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# Multiplicity of Taxes and Foreign Direct Investment: A Relational Analysis of Nigerian Tax Environment

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**Abstract:** Governments of different countries have the constitutional backing to impose a plethora of taxes on both local and foreign entities doing businesses in their countries. It is common for a country most especially the developing one like Nigeria to impose all of these taxes instantaneously. Obviously, these taxes have important implications for investment and economic activity, including Foreign Direct Investment. The emphasis of this study is to examine the relationship between multiple taxes and Foreign Direct Investment inflow in Nigeria for the period 1996 to 2015. The study adopted the ex-post facto research design. Secondary data used was collected from Central Bank of Nigeria Statistical bulletins, National bureau of statistics publications and Central Bank of Nigeria Annual Reports. Descriptive analytical procedure and inferential statistics were employed. The descriptive statistics was used in explaining the characteristics of the variables while inferential statistics involved the use of multiple regressions for analysis and time series was used for estimation. From the findings, it is noted that there is an inverse relationship between multiple taxes and Foreign Direct Investment (FDI) in Nigeria; which implies that the higher the taxes, the less the FDI inflows into the country. The given high value of the  $R^2(0.858333)$  implies that a 85.83% systematic variation in Foreign Direct Investment (FDI) is explained by company Income Tax (CIT), Value Added Tax (VAT), Education Tax (ED) and Customs and Excise Duties (CED). The F-statistics with the value of 16.96471 and P-value of 0.000017 shows that the model easily passes the F-test at 1%, 5% and 10% level of significance and this means that the hypotheses of a significant linear relationship between the dependent and independent variables taken together is validated by this study. It is therefore recommended that for Nigeria to secure a place as an economically viable nation in Africa, it must strive and achieve an internationally competitive tax system by eliminating all forms of multiple taxes in the country.

**Keywords:** Foreign Direct Investment, Multiple Taxes, Government, Constitution, Nigeria

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## 1. Introduction

Countries have recognized the importance of attracting foreign direct investment as a means of revitalizing their economies and stimulating growth. This has prompted many countries to work on developing favourable conditions to promote foreign direct investment but there are a variety of factors that influence foreign direct investment [36]. Over the years, more and more businesses are investing in other countries and it is easily evident that one of their strategies in achieving the desired competitive advantage is the search for new locations that are more attractive from several reasons such as cheap labour, exemption from tax payment, tax secrecy or other taxation benefits, not forgetting geographical benefits [10].

A conducive business environment depends both on companies operating in that environment and on the rules and regulations provided by the country also seeking to obtain a higher profit through market share and in this sense they develop policies and strategies to differentiate them from the competition. At the same time, governments are struggling to gain a competitive advantage in order to attract greater investment in their territory. They are doing this because it will create new jobs, will boost revenues from taxation, lead to the formation of local budget and will also increase property value. The main reasons why some businesses tend to have a higher interest in some countries rather than others is provided by the economic and fiscal policies of those countries, and the level of bureaucracy or the presence of the necessary infrastructure. Tax policies occupy a central place in the final destination of

choice for a company wishing to invest in a country other than the country of origin [21]. Bearing this in mind, it can be deduced that a country is even more attractive to investors if its taxes are low and well-coordinated. Moreover, the size of the economy, its purchasing power and other market related factors can be compensated if there are fiscal incentives for companies [4]. In this way, each country wants to attract more foreign investors and it will act accordingly in terms of the administrative and legal framework. According to Yin, [39], the increase of foreign direct investments is seen as a positive aspect, not only from an industry point of view but also from a social and economic point of view. Countries use tax incentives and tax reductions to stimulate the inflow of foreign direct investments.

Subsequently, many countries have reduced their corporate tax rates and provided certain incentives, but there are a variety of factors that influence foreign direct investment, and the effects of taxes on foreign direct investment are not self-evident.

Multinationals have to deal with a plethora of issues in order to overcome many hurdles to become established, achieve the desired competitive advantage and remain afloat in a foreign land. This ranges from business registration to obtaining permits, raising capital, registering property, dealing with customs in some cases, getting the right people to engage, handling customer relations, internal control and fraud prevention, financial reporting, investors and other stakeholder management, and paying taxes among others [33]. The remaining structure of this paper is as follows. Section 2 reviews the concepts of multiple taxes and foreign direct investment in Nigeria; the relevant theories which are associated with multiple taxes and foreign direct investments are discussed and the empirical evidence regarding the relationship between the variables are also documented. Section 3 discusses the methodology adopted in carrying out the study, while section 4 contains data analysis and presentation of results and section 5 concludes and lays foundation for a future research area.

### **1.1. Statement of the Problem**

The issue of multiple-taxation has been described as a cankerworm threatening the continued existence of small, medium size and major corporate organizations in Nigeria. The stunted growth of the economy has often been blamed on many factors, top of which is the challenge of uncoordinated tax administration that has crippled production capacity of the manufacturing sector and forced others to relocate to other neighbouring countries considered as tax havens [29]. The sector's contribution to the Gross Domestic Product (GDP) declined significantly from 9.5 per cent in 1975 to 6.65 per cent in 1995, 3.42 per cent in 2005 and in 2009 it peaked marginally to stand at 4.0 per cent with no sign of improvement by the end of 2010.

According to estimates from the Manufacturers Association of Nigeria [22] about 1,000 manufacturing firms that set out to do business in the country annually end up shutting down due to the unfriendly business environment.

MAN [22] said, aside the problem of infrastructure like unstable electricity, the yoke of multiple taxes on manufacturers ranked second among the factors stunting the growth of the real sector. It is a heavy yoke that frustrates existing investors, and scares away prospective ones. How Nigeria hopes to grow the economy under this yoke and meet its vision 20-20-20 target of getting enlisted as one of the top 20 economies globally continues to top discussions among economic analysts. Nigerians however, continually bemoan the amount and number of taxes levied on them and their businesses. The then Chairman of the JTB who was also chairman of the Federal Inland Revenue Service (FIRS), Mrs. Ifueko Omoigui [32], noted that multiple taxation is 'evil and illegal'. She explained that the practice, which stifles the business environment, is as bad as other reported cases of illegal collection of sundry levies and taxes by local councils across the federation. The present economic doldrums in Nigeria as a result of the militancy in the Niger Delta region has crippled the revenue generation prowess of the country. The paucity of fund has further exacerbated the problem of multiple- taxation. All the three tiers of government now find solace in taxation as more uncoordinated moves are being channeled towards shoring up their revenues. The report of the committee set up in the year 2010 by the Joint Tax Board to proffer solutions to the problem of multiple-taxation in the country also confirmed that multiple-taxation of business operations in Nigeria has unsavory consequences Joint Tax Board [20]. The committee identified the problem as one of the major drawbacks to sustainable economic growth. It further averred that the burden it places on companies is choking, as it makes it difficult for them to run their operations profitably which also contributes to inflation. It is against these backdrops that this study aims at establishing the relationship between multiple taxes and foreign direct investment inflow into the Nigerian economy.

### **1.2. Objective of the Study**

The general objective of the study is to empirically assess the relationship between the incidence of multiple taxes and Foreign Direct Investment inflow within Nigerian context. The specific objectives are:

- (1) To evaluate the link between Company Income Tax and Foreign Direct Investment
- (2) To investigate the relationship between Education Tax and Foreign Direct Investment
- (3) To determine how Value Added Tax relates with Foreign Direct Investment
- (4) To examine the nexus between Customs and Excise duties and Foreign Direct Investment
- (5) To assess the relationship between Inflation rate and Foreign Direct Investment

### **1.3. Research Question**

In order to achieve the stated objectives, the following questions shall be addressed in the study

- (1) What is the link between Company Income Tax and

Foreign Direct Investment?

- (2) Is there any significant relationship between Education Tax and Foreign Direct Investment?
- (3) Does Value Added Tax have significant relationship with Foreign Direct Investment?
- (4) What is the nexus between Customs and Excise Duties and Foreign Direct Investment?
- (5) What relationship exists between inflation and Foreign Direct Investment?

#### 1.4. Research Hypotheses

*Hypothesis One ( $H_0$ ):* There is no significant relationship between Company Income Tax and Foreign Direct Investment

*Hypothesis Two ( $H_0$ ):* The relationship between Education Tax and Foreign Direct Investment is not significant

*Hypothesis Three ( $H_0$ ):* No significant relationship exists between Value Added Tax and Foreign Direct Investment

*Hypothesis Four ( $H_0$ ):* There is no significant relationship between Customs and Excise Duties and Foreign Direct investment

*Hypothesis Five ( $H_0$ ):* The relationship between Inflation rate and Foreign Direct Investment is not significant

## 2. Literature Review

### 2.1. Conceptual Framework

#### 2.1.1. Multiplicity of Taxes in Nigerian

Multiple taxes mean paying similar taxes on the same or substantially similar tax base [33]. By this definition, examples of multiple taxes include Companies Income Tax, Information Technology Tax (NITDA levy), Education Tax, Nigerian Content Development Levy all of which are based on income or profits and Value Added Tax, Sales Tax and Hotel consumption Tax all based on sales. According to Farlex Financial Dictionary [26], multiple-taxation is a situation in which the same earnings are taxed more than twice. For example, multiple-taxation may occur when a publicly-traded company pays corporate taxes on its earnings. It then passes on some of those earnings to shareholders as dividends, on which they must pay a capital gains tax at the federal level and then again at the state level. Multiple taxation is understood by Mombert and Nihal, [24] to include both incidences of double-taxation, whereby the same asset or event is taxed multiple times by different jurisdictions, and the multiplicity of small nuisance taxes.

The Nigerian Federation comprises three tiers of government; the federal government, 36 State governments and the Federal Capital Territory, and 774 local governments. The exact number of taxes levied on businesses seems to vary significantly between various states and local governments throughout Nigeria and businesses may be subject to as many as 100 different taxes, charges, fees and levies, and in some instances taxed for the same event or asset that are levied by the three tiers of government [12]. In an environment where trade taxes, surcharges and a plethora

of other levies add to the operational and transaction costs of businesses, their arbitrary implementation heightens the uncertainty to Nigerian enterprises and further increases the cost of doing business [24]. Under the current Nigerian laws, taxation is enforced by the three tiers of Government, Federal, State and Local Governments. These are enforced and guided through various laws and agencies which include the Personal Income Tax Act, Companies Income Tax Act, Joint Tax Board, Value Added Tax Act, Petroleum Profit Tax Act as well as few others. All these were created with the purpose of ensuring strict adherence to tax payment and to discourage the issue of tax evasion. Multiple taxes began to rear its ugly head in Nigeria in the late 1980s when revenue accruing to states and local government from the Federal Account began to dwindle [19]. Unfortunately, the degree of dependence of the States on revenue from the Federation Account was so much that most States did not have functional Board of Internal Revenue (BIR). A few States began to farm out their tax administration to private consultants in such a manner that eventually sidelined the tax administrators within the civil service. The consultants started by reviewing the rates and fees payable for different governmental services ostensibly to reflect the economic realities. In some cases, the rates and fees were skewed too high. For instance business premises levy and development levy were imposed on certain corporate bodies arbitrarily without legal basis. A dose of dynamism was introduced into tax enforcement during this era. Notwithstanding that some of their practices were unorthodox and raised serious issues of rule of law; the revenue objective was paramount to the States. The States therefore did not take any serious action to address the concerns of taxpayers [35]. However, the federal government has sought to address the issue of multiplicity of taxes through the Taxes and Levies (Approved List for collection) Decree No. 21 of 1998. The legislation itemized the taxes to be collected by the Federal Government, State Government and Local Government. Taxes prescribed for the Federal Government includes companies income tax, value added tax, withholding tax on companies, petroleum profit tax, stamp duties on companies and residents of the FCT, capital gains tax for companies, residents of FCT and non-residents and personal income tax for members of the armed forces, residents of FCT and staffs of the Foreign Affairs. The state government was limited to personal income tax (particularly PAYE), withholding tax, capital gains tax and stamp duties as it applies to individuals, pools tax, road taxes, business premises fee, market taxes and levies etc. The local governments were listed to collect shops and kiosks rates, tenement rates, marriage, birth and death fees and other fees which are usually of little significance. According to Onyeukwu, [31], the Decree had a good job in clearly delimiting the taxes that can be collected by the various tiers of government and also vested in the Joint Tax Board the responsibility of advising the Minister of Finance on amendments to the schedule of taxes affecting each tier of government.

### 2.1.2. Foreign Direct Investment (FDI)

Foreign direct investment is, according to the IMF guidelines, defined as foreign investments in which the investor owns more than 10% of the stock that is invested in. This generally refers to investments by multinationals in foreign controlled corporations such as affiliates or subsidiaries. FDI flows consist of two broad categories: (i) direct net transfers from the parent company to a foreign affiliate, either through equity or debt, and (ii) reinvested earnings by a foreign affiliate.

In statistical information on foreign capital flows, a usual distinction is between foreign portfolio investment (FPI) and foreign direct investment (FDI). FPI is defined as foreign investments in cases where the investor controls less than some fixed proportion of the capital stock that is invested in. The IMF guidelines propose a proportion of 10%. FPI generally refers to household investment in foreign securities, often channeled through financial intermediaries such as mutual funds or pension funds. This is an investment in which the investors lack control over the investment. This typically takes the form of investing in financial assets such as bonds and stocks; and in which case the investors do not have a controlling interest. Compared to FPI, FDI is generally believed to be more closely related to the allocation of real capital. Still, statistical information on FDI involves financial flows that do not necessarily correspond to the allocation of real investment. Indeed, FDI comprises several types of capital. First, it contains real investment in plant and equipment (PE), either in the form of new plant and equipment or plant expansions. Second, a major part of FDI consists of the financial flows associated with mergers and acquisitions. This implies a change in ownership without any real investment taking place. Estimates by the OECD suggest that mergers and acquisitions account for more than 60% of all FDI in developed countries [28]. Other components of FDI are joint ventures and equity increases. The latter component typically comprises investment in financial capital. The distinction between the different types of FDI is important because the different components may respond differently to taxes [1]. Decisions by multinationals to undertake FDI are usually complex since they involve strategic decisions.

### 2.1.3. Taxation and FDI

Taxation is a core pillar of a country's regulatory framework for investment and growth. It features prominently in investment decision-making motivated by profit maximization, while also spurring local enterprise development if properly designed. It is central to the current economic development agenda and provides a stable flow of revenue to finance development priorities, such as strengthening physical infrastructure, and is interwoven with numerous other policy areas, from good governance and formalizing the economy, to driving growth [34]. Fundamentally, tax policy shapes the environment in which international trade and investment take place. Thus, a core challenge for African countries is finding the optimal balance

between a tax regime that is business and investment friendly, and one which can leverage enough revenue for public service delivery to enhance the attractiveness of the economy. However, the likely response of FDI to host country tax reform very much depends on a wider range of host country conditions (OECD). Vale Columbia Center on Sustainable International Investment [37] opines that, on the issue of low taxes as a tool for investment attraction, some studies reveal that taxes are somewhat less important as a location factor than infrastructure. One should emphasize that tax incentives, financial subsidies and regulatory exemptions directed at attracting foreign investors are no substitute for pursuing the appropriate general policy measures, and focusing on the broader objective of encouraging investment for development regardless of source. The economic growth and investment dynamics of a country are largely affected by taxation. Both foreign investors (critical for new technology, corporate know-how and capital) and small businesses (engines for local growth, employment and innovation) require clarity when dealing with tax issues so they can operate and grow. Developing countries often have complex tax structures, which dampen the business climate, and present hurdles to growth prospects.

The evaluation of the importance of taxes as a determinant for foreign direct investment (FDI) has changed markedly [16]. Following extensive theoretical research on tax competition for internationally mobile capital, a substantial body of empirical work has appeared in recent years, which almost unanimously concludes that high taxes have a significantly negative effect on the likelihood of a country to attract FDI. The increasing policy interest in the link between taxes and FDI results from high unemployment in Europe, which governments hope to alleviate by attracting sufficiently large FDI inflows. Moreover, it is widely believed that FDI inflows into a country have positive productivity spillovers on domestic firms, and this proposition is generally supported by the existing econometric evidence [14]. Taken together these presumably positive effects of FDI are able to explain the increasing willingness of potential host countries to grant tax breaks or outright subsidies to multinational firms that open up a new plant in their jurisdiction. At the same time, however, there is increasing concern both among academics and policymakers that multinational firms avoid taxes unduly through strategic tax planning and profit shifting to low-tax countries.

### 2.1.4. Multiple Taxation and FDI

According to Pfister, [34], African countries are facing a series of challenges when it comes to optimizing taxation while aiming to reach development targets. Perhaps the most inherently difficult challenge is how to find the optimal balance between a tax regime that is business and investment friendly, while at the same time leveraging enough revenue for public service delivery (which, in turn, makes economies more attractive to investors). These challenges often at times translate into multiplicity of taxes with its attendant devastating consequences.

A number of studies, including those conducted by the OECD [28], suggest that raising the overall tax burden can reduce growth. Generally, a sound tax policy improves the environment in which business is carried out. It encourages international trade and investment and promotes economic growth. This encompasses a whole range of measures that are often difficult to sequence and implement. African economies are engaged in a fierce competition over corporate income tax (CIT) in view of attracting foreign investment. Tax incentives are now widely used in sub-Saharan Africa as more than two-thirds of African countries offer tax holidays to attract investment [34]. The establishment of export zones offering tax holidays has also increased. The IMF notes that developing countries frequently apply tax incentives schemes, which do not necessarily succeed in increasing the investment rate if they are not well coordinated with other policies aimed at improving the business climate, such as infrastructure or education policies.

### **2.1.5. The Disincentive Nature of Nigerian Tax System**

Businesses in Nigeria generally operates in a dynamic economic environment characterized by risks of multiple taxation, currency devaluation, inflation, repatriation, expropriation, confiscation, campaigns against foreign goods, mandatory labour benefit legislation, kidnapping, terrorism, and civil wars. Actions taken by government such as regulatory, legal framework, and political changes may decrease business income and acts as barriers to foreign investment [15 cited in 23]. Dwindling revenue from oil as a result of the militancy crisis in the Niger Delta region in recent times has further compelled the three tiers of government to resort to extra-legal multiple taxes as an alternative means of generating revenue to confront the numerous challenges faced with. High monetary outflow arising from incidences of multiple taxation compliance costs can have significant implications for Nigerian businesses. It could lead to reduction in incentives to expand production, high prices, and distortion of factor incomes [25]. As firms take investment decisions based on long-run returns to capital, the costs of multiple-taxation could reduce the size of the capital stock and aggregate output in the economy and discourage investment in productivity-enhancing measures. This ultimately could result in lower returns to human capital and lower job creation. According to Oyedele, [33], the falling oil prices has negatively affected the economy in key areas such as the capital market which has lost over 15% of its value in less than two months, declining exchange rate of the naira against major foreign currencies losing over a quarter of its value in the last few months. He further posits that Nigeria despite being the largest economy in Africa has one of the lowest tax revenue to GDP ratios in the world especially when only non-oil revenue is considered.

However, Nigerian government has initiated some measures to raise revenue such as the introduction of luxury taxes and the ongoing process to review incentives such as pioneer status which has been the subject of abuse. Unfortunately, Nigerian government is not reviewing tax

disincentives which hinder growth, prevent productive diversification of the economy, discourage foreign direct investments and make it cumbersome to earn sustainable tax revenue from other sources outside oil [33]. Within Nigerian financial sector, insurance industry which is considered to be bigger than the banking industry in many countries and has the capacity to mobilize long term funds for real economic development better than banks bears far more tax burden than the banking industry which makes it look as if the insurance tax regime was designed to ensure that the industry does not succeed [33].

### **2.1.6. The Concept of Tax Havens**

Tax havens are low-tax jurisdictions that provide prospects for tax avoidance. Popular tax havens typically include Ireland and Luxembourg in Europe, Hong Kong and Singapore in Asia, and various Caribbean island nations in the Americas [7]. Low-tax jurisdictions also exist within countries. Examples include special economic zones in China, low-tax states and enterprise zones in the United States, free trade zone in Nigeria and historically tax-favoured regions such as eastern Germany, southern Italy, and eastern Canada [7].

## **2.2 Theoretical Framework**

### **2.2.1. 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.

### **2.2.2. The Internalization Theory**

This theory tries to explain the growth of transnational companies and their motivations for achieving foreign direct investment. According to Denisia, [6], the theory was developed by Buckley and Casson, in 1976 where they demonstrate that transnational companies are organizing their internal activities so as to develop specific advantages, which then to be exploited. Internalization theory is considered very important also by Dunning, who uses it in the eclectic theory, but also argues that this explains only part of FDI flows. Hymer, [17], the author of the concept of firm-specific advantages demonstrates that FDI takes place only if the benefits of exploiting firm-specific advantages outweigh the relative costs of the operations abroad. The study discussed the problem of information costs for foreign firms relative to local firms, different treatment of governments, currency risk and that transnational companies face some adjustment costs when the investments are made abroad. Hymer [17] recognized that FDI is a firm-level strategy decision rather than a capital-market financial decision.

### **2.2.3. Eclectic Theory**

The most widely accepted theory of FDI is probably the eclectic approach developed by Dunning, [11]. For a multinational that seeks to maximize the value of the firm, FDI is attractive if the so-called OLI conditions are met,

referring to Ownership, Location and Internalization. First, there must be an ownership advantage for the multinational relative to ownership by local firms. This may have something to do with specific technological or organizational knowledge of the multinational, but could also relate to tax issues. Second, it must be attractive for the multinational to produce abroad because of some comparative locational advantage. Otherwise, the multinational would have chosen to export, rather than to invest. Finally, it should be attractive to undertake activities within the multinational, rather than buying or leasing them from other firms [11].

### 2.3. Empirical Studies

Generally, the impact of taxes on local businesses and foreign direct investment is a well-documented area in which many researchers have explored. Gordon and Hines, [14] document a comprehensive survey of the existing research on the subject. The Gordon and Hines, [14] study which covers empirical analyses of over fifteen years confirm that tax influences the level and location of foreign direct investment". Devereux and Freeman, [9] empirically analyze foreign direct investments among seven major trading countries for a seven-year period and conclude that tax has no statistically significant effect on decisions whether to invest at home or abroad, while tax influences decisions in which countries to make foreign direct investments. Benassy-Quere, Fontagne, and Lahreche-Revil, [2] empirically analyze foreign direct investments among 11 OECD countries from 1984 to 2000 and find that a reduction of one percentage point in the (statutory) corporate tax rate of a host country causes an increase of about 4 percent in inbound foreign direct investment in that country. Similarly, Desai and Hines, [8], examine the impact of indirect (non-income) taxes on the location and character of foreign direct investment by American multinational firms and their findings show that indirect tax burdens significantly exceed foreign income tax obligations for these firms and appear to influence strongly their behaviour. Estimates imply that 10 percent higher indirect tax rates are associated with 9.2 percent lower reported income of American affiliates and 8.6 percent lower capital/labour ratios.

De Mooij and Ederveen, [5], reviewed the empirical literature on the impact of company taxes on the allocation of foreign direct investment. They make the outcomes of 25 empirical studies comparable by computing the tax rate elasticity under a uniform definition. The mean value of the tax rate elasticity in the literature is around 3.3, i.e. a 1%-point reduction in the host-country tax rate raises foreign direct investment in that country by 3.3%. There exists substantial variation across studies, however. By performing a meta-analysis, the paper explains this variation by the differences in characteristics of the underlying studies. Systematic differences between studies are found with respect to the type of foreign capital data used, and the type of tax rates adopted. Their findings show no systematic differences in the responsiveness of investors from tax credit countries and tax exemption countries. Mombert and Nihal,

[24] researched into "impact of multiple taxation and competitiveness in Nigeria" and concluded that the multiplicity of taxation, and the administrative burden created by the uncoordinated and tax enforcement mechanisms across different levels of jurisprudence has given rise to significant costs, particularly penalizing smaller and more remote businesses. The large amount and magnitude of taxes on mobile factors lead to the economic isolation of distant areas, prevents the establishment of national supply chains, and reduces competition among companies located in different States within Nigeria, as well as competition among States for investors through improvements in the investment climate.

Okolo, Okpalaojugo and Okolo, [30], provide empirical study on the effect of multiple-taxation on investments in small and medium enterprises in Nigeria. The study used survey design with SME population of 80. Simple percentages/frequencies were used to analyze the data and the research hypotheses were tested with ANOVA. It was found that multiple taxation has negative effect on SMEs investment and its ability to pay tax. Similarly, Oseni, [31] conducted a study entitled "multiple taxation as a bane of business development in Nigeria". The study used content analysis method to highlight challenges that are peculiar to Nigeria and concluded that with the various types of taxes being collected by all government agencies in the country, the environment is clearly not conducive to investors.

### 2.4. Gap in the Literature

Previous studies have investigated the influence of multiple-taxation (with a meticulous emphasis on company income tax) on SMEs and manufacturing sector. However, literature review established that existing studies have considerably less input about the relationship between other types of taxes and foreign direct investment. In order to bridge this gap, this paper is set out to, in addition to company income tax, establish the relationship between other taxes (Education Tax, Value Added and Customs and Excise Duty) and foreign direct investment (FDI) in Nigerian tax environment. Furthermore, the impact of multiple taxes on foreign direct investment in Nigeria has received less attention in academic discourse.

## 3. Methodology

The emphasis of this study is to examine the relationship between multiple taxes and foreign direct investment inflow in Nigeria, for the period, 1996 to 2015.

### 3.1. Research Design

The study adopted the ex-post facto research design; descriptive method was also adopted to explain various characteristics of the variables being investigated.

### 3.2. Sources of Data

Annual time series secondary data for the twenty-year

period in focus was collected from Central Bank of Nigeria Statistical bulletins, National bureau of statistics publications and CBN Economic and financial Review Bulletins (relevant years).

**3.3. Method of Analysis**

Descriptive analytical procedure and inferential statistics were employed. Inferential statistics involved the use of multiple regressions for analysis and time series was used for estimation.

**3.4. Model Specification**

In line with the main thrust of this study, our estimation model is adapted from the model used by Dragos-Paun, [10]:

$$Y_i = B_0 + B_1X_{1i} + B_2X_{2i} + \dots + B_kX_{ki} + U_i$$

$$FDI = B_0 + B_1 TAX_i + B_2VAT_i + B_3IMP_i + U_i$$

However, our estimation model is extended with the addition of inflation rate (which serves as a mediating variable) and Education Tax which are peculiar to Nigeria thus:

$$FDI = f(CIT, EDT, VAT, CED, INF)$$

$$\ln FDI = \lambda_0 + \lambda_1 \ln CIT_i + \lambda_2 \ln EDT_i + \lambda_3 \ln VAT_i + \lambda_4 \ln CED_i + \lambda_5 \ln INF_i + \epsilon_i$$

**4.1. Descriptive Statistics**

*Table 1. Descriptive Statistics.*

	INF	LNCED	LNCIT	LNFDI	LNVAT	LOGEDT
Mean	16.21450	5.310077	5.289101	3.523631	5.292124	4.531881
Median	9.555000	5.351921	5.299520	3.601503	5.306573	4.396881
Maximum	103.8200	5.752970	6.081815	3.950116	5.900695	5.451403
Minimum	-5.670000	4.740363	4.342423	3.071038	4.491362	3.770484
Std. Dev.	24.21623	0.318036	0.581115	0.313581	0.502022	0.606100
Skewness	2.510722	-0.463082	-0.164433	-0.127481	-0.258139	0.228944
Kurtosis	9.679531	2.160110	1.639222	1.513319	1.667603	1.559476
Jarque-Bera	58.19253	1.302662	1.633224	1.896022	1.701520	1.903976
Probability	0.000000	0.521351	0.441926	0.387511	0.427090	0.385973
Observations	20	20	20	20	20	20

Source: Researchers' desk report, 2016

Table 1 presents the descriptive results of the variables under consideration. The explanatory variables; customs and excise duties (CED), company income tax (CIT), value added tax (VAT) and education tax (VAT) have mean values of 5.31, 5.289, 5.292 and 4.531 respectively. The associated standard deviation are given as; 0.318, 0.581, 0.502 and 0.606. The dependent variable; foreign direct investment (FDI) has mean value of 3.523 and 0.314 standard deviation while control variable; inflation (INF) has 16.214 mean and 24.22 standard deviation.

**4.2. Multiple Regression Analysis**

*Table 2. Multiple Regression Results.*

Dependent Variable: LNFDI				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.955395	0.974107	3.033953	0.0089
INF	-0.001022	0.001377	-0.742066	0.4703
LNCED	-1.774181	0.484450	-3.662259	0.0026
LNCIT	-1.127037	0.784306	-1.436986	0.1727
LNVAT	3.279648	0.988005	3.319467	0.0051

Where FDI is the dependent variable that represents Foreign Direct Investment, CIT is an explanatory variable that represents Company Income Tax, EDT is another explanatory variable that connotes Education Tax, VAT is an explanatory variable that means Value Added Tax While CED is an explanatory variable which denotes Customs and Excise Duties. INF is the mediating variable that represents Inflation rate.  $\lambda_0, \lambda_1, \lambda_2, \lambda_3, \dots, \lambda_5$  are coefficients of the variables while  $\epsilon_i$  denotes error term.

**4. Data Analysis and Presentation of Results**

The data was generated using E-views 8 and multiple regressions were adopted to analyze. Some of the criteria employed to select a robust model include coefficient of determination ( $R^2$ ) and F-tests.  $R^2$  is used to measure the overall goodness of fit of the regression plane; the higher the  $R^2$ , the better the goodness of fit while the magnitude of F-statistics is a test of significance of the relationship between the dependent variable and independent variables of a model.

Dependent Variable: LNFDI				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGEDT	-0.306595	0.238133	-1.287494	0.2188
R-squared	0.858333	Mean dependent var		3.523631
Adjusted R-squared	0.807738	S. D. dependent var		0.313581
Prob(F-statistics)	0.000017			

Source: Researchers' desk report, 2016

#### 4.3. Discussion of Regression Results

A close examination of the estimated model in table 2 shows that the results are satisfactory. A high value of the R<sup>2</sup> given as 0.858333 implies that a 85.83% systematic variation in Foreign Direct Investment (FDI) is explained by company Income Tax (CIT), Value Added Tax (VAT), Education Tax (ED) and Customs and Excise Duties (CED). Only 14.17% is left unexplained and this is assumed to be captured by the error term. The adjusted R<sup>2</sup> is given as 0.807738. This means that after adjusting for the degree of freedom, this suggests that our explanatory variables (CIT, ED, CED and VAT) explain approximately 80.77% systematic variation in the dependent variable (FDI). The higher the adjusted R<sup>2</sup>, the lower the residual variance error due to a one-on-one relationship between the both of them and this means our model has a better predictive ability. The F-statistics with the value of 16.96471 and P-value of 0.000017 shows that the model easily passes the F-test at 1%, 5% and 10% level of significance and this means that the hypotheses of a significant linear relationship between the dependent and independent variables taken together is validated. This implies that there is a relationship between multiple taxes and foreign direct investment; the higher the multiple taxes imposed on multinationals or foreign investments in Nigeria, the lower the cash inflow derivable from such investments. This finding is consistent with the results of studies conducted by, Okpalaojugo and Okolo, [30]; Oseni, [26]; Mombert and Nihal, [24]; Benassy-Quere, Fontagne, and Lahreche-Revil, [2]; Gordon and Hines, [14]; Desai and Hines, [8]

However, the result of the study is in contrast with the findings of Devereux and Freeman, [9] and De Mooij and Ederveen, [5] who concluded that that tax has no statistically significant effect on decisions whether to invest at home or abroad.

$$\ln FDI = \lambda_0 + \lambda_1 \ln CIT_i + \lambda_2 \ln EDT_i + \lambda_3 \ln VAT_i + \lambda_4 \ln CED_i + \lambda_5 \ln INF_i + \varepsilon_i$$

$$FDI = 2.955395 - 1.127037CIT - 0.306595EDT + 3.279648VAT - 1.774181CED - 0.001022 INF$$

The intercept of 2.955395 means that the model passes through the point 2.955395 which indicates that when all the independent variables are zero, then Foreign Direct Investment (FDI) is increased by 2.955395 per cent. This implies that the absence of all forms of taxes imposed by Nigerian government which are examined in this study (CIT, EDT, VAT and CED) will attract more foreign direct

investment inflow into the country at the rate of 2.955395 per cent. Conversely, the imposition of these taxes simultaneously presents negative effects as explained by the coefficients of the explanatory variables (-1.127037, -0.306595, -3.279648)

*Company Income Tax (CIT)*: The coefficient of company income tax (CIT) is negative. The negative co-efficient of 1.127037 indicates that a one per cent increase in company income tax will induce a 1.127037 percent decrease in Foreign Direct Investment inflow into Nigeria.

*Education Tax (ED)*: The sign of Education Tax coefficient is also negative. The negative co-efficient of 0.306595 implies that a one percent increase in Education Tax will lead to a decrease in Foreign Direct Investment (FDI) by 0.306595 percent.

*Value Added Tax (VAT)*: In contrast, the coefficient of Value Added Tax (VAT) is positive. The positive co-efficient of 3.279648 indicates that a one percent increase in Value Added Tax will lead to an increase of 3.279648 in Foreign Direct Investment. This trend is understandable because while other forms of taxes examined are direct taxes, VAT is a form of an indirect tax.

*Customs and Excise Duties (CED)*: The negative sign of customs and Excise Duties coefficient shows an inverse relationship. The negative co-efficient of 1.774181 implies that a one percent increase in Customs and Excise Duties will result to a 1.774181 percent decrease in Foreign Direct Investment (FDI) by 0.30659.

*Inflation Rate (INF)*: There is an inverse relationship between Foreign Direct Investment and Inflation rate. A one percent increase in inflation rate will induce a 0.001022 decrease in Foreign Direct Investment.

#### 4.4. Test of Hypotheses

The hypotheses are tested in the course of the analysis and the results are presented below:

*Hypothesis One (H<sub>0</sub>)*: There is no significant relationship between Company Income Tax and Foreign Direct Investment.

It is observed from the analysis that there is a negative and insignificant relationship between company income tax and foreign direct investment (FDI) in Nigeria. Hence, company income tax is not a major determinant of foreign direct investment in Nigeria. The hypothesis of no significant relationship is therefore accepted.

*Hypothesis Two (H<sub>0</sub>)*: The relationship between Education Tax and Foreign Direct Investment is not significant.

The result indicates that there is a negative and

insignificant relationship between Education Tax and Foreign Direct Investment in Nigeria. Hence, Education Tax is not a major determinant of Foreign Direct Investment in Nigeria. The hypothesis of no significant relationship is therefore accepted.

*Hypothesis Three (H<sub>0</sub>):* No significant relationship exists between Value Added Tax and Foreign Direct Investment.

The regression results show a positive and significant relationship between Value Added Tax and foreign direct investment. It is significant at 1% level of significance. The hypothesis of no significant relationship is therefore rejected.

*Hypothesis Four (H<sub>0</sub>):* there is no significant relationship between customs and excise duties and foreign direct investment.

The regression results show a negative but significant relationship between custom and Excise Duties and Foreign direct investment. It is significant at 1% level of significance. The hypothesis of no significant relationship is therefore rejected.

*Hypothesis Five (H<sub>0</sub>):* The relationship between Inflation rate and Foreign Direct Investment is not significant.

The result indicates that there is a negative and insignificant relationship between Inflation rate and Foreign

Direct Investment in Nigeria. Hence, Inflation rate is not a major determinant of Foreign Direct Investment in Nigeria. The hypothesis of no significant relationship is therefore accepted

**4.5. Robustness Test**

**4.5.1. Linearity Test**

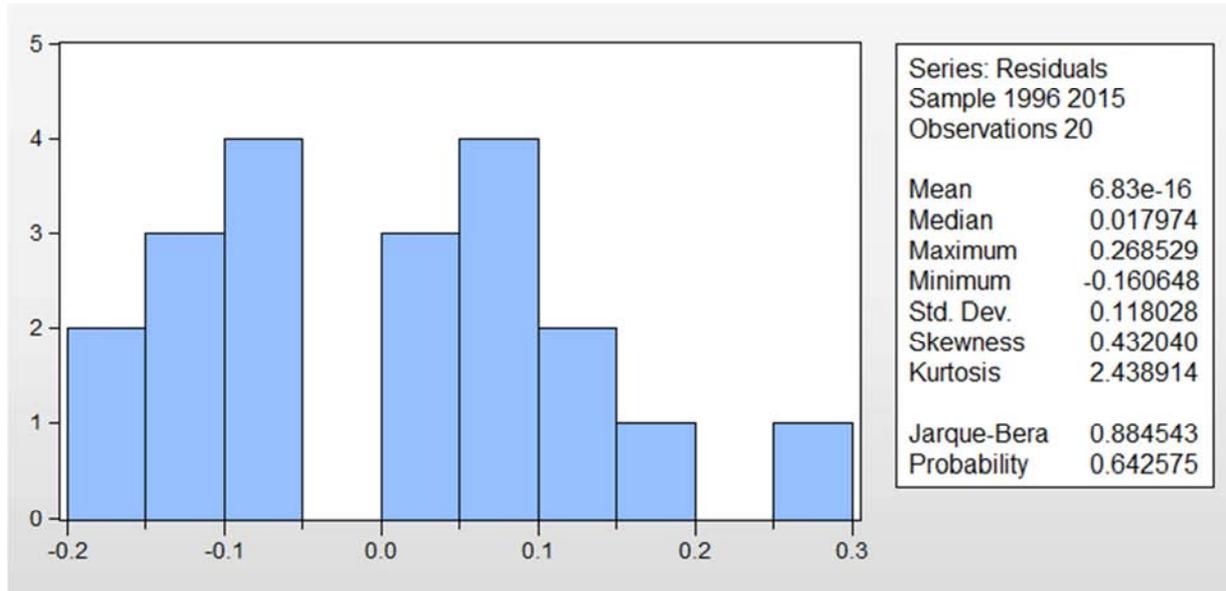
Table 3. Linearity Test Results.

Ramsey RESET Test			
Equation: UNTITLED			
Specification: LNFDI C INF LNCED LNCIT LNVAT LOGEDT			
Omitted Variables: Squares of fitted values			
	Value	Df	Probability
t-statistic	0.084718	13	0.9338
F-statistic	0.007177	(1, 13)	0.9338
Likelihood ratio	0.011039	1	0.9163

Source: Researchers' desk report, 2016

Table 3 results present F-statistic value of 0.007177 and probability of 0.9338 which confirms the linearity assumption of the model.

**4.5.2. Normality Test**



Source: Researchers' desk report, 2016. Figure 1. Normality Test Results

Figure 1. Shows the normality test result which confirms that the variables are normally distributed.

**4.5.3. Serial Correlation Test**

Breusch-Godfrey Serial Correlation LM Test:

Table 4. Serial correlation result.

F-statistic	3.983993	Prob. F(2, 12)	0.0471
Obs*R-squared	7.980761	Prob. Chi-Square(2)	0.0185

Source: Researchers' desk report, 2016

Table 4 result indicates absence of serial correlation

among the variables.

**5. Conclusion**

Foreign direct investment (FDI) is unique among economic concepts in that there are often pervasive opinions among national populations, which wholly attribute economic success to FDI or wholly fault it for economic stagnation. Thus, attracting foreign direct investment has

become very crucial for most countries because of its perceived positive impact on manufacturing sector output as well as productivity spill over to domestic and industrial firms. Successive government policies have been directed towards structural and regulatory reforms such as privatization of state enterprises, liberalization of their foreign exchange markets and establishment of fiscal incentives in order to attract more foreign direct investments. This calls for a major concern by the Nigerian government to radically tackle the loopholes that have adversely affected the impact of the international corporate entities against the Nigerian economy. If this holds, the menace of multiple taxes should be properly addressed for the perceived economic benefits of Foreign Direct Investment not to remain a mirage.

The emphasis of this study is to examine the relationship between multiple taxes and foreign direct investment inflow in Nigeria, for the period, 1996 to 2015. From the findings, it was observed that there is an inverse relationship between multiple taxation and Foreign Direct Investment (FDI) in Nigeria. A high value of the  $R^2$  given as 0.858333 implies that a 85.83% systematic variation in Foreign Direct Investment (FDI) is explained by company Income Tax (CIT), Value Added Tax (VAT), Education Tax (ED) and Customs and Excise Duties (CED). The F-statistics with the value of 16.96471 and P-value of 0.000017 shows that the model easily passes the F-test at 1%, 5% and 10% level of significance and this means that the hypotheses of a significant linear relationship between the dependent and independent variables taken together is validated. In conclusion, the results of this study empirically validate the significant relationship that exists between the incidence of multiple taxes and Foreign Direct Investment (FDI) in Nigeria. Consequently, for Nigeria to secure a place as an economically viable nation in Africa, it must strive and indeed, achieve an internationally competitive tax system. Also, as the most populous black nation and an emerging financial market in Africa, Nigeria will be in a good position to attract foreign investors and take advantage of the financial leverages that come with them. But for this to take place, all forms of multiple taxes must be eliminated in the country. Since any nation's tax system determines to a great extent the level of business interest and cash flow into the economy, necessary steps must be put in place to stop multiplicity of taxes in Nigeria.

The number of years used in this study was limited to twenty years, being the period after the introduction of value added tax in Nigeria. We considered value added tax as an important variable in the model in which its exclusion may render the results of this study incomplete. Future research can focus on this aspect and extend the number of years.

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