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The Impact of Corporate Tax Policies on Foreign Direct Investment (FDI)

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ABSTRACT

The study investigates the impact of corporate tax policies on foreign direct investment. The study adopted an ex-post-facto research design. Two quoted companies namely, Dangote cement plc and 7up Nigeria bottling company were used as case study. secondary data were also sourced from reputable authority like CBN statistic bulletin etc. The data collected covered a period of 11year (2014-2024). Data collected were analysed using multiple linear regression analysis. From the analysis, result showed that political stability is a key determinant of corporate tax policies, since it fosters investor confidence, enhances tax compliance, and ensures policy continuity. It further showed that while market size influences tax policies, regulatory frameworks and industry-specific incentives may have a greater impact. While the insignificance of FDI and GDP growth suggests that corporate taxation in this sector is driven more by structural and policy factors than by direct economic performance.Based on these findings, it is recommended that policymakers focus on strengthening political stability as a key strategy for improving corporate tax revenue. Also ensuring transparent governance, reducing policy uncertainty, and fostering institutional stability will contribute to a more predictable tax environment. Additionally, expanding market opportunities through investment-friendly policies can enhance tax revenue generation

Keywords: Corporate Tax and FDI, Impact of Tax Policies on Investment, Foreign Direct Investment Trends, Corporate Taxation and Economic Growth,FDI and Business Tax Regulations

I. INTRODUCTION

Background of the Study

Foreign Direct Investment (FDI) plays a pivotal role in the economic development of countries by providing capital inflows, generating employment, and facilitating technology transfer. As globalization intensifies, nations compete to attract FDI, recognizing its potential to stimulate economic growth and enhance competitiveness. Historically, countries have employed various tax strategies to attract FDI. In the early 2000s, the Organisation for Economic Co-operation and Development (OECD) highlighted the increasing use of corporate tax incentives as a tool to lure foreign investors (OECD, 2001). These incentives ranged from tax holidays and reduced tax rates to exemptions on specific types of income. The rationale was that lower tax burdens would enhance the after-tax return on investment, making a country more attractive to foreign investors.Among the various factors influencing FDI, corporate tax policies have garnered significant attention from policymakers and researchers alike. The relationship between corporate taxation and FDI is complex, involving considerations of tax rates, incentives, and the broader fiscal environment. Understanding the nexus between corporate tax policies and FDI is crucial for several reasons. It willinform policymakers on how to structure tax regimes that are both competitive and equitable, balancing the need to attract foreign investment with domestic revenue requirements. Also it will aids multinational corporations in making informed decisions about where to allocate resources, considering the tax implications of their investments as well as contributes to academic discourse by providing empirical evidence and theoretical insights into the dynamics of international investment flows.It's as result of this study the Impact of Corporate Tax Policies on Foreign Direct Investment (FDI)

Statement Of Problem

Foreign Direct Investment (FDI) is a critical driver of economic growth, fostering technological advancement, job creation, and market expansion. Policymakers and economists recognize the importance of attracting FDI to stimulate national development, particularly in emerging and developing economies. However, corporate tax policies remain a contentious factor influencing FDI inflows. Governments worldwide employ various tax incentives, exemptions, and rate adjustments to attract foreign investors, yet the effectiveness of these policies remains debatable. Empirical evidence suggests a mixed relationship between corporate tax regimes and FDI, with some studies indicating a positive correlation between lower corporate tax rates and increased FDI, while others highlight the dominance of non-tax factors such as infrastructure, political stability, and market potential.Despite extensive research on the determinants of FDI, a critical gap persists regarding the nuanced impact of corporate tax policies in different economic contexts. Existing literature predominantly focuses on either developed economies or broad cross-country analyses, often overlooking the heterogeneity of tax structures and their sector-specific implications. This gap underscores the need for a comprehensive, context-specific analysis of corporate tax policies and their effectiveness in attracting FDI and failure to address this research gap has significant policy and economic implications. Therefore, this study seeks to examine the the impact of Corporate Tax Policies on Foreign Direct Investment (FDI).

Aim/ Objectives of the study

The aim of the study is tin investigate the Impact of Corporate Tax Policies on Foreign Direct Investment (FDI). Specifically, the study will;

1. analyze the relationship between corporate tax policies and FDI inflows across different economic contexts.
2. examine the effectiveness of various corporate tax incentives in attracting foreign direct investment.
3. assess the influence of corporate tax rates on investor decision-making compared to non-tax factors such as infrastructure and political stability.

Literature Review
Conceptual Framework

Corporate tax policies refer to the set of laws and regulations enacted by a government that determine the taxation framework applicable to corporate entities. **(**Congressional Research Service, 2023) while Foreign Direct Investment (FDI) is defined as an investment made to acquire a lasting interest in enterprises operating outside of the economy of the investor. (Akhtar & Cimino-Isaacs, 2025)

Theoretical studies
Relationship between corporate tax policies and FDI inflows

The influence of corporate income tax (CIT) on FDI decisions is multifaceted. The Organisation for Economic Co-operation and Development (OECD) (2025) emphasizes that while CIT design can significantly impact private sector investments, especially in clean technologies, the overall effect is mediated by broader fiscal and economic contexts. The report suggests that achieving net-zero climate goals necessitates substantial private sector investment, which can be influenced by CIT policies (OECD, 2025). Erokhin (2023) investigates the tax-related determinants of indirect FDI, particularly the effects of bilateral effective average tax rates and anti-tax avoidance. The study reveals that higher bilateral effective average tax rates lead to an increase in indirect FDI, where investors opt to invest through third countries to mitigate tax liabilities. This finding underscores the complexity of tax considerations in FDI decisions.

Beyond tax rates, legal certainty and institutional quality play pivotal roles in attracting FDI. in International Economics (2022),examined the impact of legal uncertainty surrounding corporate income taxation on FDI in developing economies. The findings suggest that ambiguities in tax laws can deter foreign investors due to increased risk and unpredictability.Furthermore, Hossain et al. (2024) investigate the determinants of FDI inflows in Latin American countries, emphasizing the significance of political and institutional factors. The study concludes that stable and transparent governance structures are more influential than tax incentives in attracting FDI, highlighting the necessity for comprehensive policy frameworks that extend beyond mere fiscal incentives.

The interplay between macroeconomic variables and effective corporate tax rates has also been a subject of recent inquiry. A study focusing on Slovakia's competitiveness within the European Union from 2004 to 2022 identifies significant correlations between nominal tax rates, unemployment, government debt, and effective tax rates. The research suggests that while tax rates are important, macroeconomic stability plays a crucial role in shaping a country's investment climate (MDPI, 2024).

Effectiveness of various corporate tax incentives in attracting foreign direct investment

Appiah-Kubi et al. (2021) conducted a comprehensive analysis of the influence of tax incentives on FDI within African economies, utilizing data spanning from 2000 to 2018. The study employed econometric models to assess the correlation between various tax incentives and FDI inflows, the finding showed that while tax incentives have a positive impact, their effectiveness is contingent upon factors such as political stability and infrastructure quality. Similarly, Kumar and Chandel (2023) evaluated the effectiveness of tax incentives in promoting FDI in India through a descriptive research design analysing secondary data. Their findings suggest that although tax incentives play a role in attracting FDI, other elements like political stability, market size, and infrastructure significantly influence investment decisions.

Influence of corporate tax rates on investor decision-making

The influence of corporate tax rates on investor decision-making has been a focal point in contemporary economic research. A lot of studies look into the relationship between corporate tax rates and investment decisions. For instance, Chen (2024) investigated the effects of the OECD's global minimum tax (GMT) on multinational enterprises (MNEs), revealing that the GMT reshapes tax competition and influences MNEs' investment behaviors. The study utilized a formal model of tax competition between asymmetric countries to assess the impact of the GMT on MNEs' profit-shifting and capital investment decisions. The implementation of tax policies also significantly impacts on corporate behaviour. recent article in The Wall Street Journal (2025) highlighted business concerns over potential limitations on corporations' ability to deduct state and local taxes (C-SALT) from federal taxable income. This proposal could effectively raise tax rates and influence corporate decision-making regarding investments and operations.

Understanding investor perceptions of corporate taxes is also crucial for comprehending investment behaviors. Kenan Institute of Private Enterprise (2024) explored how individual investors consider corporate taxes in their decision-making processes. The findings suggest that policy interventions reducing incentives for elaborate tax planning can meaningfully decrease corporate tax risk-taking, thereby influencing investor confidence and decisions.

International tax reforms also play a pivotal role in shaping investor decisions. For example, Brazil's plan to tax overseas profits and high incomes to offset broader tax exemptions for low-income individuals illustrates how changes in tax policy can impact multinational corporations and their investment strategies. This policy aims to balance revenue losses from tax exemptions with new taxes on corporate profits and dividends sent abroad, affecting decisions on profit repatriation and investment allocations.

Theoretical Framework

This study is anchored in the Taxation Theory of FDI, originally developed by Hartman (1984), and further expanded through the work of Devereux and Griffith (1998). This theory posits that corporate tax policies significantly influence foreign direct investment (FDI) inflows by altering the after-tax return on investment. In other words, the theory suggests that multinational enterprises (MNEs) make location-specific investment decisions based on tax differentials between host and home countries, along with other economic and institutional factors.

The Taxation Theory of FDI is relevance in this study because its it provides a lens through which the impact of corporate tax policies on FDI can be assessed. By applying this theory, the research examines how variations in corporate tax rates, incentives, and regulatory frameworks influence investment decisions by foreign firms. The theory helps contextualize how tax burdens or relief mechanisms shape investor preferences, allowing for a structured analysis of the relationship between tax policies and FDI inflows

Methodology

Research Design

This study adopts an ex-post-facto research design to examine the impact of corporate tax policies on foreign direct investment (FDI). Ex-post-facto research is appropriate for analysing historical data to identify patterns, relationships, and causal inferences without manipulating independent variables (Creswell & Creswell, 2018). This design allows for a robust examination of how corporate tax policies have influenced FDI inflows over time.

Study Area

The study is conducted in Nigeria. The scope of the study also cover Dangote cement plc and 7up Nigeria bottling company which are quoted company in Nigeria.

Secondary Data Collection

This study sourced secondary data from reputable sources, including:Government Databases (e.g., World Bank, OECD, IMF, UNCTAD) for macroeconomic indicators and tax policy data.Financial Reports from multinational corporations and investment agencies.Economic Indicators from national statistical agencies and central banks. Peer-Reviewed Studies published in high-impact journals to provide comparative insights (Yin, 2018). The study data cover a period of 11year (2014 -2024)

Data Reliability and Validity

To ensure the credibility of secondary data is crucial. Data sources were evaluated based on authenticity, accuracy, and recency (Babbie, 2020). Governmental and international organizations are preferred for economic data due to their standardized methodologies and rigorous verification processes. Peer-reviewed journal articles were selected based on impact factors and citation indexes to ensure academic integrity.

Measurement Variables

Independent Variable: The independent variable used in the study is corporate tax police which is proxied by corporate tax.

Dependent Variable: the dependable variable is the FDI Inflows proxiedby percentage of GDP (continuous variable), Inflation Rate andMarket Size (Population & GDP per Capita) Political stability index

Model Specification

Econometric Model

To analyze the impact of corporate tax policies on FDI, a panel regression model was employed derived as follows

$CPT = FDI_{it}$--(i)

But FDI_{it}=$GDPG_{it,}$+ Market size + political stability index..........................(ii)

Hence, substituting equal (ii) variables into equal (i) we have equal (iii) as the general equation model specification

$CPT = \beta_0 + \beta GDPG_{It} + \beta_0 MarketSize_{it}(MS)_+ \beta_0$political stability $index_{it}(PSI+e_{it}$……..(iii)

Where

- CPT_{it} = Corporate tax rate and incentives
- FDI_{it}= Foreign Direct Investment inflows in country at time.
- $GDPG_{it}$= GDP growth rate.
- PSI_{it}= Political stability index.
- MS_{it}= Market size (population, GDP per capita).
- e_{it}= Error term.

Method of Data Analysis

The data collected were subjected to liner multiple regression analysis, Time-Series Analysis to examining trends and changes over multiple years.

II. RESULT

Table 1:Impact of Corporate Tax Policies on FDI A Regression Analysis Result of Dangote Cement PLC

Variables	Coefficient	Std. Error	t	P
Constant -	99.913	64.416	-1.551	0.172
FDIit	0.0297	0.0224	1.327	0.233
GDPGit	6.410	5.136	1.248	0.259
PSIit	79.327	17.391	4.561	0.004
MSit	0.0149	0.131	0.114	0.913

CPTit = -99.913 + (0.0297 * FDIit) + (6.410 * GDPGit) + (79.327 * PSIit) + (0.0149 * MSit)

R = 0.891 Rsqr = 0.794 AdjRsqr = 0.656

Standard Error of Estimate = 13.705

The regression analysis results presented in Table 1 provide an empirical assessment of the impact of corporate tax policies on foreign direct investment (FDI) within the operational framework of Dangote Cement PLC. The estimated regression equation is given as CPTit = -99.913 + (0.0297 * FDIit) + (6.410 * GDPGit) + (79.327 * PSIit) + (0.0149 * MSit), indicating the relationship between corporate tax policies and key macroeconomic variables.The coefficient of FDI (0.0297) with a standard error of 0.0224 and a t-value of 1.327 suggests a weak positive relationship between foreign direct investment and corporate tax policies. The p-value of 0.233 exceeds the standard significance thresholds, indicating that the impact of FDI on corporate tax policy is not statistically significant in this model. However, the positive coefficient implies that a marginal increase in FDI is associated with a slight increase in the corporate tax burden, potentially due to higher corporate profitability attracting taxation.

The effect of GDP growth rate (GDPGit) on corporate tax policies is captured by a coefficient of 6.410, with a standard error of 5.136 and a t-value of 1.248. Although the p-value of 0.259 indicates that this relationship is not statistically significant, the positive coefficient suggests that higher economic growth is linked to an increase in corporate tax revenue. This finding aligns with economic theory, which posits that a growing economy enhances business profitability, leading to greater taxable income.

On the other hand,Political stability (PSIit) emerges as the most significant determinant of corporate tax policies in the model, with a coefficient of 79.327, a standard error of 17.391, and a t-value of 4.561. The p-value of 0.004 confirms strong statistical significance, suggesting that greater political stability contributes substantially to corporate tax structures. A stable political environment fosters investor confidence, reduces operational risks, and enhances tax compliance, thereby strengthening the corporate tax base. While, Market size (MSit) exhibits a negligible influence on corporate tax policy, with a coefficient of 0.0149, a standard error of 0.131, and a t-value of 0.114. The extremely high p-value of 0.913 suggests a lack of statistical significance, indicating that variations in market size do not meaningfully affect corporate tax policies in this context. This result may be attributed to the possibility that taxation is more influenced by firm-specific factors rather than overall market size.

The overall model fit is assessed through the regression statistics. The correlation coefficient (R) of 0.891 suggests a strong linear relationship between corporate tax policies and the independent variables. The R-squared value (0.794) indicates that approximately 79.4% of the variation in corporate tax policies is explained by the included predictors, demonstrating a relatively high explanatory power. However, the adjusted R-squared value of 0.656 reflects a moderate reduction after accounting for the number of predictors in the model. Lastly, the standard error of estimate (13.705) suggests some degree of variability in the regression predictions, implying the presence of other unaccounted factors influencing corporate tax policies.

Table 2:Impact of Corporate Tax Policies on FDI A Regression AnalysisResult ofSeven-Up Bottling Company Nigeria,

Variable	Coefficient	Std. Error	t	P
Constant	-353.038	85.988	-4.106	0.006
FDIit	0.0720	0.165	0.437	0.677
GDPGit	-0.0304	0.117	-0.260	0.804
PSIit	177.873	39.873	4.461	0.004
MSit	0.194	0.0882	2.194	0.071

CPTit = -353.038 + (0.0720 * FDIit) - (0.0304 * GDPGit) + (177.873 * PSIit) + (0.194 * MSit)
R = 0.908 Rsqr = 0.825 Adj Rsqr = 0.708
Standard Error of Estimate = 10.108

Table 2 examines the impact of corporate tax policies on foreign direct investment (FDI) within the operational framework of Seven-Up Bottling Company Nigeria. The estimated regression equation is CPTit = -353.038 + (0.0720 * FDIit) - (0.0304 * GDPGit) + (177.873 * PSIit) + (0.194 * MSit), which captures the relationship between corporate tax policies and key economic indicators. The constant term of -353.038, with a standard error of 85.988, reflects the baseline level of corporate tax policies in the absence of explanatory variables. The negative coefficient suggests an inherent downward pressure on corporate taxation, possibly due to structural inefficiencies or external macroeconomic constraints. The coefficient of FDI (0.0720), with a standard error of 0.165, suggests a positive but weak relationship between foreign direct investment and corporate tax policies. The t-value of 0.437 and p-value of 0.677 indicate that this variable is not statistically significant, implying that fluctuations in FDI inflows do not exert a substantial impact on corporate tax policies within the studied framework. The relatively small magnitude of the coefficient suggests that corporate tax policies are not primarily driven by FDI inflows, possibly due to existing tax incentives or sector-specific exemptions aimed at attracting foreign investment.

The GDP growth rate (GDPGit) presents a coefficient of -0.0304, with a standard error of 0.117, signifying an inverse relationship between economic growth and corporate tax policies. The t-value of -0.260 and p-value of 0.804 confirm that this variable is not statistically significant. The negative coefficient suggests that an increase in GDP growth may lead to a reduction in corporate tax burdens, possibly due to government policies favoring economic expansion through reduced taxation. However, the lack of statistical significance indicates that GDP growth is not a key determinant of corporate tax variations within this model.

Political stability (PSIit) emerges as the most influential variable, with a coefficient of 177.873, a standard error of 39.873, and a t-value of 4.461. The p-value of 0.004 indicates strong statistical significance, highlighting the crucial role political stability in shaping corporate tax policies. The large positive coefficient suggests that improved political stability contributes substantially to corporate taxation structures, potentially by fostering investor confidence, ensuring policy consistency, and enhancing tax compliance mechanisms. This finding underscores the importance of political stability in sustaining fiscal policies that encourage both domestic and foreign investments.Market size (MSit) is associated with a coefficient of 0.194, a standard error of 0.0882, and a t-value of 2.194. The p-value of 0.071 suggests marginal statistical significance, indicating that market size exerts a moderate impact on corporate tax policies. The positive coefficient implies that as the market expands, corporate tax revenues are likely to increase due to higher business activities and increased taxable income. While not statistically significant at conventional levels, the relatively low p-value suggests that market size could still play a relevant role in corporate tax considerations.

The overall model fit is evaluated using key regression statistics. The correlation coefficient (R) of 0.908 signifies a strong relationship between corporate tax policies and the independent variables, indicating that the model captures a significant portion of the variations in corporate taxation. The R-squared value of 0.825 suggests that approximately 82.5% of the variation in corporate tax policies is explained by the included predictors, demonstrating a high explanatory power. However, the adjusted R-squared value of 0.708 reflects a slight reduction after accounting for the number of predictors, suggesting that some explanatory variables may contribute less to the overall model.

III. CONCLUSION

In conclusion, the study underscores the importance of political stability as a fundamental driver of corporate tax policies. It was also evident that a stable political environment fosters investor confidence, enhances tax compliance, and ensures policy continuity, all of which contribute to a robust taxation framework. The findings also suggest that while market size plays a role in shaping tax policies, other factors, such as regulatory frameworks and industry-specific tax incentives, may have more direct implications. The lack of statistical significance for FDI and GDP growth implies that corporate taxation in this sector may be influenced more by structural and policy factors than by direct economic performance indicators. The finding agrees with the finding of Kumar and Chandel (2023) whose findings suggest that although tax incentives play a role in attracting FDI, other elements like political stability, market size, and infrastructure significantly influence investment decisions

Based on these findings, it is recommended that policymakers focus on strengthening political stability as a key strategy for improving corporate tax revenue. Ensuring transparent governance, reducing policy uncertainty, and fostering institutional stability will contribute to a more predictable tax environment. Additionally, expanding market opportunities through investment-friendly policies can enhance tax revenue generation.

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