The impact of tax policy on investment

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Abstract:

The impact of the tax policy on investment is evident in the various tax factors that positively affect the growth of investment. As we know that the authority can use the tax system as a tool to attract investment by reducing tax rates with the aim of encouraging domestic investment as well as foreign investment, which will positively affect the entry of foreign investors to establish their businesses and companies. Productivity, service, as well as tourism, which countries have in eliminating unemployment and increasing the monetary mass in hard currency, which gives the authority the opportunity to exploit this huge amount of wealth by redirecting it to other sectors that need that money.

Key words: Tax, investment, Tax policy, tax system, foreign investment**.**

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1. INTRODUCTION

The tax policy pursued in any country must follow a set of determinants in order to obtain a favorable atmosphere for investment and attract capital, which is what the Algerian legislator is trying to achieve, like other countries. However, it is noticed that the tax policy has a set of effects ranging from positive and negative, which we find reflected on the investment system of these countries, which we are trying to address by discussing the following problem: To what extent does the tax policy contribute to attracting investments?.

2. The determinants of investment

The primary purpose of investment is to achieve the largest possible amount of profit, which is the essential thing that is taken into account, and in addition to that, we must not close a group of factors and determinants affecting this other investment climate, which varies between political and economic determinants and is the most important**.**

With regard to the economic determinants, we find them as follows:

2.1 The economic determinants of investment

These factors have a profound impact on directing the movement of capital as well as various investments, whether public or private, which is something that we explain according to the following points.

- **Available investment opportunities**

The opportunity in this field means those profits that an investor can earn from directing his capital, and the state plays an essential role by creating the investment climate and creating opportunities.

- **The expected return on the investment process**

The expected return is based on the cash preference factor, by converting cash assets into less liquid assets and economists plundering the necessity of maintaining cash assets. The importance lies in the transaction motive, which is maintaining a cash balance to meet the demands of daily life as well as the reserve payer by keeping a portion of the assets in order to face future risks And, also due to speculation motivation, by keeping money in order to achieve profits through speculation and facing changes that can occur in prices.

• The development of the financial market

The liberalization of the financial market from the restrictions imposed on it is a major demand for investment liberalization, especially for those imposed on credit, and this is by reducing the interest rate for its money from the impact on the investment process and directing its decisions as raising the interest may raise the cost of borrowing from banks and raise the cost of using the capital.

•The nature of relations between private and public investment

Studies indicate the strong relationship between investment in the public sector and the private sector, and the reason is because the breadth of public investment may lead to a decrease in private investment, and public investment imposes itself on the private, with control mechanisms through taxation, or internal loans or inflationary financing, something that leads To raise interest rates on private investors, taking into account the opposite view, which interprets the relationship in the opposite way.

•Exchange rate policy

The exchange policy used in any country affects both sides of supply and demand, which in turn affects private investment, and the devaluation of the currency is one of the reasons leading to a reduction in the real value of individuals ’financial assets, which is reflected negatively on the consumer process through the retreat of individuals and the reduction of collection Their spending, which reduces the process of acquiring goods and services and is considered an element that leads to the investor's retreat from directing his investments.

Economic instability, because it leads to the reluctance of investors, especially as it is successful in a stable and stable climate in which the investor can assess the extent of his or her investment success or economic volatility may be through economic changes, high inflation, and imbalance of information about prices ... etc.

• Tax policy

It is imperative to know that imposing strict taxes on investors leads to preventing their investment from being directed, and perhaps the reason is due to the reversal of the investment process from success to recession, especially if it is directed towards the consumer who may bear additional burdens, as long as the investor will strive to raise the price of goods and services as long as the The cost will rise under a system that is based on raising and expanding taxes, unlike if we rely on a system of tax incentives

2.2 The political determinants of investment

We may not exaggerate if we believe that the political climate of any country has a significant impact on attracting investments, with a stable relationship being that whenever there is political stability, it is about successful investment, which means the stability of economic policy.

Political stability is linked to the stability of the democratic system, which means the existence of a system that follows a clear and considered policy and then approval by the majority, which reduces the risk factor, especially if the country does not suffer from internal disturbances or a region with border risks, as it is the failure of the state to engage in economic activity that encourages investment Given that governments may be characterized by inefficiency as well as attempts to nationalize or confiscate.

We do not mean political influences merely the effects emanating from the political system and its practice that may harm investment. Rather, it goes beyond financial, monetary and commercial policy as well as structural reform policy.

As for the financial policy based on increasing procedures and reducing expenditures with the aim of reducing the deficit of the state budget, this would lead to raising private investment.

Reducing the budget deficit reduces the government's dependence on the banking system to finance that deficit, which in turn frees up and directs financial resources towards supporting investments, and reducing public spending on productive areas provides private investment opportunities for the private sector.

And about the monetary policy followed, especially with regard to the liberalization of the interest rate, which constitutes a real resource for lending, as it provides and increases the financial resources destined for saving, and until the interest rate comes with the desired results, the local currency must be high compared to its counterpart from the hard currency.

A successful and studied commercial policy according to technical foundations contributes to encouraging investment, especially if it is based on the liberalization of foreign trade in addition to reducing the national currency with the need to reduce and liberalize interest rates, which will negatively affect the smuggling of funds abroad, and encourages primarily to go towards investment in the export sector.

We can not execute the risks that may befall the local economy as a result of the devaluation of the currency because this inevitably leads to an increase in the cost of materials imported from abroad, which will reflect on the cost of production and reduce profits and the liberalization of foreign trade will weaken internal investment projects that are adversely affected by strong external competition and turn it into Failure or just agency for imported products.

With regard to the withdrawal and privatization of the public sector, which includes the concept of structural reforms, this leads to a lack of demand for productive materials, which opens the way for the private sector and its investments to reflect positively on encouraging investment, an approach that Algeria may take in the near future, according to what appears in Reform policy.

3. The second requirement: the policy of tax curb and support investment

One of the most important determinants and previous factors and their reference is the tax policy applied within countries and their state of effects on attracting investment or not. We define tax policy as "a set of programs established by the state using all its actual and potential tax sources to produce desired economic, social and political impacts, and to avoid any undesirable effects in order to achieve common political and economic goals." It is clear from the previous definition that the tax policy is governed by a set of ingredients and pillars on which it is based, and that may constitute success or failure in achieving economic growth focused on attracting investments.

3.1 The role of tax policy in developing investment

Algeria's attempt to keep pace with the global economy and its challenges requires it to develop from its tax system, especially in light of the intention to join the World Trade Organization, so that it should be based on incentives and tax exemptions as support to attract investment.

Tax incentives are considered to have a positive dimension in attracting investment as tax concessions granted by the legislator in order to achieve certain goals, which may exceed the exemptions according to which the state waives its right to impose and collect the tax, thus ceding part of its sovereign resources.

These incentives are directed in order to encourage investment in industrial projects, create job opportunities, encourage investment in the field of export and tourism activities, encourage advanced technology projects, and develop less-favored areas of growth, with a focus on creating industrial poles.

These incentives and exemptions are represented in the form of a permanent exemption by dropping the state’s right to the taxpayer’s money as long as the reason for the exemption still exists and that is in the form of exemptions of a social and humanitarian nature, such as agricultural activities that need special development, especially in the field of developing specialized competencies.

It may also be of an economic nature and relate to economic activities related to the development policy of the state, for example, the employment sectors.

There are exemptions of a scientific nature in order to encourage scientific research in accordance with the implications of globalization. As for the second form of exemptions, it is the temporary by exempting the taxpayer for a certain period of the life of the project or the targeted activity. And on the total and complete exemption, the forfeiture of the right will be forever and completely, such as exemptions for companies operating in the Great South of Algeria. Partial exemption refers to forfeiting a portion of the right for a certain period, such as exempting the institutions operating in the second ring from the south (Bashar, Ouargla, Al-Wadi, Al-Bayadh, Al-Naama, Biskra, Ghardaia, Laghouat, and Djelfa) from 25% of the total income tax or tax on corporate profits depending on for its legal form.

Also, the investor may benefit from tax deductions that are subject to lower rates than the prevailing rates or reduce the tax base in exchange for adhering to certain conditions such as the rate imposed on the reinvested profits. We note that the Algerian legislator has tried in many laws to provide the investment climate, as we find Law No. 63/277. Which granted the public sector, unlike the private sector: - Total or partial exemption in the various taxes and fees related to commercial and industrial profits for a maximum period of 5 years.

- Total or partial exemption of transfer rights when acquiring the necessary properties for the production process.
- Full or partial refund of production fees when purchasing activity requirements.
- Exemption from tax on reinvested business profits ... This

law did not have any clear and tangible impact because it neglected the private sector and did not show any role in the investment process.

And in Law No. 66/284, it prompts:

- Total or partial exemption from purchase and acquisition of real estate destined for the approved activity at a rate determined by the place of practicing the activity, as well as from the real estate tax for a period not exceeding 05 years.
- Take advantage of a low rate on the sole gross fee on production.
- Granting a maximum gradual deadlines based on the industrial depreciation of the equipment to pay customs and drawing rights.
- Total or partial exemption from the tax on commercial and industrial profits for a period not exceeding 05 years and an annual amount of profits that does not exceed 20% of the private funds invested in the approved activity, but it is also noted that no role has emerged for the private sector or foreign investor, but the matter is reflected in the sector The year in which he experienced a rebound.

After this law, Law 82/13 was issued, which was directed to the goal of achieving investment support, especially foreign, by following partnership methods and including a set of tax exemptions in order to benefit from the technological and professional experiences that these companies possess, but it did not find useful because the investment climate at the time was not encouraging to attract capital.

The issuance of incentives was punished according to laws including the Finance Law, but it did not achieve the desired results.

According to Law No. 93/12, which was the result of extensive reforms in order to create a climate for foreign investment, it decides a set of fiscal concessions and is represented in:

- **Fiscal privileges of public order**

- Transfer tax exemptions on purchases made within the framework of the investment.

Apply a fixed fee in the field of registration at a low rate of 0.05% for construction and capital raising contracts.

- Exempting real estate properties that fall within the framework of investing in real estate fees, starting from obtaining it.
- Exemptions from the fee for value added on goods and services that are employed directly to complete the project, whether they are imported or obtained in the local market, provided that these goods and services are directed to produce materials and services that are subject to a fee for added value.

Apply a fixed fee in the field of registration at a low rate of 0.05% in respect of construction contracts and raising capital.

- Apply a low rate of 3% to customs rights in relation to the imported materials that are involved in the completion of the investment. These imported materials may be waived in agreement with the National Agency for the Promotion, Promotion and Follow-up of Investment. Exemption for a period of two to five years from the tax on corporate profits, from lump sum payment and from activity fees.
- After the exemption period has passed, a low rate of 33% can be applied to the profits when invested. - In the case of exporting, the exporting establishment benefits from a full and permanent exemption from the corporate profits tax, the penalty payment, and the fee.
- **Fiscal concessions related to private regulations**

They are divided into incentives related to investments made in areas intended for recreation within the framework of the law of 1993 at the completion stage, i.e. the beginning of the project from an exemption from transfer rights in it for real estate necessary for investment.

- A low rate estimated at 5 per thousand per 1% in relation to registration rights at construction and upon raising the capital, and it has been adjusted to reach (2) per thousand in accordance with Ordinance 1/3.

- A permanent exemption from the real estate fee, and the period is limited to 10 years, according to Ordinance No. 01/03.
- Exemption from added value when purchasing or importing raw materials and equipment.
- A low rate of 3% on customs rights.

During the period of exploitation:

- Exemption for a period of no less than 05 years and no more than 10 since the start of the activity from the tax on corporate profits, the extra payment, the fee for industrial and commercial activity and amended for a fixed and fixed period of 10 years.
- With the expiration of the exemption period, institutions in the private areas benefit from a reduction in the capacity of 50% of the reinvested profit subject to a low rate of 33%.
- In the case of exporting a full and permanent exemption from the tax on profit and partial payment and drawing on industrial and commercial activity, in proportion to the number of issued business over the total business number, after the exemption period.

As for the fiscal incentives related to the investments made in the free zones, they consist in exempting the investments in the free zones because of their activities from all taxes, fees and deductions of a tax and customs nature except.

The rights and fees related to tourist cars not related to the project.

- Contributions to contributions to the social security legal system.
- Foreign workers are subject to a system of tax on gross income of 20% of their wages and Algerian workers are subject to the principles of common law.

3.2 Tax policy to curb investment

What can affect investment and bring about it is the investor's reluctance as a result of taxes imposed on him, especially if it is in connection with multicenter capital and was internationally mobile, especially since the tax is a sovereign aspect exercised by countries.

It is also noted on the tax policies of its instability, which makes the investment tainted by ambiguity and the possibility of achieving profits, which is perhaps noticeable on the Algerian legislation, which is characterized by fluctuation and continuous amendment that appears through the financial laws and the rest of the laws.

It is also noted the lack of a clear vision of the legislator on the issue of tax policy, which is noted to be directed as a resource for intervention and not as an investment mechanism.

Tax policy in Algeria is characterized by the complexity of the thing that causes the investor to flee with his capital and avoids this system by another system that is simple and clear, knowing that the set of studies shown on a clear and specific tax system is closer to accuracy than others, especially in terms of feasibility study.

It is noted that the foreign worker, even if it is a basis in the investment process, the tax complications negatively affect his bringing, and the process may turn backwards, and the consumer bears the burdens and tax costs as long as they are included in the production costs. The tax incentives and the policy of exemptions put foreign companies in a strong position compared to the country in which they are invested and may not be of great benefit to the local economy.

4. CONCLUSION

The tax exemption policy is sometimes negative if it relates to a sector and not others, and it attracts some inexperienced investors whose only goal is to make a profit.

Finally, we note that the tax policy, even though it is in fact an incentive to bring in investments, and that this is provided by the tax exemptions and grants to the investor, but the matter does not stop there and the evidence is that there are many countries that have followed this approach, but they have achieved negative results.

Consequently, the issue of investment must be based on the first role on the security issue and partnership, in order to provide opportunities related to profit and serve the local economy in the first place, with the necessity to provide incentives for training and investment in human competencies, which creates for us a structure capable of achieving what the investor accomplishes.

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