments may be direct or indirect. Direct investment is a kind of foreign investment which gives an investor a significant degree of influence on the foreign investee's management. Thus, Foreign Direct Investment (FDI) is defined as a cross border acquisition of financial and/or physical assets by foreign individuals or government with the investor having some controlling rights. These foreign direct investors could be individuals, corporate organizations or a nation (Odiase, 2006). Foreign direct investment refers to an investment in the form of either establishing a business or acquiring business assets by an individual or a company in a country other than the country of origin of the investor (John, 2016). Investments from foreign sources are mostly sourced by transition and developing countries in a bid that such investments would add value to the country through economic growth, transfer of technology, capital accumulation and enhancement of human capital development, which may be achieved through education, trainings, and the transfer of management skills (Buckley, *et al.*, 2002). Similarly, Financial Times Lexicon defines FDI as an investment which imbues controlling ownership in a business based in a country other than that of the investor (lexicon.ft.com). These definitions imply that FDI is defined by foreign controlling ownership which involves the external inflow of financial, human and real resources into a country from outside (Olaniyi *et al.*, 2018). Ndagi (2016) clarifies that FDI is established when a foreign investor acquires at least 10% of the shareholding and voting rights of a foreign enterprise. This point brings clarity on the issue of controlling ownership. The acquisition of the minimum 10% shareholding proportion is deemed substantial and this gives the foreign investor a lasting management interest in the investee.

The importance of FDI which places it as a vital economic matter of concern is that through FDI, capital, technology and other managerial expertise, are sourced from foreign countries. It is true that FDI may be motivated by a number of reasons. Some of these reasons may be higher average rates of profits, markets and resources, development of new resources or tax incentives (Berkeley, 2019; Essays, 2018). Countries are in constant competition to attract FDIs and the extent of investment depends on the tax policies such as corporate income tax reductions, tax holidays, accelerated depreciation, investment tax credits, and preferential treatment of income such as low taxes on earnings from exports (Kersan-Skabic and Mirkovic, 2015).

Factors that Determines Foreign Direct Investment Flow

There is no generally accepted single factor determining the flow of investment. The literature has provided abounding information on the full range of factors that are likely to induce the flow of Foreign Direct Investment anywhere. It is often claimed that those factors that are favourable to domestic investments are also likely to propel FDI. These are the various factors that cause the movement of flow of FDI into a given geographical location, say a country or a region. In making decisions to invest abroad, firms are influenced by economic, political, geographic, social and cultural issue. It is important to note that while the list of factors is fairly long, not all determinants are equally important to every investor in every location at all times. It is also true that some determinants may be more important to a given investor at a given time than to another investor.

While it is difficult to determine the exact quantity and quality of FDI determinants should be present in location for it to attract a given level of inflows, it is nevertheless clear that a critical minimum of these determinants must be present before FDI inflows begin to occur (Ngowi, 2001). One would rationally expect that investors would choose a location in accordance with the profitability of that location. The profitability of investment is expected to be affected by specific factors, however, including country characteristics as well as the types of investment motives. As pointed out by Campos and Kinoshita (2002), market-seeking investors, for example, would be attracted to a country that has a large but fast growing market, while resources-seeking investors would search for a country with abundant national resources.

The factors influencing the flow of FDI thus range from the size of markets to the quality of labour, infrastructure and institutions, to the available of resources. These and others are discussed below.

i. A number of studies emphasize the importance of the size of the market and growth in attracting FDI. Market size and growth have proved to be the most prominent determinants of FDI, particularly for those FDI flows that are market seeking. In countries with large markets, the stock of FDI is expected to be large since market size is a measure of market demand in the country (Pfefferman and Madarassy, 1992). This is particularly true when the host country allows the exploitation of economies of scale for import-substituting investment.
ii. The costs as well as the skills of labour are identified as the major attractions, especially when investment is export oriented (Wheeler and Mody, 1992; Mody and Srinivasan, 1998). Lower labour cost reduces the cost of production, all other factors remaining unchanged. Sometimes, the availability of cheap labour justifies the relocation of a part of the production process in foreign countries. Recent studies, however, have shown that with FDI moving towards technologically intensive activities, low cost unskilled labour is not in vogue. Rather, there is demand for qualified human capital (Pigato, 2001). Thus, the investing firm is also concerned about the quality of the labour force. It is generally believed that highly educated personnel are able to learn and adopt new technology faster,

and the cost of retraining is also less. As a result of the need for high quality labour, investors are most likely to target countries where the government maintains a liberal policy on the employment of expatriate staff. This is to enable investors to bring in foreigners to their operation in order to bridge the gap in the skill of local personnel wherever it exists.

iii. The availability of good infrastructure as crucial for attracting FDI is well documented in the literature, regardless of the type of FDI. It is often stated that good infrastructure increases the productivity of investment and therefore stimulates FDI flows (Asiedu, 2002). A study by Wheeler and Mody (1992), found infrastructure to be very important and dominant for developing countries. Infrastructure should not be limited to roads alone, but include telecommunications. For example, availability and efficiency of telephones is necessary to facilitate communication between the host and home countries. In addition to physical infrastructure, financial infrastructure is important for FDI inflow. A well-developed financial market is known from available evidence to enable a country to tap the full benefits of FDI. Alfaro *et al*., (2001), using cross-section data, find that poorly developed financial infrastructure can adversely affect an economy's ability to take advantage of the potential benefits of FDI. In a study by Bhinda, *et al.,* (1999), it was found that problems related to funds mobilization were on the priority list of the factors discouraging investors in Uganda, Tanzania and Zambia.

iv. Return of investment is another major determinant of FDI flows. In general, FDI would go to countries that pay a higher return on capital. For developing countries, testing the rate of return on capital is difficult because most developing countries do not have a well-functioning capital market (Asiedu, 2002). What is often done is to use the implication of this is that all things being equal, investments in countries with higher per capita income should yield lower return and therefore real GDP per capita should be inversely related to FDI (Asiedu, 2002). The empirical result of the relationship between real GDP per capita and FDI is mixed. In works by Edwards (1990), and Jaspersen, *et al.*, (2002). Using the inverse of income per capita as proxy for the return on capital, they conclude that real GDP per capita and FDI/GDP are negatively related. Result of studies by Schneider and Frey (1985), Tsai (1994), are different as they found a positive relationship between the two variables. This is based on the argument that a higher GDP per capita implies better prospects for FDI in the host country.

v. Openness of an economy is also known to foster the inflows of FDI. The more open an economy is, the more likely it is that it would follow appropriate trade and exchange rate regimes and the more it would attract FDI.

vi. The availability of natural resources is a critical factor in attracting FDI. This is particularly in Africa where a large share of FDI has been in countries with abundant natural resources. In some cases, the abundant of natural resources has been combined with a large domestic market. African countries that have been able to attract most FDI have been those with natural and mineral resources as well as large domestic market. Traditionally about 60% of Africa's FDI is allocated to oil and natural resources (UNCTAD, 1999). The African region possesses not only large reserve of oil, gold, diamonds and copper, but also more than 80% of chromium and platinum. A number of countries, including Angola, Nigeria, Cote d'lvoire, Botswana and Namibia, have been host to FDI because of this advantage.

vii. Country risk is important to FDI. Several studies have found FDI in developing countries to be affected negatively by economic and political uncertainty. There is abundant evidence to show the negative relationship between FDI and political and economic stability. In a study on foreign owned firms in Africa, Sachs and Sievers (1998), concluded that the greatest concern is political and macroeconomic stability, while Lehman (1999) and Jasperson *et al.*, (2000), found that countries that are less risky attract more FDI. Perception of risk in Africa is still very high and continues to hinder Foreign Direct Investment.

Theoretical Framework

This study is hinged on tax competitive theory discussed below.

Tax Competition Theory

The theory underpinning this study is the tax competition theory. The theory was proposed by Oats in 1972 and stipulates that in order to encourage the inflow of valuable resources and reduce the outflow of production resources, governments deliberately reduce economic burdens. Therefore, Kiburi, *et al*., (2017) suggests that the tax competition theory may be used to understand governments efforts to reduce economic burdens in order to bring in more foreign investments such as skilled and qualified human capital and financial investments into the country. Tax competition theory refers to the concept of countries strategically lowering their tax rates to attract foreign businesses and investment, with the goal of boosting economic growth and competitiveness. This practice often involves a race to the bottom as nations seek to outdo each other in offering more favorable tax environments. The theory is rooted in the belief that lower taxes can encourage foreign direct investment (FDI), which, in turn, can lead to job creation, technology transfer, and economic development. Nigeria, as a developing country, has been actively engaged in tax competition to attract FDI. The Nigerian government has employed various strategies to incentivize foreign companies to invest in the country. By offering tax incentives, such as reduced corporate tax rates, exemptions, and tax holidays, Nigeria aims to make itself a more attractive destination for foreign investors. These policies are designed to stimulate economic growth, create employment opportunities, and encourage the transfer of technological know-how. However, the effectiveness of tax competition and its impact on FDI in Nigeria is a subject of debate. While lower tax rates can indeed attract foreign investors, the sustainability of such a strategy is questionable. Heavy reliance on tax incentives can lead to reduced government revenue, potentially affecting public services and infrastructure development. Moreover, the benefits of FDI might not always trickle down to the broader economy, as they could be concentrated in specific sectors or regions, leaving other areas untouched.

Empirical Review

Some selected empirical studies are reviewed in this section.

Oboh (2021) investigated the effect of a direct tax on foreign direct investment in Nigeria. The study specifically looked at the impact of direct tax components like petroleum profit tax, corporate income tax, education tax, and personal income tax on foreign direct investment in Nigeria. The study was motivated by the recent advocacy for increased foreign direct investment in Nigeria. The study covered direct tax and foreign direct investment data from 1981 to 2019, which totaled 38 years. Secondary data on direct taxation and foreign direct investment were sourced from the National Bureau of Statistics (NBS), Statistical bulletins of the Central Bank of Nigeria (CBN), and the Federal Inland Revenue Service (FIRS). The data collected were analysed using the ordinary least squares estimation technique. The study revealed a positive relationship between petroleum profit tax (PPT), companies' income tax (CIT), and personal income tax (PIT) on foreign direct investment to gross domestic product ratio (FDI_GDP). However, the outcome of the relationship was not statistically significant. Education tax had a negative relationship with FDI_GDP. The outcome was statistically significant. As a result of the above findings, the study recommended that tax policy on direct tax components of PPT, CIT, and PIT be improved to increase foreign direct investment in Nigeria.

Ugwu (2018) comparatively evaluated the contribution of tax incentives towards FDI inflow in three (3) African countries (Nigeria, Ghana and South Africa) in their pre and post IFRS adoption period. Secondary data was used for the study which covered a period between 1999 and 2015. It was found out that while a positive association exists between tax incentives and FDI, FDI did not have significant effect on the exports of those three countries.

Olaniyi, *et al*., (2018) investigated the impact of specific tax based policy incentives (company income tax incentives, petroleum profit tax incentives, value added tax incentives, customs and excise duties incentives) on inflows of FDI in Nigeria. The study covered a period of 23 years (1994 – 2016). Secondary data collected from CBN database was analysed using multiple regression and correlation techniques. The findings of the study showed that all the incentives studied, with the exception of company income tax incentives and petroleum profit tax incentives, had a significant impact on FDI. It was concluded that tax incentive policy plays a significant role in attracting FDI.

Amuka and Ezeudeka (2017) did an investigation to find out whether the introduction of tax incentive policy produces a significant change on the pattern of FDI flow in the non-oil sector of Nigeria. Companies income tax and investment allowance were the tax incentives considered. Secondary data was used for the study. Ordinary least square econometric analysis was employed for the data analysis. The findings of the study indicated that the introduction of tax incentives policy change the pattern of FDI flows in the sector. This suggests that tax incentives can be utilized as a veritable tool for attracting FDI in the non-oil sector.

Kiburi, *et al*., (2017) investigated whether the tax incentive policy has any significant effect on the flow of foreign direct investment to the non-oil sector. Multiple regression model was adopted which was transformed into log-log model in the analysis. Regime switch model helped us to evaluate the effectiveness of the policy introduced in late 1999. Both company income tax and investment allowance appeared with the right sign. The results indicated that the tax incentive policy influence the flow of foreign investment to the non-oil sector, showing that the country’s tax incentives can help revive the ailing non-oil sector.

Akinwunmi, *et al*., (2017) examined the effect of the multiplicity of taxes on foreign direct investment in the Nigerian tax environment. They examined the effect of taxes such as companies’ income tax, education tax, value added tax, custom and excise duties and inflation on foreign direct investment for the period 1996 to 2015, using *ex-post facto* research design. Data gathered were analysed using multiple regression technique and they found that there is an inverse relationship between multiple taxes and Foreign Direct Investment (FDI) in Nigeria; which implies that the higher the taxes, the less the FDI inflows into the country. They however observed that, the presence of multiple taxes hinders investments from foreigners and therefore recommended that if Nigeria wants to secure a place as an economically viable nation in Africa, it must strive and achieve an internationally competitive tax system by eliminating all forms of multiple taxes in the country. Their study did not address the gains brought about by FDI in the form of taxation which the current study is about.

Eshghi and Eshghi (2016) examined the impact of corporate tax rate on foreign direct investment inflows from Germany into five Central and Eastern European countries from 2000 to 2012. Using the forward-looking or statutory tax rate to measure the tax burden, they found that corporate tax rate has a significant negative impact on FDI inflows in Central and Eastern European countries. Their finding is in contrast with findings from previous research where backward looking tax rates extracted from corporate balance sheets were used as a measure of tax burden and showed that corporate tax rate has no impact on FDI inflows.

Olaleye, *et al.*, (2016) examined the effect of company income tax incentives on foreign direct investment in Nigerian selected manufacturing companies. The study adopted descriptive research design and the target population of the study was the 74 selected manufacturing companies with approximately more than 56,000 employees. A sample size of 352 respondents from thirty two (32) manufacturing companies was selected from seventy four (74) companies using stratified purposive sampling and respondents were grouped into three strata; top, middle and lower management levels. Descriptive statistics adopted were; frequencies, mean and standard deviation, while inferential statistics consisted of correlation and regression analysis. The study showed strong positive linear relationships between reduced company income tax incentives and foreign direct investment.

Research Design

This researcher would adopt the *ex-post facto* research design because secondary data is required. The adaptation of this research design is to enable the researcher examine the relationship between the variables of the study and because the facts (data) for use already exists.

Population of the Study

The population of this study would comprise all taxation issues relating to foreign direct investment and the components or elements of foreign direct investment in Nigeria.

Econometric Model Specification

This research adapted the econometric model previously used by Saidu (2015) who empirically examined the relationship between corporate taxation and FDI in Nigeria between 1970 and 2013. The model of this study expanded the model used by Saidu (2015) to accommodate other taxes such as petroleum profit tax rate and custom and excise duties. Thus, the model for this research is specified as follows:

FDI = f (CIT)   Model (3.1)

Where:

FDI = Foreign Direct Investment

CIT = Corporate Income Tax

From the above specified model, the econometric model for this research would be specified thus:

$FDI = \beta_0 + \beta_1 CIT + \mu$ Model (3.2)

Where

μ - Stochastic variable

f - Functional notation

Data analysis

Table 4.1

Co-integration Regression Results (FDI)

Dependent Variable: FDI

Method: Fully Modified Least Squares (FMOLS)

Date: 08/01/23 Time: 09:16

Sample (adjusted): 1986 2021

Included observations: 36 after adjustments

Cointegrating equation deterministics: C

Long-run covariance estimate (Bartlett kernel, Newey-West fixed bandwidth

= 4.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI(-1)	0.670866	0.096943	6.920206	0.0000
CIT	-3501.499	384.0877	-9.116406	0.0000
C	1.02E+08	1.06E+08	0.958732	0.3497

R-squared	0.945414	Mean dependent var	3.24E+09
Adjusted R-squared	0.899447	S.D. dependent var	2.53E+09
S.E. of regression	8.04E+08	Sum squared resid	1.23E+19
Long-run variance	1.36E+17		

Source: Researcher's Computation (2023)

The Fully Modified Least Squares (FMOLS) result as shown in the Table above suggests that the explanatory variable have negative influence on the explained variable. That is, the independent variables in the model exerted negative influence on the dependent variable. The result further revealed that a unit increase in company income tax would bring about a 3501.5 unit decrease in foreign direct investment.

A keen observation of the result showed that the R-squared and Adjusted R-squared was approximately 0.95 and 0.90 respectively. This means that the explanatory variables accounted for about 95% variations in the explained variable. Put differently, about 95% variation in foreign direct investment was explained by the independent variables, while the remaining 5% may be attributed to variables not captured in the model (stochastic variables).

Test of Hypothesis one

$H0_2$: There is no significant relationship between company income tax and volume of foreign direct investment in Nigeria

Variables	Coefficient	t-Statistic	P-value
CIT	-3105.5	-9.149427	0.0000

Source: Researcher's Computation (2023)

The test of hypothesis ($H0_1$) revealed that the p-value of **CIT** is less than 0.05 significance level, with a probability value of 0.0000. The researcher therefore rejects the null hypothesis. This result shows that company income tax have significant relationship with foreign direct investment in Nigeria.

Conclusion

This study investigated the effect of company income tax on foreign direct investment in Nigeria. The study used company income tax as independent variable, to test its effect on the dependent variable being foreign direct investment. The results of Fully Modified Ordinary Least Squares revealed that company income tax had significant negative effect on foreign direct investment in Nigeria, meaning that once company income tax is increased, there is bound to be a reduction in the volume of foreign direct investment inflow into Nigeria. This study concludes that taxation had significant effect on foreign direct investment in Nigeria within the period of review.

Recommendations

Based on the results discussed in the foregoing paragraphs, government and policymakers in Nigeria should consider the following recommendation to increase the volume of foreign direct investment inflows in to Nigeria.

From the results of the analysis, it was discovered that company income tax also had a negative and significant effect on foreign direct investment in Nigeria. This study therefore recommends that government and the appropriate monetary authority review company tax policy by giving out tax incentives and tax reliefs to companies operating within Nigeria in order to encourage them to continue investing in Nigeria.

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