

CORPORATE TAX FLUCTUATIONS AND FOREIGN DIRECT INVESTMENT IN NIGERIA, 1994-2025

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Abstract

This work was carried out to test whether changes in corporate tax revenue results in any change in the level of foreign direct investment from one period to another, regarding 1994-2025. Data were drawn from the Central Bank of Nigeria and National Bureau of Statistics publications. For the foreign direct investment, output growth, inflation and exchange rate indices, we used the World Bank Development Indicators. Several specifications of the ordinary least squares model: static, dynamic with different time lags, with heteroskedasticity-and-autocorrelation-consistent standard errors were run. At the same time, some stationarity specifications, serial-correlation, multicollinearity and diagnostics checks were carried out. The dynamic estimate suggests that there is a minor change in FDI/ GDP which is as a result of fluctuation in corporate tax and not statistically significant. The findings remain essentially unchanged when there is a change in covariance lags or considered signed tax growth and different sub-samples as controls. In contrast, the negative correlation of tax volatility over three years was negative and weakly significant, suggesting that the annual change may not be as important as repeated instability over three years. Foreign direct investment is strongly positively related to output growth and negatively related to inflation. The results are inconsistent with the notion that all increases and decreases in corporate tax revenues have an adverse impact on foreign capital. Thus, policy should have a focus on predictable rules, administrative procedures, stable macroeconomic conditions, and revenue growth associated with compliance and productive growth, rather than sudden shifts in discretionary policy.

Keywords: Company Income Tax; Corporate Tax Fluctuation; Foreign Direct Investment; Fiscal Uncertainty; JEL Classification codes : H25, H25/E32, F21 and E62

1. Introduction

Foreign direct investment will be in limbo position as a driver of development policy unless it can provide capital, technology, management ability, export linkages and jobs for the host economy. It becomes more beneficial if the host economy can also absorb it and has the infrastructure, institutions and macroeconomic stability required for it to function (Alfaro, 2017). Foreign owned enterprises are also important to governments with narrow domestic revenue bases as a potential source of company income tax. So the relationship is not mechanical, but instead is reciprocal: taxation can affect the after-tax return on investment, and

investment can increase or decrease the taxable base of the corporation. This mutually beneficial relationship is key in Nigeria,

It has become more evidence that double goal in the current world situation as a result of the pandemic, geopolitical tensions, increased financing rates and uncertainty over policies have shaken up international investment. Global FDI decreased in 2023 and 2024, but it rose in 2025, with a selector and underlying activity (UNCTAD, 2024) (UNCTAD, 2025) (UNCTAD, 2026). Empirical studies have also confirmed that economic policy uncertainty influenced investment decisions, including delays or relocations of investment commitments (Canh et al., 2020). It was also confirmed that the economic policy uncertainty during the pandemic had an impact on global investment allocation (Ho & Gan, 2021). The statutory rate of corporate taxation is not the only factor that comes into this decision, but the stability, clarity, enforcement and the expected future trajectory of the tax system is also a factor.

The Nigerian context is illustrative for this problem to be studied. The market is vast and the country has plenty of natural resources, yet foreign investment has been erratic, and below the average level of investment compared to gross domestic product since the commodity-boom years. (CBN, 2025). A number of changes have also taken place in the macroeconomic environment with respect to the oil price cycles, banking cycles, recessions, during the COVID-19 shock, exchange-rate cycles, and fiscal consolidation cycles. It has been noted that uncertainty, poor infrastructure and macroeconomic instability are among the factors identified by the World Bank to explain the low level of private investment in Nigeria (World Bank, 2021) (World Bank, 2025). There is therefore need to boost non-oil revenue generation in Nigeria without negatively affecting productive activities. IMF also see revenue mobilisation and investment-enabling macroeconomic stability as complementary rather than mutually exclusive policies (International Monetary Fund, 2025) (International Monetary Fund, 2026).

Corporate Tax has undergone changes during those macroeconomic changes in Nigeria. A headline company income tax was in place for the majority of the period but was modified by incentives, minimum tax, sectoral treatment, digitalisation, filing changes and successive Finance Acts in terms of the effective tax load and administration. The differentiated system of exemption for small companies and lower rates for medium-sized companies had been introduced in the Finance Act 2019, but later changed by the following Finance Acts (Federal Republic of Nigeria, 2020, 2021, 2022 and 2023). In 2025, another tax reform was passed, and the Federal Inland Revenue Service (FIRS) was replaced by the Nigeria Revenue Service (NRS) and the implementation of the changes was scheduled for 2026. These changes were designed to make things easier and to extend the base of compliance,

The tax–investment nexus in most studies in Nigeria is viewed in terms of tax rates, aggregate tax revenue or incentives. The published research on other earlier periods has mixed findings. Others posit that higher taxes do reduce foreign investments, which concur with the user-cost channel (Eiya & Okaiwele, 2019) (Ozekhome, 2022). There is some evidence that incentives can draw capital for projects, but this will rely on their credibility, targetedness and the general investment climate (Olaniyi et al., 2018). There is also a separate literature that relates tax revenues to economic growth, but does not necessarily connect it to foreign investment. Tax revenues have been found to contribute to economic growth when they are used to fund productive public goods, but when taxation is unstable or poorly administered, taxes can

become a distortionary force (Ebi & Ayodele, 2017) (Adefolake & Omodero, 2022). The mixed record means these two are not synonymous, and that the role of taxation and tax outcomes is not always the same.

This distinction provides the impetus for the present study. A stable corporate tax system can generate increasing revenue due to an increase in the formal economy, increased profitability, and increased compliance. In contrast, a sudden change in the receipts of company income tax might be attributable to large in-dollar shifts in non-tax revenue or to sudden shifts in the dollar value of tax revenue, due to policy changes, enforcement actions, macroeconomic shocks, exchange-rate translation, changing company profits or discontinuities in data or administrative procedures. The continued volatility that investors observe could be a sign of poor future liability and operating environment predictability. Uncertainties, particularly in the field of corporate income taxation, have been found to delay foreign investment, particularly when there is a lack of credibility in the process of settling disputes between legal institutions (Zagler, 2023). In recent years, higher uncertainty and better relative corporate tax rates have been shown to influence foreign direct investment (FDT) (Milas et al., 2024). However, the Nigerian literature has not considered the variable of revenue fluctuation per se as the explanatory variable.

2. Literature Review

2.1.1 Theoretical channels

The first channel is a neoclassical user-cost channel. Taxes reduce after-tax return on capital and the investor adjusts the amount of capital stock desired so that the return will be restored to financing, depreciation, and risk.

When it comes to taxes, if it increases without any improvement of public service, investment from outside of the country should decrease (Zagler, 2023, Milas et al., 2024). The strength is determined by expectations of profitability, loss offset, financing, and allowances, as well as by the fact of being located for mobile export or in a domestic location-specific market. Resource-seeking and market-seeking investments could be willing to tolerate higher tax rates due to the difficulty of attracting those resources or customers elsewhere. The second channel is tax competition. Governments may reduce rates or offer incentives to attract mobile capital, and in hope of employment, technology, exports and future revenues. Incentives can however result in a transfer of rents to projects that would occur anyway, discriminate between firms, make administration difficult, and undermine the base. This is the incentive experience for Nigeria. Previous studies indicate that taxes can be linked to higher levels of foreign investment (Olaniyi et al., 2018), and the effectiveness of incentives is dependent on the rules that accompany them and other complementary factors. The international experience also warns that special treatment is not an effective solution over the long term for inadequate electricity, logistics, security, foreign-exchange, and contract enforcement. The option value of waiting is the third channel. Foreign investment can also entail "sunk costs" which cannot be recovered in a short time. If there is future doubt about the tax rates or future enforcement practices, it can be beneficial to delay a project, even if the tax rate remains the same. In the domestic context, higher economic policy uncertainty has been shown to lead to lower foreign direct investment within countries (Canh et al., 2020), and legal uncertainty in corporate taxation can cause projects to be delayed because it increases the uncertainty surrounding after-tax returns (Zagler, 2023). This

mechanism suggests that the size of tax fluctuations might be more relevant than the absolute amount of tax changes since tax stability over time would change the beliefs about the policy process. This study uses a three-year volatility measure that reflects that persistence. The fourth channel works via public goods. Tax is needed for infrastructure, education, health, security, courts, and administration. The higher the burden, the lower the private operating cost and risk, as long as the revenue is allocated to predictable public services. Tax-investment connection is thus not necessarily linear. Very low collection rates can be an indicator of weak state capacity and of poor services, and high and/or erratic taxation can lead to an underreporting of formal activity. The results of the research on tax revenue and growth in Nigeria lend support to the proposition that tax revenue can be productive, but their productivity varies by tax category and institutional settings (Ebi & Ayodele, 2017) (Adefolake & Omodero, 2022). A study by Kubaje et al. (2025) also concludes that the growth impact of tax revenue relies on the tax level and the effect of the interaction between taxation and foreign investment in Sub-Saharan Africa. The fifth channel is macro-economic. Corporate tax receipts and FDI can both be affected by the business cycle, which means that the association may be spurious in the absence of control (Canh et al., 2020; World Bank, 2025). An increase in nominal receipts is possible under inflation, while at the same time, real returns and credibility can be diminished.

While depreciation may devalue domestic assets, an adjustment in disorder will increase the cost of imported inputs, limit the potential for repatriation, and convey instability. Real growth, inflation and exchange rate and depreciation are therefore added as controls.

2.4 Empirical evidence and research gap

Research on the impacts of taxations in Nigeria is inconclusive and conflicting. For the period 1982-2015, taxes were identified and linked to FDI using an autoregressive distributed lag model approach, and findings showed that there are variations between the tax instruments (Eiya & Okaiwele, 2019). The study by Ozekhome (2022) that was conducted in a dynamic manner between 1986 and 2020 revealed that high tax regime was associated with the destabilization of foreign investment and highlighted the significance of tax design. The findings point to a positive relationship, yet it is an overall reform period that may affect this finding and it does not conclude that tax incentives increased the volume of investment (Olaniyi et al., 2018). These studies are useful, but largely on levels, rates, and/or incentives and not on the volatility of realised company income tax revenue. The case is supported by international evidence, which reinforces the need to look at uncertainty separately. (Ozekhome, 2022; Garcia-Bernardo & Janský, 2024). The present study is not able to overcome this endogeneity completely. Rather, it poses a question that is more specific: Is the level of annual change in income tax receipts from companies related to foreign investment, controlling for growth, inflation, exchange-rate depreciation, and lagged foreign investment? Then a robustness test is performed that compares signed growth with absolute movement and a rolling volatility. The empirical analysis is based on three hypotheses. The first is that there is no statistically significant relationship between foreign direct investment and the rate of fluctuation of corporate taxes in the period. The second is that the relationship between tax volatility and foreign direct investment is not statistically significant. The third is that the current inflows are not significantly explained by macroeconomic controls and by lagged investment. Hypotheses are presented in a null hypothesis form as there are competing channels in the literature and

there is no reason to make a prediction prior to analysis (Canh et al., 2020; Zagler, 2023). Economic theory, however, shows that persistent volatility will have a negative sign, that output growth will have a positive sign, that inflation, a negative sign, and that exchange-rate depreciation will have an ambiguous sign.

The large-scale projects have screening and approval processes, funding, land acquisition, building construction, and implementation in stages, and thus, investors' responses are expected to take time to occur within the same calendar year (Alfaro, 2017; UNCTAD, 2024). Tax news can affect on announcements prior to flows of the balance of payments being recorded on the books.

On the other hand, current earnings can be gained from investing in an investment some years ago. This persistence takes place in part in the lagged dependent variable, but not all of it. Therefore, the consistency of sign and magnitude of the alternative volatility measures is emphasized over a single p-value in the study. Lastly, statistical vs. economic significance is differentiated. A small coefficient might be significant in a large panel, but not have much policy significance; a large coefficient may not meet conventional significance tests in a short annual series (Brooks, 2019). I percent coefficients, robust standard errors, p-values, confidence statements and effect sizes all at once. The methodology adopted is based on the substantive question which is whether the observed instability in the tax regime is sufficiently large to justify significant variation in foreign investment, given Nigeria's macroeconomic conditions.

3. Methodology

3.1 Research design and data

The design of the study used in this study is the ex post facto annual time-series design because the variables are realised macro-fiscal outcomes which cannot be experimentally assigned (Eiya & Okaiwele, 2019; Ozekhome, 2022). The sample will include observations taken in each year from 1994 to 2025, or 32 years. The selected official series is the earliest one that can be joined without creating a significant structural break, and 2025 is the latest complete year available in the official sources. The design is explanatory, but not prescriptive. The estimates, therefore, are treated as conditional and not causal relationships.

Income tax revenue of companies is presented in nominal N1000 million. The historical observations come from the statistical and public-finance records of the Central Bank of Nigeria, while the recent series is from the National Bureau of Statistics company income tax reports, which are based on administrative records provided by the federal revenue authority (Central Bank of Nigeria, 2023) (National Bureau of Statistics, 2020) (National Bureau of Statistics, 2021) (National Bureau of Statistics, 2023) (National Bureau of Statistics, 2024) (National Bureau of Statistics, 2025) (National Bureau of Statistics, 2026). I cross check units, maintain official annual totals and record the source regime for each observation in the annual source schedule. The baseline has not been spliced with the OECD series, which was checked against the NBS Nigeria revenue classification, but there is an overlap period. (OECD, 2024) (OECD et al., 2025).

Foreign direct investment, real growth of gross domestic product, consumer-price inflation and official naira–United States dollar exchange rate are from the World Development Indicators downloaded on 13 July 2026 (World Bank, 2026). Foreign direct investment is the net flow as a percentage of GDP. This denominator is better for making comparisons because during this

period there was a lot of changes in the Nigerian nominal economy and Nigerian currency. It also allows negative value in case of disinvestment or repayment of intercompany debts happens more than the new inflow, as happened in 2022. The World Bank series are aligned with calendar years prior to the merger with the tax data.

3.2 Variable construction

The principal explanatory variable is corporate tax fluctuation, defined as the absolute annual log change in company income tax receipts (Brooks, 2019):

$$\text{TaxFluct}_t = 100 \times |\ln(\text{CIT}_t) - \ln(\text{CIT}_{t-1})| \text{ (Brooks, 2019).}$$

Table 1. Variable Definitions, Transformations, and Data Sources

Variable	Operational measure	Transformation	Primary source	Expected relation
FDI inflows	Net FDI inflows as a percentage of GDP	Level; one-period lag in dynamic model	World Development Indicators	Dependent variable
CIT revenue	Realised company income tax receipts, ₦ billion	Natural-log annual change	CBN (1994–2014); NBS (2015–2025)	Ambiguous in levels
CIT fluctuation	Magnitude of annual movement in CIT receipts	$100 \times \Delta \ln(\text{CIT}) $	Author's calculation	Negative if instability dominates
CIT volatility	Persistent tax-revenue instability	Three-year rolling SD of signed growth	Author's calculation	Negative
Economic growth	Annual real GDP growth	Percentage rate	World Development Indicators	Positive
Inflation	Annual consumer-price inflation	Percentage rate	World Development Indicators	Negative
Exchange-rate depreciation	Change in official naira/US-dollar rate	$100 \times \Delta \ln(\text{exchange rate})$	World Development Indicators	Generally negative/ambiguous

Source: Author's construction from (Central Bank of Nigeria, 2023); (National Bureau of Statistics, 2020); (National Bureau of Statistics, 2026); (World Bank, 2026)

The conversion has three benefits. It explains away the scale of nominal revenue, deals symmetrically with proportional increases and decreases, and offers an intuitive percentage-log approximation (Brooks, 2019). If 30, the movement was a large one, in either direction. Firstly, since absolute change can mask differences in investor reactions to an increase and a decrease, the first robustness measure is signed corporate tax growth, defined as $100 \times \Delta \ln(\text{CIT})$. The second is the three-year rolling signed tax growth standard deviation, which measures a more enduring instability than just one year's change.

FDI/GDP is the dependent variable. The controlled variables are real GDP growth, exchange rate depreciation, inflation, and one lag of FDI/GDP, as mentioned in Canh et al. (2020) and Milas et al. (2024). Exchange-rate depreciation is equal to $100 \times \Delta \ln(\text{EXR})$, with a positive number indicating naira depreciation. Growth in GDP is an indicative measure of expansion and profitability of the market. Inflation is a good proxy for macroeconomic instability and the depreciation of real returns. The channels of valuation, imported-input and competitiveness, and repatriation are contained in exchange-rate movement. Lagged FDI is a result of project continuity, reinvested earnings, agglomeration and step-by-step implementation of announced investments. The operational definitions are summarised in Table 1.

3.3 Model specification and estimation

The static benchmark is: (Brooks, 2019)

$$\text{FDI}_t = \alpha + \beta \text{TaxFluct}_t + \gamma_1 \text{Growth}_t + \gamma_2 \text{Inflation}_t + \gamma_3 \text{FXDep}_t + \varepsilon_t \quad (\text{Brooks, 2019}).$$

The preferred dynamic specification adds lagged foreign investment (Ozekhome, 2022; Brooks, 2019):

$$\text{FDI}_t = \alpha + \rho \text{FDI}_{t-1} + \beta \text{TaxFluct}_t + \gamma_1 \text{Growth}_t + \gamma_2 \text{Inflation}_t + \gamma_3 \text{FXDep}_t + \varepsilon_t \quad (\text{Brooks, 2019}).$$

The coefficient β is the parameter of interest. A negative value suggests that, *ceteris paribus*, the greater the annual tax-revenue shift the less foreign investment. TaxFluct is measured in percentage-log points and so β represents the elasticity of FDI with respect to tax fluctuation in GDP. The coefficient ρ is a measure of persistence (Brooks, 2019). The dynamic model is parsimonious because there are only 31 observations after differencing and lagging.

I estimate OLS regression models using Newey–West standard errors, which are corrections for heteroskedasticity and autocorrelation (Brooks, 2019). The two lag baseline covariances are used and reported as sensitivity checks are the one and three lag covariances. This is not a cure for endogeneity but it helps to defend inference against unknown short-memory serial correlation and heteroskedasticity. The model is not extended to a large ARDL system because there are no degrees of freedom for the unrestricted selection of lags and the resulting coefficients are not statistically stable in this sample. Rather, a clear and contemporary specification is employed, a dependable lag of the dependent variable that is theoretically defensible and robustness tests are specified.

3.4 Diagnostic and robustness strategy

The stationarity test is done using the augmented Dickey-Fuller and Kwiatkowski-Phillips-Schmidt-Schin tests (Brooks, 2019). The tests are read together because each one of them has low power based on a short sample, and they negate each other's null hypothesis. The main tax change parameters, output growth and exchange-rate depreciation, are likely to be stationary transformations. FDI/GDP and inflation are kept in levels since the KPSS evidence does not reject level stationarity, the variables are bounded rates, and a difference would have answered a narrower question concerning the level of investment inflows than the annual accelerations. Qualitative tax conclusion is also obtained from a first-difference FDI specification as a sensitivity check. Residual diagnostics include serial correlation, heteroskedasticity, functional form, normality, and multicollinearity. The Breusch–Godfrey test, Breusch–Pagan test, Ramsey RESET, Jarque–Bera test, Durbin–Watson statistic and variance-inflation factors (Brooks, 2019). Non-normal residuals are not considered a problem, since HAC inference is not exact normal asymptotically, but the small sample size means that interpretations of the p-values need to be done with caution. The influence is checked using studentised residuals, leverage, and Cook's distance.

Table 2. Estimation and Validation Sequence

Stage	Purpose	Specification or test	Decision rule / reported evidence
1	Describe the series	Summary statistics, correlations, chronological plots	Report levels, dispersion, turning points, and co-movement
2	Assess time-series behaviour	ADF and KPSS tests	Read tests jointly because the annual sample is short
3	Estimate unconditional relation	$FDI_t = \alpha + \beta \text{Fluctuation}_t + \varepsilon_t$	Report coefficient, standard error, p-value, and R^2
4	Add macroeconomic controls	GDP growth, inflation, and exchange-rate depreciation	Evaluate sign, magnitude, and stability of β
5	Model persistence	Lagged FDI plus controls; HAC(2) standard errors	Preferred dynamic specification

Stage	Purpose	Specification or test	Decision rule / reported evidence
6	Validate inference	Jarque–Bera, Breusch–Pagan, Breusch–Godfrey, RESET, VIF	Diagnose residual and specification risks
7	Test robustness	Signed growth, rolling volatility, HAC lags, sample windows, event controls	Compare coefficient stability rather than a single p-value

Source: Author's methodological design.

Robustness checks are changes in one feature only. They vary the length of the HAC; use signed tax growth instead of absolute; use three-year rolling volatility instead of annual; estimate the model using data from up to 2019 to exclude the pandemic and recent reform surge; start the sample in 1996 to minimise sensitivity to the unusually high FDI ratio in 1994; and include indicator variables to account for 2020-2021 and 2023-2025 (Brooks, 2019; Ho & Gan, 2021). I also contrast the direction of results with OECD corporate-income-tax data for the more recent (overlapping) time period. The following estimation sequence is summarized in Table 2.

4. Results

4.1 Descriptive patterns

As shown in Table 3, the foreign direct investment ranged between 1.22% and 2.71% of GDP, averaging 1.22% as shown with the standard deviation of 0.87 (CBN, 2023; NBS, 2026; World Bank, 2026) during the period 1994 to 2025. The highest level (2.90 per cent) was in 2009, and the lowest (slightly negative) was in 2022. The income tax revenue of the companies grew from ₦12.27 billion at 1994 to ₦9.22 trillion at 2025, but the gains were not uniform. The annual growth for the signed data was 21.36 per cent on average, with a range from -30.61 to 57.80 per cent. The average absolute tax fluctuation was 24.37 points, indicating that the realised receipts in a typical year moved a large percentage of the tax.

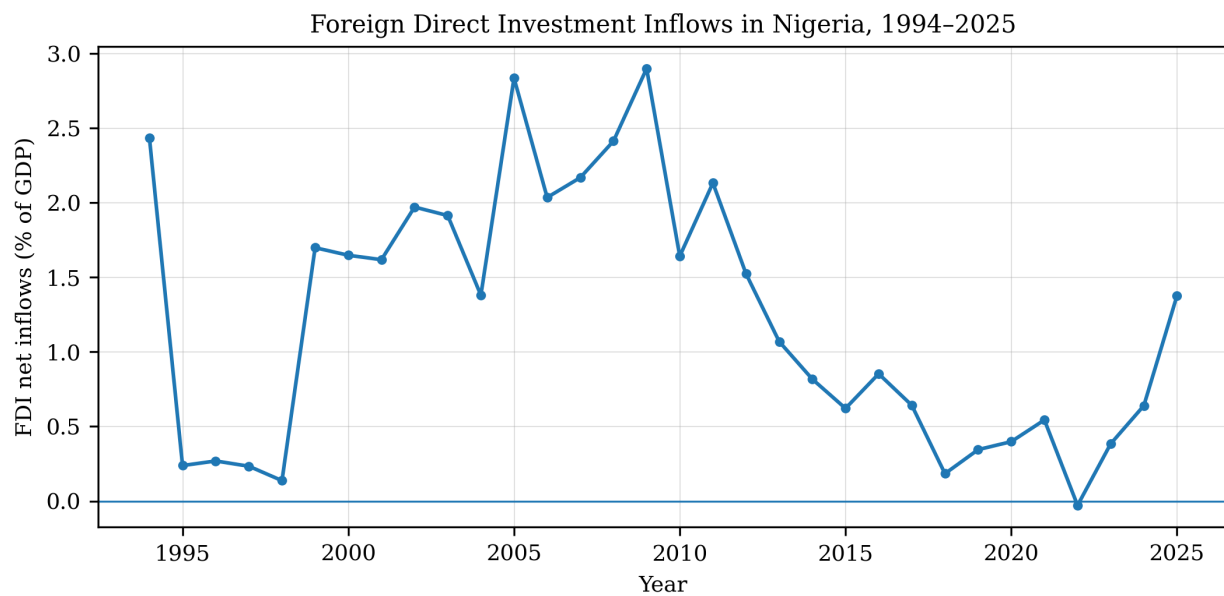
Table 3. Descriptive Statistics and Pairwise Correlations

Panel A: Descriptive statistics	N	Mean	SD	Minimum	Median	Maximum
FDI inflows (% GDP)	32	1.220	0.866	-0.029	1.223	2.900
CIT revenue (₦bn)	32	1247.382	2035.180	12.275	627.500	9218.000
Signed CIT growth (%)	31	21.359	18.266	-30.614	22.053	57.795

Panel A: Descriptive statistics	N	Mean	SD	Minimum	Median	Maximum
CIT fluctuation (%)	31	24.373	13.829	0.555	22.627	57.795
GDP growth (%)	32	4.129	3.915	-6.369	4.213	15.329
Inflation (%)	32	17.362	14.157	5.386	13.061	72.836
Exchange-rate depreciation (%)	31	13.660	29.617	-5.928	2.630	143.961
Panel B: Pairwise correlations	FDI	CIT fluct.	GDP growth	Inflation	FX dep.	
FDI	1.000					
CIT fluctuation	-0.040	1.000				
GDP growth	0.470	-0.058	1.000			
Inflation	-0.128	0.467	-0.319	1.000		
FX depreciation	-0.013	0.226	-0.251	0.009	1.000	

Source: Author's computation from (Central Bank of Nigeria, 2023); (National Bureau of Statistics, 2026); (World Bank, 2026)

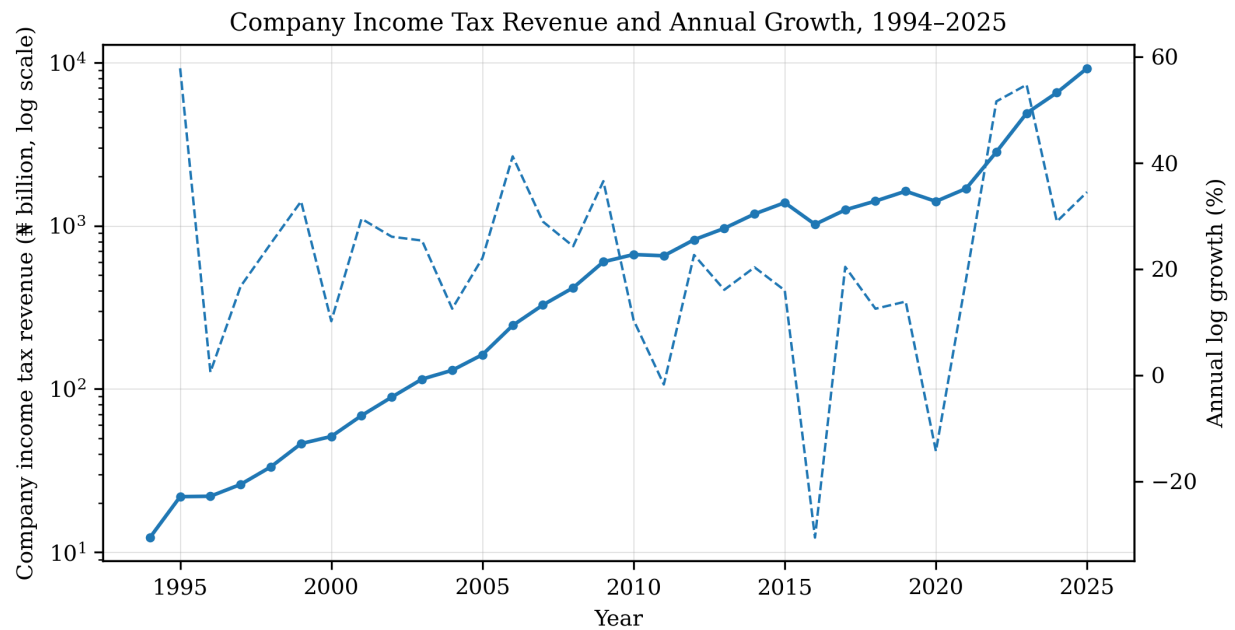
The contemporaneous correlation between FDI/GDP and tax fluctuation is -0.04 which is an economically small value (CBN, 2023; NBS, 2026; World Bank, 2026). The relationship between FDI and GDP growth is more clearly correlated at 0.47. Tax fluctuation is moderately correlated with inflation at 0.47, a relationship that suggests that there is some price and macroeconomic variation unrelated to tax policy. All the pairwise correlations of the regressors are not high enough to suggest severe collinearity, though the synergies of inflation, growth, persistence and tax movement have been considered more formally in terms of variance-inflation factors.

Figure 2. Foreign Direct Investment Inflows in Nigeria, 1994–2025

Source: Author's computation from official annual data (Central Bank of Nigeria, 2023); (National Bureau of Statistics, 2026); (World Bank, 2026)

Interpretive note: FDI intensity was strongest in parts of the 2000s, weakened markedly after 2014, turned slightly negative in 2022, and recovered in 2025.

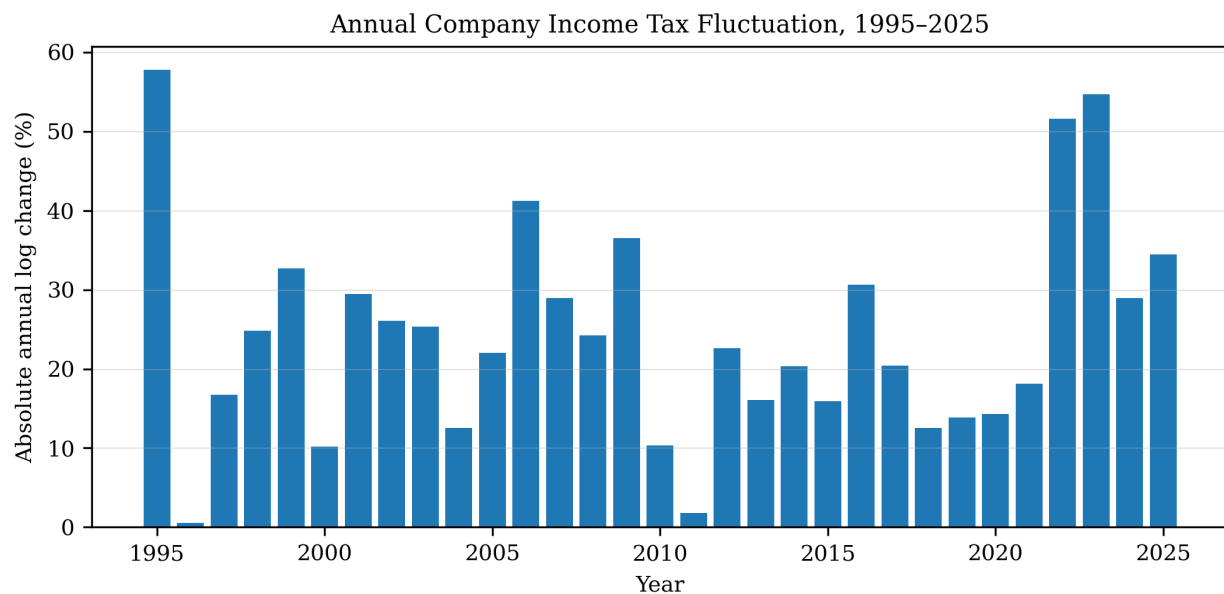
The three stages of foreign investment are shown in Figure 2. The inflows were strong but not consistent from the mid-1990s until the commodity-boom years, peaked in 2009 and generally declined after 2012. The ratio continued to be under one per cent in each year from 2014 to 2024, rising to 1.38 per cent in 2025 (World Bank, 2026; UNCTAD, 2026). The tax path is shown in figure 3. Nominal company income tax receipts grew slowly up to the mid-2000s, but grew after 2008, fell in 2016 and 2020 but jumped significantly after 2021. This is to ensure that the first observations are not lost in the recent trillions of dollars, which are plotted on the log scale.

Figure 3. Company Income Tax Revenue and Annual Growth, 1994–2025

Source: Author's computation from official annual data (Central Bank of Nigeria, 2023); (National Bureau of Statistics, 2026); (World Bank, 2026)

Interpretive note: Nominal CIT revenue rose over the full period, but the growth line shows sizeable expansions and contractions that the level series conceals.

Figure 4 shows the absolute growth of tax revenue. Large fluctuations occurred in 1995, 1999, 2006, 2009, 2016, 2022, and 2023 (CBN, 2023; NBS, 2026). The episodes pass through very different economic environments, thus supporting the view that this indicator is not a common policy shock. As seen in Figure 5, the standardisation of FDI and tax fluctuation does not show much in the way of co-movement in the present. There are some years with high fluctuations and not others with weak FDI. The rolling correlation in Figure 6 alternates in sign across different windows, suggesting that any correlation varies over time and does not have a structural nature.

Figure 4. Annual Company Income Tax Fluctuation, 1995–2025

Source: Author's computation from official annual data (Central Bank of Nigeria, 2023); (National Bureau of Statistics, 2026); (World Bank, 2026)

Interpretive note: Large fluctuations occurred in both high- and low-FDI years, foreshadowing the weak unconditional relationship estimated later.

4.2 Stationarity and model diagnostics

The evidence of the unit roots is presented in Table 4. Signed growth in the tax rate, absolute tax fluctuation, growth in GDP and exchange-rate depreciation are found to be causing a rejection of the unit root hypothesis, according to the augmented Dickey–Fuller test (Brooks, 2019). Does not reject for FDI/GDP, inflation, or the three-year volatility measure. None of the series is rejected at conventional levels by the KPSS test with the null hypothesis of stationarity. The mixed results are not surprising given that the sample size is small ($n=32$). This means that the preferred model is the one where the rate variables are modeled as levels variables, without resorting to a long run cointegrating interpretation.

Table 4. Stationarity Tests and Preferred-Model Diagnostics

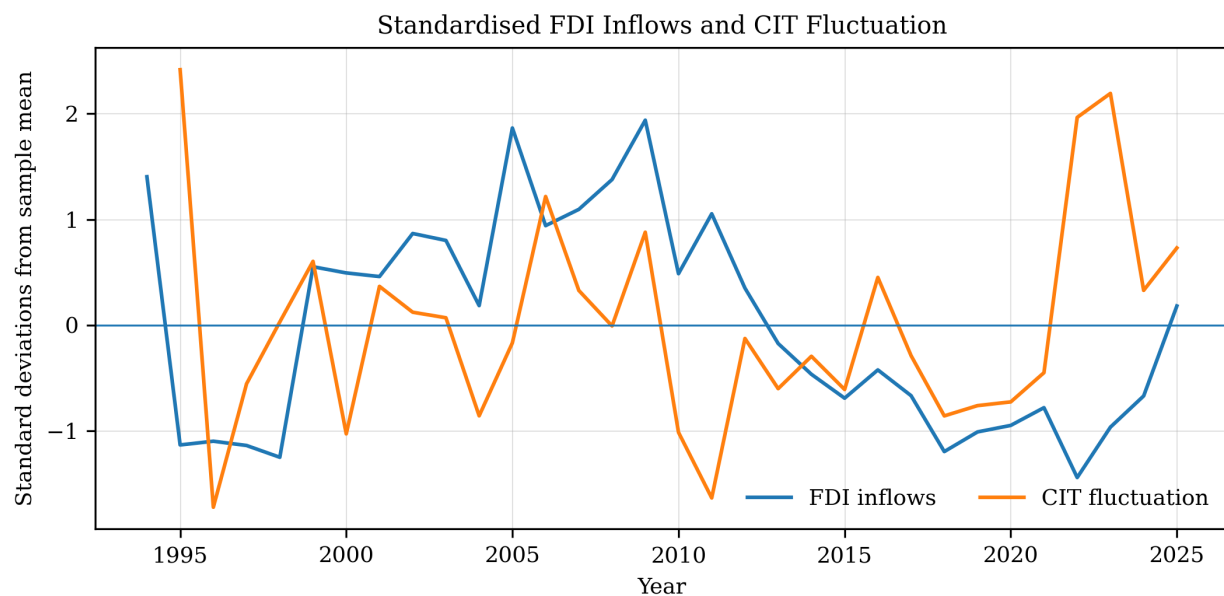
Panel A: Stationarity tests	N	ADF stat.	ADF p	KPSS stat.	KPSS p	Reading
FDI inflows (% GDP)	32	-1.979	0.296	0.281	>0.100	ADF does not reject unit root
Signed CIT growth	31	-4.855	0.000	0.136	>0.100	Stationary by ADF
Absolute CIT fluctuation	31	-5.262	0.000	0.138	>0.100	Stationary by ADF

Panel A: Stationarity tests	N	ADF stat.	ADF p	KPSS stat.	KPSS p	Reading
Three-year CIT volatility	29	-0.460	0.900	0.329	>0.100	ADF does not reject unit root
Real GDP growth	32	-3.144	0.023	0.218	>0.100	Stationary by ADF
Inflation	32	-0.634	0.863	0.227	>0.100	ADF does not reject unit root
Exchange-rate depreciation	31	-3.783	0.003	0.106	>0.100	Stationary by ADF
Panel B: Preferred-model diagnostics	Statistic	p-value	Interpretation			
Durbin–Watson	2.396	—	No clear first-order residual persistence			
Jarque–Bera	13.659	0.001	Non-normal residual tails; HAC inference retained			
Breusch–Pagan	1.602	0.901	No evidence of heteroskedasticity			
Breusch–Godfrey (2 lags)	3.705	0.157	No significant serial correlation			
RESET	0.331	0.570	No detected functional-form misspecification			
Maximum VIF	1.63	—	Moderate, not extreme, collinearity			

Source: Author's computation. ADF = augmented Dickey–Fuller; KPSS = Kwiatkowski–Phillips–Schmidt–Shin.

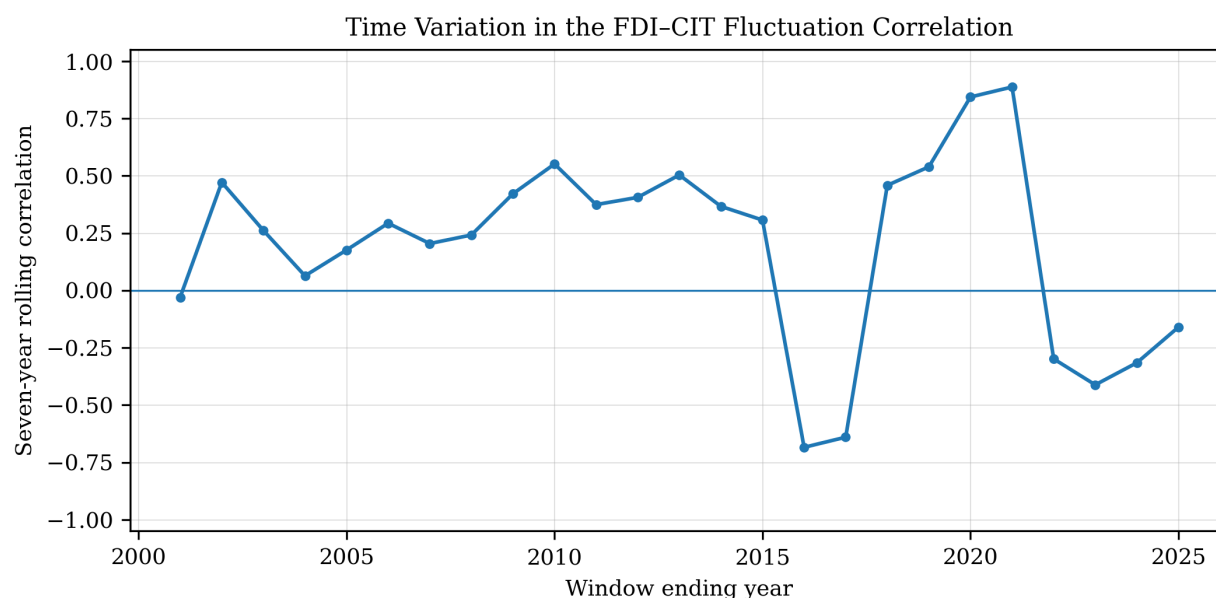
The Durbin–Watson statistic of the dynamic model is 2.40. The Breusch–Godfrey test is not rejected for no serial correlation up to lag two; and the Breusch–Pagan test is not rejected for homoskedasticity. Ramsey RESET does not suggest an underattention quadratic functional form. The variance-inflation factors range from 1.44 to 5.20, which are lower than the more typical ten, though there seems to be moderate inflation/overlap with the other controls in the tax-fluctuation factor. The Jarque–Bera test rejects the normality of the residuals that are mainly related to the large observations in the first few FDI periods. This reinforces the use of the HAC standard errors and the restricted-sample checks.

Figure 5. Standardised FDI Inflows and CIT Fluctuation



Source: Author's computation from official annual data (Central Bank of Nigeria, 2023); (National Bureau of Statistics, 2026); (World Bank, 2026)

Interpretive note: The standardised series do not move together consistently; episodes of above-average tax fluctuation sometimes coincide with both weak and improving FDI.

Figure 6. Seven-Year Rolling Correlation Between FDI and CIT Fluctuation

Source: Author's computation from official annual data (Central Bank of Nigeria, 2023); (National Bureau of Statistics, 2026); (World Bank, 2026)

Interpretive note: The rolling correlation changes sign across windows, indicating an unstable bivariate association rather than a fixed structural relationship.

4.3 Main estimates

As you can see from Table 5, there are three models. In the bivariate model, a coefficient of -0.0024 and a p value of 0.832 are found for the tax fluctuation term. With the GDP growth and the exchange-rate depreciation and the inflation, the coefficient becomes 0.0044, which is still quite small. In the preferred dynamic model, the coefficient is -0.0005 with a HAC standard error of 0.0064 and a p-value of 0.938 (CBN, 2023; NBS, 2026; World Bank, 2026). The estimate is close to the null value: With the other factors, absolute tax mobility is correlated with a 0.005 percentage-point reduction in FDI/GDP for a ten per cent rise in absolute tax mobility.

Table 5. Regression Estimates of FDI Inflows

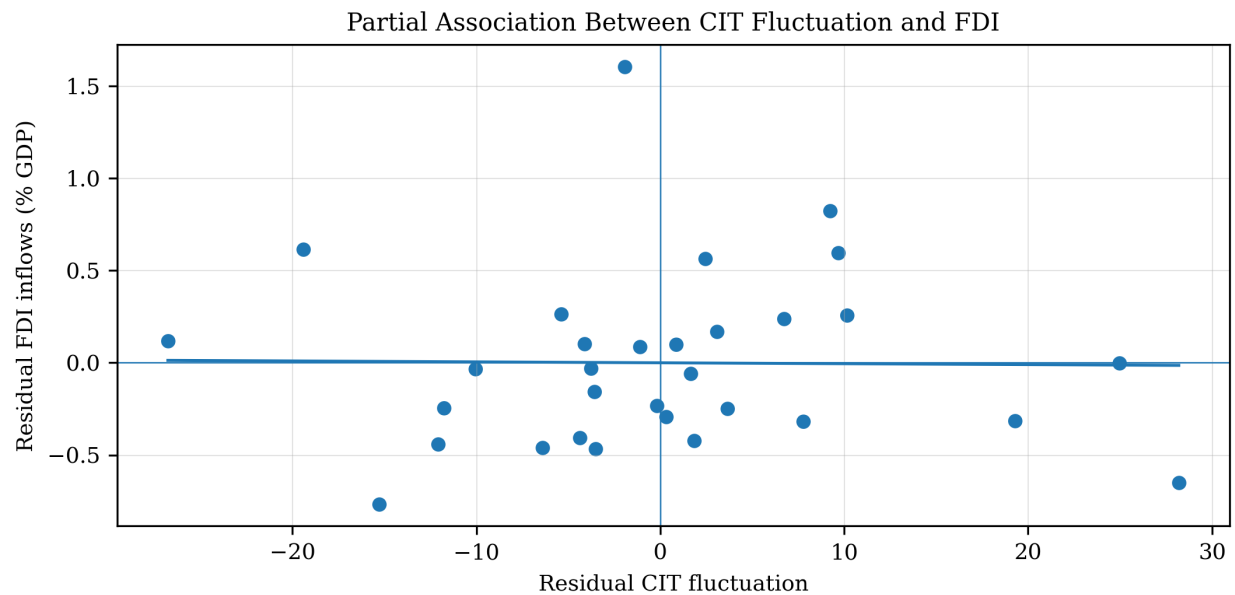
Variable	(1) Bivariate	(2) Static controls	(3) Dynamic HAC	(4) Signed growth	(5) 3-year volatility
CIT fluctuation	-0.0024 (0.0114)	0.0044 (0.0110)	-0.0005 (0.0064)	—	—
Signed CIT growth	—	—	—	-0.0038 (0.0039)	—
Three-year CIT volatility	—	—	—	—	-0.0199* (0.0119)
GDP growth	—	0.1262*** (0.0362)	0.0517*** (0.0153)	0.0594*** (0.0144)	0.0221* (0.0125)

Variable	(1) Bivariate	(2) Static controls	(3) Dynamic HAC	(4) Signed growth	(5) 3-year volatility
Inflation	—	-0.0155 (0.0123)	-0.0199*** (0.0046)	-0.0175*** (0.0045)	0.0022 (0.0135)
Exchange-rate depreciation	—	0.0033 (0.0047)	0.0088*** (0.0022)	0.0093*** (0.0022)	0.0071** (0.0031)
Lagged FDI	—	—	0.6540*** (0.0987)	0.6543*** (0.0914)	0.7119*** (0.1153)
Constant	1.2406*** (0.3189)	0.7315** (0.3321)	0.3743** (0.1516)	0.3668** (0.1447)	0.4321 (0.3689)
Observations	31	31	31	31	29
R²	0.002	0.396	0.677	0.682	0.694
Adjusted R²	-0.033	0.303	0.612	0.618	0.628
Covariance estimator	Conventional	Conventional	HAC(2)	HAC(2)	HAC(2)

Source: Author's estimates. Standard errors are in parentheses. *** $p < .01$; ** $p < .05$; * $p < .10$.

So the first null hypothesis is accepted. The evidence is not convincing that such large increases and decreases in company income tax revenue are always a deterrent to foreign investment. The interval is also too large to support strong precision, and the correct conclusion is not that there is no sign of an average effect, but that tax stability is not a factor of much importance (Brooks, 2019).

The controls are more descriptive. The GDP growth coefficient is 0.052 and statistically significant, meaning that the growth of real activity is positively linked with increased inflows of investments (Canh et al., 2020; World Bank, 2025). The coefficient of inflation is -0.020 and statistically significant, suggesting macroeconomic instability is decreasing the attractiveness or real value of projects. The conditional coefficient of depreciation of exchange rate is positive and equals 0.0088. But depreciation is not always a good thing – in the model, it can reflect lower prices of domestic assets or valuation effects, or the expected recovery from a large currency adjustment in 2023–2025 (International Monetary Fund, 2026). The coefficient for lagged FDI is 0.654, which is quite high. The preferred model increases the adjusted R-squared to 0.612.

Figure 7. Partial Association Between CIT Fluctuation and FDI

Source: Author's computation from official annual data (Central Bank of Nigeria, 2023); (National Bureau of Statistics, 2026); (World Bank, 2026)

Interpretive note: After removing the linear influence of growth, inflation, exchange-rate depreciation, and lagged FDI, the fitted tax-fluctuation slope is nearly flat.

The partialted added-variable relationship between tax fluctuation and FDI is plotted in figure 7 (CBN, 2023, NBS, 2026; World Bank, 2026). The line which passes through the points is almost parallel to the x-axis and the points are scattered about the line. This provides visual evidence that supports the very small and insignificant baseline coefficient, and it also helps to demonstrate that the conclusion is not driven by either of the raw series alone.

4.4 Robustness checks

The results in Table 6 validate the contemporaneous conclusion. The tax coefficient ranges from -0.0005 to the same rounded value, and the p values are greater than 0.93, when the Newey–West lag is changed from 1 to 3. If absolute change is replaced by signed tax growth, then the coefficient becomes -0.0038 with a p-value of 0.321. The restriction on the sample to 1995 to 2019 yields a small positive estimate — but not significant — whereas starting in 1996 yields an estimate close to zero. When pandemic and post-2023 event controls are added in as well, the fluctuation in taxes is negligible (Brooks, 2019).

Table 6. Robustness of the Tax-Fluctuation Coefficient

Specification	Coefficient	HAC SE	p-value	Adjusted R ²	N
Baseline, HAC(1)	-0.0005	0.0068	0.942	0.612	31
Baseline, HAC(2)	-0.0005	0.0064	0.938	0.612	31
Baseline, HAC(3)	-0.0005	0.0059	0.933	0.612	31

Specification	Coefficient	HAC SE	p-value	Adjusted R ²	N
Signed CIT growth	-0.0038	0.0039	0.321	0.618	31
Three-year CIT volatility	-0.0199	0.0119	0.095	0.628	29
Pre-pandemic sample, 1995–2019	0.0042	0.0081	0.605	0.598	25
Alternative window, 1996–2025	0.0007	0.0070	0.916	0.612	30
Major-event controls	-0.0024	0.0063	0.701	0.586	31

Source: Author's estimates. The focal variable changes with the named specification.

The one exception is the 3-year rolling standard deviation of tax growth. Its coefficient is -0.0199 with a p-value of 0.095. This estimate is not meaningful at the five per cent level, but is economically larger and only just significant at the ten per cent level (Brooks, 2019). Each 10 percentage points increase in the volatility of trading is correlated to a decrease of 0.20 percentage points in FDI/GDP. The findings corroborate the distinction between isolated annual instability and repeated instability. The rolling measure uses only 29 observations and does not satisfy the ADF test, so it is not considered to be strong evidence.

Investment persistence is still strong for all checks. The annual tax measure is less stable than inflation and output growth (Canh et al., 2020; World Bank, 2025). The second null hypothesis is not strongly rejected, but the third null is rejected since the economic climate and investment lagged in the past are significant determinants of the current influx.

5. Results and Discussion

The primary result is that the average association of the realized company income tax revenue and foreign direct investment in Nigeria is statistically not detectable in this case. This outcome is a vindication of the common notion that foreign investors are only deterred by large changes in tax revenues.

The magnitude of the change in corporate tax receipts can be substantial, but not always because it affects a new activity; profits can grow, compliance can get better, naira-denominated earnings can be inflated because of currency depreciation, to the extent that it is found during audit, or there may be a shift in the sector composition of the tax base (NBS, 2026; OECD, 2025; Garcia-Bernardo & Janský, 2024). An annual movement in annual revenues would not always be a foreign investor contemplating a factory, a telecommunications company or a bank acquisition or an extractive project.

The finding is inconsistent with the Nigerian studies which reported negative impact of high tax burden on foreign investments (Eiya & Okaiwele, 2019) (Ozekhome, 2022), but the

contradiction is more apparent than absolute. The studies cited look at the level, regime or at the individual tax instruments, but the present variable is the amount of revenue shift over a year. Even if there is not a lot of volatility in revenue, a high effective tax rate can discourage investment. On the other hand, volatile receipts can occur due to an economic shock even if statutory liability remains unchanged. So the current evidence is inadequate to demonstrate that corporate tax rates or burdens are immaterial. It demonstrates that an aggregate measure of fluctuations is not a good indicator of the expected effective tax cost to a multinational enterprise.

The low level of three-year tax volatility is more in line with uncertainty theory. Firms have less incentive to invest with high sunk costs if they are not able to predict the policy and administrative landscape. Economic policy uncertainty negatively affects foreign investments (Canh et al. 2020) (Dong 2025), while there is legal uncertainty around corporate taxation, which can make the process of a project more time consuming even if the projected rate is not that high (Zagler 2023). One-off and persistent fluctuation makes sense of the option-value mechanism: one particular fluctuation can be endured by the investor, but a repeated fluctuation may cause a reassessment of the location, and imply an unpredictable policy process. The Nigerian evidence stood at p-value of 0.095 however, which means that the evidence is indicative not conclusive.

The persistence of foreign investments is the biggest strength of the model. The coefficient on lagged FDI suggests that a portion of FDI inflows is based on previous commitments, reinvestment, funding costs being spread over multiple years, supply chain ties, and agglomeration (Alfaro, 2017; UNCTAD, 2024). Foreign projects are typically multi-year projects and a losing host country may not be able to replace the pipeline of investors in a rush. This persistence also implies that tax measures may take some time to have an effect, depending on how much they were applied suddenly and how much they were applied during the year. There is an opportunity for future firm-level studies to isolate and analyse investment announcements, implementation and reinvested earnings.

The positive sign of the relationship between real GDP growth and FDI is in line with market seeking investment. A growing economy boosts expected demand, and indicates profitability, especially in the telecommunications, consumer goods, financial, construction and services sectors. Consequently, the findings are in line with the general hypothesis that the impact and factors behind foreign investment are functions of host country conditions (Alfaro, 2017). It also provides an explanation for why tax concessions might not have much traction during periods of low growth. No incentive can "create" the customer, reliable electricity, logistics capacity or foreign-exchange liquidity.

Foreign investment in the preferred model is negatively related with inflation. High and volatile inflation increases operating costs, makes pricing difficult, hinders financial forecasting, and may be coupled with exchange-rate and policy uncertainty in Nigeria. This channel is particularly relevant for investors who have inputs and/or regulated domestic prices that are imported. This strengthens World Bank's argument that revenue mobilisation needs to be done in a credible macroeconomic setting and not in ways that will worsen cost pressures (World Bank, 2021) (World Bank, 2025). It is also in line with the IMF's focus on coordinated fiscal

and monetary stabilisation (International Monetary Fund, 2025) (International Monetary Fund, 2026).

The positive conditional coefficient of the exchange rate depreciation is a matter of interpretation. A depreciating naira can make domestic assets, including wages, cheaper on foreign exchange than before, thus making investment in the country or exporting more appealing. It can also have a mechanical effect of raising the naira value of foreign-currency revenues and tax revenues.

But when the depreciation is "disorderly," it can raise input costs of imports, and it can prevent the repatriation of profits (IMF, 2026; World Bank, 2025). Thus, estimated coefficient is not a statement of "depreciate"..The estimated coefficient is therefore not a call to "depreciate". It considers the net conditional pattern for this sample, including the adjustment in 2023-2025 followed by an investment recovery. A level of the exchange-rate is more of an objective than exchange-rate stability, and more of a policy objective than the access to the market.

The structural divergence of company income tax revenue and FDI/GDP also becomes apparent from the descriptive evidence, starting in the early 2010s. One explanation may be that tax authorities have now become more efficient at raking more revenue from the same tax base, but without attracting a commensurate number of new foreign projects. One, it was an increase in the nominal value of income in the form of inflation and depreciation of the naira, and the dollar value of investment was not that strong. A third is that non-tax barriers were the main factors determining investors' decisions. The above explanations are not mutually exclusive. The divergence is a cautionary message against assessing the investment climate based on the revenue performance.

The tax overhaul policies in Nigeria, therefore, should be evaluated based on predictability and quality, not the amount of taxes collected. The company-size differential regime in 2019 lowered the tax rate for small companies and maintained the standard company tax rate for larger companies (Federal Republic of Nigeria, 2019). Follow-on reforms: broadened digital rules, amended minimum-tax rules, and improved administration (Federal Republic of Nigeria, 2020) (Federal Republic of Nigeria, 2021) (Federal Republic of Nigeria, 2023). However, if the implementation of the 2025 consolidation is done consistently; guidance provided timely; dispute mechanism credible and effective; and federal and subnational agencies working well together, it may make it more clear (Federal Republic of Nigeria, 2025a) (Federal Republic of Nigeria, 2025b). It is a reform that, if the rules, interpretations or enforcement of the rules change frequently, becomes uncertainty enhancing.

Quality of revenue is also important. Multinational profit shifting is a threat to developing countries as evidenced internationally (Johannesen et al., 2020) (Garcia-Bernardo & Janský, 2024). Improved transfer pricing ability, information sharing and risk-based audits and cooperative compliance can drive revenue without imposing additional statutory cost on legitimate productive investment. These can even enhance neutrality by lessening the advantage of firms that can move profits. The goal should be a wide, easily-staked claim with fewer vague giveaways than regular campaigning.

The outcome has ramifications for tax incentives. Previous Nigerian studies link incentives to foreign investment (Olaniyi et al., 2018) but incentives need to be considered in relation to additionality, cost, and administrative complexity. If it is based on an incentive that is

transparent and has rules associated with it, it can be believed if it is based on investment, employment, exports or research. Uncertainty and rent-seeking can be greater if a negotiated concession varies between firms. The statistics of corporate tax also indicate that the effective tax burdens differ significantly due to allowances and special tax regimes (OECD, 2025). Nigeria needs to provide periodic tax-expenditure reports and address whether there has been an investment that would not otherwise take place because of the tax-expenditure.

In terms of contribution to the study, it is conceptual and empirical. It distinguishes between revenue growth, revenue volatility and chronic volatility (Zagler, 2023; OECD, 2025). The first one could be due to a stronger economy or improved compliance. The second is more temporary. The third is more likely to affect expectations when it is associated with policy or administrative uncertainty. The concepts are often confused and when tax rates come down, they are lowered despite a dramatic rise in receipts, and when tax receipts are high, that is interpreted as the investment climate is good.

The findings are tempered by a number of caveats. The aggregate tax series includes all firms regardless of size, industry, ownership and effective rates, and is not able to distinguish between domestic and foreign-company payments. Even with reconciliation, there is a possibility of discontinuity in the CBN–NBS source transition. FDI/GDP incorporates equity, reinvested earnings and intercompany debt, the latter two of which could be impacted differently by taxation (Johannesen et al., 2020; World Bank, 2026). The annual data include policy changes during the year and may suffer from reverse causality as more FDI means more base for taxation. These concerns are minimized but not eliminated by parsimonious models and event controls and alternative measures.

These constraints outline a more challenging research agenda. Firm-level linked tax returns which include investment and ownership data would allow for the direct testing of effective tax rates, tax shifting and heterogeneous responses (Johannesen et al., 2020; Garcia-Bernardo & Janský, 2024). The data on a quarterly basis for sectors could be correlated, e.g. manufacturing, telecommunications, finance and extractive industries. Using narrative coding might assist to differentiate between exogenous policy shocks and endogenous revenue fluctuations, while event-study designs around important reforms could enhance the capability of causal inference (Zagler, 2023; Brooks, 2019). Until there is such evidence on an annual basis, policy should be made with caution based on aggregate evidence; while the macroeconomic signal may be detrimental, the macroeconomic credibility and project continuity are dominant in the contemporaneous revenue signal.

6. Conclusion and Policy Implications

The effect of variation of company income tax on foreign direct investment in Nigeria (1994–2025) was investigated. The analysis was carried out using HAC (CBN, 2023; NBS, 2026; World Bank, 2026; Brooks, 2019) official tax records, and standard errors of estimated static and dynamic models. The conclusion is that the coefficient of the contemporaneous absolute tax fluctuation is close to zero and not significant. This conclusion holds when alternative covariance lags and signed tax growth are used, as well as when samples are restricted and event controls are employed. Volatility over the last 3 years is negative and slightly statistically

significant, while GDP growth, inflation and lagged foreign investment are more stable predictors.

The evidence leads to a limited interpretation of the policy. There is no reason why Nigeria should opt out of revenue mobilisation while it is favouring foreign investments. It must raise revenue in a way that allows for regular after-tax returns, and boost the public goods that investments rely upon (International Monetary Fund, 2026; OECD, 2025; World Bank, 2025). The absolute amount of money tax revenues gathered from companies should not be taken as an indicator of an undue investment burden, and vice versa, the size of the investment burden should not be interpreted as a sign of weak collection. The source of the revenue change is important.

There are four priorities in the policy. The first is that the new tax framework must be put in place via stable commencement rules, consolidated guidance, advance rulings, published interpretations and reliable dispute resolution (Federal Republic of Nigeria 2025a; Federal Republic of Nigeria 2025b). Second, the revenue authorities should consider the digital filing of tax returns, the information provided by third parties, risk-based audits, and the transfer pricing capacity, instead of enforcing tax returns abruptly (OECD, 2025). Third, tax incentives should be clear, limited in time and be assessed for extra investment not for pre-announced value. Fourth, fiscal reform should be integrated with the process of reducing inflation, functioning foreign exchange market, reliable power and security and logistics of trade (IMF, 2026; World Bank, 2025). Conditions that impact on investment happen more regularly than yearly income from tax receipts.

The findings suggest that the government should draw up a continuous and reconciled series of company income tax and differentiate between domestic companies and foreign-owned companies, current liability tax and tax arrears, audit recovery and refunds. Greater disclosure would allow researchers and investors to distinguish between base expansion and nominal valuations and exceptional collections (NBS, 2026; OECD et al., 2025). It would also increase the transparency of the effect of incentives on revenues.

Some limitations of the study are that the sample size is small, aggregated measures are presented, there is a transition from one source to another, and there is a reverse causality (Brooks, 2019; Zagler, 2023). It is therefore not a sign of a negative correlation between long-term fluctuations of tax rates and lower investment from abroad. The result is seen as an indication that instability is a recurring phenomenon, which must be addressed, while occasional variations from one year to the other is not sufficient to account for the Nigeria's FDI performance. The use of firm-level effective tax rates, sectoral investment, and reform-event designs is suggested for future research. In the case of current policy, the most compelling argument is that predictable taxation and macroeconomic stability go hand in hand as pillars of sustainable corporate revenue and lasting foreign investment (International Monetary Fund, 2026; World Bank, 2025).

Contribution To Knowledge

The study contributes on four aspects. For the Nigerian case, it incorporates Nigerian evidence up to 2025 where inbound tax revenues increased (NBS, 2026, World Bank, 2026); focuses on realised revenue variation rather than the level of the tax; ensures the CBN tax data aligns with the NBS tax data; and adopts parsimonious dynamic models suited to a short annual sample.

While caution needs to be taken in making causal claims, the effects of FDI on tax collections do not necessarily equal the effects of discretionary policy on tax movements.

The question is not whether or not corporate taxes matter in theory, but whether or not instability in realised receipts accounts for investment in excess of macroeconomic conditions. Unmistakable identification of isolated movements and persistent volatility is of particular relevance in Nigeria where the growth-inflation-exchange rate-policy uncertainty nexus plays a crucial role in the decisions of investors with foreign capital (Canh et al., 2020; World Bank, 2025; Zagler, 2023). Investors consider future liability for project life, not just a period of collection. This distinction helps ensure that a higher revenue mobilization would not automatically be seen as a cost of investment and is applicable across the changing tax administrations, investment cycles and macroeconomic regimes. The difference directly shapes policy design and communication with investors.

Declarations

Data availability. The annual dataset and a replication script accompany this manuscript.

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