

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

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ABSTRACT

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

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