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CORPORATE TAXES AND FOREIGN DIRECT INVESTMENTS IN NIGERIA

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ABSTRACT

The study aims to provide invaluable insights into how corporate tax policies impact the inflows of foreign direct and foreign portfolio investments. The study empirically explored the complex relationship between the various forms of corporate taxes, specifically, companies income tax and value added tax and their impact on foreign investments represented by foreign direct and foreign portfolio investments from the year 2000-2022 using an Ex-Post Facto design. The population of this study relates to the Nigeria economy only and the annual time series secondary data were sourced and obtained from relevant literature including the Central Bank of Nigeria (CBN) Statistical Bulletin, the National Bureau of Statistics (NBS) publications, and the annual reports of the Federal Inland Revenue Service (FIRS) among others. Descriptive and inferential statistics were used for the primary and secondary analysis to test the research hypotheses. The Auto Regressive Distributed Lag (ARDL) model was employed for the multivariate analysis to determine the short-run and long run relationship between the variables under study. The findings from this study indicated that corporate taxes (CIT and VAT) have significant impacts on foreign investments in the short - run and long-run. The findings of this study contradicts previous studies or results as we found positive impact of VAT on FDI but negative impact of VAT on FPI in the long run. Based on our findings, higher companies income tax and value added tax affect the propensity to invest in Nigeria. Consequently, we recommended the optimization of tax policies to the Nigerian government by lowering corporate tax rates in order to attract foreign investments. It is also recommended by this study that the government should consider the harmonization of Value Added Tax Policy to reduce the burdens on business thereby making the Nigerian investment climate predictable and attractive to foreign investors.

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KEYWORDS: - Corporate tax, foreign Direct investment, foreign Fortfolio, Petroleum profit tax.

1.0 INTRODUCTION

The concept of tax has severally been described as a mandatory levy charged by the government of a country, state, local council, municipal or jurisdiction on the income and properties of the citizens and corporate bodies in order to generate sufficient revenue that will finance the creation of infrastructures, provision of social services and support the improvement of the entire economy (Appah and Oyandonghan, 2011; Edame, 2011; Worlu and Emeka, 2012; Abata, 2014; Adudu and Ojonye, 2015; Etale and Bingilar, 2016; Oyebanji and Oyebanji, 2017). A tax is a compulsory payment imposed on the income, profit, property, goods, services or transactions of individuals or corporate bodies by the government for its sustenance and for which there is no guaranteed compensatory benefit (Kiabel, 2024). The government in turn use the money so derived from taxes for the development of the entire society (Kiabel, 2024). Tax differs from taxation in that the contribution from individual persons and businesses as imposed on them by the government is referred to as a tax. On the other hand, the gamut of associated activities resulting in the gathering of the contribution is what taxation is all about. In fact, according to Kiabel (2024), taxation is the system of raising money by taxes or the system by which taxes are imposed or the process of collecting taxes within a particular location (National Tax Policy Document, 2017 in Kiabel, 2024). It is difficult to talk about taxes without explaining taxation for clarity. In Nigeria, Taxes are imposed on individual basis (Personal Income Tax, Development Levy); On Corporate Entities (Companies Income Tax, Tertiary Education Tax, Information Technology Levy, Hydrocarbon Tax Etc); On Transactions (Value- Added Tax, Capital Gains Tax, Stamp Duty, Excise Duty, Export Duty) and on assets (Property Tax) (Kiabel, 2024).

Tax revenue has been employed by the government to influence economic activities and attain macroeconomic objectives of a nation such as improved aggregate demand and level of economic services, income distribution and pattern of resource allocation. Umoru and Anyiwe (2013) posit that tax is an involuntary contribution levied on private units such as individuals, properties, or businesses, which enables the government to carry out its capital projects in the country. It does not include public borrowing, user charge fee, gifts, fines and postal rate, etc. It is basically designed to help the government in actualizing its obligation for the entire socio-economic well-being of the citizens.

Foreign investments can be classified in one of two ways: direct and indirect. Foreign direct investments (FDIs) are the physical investments and purchases made by a company in a foreign country, typically by opening plants and buying buildings, machines, factories, and other

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equipment in the foreign country. These types of investments find a far greater deal of favor, as they are generally considered long-term investments and help bolster the foreign country's economy. According to Feldstein (2000), first, international flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment. Second, the global integration of capital market can contribute to the spread of best practices in corporate governance, accounting rules and legal traditions. Proponents of foreign portfolio investment picture it as adding new resources/capital to the host economy in a way that improves efficiency and stimulates economic growth. It is thus viewed as a panacea for economic development by providing the capital underdeveloped countries desperately need to fill their savings-investment gap. The pattern of capital inflows in developed and developing economies are different because of dissimilar economic and political structure. From the point of view of host country, especially the developing countries, portfolio flows are considered to play a pivotal role in bridging the saving investment gap and providing foreign exchange to finance current account deficit. The inflow of foreign capital into stock markets has become a striking measure of economic development in both developed and developing countries. Now the developing countries are witnessing changes in the composition of foreign capital flows in their economies because of the expansion and integration of the world equity market. Foreign Portfolio Investment especially, Foreign Institution Investors (FIIs) have become instruments of international economic integration and stimulation. As per the current economic situation all developing countries need financial stimulus to keep up the growth rate and maintain the favorable balance of payment position.

Growth of foreign capital inflows to emerging world since the end of the 20th century has stimulated debate among the scholars like Markowitz (1952); Tobin (1958) and Blume (1970). This is attributed to change in different economic fundamentals and country specific conditions across the globe. Foreign capital flows play an important role in the economy of every developing and emerging country. These flows bridge the investment gap and fill the capital needs of a country at the domestic and international level.

Amuka and Ezeudeka (2017) viewed FDI as one of the major channels through which technology can be transferred. When foreign investors come to a domestic country, the recipient has a competitive advantage due to the application of new knowledge, technologies, experience, ways of production and management; it is believed that current successful economic growth of developing countries is explained by "catch up effect" in technological development from foreign developed nations. Their companies need multinationals funding and expertise to expand their international sales. Foreign Investments (both foreign direct investment and foreign portfolio investment) are considered to be one of the key drivers of any economy. Many authors (Bayar and Ozturk, 2018; Magombey and Odhiambo, 2017; Iqbal and Mahmood, 2016 and

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Agrawal and Khan, 2011) agree that FDI has a positive impact on the host country's economic growth in the following ways: promoting new jobs, increasing the local country's capital, introducing new technologies and technical experience, promoting export. Joseph and Fidelis (2017) opined that the influx of FDI has been drastically reduced because of the accelerated growth of tax income garnered from foreign investors. However, a sharp drop in FDI aftermath led to a financial crisis. In order to find a solution to this problem, tax incentives were introduced mainly to persuade foreign capital inflow in the country.

Ekpo (2010) posits that FDI is not simply (or even primarily) an international transfer of capital but rather, the extension of an enterprise from its home country into foreign host country. The extension of enterprise involves flows of capital, technology, and entrepreneurial skills and, in more recent cases, management practices to the host economy, where they are combined with the local factors in the production of goods and services (Chenery and Stout, 2006). However, since domestic savings cannot solely finance a country's infrastructure, especially the developing economy, there is therefore need for foreign direct investment (FDI) and foreign portfolio investment (FPI) because of advantages accruing from it, such as managerial skills, marketing connection, technical knowledge, training of local work force, transmission of hard currency into the country with other financial resources, and more importantly, it does not create debts to the government. Thus, the significance of FDI for the provision of infrastructure development cannot be over emphasized.

As the pillar of growth in Africa, Todero (2001) bewails that infrastructure is generally inadequate and of poor quality when compared to developed nations of the world.

Foreign capital has long been accepted as an inevitable input in the development process, given the fact that no country is an island with self-sufficiency on her in terms of needed resources, to stimulate economic growth and development (Orji, 2004).

Nigeria needs substantial amounts of foreign investment to speed up her economic growth most especially, by corporate tax revenue through friendly tax policies to promote development, which will in turn boost GDP. Foreign direct investment is known for improving economic efficiency through gains resulting from increases in international trade, international competitiveness and improved access to foreign markets for domestic products and training of labour force. Considering the fact that domestic capital formation (i.e. Domestic Investment Resources (DIR) is still at its infancy and is relatively low in developing nations, like Nigeria (Wakil, 2004). Other researchers have drawn conclusions that corporate taxes do not affect the flow of foreign investment in a country (Julio et al., 2013; Haberly & Wojick, 2014; Kinda, 2014; Saidu, 2015; Sheedy et al., 2017). Corporate taxes prevalent in Nigeria include but are not limited to company

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income tax charged at 30% of profit, value-added tax charged at 7.5%, tertiary education tax charged at 2% of assessable profit, capital gains tax charged at 10% of the gains on a chargeable asset, customs and excise duty, the Nigerian information technology levy, as well as a hotel consumption tax, hydrocarbon tax. Globally, FDI has risen rapidly in the recent decades with $2.4 billion in 1962, $35 billion in 1990 and $565 billion in 2007 all in current prices (Todaro, 2012). Todaro (2012) mentions that Africa usually receives a small fraction of global FDI, such that, the whole Africa and Southern Africa had shares of only 5.3% and 3.6% in 2009 respectively. This share is low despite the existence of very favorable tax policies in most African countries such as tax incentives, lower relative tax rates and widespread tax holidays for foreign investors wishing to invest. This lower level of FDI seems to be against what the neoclassical investment theory predicts that the lower cost of capital is expected to lead to higher Investment flows (Van Parys and James, 2010). Most developing countries welcome and encourage foreign investors to invest in all industrial sectors of their economies. Developing countries empower foreign investors with various tax benefits. Such benefits as capital allowances, export tax allowances, tax exemptions and concessions that often aim to foster investment, international trade and economic growth (Klemm and Van Parys, 2012).

Surveyed empirical studies have been conducted to determine the effect of corporate taxes on foreign investments such as Edo and Alade 2018; Eiya and Izilin 2019; Olaniyan, Olubunmi, Efuntade and Taiwo 2020 show that Companies Income Tax and Value Added Tax have a positive and significant effect on Foreign Direct Investment (FDI). However, Anichebe 2019; Adejare and Olatunji 2021 reveal that Companies Income Tax has negative and significant impact on foreign investments. Among the Studies conducted in developing countries, for instance, Klemm & Parys (2009) found significant negative relationship between tax revenue and foreign direct investment; Babatunde and Adepeju (2014) found a positive relationship while Kinda (2014), found no such relationship. Other studies like, Peters & Kiabel (2015), Akinwunmi, Olotu & Adegbie (2017) and Saidu (2015), all carried out in Nigeria, showed that taxes negatively related to foreign direct investment. Thuita (2017), found that tax incentives greatly influence the attraction and retention of foreign direct investments. Most of these studies are limited in scope, with most focusing on the effect of tax variables on a particular sector of the economy without considering all sectors of the economy. Others have considered the relationship between these variables but with limited number of years.

Many scholars have actually carried out studies on corporate taxes on foreign direct investment but not on foreign portfolio investment separately especially in terms of their relationship with different tax variables for instance, Odo, Anoke, Nwachukwu and Promise (2016), Akinlo (2004), Eniekezimene (2013), Adaramola and Obisesan (2015), Ohiaeri (2017), etc. Demooij & Ederveen (2001) posited that a substantial variation across studies existed. The results exhibited

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significant variations across countries. Even among the studies carried out in Nigeria, there are still some significant variations. Some of these Studies failed to adopt robust methodologies and use limited sample size in carrying out their research. Also Most of the studies were conducted in Europe and other developed economies that differ significantly from the Nigerian context. All these studies dealt with an aspect of the foreign investments called foreign direct investment. Sometimes in dealing with foreign direct investment, these studies concentrated on either the aspect of foreign direct investment called horizontal foreign direct investment or vertical foreign direct investment claiming lack of data or data challenges, without combining the major essential types of foreign investments namely Foreign Direct Investment and Foreign Portfolio Investment. While there is extensive global literature on the impact of corporate taxes on foreign investments, relatively few studies focus specifically on Nigeria, especially considering its unique economic structure, reliance oil and complex tax system. Consequently, this study fills the gap by providing an in-depth empirical examination on the impact of Corporate Taxes on Foreign Investments in Nigeria by combining foreign direct investments and foreign portfolio investments as proxies for investments using a robust methodology and considering the entire Nigerian economy for an extended period of 23 years (2000-2022) representing the period of civilian administration in Nigeria.

Research Hypotheses

H_{O1}: There is no significant impact of Companies Income Tax on Foreign Direct Investment in Nigeria.

H_{O2}: There is no significant impact of Value Added Tax on Foreign Direct Investment in Nigeria.

2.0 LITERATURE REVIEW

Babatunde and Adepeju (2012) studied the impact of tax incentives in the oil and gas sector, their results show a significant relationship between tax incentives and FDI. The study's findings cannot be generalized because of its limited focus. Saidu (2015) studied corporate taxation and FDI in Nigeria, and found that corporate taxes influence the volume and location of FDI. However, the study only incorporated company income tax rate as the only variable, ignoring other corporate tax variables and the aggregate effect of other taxes on FDI. Seeking to address the gaps George and Bariyima (2015) studied tax incentives and FDI. They found that the response of FDI to tax is negatively significant which aligns with the findings of (Saidu, 2015).

Abdelkader, Efanga, and Gherici (2024) studied effect of petroleum profit tax and foreign direct investment with the main objective of assessing the impact of Petroleum Profits Tax on Foreign Direct Investment in Nigeria. The design selected for this study was ex-post. Data used for the analysis was obtained from the Central Bank Statistical Bulletin and the Federal Inland Revenue

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Service Annual Reports. To achieve this objective, a model based on empirical and theoretical studies was formulated. In this model, foreign direct investment inflows into Nigeria were used as the dependent variable and Petroleum Profits Tax was used as the independent variable in the model. The study used the Fully Modified Least Squares (FMOLS) model for data analysis. The findings from this study indicate that the Petroleum Profits Tax has a significant negative impact on foreign direct investment in Nigeria with the P-value of the study being 0.0078. From the conclusion the researcher concluded that the tax has a significant negative impact on foreign direct investment in Nigeria. Based on the above, the researcher recommended that the government and relevant monetary authorities review the tax policy by reducing tax rates and providing tax incentives and tax relief to companies operating in the downstream sector in Nigeria to encourage further investment in Nigeria. Amuka and Ezeudeka (2017) studied the effect of taxes and the flow of FDI to non-oil sector. The study used company income tax as the only tax variable and produced similar results to those of (Babatunde & Adepeju, 2012; Saidu, 2015). Akinwunmi et al. (2017) studied the effect of the multiplicity of taxes on FDI. The study differs from other studies as they capture the other tax variables such as, value-added tax, custom and excise duties, education tax and a non-tax variable, inflation rate. Other studies such as Obida and Nurudeen (2010); Hunady and Orviska (2014); Kersn-Skabic (2015) after examining the relationship between FDI and its determinants, found that the principal determinants of FDI are the market size of the host country, deregulation, exchange rate, depreciation, and political stability. The effect of taxes was not included in the model. Tessema (2008) argues that multinational corporations (MNCs) operating in Africa are denying African States a huge amount of revenue, mainly using the gaps created by the tax incentives. As a result, African States are losing revenues that could have been used for improving the socio-economic situation of their population. Shafik et al., (2011) studied the effect of taxation on the location of multinational firms in Germany from 2005-2007 using a sample of2332 foreign firms. A logit model was used to estimate the research data. Shafik et al., (2011) reported that taxation is crucial in determining investment location decision. In detail, the result reveals that an increase in corporate tax by 10% reduces the probability of choosing a country to host Greenfield investment by about 6.4%. Nikula and Kotilainen (2012) studied the determinants of FDI flow in nine countries of the Baltic Sea region. The study's findings identified low tax rates as the singular reason why the Baltic Sea region is the preferred investment destination. Similarly, Cung and Hua (2013), using research data between 1999 and 2011, examined the effect of tax burden on FDI flows in Vietnam. The result of the study indicates that tax burden and unit labor costs significantly impacted FDI inflows. Kubicova (2013) examined the role of corporate tax in attracting FDI flows in the European Union using panel data covering a period of 2003 to 2011. Variables used in the study include the flow of foreign direct investment in the EU as the dependent variable while the explanatory variables are gross domestic product per capita, inflation, labor costs, infrastructure, corporate tax, the degree of the economy’s openness and the

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effective tax rate on profit and capital assets. The result shows that effective tax rate and statutory company income tax were insignificant and weak, but had an adverse effect on FDI flow to E.U. countries. Camara (2014) investigated the effect of corporate tax on foreign investments in Ghana; FDI flow was the dependent variable, while the independent variables were exchange rate variations, company income tax, export, interest rate and life expectancy of human capital. Secondary data was obtained from the Ghana's Investments Promotion Centre from 1986 to 2012. The regression result compared with those of Cung and Hua (2013). The coefficient of corporate tax was statistically significant at 1% showing that corporate taxes affect FDI flows negatively, and that an increase in 1% of tax will lead to a decrease in FDI flow. Hunady and Orviska's (2014) study negates the results of Cung and Hua (2013) and Kubicova (2013). The study investigated the determinants of FDI flows into the European Union using panel data and the regression model. The study covered the period from 2004 to 2011 and focused on statutory effective tax rates and FDI from twenty-seven E.U countries. The result demonstrates that corporate taxes had no significant effect on FDI flow, thereby, contradicting previous results. This result agrees with previous work carried out by Hansson and Olofsdotter (2010) where they examined the factors responsible for the differences in tax policies between the old E.U. member countries and the new E.U. member countries. The study adopted an implicit model to determine the flow of FDI flow. Panel data was obtained from twenty-seven E.U. countries from 1995-2006. The study found no link between tax and the decision to invest, and the differentials in tax rate were not a determinant to FDI decisions. Similarly, Odhiambo (2013) examined the relationship between investment rate and corporate taxes in Kenya. The regression result shows that the variation in investment rate was poorly explained by the variation in corporate tax. The result corroborates Musyoka (2012) who examined the relationship between tax incentives and FDI in Kenya. Musyoka (2012) observed no significant improvement in FDI flow after implementing tax incentives. These findings are in consonance with that of Hungerford (2012), the study examined FDI inflow in the USA using a time series data between 1945 and 2009. Hungerford (2012) concludes that the reduction in tax rates had little association with investment, productivity, growth and savings. Following the metrics adopted in previous studies, Golpira et al, (2016) investigated data from the European Union region between 2000and 2012 to determine the effect of corporate income tax on foreign direct investments in Central and Eastern Europe. Golpira et al, (2016) analyzed tax and non-tax variables such as market size, market distance, labor cost, level of privatization, openness, inflation including corporate income effective tax rate. The regression results show that corporate tax has a significant impact on FDI into the Central and Eastern European countries. Andre (2015) examined the effects of corporate taxes on FDI in Portugal. The study assesses the impact of taxes on FDI in Portugal by analyzing FDI data from 1996-2013. Key variables examined in the study include FDI flows as the dependent variable, while corporate tax, exchange rate, corruption index, labor cost, public investment per GDP were the explanatory

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variables. Ordinary least squares (OLS) and multiple regressions were the estimation method applied in the study. The result shows that corporate taxes are negatively correlated with FDI while exchange rate and corruption had a negative relationship with FDI flows.

Empirically, the relationship between FDI and economic growth has been severally well-known in both developed and developing countries with variable degrees of causal relationship which have been associated with macro-economic factors as well as political conditions of the economy in question. Bende-Nabende (2002) in Oyatoye, Arogundade, Adebisi and Oluwakayode (2011) recognized a direct long term influence of foreign direct investment on output and equally found out that substantial and positive relationship exist for comparatively economically less advanced Philippines and Thailand but adverse in the more advanced Japan and Taiwan. In Ekperiware (2011), positive correlation was established between the variables of foreign Direct Investment and economic growth in Nigeria but he came to the deduction that the rate at which individualsector or variables of FDI affects economic growth varies as the way economic endowment will attract FDI from the rest of the world will be different. That is, sectors such as service, manufacturing, Agriculture etc. will attract the inflow of FDI at different degrees.

Onu (2012) used the econometric modeling of multiple linear regressions to determine the impact of FDI on economic growth in Nigeria using the data for the period 1986-2010 and came up with affirmative relationship of FDI on GDP for Nigeria within the period of study. He rationalized that the rise in national savings and investment is a fundamental approach for economic growth and that FDI is an engine for economic growth. Olokoyo, (2012) examined the effects of Foreign Direct Investment (FDI) on the development of Nigerian economy.

3.0 METHODOLOGY

A research design serves as a roadmap of sorts for the investigator while they conduct their study and analysis. Typically, the aim is to discover solutions for the research inquiries. Thus, the study design known as Ex-Post Facto was employed. According to Gujarati (2009), ex-post facto designs are best suited for research that uses available data to establish new knowledge. This is because the study looks at correlations between causes and effects in situations where the causes are fixed and cannot be changed Onwumere (2009). Since the information gathered was secondary in nature, the ex-post facto design in this investigation is deemed to be highly appropriate.

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4.0 RESULTS

Table 1: Correlation Matrix of Variables

Correlations Probability Observations	**LFDI**	**LFPI**	**LCIT**	**LVAT**
LFDI	1.000000			

	23			
LFPI	0.546434	1.000000		
	0.0070	----		
	23	23		
LCIT	0.468604	0.763104	1.000000	
	00241	0.0000	----	
	23	23	23	
LVAT	0.398883	0.715882	0.988028	1.000000
	0.0594	0.0001	0.0000	---
	23	23	23	23

Source: Survey Data, 2024

Table 2: Initial Result of FDI Equation

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.***
LFDI(-1)	0.032185	0.197181	0.163223	0.8757
LCIT	-0.690205	0.415871	-1.659663	0.1481
LCIT(-1)	4.228089	0.782714	5.401831	0.0017
LCIT(-2)	2.775342	1.200381	2.312050	0.0601
LCIT(-3)	5.659230	0.963510	5.873554	0.0011
LVAT	-3.503048	0.553978	-6.323441	0.0007
LVAT(-1)	-5.138257	0.921163	-5.578009	0.0014
LVAT(-2)	-7.532288	0.938466	-8.026168	0.0002
LVAT(-3)	-4.819106	0.700569	-6.878846	0.0005

R-squared	0.870814	Mean dependent var	6.477757
Adjusted R-squared	0.590911	S.E. of regression	0.702592
S.D. dependent var	0.449378	Akaike info criterion	1.434125
Sum squared resid	1.211646	Schwarz criterion	2.131137
Log likelihood	-0.341245	Hannan-Quinn criter.	1.570189
F-statistic	3.111129	Durbin-Watson stat	2.361468

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Prob(F-statistic)	0.035840

Source: Survey Data, 2024.

According to the result obtained, none of the components of corporate tax exerts significant instantaneous impact on FDI in the long-run as only their respective first lags impact on FDI. While the first lags of Companies Income Tax (CIT) exert positive impacts on FDI in the long-run that of VAT is negative. The long-run FDI elasticity of CIT is 11.972 and it has a one-period latency effect. The responsiveness of FDI to changes in VAT in the long-run is-20.993 with a latency effect of one-period on FDI. In effect, a 1% increase in CIT is expected to result in a 11.972% increase in FDI; but a 1% increase in VAT is anticipated to result in 20.993% decrease in FDI.

In the short-run however, only CIT and VAT affect FDI Also, whereas in the long-run the respective corporate tax components' effects have latency period of one, in the short-run the two significant tax components exert up to two-period latency effect on FDI. Furthermore, they switch sides in the direction of their effects as VAT now have positive effects while CIT's effect is now negative. This dynamic nature of the effect of corporate tax on FDI justifies concern about the model's capacity to adjust and revert back to equilibrium in the long-run.

Hypothesis One (Ho_1):

Accordingly, with respect to hypothesis one (Ho_1), the foregoing analysis has produced results suggesting the rejection of the null hypothesis that: *Companies Income Tax does not significantly affect Foreign Direct Investment in Nigeria.*

Results show that CIT affects FDI both in the short and long-run as indicated by the probability values of its coefficient at various lags. For instance, at 5% level of significance, analysis produced FDI's response coefficient of first lag of CIT as 11.972% increase for every 1% increase in CIT in the long-run. In the short-run however, FDI decreases by 8.435% for every 1% increase in first lag of CIT, and decreases by 5.659% for every 1% increase in second lag of CIT. In other words, analysis shows that Companies Income Tax significantly affects FDI in Nigeria. Therefore, with respect to Hot, the null hypothesis is strongly rejected, hence affirming that Companies Income Tax significantly affect Foreign Direct Investment in Nigeria.

Hypothesis Two (Ho_2):

As evidenced by the probability values of its coefficient at different lags, the results demonstrate that VAT has an impact on FDI over the short and long terms. For example, the research yielded an 20.993% fall in FDI's response coefficient of first lag of VAT for every 1% increase in VAT over the long term, at the 5% level of significance. However, in the near term, for every 1%

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increase in the first lag of VAT, FDI rises by 12.351%, and for every 1% increase in the second lag of VAT, it rises by 4.819%. Put differently, data indicates that Value-Added Tax has a major impact on Foreign Direct Investment in Nigeria. For this reason, we conclude that value added tax exerts significant impact on the Foreign Direct Investment in Nigeria.

5.0 DISCUSSION OF FINDINGS

Based on the impact's latency and the proxy employed to represent foreign investment, analyses of the effect of Companies Income Tax (CIT) on foreign investment have yielded inconsistent results regarding the impact's direction. When utilized as proxy for foreign investment, foreign portfolio investment (FPI) and foreign direct investment (FDI) both showed long-term positive effects. However, CIT had a detrimental short-term impact in addition to a long-term favorable impact on FDI. Thus, CIT exerts both short and long-run impacts on FDI, while it exerts only long-run impact on FPI.

Table 3: Results Summary of CIT and Foreign Investments

Hypotheses	**ARDL Model Short-Run Effect**			**ARDL Model Long-Run Effect**		**Decision on Hypothesis**
	Current	**Lag 1**	**Lag 2**	**Current**	**Lag 1**	
CIT on FDI (H_{O1})		-8.435**	-5.659**		11.972**	Reject
CIT on FPI (H_{O2})				1.762**		Reject

With respect to CIT and FDI, the results obtained is in tandem with the eclectic theory which presupposes that international investors are attracted to tax-friendly countries where it is conducive for their business to thrive. This implies that the CIT laws implemented by one nation may have diverse effects on nations. A nation's tax base may move to nations with less onerous tax regimes if its domestic tax burden is higher than that of other nations, suggesting outward flows of foreign direct investment. Additionally, nations can compete to draw in foreign investment. Where businesses choose to disclose their profits may also be heavily influenced by taxes. Anecdotal evidence actually indicates that multinational corporations invest a significant amount of money on tax-planning strategies involving cross-border transactions, such as transfer pricing, in order to reduce their tax obligations.

These results are partially supported by prior studies (Okoi and Edame, 2013; Ekpung & Wilfred, 2014; Saidu, 2015; and Eyisi et al., 2015) though replete with contradictions due to methodological shortcomings. In the same token, Saidu (2015) investigated the association between corporate taxation and foreign direct investment in Nigeria from 1970 to 1980. The result revealed a negative significant relationship between corporate taxation and foreign direct investment. However, the current study corroborates the findings by Eyisi et al. (2015) who

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investigated the association of taxation and foreign direct investment in Nigeria. They used 2002 to 2011 data and found a positive and significant relationship between company income taxation and foreign direct investment in Nigeria.

With respect to CIT and FPI, former is reported to relate with the latter significantly and positively. This is against a priori reasoning, since, in theory, tax reduces the apportion able returns to investors, whether in terms of withholding tax on dividends or interest received. Using corporate income tax as proxy in this study, it is plausible that the last-income-recipient axiom which postulates that investors will always prefer a situation where a company generates as much earnings as possible such that the eventual returns to the shareholders (the last-income-recipients) are maximized, even after tax-deductions are made. Thus, investors are happy investing in corporations that promise high after-tax returns, which may explain why tax is not a deterrent to portfolio investments. The findings tend to align with the a priori expectation according to the Portfolio Allocation Model, where it postulates that individual international investors seek to maximize the present value of their utility, which are derived from expected return on a portfolio of capital assets driven by certain components of equilibrium capital flows, chief among which is the divergence effect. The initial divergence effect is the ratio of initial divergence between foreign and domestic (the starting level of capital stock) and inter-temporal equilibrium holdings of foreign and domestic assets respectively.

The current study has also produced mixed results on the impact of Value-Added Tax on foreign investments in Nigeria. Unlike in the case of CIT which is a Direct Tax, VAT is an indirect tax where the last-income-recipient axiom does not apply. Rather, the effect of tax on foreign investments is transmitted through the price mechanism at its attendant implications for consumers' demand elasticity. For instance, VAT can increase the cost of goods and services for foreign investors, potentially reducing their profit margins. This puts firms (both local and foreign) under pressure to increase prices of goods and services, thereby exposing firms to lower demands for their goods and services. Lower demands for their goods and services discourage investment, hence eliciting investment relocation decision.

Table 4: Results Summary of VAT and Foreign Investments

	ARDL Model Short-Run Effect			**ARDL Model Long-Run Effect**		**Decision on Hypothesis**
Hypotheses	**Current**	**Lag 1**	**Lag 2**	**Current**	**Lag 1**	
VAT on FDI (H_{O2})		12.351**	4.819**		-20.993**	Reject
VAT on FPI (H_{O5})				-1.727**		Reject

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With respect to FDI, VAT has short-run and long-run, as well as positive and negative impact on FDI. In the short-run, the effect of VAT on FDI is latent; both first and second lag being positive. This implies that in the short-run, VAT induces FDI inflows into Nigeria. This is plausible because of a number of reasons. First, revenue accruing from VAT are used to provide infrastructure which is a source of attraction (pull-in factor) for foreign direct investments. Secondly, the administration of VAT in Nigeria leaves lots of rooms for improvement. These lapses create loopholes for tax evasion/avoidance behaviors for multinationals to exploit to their advantages, hence presenting Nigeria as tax haven, especially given her market capacity. Thirdly, the inefficiencies from VAT administration are skewed in favour of multinational corporations at the expenses of domestic businesses thus giving the former some competitive edge.

6.0 CONCLUSION AND RECOMMENDATIONS

First, there is a clear relationship between corporate taxes and foreign investments in Nigeria. Based on the impact's latency and the proxy employed to represent foreign investments, analyses of the impact of Companies Income Tax (CIT) on Foreign Investments have yielded inconsistent results regarding the impact's direction. When utilized as proxy for foreign investment, Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI) both showed long-term positive effects. With respect to CIT and FDI, the results obtained is in tandem with the eclectic theory which presupposes that international investors are attracted to tax-friendly countries where it is conducive for their business to thrive. This implies that the CIT laws implemented by one nation may have diverse effects on nations. A nation's tax base may move to other nations with less onerous tax regimes if its domestic tax burden is higher than that of other nations, suggesting outward flows of foreign direct investment. Additionally, nations can compete to draw in foreign investment. Where businesses choose to disclose their profits may also be heavily influenced by taxes. Anecdotal evidence actually indicates that multinational corporations invest a significant amount of money on tax-planning strategies involving cross-border transactions, such as transfer pricing, in order to reduce their tax obligations.

The findings partially contradict those of Okoi and Edame (2013), who opined that company income tax is a factor that determines the position and inflow of foreign direct investment in a nation. The authors found that a high company tax rate has an enormous effect on foreign direct investment and gross domestic product in Nigeria. The study however argued that a rise in the company income tax rate would discourage foreign direct investment in the country. A high corporate income tax rate would reduce foreign investors' incentives to invest in both human and physical capital. Furthermore, when the corporate tax rate is high, foreign investors will look for other places to invest, while domestic investors will look for investment projects abroad where taxes are low. Similarly, the study also partially contradicts those of Ekpung and Wilfred (2014) who examined the impact of taxation on investment and economic development in Nigeria. The

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study revealed a negative relationship between company income tax and investment. This connotes that there was an inverse relationship between company income tax and investment. By implication, the result showed that one percent (1%) increase in company income tax will result in one percent (1%) decrease in the level of investment in Nigeria. They noted that a high company tax is not good for economic growth and it discourages foreign direct investment. In the same token, Saidu (2015) investigated the association between corporate taxation and foreign direct investment in Nigeria from 1970 to 1980. Based on the potential findings of this study, the following recommendations are made:

1. The study recommends that Nigerian government and policy makers should consider lowering corporate tax rates or offering tax incentives to attract both foreign direct investment and foreign portfolio investment.
2. The government should consider revising petroleum profit tax or offering sector specific incentives to encourage more investments in this critical area since the impact of petroleum profit tax on investments is significant in attracting foreign investors to this sector.
3. The government should also consider harmonizing VAT policies to reduce the tax burden on businesses thereby making the investment climate more predictable and attractive to foreign investors.
4. The Nigerian government through the Central Bank of Nigeria should focus on policies that stabilize the exchange rate by building foreign reserves, managing inflation or adopting a more flexible exchange rate regime.

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