

EFFECT OF REDUCED COMPANY INCOME TAX INCENTIVES ON FOREIGN DIRECT INVESTMENT IN LISTED NIGERIAN MANUFACTURING COMPANIES

Olaleye, M. O.

Department of Economics, Accounts and Finance, School of Business, Jomo Kenyatta University of Agriculture and Technology, P.O.Box 62000- 00200, City Square, Nairobi, **KENYA**

Riro, G. K.

Department of Accounting and Finance, Dedan Kimathi University of Technology, P.O. Box 657, 10100, Nyeri **KENYA**

&

Memba, F. S.

Department of Business Administration, School of Business, Jomo Kenyatta University of Agriculture and Technology P.O.Box 62000- 00200, City Square, Nairobi, **KENYA**

ABSTRACT

Company income tax rates have been successfully used in Nigeria that reduced tax avoidance or tax evasion. The reduced company income tax measures that countries have used to attract technology-intensive investment include reduction in effective tax rate, tax holidays, tax free dividends, tax exemption from minimum tax levy, flat rate and loss carry forward relief. The government reduced the company income tax rate from 45% to 40% (from 1987 – 1991), then between 1992 -1995, the rate was 35%, it was finally reduced to 30% from 1996 to date, to stimulate investment. Company income tax is described as tax payable on the profit of any company at a rate of 30% in every year of assessment. The objective of this paper was to examine the effect of Company Income Tax incentives on Foreign Direct Investment in Listed Nigerian Manufacturing Companies. The study adopted descriptive research design and the target population of the study was the 74 Listed Manufacturing Companies with approximately more than 56,000 employees. A sample size of 352 respondents from thirty two (32) manufacturing companies was selected from seventy four (74) companies using stratified purposive sampling and respondents were grouped into three strata; top, middle and lower management levels. This study used primary data obtained from administration of the questionnaires. Descriptive statistics adopted were; frequencies, mean and standard deviation, while inferential statistics consisted of correlation and regression analysis. The findings showed strong positive linear relationships between reduced company income tax incentives and foreign direct investment. The paper recommends that there is need to conduct a cost benefit analysis for tax incentives available to various sectors of the economy. The benefits accrued in terms of increase in level of investments should exceed revenue forgone by the government through tax exemptions and allowance.

Keywords: Reduced Company Income Tax Incentives, Manufacturing Companies, Tax Invasion, Cost Benefit, Foreign Direct Investment, tax holidays, Nigeria Stock Exchange.

INTRODUCTION

Foreign Direct Investment (FDI) is widely regarded as a potential source of funding growth and development of the developing and developed nations (Blomstrom & Kokko, 2003). Consequently, strategies of attracting FDI turned out to be a heavily used approach of many governments across the world to boost their economies. Because of this, many studies were devoted to the techniques of how best attracting FDI. Some of the studies are UNCTAD (2000) which contains a survey of tax incentives regime in over 45 countries from all strategies to attract FDI for economic development, UNCTAD (2009) the role of international investment agreements in attracting FDI to developing countries, Jose (2007)

government strategies to attract R & D intensive FDI, OECD (Organisation for Economic Cooperation and Development, 2002) FDI for development, maximising benefits and minimising costs. Most of the approaches recognised the necessity of improving the host countries' microeconomic and macroeconomic indicators together with the liberalization of their economy in order to succeed (Blomstrom et al, 2003). The rationale behind the granting of tax incentives is to exploit investment opportunities, where the tax system is seen as an obstacle (Klemm & Parys, 2009). They are also used to improve social welfare of the community, for example, granting incentives related to health, education or saved for future use (Klemm et al, 2009). On the other hand, they can also be used to discourage certain activities like overproduction of agricultural produce resulting in instability in prices (Klemm et al, 2009).

Thomas (2007) found that China was attracting substantial investment with its low labour costs and large number of skilled workers. This, he explains, was in addition to providing a full five-year tax holiday and another five years with 50 percent tax liability, while cities and regions also gave tax incentives to investors. Encouragement of cross-border investments, especially by transnational corporations and firms (TNCs) is one of the most important features of today's globalization drive. Many countries (especially developing) now see FDI as an amalgamation of capital, technology, marketing, management and strategy for economic development (Ayanwale, 2007)

Nwankwo (2006) highlighted that FDI is an engine of economic growth and development in Africa where its need cannot be over emphasized. Nigeria joined the rest of the World in seeking FDI as evidenced by the formation of the New Partnership for Africa's Development (NEPAD). Nwankwo (2006) emphasized that in view of the NEPAD initiative, the government is working toward developing stronger public-private partnerships for roads, agriculture, and power through the attraction of FDI among other measures. A National Council on Privatisation was established and in addition the Nigerian Investment Promotion Council (NIPC), has been strengthened to serve as a one-stop office for clearing all the requirements for investment in Nigeria by attracting FDI through taxation policy in the form of tax incentives. This is through the promulgation of Nigerian Investments Promotion Commission Act cap n.117 (1995), LFN. (Law of Federation of Nigeria).

Statement of the Problem

The flow of FDI to the Nigerian Economy is low relative to other countries in Africa even with the presence of tax incentives (UNCTAD, 2014). The report indicates that out of the 57billion dollars FDI inflows to Africa, Nigeria inflows stands at 5.6billion US dollars (10% of total FDI to Africa). However, the Oil and Gas sector receives 75% of FDI inflow in Nigeria, while other sectors received 25% (Corporate guide, 2012). Poor flow of FDI to the manufacturing sector may impact negatively on economic growth and diversification. Aganga (2014) said that if Nigeria is going to migrate from a poor Nation to a rich Country, the key is industrialization .There is an inadequate attraction of FDI into the listed Nigerian manufacturing companies. The negative effect of the weak manufacturing sector arose with the dwindling revenues from the Oil and Gas sector. Despite the fact that studies have been done in Nigeria on tax incentives and Foreign direct investment, the effects of reduced company income tax incentives on FDI in listed manufacturing companies in Nigeria have received virtually no attention. As a result, the study attempts to fill the gap in literature by examining the effect of reduced company income tax incentives on FDI in listed Nigerian manufacturing companies.

Objective of the Study

The objective of this study was to examine the effect of Reduced Company Income Tax Incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies.

Hypothesis

H₀: There is no significant relationship between Reduced Company Income Tax incentives and FDI in listed Nigerian manufacturing companies.

LITERATURE REVIEW

Internalisation Theory

This theory was developed by Buckley and Casson (1976) and followed by Hennart (1982). The origin of this theory was by Coase (1937) in a national context and Hymer (1976) in an international context. Hymer (1976) established two major determinants of FDI. The first were the advantages, which some firms possess in a particular activity while the second was the removal of competition. Buckley and Casson (1976) state that transnational companies organise their internal activities to benefit from specific advantages, which are to be exploited. The Internalisation theory lies on why companies do not prefer to sign contract with a subcontractor in a foreign country instead of engaging in Foreign Direct Investment themselves. The theory of internalisation explains the motivations of the transnational companies for making foreign direct investment by taking advantage of various government fiscal policies and other policies.

Tax Discrimination theory

Glaeser (2001) which stated that government imposes different tax rates based on regions and investments developed tax discrimination theory. The tax rate is determined by demand for firms to locate in a particular location. The government applies tax discrimination to encourage development in the rural areas. Tax holidays and low tax rates are given to investors to locate their businesses to less developed areas from the major cities and towns. According to Mason (2006), tax discrimination subjects the residents and non-residents to different tax regimes in the same jurisdiction. That the resident tax payer is usually taxable on all of his or her global income, whereas a non-resident is taxable on income derived in the host state. Manson (2006) states European court of Justice (ECJ) argues that tax discrimination promotes economic efficiency and integration of the European common market.

Foreign Direct Investment and Reduced Company Income Tax

Foreign Direct Investment (FDI) is the long-term investment reflecting a lasting interest and control by a foreign direct investor (or parent enterprise), of an enterprise entity resident in an economy other than that of the foreign investor (IMF, 1999). Generally, Blonigen (2004) viewed FDI as a foreign company's investment into commercial business activities by establishing manufacturing, services and production companies in the form of subsidiaries in a different country than the headquarters 'home'. UNCTAD (2008) defines FDI as a long-term relationship between companies in the source country (the investor) and another company in the host country (country of investment). To comply with this definition of foreign direct investment, it is mandatory for the investing company to hold not less than

10% of the normal shares. Since the establishment of globalisation, the growth of FDI has been tremendous (UNCTAD, 2012; World Bank 2012).

Reduced company income tax rates have been successfully used in Nigeria that reduced tax avoidance or tax evasion (Oyetunde, 2008). The reduced company income tax measures, that countries have used to attract technology-intensive investment include reduction in effective tax rate, tax holidays, tax free dividends, tax exemption from minimum tax levy, flat rate and loss carry forward relief. CITA (2004) describes company income tax as tax payable on the profit of any company at a rate of 30% in every year of assessment. The government reduced the rate from 45% to 40% (from 1987 – 1991), then between 1992 -1995, the rate was 35%, it was finally reduced to 30% from 1996 to date, to stimulate investment. Companies with turnover of less than 1million are taxed at a low rate of 20% for the first five years of operation if they are into manufacturing of goods. Some of the efforts of the government to create a conducive environment for foreign direct investment in Nigeria are such that loans granted to Nigerian companies may be exempt from tax where the required conditions are met, Nigerian companies with a minimum of 25% foreign equity and within their first four years of operation are exempt from payment of minimum tax, tax holidays granted to a firm as a tax –free status for a certain period of time.

Losses can be tax deductible, including transfers to reserves or provisions to meet specific financial commitments or losses certain to occur. Losses may be carried forward and set off against future profits for 5 years. In many cases, a new company just commencing business in Nigeria can be granted a tax holiday for about 5 years (known as pioneer status). Even existing companies that have attained pioneer status are granted tax holidays for the first five years. During this period, no corporate income tax is payable and any dividend distributed from the pioneer profit will be exempt from withholding tax.

Many developing countries offer reduced company income tax incentives as one of their main incentives to attract new investment. Biggs(2007) in his study confirmed that 75% of the countries reviewed offered some form of tax holiday, generally between 5- 15 years. For instance, ‘the tax holiday is the principal form of corporate tax incentive presently applied in Egypt’ (El Samalouty, 2000). Morisset & Pirnia (2000) note that “poor African countries rely on tax holidays and import duty exemptions. Nigeria also applies tax holiday as a form of company income tax incentives. Ahmed (2004) introduced a model of Corporate Income Taxes, which shows that agent firms exploit complete information embodied in provisions of tax statutes and the tax policy. The study has been related to the impact of Corporate Income Tax liabilities on different variables of a firm as gross profit, cost of sales, expenses etc. A sample of 7,306 companies has been taken from the hotels and restaurants sector, includes 6,594 in business services and 1,484 in transport manufacturing sectors, for the accounting periods 1995 to 2000. He found implications for micro simulation modeling, financial transparency, and corporate governance.

Becker (2006) analyses the investment distribution for both firms, which are profitable and unprofitable, in which the allocation is done based on payout taxes for 25 countries in the world. Investment, Tax, Cash flows and Tobin Q are the main variables. They describe the events in which payout taxes has changed by three percentage points and compare the five years past tax change effect with two years following it. Research findings concluded that payout tax adjustment has an economically considerable effect on allocation of the investment. Schweltnus and Arnold (2008) in their studies, examined the effects of Corporate Income Taxes on two of the main drivers of productivity, growth and investment of firms in

European OECD member countries over the time period of 1996-2004, through stratified sampling this is found to be true across firms of different size and age classes, except for young and small firms. The results suggest that Corporate Income Taxes reduce investment through an increase in the user cost of capital. This may partly explain the negative productivity effects of Corporate Income Taxes if new capital goods embody technological change.

De Mooij, Ruud and Ederveen (2001), indicated the impact of company taxes on the allocation of foreign direct investment. Outcomes of 25 empirical studies comparable by computing the tax rate elasticity under a uniform definition. The paper aims to explain 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. For this purpose sample of 351 cases are used on aggregated basis, ANOVA is used as a statistical technique. They found no significant relationship in the responsiveness of investors from tax credit countries and tax exemption countries.

Several studies have reported that host country corporate taxes have a significant effect on FDI flows, (Hartman, 1984; Grubert and Mutti, 1991; Hines and Rice, 1994; Loree and Guisinger, 1995; Cassou, 1997 and Kemsley, 1998). Fakile and Adegbile (2011) assert that low corporate tax rate is part of the system by developing countries and usually established by Governments in order to grant foreign investors more attractive conditions to invest in their country. Ekpung and Wilfred, (2014) found that high corporate tax is bad for economic growth and discourage FDI. This is because; it discourages new incentives by distorting FDI decisions and discouraging work effort. Okoi and Edame (2013) found that high corporate tax rate as witnessed in Nigeria has an enormous effect to FDI and GDP. As corporate tax rate reduces, it would encourage FDI in the country. The study conducted by Bond and Xing (2013) reveal that the statutory corporate tax rate and depreciation allowances have a significant effect on investment in assets classified as equipment..

Root and Ahmed, 1979; Lim, 1983; Wheeler and Mody, 1992; Swenson 1994, Jackson and Markowski, 1995; Yulin and Reed, 1995; Porcano and Price, 1996 conclude that reduced corporate taxes do not have a significant effect on FDI. European Commission (2013) study show that taxation does not have a neutral impact on investor decisions across different capital asset types i.e. Transportation, information and communication technology, equipment, other machinery and equipment.

Overview of Nigerian Listed Manufacturing Companies

Adenikinju and Chete (2002) in their research on empirical analysis of the performance of the Nigerian manufacturing sector over a 30-year period revealed that the Nigerian manufacturing sector performed with satisfactory growth levels from 1970 to 1980. However, there was a rapid decline in the profitability and growth of the Nigerian manufacturing sector after 1980. The collapse of the oil price in the international market resulted to a negative effect on the manufacturing sector's performance. The manufacturers were faced with the multiple problem of obtaining spare parts and raw materials for their production processes. The inadequacy and non-availability of the companies' access to the spare parts and raw materials constituted the major factors towards the decline in the growth rate of the manufacturing sector after 1981 (Dipak & Ata, 2003, Adenikinju & Chete, 2002). Anyanwu (2000) supported the findings of Adenikinju & Chete that the collapse of the world oil market

in the early 1980s contributed to the decline in the foreign exchange earnings of Nigeria, which resulted in the level of performance of the manufacturing sector.

The introduction of the Structural Adjustment Programme (SAP) in 1985 by the Federal Government of Nigeria was expected to find solutions to the situation but there was no improvement (Anyanwu, 2000). Ayanwale (2007) conducted a study on the effect of foreign direct investment on the performance of the manufacturing sector and Nigerian economy and concluded that Nigeria is struggling to attract more foreign investors. According to the Nigerian minister of trade and investment (Aganga, 2014), the Nigerian manufacturing sector appeared to be gradually bouncing back to reckoning based on the achievements recorded in the sector in the ongoing year. Aganga (2014) stated that the federal government kicked off an industrial revolution in the year 2012 to strategically empower and position the nation's manufacturing sector as the key driver of the economic growth through increased contribution to Gross Domestic Product (GDP). In this package, the federal government declared a new scheme of tax credit aimed at encouraging an increase in the flow of foreign investment into Nigeria. According to the minister, Nigeria recorded 8.9 billion dollars investment inflow in 2013, making Nigeria the number one investment destination in Africa. Aganga (2014) said that if Nigeria is going to migrate from a poor Nation to a rich Country, the key is industrialization. This has necessitated the need for this

METHODOLOGY

Orodho (2003) defines research design as the scheme outline or plan that is used to generate answers to research problems. Survey research design with specific reference to descriptive research design was utilized in this study. Because it is useful for the research objective to determine the degree to which foreign direct investment affect the company income tax. The population for this study comprised of all seventy four (74) Listed Manufacturing Companies in six geo-political zones of Nigeria. There were fifty six thousand (56,000) employees in Listed Nigerian Manufacturing Companies. This study comprised of seventy four (74) Listed Manufacturing Companies in Nigeria from which the target and accessible population was drawn. However, the respondents comprised of top, middle and lower level management of listed manufacturing companies. These categories were chosen because of their knowledge about administration and tax policies in Nigeria

A sample size of 352 employees was selected through stratified purposive sampling in thirty two (32) companies and grouped respondents into three strata in each company. The companies were grouped based on sector to which they belong. Firstly, Questionnaire was used to obtain quantitative and qualitative data for analysis. According to Zikmund, Babin, Carr, & Griffin (2010) data analysis refers to the, application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarising the relevant details revealed in the investigation. Internal consistency was measured with the Cronbach's coefficient alpha of 70%. Descriptive statistics, which involve the use of frequencies, tables and bar charts, were applied. A simple linear regression model was used to test the significance of the influence of the reduced company income tax on the FDI.

The Analysis of Variance (ANOVA) was conducted to analyze the amount of variation within each of the sample relative to the amount of variation between samples. Data collected from primary sources was analysed with the aid of descriptive statistic such as percentage, frequencies, tables and graphs. Inferential statistics such as correlation coefficients and

regression analysis were used for the analysis and useful to proof the level of significance in testing stated hypotheses. The equation is thus:

$$Y = \beta_0 + \beta_1 X_1 + e$$

- i. Y = the value of Foreign Direct Investment (Dependent variable)
- ii. X_1 = Company income tax incentives (Independent variable)
- iii. e is the error term, which is assumed to be normally distributed with mean zero and Constant variance.

The regression model was tested on how well it fits the data. The significance of each independent variable was tested. Fischer distribution test called F-test was applied. It refers to the ratio between the model mean square divided by the error mean square. F-test was used to test the significance of the overall model at a 95 percent confidence level. The p-value for the F-statistic was applied in determining the robustness of the model. The conclusion is based on p value where if the null hypothesis of the beta is rejected then the overall model will be significant and if null hypothesis is accepted, the overall model will be insignificant. In other words if the p-value is less than 0.05 then it will be concluded that the model is significant and has good predictors of the dependent variable and that the results are not based on chance. If the p-value is greater than 0.05, then the model will not be significant and cannot be used to explain the variations in the dependent variable. Correlation between the variables was tested. Pearson correlation coefficient is a measure of linear association between two variables (Kothari, 2014). Kothari (2014), states that Karl Pearson Correlation Coefficient is the most widely used method of measuring the degree of relationship between two variables. It ranges from -1 to +1. A correlation coefficient of -1 indicates a perfect negative correlation, 0 indicates no correlation while +1 indicates a perfect positive correlation.

FINDINGS

Reliability

Bryman, 2008 view reliability as the repeatability, stability or internal consistency of a questionnaire. In this study, Cronbach's Alpha, which is a reliability coefficient, was used to indicate how well the items in the set were correlated with each other. According to Sekaran, (2008) the closer a Cronbach's Alpha is to 1 the higher the reliability and a value of at least 0.7 is recommended. In table 1, the cronbach 's alpha value of 0.700 was accepted with good internal consistency.

Table 1 : Reliability Coefficient for Company Income Tax Incentives

Variable	Cronbach' Alpha	Number of items	Comment
Reduced company income tax incentives	0.700	5	Accepted

Descriptive Statistics on Company Income Tax Incentives

Company income tax incentive was the independent variable identified in this research work. An independent variable is antecedent to the dependent variable (Kothari, 2014). An independent variable causes change in dependent variable and hence for this study it was assumed that company income tax incentives determine the foreign direct investment in listed Nigerian manufacturing companies. De Mooij A.et.al, (2001), indicated the impact of company taxes on the allocation of foreign direct investment. Cummins and Hubbard (1994) in their study on the effects of taxation on foreign direct investment concluded that FDI was

very sensitive to the taxation policy of the country into which the FDI flowed. The question on how the respondents viewed reduced company income tax in determining foreign direct investment in Nigerian listed manufacturing companies are summarised in Table 2. The study focused on five statements to give a good understanding of this variable.

The respondents were asked to indicate their level of agreement with given statements concerning if reduced company income tax is effective in attracting FDI in Nigerian listed manufacturing companies. The table shows that 60.3% of the respondents agreed, 23.2% were neutral, 12.0% strongly agreed, while 3.4% disagreed and 1.1% strongly disagreed. The results show that majority of the respondents believed reduced company income tax is effective in attracting FDI, since over 71% agreed. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). The findings are in line with Chaves (2010) who found out that reduced company income tax lead to increase in foreign direct investment.

The study intended to establish if tax – free dividends encourage free flow of FDI to the listed manufacturing companies in Nigeria. The result shows that 67.4% agreed, 26.3% were neutral while 6.3% disagreed. The majority were of the opinion that tax free dividends encourage free flow of FDI into the manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). These findings concur with studies by Nnadi and Akpomi (2008) explore the impact of taxes on the dividend policy of Nigerian banks, that tax free dividends encourage free flow of FDI to Banks. De Mooji and Ederveen (2005) reviewed that there is no evidence showing that FDI from dividend exemption countries is more tax responsive than FDI from dividend credit countries. That tax planning gives little importance in terms of impacts on FDI suggesting that tax-planning renders distinctions between these systems of little importance in terms of impacts on FDI. Furthermore, the studies show that empirical results do not find intra-European Union capital to be more responsive to tax differences in the host country.

On whether exemption from minimum tax increases FDI inflows, 60.2% of respondents agreed, 10.5% strongly disagreed, 27% were neutral while 1.9% strongly disagreed and 0.4% disagreed. This implied that majority agreed that exemption from minimum tax increases FDI. The mean is 4 (agree) implying majority agreed that exemption from minimum tax increases FDI, with a small variation of 1 (standard deviation is 1). According to UNCTAD,(2000), a survey carried out indicated that countries in the Africa region have put in place an array of tax incentives to promote regional development such as income tax exemption or reduced tax rate. Studies of whether generous tax policies can compensate for weaknesses in the commercial environment and attract TNCs have led to the broad conclusion that tax exemptions can influence some of the investors (Morisset & Pirnia, 2000).

The respondents were asked if Loss carried forward relief is an important incentive in attracting FDI in manufacturing companies. The results indicated that, 57.6% of the respondents agreed, 13.9% strongly agreed, 26.6% were neutral, 1.5% disagreed and 0.4% strongly disagreed. The results show a loss carried forward relief is an important incentive in attracting FDI in manufacturing companies since over 71% were in agreement with the statement. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). The findings support UCTAD (2000) that loss carried forward relief may be targeted at investment in regions that are disadvantaged due to

their remoteness from major urban centres. The study conducted by Hungerford (2012) in USA suggested that loss carried forward reliefs had no little association with investment, productivity, growth and saving.

The study intended to find out if tax holidays encourage inflow of FDI. The results indicate that 55.8% agreed, 13.5% strongly agreed, 25.5% neutral, 5.2% disagree. This implies that majority of the respondents agreed that tax exemptions encourage inflow of FDI. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). In the study carried out by Oyetunde (2008), findings indicate that tax holidays are attractive to investment authorities in developing and transition economies with rudimentary corporate tax systems given their ease of administration

Table 2 : Reduced Company Income Tax Incentives

FACT	SD %	D %	N %	A %	S %	Mean	SD	Total %
Reduced company income tax is effective in attracting FDI in Nigerian listed manufacturing companies	1.1	3.4	23.2	60.3	12.0	4	1	100
Tax free dividends encourages free flow of FDI to the manufacturing companies	0.7	5.6	26.3	52.4	15.0	4	1	100
Exemption from minimum tax increases FDI inflows	1.9	1.0	26.3	60.2	10.5	4	1	100
Loss carried forward relief is an important incentive in attracting FDI in manufacturing companies	0.4	1.5	26.6	57.6	13.9	4	1	100
Tax exemption encourage inflow of FDI	0.0	5.2	25.5	55.8	13.5	4	1	100

(Strongly disagree-SD, Disagree-D, Neutral-N, Agree-A, and Strongly Agree-SA)

Descriptive Statistics on Foreign Direct Investment (Dependent Variable)

The respondents were asked the question, that companies do reinvest their earnings in manufacturing sector, 64.4% agreed, 25.1% were neutral, 5.6% strongly agreed., 3.7% disagreed and 1.2% strongly disagreed. In the results in table 3, 70% of the respondents agreed with the opinion that companies do reinvest their earnings in manufacturing sector. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). According to OECD (2000) reinvested earnings are included in direct investment income because the earnings of the direct investment enterprise are deemed to be the income of the direct investor (proportionate to the direct investor's holding of equity in the direct investment enterprise), whether they are reinvested in the enterprise or remitted to the direct investor.

In response to the opinion that foreign participation in listed manufacturing companies increase the flow of foreign assets. 67.4% agreed, 4.9% strongly agreed, 22.1% were neutral and 5.6% disagreed. These findings indicate that foreign participation increase the flow of foreign assets. The mean is 4(agree) implying that majority agreed with the statement with a

small variation of 1 (standard deviation is 1). In the study conducted by Mwega (2007), he observed that most developing countries are interested in FDI a source of capital for industrialisation. This is because FDI involves a long-term commitment to the host country and contributes significantly to the gross fixed capital formation.

The majority of the respondents (67.5 %) agreed that the investment climate for foreign investors is very conducive in attracting equity participation in manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Swenson (2001) distinguished 6 main components of FDI: New plants, plant expansions, mergers and acquisition, joint developing countries ventures, equity increases and other FDI. To gain the benefit most are trying to attract FDI by framing different policies such as trade liberalization and creating an attractive macroeconomic investment environment (UNCTAD 2004). The question on the opinion that most FDI inflows into Nigeria are in form of equity participation, 68.2 % agreed with the statement, 25.5% were neutral while 6.3% disagreed. These results indicate that majority of the respondents agreed that most FDI inflows into Nigeria are in form of equity participation. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). According to UNCTAD (2008), the Nigeria's investment law that governs the entry of FDI, allows 100% foreign ownership with equity participation in all sector with the exception of petroleum sector that is limited to existing joint ventures or new production sharing agreement.

Finally, the study sought to determine if there is high prospect in the attraction of foreign direct investment into the Nigerian listed manufacturing companies. 61.5%, agreed with the statement, 6.0% strongly agreed, 27.3% were neutral and 5.2% disagreed. The findings imply that there is high prospect in the attraction of foreign direct investment into the Nigerian listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Previous research by Massoud, (2003) shows that with the globalization of the international economy in the 1990s, the importance of FDI increased and was considered by many economists to be one of the leading motivations for its dominance. According to UNCTAD (2008), the return of Nigeria to democracy in 1999 has created the opportunity for economic renewal and an associated broader base of FDI. Furthermore FDI plays a major role in the economic development of the host country through the benefits associated with it (Hanson, 2001). Among the benefits include technological transfer and know-how, increased trade integration with the rest of the world. This has made the countries of the world: especially emerging economies to engage in FDI attraction efforts in order to attain their investment and development needs. To reap the benefit from FDI, several measures were taken by Nigeria government to improve the investment climate. The policy changes started yielding fruits and if sustained, they will provide an environment more conducive to private investment and enhance the attractiveness to FDI of Nigeria's large and growing market.

Table 3: Foreign Direct Investment

Fact	SD %	D %	N %	A %	SA %	Mean	Standard Deviation	Total
Companies do reinvest their earnings in manufacturing sector.	1.2	3.7	25.1	64.4	5.6	4	1	100

Foreign participation in listed manufacturing companies increases the flow of foreign assets.	0.0	5.6	22.1	67.4	4.9	4	1	100
The investment climate for foreign investors is very conducive in attracting equity participation in listed manufacturing companies.	2.6	5.6	24.3	59.6	7.9	4	1	100
Most FDI inflows into Nigeria are in form of equity participation.	1.1	5.2	25.5	62.2	6.0	4	1	100
There is high prospect in the attraction of foreign direct investment into the Nigerian listed manufacturing companies.	0.0	5.2	27.3	61.5	6.0	4	1	100

Correlation Analysis on reduced company income tax incentives and foreign direct investment

It tells a researcher the magnitude and direction of the relationship between two variables. The Pearson Correlation of reduced company income tax incentives and foreign direct investment was computed and established as 0.600 (p-value=0.000) which is a strong significant and positive relationship between the two variables. Biggs (2007) in study on how tax incentives attract foreign direct investment found a significant positive relationship between reduced company income tax incentives and foreign direct investment). From table 4, it could be concluded that there is a strong positive linear relationship between the reduced company income tax incentives and foreign direct investment.

Table 4: Reduced Company Income Tax Incentives Pearson Correlation

		FOREIGN DIRECT INVESTMENT	TAX INCENTIVES	HOLIDAYS
FOREIGN DIRECT INVESTMENT	Pearson Correlation	1	.600**	
	Sig. (2-tailed)		.000	
	N	267	267	
REDUCED COMPANY INCOME TAX INCENTIVES	Pearson Correlation	.600**	1	
	Sig. (2-tailed)	.000		
	N	267	267	

** . Correlation is significant at the 0.01 level (2-tailed).

Model Summary for regression of Reduced Company Income Tax Incentives and Foreign Direct Investment

The results in table 5, which show a relationship $R = 0.600$, indicates a strong positive relationship between reduced company income tax incentives and foreign direct investment. $R^2 = 0.360$ indicates that 36.0% of variation in the foreign direct investment can be explained

by a unit change in reduced company income tax incentives. While the remaining percentage of 64.0% is explained by other tax incentives.

Table 5: Model Summary for Regression Analysis between Company Income Tax incentives and Foreign Direct Investment.

	R	R Square
	.600 ^a	.360

Predictors: (Constant), Company Income Tax Incentives

ANOVA Results For Reduced Company Income Tax Incentives And Foreign Direct Investment

The results of ANOVA test in Table 6 show that significance of the F-statistic 0.000 is less than 0.05 meaning that null hypothesis is rejected and conclude that there is a relationship between reduced company income tax incentives and the Foreign Direct Investment in Listed Nigerian Manufacturing Companies. Bond and Chennells (2000) support this in their findings that there is a strong positive relationship between reduced company income tax incentives and foreign direct investment as a result of implementing the tax incentives in advanced countries. Biggs(2007) in his study concluded that reduced company income tax incentives are blunt instruments for attracting investment and are offered only on the basis that “any investment is good investment”.

Table 6 : ANOVA Results for Company Income Tax Incentives and Foreign direct Investment.

	Sum of Squares	df	Mean Square	F	Sig.
Regression	751.393	1	751.393	148.886	.000 ^b
Residual	1337.389	265	5.047		
Total	2088.781	266			

a. Dependent Variable: FOREIGN DIRECT INVESTMENT

b. Predictors: (Constant), REDUCED COMPANY INCOME TAX INCENTIVES

Coefficients for regression between Company Income Tax Incentives and Foreign Direct Investment

To test the significance of regression relationship between reduced company income tax incentives and foreign direct investment, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficient is zero. The null hypothesis state that, β (beta) = 0, meaning there is no significant relationship between Reduced company income tax incentives and the Foreign Direct Investment in Listed Nigerian Manufacturing Companies as the slope β (beta) = 0 (no relationship between the two variables). The results on the beta coefficient of the resulting model in table 7 show that the constant $\alpha = 3.941$ is significantly different from 0, since the p- value = 0.000 is less than 0.05. The coefficient $\beta = 0.573$ is also significantly different from 0 with a p-value=0.000 which is less than 0.05. The t value for constant is 6.614, while the t value for tax holiday incentives is 12.202, which indicate they are significant. This implies that the null hypothesis that $\beta_1=0$ is rejected and the alternative hypothesis $\beta_1 \neq 0$ is accepted indicating that the model $Y=3.941+ 0.573$ (tax holidays incentive), is significantly fit. This confirms that there is a significant positive linear relationship between reduced company income tax incentives and foreign direct investment. Kemsley, (1998) reported that host countries corporation taxes have a significant effect on

FDI flows. Porcano and Price, (1996) conclude that reduced company income taxes do not have a significant effect on FDI.

According to OECD (2010) the empirical analysis for OECD countries has generally provided significant positive elasticity results between taxes and FDI, which contradicts the thought that countries with lower taxes would be expected to attract more capital because tax decreases the income of multinationals.

Table 7: Coefficients for Regression between Reduced Company Income Tax Incentives and Foreign Direct Investment.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.941	.596		6.614	.000
REDUCED COMPANY INCOME TAX INCENTIVES	.573	.047	.600	12.202	.000

a. Dependent Variable: FOREIGN DIRECT INVESTMENT

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The study established that there was a positive significant linear relationship between reduced company income tax incentives and foreign direct investment. The correlation coefficient was 0.600 at 0.01 significant levels. The R square was 0.360 which indicates that 36.0% of variation in the foreign direct investment can be explained by a unit change in reduced company income tax incentives. The significance of all coefficients in the model was subjected to the t-test to test the null hypothesis that the coefficient is zero. The results on the beta coefficient of the resulting model show that the constant $\alpha = 3.941$ is significantly different from 0, since the p-value = 0.000 is less than 0.05. The coefficient $\beta_1 = 0.573$ is also significantly different from 0 with a p-value=0.000 which is less than 0.05. The t value for constant is 6.614, while the t value for company income tax incentives is 12.202, which indicate they are significant. The F statistics of 148.886 indicated that the model was significant at 0.000. This indicates that the overall model applied can significantly predict outcome valuable. These findings led to the rejection of null hypothesis and accepted the alternative hypothesis that reduced company income tax incentives influence foreign direct investment in listed Nigerian manufacturing companies.

CONCLUSION

The positive and statistically significant relationship between reduced company income tax incentives and foreign direct investment implies foreign investors can maximize their investment by taking advantages of the available tax incentives allowed by the government to create an enabling investment environment. Reduced company income tax incentives laws have been used by governments as a policy tool for accelerating investment in specific economic sectors, shaping the investment environment of the country and eventually overcoming some of the challenges posed by adverse investment conditions

RECOMMENDATION

Governments should provide better company income tax exemptions but there is need to conduct a cost benefit analysis for tax incentives available in the economy. The benefits

accrued in terms of increase in level of investments should exceed revenue forgone by the government through tax exemptions. The government should ensure security and political stability and the infrastructure should be improved. Further research should be conducted on tax incentives and FDI in companies that are not listed in the Nigeria stock exchange.

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