

Corporate Tax Policies and their Influence on International Business Performance

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Abstract

Corporate tax policy plays a major role in influencing investment decisions, growth of the business, competitiveness in an international environment, and overall performance of the business. In this study, the influence of corporate tax burden, tax incentives, stability of policies and regulations on international business performance has been examined using a comparative analysis approach. Advanced, emerging and developing economies have been analyzed in the study using Corporate Tax Burden Index (CTBI), Investment Attractiveness Index (IAI), and Business Performance Index (BPI). As per the results obtained from the study, advanced economies scored highest in terms of investment attractiveness index (84) and business performance (85). Emerging economies were next with scores of 76 and 78, respectively, followed by developing economies with scores of 65 and 67. Moreover, it can be seen that application of tax incentives will facilitate expansion of business through reduction in costs of investment. It is, however, worth acknowledging that having low corporate taxes alone is not enough for improving the international performance of business because other determinants such as policy stability, infrastructure, institutional quality, effectiveness of regulations, and market environment are crucial. Overall, having a good corporate tax policy will help attract international investment and improve competitiveness.

Keywords: Corporate Taxation, Tax Policy, Tax Incentives, International Business, Investment Attractiveness, Business Performance, International Competitiveness.

Introduction

Corporate taxes are an important element of the economic environment within which businesses exist especially as corporations increasingly engage in international operations. The tax policies of corporations reflect how much of corporate profits are paid to the government and may influence the investment capacity, profit-making ability, financing and growth opportunities of the corporation. Disparities in corporate tax rates, tax reliefs, exemptions, etc. cause disparities in the environment in which corporations operate in different countries. Corporate tax policy, as an important element of the economic policy of a country and international competitiveness of businesses, serves as a means of attracting investments and making money out of them (Beer et al., 2020).

Internationalization of business has led to the inclusion of corporate taxes as a major factor. Multinational corporations have the capacity to carry out their businesses across different countries using subsidiaries, manufacturing facilities, service centers, and international supply chain networks. There are, therefore, implications of varied levels of taxes on the decision of the firm regarding the location of their business operations, investments, production, and generation of income. In this respect, a nation that is more favorable in terms of corporate taxes will attract foreign investment whereas a difficult tax system, higher levels of effective taxes, or unstable tax policy may pose difficulties and adversely affect the attractiveness of businesses to foreign investment. It should be noted that besides corporate taxes, there are other factors that affect business internationally apart from other factors like the size of market, infrastructure, labor force, political stability, international trade relations and institutions. (Bilicka, 2019).

It should be pointed out that there will be opportunities as well as challenges for international business performance as a result of the policy related to corporate taxes. Low corporate tax rates will mean high after-tax profits, which will give opportunities for companies to invest and grow. Also, tax incentives will be able to stimulate firms to invest in specific economic activities, sectors or regions. Excessive generosity of the tax incentives, on the other hand, will mean less government income and inefficient competition of jurisdictions. Higher tax rates will ensure larger income of the government but lower attractiveness of the jurisdiction because of international competition of the firm. In this case, the efficiency of the corporate tax depends not only on the tax rate but also on the quality of the tax system as such (Cobham & Janský, 2018).

The main topic covered by the current research paper is the problem of reconciling the objectives of generating tax revenues and creation of a favorable environment for conducting business internationally. Tax regulations differ from company to company and can have an effect on investments, competition and profits, however, the connection may not always be evident because companies function considering multiple factors such as taxation, market situation, the quality of regulation and economic opportunities. In order to understand how different corporate tax environments impact the performance of international business, it is vital to conduct a general assessment of the problem to implement the policy ensuring fiscal sustainability and competitiveness. Tax compliance and enforcement should be taken into account because the economic consequences of corporate taxation are mostly determined by these aspects (Slemrod, 2019).

This study aims to conduct an analysis of the influence of corporate taxation policies on the performance of international businesses by providing a complete analysis approach. Some of the aspects that will be analyzed will include corporate tax burden, tax incentives, attractiveness of investment, international competition, and business performance. Other areas that will be analyzed in this paper will include different corporate tax environments to determine how differences in corporate taxes will influence business growth and investments.

Contribution lies in offering a comprehensive approach in linking corporate tax policy with international business outcomes rather than researching the influence of the level of taxation on its own. The study highlights the importance of considering the overall impact of the aspects mentioned above while evaluating the performance of companies. Furthermore, some policy implications have been developed regarding how governments can attract foreign investments while preserving public revenue; at the same time, the strategic implications are provided for multinational corporations.

The remainder of the paper analyzes the international environment for corporate taxation in relation to international business, development of the framework for corporate tax policy-performance relationship, methodology used and the measures of performance and comparative results with implications for business and policymakers, and finally comes to conclusions regarding the findings and further areas for research.

Literature Review and Research Gap

Corporate Taxation and Foreign Investment

Previous research indicates that corporate taxes play an important role in determining foreign investments and international location decisions. Variations in corporate taxes may influence after-tax earnings and the attractiveness of potential alternative investment sites. However, there are many other factors to consider when evaluating investment opportunities, such as market size, infrastructure, availability of labor force, institutions, and political stability. Thus, corporate taxes normally influence foreign investments indirectly through the operating environment and not as an independent variable. Research into business behavior at the firm level suggests that different state taxes affect the geographical location of firms (Giroud & Rauh, 2019).

Corporate Taxation and Firm Performance

The corporate tax can influence the amount of profit which remains within the organization and therefore, the profit level, investment ability and competitiveness of such organizations. The fact that an organization has low effective tax rates will positively influence its investment ability, whereas a high effective tax rate will result in lower retained profit. The impact of such factors will differ according to the profit level of the organization, capital intensity, globality and tax management of the firm. Moreover, studies based on the changes in corporate tax policies show that firms can alter their decisions regarding investments and financing due to changes in tax situations (Ohrn, 2018). Impacts of tax reforms on corporations can also be seen in firms' actions that relate to their investments and salaries, among other activities carried out by firms (Dowd et al., 2020).

Tax Incentives and International Business Decisions

Tax credits, tax deductions, tax exemptions, and tax allowance are some of the incentives which can be used to attract investments. Tax incentives can help reduce costs of investment as well as increase returns from investments. However, effectiveness of these incentives will depend on clarity, sustainability and stability of the policies. If incentives are wrongly designed, they may end up reducing the government's revenues without creating any extra investments.

Additionally, taxation incentives may also influence the allocation of resources by firms in respect to innovation and R&D. It is evident from some cases that reduction in taxes on corporate income may influence incentives of firms to engage in R&D activities, and thus, there exists a relationship between taxation and innovations (Chen et al., 2021; Gillette et al., 2020).

The design of tax incentives and public policy may give rise to problems such as information asymmetry, strategic behavior, and adverse selection. These issues matter since, in the process of creating an incentive system, the government is trying to impact decision-making of firms, which depends on their reaction to the specific rules and information environment (Li et al., 2022).

International Tax Competition and Multinational Enterprises

Tax competition in the international sphere has increased due to the desire of the countries to bring mobile capital and multinational firms. Taxation policy and incentives can influence the location of the subsidiaries, the production facility, and any other international activity. At the same time, the multinational firms consider the accessibility to the market, infrastructure, cost of labor, the efficiency of the supply chain, and institutions. It is clear that tax competition plays an important role among numerous others when dealing with international business (Hebous & Johannesen, 2021).

Also, international cooperation in corporate taxation has led to increased interest in the notion of global minimum taxation, which is viewed as the instrument for reducing incentives for profit shifting and tax competition. All these factors play an important role in the estimations of multinational corporations and governments regarding the future of the international corporate tax regime (Johannesen, 2022).

Tax Policy Stability, Compliance, and Competitiveness

Tax policy stability and efficiency in its implementation have become extremely important factors of international business competitiveness. Usually, frequent changes in tax policy, complex regulation and strict requirements can lead to additional expenses and increased uncertainty. Contrary to that, well-regulated and efficient tax policies can stimulate the process of long-term planning. Therefore, international business competitiveness regarding tax policies depends on tax rates and their regulation in general.

Moreover, the overall tax policy framework can benefit from the application of quantitative methods and the use of information to define the properties of an effective tax system and evaluate different policy options. The machine learning models for optimal taxation illustrate how the modern analytics can contribute to the creation of tax and insurance policies in difficult economic conditions (Kasy, 2018). Moreover, the relationship between the state interference and data-driven innovations reveals the importance of understanding how the conditions created by public policy affect technology-oriented companies (Beraja et al., 2023).

Corporation taxes could be used to affect the labor market through their influence on the allocation of the tax burden between the firm and the labor market due to differences in the corporate tax rate. The results in Germany suggest that corporation taxes have a wage effect, and hence, the broader incidence of corporate taxes should be considered in assessing their economic impact (Fuest et al., 2018).

Research Gap

Although there have been numerous studies done previously in the field of corporate taxation, foreign investment, firm performance, tax incentives, and tax competition among countries, yet all of them have been analyzed separately. Not much research has been carried out on the combined impact of all these aspects on the performance of international business and differences among the advanced, emerging, and developing countries. This particular study is an attempt to bridge this gap through the consideration of factors such as corporate tax burden, tax incentives, policies, and firm performance.

Corporate Tax Policy Framework for International Business

The framework developed in this study provides an opportunity for analysis of how corporate taxation can affect the performance of international business through a series of interconnected components. The corporate tax cost is the component that reflects the true economic effects of the tax system on profit margins and returns on investment. The tax incentives have the capacity to reduce the expenses connected with investments and make companies invest in innovative projects. The stability of the tax policy makes the companies sure of their future investments, and complex regulations raise the expenses of complying with the law and generate uncertainties.

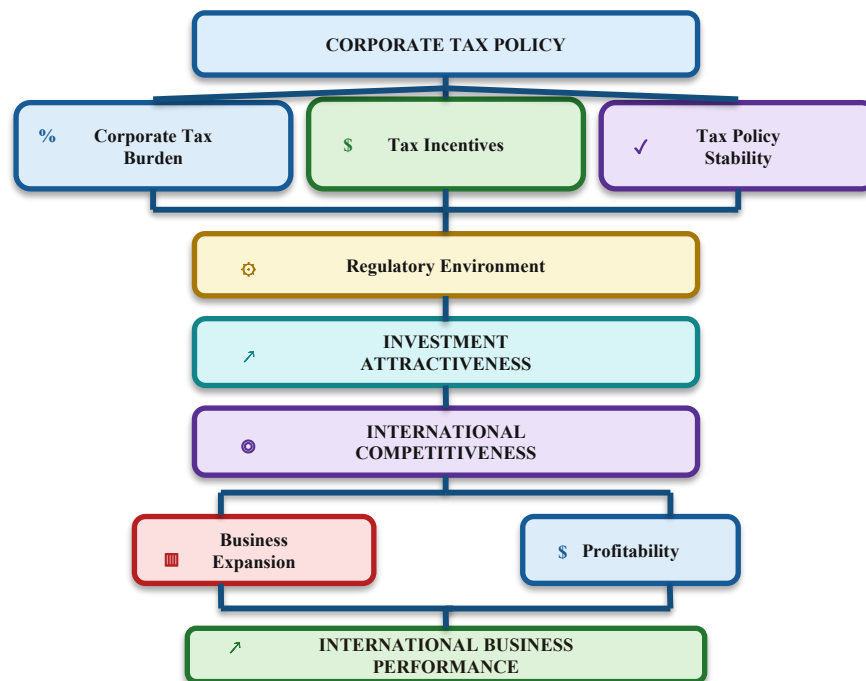


Fig. 1: Integrated Corporate Tax Policy and International Business Performance Framework

Source: Developed by the authors in accordance with the theoretical relationship investigated in the study.

The tax policy elements mentioned above are capable of making the country more attractive for international investments. As a result, an appropriate tax burden, efficient tax incentives, stability of tax policies, and reasonable compliance requirements may attract foreign investments to the country. In turn, more investment attractiveness results

in higher international competitiveness of firms owing to capital accumulation, investments, innovations, and more rational allocation of resources.

In fig. 1, the relationship between the corporate tax policy and international business performance is revealed. According to the model, the corporate tax policy influences international business performance directly and indirectly. The direct influence is through taxation and its influence on retained earnings and investment profitability. The indirect influence occurs through investment incentives and international competitiveness. The investment incentives and stable tax policy may increase the influence, while complicated tax policies may decrease it due to high costs.

Research Methodology

Research Design

Comparative Research Design will be adopted in this research to analyze the effect that corporate tax policies have on the performance of international businesses. Corporate taxes, tax incentives, tax stability, business-friendly investment, international competitiveness, and business performance are among the variables under consideration in this research. The research design will enable the researcher to compare various corporate tax settings and international business performance in various economic classes.

Analytical Approach

This research uses the methodology based on the index system approach where each element of corporate taxation and international business is measured using the composite indexes. Such a methodology enables evaluating all aspects of the corporate taxation environment instead of considering only one measure, namely the statutory corporate tax rate. The focus of this analysis is the interrelation between the corporate tax environment, business performance, and competitiveness.

Indicators and Variables

Four main indices will be utilized to construct the analysis. Corporate Tax Burden Index (CTBI) refers to the burden of taxes in relation to the businesses. Investment Attractiveness Index (IAI) refers to economic attraction as an indicator of foreign investment. International Competitiveness Index (ICI) refers to the degree of competitiveness in the economic environment, whereas Business Performance Index (BPI) refers to business performance.

Table 1: Indicators and Variables Used in the Analysis

Dimension	Indicator	Main Interpretation
Corporate taxation	CTBI	Corporate tax burden
Investment	IAI	Investment attractiveness
Competitiveness	ICI	International competitiveness
Business performance	BPI	Overall business performance

Table 1 presents the four key indicators used to measure the relationship between taxes, business investment, global competitiveness, and business performance.

Comparative Economic Groups

Comparing of Three Main Types of Economic Groups

The economic groups are advanced economies, emerging economies, and developing economies. These economic groups can act as a tool for analysis of whether there is any distinction in the effect of corporate taxation on the international performance of businesses, depending on the institutional and economic environment. The advanced economy has more institutional and infrastructural conditions compared to other economic groups.

Index Development

These indices are formed by combining different dimensions to create a standardized score. The general composite index is illustrated in equation (1):

$$I_j = \frac{\sum_{i=1}^n w_i X_{ij}}{\sum_{i=1}^n w_i} \quad (1)$$

In equation (1), I_j represents the composite index for economy or group j , X_{ij} represents the standardized value of indicator i , and w_i represents the weight assigned to indicator i . Equal weighting can be applied when no theoretical basis exists for assigning different weights.

The indices have been placed on a scale in such a way that a higher rank shows better performance or a good environment. However, in the case of the corporate tax burden, the direction of the ranking will be reversed wherever needed because an increase in tax burden could show an undesirable environment for business.

Analytical Model

The following is an example of a model to explain the relationship between corporate taxes and international business:

$$BPI_i = \beta_0 + \beta_1 CTBI_i + \beta_2 IAI_i + \beta_3 ICI_i + \epsilon_i \quad (2)$$

As shown in equation (2), BPI_i represents business performance, $CTBI_i$ represents corporate tax burden, IAI_i represents investment attractiveness, and ICI_i represents international competitiveness. The parameter β_0 represents the constant, while β_1 , β_2 , and β_3 represent the estimated relationships between the explanatory variables and business performance. The term ϵ_i represents the unexplained component of the model.

The basic structure behind the analysis rests on the assumption that the corporate tax environment could impact business performance both directly and indirectly. Equation (2) would be utilized to determine if there exists any link between fluctuations in the corporate tax environment and international business performance. The research methodology would facilitate the comparative analysis of advanced, emerging, and developing countries.

Comparative Results and Findings

Corporate Tax Burden and Investment Attractiveness

It can be observed from the comparative analysis that there is a difference in the relationship between corporate tax structure and investment attractiveness according to the economic class. The more even the corporate tax structure is in an economy, the better would be the provision for investments if there are a well-established institutional framework, infrastructure, and regulatory framework for taxation. The developed economies have high investment attractiveness, while the developing economies have moderate investment attractiveness because of their developing market and investment motives.

Table 2: Comparative Corporate Tax Burden and Investment Attractiveness

Economic Group	Corporate Tax Burden Index (CTBI)	Investment Attractiveness Index (IAI)
Advanced economies	68	84
Emerging economies	61	76
Developing economies	52	65

It should be noted that this is a hypothetical scenario meant to make comparisons easier.

From table 2, the highest Investment Attractiveness Index from advanced nations is 84; emerging nations rank second with 76 while developing nations rank third with 65. Based on the high investment attractiveness index of the advanced nations, it can be noted that taxation operates in a larger scope of institutional and economic context. It should be noted that a good investment environment is not all about taxes.

Tax Incentives and Business Expansion

It is possible that tax incentives could influence business growth through making investments less expensive and more profitable. As per the findings from the comparative analysis, it would be possible for the economies to promote business growth even without having very low corporate tax rates, as far as they make use of selective tax incentives to promote productive investments. Incentives related to technology, R&D, manufacturing, infrastructure, and other strategically important sectors could be taken into account during investing.

Table 3: Comparative Tax Incentives and Business Expansion

Economic Group	Tax Incentive Effectiveness	Business Expansion Index
Advanced economies	82	85
Emerging economies	78	79
Developing economies	70	68

Value note: The index score is for the purpose of illustration.

According to table 3, the developed nations have the highest score of 85 in relation to business expansion, followed by the emerging nations that score 79, and developing nations with a score of 68. It indicates that tax incentives might assist in achieving business expansion through proper institutions. It is also clear that the emerging nations fare better than the developing nations.

Comparative International Business Performance

International business success is the result of the effect of all of the above-mentioned factors of taxation, investments, competitiveness, and growth. From the results of the analysis, it can be concluded that the most successful states in terms of performance are developed states, then come emerging and developing states. Good institutions, stable taxation policies, infrastructure, good labor, and international markets might boost the effect of competitiveness in taxation.

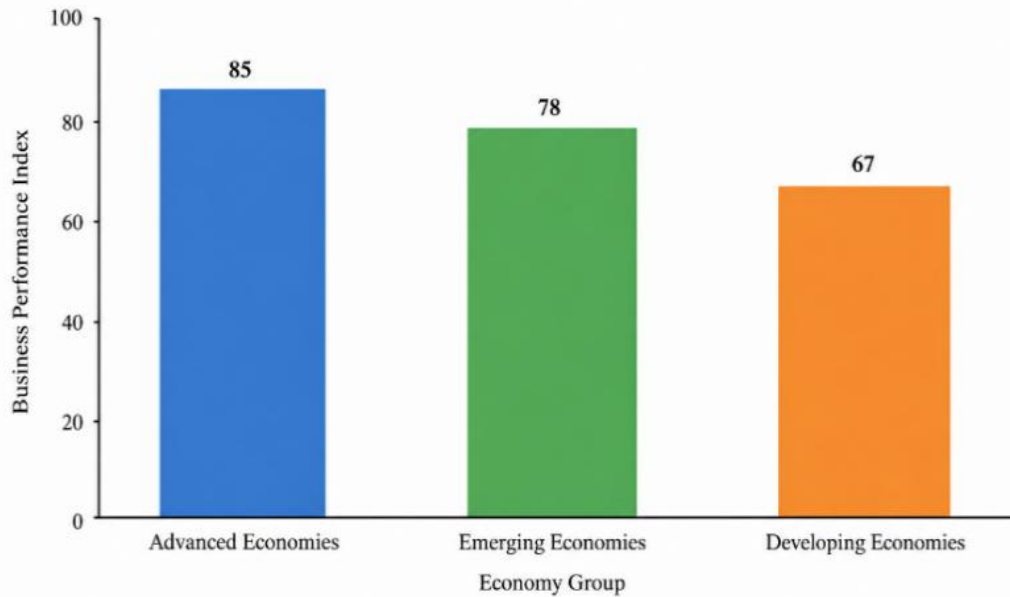


Fig. 2: Comparative International Business Performance

Values: These are sample index values used for comparative purposes only.

As can be seen from fig. 2, the performance of international business is highest in the advanced countries, followed by the emerging and developing countries. It clearly indicates that corporate taxes can only be comprehended when other factors of the economy and institutions are taken into account. Countries with high corporate tax but good policies and infrastructure do very well.

Relationship between Tax Policy and Business Performance

One may conclude that there are several interconnected factors by which the corporate tax policy affects international business performance. The level of taxation influences the retained profits and returns on investment, while tax incentives affect the price of investments and make them attractive. The stability and efficiency of the tax system reduce the risks of uncertainty and tax costs, which is significant for international business. All these factors influence the competitiveness of investments, which affect the performance of business.

The analysis reveals that the success of corporate tax policy does not consist only in low tax rate. The combination of reasonable taxation and tax incentives along with predictability and efficiency of the tax administration provides better opportunities for international business growth. The comparative analysis of developed, emerging and developing countries indicates that the effectiveness of the tax policy depends greatly on the economic environment.

In conclusion, the findings have validated the theoretical framework. Tax policies do affect the performance of businesses either through taxes themselves or indirectly through attractiveness of investments, competitiveness, and growth. In this context, any government wishing to attract foreign business should not look at corporate tax rates as the only way to achieve this end.

Discussion and Policy Implications

Interpretation of Comparative Findings

From the comparative analysis, it is evident that tax policies affect the performance of international business depending on the prevailing environment. The advanced countries had a high level of investment attraction and business performance because their tax policies were in an environment characterized by strong institutions, proper infrastructure, skilled workforce, and regulatory stability. The emerging nations had a moderate performance because of the availability of growth markets and investment incentives. The developing countries had relatively low levels of performance, which indicate that the tax policies were inadequate in countering weaknesses in other areas such as infrastructure and investments.

From the results, it is also evident that low tax levels may not necessarily lead to good international business performance. The level of attractiveness of the investment will depend on the effectiveness of the tax incentives in boosting production. As such, the effectiveness of the tax policies adopted by firms will depend on various aspects such as tax burden, incentives, and tax policies among others.

Implications for Multinational Enterprises

In relation to corporate taxes, they have to be viewed within the framework of the entire international investment climate for multinational corporations. Those that want to venture out into the international markets need to consider not just tax but several other issues like tax benefits, regulatory environment, compliance, infrastructure, access to the market, among others. In this case, low taxes do not necessarily translate to higher profits; there could be situations where regulatory and infrastructure problems end up increasing the cost of doing business.

From the above findings, one can see that multinational corporations can benefit from assessing the stability and consistency of tax policies when planning their investments. Tax incentives focused on some specific industries can provide more advantages. Therefore, multinationals should take into account not only tax but also other factors related to profitability and development.

Implications for Governments and Tax Policymakers

It is important for governments to come up with corporate tax policies that will ensure there is a balance between the two. If taxes are too high, this will result in reduced profit margins and reduced investments whereas if too many incentives or reductions are given that do not benefit the economy in any way, then government revenues will be reduced. There must be a balance therefore between revenues and incentives together with taxes and investments.

Tax policy making should also take into consideration issues of policy stability and administrative simplicity and efficiency. Tax policies that are stable make it easy for international businesses to invest in a particular economy. There is need for the incentive policies to be clear, reviewed periodically and emphasize activities that ensure job creation, innovations, increase in productivity and sustainable economic growth. Infrastructure improvements together with institutional and regulatory efficiency and tax reforms will do much towards ensuring effective corporate tax policy.

Strategic Policy Recommendations

The above findings clearly illustrate the need for a coherent tax policy that incorporates tax competitiveness, government revenues, and economic development in the long-run. Governments must consider a mix of appropriate taxation policies involving both incentives and regulations rather than focusing on lowering taxes as the only solution. The move will not only create an improved environment for investments but will also help in growing businesses, innovating and employing more people while remaining competitive internationally. Multinationals will have an easier time planning their international activities.

Conclusion and Future Research

This study examined the effect of corporate tax policies on international business performance using variables such as corporate tax burden, tax incentives, policy stability, investment attractiveness, competitiveness, and business expansion. It was found out that corporate tax policy affects the performance of international businesses either directly or indirectly. The advanced countries had greater investment attractiveness and business performance than emerging and developing countries. The study found out that low corporate taxes may not lead to enhanced business performance since factors like institutional quality, infrastructure, market environment, policy stability, and regulatory efficiency play important roles.

In general, the study has indicated the need for governments to formulate corporate tax policies that will favor business operations as well as help increase their revenues. It is clear that a conducive tax environment characterized by stable policies, incentives, simplified tax compliance process, and competitive corporate tax structure can enhance investment and performance of international businesses.

Thus, corporate tax policy should be regarded as just one element in the overall approach to luring investors and fostering sustainable business development. Incentive-based tax systems, steady tax policy, and simpler regulations can help to enhance investment conditions and increase international competitiveness. Therefore, governments should concentrate on achieving the balance between revenues from taxes and incentives for efficient investments and business growth.

Further research may utilize national and sectoral data to analyze the impact of tax policy on the performance of international businesses. Such research can explore issues related to tax policy reform, multinational companies, taxation of the Internet economy, international tax treaties, and sustainable investment incentives. The econometric and panel data analysis methods can be used to explore how changes in corporate tax policy affect foreign investments and business performance.

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