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Article

The Impact of Corporate Tax on Investment

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Abstract. According to the experience of developed countries in the world, improving the corporate tax system is important in ensuring the stability of the economy, increasing business and investment activity. The work is devoted to one of the most topical issues of today, which discusses the impact of income tax on investment attraction. This work is aimed at ensuring the compatibility of income tax and investment, and taxes are aimed at pursuing a prudent tax policy as a regulator of the economy. Proposals and recommendations have been developed to stimulate investment activity through income tax benefits, to ensure high efficiency of income tax and investment policy.

Keywords: profit, tax, budget revenue, income tax, investment, tax policy, tax incentive, enterprise.

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Introduction

In world practice, a lot of scientific research is being carried out on the optimization of the corporate profit tax and the empirical assessment of the impact of the tax. In these scientific research works, the assessment of the impact of the profit tax on the behavior of taxpayers, the determination of the impact of the profit tax on business and investment activity and economic growth, the establishment of the effective rate of the corporate tax, since the problems related to taxation in favor of multinational companies have not found a completely positive solution, it is important to carry out scientific research in these areas.

Consistent reduction of the tax burden, simplification of the tax system and improvement of tax administration are the most important conditions for the rapid development of the economy and improving the country's investment attractiveness as part of improving tax policy. It is the optimization of the impact of income tax on the activities of economic entities in attracting investment in the national economy.

In a market economy, each state makes extensive use of tax policies as specific regulators of the negative effects of market relations. Taxes are a powerful tool for managing the economy in the context of the development of market relations. In particular, the formation of the country's investment potential and investment climate, investment regulation, attraction of foreign investment are regulated through taxes. In this case, the income tax emerges as a key factor influencing the investment climate.

Literature review

The main purpose of a commercial enterprise is to make a profit. In addition to E. Sheffle's opinion, profit is the return on invested capital [1]. Hence, profitability is directly and indirectly related to investment efficiency and operating income taxes.

Tax policy should not only create conditions and opportunities to stimulate investment activity, but also force taxpayers to modernize the economy and modernize production [2]. It is through the income tax that it is possible to influence both the economic growth and decline of investment activity. A number of scholars emphasize the development of a tax system that does not hinder investment and ensure economic growth [3]. If the investment made from the taxable object is fully covered, this tax system will not violate the attraction of investments [4-5].

Prof. Sh. Toshmatov emphasizes that it is necessary to influence not only fiscal instruments, but also by stimulating private entrepreneurship and investment activities in taxing the profits of enterprises [6].

According to I.Niyazmetov, the more the list of economically unjustified and ineffective tax benefits given to certain categories of enterprises is shortened, the more it will be possible to reduce the tax burden of industrial enterprises. Therefore, it is appropriate to cancel all tax benefits granted in an individual manner, except for the Tax Code, and to replace them with innovative tax credits and tax holidays tested in international practice [7].

S. Djankov and others say that the effective rate of corporate tax has a significant negative impact on the total volume of foreign direct investment and business activity. Corporate tax rates are negatively related to growth and positively related to the size of the informal economy. For the positive results of corporate tax rates, it is important to include controls for other tax rates, the quality of tax administration, the security of property rights, the level of economic development, inflation regulation and trade openness [8].

According to C.Chamley, based on the theories of optimal taxation of capital, in the development of tax policy, it is necessary to avoid taxes that directly affect capital, including taxes on capital growth, dividends and interest income [9].

Research methodology

This paper uses traditional methods of economic analysis such as analysis and synthesis, induction and deduction, comparison. Scientific and practical views of foreign and domestic scientists and researchers on tax relations were analyzed and conclusions were formed based on the results.

Results and discussion

Investors try to circumvent tax legislation in order to get maximum profit. De Vito considered cases of firms paying taxes to mitigate the effects of deducting investment costs [10].

Over the past decade, most developed countries have lowered corporate tax rates to encourage investment and economic activity. Over the past period, most countries have set corporate income tax rates at or below 30 percent (Figure 1). It followed this trend with tax changes at the end of 2017. For example, in 2017, the US federal corporate tax rate was lowered from 35 percent to 21 percent.

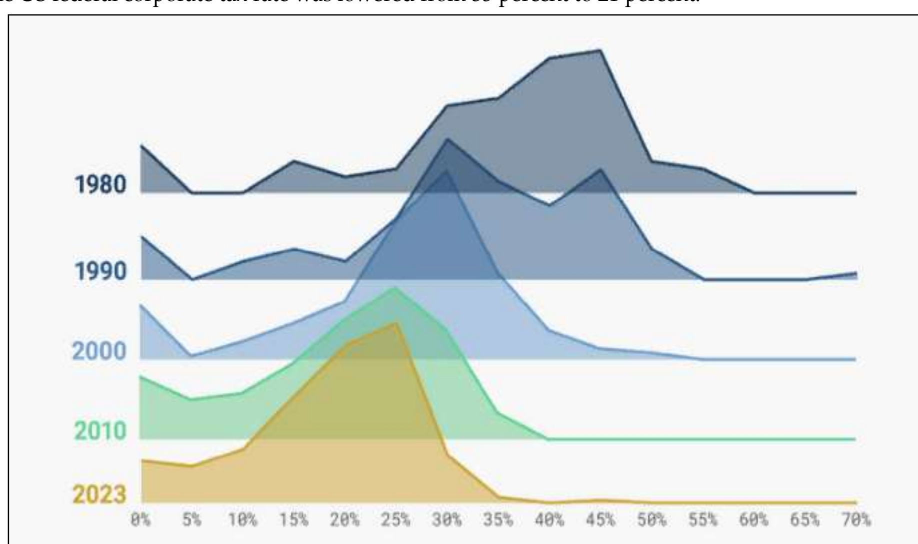

Figure 1. Trends in corporate tax rates [11], in percent

Only 6 out of 225 countries worldwide have increased the top corporate tax rate in 2023, a trend that could change in the coming years as more countries favor a global minimum tax. In addition, many countries have introduced various other incentives for investment activity, such as preferential deductions and depreciation rules, in the corporate tax system. The reforms carried out to improve the corporate tax system reduced the cost of capital and expanded the financial capabilities of enterprises, created an incentive for new investments and increased business activity [12]. At the same time, most economists have focused on investigating the effects of these reforms using quasi-experimental methods and administrative data, focusing on investment response and corporate tax levels. In particular, the welfare effects of the corporate tax on landowners, workers, and business owners were estimated using differences in state corporate tax rates and distribution rules. Firm owners can earn income and be less constrained in their choice of location due to differences in productivity in certain locations. In contrast to standard open economy models, the share of firm owners was approximately 40%, and workers and landowners accounted for 30-35% and 25-30%, respectively [13]. Empirical analyzes of the impact of higher corporate taxes on wages show that workers bear about half of the total tax burden, Fuest et al. It also highlights the importance of labor market institutions and the benefit-shifting potential of corporate taxes for the impact of corporate taxes on wages, as well as the fact that a large share of the tax burden falls on young, low-

skilled workers and women, with important distributional implications. mentioned [14]. According to Ohrn, an accelerated depreciation policy lowers the cost of new investment by allowing firms to deduct new investment from their taxable income more quickly. Countries around the world are using this policy to encourage business investment. Results based on this alternative source of quasi-experimental variability support findings from cross-industry studies that accelerated depreciation has a large and significant impact on capital investment [15]. Based on the results of the analysis, the following important effects of the accelerated depreciation policy can be stated: firstly, the promotion of accelerated depreciation stimulates business investment, as a result, this policy promotes economic growth and counteracts economic cycles. can be used for; second, phasing-out spending rules at higher investment levels effectively target less-invested and supposedly smaller firms, which can be important in shaping the investment climate; third, due to the high mobility of capital, accelerated depreciation rules can have a very large effect when implemented at the regional level. For this reason, the policy of accelerated depreciation is a particularly cost-effective instrument for state and local authorities seeking to stimulate investment.

In our opinion, the main studies on the empirical assessment of the impact of corporate tax on the business and investment activity of companies have mainly analyzed investment subsidies, such as depreciation bonuses or accelerated depreciation, which are often targeted at specific types of firms or industries, and as a result, corporate tax rates the impact of its decline on the economic activity and investment activity of companies has not been fully studied. In particular, according to Ohrn, the reduction of the corporate tax base and the reduction of tax rates, the increase in the volume of business activity and investments of enterprises, and the change in the ratio of private capital and debt capital are manifested, which is especially important for corporate tax reform. Calculations show that the use of revenues to finance the reduction of corporate rates as a result of the cancellation of accelerated depreciation will have a low impact on corporate investment. Contrary to the neutrality of the investment effect, these two types of investment promotion policies, namely accelerated depreciation and lower corporate tax rates, are very different in other respects. Firms raise fees and issue shares in response to lower rates. Firms responding to accelerated depreciation, on the other hand, are less likely to pay dividends and prefer to finance expansion through debt. While large firms with more cash flow react to lower corporate rates, smaller and financially constrained firms are more susceptible to depreciation policies [16]. Tax policymakers should choose to support revenue-neutral reforms only if they seek to encourage corporate taxation and private equity financing and prefer policies that favor larger, financially wealthier corporations. At the end of the day, it is clear that the only reforms that will benefit all businesses in the country will be lower corporate tax revenues.

Evidence on the effects of financial incentives among start-ups and small firms is more limited, although new and emerging firms in particular have been shown to play a key role in stimulating economic growth and employment. is keyed [17]. In particular, Harju et al. examined the effect of corporate taxes on firm-level investment and business activity by reducing the corporate tax rate to 6 percent in Finland in 2012–2014. (tax rates unchanged) comparison method was used. It was found that the average sales volume increased by 1.6% and variable costs increased by 2% compared to the periods when the corporate tax rates were unchanged and the periods after the tax rates were reduced. The effect of the decrease in the corporate tax rate was observed more in cash-strapped firms and firms where the principal owner of the firm is actively employed [18]. In the analysis, in the 3 years after the profit tax reform, companies with large capital or new investments have an insignificant effect on the investment size, but companies with limited cash resources (3.3%) and the period of establishment is less than 10 years a small positive investment effect is found for small firms (3.7%), suggesting that the investment decisions of firms with small cash resources and start-ups may be more sensitive to corporate taxes.

In general, a reduction in the corporate tax rate at the company level is generally significant for output growth and investment. If the investment is financed from retained earnings or debt, the dividend tax rate does not affect the marginal cost of capital. We believe that a reduction in the corporate tax rate will lead to an increase in retained earnings after the payment of taxes, which will increase the inflow of cash to the company, which, in addition to capital investments, can have a positive effect on business activity. Such additional cash resources may be particularly relevant for firms that may often face liquidity constraints and have limited access to other types of financing, but still have the ability to continue their business. In addition, small firms are often managed by their principal owners, who are also active in the firm and directly involved in firm decision-making, meaning that owner incentives and actions are affected by changes in corporate-level tax incentives. possible As a result, although the total investment in production capital in small firms did not increase, business activity increased. This suggests that the availability of monetary resources and the role and efforts of the firm's principal owner are important factors in explaining how small firms respond to changes in financial incentives, and that the mechanisms underlying firms' response to corporate taxes are important. presents new evidence. Additionally, there was no significant effect on company entry or dividend payouts [18]. In conclusion, the response of small firms to overall corporate tax rate cuts and dividend tax increases may be very different and have different consequences

compared to the effects of more targeted investment subsidies for large firms, as analyzed in previous literature.

Well-known scholars who have studied tax relations, C.House and M.Shapiro, point out that some companies will continue to invest after the benefits provided for a certain period of time have expired [19]. In the opinion of these authors, they will continue their activities because they have organized their activities in an orderly manner through the tax benefits provided and as a result are making a profit. In some economically unstable countries, there is a perception that there will be cases of return on investment after the end of the tax exemption period [19].

As a result of cross-country empirical analysis, it was determined that high effective corporate tax rates have a large and significant negative impact on corporate investments and entrepreneurship. If we take into account other tax rates, including personal income tax, as well as VAT and sales taxes, taking into account the administrative burden of the tax, compliance with the rules for the protection of property rights, the development of the economy, openness to foreign trade, this effect is strong when seigniorage and inflation are taken into account. Also, the effect of a high effective corporate tax is characterized by a decrease in investment in manufacturing rather than in the service sector, the expansion of the informal economy, and a greater dependence on debt capital than on private capital [20].

Several factors may explain the decline in tax sensitivity of investments over time. The first explanation may be related to other factors affecting investment that are not taken into account in the model. Economic uncertainty, for example, increased significantly after the global financial crisis, likely dampening investment decisions for all firms. Given that the sensitivity of corporate taxation may vary, some structural factors, such as changes in the weight of certain types of firms or certain types of assets in total investment, may also play a role. At the same time, it can be explained by the reduction of average corporate tax rates and tax deductions in OECD member countries.

Conclusion

In general, it is advisable to focus on the following measures on the impact of income tax on investments:

1. Incentives for investment activities through taxes should be monitored, analyzed and evaluated, to consider inefficient, unprofitable, obsolete benefits, not to try to increase their number by providing specific tax benefits for investment activities, to introduce tax incentives to increase investment in fixed assets. expedient.

2. Based on the economic requirements of enterprises, it is necessary to monitor the tax system, including the system of tax incentives, consistent with their investment activities. According to him, it is also important to substantiate how the introduced benefit has benefited.

3. In order to modernize the national economy, in addition to depreciation allowances, it is necessary to make more active use of the investment tax credit tax mechanism. In practice, the application of this mechanism will attract additional financial resources to the economy in order to modernize production, as well as increase tax revenues.

The reforms highlight the need to create a tax system in which all stakeholders take measures to encourage investment and ensure economic growth.

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