Examination the Effect of Tax Incentives on Foreign Direct Investment in Pakistan

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ABSTRACT

The paper studies the tax incentives impact on foreign direct investments ranging from 1970-2018 in Pakistan. The research involves all industrial zones, sectors, enterprises in the EPZs of Pakistan. Census method was used to target the elements in the population, which represents the enterprises in the zones. The data collected from Federal Board of Revenue, Statistical Bureau, and Economy of Pakistan, UNCTAD, and web sources. STATA and SPSS software used to evaluate the quantitative data. Pearson correlation analyses and linear regression dimension were employed to reveal the impacts of tax incentives on FDI’s. Income tax, Annual tax revenue, customs and excise duty, and inflation used as independent variables. Foreign direct investments used as a dependent variable. The income tax, customs and excise duty play significant roles in foreign direct investments. The inflation and annual tax revenue slightly effected foreign direct investments. Research did not find short-term or long-term tax incentives impact on foreign direct investments. This research suggests to government of Pakistan that foreign direct investment can attract by providing tax incentives opportunities to foreign investors.

Keywords: Foreign direct investment, customs and excise duty, income tax, annual tax revenue, inflation, and Pakistan.

INTRODUCTION

1. Introduction:
In the course of recent decades, most Government have been effectively advancing their nations as investment areas to draw in scant private capital and related innovation and administrative abilities so as to help accomplish their objectives. They have progressively received measures to encourage the passage of foreign direct investment (FDI). Instances of such measures incorporate changing the law and guidelines for the affirmation and foundation of foreign investment ventures; giving assurances to repatriation of investment and earnings; and building up systems for the settlement of investment debates. Tax incentives are additionally part of these limited time endeavours.

Tax incentives defined as effects that lower the tax burden for any specific business. Tax policy is the standard about awareness of how to use tax incentives to achieve foreign direct investments. Government use tax incentive as a tool to increase or
decrease the tax for the purpose to encourage or discourage the individuals or businesses for saving or spending the money that has to pay. In other words, tax incentives is a famous tool use to withdraw foreign direct investments in developing economies (1).

The foreign direct investment esteemed more in developing economies of the world. The various tasks have been done on tax incentives to increase foreign direct investments. But the effect of tax incentives on foreign direct investment has not been studied generally related to the economy of Pakistan. The policy makers consent is not matching to the current literature of tax incentives impacts on foreign direct investments. Many studies were carried out on taxes and tax policy in Pakistan, but no specific research has been on the tax incentives and foreign direct investments with these variables and time factor. The research indicates basics suggestions to governments, tax policymakers, economists, and academicians in Pakistan.

The basic purpose of this research that how the rates whether corporate or tariff deviate the boom and investment inflow in Pakistan. This study will provide a clear road map to follow for future tax policy and reforms.

This exploration study fills the present gap and finished up the results via conveying the empirical measurable investigation relationship in Pakistan. This research work is done in the quite certain timespan and significant factors were utilized in the study to respond the accompanying questions: what is the impact of tax incentives on foreign direct investment, for the situation of Pakistan.

This research study helps the government whether there is a need to give incentives to investors to achieved foreign direct investments. Tax incentives are costly for the economy if it’s not carried out carefully. Incentives decrease in revenue of the country. Such incentives may not consider the essential factors for foreign direct investments. To make a study unique, the different forms of tax policy combined. The researcher expects that this study may help to Government policymakers, Federal Board of Revenue and tax authorities in policy making and its implementation.

In this paper, the first part is introduction include the study background, definition of tax incentives, research questions and gap, the importance of the study and at last, the research objectives of the study. The literature review supported by different past logic and reasoning and theoretical framework in part second. The methodology is including in chapter three. Data analysis and discussion part used different statistical tools and providing empirical evidence to conclude the final results. The last area comprises of the finish of the research and suggestions to the policymakers, tax authorities, and government.

**LITRATURE REVIEW**

1.1. Foreign Direct Investment (FDI):
Foreign direct investment (FDI) is a tool used by economists in developing countries to bring capital in huge amount. The innovation and technological improvement take place when foreign direct investment flows to any country. The people improve their managerial skills, and the people developed their lifestyle, which considers the sign of a better and improved economy. The underdeveloped countries try hard to bring more foreign direct investment by giving tax and duties relaxation supported by many previous studies. (2)
Foreign direct investment is an incredible test these days in the world. But it’s easier for the developing country as compared to the developed countries. Numerous elements that influence the inflow of foreign direct investment in Pakistan, such as government size, country structure property rights, tax incentives and custom and excise duties and like so many other factors. The emerging markets more attract foreign direct investments over a period.

The entry of foreign direct investment not just expands the technological knowledge and managerial skills but also help in employment (4). The KPMG report showed that Pakistan has the only a country in South Asia that has 100% chance of foreign equity investment in almost every sector. All the sectors especially the private sectors have a fast expanding the area to support foreign direct investment (5).

In the modern world of globalization, (6) they told that the developing countries have cheap labour, more potential and higher growth rate than developed countries. That’s why the capital flows to the developing countries more than the developed countries because of the higher growth rate and cheap labour work. Pakistan has faced political instability, corruption on the peak, enforcement of the law, terrorisms and ineffective governance (7).

The foreign direct investment has diminished from the last past years generally in Pakistan (8). In the modern economic era, the foreign direct investment impact on the nation economies is truly easily proven wrong; since it is difficult to respond to the question that the foreign direct investment sway on the economy is decidedly or contrarily (9). Researchers have considered the determinant of foreign direct investment by utilizing the Bayesian Model and inferred that numerous components that influence foreign direct investment yet foreign direct investment inflow more to the nation when there are monetary development and better tax structure. The researcher further concluded that low tax rate attract more foreign indirect investment which is depends on the government policies of the country.

1.2. Empirical Studies on Tax Incentives:

When the tax paid on income of the salaried person is called income tax. Direct tax payer bears the burden on income tax. It is an essential source to raise money and finance its activities. It includes all direct taxes collected from citizens in different ways. Corporate income tax collected from the corporation in the Islamic Republic of Pakistan. Thus the revenue generated from the corporation as a corporate tax by the government of the Islamic Republic of Pakistan. The specific rate used for one fiscal year. Numerous researchers inquired about the connection of tax incentives and foreign direct investment. Huge number of them reasoned that foreign direct investment is antagonistically influence by tax incentives. Researcher reasoned that foreign direct investment has a critical positive association with tax holidays (10).

Every citizen is responsible for the taxes and to bear these taxes to sustain their government, and in response, the government have fulfilled their duties to use these taxes for the advantage of their residents and country (11). The researcher found out the results that investment is negatively affected by taxation (12). (13) He presumed that there is positive relationship between corporate income tax and revenue profile. Find that the corporate income positively affects the all consolidated revenue.

The researcher considered the Bangladesh economy to discover the effect of corporate income tax on foreign direct investment. The researcher takes information
for a long time from 2001-2010. The information was gathered from the bank and website and various reports. Researcher inferred that corporate income tax influences foreign direct investment. The government ought to lessen the corporate income tax to empower foreign direct investment in the nation (14). (15) Said that there is an important relationship of tax revenue with economic.

(16) Inferred a positive relation between corporate income tax (CIT) and export processing zone (EPZ) firms in Kenya. In spite of the fact that corporate income tax is high and does not influence the association with export processing zones (EPZ) firms in Kenya. (17) Inferred that foreign direct investment has been adversely influenced by the corporate income tax and the government ought to lessen corporate income tax to a low level for pulling in greater investment for the better economy.

Company income tax used to reduce tax evasion or tax avoids. The nation utilized company income tax for the reason to pull in technological investment, which has tax holidays, tax-free individuals, tax-exempt from the minimum tax levy, reduction in affection tax rate and loss carried forward relief. Company income tax is the tax that is payable on the benefit of income of the organization. The researcher presumed that foreign direct investment is essentially influenced by company income tax emphatically (18). (19) Foreign direct investment is decidedly influenced by the company income tax rate. Company income tax is treated as a direct income tax by the government.

The researcher studied the relationship of company income tax and economic development. He studied that the tax avoidance and evasion are the obstacles for the country revenue generation and affects economic growth, which directly affects foreign direct investment. The company income tax rate is charged on every company profit. The government used taxation for economic progress and attract FDI by motivating and demotivating certain forms of certain behaviours (20). The FDI is the best way by using it to achieve economic development.

Customs and excise duty are considered the respected civil service of Pakistan. Without their permission, the goods and products cannot move in or out of the country. Custom and excise duty considered one of the vital sources of tax collected on the inward and outward shipment of goods and material in Pakistan. The customs duty is called an indirect tax. The government have the authority to change the tax rate on the import and export of the goods according to the competition with other countries to protect their domestic product. Excise duty is also called indirect tax like sale tax, or value-added tax (VAT). Excise duty imposed on the goods manufactured outside of the country. Import duty imposed on the products manufactured inside of the country.

The researcher found that excise duty has impact on textile industry constructively but custom duty has showed no impact (21). Custom and excise duties are the sorts of obligations forced by the government to draw in foreign direct investment. The foreign direct investment significantly affected by the custom and excise duties (22). Foreign direct investment assumes a fundamental job in the nation economy from the most recent two decades.

The researcher studied that government can maximise their revenue through custom and excise duties (23). Federal board of revenue is the organisation that is responsible for collect direct and indirect taxes in the country Tax revenue is a backbone for a country. It is the right of the government to use the funds for the citizens to fulfil their
basic life necessities. The government should lower the tax rate to collect more revenue in the long run. The developed countries used a higher tax rate to raise more funds in short and long-term. The researcher presumed that higher tax rate has adversely influenced the domestic investment as well as the foreign direct investment. However, gather more revenue temporarily.

Researcher examined that there is positive association of tax revenue on financial development in Nigeria. The result showed a positive impact. These revenue can use by the government for infrastructure, health, education, and for many other technological projects or to improve managerial skill of citizens accordingly the economy can develop and draw in increasingly more foreign direct investment in Nigeria (24).

Researcher Found negative relationship of tax revenue with foreign direct investment in Kenya. They suggest that the government should encourage taxpayers to collect more revenue from taxpayers in the country. The researcher discovered that foreign direct investment is decidedly influenced by tax incentives. Researcher reasoned that the tax incentives motivating forces pull in foreign investment organization to put investment in Namibia Kenya. They examined that there is positive association between foreign direct investment and tax incentives. Tax incentives draw in foreign investors to put investment into Nairobi Security Exchange (NSE). The researcher found that there is a positive relationship between tax incentives and foreign direct investment in the oil and gas area of Nigeria (25).

Positive relation of tax incentives and foreign direct investment of listed worldwide corporation inflows in Kenya found by the researcher (26).

Inflation is the decrease in the value of money. The less purchasing power of money in the inflation period is called inflation. In this period, the worth of money become decrease, and the prices of the commodities go upward. The real purchasing power of money becomes less.

Tax revenue in developing countries is highly elastic. In the inflationary period, some segments of tax collection are fewer elastics or not elastics when they observed for tax collection period and tax liabilities. Inflation also cause the gap between expenditure and revenue in fiscal year (27). Researcher used consumer price index in their research to find out the inflation and estimate the tax in their economy. The researchers give importance to the consumer price index because it is the primary tool to measure the price of the commodities in urban areas as compared to the merchandise price. It’s cover mostly products like 361 items (28). GDP, CPI, WPI and SPI also used as a deflator to measure the inflation in Pakistan. The taxation effect by various factors it’s uncertain and unpredictable. When the income expenses become, increase the decrease occur in the spending money. The gap between income and expenditure become increase in monetary policy.

A researcher conducts inquire about in Pakistan to dissect the relationship between the annual tax revenue and inflation. The researcher utilized STATA to discover the relationship among various variables utilized by the researcher in his research for the time of 2000-2010. The researcher reasoned that there is a positive and critical relationship among these variables. At the end, the researcher said that when there is one unit change happen in inflation will bring one unit change in tax at the same time. The Pakistan study indicated that the conduct of taxes is sure under (27)
2. Research Hypothesis:
The accompanying research hypothesis is significant on the grounds that the researcher finished up the responses to the questions in this research.
   a. H1: There is noteworthy association of annual tax revenue with foreign direct investment.
   b. H1: There is noteworthy association of customs and excise duty tax incentives with foreign direct investments.
   c. H1: There is noteworthy association of income taxes with foreign direct investments?
   d. H1: There is noteworthy association of inflation with foreign direct investments.

3. Theoretical Framework:
   \[ Y = \beta_0 + \beta_1 X_1 + e \]
   \( Y = \) Foreign direct investment (FDI /GDP proxies by the ratios).
   \( \beta_0 = \) Reg. constant (Model constant).
   \( \beta_1 = \) Reg. Model coefficient.
   \( e = \) the model error’s term.
   \( X_1 = \) the tax incentives proxies.

   Tax incentives = \( f \) (Customs and Excise duty, Annual tax revenue, Income tax, and inflation % GDP).

   So, the regression model can be expressed like this;
   \[ Y = \beta_0 + \beta_1 \text{CED} + \beta_2 \text{ATR} + \beta_3 \text{InTax} + \beta_4 \text{Inf} + e \]

RESEARCH METHODOLOGY

In this paper, the researcher used the census method. The population described by using a descriptive study. The secondary data were used from 1970-2018 by the researcher to examine tax incentives impact on foreign direct investment in case of Pakistan. Researcher not specified any zones or sectors or enterprises. The research consists of all sectors, Industrial zones and Enterprises in the EPZs of Pakistan. The elements in the population considered as representatives of enterprises in the zones. The researcher used a quantitative survey in the paper.

The foreign direct investment is dependent variable in this study in Pakistan. The foreign direct investments utilized as a level of gross domestic products (GDP) of the nation. Independent variables are; Annual tax revenue, corporate income tax (CIT), Income tax, Inflation, and Customs and Excise duty revenue utilized as intermediaries of tax incentives to check the effect of tax incentives on foreign direct investment. These all variables were measured as a %GDP.

Data collected from secondary sources like World Bank, UNCTAD, Global Economy Scale, State Bank, Federal Board of Revenue, and Statistical Bureau of Pakistan from 1970-2018. The researcher used and analysed data through STATA and SPSS software’s. Researcher used Pearson Correlation analysis and linear regression dimension to check the impact of tax incentives on FDI. The significance of the
relationship was found by the estimation of test and (r2) which is the coefficient of determination. Multiple regression models were used by the researcher are as follows;

\[ Y = \beta_0 + \beta_1 CIT + \beta_2 ATR + \beta_3 CIT + \beta_4 CED + e \]

**DATA ANALYSIS AND DISCUSSION**

**1. Descriptive Statistics**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Minima</th>
<th>Maxima</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>48</td>
<td>-0.9661661</td>
<td>1.242108</td>
<td>-4.939927</td>
<td>1.301453</td>
</tr>
<tr>
<td>ATR</td>
<td>48</td>
<td>2.135791</td>
<td>1.184807</td>
<td>1.729418</td>
<td>2.526804</td>
</tr>
<tr>
<td>CT</td>
<td>48</td>
<td>0.9073313</td>
<td>0.4839692</td>
<td>-0.0972666</td>
<td>1.622557</td>
</tr>
<tr>
<td>EX</td>
<td>48</td>
<td>0.4887294</td>
<td>0.5629916</td>
<td>-0.7716762</td>
<td>1.151071</td>
</tr>
<tr>
<td>INTAX</td>
<td>48</td>
<td>0.8267904</td>
<td>0.4651667</td>
<td>-0.0576291</td>
<td>1.72505</td>
</tr>
<tr>
<td>INF</td>
<td>48</td>
<td>2.03112</td>
<td>0.46723</td>
<td>0.9282193</td>
<td>3.010128</td>
</tr>
</tbody>
</table>

Source: Researcher used STATA for results.

From the table, columns showed all the concerned variables, total observations, the average value or the centre value, standard deviation, and minima and the maxima.

**2. Normality of Data**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Obs.</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>ch2(Adj)</th>
<th>Prob.chi^2</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>48</td>
<td>0.0284</td>
<td>0.0920</td>
<td>6.9</td>
<td>0.0317</td>
</tr>
<tr>
<td>ATR</td>
<td>48</td>
<td>0.937</td>
<td>0.7472</td>
<td>0.11</td>
<td>0.9464</td>
</tr>
<tr>
<td>CT</td>
<td>48</td>
<td>0.4318</td>
<td>0.0007</td>
<td>10.02</td>
<td>0.0067</td>
</tr>
<tr>
<td>EX</td>
<td>48</td>
<td>0.0184</td>
<td>0.4411</td>
<td>5.81</td>
<td>0.0548</td>
</tr>
<tr>
<td>INTAX</td>
<td>48</td>
<td>0.8734</td>
<td>0.0025</td>
<td>8.02</td>
<td>0.0182</td>
</tr>
<tr>
<td>INF</td>
<td>48</td>
<td>0.0635</td>
<td>0.9849</td>
<td>3.66</td>
<td>0.1604</td>
</tr>
</tbody>
</table>

From the above table, it’s sure that all data falls in the standard value of the skewness and kurtosis. The data is normally distributed and symmetrical.

**3. Correlation**

<table>
<thead>
<tr>
<th></th>
<th>FDI</th>
<th>ATR</th>
<th>CT</th>
<th>EX</th>
<th>INTAX</th>
<th>INF</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATR</td>
<td>0.6828*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>-0.4271*</td>
<td>-0.3895*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EX</td>
<td>-0.6280*</td>
<td>-0.5072*</td>
<td>0.8155*</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0000</td>
<td>0.0002</td>
<td>0.0000</td>
<td>0.0000</td>
<td>28093</td>
<td></td>
</tr>
</tbody>
</table>
The correlation of annual tax revenue, income tax, and inflation with foreign direct investment is sure (positive) and the customs and excise duty shows negative relations with foreign direct investment. From the table, the rest of variables can be seen.

4. Multicollinearity Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTAX</td>
<td>8.23</td>
<td>0.121579</td>
</tr>
<tr>
<td>ATR</td>
<td>5.53</td>
<td>0.180717</td>
</tr>
<tr>
<td>CT</td>
<td>4.34</td>
<td>0.230173</td>
</tr>
<tr>
<td>EX</td>
<td>3.53</td>
<td>0.283019</td>
</tr>
<tr>
<td>INF</td>
<td>1.38</td>
<td>0.725870</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>4.60</td>
<td></td>
</tr>
</tbody>
</table>

From the above table it is cleared that the VIF is less than 5. It means that the multicollinearity is weak.

5. White Heteroscedasticity test

<table>
<thead>
<tr>
<th>Source</th>
<th>chi2</th>
<th>Df</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heteroscedasticity</td>
<td>29.25</td>
<td>20</td>
<td>0.0830</td>
</tr>
<tr>
<td>Skewness</td>
<td>8.20</td>
<td>5</td>
<td>0.1453</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>0.62</td>
<td>1</td>
<td>0.4296</td>
</tr>
<tr>
<td>Total</td>
<td>38.08</td>
<td>26</td>
<td>0.0596</td>
</tr>
</tbody>
</table>

From the results, chi2 (20) value = 29.25 and Prob. > chi2 = 0.0830 is the significance value. When the chi2 value is more than p value its mean there is no Heteroscedasticity. From the table it is clearly showed that there is no Heteroscedasticity.
6. Auto Correlation

<table>
<thead>
<tr>
<th>N</th>
<th>K</th>
<th>D</th>
<th>DL</th>
<th>Du</th>
<th>4-Du</th>
<th>4-DL</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>48</td>
<td>1.8769</td>
<td>1.25</td>
<td>1.829</td>
<td>2.171</td>
<td>2.75</td>
</tr>
</tbody>
</table>

Durbin-Watson d-statistic (6, 48) = 1.876895

The value of Durbin Watson value falls in do not H0 or H0* zone. It means that there is no auto correlation in the data.

7. Regression Analysis:

**Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.6967</td>
<td>0.6606</td>
<td>.72364</td>
</tr>
</tbody>
</table>

Predictors: (Constant), ATR, CT, EX, INTAX, IR

In the table, R^2=0.6967 implies that change in one unit of independent variable will change 0.6967 times in dependent variable. Adjusted R^2 defined same results implications on populations.

**ANOVA**

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>Df</th>
<th>MS</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reg.</td>
<td>50.5197337</td>
<td>5</td>
<td>10.1039467</td>
<td>19.30</td>
<td>0.0000</td>
</tr>
<tr>
<td>Residual</td>
<td>21.993357</td>
<td>42</td>
<td>.523651358</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>72.5130908</td>
<td>47</td>
<td>1.54283172</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a) Predictors: (Constant), ATR, CT, EX, INTAX, INF

b) Dependent variable: FDI

F-TABULATIVE: 2.50

Source: These results showed in STATA by the researcher

F value in the table is 19.30 which are greater than tabulated value which is 2.50. It implies that the overall model is good fit and significant. The p value is under 0.0000.

**Coefficients**

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-2.381388</td>
<td>0.343</td>
</tr>
<tr>
<td>ATR</td>
<td>-.5443524</td>
<td>0.687</td>
</tr>
<tr>
<td>CT</td>
<td>1.350552</td>
<td>0.005</td>
</tr>
<tr>
<td>EX</td>
<td>-1.364364</td>
<td>0.000</td>
</tr>
<tr>
<td>INTAX</td>
<td>2.057723</td>
<td>0.003</td>
</tr>
<tr>
<td>INF</td>
<td>.1565372</td>
<td>0.558</td>
</tr>
</tbody>
</table>

a) D.V: FDI
These variables are calculated in the form of log to develop an equation to check the relationship of tax incentives with foreign indirect investment.

The first independent variable is the annual tax revenue. The coefficient value is -0.54, which is negative, and the level of significance is more than 5%. It means that the annual tax revenue relationship with foreign direct investment showed negative and insignificant.

Second variable is custom tax having the coefficient value is 1.3, with a significance level of 5%. It implies that one unit change in custom tax bring change 1.3% in foreign direct investment. The custom tax relationship with foreign direct investment showed positive and significant.

Excise duty is the third variable with a negative Coefficient value; with a level of significance is 5%. The excise duty association with foreign direct investment is negative and significant. Decrease 1.31% in foreign direct investment will decrease one unit in excise duty.

The fourth variable is income tax. The coefficient is positive, so the relationship is positive and significant; with a level of significance is 5%. 2% change in foreign direct investment brings change in income tax.

Inflation is the fifth variable with positive coefficient, with more than 5% level of significance. Inflation relationship showed positive and insignificant with foreign direct investment.

CONCLUSION AND RECOMMENDATIONS

1. Findings:
Secondary data used in Pakistan to discover the effect of inflation and tax incentives on foreign direct investment. Independent variables are Company income tax, customs and excise duty, Annual tax revenue, and inflation. Dependent variable is foreign direct investment. The data collected from Federal Board of Revenue, Statistical Bureau, and Economy of Pakistan, UNCTAD, and web sources. STATA and SPSS software used to evaluate the quantitative data. Pearson correlation analyses and linear regression dimension were employed to reveal the impacts of tax incentives on FDI’s. Some variables showed positive and significant and some variables showed negative and insignificant impact on foreign direct investments.

Federal board of revenue collected 3.842 trillion rupees were collected, which is 86% of the total tax collection for the fiscal year 2017-2018. The FBR tax collection for the year 2013 was only 1946 billion rupees. As compared to 2013, it is consider a great achievement for FBR to collected tax more than twice in the last five years.

From results finding, it is presumed that the government give tax exemption to investors to draw in progressively foreign direct investment in the nation.

(29) Concluded that there are a lot of hidden investment opportunities for domestic and foreign investors in the Nigerian economy. Therefore, by giving tax incentives to international firms in the form of the lower tax rate or exemption from tax and raise levied taxes on other local firms to achieve taxation in multiple forms.
Suggested that the government should shift their liabilities from that corporation who got more tax incentives to those don’t get tax incentives or got less tax incentives. Foreign direct investment relies upon the nearby factors of the nation in the transition economy, such as privatisation deal, new markets, and geographical locations.

It is clearly mentioned from the above issue that it is very necessary to check the tax incentives relationship with foreign direct investment domestically as well as globally.

According to the results showed in the ANOVA table, null hypothesis rejected by the researchers because of significant relationship.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>I.V</th>
<th>D.V</th>
<th>Null hypothesis</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Annual tax revenue</td>
<td>FDI</td>
<td>Fail to reject</td>
<td>Negative/Insignificant</td>
</tr>
<tr>
<td>B</td>
<td>Income tax</td>
<td>FDI</td>
<td>Reject</td>
<td>Positive/ significant</td>
</tr>
<tr>
<td>C</td>
<td>Customs tax</td>
<td>FDI</td>
<td>Reject</td>
<td>Positive/ significant</td>
</tr>
<tr>
<td>D</td>
<td>Excise duty</td>
<td>FDI</td>
<td>Reject</td>
<td>negative/ significant</td>
</tr>
<tr>
<td>E</td>
<td>Inflation</td>
<td>FDI</td>
<td>Fail to reject</td>
<td>Positive/ Insignificant</td>
</tr>
</tbody>
</table>

2. Conclusions:
The researcher concluded on the model is a good fit. He found in his analysis that there are three variables that their relationship is significant with foreign direct investments. It’s concluded that tax incentive significantly impact foreign direct investment.

2.1 Hypothesis A:
H0: Annual tax revenue relationship with foreign direct investments is not significant.

The null hypothesis failed to reject because of negative and insignificant relationship between annual tax revenue and foreign direct investment. The annual tax revenue does not affect foreign direct investments.

2.2 Hypothesis B:
H0: Income taxes relationship with foreign direct investments is not significant.

Null hypothesis B rejects by researcher because of positive and significant relationship between income tax and foreign direct investment.

The results reveal that one per cent change in income tax will increase 2 per cent in foreign direct investments.

2.3 Hypothesis C:
H0: Customs and Excise duty relationship with foreign direct investments is not significant.
Null hypothesis C rejects by researcher because of positive and significant relationship between customs tax and foreign direct investment. The results reveal that a one per cent increase in customs tax will increase 1.3 per cent in foreign direct investments.

Null hypothesis C rejects by researcher because of negative and significant relationship between the excise duties with foreign direct investment. The results indicate that a one per cent increase in excise duty will decrease by 1.3 per cent in foreign direct investments.

2.4 Hypothesis D:
H0: Inflation relationship with foreign direct investments is not significant.

Null hypothesis D rejects by researcher because of positive and insignificant. Inflation and foreign direct investment has no relationship. Researcher studies foreign direct investment in Nigeria economy. He concluded that inflation has an insignificant relationship with foreign direct investments.

Many researchers found significant and negative relationship between inflation and foreign direct investment in their studies (31).

3. Practical and Theoretical implications:
It can easily understand now by researching which tax variable effect foreign direct investment. This study is far enough for the policy makers and government to asses to give tax incentives to investors to draw in foreign direct investments which are thinking about the more costly incentives for the nation economy, and it’s not analysed as a significant determinants of foreign direct investments.

This study determines that tax incentives help to increase in foreign direct investments. This study supports the normative tax theory and tax investment theory. The tax incentive enhances the foreign direct investments. The policymakers and the government should limit the tax constraints and reduce the tax to attract more foreign direct investments. This behaviour supports normative tax theory and tax investment behaviour which is opposite of optimal tax theory. The tax optimisation is considered not right. It does not help to enhance foreign direct investments. This study also highlight that the aim of tax policy is not only to increase in government tax revenue. But they should focus on the overall economy of the country by taking the complete overview, planned, and implemented in a way to not only improve investment but the overall economic of the country.

4. Limitation and Future Research:
1. This study depends on a small number of variables that limit the tax revenue forecasts. The other researchers can use other tax variables like general sale tax, total income tax and petroleum profit tax.
2. This study provides the overall look of the country economy. Study does not helpful for those who carrying sectors wise tax incentives effect on foreign direct investment. But the other researcher can use the sectors wise tax incentives, such as from tax revenue sectors, industrial sectors, agricultural sectors, and textile sectors, to find out the impact on foreign direct investments.
3. The researcher used the double log model to find out the results and did not find out the short and long run effect on foreign direct investments. But it can find out the results for short and long term by using other methods.
4. The researcher just used the Pakistan economy. But other researchers can conduct their study by considering other economies.

5. Recommendations:
The government should offer tax incentives to foreign investors to attract foreign direct investors. It helps to increase tax to GDP ratio and also maintain an effective, trustworthy, and clear regulatory framework to developed foreign investors confident level on government.

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