Corporate Income Tax Policy and FDI in Developing Countries

“How can developing countries develop a Corporate Income Tax (CIT) policy that attracts Foreign Direct Investment (FDI), ensures economic growth, whilst still generating consolidated revenue?”

**AIM**

To investigate the impacts of FDI influx on host developing countries’ economies, and to evaluate the impacts of corporate income tax policy on the volume of FDI, and its functions as revenues generator in developing countries.

To identify the characteristics, philosophies, and principles of corporate income tax policy.

To examine the legitimacy of using corporate income tax as investment tax incentives.

To determine the legal and administrative difficulties of developing countries in enacting an appropriate corporate income tax.

To determine the appropriate tax policy for developing countries in order to attract FDI, and generate revenues whilst minimizing economic distortions.

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Although there isn’t enough concrete evidence to support that FDI responds positively to investment tax incentives, or that it results in increased FDI influx, previous studies have shown that tax competition has become phenomenal during the past decades. According to the OECD worldwide simple average corporate tax rates have declined from 29.5% in 2004, to 22.6% in 2014. Currently, most literature and empirical studies on corporate income tax and its effects on FDI concentrate on developed countries, with very little academic study dedicated to the role of corporate income tax in promoting FDI in developing countries. The few studies that do exist shown inconclusive and contradictory results; with some studies arguing that tax policy of host countries is irrelevant to investment location and decision-making, with other previous studies defending the opposite.