

**PROFIT TAX RATES AND INVESTMENT DECISIONS****Zarina Khusanovna Rafiyeva**

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**Abstract.** This article analyzes the relationship between corporate tax rates and investment decisions using Uzbekistan as an example. Using a comprehensive approach, the analysis examined the impact of tax policy on the investment climate, specifically the importance of tax rates, incentives, and the administrative system. The role of ongoing economic reforms and the introduction of digital technologies in increasing investment activity was also highlighted. The results showed that a stable and predictable tax policy is an important factor stimulating investment decisions. The article develops scientifically substantiated conclusions and proposals on existing problems and ways to address them.

**Keywords:** profit tax, tax rates, investment decisions, tax policy, tax incentives, tax administration, investment environment, economic growth, digital economy.

**Introduction**

Investment decision-making for small and medium-sized enterprises, as well as large companies, depends largely on tax policy, particularly corporate income tax rates. Corporate income tax is not only a key source of revenue for the state budget but also an important tool for regulating economic activity. Therefore, scientific research into tax rates and their application mechanisms is crucial for improving the investment climate and ensuring economic growth.

In recent years, changes in the global economy, digital transformation, and capital liberalization have further increased the influence of tax policy on investment decisions. Important factors include the level of tax burden on investors, the system of incentives, and the effectiveness of tax administration. In this context, corporate tax rates are considered a decisive economic indicator in shaping investment decisions.

The relevance of our chosen topic is also linked to the economic reforms implemented in Uzbekistan over the past six years. Specifically, the Development Strategy for 2022-2026 prioritizes improving the investment climate, supporting entrepreneurship, and simplifying the tax system. Furthermore, amendments to the Tax Code and the development of a digital tax system contribute to the improvement of corporate income tax mechanisms. This further enhances the practical and scientific significance of the topic.

The scientific significance of this article lies in its analysis of the relationship between corporate income tax rates and investment decisions using a systems approach. The results of the study allow for scientifically substantiated conclusions about improving tax policy, increasing investment activity, and stimulating economic development. At the same time, the article serves as a theoretical and methodological basis for further research in this area.

**Literature review**

Numerous studies have been conducted on corporate tax rates and their impact on investment decisions. Among them, A. Devereux's article, "The Impact of Corporate Taxation on Investment in a Post-Pandemic World" provides an in-depth analysis of the impact of corporate tax rates on investment decisions. The scholar emphasizes that tax policy is a key factor stimulating investment flows during the post-pandemic economic recovery. Using empirical models, the study shows that the effective tax rate directly influences the volume of capital investment. Devereux's main idea is that lower tax rates stimulate investment, but this may pose a threat to the stability of the government budget [1].

Also in the article "Corporate Tax Rates and Investment Behavior: Evidence from OECD Countries," J.C. Burdini et al. examined the relationship between corporate tax rates and investment using panel data from OECD countries. The researchers found that increasing tax rates reduces investment activity, especially for small and medium-sized enterprises. They believe that tax policy is an important institutional component of the investment environment [2].

Similarly, L. Hillman and M. Jacob's article "The Impact of Limited Tax Loss Carryforwards on Corporate Investment" empirically analyzes the impact of tax loss carryforward rules on corporate investment decisions. The authors show that a time-limited tax loss carryforward mechanism induces loss-making firms to accelerate investment.[3]

In the article "Venture Capital, Green Innovation, and Corporate Tax Reductions", S. Li et al. examine the relationship between corporate tax reductions and investment activity. The authors empirically demonstrate that reducing the tax burden through green innovation leads to increased investment [4].

Another paper, "Patient Capital and Corporate Tax Evasion", by J. Luo et al., analyzes the impact of public capital on corporate tax evasion and investment behavior. The authors found that long-term capital participation enhances tax compliance and creates a stable investment environment. The main contribution of this paper is that it explains tax policy and investment decisions through institutional factors.[5]

In the article "The Role of Managers in Foreign Tax Planning", B. Osswald et al. examine the role of managers in tax planning and its impact on investment decisions. The study found that managers influence company strategy, including investment directions, by optimizing the tax burden.[6]

In their article "The Impact of Local Government Debt on Inefficient Corporate Investments", B. Wang et al. examined the impact of public debt on corporate investment efficiency. The results of the study show that increasing public debt reduces investment efficiency and leads to overinvestment. The researchers also noted that reducing the tax burden during this process contributes to increased investment [7].

In the article "How Transparency Affects Tax Policy Effectiveness: Evidence from Cryptocurrency Markets", L. V. Kong et al. examine the impact of transparency on tax policy effectiveness. The authors show that the impact of tax burden on economic decisions, including investment and pricing, increases as information becomes more transparent [8].

### **Research methodology**

This article uses a comprehensive methodological approach to examine the relationship between corporate tax rates and investment decisions. The study utilizes literature review, comparative analysis, a systematic approach, and logical generalization. Furthermore, an analysis was conducted based on regulatory documents, specifically current tax system standards, to assess current tax policy and the investment climate in Uzbekistan.

### **Analysis and results**

This section analyzes corporate tax rates in Uzbekistan and their impact on investment decisions within the existing legal and regulatory framework and practical situation. In particular, changes in tax policy and their impact on the business environment are an important factor when assessing economic activity. In this context, particular attention should be paid to the impact of corporate tax rates on investment incentives.

Currently, the corporate income tax system in Uzbekistan is regulated by the Tax Code and includes a number of incentives aimed at supporting business activities. This is one of the key factors contributing to the improvement of the investment climate. Moreover, the level of tax rates and the mechanisms for their application play a direct role in shaping investment decisions. This analysis examines the relationship between corporate income tax rates and investment decisions from a practical perspective and summarizes the current situation. This allows us to assess the impact of tax policy on investment activity and determine its effectiveness.

### **Table 1**

Income tax in Uzbekistan and factors influencing investment decisions.<sup>1</sup>

No.	Indicator name	Current status	Mechanism of action
1	Income tax rate	— 15 percent	Decreases or increases net profit
2	Tax incentives	— Residents of the IT Park, — participants of free economic zones, — export companies, — innovative projects	Directs investments into specific sectors
3	Tax administration	— State Tax Committee, — electronic tax systems, — platform my.soliq.uz	Increases transparency and speed.
4	Investment-active sectors	1. Energy, 2. construction, 3. industry, 4. IT and digital services, 5. agriculture	These sectors are experiencing high capital inflows.
5	Countries of foreign investors	1. China, 2. Russia, 3. Türkiye, 4. UAE, 5. South Korea	Provides capital inflow
8	Conditions for small businesses	— Online registration system — preferential loans, — tax breaks, — subsidies	Reduces barriers to entry into the market.

The table above summarizes the main indicators influencing corporate tax rates and investment decisions in Uzbekistan, allowing us to assess the relationship between tax policy and investment activity.

The table data demonstrates that the relatively stable corporate income tax rate in Uzbekistan creates a predictable investment climate. Since the rate is not sharply high, around 15 percent, businesses have the opportunity to plan their investment plans for the long term. At the same time, the fact that tax incentives are specifically targeted at residents of IT parks, free economic zones, and export enterprises helps redirect investment flows to target sectors. This demonstrates that tax policy is not only a fiscal tool but also a tool for managing economic development.

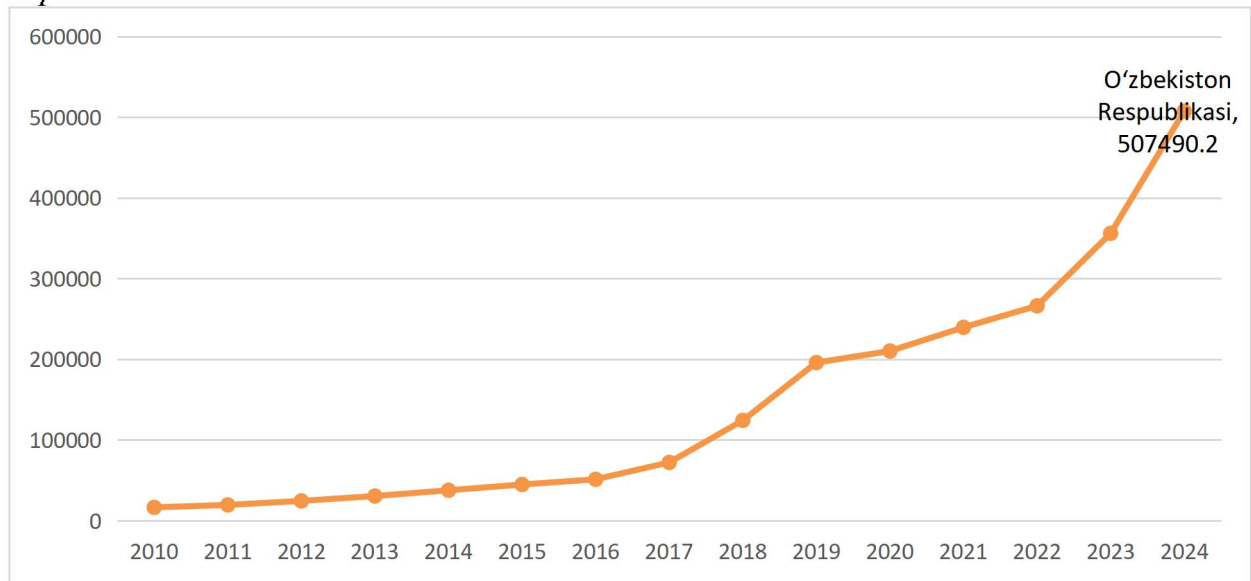
Furthermore, as the table shows, the digitalization of tax administration and the introduction of electronic systems significantly improve the investment climate. Electronic platforms supported by the State Tax Committee simplify payments and increase transparency. This is an important factor for investors, as it reduces uncertainty and excessive bureaucratic obstacles. At the same time, high investment activity in the energy, construction, industrial, and IT sectors means that capital in the country is primarily directed toward strategic and rapidly developing industries.

Furthermore, the fact that the bulk of foreign investment comes from countries such as China, Russia, Turkey, the UAE, and South Korea demonstrates the attractiveness of the investment climate internationally. Favorable conditions created for small businesses, including online registration, preferential loans, and subsidies, facilitate the emergence of new economic

<sup>1</sup>Author's development

entities. At the same time, certain issues, in particular interregional disparities, low levels of financial literacy, and frequent changes in the regulatory framework, may have a certain negative impact on investment decisions. Between 2010 and 2024, the Republic of Uzbekistan demonstrated stable growth dynamics in key economic indicators, indicating an increase in the economy year on year, and particularly a significant acceleration of this growth in recent years. The diagram shows the expansion of economic activity, growth in production and income, and an improvement in the overall economic environment. (Figure 1)

This growth trend is directly related to corporate tax rates and investment decisions, as expanding economic output leads to increased corporate profits, which in turn leads to an expansion of the tax base.



**Figure 1.** Volume of investments in fixed capital.<sup>2</sup>

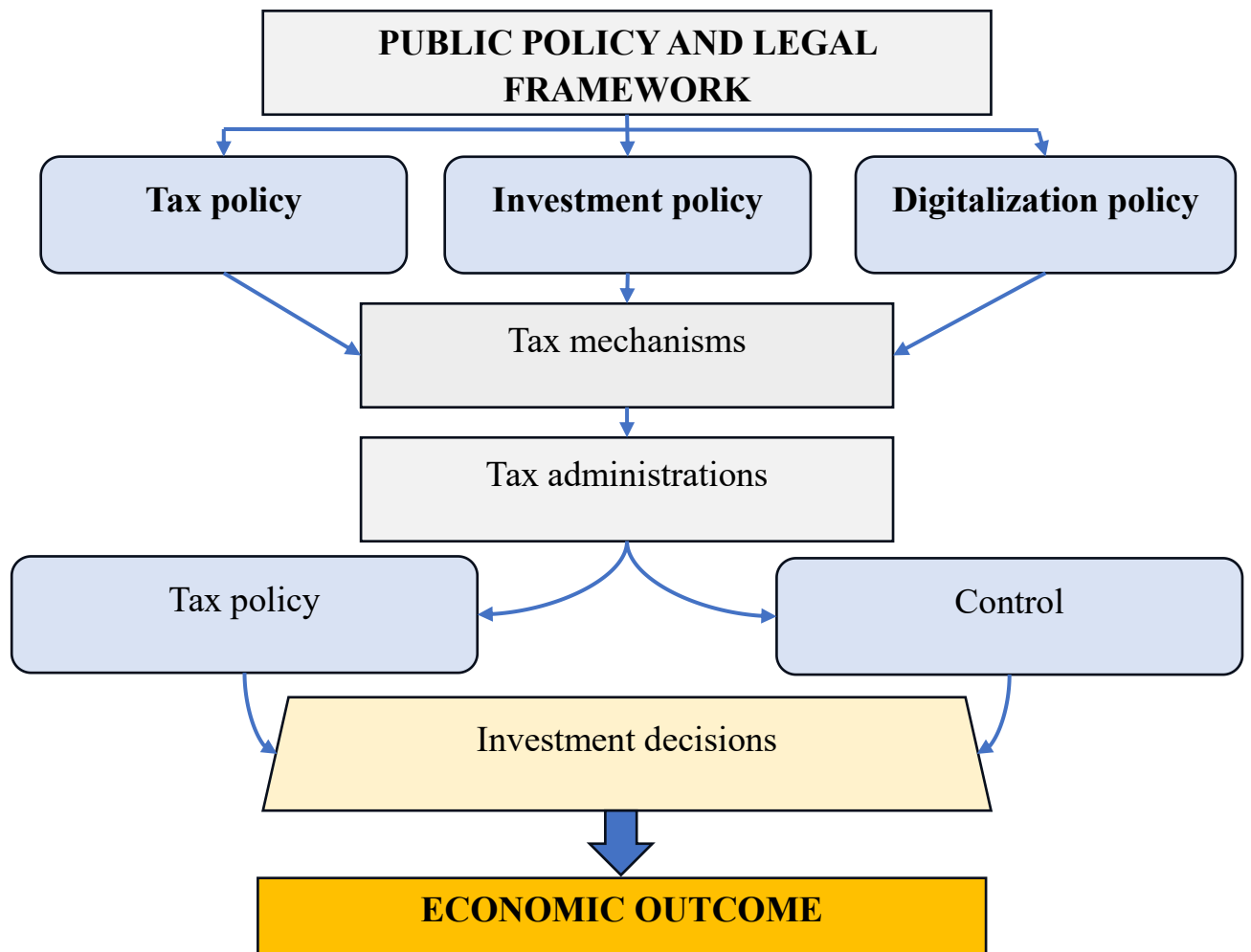
As a result, a favorable environment for investors is created, and investment activity increases in an environment of relatively stable and reasonable tax rates. In this regard, the positive trend in the diagram indicates a mutually beneficial relationship between tax policy and investment decisions.

Now let's create a work plan for developing this system. This plan reflects the relationship between corporate tax rates and investment decisions using a systems approach. It presents the processes from government policy to economic results in a sequential order, demonstrating that each stage directly influences the next. This explains the complex mechanism of interaction between tax policy and investment decisions as a single system. (Figure 2)

Public policy and the legal framework underlying the entire system form its foundation. It is at this stage that tax policy, investment policy, and the direction of digital economic development are shaped. These factors determine the operation of tax mechanisms, meaning the amount of income tax, benefits, and deductions is determined by the state. As a result, public policy acts as a key factor determining the overall direction of the investment environment.

At the next stage, tax mechanisms and the tax administration system play a key role. Tax rates and incentives act as financial incentives or barriers to investment, and tax administration ensures the practical implementation of these processes. The introduction of electronic systems, increased transparency, and enhanced control create a reliable environment for investors. Thus, an effective tax system directly influences investment decisions.

<sup>2</sup>Compiled based on data presented on the official website of the Department of Statistics of the Republic of Uzbekistan. <https://www.stat.uz>



**Figure 2.** Systemic development of corporate tax rates and investment decisions.<sup>3</sup>

At the core of this system are investors and their decisions. Domestic and foreign investors make decisions about the advisability of investing capital, assessing the current tax environment. These decisions shape economic growth, employment levels, and tax revenues. At the same time, the system has a feedback mechanism, and economic results serve to improve future public policy.

#### **Conclusion and suggestions**

There is a complex and multi-layered relationship between corporate tax rates and investment decisions. Tax policy is not only a tool for shaping the state budget but also an important economic instrument that determines the investment climate. Specifically, a stable and predictable tax system creates a reliable environment for investors and facilitates long-term investment decisions.

Based on the analysis, it was found that the effectiveness of tax mechanisms is closely linked not only to the level of rates but also to the system of benefits, deductions, and administration. Digitalization of the tax system, transparency, and efficient service contribute to an improved investment climate. At the same time, establishing an optimal tax burden expands the opportunities for businesses to expand operations and reinvest.

The growth in investment activity in Uzbekistan also indicates that tax policy is being implemented in a relatively flexible and supportive manner. The conditions created for foreign and domestic investors are ensuring capital inflows into various sectors of the economy.

<sup>3</sup>The results of the research and observations were developed by the author.

However, certain systemic issues, particularly regional differences and changes in the regulatory framework, influence investment decisions to a certain extent.

Overall, ensuring alignment between corporate tax rates and investment decisions is essential for economic growth. A new stage of economic development can be achieved by further improving tax policy, ensuring its stability, and creating a favorable environment for investors.

As a result of the study, the following conclusions were made:

First, it is necessary to set corporate tax rates using a differentiated approach depending on the economic sector.

Secondly, it is necessary to purposefully and effectively improve tax incentives.

Thirdly, tax administration must be fully digitalised and implemented at the same level in all regions.

Fourth, it is desirable to ensure legal stability for investors and reduce frequent changes in tax legislation.

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