Effect of Tax Incentives on Investment Growth in Nigeria

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ABSTRACT
This study investigates the effect of tax incentives on investment growth in Nigeria. It focuses on Tax Credit (TAC) as a form of tax incentives. The research employs an ex-post facto research method by using a dataset encompassing measures of Private Investment (PIN), and Foreign Direct Investment (FDI). Descriptive statistics, Correlation, one sample and regression analyses are used to assess the significance of tax incentives on these investment types. The findings reveal a positive and significant effect of tax credits on all investment categories. TAC has strong correlationson both PIN ($r = 0.813$, $p < 0.01$) and FDI ($r = 0.895$, $p < 0.01$). This studyconcludes that tax credits are effective in stimulating both domestic and foreign investment in Nigeria highlighting their role as a vital policy tool for enhancing capital formation and economic growth.Policymakers are therefore encouragedto design and maintainawell-structured tax credit scheme that will significantly enhance various forms of investment, ultimately supporting broader economic objectives.

Keywords: Tax Incentives; Investment Growth; Tax Credit; Private Investment; Foreign Direct Investment.

1. INTRODUCTION

Investment growth is the increase or expansion in the level of investments within an economyand as a result, Taxation is essential to sustainable development and the expansion of rising economies, particularly in areas with a dearth of natural resources(Okon & Musa, 2024). According to Benjamin et al. (2021), tax incentives (TIs) are primarily created to attract new investment and expand the already existing ones, particularly industries that are based on the nation's development strategy and capable of fostering economic growth. Tax incentives, particularly in developing nations, are widely used to entice company investment and generate formal employment. The central tenet is by altering the corporate income tax (CIT), either through temporary exemptions (tax holidays) or just by lowering the CIT rate, both domestic and foreign investment could increase, supporting economic growth and possibly creating jobs in the future (John, 2023). Governments worldwide utilize tax incentives as a policy instrument to promote investment and generate jobs. Tax incentives seek to encourage enterprises to invest inlocations or industries.

According to Babatunde and Idris (2023), the implementation of tax incentives, which concentrates on enticing investment and employment development, is often common in many developing nations. However, there may be an absence of empirical data evaluating the effects of tax incentives on business investment. Tax incentives are commonly employed, but it is important to assess whether or not their purposes are being felt. For policymakers and stakeholders to make meaningful decisions and make the best use of limited resources, it is crucial to evaluate the effectiveness of tax incentives in attracting investors to Nigeria.In this connection therefore,the policies for current tax incentives would be evaluated in order to determine their advantages, disadvantages, and potential areas for change.

Many researchers, including Adamu and Sulemana (2023) have delved into tax incentives from different perspectives but a few of them have actually analysed the cogent implication of tax incentives on investments growth.For instance, Ugwu (2020) demonstrated a significant positive relationship between tax incentives and gross fixed capital formation in Nigeria. Similarly, Musa et al. (2021) found that tax exempt income positively impacted the investment performance of listed manufacturing companies, while loss relief had a negative effect. Oyerogba (2024) highlighted that tax incentives significantly influence foreign direct investment inflows into Nigerian manufacturing firms. Additionally, Nnubia (2018) emphasized the role of tax incentives

in enhancing economic growth and industrial development in Nigeria.Furthermore, earlier studies such as Benjamin et. al. (2021) have diverse findings on the usefulness of tax incentives in their study titled effect of tax incentives on foreign direct investment on manufacturing company in Nigeria. Moreover, tax incentives are an essential tool for growth, and researchon them in an emerging economy is desirable but such research is scarce. Therefore, this study attempts to fill the identified gaps in the scarcity of such research in an emerging economy like Nigeria with the goal of contributing to the researchers' arguments on the usefulness of tax incentives.

1.1 Statement of the Problem

The Tax Credit Act 2002 is aimed at creating a favorable investment climate, stimulation of economic activity, enhancement of infrastructure, and ultimately contribution to the overall economic development of Nigeria. These strategic fiscal measures are part of a broader effort to attract both local and international investors by ensuring a stable and attractive investment environment. However, the outcomes of tax incentives are still below expectations. In recent years, the rate at which businesses are folding up is alarming and foreign investors leaving the country. The exit of companies resulted in losing thousands of jobs and image management to foreign investors, with a worsening poverty index(World Bank, 2023; UNCTAD, 2023; PwC Nigeria, 2022). This situation underscores the need for a more comprehensive approach to economic policy, addressing underlying issues such as infrastructure deficiencies, and regulatory challenges.

Furthermore, due to the removal of fuel subsidies, foreign exchange and electricity tariff operations, and increased inflation have eroded the potential benefits of tax incentives. The anticipated reductions in operational costs have not materialized for many businesses, thereby nullifying the intended impacts of fiscal policies (CBN, 2024). The motivation for this studytherefore lies in the intellectual arguments for using tax incentives to attract investment. In contrast the investments built with taxpayers' funds are abandoned, such as the Ajaokuta Steel Company, the largest steel meal in Sub-Saharan Africa, which completed up to 98% since 1994 but was abandoned due to raw materials mismanagement despiteavailability of the needed iron ore in Itakpe to make the company flourish uninhindered(NEITI, 2023). Other local investments need to survive, but many have enjoyed tax incentives andyet folded up in the last ten years, such as Okin Biscuits in Kwara State, Evan Medicals in Ogun State, Louis Carter in Nnewi, Anambra

State. Some others are moribund or operating in below installed capacity, such as Aba Textiles Mill. Moreso, Foreign investments are not attracted, indicating continuous joblessness, hunger and poverty despite huge fund outlay in Tax incentives. Adamu and Sulemana (2023) argued that tax incentives have many costs, such as the difficulty of administering them effectively, which can distort the allocation of resources. In view of the foregoing, this study observes that using tax incentives to attract investment shouldactually support the economy and not result in waste of tax payers' resources as in the cases cited above. To this end,this study evaluates the effects of tax incentives on investment growth.

1.2 Objectives of the Study

i. Examine the effect of tax incentives on Private Investment (PIN) in Nigeria.
ii. Examine the effect of tax incentives on Foreign Direct Investment (FDI) in Nigeria.

1.3 Research Questions.

i. What extent is the effect of Tax Incentives on Private Investment (PIN) in Nigeria?
ii. How does tax incentives affect Foreign Direct Investment (FDI) in Nigeria?

1.4 Hypotheses

H_{o1}: Tax incentives (TIN) have no significant effect on Private Investment (PIN) in Nigeria.

H_{o2}: Tax incentives (TIN) do not significantly affect Foreign Direct Investment (FDI) in Nigeria.

1.5 Significance of the Study

The significance of thisstudy is to offer insightful information and guide policy markers on strategies that stimulate investment and boost the competitiveness of Nigeria as an investment destination. The findings of the study would offer policymakers in Nigeria evidence-based guidance on the design, implementation, and evaluation of tax incentive policies. Understanding the effectiveness of tax incentives would assist policymakers in formulating targeted policies to stimulate investment.

1.6 Scope of Study

The range of coverage for this study is 1986 to 2022,focusing on the effectiveness of various tax incentives in promoting investment within the country. The study covers Nigeria, considering the unique economic, political, and regulatory environment of the country. It aims to provide insights specific to Nigeria's context, while also considering implications that may be relevant to other developing countries with similar economic structures. The period chosen is aim to capture

a comprehensive range of data and to observe long-term trends and patterns on the effect of tax incentives on investment growth. The study investigates how tax incentives such as tax credit (TAC),and foreigndirect investment (FDI), (and) have impact on private investment (PIN).

2. LITERATURE REVIEW

2.1 *Conceptual Review*

Investment growth(IG) is the augmentation or upsurge in investment levels within an economy (Smith, 2018). This concept is evaluated through three primary indicators: public, private, or foreign direct investments (Jones et al., 2022). Investment itself is a foundational principle in finance, encompassing the of financial resources, assets, or capital into various avenues with the aim of yielding future income, capital appreciation, or other financial benefits (Brown, 2022). Its overarching goal is wealth accumulation or the attainment of specific financial objectives.

The act of investing involves committing resources with the anticipation of obtaining a return over time. This capital allocation can ta\ke various forms, such as purchasing stocks, bonds, real estate, initiating a business venture, or funding other projects (Lee & Wang, 2019). Return on investment (ROI) is a metric in investment analysis, denoting the gain or loss relative to the initial investment (Chen & Liu, 2023). Legal and regulatory frameworks governing investments vary across jurisdictions, with securities regulators tasked with overseeing financial markets and safeguarding investors' interests (Johnson, 2020).

Investment attraction is a multifaceted strategy aimed at fostering an investor-friendly environment. A region's ability to attract significant investments can profoundly impact its economic growth trajectory. Achieving status as an attractive destination for talent and capital requires a combination of economic, regulatory, promotional, and infrastructural factors (Lee, 2022).

Investment Growth (IG)

Investment growth refers to the sustained increase in the volume, value, and productivity of capital formation within an economy, driven primarily by both Foreign Direct Investment (FDI) and domestic private investment. Investment growth captures the expansion of foreign-owned enterprises, cross-border capital inflows, and multinational firms' commitments to long-term productive activities that enhance industrial capacity, technology transfer, and employment (UNCTAD, 2023; Obeng & Crompton, 2022). Private domestic investment encompasses the rise

in capital expenditures by local firms and entrepreneurs on machinery, infrastructure, real estate, and innovation, which contribute to GDP growth and competitiveness (Adeniran & Sanni, 2023). In developing economies such as Nigeria, investment growth is frequently analyzed through the dual lens of FDI inflows and private-sector participation, as both are influenced by tax incentives, governance quality, and regulatory frameworks (World Bank, 2024; Okolo & Ezeani, 2023). Consequently, investment growth reflects not only the quantitative increase in investment but also the qualitative improvements in productivity, diversification, and economic resilience arising from both foreign and domestic capital commitments.

Private Investment(PIN)

Private investment encompasses the acquisition of assets or resources by individuals, corporations, or entities with the aim of generating income or profit within the private sector (Johnson, 2019). This form of investment primarily involves the acquisition of stocks, bonds, real estate, or other financial instruments that are not publicly traded on stock exchanges (Smith & Lee, 2021). However, private investment extends beyond traditional financial markets and can also include direct investments in businesses or projects.

One common form of private investment is venture capital funding, where investors provide capital to startups or early-stage companies in exchange for an ownership stake (Brown & Garcia, 2020). This type of investment is often high-risk but can yield substantial returns if the company experiences rapid growth or a successful exit.Avenue for private investment is private equity, which involves investing in established companies with the goal of improving operations, expanding the business, and ultimately generating a profitable exit (Jones et al., 2022). Private equity firms typically acquire a controlling stake in the target company and work closely with management to implement strategic initiatives. Real estate investment is also a prevalent form of private investment, involving the purchase, ownership, management, rental, or sale of real estate for profit (Chen et al., 2023). This can include residential properties, commercial buildings, or land development projects.

Overall, private investment plays a crucial role in driving economic growth, fostering innovation, and creating employment opportunities (Lee & Wang, 2022). By providing capital to businesses and projects, private investors contribute to the expansion of industries, development of new technologies, and improvement of infrastructure. Moreover, private investment can help diversify investment portfolios and mitigate risk for individual investors and institutions alike

(Garcia & Martinez, 2023). Private investment encompasses a broad range of activities aimed at generating returns within the private sector. From traditional financial instruments to direct investments in businesses and real estate, private investment plays a vital role in fueling economic development and wealth creation.

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) denotes the financial commitment made by a company or individual from one country to establish business interests in another country (Johnson, 2020). This investment takes the form of either initiating business operations or acquiring business assets in the foreign jurisdiction. Unlike portfolio investment, which typically involves purchasing stocks or bonds of foreign companies, FDI entails a substantial and enduring interest in the foreign business (Smith & Garcia, 2023).

One distinguishing feature of FDI is its long-term nature, reflecting a strategic intent to gain management control or significant influence over the operations of the foreign entity (Brown & Lee, 2021). This often involves establishing subsidiaries, joint ventures, or wholly-owned enterprises in the host country. By doing so, investors aim to leverage their expertise, technology, and resources to enhance the performance and competitiveness of the foreign business.

FDI can take various forms, including greenfield investments, where investors establish new facilities or expand existing operations in the host country, or mergers and acquisitions (M&A), where investors acquire existing businesses or assets (Jones et al., 2021). Greenfield investments enable investors to build operations from the ground up, tailored to the specific needs and market conditions of the host country. On the other hand, M&A transactions offer the advantage of acquiring an established market presence, customer base, and operational infrastructure.

The motivation behind FDI varies depending on factors such as market opportunities, resource availability, regulatory environment, and strategic objectives (Chen et al., 2024). Common drivers of FDI include access to new markets, natural resources, technology, talent, and strategic partnerships. Additionally, investors may seek to diversify their geographic presence, mitigate risks, or capitalize on comparative advantages offered by the host country. FDI plays a crucial role in facilitating international trade, economic development, and global integration (Garcia & Martinez, 2024). By fostering cross-border investment flows, FDI contributes to the transfer of

capital, knowledge, skills, and technology between countries. It stimulates job creation, promotes industrialization, and enhances productivity and competitiveness in both home and host economies.

However, FDI is also subject to various risks and challenges, including political instability, regulatory uncertainty, currency fluctuations, and cultural differences (Lee & Wang, 2023). Investors must carefully assess these factors and implement strategies to mitigate risks and maximize returns on their FDI ventures. Foreign Direct Investment represents a significant and strategic commitment by investors to establish or expand business operations in foreign markets. It serves as a catalyst for economic growth, innovation, and global connectivity, while also presenting challenges and complexities that require careful management and consideration. Therefore, it is necessary to attract FDI and tax incentives could aid the attraction.

Tax Incentives (TI)

Tax incentives encompass a wide array of measures aimed at enhancing the profitability and investment attractiveness of companies and investors (Sanni, 2017). These incentives include tax breaks, credits, holidays, lower tax rates, and exemptions from certain taxes. Their primary objective is to alleviate the tax burdens of firms, thereby increasing their profitability and attracting additional investment. In Nigeria, tax incentives have been utilized across various industries such as manufacturing, technology, real estate, and Agric to spur economic growth and development. Tax incentives can be defined as government-initiated measures aimed at reducing the effective tax burden on specific activities, with the expectation that this would stimulate economic development and ultimately lead to an expansion of the tax base (Ebiemere, 2020). They are designed to incentivize desired behavior, such as increased investment, exports, employment, or research and development. These incentives often take the form of reduced profit tax rates, tax holidays, accelerated depreciation allowances, or tariff adjustments on imported goods.

One common type of tax incentive is tax credits, which directly lower the amount of taxes owed by individuals or companies. For example, tax credits for research and development encourage innovation by reducing the overall tax liability of firms engaged in such activities(OECD, 2022; IMF, 2023). Another type is tax deductions, which allow taxpayers to subtract certain expenses or investments from their taxable income, thereby reducing their tax obligation. Examples include deductions for charitable contributions or mortgage interest payments(World Bank,

2021). Tax holidays represent another form of tax incentive, wherein specific taxes, such as sales tax, are temporarily reduced or eliminated to stimulate economic activity during certain periods(UNCTAD, 2023). For instance, a state may implement a sales tax holiday to encourage consumer spending on back-to-school items. Additionally, depreciation allowances allow businesses to gradually write off the cost of capital assets over time, thus incentivizing investment in productive assets(OECD, 2023).

However, effective implementation and monitoring are essential to ensure that tax incentives achieve their intended objectives and contribute positively to overall economic development. Nigeria has historically offered various tax incentives and exemptions to promote investment.The policy framework governing tax incentives in Nigeria is primarily regulated by the Federal Inland Revenue Service (FIRS) and the Nigerian Investment Promotion Commission (NIPC). Adegbie et al. (2020) examined the legal and regulatory provisions governing the granting and administration of tax incentives in Nigeria, emphasizing the need for transparency, consistency, and accountability in the administration of incentive schemes to ensure their effectiveness. Several studies have sought to assess the effect of tax incentives on investment growth and economic development in Nigeria. Okafor and Ogbuabor (2019) conducted a comprehensive analysis of the effect of tax incentives on foreign direct investment (FDI) in Nigeria, highlighting the positive correlation between tax incentives and increased FDI inflows.

Effective compliance and monitoring mechanisms are essential for ensuring the proper utilization of tax incentives and preventing abuse or misuse. Agba et al. (2021) examined the compliance challenges associated with tax incentives in Nigeria, emphasizing the need for enhanced monitoring and enforcement mechanisms to address issues such as tax evasion and transfer pricing. Despite their potential benefits, tax incentives in Nigeria are not without challenges and limitations. Ogundipe and Alege (2017) identified challenges such as fiscal sustainability concerns, revenue loss for the government, and the potential for creating distortions in resource allocation. Additionally, there are concerns about the effectiveness of tax incentives in achieving their intended objectives, particularly in terms of promoting inclusive and sustainable economic development.

Tax Credits(TAC)

Tax credits represent a form of government-provided tax incentive designed to promote specific economic activities or behaviors by reducing the amount of tax owed by individuals or businesses (Sanni, 2017). These incentives operate by granting taxpayers a direct reduction in their tax liability based on criteria outlined in the tax laws and regulations of a country. Tax credits are intended to stimulate investment, innovation, and other activities deemed beneficial to the economy or society at large. In Nigeria, tax credits have played a significant role in the country's tax regime, incentivizing various activities and sectors to foster economic growth and development. The utilization of tax credits is governed by Nigeria's tax laws and regulations, which have evolved over time to align with changing economic priorities and policy objectives.

The roots of tax credits in Nigeria can be traced back to early tax legislation such as the Income Tax Management Act (ITMA) of 1961. These initial provisions primarily aimed at encouraging investment in specific industries or regions through targeted tax incentives. However, over the years, amendments to the tax laws have broadened the scope of tax credits to encompass a diverse range of activities and sectors. For instance, amendments to the Companies Income Tax Act (CITA) have introduced new tax credits and modified existing ones to support various economic activities. (Federal Inland Revenue Service [FIRS], 2022). Moreover, Nigeria has implemented sector-specific tax credits to incentivize key sectors such as agriculture, manufacturing, technology, and renewable energy. These incentives are designed to attract investment, stimulate growth, and enhance competitiveness in strategic areas of the economy (Ministry of Finance, 2023; UNCTAD, 2023).

In recent years, Nigeria has embarked on tax reforms to streamline the tax system, improve compliance, and enhance the effectiveness of tax incentives, including tax credits(World Bank, 2024; FIRS, 2022). The Finance Act of 2019 brought about significant changes to the tax landscape, including amendments to the Companies Income Tax Act and the Value Added Tax Act, which have implications for the availability and utilization of tax credits (Federal Republic of Nigeria2019). Tax credits serve as a vital tool for incentivizing desired economic activities and promoting growth and development in Nigeria. Through targeted incentives, the government aims to stimulate investment, foster innovation, and enhance competitiveness in key sectors of the economy, ultimately contributing to sustainable economic progress. However, because

contributions to literature is a continuous process, some gaps are observed in the literature reviewed

2.2 *Theoretical framework*

The Investment Development Path (IDP) theory is an excellent underpinning theory for this study as it shows the mechanisms through which tax incentives affect investment in Nigeria. The IDP theory postulates that a country's level of economic development determines its patterns of international investment. It was opinionated by Dunning in 1981(Anh & Ngoc, 2016; Denning & Narula, 1996; Marton & McCarthy, 2007). Dunning's IDP theory categorizes economic development into five stages, each with distinct characteristics and implications for FDI and domestic investment (Anh & Ngoc, 2016).

Tax incentives play a crucial role in attracting both foreign and domestic investments. These incentives can take various forms, including tax holidays, reduced corporate tax rates, investment allowances, and exemptions from import duties on capital goods. Therefore, IDP theory matches the focus of this study because the principle coincides with the focus of this study

2.3 *Empirical Studies and Literature Gaps*

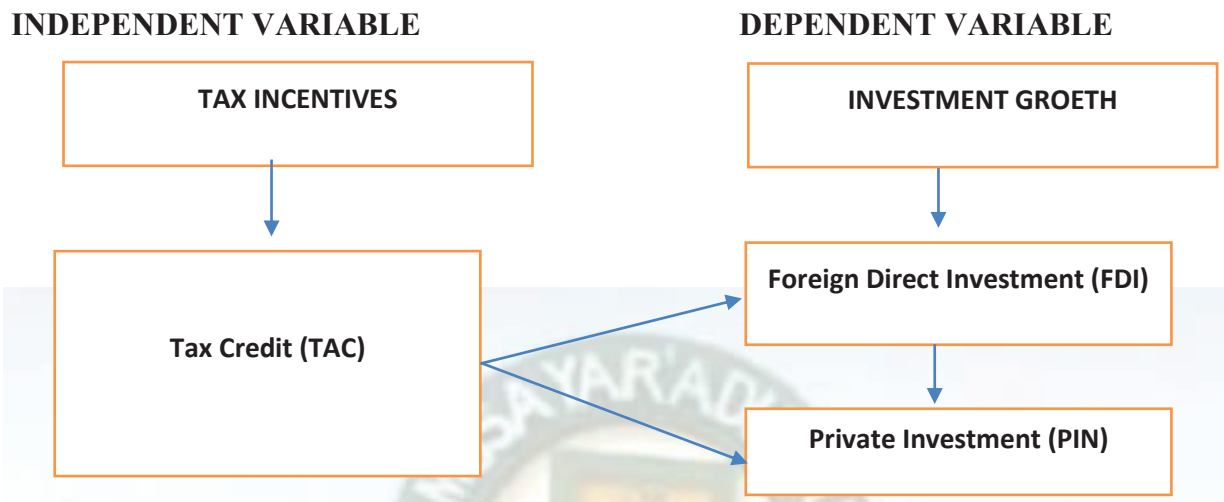
Despite extensive research on tax incentives and investment growth, several gaps remain in the literature. While studies such as Adegbite and Amaeshi (2021) have established a significant relationship between tax incentives and private investment, particularly in manufacturing and agriculture, limited research focuses on other key sectors such as real estate and technology. The emphasis on broad economic impacts leaves a gap in understanding how specific tax incentives influence different private investment avenues. Additionally, Abubakar and Isah (2023) highlighted administrative complexities and inadequate information as barriers to SMEs' utilization of tax incentives. However, further empirical analysis is needed to determine the extent to which administrative reforms and policy modifications can enhance SMEs' participation in tax incentive programs.Furthermore, the work of Olaniyan and Salami (2024) on government tax incentives in Nigeria's oil and gas industry provides qualitative insights but lacks a comprehensive quantitative evaluation of the effectiveness of tax credits in comparison to other incentive types. While Ibrahim and Adamu (2024) analyze tax incentives in renewable energy investment, there is limited research on how these incentives compare with other investment drivers, such as infrastructure and regulatory frameworks, in promoting sustainable energy development.

Research on FDI attraction through tax incentives, such as that of Idris and Ahmed (2022), focuses on special economic zones (SEZs), yet there is a lack of comparative studies examining the long-term effects of tax holidays and duty exemptions beyond SEZs in Nigeria. Similarly, Okoye and Ugwu (2023) provide a comparative analysis across African countries, yet the role of country-specific socio-economic and political factors in the effectiveness of tax incentives remains underexplored. Aliyu and Bello (2024) discuss tax incentives in Nigeria's renewable energy sector, but a deeper examination of investor responses to different tax incentive structures is needed to enhance FDI attraction strategies.Additionally, Osayi and Bello (2024) focus on local investment in renewable energy and the role of tax incentives. However, there is a lack of empirical studies investigating the interplay between tax incentives and private-sector innovation in Nigeria. The broader implications of tax incentives on technological advancements and research and development remain underexplored.

In conclusion, while existing studies provide valuable insights into the effect of tax incentives on investment growth, gaps persist in sector-specific analyses, administrative efficiency assessments, long-term effect of tax incentives, and their role in fostering innovation. Future research should explore these areas to optimize tax incentive frameworks and enhance their effectiveness in Nigeria's dynamic economic landscape.

2.4 *Conceptual Framework*

The conceptual framework illustrates the relationship between tax incentives (independent variable) and investment growth (dependent variable). It assumes that when governments implement tax incentivessuch as tax credit it creates a more favorable business environment and therefore stimulates both foreign direct investment (FDI) and domestic private investment, leading to increased capital formation and economic expansion.Overall, the framework depicts a direct causal link where tax incentives drive investment growth, particularly through increased FDI inflows and private sector participation.



Source: Self Made (2025)

3. METHODOLOGY

3.1 *Research design*

This study adopted*ex-post facto* which is longitudinal in nature, because it allows for the analysis of existing data over a period of without manipulating variables. The data used have been observed over an extended periodfrom 1986 to 2022. The data points include annual valuesof foreign direct investment (FDI), private investment (PIN) and tax credit drived from data collected from the World Bank database for Nigeria.The data were analyzed using SPSS version 26, employing descriptive statistics, correlation, one-sample, and regression analyses to assess the effect and significance of tax incentives on investment growth

3.2. *Model Specification*

This study examines the effect of tax Credit on Private Investment and Foreign Direct Investment in Nigeria. The dependent variables are Private Investment (PAN), and Foreign Direct Investment (FDI), while the independent variables is Tax Credit (TAC), The study usedmultiple linear regression models to analyze the effect of the independent on the dependent variables. Each type of investment (are) is modelled separately.

$Yt = f(x)$ .....Eq (3.1.1)

$Yt = \alpha 0 + \alpha 1x1 + \epsilon t$.....Eq (3.1.2)

$H0_1$: Effect of Tax incentives on Private Investment in Nigeria.

PINt =f(TI)t

LogPINt=β0+β1LogTACt+ ϵt .....Eq (3.1.3)

LogPINt: The natural log of Private Investment at time

LogTACt: The natural log of Tax Credit at time

β0: Intercept term

β1: Coefficients for the independent variables

ϵt: Error term at time tt

H0$_2$: Effect of Tax incentives on Foreign Direct Investment in Nigeria.

FDIt=f(TI)t

LogFDIt= β0+β1LogTACt+ ϵt .....Eq (3.1.4)

LogFDIt: The natural log of Foreign Direct Investment at time

LogTACt: The natural log of Tax Credit at time

β0: Intercept term

β1: Coefficients for the independent variables

ϵt: Error term at time tt

3.3 Method of Data Analysis

*T*o ensure an accurate analysis of the effect of tax incentives oninvestment growth in Nigeria, it is crucial to establish clear and reliable measurements for the key variables involved. There are two variables in this study, the Dependent and independent Variables. The Dependent variable is Investment growth while the independent variable is Tax incentives.

The dependent variable of investment growth (IG) proxies is private investment (PIN), and foreign direct investment (FDI). The independent variable is tax incentives (TI) proxied by tax credit (TAC).

4. RESULTS AND DISCUSSION

4.1. *Descriptive Statistics*

Table 4.1.1 Descriptive Statistics of the constructs

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TAC	37	8.7	11.9	10.527	.9611
FDI	37	8.8	12.1	11.054	.9680
PIN	37	7.7	12.4	10.489	1.3270
Valid N (listwise)	37				

Source: SPSS v. 26 Output, 2025.

Table 4.1.1 showsthe descriptive statistics oftax credit (TAC), private investment (PIN), and foreign direct investment (FDI) of the data use for the analysis.The mean value of Tax Credit (TAC) is 10.53 with a standard deviation of 0.96, indicating a moderately high average level of tax credits. This suggests a potentially positiveenvironment for promoting investment through tax relief.Private Investment (PIN) exhibits a mean of 10.49 with a higher standard deviation of 1.33, indicating some variability in private investments in Nigeria, which may be influenced by factors beyond tax incentives alone. Foreign Direct Investment (FDI) has a mean of 11.05 and a standard deviation of 0.97, suggesting a relatively stable environment for FDI, potentially influenced by favorable tax incentives. In summary, Tax Credit (TAC) generally display stable and moderately high values, investments in Nigeria represented by Private Investment (PIN), and Foreign Direct Investment (FDI).

Table 4.1.2 Correlations of the dependent and independent variables

		TAC	FDI	PIN
TAC	Pearson Correlation	1	.895**	.813**
	Sig. (2-tailed)		.000	.000
	N	37	37	37
FDI	Pearson Correlation	.895**	1	.809**
	Sig. (2-tailed)	.000		.000
	N	37	37	37
IN	Pearson Correlation	.813**	.809**	1
	Sig. (2-tailed)	.000	.000	
	N	37	37	37

Source: SPSS v. 26 Output, 2025.

Table 4.1.2 Indicates significant positive correlations between Tax Credit (TAC) with Foreign Direct Investment (FDI) ($r = 0.89$, $p < 0.01$), and Private Investment (PIN) ($r = 0.81$, $p < 0.01$), This suggests that higher levels of Tax Credit are associated with increased levels of FDI, and PIN.The Result underscores robust positive relationships between tax incentives Tax Credit (TAC) and various types of investment in Nigeria. This suggests that favorable tax incentives can significantly enhance investment activities across diverse sectors, thereby supporting broader economic objectives related to investment growth in Nigeria.

Table 4.1.3 One-Sample Statistics for the variables constructs.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
TAC	37	10.527	.9611	.1580
FDI	37	11.054	.9680	.1591
PIN	37	10.489	1.3270	.2182

Source: SPSS v. 26 Output, 2025.

Table 4.1.3 provides one-sample statistics for Tax Credit (TAC) Foreign Direct Investment (FDI), Private Investment (PIN). Tax Credit (TAC) has a mean of 10.527 with a standard deviation of 0.9611 and a standard error of 0.1580.Foreign Direct Investment (FDI) exhibits a mean of 11.054 with a standard deviation of 0.9680 and a standard error of 0.1591. Private Investment (PIN) shows a mean of 10.489 with a higher standard deviation of 1.3270 and a standard error of 0.2182, indicating greater variability within the sample compared to other variables. This analysis helps in understanding the distribution and characteristics of the variables under study, setting the stage for further inferential analysis to explore relationships and implications within the context of tax incentives and investment dynamics in Nigeria.

4.2 Effect of Tax incentives on Private Investment in Nigeria.

Table 4.2.1 Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.813[a]	.660	.651	.7843

a. Predictors: (Constant), TAC

Source: SPSS v. 26 Output, 2025.

Table 4.2.2 ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.864	1	41.864	68.050	.000[b]
	Residual	21.532	35	.615		
	Total	63.396	36			

a. Dependent Variable: PIN

b. Predictors: (Constant), TAC

Source: SPSS v. 26 Output 2025.

Table 4.2.3 Coefficient

Collinearity Diagnostics

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Variance Proportions TAC
1	1	1.996	1.000	.00	.00
	2	.004	22.254	1.00	1.00

a. Dependent Variable: PIN

Source: SPSS v. 26 Output 2025.

Tables 4.2.1 to 4.2.3 provide valuable insights into the relationship between tax incentives and private investment in Nigeria, specifically testing the hypothesis Ho1: "Tax incentives have no significant effect on Private Investment (PIN) in Nigeria." Table 4.2.1 highlights the predictive strength of tax incentives (TAC) on private investment (PIN). The correlation coefficient (R) of 0.81 indicates a strong positive relationship, while the coefficient of determination (R^2) of 0.66 suggests that 66% of the variance in private investment is explained by tax incentives. The Adjusted R^2 of 0.65 further confirms the model's robustness, and the standard error (SE) of 0.78 reflects a reasonable level of accuracy.

Table 4.2.2 examines the overall significance of the regression model. The Sum of Squares for the regression is 41.86, with residuals accounting for 21.53 out of a total variance of 63.39. Degrees of freedom are 1 for regression and 35 for residuals, and the Mean Squares are 41.86 and 0.61, respectively. The high F-statistic of 68.05, coupled with a p-value of 0.000 (below the 0.05 threshold), confirms the model's statistical significance.

Table 4.2.3 assesses multicollinearity among predictors. Eigenvalues determine the variance explained by principal components, while the Condition Index flags potential multicollinearity if values exceed 30. Variance Proportions reveal the extent to which each predictor's variance is explained by principal components.

Overall, the findings across these tables strongly reject the null hypothesis (Ho1). The evidence indicates that tax incentives, represented by Tax Credit (TAC), have a statistically significant positive effect on private investment ($p < 0.01$). The high F-statistic and significant coefficients underscore the critical role of tax incentives in boosting private investment. These results align with prior research, such as Akintoye et al (2020), and suggest that various tax incentives may have nuanced effect on private investment in Nigeria, emphasizing the need for targeted policy approaches.

4.3 Tax incentives have no significant effect on Foreign Direct Investment in Nigeria.

Table 4.3.1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.895[a]	.801	.795	.4379

a. Predictors: (Constant), TAC

Source: SPSS v. 26 Output 2025.

Table 4.3.2

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	27.022	1	27.022	140.948	.000[b]
	Residual	6.710	35	.192		
	Total	33.732	36			

a. Dependent Variable: FDI

b. Predictors: (Constant), TAC

Source: SPSS v. 26 Output 2025.

Table 4.3.3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
		B	Std. Error	Beta			Tolerance
1	(Constant)	1.564	.803		1.949	.059	
	TAC	.901	.076	.895	11.872	.000	1.000

a. Dependent Variable: FDI

Source: SPSS v. 26 Output 2025.

In examining hypothesis two, H02, which states thatTax incentives have no significant effect on Foreign Direct Investment (FDI) in Nigeria, Tables 4.3.1 to 4.3.3 provide strong evidence to refute this claim. Table 4.3.1 reveals a high correlation (R = 0.89) between tax incentives (TAC) and FDI, with an R^2 value of 0.801 indicating that 80.1% of the variance in FDI is explained by tax incentives. The adjusted R^2 of 0.79 further confirms the robustness of the model, even after accounting for the number of predictors.

Table 4.3.2 demonstrates the overall statistical significance of the regression model (F = 140.94, $p < 0.000$). This confirms that the model significantly predicts FDI and provides grounds for rejecting the null hypothesis at the model level. Table 4.3.3 evaluates the individual contributions of predictors, showing that the unstandardized coefficient for TAC is 0.90, with a t-value of 11.87 and a p-value of 0.000. These results indicate that for every unit increase in TAC, FDI increases by 0.90 units, holding other factors constant, highlighting the significant positive effect of TAC on FDI.

In summary, the findings from Tables 4.3.1 to 4.3.3 decisively reject hypothesis H02. The high model fit, significant F-statistic, and the substantial and statistically significant effect of TAC on FDI ($p < 0.000$) underscore the critical role of tax incentives, particularly Tax Credit, in attracting foreign direct investment to Nigeria. These results align with prior research, by Abdullahi and Mohammed (2021), and reinforce the importance of tax policy as a strategic tool for enhancing foreign investment and achieving broader economic objectives.

4.5 Discussion of Findings

In this study, the analysis focused on examining the effect of tax incentives on various forms of investment in Nigeria, namely Private Investment (PIN), Foreign Direct Investment (FDI), The findings from the statistical analyses presented in Tables 4.1.1 to 4.3.3 reveal significant insights into how tax incentives affect these different types of investments.

In examine the effect of tax incentives on Private investment (PIN) in Nigeria, hypothesis 1results from the correlation matrix (Table 4.1.2) and the regression analysis show that Tax Credit (TAC) has a significant positive correlation with Private Investment (PIN). This indicates that higher levels of tax credit are associated with increased private investment in Nigeria. The regression analysis, although not explicitly detailed for PIN, implies a similar trend given the

significant correlation. Given the strong positive association and significant statistical evidence, the null hypothesis H01 was rejected. This suggests that tax incentive have a significant positive effect on private investment in Nigeria.

In examining the effect of tax incentives on Foreign Direct Investment (FDI) in Nigeria, hypothesis 2 results the correlation matrix reveals that Tax Credit (TAC) is significantly correlated with Foreign Direct Investment (FDI). This strong positive correlation indicates that increased tax credits are associated with higher levels of foreign direct investment. These findings are consistent with the hypothesis testing results, leading to the rejection of null hypothesis H02. Thus, tax incentives significantly affect foreign direct investment in Nigeria.

These findings underscore the importance of tax incentives in elevating investment in Nigeria. Effective tax policies can thus be instrumental in stimulating economic growth by attracting private, and foreign investments. The findings suggest that policymakers can leverage tax policies effectively to attract both domestic and foreign investments across different sectors, thereby fostering economic growth, job creation, and infrastructure development.

Furthermore, the study's results are consistent with prior research, such as studies by Abdullahi and Mohammed (2021), which emphasize the positive effect of tax incentives on private sector participation in infrastructure projects and economic development initiatives in Nigeria. This consistency strengthens the argument that targeted tax incentives can be a potent tool for policymakers seeking to enhance investment climate and attract capital inflows.

5. CONCLUSION AND RECOMMENDATIONS

This section encapsulates the critical findings of the research on the study and provides a comprehensive conclusion, and recommendations based on the study's outcomes. The study's objectives were to determine the effectiveness of tax credits in attracting both foreign and domestic investments. The key findings from the analyses are synthesized, highlighting the significant correlations and trends observed between tax incentives and investment metrics.

5.1 Conclusions

The study conducted an in-depth analysis of tax incentives and their effect on investment in Nigeria. Through rigorous statistical analysis, the study found strong positive correlations between tax credits and various forms of investment such as Foreign Direct Investment (FDI),

Private Investment (PIN), this suggests that higher tax credits are associated with increased investment levels, highlighting their effectiveness in stimulating economic activity both domestically and internationally.

Overall, the findings underscored the role of strategic fiscal policy reforms, particularly through targeted tax incentives, in fostering investment and economic growth in Nigeria. These insights provide valuable guidance for policymakers aiming to optimize fiscal measures to attract investments across diverse sectors of the economy.

5.2. Recommendations

Based on the findings, several recommendations are proposed to enhance the effectiveness of tax incentives in attracting both foreign and domestic investments in Nigeria. First, tax reform committee should consider expanding the scope and scale of tax credits while simplifying the application process and ensuring transparency to make these incentives more attractive to investors. Pioneer status should be strategically offered to sectors with high growth potential or strategic importance, focusing on areas that align with the country's economic priorities. Regular reviews and adjustments of these incentives, based on industry performance and evolving economic priorities, will help ensure their continued effectiveness.

Furthermore, given the significant effect of favorable tax treatments on bonds, Nigeria should maintain competitive tax rates on bond interest to attract infrastructure investments. Policymakers should also explore introducing tax incentives for green bonds to support sustainable development projects. Stability and predictability in fiscal policies are crucial for investor confidence. The government should avoid abrupt policy changes that could deter investment and instead engage stakeholders—such as businesses, industry associations, and financial institutions—to gather valuable feedback on the effectiveness of existing tax incentives and guide future policy improvements.

5.3 Contributions to knowledge

The study spans data from 1986 to 2022 from the world Bank Data, offering a robust empirical analysis of tax incentives and investment patterns in Nigeria, effectively addressing the shortage of similar research in transitioning economies. It introduces a novel approach to understanding investor responses, providing fresh insights on enhancing revenue generation. This innovative perspective is particularly valuable in the Nigerian economic development context, where there

is an urgent need for improved revenue utilization through targeted reforms. Additionally, the study's creative multidisciplinary constructs make it relevant not only to accountants but also to professionals such as lawyers and business analysts, offering unique, contemporary findings that are applicable for world-class use.

5.4 Suggestion for Further Study

While the current study sheds light on the relationship between tax incentives and investment growth in Nigeria, several areas for further research could deepen the understanding of this intricate dynamic. First, sector-specific analyses could explore how tax incentives affect key industries like manufacturing, agriculture, technology, and energy, while longitudinal studies could track the long-term effects of tax policies on investment behaviors. Such extended analyses would offer valuable insights into the evolution of investment patterns in response to tax policy changes over time.

Comparative studies benchmarking Nigeria's tax incentives against those of other countries could identify best practices and lessons for crafting more effective policies. Supplementing quantitative research with qualitative methods, such as interviews and case studies, would provide a richer understanding of investor motivations and decision-making processes. Additionally, dynamic econometric models could simulate various tax policy scenarios, helping policymakers predict potential outcomes before implementation. Evaluating the effectiveness of specific tax incentive programs would also be essential for identifying areas for improvement.

Further research could also focus on regional variations in the effect of tax incentives, highlighting disparities and opportunities for targeted interventions. Investigating the design, accessibility, and enforcement of tax policies could uncover ways to optimize their implementation for maximum effect. Additionally, assessing the social and environmental effects of tax-driven investmentssuch as effects on employment, income distribution, and sustainabilitycould help craft more inclusive policies. Lastly, exploring spillover effects across different sectors could reveal synergies and interdependencies, enabling policymakers to adopt a more holistic approach to economic development. These research avenues offer a pathway to refining tax incentive strategies and fostering sustainable investment growth in Nigeria.

Implication for Practice

This study has revealed that it is not the Tax incentives policy that is failing but the operations of the laudable gesture. ICAN, ANAN and CITN could play a pivotal role in the operational review of the Tax incentives policy. This study could catalyze a review of Tax incentives operations as mandated in the enabling laws of the land. The Ministry of Finance, FIRS, and Public Accounts and Revenue mobilisation committees of the House of Representatives could leverage this study to enhance guidelines on Tax incentives operations in Nigeria by engaging stakeholders in possible value-adding tax incentives reforms for investment attraction.

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APENDIX 1

Year	Tax Credit (TAC)	Foreign Direct Investment (FDI)	Private Investment (PIN)
1986	532,902,628.94	698,471,890.74	(313,179,136.85)
1987	659,609,613.16	2,836,014,464.87	(5,035,891,916.82)
1988	849,130,719.98	2,407,186,740.04	(3,659,820,584.97)
1989	1,116,222,871.72	17,764,706,537.30	2,072,570,431.93
1990	1,330,143,017.37	5,381,480,713.13	1,804,693,513.78
1991	1,584,517,527.27	7,061,400,955.50	605,748,904.82
1992	2,430,539,836.36	15,605,294,619.24	(32,794,116,278.27)
1993	3,375,252,190.91	29,818,974,038.83	394,085,717.49
1994	4,775,883,272.73	43,102,836,879.43	597,108,565.19
1995	8,400,908,209.09	7,388,527,629.21	562,839,998.62
1996	11,111,888,727.27	10,984,089,808.36	1,189,947,174.80
1997	12,057,893,863.64	10,330,694,435.76	447,062,354.27
1998	13,213,830,327.27	6,590,466,481.70	51,988,546.88
1999	15,240,999,927.27	93,148,979,194.24	(1,020,912,490.74)
2000	19,672,339,390.91	116,416,808,307.00	(51,283,756,653.73)
2001	23,039,350,309.09	133,284,795,842.19	(93,113,369,878.76)
2002	32,125,046,454.55	226,760,771,392.39	(70,897,941,067.54)
2003	37,898,396,972.73	259,564,606,889.35	(23,673,044,589.33)
2004	50,639,682,463.64	250,179,789,588.87	(23,738,124,371.40)
2005	64,631,620,827.27	655,804,479,105.62	64,224,277,334.59
2006	84,877,176,463.64	618,363,512,720.22	(347,732,334,977.66)
2007	97,439,455,527.27	752,188,965,985.76	(99,652,589,399.64)
2008	112,304,816,318.18	964,390,467,367.48	400,371,641,032.92
2009	122,441,234,836.36	1,260,490,402,459.88	50,871,230,131.28
2010	233,750,762,727.27	896,773,622,583.16	(384,893,003,234.80)
2011	199,898,773,636.36	1,346,738,205,698.37	(386,960,718,415.98)
2012	241,553,157,272.73	1,102,478,649,869.60	(2,337,910,301,913.92)

2013	250,200,338,181.82	866,433,461,165.47	(1,331,056,898,540.66)
2014	298,191,654,545.45	736,850,441,150.26	157,983,950,189.60
2015	246,769,303,053.98	591,531,185,335.71	(11,332,038,167.70)
2016	220,919,008,924.36	875,374,250,578.00	(311,037,586,120.82)
2017	245,713,508,255.17	737,863,360,750.26	(1,385,634,517,798.05)
2018	279,326,822,400.00	237,289,484,004.53	1,209,065,206,232.95
2019	295,582,202,503.45	707,482,356,421.24	(948,646,115,264.79)
2020	537,471,510,970.69	851,308,535,726.47	1,121,148,360,702.36
2021	710,173,660,062.93	1,323,329,206,100.00	(703,216,931,389.35)
2022	844,285,493,191.09	(79,979,449,001.37)	(1,510,289,571,369.03)
	5,325,585,038,021.94	**15,684,037,034,428.80**	**(7,052,502,052,729.35)**

Source; Word Bank Data: https://data.worldbank.org/country/nigeria