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## TAX POLICY INCENTIVES AND FOREIGN DIRECT INVESTMENT IN NIGERIA

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### Abstract

As unclear as the efficacy of tax incentives for the attraction of FDI is, governments especially those of the developing countries have continued to grant incentives to expatriates in order to lure them to invest in their domestic economies. Thus, this study evaluated the impact of tax policy incentives on the inflows of foreign direct investment in Nigeria. It specifically investigated the impact of company income tax incentives, petroleum profit tax incentives, value added tax incentives, and custom and excise duties incentives on inflow of foreign direct investment into the country from 1994 to 2016. This study adopted ex-post facto research design, while multiple regression and correlation methods were used to analyze the secondary data obtained from Central Bank of Nigeria database. The study revealed that custom and excise duties and value added tax incentives had significant effects (Coef = -2.096 and 4.247, p-values=0.0233, 0.0125) respectively on foreign direct investment in the country, while companies income tax and petroleum profit tax incentives showed insignificant impact (Coeff = -1.514 and 2.749 percent; p-values=0.1510, 0.7375) respectively on foreign direct investment in Nigeria. The study concluded that tax incentive policy is a good driver of foreign direct investment into Nigerian economy. It was recommended among other things that the government should find the justifiable level of the VAT and custom duty to be paid by importers of foreign materials that will yield the maximum level of FDI into the country.

**Keywords:** Foreign Direct Investment, Tax Incentives, petroleum profit tax, Value Added Tax, Custom and Excise Duties

## 1. INTRODUCTION

Continuous inflow of foreign direct investment (FDI) into a country in one way or the other is linked to inflow of benefits such as technological knowhow and human capital. As such, in order to improve its (FDI), the Nigerian government through the relevant authorities has over the years engage in series of economic reforms of which tax incentive is paramount. These

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incentives are granted to investors (multinational companies, foreign and local) investors to make the local economy more attractive for investment. Variants of tax incentives that have been adopted in Nigeria come in form of tax holidays (pioneer certificate) capital allowances regarding investments in machinery, building and loss carry-forward facility; import duties relief, approved user scheme under which import duties were refunded to approved enterprises that imports in the export-tuned production; petroleum exploration relief; exemption from capital gains taxes and other tax benefits depending on the sector of the economy or region of the country (Adegbite & Akande, 2017).

Tax policy incentives (TPI) provides an enabling environment that is conducive to foreign direct investment with a view to engender capital transfers, technology spillover and technical know-how transfer and increased employment. Unfortunately, giving tax incentives to foreign investors may significantly, *inter alia*, cause a reduction in the revenue which is generated through taxes, hence; making FDI to be counterproductive. Also, local firms are always made to suffer for the shift in tax liabilities, whenever the government award lower tax or exemption to foreign firms; thus posing the problem of multiple taxation on the local firms. Hence, tax incentives leave a country worse off by reducing tax revenue (Edmiston, Mudd & Valav, 2003).

As much as questionable the efficacy of tax incentives for the attraction of FDI is, governments of developing countries have continued to grant incentives to expatriates in order to lure them to invest in their domestic economies. Mixed results from existing studies which may have been due to dissimilar datasets, estimation techniques, and time horizons coupled with limited scope and the lack of current relevance which these studies suffer from are the motivations for this study. More so, empirical findings from this study will help to provide an optimal balance between a tax policy that is business and investor-friendly, and those which can help to leverage enough revenue for public service delivery to enhance the attractiveness of the domestic economy to expatriates; hence distorting the counterproductive effects of tax incentives. Thus, it readily comes to mind to inquire what exact impact corporate income tax incentives have on the inflow of investments from abroad. Much emphasis was laid on what influence does petroleum profit tax incentives have on the inflow of foreign direct investment to Nigeria?; to what level has value added tax (VAT) incentives impacted the inflow of (FDI)?; and to what extent has custom and excise duties tax incentives impacted inflow of FDI in Nigeria?

Arising from these questions, this study is to evaluate the impact of tax policy incentives on the inflows of FDI to Nigeria with specific emphasis on impacts of corporate income tax incentives, petroleum profit tax incentives, VAT incentives and custom and excise duties on inflow of FDI into Nigeria. Period spanning 1994 to 2016 was covered since VAT was introduced in 1993 while availability of data was limited to 2016. Corresponding hypotheses were formulated for each type of incentives with a view to prove or disregard the relevance of these incentives in attracting FDI into Nigerian economy.

Lack of consensus among existing literature and policy analysts as regards the exact impact tax policy incentives have on FDI. The potential benefit side of tax policy incentives

have been debated inexhaustibly but it is not without a cost side. Accordingly, even if tax incentives were quite effective in increasing investment flows, sometimes the costs might well significantly outweigh the possible benefits (see Gumo, 2013; Musyoka, 2012; Edmiston *et al.*, 2003; Zee, Stotsky & Ley, 2002; Morisset, 2003; Figlio & Blonigen, 1999). Even though FDI may have indirect benefits for the economy, it is associated with the cost of providing basic infrastructures, political stability and the cost of making labour available in order to lure foreign investors (Kuria, 2017; Adepeju & Adepeju, 2012; Fakile & Adegbile, 2011; Buettner & Ruf, 2005; Morisset & Pirnia, 2000). The study conducted by (Institute of Economic Affairs, 2012) observed that if tax competition is not put to check, it can lead to tax losses. More so, combining various forms of tax policy incentives at a go makes this study unique in its own right. It is expected that this study offers some insights for Nigerian policymakers and government agencies (tax authorities inclusive) in the formulation and implementation of tax policies respectively.

## 2. LITERATURE REVIEW

### 2.1 Conceptual Issues

Tax policies are the series and array of deliberate actions that are undertaken by the government in a way that will promote the tax system, attract and retain foreign direct investment to a country through fiscal incentives (Oriakhi & Ahuru, 2014). Tax incentives (sometimes, called fiscal incentives) are the end-result of policies that are part of the tax system which is common in developing countries, and usually established by governments in order to grant multinational companies and foreign investors more attractive conditions to invest in their domestic economy (Fakile & Adegbile, 2011; Kaplan, 2001). The exemption of capital gains taxes, capital allowances and/or reduction of corporate income taxes rate by providing tax holidays or temporary rebates are the popular forms of tax incentives in the developing regions (Morrisset & Pirnia, 2000). Meanwhile, depreciation and capital allowances are generally preferable to tax holidays, as they specifically encourage new flows of investment (United Nations Committee on Trade and Development, hereafter UNCTAD, 2000).

Tax policy incentives enhances the attractiveness to FDI as a result of the existence of a large and growing market (Olaleye *et al.*, 2015). This eventually increases capital transfers, technology spillover and technical know-how transfer, increased employment, and assistance in improving the conditions in an economy (Klemm & Van-Parys, 2009; Carkovic & Levine, 2002; Hanson, 2001) especially in less-developed areas. FDI enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly (Organisation for economic co-operation and development-OECD, 2012). Ridgeway (2004) conceptualized FDI to mean investments made to acquire a lasting interest in enterprises operating outside of the economy of the investor. Biswas (2002) concisely points out some of the acclaimed benefits of FDI on the host countries to include improvement of the competitiveness of the host countries' economies in the international arena, as well as better access to global markets.

Further, FDI improves the quality of products and processes across sectors. Besides, profits generated by FDI contribute to corporate tax revenues of the host country. Employment opportunities are created, especially in sectors that are heavily driven by labour-intensive technologies such as the agriculture sector. In addition, FDI in manufacturing will in most cases boost the level of productivity in the local economy as stimulates growth, especially in the context of developing countries (Blonigen & Wang (2005), Li & Liu (2005), and Ayanwale (2007).

## **2.2 Theoretical Framework**

This study was hinged on the Internationalisation Theory which was developed by Buckley and Casson (1976). This theory argued that transnational companies organise their internal activities to benefit from specific advantages, which are to be exploited. The internationalisation theory lies on why companies do not prefer to sign contracts with a subcontractor in a foreign country instead of engaging in foreign direct investment themselves (Buckley & Casson, 1976). It explains the motivations of the transnational companies for making foreign direct investment, and by taking advantage of various government fiscal policies and other policies. A foreign direct investor may change its activities in response to changes in governmental policy, tax policy and structures, exchange rates and other inherent cost and uncertainties.

Tax rates reduction may determine the attractiveness of location for undertaking investments, and this is relatively cheap in Nigeria. For instance, the Nigerian government reduced the company income tax rate from 45 per cent to 40 per cent (from 1987-1991), then between 1992-1995, the rate was 35 per cent, it was finally reduced to a rate well below the worldwide norm of 35 percent to 40 percent, which is 30 per cent from 1996 to date (Olaleye, Riro & Memba, 2016); in order to stimulate both domestic and foreign investments. This theory is intuitively relevant to assess how and the extent at which Nigerian tax policy incentives induced its foreign direct investment.

## **2.2 Empirical Studies**

### **2.3.1 Studies in Developed World**

Mandinga (2015) investigated corporate income tax rates and its impact on FDI of Small Island Developing States. Using pooled data- partial adjustment model it was revealed that FDI is negatively related to corporate income tax rates. Using descriptive statistics, correlation analysis, Ahmed (2015) studied the association between FDI and company taxation in Bangladesh. The study reveals a significant negative relationship between FDI and corporate tax rate. Van-Parys and James (2010) examined the effectiveness of tax incentives in attracting investment in the CFA Franc zone using dynamic panel data methodology. It found no robust positive relationship between tax incentives and investment in the CFA Franc zone. Bénassy-Quéré, Fontagné and Lahréche-Révil (2005) inspected how FDI reacts to corporate tax among 11 OECD countries using static panel data technique. They study found that though

agglomeration-related factors are strong determinants of FDI, tax differentials also play a significant role in understanding foreign location decisions.

### 2.3.2 Studies from Africa

In Mauritius, Digumber, Soondram and Jugurnath (2017) adopted static panel data approach to evaluate tax policy as a determinant of FDI. The study reveals existence of various factors which statistically and significantly affect inward FDI in Mauritius, one of which is consumer goods tax. Njuru, Ombuki, Wawire, and Okeri (2013) in a study of Kenya examined the impact of taxation on private investment by employing the vector auto-regression method. The results showed that the introduction of VAT and income tax coupled with the establishment of Kenya revenue authority (KRA) had negative impact on private investment; whilst excise tax, import tax and tax amnesty impacted positively on private investment.

Gumo (2013) investigated the effect of tax incentives on FDI in Kenya using regression analysis and revealed that tax incentives have a positive resultant effect on FDI. Haiyambo (2013) assessed the impact of tax incentives on the inflows of FDI to the Namibian economy using correlation analysis. It was revealed that tax incentives might have induced some foreign companies to invest in Namibia. Githaiga (2013) studied the impact of tax incentives on the inflows of FDI to listed firms on the Nairobi Securities Exchange (NSE). The correlation analysis results revealed that tax incentives in the form of wear and tear allowances have a strong relationship with FDI inflows. Musyoka (2012) conducted a study on the relationship between tax incentives and FDI in Kenya using correlation and regression analysis. The results showed that though tax incentives are often very effective in attracting FDI, it also leads to revenue losses by the government.

### 2.3.3 Studies in Nigeria

Adegbite and Akande (2017a) examined the impact of VAT on private investment in Nigeria by employing the Pearson Product Moment Correlation and Multiple Regression techniques. A positively significant relationship between private investment and VAT in Nigeria was reported by the study. Adegbite and Akande (2017b) evaluated the impact of corporate income tax on investment in Nigeria for a period from 1991-2015. The results of the Pearson Product Moment Correlation and Multiple Regressions showed that corporate income tax has a negatively significant impact on investment in Nigeria. Olaleye *et al.*, (2016) studied the effect of reduced company income tax incentive on FDI in listed manufacturing companies in Nigeria by employing correlation and regression analyses. The study found a strong positive linear relationship between reduced company income tax incentives and foreign direct investment, hence the relationship is significant. In another study, Olaleye *et al.*, (2015) evaluated the effect of capital allowances on FDI in listed manufacturing companies in Nigeria through correlation and regression analyses. A strong positive linear relationship between capital allowances and foreign direct investment was reported in the study.

George and Bariyima (2015) investigated how tax incentives impact on the inflows of FDI to Nigeria. The result of multiple regression and error correction model employed showed

that FDI's response to tax incentives is negatively significant. Adepeju and Adepeju (2012) conducted a study on the impact of tax incentives on FDI inflows to the Nigerian oil and gas sector. The result of the Karl Pearson correlation statistics suggested that tax incentives significantly impact on FDI inflows to the sector. Fakile and Adegbile (2011) assessed the effectiveness of tax incentives as a tool to attracting FDI in the Nigerian economy and found that tax incentives play a useful role in encouraging both domestic and foreign investment. Apparent lack of consensus among these studies as well as narrowness of a large number of them calls for this study. Specifically, various tax incentives in companies income tax, VAT, custom and excise duties, petroleum profit tax were combined in this study against large number of previous studies that did not take cognizance of these.

### 3. METHODOLOGY

#### 3.1 Model Specification

This study modified the model specified by Kuria, Omboi and Achoki (2017) and Kuria (2017) by replacing FDI inflow in place of performance as used in those studies. Also, petroleum profit tax incentives and custom and excise duties incentives were also incorporated into the model as specified below:

$$\text{FDI Net Inflows} = f(\text{CIT}, \text{PPT}, \text{VAT}, \text{CEDs}, \mu) \dots\dots\dots (3.1)$$

$$\text{FDI Net Inflows} = \beta_0 + \beta_1\text{CIT}_t + \beta_2\text{PPT}_t + \beta_3\text{VAT}_t + \beta_4\text{CEDs}_t + \mu_t \dots\dots\dots (3.2)$$

$$\ln\text{FDI Net Inflows}_{it} = \beta_0 + \beta_1\ln\text{CIT}_{it} + \beta_2\ln\text{PPT}_{it} + \beta_3\ln\text{VAT}_{it} + \beta_4\ln\text{CEDs}_{it} + \mu_{it} \dots\dots\dots (3.3)$$

Where: FDI Net Inflows represents foreign direct investment to Nigeria, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans (% of GDP); CIT is corporate income tax incentives; PPT is petroleum profit tax incentives; VAT is value added tax incentives, and CEDs is custom and excise duties incentives, while  $f$  is a functional notation.  $\beta_0$  is the intercept of the model/constant;  $\beta_1 - \beta_4$  are the coefficients of each independent variable, the subscript 't' refers to the period of observations which is from 1994 – 2016 and  $\mu$  is the measure of the stochastic error term. In other to lend *a priori* expectation to this study, the following are hypothesised:

$$\beta_1 > 0, \beta_2 > 0, \beta_3 > 0 \text{ and } \beta_4 > 0.$$

*Ex-post facto* research design was adopted in this study since the study utilized existing data in which the research doesn't have control over. Multiple regression technique was used to analyse the data and test the stated hypotheses of this study. Unit root test was used to test the stationarity of the series while correlation was used to establish the relationship between the variables under consideration

The data used were measured as follows:

- i. Foreign Direct Investment Inflows which is a form of direct investment by an individual and/or company located in a country other than that of the investor was measured and expressed as a percentage of GDP.
- ii. Corporate Income Tax Incentives is an incentive allowed on the standard (general) tax payable on profit of any incorporated entities that operates in Nigeria. It was obtained by expressing company income tax revenue as a percentage of GDP. Studies such as Kuria (2017); Olaleye, Riro and Memba, 2016; Oriakhi and Ahuru, (2014) measured tax policy with corporate income tax incentives.
- iii. Petroleum Profit Tax Incentives is a form of incentive allowed on the levy expected on the oil exploration and production companies (companies in the upstream sector). It was measured in this study as a reduction in the tax payable by petroleum-related producing companies. The effective rate is petroleum tax revenue expressed as a percentage of GDP.
- iv. Custom and Excise Duties Incentives was measured as reduction in duties payable on exports and imports (custom and excise duties tax revenue as a percentage of GDP).
- v. Value Added Tax Incentives was measured as a reduction in consumption-based tax (annual tax revenue from VAT as a percentage of GDP).

Data relating to these variables are secondary in nature and are extracted from the Central Bank of Nigeria (CBN) Statistical Bulletin and the World Bank Development Indicators (WDI) database for the period covered.

## 4. FINDINGS AND DISCUSSION

### 4.1.1 Unit root test

To check the robustness of the analysis, unit root test for stationarity of the series was used for this study and the result is shown in table 4.1

**Table 4.1: Unit root test Result**

Variables	Augmented Dickey Fuller		Phillips Peron	
	Levels	1 <sup>st</sup> Difference	Levels	1 <sup>st</sup> Difference
<b>FDI</b>	-5.785 (0.0001) *		-5.335 (0.0003)*	
<b>CEDS</b>	-1.265 (0.6266)	-5.239 (0.0004)*	-1.265 (0.6266)	-5.239 (0.0004)*
<b>CIT</b>	-1.743 (0.3971)	-5.631 (0.0002)*	-1.620 (0.4559)	-7.042 (0.0000)*
<b>VAT</b>	-2.373 (0.1601)	-5.015 (0.0007)*	-2.375 (0.1596)	-5.157 (0.0005)*
<b>PPT</b>	-1.465 (0.5319)	-3.771 (0.0104)**	-1.548 (0.4914)	-3.714 (0.0107)**

**Source: Authors' Analysis, (2018)**

\* and \*\* represents stationarity of the series at 1% and 5% significant level respectively

The two tests (Augmented Dickey fuller – ADF and Philips Perron - PP) shows that FDI is stationary at levels while all other variables are stationary at first difference and this necessitate taking the log of the explanatory variables. Further result reveals that all the series are stationary at 1% significant level except PPT that is significant at 5% significant level.

#### 4.2 Descriptive Statistics

This analysis tests for the normality distribution of the series showing the mean, standard deviation, variance, skewness and kurtosis of the series. The probability of the Jarque Bera shows the significance level at which the normality is tested (see table 4.2).

**Table 4.2: Descriptive Statistics**

	FDI	CEDS	CIT	VAT	PPT
<b>Mean</b>	3.143913	1.254549	1.166639	1.096164	5.286694
<b>Median</b>	2.960000	1.286373	1.138552	1.006582	4.085557
<b>Maximum</b>	10.83000	2.474185	2.291262	1.941583	13.03753
<b>Minimum</b>	0.650000	0.355964	0.545594	0.521540	1.475545
<b>Std. Dev.</b>	2.098358	0.591200	0.427740	0.330157	3.404522
<b>Skewness</b>	2.075842	0.379434	1.084122	0.686729	0.724599
<b>Kurtosis</b>	8.899028	2.261541	3.845242	3.219823	2.355407
<b>Jarque-Bera</b>	49.86689	1.074485	5.190060	1.854094	2.410853
<b>Probability</b>	0.000000	0.584357	0.074644	0.395720	0.299564
<b>Sum</b>	72.31000	28.85462	26.83269	25.21177	121.5940
<b>Sum Sq. Dev.</b>	96.86835	7.689378	4.025161	2.398080	254.9970
<b>Observations</b>	23	23	23	23	23

Source: Authors' Analysis, (2018).

#### 4.3 Correlation Test

Correlation test was conducted used to check the degree of association between the independent variables to test for the level of multicollinearity and the result is shown in table 4.3.

**Table 4.3: Correlation Coefficient**

	FDI	CEDS	CIT	PPT	VAT
<b>FDI</b>	<b>1.000000</b>				
<b>CEDS</b>	<b>-0.721295</b>	<b>1.000000</b>			
<b>CIT</b>	<b>-0.742892</b>	<b>-0.472159</b>	<b>1.000000</b>		
<b>PPT</b>	<b>-0.715050</b>	<b>0.307787</b>	<b>0.137491</b>	<b>1.000000</b>	<b>0.640808</b>
<b>VAT</b>	<b>0.832204</b>	<b>0.131782</b>	<b>0.489382</b>	<b>0.640808</b>	<b>1.000000</b>

Source: Authors' Analysis, (2018).

The result in the table 4.3 shows that the correlation coefficients are low (CEDS = -0.72), CIT = -0.74, PPT= 0.13) and VAT = 0.64). This call for the need to carry out

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multicollinearity test between the explanatory variables. Going by the assumption of OLS, for the series to be suitable for estimation that will give unbiased estimates, the series should not be linearly correlated thus from table 4.3, there is no correlation coefficient that is up to 0.7. However, the correlation between the tax instruments and FDI shows a high level of relationship, this means that tax policy is associated with the level of FDI in Nigeria. While there is positive association between FDI and VAT, a negative correlation between FDI and CEDS, CIT and PPT was observed; and all of them have strong association with FDI.

#### 4.4 Regression Estimation

This estimation is the result of the effect of the various tax policy incentives which are the independent variables in this study on FDI which is the dependent variable.

**Table 4.4: Regression Results**

**Dependent: FDI**

Variables	Coefficient	Probability
DCEDS	-2.096	0.0233**
DCIT	-1.514	0.1510
DVAT	4.247	0.0125**
DPPT	-0.040	0.7375
C	2.749	0.0000
R- SQUARE	0.872	
ADJUSTED R-SQUARE	0.822	
F- STATISTICS	2.517	0.0007
DURBIN WATSON	1.2213	

Source: Authors' Analysis, (2018).

\*\* represents significant level of the estimate at 5% significant level

Table 4.4 succinctly shows the impact of different tax policy incentives on FDI. The analysis was carried out by using FDI as the dependent variable and using the first difference of various tax incentives instruments i.e (CEDS, CIT, VAT and PPT). The first difference was necessary since the unit root result shows that all the explanatory variables are stationary at difference while FDI is significant at levels. The result reveals a negative relationship between CEDS and FDI meaning that 1% change in custom and excise duties will lead to a negative change of (-2.1% ) in FDI. The probability value (0.0233) also shows that it is significant at 95% confidence level.

Also, the value of corporate income tax (CIT) shows that a 1% change in corporate income tax will lead to a negative change of (-1.5%) in FDI but it is not significant at 10% significant level ( $p = 0.1510$ ). Table 4.4 shows the effect of 1% change Petroleum Profit tax resulting from incentives will lead to decrease of 0.04% in FDI. The last variable used as proxy for tax incentive policy is the value added tax which shows a positive relationship between VAT and FDI. This impact was significant at 95% confidence level ( $p = 0.0125$ ). The table further reveals that 1% change in VAT will lead to 4.25% change in FDI. The whole model is

said to have a good fit as indicated by the value of  $R^2$  (0.872) and adjusted  $R^2$  (0.822). This means that explanatory variables are able to explain 87% of the drivers of FDI as  $R^2$  is given as 0.872 and adjusted  $R^2$  given as 0.822. The F-statistics also tests the significance of the model and its proven by the probability of the f-statistics which is 0.0007. however, the result of the Durbin Watson (1.2213) shows the presence of positive autocorrelation but it still does not affect the unbiasedness of the estimate.

The estimate of CIT on FDI is said to be significant at 1% level, meaning that we reject null hypothesis and conclude/confirm the existence of significant negative relationship between FDI and custom and excise duty. Also, for VAT and FDI, the result shows that it is significant at 1% level. Thus, it was concluded that a significant positive relationship exists between VAT and foreign direct investment. On the other hand, the result shows that at the least level of significance, PPT and CIT were not significant even though there is a strong relationship between them and FDI. Hence, it was concluded that there aside the existence of negative relationship between corporate income tax and petroleum profit tax and FDI, these relationships are not significant. The study findings are in line with Mandinga (2015) who investigated corporate income tax rates and its impact on FDI of Small Island Developing States (SIDs) for the 2004-2013 periods. The study showed that FDI is negatively related to corporate income tax rates. These study findings were also supported by Ahmed (2015) who found significant negative association between corporate tax and FDI in Bangladesh, as well as that of Van-Parys and James (2010) who examined the effectiveness of tax incentives in attracting investment in the CFA Franc zone and found no robust positive relationship between tax incentives and investment in the study area. These findings in a similar manner contradicts the findings of Olaleye *et al.*, (2016) who found a strong positive linear relationship between reduced company income tax incentives and FDI. However, these findings are in line with transnational companies organise their internal activities to benefit from specific advantages.

## 5. CONCLUSION AND RECOMMENDATION

This study concludes that tax incentive policy is a good driver of foreign direct investment into an economy, but it is not all forms of that will yield expected results. Therefore in Nigeria, tax incentive policy in the form of reduction in custom and excise duties will yield high level of inflow of foreign direct investment. This might be because a large proportion of foreign trade transactions are within the custom and excise tax bracket. Conversely, corporate income tax and petroleum profit tax incentives will also have a significant effect on inflow of FDI into the Nigeria in the long run but its effect in the short run is insignificant.

Based on the findings of this study, it is therefore recommended that Nigeria government should find the justifiable level of the custom duty to be paid by importers of foreign materials that will yield the maximum level of FDI into the country. Custom duty is more related to FDI as it is a charge on goods that are being imported into the country and for FDI to thrive, there is a need to make available most of the equipment and machines into the country especially in a developing economy like Nigeria. Also, the use of reduction of VAT to attract FDI is not an incentive to attract foreign investors. There are exemptions to those foreign companies that VAT is chargeable and as a result if the objective of the tax incentive is to drive

in foreign direct investment, VAT incentive policy may not yield an expected result because the study finds the effect VAT on FDI to be positive.

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