

Effect of Tax Rates on Foreign Direct Investment in Nigeria (1994-2023)

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ABSTRACT

The study examined the effect of tax rates on foreign direct investment in Nigeria. Specifically, the study explored the relationship between various tax components Company Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT), and Capital Gains Tax (CGT) and Foreign Direct Investment (FDI) in Nigeria. The study adopted ex-post facto research design through the use of population comprising of the annual data relevant to taxation and FDI sourced from 1994 to 2023, obtained from the Federal Inland Revenue Service (FIRS) and the Central Bank of Nigeria (CBN). The regression results show that CIT and PIT have a significant negative impact on FDI and this might discourage foreign investors, making Nigeria a less attractive investment destination. High corporate and personal income taxes potentially increase the cost of doing business and reduce profit margins, leading foreign investors to seek more favorable environments elsewhere. Following these findings, the study recommends Nigeria government should consider reducing corporate tax rates or offering targeted tax incentives to foreign investors in key sectors by Simplifying the tax system and reducing the cost of tax compliance. Moderate personal tax rates and streamline tax procedures as this would foster investment-friendly environment and encourage skilled foreign professionals to work in Nigeria;

INTRODUCTION

Tax rates are essential in shaping the investment climate of a nation which influences the decisions of foreign investors. Revenue from taxes serve as a vital channel by which the government funds the cost of running its establishment and provide the basic infrastructural facilities to its citizens. Tax policies is one of the channels used by the Nigerian government to raise revenue (Innocent *et al.*, 2024). These taxes are compulsory levy imposed on the chargeable profit of companies and individuals at a stipulated rate and in a particular location (Olubukola, 2019). As developing countries around the world strive to achieve economic growth and development, the significant role of foreign direct investment in achieving this has been recognized by tax policy makers. Although taxes are seen as a burden to taxpayers, it also influences the inflow and location of foreign direct investment in a country. A vital aspect in attracting foreign direct investment to a country is the existing tax rate. Amalia and Riatu (2020) reported that high tax rates is not good for economic growth and development and in turn discourages foreign direct investment. Investors more often than not evaluate tax burdens in diverse countries in order to establish the location on where to invest.

Foreign direct investment is the movement of capital in the form of investments purchased to acquire lasting interest in businesses operating outside of the country of the investor. It is the engine of economic growth and development as it provides good number of capitals for investment decisions, provides human resources, facilitate technology advancement, creates employment opportunities, social and environmental responsibility, aid local firms to become more productive by adopting more efficient and effective technology, create an atmosphere for healthy competition in the host country (Obboh, 2021; Edo & Omoye, 2018; Lesmana & Soetjijpto, 2022). As globalization and industrialization intensifies, nations of the world compete to attract foreign direct investment, taking into recognition its potential to encourage economic growth and development and boost

competitiveness. Traditionally, a country that seeks to grow, employs various tax strategies and policies to attract foreign direct investment (Andreia, 2021).

Consequently, the level, volume and location of investment that comes into a country are dependent on the tax rates in place to ease business operations (Adeniyi, 2019). Among the myriad of factors influencing FDI flows, tax rates have been generally studied as a key determinant. Lower tax rates are often used as strategic tools by host countries to attract multinational enterprises (MNEs), with the rationale that reduced tax burdens enhance after-tax returns on investment (De Mooij & Ederveen, 2008). In this context, the relationship between taxation and FDI remains a central issue in international economic policy and corporate finance. Several empirical studies have confirmed a negative correlation between tax rates and FDI inflows, suggesting that higher tax rates may deter foreign investors (Dharmapala & Hines, 2009; Blonigen & Davies, 2004). Tax competitiveness has, therefore, become a prominent feature of global investment policy, with countries engaging in tax reforms to remain attractive to international investors.

However, the effect of tax rates on FDI is not uniform across countries and sectors, as other factors such as political stability, market size, labor costs, and infrastructure also play significant roles (Gropp & Kostial, 2000). Consequently, while lower taxes may enhance a country's attractiveness, they must be balanced against revenue needs and broader economic objectives. This study seeks to examine the effect of tax rates on foreign direct investment in Nigeria. Specifically, the study examines the effect rate revenue of companies income tax, personal income tax, value added tax, capital gains tax on foreign direct investment in Nigeria.

Review of Concepts

Tax Rates

Tax rates pertain to the percentage of an income or amount of money paid as tax by an individual or organization. These rates are a critical component of a country's fiscal policy, influencing corporate behavior, investment decisions, and overall economic growth. Tax rates can be structured as flat rates, where all tax payers pay the same percentage, or as progressive rates, where rates increase with higher levels of income or profit (Innocent *et al.*, 2024). In Nigeria, the tax rate applies to both resident and non-resident companies and individuals operating within the country and are influenced by various factors, including government policies aimed at attracting foreign direct investment (FDI) and stimulating economic growth. However, Nigeria also faces challenges with tax compliance and enforcement, which can affect the effective tax rate collected from corporations (Adeniyi & Ojo, 2019).

Companies Income Tax

Companies income tax is a key source of revenue for the Nigerian government and is governed by the Companies Income Tax Act (CITA). It pertains to the tax levied on the profits of companies operating within the country. The tax applies to both resident and non-resident companies engaged in business activities in Nigeria, with the current standard rate set at 30% of taxable profit (Federal Inland Revenue Service, 2020). Companies Income Tax is calculated based on the company's net income, which is derived after deducting allowable expenses, capital allowances, and other tax incentives from gross income. The concept of company income tax in relation to foreign direct investment involves understanding how corporate taxation influences the behavior of multinational corporations investing in a host country. The level of company income tax and its association with policies can significantly impact foreign direct investment flows, as they affect the after-tax profitability of investments (Andreia, 2021). Lower corporate tax rates or favorable tax regimes can serve as incentives for foreign investors to establish or expand operations in a host country. Conversely, higher tax burdens may deter foreign direct investment, prompting investors to seek more tax-friendly environments. However, the relationship between company income tax and foreign direct investment is complex and also influenced by other factors such as political stability, infrastructure, regulatory quality, and availability of incentives (Ogujiofor, 2025).

Personal Income Tax

Personal income tax are taxes levied on the income earned by individuals, including salaried employees, self-employed persons, and other residents with taxable income. Personal income tax is a significant source of revenue for the Nigerian government and is governed primarily by the Personal Income Tax Act (PITA). The tax is progressive, meaning that higher income levels are taxed at higher rates, which helps in achieving equity in the tax system (Federal Inland Revenue Service, 2020). In Nigeria, personal income tax applies to various sources of income such as employment income, business profits, rental income, and other gains. The tax rates and thresholds are periodically reviewed by the government to reflect economic conditions and policy goals. The administration of PIT involves the collection of taxes at the state level, as Nigeria operates a decentralized tax system where states have autonomous tax jurisdictions, especially for the Personal Income Tax (Ojo & Akinbami, 2018). Personal income tax is a fiscal obligation levied upon individuals based on the income or profits they accrue. The computation of income tax is typically executed as the product of a designated tax rate multiplied by the assessable income. Personal Income Tax is a tax levied directly on a person's earnings. Persons include an individual, an ordinary partnership, a non-juristic body of a person, and an undivided estate. A person subject to personal income tax must, in general, compute his or her tax liability and file a tax return. (Innocent *et al.* 2024).

Value Added Tax

Value added tax refers to a consumption tax levied on the value added at each stage of the production and distribution chain of goods and services. It is a broad-based indirect tax collected incrementally, meaning that each business in the supply chain charges value added tax on its sales and deducts the value added tax paid on its purchases, ultimately passing the tax burden to the final consumer (Ojo & Akinbami, 2018). Value added tax is designed to be neutral, as it applies uniformly across different stages of production, and aims to tax the final consumption rather than the intermediate steps. The rate of value added tax varies depending on the country and the specific goods or services, with some essential goods often exempted or taxed at lower rates to protect vulnerable populations (FIRS, 2020). In Nigeria, value added tax is administered by the Federal Inland Revenue Service (FIRS), and it has become a significant source of revenue for the government. The implementation of value added tax is intended to broaden the tax base, improve revenue collection, and promote fiscal stability (Ojo & Akinbami, 2018).

Capital Gain Tax

This is tax levied on the profit realized from the disposal of capital assets such as property, shares, or investment securities. In Nigeria, capital gains tax is governed primarily by the Capital Gains Tax Act (CGTA), which mandates that individuals and entities pay tax on the gains made from the transfer of assets, with certain exemptions and reliefs (Federal Inland Revenue Service, 2020). The tax is calculated based on the difference between the acquisition cost and the disposal price of the asset, after allowable deductions. Capital gains tax serves as a means for the government to generate revenue from wealth accumulated through asset transactions and helps regulate asset transfers within the economy (Ogunleye & Akinboade, 2019). In Nigeria, the capital gains tax rate is generally set at 10% of the net gain, although specific exemptions apply, such as gains from the transfer of primary residences or assets transferred as a result of inheritance (FIRS, 2020). The implementation of capital gains tax aims to promote fiscal equity and curb speculative activities in asset markets. The concept of capital gains tax in relation to foreign direct investment involves the taxation of gains realized by foreign investors from the disposal of assets located within a host country. Capital gains tax can influence foreign direct investment decisions by affecting the after-tax return on investments and the overall attractiveness of a country's investment climate. When countries impose capital gains tax on capital asset transfers, it may impact foreign investors' willingness to acquire or divest assets, potentially acting as a disincentive if rates are perceived as high or if the tax system is complex (Zhao & Wang, 2018).

Foreign Direct Investment

The concept of foreign direct investment refers to an investment made by a company or individual from one country into business interests located in another country, typically involving the acquisition of a substantial stake or control in the foreign enterprise. Foreign Direct Investment is characterized by a long-term interest and a significant degree of control or influence over the management of the invested entity (UNCTAD, 2020). It is considered a vital driver of economic growth, technology transfer, employment creation, and integration into global markets (Sena, 2020). Foreign direct investment can take various forms, including establishing new operations (greenfield investments), mergers and acquisitions, or joint ventures. Countries often seek to attract foreign direct investment to benefit from technological advancements, managerial expertise, and access to international markets, which can contribute to sustainable development (Ofiafoh & Izilin, 2019). The flow of foreign direct investment is influenced by factors such as market size, economic stability, regulatory environment, and incentives provided by the host country (Innocent *et al.*, 2024).

THEORETICAL REVIEW

Eclectic Theory

The study is anchored on the Eclectic Theory, also known as the OLI Framework. This theory was developed by John Dunning in the early 1970s to explain the determinants of foreign direct investment (FDI). According to this theory, firms engage in foreign direct investment when three key advantages are present simultaneously: Ownership-specific advantages (O), Location-specific advantages (L), and Internalization benefits (I). Ownership advantages refer to firm-specific assets such as technology, brand reputation, or managerial expertise that give the firm a competitive edge. Location advantages pertain to the benefits offered by a particular host country, such as resource availability, market size, or favorable regulatory policies. Internalization benefits involve the firm's decision to control foreign operations internally rather than through licensing or partnerships to protect its assets and reduce transaction costs (Dunning, 1980). The Eclectic Theory provides a comprehensive framework for understanding why firms choose to invest abroad rather than exporting or licensing, emphasizing the interaction of firm-specific and country-specific factors in foreign direct investment decisions (Dunning & Lundan, 2008). It remains influential in international business literature for explaining the strategic motives behind foreign direct investment. According to the work researched by Ogujiofor *et al.* (2025), they asserted that the principles behind Eclectic Theory (OLI Framework) suggests that firms decide to undertake foreign direct investment (FDI) based on a combination of ownership-specific advantages, location-specific factors, and internalization benefits. When examining the role of tax rates within this framework, it is evident that favorable tax policies in host countries can serve as an important location-specific advantage. Lower corporate tax rates reduce the overall cost of investment and enhance the profitability of FDI, making certain regions more attractive for multinational corporations (MNCs) (Hines, 1996). Tax rates influence foreign direct investment decision-making because they affect the net returns on investments and can incentivize firms to establish operations in jurisdictions with more favorable tax regimes. Additionally, countries offering tax incentives or lower rates can increase their attractiveness, thereby increasing the likelihood of attracting foreign direct investment. However, the impact of tax rates must be considered alongside other location factors such as infrastructure, market size, and political stability, which collectively determine the overall location advantage (Graham & Veracierto, 2007).

In summary, within the Eclectic Theory, tax rates are a critical location-specific factor that can significantly influence a firm's decision to invest abroad, especially when combined with other location benefits and ownership advantages.

Review of Empirical Literature

Ogujiofor *et al.* (2025) examined the impact of corporate tax policies on foreign direct investment. The study employed an ex-post-facto research design. Two quoted companies namely, Dangote cement plc and 7up Nigeria bottling company were used as case study. The study secondary data were sourced from CBN statistic bulletin. The data collected covered a period of 11 year (2014-2024). Data collected were analysed using multiple linear regression analysis. The result from the analysis showed that corporate tax rate has a significant and positive

impact on foreign direct investment. Based on these findings, it was recommended that policymakers focus on strengthening political stability as a key strategy for improving corporate tax revenue. Also ensuring transparent governance, reducing policy uncertainty, and fostering institutional stability will contribute to a more predictable tax environment. Additionally, expanding market opportunities through investment-friendly policies can enhance tax revenue generation.

Innocent et al. (2024) empirically analyzed the impact of taxes on foreign direct investment in Nigeria. Ex post facto research design was used and data was taken from World Development Indicators (WDI) and other Federal Inland Revenue Service (FIRS) annual publications covering the years 1999 to 2023. The autoregressive distributed lag (ARDL) technique was used in the study to estimate the variables' relationships. The findings showed that while value-added tax (VAT) and petroleum profit tax (PPT) did not have a substantial long-term impact on FDI, personal income tax (PIT) and corporate income tax (CIT) did have an inverse and considerable influence on FDI. The study's conclusion showed that VAT, CIT, PPT, and PIT collectively had a major impact on FDI in Nigeria, as indicated by the coefficient of determination of the regression. The study therefore recommended that in order to boost FDI, it was suggested that the government implement comprehensive tax reform.

Lesmana and Soetjipto (2021) examined the effect of corporate tax policy on foreign direct investment: empirical evidence from Asian countries. The study used data from 28 Asian countries from 1999 to 2014. The study discovered that corporate tax rate has a significant negative effect on foreign direct investment inflows. Foreign direct investment inflows increase by 4.38% due to a 1% corporate tax rate reduction. They also find that other economic factors, such as economic openness, market size, and exchange rates play an important role in attracting foreign direct investment inflows.

Hassan (2022) empirically investigated the nexus between tax and foreign direct investment (FDI) in Nigeria. The study made use of annual time series data for over thirty-six (36) years ranging from 1986-2020. The data were sourced from various sources to include the Central Bank of Nigeria (CBN) Statistical Bulletin, the UNCTAD and the International Monetary Fund (IMF) (online). Employing the dynamic system GMM estimation technique, the findings showed that a high tax regime has a destabilizing effect on foreign direct investment inflows. Lagged foreign direct investment is positively and significantly related to foreign direct investment. Growth rate of real GDP is positively and significantly related to foreign direct investment. The paper recommended institutional reforms in tax to entrench an investment-friendly environment, as well as increased infrastructure investment spending, particularly, ICT, and a stable political and macroeconomic environment to stimulate Foreign direct investment inflows to Nigeria.

Andreia (2021) investigated the effect of corporate income taxation on foreign direct investment. The study focused on 27 European Union (EU) member states. Using data from Eurostat and OECD, the sample consists in 378 country-year observations, considering the period between 2006 to 2019. Regression models were estimated through the method of Estimated Generalized Least Squares (EGLS) with period random effects. The results from the study indicated a negative relation between corporate income taxation and foreign direct investment inflows stock, in which Effective Average Tax Rate and statutory tax rate seem to be significant. For non-tax factors, both GDP per capita and public debt exhibited a positive and significant relation with F foreign direct investment.

Oboh (2021) analyzed direct tax and foreign direct investment. Direct tax components like petroleum profit tax, corporate income tax, education tax, and personal income tax were used as measurement for the independent variable on foreign direct investment. The study covered direct tax and foreign direct investment data for 38 years from 1981 to 2019. The study secondary data 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). Ordinary least squares estimation technique was used to analyze the data. 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). The study also recommended that additional research be conducted to determine whether increasing education tax revenue investment in the educational system will eliminate the negative relationship between education tax and foreign direct investment.

Amalia and Riattu (2020) examined corporate income tax rate and foreign direct investment: a cross-country empirical study. Corporate Income Tax (CIT) is levied on all firms, and as Corporate Income Tax is generally more complex than other types of taxes, its influences on foreign direct investment are in question. The used an unbalanced fixed-effect method of 112 countries over the period of 2003–2017 The findings showed that corporate income tax rate has no significant impact on foreign direct investment. Excluding tax havens from the sample, the findings show that corporate income tax has a weak significance only in the lower-middle-income and low-income countries.

Ofiafoh and Izilin (2019) examined the relationship between the different forms of taxes collected and foreign direct investment in Nigeria. The study adopted the ex-post facto research design and covered a period of thirty-four years from 1982 – 2015. Autoregressive Distributed Lag (ARDL) regression technique was used to analyze that secondary data obtained. The study found that there is a negative and significant relationship between taxes collected in the form of National Information Development Fund and Education Tax and Foreign Direct Investment. In addition, that there exists a positive and significant relationship between Value Added Tax, Companies Income Tax and Foreign Direct Investment, while Petroleum Profits Taxes and Custom and Excise Duties do not influence Foreign Direct Investments in Nigeria. Based on the findings, the study recommended that there is need for government to come up with more friendly economic policies such as tax incentives and macroeconomic adjustments that will enhance continuous increase and growth of the nation's GDP and by implication, attracts foreign direct investment into Nigeria. Onome *et al.* (2020) looked at corporate taxes and foreign direct investments in Nigeria. The study adopted the ex-post facto research design. The data gathered was analyzed using the Error Correction Model (ECM). The study found that Company Income Tax, Value Added Tax, and Custom and Excise Duties have a significant but negative relationship with foreign direct investments.

METHODOLOGY

The study adopted *ex-post facto* research design, which is appropriate for studies where the researcher cannot manipulate the independent variables because the events have already occurred. This design is particularly suitable for this research, as the study investigates the relationship between various tax rates and Foreign Direct Investment (FDI) in Nigeria. The population for this study comprises the annual data relevant to taxation and FDI sourced from 1960 to 2023, obtained from reliable secondary data repositories, specifically the Federal Inland Revenue Service (FIRS) and the Central Bank of Nigeria (CBN). This population encapsulates the macroeconomic indicators relevant to the research scope, thereby allowing the researcher to analyze the impact of taxation policies over an extended period. The sample covers the period 1994 to 2023, utilizing judgmental (purposive) sampling technique. This method was employed because Value Added Tax (VAT) one of the key independent variables was introduced in Nigeria in 1994. Therefore, any data prior to that year would lack completeness in the context of the selected variables. The 30-year timeframe is deemed sufficient to capture long-term trends and patterns in the influence of tax variables on FDI inflow, and the purposive nature of the sampling ensures relevance and data availability.

Model Specification

The functional relationship between the dependent and independent variables is expressed as:

$$FDI = f(CIT, PIT, VAT, CGT) \dots\dots\dots (1)$$

The econometric model is specified as:

$$FDIt = \beta_0 + \beta_1CITt + \beta_2PITt + \beta_3VATt + \beta_4CGTt + \mu t \dots\dots\dots (2)$$

Where:

- $FDIt$ = Foreign Direct Investment in year t

- CIT_t = Company Income Tax in year t
- PIT_t = Personal Income Tax in year t
- VAT_t = Value Added Tax in year t
- CGT_t = Capital Gains Tax in year t
- β_0 = Intercept of the regression equation
- β_1 – β_4 = Coefficients of the independent variables
- μ_t = Error term capturing other variables not included in the model

Data Presentation, Analysis and Discussion of Findings

Table 4.1 Data Presentation

YEAR	FDI	CIT	PIT	VAT	CGT
1994	1.96	95.50	47.3	5.03	28.83
1995	1.08	12.30	46.9	6.26	30.11
1996	1.59	22.00	42.7	11.29	29.08
1997	1.54	26.00	26.3	13.91	33.20
1998	1.05	33.30	35.9	16.21	10.58
1999	1.01	46.20	39.6	23.75	10.13
2000	1.14	51.10	38	30.64	9.73
2001	1.19	68.70	20.6	44.91	7.82
2002	1.87	89.10	29.5	52.63	6.84
2003	2.01	114.80	38.5	65.89	12.03
2004	1.87	113.00	42.1	96.20	30.30
2005	4.98	140.30	30.8	87.45	25.74
2006	4.85	244.90	38.49	110.57	21.80
2007	6.04	275.30	46.18	144.37	0.20
2008	8.2	416.80	53.87	198.07	14.10
2009	8.56	568.10	61.56	229.32	12.03
2010	6.03	657.30	69.25	275.57	1.04
2011	8.84	654.45	43.87	318.00	9.30
2012	7.07	820.57	51.61	347.69	8.92
2013	5.56	963.45	48.94	389.53	19.66
2014	4.65	1,173.49	53.29	388.85	2.65
2015	3.14	1,268.98	57.74	381.27	16.80
2016	3.45	933.54	59.86	397.06	99.40
2017	2.41	1,215.06	108.01	473.77	3.18
2018	0.78	1,340.33	85.42	533.74	12.59
2019	2.31	1,604.70	70.63	564.45	5.98
2020	2.39	1,275.38	93.36	699.37	3.52
2021	3.31	1,747.99	61.20	964.11	17.50
2022	3.12	2,649.19	37.40	1,171.36	45.57
2023	1.87	3,348.75	53.48	2,924.81	19.08

Source: Federal Inland Revenue Service Statistics and OECD statistics

Data Analysis

The study adopted the descriptive method of analysis in determining the mean, median, standard deviation, skewness and the kurtosis. The analysis of descriptive statistics has been performed so as to find out the properties of the data. The descriptive statistics measures the central tendency and dispersion.

Table 4.2: Descriptive Analysis

	FDI	CIT	PIT	VAT	CGT
Mean	3.462333	732.3527	51.07867	365.5360	18.25700
Median	2.400000	492.4500	47.10000	213.6950	12.31000
Maximum	8.840000	3348.750	108.0100	2924.810	99.40000
Minimum	0.780000	12.30000	20.60000	5.030000	0.200000
Std. Dev.	2.434714	824.1968	19.46976	563.9042	18.87749
Skewness	0.899871	1.479217	1.138814	3.341382	2.786746
Kurtosis	2.610635	5.017962	4.270737	15.38788	12.48973
Jarque-Bera	4.238345	16.03063	8.502953	247.6487	151.3985
Probability	0.120131	0.000330	0.014243	0.000000	0.000000
Sum	103.8700	21970.58	1532.360	10966.08	547.7100
Sum Sq. Dev.	171.9071	19699710	10993.08	9221649.	10334.43
Observations	30	30	30	30	30

Source: Eviews 10.0 Software

The descriptive statistics of table 4.2 dataset, covering a 30-year period from 1994 to 2023 with 30 observations for each variable, provide valuable insight into the trend and behaviour of Foreign Direct Investment (FDI) and the selected corporate tax variables in Nigeria: Company Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT), and Capital Gain Tax (CGT).

The average foreign direct investment during the study period is 3.46 billion with a minimum of 0.78 billion and a maximum of 8.84 billion. The standard deviation of 2.43 suggests a moderate level of variation in FDI inflows across the years. The skewness value of 0.89 indicates a slight rightward skew, showing that a few high FDI values are pulling the distribution to the right. The kurtosis of 2.61, close to the normal distribution benchmark of 3, suggests a relatively normal distribution with slightly heavier tails. The Jarque-Bera probability of 0.12 indicates that the FDI data does not significantly deviate from normality.

The Company Income Tax has an average of ₦732.35 billion, with a minimum value of ₦12.3 billion and a maximum of ₦3348.75 billion, indicating a wide spread. The standard deviation of ₦824.20 billion reflects high volatility over the years. The distribution is highly positively skewed (1.48), indicating a concentration of lower values and a few extremely high values. The kurtosis of 5.02 suggests a leptokurtic distribution with heavy tails. The Jarque-Bera statistic is significant ($p = 0.00033$), confirming that the distribution deviates from normality.

Personal Income Tax shows an average of ₦51.08 billion, with a standard deviation of ₦19.47 billion, suggesting moderate dispersion. The minimum and maximum PIT values are ₦20.6 billion and ₦108.01 billion, respectively. The data is positively skewed (1.14) and leptokurtic (4.27), with a Jarque-Bera probability of 0.014, indicating statistically significant deviation from normality.

Value Added Tax exhibits an average of ₦365.54 billion, with a substantial standard deviation of ₦563.90 billion, suggesting high variability in VAT revenue. The data ranges from a minimum of ₦5.03 billion to a maximum of ₦2924.81 billion, indicating a wide dispersion. The VAT distribution is highly positively skewed

(3.34) and extremely leptokurtic (15.39). The Jarque-Bera test confirms strong deviation from normality ($p < 0.0001$).

Capital Gain Tax has the lowest average among the variables at ₦18.26 billion, with a standard deviation of ₦18.88 billion. The values range from ₦0.20 billion to ₦99.40 billion, suggesting significant variation. The distribution is heavily skewed to the right (2.79) and very leptokurtic (12.49), which implies the presence of extreme outliers or infrequent very high values. The Jarque-Bera probability is also significant at $p < 0.0001$, indicating non-normality.

Unit Root Test

In determining the characteristics of time series variables, a preliminary analysis is done to test whether the series are stationary or not. In other words, this preliminary analysis is conducted to test for the presence of a unit root in the series. The Augmented Dickey Fuller (ADF) unit root test was applied and the results are shown in table 4.3.

Table 4.3: Summary of the Augmented Dickey Fuller Unit Root Test of the Variables

VARIABLE	ADF TEST STAT.	5% CRITICAL VAL.	REMARKS
FDI	-1.444413	-2.967767	Non-stationary
ΔFDI	-5.850974	-2.971853	Stationary
CIT	1.060314	-3.574244	Non-Stationary
ΔCIT	-3.667899	-3.580623	Stationary
PIT	-3.226054	-3.574244	Non-stationary
ΔPIT	-5.336716	-3.226054	Stationary
VAT	-4.970751	-2.967767	Stationary
CGT	-5.159999	-2.967767	Stationary

Source: Eviews 10.0 Software

The empirical results of the Augmented Dickey Fuller (ADF) unit root test at 5 percent critical levels in table 4.3 indicates that all the variables were stationary only after first difference. Hence, the variables are not in the same number of integrations. This conclusion is based on comparison of the Augmented Dickey Fuller statistics and the critical values provided by Mackinnon (1996). Because the variables have different orders of integration, this permits us to conduct the Auto-regressive Distributed Lag (ARDL) model to know if the variables have a long run relationship

Bound Test

Table 4.4: Bound Test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	2.333107	10%	3.03	4.06
K	4	5%	3.47	4.57
		2.5%	3.89	5.07
		1%	4.4	5.72

Source: Eviews 10.0 Software

Although the initial interpretation suggested cointegration, the actual result from the Bounds Test indicates otherwise. The F-statistic value of 2.333107 is below the lower bound critical value at the 5% significance level ($I(0) = 3.47$). This means we fail to reject the null hypothesis of no level relationship among the variables. Therefore, there is no evidence of cointegration, and it is inappropriate to proceed with long-run analysis under the ARDL bounds testing approach.

Table 4.5: Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
FDI(-1)	0.787830	0.102813	7.662764	0.0000
CIT	-0.002712	0.001260	-2.151948	0.0426
PIT	-0.036938	0.016446	-2.245977	0.0351
VAT	0.001053	0.001163	0.905489	0.3750
CGT	-0.002520	0.012480	-0.201962	0.8418
C	0.793977	0.783970	1.012765	0.3222
@TREND	0.235561	0.086261	2.730803	0.0122
R-squared	0.814699	Mean dependent var		3.514138
Adjusted R-squared	0.764163	S.D. dependent var		2.460925
S.E. of regression	1.195101	Akaike info criterion		3.400843
Sum squared resid	31.42185	Schwarz criterion		3.730880
Log likelihood	-42.31223	Hannan-Quinn criter.		3.504207
F-statistic	16.12100	Durbin-Watson stat		2.180065
Prob(F-statistic)	0.000000			

*Note: p-values and any subsequent tests do not account for model selection.

Source: Eviews 10.0 Software

The regression output reveals that the model explains approximately 76.4% of the variation in foreign direct investment (FDI), as indicated by the Adjusted R-squared value of 0.7642. This suggests that Company Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT), and Capital Gains Tax (CGT) collectively account for a substantial portion of changes in FDI over the study period. The F-statistic of 16.1210 and its corresponding p-value of 0.0000 indicate that the model is statistically significant, meaning that the independent variables jointly exert a meaningful influence on FDI. Additionally, the Durbin-Watson statistic of 2.1801 shows no evidence of autocorrelation in the residuals, affirming the reliability of the model.

Test of Hypotheses

The E-view highlighted the result that is significant with the output indicating significant at 5% level. Reject the null hypotheses if $p\text{-value} \leq 0.05$ (while accepting the alternate when the $p\text{-value} \leq 0.05$). The formulated hypotheses are;

H01: Company Income Tax has a significant negative effect on foreign direct investment in Nigeria.

This hypothesis is supported by the regression result, where the coefficient of CIT is -0.002712, with a t-statistic of -2.1519 and a p-value of 0.0426, which is less than the 5% significance level. This indicates a statistically significant negative relationship between company income tax and FDI.

H02: Personal Income Tax has a significant negative effect on foreign direct investment in Nigeria.

This is confirmed by the coefficient of -0.036938, a t-statistic of -2.2460, and a p-value of 0.0351, which also falls below the 5% threshold. Therefore, personal income tax significantly and negatively affects FDI in Nigeria.

H03: Value Added Tax has a positive but insignificant effect on foreign direct investment in Nigeria.

The regression coefficient for VAT is 0.001053, with a t-statistic of 0.9055 and a p-value of 0.3750, which is greater than the 5% level of significance. This implies that while the effect is positive, it is not statistically significant.

H04: Capital Gains Tax has an insignificant negative effect on foreign direct investment in Nigeria.

The coefficient for CGT is -0.002520, the t-statistic is -0.2020, and the p-value is 0.8418, indicating a negative but statistically insignificant effect on FDI.

Table 4.6: Auto Correlation Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.274460	Prob. F(1,21)	0.6058
Obs*R-squared	0.374126	Prob. Chi-Square(1)	0.5408

The result in table 4.6 shows that there is a serial correlation in the model since the probability statistic of the Chi-square of 0.5408 is greater than 5%.

Table 4.7: Heteroskedasticity Test

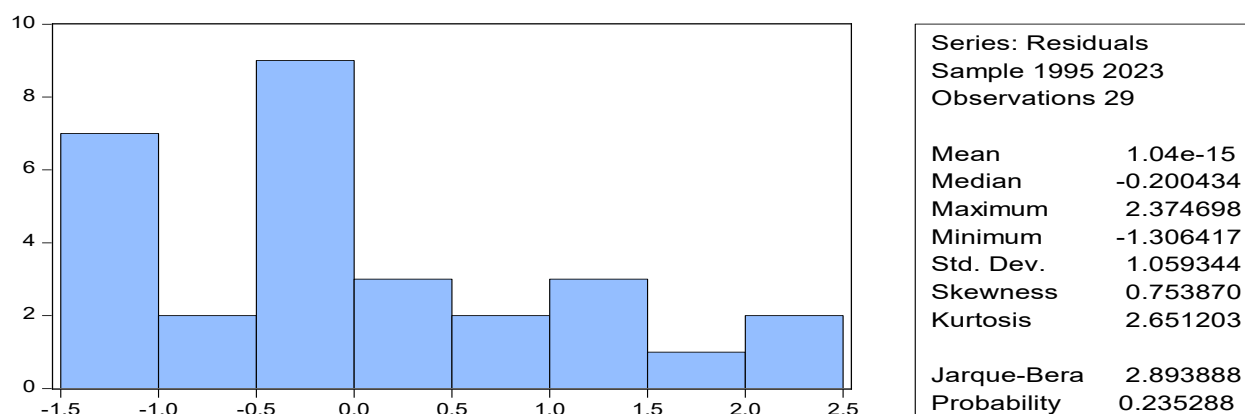
Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.092188	Prob. F(6,22)	0.3978
Obs*R-squared	6.655688	Prob. Chi-Square(6)	0.3539
Scaled explained SS	3.162370	Prob. Chi-Square(6)	0.7882

The result in table 4.7 shows that the null hypotheses is accepted and conclude that the residuals are heteroskedasticity since the probability statistic of the Chi-square of 0.3978 is greater than 5%.

Normality Test

The Jarque-Bera test is a statistical process used to determine if a sample or any group of data fits a standard normal distribution. The result of the Jarque-Bera normality test (2.893888) with a probability value of 0.235288 indicates that the model residuals are normally distributed.

Figure 4.1: Residual Normality Tests



Stability Test

Figure 4.2: Stability test of Cusum test

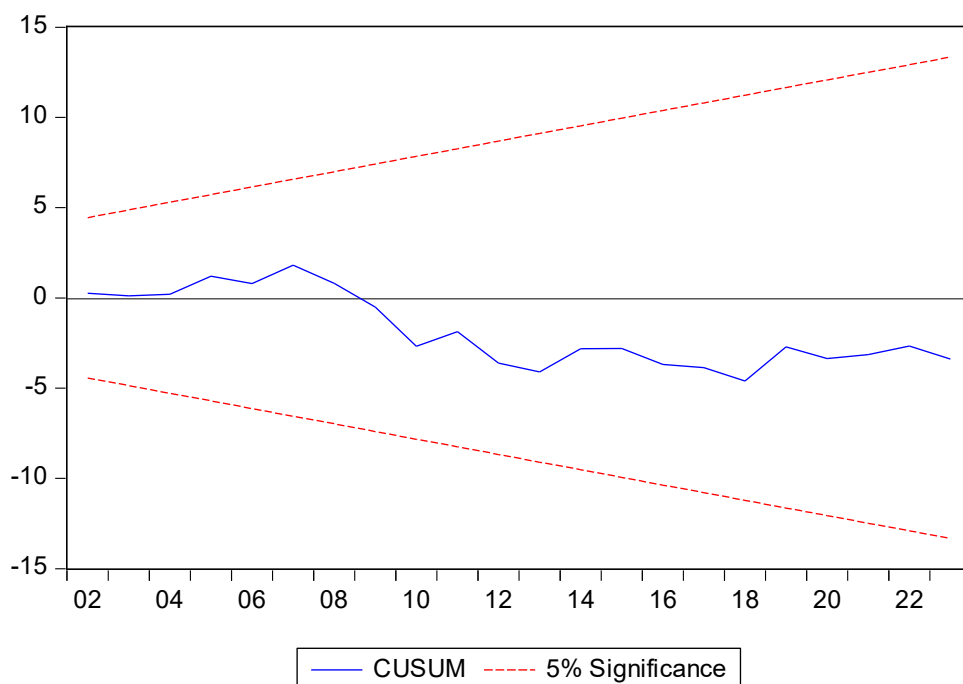
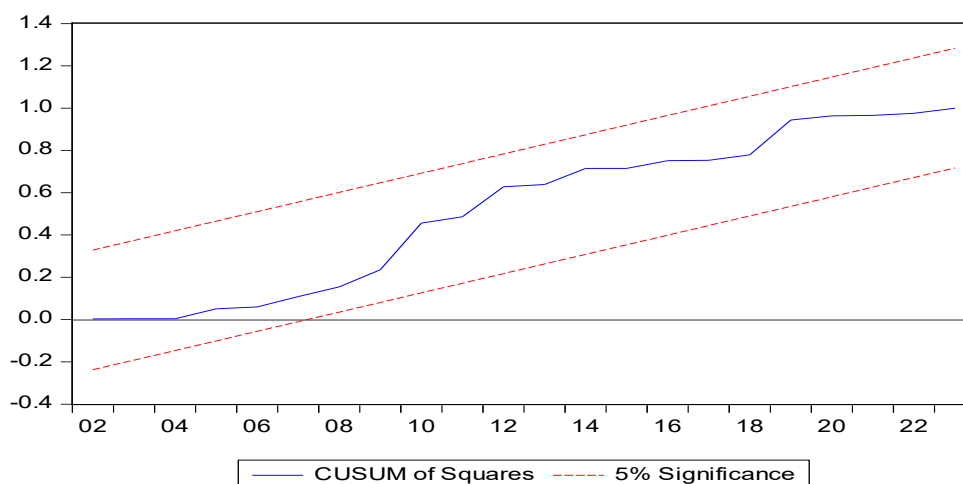


Figure 4.3: Stability test of Cusum of Square test



Test in figure 2 above was used to test for stability, based on the result, the lines for the cumulative sum lies within the 5% critical lines and hence this suggests that the parameters of the model are stable.

DISCUSSION OF FINDINGS

The findings from the regression analysis provide insight into how different forms of corporate tax rate affect foreign direct investment (FDI) in Nigeria. The study evaluates the impact of Company Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT), and Capital Gains Tax (CGT) on FDI, and the results are both statistically and economically significant in several respects. The analysis revealed that Company Income Tax has a statistically significant negative effect on FDI in Nigeria. This is consistent with Innocent et al. (2024) and Lesmana and Soetjipto (2021), who found that higher corporate tax rates deter foreign investors, especially in sub-Saharan Africa. The study negates the findings of Oboh (2021) and Amalia and Riatu (2020) who documented that investors are more interested in investing their capital in countries that have a broad market size.

The study also found that Personal Income Tax has a significant negative relationship with FDI. Although PIT is generally more relevant to labor and individual income, high personal tax burdens can still influence investment decisions, especially for foreign investors who consider the overall tax environment. This aligns with Innocent et al. (2024), Lesmana and Soetjipto (2021), who argued that complex or high personal income taxes can act as indirect deterrents to FDI by increasing the cost of doing business and affecting managerial remuneration packages.

The result shows a positive but statistically insignificant effect of VAT on FDI. This suggests that while VAT may not be a direct deterrent to FDI, its influence is relatively minimal compared to income taxes. This finding is in partial agreement with Ofiafoh and Izilin (2019), who concluded that indirect taxes like VAT tend to have a neutral or minor effect on FDI since they are generally passed on to consumers. However, countries with more efficient VAT systems may be more attractive due to reduced tax compliance burdens. And contradicts the findings of Onome *et al.* (2020) and Innocent et al. (2024) government should embark on comprehensive tax reform in order to increase the inflow of foreign direct investment. The findings also, show an insignificant negative effect of Capital Gains Tax on FDI. Although the relationship is negative, the lack of statistical significance suggests that CGT may not be a primary consideration for foreign investors in Nigeria.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study explored the relationship between various tax components Company Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT), and Capital Gains Tax (CGT) and Foreign Direct Investment (FDI) in Nigeria. The analysis revealed significant and insignificant effects of these taxes on FDI, contributing to a deeper understanding of how Nigeria's tax policy influences foreign investments. The regression results show that CIT and PIT have a significant negative impact on FDI. The negative coefficients suggest that higher tax rates or inefficient tax administration might discourage foreign investors, making Nigeria a less attractive investment destination. High corporate and personal income taxes potentially increase the cost of doing business and reduce profit margins, leading foreign investors to seek more favorable environments elsewhere. This aligns with findings from other studies that emphasize the negative effect of income taxes on foreign investment.

In contrast, VAT and CGT showed insignificant effects on FDI, with p-values greater than the 5% significance level. The positive but insignificant effect of VAT suggests that, while VAT may impact the cost structure of businesses, it does not have a strong influence on FDI decisions. Similarly, CGT, which taxes the sale of assets, had an insignificant negative effect, indicating that foreign investors may not view this as a significant barrier to investment. In conclusion, the study emphasizes the need for Nigeria to reconsider its tax policies to foster an environment conducive to foreign investment. The negative relationship between CIT, PIT, and FDI suggests that a reduction in these taxes, coupled with improved tax administration, could enhance Nigeria's attractiveness to foreign investors. On the other hand, since VAT and CGT were found to have insignificant effects, these taxes may not require immediate reforms but should be examined for efficiency and fairness in the broader context of the tax system. To increase FDI inflows, Nigeria must focus on creating a tax environment that is both competitive and transparent, offering incentives for foreign investors while ensuring that the tax system is fair and efficient. This could involve reducing income-based taxes, improving the ease of doing business, and ensuring that tax incentives are well-targeted and effectively implemented.

Recommendations

Based on the findings of this study, it is imperative to recommend that; Nigeria government should consider reducing corporate tax rates or offering targeted tax incentives to foreign investors in key sectors by Simplifying the tax system and reducing the cost of tax compliance ; moderate personal tax rates and streamline tax procedures as this would foster investment-friendly environment and encourage skilled foreign professionals to work in Nigeria; improving the efficiency and transparency of VAT administration could make Nigeria more

attractive to investors since, a well-managed VAT system helps minimize the tax burden on businesses and ensures predictability in tax liabilities.

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