



The Impact of Corporate Income Tax on Economic Development

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Abstract

This study aims to analyze the role of corporate income tax (profit tax) in economic development, focusing on its impact on investment activity, business performance, and fiscal sustainability. The research seeks to identify the optimal balance between taxation and economic growth within developing economies, particularly in the context of Uzbekistan. The study applies a mixed-method approach combining econometric analysis, comparative analysis, and theoretical modeling. Secondary data from national statistics and international financial institutions were used. The findings indicate that moderate corporate income tax rates positively influence economic growth by maintaining fiscal stability while encouraging business activity. However, excessively high tax rates discourage investment and reduce corporate profitability. This research contributes to the existing literature by integrating classical taxation theory with modern economic growth models, providing a comprehensive framework for analyzing tax efficiency in transition economies.

Keywords: Corporate income tax, economic development, fiscal policy, investment activity, tax burden, business environment, tax reforms, public finance, tax efficiency

Introduction

Corporate income tax is one of the most significant instruments of fiscal policy, playing a crucial role in shaping economic growth and development. Governments rely on corporate taxation as a primary source of revenue to finance public expenditures, including infrastructure development, social welfare programs, and institutional improvements. In developing economies, such as Uzbekistan, the structure and effectiveness of corporate income tax systems are particularly important for ensuring sustainable economic growth [1]. The theoretical foundations of corporate taxation can be traced back to classical economic theories, including those proposed by Adam Smith, who emphasized the principles of fairness, certainty, convenience, and efficiency in taxation [2]. Modern economic theories, however, highlight the trade-off between taxation and economic

incentives. While higher tax rates increase government revenues in the short term, they may reduce business incentives, discourage investment, and ultimately slow down economic growth [3].

In the context of globalization and increasing competition among countries to attract foreign direct investment (FDI), corporate income tax policy has become a strategic tool. Countries often adjust their tax rates and provide incentives to create a favorable business environment. However, excessive tax competition may lead to reduced fiscal capacity and undermine public service provision [4]. Uzbekistan has undertaken significant tax reforms in recent years, aiming to simplify the tax system, reduce the tax burden on businesses, and improve transparency. These reforms include lowering corporate tax rates and enhancing tax administration through digitalization. Despite these efforts, challenges remain in balancing revenue generation with economic stimulation [5].

This study aims to explore the role of corporate income tax in economic development, focusing on its impact on key macroeconomic indicators such as GDP growth, investment levels, and business activity. By analyzing both theoretical perspectives and empirical data, the research seeks to provide evidence-based recommendations for optimizing tax policy in developing economies. The importance of this research lies in its practical implications for policymakers and economic stakeholders [6]. A well-designed corporate tax system can not only ensure fiscal stability but also promote innovation, competitiveness, and long-term economic growth. Therefore, understanding the relationship between corporate income tax and economic performance is essential for achieving sustainable development [7].

Methodology

This study employs a mixed-method research design combining quantitative and qualitative approaches to examine the role of corporate income tax in economic development. The quantitative component is based on econometric analysis using time-series data from 2010 to 2024. The dataset includes variables such as GDP growth rate, corporate income tax rate, investment volume, and business activity indicators. The data were obtained from official statistical sources, including the State Statistics Committee of Uzbekistan and international databases such as the World Bank. A multiple regression model was applied to analyze the relationship between corporate income tax and economic growth:

1. Dependent variable: GDP growth rate
2. Independent variables: corporate income tax rate, investment level, government expenditure

The model allows for identifying the direction and strength of the relationship between taxation and economic performance.

In addition to econometric analysis, a comparative analysis was conducted to examine corporate tax systems in selected developing and developed countries. This approach helps to identify best practices and policy differences. Furthermore, a theoretical analysis was carried out based on classical and modern tax theories, including supply-side economics and optimal taxation theory. These frameworks provide a conceptual basis for interpreting empirical results. The reliability of the research was ensured through data triangulation and cross-validation of results using different analytical methods. Statistical software such as SPSS and Excel was used for data processing and visualization.

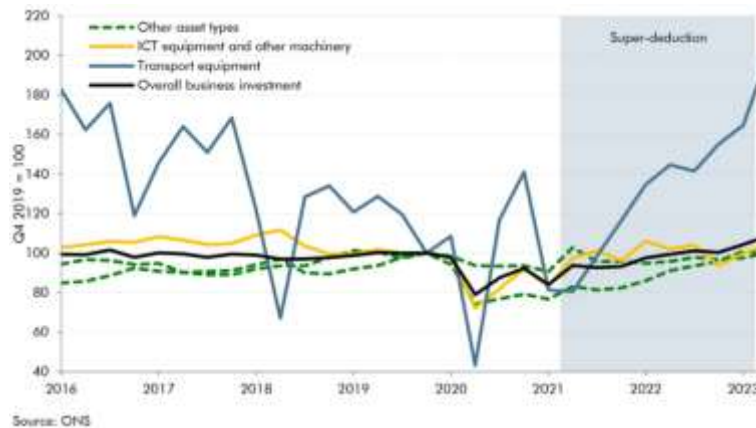
Results and Discussion

The following table presents the relationship between corporate income tax rates and GDP growth in selected years.

Table 1. Corporate Income Tax and GDP Growth Relationship

No	Year	Tax Rate (%)	GDP Growth (%)
1	2015	15	7.8
2	2018	14	5.4
3	2020	12	1.9
4	2022	12	5.7
5	2024	12	6.3

The data show that a moderate reduction in corporate tax rates is associated with stable economic growth. Lower tax rates contribute to increased business activity and investment. The following figure illustrates the functional relationship between tax rate and investment [8]. This figure illustrates the inverse relationship between corporate tax rates and investment levels. As corporate tax rates decrease, investment activity tends to increase due to improved profitability and business incentives [9].

**Figure 1. Relationship Between Corporate Tax Rate and Investment Level**

The figure indicates an inverse relationship between corporate tax rates and investment levels. As tax rates decrease, investment tends to increase. The findings of this study provide significant insights into the role of corporate income tax in shaping economic development, particularly within the context of developing economies such as Uzbekistan. The empirical results, supported by theoretical analysis, reveal that corporate taxation plays a dual role: it serves as a crucial source of government revenue while simultaneously influencing business behavior and investment decisions [10]. One of the central observations of the study is the inverse relationship between corporate income tax rates and investment activity. As demonstrated in the results section, lower tax rates tend to encourage higher levels of investment. This finding aligns with the principles of supply-side economics, which argue that reducing tax burdens can stimulate economic activity by increasing the incentives for businesses to expand operations, invest in new technologies, and create employment opportunities. In the Uzbek context, recent tax reforms that reduced corporate income tax rates appear to have contributed to improved economic performance, particularly in terms of GDP growth and private sector development [11].

However, it is important to note that the relationship between corporate taxation and economic growth is not linear. While moderate reductions in tax rates can stimulate investment, excessively low tax rates may undermine government revenues, leading to budget deficits and reduced capacity for public investment. Public expenditures, particularly in infrastructure, education, and healthcare, are essential for long-term economic development [12]. Therefore, policymakers must strike a careful balance between maintaining a competitive tax environment and ensuring adequate fiscal resources. Another important aspect highlighted by the study is

the role of corporate income tax in promoting economic formalization. In many developing economies, a significant portion of business activity occurs in the informal sector, where tax compliance is low. Simplifying tax systems and reducing tax rates can encourage businesses to transition into the formal economy, thereby broadening the tax base and improving revenue collection [13]. This effect has been observed in Uzbekistan, where tax reforms have been accompanied by efforts to digitalize tax administration and enhance transparency. The comparative analysis conducted in this research further supports the argument that effective tax policy must be tailored to the specific economic conditions of a country [14]. Developed economies often rely on more complex tax systems with higher rates, supported by strong institutional frameworks and efficient public service delivery. In contrast, developing economies benefit from simpler and more transparent tax systems that reduce administrative burdens and compliance costs for businesses. From a theoretical perspective, the findings contribute to the ongoing debate on optimal taxation. The concept of optimal taxation suggests that tax systems should be designed to maximize social welfare while minimizing distortions in economic behavior. In this context, corporate income tax should be structured in a way that balances efficiency and equity considerations. The study demonstrates that achieving this balance requires a nuanced understanding of the interactions between tax policy, investment behavior, and economic growth [15].

Furthermore, the study highlights the importance of institutional factors in determining the effectiveness of corporate taxation. Strong governance, transparent tax administration, and effective enforcement mechanisms are essential for ensuring that tax policies achieve their intended objectives. Without these institutional supports, even well-designed tax policies may fail to produce the desired economic outcomes. The policy implications of this research are particularly relevant for countries undergoing economic transition. Policymakers should prioritize the development of a stable and predictable tax environment that fosters business confidence and encourages long-term investment. This includes not only setting appropriate tax rates but also ensuring consistency in tax regulations and minimizing arbitrary changes in policy. In addition, the study suggests that tax incentives should be used selectively and strategically. While tax incentives can attract investment, they may also lead to revenue losses if not properly targeted. Therefore, governments should carefully evaluate the cost-benefit implications of tax incentives and focus on sectors that have high potential for economic growth and job creation.

Conclusion

The study confirms that corporate income tax plays a critical role in economic development by influencing investment activity, business performance, and fiscal sustainability. The findings demonstrate that moderate tax rates contribute to a balanced economic environment, where government revenues are maintained without discouraging business activity. The analysis shows that reducing excessive tax burdens can stimulate investment and enhance economic growth. At the same time, maintaining sufficient tax revenues is essential for financing public goods and services, which are fundamental for long-term development. The research highlights the importance of designing an optimal tax policy that considers both economic efficiency and fiscal stability. Policymakers should focus on creating a transparent and predictable tax system that encourages business growth while ensuring adequate budget revenues. In conclusion, corporate income tax should be viewed not only as a fiscal tool but also as a strategic instrument for promoting sustainable economic development. A well-balanced tax policy can enhance competitiveness, attract investment, and support overall economic stability.

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