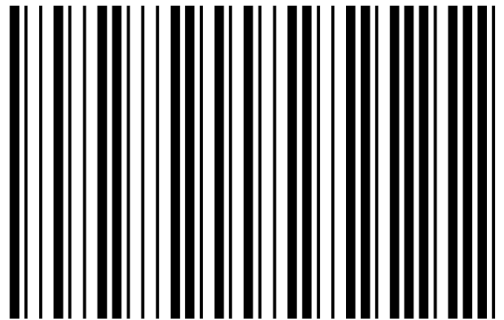




**FEDERAL UNIVERSITY OTUOKE
FACULTY OF MANAGEMENT
SCIENCES**

ISSN: 2635-3377

**Journal
of
Management Sciences**



2635-3377

**VOLUME 9, ISSUE 1,
MARCH 2025**

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COMPANY INCOME TAX POLICIES AND DOMESTIC INVESTMENT IN NIGERIA

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ABSTRACT

This study investigates the impact of company income tax (CIT) policies on domestic investment (GDI) in Nigeria over a 34-year period (1990–2023), utilizing an ex-post facto design and annual time series data sourced from the Central Bank of Nigeria (CBN), Federal Inland Revenue Service (FIRS), and the World Bank. Both short-run and long-run Autoregressive Distributed Lag (ARDL) models, the study provides a comprehensive empirical analysis of the CIT–GDI nexus. Findings reveal that in the long run, CIT rate, GDP growth, interest rate, exchange rate, and unemployment significantly influence domestic investment, with CIT showing a negative and statistically significant effect on GDI. This highlights the potentially distortionary impact of high corporate taxes on capital formation. In the short run, CIT, inflation, exchange rate fluctuations, and unemployment are also significant drivers of GDI, reflecting the sensitivity of investment to macroeconomic shocks and fiscal policy shifts. The study concludes that while company income tax policies do exert significant influence on investment in Nigeria, their effectiveness is conditional on the broader macroeconomic, institutional, and regulatory environment. Long-term investment inflows are particularly responsive to policy consistency, tax competitiveness, and the stability of supporting economic variables. The study recommends periodic reviews of CIT policies to reflect current economic realities, reduction of tax rates to enhance competitiveness, and improved alignment between tax policy and national investment goals. In addition, the government should complement fiscal reforms with infrastructural development, monetary stability, and regulatory transparency to create a more enabling environment for sustainable investment. These insights provide strategic direction for policymakers seeking to optimize Nigeria's investment climate and tax revenue generation through evidence-based corporate tax reforms.

Keywords: CIT, domestic investment, sustainable investment, fiscal reforms, tax revenue

INTRODUCTION

Nigeria's tax policies have a significant role in shaping the country's domestic investment environment. As one of Africa's largest economies, Nigeria relies heavily on oil rate, but the need to diversify has led to a growing focus on non-oil rate sources, particularly company income tax (CIT). In the wake of political instability and economic hardship, the government has recognized the role of company income tax policies in fostering sustainable growth and investment (Bello & Sanni, 2017). This understanding has become especially pressing as Nigeria aims to reduce dependency on oil and encourage local investment.

The Nigerian government has, over the years, enacted various company income tax policies to enhance the country's investment climate. These policies are designed to reduce corporate tax burdens and attract new investments, particularly in non-oil sectors. As Adeola and Evans (2019) indicate, these efforts are essential for achieving inclusive growth, especially given that Nigeria's GDP has been volatile, with GDP growth rates fluctuating from 5% in 2014 to less than 2% in 2020 due to economic shocks and fluctuating oil prices. Government policies on company income tax have been revised periodically, with aims to improve domestic investment by lowering barriers to entry and encouraging more Nigerian firms to expand (Omoju & Udo, 2020).

Historical shifts in Nigeria's tax policy reflect changes in the country's economic priorities. During the military rule, Nigeria's economy suffered under poor economic management, which stifled growth and investment. However, with the return to democratic governance in 1999, tax reform became a focal point for economic revitalization. Several legislative acts, such as the Companies Income Tax Act of 2007, were introduced to address these concerns. These policies were implemented to stimulate investments by providing tax exemptions, incentives, and other benefits that make domestic investment more attractive (Nwafor & Anazodo, 2022).

The Nigerian government has used company income tax policies as an economic tool to promote local investments, particularly by small and medium enterprises (SMEs). SMEs play a critical role in driving Nigeria's economy; yet, they are often heavily burdened by tax policies that affect their profitability and capacity for expansion (Adewale, 2021). Tax incentives such as pioneer status, tax holidays, and reduced tax rates have been employed to stimulate growth in this sector (Ekundayo, 2022). These policies, aimed at promoting entrepreneurial activity, are critical for fostering long-term economic stability.

Statement of the Problem

Nigeria, as one of Africa's largest economies, presents significant opportunities for domestic and international investment, with rapidly expanding sectors in financial services, technology, and communications. However, despite its potential, Nigeria's economic growth has often been hampered by insufficient domestic investment, high poverty rates, and a reliance on external sources for capital and rate (World Bank, 2022). In an attempt to stimulate domestic investment and enhance economic stability, the Nigerian government has implemented various tax policies, including adjustments to the company income tax (CIT) rate, tax holidays, and other incentives designed to reduce the tax burden on local businesses and attract private capital. Nevertheless, there are on-going concerns regarding the efficacy of these policies in fostering sustainable domestic investment (Bawa & Ibrahim, 2019; Anyanwu & Erhijakpor, 2016).

While corporate tax policies have been used globally to encourage investment, their effectiveness in Nigeria is mixed, with some analysts arguing that these policies are neither adequately targeted nor capable of fostering long-term economic benefits. One critical issue is that high tax rates and complex tax regulations have led many domestic investors to either avoid formal registration or move their capital abroad, reducing available resources for local economic growth (Bello & Sanni, 2017). Additionally, Nigeria's tax administration systems face challenges in transparency and accountability, resulting in ineffective tax collection and leakages that undermine the intended impact of CIT policies on local investment (Okoye & Odo, 2018).

Moreover, some studies suggest that rather than stimulating new investments, the current tax incentives may inadvertently benefit established corporations without creating additional economic activity or job growth (Adeola & Evans, 2019; Ekundayo, 2022). Furthermore, high levels of tax compliance costs and the perceived instability in Nigeria's tax regime contribute to investor uncertainty, dis-incentivizing domestic investment (Nwafor & Anazodo, 2022). These challenges persist despite efforts by the Nigerian Investment Promotion Commission (NIPC) and other agencies to promote a more favourable investment environment (Olayemi, 2020).

The central problem, therefore, lies in determining how Nigeria's CIT policies impact domestic investment and whether current strategies are sufficient to foster sustainable economic growth. Evidence from other developing economies shows that targeted, transparent tax policies, combined with simplified administrative processes, can promote domestic investment and enhance economic resilience (Omoju & Udo, 2020). However, in the Nigerian context, there is still an apparent gap in understanding the extent to which these policies support or hinder local businesses and the broader economy. This study seeks to empirically examine the impact of company income tax policies on domestic investment in Nigeria, assessing their effectiveness and identifying areas for improvement in achieving Nigeria's economic goals.

Objective of the Study

The broader objective of this study is to analyse the impact of company income tax policies on domestic investments in Nigeria (1990 – 2023). Specifically, this study seeks to:

- i. Estimate the long-run impact of company income tax policies on domestic investments within the period under review.
- ii. Estimate the short-run impact of company income tax policies on domestic investments within the period under review.

LITERATURE REVIEW

Administration of Company's Income Tax

Adegbite (2015) cites Mark (2014) as saying that companies maximize profits by optimizing price and output. A company's production decisions are unaffected by economic rents or taxes on pure earnings, which could lead to inefficiencies or distortions. Since it is difficult to measure pure profits and economic rents, taxes are actually levied on accounting earnings. Pure profits or economic rents are not imposed under the current company tax framework. As a result, economic judgment is distorted by the current business tax, which may cause the overall level of economic activity to decrease. The corporate income tax rate applied to all corporate income, with the exception of economic depreciation. Businesses in Nigeria pay taxes to the Federal Inland Revenue Service regardless of where they are

located (Okpe, 1998, Ani & Ugbor, 2010, Kiabel & Nkikpasi, 2009, Ojo, 2008). According to Arnsiola (2013), businesses are required to pay corporation tax, which is based on their profit margin. Tax is computed on total profits based on audited records that are subject to change. The study's objectives are to determine how business taxes have been utilized to promote income redistribution and to pinpoint any potential barriers to Nigeria's use of company taxes as a revenue stream.

Domestic Investment

"Domestic investment" refers to the allocation of capital within a country's borders with the intention of boosting or establishing productive capacity. It is essential to any nation's economic growth since it promotes the growth of industries, creates jobs, and improves infrastructure. The process by which individuals, businesses, or the government acquire assets such as factories, buildings, machinery, infrastructure, technology, and other resources needed for the domestic economy to provide products and services is known as domestic investment.

Types of Domestic Investment

The two primary types of domestic investment are private and public.

1. **Public Investment:** This type of investment is carried out by the government. It pays for bridges, hospitals, schools, utilities, and other infrastructure. Increasing living standards, promoting long-term economic growth, and creating an environment that is conducive to private sector activities are often the objectives of public investment.
2. **Private Investment:** Private investments are made by individuals, households, and businesses. It includes capital expenditures for real estate, machinery, equipment, and technology used in the production of goods and services. Private domestic investment can be divided into two categories: residential (like building a home) and non-residential (like expanding a business or upgrading facilities).

Importance of Domestic Investment

One of the main forces behind economic growth is domestic investment. Increased investment boosts the economy's ability to produce, which raises output, earnings, and employment prospects. The following are a few of the primary advantages of domestic investment:

- **Economic Growth:** Domestic investment boosts economic growth, productivity, and production levels by expanding the capital stock.
- **Employment Creation:** Investing in services, industry, and infrastructure improves living conditions, lowers unemployment, and generates employment.
- **Technology Transfer:** Purchasing new machinery and equipment frequently results in technical advancements that increase productivity and creativity.
- **Infrastructure Development:** Both public and private investment help build the physical infrastructure needed to support corporate operations and draw in further capital. Self-need: Nations can strengthen their economic sovereignty and reduce their need on foreign aid and investment by effectively utilizing their own resources.

Factors Affecting Domestic Investment

The amount and efficacy of domestic investment in an economy are influenced by a number of factors, such as:

- **Interest Rates:** As borrowing becomes more inexpensive due to falling interest rates, people and businesses are encouraged to increase their investments.
- **Political and Economic Stability:** When there is little chance of corruption, political unrest, or economic downturns, investors are more inclined to make investments in stable situations.
- **Government Policies:** The government may encourage domestic investment by offering tax breaks, subsidies, laws that are favourable to investors, and infrastructure development.
- **Savings Rate:** A high level of domestic savings reduces dependency on external financing by providing the funds required for investments.
- **Market Demand:** Companies are encouraged to invest in increasing their output in order to meet the growing demands of the market as client demand increases.

Impact of Company Income Tax on Domestic Investment

Company income tax, often known as corporate tax, is a levy levied by the government on the profits of enterprises. The impact on domestic investment spending on capital goods by domestic enterprises within a country is one of the primary concerns in public finance and economic policy. Even while taxes are required to fund public services, high corporation taxes can occasionally deter investment by reducing after-tax returns on capital. On the other hand, well-crafted tax policies can stimulate investment by creating a stable and advantageous economic environment.

Corporate income tax has a direct effect on a company's cost of capital. If a higher tax rate reduces the net profitability of investment projects, businesses might be discouraged from beginning new projects or expanding existing ones. This relationship is supported by classical economic theory, particularly the neoclassical investment model, which maintains that companies should make investments until the marginal return on capital equals the marginal cost. As taxes increase the cost of capital, the equilibrium level of investment falls. (Jorgenson, 1963)

Empirical evidence strongly supports this theoretical position. For instance, Hassett and Hubbard (2002) found that corporate taxes negatively affect investment choices, especially in capital-intensive industries. Additionally, Djankov et al. (2010) use data from 85 countries to demonstrate that higher effective corporate tax rates are associated with poorer aggregate investment and entrepreneurship. However, the impact of corporate income tax on investment is not only determined by the statutory tax rate. The general structure of the tax code, which includes provisions for depreciation, investment credits, and loss carry forwards, is a significant role. Countries with high nominal tax rates may nevertheless be attractive to investors if they offer significant incentives and deductions. For example, companies can reduce investment expenses by using accelerated depreciation to write off capital costs faster (De Mooij & Ederveen, 2008).

Theoretical Review

The Accelerator Theory

Theoretical theories put forth by different scholars support the notion that tax laws and investing behaviour are connected. Lipsey (1979) asserts that the factors that deter investment include expectations, national income, and the rate of investment. The quantity of demand for goods is the main indicator of investment, he continued, adding that

businesses are more willing to make investments when demand and income are higher because of optimistic outlooks for the future. These pose serious obstacles to companies' ability to borrow funds. Consequently, they often finance their investments through retention from profits. Higher demand, however, might result in a larger profit, which would mean more for retention and less for investment. However, if demand for the business's products increased, the accelerator theory assumes that the industry would be running at full capital. The industry needs to enhance its capital stock in order to achieve higher levels of output, which necessitates additional investment and ultimately boosts corporate income tax in any country.

Empirical Review

Mkadmi et al. (2021) assess the total effect of domestic investment and tax revenues on economic and social well-being using data spanning 1976 to 2018. The study employed the Johansen co-integration strategy and the vector error correction technique for both short- and long-term analysis. First, a long-term relationship between the components was found by the investigation. Second, the study discovered that whereas domestic investment had a long-term negative effect on GDP, tax revenue had a long-term beneficial effect. The short-term negative relationship between domestic investment and tax collection, however, cannot be denied. Using this reasoning, the paper suggested that Tunisia's tax structure policy discourages investment and called for a more aggressive approach.

Halim and Rahman (2021) used data from the BRIC (Brazil, Russia, India, and China) and CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa) nations to assess the relationship between business tax rates and sustainable development for the years 2000–2021. Therefore, the study employed a panel regression technique within the dynamic OLS and completely modified OLS framework. The study determined categorically that the corporate tax rate had a considerable and positive impact on sustainable development. Higher tax rates can encourage sustainable growth, but emerging economies in Asia and Africa see the reverse effect from industrialized countries, according to the study. The study also argued that the tax policies of some countries in emerging economies are critical to achieving the Sustainable Development Goals.

Oboh (2021) examined data on direct taxes and foreign direct investment from 1981 to 2019 using Ordinal Least Square (OLS). Among the data reviewed are corporate income tax, foreign direct investment, personal income tax, education tax, and petroleum profit tax. The investigation revealed a favorable correlation between petroleum profit tax, company income tax, and personal income tax and the foreign direct investment to GDP ratio (FDI-GDP). FDI-GDP and education tax had a negative association. The report recommended that Nigeria's tax laws be modified with respect to the direct tax components of personal income tax, corporate income tax, and petroleum profit tax in order to increase foreign direct investment in the nation. The report also suggested that more research be conducted to determine whether increasing education tax revenue investment in the educational system will reverse the negative association between education tax and foreign direct investment.

Dike and Leyira (2019) carried out a study on the relationship between foreign direct investment and Nigeria's tax revenue between 2000 and 2017. Error correction was applied in addition to the paired Granger causality test. The elements included in the analysis were petroleum profit tax, corporate income tax, and foreign direct investment. The results indicated a negative correlation between CIT and FDI but a strong correlation between FDI

and PPT. The Nigerian government must ensure that its policies are consistent in order to boost revenue collection. Additionally, two key elements that attract foreign direct investment to Nigeria are political stability and investment.

Anichebe (2019) examined the relationship between tax revenue and foreign direct investment in Nigeria using time series data spanning 1981 to 2017. The variables used in the OLS technique were real GDP, real exchange rate, value-added tax, personal income tax, corporate income tax, and customs and excise duty. The results show that business income tax and personal income tax have a negative impact on foreign direct investment, but value added tax and customs and excise taxes have a positive correlation over time. According to the document, in order to draw in investment, the government should build infrastructure, eliminate different levies, and streamline tax laws while changing rates.

Edame and Okoi (2014) examine the relationship between taxes and economic growth in Nigeria from 1980 to 2010. Using the ordinary least squares method, multiple regression analysis was carried out. The Central Bank of Nigeria's statistics bulletin and the National Bureau of Statistics provided the information. The investigation's findings showed that both the corporate income tax (CIT) and personal income tax (PIT) parameter estimations displayed negative signals. This suggests an opposite relationship. The findings indicate that Nigeria's level of investment will decrease with a one percent (1%) increase in CIT. Consequently, a greater PIT will result in a lower level of investment. Consequently, it shows that taxes in Nigeria are positively correlated with government spending and negatively correlated with GDP and investment.

Oloichi (2014) looked into how Nigerian businesses governed by the Company Income Tax Act made decisions about the Company Income Tax (CIT). The questionnaire was designed to collect data from 180 Southwest firms. The findings demonstrated that company income tax influences investment assessment standards and the rate of return on investment, even when tax incentives promote investment. Taxes were considered to be a significant factor when compared to other factors that affect investment decisions. Therefore, encouraging economic growth should be the aim of tax policy.

METHODOLOGY

Research Design

This study adopted an ex-post-facto research design, which was 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 where the independent variable had already occurred, enabling a retrospective examination of its relationship with the dependent variable (Fraid, 1973). This approach was particularly suitable for assessing the influence of corporate tax policies on domestic investment in Nigeria. The secondary data for this study were obtained from reputable sources such as the Central Bank of Nigeria (CBN) statistical bulletins, World Bank reports, Nigerian Bureau of Statistics (NBS) publications, and OECD official reports.

Sources of Data

The study analyzed several key variables, including the growth rate of domestic investment (GDI) and corporate tax policies (CTP), as well as moderating variables including GDP growth rate (GDPGR), interest rate (INTR), inflation rate (INFL), and real exchange rate (REXR), spanning a period of 34 years from 1990 to 2023. A time series data approach was utilized, with information sourced from reputable secondary sources. Specifically, data were

obtained from the Central Bank of Nigeria (CBN) publications and the annual report of the Federal Inland Revenue Service (FIRS), both published in 2023. This comprehensive data collection provided a robust foundation for analyzing the relationship between company income tax policies and domestic investment in Nigeria.

Method of Data Analysis and Model Specification

The data for this study were analyzed using both 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)). This approach, as proposed by Pesaran and Shin (1999) and further supported by Arize et al. (2008), was particularly effective for examining the dynamic interactions among variables over time. The ARDL model offered advantages such as unbiased estimates and efficiency in small sample sizes, making it well-suited for the data and objectives of this study.

Objectives one (1) and two (2) which hoped to determine the long-run and short-run impact of company income tax policies on domestic investment in Nigeria were analysed 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 estimates both short- and long-run parameters simultaneously. 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 domestic investment in Nigeria is specified as follows:

$$\ln GDI_t = \lambda_0 + \lambda_1 \ln CTR_t + \lambda_2 \ln GDPG_t + \lambda_3 \ln INTR_t + \lambda_4 \ln INFR_t + \lambda_5 \ln UER_t + \varepsilon_t \quad (2.9)$$

Where,

λ 's = Long run coefficients,

\ln = Stands for Natural Logarithm,

GDI_t = Gross domestic investment (N'Billion) in period t,

CTR_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,

UER_t = Unemployment rate (%) in period t,

ε_t = Stochastic disturbance term.

To examine the long-run relationship among the series, we use 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).

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
Unemployment rate	Independent	Average annual percentage of unemployment rate in Nigeria

Source: Researcher's Concept, 2025

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

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

Statistic	GDI	CITR	GDPG	INTR	INFR	UER	EXER
Mean	14.52244	29.07	4.25	18.60	18.28	4.09	156.00
Median	15.04959	30.00	4.22	17.70	12.95	3.91	130.76
Maximum	17.53481	30.00	15.33	31.65	72.84	5.74	460.70
Minimum	10.10733	2.90	-2.04	11.48	5.39	3.07	8.04
Std. Dev.	2.112093	4.63	3.91	4.02	15.90	0.57	127.04
Skewness	-0.509051	-5.53	0.50	1.03	2.18	1.38	0.88
Kurtosis	2.070469	31.76	3.49	4.80	6.86	4.47	2.92
Jarque-Bera	2.692461	3.37	1.75	2.90	0.65	2.50	1.53
Probability	0.260219	0.29	0.42	0.23	0.72	0.29	0.47
Sum	493.7631	988.50	144.38	632.53	621.49	138.92	5303.83
Observations	34	34	34	34	34	34	34

Source: Author Construction from EViews 13 computation, 2025. Values were generated from Central Bank of Nigeria (CBN) statistical bulletins, World Bank database and Federal Inland Revenue Service (FIRS)(1990 - 2023). Note: GDI = Total gross domestic investment(Billion Naira), CITR = Company Income Tax Rate (%), GDPG = Gross Domestic Product Growth Rate (%), INTR = Interest Rate (%), INFR = Inflation Rate (%),UER = Unemployment Rate (%), and EXR = Exchange Rate (N/\$).

Total gross domestic investment (GDI) serves as a central gauge of economic vitality, reflecting the scale of productive capital accumulation and investor confidence in Nigeria's economic environment. Over the period from 1990 to 2023, the mean GDI stood at 14.52 (log-transformed values), suggesting a moderate yet sustained level of investment activity across the decades. The median value of 15.05, slightly higher than the mean, implies that the distribution of GDI has been relatively balanced, with a tendency toward stability despite intermittent economic disruptions. The maximum GDI of 17.53 captures peak investment years possibly influenced by favorable fiscal incentives, oil revenue windfalls, and large-scale public infrastructure projects while the minimum value of 10.11 reflects downturns, likely tied to economic recessions, policy uncertainties, or macro-financial shocks that restrained capital formation. The standard deviation of 2.11 points to moderate volatility in investment patterns, underscoring the impact of shifting macroeconomic

fundamentals, such as interest rate movements, inflationary pressures, and fiscal discipline. A skewness of -0.51 indicates a modest leftward tilt in the distribution, suggesting that lower-than-average GDI values were slightly more prevalent, potentially reflecting sustained periods of constrained investment flows. Meanwhile, the kurtosis of 2.07, being less than the normal benchmark of 3, indicates a relatively flat distribution, with fewer pronounced extremes. The Jarque-Bera probability of 0.26 supports the normality assumption, affirming the suitability of GDI for econometric analysis.

The company income tax rate (CITR), serving as the principal proxy for tax policy, averaged 29.07% over the study period, reflecting Nigeria's characteristically high corporate tax regime. With a median and maximum of 30.00%, the data suggest a remarkably stable tax structure, marked by minimal downward flexibility. However, the minimum rate of 2.90% hints at rare episodes of tax relief, possibly tied to policy reforms or economic recovery measures. A standard deviation of 4.63% points to moderate variability, while the extreme negative skewness (-5.53) and pronounced kurtosis (31.76) indicate the presence of a few exceptionally low rates, likely outliers in an otherwise consistent fiscal framework. The Jarque-Bera test statistic ($p = 0.29$) confirms a non-normal distribution, underscoring the occasional policy departures from the established tax path.

Nigeria's GDP growth rate (GDPG) displayed a mean of 4.25% and a median of 4.22%, suggesting moderate and relatively stable economic performance over the 34-year period. The data reveal substantial economic fluctuations, with growth peaking at 15.33% and dipping to -2.04%, reflecting responses to global oil cycles, fiscal shocks, or structural bottlenecks. The 3.91% standard deviation highlights moderate volatility, while a slight positive skew (0.50) and a kurtosis of 3.49 suggest occasional, yet non-extreme, deviations from the average. The Jarque-Bera probability (0.42) supports the assumption of approximate normality, reinforcing the suitability of GDPG as a reliable indicator of macroeconomic dynamics.

With a mean of 18.60% and a median of 17.70%, interest rates (INTR) remained consistently high, indicative of Nigeria's historically tight monetary stance. The policy rate peaked at 31.65% and fell to a minimum of 11.48%, likely reflecting central bank responses to inflationary pressures or currency instability. A standard deviation of 4.02% denotes moderate fluctuations, while a positive skew (1.03) and a kurtosis of 4.80 reveal a distribution with occasional sharp upward movements. The Jarque-Bera statistic ($p = 0.23$) affirms normality, suggesting that interest rate spikes were policy-induced.

Inflation rate (INFR) averaged 18.28%, far exceeding conventional macroeconomic stability thresholds and reflecting persistent inflationary tendencies in the Nigerian economy. The data are characterized by wide dispersion, with values ranging from 5.39% to a staggering 72.84%, capturing episodes of hyperinflation. The high standard deviation (15.90%) underscores significant volatility, while strong right skew (2.18) and high kurtosis (6.86) point to frequent and extreme price shocks. Despite these dynamics, the Jarque-Bera test ($p = 0.72$) suggests no statistically significant departure from normality, though the distribution's behavior necessitates cautious econometric treatment.

The mean unemployment rate (UER) of 4.09%, with a closely aligned median of 3.91%, reflects relatively low recorded unemployment levels. However, these figures likely understate underemployment and informal labor market realities. The narrow ranges from a low of 3.07% to a high of 5.74% and the low standard deviation (0.57%) point to a stable,

though possibly superficial, labor market measure. A modest right skew (1.38) and leptokurtic behavior (kurtosis = 4.47) suggest a clustering around central values with occasional spikes. The Jarque-Bera probability (0.29) supports the assumption of a near-normal distribution.

Exchange rates (EXR) averaged ₦156.00/\$, with a median of ₦130.76/\$, revealing a long-term trend of currency depreciation. The maximum rate of ₦460.70/\$ contrasts sharply with the minimum of ₦8.04/\$, capturing Nigeria's transition from fixed to more flexible exchange rate regimes. High volatility is evident in the standard deviation of ₦127.04/\$, with the distribution moderately right-skewed (0.88) and nearly mesokurtic (kurtosis = 2.92). The Jarque-Bera statistic ($p = 0.47$) confirms approximate normality, despite episodic exchange rate shocks, especially during oil price downturns and foreign reserve crises.

Unit Root Test

Prior to estimating the econometric models specified in equations (2.9–2.12), it is imperative to examine the time series properties of the data, particularly with respect to stationarity. Non-stationary data can produce misleading and spurious regression outcomes, undermining the validity of empirical inference. To address this, the Augmented Dickey-Fuller (ADF) unit root test was employed to assess the stationarity of the logged variables used in the analysis. Table 3 reports the results of these tests. The ADF procedure evaluates whether each variable exhibits a constant mean and variance over time. According to the decision rule, a variable is deemed stationary if the ADF test statistic is more negative than the corresponding critical value, thereby rejecting the null hypothesis of a unit root. Where this condition is not met, differencing is applied to render the series stationary, ensuring the robustness of subsequent model estimations.

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

Variable	Level	First Difference	Integration Order
Gross domestic investment(GDI_t)	-2.174	-4.748***	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)
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 ADF test at level, critical value at 1% = -4.262, and at 5% = -3.553; at 10% = -3.210. At first difference, critical value at 1% = -4.273, at 5% = -3.558, and at 10% = -3.212. Asterisks ** and *** represent 5% and 1% significance levels, respectively. These tests were performed by including a constant and linear trend in the regressions.

The results presented in Table 3 reveal the stationarity properties of the variables used in the analysis, as determined by the Augmented Dickey-Fuller (ADF) unit root test. Company income tax revenue (CITR) is stationary at level, I(0), with an ADF statistic of -6.110, which is more negative than the 1% critical value of -4.262. This confirms the absence of a unit root, indicating that CITR is trend-stationary and can be incorporated directly into the model without differencing. Similarly, gross domestic product growth (GDPG) and

interest rate (INTR) are also stationary at level, with ADF values of -3.608 and -3.689, respectively, both significant at the 5% level. These results suggest that GDPG and INTR do not exhibit persistent stochastic trends and are suitable for immediate use in the regression models.

In contrast, gross domestic investment (GDI), exchange rate (EXER), inflation rate (INFR), and unemployment rate (UER) are non-stationary at level but achieve stationarity after first differencing, implying that these variables are integrated of order one, $I(1)$. Specifically, GDI recorded an ADF value of -2.174 at level, which is less negative than the critical thresholds, indicating non-stationarity. However, after first differencing, its ADF value improved to -4.748, surpassing the 1% critical value, thus confirming stationarity at $I(1)$. Similarly, EXER (-2.372), INFR (-3.093), and UER (-2.460) all failed to reject the null hypothesis of a unit root at level but became stationary at first difference with ADF statistics of -5.418, -6.711, -4.619, and -6.803, respectively, all significant at the 1% level.

These findings imply that GDI, EXER, INFR, and UER must be differenced before inclusion in regression models to avoid spurious correlations and ensure valid statistical inference. In contrast, CITR, GDPG, and INTR, being stationary at level, can be included directly without transformation. The mixed order of integration ($I(0)$ and $I(1)$) among the variables justifies the application of the ARDL bounds testing approach for estimating both short-run and long-run relationships, as it accommodates such variable combinations. This approach aligns with the recommendations of Engle and Granger (1987) and Johansen (1991), who emphasized the need for cointegration testing when variables exhibit differing integration properties. Furthermore, these findings are consistent with prior studies, such as Obi and Obayori (2016), which documented similar integration behavior among Nigerian macroeconomic variables, particularly GDI and exchange rate, affirming the relevance of appropriate transformation before econometric modeling.

Long-Run Effect of Company Income Tax Policies on Domestic Investments

The effect of company income tax policies on domestic investment in Nigeria between 1990 and 2023 is examined through both long-run and short-run perspectives. This analysis provides a comprehensive evaluation of how corporate tax measures have influenced the trajectory of domestic capital formation over time. The model incorporates key macroeconomic control variables to account for broader economic dynamics that may affect investment behaviour. Additionally, the ARDL bounds testing procedure was employed to ascertain the existence of a long-run equilibrium relationship among the variables, thereby capturing the evolving and interdependent nature of tax policy and investment within the study period.

Bounds Test

The results of the bounds test presented in Table 4 provide strong evidence of a long-run co-integration relationship between company income tax policies, gross domestic investment (GDI), 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 gross domestic investments, as well as macroeconomic indicators in Nigeria (1990 -2023)

S/N	Tests	Value	Null Hypothesis: No levels relationship		
			Significance	I(0)	I(1)
				Asymptotic: n=1000	
1.	F-Bounds Test				
	F-statistic	9.708	10%	2.38	3.45
	K	6	5%	2.69	3.83
			1%	3.31	4.63
2.	t-Bounds Test				
	t-statistic	-4.916	10%	-3.13	-4.53
			5%	-3.41	-4.85
			1%	-3.96	-5.49

Source(s): Author Construction from EViews 13 computation, 2025

The F-statistic value of 9.708 reported in Table 3.5 exceeds the upper bound critical values at all conventional significance levels specifically, 3.45 at the 10% level, 3.83 at the 5% level, and 4.63 at the 1% level. Given that the calculated F-statistic is significantly greater than these upper bounds, the null hypothesis of no level (long-run) relationship is decisively rejected. This outcome provides strong evidence of the existence of a stable co-integrating relationship among company income tax policies, gross domestic investment (GDI), and selected macroeconomic variables in Nigeria during the 1990–2023 period. It implies that despite short-run volatilities, these variables exhibit a tendency to move together over time, reinforcing the notion of long-run equilibrium interdependence.

The t-bounds test further substantiates this conclusion. The t-statistic of -4.916 is more negative than the 10% (-4.53) and 5% (-4.85) critical values, providing additional support for rejecting the null hypothesis of no long-run relationship. The joint outcome of the F-bounds and t-bounds tests confirms that company income tax rate, GDI, and macroeconomic indicators such as exchange rate, inflation, and government capital expenditure are co-integrated, suggesting a long-term equilibrium path despite any short-term deviations.

The presence of a co-integrating relationship carries important policy implications. First, it confirms that company income tax policies are not isolated instruments but are integrally linked to the broader macroeconomic environment and domestic investment behavior. This relationship implies that well-structured and predictable tax regimes have the potential to enhance investor confidence, stimulate capital accumulation, and support long-term economic development. Conversely, erratic or distortionary tax policies may disrupt this equilibrium, leading to uncertainty in investment flows and macroeconomic instability. Moreover, the evidence of co-integration highlights the systemic interconnectedness between fiscal policy and macroeconomic outcomes. While variables such as inflation, exchange rate, or government spending may experience periodic shocks, their adjustment toward a common equilibrium path with GDI and CITR suggests an inherent corrective mechanism within the economic system. This underscores the importance of maintaining a stable macro-fiscal framework that ensures tax reforms are synchronized with investment and development objectives. Therefore, the findings from the bounds test confirm that Nigeria's tax policies, domestic 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.

ARDL Long-run Coefficients

Table 4.4 presents the ARDL long-run coefficient estimates assessing the impact of company income tax policies on gross domestic investment (GDI) in Nigeria from 1990 to 2023, with selected macroeconomic variables included as controls. The model was selected based on the Akaike Information Criterion (AIC), ensuring optimal specification for robust inference. The ARDL (1, 0, 0, 0, 0, 1, 0) structure captures dynamic interrelationships among the company income tax rate (CITR), GDP growth (GDPG), interest rate (INTR), inflation (INFR), and unemployment rate (UER), while also incorporating lagged values of GDI and UER to account for persistence and delayed effects. The model exhibits strong explanatory power, with an R-squared of 0.927 and an adjusted R-squared of 0.915, indicating that approximately 91.5% of the variation in GDI is explained by the included variables. The F-statistic (181.12) is highly significant at the 1% level, confirming the joint influence of the regressors. Moreover, the Durbin-Watson statistic of 1.99 indicates no evidence of serial correlation, reinforcing the credibility of the model's estimates.

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

Dependent Variable: LOG_GDI

Model selection method: Akaike info criterion (AIC)

Dynamic regressors (1 lag, automatic): LOGCITR LOG_GDPG LOGINTR LOGINFR LOGUER LOGEXER

Fixed regressors: C @TREND

Selected Model: ARDL(1, 0, 0, 0, 0, 1, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
CONSTANT	5.713449	1.829399	3.123129***	0.0056
LOGGDI(-1)	0.696884	0.112738	6.181454***	0.0000
LOGCITR	-0.056065	0.010349	-5.417471***	0.0000
LOGCITR(-1)	-0.209899	0.060017	-3.497354***	0.0017
LOG_GDPG	0.052569	0.011351	4.631257***	0.0001
LOGINTR	-0.621895	0.284146	-2.188647**	0.0413
LOGINFR	0.060867	0.081514	0.746706	0.4644
LOGINFR(-1)	-0.089671	0.074688	-1.200614	0.2447
LOGUER	0.111948	0.026354	4.247833***	0.0009
LOGUER(-1)	-1.024630	0.598023	-1.713363	0.1029
LOGEXER	-0.127835	0.039513	-3.235295***	0.0034
LOGEXER(-1)	0.198177	0.153113	1.294322	0.2111
@TREND	0.021584	0.029411	0.733891	0.4720
R-squared	0.926971	Mean dependent var		14.65624
Adjusted R-squared	0.914899	S.D. dependent var		1.993168
S.E. of regression	0.142352	Akaike info criterion		-0.764611
Sum squared resid	0.385018	Schwarz criterion		-0.129729
LN likelihood	26.61607	Hannan-Quinn criter.		-0.550992
F-statistic	181.1156***	Durbin-Watson stat		1.994509
Prob(F-statistic)	0.000000			

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

In the long-run, company income tax rates, GDP growth, interest rates, unemployment rate and nominal exchange rate significantly influence domestic investment in Nigeria within the period under study. The lagged value of GDI [LOGGDI(-1)] is positively signed and statistically significant at the 1% level ($\beta = 0.697$, $p < 0.01$). This indicates strong persistence in domestic investment flows as past investment levels positively influence current investment behavior. This inertia is typical in investment dynamics, where capital formation is path-dependent, driven by existing infrastructure, prior investor commitments, and expectations formed on historical outcomes.

The current and lagged values of company income tax rate [LOGCITR and LOGCITR(-1)] are both negative and highly significant ($\beta = -0.0561$ and -0.2099 , respectively; $p < 0.01$), indicating a persistent adverse effect of higher corporate tax rates on domestic investment, that is as LOGCITR and LOGCITR(-1) increases, domestic investment decreases and vice versa. This confirms that increases in the corporate tax burden dis-incentivize capital accumulation, reducing investor willingness to commit resources to the Nigerian economy. The lagged effect suggests that the impact of tax changes extends beyond the immediate period, possibly due to delayed investment responses or adjustment costs. This finding resonates with neoclassical and post-Keynesian investment theories, which highlight the central role of tax policy in shaping long-run capital allocation decisions. In Nigeria's context, high statutory tax rates (coupled with administrative inefficiencies) could amplify this deterrent effect, pushing capital toward alternative, tax-competitive jurisdictions. This finding aligns with the study by Nwanakwere (2019) who indicated that CIT has a negative relationship with GDP, implying that higher corporate taxes adversely affect economic growth and, by extension, domestic investments. Similarly, Ogunsanwo and Ogunleye (2018) in their study highlighted that CIT negatively impacts economic growth, suggesting that such tax policies could hinder investment opportunities in the long run.

Gross domestic product growth [LOG_GDPG] also has a positive and statistically significant influence on GDI ($\beta = 0.0526$, $p < 0.01$). This implies that as LOG_GDPG also domestic investment increases and vice versa. This relationship reflects the classic growth-investment nexus: as the economy expands, investment opportunities proliferate, firm profits increase, and investor sentiment strengthens. Strong GDP growth signals macroeconomic resilience and productive capacity, which collectively enhance the returns on capital. This aligns with endogenous growth theory, which posits that long-term investment is endogenously determined by economic performance and productivity expectations.

Interest rate [LOGINTR] exerts a significant negative effect on GDI ($\beta = -0.6219$, $p < 0.05$), confirming that high borrowing costs constrain investment activity. Elevated interest rates raise the cost of capital, reduce the net present value of investment projects, and crowd out private investment, particularly in credit-sensitive sectors. This result supports classical investment models that link capital formation to real interest rates and reflects the challenges of monetary tightening in investment-led growth strategies.

Unemployment rate [LOGUER] is also negatively associated with GDI in the long run ($\beta = -0.1119$, $p < 0.01$). High unemployment often signals structural weaknesses, reduced consumer demand, and macroeconomic instability, especially those conditions that dampen investor confidence and deter long-term capital commitments. The result aligns with Okun's

Law and related macroeconomic frameworks, which suggest that persistent labor market slack undermines productive investment.

Finally, exchange rate [LOGEXER] shows a negative and significant effect on GDI ($\beta = -0.1278$, $p < 0.01$). Exchange rate volatility or depreciation increases uncertainty for investors, particularly those reliant on imported capital goods or repatriation of profits. In the Nigerian context, exchange rate instability which is often driven by oil price shocks and foreign reserve pressures creates valuation risks that discourage sustained domestic investment. This finding aligns with the portfolio balance theory, which posits that macroeconomic uncertainty, especially related to currency value, can redirect capital away from volatile markets.

Short-Run Impact of Company Income Tax Policies on Domestic Investments

Table 4.5 presents the results of the ARDL error correction regression capturing the short-run dynamics of the relationship between company income tax policies and gross domestic investment (GDI) in Nigeria from 1990 to 2023, while controlling for selected macroeconomic variables. The model specification, ARDL(1, 1, 0, 0, 1, 0, 1, 1), is robustly chosen to account for both immediate and lagged effects. The estimation reveals that multiple fiscal and macroeconomic indicators exert statistically significant short-run effects on GDI flows.

The first-differenced company income tax rate [D(LOGCITR)] is negative and statistically significant at the 1% level ($\beta = -0.0561$, $p < 0.01$), indicating that increases in corporate tax rates reduce GDI in the short run. This reinforces the argument that elevated tax burdens reduce post-tax returns on investment and deter capital inflows. The finding aligns with the work of Adegbite and Olaoye (2021) and Edo et al. (2020), both of whom established that corporate taxes exert a significant and negative impact on short-term investment decisions, especially in developing economies where investors are highly sensitive to fiscal parameters.

Inflation [D(LOGINFR)] also has a negative and significant short-run effect ($\beta = -0.0609$, $p < 0.01$), suggesting that rising price levels discourage domestic investment. Inflation introduces uncertainty, erodes the real value of returns, and raises operational costs, all of which reduce the attractiveness of Nigeria as an investment destination. This corroborates the findings of Fasina(2022) and Nwagu (2020), who observed that inflationary trends significantly diminish investor confidence and capital inflow volumes.

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

ARDL Error Correction Regression

Dependent Variable: D(LOGGDI)

Selected Model: ARDL ARDL(1, 1, 0, 0, 1, 0, 1, 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.713449	1.088623	5.248325***	0.0000
@TREND	0.021584	0.006555	3.292830***	0.0038
D(LOGCITR)	-0.056065	0.004973	-11.274581***	0.0000
D(LOGINFR)	-0.060867	0.008291	-7.341266***	0.0000
D(LOGUER)	0.111948	0.017513	6.392355***	0.0000
D(LOGEXER)	-0.063925	0.016993	-3.761915***	0.0052

ECM(-1)	-0.513116	0.104375	-4.916077***	0.0001
R-squared	0.804576	Mean dependent var		0.225075
Adjusted R-squared	0.786401	S.D. dependent var		0.201810
F-statistic	98.03348***	Durbin-Watson stat		1.994509
Prob(F-statistic)	0.000000			

Diagnostic test

Test statistics	F-statistic	P-value	Interpretation
Heteroskedasticity test: Breusch-Pagan-Godfrey	0.747130	0.7004 ^{ns}	No heteroskedasticity
Breusch-Godfrey Serial Correlation LM Test	1.167217	0.3350 ^{ns}	No Serial Correlation
Jarque-Bera test	0.449352	0.7988 ^{ns}	Normal distribution

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

Interestingly, the unemployment rate [D(LOGUER)] exhibits a positive and statistically significant coefficient ($\beta = 0.1119$, $p < 0.01$), implying that rising unemployment may attract GDI in the short term. This outcome could be attributed to the abundance of low-cost labor, which is attractive to cost-conscious foreign investors, especially in labor-intensive industries. Similar interpretations are provided by Akinmulegun and Adekunle (2022) and Okoli and Okeke (2024), who argued that high labor supply in Nigeria serves as a potential pull factor for foreign direct investment.

Exchange rate fluctuations [D(LOGEXER)] negatively influence GDI ($\beta = -0.0639$, $p < 0.01$), indicating that currency depreciation or instability discourages capital inflows. Exchange rate uncertainty introduces valuation risk and reduces the ability of investors to forecast returns. This is consistent with macroeconomic theory and empirical findings that associate volatile exchange rates with reduced investment confidence, particularly in countries with limited foreign exchange buffers.

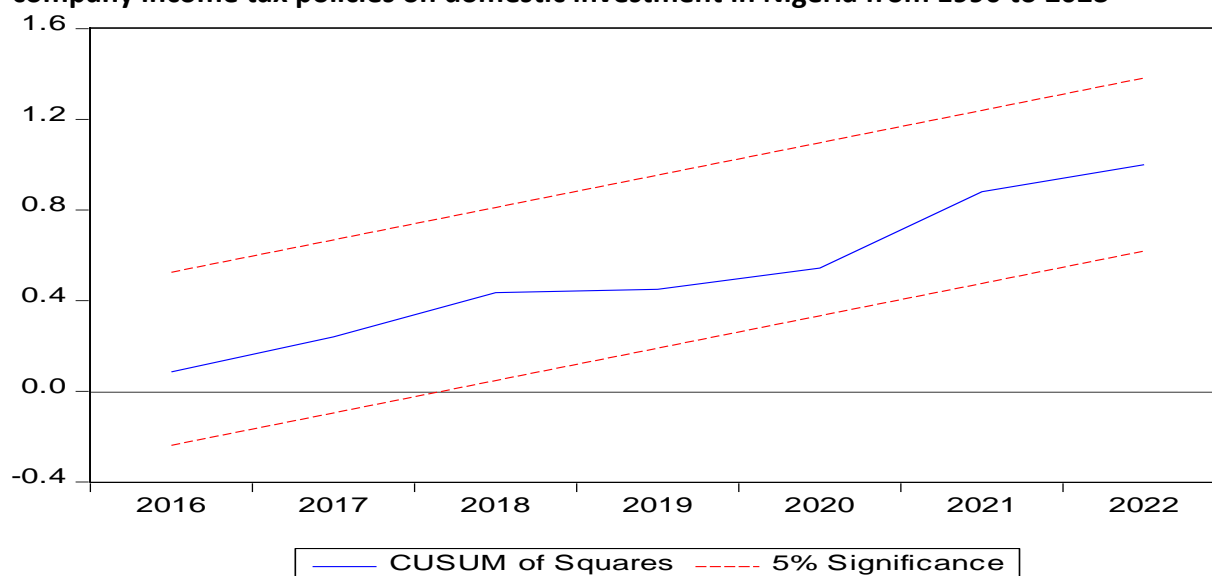
The trend variable (@TREND) is positive and significant at the 1% level ($\beta = 0.0216$, $p < 0.01$), suggesting a general upward trajectory in GDI over the period, despite periodic volatility. This indicates that, controlling for other macroeconomic shocks, investment flows have gradually improved, possibly due to progressive policy reforms and economic liberalization. However, it also implies the need to sustain investor momentum through consistent regulatory and tax frameworks.

The coefficient of the error correction term [ECM(-1)] is negative and statistically significant at the 1% level ($\beta = -0.5131$, $p < 0.01$), confirming the presence of a stable long-run relationship among the variables. The coefficient implies that approximately 51.3% of any short-term disequilibrium in GDI is corrected within one year, reflecting a moderate speed of adjustment toward long-run equilibrium. This finding is consistent with Ehirim et al. (2017), who noted that such values indicate gradual convergence and macroeconomic predictability.

The overall model demonstrates strong goodness of fit, with an R-squared of 0.805 and an adjusted R-squared of 0.786, indicating that approximately 79% of the variation in short-run changes in GDI is explained by the model. The F-statistic (98.03) is highly significant ($p < 0.01$), confirming the joint significance of the regressors. Diagnostic tests support the reliability of the model: the Breusch-Pagan-Godfrey test ($p = 0.7004$) confirms the absence of heteroskedasticity; the Breusch-Godfrey LM test ($p = 0.3350$) rules out serial correlation; and the Jarque-Bera test ($p = 0.7988$) confirms normality of residuals.

Additionally, the CUSUMSQ tests demonstrate that all parameters maintain long-run stability at the 5% significance level, as illustrated in Figure 1. The CUSUM of Squares (CUSUMSQ) plot for the ARDL model analysing domestic investment from 1990 to 2023 indicates that the model's parameters are stable, as the blue line (representing the cumulative sum of squared residuals) remains within the 5% significance boundaries throughout the period. This stability suggests that the relationship between gross domestic investments and its determinants is consistent over time, making the model reliable for forecasting and policy analysis.

Figure 1: CUSUM of Squares (CUSUMSQ) plot for the ARDL model analysing effect of company income tax policies on domestic investment in Nigeria from 1990 to 2023



Therefore, in the short-run analysis highlights that corporate tax increases, inflation, and exchange rate volatility reduce domestic investment, while labor market conditions and long-term growth trends enhance it. These findings underscore the need for prudent fiscal and monetary policies, especially those that stabilize inflation, maintain competitive tax regimes, and improve labor market efficiency, to attract and sustain domestic investment in Nigeria.

Test of Hypotheses

Table 4.6 presents a comprehensive summary of hypotheses testing based on the application of trend analysis, Granger causality tests, and the Autoregressive Distributed Lag (ARDL) model, which covered both long-run and short-run dynamics of the relationship between Company Income Tax Revenue (CITR) and investment in Nigeria. The analyses aim to test the robustness of the empirical linkages between taxation and investment performance over the period 1990–2023.

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.	GDI	+	-	1%	Null Hypothesis rejected
B.	Granger Causality	Test of Hypothesis Two			
1.	CITR - GDI	+	+	1%	Null Hypothesis rejected
2.	GDI - CITR	+	+	1%	Null Hypothesis rejected
C.	Long-run	Test of Hypothesis Three			
1.	LOG_GDI(-1)	+	+	1%	Null Hypothesis rejected
2.	LOGCITR	-	-	1%	Null Hypothesis rejected
3.	LOG_GDPG	+	+	1%	Null Hypothesis rejected
4.	LOGINTR	-	-	5%	Null Hypothesis rejected
5.	LOGINFR	-	+	ns	Null Hypothesis accepted
6.	LOGUER	+	+	1%	Null Hypothesis rejected
7.	LOGEXER	-	-	1%	Null Hypothesis rejected
D.	Short-run	Test of Hypothesis Four			
1.	D(LOGCITR)	+	-	1%	Null Hypothesis rejected
2.	D(LOGINFR(-1))	-	-	1%	Null Hypothesis rejected
3.	D(LOGEXER)	-	-	1%	Null Hypothesis rejected
4.	D(LOGUER)	+	+	1%	Null Hypothesis rejected
5.	ECM(-1)	-	-	1%	Null Hypothesis rejected

Source: Author Construction from EViews 13 computation, 2025.

Note: ns = Not significant

In the trend model under hypothesis one, both CITR and Gross Domestic Investment (GDI) were expected to show positive signs, in line with economic theory suggesting that as tax revenue improves due to enhanced administrative efficiency or economic growth, investments should also increase. Contrary to expectations, both variables exhibited negative signs, although statistically significant at 10% for CITR and 1% for GDI. These results led to the rejection of the null hypotheses. The negative trends suggest a historical pattern of instability and declining investor confidence in Nigeria's fiscal system, possibly due to erratic policy shifts, low tax compliance, macroeconomic volatility, or the over-dependence on oil revenue crowding out tax reform efforts. The findings also raise concerns about the distortionary effects of high tax burdens or inefficient tax collection on capital accumulation.

For hypothesis two, the Granger causality tests explored the directional influence between CITR and GDI. The result showed a positive and significant causal relationship from CITR to GDI at the 1% level, aligning with theoretical expectations and indicating that company income tax revenue movements provide predictive power for future investment behavior. This confirms the rejection of the null hypothesis. Similarly, the reverse causality from GDI to CITR also showed a positive and significant sign, reinforcing the bidirectional causality between investment and tax revenue. These results imply a feedback loop where increased domestic investment stimulates economic activity, thereby expanding the taxable base and increasing corporate tax receipts. This finding aligns with endogenous growth theories, which argue that investment in physical capital promotes productivity and, consequently, tax generation.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

This study analyzed the impact of company income tax policies on domestic investment (GDI) in Nigeria from 1990 to 2023. The research specifically sought to: (i) estimate the long-run effects of CIT policies on GDI, and (ii) estimate the short-run effects of CIT policies on GDI. Two research questions and corresponding hypotheses were formulated and tested using robust econometric methods including log-linear and quadratic trend analysis, Granger causality testing, the Autoregressive Distributed Lag (ARDL) bounds test, and Error Correction Models (ECM). Time series data spanning 34 years (1990–2023) were sourced from the Central Bank of Nigeria (CBN), Federal Inland Revenue Service (FIRS), and the World Bank.

In the long run, the ARDL results revealed that lagged domestic investment, company income tax rate, GDP growth rate, interest rate, unemployment rate, and exchange rate were statistically significant in influencing GDI. Notably, CITR had a negative and significant long-run effect on GDI, confirming that a high or distortionary tax burden discourages long-term investment. Conversely, GDP growth and lagged GDI had strong positive effects, underscoring the role of macroeconomic performance and investment inertia in capital formation.

In the short run, CITR, inflation, and exchange rate fluctuations negatively impacted GDI, while unemployment and the trend variable exerted positive effects. The positive relationship between unemployment and investment may reflect investor exploitation of low-cost labor in a weak labor market. The error correction term was negative and statistically significant, confirming the presence of a stable long-run equilibrium relationship and showing that short-term shocks are gradually corrected over time.

Conclusion

This study provides robust empirical evidence that company income tax policies significantly affect domestic investment in Nigeria. While investment growth contributes to expanding corporate tax revenue, corporate tax policy particularly the tax rate exerts a meaningful influence on the direction and volume of investment. The results show that higher company income tax rates are detrimental to both short-term and long-term domestic investment, affirming the classical theory that taxation, when excessive or uncertain, discourages capital accumulation and reduces investor confidence.

Although short-run fluctuations in tax rates and inflation impact investment decisions, it is the predictability and competitiveness of the long-run tax environment that ultimately shape sustained domestic capital formation. Moreover, the bidirectional causality between CITR and GDI suggests that a dynamic relationship exists: tax policy affects investment, and investment, in turn, influences the government's ability to generate corporate tax revenue. Thus, for Nigeria to stimulate investment-led economic growth, company income tax policies must be carefully structured balancing the need for fiscal revenue with the necessity of creating a business-friendly climate. Tax reform efforts must be reinforced by macroeconomic stability, institutional efficiency, and regulatory transparency to encourage investor participation across sectors, especially in manufacturing, agriculture, and services.

Recommendations

Based on the finding of this study the following recommendations were proffered:

1. Given the adverse effect of CITR on GDI, the statutory corporate tax rate should be carefully re-evaluated to ensure it is competitive within the African and global context. Lower or tiered tax rates, particularly for small and medium enterprises (SMEs) and strategic sectors, may help stimulate investment. Where rate reductions are not feasible, certainty and consistency in policy application should be guaranteed to support long-term investor planning.
2. To mitigate the short-term negative impacts of tax reforms, the government should adopt complementary policies that enhance monetary and fiscal stability. Efforts should focus on controlling inflation, maintaining a competitive and stable exchange rate, and enhancing access to low-cost credit. These macroeconomic enablers are crucial for stimulating domestic investment and ensuring that tax reforms yield their intended outcomes.
3. Investment responsiveness to tax incentives depends heavily on the credibility and effectiveness of tax administration. FIRS should improve its operational capacity through automation, data analytics, and real-time auditing systems. Additionally, anti-corruption measures and transparent reporting should be embedded within the tax collection process to build trust with the private sector and discourage tax evasion.

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