

## Research Article

# Empirical Analysis of the Impact of Taxes on Foreign Direct Investment in Nigeria

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**Abstract** — An economy needs foreign direct investment (FDI) to grow, especially in rising markets like Nigeria, which mostly depends on the earnings from the sale of crude oil on the global market. The current tax laws in a nation have a significant impact on the amount of foreign direct investment that enters that economy. Thus, the purpose of this study was to investigate how taxes impact FDI in Nigeria. An *ex post facto* study design was used since pertinent data was taken from World Development Indicators (WDI) and other Federal Inland Revenue Service (FIRS) annual publications covering the years 1999–2023, which saw a number of important tax developments. 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. All of the tax-related factors that were examined in the short term were shown to be significant, suggesting that taxes had an immediate effect on FDI. The study's conclusion indicated 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. In order to boost FDI, it was suggested that the government implement comprehensive tax reform.

**Keywords**— Tax, FDI, Personal Income Tax, Corporate Income Tax, Petroleum Profit Tax, Value Added Tax, ARDL, Nigeria

## 1. Introduction

Organisations have endeavoured to establish global presence and pursue economies of scale, leading to a significant body of literature dedicated to global expansion. [1] outlines globalisation as encompassing a loosely connected array of goals such as expansion, diversification, and brand development, among others. These aims are anticipated to be financed by profits derived from targeted global expansion activities, with globalism being a subject of dynamic examination within a controlled setting. Advancements in technology and communication have empowered entities, ranging from small privately owned enterprises to large multinational corporations, to venture into foreign markets through international trade or foreign direct investment, thereby subjecting themselves to the tax regulations of host countries. FDI is predominantly classified into two categories: while acquisitions and mergers require the purchase of already-existing local operations, Greenfield investments entail the establishment of a whole organisation in a foreign country. This study does not differentiate between partial or complete FDI for its purposes.

Recent years have seen a surge in theoretical and empirical studies focussing on the relationship between taxation and FDI. While tax policies may not be the principal determinants of FDI, they significantly influence investment decisions by affecting the cost of capital and the projected returns on investments. In a globalised environment characterised by heightened capital mobility, a well-structured and effectively managed tax regime can considerably impact investment attractiveness [2]. Investors stand to gain from reduced tax rates and simplified tax procedures, while governments benefit from decreased instances of tax evasion, avoidance, and other illicit practices. Tax collection by the government plays crucial roles in shaping firm-level investments, interacting with other market distortions to discourage FDI and impede the optimal allocation of resources. Noteworthy alterations in investment patterns and firm valuations have been linked to significant shifts in tax policies and additional investment determinants. Changes in tax regimes influence investment choices through the cost of capital, with an escalation in capital costs leading to diminished FDI levels due to reduced profitability incentives. Besides fostering an unfavourable investment climate in countries like Nigeria, high and unpredictable taxes raise the operational costs of

investments, foster uncertainty, and undermine the sustainability and potential for investment expansion. Such conditions could hamper managerial initiatives and innovation, pivotal drivers of FDI growth [3].

The viewpoint shared by economists and financial analysts is that a heightened level of taxation typically diminishes FDI and the formation of capital. A tax system that is both effective and efficient possesses the potential to create significant opportunities for swift economic growth and advancement by producing more favourable positive externalities [4]. Within this context, the primary challenge faced by governments across all economic systems and developmental stages pertains to formulating and implementing suitable tax policy decisions that would bolster private investments. Dunning's Ownership, Location, and Internalisation (OLI) framework proposes that corporations tend to operate as multinational entities when they possess a blend of ownership, location, and internalisation benefits within a particular nation [5]. Tax laws, such as corporate tax rates, can impact the inflow of FDI into a country. Tax policies wield influence over the distribution of FDI, as elevated tax rates diminish post-tax profits and sway the investment choices of foreign investors. The competition among nations concerning taxation has intensified in order to allure investments and boost FDI inflows [6].

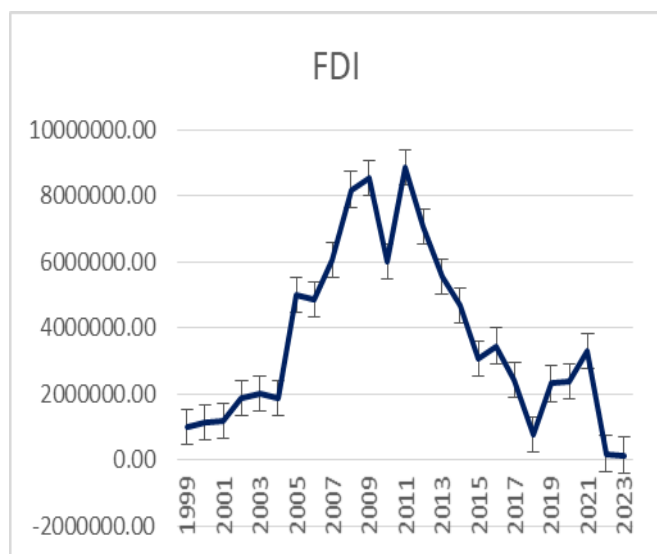


Figure 1. Trend of FDI in Nigeria

In Nigeria, concomitant with macroeconomic downturns, the dearth of a well-defined, efficient, and uncomplicated tax framework is a contributing factor elucidating the diminishing magnitude of FDI inflows [7]. Within a fiscal setting characterised by an ambiguous and intricate tax system, the allure for FDI inflows has experienced a downward trajectory. The graphical representation in Figure 1 illustrates the fluctuation of FDI inflows into Nigeria from 1986 to 2011, followed by a sustained decline between 2012 and 2022. The reduction in FDI inflows is ascribed to impediments in macroeconomic policies and fiscal conditions, exemplified by elevated and diversified tax structures, political turmoil, security issues including armed

conflicts and insurgencies, inefficient bureaucratic procedures, inadequate infrastructure, feeble institutional groundwork, and prevalent rent-seeking tendencies [4]. Despite numerous enquiries like those conducted by [8], [9], and [10] into the impact of taxation on investment choices in developed nations, there exists limited empirical data on the interconnection between tax policies and FDI in Nigeria, yielding inconclusive results. The identification of this research void serves as the impetus for the present study.

The remaining portions of the paper are arranged as follows: Section 2 examines the mechanisms via which commerce between nations could impact industrial value as well as the analytical methodology. The theoretical framework was discussed in Section 3. The analytical technique employed in the paper is explained in Section 4. Results and discussions were articulated in Section 5, while Section 6 brings the paper to a close with a discussion of the outcomes.

### Statement of the Problem

The challenges encountered revolve around the adverse correlation between taxes and FDI within the Nigerian context. The endeavour to uphold and broaden FDI within Nigeria is obstructed by elevated tax rates, overlapping tax impositions, intricate tax legislation, and insufficient awareness or education concerning tax-related matters [11]. Despite the fact that research has been conducted in Nigeria pertaining to taxation and FDI, the impact of taxation on FDI within Nigeria has been relatively disregarded. Prior studies primarily focused on the influence of tax incentives and overall tax revenue collection on FDI inflows to Nigeria [12], [13], [14], [15], [16]. Conversely, investigations such as [17], [18], and [19] have demonstrated that foreign investors are enticed not only by tax incentives but also by actual tax collections encompassing corporate income taxes, personal income taxes, petroleum profit tax, and value-added tax. Consequently, this research aims to bridge the gap in literature by evaluating the influence of taxation on FDI flow to Nigeria.

The influx of FDI into the Nigerian economy remains comparatively low in comparison to other African nations due to deficient tax policies, among other factors [20]. A significant longstanding impediment faced by Nigeria has been its incapacity to generate ample revenue, with taxation constituting the primary revenue source for every nation. As per African revenue statistics issued by the Organisation for Economic Cooperation and Development (OECD), Nigeria's tax-to-GDP ratio was 5.7% in 2017, indicating a moderate rise from the 2016 reported figures of 5.3%. An examination of existing literature on tax revenue and FDI reveals varying outcomes. Empirical studies conducted by [21], [22], and [23] suggest a positive and substantial impact of company income tax and value-added tax on FDI. Conversely, [12], [24] indicate a negative and notable influence of company income tax on FDI. [25] identified an adverse impact of VAT on FDI. [26] illustrated that CIT and PIT impeded FDI inflows to Nigeria, while VAT augmented such flows. Given the diverse findings from various researchers, this study on the

ramifications of taxation on FDI inflows to Nigeria is deemed essential.

### Objectives of the Study

Specifically, the objectives of this study are to:

- a) investigate the impact of PIT on FDI in Nigeria;
- b) examine the impact of CIT on FDI in Nigeria;
- c) assess the impact of PPT on FDI in Nigeria; and,
- d) determine the impact of VAT on FDI in Nigeria.

### Research Questions

In view of the foregoing, the following research questions were formulated:

- a) To what extent does personal income tax affect FDI flow to Nigeria?
- b) How does company income tax affect FDI flow to Nigeria?
- c) What is the impact of petroleum profit tax on FDI inflow to Nigeria?
- d) In what way does value added tax affect FDI flow to Nigeria?

### Hypotheses

The following hypotheses were tested:

- HO<sub>1</sub>: PIT had no significant impact on FDI in Nigeria.  
 HO<sub>2</sub>: CIT had no significant impact on FDI in Nigeria.  
 HO<sub>3</sub>: PIT had no significant impact on FDI in Nigeria.  
 HO<sub>4</sub>: VAT had no significant impact on FDI in Nigeria.

## 2. Related Work

### History of the Nigerian Tax System

Taxes have long existed in Nigeria, dating back to the time before the nation was conquered. Before the numerous nations that were subsequently united under the name Nigeria were colonised, there were multiple taxing systems among the various kingdoms, ethnic groupings, and tribes ruled by the obas, emirs, ezes, attahs, ohinoyis, and amanyanabos [27]. In order to maintain the monarchy, these institutions required labour, contributions of goods, money, and other resources, as well as forced services. This is demonstrated by the 1893 exile of King Jaja of Opobo for his refusal to pay imperialist levies. The previous monarchs taxed their subjects in one form or another.

The aforementioned taxes were imposed in the format of "zakkat," which was required from Muslims for purposes pertaining to charity, education, and religion; "kudin-kasa," which represents an agricultural levy on land usage (analogous to contemporary land ground rent); "shuka-shuka," which was assessed on cattle ownership contingent upon the quantity of cattle possessed; and "ishakole," which constituted an agricultural tax on farm outputs disbursed to obas, chiefs, and heads of families and communities in return for land utilisation for agricultural activities. Community levies are obligatory contributions from all adult members within a community to facilitate projects that yield communal benefits. War levies are mandated by a vanquished community to the victorious one as a consequence of conflict. Individuals engaged in the harvesting of palm fruits are obligated to remit "osusuimachi-nkwu" (levies associated

with palm fruits) taxes, which may manifest as a fixed sum or a proportion of the harvested fruits and palm kernel oil. Additional forms of taxation within the Rivers and Bayelsa States include block hunting and fishing. Male adults supply resources, such as boats, canoes, nets, and other fishing apparatus, to assist women in fishing endeavors. The women subsequently market the fish they capture, with the generated revenue allocated towards financing community initiatives.

The origins of Nigerian taxes can be traced to the August 6, 1861, founding of a British colony in Lagos and the 1914 union of the Northern and Southern Protectorates of Nigeria.

Any kind of tax imposed on citizens (including persons and corporations) during the colonial era was done so by the colonial government through the enactment of legislation.

These statutes include, for example:

- a) Proclamation Law of 1914, governing the entirety of Nigeria;
- b) In Western Nigeria, the Native Law Ordinance, Cap. 74 of 1917, is applicable. In 1929, this statute was reenacted in eastern Nigeria. One of the characteristics of this ordinance was that it taxed women for the first time, which led to the 1929 Aba women's riots; and
- c) The 1931 Non-Native Protectorates Tax Ordinance was later combined with later revisions in 1939. After being rescinded and included in the Taxation Ordinance, No. 4 of 1940, this ordinance was later reenacted as the Income Tax Ordinance, 1943.

Tax controllers, or district officers, in the districts, provinces, and regions undertook the administration of the aforementioned tax legislation on behalf of people and corporate entities.

The revised versions of these statutes that were ultimately repealed were the CIT Act, Cap C21 LFN 2004 (as modified), and the Personal Income Tax Act, Cap P8 LFN 2004 (as amended). The reevaluation carried out by the Law Revision Commission led to the revision and codification of these statutes [27]. With minor adjustments made in 2007 and 2011 (see the CIT (Amendment) Act, 2007 and the PIT (Amendment) Act, 2011), they are currently a part of the Federal Republic of Nigeria's 2004 legislation.

### Tax Collection in Nigeria

The tabular representation (Table 1) elucidates the enumeration of endorsed taxes authorised by the Nigerian government. The Nigerian tax architecture is constituted by the federal, state, and local governments, which collectively establish a tripartite framework. The authority to levy taxes on individuals and entities is conferred upon the government by the Nigerian 1999 Constitution, as specified in Section 4 and item D of Part II of Schedule 2. To ensure the effectiveness of taxation, legislative endorsement from the legislature or parliament is essential, as demonstrated in the judicial precedent of *A.G. of Ogun State v. Aberuagba*, 1985. Decree No. 21 of the Law of the Federation of Nigeria (LFN) of 1998 was enacted by the Federal Government to validate

the inventory of taxes and Levies permissible for collection by the three tiers of government. The primary intention was to mitigate conflicts among the governmental levels and to prevent the redundancy of tax imposition, as emphasised by [27]. In 2015, the schedule to the Taxes and Levies (Authorised List for Collection) (Act Amendment) Order facilitated additional alignment/amendment to the sanctioned list. The aggregation of taxes delineated herein has received governmental authorisation for collection in Nigeria by the tripartite levels of government in accordance with the Taxes and Levies (Approved List for Collection) Act; CAP T2 LFN 2004 (as amended).

**Table 1.** List of approved taxes in Nigeria

Government	Approved List of Taxes and Levies
Federal	CIT, PPT, VAT, withholding tax, Federal Capital Territory (FCT) residents; tax on education; stamp taxes on legal entities and residents of the FCT; PIT on members of the federation's armed forces; Nigerian Police Force members; residents of the FCT; Ministry of Foreign Affairs employees and non-residents; and the National IT Development Levy.
State	PIT, the withholding tax; the capital gains tax; stamp duties levied on documents executed by private individuals; road taxes, as well as the registration expenses associated with business premises in both urban and rural contexts, encompassing registration fees and annual renewals as stipulated by each state; taxes related to pool betting, lotteries, gaming, and casino activities; development levies; street registration fees in the state capital; the right of occupancy concerning state-owned land within metropolitan regions; market taxes and levies pertinent to state financial matters; the land use charge when deemed appropriate; the consumption tax for hotels, restaurants, or event centers when applicable; Where relevant, an entertainment tax may be imposed; an environmental fee or levy; fees associated with mining, milling, and quarrying; an animal trade tax; a produce sales tax; a slaughter or abattoir fee where state financing is implicated; The subsequent fees are co-collected by state and municipal authorities: infrastructure maintenance charges or levies, when relevant; fire service charges; property taxes; economic development levies; social service contribution levies; signage and mobile advertising fees.
Local	Tenement rates, costs for on- and off-premises alcohol licenses, fees for slaughter slabs, and rates for shops and kiosks; registration fee for streets, excluding any streets in the state capital; payments for the right to occupy land in rural areas, aside from those levied by the federal and state

governments; market taxes and levies that do not apply to any market where there is state funding; vehicle park fees; fees for domestic animal licenses; Bike and truck. Costs for using a canoe, wheelbarrow, or cart that isn't a mechanically driven truck; only cattle farmers are responsible for paying the cow tax and road closure levy. Vehicle radio license fees (to be imposed by the local government of the state in which the car is registered); radio and television license fees (other than radio and television transmitter); incorrect parking fees; Costs for public utilities, sewerage, and waste removal; Permit fees for traditional cemeteries; costs for the establishment of places of worship, signboards, and advertisements, as well as any necessary wharf landing fees.

Source: [27].

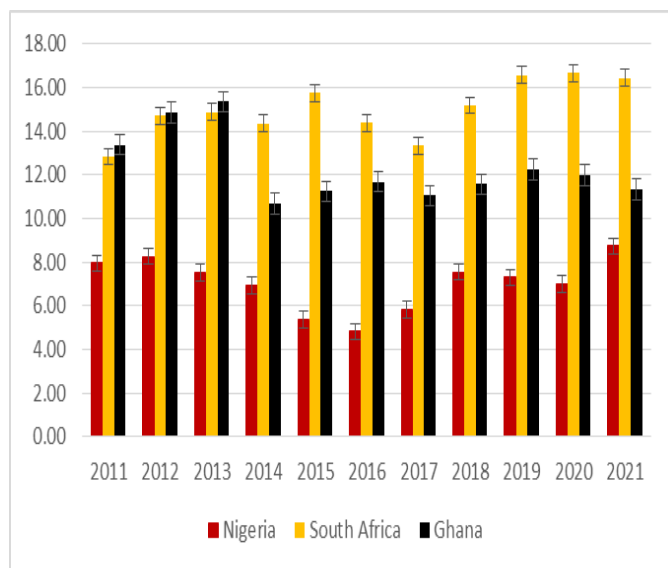
### Stylized Facts

Nigeria has encountered challenges in tackling Nigeria's persistently inadequate tax collection amidst an economy impacted by diminished revenue, debt, inadequate infrastructure, and excessive inflation. The Nigeria Extractive Industries Transparency Initiative (NEITI), known for its yearly assessments of the oil sector, highlights in a recent report the substantial financial losses due to tax malpractices [28]. The NEITI 2020 investigation identified 77 companies with a significant \$6.8 billion tax liability, underscoring the gravity of the situation exacerbated by deficient tax collection and operational shortcomings among public officials.

Certainly, the tax framework remains outdated and incapable of adapting to contemporary developments, as illustrated by the utilisation of technology to detect revenue discrepancies promptly [7]. Violators escape consequences due to governmental negligence, further compounded by corrupt practices. Inadequate tax revenues are a consequence of these factors [6]. The tax-to-GDP ratio assesses the correlation between a country's tax revenue and its economic magnitude, primarily influenced by the GDP. A surge in the ratio leads to higher government revenue, beneficial for long-term economic prosperity if effectively managed [29]. According to the International Monetary Fund (IMF), sustaining a viable economy necessitates a minimum tax-to-GDP ratio of 15% [30], emphasising the necessity of enhancing tax collection for Nigeria's economic advancement.

The total tax revenue as a share of GDP remained low from 2011 to 2022, plummeting from 8.25% in 2012 to 4.82% in 2016. The decline may be linked to the 2016 economic downturn and the transition from the Goodluck Jonathan administration to the Muhammadu Buhari administration in 2015. Despite an upturn in the tax-to-GDP ratio post-2017, it still falls below the 15% benchmark. Nigeria fails to meet the World Bank's 15% tax-to-GDP threshold deemed essential for economic stability, lagging behind its regional counterparts. Notably, the tax-to-GDP ratio of prominent African economies has consistently exceeded Nigeria's in recent years, signalling Nigeria's comparatively low tax

revenue in Africa, despite being the continent's largest economy, remaining well beneath the 15% standard.



**Figure 2.** Tax-to- GDP ratio (%)

Figure 2 underscores the deficient tax-to-GDP ratios, illustrating Nigeria's subpar performance in revenue collection. As posited by [31], this linkage may be attributed to some of the challenges still confronting the Nigerian tax framework.

- The concept of multiple taxes pertains to the imposition of similar taxes on a matching or closely similar tax base. Instances of diverse taxes encompass value-added tax, sales tax, and those reliant on income, such as corporate income tax and education tax (hinged on sales). This issue can be remedied by establishing a catalogue of permissible taxes that are unambiguously defined and rigorously adhered to by all tiers of government.
- Inadequate tax administration is characterised by the struggles of ministries, departments, and agencies (MDAs) to meet the escalating demands of individual taxpayers owing to understaffing, resource insufficiency, and a lack of equipment and tools. In essence, meagre remuneration and the absence of incentives may underlie the negative attitude of a large portion of tax collectors.
- Furthermore, it has been underscored that personnel do not receive regular training to keep them informed about evolving tax-related matters. Consequently, tax administration suffers notably in terms of coverage and evaluation. Educating both the populace and government personnel on tax issues can ameliorate this challenge. Tax education has the potential to foster compliance among individuals.
- Concerning tax refunds, notwithstanding the stipulated procedures for tax refunds in the FIRS Establishment Act 2007, these protocols have not been fully enforced as of yet. Tax authorities ought to exhibit a greater willingness to reimburse rightful tax overpayments, and there should be dedicated funds from tax revenues

set aside to facilitate tax refunds at both federal and state levels. According to the FIRS Act, tax authorities must honour a taxpayer's refund request within 90 days of submission, contingent upon the requisite audit. Delays in refund disbursement should incur appropriate penalties.

- The discord between Lagos State and the federal government regarding the jurisdiction over the state's VAT tax epitomises the quandary surrounding the rightful tax authority for overseeing various taxes. To overcome this deadlock, clear and appropriate legislation is imperative.
- The failure to accord priority to tax endeavours is attributable to the framework of revenue allocation in Nigeria, which is influenced by factors such as population parity, IGR, education, land area, and state equity, thus impeding proactive revenue generation. To incentivise states to boost tax revenue internally, the IGR share should be elevated.

### Empirical Review

[26] used time series data analysis to examine the effect of taxes on FDI in Nigeria from 2000 to 2020. The study's analytical methodology included multiple regression using the Ordinary Least Squares (OLS) technique. The results showed that there was a statistically significant and negative correlation between CIT and FDI in Nigeria; PIT showed a weak and negative correlation with FDI flows, whereas VAT showed a strong and positive influence on FDI.

[32] examined the factors influencing FDI that are connected to taxes. The study used the fourth version of the OECD Benchmark Definition of FDI (BMD4) database, which allowed ultimate and immediate FDI to be distinguished clearly. From a methodological standpoint, the study used the Poisson pseudo-maximum likelihood estimation model and the usual gravity equation for FDI. The results showed that actual economic factors, rather than tax-related ones, had a greater impact on final FDI, with tax rates only having an immediate impact.

[33] investigated the short- and long-term effects of FDI on tax revenue in the context of Ghana. The study used the autoregressive distributed lag (ARDL) approach to evaluate the effects of FDI on tax revenue over different time horizons. The study used data from 1983 to 2019, primarily from the Bank of Ghana, the World Bank, and the IMF. The findings showed that, in the short run, FDI had a negative impact on indirect tax revenue but a positive impact on total tax revenue. In the long run, however, FDI showed significant positive effects on indirect tax revenue and total tax revenue, with no significant impact on direct tax revenue.

[25] examined the impact of tax revenue on FDI in Nigeria from 2011 to 2020. The study's particular goals included assessing how CIT, VAT, and Customs and Excise Duties (CED) affect foreign direct investment. Regression analysis using OLS was the preferred analytical method. The findings showed that CIT had a substantial negative impact on FDI,



VAT had a negligible negative impact on FDI, and CED also showed a negligible negative correlation with FDI.

[4] examined how taxes and FDI were related in Nigeria between 1986 and 2020. Through the application of the dynamic system Generalised Method of Moments (GMM) estimate technique, the findings demonstrated that an elevated tax structure has a destabilising effect on FDI inflow. By connecting current FDI with previous FDI inflows, lag FDI serves as a stand-in for agglomeration effects. It showed a positive and statistically significant association with FDI.

[34] scrutinised the repercussions of taxation on the determination of FDI inflows in Pakistan. Time series data encompassing the years 1985 to 2020 was employed for the analysis. The empirical examination entailed the use of ARDL. The study deduced that diminished tax burdens act as stimulants for foreign investors' engagement and establish a long-term association between taxes and FDI in Pakistan.

[17] delved into the influence of direct tax elements, namely PPT, CIT, education tax, and PIT, on FDI in Nigeria. The research encompassed data on direct taxes and FDI spanning the years 1981 to 2019, totalling a span of 38 years. The amassed data underwent scrutiny utilising the OLS estimation technique. The investigation unveiled a favourable correlation between PPT, CIT, and PIT with FDI. Conversely, education tax exhibited an adverse correlation with FDI, presenting a statistically significant outcome.

[18] probed into the repercussions of corporate taxes on the influx of FDI in Nigeria during the period from 1983 to 2017. The coefficient of determination unveiled that roughly 77 percent of the systematic variations in FDI are ascribed to the collective impact of all the explanatory variables encapsulated in the study. The study disclosed that CIT, VAT, and customs and excise duties exhibited a substantial yet negative correlation with FDI. In contrast, tertiary education tax displayed a positive relationship with FDI.

[12] investigated the implications of tax revenue on FDI within the Nigerian context, utilising time series data spanning from 1981 to 2017. The data utilised for this analysis was analysed with the OLS technique employed for analytical purposes. The findings indicated that tax revenue exhibited a long-run correlation with FDI in Nigeria. Specifically, both CIT and PIT exerted a detrimental effect on FDI over the long term, whereas VAT and customs and excise duties demonstrated a positive correlation with FDI in the long run.

[13] assessed the influence of CIT on FDI in Nigeria, covering the period from 1985 to 2016—a timeframe characterised by substantial economic deregulation. The study utilised cointegration regression and unrestricted vector autoregression analyses to estimate the interrelationship among the variables. The results indicated that both PPT and education tax exhibited an inverse relationship with FDI, whereas a direct relationship was identified between CIT and FDI in Nigeria.

[19] performed an empirical investigation to determine how CIT affects the influx of foreign direct investment into Africa. Applying a dynamic spatial Durbin model with fixed effects, the findings showed that short- and long-term FDI net inflows into the host nation as well as its neighbouring countries were positively impacted by decreases in the total collected CIT revenue. Validation of these results was achieved by using other geographical weighting matrices and by adding more control variables to the baseline specification.

[11] investigated the impact of federal tax revenue on Nigeria's GDP between 2000 and 2017. The study tested the hypotheses using the OLS regression approach. With an R-squared value suggesting that tax revenue accounts for about 87% of GDP variations and that other factors not included in the model account for the remaining 23%, the results showed that tax revenue had a significant impact on GDP.

[14] looked into how incentives for customs and excise charges, PIT, VAT, and CIT affected foreign direct investment into Nigeria between 1994 and 2016. Multiple regression and correlation analysis were used in this study to examine secondary data. The results showed that FDI within the nation was significantly impacted by VAT incentives, customs, and excise duties (coefficient = -2.096 and 4.247, p-values = 0.0233, 0.0125), whereas FDI was not significantly impacted by CIT and PPT incentives.

[35] examined the relationship between FDI inflows and tax burdens. The components of taxes, such as the tax system, different tax kinds, tax rates, tax bases, and tax structures, all had an impact on the amount of tax revenues that accumulated and, consequently, the total tax burden. The analysis found that two opposing relationships—one negative and one neutral—between tax burden and FDI were provided in the literature. However, these correlations were primarily dependent on the precise tax components and the nation or economic region that was being studied.

[36] looked into how CIT affected the amount of FDI in OECD countries. In order to estimate the association between tax rates and levels of foreign direct investment, the study used fixed effect panel estimation using the GMM. Tax rates and FDI levels were found to be negatively correlated. The results showed that countries with lower tax rates typically draw more FDI.

### 3. Theory

The theoretical framework that serves as the foundation for this investigation is the eclectic theory. The eclectic paradigm, also referred to as the OLI model, was conceptualised by J.H. Dunning in 1988. For several decades, the OLI model has provided a comprehensive framework encompassing critical elements that affect the international operational decisions of multinational enterprises (MNEs) concerning their production activities. Drawing from the Dunning framework, it was observed that the returns on FDI could be elucidated through three distinct categories of factors: the ownership advantages of firms (O), which

highlight the competitive benefits of organisations aspiring to operate on a global scale; the location factors (L), which delineate the geographical considerations for MNEs regarding their production or business activities; and the internalisation factor (I), which clarifies the rationale behind MNEs engaging in FDI. Particularly significant to this research are the location factors that influence FDI movements across international borders. As articulated by Stefanovic (2008), the paramount location factors encompass affordable labour, natural resources, market size and accessibility, a rapidly expanding economy, as well as the stability of the macroeconomic environment, among other considerations. The eclectic theory posits that OLI parameters vary from one enterprise to another and are contingent upon the economic, political, and social attributes of the host country that are pivotal in attracting FDI. Consequently, this theory posits that to successfully lure substantial FDI, governments must ensure that their economic policies, including taxation on foreign investments, are advantageous.

#### 4. Methodology

Leveraging the OLI framework and employing the model proposed by Oboh (2021), the correlation between taxation and foreign direct investment (FDI) in Nigeria was delineated. The model utilised by Oboh (2021) is expressed in its functional representation as:

$$FDI = f(CIT, PIT, PPT, EDT) \quad (1)$$

Where;

FDI = Foreign Direct Investment

CIT = Companies Income Tax

PPT = Petroleum Profits Tax

PIT = Personal Income Tax

EDT = Education Tax

For the current study, the model specified by Oboh (2021) was modified by replacing EDT with VAT while the introduction of control variables (GDP and REX) was in line with the Dunning's eclectic theoretical framework. Consequently, the econometric model used for this study is specified in equation (2):

$$FDI = \beta_0 + \beta_1 CIT + \beta_2 PIT + \beta_3 PPT + \beta_4 VAT + \beta_5 GDP + \beta_6 REX + \varepsilon \quad (2)$$

To obtain a symmetrical distribution of the model, equation (2) was linearised through the transformation into a natural log as captured in equation (3).

$$\ln FDI = \beta_0 + \beta_1 \ln CIT + \beta_2 \ln PIT + \beta_3 \ln PPT + \beta_4 \ln VAT + \beta_5 \ln GDP + \beta_6 \ln REX + \varepsilon \quad (3)$$

Where;

FDI = Foreign direct investment

CIT = Company income tax

PIT = Personal income tax

PPT = Petroleum profits tax

VAT = Value added tax

GDP = Gross domestic product

REX = Real exchange rate

ln = Natural logarithm

$\beta_0$  = Constant

$\beta_1 - \beta_7$  = Coefficients

$\varepsilon$  = Error term

#### Description of model variables

FDI refers to the phenomenon wherein international investors allocate their financial resources into a sovereign nation, thereby exercising managerial control over the associated assets and the resultant profits. The assets transferred into Nigeria by foreign investors or multinational corporations are designated as FDI inflows. As a result, the total amount of equity capital, reinvested earnings, and capital movements from foreign companies, both short- and long-term, make up Nigeria's FDI inflows.

PIT 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.

CIT is imposed on the profits generated by business entities functioning within Nigeria. *Ceteris paribus*, an elevated corporate income tax rate, serves to deter foreign enterprises from establishing subsidiary operations within Nigeria.

PPT is a fiscal imposition instituted by the Nigerian government specifically targeting corporations engaged in upstream petroleum activities, which encompass the exploration, production, and initial conveyance or sale of crude oil and natural gas within the national territory.

VAT is a type of consumption tax that is applied to products when their value increases during the production process and at the point of sale.

GDP is the total monetary value of final goods and services—those that the consumer purchases—that are generated in a country over a given period of time. It serves as a control variable in this study to measure economic size.

REX between Nigeria and another nation is determined by the product of the nominal exchange rate (for instance, the dollar equivalent of a naira) and the ratio of price levels between Nigeria and other nations.

#### Estimation Technique

Multiple regression analysis grounded in the autoregressive distributed lag (ARDL) framework was employed for the purpose of estimating the dataset. Utilising the Pasaran criteria for boundary limits, the bounds testing approach was applied to the ARDL model to determine the long-term relationship between the dependent variable and the independent variables. A notable advantage of the bounds test is its capacity to accommodate potential structural breaks that may adversely affect the existence of a long-term association between the dependent and independent variables. Despite the presence of variables possessing varying degrees of

integration, specifically I(1) and I(0), both long-run and short-run coefficients were simultaneously estimated and utilised in the cointegration analysis under the ARDL methodology. In other words, the essential assumption is that none of the variables exhibit integration at the second differencing level, I(2), but may rather display mixed integration characteristics, I(1) and I(0) [39]. Consequently, when these conditions are met, the ARDL framework is established.

Prior to the ARDL estimation, the time series data underwent a thorough examination for stationarity. The stationarity of the dataset was assessed utilising the Augmented Dickey-Fuller (ADF) unit root test [40]. This particular procedural step is of paramount importance, given that a majority of macroeconomic time series are characterised by unit roots, and regressions involving non-stationary series almost invariably produce significant relationships, even in the absence of a genuine correlation between the variables.

### Data

The type of secondary sources from which the data was gathered and utilised for this study. The data set covered the years spanning from 1999 to 2023.

## 5. Results and Discussion

### Descriptive Statistic

The descriptive statistic is displayed in Table 2. It can be inferred that a total of 25 observations were taken into account for this investigation. Because the standard deviation is smaller than the sample mean scores, which suggests that the data are not dispersed, it was discovered that the series' data are closely clustered around their mean values. With the exception of VAT, the Kurtosis values were less than 3, meaning that the majority of the data series' distributions were platykurtic, or flat-peaked. With the exception of REX, whose skewness score was closer to zero, all other values were somewhat high [43].

### Unit Root Test

In this study, unit root tests were computed to identify stationarity in the absence of any other variable using the ADF test. LNVAT was found to be stationary at level, according to the findings of the estimated ADF test in Table 3, which indicates that variables were not stationary in their level form but became stationary after the first difference. This suggests that a combination of I(1) and I(0) makes up the variables in these studies.

**Table 2.** Descriptive statistic of annual data series

	FDI	PIT	CIT	PPT	VAT	GDP	REX
Mean	3822537.	475.1750	690.0064	9999.870	350.7968	323287.5	100.6042
Maximum	8841062.	1546.990	1231.230	32013.00	1171.360	574183.8	137.9930
Minimum	186792.4	29.28000	239.4500	246.0000	23.75000	59145.08	69.19723
Std. Dev.	2549442.	418.7914	308.9391	10796.03	303.3859	160182.6	19.43794
Skewness	0.547765	0.735306	0.068484	0.798043	1.087420	-0.413171	-0.077372
Kurtosis	2.209334	2.756874	1.750867	2.224126	3.624989	1.842502	1.955335
Jarque-Bera	1.901396	2.314383	1.644890	3.280700	5.333898	2.106917	1.161741
Probability	0.386471	0.314368	0.439356	0.193912	0.069464	0.348730	0.559411
Observations	25	25	25	25	25	25	25

Source: Author's calculations using EViews 10.0

**Table 3.** ADF unit root test

Variables	Level	First diff.	Remarks
LNFDI	-1.360938	-5.196091*	I(1)
LNPIT	-1.922790	-4.609671*	I(1)
LNCIT	-1.708275	-3.734838*	I(1)
LNPPT	-2.406483	-4.935740*	I(1)
LNVAT	-3.649774*	-	I(0)
LNGDP	-0.296313	-4.140898*	I(1)
LNREX	-2.570039	-5.202803*	I(1)

Source: Author's calculations using EViews 10.0

- denote 5% level of significance

### ARDL Bounds Test

The study used the limits test to ascertain whether or not there is a long-term equilibrium relationship between this set of variables because the dataset contains both stationarity and non-stationarity [37]. Because the upper and lower critical value limitations at all levels of significance are less than the F-statistic, the null hypothesis that there is no long-term link could not be accepted. As a result, Table 4 demonstrates the existence of a cointegrating relationship among the variables in the model.

**Table 4.** ARDL Bounds Test

F-Bounds Test		HO: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	9.959694	10%	1.75	2.87
k	6	5%	2.04	3.24

Source: Author's calculations using EViews 10.0

### Estimation of long-run coefficients

Table 5 presents the long run estimates:

**Table 5.** Long-run estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNPIT	-1.501317	0.436365	-3.440509	0.0138
LNCIT	-1.691483	0.544328	-3.107467	0.0209
LNPPT	0.083781	0.299365	0.279861	0.7890
LNVAT	-0.037554	0.432066	-0.086917	0.9336
LNGDP	2.289704	0.750860	3.049442	0.0225
LNREX	-3.494631	1.639352	-2.131715	0.0770

Source: Author's calculations using EViews 10.0



Test of hypothesis - decision rule:

HO: No significant impact of taxation on FDI

HA: Significant impact of taxation on FDI

### Hypothesis One

HO<sub>1</sub>: PIT had no significant impact on FDI in Nigeria.

HA<sub>1</sub>: PIT had a significant impact on FDI in Nigeria.

From Table 5, the long-run coefficient of LNPIT indicates a negative and statistically significant impact of PIT on FDI. This suggests that a one percentage point increase in PIT would lead to a reduction in FDI by approximately 1.50%. The statistical significance of LNPIT was inferred from the probability value of  $0.0138 < 0.05$ , indicating that the impact of LNPIT on LNFDI was statistically significant at the 5% level, thereby resulting in the rejection of the null hypothesis HO<sub>1</sub> in favour of the alternative hypothesis HA<sub>1</sub>. Consequently, it was established that PIT exerted a negative and significant impact on FDI in Nigeria.

### Hypothesis Two

HO<sub>2</sub>: CIT had no significant impact on FDI in Nigeria.

HA<sub>2</sub>: CIT had a significant impact on FDI in Nigeria.

The long-run coefficient of LNCIT demonstrates a negative and statistically significant effect of CIT on FDI in Nigeria. The negative coefficient of LNCIT signifies that a one percentage point increase in CIT would result in a decline in FDI in Nigeria by approximately 1.69%. The coefficient of LNCIT was deemed significant owing to its probability value of 0.0209, which is less than 0.05, thereby indicating that LNCIT was significant at the 5% level. As a result, the null hypothesis (HO<sub>2</sub>) was rejected, and the alternative hypothesis (HA<sub>2</sub>) was accepted. Hence, it was concluded that CIT had a negative and significant impact on FDI in Nigeria.

### Hypothesis Three

HO<sub>3</sub>: PPT had no significant impact on FDI flow to Nigeria.

HA<sub>3</sub>: PPT had a significant impact on FDI flow to Nigeria.

With respect to the long-run coefficient of LNPPT, it was noted that PPT had a positive and statistically non-significant effect on FDI in Nigeria. The coefficient of LNPPT suggests that a one percent increase in PPT led to an increase in FDI by approximately 0.08%. The lack of statistical significance of LNPPT was validated by its probability value of  $0.7890 > 0.05$ , which prompted the acceptance of the null hypothesis (HO<sub>3</sub>) and the rejection of the alternative hypothesis (HA<sub>3</sub>). Thus, it can be inferred that PPT had a positive and non-significant impact on FDI in Nigeria.

### Hypothesis Four

HO<sub>4</sub>: VAT had no significant impact on FDI in Nigeria.

HA<sub>4</sub>: VAT had a significant impact on FDI in Nigeria.

The coefficient of LNVAT emerged as negative and statistically insignificant. The coefficient of LNVAT appeared to be negative and statistically non-significant. The estimated coefficient of LNVAT indicates that a one percentage point increase in value added tax resulted in an approximate decrease of 0.04% in FDI to Nigeria. The insignificance of value-added tax was represented by the probability value of  $0.9336 > 0.05$ . This finding leads to the acceptance of the null hypothesis (HO<sub>4</sub>) and the rejection of

the alternative hypothesis (HA<sub>4</sub>). Therefore, the study concludes that value-added tax has a negative and statistically insignificant impact on FDI in Nigeria.

### Parsimonious Short run

Table 6 illustrates how the error correction mechanism (ECM) stored the results of the parsimonious short-run estimation. At the 5% level of significance, the ECM, which indicates how quickly changes in the model return to equilibrium, is negative and significant as expected. This suggests that the current year corrects about 66% of the disequilibrium caused by the shock of the preceding year. Additionally, the R-squared corrected result of 0.957083 indicates that the model used for this work is reasonably good. This suggests that all explanatory and independent variables together account for 95% of the systematic variation in the dependent variable, FDI. Furthermore, the absence of serial correlation is suggested by the Durbin-Watson statistic of 2.149421 (roughly 2). This suggests that the error terms associated with each variable do not correlate. The F-statistic was found to be extremely significant, with a 1% degree of significance. These support the model's strong analytical capacity and usefulness. It was advised that the model undergo all analytical tests based on the results of the diagnostic tests, residual term familiarity (Jarque-Bera), Ramsy RESET for functional form, Lagrange multiplier (LM) for serial correlation (Breusch-Pagan-Godfrey), and ARCH effects for heteroscedasticity. There is no evidence of autoregressive conditional heteroscedasticity or serial correlation there. The model's helpful system is dispersed and itemised properly.

In the short run, there was a statistically significant association between FDI and the independent variables (PIT, CIT, VAT, and PPT). This suggests that the variant of taxes had an immediate impact on FDI flows to Nigeria. While LNPPT and LNCIT had beneficial effects on FDI, LNPIT and LNVAT had an immediate negative impact. While the positive influence of LNGDP on FDI suggests that MNEs were drawn to large markets, the negative coefficient of LNREX suggests that they attempt to minimise risks associated with exchange rate by avoiding investments in Nigeria for those available in other countries where exchange rate was favourable [44], [45].

**Table 5.** Error correction mechanism (ECM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNPIT)	-1.181620	0.118732	-9.951969	0.0001
D(LNCIT)	0.850920	0.148154	5.743471	0.0012
D(LNCIT(-1))	-1.180800	0.209673	-5.631620	0.0013
D(LNPPT)	0.271225	0.101864	2.662629	0.0374
D(LNPPT(-1))	0.430007	0.094501	4.550301	0.0039
D(LNVAT)	-4.325338	0.366729	-11.79436	0.0000
D(LNVAT(-1))	-2.030222	0.436800	-4.647941	0.0035
D(LNGDP)	4.547810	0.710182	6.403727	0.0007
D(LNGDP(-1))	-2.020070	0.432239	-4.673508	0.0034
D(LNREX)	-8.652346	0.950686	-9.101161	0.0001
ECM(-1)	-0.663512	0.212994	-3.115175	0.0076

### Model Criteria / Goodness of Fit

R-squared 0.976591

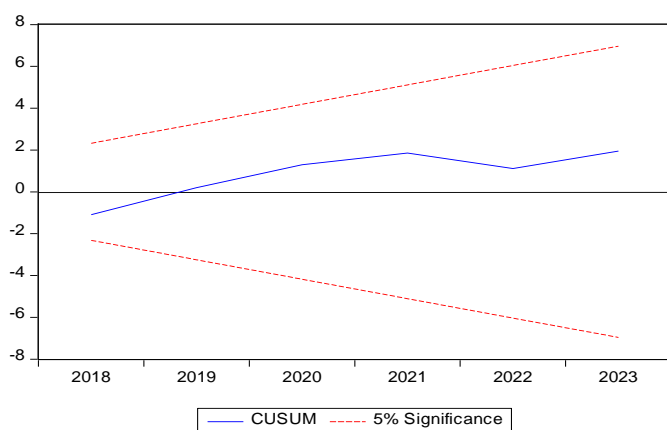
Adjusted R-squared	0.957083
F-statistic	19.92847
Prob.(F-statistic)	0.000000
Durbin-Watson stat	2.149421

**Diagnostic Tests**

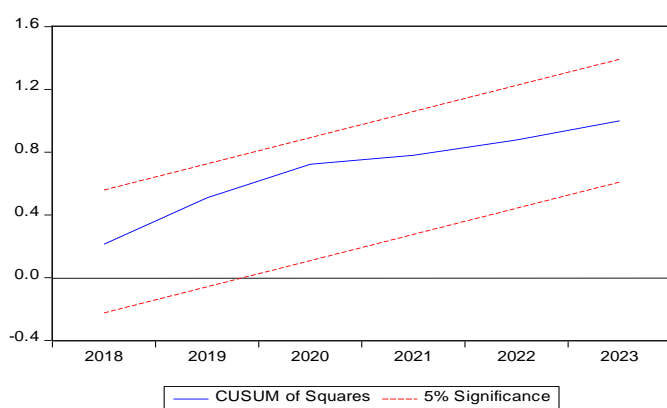
Serial Correlation Test	0.805 [0.508]
Heteroskedasticity Test	0.279 [0.978]
Jarque-Bera	4.250 [0.119]
Ramsey RESET	0.126 [0.881]

**Source:** Authors' calculations using EViews 10.0

Determining whether the short-run (parsimonious) model used for this work is adequate is crucial. Given the foregoing, an additional attempt was made to use the cumulative sum of the recursive residual (CUSUM) and the cumulative sum of squares (CUSUMQ) on the residual of the short-run model to subject the data to stability tests. The error-correction model's residuals fall within the crucial confines of the five percent significant threshold, according to the findings of the cumulative sum (CUSUM) test. This attests to the calculated parameters' stability from 1999 to 2023. As a result, the model's specifications are reasonable.



**Figure 3.** CUSUM Test



**Figure 4.** CUSUMSQ Test

**Discussion of Findings**

The PIT was again found to have a negative and negligible impact on FDI in Nigeria. This suggests that while PIT did have a negative impact on FDI in Nigeria, it was not significant enough to be taken into account. Research like [41], which claimed that since FDI is frequently subject to

corporate income tax, it is also probable that they take the impact of PIT into account, supported this conclusion. Also, this finding is consistent with [25], [26], and [18].

According to the analysis, CIT significantly and negatively impacts FDI flows to Nigeria. This suggests that a rise in CIT deterred FDI in Nigeria, most likely because a higher CIT would result in lower investment returns. This result was consistent with those of [18], but it deviates from those of [13], [19], presumably because of the different time periods and geographic areas that each study examined.

It was discovered that the PPT had an insignificant but positive effect. The low level of tax incentives in the oil industry is the reason for the PIT negligible impact [16]. The petroleum sector confronts challenges in maintaining and growing their business due to high tax rates, numerous taxes, intricate tax laws, and inadequate knowledge or instruction regarding tax-related matters [17].

VAT was found to have a negligible and unfavourable impact on FDI in Nigeria. This suggests that FDI in Nigeria may have been deterred by a potential VAT increase. This refutes the claims made by [11] that Nigeria frequently offers tax breaks to foreign investors in an effort to keep them in the nation. Since certain MNEs are excluded from paying VAT, if the goal of the tax incentive is to attract FDI, the VAT incentive policy may not have the desired effect, as the study indicated that VAT had a negative impact on FDI. This result is consistent with [18] and [25], but it contradicts the findings of [12] and [42]. This discrepancy is most likely the result of the different time periods and methodologies used.

**Recommendations**

The government and policymakers of Nigeria should take into consideration the following suggestions to boost FDI, in light of the findings covered in the preceding paragraphs:

- i. PIT revenue should be properly distributed to benefit every taxpayer (both foreign and local investors) in order to encourage them to pay their taxes as and when due. Therefore, a more efficient method of tax revenue generation should be implemented by Nigeria's regulatory framework for taxes in order to improve the administration of personal income tax. A comprehensive database on personal income tax or taxpayers should be included in the proposal, or the governments should create one with the goal of identifying all potential revenue streams for taxpayers.
- ii. Ways to offer incentives to draw FDI should be specified by policymakers articulating corporation tax regulations. In order to save on overhead expenses for investors, tax revenue should be allocated towards the construction of vital infrastructure, particularly in the productive sectors, which would be attractive to foreign investors. This would have a favourable effect on corporate investment by lowering the cost of doing business in the nation, and Nigeria will see an increase in FDI as a result of this.
- iii. The goal of the government should be economic diversification. As a result, the government's revenue from the PIT should be wisely allocated to the development of

other industries, particularly the agricultural and other mineral resource sectors, as the nation possesses the necessary manpower, favourable climate, and fertile land to attract more FDI into these fields.

- iv. The government should stick with the present VAT rate of 7.5% or lower in order to boost tax compliance, promote investment, and draw in foreign capital. Once more, sufficient oversight of the VAT collection process is necessary to guarantee equitable, fair, and orderly practices in the collection of VAT money, hence increasing government revenue.

### Suggested Areas for Further Research

The underlisted aspects are hereby suggested for future studies.

- i. The study exclusively focused on time series data from 1999 to 2023. As a result, there is a need for further investigations involving comparative analysis of selected SSA economies. This is especially relevant since many prior studies have relied on evidence from a single country;
- ii. Scholars in this field have the opportunity to conduct similar research using a non-quantitative approach, which can assist in providing precise recommendations to Nigeria regarding the provision of suitable policies that maximise the benefits of taxation to FDI; and,
- iii. Upcoming research should aim to broaden the scope of this study to include additional geographical regions across the world. This expansion will contribute to the enrichment of knowledge, considering that the current study is exclusively conducted in Nigeria.

### Contribution to Knowledge

The study's conclusions have ramifications for the regulatory, theoretical, practical, and policy domains. The study's notable and consequential consequences offer Nigerian decision-makers the chance to make well-informed choices and create more effective strategic policies aimed at maximising the advantages of taxes and FDI for multinational corporations. Practitioners and other stakeholders will use the knowledge gathered from this study to convey the advantages of taxes, especially in terms of enhancing FDI inflows and the general growth of the economy.

### Data Availability

Data used in this are available on the World Development Indicators (WDI), Central Bank of Nigeria (CBN) and the Federal Inland Revenue Service (FIRS) databases.

### Conflict of Interest

There is no conflict of interest.

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For this study, the authors did not receive any financial support.

### Author Contributions

Each author contributed equally to this research project. As a result, the work underwent a group review, and all of the authors gave their final approval.

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