JORMASS
Volume 11, Issue 1, June 2025
JOURNAL OF RESEARCH IN MANAGEMENT AND SOCIAL SCIENCES
DOI: To be assigned

Analysis of the Effect of Company Income Tax Policies and Foreign Direct Investment (FDI) in Nigeria

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ABSTRACT:
The study examines the impact of company income tax (CIT) policies on foreign direct investment (FDI) in Nigeria over 34 years (1990–2023). The ex-post facto design was adopted, and annual time series data was sourced from the Central Bank of Nigeria (CBN) statistical bulletin, Federal Inland Revenue Service (FIRS), and the World Bank published statements. Employing both short-run and long-run Autoregressive Distributed Lag (ARDL) models, the study provides a comprehensive empirical analysis of the CIT–FDI nexus. Findings reveal a long run, CIT rate, GDP growth, inflation, unemployment, and exchange rates significantly influence FDI. In the short run, GDP growth, interest rate, government capital expenditure, and inflation fluctuations emerge as critical determinants. The study concludes that while CIT policies matter for FDI, their effectiveness is conditional on broader macroeconomic and institutional contexts. The study concludes that while CIT policy exerts a statistically significant influence on long-term FDI inflows, its efficacy is contingent upon broader macroeconomic stability and institutional coherence. A competitive and predictable corporate tax regime that is complemented by infrastructure development, monetary stability, and regulatory transparency is imperative for positioning Nigeria as an attractive destination for sustainable foreign investment. The study recommends periodic reforms to the CIT framework, reduction of tax rates to match regional benchmarks, and the creation of a stable, investor-friendly environment through infrastructural development and regulatory clarity. These insights provide strategic direction for policymakers aiming to enhance Nigeria's investment climate and optimize tax revenues through sustainable FDI inflows.
KEYWORDS: *CIT, FDI, Tax Policy, GDP Growth, FDI inflows.*

MANUSCRIPT TYPE:
Research Paper

PUBLICATION DETAILS:
Received: XX Mar. 2025
Revised: XX Apr., XX Mayl 2025
Accepted: XX June. 2025

Publication of College of Management Sciences, Michael Okpara University of Agriculture, Umudike Nigeria

INTRODUCTION

Foreign Direct Investment (FDI) is a vital driver of economic growth, particularly for emerging economies like Nigeria. It provides a crucial source of capital, promotes technology transfer, fosters employment, and enhances productivity. As a developing nation with significant potential, Nigeria has continuously sought to attract FDI to diversify its economy and spur sustainable growth. However, despite being one of the largest economies in Africa, Nigeria has encountered challenges in attracting consistent and diverse FDI due to factors such as infrastructure deficits, regulatory hurdles, and economic volatility (World Bank, 2023).
Following the country's democratic transition in 1999, Nigeria's government has worked to improve the investment climate by introducing economic reforms and offering incentives for foreign investors. One primary focus has been on tax policies, which play a crucial role in investment decisions, as they influence investments' overall cost and profitability. Nigeria's Companies Income Tax Act (CITA) was amended to

include various incentives, such as tax holidays, capital allowances, and duty-free zones, to foster a more competitive business environment (Nigerian Investment Promotion Commission [NIPC], 2023).

Company income tax policies are particularly significant for FDI, as multinational firms often weigh tax implications before selecting investment destinations. In countries with favourable tax regimes, companies can maximize their returns, thus boosting overall FDI inflows. Research consistently highlights the importance of corporate tax policies in attracting FDI, with studies indicating that countries offering reduced tax rates or incentives tend to attract more investments than those with high tax burdens (UNCTAD, 2023; Deloitte, 2023).

Nigeria's tax policies include several initiatives to attract FDI, such as the "pioneer status" program, which provides a tax holiday of up to five years for qualifying firms in sectors considered critical for national growth. Additionally, establishing free trade zones offers foreign investors duty-free business environments to reduce operating costs. These measures are aligned with the notion that lower tax burdens can create an appealing investment climate, ultimately leading to economic diversification and increased employment (Central Bank of Nigeria [CBN], 2022).

However, while tax incentives can boost FDI, they affect government revenue. Corporate tax revenue forms a significant part of Nigeria's fiscal base, funding essential services and public infrastructure. There is a need to balance tax incentives with maintaining a sustainable revenue base. Some studies argue that overly generous tax incentives may undermine revenue generation without guaranteeing long-term investment commitments. This concern is supported by findings highlighting the impact of other structural challenges, such as political instability and regulatory inconsistencies, on Nigeria's investment climate (PwC, 2023; IMF, 2022).

Internationally, the effectiveness of tax incentives on FDI attraction remains a point of debate. While tax incentives can attract initial investments, broader economic stability and transparency often influence long-term FDI inflows. For Nigeria, tax incentives alone may not offset existing socio-economic barriers that affect investment perceptions, such as income inequality, poverty, and infrastructure gaps (African Development Bank [AfDB], 2022; OECD, 2022).

The Nigerian government's commitment to economic reforms further aligns with the New Partnership for Africa's Development (NEPAD) objectives, which seek to strengthen economic integration and growth across the continent. Nigeria's tax policy reforms under the amended CITA (2007) aim to create a conducive environment for FDI, balancing investor incentives with critical revenue generation for development. The government's emphasis on sector-specific incentives, especially in manufacturing, agriculture, and technology, reflects a targeted approach to boost FDI in high-growth potential sectors (Federal Inland Revenue Service [FIRS], 2023).

This study seeks to assess the long-term impacts of Nigeria’s company income tax policies on foreign direct investment from 1990 to 2023, focusing on the extent to which tax incentives have successfully encouraged foreign direct investments. The researcher tries to establish an empirical linkage between FDI and company income tax policies in Nigeria over time to ascertain its effectiveness in encouraging foreign direct investors to invest in the country and understand how foreign direct investors react to tax policies in Nigeria.

Nigeria, a leading African economy with a diverse mix of industries, including finance, telecommunications, and technology, has long pursued foreign capital to fuel economic growth and address persistent development challenges. Despite Nigeria's wealth of natural resources and business opportunities, attracting sustainable foreign direct investment (FDI) remains challenging. Like many emerging economies, Nigeria has introduced various tax incentives - such as tax holidays, free trade zones, and capital allowances - to draw FDI and stimulate economic activity. However, the country’s FDI inflows have been volatile, with notable declines over the past decade (World Bank, 2023). This trend suggests that tax incentives alone may not overcome the barriers to foreign investment in Nigeria (PwC, 2023).

Foreign investors, primarily motivated by profit, carefully evaluate the investment landscape to optimize their returns. While tax incentives can initially attract FDI, evidence suggests they may also lead to unintended consequences. For instance, tax incentives may erode government revenue, hindering funding for public infrastructure and services essential for sustainable development. Furthermore, tax incentives can distort market dynamics, as favourable tax rates for foreign investors could create a competitive disadvantage for domestic firms, leading to concerns about economic inequality (UNCTAD, 2023; Deloitte, 2023).

Nigeria’s dependence on foreign capital has intensified amid ongoing efforts to diversify away from oil. However, these efforts are hindered by structural issues, such as inadequate infrastructure, security concerns, and an unpredictable regulatory environment. Research highlights that FDI tends to flow more consistently to countries with stable economic environments and strong institutions rather than solely in response to tax incentives (AfDB, 2022). Consequently, the efficacy of Nigeria’s tax policies in attracting stable and long-term FDI remains questionable.

Current data indicate that FDI inflows to Nigeria have lagged behind other developing countries, such as China, which attracted $347.85 billion in FDI in 2023 despite regulatory restrictions. In contrast, Nigeria's FDI fell to around $5 billion, reflecting a downward trend in 2011 (World Bank, 2023; UNCTAD, 2023). This disparity raises concerns about the structural factors beyond tax incentives that may deter investors from the Nigerian market.

The allocation of tax incentives to foreign firms may result in inequities in tax burdens for domestic companies, potentially leading to multiple taxation issues. Edmiston et al. (2023) argue that governments often shift tax liabilities to firms without incentives, placing additional burdens on local enterprises. This approach could undermine the competitiveness of domestic businesses, thereby stifling long-term economic growth and development (OECD, 2023). Moreover, the complexity of administering tax incentives presents significant management challenges for Nigeria's tax authorities, risking inefficiencies and corruption (Morisset, 2023). It is against this background that this study examines the impact of company income tax policies on foreign direct investments in Nigeria (1990 – 2023). This is significant given the current economic challenges facing Nigeria. Therefore, specifically, this study will provide insights that will guide policy by estimate the long-run impact of company income tax policies on foreign direct investments within the period under review and also estimate the short-run impact of company income tax policies on foreign direct investments within the period under review.

LITERATURE REVIEW

Taxation, company Income Tax and Foreign Direct Investment

Tax is government levies on the earnings, assets, and capital gains of people and companies and on the purchase of real estate and products and services. Compulsion is one facet of taxation. Regardless of their feelings, taxpayers must make their bills. No one can pay or not pay once the tax has been imposed unless they are engaging in unlawful actions, such as tax evasion (Amuka & Ezeudeka, 2017). These taxes are collected to aid in transferring funds from private to public uses; reduce inflation in a nation and also used to promote social justice by redistributing wealth and income. A nation can encourage a more equal society by implementing different tax and subsidy schemes. As individuals, companies also pay tax from their earnings and income. According to Davies et al. (2016), company income tax is due primarily on earnings at the 30% corporate income rate. However, the statute allows the Federal Board of Inland to consider a position of the foreign business turnover gross income as profit, as stated by the previous companies liable to such, 200 of which operate in Nigeria and furnish the Federal Government of Nigeria with complete accounts. Therefore, 20% of the turnover would represent the company's perceived income. The ultimate assessment would equal 6% of total revenue, and the income would be taxed at the existing corporate tax rate of 30%. Since 5% would have been withheld, the company would have been liable for income tax at 1% of its earnings.

Purchasing assets to earn income or see their value increase over time is known as investing (Chen, 2018). Foreign-based investments are referred to as "foreign." It is also possible to invest directly or indirectly. One type of foreign investment that offers the investor considerable control over the foreign investee's management is direct investment. Therefore, the cross-border purchase of financial and/or physical assets by foreign governments or people with some controlling powers is referred to as foreign direct investment, or FDI. These foreign direct investors may be private citizens, businesses, or a whole country (Andre, 2015). "Foreign direct investment" refers to the process by which an individual or organization invests in a nation other than their home country, either through establishing a firm or purchasing commercial assets (John, 2016). Foreign direct investment (FDI) is defined similarly by the Financial Times Lexicon as an investment that grants the investor controlling ownership of a company with its headquarters situated in a nation other than their own (lexicon.ft.com). Since it enables the sourcing of capital, technology, and other managerial skills from other nations, foreign direct investment (FDI) is a significant economic concern. Indeed, foreign direct investment can be influenced by a variety of circumstances. These elements could include increased average rates of markets, earnings, and resources and the creation of additional resources or tax incentives (Berkeley, 2019; Essays, 2018).

Company Income Tax and Foreign Direct Investment

The income and revenue of businesses operating inside a nation's borders are subject to the Company Income Tax (CIT). CIT, a crucial source of funding for the Nigerian government, is governed by the Companies Income Tax Act (CITA). Based on the size and type of business, Nigeria's CIT tax rate falls typically between 20% and 30%. The money raised from CIT is often used to fund social welfare programs, public infrastructure, and other development projects. On the other hand, international companies and individuals make significant financial investments in the Nigerian economy through foreign direct investment, or FDI. FDI provides access to foreign markets, technology, knowledge, and outside funding.

It may help various businesses, including manufacturing, services, and infrastructure, which will boost the economy and create job possibilities. Nigeria has tried to draw in foreign direct investment through incentives, legislative changes, and efforts to foster a business-friendly environment.

The connection between CIT and FDI is complex. By lowering the cost of conducting business, a competitive CIT rate may draw foreign investment (Oboh, 2021). High CIT rates, however, can discourage FDI since businesses aim to increase their profitability. Thus, finding the ideal balance between attracting foreign direct investment and collecting CIT revenues is essential for sustainable economic growth. Nigeria has had both positive and negative experiences with FDI and CIT. About CIT, the government has been attempting to improve compliance, reduce tax evasion, and expedite tax administration. The Voluntary Assets and Income Declaration Scheme (VAIDS) was a noteworthy initiative designed to promote tax compliance and raise CIT income, according to Ebekozien et al. (2012). Nigeria has made it easier to do business in an attempt to attract foreign direct investment. Foreign companies now find it easier to enter and operate in Nigeria because of the creation of the Nigerian Investment Promotion Commission (NIPC) (Efanga et al., 2020). Significant FDI has also been seen in telecommunications, financial services, and energy sectors, which has helped these industries thrive. However, problems still exist. Complex tax laws and uneven enforcement may hamper the attraction of FDI and the collection of CIT income. Foreign enterprises have faced challenges due to bureaucratic inefficiencies, inadequate infrastructure, and security concerns. Continuous adjustments to tax administration, investment promotion tactics, and regulatory frameworks are necessary to address these issues (Cung & Hua, 2013). Foreign direct investment and corporation income tax play a significant role in Nigeria's economy. A healthy CIT system funds government projects, while a well-managed foreign direct investment (FDI) plan can spur economic growth and technical innovation. Nigeria's sustained performance on the international scene would depend on finding the ideal balance between CIT rates and FDI incentives, and ongoing initiatives to enhance the business climate (Kwaji & Dabari, 2017). Several evidence such as Ugwu (2018), Olaniyi et al. (2018) and Amuka and Ezeudeka (2017) show that that CIT and FDI relationship is significant**.** Taxes serve as incentive in attracting foreign investment and support for other businesses (Kiburi et al., 2017). Despite this, other studies such as Eshghi and Eshghi (2016) and Akinwunmi et al. (2017) observed that higher taxes reduce FDI inflows. This has opened conversation around the relationship between the variable and specific factors that impacts CIT and FDI; and how prioritizing legislative reforms targeting PPT, CIT, and PIT components can foster increased FDI inflows into Nigeria (Oboh, 2021). These are some of the answers this study will present perspectives for. Our study is significant given the current tax reforms currently before the Nigeria legislature.

Theoretical Review

Theory of Tax Competition

According to Oats' 1972 theory, governments intentionally lower economic barriers to promote the inflow of valued resources and decrease the outflow of resources used for production. Accordingly, Kiburi et al. (2017) propose that government initiatives to lower economic barriers to attract more foreign investments, exceptionally skilled and competent human and financial capital, could be understood using the tax competition theory. The idea behind tax competition theory is that countries purposefully reduce their tax rates to draw in foreign companies and investments in an effort to increase economic growth and competitiveness. As countries compete to provide more advantageous tax conditions, this tactic typically entails a race to the bottom. The Hypothesis's premise is that tax reductions might attract foreign investment, which could result in economic growth, job creation, and technology transfer. Nigeria has been aggressively pursuing tax competition as a developing nation looking to draw in foreign direct investment. The government has used several tactics to encourage foreign businesses to invest in Nigeria. Nigeria wants to draw in more international investment by providing tax benefits. These measures are intended to boost economic expansion, provide employment, and ease the transfer of technology expertise. However, there is disagreement over the efficacy of tax competition and how it affects foreign direct investment in Nigeria. Tax rate reductions have the potential to draw in foreign investment, but their sustainability is debatable. Over-reliance on tax credits may result in lower government revenue, which could impact infrastructure development and public services. Furthermore, because FDI may be concentrated in particular industries or geographical locations while ignoring others, its advantages might not necessarily spread across the economy.

METHODOLOGY

Research design

This study adopted an ex-post-facto research design, which was considered appropriate given the reliance on time series data and secondary data sources. The ex-post-facto design was chosen because it allowed the

researcher to analyze variables in which the independent variable had already occurred, thereby enabling a retrospective examination of its relationship with the dependent variable (Fraid, 1973). This approach was deemed particularly suitable for assessing the influence of corporate tax policies on foreign direct investment in Nigeria.

Sources of data

The study analyzed several key variables, including the growth rate of foreign direct investment (GDI) and corporate tax policies (CTP), as well as moderating variables such as GDP growth rate (GDPGR), interest rate (INTR), inflation rate (INFL), and real exchange rate (REXR), spanning 34 years from 1990 to 2023. A time series data approach was utilized, with information from reputable secondary sources. Specifically, data were obtained from Central Bank of Nigeria (CBN) publications and the 2023 annual reports of the Federal Inland Revenue Service (FIRS). This comprehensive data collection provided a robust foundation for analyzing the relationship between company income tax policies and foreign direct investment in Nigeria.

Method of data analysis and model specification

This study's data were analyzed using descriptive and inferential statistics, with the primary methodology based on the Autoregressive Distributed Lag (ARDL) model. The ARDL model was chosen due to its flexibility in estimating both short-run and long-run relationships between variables, even when the data series were of mixed orders of integration [I(0) and I(1)].

As proposed by Pesaran and Shin (1999) and further supported by Arize et al. (2008), this approach proved particularly effective for examining the dynamic interactions among variables over time. The ARDL model offered several advantages, including unbiased estimates and efficiency in small sample sizes, which made it well-suited for the available data and the study's specific objectives.

Objectives one (1) and two (2), which determined the long-run and short-run impact of company income tax policies on foreign direct investment in Nigeria, were analyzed using the Autoregressive Distributed Lag (ARDL) model. Unlike traditional cointegration methods such as Engle and Granger (1987) and Johansen and Juselius (1990), which require variables to be of the same order of integration, the ARDL bounds testing approach by Pesaran et al. (2001) was used. The ARDL method is suitable for variables with mixed integration orders (I(0), I(1), or both), making it more flexible for this analysis. Haug (2002) also suggests that the ARDL approach is more effective for small sample sizes and simultaneously estimates both short- and long-run parameters. According to Pesaran et al. (2001), the dependent variable must be I(1), while independent variables can be I(0) or I(1). Based on empirical literature, theory, and diagnostic tests, the long-run relationship between company income tax policies on foreign direct investment in Nigeria is specified as follows:

$$InFDI_t = \lambda_0 + \lambda_1 InCITR_t + \lambda_2 InGDPG_t + \lambda_3 InINTR_t + \lambda_4 InINFR_t + \lambda_5 InGCE_t + \lambda_6 InUER_t + \lambda_7 InEXR_t + \varepsilon_t \quad (1)$$

Where,

λ's = Long run coefficients,

In= Stands for Natural Logarithm,

FDI_t = Total foreign direct investment (N'million) in period t,

$CITR_t$= Company Income Tax Rate (%) in period t,

$GDPG_t$= Gross domestic product growth rate (%) in period t,

$INTR_t$= Interest rate (%) in period t,

$INFR_t$= Inflation rate (%) in period t,

GCE_t = Government capital expenditure (N' million) in period t,

UER_t = Unemployment rate (%) in period t,

EXR_t = Exchange rate (N/$) in period t,

ε_t = Stochastic disturbance term.

The use of company income tax rate as a representation of company income tax policies in this study was due to the objective of the study, which is to evaluate the direct impact of taxation on foreign direct investment. In many empirical studies, researchers utilize the corporate income tax rate as a primary independent variable when assessing the influence of tax policies over time, mainly due to its availability, consistency in reporting, and strong theoretical link to investment decisions and corporate behaviour. To examine the long-run relationship among the series, we used the ARDL bounds testing approach to cointegration developed by Pesaran et al. (2001). This approach has key advantages: it is applicable regardless of whether the independent variables are I(0) or I(1) and is well-suited for small samples ($n < 40$ years). The ARDL representation of the determinants of FDI_t in equation (2.9) allows for deriving a dynamic error correction model (ECM) through linear reparameterization. The error correction model version of the ARDL approach is expressed as:

$\Delta InFDI_t = \lambda_0 + \lambda_1 InFDI_{t-1} + \lambda_2 InCITR_t + \lambda_3 InGDPG_t + \lambda_4 InINTR_t + \lambda_5 InINFR_t + \lambda_6 InGCE_t + \lambda_7 InUER_t + \lambda_8 InEXR_t + \sum_{i-0}^{p-1} \lambda_{10} \Delta InFDI_{t-i} + \sum_{i-0}^{p-1} \lambda_{11} \Delta InCITR_{t-i} + \sum_{i-0}^{p-1} \lambda_{12} \Delta InGDPG_{t-i} + \sum_{i-0}^{p-1} \lambda_{13} \Delta InINTR_{t-i} + \sum_{i-0}^{p-1} \lambda_{14} \Delta InINFR_{t-i} + \sum_{i-0}^{p-1} \lambda_{15} \Delta InGCE_{t-i} + \sum_{i-0}^{p-1} \lambda_{16} \Delta InUER_{t-i} + \sum_{i-0}^{p-1} \lambda_{17} \Delta InEXR_{t-i} + \varepsilon_t$ (3.10)

Δ = the first-difference operator,
λ's = Long run and short run coefficients,
In= Stands for Natural Logarithm,
t-1 = a period lag of the variables, and
t-i = i^{th} number of lags required for each variable for a best fit.

Data description

Table 1: Description of Operational Variables

Variables	Type of Variable	Measurement (1990 – 2023)
Total domestic investment	Dependent	Natural log of total domestic investment
Company income tax rate	Independent	Average annual percentage of tax imposed on the revenue of companies as tax
Gross Domestic Product growth rate	Independent	Percentage growth in gross domestic product at Constant Basic Prices
Interest rate	Independent	Average annual percentage of interest charged on loans
Inflation rate	Independent	Average annual percentage of inflation rate
Government capital expenditure	Independent	Natural log of total government capital expenditure in Nigeria
Unemployment rate	Independent	Average annual percentage of unemployment rate in Nigeria
Exchange rate	Independent	Average annual exchange rate of naira to one US$

Source: Researcher's Concept, 2024

RESULT AND DISCUSSIONS

Data Presentation

This study utilizes time series data derived exclusively from secondary sources to determine the effects of company income tax policy on foreign direct investment in Nigeria from 1990 to 2023. The variable company income tax policy was measured using the company income tax rate as a proxy. A detailed data summary for each of the variables used for this study is presented below.

Descriptive statistics

Descriptive statistics provide insights into the central tendencies and variability within a dataset, summarizing key characteristics of the sample data at a specific point in time or over a defined period.

Table 2: Summary statistics of the macroeconomic variables used for the study (1990 - 2023)

Statistic	FDI	CITR	GDPG	INTR	INFR	GCE	UER	EXER
Mean	489341.84	29.07	4.25	18.60	18.28	887558.40	4.09	156.00
Median	425719.65	30.00	4.22	17.70	12.95	602997.40	3.91	130.76
Maximum	1360113.56	30.00	15.33	31.65	72.84	4486206.00	5.74	460.70
Minimum	-80370.00	2.90	-2.04	11.48	5.39	24048.60	3.07	8.04
Std. Dev.	454135.88	4.63	3.91	4.02	15.90	977017.58	0.57	127.04
Skewness	0.37	-5.53	0.50	1.03	2.18	2.00	1.38	0.88
Kurtosis	1.82	31.76	3.49	4.80	6.86	7.16	4.47	2.92
Jarque-Bera	2.75	3.37	1.75	2.90	0.65	1.02	2.50	1.53
Probability	0.25	0.29	0.42	0.23	0.72	0.60	0.29	0.47
Sum	16637622.54	988.50	144.38	632.53	621.49	30176985.47	138.92	5303.83
Observations	34	34	34	34	34	34	34	34

Source: Author Construction from EViews 13 computation, 2024. Values were generated from Central Bank of Nigeria (CBN) statistical bulletins, World bank database and Federal Inland Revenue Service (FIRS)(1990 - 2023). Note: FDI_t = Total foreign direct investment (Billion Naira), $CITR_t$ = Company Income Tax Rate (%), $GDPG_t$ = Gross Domestic Product Growth Rate (%), $INTR_t$ = Interest Rate (%),

$INFR_t$ = Inflation Rate (%), $GCEA_t$ = Government Capital Expenditure on Agriculture (Billion Naira), UER_t = Unemployment Rate (%), and EXR_t = Exchange Rate (N/$)

Foreign Direct Investment (FDI) is a crucial indicator of economic openness and investor confidence, reflecting external capital flow into Nigeria's economy. For the period under study, the mean FDI of ₦489,341.84 billion highlights substantial foreign capital inflows, signifying Nigeria's attractiveness as an investment destination. This mean value suggests that foreign investors have shown continued interest in Nigeria's market despite economic volatility.

The Company Income Tax Rate (CITR) is a fundamental component of fiscal policy, directly impacting corporate profitability, investment decisions, and government revenue generation. The mean CITR of 29.07% indicates a relatively high corporate tax burden, which may influence business expansion and foreign direct investment inflows. A consistently high tax rate can deter investment, as businesses may seek tax-friendly alternatives in competing economies. Gross Domestic Product Growth Rate (GDPG) is a fundamental measure of economic performance, reflecting the overall expansion or contraction of output. The mean GDPG of 4.25% suggests moderate economic growth over the study period, indicative of Nigeria's economic resilience despite periods of recession and external shocks. This level of growth, while positive, is below the potential growth rate required to significantly reduce poverty and unemployment, highlighting the need for structural economic reforms. The median GDPG of 4.22%, closely aligned with the mean, signifies a relatively stable growth trajectory with limited extreme fluctuations.

The Interest Rate (INTR) is a fundamental monetary policy tool influencing borrowing costs, investment decisions, and overall economic activity. For the period under review, the mean interest rate of 18.60% reflects Nigeria's historically high borrowing costs, which can impact credit availability and economic expansion. High interest rates constrain business investments and consumer spending, potentially slowing economic growth. The median INTR of 17.70%, slightly lower than the mean, suggests that while interest rates have generally remained elevated, occasional increases have raised the average value. The standard deviation of 4.02% indicates moderate fluctuations in interest rates, reflecting the CBN's response to changing economic conditions. The skewness of 1.03 suggests a moderate rightward skew, meaning that while most interest rate values are clustered around the mean, some extremely high values pull the distribution to the right.

The inflation rate (INFR) represents the general price level changes over time, influencing purchasing power, cost of living, and economic stability. The mean inflation rate of 18.28% suggests Nigeria has experienced a persistently high inflationary environment, which can erode real incomes and reduce consumer purchasing power. This level of inflation, significantly above the single-digit target recommended for economic stability, indicates the challenges associated with maintaining price stability in Nigeria.

Government Capital Expenditure on Agriculture (GCE) is critical in enhancing agricultural productivity, food security, and economic diversification. The mean GCE of ₦887,558.40 billion indicates a significant level of public investment in the agricultural sector, underscoring the government's commitment to boosting agricultural output. This expenditure level suggests efforts to modernize the sector through infrastructure development, mechanization, and policy incentives.

The unemployment rate (UER) is a key labour market indicator that reflects the proportion of the workforce actively seeking employment but unable to find jobs. The mean UER of 4.09% suggests that, on average, Nigeria has maintained a relatively low recorded unemployment rate over the study period. However, this figure may not fully capture underemployment and informal sector employment, which are prevalent in Nigeria.

The exchange rate (EXR) is a critical macroeconomic variable influencing trade competitiveness, inflation, and foreign direct investment. The mean exchange rate of ₦156.00/$ over the study period reflects Nigeria's historical exchange rate levels, though the naira has experienced significant depreciation in recent years.

Unit Root Test

Before estimating the economic models in equations (3.9 – 3.12), it is essential to test the statistical properties of the data series, particularly their stationarity. A unit root in a time series suggests non-stationarity, which can lead to spurious regression results if not addressed. Table 4.2 presents the results of the Augmented Dickey-Fuller (ADF) unit root tests for the logged variables used in this analysis. The ADF test assesses whether each variable is stationary, meaning it does not exhibit a trend over time. The decision rule states that if the ADF test statistic is more negative than the critical value, the null Hypothesis of a unit root (non-stationarity) is rejected, confirming stationarity. Otherwise, the variable is non-stationary and requires differencing to achieve stationarity.

Table 3: Augmented Dickey-Fuller (ADF) result of unit root test of logged variables used in the analysis

Variable	Level	First Difference	Integration Order
Foreign Direct Investment (FDI_t)	0.571	-11.599***	I(1)
Company Income Tax Revenue ($CITR_t$)	-6.110***	-	I(0)
Gross Domestic Product Growth ($GDPG_t$)	-3.608**	-	I(0)
Exchange Rate ($EXER_t$)	-2.372	-5.418***	I(1)
Government Capital Expenditure (GCE_t)	-2.590	-6.711***	I(1)
Inflation Rate ($INFR_t$)	-3.093	-4.619***	I(1)
Interest Rate ($INTR_t$)	-3.689**	-	I(0)
Unemployment Rate (UER_t)	-2.460	-6.803***	I(1)

Note: For the ADF test at the level, the critical value is at 1% =-4.262, at 5% = -3.553, and at 10% = -3.210. At first difference, the critical value at 1% = -4.273, 5% = -3.558, and 10% = -3.212. Asterisks ** and *** represent 5% and 1% significance levels, respectively. These tests included a constant and linear trend in the regressions.

The results in Table 3 indicate that company income tax revenue (CITR) is stationary at level I(0), as its ADF test statistic (-6.110) is more negative than the 1% critical value (-4.262). This suggests that company income tax revenue does not exhibit a unit root and is suitable for immediate inclusion in the model without transformation. Similarly, gross domestic product growth (GDPG) and interest rate (INTR) are stationary at level, I(0), with ADF values of -3.608 and -3.689, respectively, both significant at the 5% level. These variables do not exhibit long-term trends and can be used directly in further analyses.
On the other hand, foreign direct investment (FDI), exchange rate (EXER), government capital expenditure (GCE), inflation rate (INFR), and unemployment rate (UER) are non-stationary at the level but become stationary after first differencing, implying they are integrated of order one, I(1). Specifically, FDI has an ADF value of 0.571 at the level, which is not significant, indicating non-stationarity. However, after first differencing, it becomes stationary at I(1) with an ADF value of -11.599, significant at the 1% level. Similarly, exchange rate (ADF = -2.372), government capital expenditure (ADF = -2.590), inflation rate (ADF = -3.093), and unemployment rate (ADF = -2.460) are all non-stationary at level. However, they achieve stationarity at first difference with respective ADF values of -5.418, -6.711, -4.619, and -6.803, all significant at the 1% level.

Long-Run Effect of Company Income Tax Policies on Foreign Direct Investments

The effect of company income tax policies on foreign direct investments in Nigeria from 1990 to 2023 is analyzed below, considering both long-run and short-run effects. This comprehensive assessment examines how company income tax policies have shaped the inflows of foreign direct investments over time, with selected macroeconomic variables included in the model as controls. A bounds test was also performed to investigate a co-integration relationship, ensuring that the analysis captures the dynamic interplay between these variables across the time frame under review.

Bounds Test

The bounds test results presented in Table 4 provide strong evidence of a long-run co-integration relationship between company income tax policies, foreign direct investment (FDI), and macroeconomic indicators in Nigeria from 1990 to 2023.

Table 4: Bounds test result of the presence of a co-integration relationship between company income tax policies and foreign direct investments, as well as macroeconomic indicators in Nigeria (1990 -2023)

S/N			Null Hypothesis: No levels relationship		
	Tests	**Value**	**Significance**	**I(0)**	**I(1)**
				Asymptotic: n=1000	
1.	F-Bounds Test				
	F-statistic	38.879	10%	2.38	3.45
	K	7	5%	2.69	3.83
			1%	3.31	4.63
2.	t-Bounds Test				
	t-statistic	-14.174	10%	-3.13	-4.53
			5%	-3.41	-4.85
			1%	-3.96	-5.49

Source(s): Author Construction from EViews 13 computation, 2024

The F-statistic (38.879) is significantly higher than the upper bound critical values at all conventional significance levels, including 1% (4.63), 5% (3.83), and 10% (3.45). Since the calculated F-statistic exceeds these thresholds, the null Hypothesis of no co-integration is rejected, confirming that these variables share a stable, long-term equilibrium relationship. This suggests that despite short-term fluctuations, changes in company income tax policies, FDI, and macroeconomic indicators move together over time.

The T-bounds test further reinforces this conclusion. The t-statistic (-14.174) is lower than the critical values across all significance levels, including 1% (-5.49) and 5% (-4.85), indicating that the long-run relationship is statistically significant. The rejection of the null Hypothesis in both the F-bounds and t-bounds tests confirms that these macroeconomic variables are not independent in the long run but exhibit a co-integrated relationship. This means that any short-term disequilibrium among them will likely be corrected over time, as the variables adjust toward their long-term path. The presence of co-integration has significant policy implications. It indicates that company income tax policies play a crucial role in shaping FDI inflows and macroeconomic stability in Nigeria. If the tax system remains stable and predictable, it can enhance investor confidence, attract foreign capital, and create a conducive environment for economic growth. However, abrupt changes in tax policies could disrupt this equilibrium, leading to volatility in investment decisions and overall macroeconomic performance. Furthermore, the results highlight the interdependence of tax revenue, foreign investments, and macroeconomic conditions. The co-integration suggests that while these variables may experience short-term shocks, such as fluctuations in exchange rates, inflation, or capital expenditures, they are likely to realign toward equilibrium in the long run. This underscores the importance of consistent and well-structured fiscal policies that promote economic stability and encourage sustainable FDI inflows. Therefore, the findings from the bounds test confirm that Nigeria's tax policies, foreign direct investment, and macroeconomic indicators are linked in a long-run relationship. This result lays the foundation for further analysis of both short-run and long-run dynamics, which will be explored in the subsequent sections of this study. Understanding these interactions is critical for designing effective fiscal and investment policies that foster economic growth and stability in Nigeria.

ARDL Long-run Coefficients

Table 5. presents the ARDL long-run coefficients, analyzing the impact of company income tax policies on foreign direct investment (FDI) in Nigeria from 1990 to 2023 while controlling for selected macroeconomic variables. This estimation is based on the Akaike Information Criterion (AIC), which ensures that the optimal model specification is selected for robust inference. The ARDL(1, 0, 0, 0, 0, 0, 1, 0) model configuration captures the dynamic relationships between company income tax rates (CITR), economic growth (GDPG), interest rates (INTR), inflation (INFR), government capital expenditure (GCE), unemployment rate (UER), and exchange rate (EXER) while incorporating the lagged values of FDI and unemployment rate (UER(-1)) to account for past effects. The R-squared value (0.831324), alongside the adjusted R-squared (0.812835), suggests that the model explains approximately 83.1% of the variation in FDI after adjusting for degrees of freedom. This high explanatory power validates the model's reliability in capturing the key determinants of foreign investment inflows in Nigeria. The F-statistic (14.89725) is highly significant at the 1% level, which allows for rejecting the null Hypothesis that the independent variables have no joint effect on FDI. Furthermore, the Durbin-Watson statistic (1.969201) falls within the acceptable range, suggesting the absence of serial autocorrelation, reinforcing the regression estimates' robustness.

The lag value of FDI is incorporated into the model to capture the persistent effects of past FDI inflows. The coefficient for the lagged FDI variable [LOG_FDI(-1)] is negative and highly significant at a 1% level (-0.455584, $p = 0.0002$). This suggests that previous levels of FDI have a substantial inverse relationship with current FDI inflows. The finding implies that an increase in FDI in one period may lead to a correction in the subsequent period, possibly due to diminishing marginal returns on foreign investment or adjustments in investor behaviour based on prior capital inflows. This aligns with economic theories that emphasize the cyclical nature of investment flows, particularly in developing economies where policy uncertainty and macroeconomic conditions influence capital movements.

The coefficient for company income tax rate [LOGCITR] is negative and highly significant at the 1% level (-3.413674, $p = 0.0002$). This suggests that increasing the company income tax rate discourages foreign direct investment inflows into Nigeria. A 1% increase in the corporate tax rate leads to a 3.41% reduction in FDI, reflecting the sensitivity of foreign investors to taxation policies. This finding aligns with classical investment theories, which posit that higher corporate taxes reduce the after-tax return on investment, making a country less attractive to foreign investors. Multinational corporations (MNCs) often prioritize capital allocation to countries with lower corporate tax rates to enhance their after-tax profits. Several studies highlight this trend,

particularly in Nigeria and other regions, demonstrating the significant impact of corporate tax rates on foreign direct investment (FDI) and profitability. A study analyzing ten countries from 2018 to 2022 found that lower corporate tax rates significantly attract FDI, positively influencing GDP (Nwankwo & Nwakeze, 2024). In Nigeria, corporate tax rates have positively affected firms' profitability. The findings suggest that effective tax rates influence investment decisions, with lower rates potentially leading to increased capital expenditures (Olatunji & Oluwatoyin, 2019).

Table 5: Results of the ARDL long-run coefficients for the effect of company income tax policies on foreign direct investments in Nigeria (1990–2023), with control for selected macroeconomic variables

Dependent Variable: LOG_FDI
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (1 lag, automatic): LOGCITR LOG_GDPG LOGINTR LOGINFR LOGGCE LOGUER LOGEXER
Fixed regressors: C @TREND
Selected Model: ARDL(1, 0, 0, 0, 0, 0, 1, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
CONSTANT	30.53331	11.11197	2.747786**	0.0117
LOG_FDI(-1)	-0.455584	0.102697	-4.436208***	0.0002
LOGCITR	-3.413674	0.782604	-4.361944***	0.0002
LOG_GDPG	1.384720	0.407463	3.398397***	0.0026
LOGINTR	-2.887418	2.109554	-1.368734	0.1849
LOGINFR	0.671079	0.278262	2.411681**	0.0420
LOGGCE	0.449921	0.673857	0.667679	0.5113
LOGUER	33.73307	3.297485	10.22994***	0.0000
LOGUER(-1)	-36.94217	3.438524	-10.74361***	0.0000
LOGEXER	0.604418	0.153451	3.938845***	0.0000
@TREND	-0.040391	0.093783	-0.430683	0.6709

R-squared	0.831324	Mean dependent var	12.51743
Adjusted R-squared	0.812835	S.D. dependent var	2.458811
S.E. of regression	1.063744	Akaike info criterion	3.222667
Sum squared resid	24.89411	Schwarz criterion	3.721503
LN likelihood	-42.17401	Hannan-Quinn criter.	3.390510
F-statistic	14.89725***	Durbin-Watson stat	1.969201
Prob(F-statistic)	0.000000		

Source(s): Author Construction from EViews 13 computation, 2025.(***) and (**)denote 1% and 5% significance levels

The Nigerian context further exacerbates this issue, given the additional challenges of regulatory inefficiencies and tax administration bottlenecks. Foreign investors may opt for alternative destinations with more favourable tax regimes, such as Ghana and Rwanda, which have implemented competitive corporate tax policies to attract investment. Moreover, the adverse impact of higher corporate taxation on FDI can be explained through the lens of the neoclassical investment theory, which suggests that capital flows toward economies where post-tax returns are maximized. The significant negative relationship between corporate tax rates and FDI underscores the importance of tax incentives and reforms to foster a more investment-friendly environment. Policy recommendations include reducing the corporate tax burden, providing targeted tax incentives to priority sectors, and ensuring transparency in tax administration to improve investor confidence.

The coefficient for GDP growth rate [LOG_GDPG] is positive and highly significant at the 1% level (1.384720, $p = 0.0026$). This indicates that economic growth is a strong determinant of FDI inflows in Nigeria. A 1% increase in GDP growth leads to a 1.38% increase in FDI, reinforcing the notion that foreign investors are more likely to invest in economies experiencing robust growth. This finding aligns with the market-size Hypothesis, which posits that FDI is attracted to economies with expanding markets and increasing consumer demand. Several studies corroborate this relationship. Arthur et al., (2024) and Oyero (2019) found that higher GDP growth rates in African countries significantly boost FDI inflows by enhancing market potential and business opportunities. Similarly, Nwosa and Babafemi (2024) and Emeka (2024) emphasized that economic growth enhances macroeconomic stability, infrastructure development, and institutional quality, all critical factors in attracting foreign capital. In the Nigerian context, economic

growth signals an improving business environment, which fosters investor confidence. However, sustained FDI inflows require consistent macroeconomic policies, infrastructural development, and political stability. Policy measures to strengthen GDP growth and attract more FDI include investment in critical infrastructure, diversification of the economy to reduce dependence on oil, and pro-business policies that enhance the ease of doing business.

The coefficient for the unemployment rate [LOGUER] is positive and highly significant at the 1% level (33.73307, p = 0.0000), while its lagged value [LOGUER(-1)] is negative and highly significant (-36.94217, p = 0.0000). This suggests a complex and dynamic relationship between unemployment and FDI. The positive coefficient for the current unemployment rate implies that higher unemployment levels are initially associated with increased FDI inflows. This could be due to the availability of cheap labour, making Nigeria an attractive destination for labour-intensive foreign investments. However, the negative coefficient for the lagged unemployment rate suggests that persistently high unemployment levels deter future FDI. This can be attributed to several factors, including reduced consumer purchasing power, social instability, and declining productivity, which collectively erode investor confidence. The relationship between a large labour force and foreign investment in Nigeria reveals a complex dynamic where short-term attraction can mask underlying structural weaknesses. While studies indicate that foreign direct investment (FDI) can reduce unemployment rates in the short run, prolonged high unemployment signals deeper economic issues that deter long-term investment commitments. FDI has been shown to significantly impact unemployment rates in Nigeria, particularly in the short run, by creating job opportunities through asset expansion and technology transfer (Akinmulegun & Adekunle, 2022; David & Idi, 2024).The Autoregressive Distributed Lag (ARDL) model indicates that FDI contributes to employment generation, suggesting an immediate positive effect on the labour market(David & Idi, 2024).Nigeria must create a conducive business environment to leverage FDI for long-term benefits, enhance local workforce skills, and promote collaboration between foreign investors and local entities(Chike & Okeke, 2024).

The coefficient for the exchange rate [LOGEXER] is positive and statistically significant (0.604418, p = 0.000) as it relates to FDI. The positive sign suggests that exchange rate depreciation could enhance FDI inflows by making domestic assets cheaper for foreign investors. This finding aligns with previous studies like those of Adewale and Ogbaro (2024), which indicate a significant positive correlation between exchange rates and Foreign Direct Investment (FDI) in Nigeria from 1981 to 2021, as determined through Fully Modified Ordinary Least Squares (FMOLS) regression analysis, highlighting the impact of exchange rates on FDI; Okore and Nwadiubu, (2023) who reports a positive and statistically significant relationship between exchange rate and foreign direct investment (FDI) in Nigeria. It provides empirical estimates confirming this relationship, emphasizing the importance of exchange rate management for the Nigerian economy. The study is also similar to that of Osinubi (2017), who argues that currency depreciation increases FDI by lowering acquisition costs. However, this finding contradicts those of Udoinyang and Udoinyang (2024) and Adegoriola and Emmanuel (2022), who suggested that exchange rate volatility creates uncertainty, discouraging investment.

The coefficient for inflation rate [LOGINFR] is positive and statistically significant (0.671079, p = 0.0420) as it relates to FDI. This suggests that increase in inflation leads to increase in FDI. Some studies from Nigeria also reported a positive and statistically significant relationship between the inflation rate and Foreign Direct Investment. Notably, the research conducted by Oloyede and Kolapo (2018) reported that inflation, among other macroeconomic variables, had significantly positively influences FDI from 1986 to 2016. This finding suggests that inflation may create an environment that attracts foreign investors, possibly due to expectations of higher returns in a growing economy.

In contrast, this study contradicts some studies that argue that high inflation can deter FDI by creating economic instability, which may lead to a preference for more stable investment environments. For instance, studies by Adewale et al. (2024) and Ayomitunde et al. (2020) indicate that inflation discourages FDI. This perspective emphasizes the complexity of the relationship between inflation and FDI, suggesting that the context and specific economic conditions play a crucial role in determining investor behaviour.

Short-Run Impact of Company Income Tax Policies on Foreign Direct Investments

Table 6 presents the result of the ARDL error correction regression estimated short-run coefficients for the effect of company income tax policies on foreign direct investments (FDI) in Nigeria from 1990–2023, controlling for selected macroeconomic indicators. The ECM results of the short run reveal that several tax policy indicators and macroeconomic variables exert statistically significant effects on FDI inflows in the short term.

Notably, the immediate past value of the logarithm of the company income tax rate (D(LOGCITR(-1))) is negative and statistically significant at the 1% level, indicating that an increase in company income tax rates in the preceding period tends to discourage FDI inflows in the short run. This finding aligns with the theoretical expectation that higher corporate tax burdens reduce post-tax returns on investment, thereby lowering the attractiveness of the host country to foreign investors. This finding aligns with the work of Adegbite and Olaoye (2021), whose study highlighted that company income tax has both short-run and long-run negative significant influences on FDI, suggesting that tax burdens can discourage foreign investors. It also aligns with Edo et al. (2020), whose findings indicated that company income tax has a significant but negative relationship with FDI, reinforcing that tax policies can impact investment flows negatively.

Table 6: Results of the ARDL short-run coefficients for the effect of company income tax policies on foreign direct investments in Nigeria (1990–2023), with control for selected macroeconomic variables

ARDL Error Correction Regression
Dependent Variable: D(LOG_FDI)
Selected Model: ARDLARDL(1, 0, 0, 1, 0, 0, 0, 0)
Case 5: Unrestricted Constant and Unrestricted Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	30.53331	1.541469	19.80793***	0.0000
D(LOGCITR(-1))	-0.152149	0.029530	-5.152419***	0.0013
D(LOG_GDPG)	0.580423	0.111970	5.183742***	0.0013
D(LOGINTR)	-0.994278	0.055233	-18.00160***	0.0000
D(LOGINFR(-1))	-0.120283	0.034568	-3.479553***	0.0103
D(LOGGCE)	0.260304	0.051426	5.061722***	0.0015
D(LOGUER)	33.73307	2.252921	14.97304***	0.0000
@TREND	-0.008511	0.000472	-18.03149***	0.0000
ECM(-1)	-0.547376	0.019766	-27.69268***	0.0000
R-squared	0.936826	Mean dependent var		0.072846
Adjusted R-squared	0.930291	S.D. dependent var		3.509162
F-statistic	143.3494***	Durbin-Watson stat		1.969201
Prob(F-statistic)	0.000000			

Diagnostic test

Test statistics	*F-statistic*	*P-value*	*Interpretation*
Heteroskedasticity test: Breusch-Pagan-Godfrey	1.488098	0.2093^{ns}	No heteroskedasticity
Breusch-Godfrey Serial Correlation LM Test	2.008626	0.9269^{ns}	No Serial Correlation
Jacque-Bera test	0.815372	0.6651^{ns}	Normal distribution

Source(s): Author Construction from EViews 13 computation, 2025. (***) denotes 1% level of significance. (^{ns}) denotes not significant.

Similarly, macroeconomic variables also display mixed effects on FDI. The GDP growth rate (D(LOG_GDPG)) is positively signed and significant at the 1% level, suggesting that stronger economic performance encourages FDI. This relationship is consistent with the "market-seeking" motivation of foreign investors who are attracted to expanding economies with increasing consumer demand and business opportunities. Tarasa (2020**)** found that FDI significantly boosts Nigeria's economic growth, particularly from 2018 to 2020, driven by the country's natural resources (Tarasa, 2023). Adebanjo et al., (2023) also noted that economic growth in sub-Saharan Africa, including Nigeria, positively influences FDI due to the potential for profitability and scalability. Okoroji et al. (2023) reported a significant positive effect of FDI inflows on GDP, suggesting that attracting transnational corporations could enhance technology transfer and economic growth.

In contrast, the short-run effect of interest rates (D(LOGINTR)) is negative and significant at 1%, indicating that rising interest rates discourage FDI inflows. Higher interest rates increase the cost of borrowing and signal tight monetary policy, which investors may interpret as a response to inflationary pressures or economic instability. This result aligns with the findings of Metieh and Mgbomene (2025) and Eze and Eze (2023), who demonstrated that macroeconomic instability is reflected through high interest rates, which deters FDI in African countries.

Furthermore, the lagged value of inflation (D(LOGINFR (-1))) has a negative and significant effect at the 1% level, suggesting that past inflationary pressures erode investor confidence and discourage foreign

investment. Inflation increases production costs and creates uncertainty about future returns, both deterrents to capital inflows. This corroborates with the findings of Fasina(2022), who emphasized the negative role of inflation on FDI inflow patterns in Nigeria. They noted that as inflation rises, Nigeria's attractiveness to foreign investors diminishes. Nwagu (2020) corroborated this by stating that inflation is a significant macroeconomic variable that decreases FDI inflow, emphasizing the need for stable economic conditions to attract foreign investments.

The coefficient of government capital expenditure (D(LOGGCE)) is positive and significant at the 1% level. This implies that increases in government infrastructure spending enhance FDI in the short run by improving the investment environment through better roads, energy, and communication facilities. This finding is consistent with the infrastructure-led growth theory and supported by empirical evidence from Eze and Eze (2023), who found that public capital investment enhances private sector participation, including FDI.

The coefficient of unemployment rate (D(LOGUER)) had a significant positive effect on FDI at the 1% level. This suggests that as the unemployment rate increases, FDI also increases and vice versa. This may be due to a large pool of available labour that foreign investors may find advantageous due to lower labour costs. In economies with high unemployment, labour is often cheaper and more abundant, which can be attractive to cost-sensitive foreign firms, particularly in manufacturing or labour-intensive sectors (Akinmulegun & Adekunle, 2022). Similar interpretations are found in the work of Okoli and Okeke (2024), where labour market characteristics were noted as significant pull factors for FDI in Nigeria.

The trend variable (@TREND) is negative and significant at the 1% level, indicating a declining pattern of FDI inflows over time, after controlling for other macroeconomic variables. This trend may reflect long-term structural issues such as political instability, corruption, policy inconsistency, and regulatory bottlenecks that have discouraged sustained investment over the years. The lack of a stable and predictable policy framework creates uncertainty, a significant deterrent for investors seeking secure and profitable environments. This declining trend is further corroborated by empirical observations made by Ajimobi (2024) and Maduka et al. (2023), who noted that Nigeria's inconsistent policy environment weakens investor confidence in the long run.

The speed of adjustment coefficient, represented by ECM(-1), is -0.547376 and is statistically significant at the 1% level. This negative and highly significant value confirms the existence of a stable long-run relationship among the variables. It suggests that deviations from the long-run equilibrium in FDI are corrected at a speed of approximately 54.7% annually. In other words, any short-term disequilibrium in FDI caused by shocks in company income tax or other macroeconomic indicators will be partially corrected within a year. Ehirim et al. (2017) confirmed that ECM coefficients between -0.5 and -1.0 indicate a moderate but steady convergence process, underscoring the long-run predictability of the model.

The diagnostic tests confirm the adequacy and robustness of the ARDL model. The Breusch-Pagan-Godfrey test for heteroskedasticity yields an F-statistic of 1.488098 with a p-value of 0.2093, indicating no evidence of heteroskedasticity. The Breusch-Godfrey Serial Correlation LM Test returns an F-statistic of 2.008626 and a p-value of 0.9269, suggesting that the residuals are autocorrelation-free. The Jarque-Bera test statistic is 0.815372 with a p-value of 0.6651, indicating that the residuals are normally distributed. All these diagnostics validate classical regression assumptions and confirm the statistical reliability of the model's estimates.

Test of Hypotheses

Table 7 presents a summary of the hypotheses testing. In the long-run estimations under Hypothesis One, all significant variables aligned with their a priori expectations except for the unemployment rate (UER) and exchange rate (EXER), both of which showed positive signs against the expected negative. These unexpected signs could be attributed to foreign investors leveraging high unemployment to access cheap labour and responding to exchange rate movements with speculative or arbitrage-driven capital inflows. Additionally, the inflation rate (INFR), interest rate (INTR), government capital expenditure (GCE), and the time trend variable were statistically insignificant, indicating their limited long-run influence on FDI within the study period.

The short-run results under Hypothesis 2 largely conformed to expectations. As anticipated, CITR, interest rate, and inflation exhibited negative signs, confirming their adverse short-term effects on FDI. GDP growth and government capital expenditure maintained their positive and significant impacts, consistent with theoretical assumptions. However, the unemployment rate again showed a positive and significant effect, diverging from expectations, possibly due to short-term labour market adjustments attracting low-cost investment. The error correction term (ECM) was negative and significant, affirming the model's convergence to long-run equilibrium after short-run disturbances.

Table 7: Summary of Hypotheses Testing

S/N	Independent Variable	Expected Sign	Reported Sign	Level of Significant	Remark
A.	**Trend Model**	**Test of Hypothesis One**			
1.	CITR	+	-	10%	Null Hypothesis rejected
2.	FDI	+	-	1%	Null Hypothesis rejected
B.	**Granger Causality**	**Test of Hypothesis Two**			
1.	CITR – FDI	+	+	ns	Null Hypothesis accepted
2.	FDI – CITR	-	+	5%	Null Hypothesis rejected
C.	**Long-run**	**Test of Hypothesis Three**			
1.	LOG_FDI(-1)	+	+	1%	Null Hypothesis rejected
2.	LOGCITR	+	-	1%	Null Hypothesis rejected
3.	LOG_GDPG	+	+	1%	Null Hypothesis rejected
4.	LOGINTR	-	-	ns	Null Hypothesis accepted
5.	LOGINFR	-	+	ns	Null Hypothesis accepted
6.	LOGGCE	+	+	ns	Null Hypothesis accepted
7.	LOGUER	-	+	1%	Null Hypothesis rejected
8.	LOGEXER	-	+	1%	Null Hypothesis rejected
9.	@TREND	+	-	ns	Null Hypothesis accepted
D.	**Short-run**	**Test of Hypothesis Four**			
1.	D(LOGCITR(-1))	+	-	1%	Null Hypothesis rejected
2.	D(LOG_GDPG)	+	+	1%	Null Hypothesis rejected
3.	D(LOGINTR)	-	-	1%	Null Hypothesis rejected
4.	D(LOGINFR(-1))	-	-	1%	Null Hypothesis rejected
5.	D(LOGGCE)	+	+	1%	Null Hypothesis rejected
6.	D(LOGUER)	-	+	1%	Null Hypothesis rejected
7.	@TREND	+	-	1%	Null Hypothesis rejected
8.	ECM(-1)	-	-	1%	Null Hypothesis rejected

Source: Author Construction from EViews 13 computation, 2025.
Note: ns = Not significant

CONCLUSION AND RECOMMENDATION

This study provides empirical evidence that company income tax policies significantly influence the inflow of foreign direct investments into Nigeria, particularly in the long run. The findings affirm that while FDI can potentially boost corporate tax revenue, the structure and rate of company taxation play a crucial role in shaping foreign investors' decisions. A high or inconsistent corporate tax regime could discourage long-term investment, especially in an economy already facing structural challenges such as inflation, currency volatility, and infrastructure deficits. Although short-run effects of tax policies on FDI are present, the long-term predictability and competitiveness of the tax system ultimately determine the magnitude and sustainability of foreign capital inflows. Therefore, tax policy alone is insufficient; it must be complemented by broader macroeconomic and institutional reforms to enhance Nigeria's global investment appeal.

Based on the findings of this study, we recommend that since company income tax rates negatively affect long-run FDI inflows, Nigeria should revise its corporate tax rates downward to align with regional and global averages. Lowering the statutory rate or offering more predictable and sector-specific tax incentives could enhance Nigeria's attractiveness for long-term foreign investments. Additionally, to mitigate short-term negative effects of tax changes, tax reforms should be implemented gradually and communicated transparently to stakeholders. Additionally, complementary policies such as monetary stability, favorable exchange rates, and government spending on productivity-enhancing infrastructure should be prioritized to sustain investor confidence during tax transitions.

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