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Corporate Tax Reforms and Firm-Level Decisions: Long-Term Impacts on Investment, Employment, and Economic Growth

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Abstract

This study looks at how corporate tax reforms are connected to the investment decisions made by firms, while also considering other important financial factors like profitability, firm size, leverage, and liquidity. It is generally believed that when corporate tax rates are reduced, firms are likely to invest more because they have more funds available. However, in reality, investment decisions are not always that straightforward and may depend on several other factors. To understand this better, the study uses financial data collected from secondary sources for a selected group of companies over a period of time. Based on this data, variables such as return on assets (ROA), firm size, leverage, liquidity, and investment have been analysed using simple statistical tools like descriptive statistics, correlation, and regression. The results show that corporate tax reforms do not have a strong or direct impact on investment decisions. Among all the variables, firm size appears to have a more noticeable influence, while profitability, leverage, and liquidity do not show a clear individual effect. Overall, the study suggests that firms consider multiple factors before making investment decisions, and the impact of tax reforms alone may not be as strong as often expected.

Keywords: Corporate Tax Reforms, Firm Investment, Financial Performance, Capital Expenditure, Return on Assets (ROA), Firm Size, Leverage, Liquidity, Regression Analysis, Corporate Behaviour.

1. Introduction

In recent years, corporate tax reforms have been discussed quite a lot, especially in terms of how they influence business decisions. The general idea behind reducing corporate tax rates is that firms will have more money left with them and will use it to invest, expand, and grow. On paper, this makes complete sense. But when we look at what actually happens in practice, things don't always follow that simple logic. Firms don't make investment decisions based on just one factor. They operate in an environment where there is always some level of uncertainty, whether it's about demand, competition, or future growth. So even if tax rates are reduced and firms have more funds available, they may still be cautious about investing. Because of this, it becomes important to question whether tax reforms really lead to higher investment or if their impact is not as strong as expected. This study tries to understand that by looking at actual firm-level data instead of relying only on theoretical assumptions. At the same time, it doesn't look at tax reforms in isolation. Other financial factors like profitability, firm size, leverage, and liquidity are also considered, since they play a role in how firms make decisions. For instance, profitability might suggest that a firm has the capacity to invest, but that doesn't always mean it will. Firms might choose to use those profits in other ways, depending on their priorities. Similarly, larger firms are usually more stable and may not feel the need to expand as aggressively as smaller firms, which are often still in a growth phase. Leverage and liquidity also matter, but their influence is not always very clear or direct. The study uses financial data from secondary sources for selected companies over a period of time. Basic statistical tools like descriptive analysis, correlation, and regression are used to understand the relationships between variables. Overall, the aim here is to get a more realistic sense of how firms behave. Instead of assuming that tax reforms automatically lead to more investment, the study looks at what actually happens and tries to understand the reasons behind it.

2. Review of Literature

- **Corporate tax reforms and investment behaviour:** Many studies suggest that when tax rates are reduced,

firms should ideally invest more since they have more money left. But when we look at actual results, the picture is not always that clear. Some firms increase investment, while others don't show much change, which means tax reforms alone don't fully explain firm behaviour.

- **How firms use tax savings in practice:** It is often assumed that tax savings will go into expansion, but that is not always the case. In reality, firms sometimes use this extra money for dividends, share buybacks, or simply to strengthen their financial position. So, investment is not always their first priority.
- **Profitability and its unclear link with investment:** Even though higher profits should support investment, the connection is not very strong in practice. Firms may choose to use their profits in different ways depending on their situation, which makes the relationship less direct than expected.
- **Differences in behaviour based on firm size:** Firm size also seems to matter. Larger firms are usually more stable and may not need to invest heavily all the time, while smaller firms are often still growing and may invest more actively.
- **Role of leverage and liquidity in decision-making:** Leverage and liquidity do play a role, but not in a very clear way. Firms are generally careful about taking on too much debt, and even if they have enough cash, they may prefer to keep it as a safety measure.
- **Influence of broader policies and overall environment:** Apart from internal factors, external conditions also matter. Things like market situation, economic environment, and policy changes can influence how firms behave. So, investment decisions are usually shaped by a mix of different factors.

2.1 Research Gap

After going through a number of studies on corporate tax reforms, one thing becomes quite clear that this topic has already been explored from different angles. Most of the earlier research suggests that when tax rates are reduced, firms are expected to invest more since they have more funds available. While this sounds logical, the actual findings are not always consistent. In some cases, firms do increase their investment, but in many others, the effect is not very clear. This makes it difficult to say that tax reforms always lead to higher investment in a direct way. Another thing that stands out is how most studies tend to look at factors separately. Some focus mainly on tax reforms, while others examine variables like profitability, firm size, leverage, or liquidity on their own. Because of this, there is not much clarity on how these factors work together in real situations. In reality, firms don't base their decisions on just one aspect. Their choices usually depend on a mix of internal financial conditions and external business factors. There also seems to be a gap between what theory suggests and what actually happens in practice. Many theoretical models assume that firms will respond quickly to tax reductions, but real-world behaviour is usually more cautious. Firms often take time to evaluate their situation, considering things like market demand, competition, and future expectations before making investment decisions. Another point worth noting is how firms use the benefits they get from tax savings. It is often assumed that these savings will go into investment, but that is not always the case. Firms may use them for other purposes, such as managing debt or holding reserves. This aspect has not been fully examined along with other financial factors. Keeping these points in mind, this study tries to take a more combined approach to better understand how firms actually make investment decisions in practice.

3. Objectives of the research

1. To understand the impact of corporate tax reforms on firm-level investment decisions.
2. To analyse how changes in corporate tax policies influence employment generation within firms.
3. To examine the effect of corporate tax reforms on the overall financial performance of firms.
4. To evaluate how firms utilize tax savings in terms of investment, expansion, and financial decisions.

4. Research Methodology

This section explains how the study has been carried out and what approach has been followed to arrive at the results. Instead of just focusing on theory, the study is based on actual financial data, so it was important to follow a method that is structured but also practical. The idea here is to make it clear how the data was selected, what variables were used, and how the analysis was done, so that the findings can be properly understood. The study mainly tries to understand how corporate tax reforms and certain financial factors influence firm-level investment decisions. Since this involves analysing numbers and identifying relationships between variables, a quantitative and systematic approach has been followed throughout.

4.1 Research Design

The research is based on a quantitative approach, since it deals with numerical data and uses statistical methods for analysis. This type of approach is useful because it helps in understanding patterns and relationships in a more objective way, rather than relying on opinions or assumptions. At the same time, the study is both descriptive and analytical in nature. In the beginning, it focuses on describing the data—like how the variables behave, how much variation is there, and whether the data looks consistent. After that, it moves into analysis, where the relationships between variables are examined in more detail This is not an experimental study, meaning no variables have been controlled or manipulated. Instead, the study looks at existing financial data and tries to understand what it shows about real-world firm behaviour. This makes the research more realistic, because it reflects actual decisions made by firms over time.

4.2 Data Collection

The study is based entirely on secondary data, which means that the data has been taken from existing sources rather than collected directly through surveys or interviews. The financial data used in this study has been collected from FinanceCharts.com, which provides detailed financial information of companies in a structured format. This source was chosen because it is easy to access, consistent, and compiles financial data in a way that is suitable for analysis. The data includes key financial variables such as investment levels, profitability, firm size, leverage, and liquidity. These variables have been taken over a specific period of time so that changes can be observed and analysed. One advantage of using secondary data is that it reflects actual financial performance, which makes the study more practical. At the same time, it also means that the study depends on the accuracy of the available data, which is something that has been kept in mind while analysing the results.

4.3 Sample Selection

For this study, a set of companies has been selected based on the availability of complete and consistent financial data. The selection has not been random. Instead, firms have been chosen in such a way that all required variables are available for the entire study period. This helps in avoiding gaps in data, which could otherwise affect the analysis. The companies included in the sample are actively operating firms with regular financial reporting. This ensures that the data used is reliable and reflects real business conditions. At the same time, it is important to note that the sample is limited. It does not cover all industries or all types of firms, so the results may not apply universally. However, for the purpose of this study, the selected sample provides a reasonable basis for analysis.

4.4 Variables Used in the Study

To understand what affects investment decisions, the study uses one dependent variable and several independent variables.

Dependent Variable

- **Investment**: This is the main variable of interest in the study. It represents how much firms are investing in their business, usually in terms of capital expenditure or expansion-related spending.

Independent Variables

- **Profitability (ROA):** This shows how efficiently a firm is generating profit from its assets. It is generally expected that more profitable firms would have more resources available for investment.
- **Firm Size**: Firm size is usually measured using total assets. It helps in understanding whether large firms behave differently from smaller firms when it comes to investment.
- **Leverage**: This indicates the level of debt used by a firm. While debt can support investment, it also brings risk, so its effect on investment is not always straightforward.
- **Liquidity**: Liquidity reflects how much cash or easily available funds a firm has. Firms with higher liquidity are expected to have more flexibility in making financial decisions.
- **Tax Reform Dummy Variable:** This variable is used to capture the effect of corporate tax reforms. It takes a value of 1 for the period after the reform and 0 for the period before the reform, making it easier to compare the impact.

These variables have been selected because they are commonly used in similar studies and are directly related to the objective of understanding investment behaviour.

4.5 Model Specification

To examine the relationship between variables, a regression model has been used. The model helps in identifying how each independent variable affects the dependent variable while keeping other factors constant. The general form of the model is as follows:
Investment = f (Profitability, Firm Size, Leverage, Liquidity, Tax Reform)

This model allows the study to test whether corporate tax reforms and financial factors have a significant impact on investment decisions.

4.6 Data Analysis Tools

To make sense of the data, a few basic statistical tools have been used. These tools are not very complicated, but they are effective in understanding the relationships between variables.

- **Descriptive Statistics**: This is the first step, where the basic nature of the data is examined. It helps in understanding averages, variation, and overall patterns.
- **Correlation Analysis:** This is used to check how different variables move in relation to each other. It gives an initial idea of whether variables are positively or negatively related.
- **Regression Analysis**: This is the main tool used in the study. It helps in identifying the impact of each variable on investment and shows which factors are actually significant.
- **Hypothesis Testing**: This is used to check whether the expected relationship between tax reforms and investment is supported by the data.

Together, these tools help in building a clear and structured understanding of the results.

4.7 Scope of the Study

The study focuses on analysing the impact of corporate tax reforms on firm-level investment decisions using selected financial variables It is limited to a specific group of companies and a particular time period. The study mainly looks at how internal financial factors and tax policy interact to influence investment behaviour. While it does not cover all possible factors, it provides a focused analysis that helps in understanding the key relationships involved.

4.8 Limitations of the Study

There are a few limitations that need to be considered while interpreting the results. The study is based on a limited number of firms, which means the findings may not apply to all companies or industries. Different sectors may behave differently, and this is not fully captured here. Since the study uses secondary data, it depends on the accuracy and completeness of the available information. Any errors or gaps in the data can affect the results. Also, only a few variables have been included in the analysis. In reality, investment decisions can be influenced by many other factors such as market conditions, competition, and future expectations, which are not part of this study.

5. Data Analysis & Interpretation

This section focuses on going through the data and trying to make sense of what it shows about firm behaviour. Rather than just presenting numbers, the idea is to understand what those numbers actually mean in a practical context. Basic statistical tools have been used to keep the analysis simple and easy to interpret.

5.1 Descriptive Statistics

To begin with, descriptive statistics were used to get a general idea of the data. The variables like investment, profitability, firm size, leverage and liquidity, show some variation across firms and over time, which is quite normal in real-world situations. At the same time, the values don't show any extreme fluctuations, which suggests that the dataset is fairly balanced. Investment, in particular, doesn't follow any fixed trend, indicating that firms don't invest in a uniform way and their decisions may change depending on their situation.

Table 5.1: Descriptive Statistics (Mean, Standard Deviation, Minimum, Maximum)

INVESTMENT		**ROA**		**SIZE**		**LEVERAGE**		**LIQUIDITY**	
Mean	0.06849 2628	Mean	0.08182 5156	Mean	5.02357 2124	Mean	0.24971 7519	Mean	0.11625 4647
Standard Error	0.00815 7257	Standard Error	0.02189 7959	Standard Error	0.11498 3457	Standard Error	0.01901 9923	Standard Error	0.01666 919
Median	0.05384 4057	Median	0.08041 1814	Median	5.31074 0031	Median	0.25108 7298	Median	0.07085 3784
Mode	#N/A	Mode	#N/A	Mode	#N/A	Mode	#N/A	Mode	#N/A

Standard Deviation	0.04685 9875	Standard Deviation	0.12579 4199	Standard Deviation	0.66052 9673	Standard Deviation	0.10926 114	Standard Deviation	0.09575 7209
Sample Variance	0.00219 5848	Sample Variance	0.01582 4181	Sample Variance	0.43629 9448	Sample Variance	0.01193 7997	Sample Variance	0.00916 9443
Kurtosis	3.7885 70031	Kurtosis	3.3648 94177	Kurtosis	2.1610 27854	Kurtosis	-0.1160 89266	Kurtosis	1.4059 72544
Skewness	2.0300 22017	Skewness	-1.1386 68063	Skewness	-1.6944 75235	Skewness	-0.5331 10761	Skewness	1.4705 87249
Range	0.1922 08203	Range	0.6385 91375	Range	2.5162 69458	Range	0.4266 8496	Range	0.3406 72949
Minimum	0.0225 38655	Minimum	-0.3556 66966	Minimum	3.0468 85191	Minimum	0	Minimum	0.0310 38334
Maximum	0.2147 46858	Maximum	0.2829 24409	Maximum	5.5631 54649	Maximum	0.4266 8496	Maximum	0.3717 11283
Sum	2.2602 56729	Sum	2.7002 30137	Sum	165.77 78801	Sum	8.2406 78139	Sum	3.8364 03335
Count	33	Count	33	Count	33	Count	33	Count	33

Looking at the table, the values appear reasonable, which gives some confidence that the data is suitable for further analysis.

5.2 Correlation Analysis

The next step was to check how the variables move in relation to each other using correlation analysis. One noticeable point is that profitability does not show a strong positive connection with investment. In fact, the relationship looks quite weak and slightly negative in some cases. Firm size, on the other hand, shows a clearer pattern, but again in the opposite direction, suggesting that larger firms tend to invest less relative to their size. Leverage and liquidity also show weak relationships, which means they don't seem to have a strong direct influence on investment decisions.

Table 5.2: Correlation Matrix

	Investment	*ROA*	*Size*	*Leverage*	*Liquidity*
Investment	1				
ROA	-0.752628998	1			
Size	-0.847468631	0.814836984	1		
Leverage	0.186834496	-0.375217667	-0.321775815	1	
Liquidity	0.502667942	-0.363545103	-0.692665631	0.117713069	1

Overall, the relationships are not very strong, which hints that investment decisions are influenced by more than just one factor.

5.3 Regression Analysis

To understand the combined effect of all variables, regression analysis was carried out. The model works reasonably well, but when looking at individual variables, only firm size shows a clear impact. The relationship is negative, meaning that as firms become larger, their investment relative to size tends to reduce. The other variables like profitability, leverage, liquidity, and even the tax reform variable—do not show a strong or significant effect. This suggests that their role in directly influencing investment may be limited.

Table 5.3: Regression Results (Coefficients, p-values, R^2, Adjusted R^2)

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.866517617
R Square	0.750852781
Adjusted R Square	0.704714407
Standard Error	0.025463744
Observations	33

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	0.052760271	0.010552054	16.27393246	2.0403E-07
Residual	27	0.017506860	0.000648402		
Total	32	0.070267132			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.381799579	0.104173154	3.665047685	0.001065956	0.168053921	0.595545236	0.168053921	0.595545236
ROA	-0.063275298	0.074063510	-0.854338368	0.400434570	-0.215241067	0.088690471	-0.215241067	0.088690471
Size	-0.057119530	0.020231838	-2.823249622	0.008820159	-0.098631833	-0.015607227	-0.098631833	-0.015607227
Leverage	-0.053695358	0.044946739	-1.194644142	0.242615340	-0.145918449	0.038527732	-0.145918449	0.038527732
Liquidity	-0.048936085	0.085512176	-0.572270380	0.571873496	-0.224392578	0.126520407	-0.224392578	0.126520407
Dummy	-0.003827343	0.010860801	-0.352399675	0.727274535	-0.026111866	0.018457180	-0.026111866	0.018457180

From the table, it becomes clear that firm size is the only variable with a consistent effect, while the other variables do not show strong statistical significance.

5.4 Hypothesis Testing

At the beginning of the study, it was expected that corporate tax reforms would have a positive impact on investment. However, the results do not really support this assumption. Since the tax reform variable is not statistically significant, it

becomes difficult to say that tax changes have clearly influenced investment behaviour. This does not mean that tax policy has no role at all, but it does suggest that its effect may not be direct or strong enough to be captured clearly in the analysis.

5.5 Overall Interpretation

When everything is put together, a more realistic picture starts to come out. Investment decisions do not seem to depend on just one factor. Instead, they are influenced by a mix of different things. One thing that clearly stands out is the role of firm size. Compared to other variables, it shows a more consistent relationship with investment. This suggests that internal characteristics of firms may matter more than external policy changes in some cases. Another important point is that firms do not react immediately to changes like tax reforms. Even if there are benefits, they may still wait and consider other conditions before making decisions. Factors like market demand, future expectations, and overall strategy seem to play a role here. Overall, the results show that firm behaviour in real life is not as simple as it is often assumed in theory. Decisions are influenced by multiple factors, and this makes the relationship between tax policy and investment less direct than expected.

6. Findings

- **Tax reforms don't automatically lead to more investment:** From the analysis, it doesn't really look like firms increased their investment just because tax rates were reduced. Even after the reform, there isn't a clear change in behaviour. This shows that firms don't depend only on tax benefits while making decisions.
- **Higher profits don't always mean higher investment:** Although it sounds logical that more profit should lead to more investment, the data doesn't clearly show that. It seems like firms prefer to use their profits in different ways, like holding reserves or managing existing obligations, instead of directly expanding.
- **Firm size plays a more visible role:** Out of all the factors, firm size seems to matter the most. Larger firms appear to invest less in proportion to their size, which could be because they are already stable and don't need to expand aggressively like smaller firms.
- **Debt and cash availability don't strongly influence investment:** Leverage and liquidity were expected to have some impact, but the results don't show a strong connection. This suggests that having more debt capacity or cash doesn't necessarily push firms to invest more.

7. Conclusion

After going through the entire analysis, one thing becomes quite clear that investment decisions are not as simple as they might seem in theory. At the beginning, it was expected that corporate tax reforms would encourage firms to invest more, but the results don't really show a strong or clear impact. It looks like firms don't immediately change their investment behaviour just because tax rates are reduced. Another interesting point is related to profitability. Even though firms may be earning higher profits, it doesn't necessarily mean they will invest more. From the results, it seems like firms have different ways of using their profits, and investment is just one of the options. They might prefer to stay cautious, especially if they are uncertain about future conditions. Firm size, however, does seem to make a difference. Larger firms appear to follow a more stable and controlled approach, while smaller firms seem slightly more active when it comes to investment. This shows that internal factors within the firm can sometimes matter more than external policy changes. Overall, what this study really shows is that firms don't rely on just one factor when making decisions. There are multiple things happening at the same time financial position, market conditions, expectations about the future, and overall business strategy. Because of this, the impact of something like a tax reform may not always be direct or immediately visible.

In the end, it can be said that real-world business behaviour is a bit more complex than what we usually assume. Policies like tax reforms are definitely important, but on their own, they may not be enough to drive major changes in investment. A broader understanding of how firms actually operate is necessary to see the full picture.

8. Suggestions

- **Look beyond tax cuts to encourage investment:** Just reducing taxes may not be enough to motivate firms to invest. A more supportive environment like stable policies and better market conditions, can make a bigger difference in how firms respond.
- **Make better use of available profits:** Firms can try to use their profits in a way that supports long-term growth. Instead of focusing only on short-term financial decisions, putting funds into expansion or improvement can be more beneficial over time.
- **Give more support to smaller firms:** Since smaller firms seem to invest more actively, helping them grow can have a positive impact. Providing easier access to finance or reducing operational challenges can encourage them to expand further.
- **Design policies keeping real behaviour in mind:** Policies should consider how firms actually behave, not just what theory suggests. When policies are more practical and aligned with business realities, their impact is likely to be stronger.

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