COMPANY TAX, FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN NIGERIA

BY

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN, BENIN CITY, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc) DEGREE IN BANKING AND FINANCE

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DECLARATION

I, **Iyobosa Stephan OSAKPAMWAN**, do hereby declare that this project is entirely my work and composition. The work embodied in this project has not been submitted in candidature for any degree and is not concurrently being submitted for any other degree. All references made to works of other persons have been duly acknowledged.

Iyobosa Stephan OSAKPAMWAN **Date**

CERTIFICATION

We certify that this research work was carried out by **Iyobosa Stephan OSAKPAMWAN** and it is adequate in scope and quality and is hereby approved for in partial fulfilment of the requirement for the award of Bachelor of Science (B.Sc) Degree in Banking and Finance, University of Benin, Benin City.

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DEDICATION

This project is dedicated to God Almighty for His grace, mercies and by whose divine assistance made it easy for me to accomplish this work.

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ABSTRACT

This study examined the impact of corporate tax revenue and foreign direct investment on economic growth in Nigeria for the period 1981-2019 using error correction mechanism approach. Prior to estimation, descriptive analysis, unit root test and cointegration tests were carried out. From the estimate, it was found that corporate tax revenue and FDI positively and significantly impact on economic growth. Real exchange rate was also found to exhibit positive and significant impact on economic growth. The error correction term was negatively signed and statistically significant with about 53 percent speed of adjustment. Cumulative sum of recursive residuals and cumulative sum of recursive residuals squares shows that the model is structurally stable. This was thereafter followed by recommendations such as implementation of policy that enhances corporate tax revenue and the creation of enabling environment that attract FDI inflows.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Globalization and the resulting increase in capital mobility have created opportunities for potentially harmful tax competition among countries who eager to attract investment and create economic growth (Reint and Kristina, 2001). Simply by relocating mobile capital, large multinational firms can reduce their tax burden. While this practice by itself might not necessarily be harmful, the difficulty for national fiscal authorities in taxing the capital of these multinationals can result in distortions in the patterns of trade and investment and country's economic progress (Reint et al., 2001). It can also result in a redistribution of the tax burden from mobile capital onto less mobile factors in particular, labor or from large multinationals to small national firms known as infant industries. Thus, the ability of large multinationals to minimize their tax liability or escape it altogether has considerable implications for countries' fiscal structure, possibly entailing more regressive tax systems, larger budget deficits, or a cut in public services (Antoniou, 2004).

The impact of corporate tax and FDI on economic growth of Nigeria cannot be

overemphasized. It is the primary responsibility of government globally to make sure that security, freedom and welfare of its citizenry are catered for. Section 16(1b) of the 2011 Constitution of the Federal Republic of Nigeria precisely has stipulated that it is the responsibility of the government to ensure maximum welfare, freedom and happiness of its citizenry (Federal Government of Nigeria, 2011). Adequate funding is needed for government to effectively carry out its main functions and other supplementary functions. Tax payment of various forms by individuals and corporate bodies and return from foreign investment are the reliable means through which the government realizes the need to play these primary roles.

Tax payments and earnings from foreign investments have become phenomenally of universal significance owing to how it affects every economy, national differences notwithstanding (Oboh & Isa, 2012). For instance, tax revenue is used by the federal government in the provision of infrastructure and other necessary social services such as health facilities and education. The government equally has the primary responsibility of ensuring that the territorial integrity of the nation is defended, ensuring security of lives and property, maintaining good external relations. The government also gets involved in productive activities which the private sector cannot conveniently provide owing to huge capital outlay involved (Sackey et al., 2014). Ezejelue and Ihendinihu (2006) have

defined taxation as the demand made by the government of a country for a compulsory payment of money by the citizens of the country with the objectives of raising revenue to finance government expenditures, satisfy collective wants of the people and regulate economic and social policies.

Taxation is a civic responsibility whose assessment is in accordance with all established cannons: the principle of equity, convenience and productivity. The Nigeria tax system features a wide and mixed range of statutes by which various governments in the country seek to change and collect for public expenditure. Of these, the most widely used was based on income and is personal income tax and company's income tax. Taxation is divided into two, namely direct and indirect taxes. Direct tax in Nigeria consists of personal income tax and company's income tax. Indirect taxes are levied against goods and services e.g. stamp duties, entertainment, pool and casino taxes, industrial training funds, custom duties and exercise duties (Joseph et al., 2018).

In a wider sense, there are three (3) main methods open to most developing countries such as ours in financing economic expenditure, namely taxes on other currency receipts, loans and grants. Taxation perhaps is the most important of all these because revenue generated by the system determines expenditure. To carry out these primary and

supplementary responsibilities as expected, the Nigeria government has depended so much on oil revenue which is susceptible to fluctuations owing to market forces and international politics. Recently, the fall in crude price per barrel (below US$40) almost crippled the government from playing its primary roles; led to recession (among other factors) which the economy is still struggling to pull through fully from. So, overdependence on oil revenue is likened to a house owner who opens his doors midnight amidst insecurity – no doubt, he is venerable to attacks.

It was for this reason that the former Minister of Finance and Coordinating Minister for Economy appealed to governments at various levels to seek alternative revenue sources to ensure sustainability in economic growth and development of Nigeria. Running a democratic government is very expensive especially in Africa because of greed, inflation of contract costs and high rate of corruption generally that results in a situation where public office holders earn bogus salaries and allowances that are not proportionate to available funds. From the foregoing, it has become crystal clear that oil revenue does not sustain developmental goals of the nation, hence the need for alternatives. According to The World Bank Group (2004), “the quality of life of people of a state is the focus of any development objectives.

Accessibility to education, improved healthcare delivery, employment opportunities, clean air, safe drinking water, and security of life and property determine the quality of life of a people as well as the standard of living. Taxes can be used as an instrument towards the achievement of micro and macroeconomics goals particularly in developing nations such as Nigeria. As observed by Musgrave and Musgrave (2004), the dwindling level of tax revenue generation in developing countries makes it difficult to apply tax as a veritable instrument of fiscal policy for the achievement of economic development. Tax revenue generated from Company Income Tax, Value Added Tax, and Personal Income Tax has greatly impacted positively on economic development of countries such as the USA, Canada and the United Kingdom to mention but a few (Oluba, 2008).

In Africa, natural resources such as income from production sharing, royalties, and corporate income tax on oil and mining companies yield the significant portion of tax revenue (Pfister, 2009) in Chukwunwike and Ofoegbu, 2016. Chukwunwike and Ofoegbu (2016) observed that tax sources are the fundamental and most reliable sources of government revenue. This is because of their certainty and flexibility characteristics. Certainty characteristic implies that collection of taxes from taxpayers is assured, all other things being equal. The state of the economy does not affect tax. Take for instance, whether the economy is declining, stagnant or growing. Its flexible nature makes it

possible for the government to amend the tax system to be suitable to its needed purpose. There are many research works related to tax revenue and economic development of Nigeria with conflicting results. In some of those research works, economic development and economic growth are used interchangeably. This research work adopted economic growth applying Gross Domestic Product (GDP) as an indicator for measuring economic growth (Worlu, & Emeka, 2012).

Tax competition for foreign direct investment (FDI) can have adverse effects on corporate tax revenue and these interaction can have a strong impact on Nigerian economy if not placed under check (Mandinga, 2015). In fact, these effects may have already become evident in the sharp decline in corporate tax revenue in Nigerian economy. It is interesting that the countries experiencing revenue declines also offer the least attractive corporate tax regimes within the OECD (Odhiambo, 2018). Although part of the decline can be attributed to business-cycle variations or changes in tax codes, its extent and persistence suggest that additional factors may be at work, including the direction and size of FDI flows and hence retarding economic growth in the country (Canuto & Leipzeger, 2012).

1.2 Statement of the Research Problem

The nature of growth of the Nigerian economy has not been encouraging in the past three and a half decades. This can be attributed to macroeconomic policy conflict, thus resulting to macroeconomic instability: high level of unemployment; price instability; increasing absolute poverty rate; rising inflation rate (currently about 11.4%); and adverse balance of payment problem to mention but a few. Given the revenues that accrue from crude oil, there has been poor returns from corporate revenue tax and foreign direct investment thereby leading to a deteriorating state of other activity sectors of the economy. According to the World Poverty Clock (2018), as at February 2018 Nigeria overtook India to become a country with the highest absolute poverty rate, thus becoming the absolute poverty capital of the world and this confirms that revenues from corporate tax and foreign investment falls short the need of the Nigerian economy.

However, despite the several studies carried out on this subject matter, the economy of Nigeria is still experiencing structural defects and worsening economic situation. It is against this backdrop that this research work is carried out. Thus, this research work however seeks to contribute to the debate of the empirical analysis of the effect of corporate revenue tax and FDI on economic growth as well as to make possible

recommendations on how to overcome structural defects of the Nigerian economy as well as the deficit nature of our Balance of Payment.

1.3 Objectives of the Study

(i) To determine the impact of corporate tax revenue figures on economic growth in Nigeria.

(ii) To ascertain the relationship between FDI and economic growth in Nigeria.

1.4 Research Questions

(i) Does corporate tax revenue have any significant impact on economic growth in Nigeria?

(ii) What is the relationship between FDI and economic growth in Nigeria?

1.5 Research Hypothesis

Based on the above research questions and objective of studies, the following hypotheses have been formulated to be evaluated in the course of this study and they are;

Hypothesis one:

H_0: Corporate Tax revenue has no significant impact on GDP in Nigeria.

H_1: Corporate Tax revenue has significant impact on GDP in Nigeria.

Hypothesis two:

H_0: There is no significant relationship between FDI and economic growth in Nigeria.

H_1: There is a significant relationship between FDI and economic growth in Nigeria.

1.6 Significance of the Study

The role of corporate tax and FDI in the economic growth and development of Nigeria cannot be overemphasized. Thus, this study is very important in the scheme of things. The study will be essential to policy makers to keep them abreast of the performance of corporate tax and FDI on economic growth, and where necessary formulate and implement national policies to boost corporate revenue from companies and benefits from FDI so as to maximize the benefits that accrues to the nation at large.

It can also assist the Nigerian government to know where the problem of tax revenue and foreign investment lies so as to proffer solutions to such problems since corporate tax

revenue and FDI is regarded as an engine of growth by classical and neoclassical economists.

Furthermore, this study will help in building the framework of earlier researches in the context of corporate revenue tax, FDI and economic growth and also add to the existing body of literature as regard the subject matter. It will constitute a source of research material to other students and individuals who are interested in the subject matter. Also, it will serve as an inspiration to individuals, institutions, government and the economy as a whole as it can contribute to practical life and knowledge advancement.

Finally, given that the economy of Nigeria is bedevilled with myriad of macroeconomic problems, the study is particularly significant in discovering if the level of economic growth has any direct relationship with the levels corporate tax revenue and FDI.

1.7 Scope of the Study

This study seeks to theoretically and empirically analyse the effect of corporate revenue tax and FDI on economic growth between the period 1981-2018 in the context of a simple modified growth model using Nigeria as a case study. The rationale behind this choice period is to empirically evaluate the extent to which the adoption of related policy measures helped in enhancing the growth position of Nigeria. This study adopted time

series secondary data sourced from Central Bank of Nigeria Statistical Bulletin, National Bureau of Statistics (NBS) and the World Development Indicators (WDI). The dependent variable for this research work is real Gross Domestic Product (RGDP), while the independent variables include corporate revenue tax, foreign direct investment, real exchange rate.

1.8 Limitations of the Study

There is no research work that is devoid of limitations and drawbacks. This study is not an exception. In the course of carrying out this study, some challenges were encountered in trying to access and get relevant documents and information. These limiting constraints include;

Time: Time plays a crucial role when sourcing for data, modelling and computation. Thus, limited time serves as a constraint to adequate research of the subject matter as the study was carried out alongside other academic responsibilities.

Finance: The researcher was also constrained by his level of finance. Adequate finance is required in sourcing for materials, data, running regression, typing, and finally binding of the work.

Data: As regards the availability of required and adequate data, data gotten from secondary sources are often inaccurate, thus constituting a limiting factor to the study. There is some elements of inaccuracy in the data because most data are often aggregated, averaged and massaged (i.e. data smoothening and massaging) and this tend to reduce the reliability of the data for econometric analysis and evaluation.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Literature

2.1.1 Concept of Foreign Direct Investment

As stated by the United Nations Conference on Trade and Development (UNCTAD) (2012), Foreign Direct Investment is said to be when an investor acquires a long-term interest in a foreign business or market. Foreign Direct Investment is an investment in the production concerns of another country by a foreign expert or non-expert or a business organization (Akriti, 2012). It is the total inflow for investment purposes of foreign capital into a country. This allows foreign investors to develop an influential presence in controlling unique local markets within the host countries and also facilitates the transition of management skills, intellectual property and technologies on to the host countries. Its main function for the host countries should be to help create jobs, improve the quality of the goods and services produced in the economy and thereby enhance the country's export potential. This acts as an important source of domestic investment supply funds, while helping to promote the development of capital in the host country. Foreign Direct Investments aid an economy by giving opportunities for improving its

level of service sector (Adu & Christoper, 2018).

Jenkin and Thomas (2002) explained that FDI is expected to contribute to economic growth, including foreign capital provision as well as additional domestic investment crowding. Additional employment is indirectly created and further economic activity stimulated by promoting both forward and backward linkages with the domestic economy. According to Adegbite and Ayadi (2010), FDI is helping to fill the gap in domestic revenue generation in a developing economy, given that the governments of most developing countries do not appear to be able to generate enough revenue to meet their spending needs.

Factors influencing Foreign Direct Investment Inflows

1. Wage rates

A major incentive for a multinational to invest abroad is to outsource labour-intensive production to countries with lower wages. If average wages in the US are $15 an hour, but $1 an hour in the Indian sub-continent, costs can be reduced by outsourcing production. This is why many Western firms have invested in clothing factories in the Indian sub-continent.

However, wage rates alone do not determine FDI, countries with high wage rates can still attract higher tech investment. A firm may be reluctant to invest in Sub-Saharan Africa because low wages are outweighed by other drawbacks, such as lack of infrastructure and transport links (Farole, 2014).

2. Labour skills

Some industries require higher skilled labour, for example pharmaceuticals and electronics. Therefore, multinationals will invest in those countries with a combination of low wages, but high labour productivity and skills. For example, India has attracted significant investment in call centres, because a high percentage of the population speaks English, but wages are low. This makes it an attractive place for outsourcing and therefore attracts investment (Lee, 2016).

3. Tax rates

Large multinationals, such as Apple, Google and Microsoft have sought to invest in countries with lower corporation tax rates. For example, Ireland has been successful in attracting investment from Google and Microsoft. In fact, it has been controversial because Google has tried to funnel all profits through Ireland, despite having operations in all European countries.

4. Transport and infrastructure

A key factor in the desirability of investment are the transport costs and levels of infrastructure. A country may have low labour costs, but if there is then high transport costs to get the goods onto the world market, this is a drawback. Countries with access to the sea are at an advantage to landlocked countries, who will have higher costs to ship goods (UNESCO, 2020).

5. Size of economy/potential for growth

Foreign direct investment is often targeted to selling goods directly to the country involved in attracting the investment. Therefore, the size of the population and scope for economic growth will be important for attracting investment. For example, Eastern European countries, with a large population, e.g. Poland offers scope for new markets. This may attract foreign car firms, e.g. Volkswagen, Fiat to invest and build factories in Poland to sell to the growing consumer class. Small countries may be at a disadvantage because it is not worth investing for a small population. China will be a target for foreign investment as the newly emerging Chinese middle class could have a very strong demand for the goods and services of multinationals (Kharas, 2020).

6. Political Stability/property rights

Foreign direct investment has an element of risk. Countries with an uncertain political situation, will be a major disincentive. Also, economic crisis can discourage investment. For example, the recent Russian economic crisis, combined with economic sanctions, will be a major factor to discourage foreign investment. This is one reason why former Communist countries in the East are keen to join the European Union. The EU is seen as a signal of political and economic stability, which encourages foreign investment. Related to political stability is the level of corruption and trust in institutions, especially judiciary and the extent of law and order (Folkesson, 2010).

7. Commodities

One reason for foreign investment is the existence of commodities. This has been a major reason for the growth in FDI within Africa – often by Chinese firms looking for a secure supply of commodities (Koomson, 2020).

8. Exchange rate

A weak exchange rate in the host country can attract more FDI because it will be cheaper for the multinational to purchase assets. However, exchange rate volatility could

discourage investment. In addition to the above, an exchange rate depreciation (appreciation) stimulates (dampens) investment by enhancing demands in both the domestic and export markets, but it reduces (increases) investment because of the increasing cost of imported intermediate goods and the user cost of capital (Harchaoui, 2005).

Typology of Foreign Direct Investment

The following are the three basic types of FDI

1. Horizontal FDI

Horizontal FDI is where funds are invested abroad in the same industry. In other words, a business invests in a foreign firm that produces similar goods. For instance Nike, a US based firm, may purchase Puma, a Germany based firm. They are both in the industry of sportswear and therefore would be classified as a form of horizontal FDI (Niskanen, 2019).

2. Vertical FDI

Vertical FDI is where an investment is made within the supply chain, but not directly in the same industry. In other words, a business invests in a foreign firm that it may supply

or sell too. It is divided into forward and backward vertical FDI. Forward vertical FDI is where the FDI takes the firm nearer to the market (for example, Toyota acquiring a car distributorship in America) and Backward Vertical FDI is where international integration moves back towards raw materials (for example, Toyota acquiring a tire manufacturer or a rubber plantation) (Yang, 2014).

3. Conglomerate FDI

Conglomerate FDI is where an investment is made in a completely different industry. In other words, it is not linked in any direct way to the investors business. For instance, Walmart, a US retailer, may invest in BMW, a German automobile manufacturer. This may seem strange to some but offers big businesses an opportunity to expand and diversify into new areas. To explain, some big businesses come to a point where the demand for its fundamental business starts to decline. In order to survive, it must invest in new ventures. Even big businesses with strong demand may look to new industries where growth and return on investment are significantly larger.

2.1.2 Concept of Economic Growth

Economic growth is an increase in the production of economic goods and services from one period to another (Asogwa, 2014). It can be calculated in nominal terms or in real

terms. Aggregate economic growth is generally calculated in terms of Gross National Product (GNP) or Gross Domestic Product (GDP), although often alternative metrics are used. Economic Growth is widely modelled in economics as a function of physical capital, human capital, labour force, and technology (Anekwe, 2014). Simply put, increasing the working age population's quantity or efficiency, the resources they have to work with, and the recipes they have at their disposal to combine labour, capital, and raw materials, would result in increased economic production. Different approaches may be used to measure economic growth, such as Gross National Product (GNP) and Gross Domestic Product (GDP). Gross Domestic Product estimates the value of a nation's manufactured goods and services. The value of goods and services produced by a nation (GDP) and income from foreign investment are determined by Gross National Product. Some economists claim that total expenditure is a function of economic production. Although GDP is commonly used, it does not reflect the economic health of a country.

Factors affecting Economic growth

The following six causes of economic growth are key components in an economy. Improving or increasing their quantity can lead to growth in the economy.

1. Natural Resources

The discovery of more natural resources like oil, or mineral deposits may boost economic growth as this shift or increases the country's Production Possibility Curve. Other resources include land, water, forests and natural gas. Realistically, it is difficult, if not impossible, to increase the number of natural resources in a country. Countries must take care to balance the supply and demand for scarce natural resources to avoid depleting them. Improved land management may improve the quality of land and contribute to economic growth. For example, Saudi Arabia's economy has historically been dependent on its oil deposits (Aboudah, 2015).

2. Physical Capital or Infrastructure

Increased investment in physical capital, such as factories, machinery, and roads, will lower the cost of economic activity. Better factories and machinery are more productive than physical labor. This higher productivity can increase output. For example, having a robust highway system can reduce inefficiencies in moving raw materials or goods across the country, which can increase its GDP (Agbigbe, 2016).

3. Population or Labor

A growing population means there is an increase in the availability of workers or employees, which means a higher workforce. One downside of having a large population is that it could lead to high unemployment (Muffitt, 2014).

4. Human Capital

An increase in investment in human capital can improve the quality of the labor force. This increase in quality would result in an improvement in skills, abilities, and training. A skilled labor force has a significant effect on growth since skilled workers are more productive. For example, investing in STEM students or subsidizing coding academies would increase the availability of workers for higher-skilled jobs that pay more than investing in blue-collar jobs (Deming, 2020).

5. Technology

Another influential factor is the improvement of technology. The technology could increase productivity with the same levels of labor, thus accelerating growth and development. This increment means factories can be more productive at lower costs. Technology is most likely to lead to sustained long-run growth (Ahuja, 2009).

6. Law

An institutional framework that regulates economic activity such as rules and laws. There is no specific set of institutions that promote growth. In general terms, rule of law improvements spur growth by attracting investors that value the safety, security and protection offered by transparent, just and ethical governments (Towah, 2019).

2.1.3 Concept of Corporate Tax Revenue

According to investopedia, corporate tax is a tax on the profits of a corporation. The taxes are paid on a company's taxable income, which includes revenue minus cost of goods sold (COGS), general and administrative (G&A) expenses, selling and marketing, research and development, depreciation, and other operating costs. The Company Income Tax Act (CITA) is the principal law that regulates the taxation of companies in Nigeria. The tax regime in Nigeria is a multi-level tax system, which simply means that taxation is administered by the three tiers of government.

Company income tax rates

The CIT is currently charged at the rate of 30% for companies having more than N100 Million Naira turnover. It is also charged at the rate of 20% for companies with a turnover

between N25 Million and N100 Million. The tax is assessed on a preceding year basis (i.e. tax is charged on profits for the accounting year ending in the year preceding assessment). The companies having less than N25 Million turnover are not liable to pay company income tax in line with the Finance Act 2019. In respect of business profits, a non-resident company that has a fixed base or a permanent establishment (PE) in Nigeria is taxable on the profits attributable to that fixed base. As such, it is required to register for CIT and file its tax returns. Resident companies are liable to corporate income tax (CIT) on their worldwide income while non-residents are subject to CIT on their Nigeria-source income. Corporate income tax is based on accounting profits adjusted for tax purposes.

Classification of Assessment in Company Tax

1. Best of Judgment (BOJ): This is the way which tax is assessed by the relevant tax authority in a situation where the tax payable does not have any financial records or returns submitted to the tax authority to base the assessment on. The BOJ means of assessment may be applied since the company's financial records are unreliable.

2. Self-Assessment of Tax Payable: This mean of assessing the tax payable is a system where a company pays tax by instalment and is permitted by the relevant tax authority to

estimate the company's chargeable income and tax payable for that year of assessment. Self-assessment of tax payable is provided for under section 53 of the Company Income Tax Act (CITA), 2011.

3. The currency of Assessment: This makes provision for the currency of assessment of tax payable by a company as stated under section 54. Under this section, the Act provides that, notwithstanding anything to the contrary in any law, an income tax assessment under sections 52, 53 or 55 of this Act shall be made in the currency in which the transaction giving rise to the assessment was effected.

Allowable Deductions under Company Income Tax Act

In ascertaining the profits under the CITA, there are certain deductions that are allowable. Section 24 of CITA fully encapsulates the deductions allowable in determining the taxable profits of the company. The Section 24 provides that "save where the provisions of subsection (2) or (3) of section 14 or 16 of this Act apply, for the purpose of ascertaining the profits or loss of any company of any period from any source chargeable with tax under this Act, there shall be deduction all expenses for that period by that company wholly, exclusive, necessarily and reasonable incurred in the production of those profits."

Section 24 further includes the following categories of deductions:

(a) any sum payable by way of interest on any money borrowed and employed as capital in acquiring the profits;

(b) rent for that period, and premiums the liability for which was incurred during that period, in respect of land or building occupied for the purposes of acquiring accommodation occupied by employees of the company.

(c) in the case of any property-holding company expenses attributable to the maintenance of the property, directors' remuneration, which shall not exceed N10,000 per annum in respect of each director, and the number of directors to be so remunerated shall in no case exceed three;

(d) any outlay or expenses incurred during the year in respect of salary, wages, or other remuneration paid to the senior staff and executives cost to the company of any benefit or allowance provided for the senior staff and executives which shall not exceed the limit of the amount prescribed by the collective agreement between the company and the employees.

(e) Any expenses incurred for repair of premises, plant, machinery or fixtures employed

in acquiring the profits.

(f) Bad debts incurred in the curse of a trade or business proved to have become bad during the period for which the profits are being ascertained.

(g) Any contribution to a pension, provident or other retirement benefits fund, society or scheme approved by the Joint Tax Board under the powers conferred upon it by paragraph (g) of section 85 of the Personal Income Tax Act.

(i) in the case of profits from a trade or business, any expense or part thereof

(J) the liability for which was incurred during that period wholly, exclusively, necessarily and reasonably for the purposes of such trade or business and which is not specifically referable to any other period or periods, or

(ii) the liability for which was incurred during any previous period wholly, exclusively, necessarily and reasonably for the purpose of such trade or business and which is specifically referable to the period of which the profits are being ascertained;

Section 25 and 25A of CITA also provide for deductions of donations made to fund, body or institutions in Nigeria for the purpose of ascertaining the profits. Section 26 of the Act permits a deduction for the purpose of research and development, provided such a

deduction does not exceed 10% of the profit ascertained before any deductions.

2.1.4 FDI and Economic Growth

FDI and economic growth are interdependent in a constructive way. Powerful economic growth offers high profit prospects, drawing greater direct domestic and foreign investment. On the other hand, FDI has direct positive economic growth for the host countries through its spillover impact. FDI enables the transfer of technology that cannot be accomplished through financial investments or trade in goods and services, especially in the form of new varieties of capital inputs. In the domestic input market, FDI can also foster competition.

2.2 Theoretical Literatures

2.2.1 Theories of Economic Growth

The following are growth theories captured by this study

1. Classical Theory of Economic Growth

The classical growth theory argues that economic growth will decrease or end because of an increasing population and limited resources. The Classical Growth Theory postulates that a country's economic growth will decrease with an increasing population and limited

resources. Such a postulation is an implication of the belief of classical growth theory economists who think that a temporary increase in real GDP per person inevitably leads to a population explosion, which would limit a nation's resources, consequently lowering real GDP. As a result, the country's economic growth will start to slow.

Ignorance with respect to technology: The classical model of growth ignores the role efficient technical progress could play for the smooth running of an economy. Advancements in technology can minimize diminishing returns.

Inaccurate determination of total wages: The classical model of growth assumes that total wages do not exceed or fall below the subsistence level. However, this is not entirely true. Changes in the industrial structure and substantial economic development can result in total wages exceeding or falling below the subsistence level. Moreover, the classical theory of growth does not consider the role played by trade unions in the process of wage determination.

2. Neoclassical Growth Model Solow/Swan

The Neoclassical Growth Theory is an economic model of growth that outlines how a steady economic growth rate results when three economic forces come into play: labor, capital, and technology. The simplest and most popular version of the Neoclassical

Growth Model is the Solow-Swan Growth Model. In clear terms, the theory postulates that short-term economic equilibrium is a result of varying amounts of labor and capital that play a vital role in the production process. The theory argues that technological change significantly influences the overall functioning of an economy. Neoclassical growth theory outlines the three factors necessary for a growing economy. However, the theory puts emphasis on its claim that temporary, or short-term equilibrium, is different from long-term equilibrium and does not require any of the three factors.

According to increase the rate of economic growth in the Solow/Swan model we need: An increase in proportion of GDP that is invested – however, this is limited as higher proportion of investment leads to diminishing returns and convergence on the steady-state of growth Technological progress which increases productivity of capital/labour. It suggests poor countries who invest more should see their economic growth converge with richer countries. Criticisms of this neo-classical growth model

It doesn't explain why countries have different levels of investment as % of GDP. Some developing countries don't attract higher levels of investment because of structural problems such as corruption, lack of infrastructure. It doesn't explain how to improve rates of technological progress.

3. Harrod Domar Model

The Harrod–Domar model is a Keynesian model of economic growth. It is used in development economics to explain an economy's growth rate in terms of the level of saving and of capital. It suggests that there is no natural reason for an economy to have balanced growth. The model carries implications for less economically developed countries, where labour is in plentiful supply in these countries but physical capital is not, slowing down economic progress. The model explains economic boom and bust by the assumption that investors are only influenced by output. Harrod introduced the concepts of warranted growth, natural growth, and actual growth. The warranted growth rate is the growth rate at which all saving is absorbed into investment. This is the growth rate at which the ratio of capital to output would stay constant at four. The theory is limited by the Knife-Edge Equilibrium. A condition in which something must either be at a precise equilibrium, or else tumble way into catastrophe. In some cases, such as something that really is balanced on a knife's edge, it's an accurate description.

The Harrod Domar Model suggests that the rate of economic growth depends on two things:

Level of Savings (higher savings enable higher investment)

Capital-Output Ratio. A lower capital-output ratio means investment is more efficient and the growth rate will be higher.

4. Endogenous growth

Endogenous growth models, developed by Paul Romer and Robert Lucas placed greater emphasis on the concept of human capital. How workers with greater knowledge, education and training can help to increase rates of technological advancement. Furthermore, Endogenous growth models on the other hand highlight the importance of improvement in technology, efficiency and productivity in stimulating growth. These models postulate that FDI increases the rate of technological progress in a host country through "contagion or spill-over effect" from advanced technology and management practises by foreign firms (Makki & Somwaru, 2004) which might result in improved productivity and efficiency of domestic firms (Adamu , 2016). To check these hypotheses through the endogenous growth model Makki and Somwaru (2004) present an analysis that applied the endogenous growth hypothesis to a cross section of 46 countries from the Global South and found that the development-enhancing effects of FDI were higher in countries that followed an export promotion strategy rather than a substantial substitute.

They place greater importance on the need for governments to actively encourage

technological innovation. They argue in the free market classical view, firms may have no incentive to invest in new technologies because they will struggle to benefit in competitive markets. The model Places emphasis on increasing both capital and labour productivity. States that increasing labour productivity does not have diminishing returns, but, they may have increasing returns. They argue that increasing capital does not necessarily lead to diminishing returns as Solow predicts. They say it is more complicated; it depends on the type of capital investment. Increased importance of spillover benefits from a knowledge-based economy. Emphasis is placed on free-markets, reducing regulation and subsidies. The argument is that we need to keep economies open to the forces of change. Joseph Schumpeter argued that an inherent feature of capitalism was the 'creative destruction' ie allowing inefficient firms to fail was essential for allowing resources to flow to more efficient channels.

Theories of Foreign Direct Investment

The following are FDI theories captured by this study

1. Capital Market Theory

This theory, also sometimes referred to as the "currency area theory," is considered one of the earliest theories which explained FDI. Based on the work of Aliber (1970; 1971), it

postulated that foreign investment in general arose as a result of capital market imperfections. FDI specifically was the result of differences between source and host country currencies (Nayak & Choudhury, 2014). According to Aliber (1970; 1971), weaker currencies have a higher FDI-attraction ability and are better able to take advantage of differences in the market capitalization rate, compared to stronger country currencies. Aliber (1970; 1971) further adds that source country MNCs based in hard currency areas can borrow at a lower interest rate than host country firms because portfolio investors overlook the foreign aspect of source country MNCs. This gives source country firms the borrowing advantage because they can access cheaper sources of capital for their overseas affiliates and subsidiaries than what local firms would access the same funds for.

While this capital market theory holds true in the case of developed countries such as the United States, United Kingdom and Canada, it was challenged by later scholars on the basis of ignoring basic currency risk management fundamentals. A major criticism of Aliber's theory was made by Lall (1979) when he highlighted that the theory does not apply in the case of less developed countries with highly imperfect or non-existent capital markets, and those with heavily regulated foreign exchange rates. Also, Nayak and Choudhury (2014) allude to the fact that Aliber's theory does not explain investment

between two developed countries with similar strength currencies, nor how developing country MNCs with weaker currencies are able to invest in developed countries with much stronger currencies. This they exemplified using the case of Chinese firms with sizeable investments in USA and the UK.

2. Location-Based Theory

Although FDI location is influenced by firm behaviour (a microeconomic element) insofar as the motives of its location, that is whether it is resource seeking, market-seeking, efficiency-seeking or strategic asset seeking; the overarching decision is in fact taken on the basis of economic geography, which is a macroeconomic decision as it takes cognizance of country-level characteristics (Popovici & Calin, 2014). According to them, the theory explained the success of FDI among countries based on the national wealth of a country, such as its natural resources endowment, availability of labour, local market size, infrastructure and Government policy regarding these national resources. An off-shoot of this location-based theory is the gravity approach to FDI wherein it was assumed that FDI flows between two countries is highest, if those two countries are similar geographically, economically and culturally. Gravity variables such as size, level of development, distance, common language and additional institutional aspects such as

shareholder protection and trade openness were regarded as important determinants of FDI flows (Popovici & Calin, 2014). This is however a very basic approach to the economics of FDI, because FDI flows are more complicated than just being about commonalities between nations. Being close together geographically may reduce transportation costs, but not necessarily the cost of labour, for example. Also, sharing the same culture may not necessarily result in increased profitability or trade between the two countries.

3. Institutional FDI Fitness Theory

Developed by Wilhems and Witter (1998), the term FDI fitness focuses on a country's ability to attract, absorb and retain FDI. It is this country ability to adapt, or to fit to the internal and external expectations of its investors, which gives countries the upper-hand in harnessing FDI inflows. The theory itself attempts to explain the uneven distribution of FDI flows between countries. Wilhem's institutional FDI fitness theory rests on four fundamental pillars; Government, market, educational and socio-cultural fitness. At the base of the pyramid are socio-cultural factors which according to Wilhelms and Witter (1998), are the oldest and most complex of all institutions. Above that is education, which the authors affirm to being necessary in ensuring an attractive environment for FDI as

educated human capital enhances R&D creativity and information processing ability.

The actual level of education does not seem to matter much for FDI as the requirements are dependent on the various skills needs of projects to be undertaken. However what is certain is that basic education may impact on the productivity and efficiency of FDI operations, making formative education such as the ability to speak, hear, understand, interpret and implement instructions key for attracting FDI. The third pillar, that of markets, accounts for the economic and financial aspects of institutional FDI fitness, in the form of machinery (physical capital) and credit (financial capital). Developed and well-functioning financial markets are hence a prominent feature in the MNC's investment decision-making process. The fourth and final pillar as put forth by Wilhelms is the Government. The role of a country's Political strength plays the biggest role in the FDI game. Government fitness requires the adoption of protective regulation to manage market fitness. Popovici and Calin (2014) add that Government fitness is considered to include economic openness, a low degree of trade and exchange rate intervention, low corruption and greater transparency. If policies are hostile and unfavorable towards investors, MNCs will shy away from such countries as the political instability increases the risk burden on their investments (Wilhelms et al., 1998).

The authors concluded that although the pyramid is represented in a specific order, the four institutional pillars in fact are inter-related and interact in unison in different forms. For example, Government policies shape markets, education and sociocultural activities; market forces impact on the Government, education and socio-culture; education affects human capital and hence Government, markets and sociocultural norms and practices; and finally, sociocultural systems are the origin of Government, markets and education, respectively (Wilhelms & Witter, 1998).

4. The Eclectic Paradigm

This is probably the most well-known theory of FDI. On his way to winning the world acclaimed Nobel Prize, Dunning (1980) integrated various theories discussed above–being the international trade, imperfect markets (monopoly) and internalization theories, and complement these with the location theory, also briefly discussed earlier. According to Dunning (2001), in order for a firm to engage in foreign direct investment, it must simultaneously fulfill three conditions. The firm should possess net ownership advantages over other firms serving particular markets. These ownership advantages are firm specific and exclusive to that firm, in the form of both tangible and intangible assets such as trademarks, patents, information and technology, which would result in

production cost reductions for the firm, enabling it to therefore compete with firms in a foreign country. These advantages were also emphasized by Hymer (1976) and Kindleberger (1969) in their market imperfections' theories on firm-specific and monopolistic advantages, respectively.

Secondly, it must be more profitable for the firm possessing these ownership advantages to use them for itself (internalization), rather than to sell or lease them to foreign firms through licensing or management contracts (externalization). Boddewyn (1985) refers to this as the internalization condition. Finally, assuming that the preceding conditions are both met, it must be profitable for the firm to exploit these advantages through production, in collaboration with additional input factors such as natural resources and human capital, outside its home country; failing which, the foreign markets would then be served through exports and local markets by domestic production. Location-specific factors have to be taken into consideration by the investing firms, as per the economic geography and institutional FDI fitness theories discussed under the macroeconomic FDI theories.

2.2.2 Positive and Normative Theories of Tax

The following are tax theories captured by this study

Economists have put forward many theories or principles of taxation at different times to

guide the state as to how justice or equity in taxation can be achieved. The main theories or principles in brief, are:

1. Benefit Theory:

According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. This principle has been subjected to severe criticism on the following grounds:

Firstly, if the state maintains a certain connection between the benefits conferred and the benefits derived. It will be against the basic principle of the tax. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct quid pro quo in the case of a tax (Moran, 2008).

Secondly, most of the expenditure incurred by the slate is for the general benefit of its citizens. It is not possible to estimate the benefit enjoyed by a particular individual every year.

Thirdly, if we apply this principle in practice, then the poor will have to pay the heaviest

taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it is against the principle of justice?

2. The Cost of Service Theory:

Some economists were of the opinion that if the state charges actual cost of the service rendered from the people, it will satisfy the idea of equity or justice in taxation. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine, e.g., postal, railway services, supply of electricity, etc., etc. But most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined. For instance, how can we measure the cost of service of the police, armed forces, judiciary, etc., to different individuals? Dalton has also rejected this theory on the ground that there is no quid pro qua in a tax (Njogu, 2015).

3. Ability to Pay Theory:

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is

greater than the person B, the former should be asked to pay more taxes than the latter.

It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. But our difficulties do not end here. The fact is that when we put this theory in practice, our difficulties actually begin. The trouble arises with the definition of ability to pay. The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay. The main viewpoints advanced in this connection are as follows:

(a) Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is out rightly rejected on the ground that if a person’s earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, another person earning income buys property, he will be subjected to taxation. Is this not absurd and unjustifiable that a person, earning large income is exempted from taxes and another person with small income is taxed?

(b) Tax on the Basis of Expenditure: It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure, the higher should be the tax and vice versa. The viewpoint is

unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family. If we make expenditure as the test of one's ability to pay, the former person who is already burdened with many dependents will have to' pay more taxes than the latter who has a small family. So this is unjustifiable.

(c) Income as the Basics: Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay of a person (Odhiambo, 2018).

4. Proportionate Principle:

In order to satisfy the idea of justice in taxation, J. S. Mill and some other classical economists have suggested the principle of proportionate in taxation. These economists were of the opinion that if taxes are levied in proportion to the incomes of the individuals, it will extract equal sacrifice. The modern economists, however, differ with this view. They assert that when income increases, the marginal utility of income decreases. The

equality of sacrifice can only be achieved if the persons with high incomes are taxed at higher rates and those with low income at lower rates. They favor progressive system of taxation, in all modern tax systems (Scheve, 2010).

2.3 Empirical Literature

There is a wide array of empirical literature on corporate revenue tax and FDI's impact on economic growth. However, the existing evidence is mixed.

Macek (2014) investigated the impact of taxation revenue on economic growth in OECD countries, using time series secondary data for the period 2000 – 2011. A mathematical multiple regression model was adopted to capture the linearity correlation between the variables of the study. Tax variables by OECD classification include personal income tax, corporate income tax, social security contribution, property tax, value-added tax and tax on consumption. The World Tax Index classification is only short by social security contribution. While economic growth variables captured in the model include gross domestic product, capita accumulation, human capital and government spending. The regression analysis employed was based on the neoclassical growth model of Mankiw, Romer and Weil (1992), and he found that corporate income tax, personal income tax and social security contribution were harmful for economic growth. The study could not

confirm the impact of value-added tax on economic growth, but the property tax had insignificant impact. He then concluded that OECD countries should reduce corporate and personal income taxes and place more emphasis on indirect taxes such as tax on consumption.

Poulson and Kaplan (2008) explained that the impact of taxes on economic growth in the United States of America using data covering the period 1964-2004 and the results of their study revealed that higher marginal tax rates had significant negative impact on economic growth in the States.

Similarly Stoilova and Patonov (2012) examined the impact of taxation on economic growth in 27 European Union countries, using data for the period 1995-2010. They conducted comparative cross-country analysis as well as regression analysis. Tax revenue variables include tax on land, building and other structures, social contributions, tax on production and imports and value-added tax. The study found that direct tax revenue made more efficient impact on economic growth in EU countries than indirect taxes.

Ogbonna and Appah (2012) examined the impact of tax reforms on economic growth in Nigeria, using data collected from the Statistical Bulletin of the Central Bank of Nigeria (CBN) for the period 1994 - 2009. They employed descriptive statistics and econometric

models such as White test, Ramsey RESET test, Breusch Godfrey test, Jacque Berra test, Augmented Dickey Fuller test, Johansen test, and Granger Causality test to analyze their study data. They found that tax reform variables such as petroleum profit tax, companies' income tax, value-added tax, education tax, personal income tax, and custom and excise duties had significantly positive impact on economic growth in Nigeria. Thus their conclusion that tax reforms improved government revenue (Ogbonna et al, 2012)

In a related study, Umoru and Anyiwe (2013) investigated the correlation between the New National Tax Policy and economic growth in Nigeria, using co-integration technique and error correction model to analyze data. They stated that taxes can be structured into direct and indirect. Examples of direct taxes include petroleum profit tax, companies' income tax, education tax and personal income tax. While indirect taxes include custom and excise duties, and value-added tax. The results of their analysis revealed that direct taxation revenue had significant positive relationship with economic growth, while indirect tax revenue had insignificant but negative impact on economic growth in Nigeria. They concluded that Nigeria's tax policy towards indirect taxation lack justification, rather the country should strengthen the structures of direct taxation.

Ihenyen and Mieseigha (2014) examined taxation as a financial instrument for economic

growth in using data obtained from the Central Bank of Nigeria for the period 1980 – 2013. They used corporate income tax and value-added tax as the independent variables and proxy for taxation. These were regressed against economic growth measure by gross domestic product (GDP), the dependent variable. The study employed Ordinary Least Squares technique (OLS) data, and the results revealed that corporate income tax and value-added tax impacted positively on gross domestic product. They therefore concluded that taxation is an instrument of economic growth in Nigeria.

In a similar study, Edame and Okoi (2014) examined the impact of taxation on investment and economic development in Nigeria, using data covering the period 1980-2010. They collected data on corporate income tax, personal income tax and gross domestic product (the study variables) from the Statistical Bulletin of the CBN and the National Bureau of Statistics. They defined three regression models, investment, gross domestic product and government expenditure models, and employed multiple regression technique to analysis the study data. The study found that corporate income tax and personal income tax were negatively related to investment, but positively related to government expenditure. Therefore, they concluded that taxation is an instrument for government expenditure.

Also, Chude and Chude (2015) investigated the impact of company income tax on the profitability of brewery companies in Nigeria. The study employed the Augmented Dickey Fuller Unit Root test, Johansen co-integration test and Ordinary Least Squares technique to analyze time series secondary data. The study revealed positive correlation between taxation and profitability. Ayuba, (2014) investigated the impact of non-oil tax revenue on economic growth in Nigeria, using secondary data collected from the Statistical Bulletin of the CBN from the period 1993 -2012. The study employed ADF Unit Root test, error correction model and OLS technique to analyze the study data collected on the variables. The results showed that non-oil tax revenue impacted positively on economic growth in Nigeria.

Apergiset (2014) use panel data set of 27 transitional economies over the period 1991 to 2000 to study the FDI-Economic Growth Relation. Through the use of the Pearson Correlation Model, the result shows the FDI has an important positive relationship among all nations ' economic growths. Rehman (2016) uses a Pakistan dataset to look at the nexus between FDI and economic growth. The result shows that there is unidirectional causality between FDI and economic growth, from economic growth to FDI. Adil and Mohammad (2014) use a systemic co-integration model with a vector error correction (VEC) framework to check for the model's short-term dynamics to analyze causalities

among FDI, economic growth and financial development proxied by both equity market size and bank credit to private sectors. The findings reveal that developed financial markets are an essential precondition for positive economic growth impact on FDI, reflecting the ability of host countries to harness FDI more efficiently.

Ndem, Okoronkwo and Nwamuo (2014) sought to determine the relationship between exchange rate, market size, investment in infrastructure, openness, political risk and FDI flow. The adoption of the Cointegration and Error Correction Method (ECM) revealed that the size, openness and exchange rate of the market had a significant impact on FDI inflow while political risk was unfavorable to it. Ullah (2014) examined the complex relationship between domestic investment, foreign direct investment and economic growth in Pakistan for the period 1976–2010. The research employed the Phillips and Perron (PP) protocol, Johansen's cointegration method, and TodaYamamoto's causality system. Empirical findings from this study revealed the existence of long-term relationships among domestic investments, foreign direct investment, and economic growth. The study further supported Toda-Yamamoto's causality and bidirectional causality between FDI and domestic investment, implying that both domestic and FDI are causative to one another.

Adigwe, Ezeagba and Francis (2015) studied the effect of foreign direct investment between 2008 and 2013 on Nigerian economic growth. The study found a significant relationship in Nigeria, using the Pearson Correlation, between foreign direct investment, exchange rate, and gross domestic product. It established that Nigeria's economic growth has direct connections with foreign direct investment. Okumoko and Karimo (2015), analyzed the endogenous effects of Nigeria's Foreign Direct investment and economic growth from 1981-2013. Their study adopted the model of the Structural Vector Autoregressive (SVAR), and found that FDI and economic growth did not respond to nominal shocks in the short term. The study concluded that growth is influenced by FDI during the same time period, but that growth itself does not attract FDI.

Ahmad (2018) analyzed the effects of foreign direct investment on domestic investment and economic growth, and the degree to which foreign investment is boosting or crowding out FDI in China. Using DOLS and FMOLS estimators, they found positive and important impacts of FDI and domestic investment on China's economic growth; however, domestic investment has contributed more to China's economic growth and development.

Bakari and Tiba (2019) examined the impact of domestic investment and Foreign Direct

Investment on economic growth for 24 Asian economies over the period 2002 – 2017 through the use of the fixed and random effects models. Empirical results pointed that domestic investment influence positively on economic growth. However, Foreign Direct Investments has a negative effect on economic growth. Gungor and Ringim (2017) searched for the influence of FDI and domestic investment on economic growth for the case of Nigeria and for the period of 1980 – 2015. They employed Johansen multivariate cointegration test, vector error correction model (VECM) and the Granger Causality Tests as estimation techniques. Empirical analysis of VECM indicated that domestic investment and FDI have a negative effect on economic growth in the long run. However, the results of the Granger Causality tests indicated that only FDI cause economic growth.

For the period from 1970 to 2012, Veledinah (2014) investigated the relationship between foreign aid and growth. For the analysis, time series data and the VECM estimation technique were used. Foreign aid has been shown to have a positive but negligible effect on development in the short term. The effect of domestic investment and FDI was examined by Bakari and Tiba (2019) for the case of 24 Asian economies over the period 2002-2017 on economic growth, using fixed and random effect models. The empirical findings have shown that domestic investment has a positive impact on economic development. FDI, however, has a negative influence on economic activity.

The effect of domestic capital expenditure and FDI on the economy in Saudi Arabia between 1970 and 2015 was analyzed by Belloumi and Alshehry (2018) using ARDL Bounds Testing for the cointegration approach. They found that, in the long run, domestic investment and FDI have a negative impact on economic development. They also found that domestic investment and FDI do not have any short-term effect on economic growth.

CHAPTER THREE

METHODOLOGY

This segment captures the theoretical framework, model specification and the empirical methodology that was adopted for the analysis.

3.1 Theoretical Framework

The theoretical framework for this study draws insights from the fundamental Solow (exogenous) growth model of 1956 and 1957 respectively that represents the production (income) growth rate as a function of the rate of growth of technological change, labor (population) and capital stock (Solow, 1956 as cited in Iyoha and Okim, 2017). The standard neoclassical production function is expressed as:

$$Y=F(A,K,L) \quad \text{……………………………………………………….. (1)}$$

A is the level of technology in the above function; K is the capital stock, while L is the amount of labor and Y is the production (income).

Assume that the output feature is twice differentiated and subject to constant scale returns, and that Hicks-Neutral is a technological improvement (Iyoha, 2017). The above equation (1) for time differentiation, division by Y and rearrangement of terms yields:

$\acute{Y}/Y = \acute{A}/A + (F_K K/Y) \cdot (\acute{K}/K) + (F_L L/Y) \cdot (\acute{L}/L)$ ……... (2)

Where Ý/Y is the continuous rate of production growth, /K is the rate of capital stock growth and /L is the rate of labor force growth. FK and FL are, respectively, the social marginal products of capital and labor, and Á/A is essentially the Hicks-neutral rate of technological advancement transition.

Therefore, as a function of the growth rate of technological progress, labor (population) and stock of resources, the simple Solow growth model gives the rate of growth of production (income). This fundamental Solow growth model was updated in empirical applications to obtain the augmented Solow growth model, where the production growth rate is not only a function of technological transition, capital and labor, but also of political variables such as the real exchange rate and interest rate (Barro, 1991; Mankiw, 1992; Easterly and Levine, 2001; and Ologu, 2003, as cited in Iyoha and Okim, 2001, 2017).

The Solow Growth Model shows that growing the long-term growth rate of the economy requires an increase in the supply of labor and therefore a higher level of capital and labor productivity. Therefore, variations in the rate of technological change between countries are said to explain a great deal of the growth rate differences. The Neoclassical model

takes productivity improvement as an exogenous variable that demonstrates that productivity improvement in a given time span is presumed to be independent of capital expenditure.

3.2 Model Specification

A suitable model would be defined in this study to examine the intensity and direction of the impact of corporate income tax and FDI on economic growth in Nigeria, following the Augmented Solow growth model described in the above equation.

This research extends the list of policy variables to include corporate tax, foreign direct investment, corporate tax revenue, gross capital creation and real exchange rate. Hence, the Augmented Solow model of economic growth yields the following specification for the determinants of economic growth in Nigeria. The functional specification for this study is given as:

$$RGDPC = f\,(CPT, FDI, REX) \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

The explicit form of the model is stated as;

$$RGDPC = \beta_0 + \beta_1 CPT + \beta_2 FDI + \beta_3 REX + \beta_4 INF + \Omega ECM + U \quad \ldots\ldots\ldots\ldots (4)$$

Where;

RGDPC = Real Gross Domestic Product per capita

CPT = Corporate Tax Revenue

FDI = Foreign Direct Investment Inflows

REX = Real Exchange Rate

INF = Inflation Rate

ECM = Error correction Mechanism

U = stochastic error term

β_0 = constant intercept

$\beta_1 - \beta_5$ = co-efficient of the associated variables

Ω = ECM Coefficients

3.3 Determining the Reliability of Estimated Results

In order to evaluate whether parameter estimates are theoretically meaningful and statistically satisfactory, this analysis will follow three criteria that are economic or a

priori (economic theory determined), statistical (statistical theory determined) and econometric (economic theory determined) criteria (determined by econometric theory).

A priori Criterion

This criterion is based on economic theory and seeks to assess whether the signs and sizes of the empirical findings agree with the postulates of economic theory or are in tandem with them. Put differently, it is concerned with assessing the accuracy of the signs and magnitude of our parameter estimates. Therefore, their parameters and respective a priori signs can be expressed as follows, provided the variables under consideration:

$\beta_0>0$, $\beta_1>0$, $\beta_2<0$, $\beta_3<0$, $\beta_4>0$

Methodology

For this research, a multiple regression analysis with the econometric technique of ECM was adopted. This research, however, adopted the Augmented Dickey Fuller (ADF) unit root test to verify if the data series has a unit root in order to avoid the difficulties that may occur when conducting regression analysis with obviously non-stationary series that thus leads to spurious results. The research also used the use of the Johansen

co-integration test to assess the long-term relationship between the variables used for this analysis. The methods adopted for this analysis, however, are

1. Unit Root Test

This test is the first step and involves checking the stationarity of the variables and then the order of the individual series being considered to be incorporated. Several methods for testing the order of integration have been developed by researchers. The Augmented Dickey-Fuller (ADF) test, due to Dickey (1979) and Fuller, is the most common among them (1981). In favor of the alternative hypotheses of no unit root, the Augmented Dickey-Fuller test relies on denying a null unit root hypothesis (the sequence are non-stationary) (the series are stationary). For each of the sequences, the experiments are performed with or without a deterministic pattern (t). If their first discrepancy, y(t)-y(t-1) is non-stationary, a stochastic process y(t) is defined as a unit root. Basically, if it needs to be differentiated once to become stationary, a sequence of order I(1) is said to be incorporated. The same applies to an I(2) sequence that must be separated twice in order to become stationary. If I(0), then no additional differencing is needed.

Cointegration Analysis

The second step is to test the existence of co-integration between the same integration

order sequence. The study of unit roots and testing inevitably leads to the co-integration principle. The test deals with the technique for modeling variables from non-stationary time series. "According to Maddala (1992), as cited in Iyoha (2004, p.86), "the theory of co-integration describes how to analyze the interrelationships in the variables that vary in the Box-Jenkins system between the long-term trend. The underlying principle behind co-integration is that if two or more variables shift closely together in the long run, even though the series itself is trendy. Simply put, when there is a long-run relationship between them, variables are said to be co-integrated. A lack of co-integration means that there is no long-run relationship between these variables: they can drift arbitrarily far from each other (Dickey et.al., 1991). We use the maximum likelihood test protocol developed by Johansen and Juselius (1990) and Johansen in this research (1991). The Trace statistic can be used to calculate the number of co-integration vectors. The null statistical test h. The null hypothesis of the statistical test is that the number of independent co-integrating vectors is less than or equal to q.

3.4 Source of Data

The data used in this research undertaking is basically secondary data from the National Bureau of Statistics (NBS) 2019 and the World Development Index (WDI) 2019.

CHAPTER FOUR

EMPIRICAL ANALYSIS

4.1 Descriptive Statistics

Table 4.1: Descriptive Test

	RGDPC	CPT	FDI	REX	INF
Mean	4.714767	9.44E+09	99.40667	33.75414	3.168058
Median	4.865	5.85E+09	99.4	32.90062	2.749491
Maximum	15.33	2.20E+10	99.7	48.78222	10.83256
Minimum	-2.035	10008540	99	23.12987	0.65216
Std. Dev.	3.929849	9.25E+09	0.170057	9.810445	2.118826
Skewness	0.336236	0.193562	-0.70446	0.286351	2.045611
Kurtosis	3.429145	1.183006	2.815499	1.442442	7.825062
Jarque-Bera	7.95478	11.314164	2.523859	3.442466	50.02414
Probability	0.041837	0.015662	0.283107	0.178845	0
Sum	141.443	2.83E+11	2982.2	1012.624	95.04173
S. Sq. Dev.	447.8677	2.48E+21	0.838667	2791.1	130.1932
Observations	30	30	30	30	30

Source: Author's Computation (2022)

Table 4.1 shows the descriptive statistics of variables. From the Table, average of RGDP per capital (RGDPC) is about 4.7 for the period. The low standard deviation value of about 3.9 indicates that observations are not widely spread from the mean. The Skewness is positive also indicating that RGDPC lie to the right of the mean. The J-B is statistically significant (at 5 percent) indicating that the density function of the series is non-normally

distributed. The mean and standard deviation values of corporate tax revenue (CPT) are high for the period. This indicates that observations are widely spread/disperse from the mean. The Skewness is positive showing that CPT growth rate lie to the right of the mean. The J-B statistics passes the statistical significant test at 5 percent. This once more shows that the density function of the series is non-normally distributed. The mean and standard deviation values of foreign direct investment (FDI) are high for the period. This indicates that observations are widely spread/disperse from the mean. The Skewness is positive showing that FDI growth rate lie to the right of the mean. The J-B statistics passes the statistical significant test at 5 percent. This once more shows that the density function of the series is non-normally distributed.

4.2 Correlation Analysis

Table 4.2: Correlation Matrix

	RGDPC	CPT	FDI	REX	INF
RGDPC	1	0.072597	0.052106	0.09193	-0.34164
CPT	0.072597	1	0.410795	0.843769	-0.39745
FDI	0.052106	0.410795	1	0.24389	-0.19456
REX	0.09193	0.843769	0.24389	1	-0.53099
INF	-0.34164	-0.39745	-0.19456	-0.53099	1

Source: Author's Computation (2022)

Table 4.2 present the matrix of coefficients of correlation between variables in the model. It can be observed that CPT, FDI and REX are positively related to RGDPC with INF

being the only exception (owing to its negative sign). Similar conclusion can also be held for CPT, FDI and REX. However, with respect to INF, the Table shows that RGDPC, CPT, FDI and REX exhibit negatively correlation.

4.3 Stationarity Test

Stationarity test on variable is often carried out in other to avoid spurious estimates and ensure that the basic assumptions for asymptotic analysis of the model are valid. Series are considered to be stationary if its statistical properties do not change over time.

Table 4.3: Unit Root Test

Variables	*Levels*		*Ist Difference*		*Order of Integration*	*Status*
	ADF Stat	*ADF 95%*	*ADF Stat*	*ADF 95%*		
RGDPC	-3.70**	-3.57	-4.55***	-4.36	I(0), I(1)	Stationary
CPT	-0.93	-3.57	-5.09***	-4.32	I(1)	Stationary
FDI	-3.46	-3.57	-6.56***	-4.32	I(1)	Stationary
REX	-2.73	-3.57	-6.08***	-4.32	I(1)	Stationary
INF	-3.69**	-3.57	-5.75***	-4.32	I(0), I(1)	Stationary

Source: Author's Computation

*Note: *** and ** represent significance at 1 percent and 5 percent levels*

From Table 4.3, while all the variables were not stationary at levels, they all attained stationarity at their first difference. Specifically, while RGDPC and INF were stationary at levels, CPT, FDI and REX were not stationary. However, they all were stationary at first difference at 1 percent significant level.

4.4 Cointegration Test

Having carried out the ADF stationarity tests and established that all the variables are stationary at their first difference. We proceed to test for the long run relationship among the variables using Johansen co integration test.

Table 4.4: Co integration Results

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None*	0.658779	95.89613	92.75366	0.0274
At most 1*	0.604442	69.78981	62.81889	0.0459
At most 2*	0.451015	47.82103	36.85613	0.0356
At most 3	0.340056	20.02986	29.79707	0.4209
At most 4	0.220837	8.393031	15.49471	0.4244
At most 5	0.048976	1.406051	3.841466	0.2357
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None*	0.658779	40.10632	30.07757	0.0416
At most 1*	0.604442	33.96878	25.87687	0.0452
At most 2	0.451015	16.79117	27.58434	0.5979
At most 3	0.340056	11.63683	21.13162	0.5838
At most 4	0.220837	6.986980	14.26460	0.4907
At most 5*	0.048976	3.406051	1.841466	0.0482

Source: Author's Computation

** rejection of the null hypothesis of no cointegrating equations.*

Table 4.4 shows Johansen co integration tests. From the Table, the trace statistics and the Maximum eigen statistics indicated that there are three co integrating equations thereby rejecting the null hypothesis of no co-integrating relations among the variables at 0.05 level. This implies that there is a long run relationship between the variables and they are likely to converge at equilibrium level in the long run.

4.5 ECM Estimation

Table 4.5: ECM Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.129966	413.8518	-0.014812	0.9883
CPT	3.17001	0.59868	5.29495	0.0000
FDI	1.12361	0.52720	2.13124	0.0156
REX	-0.112202	0.158082	-0.709770	0.4850
INF	0.819356	0.354090	2.313978	0.0300
ECM	-0.539536	0.153701	-3.510304	0.0019

R-squared	0.73	Mean dependent var	4.72
Adjusted R-squared	0.71	S.D. dependent var	3.99
S.E. of regression	3.32	Akaike info criterion	5.42
Sum squared resid	254.06	Schwarz criterion	5.70
Log likelihood	-72.62	Hannan-Quinn criter.	5.51
F-statistic	3.51		
Prob(F-statistic)	0.02		

Source: Author's Computation (2022)

Dependent Variable: GDPGR

Table 4.5 shows the ECM estimate. From the Table, corporate tax positively and significantly (at 1 percent) impact RGDPC. A one percent rise in corporate tax revenue result in over 3 percent increase in RGDPC. Similarly, FDI exert positive and significant (at 5 percent) impact on RGDPC. The result indicates that a 1 percent increase in capital stock result in about 1.1 percent rise in RGDPC. Also, real exchange rate exhibited a positive and significant (at 5 percent) impact on RGDPC. It also shows that a 1 percent increase in real exchange rate result in about 0.8 percent rise in RGDPC. However with respect to secondary school enrolment rate inflation rate, a negative impact was established with RGDPC. This was also not statistically significant. The error correction term is negatively signed and statistically significant, as expected. This indicates that it will rightly act to restore equilibrium in the system in the event of short run deviation therefrom. The absolute value of the coefficient of error correction term implies that 53% of the sort run deviation from equilibrium is corrected annually to restore the equilibrium position. The speed of adjustment to equilibrium is moderately high.

The coefficient of determination and the adjusted coefficient of determination of 0.73 and 0.70 respectively indicate that about 73 percent and 70 percent variations in the

dependent variable is accounted for by the explanatory variables. The F-statistics value of approximately 4 percent and statistically significant at 5 percent affirms the overall significance of the model.

4.6 Model Stability Test

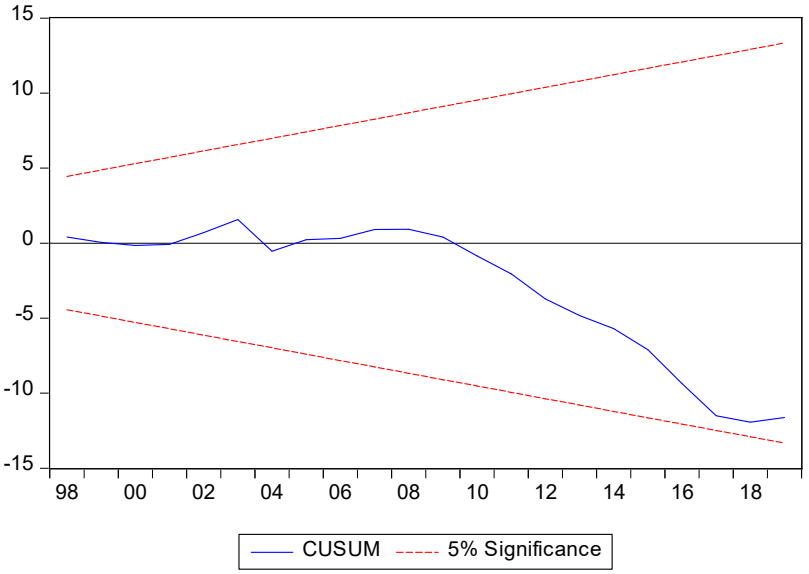

Figure 4.1: Stability Test (a)

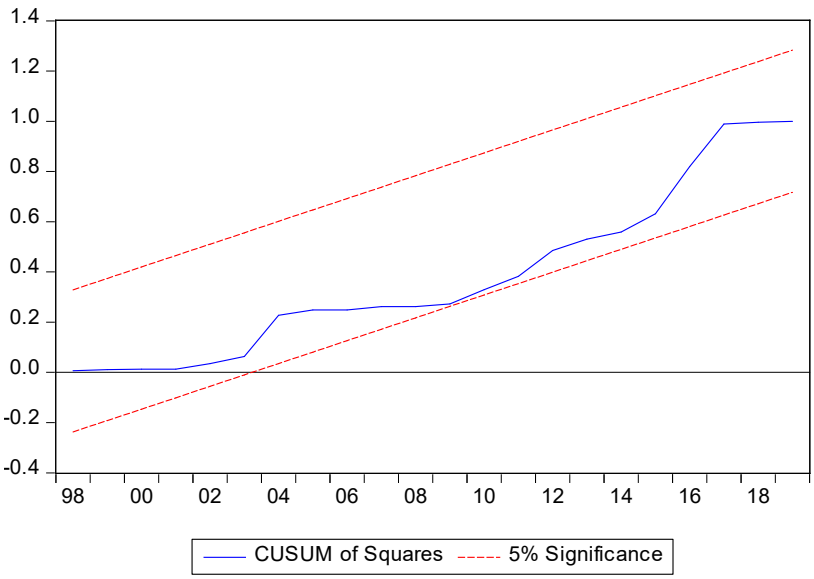

Figure 4.1: Stability Test (b)

Figure 4.1(a) and 4.1(b) shows test of structural stability of the model using cumulative sum of recursive residuals (CUSUM) and cumulative sum of recursive residuals squares (CUSUM of Squares). As can be observed from both figures (figure 4.1(a) and 4.1 (b)), the plots of CUSUM and CUSUM of Squares at 5 percent significance level falls within the critical bounds. This therefore means that there is structural stability in the model and thus policy options emanating thereof can be relied upon.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study examined the impact of corporate tax revenue and foreign direct investment on economic growth in Nigeria. Based on the Solow Growth Theory, a model was drawn and estimation was conducted. However, prior to ECM estimation, basic preliminary tests such as descriptive analysis, unit root test and cointegration tests were performed. From the ECM estimation output, it was found that corporate tax revenue and FDI positively and significantly impact on economic growth. Also, real exchange rate exhibited a positive and significant (at 5 percent) impact on economic growth while inflation rate exhibited a negative impact on economic growth (thought this was also not statistically significant). The error correction term is negatively signed and statistically significant with about 53 percent speed of adjustment. The structural stability of the model was affirmed using cumulative sum of recursive residuals (CUSUM) and cumulative sum of recursive residuals squares (CUSUM of Squares). Thereby implies that policy options emanating thereof can be relied on.

5.2 Recommendations

In the light of the above expositions, the following recommendations are put forward;

i. Owing to the fact that corporate tax revenue has positive impacts on economic growth, corporate tax should be seen as a major source of fund by policy makers in Nigeria.

ii. In the light of (i) above, policy that enhances corporate tax revenue should be implemented.

iii. Similarly, owing to the positive and significant impact FDI has on economic growth, policies that continually encourage FDI inflows should be implemented.

iv. In the light of (iii) above, the enabling environment such as infrastructure facilities, security of live and properties should be created.

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