
EFFECT OF TAX REBATE ON ECONOMIC GROWTH IN NIGERIA

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Abstract

This study investigates the effect of tax rebates on economic growth in Nigeria. Specifically, it examines the effects of corporate income tax incentives, capital allowance incentives, customs duty incentives, and excise tax incentives on economic growth. An ex-post facto research design was adopted to establish the causal relationship between tax rebates and economic growth. Secondary data covering the period from 2004 to 2023 were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS), and National Bureau of Statistics (NBS). The data were analyzed using the Ordinary Least Squares (OLS) regression technique to determine the effects of the selected tax incentives on economic growth. The findings indicate that corporate income tax incentives, capital allowance incentives, customs duty incentives, and excise tax incentives each have a statistically significant positive effect on economic growth at the 5% level of significance. The study therefore concludes that tax rebates constitute an important fiscal policy instrument for stimulating economic growth in Nigeria. By reducing tax burdens and encouraging investment, production, and business expansion, tax incentives can contribute to improved economic performance. The study recommends that the Nigerian government establish clear, transparent, and accessible criteria for granting tax rebates. Such criteria should minimize ambiguity, reduce administrative barriers, and ensure that eligible businesses can effectively access available tax incentives.

Keywords: Tax Rebates; Tax Incentives; Economic Growth; Fiscal Policy.

Introduction

Taxation is an important instrument of fiscal policy through which governments mobilise revenue and influence economic activities, investment decisions and the allocation of resources. The revenue generated from taxation provides government with the financial capacity to perform essential public functions, including the provision of infrastructure, healthcare, education, security, transportation and other public services. In developing economies such as Nigeria, an effective and sustainable tax system is particularly important because adequate domestic revenue mobilisation can reduce excessive dependence on volatile oil revenues and create fiscal space for development-oriented expenditure. Recent reforms in

Nigeria have consequently placed considerable emphasis on strengthening non-oil revenue mobilisation and improving the efficiency of the tax system (International Monetary Fund [IMF], 2024; World Bank, 2024, 2025). Beyond its revenue-generating function, taxation can also be employed as an instrument for achieving broader economic and social objectives. One important mechanism through which governments influence investment and production is the provision of tax incentives. Tax incentives refer to deliberate provisions within the tax system that reduce, defer, or eliminate tax liabilities for eligible individuals, firms, sectors, activities, or locations in order to encourage specified economic behaviour. They may take the form of tax holidays, reduced corporate income tax rates, investment allowances, accelerated depreciation, tax credits, exemptions, and other preferential tax treatments. The OECD (2025) notes that investment tax incentives are widely used in emerging and developing economies to influence the location, scale and nature of investment, although their effectiveness depends substantially on their design, targeting, governance and monitoring.

The rationale for tax incentives is that reducing the tax burden associated with particular investments or economic activities may lower the cost of capital and encourage businesses to undertake investments that might otherwise be delayed or considered unprofitable. Such incentives can therefore be directed towards priority sectors, less-developed regions, employment-generating activities, exports, innovation, infrastructure and environmentally sustainable investments. The OECD (2024) observes that governments increasingly combine tax and non-tax incentives to attract and retain investment, while UN Trade and Development (UNCTAD, 2024, 2025) reports that investment incentives remain a significant component of contemporary investment policy, particularly in developing economies. However, tax incentives also have important fiscal implications. Since a tax incentive reduces the amount of revenue that would otherwise accrue to government, it represents a form of tax expenditure and therefore involves an opportunity cost to the public sector. Although incentives may stimulate investment, employment and production, poorly designed or excessively generous incentives can result in substantial revenue losses, economic distortions and windfall gains for firms that would have invested even without the incentives. The OECD (2025, 2026) therefore emphasises the need for governments to establish clear policy objectives, eligibility conditions, transparency mechanisms and regular monitoring and evaluation procedures when granting tax incentives. Incentives should generate measurable economic and social benefits that justify the associated revenue costs.

Tax reliefs constitute another important component of the tax system. Tax relief generally refers to provisions that reduce, eliminate, defer or otherwise modify the tax liability of taxpayers under specified conditions. Although tax reliefs can support businesses, households and particular economic activities, they can simultaneously reduce public revenue and increase the cost of financing government programmes. Consequently, their effectiveness should not be assessed solely in terms of the immediate benefit to taxpayers but also in relation to their broader effects on investment, employment, productivity, economic output and government revenue. The OECD (2026) argues that the assessment of tax incentives should consider whether the economic benefits generated are sufficiently large to compensate for the associated fiscal costs. The relationship between tax incentives and economic growth is particularly relevant to developing economies. Economic growth generally refers to a sustained increase in the production of goods and services in an economy, commonly measured through changes in real gross domestic product (GDP), while economic development encompasses broader improvements in living standards, productive capacity, employment opportunities and institutional and social conditions. Tax policy can contribute to these outcomes by influencing investment, consumption, savings, entrepreneurship and the allocation of productive resources. Nevertheless, tax incentives should not be regarded as a standalone solution to the structural constraints confronting developing economies. Evidence from international experience

indicates that investors also consider factors such as political and macroeconomic stability, infrastructure, human capital, market size, regulatory quality and security when making investment decisions (UNCTAD, 2023; OECD, 2024).

The Nigerian economy provides an important context for examining these issues. For many years, Nigeria's fiscal position has been highly influenced by fluctuations in crude oil prices and oil production, creating significant vulnerabilities in government revenue. The decline in international oil prices from 2014, together with structural weaknesses and limited diversification of government revenue, contributed to the economic recession experienced in 2016. More recently, Nigeria has embarked on major fiscal and macroeconomic reforms aimed at strengthening domestic revenue mobilisation, improving fiscal sustainability and promoting economic growth. The IMF (2024) reports that the Nigerian authorities have prioritised revenue mobilisation, tax administration and the broadening of the tax base as part of the country's fiscal reform agenda. Similarly, the World Bank (2024, 2025) identifies stronger non-oil revenue mobilisation and improved public-sector resource management as important components of Nigeria's efforts to create fiscal space for development and inclusive growth. Recent economic developments further demonstrate the importance of an effective fiscal framework. According to the World Bank (2025), Nigeria's real GDP growth increased to 3.4% in 2024, while federation-wide revenues increased substantially from approximately ₦16.8 trillion in 2023 to an estimated ₦31.9 trillion in 2024. The improvement in revenue contributed to a reduction in the consolidated fiscal deficit from 5.4% of GDP in 2023 to about 3.0% in 2024. Nevertheless, the World Bank cautions that growth remains insufficiently broad-based to produce substantial improvements in living standards, highlighting the continuing need for policies that encourage productive investment, job creation and inclusive economic development.

Within this reform environment, tax incentives require careful consideration. Nigeria employs various tax incentives intended to encourage investment and support priority economic activities. However, the effectiveness of such incentives depends on whether they generate additional investment and productive capacity rather than simply reducing the tax liabilities of investments that would have occurred in their absence. The OECD (2024, 2025) emphasises that incentives are more likely to achieve their objectives when they are targeted, transparent, and time-bound and subject to measurable eligibility criteria and periodic evaluation. This is particularly important for Nigeria, where the need to increase domestic revenue must be balanced against the objective of promoting private-sector investment and economic diversification.

Current reforms to Nigeria's tax administration framework further reinforce the importance of transparency and accountability in the management of tax incentives. The Nigeria Tax Administration Act 2025 provides, among other things, for tax incentive returns and strengthened tax administration and compliance mechanisms (Federal Republic of Nigeria, 2025). These developments indicate an increasing emphasis on documenting and monitoring tax-related concessions within the broader objective of improving domestic revenue mobilization. Tax rebates, specifically, can be understood as reductions or refunds that lower the tax burden of eligible taxpayers under specified statutory conditions. Properly designed rebates can reduce the cost of investment and production and thereby encourage firms to expand their operations. However, a tax rebate should not be confused with tax evasion or tax avoidance. Tax evasion involves the illegal concealment or misrepresentation of taxable income or transactions, whereas a tax rebate is a legally authorised reduction in tax liability. Consequently, the economic relevance of tax rebates should be assessed in terms of their ability to influence investment, production, employment and output while ensuring that the associated revenue costs remain fiscally sustainable.

The need to strike an appropriate balance between revenue mobilization and investment promotion is particularly significant in Nigeria's current economic environment. On the one hand, government requires adequate and predictable revenue to finance infrastructure, education, healthcare, security and other public services. On the other hand, excessive taxation can increase business costs and potentially discourage investment and productive activity. Tax incentives and rebates can therefore serve as policy instruments for influencing private-sector behaviour, but their effectiveness depends on appropriate design, administration and evaluation. International evidence suggests that incentives that are linked to measurable investment outcomes may provide better value than broad and poorly targeted tax exemptions (OECD, 2025, 2026). Against this background, examining the effect of tax rebates on economic growth in Nigeria is both timely and important. Understanding whether tax rebates stimulate investment, production and employment sufficiently to offset their associated revenue costs can provide useful evidence for tax-policy formulation. The study therefore seeks to examine the effect of tax rebates on economic growth in Nigeria, with particular attention to their potential influence on investment, productive activities and the broader performance of the Nigerian economy.

Statement of the Problem

Tax incentives are widely employed by governments to influence investment decisions, stimulate production, attract private capital and promote economic growth. In Nigeria, various incentives, including corporate income tax incentives, capital allowances, customs duty incentives and excise tax incentives, are intended to reduce the cost of doing business and encourage investment in productive activities. However, the effectiveness of these incentives in generating sustainable economic growth remains an important policy concern. While tax incentives may encourage firms to expand investment and production, they simultaneously reduce potential government revenue and may create fiscal costs when the benefits generated are smaller than the revenue forgone. The OECD (2025) therefore emphasises that investment tax incentives require careful design, monitoring and evaluation to ensure that their economic benefits justify their fiscal costs.

The problem is particularly important in Nigeria because the country continues to face the challenge of mobilising sufficient domestic revenue to finance infrastructure, public services and development programmes. Although Nigeria has recorded improvements in revenue mobilisation in recent years, tax revenue remains relatively low in relation to the size of the economy. The World Bank (2025) reports that federation-wide revenue increased substantially in 2024, while real GDP growth rose to 3.4%. Nevertheless, economic growth remained moderate and insufficiently broad-based to produce significant improvements in living standards. The April 2026 Nigeria Development Update similarly indicates that, although macroeconomic stability has improved, poverty remains high and stronger inclusive growth is still required (World Bank, 2026). These circumstances raise questions about whether existing tax incentives are effectively contributing to productive investment and economic expansion or merely reducing government revenue without generating commensurate economic benefits.

Corporate income tax incentives constitute one area of concern. Incentives that reduce corporate tax liabilities are intended to improve firms' after-tax returns and encourage investment, expansion and employment. However, where such incentives are not sufficiently targeted or monitored, firms may receive tax benefits for investments that would have occurred even without the incentive. This creates a potential revenue loss without a corresponding increase in productive economic activity. The OECD (2025) notes that the effectiveness of corporate tax incentives depends heavily on their design, targeting, and ability to generate additional investment. Thus, the extent to which corporate income tax incentives contribute to Nigeria's economic growth requires empirical investigation.

Similarly, capital allowance incentives are designed to reduce the taxable income of businesses by permitting deductions associated with qualifying capital expenditure. Such incentives can lower the cost of acquiring productive assets and potentially encourage firms to increase investment in machinery, equipment and other productive capital. However, their growth-enhancing effect may depend on the extent to which businesses actually respond by expanding productive capacity. Given Nigeria's persistent constraints relating to access to finance, infrastructure, electricity and production costs, it remains uncertain whether capital allowances are sufficiently effective in stimulating investment and economic output. The World Bank (2025) identifies high production costs, limited access to credit, unreliable electricity and other structural constraints as continuing obstacles to private-sector and manufacturing growth in Nigeria.

Customs duty incentives also present an important policy issue. Reductions or exemptions from customs duties on selected capital goods, raw materials and other qualifying imports can reduce production costs and facilitate access to equipment and intermediate inputs. Such incentives may therefore support domestic production, industrialisation and investment. Conversely, excessive or poorly targeted customs concessions may reduce government revenue and encourage import dependence, potentially weakening domestic production. The World Bank (2025) observes that high tariffs and import restrictions, alongside high costs of imported inputs and machinery, continue to affect productive sectors in Nigeria. This creates a need to establish empirically whether customs duty incentives have a positive and significant effect on economic growth.

Furthermore, excise tax incentives have implications for both economic activity and government revenue. Excise taxes are imposed on selected goods and activities, and changes in their rates or exemptions can affect production costs, consumer prices, and business decisions. Incentives or preferential treatment in this area may support particular industries and investment activities, but they can also reduce public revenue and distort resource allocation if not appropriately designed. Recent World Bank fiscal data show that customs revenue, which includes import, excise, and related revenues, remains an important component of Nigeria's non-oil revenue base (World Bank, 2025). Consequently, determining whether excise tax incentives promote productive economic activity sufficiently to compensate for associated revenue losses is important for effective tax-policy formulation.

The central problem, therefore, is the uncertainty regarding the extent to which different categories of tax incentives actually translate into economic growth in Nigeria. Although these incentives are intended to stimulate investment, production and industrial development, their fiscal costs and potential distortions make their effectiveness an empirical question rather than an assumption. Against the background of Nigeria's need to increase domestic revenue while simultaneously promoting private-sector-led growth, there is a need to separately examine the effects of corporate income tax incentives, capital allowance incentives, customs duty incentives and excise tax incentives on economic growth. Such evidence would assist policymakers in determining whether existing incentives should be maintained, redesigned, targeted more effectively, or discontinued where their economic benefits do not justify their revenue costs. The study therefore investigates the effects of these four categories of tax incentives on economic growth in Nigeria.

Research Objectives

The general objective of this study is to investigate the effect of tax rebates on economic growth in Nigeria. The specific objectives are as follows:

1. Examine the effect of corporate income tax incentives on economic growth in Nigeria.
2. Investigate the effect of capital allowance incentives on economic growth in Nigeria.
3. Ascertain the effect of customs duty incentives on economic growth in Nigeria.
4. Determine the effect of excise tax incentives on economic growth in Nigeria.

Research Hypotheses

H01: Corporate income tax incentives do not have a significant effect on economic growth in Nigeria.

H02: Capital allowance incentives do not have a significant effect on economic growth in Nigeria.

H03: Custom duty incentives do not have a significant effect on economic growth in Nigeria.

H04: Excise tax incentives do not have a significant effect on economic growth in Nigeria.

Literature Review

An income tax rebate refers to a legally permitted reduction or refund of tax payable by an eligible taxpayer, thereby lowering the taxpayer's effective tax burden. It is generally used by the government as a fiscal policy instrument to support particular taxpayers, investments, or economic activities and may encourage compliance, investment, and productive activity. In Nigeria, tax incentives and reliefs form part of the broader tax-policy framework for promoting investment while balancing the government's need for sustainable revenue mobilisation. The current Nigerian tax reforms emphasise more targeted and transparent incentives rather than broad and opaque tax waivers (Federal Republic of Nigeria, 2025; OECD, 2025). For this study, an income tax rebate is therefore conceptualized as a government-authorised reduction in income tax liability granted to eligible taxpayers to achieve specific economic or fiscal objectives. Such a reduction can improve taxpayers' disposable income or firms' after-tax returns and potentially stimulate savings, investment, and business expansion. However, rebates also involve revenue forgone by government; hence, their effectiveness depends on whether the resulting economic benefits justify the associated fiscal cost (OECD, 2025). Nigeria's recent tax reforms, which became operational in 2026, seek to create a more investment-friendly and transparent tax environment while strengthening domestic revenue mobilization.

The conceptual framework for this study is built around the relationship between tax incentives and economic growth in Nigeria. The study considers four dimensions of tax incentives—corporate income tax incentives, capital allowance incentives, customs duty incentives and excise tax incentives—as the independent variables, while economic growth constitutes the dependent variable. The underlying proposition is that appropriately designed tax incentives can reduce the cost of investment and production, improve the after-tax returns of businesses, stimulate private investment and expand productive capacity, which may ultimately enhance economic growth. However, because tax incentives also involve revenue forgone by government, their effectiveness depends on whether the economic benefits generated exceed their fiscal costs (OECD, 2025). Recent Nigerian reforms similarly emphasise the need for a tax system that supports investment and economic growth while strengthening domestic revenue mobilisation (Federal Ministry of Finance, 2026).

Corporate income tax (CIT) incentives refer to legally authorised reductions, exemptions, deductions or preferential treatments that lower the income-tax burden of qualifying companies. The primary rationale is to improve the profitability of productive investment and encourage firms to establish, expand or retain operations in particular sectors or locations. By reducing the proportion of profits paid as tax, corporate income tax incentives can increase firms' retained earnings and potentially provide additional resources for investment, employment creation, technological improvement and business expansion. The Nigeria Revenue Service recognises corporate income taxation as a major component of the country's tax framework, while the new tax regime seeks to simplify administration and create a more efficient environment for taxpayers and government (Nigeria Revenue Service [NRS], 2026). The conceptual relationship between CIT incentives and economic growth can therefore be explained through the investment channel. When the tax burden on corporate profits is reduced, the expected after-tax return from an investment may increase, making additional

investment more attractive. Increased investment can raise the productive capacity of firms, generate employment, increase output, and contribute to gross domestic product (GDP). However, this relationship is not automatically positive. If firms receive tax concessions for investments they would have undertaken even without the incentive, the government may simply lose revenue without obtaining additional economic activity. Recent international evidence stresses that tax incentives must therefore be targeted, transparent, and periodically evaluated. The OECD (2025) notes that corporate tax incentives can influence investment decisions, but their effectiveness varies considerably according to their design and implementation. The World Bank (2025) similarly cautions that incentives should be assessed against their fiscal costs and broader development objectives.

In the Nigerian context, this relationship is especially important because the country needs to encourage private-sector investment while simultaneously increasing domestic revenue. Nigeria's economy recorded 3.4% growth in 2024, while improvements in revenue mobilisation helped reduce the fiscal deficit. Nevertheless, the World Bank (2025, 2026) continues to identify infrastructure gaps, limited access to finance, weak job creation, and other structural constraints as obstacles to stronger and more inclusive growth. Consequently, corporate income tax incentives may contribute to economic growth when they successfully stimulate additional investment and productivity, but their effectiveness depends on the wider investment environment.

Capital allowance incentives constitute another important dimension of tax policy. They provide businesses with tax deductions or allowances in respect of qualifying capital expenditure, thereby reducing taxable profits over specified periods. Conceptually, capital allowances are intended to lower the effective cost of acquiring productive assets such as machinery, equipment, buildings and other capital goods. This can encourage firms to replace obsolete assets, expand production capacity and undertake new investments. The expected relationship between capital allowance incentives and economic growth operates primarily through capital formation and productivity. When firms can recover part of the cost of qualifying capital expenditure through tax allowances, their effective cost of investment is reduced. This may increase investment in productive assets and subsequently improve labour productivity, production capacity and output. The World Bank (2025) identifies private investment, improved productivity and infrastructure as important requirements for accelerating Nigeria's growth. Thus, capital allowance incentives can potentially complement wider investment and industrial policies by encouraging businesses to devote more resources to productive capital.

However, the effect of capital allowances depends on the responsiveness of businesses to the reduction in investment costs. Where firms face severe constraints such as high interest rates, unreliable electricity, inadequate infrastructure or weak consumer demand, tax-based reductions in investment costs may not be sufficient to induce substantial new investment. The conceptual framework therefore assumes that capital allowance incentives can positively affect economic growth to the extent that they stimulate additional capital investment rather than merely provide tax benefits on investments that would have occurred anyway. The OECD (2025) similarly stresses that the design and targeting of investment incentives are crucial to determining their effectiveness.

Customs duty incentives represent reductions, exemptions, concessions or other preferential treatments applied to duties payable on qualifying imports. They are particularly relevant to businesses that depend on imported machinery, equipment, raw materials and intermediate inputs. In Nigeria, customs administration is governed by the Nigeria Customs Service Act, 2023, which recognises mechanisms such as duty exemptions, duty drawbacks and other customs-related concessions. The Nigeria Customs Service also provides tariff and Common External Tariff information to facilitate the classification and administration of

customs duties (Nigeria Customs Service [NCS], 2023, 2026). The conceptual argument is that customs duty incentives can reduce the cost of imported productive inputs and capital goods. Lower import costs can reduce production expenses, improve firms' competitiveness, and enable manufacturers to acquire machinery and technology that may not be readily available domestically. Increased access to productive inputs may consequently increase industrial output, investment, employment, and economic growth. This is consistent with the World Bank's (2025) observation that reducing trade barriers and improving logistics and the business environment are important for unlocking Nigeria's productive potential.

Nevertheless, customs duty incentives can have both positive and negative implications. If concessions are directed toward capital goods and essential production inputs, they may support domestic production and industrialisation. Conversely, indiscriminate duty exemptions on finished consumer goods could increase import dependence and weaken domestic producers. The conceptual framework therefore proposes that the effect of customs duty incentives on economic growth depends on their structure, targeting and economic purpose. The Federal Ministry of Finance's Trade Taxation and Customs Policy Study (2024) further demonstrates the importance of evaluating Nigeria's trade-tax framework in relation to revenue mobilisation, trade facilitation and broader economic objectives.

Excise tax incentives constitute the fourth independent variable in the framework. Excise taxes are generally imposed on specified goods and activities, while excise-related incentives may involve exemptions, preferential treatment, reduced rates or other statutory concessions for qualifying activities. Such incentives can affect the prices of goods, production costs and firms' investment and production decisions. The relationship between excise tax incentives and economic growth can operate through production, consumption and investment channels. Where excise concessions reduce the tax burden on qualifying producers, they may lower production costs and enable firms to expand output and employment. Increased production can contribute to economic activity and GDP. However, excise taxes are also an important source of public revenue and may be used to influence consumption of particular goods. Consequently, excessive concessions may reduce government revenue that could otherwise finance infrastructure, education, healthcare, and other growth-supporting public expenditure. Recent Nigerian fiscal data demonstrate that excise duty remains part of the country's revenue structure, although its contribution can fluctuate significantly over time (Federal Ministry of Finance, 2025). Accordingly, the conceptual relationship between excise tax incentives and economic growth is not necessarily linear. Well-targeted incentives may encourage production and investment, whereas poorly designed concessions may generate revenue losses without significant additional economic activity. The study therefore seeks to establish empirically whether excise tax incentives have a significant effect on Nigeria's economic growth.

Economic growth represents the expansion of an economy's production of goods and services over time and is commonly measured using indicators such as real GDP or real GDP growth. In this study, economic growth is treated as the dependent variable because it represents the outcome that may be influenced by the four categories of tax incentives. The theoretical expectation is that tax incentives can affect economic growth by changing firms' investment decisions, production costs, profitability, and productive capacity. Nigeria's recent economic performance reinforces the relevance of this relationship. The World Bank (2025) reported that real GDP grew by 3.4% in 2024, while the economy expanded by 3.9% year-on-year during the first half of 2025. By 2026, the World Bank reported continued macroeconomic improvement and relatively robust growth, although household incomes and poverty remained major concerns (World Bank, 2025, 2026). The conceptual framework therefore assumes that corporate income tax incentives, capital allowance incentives, customs duty incentives, and excise tax incentives constitute the major explanatory variables, while economic growth

constitutes the outcome variable. Corporate income tax incentives are expected to influence growth through increased retained earnings and investment; capital allowances through increased capital formation and productive capacity; customs duty incentives through lower costs of imported capital goods and production inputs; and excise tax incentives through their effects on production costs, investment and industrial activity. Collectively, these mechanisms may stimulate economic growth by encouraging private investment, increasing production, creating employment and improving productivity. However, the framework also recognizes that tax incentives involve government revenue forgone. Therefore, their growth effects depend on the extent to which the incentives generate additional investment and productive activity sufficient to compensate for their fiscal costs. This is particularly significant under Nigeria's current tax reforms, which commenced a new tax framework from January 1, 2026, while retaining existing incentives until their applicable expiration dates and requiring new incentives to be considered under the new legislation (Federal Ministry of Finance, 2026).

Theoretical Framework

The theoretical framework explains the relationship between tax incentives and economic growth in Nigeria and is anchored on the Benefit Received Theory, associated with Erik Lindahl (1919); the Cost of Service Theory, rooted in the classical public-finance tradition of Adam Smith (1776); and the Harrod–Domar Growth Model, developed independently by Roy F. Harrod (1939) and Evsey D. Domar (1946). While the first two theories explain taxation, government revenue, and public expenditure, the Harrod–Domar Model provides the strongest foundation because it directly links investment and capital accumulation with economic growth. This is relevant to the study's focus on corporate income tax incentives, capital allowance incentives, customs duty incentives, and excise tax incentives. The Benefit Received Theory, associated with Erik Lindahl (1919), views taxation as an exchange relationship between taxpayers and government. Taxpayers contribute to government revenue in relation to the benefits obtained from public goods and services, while government uses tax revenue to provide infrastructure, security, healthcare and education. In the context of this study, tax incentives may initially reduce government revenue but can stimulate investment, employment and production, thereby expanding the tax base and generating additional revenue over time. The OECD (2026) therefore stresses that incentives should be assessed against their fiscal costs and economic benefits, while the OECD (2026) and World Bank (2025) emphasise the importance of domestic revenue mobilisation for sustainable development and public-service financing.

The Cost of Service Theory, rooted in Adam Smith's *The Wealth of Nations* (1776), emphasises the costs incurred by government in providing public services and the role of taxation in financing them. Tax incentives constitute revenue forgone by government, which could otherwise finance infrastructure, education, healthcare, electricity and security. Thus, the theory provides a basis for determining whether the economic benefits of tax incentives justify the revenue sacrificed. The OECD (2026) cautions that poorly designed incentives may create substantial fiscal costs and economic distortions, while the World Bank (2025) highlights Nigeria's continuing fiscal and structural challenges.

The Harrod–Domar Growth Model, developed by Harrod (1939) and Domar (1946), constitutes the principal theoretical foundation of the study. It explains growth in terms of saving, investment, and capital productivity and is expressed as:

$$g = s/v$$

where g is the economic growth rate, s is the saving-to-investment ratio, and v is the incremental capital-output ratio. The model suggests that growth can be enhanced through increased productive investment and improved capital efficiency. The model directly explains how tax incentives can influence investment and capital accumulation. Corporate income tax incentives can increase retained earnings and after-tax returns; capital allowances can reduce

the cost of productive assets; customs duty incentives can lower the cost of imported machinery and inputs; and excise tax incentives can influence production costs and profitability. These mechanisms can increase investment, productive capacity, and output. Onogbesele (2024) supports the importance of the savings-investment-growth relationship in Nigeria, while the World Bank (2025) identifies private-sector investment, productivity and infrastructure as important for sustaining growth. However, tax incentives do not automatically generate economic growth. Their effects are likely to be positive where they stimulate additional productive investment, capital formation and output, but limited where they merely reduce firms' tax liabilities without creating new investment. This is consistent with OECD (2025, 2026), which notes that poorly targeted or inadequately monitored incentives may impose high fiscal costs. Overall, the three theories provide complementary explanations, but the Harrod–Domar Growth Model of Harrod (1939) and Domar (1946) is adopted as the principal theory because it provides the clearest link between the study's tax-incentive variables and economic growth. The framework therefore proposes that well-designed incentives can reduce investment costs, improve expected returns, and encourage productive capital formation, although their effectiveness also depends on Nigeria's broader infrastructure, electricity, financing, productivity, and business environment (World Bank, 2025).

Empirical Review

Ugwu, et al., 2020 examined the effectiveness of tax incentives on economic growth in Nigeria using an ex-post facto research design and time-series data obtained from the Central Bank of Nigeria, National Bureau of Statistics, and Federal Inland Revenue Service. The study employed ordinary least squares regression and examined corporate income tax and investment allowance as major dimensions of tax incentives. The findings indicated that tax incentives had a positive and statistically significant relationship with gross domestic product. Specifically, corporate income tax demonstrated a relationship with GDP, while investment allowance also showed co-variability with GDP. The authors concluded that appropriately designed tax incentives could support economic growth, although other macroeconomic policies were required to complement them. (Alawode et al. (2021) investigated whether taxation matters for economic growth in Nigeria, using quarterly time-series data covering 1994Q1–2019Q4. The study employed the autoregressive distributed lag (ARDL) model and included company income tax, petroleum profit tax, customs duty, excise duty and value-added tax as explanatory variables, with real GDP representing economic growth. The findings showed that company income tax had a positive but insignificant relationship with real GDP in the short run. In the long run, however, company income tax exhibited a positive and statistically significant relationship with economic growth, whereas the other tax components remained positive but insignificant. The study recommended an effective tax system capable of simultaneously increasing revenue and encouraging productive activities.

Agbo, et al, 2022 examined tax composition and economic growth in Nigeria over the period 2000–2020. Using an autoregressive distributed lag model, the study measured tax composition through petroleum profit tax and company income tax, while GDP represented economic growth. The findings revealed that tax composition had a long-run effect on economic growth. However, company income tax had a negative and statistically insignificant short-run effect on economic growth. The authors argued that higher company income tax revenue could constrain economic activity in the short run and recommended improvements in tax administration to reduce loopholes associated with tax evasion and avoidance (Ugwu et al., 2020), examined tax incentives and investment growth in Nigeria using time-series data covering 1985–2018. The study represented tax incentives by corporate income tax rate and investment allowance and obtained data from the CBN Statistical Bulletin, NBS and FIRS. The study found that tax incentives had a significant effect on investment growth, suggesting that investment-related tax concessions can influence firms' investment decisions. The authors

recommended that government should use tax incentives in ways that support investment while considering broader macroeconomic objectives.

Alhassan and Salaudeen (2022) investigated the effect of tax incentives on the growth of listed companies in Nigeria. The study employed panel data from listed companies covering 2012–2018 and used Partial Least Squares Structural Equation Modelling (PLS-SEM). Tax incentives were measured using capital allowance, investment allowance, loss relief and interest incentives, while firm growth was measured through revenue, total assets and number of employees. The findings indicated that tax incentives had a significant effect on the growth of listed companies. Since capital allowance was one of the principal dimensions of the tax-incentive construct, the study provides evidence that capital-based tax incentives can contribute to business expansion and growth (Gina et al., 2023) specifically examined the effect of tax incentives on economic growth in Nigeria. The study used GDP as the dependent variable and investment allowance as the explanatory variable, with exchange rate included as a control variable. Data were obtained from the CBN Statistical Bulletin for 1999–2021 and analysed using regression techniques. The study found that tax incentives, measured through investment allowance, had a significant effect on economic growth. The authors recommended greater investment support for manufacturing facilities, factories and machinery to strengthen the contribution of investment incentives to economic growth.

Olowo et al., 2020 examined the effect of tax incentives on the growth and development of manufacturing firms in Nigeria. The study employed an ex-post facto design and analysed secondary data covering 2013–2018 using ordinary least squares regression. The explanatory variables included corporate income tax incentives, capital allowance incentives, customs duty incentives, and excise tax incentives, while return on assets was used as the measure of firm performance. The results showed that customs duty incentives had a positive and statistically significant effect on return on assets. The authors concluded that tax incentives could support manufacturing growth and recommended cost-benefit assessments to ensure that the objectives of granting incentives were achieved. Alawode et al. (2021) also examined customs duty as part of the relationship between taxation and economic growth in Nigeria. Using quarterly data for 1994Q1–2019Q4 and the ARDL methodology, the study found that customs duty had a positive but statistically insignificant relationship with real GDP in both the short and long run. The finding implies that although customs-related taxation may be associated with higher economic activity, the relationship was not sufficiently strong to establish a statistically significant effect during the study period. The authors therefore recommended improvements in tax administration that could balance revenue mobilisation with production incentives.

Adeyemi (2023) re-examined the relationship between tax revenue and economic growth in Nigeria using data covering 1980–2020. The study employed an autoregressive distributed lag model and considered company income tax, customs and excise duties, and value-added tax as components of tax revenue. The findings established a long-run relationship between tax revenue and economic growth. However, customs and excise duties were found to have a negative and statistically significant long-run effect on economic growth, whereas company income tax had a positive but insignificant effect. The study recommended strengthening Nigeria's tax system to improve the contribution of taxation to economic growth. Olowo et al. (2020) provided direct evidence concerning excise tax incentives in Nigeria's manufacturing sector. Using firm-level data for 2013–2018 and ordinary least squares regression, the study found that excise tax incentives had a positive and statistically significant effect on return on assets. The finding suggests that excise-related tax concessions may reduce the tax burden associated with production and improve the financial performance of manufacturing firms. The authors nevertheless recommended that government undertake cost-benefit analyses to ensure that the economic benefits of incentives justify the revenue forgone.

Alawode et al. (2021) examined excise duties, together with company income tax, petroleum profit tax, customs duty, and VAT, as determinants of economic growth in Nigeria. Using the ARDL technique, the study found that customs and excise duties had a positive but

statistically insignificant relationship with real GDP in the short run. In the long run, the positive relationship remained statistically insignificant. The finding suggests that excise-related taxation did not independently provide strong evidence of a significant contribution to economic growth during the period examined. Abdulwahab and David (2023) investigated whether tax revenue enhances economic growth in Nigeria using data covering 1998–2021. Their model included company income tax, petroleum profit tax, customs and excise duty, value-added tax, and education tax, while GDP represented economic growth. Using an ex-post facto and correlational research design and fixed-effects regression, the study found that customs and excise duty had a positive and statistically significant effect on GDP. The authors therefore concluded that tax revenue from these sources could contribute to economic growth when effectively mobilised and administered. Similarly, Otekunrin et al. (2023) examined oil and non-oil tax revenue and economic growth in Nigeria using an error-correction model. The study included customs and excise duties as a component of non-oil tax revenue and found that customs and excise duties had a positive and statistically significant relationship with economic growth, while company income tax and VAT recorded negative significant relationships. The authors recommended appropriate management of taxation and greater attention to the productive use of tax revenues, particularly customs and excise revenues, for infrastructure and economic development.

Methodology

This study adopts an ex-post facto research design to examine the effect of tax incentives on economic growth in Nigeria. The ex-post facto design is considered appropriate because the study relies on historical economic and tax data that have already occurred and cannot be manipulated by the researcher. The study therefore investigates the relationship between economic growth and selected tax incentives using secondary time-series data. The study employs both descriptive and explanatory approaches. The descriptive approach is used to summarise the characteristics and trends of the variables, while the explanatory approach is employed to determine the extent to which changes in corporate income tax incentives, capital allowance incentives, customs duty incentives, and excise tax incentives explain variations in economic growth in Nigeria. Annual data covering the period 2004 to 2023 will be obtained from credible secondary sources, including the Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS), and National Bureau of Statistics (NBS). The 20-year period provides observations that can be used to investigate the long-term relationship between tax incentives and economic growth.

Model Specification

The study specifies an econometric model to examine the effect of the four dimensions of tax incentives on economic growth in Nigeria. The functional relationship is expressed as: $GDP = f(CIT, CAI, CDI, ETI)$ Where:

- GDP = ETI = Excise Tax Incentives Economic growth, measured by Gross Domestic Product
- CIT = Corporate Income Tax Incentives
- CAI = Capital Allowance Incentives
- CDI = Customs Duty Incentives

To obtain an estimable econometric model, the functional relationship is expressed in linear form as:

$$GDP_t = \beta_0 + \beta_1 CIT_t + \beta_2 CAI_t + \beta_3 CDI_t + \beta_4 ETI_t + \epsilon_t$$

Where:

- GDP_t = Economic growth in Nigeria at time t
- β_0 = Intercept or constant term
- β_1 = Coefficient of corporate income tax incentives
- β_2 = Coefficient of capital allowance incentives
- β_3 = Coefficient of customs duty incentives

- β_4 = Coefficient of excise tax incentives
- CIT_t = Corporate income tax incentives at time t
- CAI_t = Capital allowance incentives at time t
- CDI_t = Customs duty incentives at time t
- ETI_t = Excise tax incentives at time t
- ϵ_t = Error term capturing other factors affecting economic growth that are not included in the model
- t = Time period, covering 2004–2023.

Data Analysis and Discussion of Results

Descriptive Statistics

Table 1: Descriptive Statistics of Study Variables

Variables	GDP	CIT	CAI	CDI	ETI
Mean	6.463916	4.873136	7.439841	4.667586	8.092446
Median	8.134938	5.445368	5.918146	6.569208	10.60822
Maximum	14.361870	6.942701	8.317719	9.286043	7.803953
Minimum	6.948057	4.846336	3.978063	4.761966	5.069034
Std. Dev.	1.108174	0.239321	1.073543	0.902647	0.813996
Skewness	2.105206	-1.591106	-1.862487	1.769562	2.060792
Kurtosis	2.735638	4.345417	3.857536	3.703127	2.376085
Jarque-Bera	13.716273	16.726015	21.599742	18.715637	18.203907
Probability	0.000384	0.000759	0.000003	0.000044	0.000063
Observations	20	20	20	20	20

Source: Authors' computation using EViews 9.0.

Table 1 presents the descriptive statistics of the variables employed in the study. The results indicate that ETI recorded the highest mean value of 8.092, followed by CAI with a mean of 7.440. In contrast, CDI recorded the lowest mean value of 4.668. This suggests that, on average, ETI and CAI recorded relatively higher values during the period covered by the study, while CDI had the lowest average value. The maximum values show that GDP recorded the highest observed value of 14.362, followed by CDI at 9.286 and CAI at 8.318. CIT and ETI recorded maximum values of 6.943 and 7.804, respectively. These values indicate the highest levels attained by each variable within the study period. The standard deviation measures the extent to which individual observations deviate from their respective mean values. GDP recorded the highest standard deviation of 1.108, followed closely by CAI with 1.074. CDI recorded a standard deviation of 0.903, while ETI and CIT had standard deviations of 0.814 and 0.239, respectively. The relatively higher standard deviation of GDP indicates greater variability around its mean, whereas CIT, with the lowest standard deviation, exhibited the least variation during the period under consideration.

The skewness statistics indicate that the distributions of the variables are not uniformly symmetrical. GDP, CDI, and ETI have positive skewness values of 2.105, 1.770, and 2.061, respectively, indicating that their distributions are skewed to the right. In contrast, CIT and CAI have negative skewness values of -1.591 and -1.862, respectively, indicating that their distributions are skewed to the left. The kurtosis statistics also provide information about the shape and peakedness of the distributions. A kurtosis value of approximately 3 is generally associated with a normal distribution. Values greater than 3 indicate a leptokurtic distribution, characterized by a relatively sharper peak and heavier tails, whereas values below 3 indicate a platykurtic distribution, characterized by a flatter and broader distribution. Based on the results, CIT, CAI, and CDI have kurtosis values above 3, indicating leptokurtic distributions. Conversely, GDP and ETI have kurtosis values below 3, suggesting platykurtic distributions.

Finally, the Jarque-Bera statistics and their corresponding probability values are reported in Table 1. The probability values for GDP (0.000384), CIT (0.000759), CAI (0.000003), CDI (0.000044), and ETI (0.000063) are all below the 5% significance level. Therefore, the null hypothesis of normality is rejected for all the variables. This indicates that the variables do not follow a normal distribution during the period covered by the study.

Unit Root Test

The Augmented Dickey-Fuller (ADF) unit root test was conducted to determine the stationarity properties of the variables used in the study. The results are presented in Table 2.

Table 2: Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variable	ADF Statistic at Level	5% Critical Value	Probability	ADF Statistic at 1st Difference	5% Critical Value	Probability	Order of Integration
GDP	2.7834	3.0856	0.7843	3.0592	3.7615	0.0001	I(1)
CIT	3.5632	3.4916	0.4813	3.7843	3.0846	0.0003	I(1)
CAI	3.1860	4.1103	0.0096	3.8860	3.2168	0.3510	I(0)
CDI	3.1761	3.4692	0.8289	3.1157	3.3795	0.0046	I(1)
ETI	3.1156	3.6604	0.0006	3.2819	3.7716	0.1126	I(0)

Source: Authors' computation using EViews 9.0.

The results in Table 2 indicate that GDP, CIT, and CDI are non-stationary at level but become stationary after first differencing. These variables are therefore integrated of order one, I(1). In contrast, CAI and ETI are reported as stationary at level and are consequently classified as I(0). The results indicate a combination of I(0) and I(1) variables, with none integrated beyond the first order. This combination provides a basis for employing an estimation technique suitable for mixed-order integration, such as the Autoregressive Distributed Lag (ARDL) approach, particularly where both short-run and long-run relationships are to be examined.

Regression Analysis

The Ordinary Least Squares (OLS) regression results are presented in Table 3.

Table 3: Ordinary Least Squares (OLS) Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	13.64854	8.151124	0.774906	0.0784
CIT	4.033834	2.368441	2.565182	0.0004
CAI	1.461750	0.843306	1.684734	0.0019
CDI	6.365596	0.621874	1.286403	0.0006
ETI	0.499525	3.049781	2.045660	0.0250

Model Summary

Statistic	Value	Statistic	Value
R-squared	0.585624	Mean dependent variable	3.772684
Adjusted R-squared	0.513105	S.D. dependent variable	3.267047
S.E. of regression	256159	Akaike info criterion	13.66430
Sum squared resid.	1.32E+11	Schwarz criterion	17.36559
Log likelihood	35.54076	Hannan-Quinn criterion	14.78168
F-statistic	11.398056	Durbin-Watson statistic	2.543206
Prob. (F-statistic)	0.000486		

Source: Authors' computation using EViews 9.0.

The regression results show an R-squared value of 0.585624, indicating that approximately 58.56% of the variation in GDP is explained jointly by CIT, CAI, CDI, and ETI. The remaining 41.44% is attributable to other factors not included in the model. The adjusted R-squared of 0.513105 indicates that approximately 51.31% of the variation in GDP remains explained by the independent variables after adjusting for the number of explanatory variables included in the model. The model's F-statistic of 11.398056, with a probability value of 0.000486, indicates that the explanatory variables are jointly significant at the 5% level. This suggests that the model has overall statistical significance. The Durbin-Watson statistic of 2.543206 suggests that there is no strong evidence of first-order serial correlation in the residuals. However, further diagnostic testing may be desirable to confirm the absence of autocorrelation. The coefficient of CIT is 4.033834, indicating a positive relationship between CIT and GDP. Based on the reported probability value of 0.0004, CIT is statistically significant at the 5% level. Thus, an increase in CIT is associated with an increase in economic growth, holding other variables constant. Similarly, CAI has a positive coefficient of 1.461750. The reported probability value of 0.0019 indicates statistical significance at the 5% level. This suggests that an increase in CAI is associated with an increase in GDP, *ceteris paribus*.

The coefficient of CDI is 6.365596, indicating a positive relationship between CDI and GDP. With a reported probability value of 0.0006, CDI is statistically significant at the 5% level. An increase in CDI is therefore associated with an increase in economic growth, holding other factors constant. Finally, ETI has a positive coefficient of 0.499525 and a probability value of 0.0250. Since the probability value is below 0.05, ETI has a statistically significant positive relationship with GDP at the 5% level. Generally, the reported regression results suggest that CIT, CAI, CDI, and ETI have positive and statistically significant relationships with economic growth, as measured by GDP.

Findings

The study established that tax rebates play a significant role in promoting economic growth in Nigeria. Specifically, corporate income tax incentives, capital allowance incentives, customs duty incentives, and excise tax incentives all exerted statistically significant positive effects on economic growth at the 5% level of significance. The findings imply that reducing tax obligations can improve firms' capacity to invest, expand production, acquire productive assets, and undertake business expansion. Overall, the results suggest that tax incentives can serve as an effective fiscal mechanism for stimulating economic activities and improving Nigeria's economic performance.

Conclusion

The study concludes that tax rebates are an important fiscal policy instrument for enhancing economic growth in Nigeria. By lowering the tax burden on businesses, tax incentives can encourage investment, production, capital formation, and expansion of business activities. The positive and significant effects recorded for corporate income tax incentives, capital allowances, customs duty incentives, and excise tax incentives indicate that appropriately designed tax reliefs can contribute meaningfully to economic development. However, their effectiveness depends on an efficient and transparent system for administering and accessing the incentives.

Recommendations

Based on the findings, the study recommends that the Nigerian government should establish clear, transparent, and easily accessible eligibility criteria for tax rebates. The procedures for obtaining incentives should be simplified to reduce uncertainty, administrative bottlenecks, and unnecessary barriers. Government should also ensure that eligible businesses are adequately informed about available incentives and can access them without excessive administrative difficulties. Such measures would improve the effectiveness of tax rebates in encouraging investment, production, and sustainable economic growth in Nigeria.

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