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The analysis of the impact of corporate income tax on investment in Nigeria

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Abstract
The study evaluated the impact of corporate income tax on investment in Nigeria. It also examined the significant relationship corporate income tax and investment in Nigeria. Secondary data were sourced from Central Bank of Nigeria (CBN) Statistical Bulletins (various issues), National Bureau of Statistics. The data covered 25 years period from 1991-2015. Pearson product moment correlation and multiple regressions were employed to examine the relationship between the dependent variable (Investment) and independent variables (Corporate income tax, Import, Exchange rate and Interest rate). Findings reveals that Corporate income tax (CIT) has a negative impact on Investment (β = -.0000104; $p \leq 0.05$). Interest rate also has negative significant effect on Investment in Nigeria (β =-0.48799; $p \leq 0.05$) with the adjusted R^2 @ 94.2%. In conclusion, corporate income tax has negative and statistical impact on Investment in Nigeria. It is now recommended that Nigeria government should reduce the corporate income tax on companies and work on how interest rate would be minimized in order to accommodate more investment in Nigeria.

Keywords: Investment; Corporate income tax; Interest rate; Exchange rate; Import

Introduction
Background to the Study
Countries have recognized the importance of attracting investment as a means of revitalizing their economies and stimulating growth. This has prompted many countries to work on developing favorable conditions to promote investment. The level of development of any nation depends on the level of the investment irrespective of private and foreign direct investment. Many countries impose tax on the income or capital of some types of legal entities in order to establish or invest for creating employment opportunity for their citizen. One of the taxes imposed by government is corporate income taxes. This corporate income tax generally only applies to corporations and treated as taxable entities separate from their shareholders. That is, corporate income is taxed once at the corporate level according to the corporate income tax system. When corporate dividend payments are made or capital gains are realized income is taxed again at the individual-shareholder level according to the individual tax system. The corporate tax system serves to ensure a comprehensive income tax system.
Investment has been confirmed as the engine of economic growth in many economies, especially in developing economies like Nigeria. Corporate Taxes are a crucial factor when deciding to invest. However, the inflow of investment is attracted not only by tax factors but also by a number of other factors such as macroeconomic stability, legal and regulatory framework to support well structured, skilled labor and a flexible labor market, the available natural resources, financing, degree of openness, the growth of the market size, purchase power of local markets; institutional factors, commerce and location. The inflow of Investment brings several benefits in particular by way of economic growth, infrastructure, human resources, technological development, and employment generation, economic and social well-being of the people in the country. The sensitivity of investment to tax varies depending on the conditions of the country, the tax policies of the companies and the period of time in analysis. it also depends mainly on the conditions of the country, the investment policies established there, types of industry, and commercial activity covered. This study will assess the effect of corporate income tax on investment in Nigeria from 1991- 2015.

Objective of the study

The main objective of this study is to examine the effect of corporate income tax on investment in Nigeria with the following specific objective.

1. To assess the relationship between corporate income tax and investment in Nigeria
2. To appraise the effect of corporate income tax on investment in Nigeria

Research Hypothesis

Ho1: Corporate income tax has no significant relationship on investment in Nigeria.

Ho2: Corporate income tax has no significant effect on investment in Nigeria.

2. Literature Review

2.1Theoretical framework

The accelerator theory

The view that there is a relationship between tax laws and investments behavior is founded upon some theoretical beliefs put forward by some scholars. Lipsey (1979) opine that the determents of investments are national income, rate of investment and expectations. The level of demand for goods is the prime determinant of investment; He stated further that the higher the level of demand and income, the higher the willingness amongst firms to invest, because of the favorable expectations about the future. These are strong borders to the ability of firms in obtaining funds by borrowing. Therefore they tend to finance their investments more from retention out of profits. But the higher level of demand will possibly result in higher a profit which means more for retention and thus limits the ability to invest. The accelerator theory on the other hand assumes a capital output ratio and that the industry would be operating at its full capital if demand for its products increases and the industry is to produce the higher level of output, capital stock must increase and this necessitate new investment which ultimately increase corporate income tax in any country.

2.2Conceptual Review

Administration of Company's Income Tax

Taxation is seen as a burden which every citizen must bear to sustain his or her government because the government has certain responsibilities to perform for the benefit of those it governs (Afberoh and Okoye, 2014). Taxation is the most important source of revenue to the government (Adams, 2001).Two categories of tax payers exist in every economy, the Individual and Corporate tax payers. According to Edam and Okoi (2014) Firms in most cases finance their investment with borrowed funds, as long as the rate of return on capital i.e. the marginal efficiency of capital (MEC), is greater than the interest rate charged on borrowed funds, firms would always like to add to their existing capital being equal to that rate of discount which would make the present value of the series of annuities given by the returns expected from the capital assets during its life just equal to the supply price. Marginal efficiency of capital (MEC) is concerned with the profitability of firms as an additional amount of capital will bring to the economic enterprises. It is therefore not of place to expect the firm to be actually aware of a factor as direct taxation on the expected rate on capital aspect. Consequently, it is presumed that since taxes lower the expected returns they will lower investment expenditures.

Simeon et al. (2009), opened that the principal corporate income tax measure is the effective tax rate that company pays if it complies with its country's laws, defined as the actual corporate income tax owed by the company relative to pre-tax profits.

Company's income taxes are chargeable on the income of all companies operating in Nigeria except those that are specifically exempted by the enabling act. Company taxation is administered by the Federal Inland Revenue Service using the Company's Income Tax Act (CITA). The relevant section of CITA provides that company income tax shall be levied and payable for each year of assessment at the rate of thirty kobo for every Naira in respect of a company's total profits. For the purpose of calculating the amount of tax payable by a company, the federal Inland Revenue board normally makes use of the audited accounts of the Company. The audited accounts will be adjusted to arrive at a taxable profit to which a tax rate of 30% will be applied for Income Tax and 2% will be applied for Education Tax (Olufunke 2012).

Mark (2014), as quoted in Adegbite (2015), stated that Firms maximize profits by optimizing on output and price. Taxes on pure profits or economic rents do not distort a firm's choice of output, and thus do induce distortions or efficiency losses. In practice, since pure profits and economic rents are difficult to measure, taxes are levied on accounting profits. Corporate tax as currently applied is not a tax on pure profits or economic rents. Consequently, the corporate tax in its current form does distort economic decision making, which can reduce overall economic output Corporate income tax rate applied to all corporate income with no write offs of any kind apart from economic depreciation. Corporations in Nigeria pay tax to federal Inland Revenue Service irrespective of their residence (Okpe, 1998, Ani & Ugbor, 2010, Kiabel & Nkikpasi, 2009, Ojo, 2008). Corporate tax is a tax paid by corporations based on the amount of profit generated (Aransiola, 2013). Tax is assessed on total profits in pursuance to audited accounts which are subjected to adjustments. This study sets to identify the means corporate taxes have been utilized to promote fiscal redistribution of income, point out challenges if any that hinders the use of corporate taxation as revenue generation in Nigeria.

2.3 Empirical Review

Ofoegbuet al. (2016), examined the effect of tax revenue on the economic development of Nigerian, and to ascertain whether there is any difference in using HDI and GDP in establishing the relationship. The study used annual time series data for the period 2005-2014 to estimate a linear model of tax revenue and human development index using ordinary least square (OLS) regression technique. Findings show a positively and significantly relationship between tax revenue and economic development. The result also reveals that measuring the effect of tax revenue on economic development using HDI gives lower relationship than measuring the relationship with GDP thus suggesting that using gross domestic product (GDP) gives a painted picture of the relationship between tax revenue and economic development in Nigeria.

Adegbie and Fakile (2011) studied the relationship between Company Income Tax and Nigeria Economic Development relationship. Using Chi-square and Multiple Linear Regression analysis in analyzing the primary and secondary data respectively and concluded that there is a significant relationship between company income tax and Nigerian economic development. And that tax avoidance and evasion are major hindrances to revenue generation.

Edam and Okoi (2014) used ordinary least square method of multiple regression analysis to examined the impact of taxation on investment and economic growth in Nigeria from 1980-2010. The annual data were sourced from the central bank of Nigeria statistical bulletin and NBS. The result of the analysis showed that there is inverse relationship between taxation and investment. The economic implication of the result is that a one percent (1%) increase in CIT will result in decrease in the level of investment in Nigeria. Consequently, an increase in PIT will result in decrease in the level of investment. the result therefore showed that taxation is negatively related to the level of investment and the output of goods and services (GDP) and is positively related to government expenditure in Nigeria.

Adegbite (2015) assessed the effect of corporate tax on revenue profile in Nigeria and also examined the impact of corporate tax revenue on economic growth in Nigeria. Secondary data was obtained from Central Bank of Nigeria Statistical Bulletin from 1993 to 2013 and Multiple regressions analysis was employed to analyzed the relationship between the dependent variable (Gross Domestic Product (GDP)) and independent variables (company income tax, value added tax, petroleum profit tax and inflation). It is therefore concluded that corporate income tax has positive significant impact on revenue profile in Nigeria with the Adjusted R2 of 95.3% which directly enhanced growth in Nigeria.

Madugba et al. (2015), worked on corporate tax and revenue generation: The study tested the relationship between Petroleum Tax Income (PTI) on Total Consolidated Revenue (TCR) and the relationship between Companies Income Tax (CIT) on Total Consolidated Revenue. Pearson correlation and simple regression was used to analyzed the data gotten from Central Bank of Nigeria Annual Statistical Bulletin of various years. The result of the correlation showed a positive significant relationship between Petroleum Tax Income and TCR. Also it showed a positive significant relationship between Companies' Income Tax (CIT) and Total Consolidated Revenue (TCR). The regression result revealed a negative significant relationship between Petroleum Tax Income and Total Consolidated Revenue and Companies Income Tax and TCR.

Becker et al. (2012), measured the relative importance of quality and quantity effects of corporate taxation on foreign direct investment. They conclude that booth effects of corporate tax have a negative impact on foreign direct investment. Chude and Chude (2015), ascertained the impact of taxation on the profitability of companies in Nigeria. The study used secondary sources of data and a time series econometric technique with an error correction model tested the variables most likely to impact on profitability of companies in Nigeria. The study revealed that the level of company tax has significant effect on the profitability, that company income tax (CIT) has significant effect on profitability.

Mutti and Grubert (2004) carried out research on the impact of taxes on the horizontally integrated international organizations which are considering foreign investment. They conclude that foreign investment is sensitive to the host country tax rates and this sensitivity is greater in developing than in developed countries and increases over time. Tremblay (2010) brought out that the absence of a neutral relationship between corporate taxes and investment to the human capital. In his study he comments negative relationship after adhering employee and company investing to the human capital and positive relationship after adhering only company investment to the human capital.

3. Research Methodology

3.1. Method of Data Collection

Secondary data was used for the study which were obtained from Central Bank of Nigeria (CBN)

Statistical Bulletins (various issues), National Bureau of Statistics. The data covered 25 years period from 1991-2015.

3.2. Method of Data Analysis

Regression analysis technique was used to measure the relationship between a dependent variable and independent variables. Pearson product moment correlation was used to examine the significant relationship among the variables.

3.3. Model Specification

Model 1

This Model evaluated the impact of corporate tax on investment in Nigeria. Investment is dependent variable where company income tax, import, exchange rate and interest rate are independent variables

$$\boldsymbol{INV = f(CIT, IMPT, EXCH, INTR)} \ (\mathbf{1})$$

$$\sum_{i=1}^{n} \boldsymbol{INV} = \boldsymbol{a0} + \sum_{i=1}^{n} \boldsymbol{a1CIT} + \sum_{i=1}^{n} \boldsymbol{a2IMPT} + \sum_{i=1}^{n} \boldsymbol{a3EXCH} + \sum_{i=1}^{n} \boldsymbol{a4INTR} + \mu\mathbf{1} \ (\mathbf{2})$$

$$\sum_{i=1}^{n} \boldsymbol{LOGINV} = \boldsymbol{a0} + \sum_{i=1}^{n} \boldsymbol{a1LOGCIT} + \sum_{i=1}^{n} \boldsymbol{a2LOGIMPT} + \sum_{i=1}^{n} \boldsymbol{a3LOGEXCH} + \sum_{i=1}^{n} \boldsymbol{a4LOGINTR} + \mu\mathbf{1} \ (\mathbf{3})$$

$$r = \frac{n\Sigma wc.sf - \Sigma wc\Sigma sf}{\sqrt{\left(n\Sigma wc^2\right) - \left(\Sigma wc\right)^2} . \sqrt{\left(n\Sigma sf^2\right) - \left(\Sigma sf\right)^2}} \quad \mathbf{(4)}$$

Where n = no of observations

r = Coefficient of correlation showing the degree of relationship between the dependent variable and independent variable.

VI. Results and Discussion

Table 1: The Effect of Corporate Income Tax on Investment in Nigeria

Dependent Variable	Independent Variables	Coefficient	Standard Error	T	P>|t	[95%Conf. interval]
INV	LOGCIT	-.0000104	.0026777	-4.97	0.000	-.0056149 .005594
	LOGIMPT	.0079193	.0028287	2.80	0.011	.0019988 .0138399
	LOGEXCH	.0978670	137.9415	6.54	0.000	613.0719 1190.502
	LOGINTR	-4.887999	1179.151	-4.15	0.001	-7355.992 -2420.007
	constant	12.49188	22849.72	5.47	0.000	77093.82 172743.9
R-squared = 0.9523	Adj R-squared = 0.9423		Prob> F = 0.0000		F(4, 20) = 94.93	Root MSE = 23091

Source: Researcher's computation (2017) using STATA Version 12

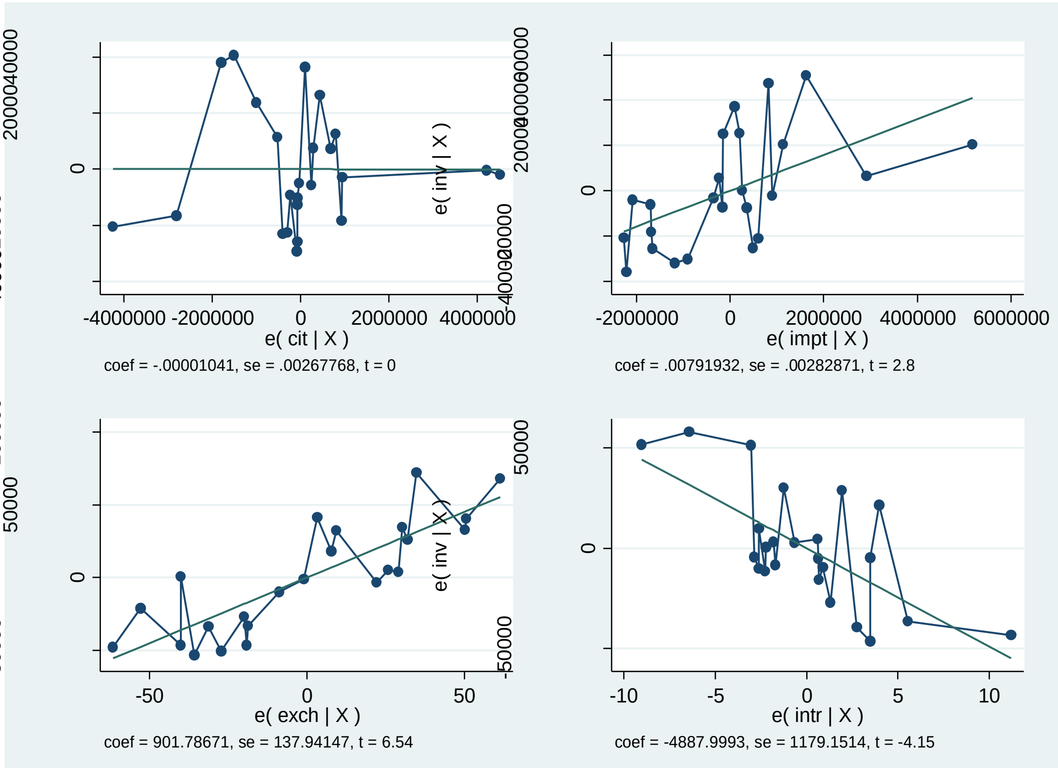

Fig 1: The regression plots of the above Table I

The effects of Corporate income tax on Investment in Nigeria are shown in table 1 above. 1% increase in the Corporateincome tax (CIT) reduces Investment (INV) by 0000.1%. This suggests a negative significant effect of CIT on INV. 1% increase in Import (IMPT) increases Investment (INV) by 00.79 %.This means that the relationship between IMPT and INV is positive suggesting that if IMPT increases INV also increases. More so, 1% increase in Exchange rate (EXCH) increases Investment (INV) by0.9%. This also suggests a positive significant effect of EXCH on INV. Furthermore, 1% increase in Interest rate (INTR) reduces Investment (INV) by 0.4%. This reveals a negative significant effect of INTR on INV. This is suggesting that if INTR in Nigeria increases, Investment (INV) decreases.

Given coefficient of determination (R^2) to the tune of 95.23 (95.2%) with the adjusted R^2as 94.2%, it connotes that the independent variables incorporated into this model have been able to determine the effects of corporate income tax on Investment to 95%.The F and probability statistics also confirmed the significance of this model. This hypothesis is that Corporate income tax has no significant effect on Investment in Nigeria. From the decision rule above, because the p-value is equals 0.000 which is less than 0.05, therefore the null hypothesis is rejected while the alternative hypothesis is upheld that is Corporate income tax has negative significant effect on Investment in Nigeria.

Table 2: The relationship between Corporate Income Tax and Investment in Nigeria

	LOGINV	LOGCIT	LOGIMPT	LOGEXCH	LOGINTR
LOGINV	1.0000				
LOGCIT	**0.4967***	1.0000			
LOGIMPT	**0.8472***	**0.6724***	1.0000		
LOGEXCH	**0.9273***	**0.4323***	**0.7589***	1.0000	
LOGINTR	**-0.7823***	**-0.2819**	**-0.5826***	**-0.6365***	1.0000

**. Correlation is significant at the 0.01 level (2-tailed)*. Correlation is significant at the 0.05 level (2-tailed). Source: Researchers' computation (2017) using STATA Version 12

The table 2 above shows the relationship between Investment and Corporate Income Tax in Nigeria. The table shows that Investment in Nigeria (INV) has positive significant relationship with corporate income tax (CIT) with the value 0.4967*. Import (IMPT) also has positive significant relationship with Investment in Nigeria with the value of 0.8472*. This result implies that an increase in Import (IMPT) leads to increase in Investment in Nigeria. Also, Exchange rate (EXCH) has positive correlation with Investment (0.9273*) in Nigeria. This result implies that the increase in Exchange rate (EXCH) also leads to increase in Investment in Nigeria. In other way round, Interest rate has negative significant relationship with Investment in Nigeria with the value of (-0.7823**)** This implies that if interest rate increases the level of investment in Nigeria decreases. This hypothesis is that Corporate income tax has no significant relationship with Investment in Nigeria. Therefore the null hypothesis is rejected while the alternative hypothesis is advocated that is corporate income tax has positive significant relationship on Investment in Nigeria.

VII. Summary and Conclusion

This study examined the effects of Corporate Income Taxon Investment in Nigeria from 1991 to 2015.This study used Pearson product moment correlation and multiple regression analysis technique. Multiple regression analysis technique was used to perceive the effects of corporate income tax on investment. However, based on the outcome of the study, there is a negative effect of corporate income tax (CIT) on Investment in Nigeria. All other variables have positive significant effect on Investment in Nigeria with the exception of Interest rate which has negative significant effects on Investment in Nigeria. Also there is a positive significant relationship among Investment, Import, Corporate income taxes and Exchange rate means that when Import duties, Corporate income taxes and Exchange rate increase, Investment also increases. The higher the interest rate, the lower the level of Investment in Nigeria. In conclusion, Corporate income tax has negative and statistical impact on Investment in Nigeria. It is now recommended that Nigeria government should reduce the corporate income tax on companies and work on how interest rate would be minimized in order to accommodate more investment in Nigeria.

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