THE EFFECTS OF COMPANY INCOME TAX ON PRIVATE INVESTMENT AND ECONOMIC GROWTH IN NIGERIA 1986 - 2013

BY

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Declaration

I hereby declare that this thesis titled, *"effects of company income tax on private investment and economic growth in Nigeria, 1986 - 2013"* was written by me in the Department of Economics under the supervision of Prof. Mike Kwanashie and Dr. IshayaAudu. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this thesis was previously presented for another degree or diploma at any university.

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Signature Date

Certification

This thesis titled, *"effects of company income tax on private investment and economic growth in Nigeria"* by Ochege, Ugwuru John meets the regulations governing the award of the degree of M.Sc. Economics of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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Dedication

This thesis is dedicated to the Almighty God and my parents, Mr. Mathew Ochege Ekpo (Late) and Mrs. Patricia Ochege Ekpo.

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Abstract

This Thesis investigates the effects of company income tax on corporate private investment and economic growth in Nigeria from 1986 to 2013, through the application of OLS techniques, Augmented Dickey-Fuller technique in testing the unit root property of the series and Granger causality test of causation between corporate private investment, corporate income tax, education tax, exchange rates, interest rates, inflation rates and banking system credit to private sectors. After which Engel-Granger Error Correction Test was used to test the existence of long run relationship between the included variables as well as the speed of adjustment to equilibrium. The results of the regression analysis revealed that corporate income tax, education tax, exchange rates, and interest rates affects corporate private investment negatively and consistence with theoretical expectation of the thesis while inflation rates and banking system credit to private sectors affects corporate private investment positively and also that corporate private investment affects economic growth positively and significantly. The results of unit root suggested that all the variables in the model are stationary at first difference. The results of Causality suggested that there is two-way causation between education tax and corporate private investment while no causation existed between corporate income tax and education tax, corporate income tax and corporate private investment in Nigeria. The Engel-Granger Error Correction Test (ECM) result revealed the presence of long run relationship corporate private investment, corporate income tax, education tax, exchange rates, interest rates, inflation rates and banking system credit to private sectors. The speed of adjustment suggests that in a period of approximately two years the model will adjust to equilibrium. The results of OLS revealed that corporate income tax, education tax, exchange rates, interest rates impacted negatively on corporate private investment while inflation rates and banking system credit to private sectors possessed a positive impact on corporate private investment in Nigeria. The result also shows that corporate income tax and education tax significantly and negatively affect corporate private investment in Nigeria. A major policy implication of this result is that concerted effort should be made by policy makers to reducing both corporate income tax and education tax so as to encourage corporate private investment in the country. And also there is need to formulate policies aim at stabilizing corporate private investment in Nigeria.

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CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background of the Study

Harrod-Domar (1940) and Solow-Swan (1956) proved that economic growth can be realized in these ways among others- increase in the amount of the factors of production; and increase in the efficiency with which these factors are used. Intrinsically, growth is induced by increases in investment (i.e. capital accumulation) and the efficiency of investments (De-Gregorio, 1998).

Evidence from the developed western Economy revealed that, the private sector served as an engine of growth and development of these economies due to the fact that they maintained increases as well as efficiency in the factors of production,whereas, for the developing countries, the reverse is the case.

In the late 1970s and early 1980s, developing countries of Africa (including Nigeria) experienced unprecedented and severe economic crisis. These crises manifested themselves in macro-economic imbalances such as widening savings-investment gap, high rates of domestic inflation, chronic balance of payment problems and huge budget deficits with high level of corruption among others which Akpokodje (1998) attributed to be the cause of economic slowdown in these economies. Similarly, Green and Villannueza (1991) adduced the stagnation of these developing countries to low investment growth rates (i.e. minimal capital accumulation) in the affected economies which had resulted to the introduction of various economic reforms (Tax reforms inclusive) among other policies.

Taking into account, the effect of investment on economic growth in Nigeria, Akpokodje (1998) maintained that Nigeria's domestic investment as a ratio of Gross Domestic Product (GDP) declined from an average of 24.4% during 1973-1981 periods to 13.57% during 1982-1986 periods. The fall in the average investment rate during the 1982-1986 period implied that

the country barely replaced its dwindling capital which consequently impact on economic growth advancement. In an effort to tackle the decline in capital and investment which consequently affects economic growth, the government occasionally set up policies among other measures to rectify the economy quagmire triggered by capital/investment decrease. And this occurrence as well as government economic management bring about fluctuation in the nation's economic performance with various phases of a typical business cycle; i.e. recession or depression, economic meltdown and boom etc. But then, in the case of the boom, as occurred in Nigeria, none of the boom either associated with agriculture or oil in Nigeria has resulted in any weighty transformation of the infrastructure capable of aiding the private sector into a viable sector, competent of driving the economy to a sustainable higher rate of growth. Therefore, the need for government deliberate effort to impact the private sector to a sustainable level thatcan drive the Nigerian economy to growth and development as seen in the developed western economy.

Keynes (1960) believed that active government intervention in the marketplace was the only method of ensuring economic growth and stability.

Indeed, it was an economic fluctuation term 'the great depression' of the 1930s that has fundamentally altered economists' perception of the need to manage an economy (Ekpo 1997). Economists therefore, agree that an economy must be managed to achieve growth and stability. However they differ on the type of prescriptions of management. Nevertheless, in a situation of severe economic depression, strict Keynesians would take care of the situation by recommending fiscal policy as the solution and this include tax manipulations among other measures as the remedy. As such, corporate income tax rate reduction as our study focuses, serve as an incentive as well as government fiscal policy measure among others pointed out by Keynes (1936) as a device for stimulating investment and economic growth. And this rests on the premise that corporate firms will find the availability of internal funds which is key determinant in the

investment decisions of companies and their expansion to invest (Medina and Valdes, 1998). Also, Hsieh and Parker (2002) present evidence that the reduction in tax rate on retained earnings increased the amount of funds available to constrained firms, hence producing an investment surge in these companies.

In general, firms acting rationally will push investment to the point where the marginal yield from the tax rate reduction and investment proceed is equal to the desired capital stock of the firm. This implies investment expansions and to a large extent economic growth.

1.2 Statement of the Problem

The potency of private sector as an engine of economic growth in any nation's economy (including Nigeria) cannot be underrated (Adam Smith, 1776). However, the private sector appears the biggest casualty of the emerging socio-economic challenges both in the domestic economy and the external fronts. There have been fluctuating performance of the private sector in Nigeria, and its present position with it attendant problems of inadequate infrastructure, multiple taxes couple with high company income tax rate, to mention just a few made it impracticable to drive the nation's economy and this however can be attributed to poor reforms link with widespread corruption in the country which developed intowide gap between policy pronouncements and implementations.

There is the question that tax reform could have positive or negative impact on investments especially private investment, production, inflation, gross capital formation, gross domestic product and unemployment etc. But empirical evidence is inadequate.

Though corporate income tax rate reduction is an incentive as well as government fiscal policy measure among others pointed out by Keynes (1936) as a device for stimulating investment and economic growth. An analysis of Nigeria's fiscal structure reveals a number of important aspects. First, Nigeria tax system has performed poorly in it role of investment

inducement compared to other emerging economies as demonstrated by the high incident of tax evasion and avoidance particularly among the private investors in Nigeria. The tax evasion and avoidance demonstrated among the private investors in Nigeria, clearly shows that the tax system set by the tax rate is unsupportive to the private investors in Nigeria.

Using corporate income tax rate indicator, it was observed that Nigeria's corporate income tax rate at 30% (FIRS, 2014) is above average and thus, a threat to investment growth in Nigeria especially with the current waves of infrastructural inadequacy and economic predicaments.

The review of the Nigeria corporate income tax rate at 30% since 1996 tax reform, compared to some emerging market such as Singapore at 17% in 2009 tax reform, Malaysia at 25% in 2008 tax reform, China at 25% with it tax reform in 2007, South Africa at 28% in 2012, dropping from 34.55%. Along with Brazil at 25% rate, dropping from 34% in 2008, and the United Kingdom at 21% tax rate in 2013 fallen from 23% etc (KPMG International, 2014), further justify the need for tax reform in Nigeria especially the reduction in tax rate, as Nigeria does not operate in isolation of the world economic challenges.

However, the government in the past among other policies have frequently manipulates the corporate income tax rate, coupled with the introduction of investment incentives among others in the post-independence period in Nigeria. And the most significant changes in the tax rate reforms were the reductions in the company income tax rate in 1979, 1987, 1993, and 1996 (See table 1.1); and the introduction of investment incentives which include investment tax credit in 1996; and the enhancement in capital allowances in 1985, 1987 and 1996.

These frequent manipulations suggest that policymakers believe tax reforms especially the reduction in the corporate income tax rate as an effective tool for altering the level and the composition of investment in Nigeria.

Besides, previous studies in this area are not by any means conclusive as policy analysis since 1996 has not been undertaken for company income tax reduction rate by policy makers in consideration of the harsh economic environment and the high tax rate compare to other emerging economy as recorded above, which Nigeria does not operate in isolation of the world economic challenges.

Again, the perennial issue of corruption first, in the part of the tax officials' especially in the fraudulent collection and assessment of tax from companies which to a large extent resulted to tax evasion and avoidance,and secondly the government officials saddle with such responsibility to correct not doing enough to put right this problem but rather partake in the corrupt practices, have undeniablyreduces the confidence and trust of the taxpayers in discharging their civic duty and as suchpresent a justification for tax reform and other measures in curtailing these problematic issues which have hindered the growth of the economy. This study is set out to examine these challenges with the view to finding lasting solution to the problem of tax reform management in Nigeria among others.

1.3Research Questions

Arising from the above statement of the problem are the following questions

i. What are the likely effects of corporate income tax changes on corporate private investment performance in Nigeria?
ii. What are the likely effects of corporate private investment on economic growth in Nigeria?
iii. What are the likely policy recommendations arising from the simulation application of the impact of tax reduction in Nigeria?

1.4 Objectives of the study

The **main objective** of the study is to examine the impact of corporate income tax variation on private investment in Nigeria 1986 – 2013.

The specific objectives are:

i. To examine the effects of corporate income tax rate reduction on corporate private investment in Nigeria.
ii. To evaluate the effects of corporateprivate investment on economic growth in Nigeria.
iii. To make policy recommendations for efficient and effective tax system reforms

1.5 Research Hypotheses

The research hypotheses are as follows:

H_0: There is no link between corporate income tax reduction and corporate private investment growth in Nigeria.

H_1: There is link between corporate income tax reduction and corporate private investment growth in Nigeria.

1.6 Significance of the Study

This study is vital because it will help the government and indeed the policy makers to come up with specific tax policies that could achieve greater living standards through increase and sustained private investment expansion.

The government and indeed the policy makers view tax policy as a device for stimulating investment and economic growth. The arguments are in regards to the reduction of the corporate income tax rate. It was argued that a lower corporate income tax rate would increase the internal funds of firms, reduce the cost of capital in general, thus increasing investment. Alternatively,

that lower tax rate would increase funds available for firms and then induce firms to invest more, and which to a large extent reduces unemployment, increases the standard of living and raises government revenue along with economic growth. (Hsieh and Parker, 2002).

Hence, for knowledgeable insight into the understanding of the above as well as the functioning of taxation as an integral part of government economic growth policy and enhancement of investment affairs in Nigeria, this study is worthwhile. It will also be useful for all stakeholders in policy making, tax payers and private investors in Nigeria thereby providing understanding of tax nitty-gritty to them. As such, the study will provide a set of benchmark for future direction of tax policy and investment level in Nigeria. More so, the study will help in educating and informing thosewho pay taxes (individuals and business organizations) that they all have a stake in the system and in how government spends its tax money in Nigeria, considering that taxes are a life blood of a stable andprosperous society.And finally,the foregoing investigation will also be essential in impacting the background knowledge of taxation and its principles into various stakeholders as it informed and justified the necessity for the imposition of taxes by governments in Nigeria and to a large extent its impact on businesses and society. The study is significant because, it will help reduce the level of corruption, because it will be more careful with the management of tax money than oil money.

1.7 Scope of the study

This study basically seeks to examine the relationship between company income tax and the corporate private investment in Nigeria. To achieve the objective of this study, the Central Bank of Nigeria Statistical Bulletin and corporate annual reports for the period 1986-2013 were analyzed. This period is chosen due to unavailability of data especially on the tax reforms and corporate private investment in Nigeria.And the period covered by this research enabled the research to be reliable.

1.8 Organization of the Study

This study consist of five chapters, the first chapter dealt with the general introduction, statement of the problems, research questions, objective of the study, hypotheses, scope and significance of the study.

The second chapter focused on the conceptual literature, theoretical literature, and empirical literature

Chapter three discussed the study area, source and nature of data, data collection technique, and analytical framework.

Chapterfour focused on data presentation, analysis and interpretation of results.

In the final chapter, the findings, recommendations and conclusion of the researchwere recorded.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presented a review of related works in the study area. It seeks to establish the rationale behind tax reforms and its implication on private investment in Nigeria. The chapter also, aimed at providing the appropriate theoretical basis and other literature that helped to explain the connection between tax policy and private investment growth.

2.1 Conceptual Literature Review

2.1.1 Taxation

Taxation is a compulsory levy imposed on a subject of a state or upon his property, corporate bodies, Institutions, etc. in order to finance the expenses inquired by the government to provide security, social amenities and create conditions for the economic well-being of the society.(Edame, 2011, Okoi and Edame, 2013).

Anyango (1996) and Anyanwu (1997) stated that taxes are imposed to regulate the production of certain goods and services, protect infant industries, control business and curb inflation, as well as reduce income inequalities etc. in the society.

Tosun and Abizadeh (2005) stated that taxes are used as proxy for fiscal policy. They further outlined high/low tax rate as a mechanisms by which taxes affect economic growth via private investment.

Sayade&Kojola (2006), viewed taxation as a compulsory extraction of money by a public authority for public purposes and Taxation as a system of raising money for the purpose of governance by the means of contributions from individual persons or corporate bodies.

Black's law Dictionary (2010) defines taxation as "Monetary charges impose by the government on person's entities or property, levied to yield public revenue". And For Thomas

Cooley in ICAN study pack (2006), viewed taxes as "enforced proportional contribution from persons and property, levied by the state, by virtue of its sovereignty, for the support of government and for all public needs".

Nightingale (2007) described taxation as a compulsory contribution imposed by the government and concluded that even though tax payers may receive nothing identifiable in the return for their contributions, they nevertheless have the benefit of living in a relatively educated, healthy and safe society.

Similarly, in the classical economist view of taxation, they stated that the only objective of taxation was to raise government revenue. But with the change in circumstances and ideologies, the aim of taxation has changed. These days, apart from the objective of raising the public revenue, taxation according to Keynes (1936), serve as an incentive as well as government fiscal policy measure among others in stimulating investment and economic growth in an economy. Per se, the level/rate of taxation affects consumption, production and distribution of wealth in the society.

However, the company income tax which takes into account the imposition of taxes on companies is the major area of our concern in this study.

2.2 An overview of taxation along with company income tax in Nigeria

Taxation in Nigeria started with personal income tax in 1904, when Lord Lugard introduced income tax in the Northern part of Nigeria. Community tax became operative through the Revenue Ordinance of 1904.

In 1917, after the amalgamation of the Northern and Southern protectorates, the 1904 Revenue Ordinance was replaced by the Native Revenue Ordinance of 1917. Furthermore, the provisions of the 1917 Ordinance were amended in 1918 and extended to southern Nigeria particularly, the West and the Midwest and subsequently, to Eastern Nigeria in 1928.

However, the Native Revenue ordinance was later incorporated into the Direct Taxation Ordinance No. 4 of 1940, cap 54.

Still in the pre-independence era, Personal Income Tax was administered and collected by the Native Administrations or Local Government in the name of Direct Taxation.

Under the Direct Taxation Ordinance of 1940, the assessment and collection of taxes were the primary responsibilities of the Native Administrations/Authorities throughout the country and taxes so collected were their main sources of revenue.

In 1943, another Ordinance known as the "Income Tax Ordinance of 1943" was promulgated to take care of Lagos residents, who had opposed the 1940 Ordinance. Unlike the 1940 Ordinance, the 1943 ordinance was an admixture of both poll tax and income tax which were received from the native residents in the township of Lagos and non-native residents in Nigeria by the Central Government for the general revenue of the country.

The Nigerian Income Tax Ordinance of 1943 remained in force in the Federal Territory of Lagos until 1961 when the Personal Income Tax (Lagos) Act of 1961 was enacted by the Federal Government.

The present tax system in Nigeria has its roots in the Raisman Fiscal Commission set up in 1957, which consisted of Sir Jeremy Rainsman as the Chairman and professor R.C. Tress as a member among others. The purpose of establishing the Commission was to examine the jurisdiction and fiscal powers of the various tiers of government in Nigeria. Among other recommendations, the commission recommended that jurisdiction over companies income tax be exclusive to the Federal Government and that the States, except for certain uniform principles, should have jurisdiction over Personal Income Tax. It was in the light of this that the 1960 Constitution conferred an exclusive fiscal power upon the Federal Government to impose taxes on the Incomes and Profits of Companies. Consequently, the Companies Income Tax Act

(CITA) 1961, was enacted to repeal the Income Tax ordinance, Cap 85 which itself repealed the Income Tax Ordinance of 1943. CITA, 1961 has undergone several amendments.

Company income tax is a structure among the various tax structures in the Nigerian economy. The first attempt at legislation to regulate the collection of taxes from companies was in the year 1939 through the promulgation of the companies' income tax ordinance (C.I.T.O). This ordinance was found to be ineffective as it failed to bring individuals into the tax net. Due to this weakness, the Nigerian income tax ordinance was enacted in 1940. This legislation brought both companies and individuals into the tax net for the time. In 1943, another tax ordinance was enacted to replace the 1940 tax ordinance. Under the 1943 enactment, the income tax rate was 50% and this was the highest tax rate so far. Under this enactment however there was a provision that a company could be proving to the satisfaction of the commissioner (I.e. Minister of Finance).

There had been some amendments to the income tax ordinance between 1949 and 1958, the most important being the "small companies relief" inserted in 1949. In 1958, another amendment was made under which the rate reduced from 50% to 40%.

After the attainment of independence in 1960, there was need to do away with the old ordinance of the colonial authority, which resulted to the enactment in 1961 of the companies incomes tax act, 1961. However, the 1961 enactment was seriously criticized as many saw the enactment as a mere transplant of the Britain's sophisticated company tax law which did not take into account the local environment it was meant to apply. This was eliminated in 1979 in the enactment by the Government of the companies' income Tax Act (CITA) 1979 which with its various amendments remains the principal Act for companies' income tax in Nigeria.

The current enabling law regulating the assessment and collection of taxes from companies is the income tax Act cap to laws of the federation of Nigeria (LFN) 1990 as amended by decrees

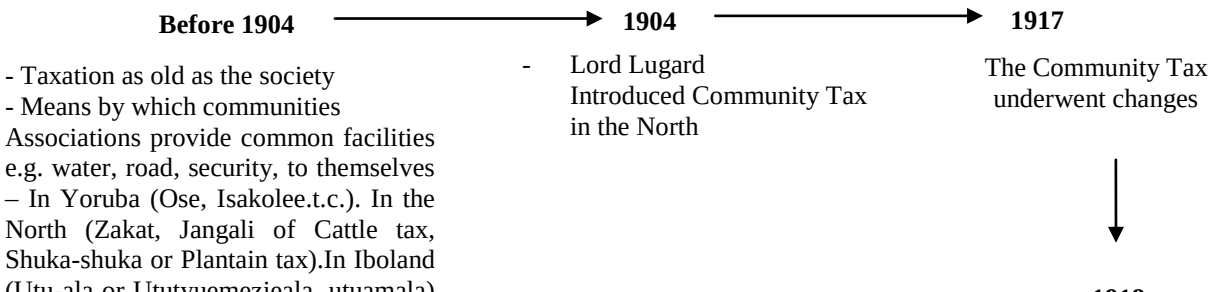
3, 21 and 63 of 1993, decrees 18, 19, 21 and 40 of 1998 decrees 30, 31 and 32 of 1996 and decrees 30 of 1999.

By virtue of section 8 (1) of the companies income tax Act 1990, taxes are payable as specified upon profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of amongst others, any trade or business for whatever period of time the trade or business may have been carried out. The current rate of companies' income tax is 30% of assessable income. According to Akpotoboro (2009) company income tax is primarily payable on profits of companies at tax rate of 30%.

2.2.1 Companies income tax Act LFN of 1990:

This regulates company's income tax in Nigeria. Section 1 of the Act established the Federal Board of Inland Revenue services that is "charged with the duty of administering the taxation of companies in regard to income tax, to make assessment, collect tax and account to the government" Abdulrasaq (2002).

2.2.2 Taxation in historical perspective in Nigeria





Various tax reforms including CIT rate reduction till 1996.

Source: Authors' computations from the Tax historic in Nigeria.

2.2.3 Other forms of taxes and their legal background in Nigeria.

i. **The personal income tax act of 1993:** This is the law governing the administration of personal income tax. It provides in Section One that: There is hereby imposed a tax on the income of individuals, communities and families, and arising to any trustee or executor under any settlement trust or estate, which shall be determined under and subject to all provisions of this Act (PITA,1993). This provision takes care of sole trade income and also partnership income, because…" a partnership cannot be directly assessed to tax in respect of partnership profit but the share of partnership profits and other incomes of an individual partner shall be assessed" (Ola, 1997).

ii. **Value Added Tax (VAT):** This was introduced by the VAT decree No. 2 of 1993, to replace the old sales tax. It is a consumption tax levied at each stage of the consumption chain, and is borne by the final consumer. It requires a taxable person upon registering with the Federal Board of Inland Revenue to charge and collect VAT at a flat rate of 5% (recently increased to 10% and revert back to 5%) of all invoiced amounts of taxable goods and services. VAT paid by a business on purchases is known as input tax, which is recovered from VAT charged on company's sales, known as output tax. If output exceeds input in any particular month the excess is remitted to the Federal Board of Inland Revenue (FBIR) but where input exceeds output the taxpayer is entitled to a refund of the excess from FBIR though in practice this is not always possible. A Taxpayer however has the option of recovering excess input from excess output of a subsequent period. It should be stated at this point that recoverable input is limited to VAT on goods imported directly for resale and goods that form the stock-in-trade used for the direct production of any new product on which the output VAT is charged.

iii. **Withholding Tax**: Nigerian law subjects certain activities and services to Withholding Tax. This basically means that where during transactions in any of the specified contract

activities or professional services, a payment of 5% and 10% respectively is due from the source to the Federal Inland Revenue. More so, the person making the payment is expected to deduct tax at the applicable rate of 5% for contract and 10% for professional services and remit it to the relevant tax authority. This should be done not later than 30 days after the deduction. This provision can be found in sections 68 to 72 of the Personal Income Tax Decree No. 104 of 1993; Sections 60 to 64 of the Company Income Tax Act (as amended), and Section 51(a) of the Petroleum Profits Tax Act (as amended).

iv. **Education Tax**: An education tax of 2% of assessable profits is imposed on all companiesincorporated in Nigeria. This tax is viewed as a social obligation placed on all companies in ensuring that they contribute their own quota in developing educational facilities in the country. However, the above named taxes require being pool together into the federal government account for it developmental role by an agency established for that purpose which in Nigeria, is the Federal Inland Revenue Services (FIRS).

v. **Petroleum profit tax (PPT):** The petroleum profit tax (PPT) is applicable to upstream7 operations in the oil sector. It is particularly related to rents, royalties, margins and profit-sharing elements associated with oil mining, prospecting and exploration leases. It is the most important tax in Nigeria in terms of its share of total revenue, contributing 95 and 70 per cent of foreign exchange earnings and government revenue, respectively. The PPT covers oil and gas taxation but is complemented with two different contractual relationships not formally covered by tax legislation. The first constitutes joint ventures between international oil companies and the Nigerian National Petroleum Company structured under a joint operating agreement (JOA) as set out in the memorandum of understanding (MOU). Following earlier oil shocks, the MOU was introduced in 1986 to provide necessary incentive, and has been revised in 1991 and 2000. This system has

been adjudged complex, creating problems for tax authorities. The second measure relates to deep offshore exploration and development under a production-sharing contract (PSC), which allows an oil company to recover its costs at a pre-established rate and to share in additional revenue according to a pre-determined formula. Taxation is 50 per cent of the cost recovery and production share revenue after deduction for costs in accordance with the PPT provisions. While the JOA imposes some operating and capital expenditures on the federal government, the production sharing contract transfers the funding responsibility and most of the risk to the oil companies. Management problems with the JOA and the PSC are further complicated by the lack of coordination between the Department of Petroleum Resources and tax authorities on tax policy matters and information-sharing on various agreements in the upstream subsector.

The amended Petroleum Profit Tax Act (PPTA) 8 of 1959 provides the legal basis for taxing joint venture companies (JVC) and is governed by the memorandum of understanding. The Nigerian statutory rate is 85 per cent (effective rate, however, is 70-80 per cent because of the MOU), as opposed to 65.8 per cent for Angola, 73 per 7 'Upstream' operations deal with the production of the crude oil and gas; and sale of these as primary stock to 'downstream' operators who include the added value for sale to the ultimate end-users. 8 Recodified as CAP 354 Law of the Federation of Nigeria.

vi. **Capital gains tax (CGT)**: Although a 20 per cent rate for capital gains tax (CGT) was introduced at its inceptionin 1967 (Decree No. 44 of 1967), it is currently 10 per cent. The tax is imposed on anygain accruing to any person in connection with the disposal of assets during theassessment year. It is a concurrent tax, implying that the federal government, which hasjurisdiction over corporate bodies and over residents of Lagos (now Abuja), administersit through FIRS. The states are empowered to tax individuals

within their territories andthe board of internal revenue of each state is responsible for capital gains tax withregard to individuals.

Sections 27 to 42 of the old Act detailed certain exemptions to the tax. For instance, according to Section 37, a disposed asset, which is a tangible moveable asset valued at N 1,000 or less, is tax-free. Capital gains accruing to religious, charitable, educational, cooperative organizations and trade unions are also exempted from CGT. Others exceptions include assets for private use, life insurance policies, stocks, shares and government securities.

In 1972, however, the CGT was extended to profits accruing from sold stocks and shares, and from 1975, it became applicable to both residents and non-residents. Capital gains arising from the acquisition of company shares through a merger or takeover were also exempted from CGT in 1993, provided that no cash was paid for the acquired shares. However, foreign income and gain were taxable until 1996; by 1998 the CGT had been reduced from 20 per cent to 10 per cent. CGT is hindered by problems such as the unwieldy scope of the Act, clumsy process of determining taxable gain, the inability to discount for inflation, and the inability of loss relief within transactions. As pointed by the Study Group on Tax Reform (2003) and CITA (2002), the complex provisions of the Act made the implementation of the tax impractical. There is confusion regarding the target of the tax; records and disclosures are scare, and the inequitable tax burden is on the buyer rather the asset owner. These problems have reduced the significance of the tax, which by 2002 accounted for about a per cent of the revenue of FIRS.

vii. **Stamp duties**: Stamp tax is applied to documents, for example, conveyance documents concerning land transfers, bonds, debentures, covenants and warrants, but not to transactions or individuals. The law was introduced during the colonial period in 1939

(Stamp Duty Act). The western regional government gave the stamp tax a local orientation when it was introduced in 1959: it later became Lagos State Law No. 16 of 1972 and now is codified in Cap 411 of the Laws of the Federation of Nigeria 1990. The tax, executed by the commissioners of stamp duties, applies an *ad valorem* rate of 1.5 per cent of the price or value mentioned in the document.

Exemptions include share transfers, shipping agreements and documents from the ministries and parastatals. Although stamp duties are regulated by federal law, their administration is a mutual operation. While the federal government is responsible for the administration of the tax on companies through FIRS, the State Board of Internal Revenue (SBIR) handles its administration with regard to individuals. One of the problems facing the stamp tax is the trespassing of federal agents who also tax individuals as opposed to companies only. The penalties of N 40 and N 20 for non-disclosure and bureau trespassing, respectively, are considered to be on the low side.

viii. **Custom duties:** Custom duties in Nigeria are the oldest form of modern taxation, and their introduction dates back to 1860. Known otherwise as import duties, these represent taxes on imports into Nigeria, charged either as a percentage of the value of imports or as a fixed amount contingent on quantity. The former rate predominates. Import duties are the country's highest yielding indirect or expenditure tax. Prior to the introduction of SAP in 1986, custom duties were as high as 300 per cent but currently range between 2-75 per cent. The Nigerian Custom Services (NCS) administers the tax. The Custom and Excise Management Act of 1958 and its amendments provided the statutory backing for the implementation of the tax. The latest revision to this Act dates from March 1995 and articulated the effective customs and excise tariffs for the period 1995-2001. Currently, the expired tariffs are still in use, which contradicts the letter of law. In most cases,

consultants are called in to recommend tariff rates, but as the main authorities are not represented, this approach is non-participatory. In addition, several amendments have been made to existing tariffs, and these have been counter-productive to the objective of achieving the stability that promoted the adoption of the multi-year tariff regime in 2001. As pointed out by the Study Group on Tax Reform (2003), nearly 1,500 tariff lines were amended in the two years of the regime. Furthermore, certain amendments were considered inconsistent or subject to multiple interpretations, thus providing loopholes for lower rates of duties.

ix. **Excise duties:** Excise duties, introduced in 1962, are an *ad valorem* tax on the output of manufactured goods, as enforced by the Customs and Excise Acts of 1962 and 1965 and the Customs and Excise Tariff Decree of 1995. The tax is administered by the country's custom services. The tax handle is highly unstable, and is applied or reneged at will, as in 1998-2000, for instance, when it was revoked. Since 2001, duties have been abolished on most manufactured goods with the exception of products considered harmful such as bleaching creams, alcohol, spirits and tobacco. Although excise duty as a tax has lost its revenue objective, it is still used to discourage consumption of harmful goods.

2.2.4 Concept and nature of investment

Investment means an addition to capital equipment which leads to increase in the level of income and production by increasing the production and purchase of capital goods (Fisher, 1930). It then includes new plant and equipment, net foreign investment, inventories and stocks and shares of new companies. In the words of John Robinson (1947) investment means an addition to capital, such as occurs when a new house is built or a new factory is built. Therefore investment means making an addition to the stock of goods in existence.

2.2.5 Forms of Investments

Investment is generally classified into four major components: the private domestic investment, the public domestic investment, the foreign direct investment and the portfolio investment. Private domestic investment refers to gross fixed capital formation plus net changes in the level of inventories whereas public investment includes investments by government and public enterprises on social and economic infrastructures, real estate and tangible assets. The combination of private investment and public investment is normally referred to as gross fixed capital formation in order to distinguish them from their counterpart foreign investment. The foreign investment when it is on tangible asset is referred to as direct foreign investment. It is called portfolio investment when it is on shares, bonds, securities etc.

2.2.6 Conceptual views of Public and Private sector Organizations

The meaning of the word 'Public' is not one that is difficult to state. Public connotes what pertain to the people as a whole and is clearly the direct opposite of private. In the technical phraseology of management, the word public has acquired a specialized meaning. According to Tonwe (1998) the word public is equated to "Government". This equation is justified on the ground that in modern society, government is the only organization to which everyone belongs without exception either actively or passively. It takes a concrete and organized form when equated to government (Weihrich et al 2005). Accordingly, Public sector consists of three separate levels of government whose status, powers and relationships are defined and guaranteed by the constitution. They are the federal, state and local governments. The federal government and state governments conduct their activities through two major forms of organization: Ministries and Public enterprises. Under the heading of public enterprises, we include all corporations, authorities, boards, councils and Limited companies in which government has full or majority interest (Imaga 2003).

A large part of government activity is conducted by public enterprises, sometimes called parastatals

The general characteristics of public enterprises are:

a. Public ownership and control
b. Semi-autonomous management appointed for a Limited term
c. Separate legal personality of the entity
d. Statutorily defined objectives, rights, obligations and field of activity.

Public enterprises can take several legal forms: Limited liability companies form under the companies as wholly-owned by government, and partly- owned by government, and public corporations set up by statue.

The main objectives of public enterprises are:

a. To provide a service at reasonable cost,
b. To make neither profit nor lose,
c. To operate with due regard efficiency and safety,
d. To act in the public interest.

With regards to the definition of private sector, there is no consensus in the literature on what constitute the private sector. Nevertheless the Development Assistance Committee of the OECD (DAC, 1994) defines the private sector as "a basic organizing principle for economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk-taking set activities in motion"

In Nigeria, the private sector is said to include any self-employed person or any employer of labour who does not belong to the government or public sector (Jerome 1999, Oyeranti, 2004). Put differently anyone who is an employer or self-employed and who does not belong to the

government or public sector is believed to be operating in the private sector (Olayiwola and Busari, 2001)

The private sector also refers to all economic institutions, business firms, foundations, and cooperatives etc that are not owned by the government. The private sector enterprises are often described by other names such as capitalism, free enterprises system, the voluntary exchange economy, the market system, and the profit system (Imaga, 2003).

An effective private sector organization displays the following major characteristics, which is the modification of (Imaga 2003) version. These characteristics include:

i. Private ownership of business: In private enterprise system, business or private enterprises are owned by individuals or groups rather than by the government or society as a whole. The owners of a business has certain rights which include: the right to operate the business with minimum of outside interference, the right to retain control over a large part of the profit generated by the business, the right to compete freely with other businesses for raw materials, personnel, customers, new products, new production techniques etc. and the right to enter business freely, either personally or by investment of capital.

ii. Freedom of choice: the managers and workers are free to choose their occupations, to change job, and to negotiate salaries, wages and other benefits. Consumers are free to select the goods they buy with a minimum of government or social pressure.

iii. Private Property: This refers to the right of individuals or group to own and control physical resources as well as personal possessions. The right to private property has been justified on ethical and pragmatic grounds.

iv. Limited Role of Government: In a market economy, government is limited in its economic role but is not entirely inactive. Government functions such as administering

justice, protecting individual freedom and providing for adequate national defense is to establish the economic rules of the game.

v. Profit Motive: The efficiency allocation of resources in a market system is also affected by profit. Profit represents the difference between what a businessman receive for the products he sells and what he must pay to produce and market them.

Our focus in this study is the private investment which is an engine of growth in the developed western economy. The choice is to enable us study the implications of tax policy (Tax rate reduction) on private investment in Nigeria and ascertain it effects in the economy.

The policy makers and other governmental decisions making body believe that private investment has a stronger and more favorable effect on growth than public investment, this is probably because the private sector is seen as a timesaving or laborsaving sector as the case in Nigeria and also demonstrated as an engine of growth of the developed economy, with more cost effective and less closely associated with corruption.

And in a determination for the government or policy makers to maintain and enhance private investment in Nigeria, changes and reviews in the nation's tax system has ensue. Prominent among the taxes that have undergone reform are company income tax which rate was reduced from 45 percent in 1986 to 40 percent with effect from January 1987 to December 1992. And further reduced to 35 percent during the period from January 1993 to December 1995, and further reduced to 30 percent from 1996 to date.

2.3 Theoretical Literature

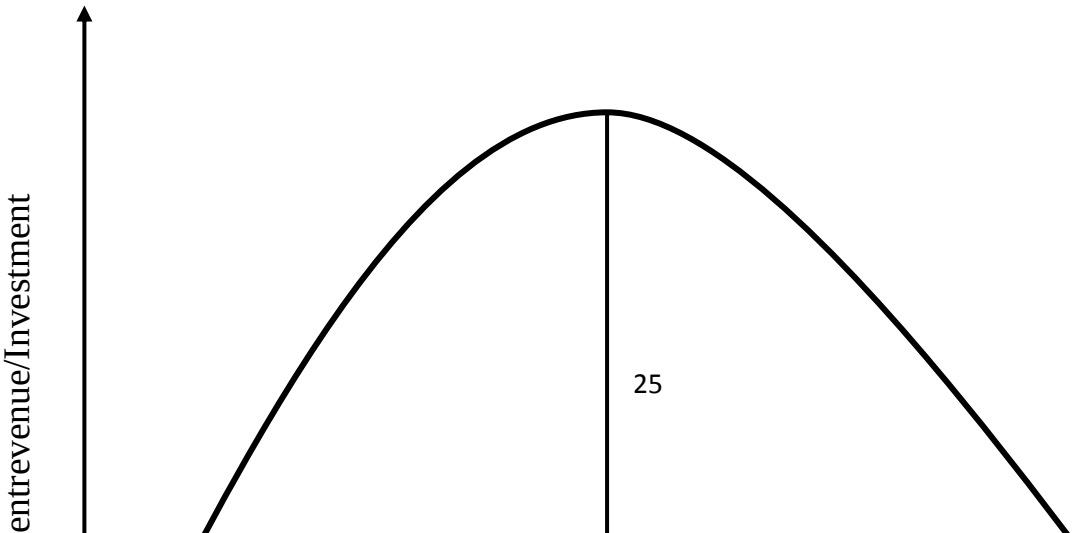
The underlying theory of taxation is that, an effective tax system, aside from maximizing revenue for development, ought to, if well-structured and managed elicit a feeling of common purpose and joint responsibility or obligation amongst the taxable persons and corporate organization in a country. Therefore, tax policies are measures imposed by the government to

regulate the economy, control production of certain goods and services, protect infant industries, control business as well as curbing inflation with less income inequalities etc. Anyanfo (1996).Tosun and Abizadeh (2005) say taxes are used as proxy for fiscal policy. It is therefore a device for stimulating investment and economic growth.

Accordingly, the contributions of some of the theorists are as follows:-

The first theory that this study looks at is Prof. Arthur Laffer theory on taxation, popularly known as the "Laffer Curve." It is a theoretical representation of the relationship between government revenue raised by taxation and all possible rates of taxation and its effect in the economy. This theory is demonstrated with a curve (i.eLaffercurve which is constructed through experiment).

Figure 2.1: LafferCurve



0

Source: Laffer curve (2004, www.heritage.org)

The curve considered the amount of tax revenue raised at the extreme tax rates of 0% and 100%. The theory concludes that a 100% tax rate raises no revenue and in addition suppresses investment.In the same way that a 0% tax rate raises no revenue to at least support the economy however, publicize the economy for investment. This is because at 100% rate, there is no longer incentive for a rational tax payer to earn any income, thus, the revenue raised will be 100% of nothing. It therefore follows that there must exist at least one rate in between where tax revenue would be a maximum with the purpose of encouraging investments and other economics activities. Laffer attributes the concept to Keynes J.M and IbnKhaldun.

One potential result of this theory is that increasing tax rate beyond a certain point will become counterproductive for raising further tax revenue and investment motivation because of diminishing returns and opportunity cost (Laffer, 2004).

The second theory that helps to shape taxation is IbnKhaldrun theory on taxation. This theory was explained in term of two different effects that is the arithmetic effect and the economic effect which the tax rates have on revenues and investment. The two effects have opposite results on revenue in case the rates are increased or decreased.

According to the arithmetic effect, if tax rates are lowered, tax revenues will be lowered by the amount of the decrease in the rate. The reverse is true for an increase in tax rates. The economic effect however recognized the positive impact that lower tax rate have on work, output and employment (investment). The economic effects emphasises on the tax rate regime used in providing incentives to increase investment activities which as a result brings about economic growth and development. Whereas raising tax rates will provide an opposite economic effect which brings about disincentives to investment and participation in the taxed activities by investors. At a very high tax rate, negative economic effect dominates positive arithmetic effect, thereby, the tax revenue declines Islahi, (2006).

Also, Bhartia (2009), assumed theory of taxation to be derived on the assumption that there need not be any relationship between tax paid and benefits received from state activities. And in this group, there are two theories, namely, Socio-political theory and the expediency theory.

2.3.1 Socio political theory

This theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole.

2.3.2 Expediency theory

This theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the state together with the effects of a tax system should be treated irrelevant Bhartia (2009).

Similarly, taxation theory may be based on a link between tax liability and state activities. This reasoning justifies the imposition of taxes for financing state activities; regulate economics activities and also providing a basis for apportioning the tax burden between members of the

society. This reasoning yield the benefit received theory and cost of service theory as well as the faculty theory of taxation.

2.3.3 Benefit received theory

This theory proceeds on the assumption that there is basically an exchange relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received Bhartia (2009). Anyanfo (1996) argues that taxes should be allocated on the basis of benefits received from government expenditure.

2.3.4 Cost of service theory

This theory is similar to the benefits received theory. It emphasizes the semi commercial relationship between the state and the citizens to a greater extent. In this theory, the state is being asked to give up basic protective and welfare functions. It is to scrupulously recover the cost of the services and therefore this theory implies a balanced budget policy.

2.3.5 Faculty theory

According to Anyanfo (1996), this theory states that one should be taxed according to the ability to pay. It is simply an attempt to maximize an explicit value judgment about the distributive effects of taxes. Bhartia (2009) argue that a citizen is to pay taxes just because he can, and his relative share in the total tax burden is to be determined by his relative paying capacity. This intrinsically assumed tax to be supportive and friendly to facilitate investment and economic growth

As such, the importance of Tax Policies in Relation to Investment and economic growth in any nation cannot be overemphasized as Investment is of paramount importance for business cycle fluctuations and economic growth in any Economy. Therefore, the pace and pattern of corporate investment in fixed capital are central to an understanding of economic activity, Auerbach and Hassett (1991). Per se, corporate private investment has occupied an important

role in the theory of economic fluctuations and growth in the developed economy and been facilitated via tax policy among other reforms to stimulate investment and economic growth.

This rests on the premise that corporate firms in this economy find the purchase of capital goods more attractive when tax rate are low and therefore cheaper because of their profit motives. Firms acting rationally in this case will push investment to the point where the marginal yield on physical assets and earnings from the reduction in tax rate is equal to the desired capital stock of the firm.

In a neoclassical model, investment decisions are modeled assuming a representative firm that produces a good Q using capital (K) and labor (L). Supposing a very simple model, this firm maximizes the present value of the company income with minimum corporate income tax and other investment incentives:

$$\text{Max} \int [(1 - \tau) (F (K_t, L_t) - wL_t) - ((1- \tau (b + z))P_t I_t]dt \text{ ……………………………….. } (2.1)$$

$$\text{Subject to: } K_t = I_t - \delta K_t \text{ ………………………………………………………………… } (2.2)$$

Where t is the corporate income tax rate, b is the fractions of investment incentives, z is the present value of the depreciation allowances for tax purposes of =N=1 invested today, while p is the price of investment and I is investment.

From the first order conditions we find that the marginal product of capital is equal to the user's cost of capital:

$$\frac{F_k}{P} = \frac{1-\tau(b+z)}{1-t}(r+\delta) - \frac{\dot{P}}{P} = CC \text{……………………………………………………………………} (2.3)$$

Equation (3) states that the desired level of capital depends on its user's cost. The user's cost, in turn, depends on the tax rate. But it depends on the tax rate in two different ways.

On the one hand, a higher tax rate directly increases the cost of capital, reducing the desired capital stock. On the other hand, the fact that capital allowance and investment allowance are

discounted for tax purposes reduces the cost of capital. In theory, if (b+z) is equal to one, then taxes does affect the desired capital stock Bustos et al (2004) I.e. Bustos et al estimate b and z and conclude that their sum is close to one). Which means tax affects desired capital stock of firms. The classical example is when there is no capital allowance and other investment allowance (b = 0) and taxes are on the firm's cash flow (meaning that investment is depreciated instantaneously, i.e. z = 1. In this case:

$$F_k = (r + \delta)P - P \text{..... ....} (2.3b)$$

This implies that taxes are relevant in the determination of the optimal stock of capital. It could also be the case that (b+z) > 1, which implies that the cost of capital decreases as taxes is constant. It could as well be the case that (b+z) < 1, which implies that the cost of capital decreases as taxes decrease.

Although these cases are theoretically plausible, it could be misleading to consider such a simple tax procedure as the relevant one in investment decisions.

In addition, in a developing country such as Nigeria where financial institution are not well developed, there are a large number of firms that are liquidity-constrained, i.e. access to facility is limited this implies that the desired capital stock will also be restricted, as such, fund generated internally through reduction in tax rate, formed the whole level of user's cost which make tax policy relevant in this scenario. Arguments such as the debt overhang could also affect the relevant cost of capital and as well the desire capital stock.

And the optimal degree is assumed that the marginal product of capital is equal to the cost of capital:

$$A\left[\frac{Y}{K}\right]^{\frac{1}{\sigma}} = CC \text{..... ....} (2.4)$$

Where:

A

$$= \delta_y -^{p} \; and \; \sigma = \frac{1}{1+P} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2.4b)$$

Therefore, the desired capital stock as a fraction of output is obtained from (5). It depends on the cost of capital. This, in turn, depends on taxes, capital allowance, investment allowance, interest rate and other investment incentives etc which bring about the expected change in the price of capital via the transition mechanism as shown in equation (3) above. Usually, the models assume that there are adjustment costs which, along with the accumulation identity ($\Delta K = I - \delta K$), allow the lagged investment to be introduced to the investment equations.

This is the reason why the strategy followed in this thesis for the empirical estimations is to use directly the tax rate and other components of factor of investment for investigation. This is done for the macroeconomic estimations of Private Investment in economic growth in Nigeria.

According to Uremadu (2007), the domestic total financial savings/GDP at current market prices ratio (i.e. Gross national savings) equation is specified as follows:

TFS/GDP = f(PCY, RIR, M2, SLS, INFR, DSR) …………………………………. (2.5)

(+) (+) (+) (-) (-) (-)

Where TFS/GDP is total savings/GDP ratio at current market prices derived from gross national savings figures for 1980-2001, PCY is refers to the GDP per capital at current naira income of the people. Increase in per capita income will impact positively on their savings ability (Uremadu, 2006b), RIR is the real interest rate, defined as the nominal interest rate from savings deposits minus annual inflation rate. It impact positively on total savings, M2 is refers to broad money supply, defined as the degree of financial deepening captured by broad money (M2) as ratio to GDP. Financial deepening means increase in volume of all monies in circulation in the economy. According to him efficient financial intermediation will increase financial deepening;

effective financial deepening will have a salutary effect on the economy as well as a positive effect on savings mobilization. SLS is interest rate spread. It is defined as interest rate differential between maximum lending rate and savings deposits rate. It has negative impact on savings. Interest rate determination is a critical factor in the loanable funds market given its role in the mobilization and allocation of financial resources or credit in an economy (Uremadu, 2006b). INFR is inflation rate is defined as a macroeconomic instability represented by annual rate of inflation. It impacts negatively on private savings mobilization. DSR is ratio of debt servicing to total exports defined as the external debt services measured as ratio of actual debt services to total exports. It has negative impacts on total savings accumulation in Nigeria.From the above implicit function Uremadu derived an explicit function for the core determinants of savings in Nigeria as follows:

$TFS/GDP = \alpha_0 + B_1PCY + B_2RIR + B_3M2 + B_4SLS + B_5INFR + B_6DSR + e$ ……(2.5b)

This model was adopted in estimating the relationship between variables of this study due to its simplicity and applicability within the context of the Nigerian economy.

2.4 Empirical Literature

Here empirical reviews of other works on the impact of taxes on corporate private investment are carefully selected and reviewed. It is logical that the discussion of issues in tax reforms should begin with an assessment of the role of taxation as a macroeconomic tool. In the past, the classical economists wereof the view that the only objective of taxation was to raise government revenue. But with the changes in circumstances and ideologies, the aim of taxes has also been changed thereby designing tax to promote, restructure or redirect investment in fixed assets and otherwise, or alternatively, to promote investment spending by reducing the disincentives to investments as occasioned by the obligations of investment incentives and the

reduction of tax rate on business incomes. As such, according to Adelegan (2008), funds are freed to firms to pursue capital expenditures which bring about investment expansion.

Empirical results showed that high tax rates are bad for economic growth. This is because; they discourage new incentives, by distorting investment decisions because the tax code makes some form of investments profitable more than others or by discouraging work effort and workers acquisition of skills.

Ukegbu (2012) pointed out that the lapse in poor investment growth and low contribution to GDP in Nigeria's manufacturing sector is attributed to a persistent increase in multiple taxation. He pointed out that multiple taxation has affected the Gross Domestic Product of the country, which has decline from 9.5% in 1975 to 6.65% in 1995, 3.421% in 2010. Similarly, manufacturing capacity utilization declined rapidly from 70.1% in 1980 to 29.29% in 1995, 52.78% was recorded in 2005 but the figure declined to 46.44% in 2010.

Gwartney and Lawson (2006) realized high marginal tax rate as witnessed in Nigeria, has an enormous effect to GDP. As marginal tax rate rises, individuals get to keep less and less of their additional earnings. It discourages work effort, as taxes reduce the amount of additional earnings that one is permitted to keep. It also distort price signals and encourage individuals to substitute less desired but tax deductible goods for non-deductible ones that are more desired.

High tax rate will reduce the incentives of people to invest in both physical and human capital. When tax rates are high foreign investors will look to other places to put their money and domestic investment will look for investors projects abroad were taxes are low. This therefore contributes to a reduction in GDP.

Hall and Jorgenson (1971) estimated a one percent increase in capital as a result of a cut in corporate tax rate from 52 to 48 percent in 1964 American economy. Other incentives include accelerated depreciation. Hall and Jorgenson depreciation has a 9% reduction in the cost of

capital and 17.5% increase in net investment in manufacturing equipment over the period 1854-70.

Krausz (1987) using stimulation revealed that for certain assets classification lowering the tax rates from 46 to 33% may actually reduce the Npi of projects for companies whose tax rate is below 35%. As to its influences on foreign investment, the corporate income tax has been founded by Moore, Swenson and Steece (1982) as having a weak relationship with foreign manufacturers' investments.

A survey carried out by Fortunate (1977) on US executives indicated that 20% of the respondents cited state or local taxes on business and industry as one of the three to five most important factors in choosing a location.

Though, tax reforms provides both incentive and disincentive effects on corporate investments of countries. In Nigeria, there has been a mixture of tax policies having incentive and disincentive effects on corporate investments. As regards the company income tax rate, it was 40 percent in 1961, 45 percent in 1976 and 50 percent in the 1978/79 year of assessment. It was later reduced to 45 percent in 1980, 35 percent from 1993 to 1995 and 30 percent from 1996 to date, Olatundun, (2008). This is shown in Table 1.1 below.

Table 2.1 Tax Rate reductions in Percentage

YEAR INTRODUCED	RATES %
1961	40
1976	45
1978/79	50
1980	45
1987	40

1993	35
1996-date	30
Small company: Concessionary rate of 20%	

Source: Federal Inland Revenue Services (2000, 2002), Ikwokwu (2002)

The investigation concerning the policy impact of the variations of the above tax rate shows that the reduction in corporate income tax rate positively and significantly impact on business investment in Nigeria. This was analyzed by Okoi, W.W &Edame, E (2013) and others on the premise that low corporate income tax rate will increase funds available for firms to expand and as well find cheaper capital for enlargement.

In developing countries like Nigeria where the financial markets are under developed, high taxation of retained profits removes internal funds from firms and as such, makes the marginal value of these funds lag behind the real interest rate, In this manner, a lower tax rate can have a significant effect on investment and growth, Larrain and Vergara (2001).

Hsieh and Parker (2002) present evidence that the reduction in tax on retained earnings increased the amount of funds available to constrained firms, hence producing an investment surge in these companies.

Medina and Valdes (1998) find the availability of internal funds as key determinant in the investment decisions of companies. In this case, high tax on retained earnings would negatively affect investment.

While Akpokodje (1998) finds tax to be a vital weapon in accomplishing some government definite economic objective goals such as influencing consumer demand, providing incentives for production of gross domestic investment (GDI) or capital formation in certain sectors of the economy. He affirmed 8.6% decline in private investment as a result of the increase in the company income tax rate from 45% to 50% in Nigeria between 1976 to 1979.

Similarly, Olatundun (2008)examines the link between tax and real investment. The study adopts the neoclassical q model that incorporates adjustment costs and tax parametersusing firm level and industry level data from 1984–2000. And the results showthat q adjusted for tax, cash flow, debt shield and cost of capital has significant positiveeffects on investment, while high tax rates and interest expenses have significantnegative effects on firms' fixed investment. The negative impact between high tax rates and investment with the coefficient of -2.463 and that of profit after tax of – 2.215, this therefore validates the premise that higher tax rate reduces profit after tax of investment income which would have use for re –investment or capital formation.

Furthermore,Ogbonna and Ebimobowei (2012) examine the impact of tax reforms on the economic growth of Nigeria from 1994 to 2009.

To achieve the objective of the study, relevant secondary data were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS), Office of the Accountant General of the Federation, and other relevant government agencies. The data collected were analysed using relevant descriptive statistics and econometric models such as White test, Ramsey RESET test, Breusch Godfrey test, Jacque Berra test, Augmented Dickey Fuller test, Johansen test, and Granger Causality test.

The results from the study shows that tax reforms is positively and significantly related to economic growth and that tax reforms granger cause economic growth. On the basis of the findings, the study concluded that tax reforms improves the revenue generating machinery of government to undertake socially desirable expenditure that will translate to economic growth in real output and per capita basis. However, it was recommended that sustainable

economic growth cannot be attained with tax reform processes except obsolete tax laws and rates are reviewed in line with macro-economic objectives, corrupt-free and efficient tax

administrative machinery with personnel's and accountability and transparency of government officials in the management of tax revenue.

Accordingly, Investment equations for developing countries such as Nigeria usually include other variables that may be derived as well as more restrictions or variables in the theoretical model. For instance, since the work of McKinnon (1973) and Shaw (1973), it has been accepted that financial deepening might be an important determinant to investment. The lack of a properly developed financial market to introduce credit constraints investment is clearly more important for developing countries like Nigeria than for the developed countries.

Larrain and Vergara (1993) find evidence of credit constraints being a significant factor determining investment in East Asian countries.

Cardoso (1993) finds similar evidence for Latin American countries.

While Medina and Valdes (1998) showed that internal cash flow is an important determinant to investment in Chilean firms, and thus suggesting the presence of tax policy to exert a pull on firm internal cash flow to expand. In theoretical models, a constraint that imposed investment expenditures growth is bound by the availability of funds Rama, (1993).

From a macroeconomic point of view, the foreign debt burden can also be an important determinant in investment. There are at least three channels for this effect. First, a large debt requires large foreign payments, which, under conditions of limited foreign financing, lead to a reduction in investment. Secondly, a large foreign debt can be seen as a source of potential tax increases that reduces the return on investment. Third, a high foreign debt can be seen as a source of macro instability. As its burden depends on uncertain world economic conditions (such as world interest rates, terms of trade and other variables that are beyond the control of the country), it will have an effect on economic policy decisions in general.

Empirical evidence of this effect has been found for Latin America, Asia and a larger group of developing countries (Serven and Solimano, 1993). From a firm's perspective, a larger debt burden reduces the funds available for investment in the presence of liquidity constraints. As the firm becomes riskier, it also increases its relevant interest rate. As political and economic instability also play a major role in investment decisions.

The empirical literature for developing countries has used variables (such as exchange rate volatility, inflation volatility and the like) to capture uncertainty Larrain and Vergara (1993)

Public investment is another variable that has usually been included in private investment equations. The traditional view is that public investment crowds out private investment. However, it could also be argued that public investment, especially in infrastructure, is a complement to private investment. In other words, the public capital stock enters the production function and increases the productivity of private investment.

This effect has been found to be significant in different studies on developing countries (Serven and Solimano, 1993).

However, studies of corporate private investments and tax policy in Nigeria are few and inconclusive as thus the basis of this research to further the course of knowledge in this area.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research data and their source of collection for the study. It also provides the background against which the study is being carried out and as wellexplains the methodology and various techniques used for the investigationof the data presented for the study.

3.1 Data and Sources:

The variables used by this research, such as company income tax, education tax, interest rate on lending, domestic inflation rate, foreign exchange rate and total banking system credit to the private firms are sourced from the publications of CBN, Federal Inland Revenue Service (FIRS) and Nigerian Bureau of Statistics (NBS).

3.2 Theoretical framework

The Harrod –Domar theory, developed independently by Harrod, (1948) and Domar (1957), which explained the relationship between growth and employment in advanced capitalist countries, has been used extensively in developing countries as a simple way of looking at the relationship between growth and capital requirements. The assumption of the theory is that the output of any economic unit, whether a firm, an industry or the whole economy, depends upon the amount of capital investment in that unit. Thus, if we assign output Y and capital stock K, then output can be related to capital stock by $Y = {}^{K}/_{k}$ ..... (3.1) where k is a constant, called the capital-output ratio. The basic Harrod –Domar relationship for an economy is $g = {}^{s}/_{k}$ where g, is the view that capital created by investment in plant and equipment is the main determinant of growth and that, it is savings by people and corporations that makes the investment possible Maclolm, et al., (1987). In addition, Solow-Swan (1956) extended the Harrod–Domar model by: adding labour as a factor of production; and maintain that capital-labour ratios are not fixed as they are in the Harrod–Domar model. These refinements allow increasing capital intensity to be distinguished from technological progress. Keynes (1960)

had another opinion that the role of capital scheduled was fairly inelastic, that growth of capital through investment must lead to capital saturation. The basic error in Keynesian analysis has been pointed out by many post Keynesian economists viz. the failure to realize that growth in income generated by investment can effectively prevent capital saturation. Investment, as explored in the Harrod-Domar model plays a dual role of creating productive capacity as well as effective demand. When attention has been focused directly on problems of under development in developing countries, capital shortage and ineffectivenesshas been singled out by economists as a major cause of inadequate functional private investment in developing countries, Nigeria in particular. Hence, necessitated government policies that can bring about corporate private investment expansion that can power economic growth. Among other measures, tax policies have been recognized by this study as a government calculation attempt to enhance and advance investments in the fixed asset of firms and otherwise so as to bring about growth and development in the economy. Intrinsically, the importance of tax policies in relation to investment in any Economy cannot be overemphasized as investment is of paramount importance for business cycle fluctuations and economic growth in general. Therefore, the pace and pattern of corporate investment in fixed asset capital are central to an understanding of economic activity. Investment incentives (including lower company income tax), present the evidence that additional income will be available for firms to invest. Therefore, the reduction in tax on retained earnings of firms increased the amount of funds available to constrained firms, hence producing an investment surge in these companies. While high taxation on retained profits removes internal funds from these firms thereby creating the marginal value of these funds to be less than the real interest rate. As such, the capital expenditure of firms is cut down by the degree of the tax rate.

3.3 Analytical Framework

Here, we briefly elucidate the analytical framework underlying the macroeconomic determinants of private investment in a developing country like Nigeria drawing heavily fromUremadu, (2007). This Thesis makes use of the econometric procedures in estimating the effects of corporate tax policies on corporate private investment in Nigeria. First, multiple regression technique was used in estimating the relationship between corporate private investment and corporate taxes (corporate income tax and education tax). Secondly, unit root test was used to check the appropriate order of integration of the variables in order to avoid spurious results. Thirdly, if unit root is found among the variables and are integrated of the same order, then ECM technique was conducted in determining the speed of adjustment in the model in the long run to go back to equilibrium. Fourthly, granger causality test will be employed to determine the causation between tax policy and private investment. And finally, diagnostic tests will be carried out to determine the robustness of the model. The analytical framework is as follows:

i. Corporate Private Investment (COPI)

It is defined as the difference between total capital formation and public investment. And privately owned by the company's founder, management or a group of private investors. It is a fact that private investment powered the developed economy and there is a growing consensus that an increase in private investment would as well powered the Nigeria economy if well apply, thereby complements the unemployment challenges, raises the GDP to meet the needs of growth and development in Nigeria, Bakare (2011).

ii. Company Income Tax (CITX)

It is a tax build up structure among the various tax structures in Nigerian economy. By virtue of section 8 (1) of the companies income tax Act 1990, taxes are payable as specified upon profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of

generating income and regulating the economy amongst others. The current rate of companies' income tax is 30% of assessable income.

iii. Education Tax (EDTX)

It is a tax chargeable on all companies registered in Nigeria at 2% of chargeable profits as contribution to the Education Tax Fund. The primary objective of having education tax is to raise funds for the upgrading of the nation's educational infrastructures aim at producing efficiency in the nation's economy.

iv. Interest Rate on Lending (INTR)

A maximum lending rate (MLR) would raise the cost of capital and therefore dampen corporate private investment especially those requiring capital to expand (Chete, 1998).

v. Domestic Inflation Rate (INFR)

A high rate of inflation is an indication that government lacks the ability to manage the economy (Fisher, 1993). Hence, high rates of inflation are expected to lead to a contraction of private investment.

vi. Foreign Exchange Rate (EXR)

Obadan (1994) traces the importance of exchange rate on inflow of capital and notes that its importance as the centerpiece of the investment environment derives from the argument that a sustained exchanges rate misaligned in terms of over – valuation or under – valuation, is a major source of macroeconomic disequilibria in developing countries. Consequently, an over –valued exchange rate or highly distorted foreign exchange rate will discourage exports or import and negatively affect private investment environment.

vii. Financial Intermediation Proxied by Total Banking System Credit to the Economy (BSTC).

Mckinnon and Shaw (1973) argue that financial deepening increases the rate of domestic savings, and this lowers the cost of borrowing and also stimulates investments. However, Orji (2009) finds that on disaggregated basis, banking system credit contributes more to the private sector than the public sector.

3.4 Model Specification

Our model emanates from the foregoing analytical considerations of the study. Thus,

3.4.1 Model I

This model is a model of corporate private investment

COPI= f (CITX, EDTX, INTR,*INFR,EXR, BSTC)*…… *(3.2)*

$$COPI = \beta_0 + \beta_1 CITX + \beta_2 EDTX + \beta_3 INTR + \beta_4 INFR + \beta_5 EXR + \beta_6 BSTC + \mu \ \ldots\ldots\ldots\ldots (3.3)$$

Where COPI is corporate private investment, CITX is Company income tax, EDTX is education tax, INTR is interest rate, INFR is inflation rate, EXR is foreign exchange rate, and BSTC is banking system credit in the economy.

A-priori expectation

It is expected that $\beta_0 \beta_{4and}\ \beta_6 > {}_{0\ and} \beta_1\ \beta_2\ \beta_3\ \beta_5 < 0$

3.4.2 Model II

This model is a model of economic growth in Nigeria. It was used to capture the second objective of the study. Thus the model is specified as:

GDP = f (*COPI ,EXR,* INFR, *INTR, BSTC)*…… *(3.4)*

$$GDP = \beta_0 + \beta_1 COPI + \beta_2 EXR + \beta_3 INFR + \beta_4 INTR + \beta_5 BSTC + \mu \ \ldots\ldots\ldots\ldots (3.5)$$

Where GDP is Gross Domestic Product at current price, COPI is corporate private investment, EXR is foreign exchange rate, INFR is inflation rate, INTR is interest rate, and BSTC is banking system credit in the economy.

A-priori expectation

It is expected that $\beta_0 \beta_1 \beta_2 \beta_{3and}\ \beta_5 > {}_{0\ and}\ \beta_4 < 0$

3.5 Diagnostic Test

The diagnostic tests used in this thesis were Augmented Dickey Fuller test, Granger causality and Angel Granger Error correction test.

3.5.1Unit Root Test

Time series data are often known to exhibit unit root syndrome. A series is said to have a unit root when it's mean and autocovariance are variant to time. Let suppose a random walk model:

$$X_t = X_{t-1} + \varepsilon_t \quad \text{(3.6)}$$

From equation $X_t$is said to have a unit root or to be a nonstationary series. This is because the series has a constant forecast value, conditional on t, and the variance increases over time. In this case, the application of most econometric techniques without checking and correcting for unit root will yield nonsensical and spurious results. Augmented Dickey-Fuller (ADF) test proposes a parametric method for checking the appropriate order of integration while Phillip-Perron test proposes a nonparametric method for unit root test. In a multiple random walk series like $X_{it} = X_{it-1} + \varepsilon_{it}$, individual series based unit root tests such as ADF has lower power in detecting unit root. Therefore, panel-based unit root tests which have been shown to have higher power than tests based on individual series are employed in this study. Specifically, Breitung and Im,

Pesaran, and Shin (IPS) panel unit root tests shall be explored. The basic ADF specification is as follows:

$$\Delta x_{it} = \alpha x_{it-1} + \sum_{j=1}^{p_i} \beta_{ij} \Delta x_{it-j} + Y_{it}' \delta + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots . (3.7)$$

Breitung follows the basic specification of ADF such that a common α = p – 1 is assumed, but allows the lag order for the difference terms p_i, to vary across cross-sections. Im, Pesaran, and Shin on the other hand specifies a separate ADF regression for each cross section and allows for individual unit root processes so that p_i may vary across cross-sections. Both unit root tests have the same null hypothesis of unit root, however; while Breitung's test has the alternative hypothesis of no unit root, IPS's test has the null of no unit root in some cross sections. The two tests will be used in order to appropriately overcome the problems of unit root series.

3.5.2 Engel-Granger Error Correction Test

The Engel-Granger (1987) developed an error correction technique to examine cointegrating vectors. This cointegration test is based on an examination of the residuals of a spurious regression performed using 1(1) variables. If variables are cointegrated then the residuals should be 1(0). On the other hand if the variables are not cointegrated then the residuals will be 1(1). This test applies Error Correction Model (ECM) technique. After establishing stationary of the data, Johansen Co-integration test is applied to determine whether a long run relationship exist among the variables in question.

When it is established that the variables are co-integrated, an over-parameterized model (ECM1) is developed which involves leading and logging of the variables after which parsimonious model (ECM2) is built in accommodate short-run dynamic in the model. The ECM was also used in estimating the speed of adjustment to the deviation in the long run equilibrium.

The over parameterized ECM was specified as follows:

$$\Delta \mathrm{COPI}_{t-1} = \alpha + \sum CIT\, X_{t-1} + \sum ED\, \mathrm{TX}_{t-1} + \sum IN\, \mathrm{TR}_{t-1} + \sum IN\, \mathrm{FR}_{t-1} + \sum EX\, \mathrm{R}_{t-1} + \sum BS\, \mathrm{TC}_{t-1} + \mathrm{ECM}_{t-1} \quad \ldots\ldots (3.8)$$

Where:COPI = Corporate private investment, CITX = Company income tax, EDTX = Education tax, INTR = Interest rate on lending, INFR = Domestic inflation rate, EXR = Foreign exchange rate, BSTC = Banking system credit,ECM_{t-1} = Error Correction term, t-1 = Variable Lagged by one period.

3.5.3 Granger Causality Model

The concept of causality adopted is Granger causality. Intuitively, the standard Granger (1969) causality test examines whether past changes in one variable, X, helps to explain current changes in another variable, Y, over and above the explanation provided by past changes in Y. if otherwise, then one concludes that X does not Granger cause Y. To determine whether causality runs in the other direction, from Y to X, one simply repeats the experiment, but with X and Y interchangeable.

$$y_t = \Sigma\alpha_i y_{t-1} + \Sigma\beta_i x_{t-1} + U_t \quad \ldots\ldots (3.9)$$

$$x_t = \Sigma_i x_{t-1} + \Sigma i_i y_{t-1} + V_t \quad \ldots\ldots (3.10)$$

and testing I and I (where I = 1,2,……) to show whether or not x_t fails to Granger cause$y_t$and vice-versa, respectively. The error terms are assumed to be serially independent with mean zero and finite covariance matrix. From equation (1) x is said to Granger cause y if the coefficient of the lagged values of x as a group (βi) is significantly different from zero, based on a standard F-test. The reverse is the case if i is significantly different from zero from equation (2). Feedback relationship or bi-directional causality occurs if x_i Granger causes y_t and y_t Granger causes x_t.

The model of causality test is thus specified as follows:

$COPI = \sum\beta_i COPI_{t-1} + \sum \beta_2 CITX_{t-1} + \sum \beta_3 EDTX_{t-1} + \mu_{t1}$……(3.11)

$CITX = \sum \phi_i COPI_{t-1} + \sum \phi_2 CITX_{t-1} + \sum\phi_3 EDTX_{t-1} + \mu_{t2}$……..(3.12)

$EDTX = \sum\alpha_i COPI_{t-1} + \sum \alpha_2 CITX_{t-1} + \sum \alpha_3 EDTX_{t-1} + \mu_{t3}$……(3.13)

Decision rules

The decision rule for equation (1), (2) and (3) under causality models is test of null hypothesis that the estimated coefficients are equal to zero at an appropriate level of significance or using the rule of thumb that if t-statistic is at least 2 the null hypothesis is rejected otherwise accepted. Therefore,

Equation (1) CITX or EDTX causes COPI if Ho: $\beta_{2,}\ \beta_3 = 0$ is rejected.

Equations (2) COPI or EDTX causes CITX if Ho: $\phi_{1,}\phi_3 = 0$ is rejected.

Equations (3) COPI or CITX causes EDTX if Ho: $\alpha_{1,}\ \alpha_2 = 0$ is rejected.

However, if the estimates of the parameter turn up with signs or size not conforming to economic theory, they should be rejected, unless there is a good reason to believe that in the particular instance, the principles of economic theory do not hold.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter proceeds from the preceding chapters to present and analyze the data and the empirical results base on the methodology developed. Below are the data presentation, empirical results and discussion as well as the research findings.

4.1 Data presentation

Here data for the thesis are presented and analyzed. The raw data is presented in appendix I. The data revealed the trend in corporate private investment and corporate taxes in Nigeria from 1986-2013. The highest corporate private investment was recorded in 2010 (₦3,215,478billion) and the least was recorded in 1998 (-₦279851billion). The highest company income tax was recorded in 1995 with the value of ₦21,878billion and the least was recorded in 1996 with the value of ₦23.1billion, though the values exhibit a fluctuating trend throughout the period under review. The highest education tax recorded during the period under review was ₦279.36billion in 2013 and the least was recorded in 1997 with the value of ₦2.9billion. The highest exchange rate was recorded in 2013 with the value of ₦156.8 per dollar and the least was recorded in 1986 with the value of ₦2.02 per dollar. The highest inflation rate was recorded in 1994 with the value of 76.8 per cent and the least inflation rate was recorded in 1986 with the value of 0.2 per cent. The highest interest rate for the period under review was recorded in 1993 with the value of 32.8 percent and the least interest rate was recorded in 1986 with the value of 10.5 percent. The highest banking sector credit to private investors stood at ₦15,778.3billion in 2013 and the least value was recorded in 1986 with the value of ₦15.25billion (Central Bank Statistical Bulletin, 2013 and FIRS Report 2013).

TABLE 4.1 DESCRIPTIVE STATISTICS

	COPI	CITX	EDTX	EXR	INTR	INFR	BSTC

Mean	371787.6	2399.963	38.32214	84.17114	18.00786	21.65357	2922.618
Median	15761.6	633.5	7	96.22	18.45	12.95	480.77
Maximum	3215478	21878.3	279.36	155	32.8	76.8	15778.31
Minimum	-279851	23.1	2.9	2.02	10.5	0.2	15.25
Std. Dev.	822619.8	4808.349	68.36515	56.88832	7.700906	20.20247	4712.781
Skewness	2.312649	2.9076	2.187911	-0.359531	-1.011299	1.437285	1.634206
Kurtosis	7.551743	11.249	7.205574	1.555168	4.21389	3.771628	4.298219
Sum	10410054	67198.96	1073.02	2356.792	504.22	606.3	81833.29
Sum Sq. Dev.	1.83E+13	6.24E+08	126192.4	87379.58	1601.207	11019.77	6.00E+08
Observations	27	27	27	27	27	27	27

Source: E-views 7

Table 4.1 shows that corporate private investment in Nigeria was on the average at ₦371787.6 billion, the maximum value of corporate private investment from 1986-2013 in Nigeria is ₦3215478 billion while the minimum value stood at -₦279851 billion.

Corporate income tax stood at ₦2,399.963 billion on the average from 1986-2013 in Nigeria. The maximum value of corporate income tax from 1986-2013 in Nigeria was ₦21878.3 billion while the minimum value stood at ₦23.1 billion.

Education tax stood at ₦38.32214 billion on the average from 1986-2013. The maximum education tax from 1986-2013 in Nigeria was ₦279.36 while the minimum value of education tax stood at ₦2.9 billion.

Exchange rate stood at ₦84.17 per Dollar on the average from 1986-2013. The maximum exchange rate from 1986-2013 in Nigeria was ₦155 per Dollar while the minimum value of exchange rate stood at ₦2.02 per Dollar.

Inflation rate stood at 21.65 percent on the average from 1986-2013. The maximum inflation rate from 1986-2013 in Nigeria was 76.8 percent while the minimum value of inflation rate stood at 0.2 percent.

Interest rate stood at 18.01 percent on the average from 1986-2013. The maximum interest rate from 1986-2013 in Nigeria was 32.8 percent while the minimum value of interest rate stood at 10.5 percent.

Banking system credit to private investment stood at ₦2,922.61 billion on the average from 1986-2013. The maximum Banking system credit to private investment from 1986-2013 in Nigeria was ₦15,778.31 billion while the minimum value of Banking system credit to private investment stood at ₦15.25 billion.

4.2 Empirical Results and Discussion

Table 4.2 Model I is the effects of corporate income tax, education tax, exchange rate, inflation rate and banking credit to private sector in Nigeria and model II is Effects of corporate private investment, exchange rate, inflation rate, interest rate and banking credit to private sector on GDP in Nigeria

Variables	Model I	Model II
CONST	-2.9289	3.2477
	(-0.2332)	(5.8958)
	P(0.8271)	P(0.0000)
CITX	-2.6707	
	(-2.6970)	
	(0.0490)	
EDTX	-1.1237	
	(-2.6047)	
	P(0.0455)	
COPI		0.1542
		(2.2165)
		P(0.0425)
EXR	-0.2639	0.8520
	(-0.1245)	(9.9475)
	P(0.9069)	P(0.0000)
INTR	-2.1687	-0.0090
	(-3.9436)	(-0.6681)
	P(0.0030)	P(0.5142)
INFR	0.2970	0.0013
	(0.4754)	(0.4110)
	P(0.6593)	P(0.6869)
BSTC	0.8819	0.0001
	(0.5081)	(3.2026)
	P(0.6381)	P(0.0059)
R2	0.9556	0.9458
R2 Adjusted	0.8890	0.9311
F-stat.	14.3517	208.18
P(F-stat)	0.0111	0.0000
DW-stat.	3.0102	1.7255

Source: Regression Results using EVIEW 7

Table 4.2 represents multiple regression results for the corporate private investmentand economic growth model. Model I represents the effect of corporate income tax and education

tax, exchange rate, interest rate, inflation rate and banking system credit to private sector on corporate private investment in Nigeria from 1986 to 2013. The coefficients of corporate income tax and education tax were found statistically significant at 5 per cent as indicated by their probability values of 0.0490 and 0.0455 respectively, the coefficient of interest rate was found statistically significant at 1 per cent as indicated by its probability value of 0.0030. The coefficient of exchange rate, inflation rate and banking system credit to private sector were found statistically insignificant as indicated by their high probability values in table 4.2. This is consistent with the theoretical expectation of this study. This result, therefore, implied that as corporate income tax, education tax, exchange rate, and interest rate increases by 1 unit, corporate private investment will reduce by 2.6707, 1.1237, 0.2639 units and 2.1687 units respectively as indicated in model I above. The result also revealed that 1 unit increase in inflation rate and banking credit to private sector will result to an increase in corporate private investment by 0.2970 and 0.8819 respectively. The F-statistics 14.3517, which measured the joint significance of the parameter estimates, was found statistically significant at 5 per cent level as indicated by the corresponding probability value of 0.0111. This implies that all the variables of the model were statistically jointly and significantly affected corporate private investment in Nigeria.

The R^2 value of 0.9556 (95.56%) implied that 95.56per cent total variation in corporate private investment is explained by corporate income tax, education tax, exchange rate, interest rate, inflation rate and banking credit to private sector in Nigeria. This further indicated that corporate private investment was significantly explained by the included variables and the model is fit in explaining the relationship between the variables under consideration. Coincidently, the goodness of fit of the regression remained very high after adjusting for the degree of freedom as indicated by the adjusted R^2 (R^2 =0.8890 or 88.90%). The Durbin-Watson statistic 3.0102 in

table 4.2 was observed to be higher than R^2 0.9556 indicating that the model is non-spurious (meaningful) therefore, it can be used for policy purpose. The Durbin-Watson statistics 3.0102 shows that there was no autocorrelation among the error value.

Model II represents the growth effect of corporate private investment, exchange rate, interest rate, inflation rate and banking system credit to private sector in Nigeria from 1986 to 2013. The constant, coefficients of corporate private investment, foreign exchange rate and banking system credit to private sector were found statistically significant at 1 per cent, 5 percent and 1 percent as indicated by their probability values of 0.0000, 0.0425, 0.0000 and 0.0059 respectively, the coefficient of inflation and interest rate were found statistically insignificant as indicated by their high probability values of 0.6869 and 0.5142 respectively in table 4.2. This result, therefore, implied that as corporate private investment, exchange rate, inflation rate and banking system credit to private sector increases by 1 unit, economic growth proxy by GDP will increase by 0.1542, 0.8520, 0.0013 units and 0.0001 units respectively as indicated in model II above. The study also revealed that 1 unit increase in interest rate will result to a decrease in GDP by 0.0090. This result is consistent with the theoretical expectation of this study. The F-statistics 208.1820, which measured the joint significance of the parameter estimates, was found statistically significant at 1 per cent level as indicated by the corresponding probability value of 0.000000. This implies that all the variables of the model were statistically jointly and significantly affected economic growth proxy by GDP in Nigeria.

The R^2 value of 0.9458 (94.58%) implied that 94.58per cent total variation in Gross Domestic Product (GDP) is explained by corporate private investment exchange rate, interest rate, inflation rate and banking credit to private sector in Nigeria. This indicated that economic growth was significantly explained by the included variables and the model is fit in explaining the

relationship between the variables under consideration. Coincidently, the goodness of fit of the regression remained very high after adjusting for the degree of freedom as indicated by the adjusted R^2 (R^2 =0.9311 or 93.11%). The Durbin-Watson statistic 1.7255 in table 4.2 was observed to be higher than R^2 0.9458 indicating that the model is non-spurious (meaningful) therefore, it can be used for policy purpose. The Durbin-Watson statistics 1.7255 shows that there was negligible presence of autocorrelation among the error value because the value is tending toward 2.

The regression results of model I and model II showed that corporate private investment and GDP have significant positive intercepts, signifying that there are other exogenous variables that may have significant impact on the corporate private investment and GDP in Nigeria but not captured by the models. This was consistent with the Keynesian position that investment and output have an autonomous component.

In summary, corporate income tax and education tax was observed to affect corporate private investment negatively which translate to reduction in economic growth rate in Nigeria.

4.3 Hypothesis Testing

Here, the formulated hypothesis in chapter one was tested at 5% level, through the application of T-Statistic which test significant of the variables individually and F-Statistic which test significance of the variables jointly. Given the probability values of the variables and T-Statistics values, the null hypothesis is rejected when the T-probability value is found to be less than 5 percent and also if probability of F-Statistic is less than 5 percent the null is rejected. This decision was adopted for hypothesis testing in this study.Given the T-probability values of the variables CITX (0.0490) and EDTX (0.0455) show that corporate income tax and education tax

is individually significant affected corporate private investment in Nigeria for the period under review.

F-statistics was used in testing the joint significant of corporate income tax rate and education tax on corporate private investment in Nigeria. The F-statistics value of 14.3517 and the probability value of 0.0111 in Table 4.2 revealed that corporate income tax rate and education tax jointly and significant affected corporate private investment in Nigeria.

Table 4.3: Unit root test

VAR	ADF 1(1)	CRITICAL VAL (1%)	REMARK	PROB. (ADF)
COPI	-10.5225	-3.8868	1 (1)	0.0000*
CITX	-5.3757	-3.6999	1 (1)	0.0002*
EDTX	-5.6194	-3.9204	1 (1)	0.0004*
INTR	-4.4137	-3.6892	1 (1)	0.0021*
INFR	-6.3840	-3.7241	1 (1)	0.0000*
EXR	-4.6338	-3.7530	1 (1)	0.0013*
BSTC	-4.3618	-3.6999	1 (1)	0.0020*

Source: Computer output from E-views 7

***Stationary at 1 percent**

ADF = AugmentedDickey Fuller Statistics

4.4: **Discussion of unit root test results**

The results of unit root test are contained in table 4.3.The results of ADF revealed that all the variables of the model are stationary at 1percent as indicated by their probability values. The result further indicated that corporate private investment (COPI), company income tax, education tax, exchange rate, interest rates, inflation rate and bank system credit to private sectors were

stationary at first difference 1(1). The ADF statistics for all the variables are less than the critical values in negative direction.

Table 4.4: Causality Test Result

Null Hypothesis:	Obs	F-Statistic	Prob.
CITX does not Granger Cause COPI	26	0.20964	0.8125
COPI does not Granger Cause CITX		0.11264	0.8940
EDTX does not Granger Cause COPI	26	19.0282	2.E-05
COPI does not Granger Cause EDTX		5.57080	0.0115
EDTX does not Granger Cause CITX	26	0.15757	0.8552
CITX does not Granger Cause EDTX		0.00345	0.9966

Source:Computer output from E-views 7

4.5 Discussion of Causality test result

The results of causality are contained in table 4.4. The results revealed that there was no causation between corporate private investment (COPI) and corporate income tax (CITX) in Nigeria, the null hypotheses were accepted. Also no causation existed between corporate income tax and education tax in Nigeria for the period under review. The result also revealed that two-way causation existed between corporate private investment and education tax which implied that corporate private investment causes education tax and education tax also causes corporate private investment in Nigeria. The null hypothesis was rejected at 1 percent and 5 per cent respectively as indicated by their probability values of 0.00002 and 0.0115 respectively; this is confirmed by their F-statistics values of 19.0282 and 5.5708 respectively. This provides the basis to conducting Error correction model (ECM) test in order to find out whether there existed a long run relationship between corporate private investment, corporate income tax, education tax,

exchange rate, interest rate, inflation rate and banking system credit to private sector in Nigeria for the period under review.

4.6: Discussion of Error Correction Results

Table 4.5: Parsimonious Error correction results

Dependent Variable: COPI
Method: Least Squares

Sample (adjusted): 1996 2013
Included observations: 17 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.970204	1.937746	3.081005	0.0064
D(COPI(-1))	-0.084691	0.208064	-0.407045	0.6888
D(LOGCITX(-1))	-2.099735	0.773862	-2.713318	0.0142
D(LOGEDTX(-1))	-3.622127	-1.237709	2.926475	0.0389
D(LOGEXR(-1))	1.638489	3.242440	0.505326	0.6195
D(LOGINTR(-1))	-4.308918	4.543993	-0.948267	0.3556
D(LOGINFR(-1))	0.269375	1.349393	0.199627	0.8440
D(LOGBSTC(-1))	5.207982	5.969553	0.872424	0.3945
ECM(-1)	-0.613044	0.222131	-2.759832	0.0129

R-squared	0.538705	Mean dependent var	8.531194
Adjusted R-squared	0.333684	S.D. dependent var	5.451138
S.E. of regression	4.449664	Akaike info criterion	6.084736
Sum squared resid	356.3912	Schwarz criterion	6.516681
Log likelihood	-73.14393	Hannan-Quinn criter.	6.213176
F-statistic	2.627568	Durbin-Watson stat	2.052947
Prob(F-statistic)	0.042281		

Source: Computer output from E-views7

The coefficient of ECM in Table 4.5 shows the speed of adjustment to the deviation in the long run equilibrium. The negative value of the coefficient of ECM implies that there is a long run relationship between Corporates private investment, company income tax, education tax, foreign exchange rate, monetary policy rates, inflation and bank system credit to private sectors. The value of the coefficient of ECM (-0.613044) shows that the data will adjust by 61.30 percent to go back to equilibrium in the long run. Precisely, -0.613044 implied that when there is a state of

disequilibrium between Corporates private investment, company income tax, education tax, foreign exchange rate, monetary policy rates, inflation and bank system credit to private sectors will be brought back to equilibrium in two years' time. The coefficient of LOGCITX(-2.099735) shows that 1 percent change in company income tax (CITX) will result to 2.099735 percent reduction in corporates private investment in Nigeria and the coefficient of LOGEDTX (-3.622127) shows that 1 percent change in Education tax (EDTX) will result to 3.622127 percent reduction in corporates private investment in Nigeria and the coefficient of LOGEXR (1.638489) shows that 1 percent change in Foreign exchange rates (EXR) will result to 1.638489 percent increase in corporates private investment in Nigeria and also the coefficient of LOGINTR (-4.308918) shows that 1 percent change in interest rate (MPR) will result to 4.308918 percent reduction in corporates private investment in Nigeria. The coefficient of LOGINFR (0.269375) shows that 1 percent change in inflation rates (INFR) will result to 0.269375 percent increase in corporates private investment in Nigeria. The coefficient of LOGBSTC (5.207982) shows that 1 percent change in banking system credit to private sector (BSTC) will result to 5.207982 percent increase in corporates private investment in Nigeria. The R^2 value of 0.538705 shows that 53.87 per cent variation in Corporate private investment in Nigeria was explained by company income tax, education tax, foreign exchange rate, interest rates, inflation rates and bank system credit to private sectors; this further implies that the model is fit to explain the relationship between Corporate private investment and company income tax, education tax, foreign exchange rate, interest rates, inflation rates and bank system credit to private sectors. The Durbin Watson statistics value of (2.052947) shows the absence of autocorrelation; hence the model is non-spurious and can be used for policy purpose.

4.7 Findings of the study

Major findings of this thesis were itemized below:

(i) There was a negative and significant relationship between corporate private investment and corporate income tax in Nigeria during the years under review, suggesting that increase in corporate income tax reduces the corporate private investment in the country.

(ii) The Thesis found a negative and significant relationship between corporate private investment and education tax in Nigeria during the years under review, suggesting that increase in education tax reduces the corporate private investment in the country.

(iii) The thesis revealed negative and insignificant relationship between corporate private investment and exchange rate in Nigeria during the years under review, suggesting that increase in exchange rate reduces the corporate private investment in the country.

(iv) The study also found a negative and insignificant relationship between corporate private investment and interest rate in Nigeria during the years under review, suggesting that increase in interest rate reduces the corporate private investment in the country.

(v) The study also found a positive and insignificant relationship between corporate private investment and inflation rate in Nigeria during the years under review, suggesting that increase in inflation rate increases the corporate private investment in the country.

(vi) The Thesis further found a positive and insignificant relationship between corporate private investment and Banking system credit to private sector in Nigeria during the

years under review, suggesting that increase in Banking system credit to private sector increases the corporate private investment in the country.

(vii) The Thesis further found a positive and insignificant relationship between corporate private investment and Banking system credit to private sector in Nigeria during the years under review, suggesting that increase in Banking system credit to private sector increases the corporate private investment in the country.

(viii) The Thesis further found a positive and significant relationship between economic growth proxy by GDP and corporate private investment in Nigeria during the years under review, suggesting that increase in corporate private investment increases economic growth the corporate private investment in the country.

(ix) The error correction result revealed the existence of long run relationship between the variables of the model suggesting that both corporate income tax, education tax, exchange rate, interest rate, inflation rate and banking system credit to private sector influence corporate private investment in Nigeria

(x) Finally the null hypothesis that "there is no significant link between corporate tax (i.e. corporate income tax and education tax) and corporate private investment was rejected at 5 percent significant level, hence, this Thesis found that corporate income tax and education tax had significant effect on corporate private investment in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSSION AND RECOMMENDATIONS

5.1 Summary

This Thesis revealed that corporate income tax, education tax, exchange rate and interest negatively affected corporate private investment, while inflation rates and banking system credit to private sector positively affected corporate private investment in Nigeria for the period under study. The coefficients of corporate income tax, education tax, exchange rate, interest rate, inflation rate and banking system credit to private sector were rightly signed, implying that they were consistent with the theoretical expectation of this Thesis. The trend of corporate private investment in Nigeria for the period under review was found to be fluctuating with the highest investment recorded in 2010 amounting to 3215478 billion naira, while the minimum value of corporate private investment was recorded in 1998 amounting to -279851 billion naira. Corporate private investment recorded negative between 1997, 1998 and 2001 but recorded positive from 2007 through to 2010 and was increasing steadily. Corporate income tax recorded highest return in 2013 (998.44 billion naira) and least in 1996 (23.1 billion naira). The trend of corporate income tax shows an increasing swing. Its keep increasing steadily from 1986 through to 1995 and fell drastically in1996; later increased steadily from 1996 to 2013. The maximum return on education tax for the period under review was recorded in 2013 (279.36 billion naira) and the minimum return was recorded in 1997 (2.9 billion naira). Education tax also shows a fluctuating trend. This thesis found that business trend in Nigeria is steady in the recent times.This was attributed to the radical policies put in place by various administrations aiming at making Nigeria a good investment destination despite other security challenges bedeviling the country. It was found in this Thesis that as corporate income tax, education tax, exchange rate

and interest rates increased corporate private investment in the Nigeria decreased. However, as inflation rates and banking credit to private sector increased, corporate private investment in Nigeria increased. This implies that corporate income tax, education tax, exchange rates, interest rates, inflation rates and banking system credit to private sector jointly significant affected corporate private investment in Nigeria for the period under review.

This result further revealed that it will take the Nigerian economy two years to adjust to equilibrium in the long run.

5.2 Conclusion

This Thesis investigates the effects of corporate income tax, education tax, exchange rates, interest rates, inflation rates and banking system credit to private sectors on corporate private investment in Nigeria through the application of descriptive statistics, OLS techniques, Augmented Dickey-Fuller technique in testing the unit root property of the series and Granger causality test of causation between corporate private investment, corporate income tax, education tax, exchange rates, interest rates, inflation rates and banking system credit to private sectors. After which Engel-Granger Error Correction Test was conducted to ascertain the presence of long run relationship between the variables of the model. The trend of corporate private investment in Nigeria for the period under review was found to be fluctuating with the highest investment recorded in 2010 amounting to 3215478 billion naira, while the minimum value of corporate private investment was recorded in 1998 amounting to -279851 billion naira. Corporate private investment recorded negative between 1997, 1998 and 2001 but recorded positive from 2007 through to 2010 and was increasing steadily. Corporate income tax recorded highest return in 2013 (998.44 billion naira) and least in 1996 (23.1 billion naira). The trend of corporate income tax shows an increasing swing. Its keep

increasing steadily from 1986 through to 1995 and fell drastically in1996; later increased steadily from 1996 to 2013. The maximum return on education tax for the period under review was recorded in 2013 (279.36 billion naira) and the minimum return was recorded in 1997 (2.9 billion naira). Education tax also shows a fluctuating trend. It is concluded that corporate private investment, corporate income tax, education tax trended positively but in a fluctuating manner. A major policy implication of this study is that concerted effort should be made by policy makers to reducing both corporate income tax and education tax so as to encourage corporate private investment in the country. The fiscal policy should also be directed toward boasting productivity and corporate private investment in the country.

5.3 Recommendations

Based on the findings made in the course of this study the following recommendations are made:

i. Based on the result of this thesis and the trend of corporate private investment in Nigeria. This Thesis, recommended that government and its relevant authorities should provide conducive investment environment, which may likely enhance investment especially private investment in Nigeria.

ii. Based on the result of this thesis and the trend of corporate private investment in Nigeria. This Thesis, found that corporate private investment impacted positively on economic growth in Nigeria, this study therefore, recommended that government should provide tax incentives to the investors by reducing corporate private taxes levied on corporate private investments.

iii. This Thesis also, recommended the need to formulate policies to ensure reduction in education tax which may likely improve corporate private investment in Nigeria.

iv. This Thesis also, recommended the need to formulate policies to ensure reduction in exchange rates which may likely improve corporate private investment in Nigeria.

v. This Thesis also, recommended the need to formulate policies to reduce interest rates which may likely improve corporate private investment in Nigeria.

vi. This Thesis further, recommended the need to formulate policies to ensure relative stability in prices so as to improve corporate private investment and stimulate economic growth in Nigeria.

vii. Finally, this Thesis, recommended the need to formulate policies to ensure increase in the banking system credit to private sector which may likely improve corporate private investment which may translate into improvement in economic growth in Nigeria.

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Appendices

Appendix I

YEARS	GDP AT CBP(BIL)	COPI	CITX	EDTX	EXR	INFR	INTR	BSTC
1986	134.60	325.1	1102.2	0	2.02	13.7	10.5	15.25
1987	193.13	8176.1	1102.5	0	4.021	9.7	17.5	21.08
1988	263.29	7876.5	1550.8	0	4.54	61.2	16.5	27.33
1989	382.26	11352	1914	0	7.39	44.7	26.8	30.4
1990	472.65	15608.4	2992.3	0	7.39	3.6	25.6	33.55
1991	545.67	15047.3	3827.9	0	8.041	23	20.1	41.35
1992	875.34	22776.8	5417.2	0	9.91	48.8	25.7	58.12
1993	1,089.68	9419.2	9554.1	0	17.3	61.3	32.8	127.12
1994	1,399.70	33201.6	12274.8	0	22.33	76.8	20.3	143.42
1995	2,907.36	15914.8	21878.3	0	81.02	51.6	20.3	180
1996	4,032.30	42638.3	23.1	3.3	81.25	14.3	24.8	238.6
1997	4,189.25	-32483	27.8	2.9	81.64	10.2	17.6	316.21
1998	3,989.45	-279851	33	3.2	83.8	11.9	18.3	351.96
1999	4,679.21	-268145	46	5.7	92.34	0.2	21.3	431.17
2000	6,713.57	88258.8	53.3	8.3	100.1	14.5	18	530.37
2001	6,895.20	-69938	69.4	16.2	111.5	16.5	26	764.96
2002	7,795.76	170097	89.1	10.1	120.7	12.2	20.6	930.49
2003	9,913.52	611132	114.8	9.7	129.2	23.8	19.6	1096.54
2004	11,411.07	491904	131	17.1	133	10	18.9	1421.66
2005	14,610.88	259010	170.2	21.8	131.1	11.6	17.8	1838.39
2006	18,564.59	952670	246.7	28.4	128.1	8.5	17.3	2290.62
2007	20,657.32	829557	332.4	59.6	125	6.6	17	3668.66
2008	24,296.33	1774752	420.6	59.5	117.7	15.1	15.22	6920.5
2009	24,794.24	2485276	601	139.5	147.2	13.9	18.6	9110.86
2010	54,204.80	3215478	666	89.18	148.2	11.8	17.1	10157
2011	63,258.58	NA	715.43	130.75	152	10.3	17.2	10660.1
2012	71,186.53	NA	846.59	188.43	155	12	14.7	14649.3
2013	80,222.13	NA	998.44	279.36	156.8	8.5	14.2	15778.3

SOURCE:CBN STATISCAL BULETTIN 2013 AND FIRS REPORT 2013

Appendix II

Dependent Variable: COPI
Method: Least Squares
Date: 11/26/14 Time: 06:45
Sample (adjusted): 1986 2013
Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.928921	12.56041	-0.233187	0.8271
CITX	-2.670672	0.992905	-2.696969	0.0490
EDTX	-1.123699	0.426408	-2.604651	0.0455
EXR	-0.263923	2.119528	-0.124520	0.9069
INTR	-2.168747	0.550131	-3.943636	0.0030
INFR	0.296968	0.624699	0.475378	0.6593
BSTC	0.881909	1.735672	0.508108	0.6381

R-squared	0.955610	Mean dependent var	13.13460
Adjusted R-squared	0.889025	S.D. dependent var	1.378934
S.E. of regression	0.459364	Akaike info criterion	1.543177
Sum squared resid	0.844059	Schwarz criterion	1.796383
Log likelihood	-1.487472	Hannan-Quinn criter.	1.383566
F-statistic	14.35170	Durbin-Watson stat	3.010216
Prob(F-statistic)	0.011135		

Appendix III

Null Hypothesis: D(COPI) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-10.52245	0.0000
Test critical values:	1% level	-3.886751	
	5% level	-3.052169	
	10% level	-2.666593	

Null Hypothesis: D(CITX) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.375688	0.0002
Test critical values:	1% level	-3.699871	
	5% level	-2.976263	
	10% level	-2.627420	

Null Hypothesis: D(EDTX) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.619364	0.0004
Test critical values:	1% level	-3.920350	
	5% level	-3.065585	
	10% level	-2.673459	

Null Hypothesis: D(EXR) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.633800	0.0013
Test critical values:	1% level	-3.752946	
	5% level	-2.998064	
	10% level	-2.638752	

Null Hypothesis: INTR has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.413666	0.0021
Test critical values:	1% level	-3.737853	
	5% level	-2.991878	
	10% level	-2.635542	

Null Hypothesis: D(INFR) has a unit root
Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=1)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-6.243590	0.0000
Test critical values:	1% level	-3.724070	
	5% level	-2.986225	
	10% level	-2.632604	

Null Hypothesis: D(BSTC) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-4.361782	0.0020
Test critical values:	1% level	-3.699871	
	5% level	-2.976263	
	10% level	-2.627420	

Appendix IV

Pairwise Granger Causality Tests
Date: 12/03/14 Time: 09:13
Sample: 1986 2013
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
CITX does not Granger Cause COPI	26	0.20964	0.8125
COPI does not Granger Cause CITX		0.11264	0.8940
EDTX does not Granger Cause COPI	26	19.0282	2.E-05
COPI does not Granger Cause EDTX		5.57080	0.0115
EDTX does not Granger Cause CITX	26	0.15757	0.8552
CITX does not Granger Cause EDTX		0.00345	0.9966

Appendix V

Null Hypothesis: ECM has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-2.935441	0.0489
Test critical values:	1% level	-3.689194	
	5% level	-2.921853	
	10% level	-2.625121	

Appendix VI

Dependent Variable: COPI
Method: Least Squares
Date: 11/26/14 Time: 09:17
Sample (adjusted): 1987 2013
Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.970204	1.937746	3.081005	0.0064
D(COPI(-1))	-0.084691	0.208064	-0.407045	0.6888
D(CITX(-1))	2.099735	0.773862	2.713318	0.0142
D(EDTX(-1))	3.622127	2.973770	1.218025	0.2389
D(EXR(-1))	1.638489	3.242440	0.505326	0.6195
D(INTR(-1))	4.308918	4.543993	0.948267	0.3556
D(INFR(-1))	0.269375	1.349393	0.199627	0.8440
D(BSTC(-1))	5.207982	5.969553	0.872424	0.3945
ECM(-1)	-0.613044	0.222131	-2.759832	0.0129

R-squared	0.538705	Mean dependent var	8.531194
Adjusted R-squared	0.333684	S.D. dependent var	5.451138
S.E. of regression	4.449664	Akaike info criterion	6.084736
Sum squared resid	356.3912	Schwarz criterion	6.516681
Log likelihood	-73.14393	Hannan-Quinn criter.	6.213176
F-statistic	2.627568	Durbin-Watson stat	2.052947
Prob(F-statistic)	0.042281		

Appendix VII

Dependent Variable: GDP
Method: Least Squares
Date: 09/13/15 Time: 10:08
Sample (adjusted): 1986 2010
Included observations: 21 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.247665	0.550847	5.895762	0.0000
COPI	0.154184	0.069562	2.216501	0.0425
EXR	0.851951	0.085645	9.947492	0.0000
INFR	-0.001262	0.003071	-0.410983	0.6869
INTR	-0.009012	0.013489	-0.668082	0.5142
BSTC	0.000103	3.23E-05	3.202549	0.0059

R-squared	0.945794	Mean dependent var	8.010633
Adjusted R-squared	0.931059	S.D. dependent var	1.849237
S.E. of regression	0.254504	Akaike info criterion	0.335954
Sum squared resid	0.971582	Schwarz criterion	0.634389
Log likelihood	2.472486	Hannan-Quinn criter.	0.400722
F-statistic	208.1820	Durbin-Watson stat	1.725459
Prob(F-statistic)	0.000000		