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CORPORATE TAX POLICIES AND INVESTMENT DECISIONS IN NIGERIA

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Abstract:

One of the most important issues discussed in economics is on how taxes as means of fiscal policy at ensuring stabilizing the general economy relate to economic growth of developing countries such as Nigeria. The purpose of the study is to investigate the impact of corporate tax policies and investment decisions in Nigeria. Collected data on this topic ranges from the period of 11 years, 2011 to 2024 using multiple regression analysis. The data was sourced mainly from CBN Statistical Bulletin and Federal Inland Revenue Service (FIRS) statistics report. It is concluded that education tax (EDT) has negative relationship without statistical significant with earnings per share (EPS), however, the co-efficient of capital gain tax (CGT), company income tax (CIT) has positive relationship on earnings per share with statistical significant effect. It is recommended that government to ensure that all companies are captured in the tax net and fully comply with the payment of tax. As a matter of fact, there is the need to enforce penalty for companies that evade tax.

Keywords: Investment Decisions, Tax, Capital Gain Tax, Company Income Tax, Economy.

1. Introduction

The role of corporate tax policies in shaping investment decisions has long been a subject of interest among economists, policymakers, and corporate strategists. In developing economies like Nigeria, where investment growth is a vital component of economic development, understanding how corporate tax systems influence firm behavior is crucial. Taxes, while necessary for revenue generation and public expenditure, can either stimulate or suppress investment depending on their structure, burden, and implementation (Aliyu & Ibrahim, 2022). The Nigerian tax system includes several instruments that affect corporate decision-making, among which company income tax, education tax and various tax incentives.

In the face of these tax-related pressures, financial planning emerges as a strategic tool for navigating fiscal complexities. Effective financial planning enables firms to forecast liabilities, optimize tax expenditures, manage cash flows, and align their investment strategies with long-term objectives. It involves not only budgeting and forecasting but also tax planning and scenario analysis to evaluate the most financially viable paths under various regulatory conditions. Sound financial planning allows companies to better utilize available tax incentives while ensuring compliance and minimizing exposure to tax risks (Uchenna, Okafor & Eze, 2024). However, many Nigerian firms particularly small and medium scale enterprises lacks the financial literacy or access to professional advisory services needed to undertake comprehensive financial planning. As a result, their investment decisions may not fully consider the mediating effects of tax strategies, leading to missed



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opportunities or adverse financial outcomes. For large firms, while resources for financial planning may be available, frequent changes in Nigeria's tax laws, inefficiencies in administration, and limited predictability in tax enforcement complicate long-term planning and increase business uncertainty (Bello & Olatunji, 2023).

Additionally, the Nigerian investment landscape is influenced by structural challenge such as policy inconsistency, inadequate infrastructure, corruption, and weak institutional enforcement. Even where tax incentives are provided, these macroeconomic constraints often hinder their full effectiveness in stimulating investment. Hence, a critical examination of how corporate tax policies influence investment decisions, with financial planning as a mediating factor, is both timely and essential (Uchenna et al, 2024). Recent empirical research has increasingly pointed to the importance of mediating variables such as internal financial strategy in shaping how fiscal policies affect corporate behavior. While much has been written about tax burdens and incentives in Nigeria, limited attention has been given to how financial planning mediates the tax-investment relationship. Many Nigerian companies struggle to align their tax strategies with corporate goals due to poor financial literacy, lack of fiscal discipline, and inadequate access to professional financial advisory services. Consequently, tax burdens may be improperly managed, leading to suboptimal investment decisions, financial distress, or missed opportunities to benefit from available incentives. Moreover, empirical studies have produced mixed findings. Some assert that high tax rates discourage investment (Aliyu & Ibrahim, 2022), while others contend that effective tax planning can turn potential tax liabilities into strategic advantages (Uchenna, Okafor & Eze, 2024). The primary objectives is to examine the role of corporate tax policies and investment decisions in Nigeria with specific objectives include to access the effect of company income tax, capital gain tax and educational tax on investment decisions in Nigeria.

2. Literature Review

As highlighted by Ezenwa and Okoyeuzu (2022), corporate tax policies can either stimulate or hinder business activities depending on their structure enforcement, and perceived fairness. When tax rates are perceived as excessive or arbitrary, companies may resort to tax avoidance or evasion, reducing the government's ability to fund public goods and services. According to Yusuf and Bello (2023), the global shift toward digital economies has posed challenges to traditional tax frameworks, necessitating reforms to capture value generated by intangible assets and cross-border digital services. This is especially relevant in Nigeria, where multinational corporations and large digital firms often operate across jurisdictions, creating potential profit sifting. Moreover corporate tax is closely linked with investment decisions as noted by Ocheni and Edeh (2024), investors often consider the effective tax rate, tax incentives and the stability of the tax regime when determining where to allocate capital. A transparent and consistent corporate tax policy can attract foreign direct investment. According to Adegbite (2018), taxes are tools for fiscal management and are meant to generate money for the government. These include allowing individuals to satisfy their requirements and take advantage of more possibilities as well as the public's contribution to economic investment.

Company income tax and investment decisions

However, the relationship between CIT and investment is not entirely negative. When administered transparently and used to fund public goods that improve the business environment such as infrastructure, security, and education CIT can contribute indirectly to investment growth. Ezeani, Agu, and Chukwuani (2024) argue that predictable and fair tax systems enhance investor confidence and long-term planning. Nevertheless, they caution that the positive effects of taxation are only realized when the tax system is seen as equitable, efficient, and supportive of economic productivity



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Capital gain tax and investment decisions

Investment decisions, particularly in real estate, equities, and venture capital, are sensitive to the expected post-tax return on investment. For instance, if CGT is perceived as a drag on profit, investors may delay asset disposal or seek markets with more favorable tax environments. This behavioral response has macroeconomic implications; illiquid markets, reduced capital flow, and misallocation of resources may result when investors are motivated by tax avoidance rather than efficient portfolio management. According to the Nigerian Economic Summit Group (NESG, 2023), many domestic investors factor tax arbitrage opportunities into their decision models, sometimes to the detriment of broader economic efficiency.

Education tax and investment decisions

On the other hand, some scholars have highlighted the long-term potential of the Education Tax to positively impact investment indirectly. By channeling funds in to tertiary education, the policy contributes to human capital development, potentially creating a more skilled workforce that benefits the private sector in the long run. When managed effectively, such public-private funding models can support inclusive development and drive innovation across sectors. However, in the Nigerian case, the lack of transparency and direct linkage between corporate contributions and measurable improvements in educational outcomes has undermined corporate trust in the system (Adewuyi & Lawal, 2022).

Theoretically, the study is underpinned by Benefit Received Theory and Cost Service Theory. According to the benefit received theory, there is essentially an exchange connection between the state and the tax-paying public. Members of the society get some products and services from the government and they pay a share of the cost in accordance to the value of the benefits they received (Bhartia, 2009). Additionally, the Cost of Service Theory places more emphasis on the semi commercial relationship between the state and its citizen. According to this argument, the state is being urged to renounce its fundamental protective and welfare obligations.

Empirically, the Afolabi, (2023) examined the effect of corporate tax on investment decision of listed manufacturing companies in Nigeria from the period of 2012-2021. Findings from the study revealed that education tax has a positive significant effect on investment decisions, also company income tax has a positive significant effect on decision making and recommend that all manufacturing companies should take into account the need to investigate various tax incentives that are available to them.

3. Methodology

The study adopts an ex post facto research design which allows for testing of hypothesis about relationship and/or causal effect between two economic series. This methodology depicts the techniques and procedures used by the researcher in conducting the study. It is essential to note here that for uniformity purpose all data has a period ranging from 2011 to 2024. The data were obtained mainly from Central Bank of Nigeria Statistical Bulletin and Federal Inland Revenue Service statistical report.

The research model specification is given below:

$$EPS = F(CGT, CIT, EDT) \dots\dots\dots \text{Equation i}$$

$$EPS = \beta_0 + \beta_1 CGT + \beta_2 CIT + \beta_3 EDT + \mu \dots\dots\dots \text{Equation ii}$$

Where:

EPS= Earnings Per Share

CGT = Capital Gain Tax

CIT = Company Income Tax



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EDT = Education Tax

β_0 = Constant

β_1 - β_3 = Coefficient of independent variables

μ = error term

4. Presentation, Interpretation and Discussion of Result

Dependent Variable: EPS

Method: Least Squares

Date: 05/20/26 Time: 11:18

Sample: 2011 2024

Included observations: 14

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.493698	0.780602	-0.632459	0.5413
CIT	0.001929	0.000579	3.328541	0.0076
CGT	-0.008181	0.010576	-0.773496	0.4571
EDT	0.000626	0.000753	0.831679	0.4250
R-squared	0.611275	Mean dependent var	2.160714	
Adjusted R-squared	0.494657	S.D. dependent var	1.370623	
S.E. of regression	0.974341	Akaike info criterion	3.020846	
Sum squared resid	9.493410	Schwarz criterion	3.203434	
Log likelihood	-17.14592	Hannan-Quinn criter.	3.003944	
F-statistic	5.241700	Durbin-Watson stat	1.895358	
Prob(F-statistic)	0.019741			

Source: Authors computation from E-view 9 output 2026

From Table 1, important findings emerged. The study found out that company income tax with coefficient of -0.001929 have appositve relationship with earnings per share, capital gain tax with the coefficient of -0.008181 has a negative relationship with earnings per share. Education tax with the coefficient of 0.000626 has a positive relationship with earnings per share. The study also revealed the significant level of the variables, it was found that company income tax and educational tax have significant effect on earnings per share while education tax does not have significant effect on earnings per share.

5. Conclusion and Recommendations

The study concludes that corporate tax policies exert mixed effects on investment decision in Nigeria. Specifically, CIT positively influences investment when firms adopt sound financial planning strategies, thereby supporting the notion that taxation, if well structured, can serve as a catalyst rather than a deterrent to investment. Conversely, CGT has little measurable effect, owing to poor enforcement and inflationary distortions, while EDT provides long-term benefits to the economy but remains a short-term burden on firms' liquidity. These findings affirm prior research that emphasizes the importance of financial planning as a mediator in the tax-investment relationship. They also underscore the need for consistent, transparent, and business-friendly tax reforms to balance revenue generation with private sector growth. The study recommends the following;



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- i. Government should maintain a stable company income tax to enable long term investment planning
- ii. Transparency in the utilization of Education Tax funds by TETFund should be enhanced so that businesses can see the direct link between their contributions and workforce development.

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