

EFFECT OF CHANGES IN TAX POLICY ON CORPORATE INVESTMENT DECISION

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**EFFECT OF CHANGES IN TAX POLICY ON CORPORATE INVESTMENT DECISION**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Mr. Arpan Bhusal has defended research proposal entitled “**EFFECT OF CHANGES IN TAX POLICY ON CORPORATE INVESTMENT DECISION**”, successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Joginder Goet and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**EFFECT OF CHANGES IN TAX POLICY ON CORPORATE INVESTMENT DECISION**” presented by Arpan Bhusal a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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This study entitled “**EFFECT OF CHANGES IN TAX POLICY ON CORPORATE INVESTMENT DECISION**” has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models about macroeconomic factors.

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Arpan Bhusal

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ABBREVIATIONS

A	:	Agree
AD	:	Anno Domini
ANOVA	:	Analysis of Variance
CRM	:	Customer Relationship Management
D	:	Disagree
Etc.	:	Et cetera
Fig.	:	Figure
IT	:	Information Technology
Ltd.	:	Limited
Max.	:	Maximum
Min.	:	Minimum
MSQ	:	Minnesota Satisfaction Questionnaire
N	:	Neutral
No.	:	Number of
No.	:	Total number of observations
Reg.	:	Registration
SA	:	Strongly Agree
SD	:	Standard Deviation
SD	:	Strongly Disagree
SERVQUAL	:	Service Quality
SPSS	:	Statistical Package for Social Science

ABSTRACT

This study seeks to comprehensively examine the connection between effective tax rates, income tax expenses, and deferred tax rates in relation to investment decisions, with a specific focus on how these fiscal elements affect organizational capital allocation choices. It concentrates solely on the effect of tax policy changes on corporate investment behavior, acknowledging that tax-related factors can heavily influence strategic planning. Primary data was gathered from individuals directly engaged in financial and investment decision-making within organizations. SPSS software was used to process the data, employing various statistical techniques such as regression and correlation analysis to evaluate both the strength and nature of the relationships. In this analysis, corporate tax rates, financing policies, and tax education acted as the independent variables, while investment decision was treated as the dependent variable. The correlation analysis demonstrated a strong positive relationship between corporate tax rates and financing policies with investment decisions, implying that favorable tax systems and effective financing strategies foster higher investment levels. Although the link between tax education and investment decisions was weaker, it remained positive, indicating some degree of influence. Overall, corporate tax rates, tax expenses, deferred tax rates, and tax knowledge were recognized as critical determinants of investment choices. Moreover, regression results confirmed that tax rates, tax expenses, and deferred tax significantly and positively affect investment decisions. These results underscore that favorable tax environments and well-managed fiscal policies can enhance investment activity, thereby supporting more efficient and strategic investment decision-making.

Keywords: Investment Decision, Tax Rates, Tax Expenses and Deferred and Tax.

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Corporate investment decisions including capital expenditures, research and development (R&D) outlays, and acquisition activities play a vital role in sustaining growth and maintaining competitiveness in advanced economies such as the United States, Japan, and the United Kingdom. In the U.S., corporate capital expenditure rose markedly from approximately \$1.5 trillion in 2015 to about \$2 trillion in 2020, largely driven by the technology and manufacturing sectors. R&D investment also followed a strong upward trajectory, increasing from \$404 billion in 2015 to around \$493 billion in 2020. In Japan, corporate R&D spending particularly in the automotive and electronics industries reached roughly \$175 billion in 2020, demonstrating the country's continued focus on innovation despite broader economic challenges (OECD, 2020). Similarly, the United Kingdom experienced a surge in acquisition activities, which peaked in 2019 with transactions totaling nearly £224 billion, underscoring an increased strategic emphasis on growth through mergers and acquisitions (Department for Business, Energy & Industrial Strategy, 2021).

In developing economies, corporate investment trends reflect both rapid growth opportunities and ongoing structural constraints. In India, capital expenditure totaled roughly \$160 billion in 2020, with a large share allocated to infrastructure and telecommunications indicative of the government's continued efforts to modernize and expand critical services (Reserve Bank of India, 2021). China has experienced particularly strong growth in research and development, with R&D spending rising to approximately \$378 billion in 2020, fueled by technological progress and a strategic shift toward high-tech industries (OECD, 2020). Similarly, acquisition activities in Brazil have accelerated in recent years, reaching about \$70 billion in 2019 as firms pursued consolidation and expansion in an increasingly competitive market (KPMG, 2020).

Corporate investment behavior in developing economies varies considerably depending on regional priorities and stages of economic development. In Brazil, for example, capital expenditure displayed strong resilience, reaching approximately \$143 billion in 2020, supported mainly by the energy, infrastructure, and agriculture sectors (Brazilian Institute

of Geography and Statistics, 2021). The country's R&D investment has also been noteworthy, totaling around \$33 billion in 2020, with significant allocations to biotechnology, agribusiness, and pharmaceuticals (OECD, 2020). Acquisition activity has likewise remained robust, with roughly \$70 billion in transactions in 2019 as firms engaged in strategic consolidation, particularly in finance and consumer goods (KPMG, 2020). Collectively, these investment trends highlight Brazil's strategic emphasis on exploiting its resource base and promoting innovation as key drivers of economic growth.

Tax-induced market imperfections can make dividend policy an especially important financial decision. Shareholders facing high marginal tax rates are generally willing to accept lower rates of return compared to those with lower marginal tax rates. As a result, delaying or avoiding dividend payments may impose costs on a firm, and the magnitude of these costs depends on the tax positions of its shareholders. Consequently, firms adopting different dividend policies tend to attract different "clienteles," or groups of shareholders with similar tax preferences. Any change in dividend policy can therefore alter the firm's ownership structure. In general, the higher an investor's marginal tax rate, the more they prefer the firm to retain and reinvest earnings rather than distribute them as dividends.

Berzins et al. (2019) found that the impact of taxes on dividends is significantly influenced by the interaction between agency costs and dividend payments. Their results suggest that dividend decisions reflect a trade-off between the costs associated with paying dividends and the benefits they provide. Following the tax reform, dividend payout ratios declined, implying that companies took advantage of the reform to implement tax planning strategies that benefited shareholders. Similarly, Nnadi and Akpomi (2005) reported a significant relationship between taxes and the dividend structure of banks, and additionally identified profit as a primary determinant of dividend policy. The valuation of dividend income became particularly relevant for high-yield firms after the reform. In another study, Rizqia and Sumiati (2013) evaluated the influence of managerial ownership, financial leverage, profitability, firm size, and investment opportunities on dividend policy. Their findings indicated that managerial ownership and investment opportunities have a significant effect on dividend policy, whereas financial leverage, profitability, and firm size do not.

Tax policy reforms including changes in tax rates, incentives, and regulatory provisions have a considerable influence on corporate investment behavior. Reductions in corporate tax rates tend to stimulate capital expenditures by raising firms' after-tax profits, thereby increasing the internal funds available for reinvestment in infrastructure, technology, and other productive assets. A clear illustration of this is the reduction of the U.S. corporate tax rate from 35% to 21% under the 2018 Tax Cuts and Jobs Act, which prompted many firms to channel their tax savings into business expansion and technological advancements (Zwick & Mahon, 2017). Likewise, tax incentives targeted at research and development such as credits and deductions encourage firms to increase spending on innovation by lowering the effective cost of undertaking research activities. In countries such as the UK and Canada, the expansion of R&D tax credits has been associated with a notable rise in corporate R&D expenditure as firms seek to enhance their innovative capacity (Bloom, 2019).

Changes in tax regulations can have a substantial impact on corporate investment strategies, particularly when they promote mergers and acquisitions. Tax policies that provide favorable treatment such as deferred tax liabilities or reductions in capital gains taxes make M&A transactions more attractive for firms pursuing growth through consolidation. For instance, the revision of goodwill tax treatment in Japan in 2020 improved the financial viability of acquisitions, resulting in a significant increase in M&A activity (Ishida, 2021). Additionally, tax rules that allow for the deferral or exemption of taxes on reinvested earnings encourage companies to retain and reinvest profits domestically rather than distributing them as dividends. Such measures support long-term investments in capital projects and research and development, ultimately fostering sustained economic growth and enhancing competitive advantage (Hassett & Hubbard, 2018).

1.2 Problem Statement

The link between tax policy changes and corporate investment behavior continues to be a crucial focus of both academic research and public policy. Recent reforms including reductions in corporate tax rates and the expansion of R&D tax credits have been designed to promote economic growth by shaping corporate decision-making (Zwick & Mahon, 2017; Hassett & Hubbard, 2018). Nevertheless, the degree to which such tax

changes actually stimulate capital expenditures, R&D investment, and merger and acquisition activity remains only partially understood. Although existing empirical evidence indicates that tax incentives can reduce the cost of investment and encourage greater corporate spending, their effectiveness appears to differ across industries and economic contexts (Bloom, Griffith & Van Reenen, 2019; Ishida, 2021). Consequently, a more systematic examination of how recent tax policy reforms affect corporate investment decisions is necessary to support the development of informed and effective tax legislation and economic policy.

Miller and Modigliani (1961) proposed the tax policies theory within the framework of a perfect market one with no taxes or transaction costs. They argued that, under such conditions, a firm's dividend policy is irrelevant to its value. In a market without tax considerations, capital gains are equivalent to dividend payments, and therefore investors are indifferent between the two forms of return. According to the MM theory, as long as the firm's investment policy remains unchanged, dividend policy has no effect on shareholder wealth because investors value dividends and capital gains equally in the absence of taxes and transaction costs.

Miller and Modigliani (1961) introduced the tax policy theory in the context of a perfect market, assuming the absence of taxes and transaction costs. They asserted that, under these conditions, a firm's dividend policy does not influence its overall value. In such a market, capital gains are effectively equivalent to dividends, making investors indifferent between receiving returns as dividends or as increases in stock value. The MM theory posits that, provided the firm's investment decisions remain unchanged, dividend policy has no impact on shareholder wealth because investors place equal importance on dividends and capital gains when taxes and transaction costs are not factors..

Fama and French (2001) conducted an empirical study to examine how factors such as firm size, profitability, and growth opportunities influence a company's tax policy decisions. They found that a firm's tax strategy is shaped by variables including profitability, size, debt, risk, asset tangibility, and growth potential. Their findings provided support for agency theory, signaling theory, and transaction cost theory in the context of tax policy. Specifically, the study revealed that among the variables analyzed profitability, size, liquidity, leverage, risk, asset composition, and growth dividend

policies were positively influenced by firm size in Australia and by liquidity in Japan, while risk had a negative effect on dividend policies in Japan. Additionally, the study identified a significant industry effect in both countries, highlighting the role of the industry environment in shaping corporate tax and dividend decisions.

Therefore, to provide evidence supporting one perspective over another, it is necessary to undertake this study. Accordingly, this research addresses the following issues concerning the impact of tax policy changes on corporate investment decisions in Nepal:

- i. What is the structure and pattern of effective tax rate, income tax expenses, deferred tax and investment decision?
- ii. Is there any correlation between effective tax rate, tax expenses, deferred tax with investment decision of Nepal?
- iii. What is the influence of effective tax rate, income tax expenses and deferred tax on investment decision?

1.3 Objectives of the Study

- i. To assess the structure of effective tax rate, tax expenses, deferred tax and investment decision in Nepal.
- ii. To examine the relationship between effective tax rates, income tax expenses, deferred tax and investment decision.
- iii. To analyze the impact of effective tax rate, income tax expenses and deferred tax on investment decision.

1.4 Hypotheses of the Study

H₁: There is a positive relationship between effective tax rates and investment decision.

H₂: There is a negative relationship between tax expenses and investment decision.

H₃: There is a positive relationship between deferred tax and investment decision

1.5 Rationale of the Study

Examining the impact of tax policy changes on corporate investment decisions is essential for policymakers, business leaders, and economists. Corporate tax rates, deductions, credits, and other fiscal incentives significantly shape the financial environment in which

firms operate. By affecting the cost of capital and the anticipated returns on investment, these policies can either stimulate or discourage corporate investment activity.

For businesses, comprehending the implications of tax policy changes is vital for effective strategic planning. Corporate decisions related to capital budgeting, resource allocation, and long-term investments are shaped by the tax environment. Conducting a detailed analysis enables firms to respond to policy changes and optimize their investment strategies. While existing research offers mixed evidence on the relationship between tax policies and corporate investment, this study seeks to strengthen the empirical understanding by utilizing recent data and advanced econometric methods to provide a more precise assessment of this relationship. Ultimately, the study aims to offer practical recommendations for policymakers. By determining which tax policy changes most effectively encourage corporate investment, the research can guide the development of future tax reforms that foster sustainable economic growth.

1.6 Limitations of the Study

The limitations of the study are given below:

- i. This study is concerned only on effect of tax policy changes in corporate investment decision.
- ii. This study is based on primary data.
- iii. This study is limited with in the around 400 sample.

CHAPTER - II

LITERATURE REVIEW

This chapter presents a review of empirical studies examining the impact of taxation, profitability, growth, and leverage on dividend policy. It is organized into three sections. The first section provides a theoretical review of the literature, outlining previous research conducted in both developed and developing countries, with a focus on bank-specific factors and bank performance. The second section offers an empirical review, including analyses of journal articles, previous theses, and summaries of relevant studies. Finally, the third section identifies the research gaps addressed by this study. Detailed discussions of these sections are provided in the following chapter.

2.1 Theoretical Review

2.1.1 A Theory of Dividends Based on Tax Clienteles

Allen and Welch (2000) explored why certain firms choose to pay dividends instead of repurchasing shares. They argued that when institutional investors face lower taxes than individual investors, dividends create an “ownership clientele” effect. Firms that distribute dividends tend to attract more institutional investors, who are better positioned to identify high-quality firms and ensure effective management. This theory aligns with observed patterns in dividend behavior, such as the persistence and stability of dividend payments, and introduces new empirical predictions for example, that dividend decisions are influenced more by the relative tax differences between institutional and retail investors than by absolute tax levels.

2.1.2 Miller and Modigliani theory on Dividend Policy

Modigliani and Miller (1961) proposed that in perfect capital markets, dividends are irrelevant to a firm’s value, as they do not affect either the stock price or the firm’s cost of capital. According to their theory, a firm’s value is determined solely by its investment policy, meaning that how earnings are allocated between retained earnings and dividends has no impact on value (Stulz, 2000). Their framework relies on several key assumptions: the existence of perfect capital markets without taxes or transaction costs; no single buyer or seller can influence market prices; free and costless access to market information; investors are rational and value securities based on discounted future cash flows; managers act as optimal agents of shareholders; and there is certainty about the firm’s

investment policy and future cash flows. MM argued that shareholders can create “homemade dividends” by selling shares if corporate dividends are lower than desired or reinvesting excess dividends if they are higher, making personal dividend streams perfect substitutes for corporate payouts. Because these homemade dividends can be achieved without cost, corporate dividend policy is theoretically irrelevant.

However, MM’s (1961) theory has faced criticism for its unrealistic assumptions, as real-world financial markets are far from perfect (Dhanani, 2005). Market imperfections have prompted the development of alternative dividend theories, including signaling theory, tax differential theory, clientele effect, agency theory, and dividend preference theory, all of which seek to explain dividend behavior under more realistic conditions.

2.1.3 Behavioral Finance Theory

The term “literacy” originally referred to the ability to read. Murugiah (2016) explains that learning is generally viewed in psychology and education as a process that integrates experiences and influences from cognitive, affective, and environmental domains, aiming to acquire, enhance, or transform knowledge, skills, values, and perspectives. Consequently, an individual’s level of understanding in any area including financial literacy can be influenced by factors such as age, gender, type and level of education, parents’ educational background, access to media, availability of financial literacy resources, and place of residence (Semercioglu & Akcay, 2016). Some scholars argue that models recognizing that certain investors are not fully rational, or that arbitrageurs cannot correct every instance of mispricing, offer a better explanation for certain financial phenomena (Barberis & Thaler, 2003). Recent psychological research has repeatedly shown that the traditional assumptions of finance theory are often descriptively inaccurate.

2.1.4 Psychosocial Theory

Psychosocial theory highlights three key developmental conflicts trust, willpower, and self-regulation that are closely linked to financial behavior. Financial security depends on individuals having confidence in banks and other financial institutions to manage their money responsibly (FDIC, 2009), and research shows that those who lack trust are less likely to invest in equities or do so at lower prices (Guiso, 2008). The development of financial literacy during preadolescence aligns with this theory, as willpower and self-regulation begin to emerge, and wise financial decision-making relies on fostering a

positive identity, self-confidence, and independence through adolescence into adulthood. Primary caregivers play a critical role in this process, but family, community, and cultural norms also shape attitudes toward money, as seen in Falicov's (2001) findings that Latino and Anglo-American perceptions of money are influenced by family life, personal boundaries, and interpersonal interactions. Moreover, research indicates that individuals with higher stock ownership are more likely to participate in their communities, underscoring the link between financial engagement and social involvement (Brown et al., 2008).

2.1.5 Dual-Process Theories

Dual-process theories propose that both cognitive and intuitive processes shape decision-making outcomes (Evans, 2008). While these theories vary, they universally recognize two primary processing pathways. Stanovich and West (2000) differentiate these as System 1 fast, intuitive, and non-conscious and System 2 slow, deliberate, and conscious. System 2 is responsible for analytical and logical thinking, which is essential for consistently executing financially literate investment strategies. Neuropsychological research by Goel and Dolan (2003) and Sanfey et al. (2006) provides empirical support for the existence and functioning of these dual processes.

2.2 Empirical Review

Gallemore (2025) investigated a study on tax policy expectations and investment. This study investigates how firms' tax policy expectations (TPE) develop and influence their investment responses to tax policy changes. Using a text-based method to measure TPE, the analysis shows that two major tax-related events the 2016 U.S. presidential election and the enactment of the Tax Cuts and Jobs Act (TCJA) generated substantial variation in TPE both across and within firms, with aggregate time-series patterns occasionally challenging assumptions from prior research. The study further finds that event-driven TPE are associated with investment behavior both prior to and following the TCJA's passage in 2017, exhibiting offsetting effects between the first and second moments, and that these expectations moderate the TCJA's intended investment-stimulating impact. Additionally, the response differs between domestic and multinational firms: domestic firms are more likely to adjust the overall level of investment, whereas multinational firms tend to shift investment across countries. Overall, the findings highlight that TPE

can significantly influence investment behavior during tax policy changes and demonstrate that the text-based measurement approach can be applied in future research examining the effects of tax policy.

Koivisto (2025) examined a study on tax planning and investment responses to dividend taxation. This study empirically examines how business owners respond to dividend taxes across various dimensions, including tax planning and investment. Using administrative tax data covering all privately held Finnish corporations, the analysis reveals pronounced responses in dividend payments to tax rate discontinuities and changes. Heterogeneity analysis indicates that more experienced owners and those with lower incomes exhibit higher tax base elasticities. Examining owners' income composition around tax changes shows clear shifting between wages and dividends, with minimal impact on the total gross income received from the firm. Analysis of firms' asset composition suggests that a substantial portion of the dividend payment response reflects inter-temporal income smoothing, while alterations in the tax schedule did not produce significant real effects on output or investment.

Ogbonnaya et al. (2025) studied on analysis of the Effect of Company Income Tax Policies and Foreign Direct Investment (FDI) in Nigeria. This study investigates the effect of corporate income tax (CIT) policies on foreign direct investment (FDI) in Nigeria over a 34-year period (1990–2023). Using an ex-post facto design, annual time series data were collected from the Central Bank of Nigeria (CBN) statistical bulletin, the Federal Inland Revenue Service (FIRS), and World Bank publications. Both short-run and long-run relationships were analyzed using Autoregressive Distributed Lag (ARDL) models to provide a detailed empirical assessment of the CIT–FDI nexus. Results indicate that, in the long run, CIT rates, GDP growth, inflation, unemployment, and exchange rates significantly influence FDI inflows. In the short run, GDP growth, interest rates, government capital expenditure, and inflation fluctuations are key determinants. The study concludes that while CIT policies significantly affect long-term FDI, their effectiveness depends on broader macroeconomic stability and institutional quality. Establishing a competitive and predictable corporate tax system, supported by infrastructure development, monetary stability, and regulatory transparency, is essential for positioning Nigeria as an attractive destination for sustainable foreign investment.

Shovkun (2025) investigated a study on tax impact on investments in research and development of industrial enterprises. The article demonstrates the potential of fiscal incentives to encourage business investment in research and development (R&D), thereby promoting production innovation and supporting high-quality economic growth. To assess the impact of tax instruments, the author employs econometric modeling to examine the relationship between R&D expenditures and changes in the tax burden an approach not previously applied by Ukrainian researchers. The study investigates the non-linear negative effects of increased tax burdens on enterprise R&D investment, and the statistical analysis confirms the significant role of tax instruments in stimulating industrial investment in R&D. These findings support the recommendation to introduce appropriate fiscal incentives, which are currently lacking in Ukrainian legislation.

Khan (2024) examined on effect of tax policy changes on corporate investment decisions in Saudi Arabia. The study aimed to examine the impact of tax policy changes on corporate investment decisions in Saudi Arabia using a desk research methodology, which involves collecting data from existing sources. This approach, also known as secondary data collection, was chosen for its cost-effectiveness and accessibility through online journals and library resources. The findings indicate that reductions in corporate tax rates generally encourage greater investment, as lower taxes free up funds for capital expenditures, research and development, and business expansion. Conversely, higher tax rates can discourage investment by reducing after-tax profits and making certain projects less financially attractive. Nonetheless, the relationship between tax policy and investment decisions is complex and influenced by factors such as the broader economic environment, industry conditions, and the specific nature of tax changes. Overall, the study provides evidence that tax policy plays a significant role in shaping corporate investment behavior.

Mwesigye and Kijjambu (2024) examined the relationship between tax education and income tax filing compliance among small taxpayers in Mbarara city. The study was motivated by the persistent low income tax filing compliance among small taxpayers in Uganda, particularly in Mbarara city, despite efforts by the Uganda Revenue Authority to enhance compliance. A cross-sectional research design was employed, targeting 33,979 small taxpayers in Mbarara city, including 31,324 individual and 2,655 non-individual taxpayers. From this population, a sample of 380 respondents was selected 350

individuals and 30 non-individuals using systematic random sampling across the city's six divisions. Data were analyzed using SPSS version 26.0, with correlation coefficients computed and presented in tables. The results revealed a positive and significant relationship between tax education and income tax filing compliance ($r = 0.631$, $p < 0.05$). The study concludes that tax education is a key factor in improving income tax filing compliance among small taxpayers.

Xu (2024) analyzed a study on tax policy and abnormal investment behavior. This paper examines tax-minimizing investment, in which firms shift capital expenditures toward the fiscal year-end to reduce their tax liabilities. An analysis of data from 1984 to 2016 shows that average investment in fiscal Q4 exceeds the average of Q1 through Q3 by 36%, a pattern observed both in the U.S. and internationally. The study uses this behavior to explore the mechanisms through which taxes influence corporate investment. Research leveraging variation in firm tax positions from administrative data and tax policy changes confirms that tax minimization drives these year-end investment spikes. The spikes are more pronounced for firms facing financial constraints or when the option value of waiting until year-end is higher, and cumulative investment levels do not fully reverse after these spikes. To explain these patterns, the authors develop an investment model incorporating tax asymmetries, showing that both a depreciation motive where late-year investments face lower effective tax rates and an option value motive where time-varying opportunities to minimize taxes exist are necessary to fit the data. The study also discusses the implications of these investment spikes for capital goods suppliers, lenders, and the design of stimulus policies.

Adetola et al. (2023) researched on tax planning and portfolio investment decision of listed manufacturing companies in Nigeria. Investment decision-making often involves biases that can either enhance or hinder performance, particularly in the face of future uncertainties. Effective investment requires substantial capital, which should be diversified to mitigate risk, yet companies and investors frequently overlook the tax implications. This study investigates the effect of tax planning on portfolio investment decisions among listed manufacturing companies in Nigeria. Employing an ex-post facto research design, the study considered all 54 manufacturing firms listed on the Nigerian Stock Exchange as of December 31, 2020, selecting a sample of 27 companies (50% of the population) using purposive and quota sampling techniques. Data from the

companies' financial statements were analyzed using multiple regression, revealing that tax planning significantly influences portfolio investment decisions. Additionally, financial leverage was found to significantly moderate the effect of tax planning on investment decisions. The study recommends that investors and management of listed manufacturing firms in Nigeria consider tax savings, deferred taxes, and tax shields when making portfolio investment decisions. Furthermore, investors should seek expert advice to evaluate the tax planning potential of firms before committing to investments.

AI- Sabti (2023) examined on the impact of tax avoidance on the cost of capital: evidence from Iraq and Kuwait stock exchange. The assessment of organizational success often relies on a limited set of variables, with the cost of capital being a key measure. Tax avoidance plays a central role in determining the cost of capital, prompting management accounting research to focus on its effects in selected commercial companies. This study examines 33 organizations listed on the stock exchanges of Kuwait and Iraq. Control variables including company size, financial leverage, operating cash flows, and return on assets (ROA) were incorporated into the analysis to calculate the cost of capital. Data were obtained from the companies' financial statements spanning 2013 to 2022. Relationships between variables were analyzed using the Methods of Moments-Quantile Regression (MMQR). The results indicate a negative relationship between tax avoidance and the cost of capital, while company size, financial leverage, operating cash flows, and ROA show positive correlations. The study highlights the significant impact of tax avoidance on the cost of capital, providing valuable guidance for policymakers seeking to reduce tax avoidance practices and improve capital efficiency.

Alfian and Ghozali (2023) researched on influence capital structure, policy dividends, profitability and tax avoidance on intrinsic Firm Value. This study investigates the impact of capital structure, dividend policy, profitability, and tax avoidance on the intrinsic value of manufacturing companies. Using purposive sampling, the study relied on secondary data from financial statements, analyzed through multiple linear regression. The results indicate that capital structure has a significant negative effect on intrinsic firm value, suggesting a heavy reliance on debt and a high debt burden. Profitability positively and significantly influences intrinsic firm value, highlighting its role as a key determinant. In contrast, dividend policy and tax avoidance were found to have no significant impact. The study emphasizes that management must carefully oversee intrinsic firm value, as it is a

major concern for investors, by optimizing resources, assets, and capital to maximize profits. Findings also underscore the importance of improving corporate governance and managing risks associated with tax avoidance and dividend policy. Additionally, the study provides insights into whether tax avoidance is perceived as strategic tax planning or non-compliance and its implications for intrinsic firm value.

Bhattacharjee and Das (2023) investigated on impact of corporate tax planning on financial performance of reliance industries ltd. This study examines the impact of corporate tax planning on the financial performance of Reliance Industries Ltd. Data were collected from secondary sources, including annual reports, websites, and journals. The research adopts a causal predictive design, using multiple regression analysis to test the relationships among variables over the period from FY 2005 to FY 2023. Purposive sampling was employed to select Reliance Industries due to its high market capitalization and significance within its industry, making it a valuable case for study. The analysis aims to provide insights into how corporate tax planning strategies affect the financial performance of a large corporation, offering practical implications for both academics and practitioners in corporate finance and tax planning.

Chindengwike, (2023) examined a study on the relationship between corporate tax revenue and private domestic investment in Tanzania. This study investigates the relationship between corporate income tax revenue and domestic private investment in Tanzania using a time series research design. The analysis covers annual data from 1998 to 2020. Data on private domestic investment, measured as gross fixed capital formation of the private sector as a percentage of GDP, were obtained from the World Bank, while corporate income tax revenue data were sourced from the Tanzania Revenue Authority. Preliminary tests were conducted for lag length selection, co-integration, multicollinearity, heteroscedasticity, and unit roots. An Error Correction Model (ECM) was then employed to capture both long-run and short-run relationships. The results indicate that, in the long run, corporate income tax positively and significantly influences private domestic investment in Tanzania.

Francis et al. (2023) researched on the moderating effect of firm size on tax saving and investment expenditure in Nigeria. This study investigates the impact of taxation and firm characteristics on investment expenditure, offering a different perspective from previous

research that primarily examines whether taxation directly affects investment. Using Pooled Ordinary Least Squares (OLS) regression, the analysis draws on data from 119 non-financial firms in Nigeria spanning 2010 to 2022. The results indicate that tax savings have a positive effect on investment expenditure. Although the interaction between tax savings and firm size is positive, it is not statistically significant, suggesting that while larger firms may slightly amplify the effect of tax savings on investment, the impact is not robust. The findings imply that managers use tax savings to reduce taxable income and increase investment expenditure. Based on these insights, the study recommends that non-financial firms focus on expanding total assets to boost overall investment expenditure and profitability, while tax authorities should implement an organized and flexible tax system to prevent negative impacts of taxation on investment.

Qi et al. (2023) analyzed on the effect of tax policy changes on business investment and economic growth. This research explores the effects of tax policy changes on business investment and the overall economic growth of the country. The study aims to highlight tax reporting and financial management practices that rely on manual processes and paper records. A primary quantitative method was employed to collect and analyze the data, using a questionnaire comprising 24 questions four on demographic information and 20 addressing key variables. The study's sample consisted of 100 respondents, all of whom provided primary data for analysis. Using a descriptive research design, the study identified both supporting and contradictory data. The variables were found to be reliable and validated, with significant coefficient values indicating which hypotheses were supported or not supported.

Sucipt (2023) examined on the effect of tax planning and tax burden on equity in financial companies in the banking sub-sector listed on the Indonesian Stock Exchange for the period 2019-2021. This study investigates the effects of tax planning and tax expenses on equity in financial companies within the banking sub-sector listed on the Indonesia Stock Exchange (IDX) during 2019–2021. Specifically, it examines (1) the partial effect of tax planning on equity, (2) the partial effect of tax expenses on equity, and (3) the simultaneous effect of both tax planning and tax expenses on equity. The population consisted of 45 financial companies in the banking sub-sector, with a purposive sample of 16 companies selected based on specific criteria, resulting in 75 financial statement observations for 2019–2021. Data were collected through

documentation studies and analyzed using descriptive statistics, classical assumption tests, and multiple linear regression, including partial, simultaneous, and coefficient of determination tests, with IBM SPSS version 25. The results show that tax planning and tax expenses each have a significant partial effect on company equity, and together they also significantly influence equity simultaneously.

Farooq et al. (2022) examined on corporate tax rate, financing policy and investment decisions: evidence from 8 Asian economies. This study examines the heterogeneous effects of corporate tax rates on financing policies and investment decisions, while assessing how different financing options can mitigate the negative impact of corporate taxation on industrial investment. The empirical analysis uses ten years of financial data from non-financial firms across eight Asian economies. Regression analysis is conducted using panel EGLS and system GMM models. The results reveal that corporate taxation has a significant negative effect on industrial investment and demonstrate the dynamic influence of various financing options. Specifically, corporate taxes positively affect bank and trade credit financing but negatively impact equity financing. Beyond linear effects, the study confirms that financing options moderate the relationship between corporate tax rates and industrial investment. The findings suggest that corporate managers should strategically acquire funding, particularly debt financing, to sustain investment levels under high corporate tax rates. Overall, the study highlights the interconnectedness of taxation, financing, and investment decisions and underscores the role of debt financing in mitigating the adverse effects of taxation on corporate investment.

Francis et al. (2022) researched on effects of taxation on corporate investment in Nigeria. This paper investigates the impact of tax aggressiveness on corporate investment expenditure in Nigeria, focusing on a sample of 119 non-financial firms listed on the Nigerian Stock Exchange from 2010 to 2017. The analysis employs pooled ordinary least squares (OLS), as well as random and fixed effects models. Tax aggressiveness is measured using indicators such as tax savings, effective tax rate, book-tax gap, and temporary tax differences, with firm size included as a control variable. The findings reveal that tax aggressiveness significantly influences corporate investment expenditure. Specifically, tax savings and effective tax rates exhibit consistent positive and statistically significant relationships with total investment expenditure, investment maintenance, and new investment expenditure, indicating that increases in these variables boost corporate

investment. Conversely, the book-tax gap negatively affects investment expenditure, as managers reduce taxable income to increase investment maintenance. Among control variables, total assets positively contribute to corporate investment expenditure.

Lubari et al. (2022) researched on effect of taxation on business investments. This study investigates the relationship between income tax and investment sentiment in the economy, highlighting that high-income earners pay more taxes than low-income earners, while certain groups such as people with disabilities, very low-income earners, and other exempted categories are not taxed. The research indicates that high taxes may discourage residents in the Portsmouth territory from working harder, as increased earnings result in higher tax obligations. The main conclusion is that government support for investment improves when income taxes are reduced, including providing loans to both large and small businesses. The study utilizes both primary and secondary data, with secondary research offering insights from previous studies and preliminary investigations providing first-hand observations. Analyses and conclusions are considered reliable due to the qualitative sampling approach employed.

Pujiastuti et al. (2022) researched on dividend policy, leverage on company value and tax avoidance as moderating variables. This study investigates the impact of Dividend Policy (DPR) and Leverage (DER) on Firm Value (PBV), with Tax Avoidance (ETR) serving as a moderating variable. Secondary data were collected from the annual financial statements of 14 consumer goods manufacturing companies listed on the Indonesia Stock Exchange during 2017–2020. The findings reveal that while leverage significantly affects firm value, dividend policy and tax avoidance do not. Additionally, the moderating effect of tax avoidance on the relationship between dividend policy, leverage, and firm value is weak, suggesting that these companies prioritize compliance with tax regulations over strategic interactions with tax authorities.

Rely (2022) researched on the impact of tax policy on investment decisions: a case study in the manufacturing industry. This research explores the complex relationship between tax policy and investment decisions in the manufacturing sector. Through a comprehensive literature review, the study examines how tax incentives such as investment tax credits, accelerated depreciation, and R&D deductions affect investment behavior, innovation, and competitiveness among manufacturing firms. Using a

qualitative methodology, the study systematically collects and analyzes scholarly articles, books, and reports to identify key themes, patterns, and relationships. Findings highlight the critical role of tax incentives in shaping investment decisions, reveal differential effects of tax reforms on firms of varying sizes, and consider the influence of global factors such as international tax competition and trade liberalization. The study provides valuable insights for policymakers and businesses seeking to understand and leverage tax policy to promote effective investment strategies in a dynamic global economy.

Ado et al. (2021) researched on the impact of corporate tax planning on the financial performance of listed companies in Nigeria. This study investigates the effect of corporate tax planning on the financial performance of companies listed on the Nigeria Stock Exchange (NSE) using secondary data from Thomson Reuters DataStream and company annual reports. The research covers 84 listed companies over nine years (2010–2018), totaling 756 observations, and employs multiple regression analysis. Findings indicate that inventory intensity has no significant relationship with Return on Assets (ROA), suggesting that increases in inventory levels do not enhance financial performance. In contrast, capital intensity exhibits a significant negative relationship with ROA, implying that higher capital investment may reduce financial performance, while leverage shows a positive and significant association with ROA, indicating that highly geared companies tend to achieve better returns. The study is grounded in Agency and Tax Planning theories and recommends that firms engage tax experts and adopt effective tax planning strategies to improve financial performance. Overall, the research provides valuable insights for scholars and financial decision-makers.

Haruna (2021) analyzed the impact analysis of investment decisions on taxations of corporate organizations: an empirical studies from Nigeria. This study investigates whether the choice of debt over equity significantly impacts corporate taxes in Nigeria, while also examining the influence of capital expenditure and the role of working capital management in corporate tax planning. Grounded in the Modigliani and Miller Theorems (1958, 1963), which account for taxes in capital structure decisions, the research focuses on five industries within the Federal Capital Territory, Abuja namely financial services, construction/real estate, oil and gas, consumer goods, and information and communication technology (ICT) with five corporate organizations selected as respondents. Findings indicate that the choice of debt versus equity, capital expenditure,

and working capital management do not have a statistically significant effect on corporate taxes. The study recommends that Nigerian companies implement robust processes to ensure accurate tax accounting and filing and engage tax consultants to incorporate effective tax planning mechanisms into their business operations.

Akinleye et al. (2019) investigated on assessing the effects of corporate taxation on the investment policy of manufacturing firms in Nigeria. This study examines the effect of corporate taxation on the investment policies of quoted manufacturing firms in Nigeria. Using secondary data from the annual reports of selected firms, the analysis employed descriptive and inferential statistics, specifically static panel least squares regression techniques. The results indicate that company income tax (CIT) is significantly related to investment decisions, revealing that higher corporate income taxes are associated with reduced investment by quoted manufacturing firms in Nigeria. This suggests that corporate taxation can directly influence firms' investment behavior, potentially constraining capital allocation toward growth and expansion.

Acharya (2016) examined the reforming value added tax system in developing world: the case of Nepal. Value Added Tax (VAT) has emerged as a key component of domestic tax reforms in many developing countries, including Nepal. In the Nepalese context, VAT provides various refunds to private sector activities to encourage investment in high-growth and export-oriented sectors. Specifically, total refunds particularly export refunds have a significant positive impact on GDP. Additionally, non-agricultural GDP strongly influences the VAT compliance-efficiency (C-efficiency) ratio, with a higher VAT gap leading to lower C-efficiency. Enhancing VAT C-efficiency, together with improved compliance, strengthens the government's capacity for domestic revenue generation.

Nwokoye & Rolle (2015) investigated on tax reforms and investment in Nigeria: an empirical examination. This study investigates the investment implications of Nigeria's tax reforms, focusing on the 2003 reforms and the 2012 National Tax Policy. Using annual time series data from 1981 to 2012, the study first conducted diagnostic tests to ensure that the OLS assumptions were satisfied. The findings reveal that both Value Added Tax (VAT) and Corporate Income Tax (CIT) significantly and positively stimulate Gross Fixed Capital Formation (GFCF), whereas Capital Expenditure on Development (CED) has a significant but negative effect on GFCF. Overall, the study concludes that

addressing challenges in Nigeria's tax administration such as multiple taxation and high corporate income taxes through tax reforms can create a favorable investment climate that encourages increased investment in the country.

Omesi and Peter (2015) examined the tax reforms in Nigeria: case for value added tax (VAT). This paper examined Nigeria's tax reforms with a focus on Value Added Tax (VAT), highlighting the rationale for replacing the sales tax with VAT and analyzing its annual contributions to the nation's total revenue. The study revealed that VAT was designed to support development at the lower tiers of government and noted that Nigeria's VAT rate is among the lowest globally. Based on these findings, the paper recommends increasing the VAT rate from 5% to 10% and amending the VAT Act according to the destination principle to impose VAT on imported services provided by non-resident companies.

Kawor and Kportorgbi (2014) analyzed on effect of tax planning on firms market performance: evidence from listed firms in Ghana. The study investigated the level of tax planning among firms and its relationship with market performance, focusing on 22 non-financial companies listed on the Ghana Stock Exchange over a twelve-year period starting from 2000, using a longitudinal correlational design. Results revealed that firms engage less in intensive tax planning when corporate income tax rates are low, and that tax planning has a neutral effect on firm performance. These findings challenge the common assumption that tax savings directly benefit investors, highlighting the need for investors to implement mechanisms to ensure that tax planning advantages are effectively realized.

Table 1

Empirical Review

SN	Authors	Variables	Methodology	Major Findings
1	Gallemore (2025)	Tax policy and Investment decision	Survey Method and Regression analysis	The study found that event-induced tax policy expectations (TPE) influenced investment both prior to and following the passage of the TCJA in 2017, with the first and second moments of TPE showing offsetting effects, and that these expectations moderated the

2	Koivisto (2025)	Dividend taxation, investment, income shifting, bunching	Survey, Quantitative study, Correlational Analysis	TCJA's intended investment-stimulating impact. The analysis indicates that more experienced owners and those with lower incomes exhibit higher tax base elasticities, and examining owners' income composition around tax changes reveals noticeable shifts between wages and dividends, with minimal impact on the total gross income received from the firm.
3	Ogbonnaya et al. (2025)	CIT, FDI, Tax Policy, GDP Growth, FDI inflows.	Short-run and long-run Autoregressive Distributed Lag (ARDL) methods	The findings reveal that, in the long run, corporate income tax (CIT) rates, GDP growth, inflation, unemployment, and exchange rates significantly influence FDI, whereas in the short run, GDP growth, interest rates, government capital expenditure, and inflation fluctuations are the critical determinants.
4	Shovkun (2025)	Tax Impact and Investment	Using econometric modeling methods	The statistical estimates confirmed that tax instruments play a significant role in stimulating industrial business investment in research and development (R&D).
5	Khan (2024)	Changes in tax laws (corporate tax rates), company investment decisions.	Desk methodology (literature review/secondary data analysis from online journals and libraries).	Lower corporate tax rates generally encourage corporate investment by increasing after-tax profits, whereas higher rates can discourage investment. However, the strength and nature of this relationship vary depending on broader economic conditions and specific industry dynamics.
6	Mwesigye and Kijjambu (2024)	Tax education, income tax filing compliance.	Cross-sectional survey of 380 small taxpayers. Systematic random sampling. Data analyzed with SPSS using correlation coefficients.	There is a strong and statistically significant positive correlation between tax education and income tax filing compliance, with a correlation coefficient of $r = 0.631$ and $p < 0.05$, indicating that higher levels of tax education are associated with better compliance among taxpayers.
7	Xu (2025)	Effective tax rates and investment decision	Regression analysis and correlational	Findings indicate that tax incentives aimed specifically at investment expenditures

			analysis	significantly influence investment planning decisions, even among the largest firms, highlighting their effectiveness in shaping corporate investment behavior.
8	Adetola et al. (2023)	Tax planning, portfolio investment decisions, financial leverage (moderating variable).	Export-factor research design; sample of 27 listed manufacturing companies. Purposive and quota sampling. Multiple regression analysis.	Tax planning significantly influences portfolio investment decisions, with financial leverage playing a crucial moderating role in shaping this relationship.
9	Al-Sabiti (2023)	Tax evasion, cost of capital. Control variables: ROA, operating cash flows, financial leverage, firm size.	Quantitative study of 33 listed companies (2013-2023). Moments-Quantile-Regression (MMQR) methods.	A negative correlation exists between tax evasion and the cost of capital, indicating that higher levels of tax evasion are associated with a lower cost of capital for firms.
10	Alfian and Ghozali (2023)	Capital structure, dividend policy, profitability, tax evasion, intrinsic firm value.	Secondary data from financial statements of manufacturing companies. Purposive sampling. Multiple linear regression analysis.	Capital structure negatively affects firm value, meaning higher debt levels reduce firm value, while profitability positively influences it. Dividend policy and tax evasion, however, show no significant impact on firm value.
11	Bhattacharjee and Das (2023)	Corporate tax planning, financial performance.	Case study of Reliance Industries Ltd. (FY 2005-2023). Causal predictive design using multiple regression analysis on secondary data.	The study highlights the relationship between corporate tax planning and financial performance, but it does not provide specific numerical results or detailed quantitative findings in the summary.

12	Chindengwike, (2023)	Tax rate, tax revenue, investment decision, GDP	Regression analysis with Time series research design	The study found that, in the long run, corporate income tax positively and significantly affects private domestic investment.
13	Francis et al. (2023)	Tax aggressiveness (tax saving, ETR, book tax gap), corporate investment spending. Control variable: company size.	Analysis of 119 non-financial companies (2010-2017). Fixed effects, random, and pooled OLS models.	The study found that tax aggressiveness has a significant impact on corporate investment, with higher tax savings and effective tax rates positively influencing investment expenditures.
14	Qi et al. (2023)	Tax policy changes, firm investment, economic growth.	Primary quantitative approach using a questionnaire for 100 respondents. Descriptive study design.	The study produced inconclusive results, reporting contradictory data and findings, with some hypotheses supported while others were not.
15	Sucipt (2023)	Tax planning, tax expenses, company equity.	Analysis of 75 financial statement data sets. Purposive sampling. Multiple linear regression analysis.	The study found that tax planning partially affects equity, tax expenses partially affect equity, and together, tax planning and tax expenses simultaneously influence equity.
16	Farooq et al. (2022)	Corporation tax rates, investment choices, financing policies (equity, bank, and trade credit).	Panel data analysis of non-financial companies over 10 years. System GMM model and panel EGLS regression.	The study indicates that corporate taxation negatively affects investment decisions, while using debt financing can help mitigate the adverse impact of high corporate taxes on industrial investment.
17	Francis et al. (2022)	tax saving, effective tax rate, book tax gap, temporary tax difference and Investment Decision	Mixed methods (primary and secondary research). Qualitative sampling approach.	The study finds that higher tax savings and effective tax rates lead to increased total investment expenditure, as well as higher spending on both investment maintenance and new investment projects in Nigeria.
18	Lubari et al. (2023)	Income tax, investment sentiment/conditions.	Mixed methods (primary and secondary research). Qualitative	Lower income taxes foster a more favorable environment for investment.

			sampling approach.		
19	Pujiastuti et al. (2023)	Dividend policy, leverage, firm value, tax avoidance (moderating variable).	Analysis of secondary data from 14 consumer goods companies (2017–2020).		Leverage affects firm value, while dividend policy and tax avoidance do not, and tax avoidance has only a minimal moderating effect.
20	Rely (2023)	Tax laws (tax incentives), investment choices, innovation, competitiveness.	Qualitative research methodology (literature review).		Tax incentives play a key role in shaping investment decisions, with their effects differing based on firm size and international economic factors.
21	Ado et al. (2022)	Corporate tax planning (inventory/capital intensity, leverage), financial performance (ROA).	Secondary data analysis of 84 companies (2010-2018). Multiple regression.		Capital intensity showed a significant negative relationship with ROA, leverage had a significant positive relationship, and inventory intensity exhibited no significant correlation with ROA.
22	Haruna (2022)	Investment decisions, capital expenditure, working capital management, corporate taxes.	Survey of five corporate organizations from different industries.		The study found that investment decisions, including debt versus equity choice, capital expenditure, and working capital management, had no statistically significant impact on corporate taxation.
23	Akinleye et al. (2019)	Corporate income tax (CIT), investment strategy (INV).	Secondary data analysis using static panel least square regression.		The study found that corporate income tax (CIT) significantly influences investment decisions, with higher CIT levels being associated with lower investment in manufacturing firms.
24	Acharya (2016)	VAT reform, tax education, export refunds, VAT C-efficiency ratio.	Case study of Nepal.		The study indicates that VAT refunds, particularly for exports, significantly enhance tax education and compliance, which in turn positively affects the VAT C-efficiency ratio and strengthens government revenue generation capacity.
25	Nwokoye & Rolle (2015)	Tax reforms, VAT, Tax Policy, Investment	Multiple regression OLS and Correlation analysis.		The study reveals that both VAT and CIT have a significant positive impact on GFCF, whereas CED has a significant but negative effect on GFCF.

26	Omesi and Peter (2015)	Value Added Tax (VAT) reform, government revenue, development.	Descriptive/Policy review.	Nigeria has one of the lowest VAT rates in the world, and it has been recommended that the rate be increased from 5% to 10% to help fund national development initiatives.
27	Kawor and Kportorgbi (2014)	Tax planning, market performance, corporate income tax rates.	Longitudinal correlative design; analysis of 22 non-financial companies over 12 years.	Tax planning has no significant impact on a firm's market performance. Additionally, companies tend to avoid aggressive tax planning strategies when tax rates are relatively low.

2.3 Research Gap

The influence of tax policy changes on corporate investment decisions has been a central topic in financial economics. De Mooij and Ederveen (2003) examined how sensitive corporate investment is to tax rates across countries, though their cross-country approach may overlook specific national factors. Goolsbee (2004) offered valuable insights into how firms adjust investment in anticipation of tax changes, but more research is needed to confirm these patterns across sectors and economic contexts. Earlier studies by Auerbach (1983) and Summers (1981) established a general relationship between tax policy and investment, emphasizing that tax rates and incentives affect the cost of capital and, consequently, corporate investment decisions. However, much of this work treats tax policy broadly, without distinguishing between different types of tax changes such as those involving income tax, capital gains tax, or tax credits.

More recent studies, such as Desai and Dharmapala (2009), have explored sector-specific tax policies, showing that industries react differently to tax changes depending on factors like capital intensity and profit margins. However, this line of research often fails to fully capture how these sectoral variations shape broader corporate investment trends, particularly during periods of economic uncertainty. Dynamic models developed by scholars like Hassett and Hubbard (1996) have deepened the understanding of how tax policy influences investment over time, highlighting the role of both current tax rates and expectations about future tax changes. Despite these advancements, there is still a need for further empirical research to test these models across different economic cycles especially in light of recent global tax reforms and economic disruptions.

In conclusion, while existing research has greatly enhanced our understanding of the relationship between tax policy and corporate investment, there remains a clear need for more nuanced, sector-specific, and comparative studies. Filling this gap could offer policymakers more targeted insights for designing tax policies that effectively stimulate corporate investment across diverse economic contexts.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology refers to the systematic approach used to address a research problem. It involves the science of studying how research should be conducted, encompassing the procedures researchers use to describe, explain, and predict phenomena. In essence, research methodology is the study of the methods through which knowledge is acquired. Its primary goal is to outline the research design and strategy, providing a clear plan for how the study is carried out. The purpose of research methodology is to detail and justify the processes followed in conducting the research.

3.1 Research Design

This research study employs both descriptive and causal research designs to examine the effects of taxation, leverage, growth, return on assets (ROA), and bank size on the dividend policy of development banks in Nepal. The descriptive research design is used to identify facts and gather sufficient information regarding the impact of tax rates, tax expenses, and deferred taxes on the investment decisions of these banks.

3.2 Population and Sample

The study targets officer-level employees from banking and financial institutions, as well as large corporate enterprises in Nepal. A sample of approximately 400 respondents was selected for data collection. Due to constraints related to time, cost, and resources, a convenience sampling method was employed to facilitate easier access to participants. While not random, this approach ensured the feasibility of the study and enabled the collection of relevant insights from key sectors.

3.3 Nature and Sources of Data

As previously mentioned, this study relies solely on primary data sources. The primary method of data collection was a structured questionnaire, which was carefully designed to align with the objectives of the study. The questionnaire was administered to individuals at various organizational levels through direct interviews. The researcher personally conducted the interviews to ensure clarity and consistency in responses. Several

techniques were employed in the process of collecting primary data, which are outlined below:

Primary Sources: Primary data was collected through questionnaires administered to a diverse group of respondents, representing different ages, genders, occupations, educational backgrounds, as well as varied attitudes and beliefs.

3.4 Method of Analysis

This study utilizes a range of financial and statistical tools, including descriptive analysis of financial and profitability ratios, correlation analysis to examine relationships, and regression analysis. Overall, both descriptive and inferential statistical methods are employed to analyze the data effectively.

Descriptive statistics are concise numerical summaries that describe the main features of a data set, whether it represents an entire population or a sample. They are generally divided into measures of central tendency and measures of variability (or spread). Measures of central tendency include the mean, median, and mode, while measures of variability encompass standard deviation, variance, minimum and maximum values, as well as kurtosis and skewness.

Mean

The most common and widely used measure to represent a data set with a single value is the arithmetic mean. It is calculated by dividing the sum of all observations by the total number of observations. The mean values of different variables represent their average levels over the study period.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Standard Deviation

Dispersion refers to the extent to which individual data points vary around a central value. Standard deviation is a common measure of absolute dispersion. A larger standard deviation indicates greater variability in the data, while a smaller standard deviation suggests that the observations are more uniform and homogeneous.

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

Correlation Analysis

Correlation analysis is a statistical tool used to measure the strength and direction of the relationship between two variables. In this study, simple correlation analysis has been employed. The correlation coefficients between various financial variables were calculated and presented in a matrix format for thorough interpretation. The correlation coefficient between two variables, X and Y, can be calculated using the following formula:

$$\text{Correlation Coefficient (r)} = \frac{n\Sigma XY - \Sigma X\Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

$r = 0$ means that the variables are uncorrelated. $r = -1$ implies that there is a perfect negative correlation between the variables. $r = +1$ implies that there is a perfect positive correlation between the variables.

Coefficient of Determination (r^2)

The coefficient of determination measures the strength of the linear relationship between two variables, where one is independent and the other dependent. In other words, it represents the percentage of the total variation in the dependent variable that can be explained by the independent variable. The value of the coefficient of determination ranges from zero to one. A value of one occurs only when there is no unexpected variation, meaning all data points lie perfectly on the regression line in a scatter diagram.

Regression Analysis

Regression analysis indicates the direction of movement between variables but does not fully capture their relative changes. However, it helps us understand how one variable changes in relation to another. In this study, regression analysis has been performed on the selected variables, with the results calculated and interpreted accordingly. The factors influencing the estimates of PS can be quantified and evaluated using multiple regression analysis. This statistical technique allows for predicting the value of a dependent variable based on one or more independent variables. Typically, multiple regression involves calculating the least squares method, standard error of estimate, and the multiple coefficient of determination to assess the model's accuracy. The multiple regression equation is expressed as follows:

Model 1

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e_i$$

$$ID = \alpha + TRX_1 + TE X_2 + DT X_3 + e_i$$

Where,

α = Intercept, β = Coefficient

TR = Tax Rates

TE = Tax Expenses

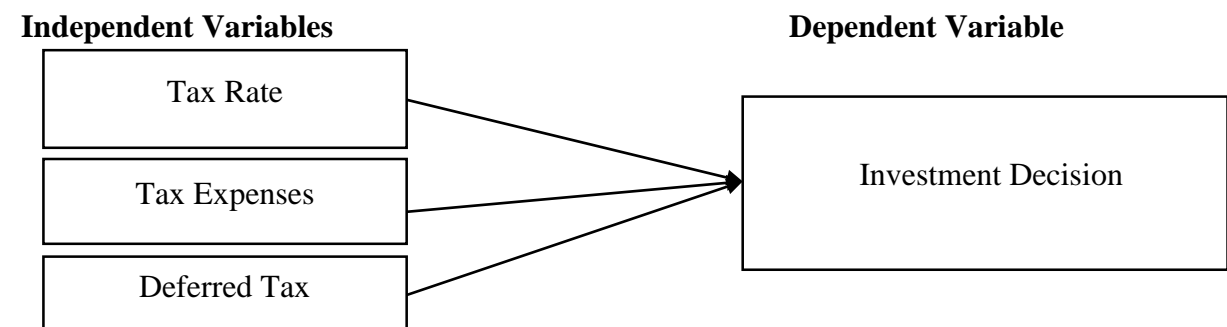
DT = Deferred Tax

ID = Investment Decision

3.5 Research Framework

Figure 1

Research Framework



(Source: Farooq et al. 2022)

Definition of Variables

Tax Rate

The tax rate refers to the percentage of an individual's or corporation's income that is subject to taxation. Tax rates also apply to capital gains from investments and to sales taxes on goods and services. Governments impose taxes on their citizens to finance social services and to build and maintain the country's infrastructure. The revenue generated from taxes benefits the nation, society, and all residents (Khan, 2024).

Tax Expenses

Tax expenses significantly influence the investment decisions of both individuals and organizations. Higher tax burdens reduce disposable income and available capital, which can discourage investment in financial and physical assets. For businesses, increased tax costs often result in lower profitability and diminished incentives to expand or upgrade

assets, as the returns after tax decline. Tax expenses also play a key role in shaping risk tolerance, investment timing, and the choice of investment options. Overall, a clear understanding of tax implications is vital for effective investment planning and resource allocation (Farooq et al., 2022).

Deferred Tax

Deferred tax refers to the tax consequences of temporary differences between accounting income and taxable income, arising when income or expenses are recorded at different times for financial reporting versus tax purposes. Deferred tax can represent either an asset or a liability. Its impact on investment decisions is important because a large deferred tax liability signals potential future tax payments, which can affect cash flow management and perceived risk. On the other hand, deferred tax assets can strengthen a company's financial position. Both investors and managers take these factors into account when assessing long-term investments, as they affect net income, future tax obligations, and overall financial stability (Mwesigye and Kijjambu, 2024).

Investment Decision

An investment involves committing financial resources or purchasing an asset with the expectation of generating income in the future. It is made with the goal of benefiting from potential appreciation in the asset's value over time. Essentially, an investment is a forward-looking decision to acquire assets intended to produce profit or income at a later date (Khan, 2024).

CHAPTER – IV

RESULTS AND DISCUSSION

The purpose of this study is to identify the factors affecting tax rates, tax expenses, and deferred tax in relation to investment decisions, as well as to clarify the relationships between these factors and investment choices. The study examines the strength and significance of the relationships between dependent and independent variables using various statistical techniques and methodologies.

4.1 Results

4.1.1 Descriptive Analysis of Corporate tax rates

The microfinance program's descriptive analysis of the corporate tax rates is presented in this section.

Table 2

Analysis of Corporate tax rates

Code	Particular	Mean	Std. Dev.
CTR	High corporate tax rates deter our new capital investments significantly.	3.153	1.363
CTR	Favorable tax changes encourage us to expand investment scale confidently.	3.347	1.323
CTR	Stable, predictable tax rates matter more than their absolute level.	3.281	1.336
CTR	Lower local tax rates strongly influence our investment location choice.	3.152	1.279
CTR	Higher investment taxes reduce appeal of riskier, high-yield projects.	3.355	1.326

(Source: Survey 2025)

The descriptive analysis of corporate tax rates captures respondents' views on how tax policies affect corporate investment decisions. The average responses to five key statements ranged from 3.152 to 3.355 on the Likert scale, indicating a moderate level of agreement overall. The strongest agreement (mean = 3.355) was for the statement that higher investment taxes reduce the attractiveness of riskier, high-return projects, suggesting that tax burdens may discourage companies from taking investment risks.

Similarly, a mean of 3.347 showed that favorable tax changes are seen as strong incentives for companies to confidently increase their investment activities. Respondents also moderately agreed (mean = 3.281) that having stable and predictable tax rates is more important than the actual tax levels, highlighting the importance of policy certainty. In contrast, slightly lower agreement was noted for statements about high corporate tax rates deterring new investments (mean = 3.153) and the influence of lower local tax rates on location decisions (mean = 3.152), indicating these factors are seen as less influential. The standard deviations, ranging between 1.279 and 1.363, reflect moderate differences in respondents' opinions. Overall, the results suggest that while various aspects of corporate taxation impact investment decisions, tax stability, incentives, and effects on high-risk investments are viewed as especially important.

Descriptive Analysis of Tax Expenses

Table 2 presents the descriptive analysis of respondents' perceptions regarding the impact of tax expenses on investment decisions.

Table 3

Analysis of Tax Expenses

Code	Particular	Mean	Std. Dev.
TE	High corporate tax rates discourage large-scale investment project decisions.	3.090	1.351
TE	Tax incentives drive our capital commitment to new projects.	3.322	1.326
TE	Tax law uncertainty makes us delay or reduce investments.	3.282	1.355
TE	After-tax return is crucial in evaluating investment viability.	3.157	1.287
Te	We compare international tax regimes before expanding our operations.	3.285	1.367

(Source: Survey 2025)

The table provides a descriptive analysis of respondents' views on the impact of tax expenses (TE) on investment decisions, measured on a Likert scale. Mean scores range

from 3.090 to 3.322, reflecting moderate agreement overall. The highest mean (3.322) relates to the statement that “Tax incentives drive our capital commitment to new projects,” indicating that incentives are a strong motivator for investment. This is closely followed by the importance of comparing international tax regimes before expansion (mean = 3.285) and concerns over tax law uncertainty causing delays or reductions in investment (mean = 3.282), underscoring the roles of tax competitiveness and stability. The significance of after-tax returns in evaluating investment viability also shows moderate agreement (mean = 3.157). The lowest mean (3.090) concerns the discouraging effect of high corporate tax rates on large-scale investments, though it remains above neutral, suggesting some deterrence. Standard deviations ranging from 1.287 to 1.367 indicate moderate variability in respondents’ perceptions of tax factors influencing investment decisions.

Descriptive Analysis of Deferred Tax

The table presents a descriptive analysis of respondents’ views on deferred tax.

Table 4

Analysis of Deferred Tax

Code	Particular	Mean	Std. Dev.
DE	Recognizing DTLs boosts current cash flow for investments.	3.22	1.327
DE	Persistent DTLs raise capital costs, deterring major investments.	3.60	1.341
DE	Investment appraisals consider tax benefits from depreciation strategies.	3.47	1.416
DE	Deferred tax positions shape acquisition valuation and decisions.	3.17	1.223
DE	DTL reversal uncertainty prompts conservative long-term investment planning.	3.17	1.541

(Source: Survey 2025)

The table presents descriptive statistics on respondents’ perceptions of the impact of Deferred Tax Liabilities (DTLs) on investment decisions, based on Likert-scale

responses. The statement “Persistent DTLs raise capital costs, deterring major investments” received the highest mean score of 3.60, reflecting strong agreement that ongoing DTLs negatively influence investment choices. The statement regarding the consideration of tax benefits from depreciation strategies in investment evaluations also scored relatively high, with a mean of 3.47, indicating it is a common practice. The statement “Recognizing DTLs boosts current cash flow for investments” had a moderate mean score of 3.22. Meanwhile, the impacts of DTLs on acquisition decisions and the uncertainty surrounding their reversal received slightly lower mean scores of 3.17, with the latter showing a high standard deviation of 1.541, suggesting varied opinions among respondents. Overall, the findings emphasize that DTLs have a significant yet complex influence on different aspects of corporate investment decisions.

Descriptive Analysis of Investment decision

The table presents a descriptive analysis of respondents’ views on the concept of women’s empowerment.

Table 5

Analysis of Investment decision

Code	Particular	Mean	Std. Dev.
ID	A high corporate tax rate discourages our company from pursuing large capital investments.	3.18	1.349
ID	High current tax expenses limit cash flow and reduce budgets for capital investments.	3.35	1.321
ID	A large Deferred Tax Liability prompts cautious, conservative long-term investment decisions by management.	3.28	1.352
ID	Significant Deferred Tax Assets motivate management to fast-track or approve delayed investment projects.	3.17	1.286
ID	Our firm prioritizes current tax expense effects over deferred taxes in investment evaluations.	3.32	1.359

(Source: Field Survey 2023)

The table provides descriptive statistics summarizing the influence of various tax-related factors on corporate investment decisions, based on responses measured on a Likert scale.

Each statement's mean and standard deviation are presented. The highest mean score (3.35) corresponds to the statement that "High current tax expenses limit cash flow and reduce budgets for capital investments," indicating strong agreement that current tax burdens significantly restrict available investment funds. Similarly, the statement "Our firm prioritizes current tax expense effects over deferred taxes in investment evaluations" has a mean of 3.32, reflecting a tendency for firms to focus more on immediate tax impacts than on deferred tax considerations. Deferred tax factors also show meaningful influence; for instance, the statement "A large Deferred Tax Liability prompts cautious, conservative long-term investment decisions" has a mean of 3.28, suggesting moderate agreement that such liabilities encourage more conservative planning. In contrast, the statement "Significant Deferred Tax Assets motivate management to fast-track or approve delayed investment projects" received the lowest mean (3.17), indicating it is perceived as less influential than current tax factors.

Overall, the responses indicate that current tax expenses exert a somewhat greater influence on investment decisions compared to deferred tax items, although all tax-related factors are viewed as important. The standard deviations, ranging from 1.286 to 1.359, suggest moderate variability in respondents' opinions.

4.1.2 Correlation Analysis

Pearson's correlation analysis has been employed to assess the strength and direction of the relationship between two or more variables under study. A positive correlation indicates that the variables move in the same direction, with one increasing as the other increases. In contrast, a negative correlation signifies an inverse relationship, where one variable rises while the other falls. Additionally, this section addresses potential technical issues that may arise during the construction of a multiple regression model. Correlation analyses were conducted separately for both independent and dependent variables.

Correlation Coefficient for Investment decision

This section presents a correlation analysis of investment decisions in relation to the independent variables: corporate tax rates, tax expenses, and deferred tax. The results, as shown in the table, indicate a positive relationship between the dependent variable and each of the independent variables.

The table presents the Pearson correlation coefficients between the independent variables and investment decisions. These correlations assist in regression analysis by verifying whether the direction of the relationships aligns with prior expectations. Corporate tax rates, tax expenses, and deferred tax are key factors influencing investment decisions in the corporate business environment.

Table 6

Correlation Analysis of dependent and independent variables

Variables	ID	TR	TE	DT
Investment decision	1			
Tax rates	.872**	1		
Tax Expenses	.380**	.650**	1	
Deferred Tax	.248**	.520**	.627**	1

Note: ID = Investment decision, TR= Tax rates, TE = Tax Expenses, DT = Deferred Tax

(Source: Output of SPSS Calculation)

The correlation coefficient between investment decisions and tax rates is 0.872, indicating a strong positive relationship. This suggests that changes in tax rates significantly influence investment decisions, with higher or favorable rates encouraging more confident investments. A moderate positive correlation of 0.380 exists between investment decisions and tax expenses, showing a less strong but still meaningful association. The correlation between investment decisions and deferred tax is weaker at 0.248, indicating a modest positive influence. All correlations are statistically significant at the 1% level, confirming their reliability. Additionally, tax rates correlate moderately to strongly with both tax expenses (0.650) and deferred tax (0.520), highlighting interdependence among these factors. Overall, tax-related variables play a vital role in shaping corporate investment decisions.

4.1.3 Regression Analysis

Regression analysis identifies which independent variables explain the variation in the dependent variable, the degree of their influence, and which factors are statistically significant compared to others. Linear regression was used to examine the impact of the independent variables on the dependent variable. The analysis involved calculating and

presenting the F-statistic and t-values to assess the overall model fit and the significance of individual predictors.

Table 7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.736a	.541	.534	.46616

a. Predictors: (Constant), Tax rates, Tax Expenses, Deferred Tax

The model summary shows that the coefficient of determination (R^2) is 0.541, indicating that the independent variables tax rates, tax expenses, and deferred tax explain 54.10% of the variation in the dependent variable, investment decisions. This value reflects the combined influence of all independent variables on the total variance in investment decisions. Additionally, the standard error of the estimate is 0.46616, representing the average deviation of observed investment decision values from the predicted regression line.

Table 8

ANOVA Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	100.723	3	16.787	77.251	.000b
Residual	85.402	196	.217		
Total	186.124	199			

a. Dependent Variable: Investment decision

b. Predictors: (Constant), Tax rates, Tax Expenses, Deferred Tax.

(Source: Output of SPSS 23)

Table 8 presents the ANOVA results showing the effect of independent variables on the dependent variable. The independent variables tax rates, tax expenses, and deferred tax have a significant impact on investment decisions, as evidenced by the high F-value of 77.251 and a p-value of 0.000, which is well below the 5% significance threshold.

Table 9*Regression Coefficients*

Model		Unstandardized		Standardized		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.335	.203		1.644	.101
	Tax rates	.137	.051	.103	2.666	.008
	Tax Expenses	.485	.049	.442	9.912	.000
	Deferred Tax	.287	.038	.318	7.632	.000

a. Dependent Variable: ID= Investment Decision

(Source: Output of SPSS)

Regression analysis output: coefficient

The estimated linear equation of this model is,

$$\hat{Y} (\text{ID}) = 0.335 + 0.137\text{TR} + 0.485\text{TE} + 0.287\text{DT}$$

The beta coefficients from the regression analysis indicate the relative importance of each independent variable in explaining the variation in the dependent variable. Since the constant term's significance level exceeds 0.05, it does not meaningfully influence investment decisions. According to the results in Table 14, the significant beta values for corporate tax rates, tax expenses, and deferred tax are 0.137, 0.485, and 0.287, respectively. This means that a one-unit increase in corporate tax rates, tax expenses, and deferred tax is associated with increases of 0.137, 0.485, and 0.287 units in investment decisions, respectively.

4.2 Discussion

The study's results provide a comprehensive understanding of how corporate tax structures affect investment decisions, highlighting a hierarchy of influential factors shaping corporate strategy. The findings show that although all tax components have an effect, their influence varies in significance. Rather than merely confirming that taxes impact decisions, the analysis clarifies which specific tax issues are most critical for decision-makers.

A key insight from the descriptive analysis is that certainty and incentives hold greater importance for firms than the absolute tax rate levels. Although respondents recognized

that high tax rates may discourage investment, they emphasized that stable and predictable tax policies, along with favorable tax changes, serve as stronger motivators. This implies that companies are better able to operate within a consistently high tax environment than one marked by uncertainty, aligning with findings by Shovkun (2025). Additionally, research by Alfian and Ghozali (2023) supports the view that higher investment taxes diminish the attractiveness of riskier projects, demonstrating how tax policy can directly influence a firm's willingness to pursue innovation and high-growth opportunities.

Interestingly, although the initial correlation analysis revealed a strong relationship between tax rates and investment decisions, the regression model offers a more nuanced understanding, as supported by Francis et al. (2023). When considering all variables together, the direct effect of tax rates on investment decisions weakens significantly, while tax expenses emerge as the most influential factor. This aligns with descriptive findings that managers prioritize factors directly impacting cash flow and capital budgets (Al-Sabti, 2023). Essentially, the abstract notion of a "tax rate" is experienced through the more immediate and tangible impact of "tax expenses," making tax expenses the primary operational concern for firms.

The role of deferred taxes adds an additional layer of complexity to investment decisions. Descriptive statistics indicate that persistent Deferred Tax Liabilities (DTLs) are a significant deterrent to investment, receiving the highest agreement among respondents, which aligns with the findings of Farooq et al. (2022). This suggests that long-term obligations on the balance sheet heavily influence strategic planning. Supporting this, regression analysis ranks deferred tax as the second most impactful factor, although this contrasts somewhat with the results reported by Pujiastuti et al. (2022). Together, these findings highlight corporate financial priorities: immediate cash flow effects from tax expenses take precedence, followed by the strategic concerns related to accumulated deferred tax liabilities. Overall, the study illustrates that corporate investment decisions are a complex balancing act, driven less by headline tax rates and more by the immediate liquidity effects of tax expenses and the cautious consideration of deferred taxes in long-term planning (Haruna, 2021).

The influence of various factors on investment decisions such as tax rates, tax expenses, and deferred taxes can be further explored through additional variables. Future studies should investigate these relationships in greater detail.

CHAPTER –V

SUMMARY AND CONCLUSION

This chapter offers a concise overview of the study's principal findings, conclusions, and recommendations for future research. It summarizes the research by emphasizing its key outcomes and provides a synthesis of the data and analysis within the conclusion, drawing clear connections between the study's objectives and results. Additionally, this section discusses the broader implications of the findings, addressing their relevance to theory, practical application, and potential directions for further investigation. Understanding the significance and impact of the research contributions is a central focus here.

5.1 Summary

The first section of this study addresses the relationship between tax rates, tax expenses, deferred tax, and investment decisions. This research offers an in-depth analysis of how various elements of corporate taxation namely tax rates, tax expenses, and deferred tax affect corporate investment decisions in the Nepalese context. The main objective was to go beyond the broad assertion that "taxes matter" and pinpoint which specific tax-related factors most significantly influence a firm's investment choices.

To accomplish this, the study utilized both descriptive and causal research designs, gathering primary data via questionnaires distributed to around 400 officer-level employees from the banking, financial, and corporate sectors. The collected data was then analyzed using descriptive statistics, correlation analysis, and multiple regression techniques to explore the relationships and assess the predictive influence of tax variables on investment decisions.

The study's key findings highlight a clear ranking in the influence of tax factors on investment decisions. Although initial analysis indicated a strong correlation between tax rates and investment choices, the detailed regression results revealed that current tax expenses exert the strongest and most immediate effect. This implies that business managers prioritize the direct impact of taxes on their cash flow and capital availability for investments. Additionally, deferred tax emerged as the second most important factor, with ongoing Deferred Tax Liabilities (DTLs) viewed as significant obstacles to large-

scale, long-term investments, underscoring how future financial obligations and balance sheet considerations shape corporate strategy.

In the final regression model, the direct effect of the headline tax rate was less significant when compared to other factors. This suggests that although the overall tax rate matters, businesses respond more strongly to its concrete impacts such as the actual cash outflows in tax expenses and its long-term consequences, like deferred tax liabilities. Additionally, the descriptive findings emphasized that stable tax policies and attractive tax incentives serve as strong drivers for investment decisions, often outweighing the influence of the tax rate itself. Altogether, the model accounted for 54.1% of the variation in investment choices, highlighting the essential role that these tax elements play in guiding corporate investment strategies.

5.2 Conclusion

The first objective highlights the relationship between tax education, corporate financing policy, and investment decisions. It is clear that corporate financing policy plays a key role in shaping the tax system. Interestingly, investment decisions and corporate financing policies tend to move in opposite directions. When corporate financing policy is low, it leads to reduced credit costs and fewer missed opportunities by holding bank savings, making equity investments more attractive.

This study finds that corporate investment decisions in Nepal are driven by a nuanced and practical evaluation of tax effects, rather than just a reaction to headline tax rates. It identifies a clear hierarchy of concerns for decision-makers, with the immediate impact of tax expenses being the most influential factor, as it directly limits liquidity and funds available for new investments. Deferred taxes hold secondary importance, influencing long-term strategic planning. Specifically, substantial deferred tax liabilities lead firms to adopt a cautious investment approach, avoiding large-scale, capital-intensive projects. Overall, the study highlights that corporate financial priorities are primarily shaped by short-term cash flow constraints, followed by the strategic considerations of deferred tax burdens.

These findings carry important implications for both policymakers and corporate leaders. For governments and tax authorities, the results suggest that investment-stimulating

policies may be more effective if they prioritize reducing the immediate tax expense burden or enhancing the clarity and stability of deferred tax regulations, rather than focusing solely on lowering headline corporate tax rates. For business managers, the study underscores the importance of managing cash flow and strategically addressing balance sheet liabilities as key elements of investment decision-making. While this research offers valuable insights, it is limited by its reliance on survey data from a specific national context (Nepal) and a relatively small sample size. Future studies could extend these findings by utilizing longitudinal financial data, examining different economic settings, and incorporating additional factors such as market sentiment and political stability to create a more comprehensive understanding of corporate investment behavior.

5.3 Implications

In consideration of the key concerns and main findings of this study, this section highlights the implications of the research and offers recommendations aimed at providing relevant stakeholders with valuable insights and guidance. It also outlines potential avenues for future research. Due to time constraints and the scope of this thesis, only the most critical suggestions are presented here, though there are numerous recommendations applicable across different business sectors, management approaches, and policy-making bodies.

- Investment decisions are influenced by a variety of factors. This study specifically concentrates on the primary factors affecting these decisions. The findings are likely to have a significant impact on individuals, organizations, the financial sector, and the broader investment market. Therefore, it is crucial to carefully assess every factor that influences investment decisions, whether directly or indirectly.
- Both domestic and international investors can benefit from understanding the relationships between financial policies, interest rates, and tax education as they pertain to the Nepali stock market. This knowledge is essential for effective investment planning and portfolio management.
- Corporate tax rates, tax education, and financing policies are important, but they are not the only factors influencing the stock index. Other elements such as reserves, money supply, exchange rates, political developments, rumors, and

market speculation also play significant roles. Additionally, the share prices have been positively impacted by the Nepal Rastra Bank's (NRB) share market financing strategy.

- Investment decisions are significantly affected by rumors, news, and speculation. Macroeconomic factors like finance policy and corporate tax rates alone are insufficient to precisely predict the movement of the stock index.
- To reduce rumors and speculation, the market should promote greater openness by ensuring that information about listed companies is easily accessible. Relevant authorities must enhance transparency and communication to effectively dispel market rumors and misinformation.
- Beyond serving as a valuable source of knowledge, this study may inspire further research on related topics, particularly concerning the behavior of both domestic and foreign investors.
- Although this study offers important insights, it relies on survey data from a specific national context (Nepal) and a relatively limited sample size. Future research could extend these findings by utilizing longitudinal financial data to validate the results, exploring different economic settings, and integrating additional factors such as market sentiment and political stability to create a more comprehensive model of corporate investment behavior.

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QUESTIONNAIRE

Dear respondent,

I am conducting this questionnaire survey for an academic research as required by the MBS program. The title of my research is “**EFFECT OF CHANGES IN TAX POLICY ON CORPORATE INVESTMENT DECISION**” I would like to state that this research is purely for an academic purpose and I am simply interested in your candid and honest opinion. I assure you that strict confidentiality will be maintained and the information furnished by you will be used only for the academic purpose.

Thanking for your Cooperation

Arpan Bhusal

MBS student

Shanker Dev Campus, Kathmandu

Ranking Likert Scale

Strongly Agree	– 5
Agree	– 4
Neutral	– 3
Disagree	– 2
Strongly Disagree	– 1

Corporate Tax Rates

Statement	5	4	3	2	1
High corporate tax rates deter our new capital investments significantly.					
Favorable tax changes encourage us to expand investment scale confidently.					
Stable, predictable tax rates matter more than their absolute level.					
Lower local tax rates strongly influence our investment location choice.					
Higher investment taxes reduce appeal of riskier, high-yield projects.					

Tax expenses

Statement	5	4	3	2	1
High corporate tax rates discourage large-scale investment project decisions.					
Tax incentives drive our capital commitment to new projects.					
Tax law uncertainty makes us delay or reduce investments.					
After-tax return is crucial in evaluating investment viability.					
We compare international tax regimes before expanding our operations.					

Deferred Tax

Statement	5	4	3	2	1
Recognizing DTLs boosts current cash flow for investments.					
Persistent DTLs raise capital costs, deterring major investments.					
Investment appraisals consider tax benefits from depreciation strategies.					
Deferred tax positions shape acquisition valuation and decisions.					
DTL reversal uncertainty prompts conservative long-term investment planning.					

Investment Decision

Statement	5	4	3	2	1
A high corporate tax rate discourages our company from pursuing large capital investments.					
High current tax expenses limit cash flow and reduce budgets for capital investments.					
A large Deferred Tax Liability prompts cautious, conservative long-term investment decisions by management.					
Significant Deferred Tax Assets motivate management to fast-track or approve delayed investment projects.					
Our firm prioritizes current tax expense effects over deferred taxes in investment evaluations.					

Thank You

PAPER NAME

EFFECT OF CHANGES IN TAX POLICY ON CORPORATE INVESTMENT DECISION

AUTHOR

Arpan Bhusal

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