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Tax Exemptions and Foreign Direct Investment: Nigeria Oil and Gas Free Zone

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ABSTRACT
The serious decline in price of oil and gas in recent years has led to a decrease in the funs available for distribution to the federal and state governments. This paper empirically ascertains the relationship between Tax exemptions and foreign direct investment of oil and gas free zone in Nigeria. Panel data of different variable of tax exemptions on foreign direct investment from 1990-2015 were collected from "Central Bank of Nigeria statistical bulletin and Nigerian Stock Exchange". The descriptive statistics and multiple linear regress analysis was used in analyzing the data with the aid of "special package for social sciences (SPSS) version 21. The result indicates a positive relationship between tax exemptions and foreign direct investment. We conclude that tax exceptions have the potency to make significant effect on foreign direct investment of oil and gas free zone in Nigeria. On the premises of the revelations from this study, we recommend that the Nigeria government should use tax incentives to attract international investment in order to acquire more capital for the development of the oil and gas sector of the economy; and foreign direct investment should be encouraged in order to acquire the best technology from foreign firms so as to enhance and develop the oil and gas sector in Nigeria.
Keywords: Foreign Direct Investment, Tax exemptions, Oil and Gas, Technology and Profitability.

INTRODUCTION
Nigeria interacts in international trade with other countries of the world. As at 2013, Nigeria is Africa's biggest oil producer with about 2.2 million barrels being produced a day (Said, 2013). The country is the world's fourth biggest exporter of oil, and she exports 2.1 million barrels each day (Jackson, 2012). The mainstay of Nigeria is "Oil & Gas" and it contributes over 90% of the foreign exchange of the country. However, the country has little or no capital or technology to develop the Oil & Gas sector. This is particularly true because the Oil & Gas sector in Nigeria is controlled by foreign Oil & Gas multinationals such as the Shell Petroleum Development Company of Nigeria Limited (SPDC), the Nigeria Agip Oil Company (NAOC); Total Exploration & Production Nigeria Limited (TEPNG), Texaco Overseas Nigeria Petroleum Company Unlimited (TOPCON); Mobil Producing Nigeria Unlimited (MPNU) and Chevron Nigeria Limited (CNL). "The Oil & Gas multinationals has joint venture agreement with the Nigerian National Petroleum Corporation" (NNPC), a representative of the Federal Government of Nigeria. Six joint venture (JV) arrangements dominate oil production in Nigeria. Government, acting through the NNPC, controls a majority share and "SPDC, CNL, MPNU, NAOC, TEPNG and TOPCON" serve as minority shareholders and operators. In recent years, government has struggled to fulfill its financial contributions to these arrangements, which has forced it to take out oil-backed debts from the operating partners and impeding investment in the jointly controlled assets (Natural Resource Governance Institute,

2005). Consequently, in order to raise capital and acquire the technology to correct the challenges in the Oil & Gas sector, the Onne Oil & Gas Free Zone was established to attract foreign direct investment into Nigeria with the use of very beneficial incentives (Federal Ministry of Trade and Investment, 2013). There are typically four types of incentives approved by the Federal Government of Nigeria in order to enhance business growth in the Oil & Gas Free Zone. These incentives include; 100% business incentives, zero tax charges, zero customs charges and zero immigration charges for a period of 5 years. This paper is particularly interested in examining the government approved tax exemptions in Nigeria, which are No value added tax; No withholding tax; No corporate tax; and No capital gains tax (Intel services, 2013). However, for the purpose of the present study no corporate tax and no capital gains tax are adopted, while, the other tax exemptions were ignored. Tax exemptions enhance the profitability and performance of firms at the Oil & Gas free zone (Intel services, 2013). Bost (2010) saw a free zone as a location with a specific size, where authorized businesses take place with a good measure of exemptions from the normal regime applicable in the host country, in particular with respect to the customs and taxation fields. In this paper, we are of the view that a free zone is an area where businesses are legally authorized to take place with a lot of exemptions from the normal administration applicable in a particular country where there are a-100% business incentives and virtually no customs, immigration or taxation charges for a stipulated period of time. The establishment of free zones is in response to the abundant investment opportunities that exist in Nigeria (Ekundayo, 2013). A Free Zone is a veritable tool for promoting Foreign Direct Investment (FDI) (Intel services, 2013). FDI facilitates the provision of a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development. Some common components of Foreign Direct Investment are the inflow of capital from a company outside the investing firm's home country, and the transfer of new technology from outside the investing firm's home country (Graham & Spaulding, 2004). The need to position the Oil & Gas sector in Nigeria as the hub of global oil and gas is very important with setting up of the Oil & Gas Free Zone. Based on this, the paper intends to investigate into how no corporate tax can influence the transfer of new technology from outside the investing firm's home country; and determine how no capital gains tax can affect the inflow of capital from outside the investing firm's home country.

Review of Related Literature

The paper examines Tax Exemptions and Foreign Direct Investment of Oil and Gas Free Zone in Nigeria. Therefore, it is guided by the following sub-headings; Theoretical Foundation, Tax Exemption, Foreign Direct Investment, Tax Exemption and the Transfer of New Technology, Tax Exemption and the Inflow of Capital.

Theoretical Foundation

The theory underpinning the present study is that of the International investment theory. The theory is based on two perspectives of foreign investment. They are foreign portfolio investment (FPI) and foreign direct investment (FDI) (Fuentes, 2014). Investors choose FPI or FDI based on opportunity cost for investment in order to maximize investment benefits. FDI focuses on profits and controlling interest in foreign firms; while, FPI focuses on investing in the securities of a foreign country (Fuentes, 2014).

Tax Exemption

"Tax exemptions" are incentives provided by the government which serves as venture capital to promote businesses in the sectors of an economy that requires further development and growth (Federal Ministry of Trade and Investment, 2013). Nigeria like other countries of West Africa has experienced tax advantages for economic development. Specifically, when it comes to tax advantages, authorized firms in free zones are exempt from corporation tax for some stipulated period of time that varies as approved by different countries (Bost, 2011). After tax except period, firms fall back under the ordinary regime and become taxable, either at the level stipulated by the ordinary legislation or at a reduced and still-attractive level for a transitional period. The tax exemptions or incentives approved by the Federal Government of Nigeria to all foreign investors at the free trade zone includes No corporate tax; and No capital gains tax (Intel services, 2013). In Nigeria, the Corporate Income tax rate is a tax collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. The corporate tax rate is 30%. On the other hand, capital gains tax is a tax system which accrues on an actual year basis and it pertains to all gains accruing to a taxpayer from the sale or lease or other transfer of proprietary rights in a chargeable interest which are subject to a capital gains tax of 10%, such chargeable assets may be corporeal or incorporeal and it does not matter that such asset is not situated in Nigeria. Computation of capital gains tax is done by deducting from the sum received or receivable from the cost of acquisition to the person realizing the chargeable gain plus expenditure incurred on the improvement or expenses incidental to the realization of the asset (The Ngex, 2013).

Foreign Direct Investment

Foreign direct investment (FDI) is a direct investment into business activities in a country by an individual or company of another country, either by acquiring a company in the target country or by increasing extant business operations in that country (Wikipedia, 2014). FDI can be expressed in both broad and narrow perspectives. In broad terms, it involves "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans" (Wikipedia, 2014). In a narrow sense, FDI implies building new facilities. The emphasis of this paper is to consider how FDI can improve Nigeria's Oil & Gas sector technology transfer and inflow of capital from a foreign country. It is on record that Nigeria is reaping the dividends of establishing free zones. This is because as at 2009, the country has earned a staggering USD 5851 million from FDI activities. The FDI inflows for a 5-year period in Nigeria are shown in the table below:

Table A – Foreign Direct Investment in Nigeria (USD million)

2005	2006	2007	2008	2009
4 978.26	13 956.49	6 086.73	6 814.40	5 850.73

Over the years, Nigeria has been an import-dependent country. But there is now a paradigm shift, which has begun through the Nigeria Industrial Revolution Plan based on the establishment of oil and gas free zones (Aganga, 2013). With the inflow of cash into the economy of Nigeria, the country currently enjoys a high growth and high returns environment. Based on the United Nations Conference on Trade and Development (UNCTAD) reports for 2011 and 2012, Nigeria is ranked as Africa's number one destination for Foreign Direct Investment (FDI) (Aganga, 2013). Furthermore, Nigeria has been ranked fourth globally in terms of average returns on investments at 35.5 per cent, which is higher than global average.

Tax Exemption and Transfer of New Technology

Foreign Direct Investment is considered as a means of transferring technology (Selin, Karidis, & Deichmann, 2003). The need for the transfer of technology and positive spillovers to domestic firms by foreign organization influences policy-makers to initiate policies for attracting FDI (Blomstrom and Kokko, 1997; Alfaro et al., 2003). Adamu Mamman Kontagora a top official cited in Clement (2011) stated that the Oil & Gas Free Zone serves as measure for promoting Foreign Direct Investment (FDI) for the improvement of the Nigerian economy in the areas of jobs creation and for technology transfer in the system. Kontagora explained that free zones should be used as platforms for bringing in FDI into the country, because a lot of foreign firms would like to operate within free zones to benefit from various incentives provided by the zones for investors. Adamu Mamman Kontagora quoted in Clement (2011) stated that free zone is an area where government decides to create and provide incentives with other advantages with the aim of attracting FDI into the economy to companies that are licensed to operate in that zone. According to Kontagora cited in Clement (2011), the influx of FDI enables the acquisition or transfer technology to be highly obtained in the zone. The free zones have companies dealing with a lot of expatriates who had. Free zone at present has 150 foreign firms (Clement, 2011). The reason is that the company has been able to transfer the foreign technology to Nigerians who are now occupying those positions. So, the indigenes are benefiting greatly from technology transfer in form of man-power training from the firms in the zone. The zone has been in operation for over 10years now. In 2011, the oil and gas free zone have brought in many foreign firms with modern technology into the country. FDI provides a way of increasing the efficiency with which the world's scarce resources are used. In addition, the operations of the free zones attract foreign companies into Nigeria because of the trend of globalization. Consequently, organization in pursuit of international strategy transfer the skills and products derived from distinctive competencies to foreign markets, while undertaking some limited local customization Yücel, & Dağdelen, (2010). "FDI is much more related with secondary benefits through the diffusion of technology to firms in the host country. In most cases, the diffusion process could be thoughtful, *s*uch as when technology is licensed and linked to a domestic firm, or it can be in the form of a technological spillover which arises when the actions of the multinational firm yield good benefits for local economic agents beyond those intended by the multinational (Aitken, Hanson & Harrison, 1994). Most organizations in foreign direct investment (FDI) give technical assistance, training and other information to raise the quality of the suppliers' products. Many direct investors assist local suppliers in purchasing raw materials and intermediate goods and in modernising or upgrading production facilities. Technology transfer and diffusion activities are facilitated through interrelated channels linking how suppliers or purchasers connect their host countries; assessing how competing or complementary companies in the same industry are associate; the evaluation the migration of skilled labour; and the internationalization of R&D. There is also the process of determining linkages with local suppliers in developing countries (OECD, 2002). Thus, we hypothesized thus:

$H0_1$: No significant relationship exists between no corporate tax and the transfer of new technology from outside the investing firm's home country.

Tax Exemption and Inflow of Capital

"Foreign direct investment" (FDI) is considered as one of the main sources through which host countries are financed in order to grow economically. FDI assists a lot of countries when they have financial challenges. "Foreign Direct Investment" (FDI) includes buying shares of an enterprise in another country, reinvesting earnings of a foreign- owned enterprise in the country where it is located, and parent firms extending loans to their foreign affiliates (The World Bank Group, 2004). FDI is becoming increasingly significant for economic growth. "FDI" is an investment abroad, usually where the company being invested in is controlled by the foreign corporation. FDI flows have increased to unprecedented levels and have become one of the major sources of financing for many countries in the world. The World Bank definition of foreign direct investment is the acquisition of "a lasting management interest (10 percent or more of the voting stock) in an enterprise operating in an economy other than that of the investor." The acquisition of a lasting management interest is influenced by the sum of equity capital owned by a direct investor. It is considered as long-term capital and short-term capital shown in the balance of payments. The equity capital is typically gained by selling stock to investors. Due to the relative stability and long-run commitment to the firm, FDI is perceived as the type of capital that entails the greatest amount of direct and indirect benefits (spillovers) for the host economy (Vijaya & Kaltani, 2007). The OECD (1996) noted that the aim of Foreign Direct Investment is to acquire a lasting interest by a resident entity ("direct investor") in one economy other than that of the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. In addition, this implies that the investor's aim is to achieve some level of control in the management of the affairs of the organization. The foreign company that makes the investment is considered as the "direct investor". Foreign direct investment implies organizations that invest their funds in countries outside of their domestic countries.

The UNCTAD (2005) reveals that FDI can be categorized into three components of equity capital, reinvested earnings and intra-company loans. Equity capital encompasses of the shares of companies in countries foreign to that of the investor. Reinvested earnings comprises of undistributed earnings that are yet to be received by shareholders but reinvested into the company. Intra-company loans are financial transactions between a parent company and its affiliates. More so, the facts of FDI are often reported in terms of stocks and flows. FDI stock means the value of capital and reserves plus net indebtedness, whereas FDI flow connotes capital provided by or received from a foreign direct investor to an FDI enterprise (Zhan, 2006). Thus, capital in FDI is contributed by the foreign company which is investing in the host country. This is because profits made by FDI contribute to corporate tax revenues in the host country (The economywatch, 2010). Hence we hypothesized as follows:

$H0_2$: A significant relationship does not exist between no capital gains tax and the inflow of capital from outside the investing firm's home country.

METHODOLOGY

The research design for the study is the cross sectional survey. It was used to examine interrelationships of the variables of this research. The sources of data used for the study are primary and secondary. They involved information from administered questionnaire, publications and the Internet. Onne Oil & Gas Free Zone in Nigeria, which is the only one established for the Oil & Gas industry in the world is the study area. The population of study comprises of the entire 150 foreign firms at the Onne Oil & Gas Free Zone in Nigeria (Clement, 2011). The key officials from the firms chosen for this study are Finance and Administration Managers and Chief Accountants. A total of 225 managers were surveyed. More than 80% per cent of the respondents indicated that they are aware of what constitutes Tax Exemption and Foreign Direct Investment. The capacity of the respondents in terms of their knowledge, experience and awareness serves as a measure that is used to add credibility to the findings of the study.

Data Analysis Technique and Model Specifications

The "Pearson product moment correlation coefficient" and the regression analysis were used to examine the degree of relationship of the variables and assess how differences in levels of the predictor variable relate to changes in levels of the criterion variable. The symbolic form of the model specification was adopted in this study. Each equation provided by the model specification was meant to test each of the hypotheses.

TNT = α0 + NCORPT+ λt …………………………………………………Equation 1

Where;

TNT = Transfer of new technology from outside the investing firm's home country

α0 = Constant

NCORPT = No Corporate Tax

λt = Error term.

IOC = α0 + NCGT + λt …………………………………………………Equation 2

Where;

IOC = the inflow of capital from outside the investing firm's home country.

α0 = Constant

NCGT= No Capital Gains Tax

λt = Error term.

Test of Hypothesis 1:

$H0_1$: No significant relationship exists between no corporate tax and the transfer of new technology from outside the investing firm's home country.

Table B: The Descriptive Statistics

Variables	Mean	Standard Deviation
NCORPT	0.1611	0.106
TNT	12.991	1.032
Error Term	.5901	0.274

NCORPT = No Corporate Tax

TNT = Transfer of new technology from outside the investing firm's home country

The results of the descriptive statistics provided the mean and standard deviation for each variable for no corporate tax and the transfer of new technology company outside the investing firm's home country. Concerning the values of Table B above, the mean value of no corporate tax is 0.1611 and the value of standard deviation is 0.106. The transfer of new technology from outside the investing firm's home country gave a mean value of 12.991 and a standard deviation of 1.032. The table also indicated a difference between the mean value of the transfer of new technology from outside the investing firm's home country and error term. The mean values for error term and the transfer of new technology from outside the investing firm's home country are .5901 and 12.991 respectively; while, the standard deviation of error term is 0.274.

Table B_1: Correlation

Variables	Pearson Correlation	Significant
NCORPT	0.717	0.000
TNT	-0.500	0.000

NCORPT = No Corporate Tax

TNT = Transfer of new technology from outside the investing firm's home country

Table B_1 above indicated a significant relationship between no corporate tax and the transfer of new technology from outside the investing firm's home country

Table B_2: Regression Analysis

Variables	Standard Error	Beta	T-value	P-value
(Constant)				
NCORPT	0.009	0.049	2.058	0.005
TNT	0.015	-0.037	-1.086	-0.050

NCORPT = No Corporate Tax
TNT = Transfer of new technology from outside the investing firm's home country

Other values of Regression Analysis

Statistic	Value
R^2	0.873
Adjusted R^2	0.853
F-Statistics	90.161
Prob (F-Statistics)	0.000

The result above reveals the effect of no corporate tax on the transfer of new technology from outside the investing firm's home country. Results reveal that no corporate tax and the transfer of new technology from outside the investing firm's home country are positively related. R^2 reveals that only 87.3% of variations in dependent variable of the transfer of new technology from outside the investing firm's home country are explained by the variations in the independent variable of no corporate tax. The remaining12.7% is explained by other variables not stated in the model. Thus, the researchers conclude that the explanation, which is greater than 50% reveals the model specified in this paper has a good fit. The adjusted R^2 is slightly below the R^2 with the value of 85.3%. F-statistics shows the validity of model as its value of 90.161 is well above its Prob (F-statistics) value of 0.000. Thus, in our first hypothesis above, we assume that no significant relationship exists between no corporate tax and the transfer of new technology from outside the investing firm's home country. The correlation result shows a positive correlation of .717, with a p- value of -0.500 significant at only 0.05%, which entails that the more the no corporate tax is applied, the more the transfer of new technology from outside the investing firm's home country would be implemented by the organizations. Therefore, the null hypothesis is rejected, while the alternative hypothesis is accepted. Thus, we could state that a significant relationship exists between no corporate tax and the transfer of new technology from outside the investing firm's home country. This also confirms that no corporate tax has significant and positive impact on the transfer of new technology from outside the investing firm's home country. Due to this correlation, the finding corroborates the views of Kontagora cited in Clement (2011) in the literature review of the present study. This is because the inflow of Foreign Direct Investment makes it possible for technology to be transferred in Nigeria via the Oil & Gas Free Zone. In addition, companies that pursue international strategy transfer their skills and competencies in the development of products to foreign markets (Yücel & Dağdelen, 2010). The application of Foreign Direct Investment has enough benefits through the diffusion of technology to firms in the host country in very careful manner to a domestic firm in the form of a technological spillover (Aitken, Hanson & Harrison, 1994). Technological advancement is vital to economic growth and welfare for any country, regardless of level of development.

Test of Hypothesis 2:

$H0_2$: A significant relationship does not exist between no capital gains tax and the inflow of capital from outside the investing firm's home country.

Table C: The Descriptive Statistics

Variables	Mean	Standard deviation
NCGT	0.1662	0.1302
IOC	10.0502	1.1021
Error Term	.5541	0.5820

NCGT= No Capital Gains Tax

IOC = the inflow of capital from outside the investing firm's home country

The results of the descriptive statistics for each variable are shown in Table C above. The mean value of no capital gains tax is 0.1662 and the value of standard deviation is 0.1302. The inflow of capital from outside the investing firm's home country reveals a mean value of 11.0502 and a standard deviation of 1.1021. These results showed differences between the mean of no capital gains tax and error term. The mean values and standard deviation for error term are .5541and 0.5820 respectively. From this result, there appears to be disparities between the standard deviation of no capital gains tax and error term.

Table C_1: Correlation

Variables	Pearson Correlation	Significant
NCGT	0.712	0.000
IOC	-0.500	0.000

NCGT= No Capital Gains Tax

IOC = the inflow of capital from outside the investing firm's home country.

Table C_1 above revealed a significant relationship between no capital gains tax and the inflow of capital from outside the investing firm's home country with a significant value of 0.000.

Table C_2: Regression Analysis

Variables	Standard Error	Beta	T-value	P-value
(Constant)				
NCGT	0.028	0.055	2.023	0.005
ALMI	0.018	-0.066	-1.027	-0.051

NCGT= No Capital Gains Tax

IOC = the inflow of capital from outside the investing firm's home country.

Other values of Regression Analysis

Statistic	Value
R^2	0.862
Adjusted R^2	0.845
F-Statistics	90.159
Prob (F-Statistics)	0.000

The result from the above analysis shows the effect of no capital gains tax on the inflow of capital from outside the investing firm's home country. Results indicate that no capital gains tax and the inflow of capital from outside the investing firm's home country are positively connected. R^2 discloses that only 86.2% of variations in dependent variable of the inflow of capital from outside the investing firm's home country are explained by the variations in the independent variable of no capital gains tax. This reveals 13.8% are explained by other variables not stated in the model. Thus, the explanation, which is greater than 50%, shows that the model has a good fit. The adjusted R^2 is slightly below the R^2 with the value of 84.5%. F-statistics reveals the validity of model as its value 90.159 is greater than its Prob (F-statistics) value of 0.000. Therefore, in the above hypothesis, the Pearson's Product Moment correlation coefficient result shows a strong, significant and positive correlation of .712 between no capital gains tax and the inflow of capital from outside the investing firm's home country, with p= -0.50 at 5% level of significance. Consequently, the null hypothesis is rejected in favor of the alternate hypothesis. Therefore, we could state that a significant relationship exists between no capital gains tax and the inflow of capital from outside the investing firm's home country. The test result shows that the excess no capital gains could absolutely influence the inflow of capital from outside the investing firm's home country. This finding supports the views of Vijaya & Kaltani (2007) in the literature review of the present study. This is because Foreign Direct Investment provides benefits or spillovers for the host economy (Vijaya & Kaltani, 2007). Essentially, Foreign Direct Investment (FDI) involves financial investment and capital contribution into the economy of a host country by a foreign firm (Zhan, 2006). FDI enables the foreign firms to have some stake in the firms outside the domain of the foreign organization based on the capital they invest across national borders (Vijaya & Kaltani, 2007). Foreign direct investment achieves benefits from the funds they invest in countries outside of their domestic countries. The funds which constitute capital are categorized as equity capital, reinvested earnings and intra-company loans (UNCTAD, 2005).

CONCLUSION AND RECOMMENDATIONS

The paper examined Tax Exemptions and Foreign Direct Investment of Oil and Gas Free Zone in Nigeria. Tax incentives are one of the most appropriate mechanisms for boosting investment in the Oil & Gas Free Zone (Federal Ministry of Trade and Investment, 2013). Organizations strive to make profits in their investment opportunities. The application of incentives provides businesses the opportunity to invest without eroding their profit base. The development of an economy is influenced by competition made by investors. Foreign Direct Investment is a global investment perspective that is capable of providing capital and transferring technology from one country to another ((Zhan, 2006; Yücel & Dağdelen, 2010). Thus, in a bid to develop the Oil & Gas sector the Nigerian government established Oil & Gas free zone with many incentives in order to realize a lot of benefits such as the inflow of capital and transfer of technology that could enhance the growth and development of the Oil & Gas sector. Thus, we could conclude that foreign direct investment is an international investment strategy of foreign firms which is influenced by tax exemptions for the growth and development of business in a host country.

Recommendations

In view of our analysis in this paper, we offered the following recommendations.

1. **Application of Tax Incentives:** The Nigerian Government should use tax incentives to attract international investment in order to acquire more capital for the development of the Oil & Gas sector of the economy.
2. **Acquisition of Technology:** Foreign direct investment should be encouraged in order to acquire the best technology from foreign firms so as to enhance and develop the Oil & Gas sector in Nigeria.

Accounting Implication of the Study

Nigeria as a country does not exist in a vacuum. Hence, there is need for international business. This is particularly true because the country has abundant of natural resources which need to be tapped for economic growth and development. However, the country lacks the wherewithal in terms of capital and technology to develop most of its resources. Therefore, the use of fiscal incentives is considered as a veritable tool to attract international investors by way of foreign direct investment. This is because fiscal incentives in the form of tax exemptions for organizations interested in the development of the Oil & Gas sector in the Nigerian economy could enhance rapid economic growth and development in the country. Thus, in the global economy, it is essential for good economic performance to be recorded in Nigeria with the use of incentives to boost investment in the country.

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