

## RESEARCH ARTICLE

## THE NEW NIGERIAN TAX LAW AND FOREIGN DIRECT INVESTMENT: OPPORTUNITIES OR DETERRENDS

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## ABSTRACT

The enactment of the new tax law in Nigeria has sparked a lot of controversy in the way it is likely to affect the flow of foreign direct investment (FDI) in Nigeria. This paper will examine the opportunity and the discouragement offered by the new tax system and this will be done by evaluating its effects on both multinational companies and the domestic economy. Supporters of the act have claimed that simplified taxation procedures, greater transparency, and more comprehensive compliance might make investors feel more confident about the act because less bureaucracy would lead to fewer bureaucratic inefficiencies and the tendency towards double taxation may be reduced. Moreover, there are specific tax breaks and industry-specific exemptions which are set to lure investments in key sectors which may trigger innovation and infrastructural growth and employment opportunities. On the other hand, opponents argue that high tax rates, heightened reporting standards and fines on failure to comply could deter foreign investors especially those who are seeking cheap sources of operation. The ambiguity of the pragmatic interpretation of some provisions can also be a point of concern as to the unpredictability of regulation that can intensify the perceived risks of investment. The analysis of the interaction of these conflicting views, therefore, identifies the subtle impacts of fiscal policy on cross-border capital flows. The results provide an emphasis on the need to balance income collection with an empowering investment environment that indicates that strategic changes and explicit guidance of the policy are needed to harness the full benefits of the law without causing a downturn effect on foreign investment.

## KEYWORDS

Nigerian Tax Law, Foreign Direct Investment (FDI), Investment Opportunities, Tax Policy Impact, Economic Growth

## 1. INTRODUCTION

## 1.1 Background of Nigeria's Tax System

The history of the tax system of Nigeria is one of slow fiscal development which has been conditioned by economic necessities, structural weaknesses, and reforms that were oriented at the modernization of revenue collection systems. The central system is the corporate taxation that is the essential part of the government revenues and a major influence on the working conditions of the local companies and new investors (Omodero and Yado, 2025). The Corporate Income Tax (CIT) in Nigeria is governed by the Companies Income Tax Act (now the Nigeria Tax Act 2025) and is administered by the Federal Inland Revenue Service (recently reorganized into the Nigeria Revenue Service), and has a central role in financing governmental activities, but its sensitivity to macroeconomic factors like money supply, credit provision, and exchange rates determines the overall tax performance and overall economic activity (Omodero and Yado, 2025). This highlights the complexity of the connections between the tax policy, economic stability, and decision-making of investors in the context of Nigeria.

In addition, consumption related taxes such as the Value-added Tax (VAT) have been gradually realigned to increase the tax base, improve compliance and harmonize Nigeria with the global standards. There have been significant changes in the VAT regime, which was introduced in 1993 and recently consolidated under Nigeria Tax Act 2025, which widened the scope of the credit to digital and cross border transactions, improved input tax credit, and increased simplicity in compliance by businesses (Onwumelu, 2025). These reforms are meant to bring a more open and

efficient tax environment that can carry it through to the revenue generation and making Nigeria more attractive to foreign direct investment as the fiscal reforms continue.

## 1.2 Evolution of the New Tax Law

The history of changes in the new tax law in Nigeria can be described as a series of successive reforms over the decades, which found their culmination in the radical reform in the Nigeria Tax Act 2025 and its follow-up statutes. This development has a historical background in the transformation of indirect taxation, such as the substitution of sales tax with Value Added Tax (VAT) in 1993 that was later improved to account for the new economic activity such as digitized and cross border services (Onwumelu, 2025). Successive Finance Acts between 2019 and 2023 gradually widened the VAT base, enhanced input tax credit schemes, and made compliance processes easier, and laid the groundwork to consolidate the 2025 regime to consolidate the crumbly patchwork of tax laws and bring the consumption tax model of Nigeria into line with international standards (Okoh et al., 2024). Such gradual changes demonstrate a change in policy focus towards expanding tax base and improving efficiency in administration.

The 2025 Tax Reform Acts are an extension of these historical reforms, which will be a structural shift in the fiscal framework of Nigeria, based on long-standing condemnation of overlapping levies, ineffective coordination, and compliance friction to raise revenue (Abubakar, 2025). The new legal structure unifies various old laws with one single Code, harmonizes the tax administration at the federal and sub national levels, and presents digit already procedures which were aimed at minimizing bureaucratic inefficiencies that have historically discouraged investment.

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This evolutionary path highlights a policy decision to reform the tax system, deal with the systemic inefficiencies and rebrand the fiscal regime to the requirements of a globalised economy.

### 1.3 Relevance of FDI to Nigeria's Economic Growth

The importance of FDI to the economic development of Nigeria can be explained by the fact that it has been, to the country, the source of foreign capital as well as a channel of exchange of technology and improvement in productivity which are crucial in boosting the performance of the economy. Recent research findings confirm that foreign direct investment may positively affect the gross domestic product (GDP) of Nigeria in the long run in high levels, especially where macroeconomic factors and institutional structures are favorable (Obasanmi, 2025). Through the influx of capital and increase in gross capital formation, FDI opens up opportunities of growth in major sectors of the economy like the manufacturing, telecommunications and services sectors that could diversify the economy which is largely reliant on oil. Furthermore, foreign investment is also known to lead to spillover in managerial and technological expertise that can help the home based firms to become more efficient and competitive, thus sustainable growth.

The linkage between FDI and economic growth in Nigeria though is not as positive at all times as at varying time horizons or economic environments. The short run studies indicate that there are cases where the contribution of FDI might be minimal or even negative when the macroeconomic turmoil and structural bottlenecks may fail to allow efficient use of capital (Madugu et al., 2025). Such dichotomy is an indicative that though FDI is a beneficial driver of economic expansion, the growth enhancing activities of FDI are conditional on the presence of complementary reforms such as infrastructure improvements, institutional quality, and stability of the investment climate, which is essential to maximize the developmental contribution of foreign investment.

### 1.4 Objectives and Scope of the Study

The main aim of the research paper is to critically analyze the implication of the new Nigerian tax legislation on foreign direct investment (FDI), whether it presents an opportunity of raising the inflow of investments or it will be a discouragement to the investors. The research will aim at determining the provisions of the law that will affect the decision making by the investors which can be in terms of compliance levels, tax incentives, and reporting provisions. It also aims at exploring the extended economic consequences of these tax reforms, especially in comparison with the objectives of the diversified economy of Nigeria, industrialization of the country, and the generation of employment. The study, based on an examination of the possible positive and negative impacts of the new legal framework, is aimed at offering valuable information, which can assist policymakers, investors, and other stakeholders in designing a favorable investment climate.

The study will also be restricted to the analysis of the new tax law in Nigeria to be passed in 2025 and its effects on foreign direct investment in major sectors of the economy, such as manufacturing sector, services sector, and extractive industry. The review of the federal, state, and local tax theories applicable to foreign investors is discussed covering the areas of compliance, incentives, and possible deterrents. Although the focus of the study is on FDI, it extends to other economic effects of the study, including productivity, revenue creation, and capital formation hence giving a comprehensive picture of the cross point between fiscal policy and investment flows in Nigeria.

### 1.5 Structure of the Paper

This paper will be divided into seven key sections with the aim of giving a full analysis of the new Nigerian tax law and its impacts on foreign direct

investment (FDI). The introduction presents the background, development and applicability of FDI on the economic development of Nigeria, objectives and scope of the study. The literature review explores the meaning and nature of FDI, taxation and investment behavior, and theoretical views on fiscal policy and capital inflows. The following section evaluates the major provisions of the law, the compliance requirements and the incentives that can be received by the investors. The fourth part discusses the opportunities the law has brought about, such as greater transparency, industry-specific incentives, and possibility of infrastructure and employment generation, whereas the fifth part discusses the possible off-putting effects of the law, such as higher taxes, regulatory insecurity and perceived risk of investments. The sixth section offers the strategic considerations such as the balancing of creating revenue and the investment climate, suggestions on curbing the deterring factors, and the government communication and guidance. The paper will finally end with a conclusion on how the law will affect FDI, strategic advice to the policy makers and investors, and future projections to foreign investment sustainability in Nigeria.

## 2. CONCEPTUAL FRAMEWORK

### 2.1 Definition and Types of Foreign Direct Investment

Foreign Direct Investment (FDI) is the cross border capital flows whereby an investor such as a multinational enterprise takes a long-term interest and substantial control and management in a business which is located in a different economy as illustrated in figure 1 and table 1 (OECD, 2025). The notable aspect of FDI is the formation of long-term ownership that usually involves a minimum of 10% of the total shareholding of the company as opposed to portfolio investment, which does not give the owner a feeling of control. In that regard, FDI involves the not only equity capital but also intercompany debt and repatriated earnings, which are associated with the strategic interests of the investor, such as resource access, new markets, or efficiency benefits (Omachi and Okoh, 2025).

In the literature, it is possible to distinguish different types of FDI in accordance with the functional integration of the investor and his or her strategic motive (Alkhamisi and Albasoos, 2025). Horizontal FDI is the replication of the same business activities in a foreign host by an enterprise like a consumer goods firm setting up production in an emerging market to cater to the local market at the point of production. Vertical FDI is a type of fragmentation of the value chain that is across borders whereby the production stages are distributed to other countries in order to take advantage of comparative costs advantage. Also in FDI, there is a conglomerate type of investment in which investments are made in unrelated industries but this is less prevalent in the global capital flows based on market and efficiency seeking motives.

Figure 1 shows how the attractiveness of a given country to foreign direct investment (FDI) is directly proportional to its tax structure such as the one in your original chart. The Revenue Generation pillar is also provided with a stable and predictable tax regime comprised of reasonable Corporate Income Taxes, and Capital Gains Taxes as one of its key attractants to multinational corporations seeking to invest capital, which also finances public infrastructure and raises the taxation base. Nonetheless, to ensure Equitable Distribution, the government has to reach a Policy Equilibrium; when the tax incentives on foreign firms are overly aggressive (that is, the provision of too many tax holidays), then the government may either suffocate the state budget with the funds to finance social equity programmes or create an unfair competition in the market with local business. Finally, a sustainable economy would utilize the income on the tax of FDI to close the wealth gap in such a way that the influx of the foreign capital would result in a wide-societal fairness instead of individual economic growth.



Figure 1: Picture of Attracting Capital while Protecting Social Equity.

**Table 1:** Summary of Definition and types of foreign direct investment

Type of FDI	Definition	Key Features	Examples
Greenfield Investment	Direct investment where a foreign firm establishes new operations or facilities in the host country.	Full control, long-term commitment, creation of new infrastructure, employment generation.	A multinational building a new manufacturing plant in Nigeria.
Mergers and Acquisitions (MandA)	Investment through acquiring or merging with an existing local firm.	Faster market entry, access to existing customer base and resources, potential integration challenges.	A foreign company acquiring a Nigerian telecom firm.
Joint Ventures	Investment made in collaboration between a foreign and a local firm, sharing ownership, risks, and profits.	Shared control, resource pooling, risk mitigation, local expertise access.	A foreign oil company partnering with a Nigerian firm to operate a refinery.
Horizontal FDI	Investment in the same industry abroad as in the home country.	Replicates business activities, enhances market reach, maintains product or service consistency.	A U.S. fast-food chain opening restaurants in Nigeria.

## 2.2 Taxation and Investment Behavior

The taxation nexus and the investment behavior have a critical role in defining the manner in which both the multinational corporations and the domestic companies distribute the capital and the appeal of the investment destination. The expected after-tax returns, risk determination, and firm or country level strategic planning are impacted by corporate and statutory tax regimes. It has been demonstrated that higher effective tax rates impact negatively on the flow of foreign direct investment (FDI) in countries and especially when the fiscal burden lowers the potential after-tax profitability compared to other host economies and this discourages entry or expansion decisions in high tax economies (Ianc, 2025). To this end, multinational firms are using tax profiles in their location decision models in which they compare statutory and effective tax rates and institutional quality indicators to maximize the returns.

In addition to statutory rates, the quality of tax administration in terms of predictability, transparency and efficiency of enforcement is also critical in determining the behavior of the investment. By enhancing the efficiency of tax administration to lower uncertainty, corruption and standardize compliance practices, deterrent impacts that are typically related to increased taxation can be reduced by creating a more predictable fiscal situation in which investors can predict net returns with more confidence. The involvement in the programmes that strengthen the capacity of tax authorities in developing nations is empirically connected with the increase in the inflows of FDI that can be explained by the response of the investors to decrease the fiscal uncertainty and the perceived risk despite the fact that fiscal rates do not change. This dynamic highlights the fact that taxation will affect investment behavior as far as the structure of rates as well as the quality of implementation is concerned.

## 2.3 Theoretical Perspectives on Fiscal Policy and Capital Inflows

Section on theoretical perspectives on fiscal policy and capital inflows look at how the macroeconomic doctrine helps us to understand how government taxing and spending affects the cross border investment flows, especially the foreign direct investment (FDI). The traditional fiscal theory argues that the form of a host government's tax regime and government spending has a direct impact on the after tax returns that would be offered to foreign investors. It is assumed in this perspective that an increase in effective tax costs or inefficient state spending increases the cost of capital and discourages investment by lowering net profitability and that competitive taxation and incentives could generate enduring capital inflows (Aisyah, 2025). The government revenue policies can therefore serve as a major guiding post to the multinational business when evaluating the risk adjusted expected returns in the prospective host markets and the literature on tax harmonization and bilateral treaties comes in as a way of alleviating the issue of double taxation and enhancing fiscal attractiveness.

Complementary theoretical explanations focus on how the variables of the fiscal policy interact with other macroeconomic fundamentals in the determination of capital flows. Fiscal policy variables, including government expenditure, tax rates, and the public debt, are modeled in the panel analysis of the Sub-Saharan African economies to display positive and negative relation with both FDI and other foreign capital inflows when institutional quality and dynamics of economic growth are held constant

(Nthangu, Zerihun, and Bulagi, 2025). These results support fiscal theory models that combine government expenditure choices with forecasts of growth opportunities and macroeconomic stability in the sense that fiscal policy designed to increase competitiveness and minimize distortions may have a strategic goal of attracting long term foreign capital flows through the various emerging markets.

## 3. OVERVIEW OF THE NEW NIGERIAN TAX LAW

### 3.1 Key Provisions Affecting Investors

The major provisions that impact the investor in the newly-developed Nigerian Tax Act 2025 include various structural changes to the Act, which plays a critical role in defining the fiscal obligations and strategic planning of the local and foreign entities. One of the most impactful ones is the provisions of the corporate income tax regimes since competitive and foreseeable tax policies are one of the major determinants of the attractiveness of FDI. As presented in figure 2, the policy of company income tax does play a significant role in long run FDI inflows, however this effect is very much contingent on the predictability and transparency of the tax regime, as well as macroeconomic and institutional stability in general. These clauses require harmonized tax rates, and make the tax base much more in line with international standards to minimize the historical ambiguities that had deterred multinational capital deployments in the past.

Simultaneously, the emergence of the digital oriented tax provisions, including Digital Service Tax (DST), can be seen as the reaction of the law to the changing investment conditions. Fadipe et al. (2025) discover that well-defined digital tax regulations can also be in harmony with the strong FDI inflows, especially within the digital economy, through providing transparency and lessening compliance ambiguity to foreign investors. These provisions expand the taxable base to digital and cross border services and provides more encapsulating reporting and compliance principles with investors forced to incorporate these assumptions in their financial modeling. All these important provisions influence investment behavior in the sense that they will redefine after-tax returns, compliance cost, and risk evaluation to potential investors wishing to enter or expand in the Nigerian market.

**Figure 2** illustrates a fragile process of Navigating the Regulatory Landscape in which a host country has to find the right balance between Inviting Incentives and Protection and Requiring Compliance and Restrictions. Financial protection is also a major attraction to foreign investors, which is guaranteed by both Investment Guarantees against expropriation and the freedom that is entailed by Capital and Profit Repatriation whereby investors are guaranteed to transfer his original capital and dividends back home without any conditions. Also, direct fiscal stimuli such as Tax Holidays and Credits such as Pioneer Status that can provide as many as five years of tax free status directly reduces the entry price. In the other end of the scale, governments impose regulatory obstacles such as Local Content Requirements and Sectoral Ownership Limits so that foreign investment can be used to the advantage of the domestic economy in terms of local labour participation and safeguarding of strategic sectors of the economy such as telecommunications or banking. This balance in the structure is to promote investor confidence and maintain the level of environmental and labour standards that are needed in a sustainable national economy.

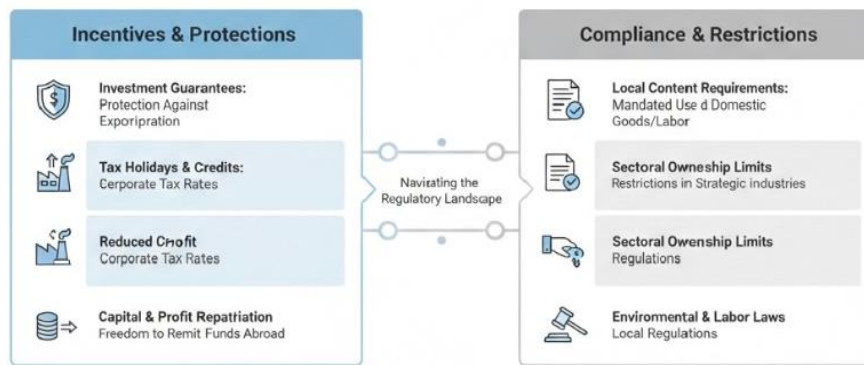


Figure 2: Diagram of Regulatory Balance: Incentives vs. Compliance (Ogbonnaya et al., 2025).

### 3.2 Compliance Requirements and Reporting Standards

The new Nigerian tax law on compliance requirements and reporting standards imposes a complex set of requirements foreign investors have to meet to continue operating legally and in an ideal environment of their fiscal positions in the host economy. The positive association between high quality of tax administration, which is characterized by transparency in enforcement, application of systematic audit, and adherence to statutory provisions is positively associated with foreign direct investment (FDI) flows as it lessens uncertainty and alleviates agency problems that generally discourage cross border capital inflows as indicated in table 2 (Ferguson et al., 2025). In these criteria, the investors will need to make certain that there is a high level of documentation of taxable activities, timely and correct returns, and a rational alignment of the internal financial records with the digital reporting demands of the tax authority. As an illustration, the system of automated crosschecks and improved information exchange will necessitate investors to incorporate

compliance workflows in direct relationship with the processes of a host jurisdiction tax administration.

Similar to the enforcement by an administration, international financial reporting standards (IFRS) play a big role in determining compliance behavior and the quality of reporting, particularly among the multinational corporations investing in Nigeria. The IFRS adoption increases the comparability and transparency of financial reporting that eliminates the information asymmetry and instills more confidence in the investors over the legitimacy of the reported earnings and tax liabilities (Ikeogwu and Nwajei, 2025). The standards enable high quality reconciliation of financial statements and tax returns where the taxable income, deferred tax liabilities and transactions made across the borders are always reported. The accounting should be aligned with tax reporting in such a way that the outcome of compliance is enhanced, and the investor evaluating the fiscal risk is influenced hence it is a key factor in influencing the strategy decision of the investors in the new tax regime.

Table 2: Summary of Compliance requirements and reporting standards

Compliance Area	Requirement	Purpose/Objective	Example
Tax Registration	Foreign investors must register with the Federal Inland Revenue Service (FIRS) and obtain a Tax Identification Number (TIN).	To ensure formal recognition, enable proper tax administration, and prevent tax evasion.	A multinational corporation registering for corporate income tax before starting operations in Nigeria.
Tax Filing and Reporting	Submission of periodic returns, including corporate income tax, value-added tax (VAT), and withholding tax, in prescribed formats and deadlines.	To ensure accurate reporting, facilitate government revenue collection, and maintain transparency.	Quarterly filing of VAT returns by an imported goods distribution company.
Record Keeping	Maintain proper accounting and financial records for a minimum statutory period (e.g., 7 years).	To support tax audits, facilitate verification, and reduce disputes between investors and authorities.	A manufacturing firm retaining invoices, bank statements, and contracts for tax inspection.
Audit and Verification	Companies are subject to routine or special audits by the FIRS or relevant authorities.	To ensure compliance with tax laws, detect errors or fraud, and uphold accountability.	An energy firm undergoing an FIRS audit to verify corporate income tax and VAT compliance.

### 3.3 Incentives and Reliefs under the Law

The incentives and reliefs in the law part of the tax reforms in Nigeria proposes special purpose fiscal concessions aimed at boosting the attractiveness of the country to international direct investment (FDI) by reducing the effective tax rates and the investment project excellence. The leading ones are tax holidays and investment allowances and sector reliefs that are designed to minimize initial and recurring expenses of capital intensive activities. Indicatively, tax exemptions on qualified industries can be extended thus making payback period of large infrastructure and manufacturing projects shorter in effect increasing internal rates of return; a key parameter in multinational investment decision models. The empirical analysis of Nigerian background shows that when these incentives are properly designed and correspond to the needs of investors, they may have a positive correlation with the tendency to attract FDI, especially in the manufacturing segment where the listed companies reacted positively to a complex of statutory incentives (Oyerogba et al., 2024).

In addition to exemptions, performance based tax reliefs including accelerated depreciation allowances and export oriented incentives assure reinvestment and scale of operations as firms can boost cash flows in initial stages of a project. The longitudinal analysis results show that

granting and utilizing incentives related to strategic sectors through combined export expansion affects FDI choices to a substantial degree, implying that the incentives in a multidimensional form can adjust investor risk perceptions and support the positioning of Nigeria in the capital flows within the region (Ubahi and Okoro, 2025). When these reliefs are upheld with clear eligibility standards and effective management, they will continue to form part of catering to the design of a tax regime that allows balancing revenue gathering and investment allurements.

## 4. OPPORTUNITIES FOR FOREIGN DIRECT INVESTMENT

### 4.1 Enhanced Transparency and Investor Confidence

The increased transparency and investor confidence presented by the increases in fiscal and tax administration transparency is a key factor in the dynamics of foreign direct investment (FDI), especially in the developing economies that pursue the maintenance of capital inflows. Fiscal transparency, which is a process by which the government operations and tax system are open, transparent, and available, substantially lessens information asymmetry and uncertainty commonly experienced by foreign investors during the process of measuring potential host countries as illustrated in table 3 (Cicatiello et al., 2021).

Budgetary processes, tax liabilities and statutory liabilities when clear enable investors to predict more accurately the future tax liabilities, operation costs and anticipated returns and this increases confidence in investment decisions. The empirical evidence reveals that the jurisdictions that have a high degree of budgetary and tax transparency are also connected to higher FDI inflows, holding institutional quality and corruption constant, which supports the strength of transparency as an investment attractiveness factor (Onum and Omachi, 2025).

In line with fiscal transparency, quality of tax administration such as predictable enforcement, less corruption and uniformity in application of

tax laws, further promotes investor confidence because it brings about a stable and predictable fiscal environment. Tax administration of high quality minimizes the risks of discretionary enforcement, lessens the information and agency problems, and is an indicator of institutional commitment to treating multi-national enterprises fairly (Ferguson et al., 2025). Foreign investors who have long term capital commitments such cuts in regulatory and tax uncertainty enhance the confidence that post entry fiscal factors will not vary unpredictably thus enhancing the relative competitiveness of a host country in the international investment environment.

**Table 3: Summary of Enhanced transparency and investor confidence**

Transparency Mechanism	Description	Impact on Investors	Example
Clear Tax Regulations	Laws and policies are articulated in a straightforward and unambiguous manner.	Reduces uncertainty, helps investors plan financial and operational strategies.	Publication of a detailed corporate income tax guideline by the FIRS.
Consistent Enforcement	Tax authorities apply rules and regulations uniformly across all investors.	Builds trust, lowers perceived risk of arbitrary treatment or discrimination.	FIRS conducting audits using standardized procedures for all companies in a sector.
Accessible Information	Availability of updated tax laws, forms, and instructions online or through official channels.	Improves knowledge and compliance, reduces administrative costs for investors.	Online portal providing VAT and withholding tax filing instructions for multinational companies.
Audit Transparency	Clear communication of audit procedures, criteria, and timelines.	Enhances confidence in fairness, reduces disputes, and strengthens investor-government relations.	Publishing audit schedules and reporting requirements for companies in Nigeria's manufacturing sector.

#### 4.2 Sector Specific Incentives Attracting FDI

The incentives targeted at particular sectors that receive FDI are indicative of the intended fiscal policy that host nations apply to attract foreign capital to specific industries of priority, making the tax policy a tool of structural economic development. The empirical studies of African settings reveal that tax incentives that include long periods of tax holidays and lower statutory tax rates that are clustered on strategic sectors have a significant impact on the location decision of foreign investors as shown in figure 3 (AppiahKubi et al., 2021). An example of this is manufacturing and technologically intensive services which tend to have longer holidays thereby increasing the viability of the projects at the early stages by reducing the effective tax rates imposed at the highly operational stages hence increasing project internal rates of return compared to other jurisdictions. On the same note, denying tax cuts and industry specific subsidies can enhance the competitiveness of export oriented industries

that create spillover effects in terms of employment, transfer of technology and export growth.

The application of sector specific tax incentive like custom duty exemption on capital equipment in the manufacturing industry and specific tax holiday incentives on pioneer industry has been positive and statistically significant with respect to effects on FDI inflows into the particular sectors in the Nigerian context (Ibrahim et al., 2025). Empirical studies have shown that such incentives help in lowering the initial capital expenditure, reinvestments and the fiscal predictability which is in line with the strategic planning horizons of multinational firms. Nevertheless, the success of these incentives depends on the availability of eligibility criteria and the inclusion of those Incentives into the general reforms of the investment climate since unselective or incompetent incentives can produce lopsided outcomes within the industry and introduce fiscal inefficiencies (Okoh and Omachi, 2025).



**Figure 3:** Picture of Refineries and heavy industries lure FDI with incentives

**Figure 3** shows a lure in to heavy industrial and refinery industries as the most favored target of sector-specific incentives aimed at attracting Foreign Direct Investment (FDI). Dotted with large complexes with high-risings buildings, pipelines, and storage tanks, it represents industry intensive to capital and government usually employs custom-made policies such as tax exemption, land subsidies or even a relaxed regulation to attract foreign investors to seek consistent returns, access to resources and market growth in these basic industries, which would lead to economic growth and technological progress in such sectors.

#### 4.3 Potential for Infrastructure and Job Creation

Prospects of infrastructure and employment opportunities that are associated with foreign direct investment (FDI) demonstrate the way in which the inflow of capital is able to impact the physical and human capital formation of the respective host economies. The Greenfield types of FDI projects that entail the development of new facilities are usually involving a very large input of infrastructure and have a large-time employment creation during the construction and operations of the facilities. Empirical

research in the African setting has revealed that Greenfield FDI has played an important role in job creation by increasing productive capacity in the manufacturing, telecommunication sectors and services hence creating direct jobs and triggering additional labour demand through the supply chain impacts (Lakemann et al., 2025). These investments also give impetus to the utilization of infrastructure including transport, utilities, and industrial facilities to increase the efficiency of the economic activity as a whole.

In addition to direct employment, FDI is able to stimulate the creation of wider infrastructure by motivating parallel government and commercial investments in roads, power systems and digital networks that lower the costs of operations and improve connectivity. The policy frameworks that are aimed at bringing sustainable FDI especially in Sub-Saharan Africa are focused on matching investment motives with infrastructures that promote productive transformation and creation of employment in the countries hosting the investment (Olabisi and Wei, 2025). This kind of alignment can hasten structural change by reinforcing the connection between inflows of capital and labor force across industries, especially in the context of the FDI being combined with local development policies that emphasize the workforce skills, the additional industrial connections, and the longer-term planning of infrastructures.

## 5. DETERRENTS TO FOREIGN DIRECT INVESTMENT

### 5.1 Increased Tax Obligations and Operational Costs

The tax burden and cost of operation imposed by the presence of higher tax rates under a new fiscal regime can have substantial impact on the decisions of foreign direct investment (FDI) to increase the user cost of capital and squeeze the net expected returns. In macroeconomic studies, effective taxation, which includes both statutory tax rates and the aggregate of additional levies and compliance costs that investors have encountered, has been demonstrated to have a statistically negative impact on the flows of sectoral FDI through the rate of interest of taxation effective taxes lowers post tax profitability and discourages new investment projects as portrayed in figure 4 (Ianc, 2025). Companies that consider long-term investment in capital commitments tend to use tax rate differentials and estimated compliance costs in calculating weighted

average cost of capital and internal rates of returns; the higher tax costs based activities, the less appealing is a host country in comparison with other competitors with lower effective tax rates. This dynamic has the capacity to decrease the inflow of FDI to areas that have low profit margins, or where there is high cross-border mobility.

Equally, empirical studies in Sub-Saharan African settings confirm that increased taxation is a pernicious factor of FDI inflows, especially when multinationals are comparing locational choices with varying fiscal policies (Bassey et al., 2022). High corporate tax rates, value added taxes and other charges impact directly on the operations costs, as they raise overall tax payable over the life span of an investment and indirectly because of the complexity of compliance that adds to the costs of doing business. Practically, this may be reflected in terms of less cash flow to be used in reinvestment, innovation and expansion aspects that are important in the strategic planning by investors. Thus, the new tax system will increase both taxes and the expenses of operating in the country, which might reduce some FDI flows, unless it is compensated by incentives to attract investment or structural changes in the investment environment.

Figure 4 demonstrates how higher taxation requirement and the cost of operation changes the firm behavior by lowering the profitability after taxation and optimal output. The imposition of tax above in the upper panel effectually increases marginal cost as compared to marginal revenue and. The profit-maximizing or sales-maximizing output of the firm shrinks, not to a lesser quantity, but to a higher one. This is an indication of the effect of the increment of tax burden on the per-unit cost that renders the levels of output that was profitable at a certain point to be unprofitable. The difference between the before-tax and the after-tax profit curves in the lower panel indicates that taxation decreases the total profit at all levels of output, after-tax profit being the greatest at a lower level of quantity. With increase in taxes, companies react by downsizing production, investing less or moving to cheaper production locations. This is in relation to foreign direct investment because the increased taxation and operating expenses are to be had with a new taxation system is discouraging expansion, distorting market entry incentives and ultimately making the host economy less appealing to long term investment.

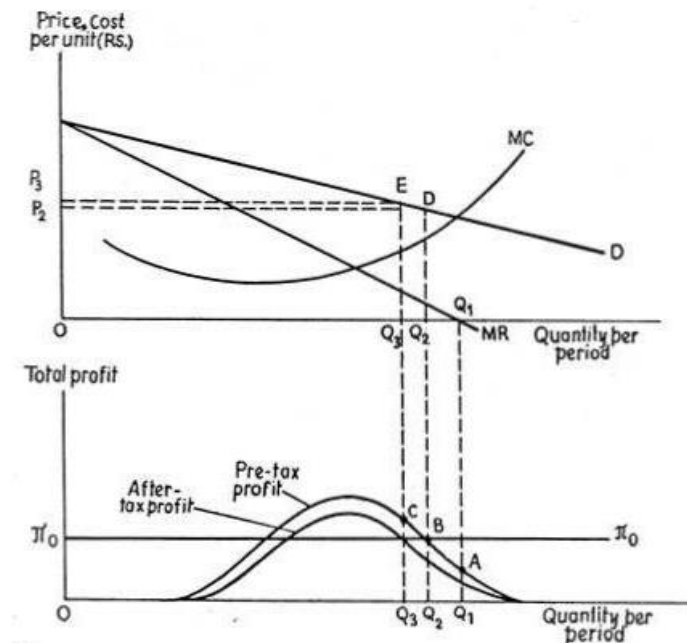


Figure 4: Diagram of Tax Burden, Costs, and Output Reduction (Ianc, 2025).

### 5.2 Regulatory Uncertainty and Compliance Challenges

There are regulatory uncertainty and compliance issues where the investors face ambiguity in the interpretation, application, and enforcement of tax and regulatory requirements in the new Nigerian tax law. The predictability of the regulatory environment is very important in the decisions of foreign direct investment (FDI); ambiguous statutory requirements, unequal application, or uncertainty about interpretation of the taxes can increase the costs of transactions and risk adjustments, which will discourage capital inflows (Zagler, 2023). Investors can postpone or reduce projects when they feel the likelihood of low unexpected fiscal liability or long dispute resolution procedures is high and this makes the perceived risk of running a business in the host country increase.

In addition, there is the economic policy uncertainty (EPU), which increases such challenges by introducing uncertainty about future fiscal and regulatory policies. The high frequency of policy alterations, unclear compliance regulations, or uneven regulatory indicators may hinder the long-term strategic planning and amplify the risk of investing, lowering the FDI inflows (Canh et al., 2020). Even well-designed incentives in such a climate might fail to counteract the investor reluctance and this is where stable, predictable and transparent regulatory frameworks are essential to attracting and the retention of foreign investment.

### 5.3 Perceived Investment Risks Under the New Law

Perceived investment risks by the new law summarize the perception of the foreign investors of the likelihood of negative effects of changes in the

tax regime and the overall socioeconomic situation in Nigeria. Under the conditions of developing countries, the risk profile created by overlapping political, financial, and institutional uncertainties as depicted in table 4 determines FDI decision-making not just based on the statutory tax rates but also based on the risk profile (Okafor et al., 2022). As an example, risks like fluctuating currency dynamics, inflationary pressures, or risky regulatory interpretations can combine to become complex clusters of risks that reduce the level of investor confidence, which can be tested by the fact that high risk dimensions are associated with inhibited FDI inflows as compared to more predictable environments.

Further, any uncertainty in macroeconomics and policies that is measured

by change of economic policy, quality of governance and market expectations may increase perceived risk of investment under a new tax regime. The literature on emerging market FDI shows that economic policy uncertainty has the opposite relationship with the inflows of investments since investors can postpone or cut commitments to the new investments as they re-procee the prospects of unexpected fiscal or regulatory changes (Marozva and Magwedere, 2025). These risk perceptions can be especially sharp when a tax reform is made without apparent implementation routes, raising the price of risk adjusted capital, and affecting the strategic decision making concerning when to enter, what scale of projects to do, and what sectors to focus on.

Table 4: Summary of Perceived investment risks under the new law			
Risk Category	Description	Impact on Investors	Example
Regulatory Uncertainty	Ambiguities or inconsistencies in the interpretation and application of tax laws.	Investors may delay or reduce capital investment due to unpredictable tax liabilities.	Unclear rules on deductibility of certain business expenses under the new tax law.
Increased Operational Costs	Higher tax rates or compliance requirements raise the cost of doing business.	Reduces expected post-tax returns and may make some projects financially unviable.	A multinational firm facing additional corporate tax and reporting fees for expanding operations in Nigeria.
Economic and Policy Risk	Changes in fiscal policy, inflation, currency fluctuations, or political instability.	Investors perceive higher risk, which may increase required returns or discourage entry.	A foreign energy company hesitating to invest due to potential changes in VAT and excise duties.
Legal and Contractual Risk	Uncertainties around enforcement of contracts, property rights, and dispute resolution mechanisms.	Investors may fear expropriation, litigation costs, or loss of assets.	A joint venture concerned about inconsistent interpretation of tax incentives in a contractual agreement.

## 6. POLICY IMPLICATIONS

### 6.1 Balancing Revenue Generation with Investment Climate

The issue of striking a balance between revenue collection and the climate of investments in a host is a major strategic challenge of host governments that aim to both maximize the level of public revenues and continue to have a desirable climate of foreign direct investment (FDI). Tax policy being one of the central tools of fiscal policy will have to strike a balance between expensive tax base to raise the necessary sums of money to finance the state and keep the post tax returns at a competent level to encourage inward capital flows. The as provided in figure 5 comparative analysis by Zhang highlights that national tax system determines the perceptions of predictability and fairness that are conclusive elements of investment climate; the policies that are too focused on revenue collection and not accompanied by stability or transparency commitments are likely

to discourage investor confidence and lower attractiveness of FDI by increasing after-tax differentials gaps with other similar economies.

Both of them concurrently emphasize the complex position of taxation in the development of capital flows, which signifies the importance of adopting a balanced stance. As demonstrated in the literature review conducted by Aisyah (2025), the effect of taxes on capital allocation is contextual, and the increase in tax rates may decrease FDI where not accompanied by effective institutions and other supportive incentives. Fiscal burden is often synonymous with regulatory inflexibility by the investors, and this will result in risk adjusted required returns that cross host country thresholds when revenues are maximized at the cost of competitive positioning in terms of taxation. Well designed tax policy must thus never be viewed alone but set in tandem with establishment of wider quality enhancements to an institution and open governance to boost financial well-being and attract long term investment.

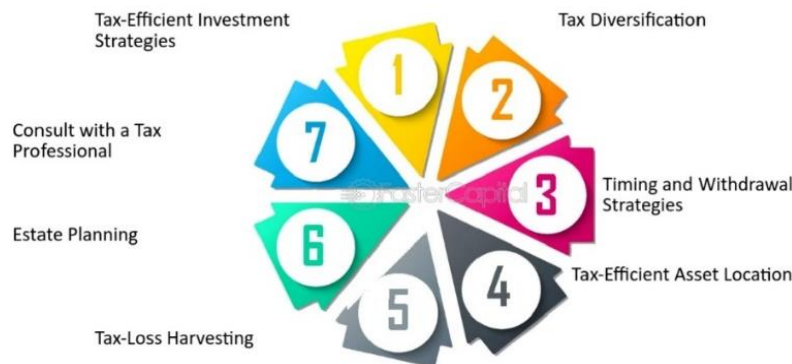


Figure 5: Diagram of Balancing Tax Revenue and Investment Climate Zhang’s (2024).

Figure 5 explains investment strategies that are efficient in taxation and that, when combined together, can explain how governments can strike the appropriate balance between revenue collection and a good investment environment. In the context of tax diversification and tax-efficient investment choices, the value of creating a tax system that diversifies the revenue base without overwhelming either sector or the type of investor is emphasized so as to maintain government revenue and remain competitive. The timing and withdrawal strategies and location of assets to tax efficient location put more focus on predictability and flexibility in tax administration, which enable investors to plan the cash flows and returns without compromising fiscal goals. The estate planning and tax-loss harvesting are indicators of how well-designed tax regulations can legally decrease the risk of the investor and enhance the

investment perspectives in the long run to retain capital instead of flight. Lastly, the need to consult tax professionals emphasizes the significance of transparent directions and administrative reinforcement towards compliance and lessening uncertainty. Collectively, these factors demonstrate that given a transparent, diversified and well managed tax policy, governments may achieve stable revenues and investor confidence, capital inflows in the long run, and long-term economic growth.

### 6.2 Recommendations for Mitigating Deterrents

The mitigation measures that are recommended regarding the deterring factors revolve around the way Nigeria can revamp its tax and regulatory conditions to lessen the perceived risks and real cost obstacles that it discourages foreign direct investment (FDI). Among the recommendations

is rationalization of the tax policy in order to improve predictability and transparency among the investors. Table 5 is a representation of Ianc (2025) that argues that an effective taxation and high institutional quality are vital in attracting FDI and so, by reducing the redundant complexity in tax laws, their consistent application and high administrative transparency may decrease uncertainty and compliance cost of multinational businesses. These reforms may involve the formulation of clear guidelines concerning the liability of taxes, limiting the discretionary powers of people, and the adoption of global best practices, which will help in convincing investors of having a stable financial environment.

The other package of recommendations focuses on the policy coherence and specific incentives that should help to attain economic development

objectives. As pointed out by Olabisi and Wei (2025), the design of sustainable FDI policy ought to incorporate both tax policies and overall economic policies, including sector specific incentives, capacity building and strengthening of institutions, in order to make sure that the tax advantages are converted into actual investment flows that can be used to achieve development goals. This may involve an adjustment of tax incentives to priority areas such as technology or infrastructure, the injection of sunset provisions to limit open-ended concession, and a matching tax relief along with improvements on infrastructure and governance. Host governments can reduce the negative effects of deterrents and improve the quality and sustainability of FDI inflows by using a holistic, predictable and transparent policy framework that balances the fiscal requirements with the expectations of investors.

**Table 5: Summary of Recommendations for mitigating deterrents**

Recommendation	Description	Expected Impact on Investors	Example
Simplify Tax Compliance	Reduce complexity of filing procedures, deadlines, and documentation requirements.	Lowers administrative burden, improves predictability, and increases willingness to invest.	Streamlining VAT and corporate income tax filing through a single online portal.
Provide Clear Guidance and Communication	Issue official guidelines, FAQs, and advisory services for interpreting tax obligations.	Enhances understanding of tax obligations, reduces uncertainty, and builds investor confidence.	Publishing sector-specific tax guides and online webinars for foreign investors.
Targeted Incentives	Offer tax breaks, reliefs, or exemptions to strategic sectors or long-term projects.	Encourages investment in priority areas, aligns FDI with economic development goals.	Tax holidays for renewable energy projects or technology start-ups in Nigeria.
Strengthen Institutional Capacity	Enhance efficiency, transparency, and fairness of tax authorities.	Reduces perceived risk, ensures consistent enforcement, and minimizes disputes.	Training FIRS officials on audit procedures and adopting standardized assessment protocols.

### 6.3 Role of Government Communication and Guidance

Government communication and guidance Role is based on the role of proactive, transparent and consistent government communication in increasing investor confidence and decreasing information asymmetry as a deterrent to foreign direct investment (FDI). The successful use of communication implies the ability to express the goals, scope, and practical implications of new tax legislation, and even give continuous feedback on possible compliance standards and deadlines. In such situations that governments have adopted strategic communication campaigns, it has been observed that messages that explain policy intent and reiterate a stable investment climate can have a positive impact on the perceptions of foreign investors and spur capital inflows by lowering perceived regulatory risk (Madondo and Dhobha, 2025).

In addition, strong and authoritative government policies improve the credibility of the policies, which is a major factor in determining an investment decision since investors consider not only existing tax regimes, but also future changes during the period of the investment. The transparency and credibility of the public policy suggest that greater governmental transparency and the systematic provision of information is associated with greater investment inflows because in transparent settings, transaction costs and uncertainty are lower; moreover, trust in the institutional processes are strengthened (Faccio and Lang, 2024). The emphasis on official tax information sources, overall investor frequently asked questions, and live updates via official channels will help to reduce the ambiguity, ensure that the stakeholders anticipate the same, and would indicate their interest in a predictable regulatory environment, which would facilitate sustainable FDI inflow.

## 7. CONCLUSION AND RECOMMENDATIONS

### 7.1 Summary of the Law's Impact on FDI

The new tax law by the Nigerian government has had a complex effect on foreign direct investment (FDI), which has affected the perception of investors and the real capital inflows. On the one hand, the law has provided some measures, aimed at increasing transparency, increasing compliance, and creating incentives associated with the sector, which can contribute to investing in such areas of the economy as technology, infrastructure, and production. Such commitments provide a positive indication of a more predictable and ordered fiscal environment by the government, enhancing the confidence of investors and long term planning. The law could build a conducive environment that supports both Greenfield and expansionary investments by providing specific reliefs and by managing tax incentives to align with the economic priorities.

Conversely, the law has also brought in some challenges that might discourage some investors especially in situations where there are amplified tax obligations, complexity in regulations and uncertainty in the economic policy. The risk profile of investment projects can increase depending on the operational costs, compliance, and ambiguity in its interpretation particularly to the multinational enterprises and small to medium sized firms. The investors might react by postponing the behavior of capital allocation, reducing the intended projects, or by opting to invest in countries whose fiscal regimes are predictable. In general, the law is a compromise of enhancing the revenues of the government on the one hand and maintaining an appealing investment environment on the other hand, and the final outcome of the law on FDI is largely related to the clarity of the implementation, the stability of the regulations, and the facilitating communication of the government.

### 7.2 Strategic Recommendations for Policymakers and Investors

The major focus of the policymakers should be on developing stable and transparent tax environment without focusing on revenue collection at the expense of attracting investment. These include making compliance aspects less complex, giving guidelines on taxes to be paid and making sure that regulations are uniformly enforced across the board. Also, selective incentives must be made consistent with strategic economic interests, including technology, infrastructure and renewable energy, to drive FDI into areas that deliver the greatest long-term economic payoff. The credibility and perceived risks by investors will also be enhanced by increasing the institutional capacity of interpreting, implementing, and monitoring tax provisions. Policymakers ought to consult with the stakeholders on a regular basis to obtain feedback, solve problems and improve policies, and make sure those reforms are responsive and investor friendly.

Strategic participation in the regulatory environment is crucial to the investors, to reduce risks and maximize returns. The investors are advised to do due diligence of the fiscal and regulatory environment, such as sector-specific regulations, compliance requirements and liabilities. Building effective working relations with the government agencies and utilizing the services of the professional advisory can also help to create compliance and enhance strategic planning. Phased or incremental investment strategies can also be considered by investors to deal with regulatory uncertainty. Investors can take advantage of the incentives, minimize operational risks, and long-term growth in the Nigerian market by implementing proactive strategies in aligning investment strategies with changing tax and policy environment.

### 7.3 Outlook for Sustainable Foreign Investment in Nigeria

The future of sustainable foreign investment in Nigeria is largely pegged on whether the government can continue to have a predictable, transparent and investor friendly fiscal climate. In case the new tax law is applied in a consistent manner and guided by clear direction, it can bring a sense of confidence to the foreign investors and make them commit to strategic areas in the long-term. The sustainable investment will probably focus on sectors where incentives, infrastructure and regulatory transparency will meet global market opportunities such as technology, manufacturing, energy and agribusiness. Nigeria can focus on areas where its growth potential is high and have greater positive spillover benefits on the whole economy by ensuring that its investments do not just bring in capital inflow but also in terms of creating jobs, fostering skills development and bringing in technology.

Nevertheless, to make FDI sustainable, there should be continuous care of the stability of regulations, consistency in policies, and capacity of institutions. The constant uncertainty, frequent changes in policies, or inconsistencies in their enforcement may corrosively affect the confidence of the investors, and restrict the development of the long-term investment projects. Policymakers should be in a position to incorporate wider economic reforms, such as infrastructural development, governance and ease of doing business to supplement fiscal policies. Provided they are effectively introduced, such reforms will enable Nigeria to become more competitive in the global investment environment and provide the environment of robust and sustainable foreign investment to help Nigeria achieve the inclusive growth and long-term development agenda.

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