Tax incentives and investment behaviour in Nigeria.

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1985.

Abstract:

In its frantic efforts to promote investment, Nigeria, like any other developing nation, has introduced a host of fiscal incentives before and after independence. These incentives include inter alia, import duty relief, import duty refund, approved User Scheme and tax holiday. Government has spent a considerable-amount of money the above listed schemes mover the years. Our desire to analyse the effect and or significance of fiscal incentives on investment in Nigeria underlies the objective of this study.

Based on the critical analysis of the various fiscal incentives on investment and on the questionaire survey conducted, we conclude that:
(i) the fiscal incentives have no significant impact on real investment in Nigeria, and
(ii) a reduction in the prevailing tax rate on companies income will have significant effect on the level of investment in the country.
The fiscal incentives may be necessary but not sufficient to have any significant influence on the real investment in the country.

It is contended in the study that the granting of these fiscal incentives to investors is superfluous and therefore unnecessary since there is abundant evidence that investors would have established without the incentives. Furthermore, it is argued that the granting of these incentives has resulted in some revenue loss to the government. Therefore, to continue to grant these incentives indiscriminately is to perpetuate revenue loss to the government. If this revenue loss to government is to be averted, some of these fiscal incentives should be scrapped.

The associated policy instrument includes an urgent review of the entire fiscal incentive scheme in the country. In addition, greater attention should be given to other non-pecuniary investment incentives such as the provision of more industrial estates, making industry dispersal policy more effective and ensuring a greater political stability where investment can thrive. Finally, a more acceptable company tax rate (preferably lower than the current rate) should be considered in a bid to further promote investment in the country.

Keywords: Tax/ investment/ fiscal policy/ independence/ tax holiday/ revenue/ infrastructure

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