

Corporate taxation and investment decisions of quoted non-financial firms in Nigeria

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Abstract

Purpose: This study examined the impact of corporate taxation on the investment decisions of quoted non-financial firms in Nigeria.

Methodology: An ex-post facto research design was employed and secondary data were collected from audited financial statements of 51 purposively selected quoted firms on the Nigerian Exchange Group between 2013 and 2024. Capital expenditure served as a proxy for investment, while the effective tax rate represented corporate taxation, alongside firm-level control variables. Data were analysed using descriptive statistics, correlation analysis and inferential statistics. Panel regression with fixed effects was employed.

Results and Conclusion: The results showed that effective tax rate exerted positive insignificant effect on investment decision of quoted non-financial firms in Nigeria. By contrast, leverage and lagged investment had positive and significant effects while firm size exerted a significant negative effect. Liquidity and market-to-book value had positive but insignificant effects on investment decision of quoted non-financial firms in Nigeria. The overall model was statistically significant and the explanatory variables of the study explained 49% of the variation in capital expenditures of quoted non-financial firms in Nigeria. The findings showed that taxation was not a decisive factor in shaping firm-level investment in Nigeria's non-financial sector. Instead, non-tax determinants such as leverage, reinvestment behavior, and firm size exerted greater influence.

Implication of Findings: Policymakers should to strengthen the structural and financial environment to create favourable conditions for capital formation. At the corporate level, managers should adopt effective reinvestment strategies and efficient financing practices to enhance firms' capacity to generate and sustain capital investment. Collectively, these measures can contribute to improved capital formation and support long-term economic growth.

Keywords: capital expenditure, corporate taxation, investment decisions, lagged investment, leverage

1. Introduction

In financial theory, investment refers to the acquisition of assets with the expectation that they will generate income or increase in value over time. Investment is seen as a long-term strategic orientation of a firm. When making investment decisions, firms must consider numerous factors, among which taxation remains especially influential (Talpos & Vancu, 2009). According to Moon (2019) in Osegbue et al. (2021), the extent of the effect of corporate taxation on corporate investment remain an unresolved question in economics. Economic theory frequently regards taxation as a distortionary force affecting decisions of economic agents. Taxation has been categorised into direct tax and indirect tax, depending on who bears the final burden. Direct taxes include corporate tax that directly reduces pre-tax earnings, thereby impacting net profitability and shaping a firm's capacity to finance new investments.

Corporate taxation plays a dual role: as a vital source of government revenue and as a critical determinant of corporate capital formation. At both macro and firm levels, investment behaviour is significantly influenced by the burden of corporate taxes. Corporate financing and investment behaviour are profoundly influenced by the structure of prevailing tax regimes. Empirical research indicates that firms

frequently increase their reliance on debt financing to exploit the tax deductibility of interest payments, thereby reducing overall tax liabilities and enhancing firm value (Graham, 2000). Equally, corporations invest in assets with tax benefits, such as accelerated depreciation, to lower their tax rates and increase after-tax returns on investment. While taxation remains a critical instrument for governments in mobilizing resources to fund public expenditures, firms generally favor policy environments that minimize tax burdens and provide predictable, investment-enhancing incentives (Pitilice et al., 2016). This tension underscores the importance of tax policies that balance the objectives of revenue generation with the need to stimulate private investment. Therefore, the design of effective tax incentives is essential for fostering an investment climate that is attractive at both the microeconomic and macroeconomic levels, thereby enhancing business profitability and overall economic growth.

Taxation, being an instrument of economic policy, may be employed to attain macroeconomic objectives like income redistribution of wealth, correction of balance of payments problem, improve level of economic activities and resist inflation (Akinleye et al., 2019). However, many firms have yet to harness potential tax-related benefits, largely because the majority of prior studies have been conducted at the macroeconomic level (Nguyen & Darsono, 2022; Chindengwike, 2022; Adegbite, 2019; Uchime & Anichebe, 2019; Olaniyi et al., 2018; Ahiabor & Amoah, 2013). Firm-level analyses remain limited, and those that exist often present methodological weaknesses. For example, Olaoye and Dada (2019), Ndah et al. (2024), and Oshiole et al. (2024) excluded relevant control variables, while Akinleye et al. (2019) included only one, raising concerns of spurious outcomes and inflated associations.

Recent empirical findings highlight the importance of microeconomic investigations. Osegbue, et al. (2021) reported that tax aggressiveness negatively affects corporate investment expenditures. In addition, multinational corporations operating in Nigeria often engage in profit-shifting to low-tax jurisdictions, eroding the domestic tax base and limiting resources available for investment incentives (Gabanatlhong et al., 2024). This aligns with broader debates on base erosion and profit shifting (OECD, 2020).

Given the mixed results and methodological limitations of existing research, there is a pressing need for comprehensive firm-level studies that account for the aggregate effects of all corporate tax obligations. The present study addresses this gap by examining the influence of corporate taxation on the investment decisions of quoted non-financial firms in Nigeria. Its findings will hold significant implications for firms, industries, and policymakers, offering empirical evidence to inform tax reforms, business strategy, and sustainable investment policies in emerging economies.

2. Literature review

Investment decisions represent a fundamental component of corporate financial management, as they determine how firms allocate scarce resources to assets with the potential to generate future returns. The structure of a firm's asset base therefore has critical implications for its long-term wealth, sustainability, and competitiveness (Riyanto, 2013, as cited in Santoso, 2019). Empirical literature consistently highlights the influence of corporate taxation on these decisions, given that taxation directly impacts after-tax profitability and, by extension, firms' capacity to reinvest (Dobbins & Jacob, 2016). In empirical research, capital expenditure is widely recognized as a reliable measure of investment. It captures firms' long-term asset outlays and is commonly expressed as the ratio of capital expenditure to total assets (Saiful-Islam et al., 2020; Mercatanti et al., 2017; Chen & Ma, 2017; Abdul Wahab et al., 2007).

Corporate taxation, as a policy instrument, plays a dual role in economic management: while it generates revenue for financing public goods, it simultaneously shapes private-sector incentives to invest. High corporate tax rates reduce after-tax profits, thereby constraining reinvestment and discouraging new capital outlays. Such conditions often drive foreign investors toward more favorable tax jurisdictions,

resulting in capital flight and weakened domestic competitiveness (Rotimi & Henry, 2017). Excessive taxation may further discourage entrepreneurship and innovation, as argued by Aghion et al. (2016), prompting firms to engage in tax-minimization strategies in order to preserve performance and growth. Moreover, the complexity and administrative burden of tax compliance can independently hinder investment by diverting managerial attention and resources (Ibanichuka et al., 2016).

According to Akinleye et al. (2019), a well-managed taxation can fund infrastructure and institutions that improve the investment environment, but poor use of tax revenues can discourage investment, especially in capital-intensive sectors. Therefore, governments must balance revenue generation with tax incentives that encourage sustainable private investment.

Corporate taxation can be measured using statutory rate or effective tax rate. However, statutory tax rates often fail to reflect the actual tax burden borne by firms. Effective Tax Rates (ETR), which account for statutory rates, depreciation allowances, deductions, and the overall tax base, provide a more accurate picture of firms' tax expenses (Vržina & Dimitrijević, 2019; Lazar & Istrate, 2018; Pitulice et al., 2016).

Theoretical review

Tobin's Q Theory of Investment - Tobin's Q theory of investment, introduced by Tobin in 1969, explains how firms' investment decisions respond to the market valuation of their capital relative to its replacement cost. Q is calculated as the market value of capital divided by its replacement cost. When $Q > 1$, firms have an incentive to invest because the market values additional capital more highly than its cost. When $Q < 1$, investment is discouraged because the market value of capital is below its replacement cost.

The theory also incorporates expectations of future profitability, meaning higher Q values encourage both current and anticipated investment. Tax policies, including depreciation allowances and corporate tax rates, influence investment by changing the cost of acquiring capital. In a frictionless, tax-neutral environment, firms invest until the additional value generated by capital equals its cost, causing Q to return toward its long-run equilibrium.

Ability to Pay Theory - The ability-to-pay theory of taxation, attributed to Pigou in 1920, emerged as a corrective to the limitations of the benefit principle. It is grounded in the principle of equity, advocating that tax liabilities should be distributed according to an individual's financial capacity. Under this approach, high-income earners are expected to contribute a larger share of their income to public revenue than low-income earners. Although indicators such as property ownership and expenditure were initially considered, income eventually became the most widely accepted measure of taxable capacity, as it provides a more reliable basis for assessing individuals' ability to pay.

Accordingly, this theory concludes that those who are more financially prosperous should shoulder a greater tax burden, irrespective of the benefits derived from public expenditure. However, critics argue that the approach is potentially inequitable, as it may discourage productivity and penalize economic success. Proponents of proportional taxation, for instance, contend that applying a uniform tax rate to all taxpayers would achieve greater fairness.

Integration of Theories - The study is grounded in Tobin's Q theory and the ability-to-pay principle. Tobin's Q explains how tax changes influence firms' investment decisions, while the ability-to-pay principle supports higher tax contributions from more profitable firms. Together, the theories explain how corporate taxation affects firms' investment incentives and decisions.

Empirical review

A considerable body of empirical research has investigated the relationship between corporate taxation and investment decisions, both internationally and within Nigeria, yielding mixed results.

At the international level, several studies document an adverse relationship between corporate income taxation and investment. For instance, Raza et al. (2011), Kotlikoff (2011), Schwellnus and Arnold (2008), Abdul Wahab et al. (2007), and Becker et al. (2006) all provide evidence that higher corporate taxes are associated with lower investment. By contrast, Gomes and Pouget (2008) reported a positive association between corporate tax rates and public investment, while Musyoka (2012) and Irene (2013) found statistically insignificant effects of corporate taxation on investment.

Evidence from Nigeria similarly reveals divergent outcomes. Several studies found significant positive effects of corporate taxation on investment decisions, including Osegbue et al. (2022), Akinleye et al. (2019), Olaoye and Dada (2019), Uchime and Anichebe (2019), Adegbite and Usman (2017), Oloidi (2014), and Akpan and Asuquo (2012).

Other Nigerian studies, however, identified negative effects. For example, Oshiole et al. (2024), Olaniyi et al. (2018) and Adegbite and Shittu (2017) reported that corporate tax significantly reduces investment. Similarly, Aruna et al. (2020) found a negative effect of taxation on net investment, while Lawal (2018) documented a negative relationship between taxation and foreign direct investment. Adegbite (2019) presented mixed evidence, showing that the impact of taxation on investment depends on the specific tax component examined.

Research gap

Despite the global evidence linking taxation to firm behaviour, most prior studies on corporate taxation and investment have been conducted at the macroeconomic level, focusing on aggregate variables (Appiah-Kubi et al., 2021; Ahiabor & Amoah, 2013; Talpos & Vancu, 2009; Gomes & Pouget, 2008) or foreign direct investment (Andoh & Cantah, 2020; Muskoya, 2012; Becker et al, 2006). The few firm-level studies, such as those by Raza et al. (2011) and Irene (2013), often lacked adequate controls for confounding factors and were conducted outside Nigeria, limiting their applicability.

In the Nigerian context, there remains a dearth of firm-level studies directly examining the impact of corporate taxation on investment. Existing works have predominantly relied on aggregate macroeconomic measures (Uchime & Anichebe, 2019; Adegbite, 2019; Adegbite & Shittu, 2017; Adegbite & Usman, 2017), foreign direct investment flows (Lawal, 2018), or subjective questionnaire responses (Oloidi, 2014). Where firm-level studies exist, they have been largely sector-specific—focusing on manufacturing (Akinleye et al., 2019; Olaoye & Dada, 2019), communication (Oshiole et al., 2024; Aruna et al., 2020), or industrial firms (Nda et al., 2024)—or have comparative international analyses (Osegbue et al., 2021; Olaniyi et al., 2018). Importantly, these studies often examined only selected components of corporate taxation rather than the full spectrum of taxes borne by firms.

This gap in the literature underscores the need for firm-level analyses that consider multiple tax components and incorporate robust control variables to isolate the direct effect of taxation on corporate investment. The present study addresses this deficiency by focusing on quoted non-financial firms, thereby extending existing literature through a comprehensive examination of how corporate taxation affects investment decisions within a critical segment of the economy.

Taken together, these studies suggest that taxation is a critical determinant of investment behaviour, but its effects are context-dependent, varying across jurisdictions, time periods, and methodological

approaches. Based on Tobin's Q theory of investment and the ability-to-pay principle, this study proposed the hypothesis:

H1: Corporate taxation (effective tax rate) significantly affects investment decisions.

3. Methodology

An ex-post facto research design was employed for this study. The financial sector was excluded due to the distinct nature of its financial reporting practices, resulting in a study population comprising all 102 active non-financial firms listed on the Nigerian Exchange Group as of December 31, 2024 (Nigeria Exchange Group, 2024). A purposive sampling technique was adopted, with firms required to meet the following criteria: (i) being listed on or before December 31, 2012; (ii) having complete and consistent data for the study period; and (iii) not having been delisted during the study period. After applying these criteria, the final sample consisted of 51 firms.

Secondary data were obtained from the published financial statements of the sampled firms. The study period covers 2013 to 2024, representing a twelve-year period. The baseline year, 2013, was selected because it coincides with the period when all listed firms had adopted the International Financial Reporting Standards (IFRS), thereby ensuring uniformity in the presentation of financial statements. The terminal year, 2024, reflects the most recent year for which complete data were available.

Dependent variable

The dependent variable of interest is investment decisions, proxied by capital expenditure (CEP). Capital expenditure refers to the financial resources committed to acquiring new non-current assets or improving existing ones. Following established literature (Chen & Ma, 2017; Mercatanti et al., 2017; Saiful-Islam et al., 2020), CEP is operationalized as the ratio of capital expenditure to total assets.

Independent variable

The main explanatory variable is the effective tax rate (ETR), defined as the ratio of income tax expenses to earnings before tax. ETR reflects the proportion of accounting income remitted as taxes and serves as a widely accepted proxy for corporate taxation and tax aggressiveness (Osegbue et al., 2022; Vržina & Dimitrijević, 2019; Lazar & Istrate, 2018; Pitulice et al., 2016).

Control variables

To account for firm-specific heterogeneity, several control variables were introduced:

Firm Size (FSZ): Firm size was measured as the natural logarithm of total assets. Larger firms are often better positioned to exploit economies of scale and reduce tax liabilities (Abdul Wahab et al., 2007; Akinleye et al., 2019; Amaniampong et al., 2018; Lazar & Istrate, 2018; Musa et al., 2024. Idris et al., 2025).

Leverage (LEV): Leverage was defined as the ratio of total debt (short- and long-term) to total assets. Higher leverage levels are expected to reduce effective tax burdens due to the deductibility of interest expenses (Chen & Ma, 2017; Amaniampong et al., 2018; Lazar & Istrate, 2018 Idris et al., 2025).

Liquidity (LIQ): Liquidity was measured by the current ratio, which indicates the firm's ability to meet short-term obligations. Prior evidence suggests that firms with higher liquidity are more profitable and resilient to shocks, and are better positioned to pursue new investments (Amaniampong et al., 2018 Idris et al., 2025).

Market-to-Book Value (MBV): MBV, measured as the ratio of market value of equity to book value of equity, was included as a proxy for growth opportunities (Al-Gamrh et al., 2020; Da Silva et al., 2013; Abdul Wahab et al., 2007).

Lagged Investment: To capture persistence in reinvestment behaviour and long-run effects, lagged investment was included, consistent with previous research on dynamic investment behaviour (Grozdić et al., 2020; Chen & Ma, 2017; Da Silva et al., 2013; Abdul Wahab et al., 2007).

Model specification

This study adapts and extends the frameworks of Raza et al. (2011) and Akinleye et al. (2019), who model investment as a function of corporate taxation, and firm size included as a control variable. While their baseline specification is expressed as follows:

$$INV_{it} = \beta_0 + \beta_1 CIT_{it} + \beta_2 FSZ_{it} + \mu$$

This study modifies the existing formulation in two respects. First, investment is measured specifically using capital expenditures. Second, corporate income tax (CIT) is replaced with the effective tax rate (ETR) to provide a broader measure of the tax burden faced by firms. In addition, control variables are incorporated to account for firm-specific financial conditions and growth opportunities.

Based on these modifications, the resulting empirical model is specified as follows:

$$CEP_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 FSZ_{it} + \beta_3 LEV_{it} + \beta_4 LIQ_{it} + \beta_5 MBV_{it} + \beta_6 CEPLAG_{it} + \mu$$

Where

CEP_{it} = Capital expenditures of firm i in period t

ETR_{it} = Effective tax rate of firm i in period t

FSZ_{it} = Firm size of firm i in period t

LEV_{it} = Leverage of firm i in period t

LIQ_{it} = Liquidity of firm i in period t

MBV_{it} = Market to book value of equity of firm i in period t

$CEPLAG_{it}$ = Lagged capital expenditures of firm i in period t

β_0 = constant term

$\beta_1 - \beta_6$ = coefficients of variables or slopes of the equation

μ = stochastic variable absorbing other factors excluded in the model.

Given the panel nature of the dataset, panel data econometric techniques were employed to estimate the model. Both fixed-effects (FE) and random-effects (RE) estimators were considered, with the Hausman specification test used to determine the appropriate estimator.

4. Results and discussion

This section presents the descriptive analysis, correlation matrix, regression outcomes, diagnostic tests, hypothesis testing, and the implications of the findings.

4.1 Descriptive statistics

The descriptive statistics of the study variables for the period 2013–2024 are reported in this section. Table 1 summarizes the distributional characteristics of the dependent and independent variables, as well as the control variables.

Table 1: Descriptive statistics

Variable	N	Mean	Std. Dev.	Minimum	Maximum
CEP	612	0.0560	0.0769	0.000006	1.2403
ETR	612	0.1216	2.8982	-55.6839	23.833
FSZ	612	7.4317	0.8038	5.5003	9.8085
LEV	612	0.6513	0.3331	0.0518	5.0541
LIQ	612	1.2089	0.6611	0.0740	4.2870
MBV	612	104.34	361.87	0.4000	3113.0
CEPLAG	612	0.0580	0.0773	5.80E-06	1.2403

Source: Researchers' computation (2026)

Note. N = observations; Std. Deviation = standard deviation, CEP = Capital expenditures, ETR = Effective tax rate, FSZ = Firm size, LEV = Leverage, LIQ = Liquidity, MBV = Market to book value of equity CEPLAG = Lagged capital expenditures

For the dependent variable, capital expenditure (CEP), the observed values range from a minimum of 0.000006 to a maximum of 1.24, with a standard deviation (SD) of 0.08 and a mean value of 0.06. Regarding the independent variables, ETR, values are reported with a minimum of -55.68 and a maximum of 23.83. The dispersion is reflected in an SD of 2.90, while the central tendency is represented by a mean of 0.12.

The descriptive statistics for the control variables also reveal substantial variability. Firm size (FSZ) ranges between 5.50 and 9.81, with a mean of 7.43 and an SD of 0.80. Leverage (LEV) exhibits a mean of 0.65 (SD = 0.33), with values ranging from 0.05 to 5.05. Liquidity (LIQ) records an average of 1.21 with an SD of 0.66, and spans from a minimum of 0.07 to a maximum of 4.29. Finally, market-to-book value (MBV) has a mean of 104.34 and a substantially large SD of 361.87, reflecting considerable heterogeneity, with values ranging from 0.40 to 3,113.

4.2 Correlation analysis

Correlation analysis was subsequently employed to examine bivariate relationships, detect potential multicollinearity, and provide preliminary insights into associations among variables.

Table 2 reports the correlation coefficients alongside their corresponding p-values.

Table 2: Correlation matrix

Variable	1	2	3	4	5	6	7
1. CEP	1						
2. ETR	.0043	1					
3. FSZ	-.0048	-.0112	1				
4. LEV	.2183***	-.0441	.0507	1			
5. LIQ	-.0505	.0940**	-.2330***	-.4107***	1		
6. MBV	.0633	.0145	.3115***	.0578	-.0686	1	
7. CEPLAG	.3312***	.0343	.0382	-.1521***	-.0523	.0582	1

Source: Researchers' computation (2026)

**** represent statistical significance at 5% and serves as the basis for determining the significant level**

Note. Observations = 612. CEP = Capital expenditures, ETR = Effective tax rate, FSZ = Firm size, LEV = Leverage, LIQ = Liquidity, MBV = Market to book value of equity CEPLAG = Lagged capital expenditures

Capital expenditures (CEP) exhibited a statistically significant positive association with leverage and lagged capital expenditures. By contrast, CEP was negatively but insignificantly correlated with firm size and liquidity, while its associations with effective tax rate and market-to-book value were positive yet not statistically significant.

Regarding ETR, the results indicated weak and statistically significant positive correlations with liquidity while it was a are weak and statistically insignificant positive correlations with MBV, and CEPLAG In contrast, ETR exhibited a negative but insignificant association with FSZ and LEV

4.3 Diagnostic tests

Prior to estimating the regression models, a series of diagnostic tests were conducted to evaluate the validity and appropriateness of the model specifications. Specifically, normality and multicollinearity diagnostics were employed.

4.3.1 Normality test

The normality of the variables was assessed using skewness, kurtosis, and the Jarque–Bera (JB) test. The results of the JB test indicated that the series were not normally distributed. This finding is not unusual in the context of panel data, where heterogeneity across firms often induces deviations from normality. As noted by Gujarati (2010) cited in Ogundajo and Onakoya, (2016), the assumption of normality is not strictly required in panel datasets due to inherent firm-specific heterogeneity. Consequently, no corrective measures were deemed necessary to address the non-normality of the data.

4.3.2 Multicollinearity among independent variables

Multicollinearity arises when explanatory variables are highly correlated, thereby undermining the reliability of individual parameter estimates. To assess this issue, both a correlation matrix and the Variance Inflation Factor (VIF) were examined.

Table 2 presents the correlation coefficients among the explanatory variable (ETR) and the control variables (FSZ, LEV, LIQ, MBV, and CEPLAG). All pairwise correlations were below the critical threshold of 0.80, suggesting the absence of strong linear associations.

Table 3: Variance inflation factor (VIF)

Variable	Coefficient variance	Uncentered VIF	Centered VIF
ETR	9.48E-07	1.0127	1.0109
FSZ	1.43E-05	101.37	1.1704
LEV	8.92E-05	6.0633	1.2557
LIQ	2.35E-05	5.6623	1.3017
MBV	6.71E-11	1.2075	1.1146
CEPLAG	0.001381	1.6357	1.0461

Source: Researchers' computation (2026)

Note. Observations = 612, CEP = Capital expenditures, ETR = Effective tax rate, FSZ = Firm size, LEV = Leverage, LIQ = Liquidity, MBV = Market to book value of equity CEPLAG = Lagged capital expenditures

VIF statistics, widely recognized as the standard diagnostic for multicollinearity, were also computed. A VIF value exceeding 10 is conventionally regarded as indicative of severe multicollinearity, while values between 5 and 10 suggest moderate multicollinearity, and values below 5 imply negligible multicollinearity. The VIF results in table 4 are consistently below 2.0, confirming that multicollinearity

does not pose a concern. Together, the correlation and VIF analyses indicate that the independent variables are sufficiently distinct, ensuring the robustness of subsequent regression estimates.

4.4 Panel data regression analysis and model selection

Table 4: Regression results showing the effect of corporate tax on investment

Variable	Coeff.	Std. error	t-stat	P
C	0.2821	0.0910	3.0994	.0020
ETR	0.0003	0.0008	0.2994	.7648
FSZ	-0.0444	0.0122	-3.6235	.0003
LEV	0.1305	0.0101	12.977	.0000
LIQ	0.0087	0.0060	1.4593	.1450
MBV	0.00002	0.00002	0.8660	.3869
CEPLAG	0.1086	0.0372	2.9166	.0037

$R^2 = .49$;

adjusted $R^2 = .44$; $F = 9.51$, $p < .01$.

BP LM = 86.36, $p < .01$; Hausman = 315.38, $p < .01$; $N = 612$.

Source: Researchers' computation (2026)

Note. Observations = 612, CEP = Capital expenditures, ETR = Effective tax rate, FSZ = Firm size, LEV = Leverage, LIQ = Liquidity, MBV = Market to book value of equity CEPLAG = Lagged capital expenditures

As reported in Table 4, the BPLM test rejected the POLS specification at the 1% significance level ($p < 0.01$), confirming the presence of panel effects. Furthermore, the Hausman test statistic ($\chi^2 = 315.38$, $p < 0.01$) strongly rejected the null hypothesis, thereby validating the Fixed Effects Model as the most appropriate estimator for this study.

The results of the Fixed Effects regression are presented in Table 4. The overall model was statistically significant ($F = 9.51$, $p < 0.01$), with an explanatory power of $R^2 = 0.49$. This indicates that approximately 49% of the variation in capital expenditure (CEP) is explained by the included regressors, while the remaining 51% is attributable to unobserved firm-level and macroeconomic factors.

Hypothesis testing and variable-specific results

Corporate taxation (H1): The effective tax rate (ETR) was positively signed ($\beta = 0.0003$) but statistically insignificant ($t = 0.2994$, $p > 0.05$). This suggests that corporate taxation does not exert a meaningful effect on investment decisions of Nigerian non-financial firms. Accordingly, H1 is not supported.

Firm size: Firm size exhibited a negative and statistically significant effect on investment ($\beta = -0.0444$, $t = -3.6235$, $p < 0.01$). This indicates that larger firms tend to allocate proportionally less to new capital expenditure.

Leverage: Leverage displayed a strong positive and highly significant effect ($\beta = 0.1305$, $t = 12.9771$, $p < 0.01$). This result implies that firms with higher debt levels, benefiting from tax shields, are more inclined to undertake additional investments.

Liquidity: Liquidity had a positive coefficient ($\beta = 0.0087$) but statistically insignificant ($t = 1.4593$, $p > 0.05$). This finding suggests that short-term financial flexibility does not necessarily translate into higher capital expenditure.

Market-to-book value: Growth opportunities, proxied by the ratio of market-to-book value of equity, were also positively signed but insignificant ($\beta = 0.00002$, $t = 0.8660$, $p > 0.05$).

Lagged investment: The lagged dependent variable was positive and significant ($\beta = 0.1086$, $t = 2.9166$, $p < 0.01$), underscoring persistence in reinvestment behavior.

4.6 Interpretation of findings

The regression results indicate that corporate taxation has a statistically insignificant relationship with capital investment decisions. Although the coefficient on the effective tax rate was positive, its insignificance indicates that tax obligations are not decisive in shaping firm-level investment patterns. This outcome supports the interpretation that Nigerian non-financial firms are less sensitive to corporate tax burdens, potentially due to mitigating tax incentives, investment-friendly policies, or the prioritization of profitability and growth opportunities over tax considerations.

By contrast, non-tax determinants emerged as central drivers of investment. Leverage was found to significantly stimulate capital expenditure, consistent with theories emphasizing the investment-enhancing role of debt financing and tax shields. The significance of lagged investment further highlights path dependency and persistence in firm reinvestment strategies. Conversely, firm size was negatively associated with investment, suggesting that larger firms may prefer efficiency gains, consolidation, or dividend distribution over new capital expansion.

These findings are consistent with prior studies reporting weak or insignificant tax-investment relationships (such as Gomes and Pouget 2008, Djankov et al., 2010; Musyoka, 2012; Irene, 2013). At the same time, the positive but insignificant coefficient aligns with studies that identified a positive association between taxation and investment in other contexts (Akpan & Asuquo, 2012; Akinleye et al., 2019). However, the results diverge from literature suggesting that reductions in corporate tax rates necessarily enhance capital formation (Raza et al., 2011; Olaniyi et al., 2018; Aruna et al., 2020). Overall, the evidence suggests that in Nigeria's non-financial sector, corporate taxation is not a primary determinant of investment activity. Instead, financial structure, particularly leverage and reinvestment persistence remain more decisive in shaping capital expenditure.

5. Conclusion and recommendation

This study examined the effect of corporate taxation on the investment decisions of quoted non-financial firms in Nigeria between 2013 and 2024. The findings indicate that the effective tax rate exerts a positive but statistically insignificant influence on capital expenditure, suggesting that taxation is not a decisive determinant of investment in this sector. In contrast, leverage and lagged investment were found to significantly stimulate capital expenditure, while firm size had a significant negative effect. Liquidity and market-to-book value had positive coefficients, but their effects were not statistically significant. These results highlight that non-tax factors such as financing structure and reinvestment behaviour play a more dominant role in shaping investment outcomes than corporate taxation.

The implications are twofold. For policymakers, the findings suggest that efforts to stimulate private sector investment should go beyond tax reforms to focus on improving structural and financial conditions such as access to credit, reinvestment incentives, and infrastructural support. For corporate managers, the evidence underscores the importance of strengthening reinvestment strategies and optimizing capital structures to enhance long-term growth. Overall, while corporate taxation remains an important tool of fiscal policy, its role in driving firm-level investment in Nigeria's non-financial sector appears limited compared to broader financial and institutional determinants.

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