

TAX INCENTIVES AS A FACTOR OF ECONOMIC GROWTH¹

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Abstract: *Competitiveness of Serbia in attracting foreign capital depends to some extent on tax incentives granted to foreign investors. Therefore, the aim of this paper was to collect data on opinion, values, expectations and perceptions of foreign investors on the importance of tax incentives in certain areas of their business in Serbia. The methodology of empirical research in this paper is based on a quantitative approach to primary data collection through surveys of relevant participants, comparison of the collected data and the analysis of causality of the researched phenomena. According to the results of our research, foreign investors doing business in Serbia consider the most significant tax incentives those relating to the tax on income of legal entities, tax incentives for the employment of new employees and tax incentives for export companies, while the importance of other incentives is far lesser. In order to make the business environment in Serbia suitable for foreign investors and in accordance with their expectations, it is necessary to highlight the importance of these tax incentives. For economic policymakers in Serbia it is extremely important to adequately implement the preferred business incentives which foreign investors expressed in this survey. Analyzing the obtained results it is evident that there are good prospects for increasing the inflow of foreign capital. So as to achieve that, it is necessary to offer investors a wider range of tax incentives as soon as possible, taking into account other variables that may have an impact on investors when choosing Serbia as an investment destination, which would lead to the improvement of the business environment and economic growth.*

Key Words: *tax incentives, investment, foreign investors, competitiveness, economic growth*

1. Introduction

Tax competition occurs in a situation when the state, in creating their tax policies, is trying to reduce the tax burden (through the lowering of tax rates, granting tax incentives or abolishing certain taxes), all with the aim to prevent the outflow of production resources, encouraging them at the same time to enter the market. This is why tax competition involves strategy which the government of a country uses to attract foreign investments by introducing privileged tax measures. When choosing a potential country for investment of capital, the investors take into account a number

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of other macro indicators such as political stability in the country, the national tax system, the state of the banking sector, infrastructure, rule of law, business law, conditions on the local capital market, the qualifications of the workforce, social responsibility etc. [Malovic, 2015, pp. 17-33].

The fiscal system and fiscal policy is one of the key factors in starting the process of improving the competitiveness of the Serbian economy. This is why it is essential to establish the institutional basis of the fiscal system, along the growth in the efficiency of tax administration and create a transparent control of public finances. In addition to the institutional order, for the competitiveness of the Serbian economy it is certainly necessary to make changes in the fiscal system which should be one of the factors of economic growth and development.

One of the main tasks of each country is to increase production and exports, which should aim towards the achievement of stable economic growth in the long term. In order to make it possible, it is necessary to attract foreign direct investments. For this reason it is very important to create such investment climate in the country which would be suitable for foreign investors. Stimulating tax environment is certainly one of the main instruments to increase investment [Marjanovic-Radojevic, 2013, p.355]. In order to encourage the growing economic activity in the domestic environment together with attracting foreign capital, it is important to realize that income tax plays an important role, being one of the most important tax instruments. This primarily refers to a wide range of tax incentives in the system of income tax, which are nowadays a key determinant of tax competition. Therefore, it can be said that these tax incentives contributed to creation of the best possible preferential tax treatment for foreign investors. Many transition countries have realized that fiscal policy is a very powerful instrument for attracting foreign investment. During the 1990s, Central European countries used 'tax breaks' for this purpose, as well as other fiscal incentives. As a result, there was an increase in the volume and amount of capital inflow, leading to the growth of the economies of these countries, thereby increasing their competitiveness [Domazet, 2014, pp. 217-227]. As it is known that the taxpayers are trying to reduce their tax liability at the lowest possible level, they have interest in taking advantage of tax incentives which are provided by states in the process of tax competition. There is a conflict of interests of the state, on the one hand, to attract more investments (lower tax burden), while on the other they are trying to collect as many resources for financing public functions (higher tax burden).

2. Literature Review

Fiscal measures and various tax incentives are the most common forms of state intervention in the function of creating competitiveness. The policy of tax incentives is implemented in the framework of industrial policy, which represents a wider area of economic policy, and includes measures and instruments of state intervention in order to encourage the creation of competitiveness [Vukovic-Domazet, 2013].

In a situation when the country is trying to reduce tax burdens through creation of their tax policy, whether in terms of reducing tax rates or introducing new tax incentives, there occurs tax competition. According to the opinion of the group of authors [Heady *et al.*, 2009, pp.12-17], that aims at preventing the outflow of production resources, with the involvement of all structures in order to encourage them to enter a specific market. Therefore it is very important that every country has a strategy that will be applied at a certain point in order to attract investors to invest their capital [Aleksic, 2016]. Taxes are not the only factor which will contribute to greater competitiveness of a country. Investors find other macro-economic indicators very important, which are reflected through the banking system, the rule of law, political stability in the country, the qualifications of the labor force as well as conditions in the local capital market [Domazet *et al.* 2015, pp. 1-36].

Davies and Voget (2008, pp.11-23) conclude that the main reasons which explain the emergence of tax competition can be found in increasing flows of international trade and investments, with greater labor mobility among countries, as well as the faster technology transfer. When such an economic environment is concerned, the tax rates are very difficult to maintain at high levels. In order to continue to be very attractive for inflow of investments, free movement of capital creates a certain pressure on the state to reduce, primarily, a tax rate of income tax.

In relation to the territorial tax competition, which involves competition among countries with the aim of providing better conditions for attracting capital and labor, sectoral approach to tax competition implies attracting only certain types of investments. Sectoral approach implies direct negotiations with investors which are offered certain tax incentives which are primarily reflected in lower rates compared to other countries. Depending on the objectives of economic policy, the country has interest to attract certain investments that contribute to achieving the set goals [Marjanovic, 2014, pp.11-12].

Morisset starts from the idea that tax incentives also have many other, less obvious costs. Because they influence the investment decisions of private companies, they can distort the allocation of resources. And they can attract investors looking exclusively for short-term profits, especially in countries where the basic fundamentals (such as political and macroeconomic stability) are not yet in place [Morisset, 2003, p.3]. If properly designed and implemented, tax incentives are a useful tool in attracting investments that would not have been made without the provision of tax benefits [Zolt, 2015, p.12]. Tax incentives are justified if they correct market inefficiencies or generate positive externalities.

Many of the principles for good general tax policy also apply to tax incentives, including transparency and predictability. These are important, because investors will need to be able to understand incentive schemes if they are to base their investment decisions on them. Investors will also need to be able to rely on a certain stability of tax incentives granted, before engaging in a major investment [Klemm, 2009, p .12]. In countries where high taxes are the biggest obstacle to investment, tax incentives will have the greatest effect. However, if in some country some other, non-financial

factors are barriers to investment, then tax incentives will not greatly affect the inflow of foreign direct investment [Marjanovic-Radojevic, 2013, pp. 350-352]. Accordingly, investors should first determine whether it is possible to achieve the desired rate of return, and after that take into account the tax incentives as a factor in allocating resources.

Income tax is one of the most important tax instruments to attract necessary foreign capital. It is a form of taxation which is intended to have the role in achievement of numerous development goals of the overall macroeconomic policy. Based on that, it can be said that all countries have developed tax incentives from income tax. Radičić and Raičević (2011, pp.136) mentioned two groups of tax incentives. The first group comprises those which reduce taxes, and the other group consists of those which affect the tax base.

3. Research Methodology

For the purpose of this empirical research quantitative approach was used based on the collection of numerical data, their mutual comparison and identification and analysis of interconnections between them. In order to get as accurate answers as possible and therefore be able to draw adequate conclusions the questioning method was used, i.e. the survey technique based on a structured questionnaire which was distributed to foreign investors via e-mail. By choosing this method the consistent responses will be obtained from foreign investors, considering that the respondents are generally limited in their answers to a few alternatives.

Being one of the most commonly used techniques in business studies, it was selected because of its advantages over other techniques. One of its main advantages is certainly the coding, analysis and interpretation of data. Comparing the most important characteristics, as well as the advantages and disadvantages, basic types of surveys, electronic survey was selected. For this technique it is significant that information is obtained very quickly, there is a high level of quality and quantity of the obtained data along with elimination of all forms of bias of the person conducting the research.

Table 1: The size of business entity of the foreign investor in Serbia

Small business entity (SBE)		Medium-sized business entity (MBE)		Large business entity (LBE)	
Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
16	18.2	22	25	50	56.8

Source: Authors` calculations

The study included 300 of the biggest foreign investors who have invested capital in Serbia in the last 15 years. Of all the companies that are scheduled to

participate in this research, 88 of them gave positive responses (response percentage: 29.33%). The main characteristics of the companies that participated in the survey are presented in the form of distribution of frequencies and percentages in Table 1.

The first task in this research was to graphically present each of the analyzed dependent variables of techniques and descriptive statistics, which enabled the visualization of results and calculation of frequency, percentage, average score, standard deviations and variances. The second task was to analyze differences in dependent variables and according to subgroups the independent variables, i.e. linking dependent and independent variables with the aim of determining the possible existence of significant differences. In order to determine the existence of statistically significant differences in the evaluation of the analyzed issues among different groups of foreign investors (the difference between three or more groups of respondents) factor analysis of variance of different groups was used as in (1):

$$\eta^2 = \frac{\sum_{i=1}^k N_i (\bar{X}_i - \bar{X})^2}{\sum_{i=1}^k \sum_{j=1}^{N_j} (X_{ij} - \bar{X})^2} \quad (1)$$

$$\eta^2 = \frac{t^2}{t^2 + (N_1 + N_2 - 2)} \quad (2)$$

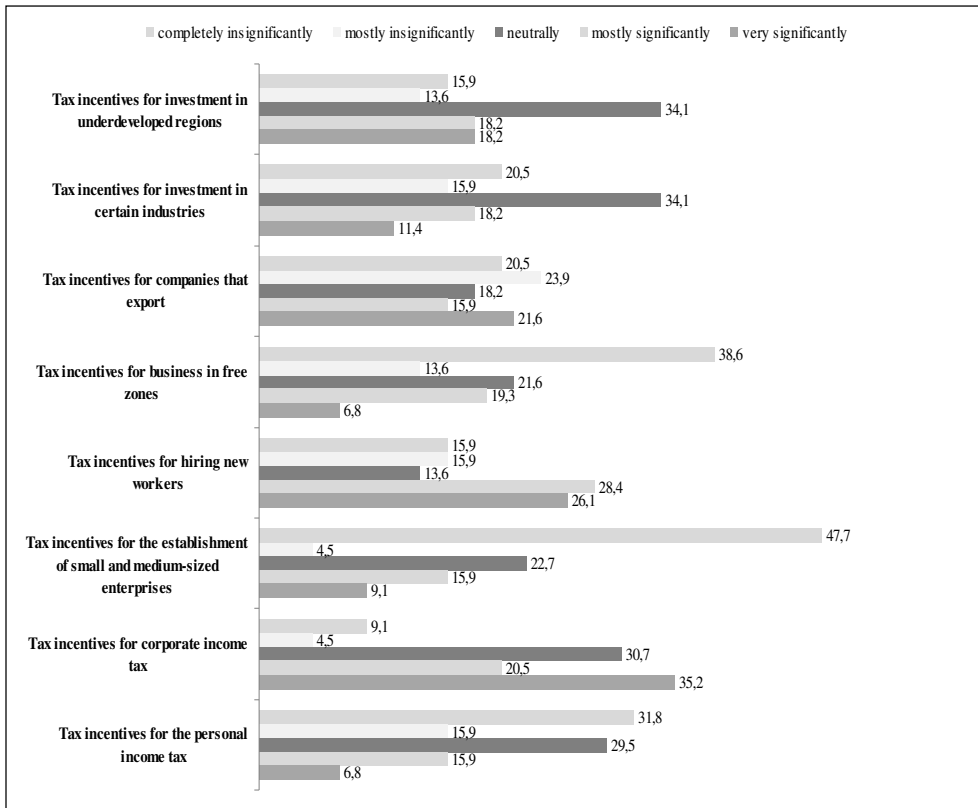
If differences are compared between the two groups of the respondents, t-test of independent samples was used to calculate the value of statistically significant difference as shown in (2).

4. Research Results

The results of empirical research on the importance of tax incentives in certain areas of business of foreign investors were presented in figure, descriptive statistics and analysis of differences between foreign investors depending on their specific characteristics in evaluating the significance of tax incentives in certain areas.

In order to determine tax competitiveness of Serbia the focus of this research was to determine the importance of tax incentives in certain areas of business of foreign investors in Serbia. For this reason, special attention is paid to tax incentives for investment in underdeveloped regions, tax incentives for investment in certain branches of industry, tax incentives for companies that export, tax incentives for doing business in free zones, tax incentives for hiring new workers, tax incentives for the establishment of small and medium-sized enterprises, tax incentives for corporate income tax and tax reliefs for the personal income tax.

Figure 1: The importance of tax incentives in business activities of foreign investors in Serbia



The largest number of foreign investors (35.2%) stated that tax incentives for corporate tax make the greatest impact on their decision to choose Serbia as an investment destination. According to ranking, i.e. to the impact they have on the business of investors, that incentive is followed by tax incentives for hiring new workers (26.1%), tax incentives for companies that export (21.6%), tax incentives for investment in under-developed regions (18.2%), tax incentives for investment in certain industries (11.4%), tax incentives for the establishment of small and medium-sized enterprises (9.1%), tax incentives for the personal income tax (6.8%) and tax incentives for doing business in free zones (6.8%).

Using descriptive statistics (Table 2) it is presented how foreign investors assessed the impact of tax incentives in certain areas on their business.

Table 2: The importance of tax incentives for foreign investors in Serbia

	Degree of evaluation					<i>M</i>	<i>SD</i>	<i>V</i>
	1	2	3	4	5			
	<i>f</i> (%)	<i>f</i> (%)	<i>f</i> (%)	<i>f</i> (%)	<i>f</i> (%)			
Tax incentives for investments in not sufficiently developed regions	14 (15.9)	12 (13.6)	30 (34.1)	16 (18.2)	16 (18.2)	3.0909	1.30107	1.693
Tax incentives for investments in certain industry branches	18 (20.5)	14 (15.9)	30 (34.1)	16 (18.2)	10 (11.4)	2.8409	1.26751	1.607
Tax incentives for exporting companies	18 (20.5)	21 (23.9)	16 (18.2)	14 (15.9)	19 (21.6)	2.9432	1.44920	2.100
Tax incentives for doing business in free zones	34 (38.6)	12 (13.6)	19 (21.6)	17 (19.3)	6 (6.8)	2.4205	1.35377	1.833
Tax incentives for the employment of new employees	14 (15.9)	14 (15.9)	12 (13.6)	25 (28.4)	23 (26.1)	3.3295	1.42814	2.040
Tax incentives for setting up small and medium-sized enterprises	42 (47.7)	4 (4.5)	20 (22.7)	14 (15.9)	8 (9.1)	2.3409	1.43748	2.066
Tax incentives in paying corporate income taxes	8 (9.1)	4 (4.5)	27 (30.7)	18 (20.5)	31 (35.2)	3.6818	1.25529	1.576
Tax incentives in paying income tax by citizens	28 (31.8)	14 (15.9)	26 (29.5)	14 (15.9)	6 (6.8)	2.5000	1.27757	1.632

Source: Authors' calculations

If there was a statistically significant difference between the foreign investors in assessing the degree of importance of tax incentives in certain areas of their business in Serbia that was analyzed using ANOVA different groups and t test for independent samples. The analysis was related to tax incentives in certain areas of business of foreign investors in Serbia, depending on the size of their business entity in Serbia. The results are presented in Table 3.

Table 3: Differences among foreign investors in evaluating the degree of significance of tax incentives depending on the size of business entity in Serbia

		<i>M</i> (<i>SD</i>)	<i>95% CIM</i>		<i>F</i>	<i>p</i> *
			Lower	Upper		
Tax incentives for investments in less developed industries	SBE. <i>N</i> = 16	3.6250 (0.88506)	3.1534	4.0966	2.274	0.109
	MBE. <i>N</i> = 22	2.7273 (1.38639)	2.1126	3.3420		
	LBE. <i>N</i> = 50	3.0800 (1.33768)	2.6998	3.4602		
Tax incentives for investments in certain industries	SBE. <i>N</i> = 16	3.1250 (0.61914)	2.7951	3.4549	9.227	0.000
	MBE. <i>N</i> = 22	3.6364 (1.39882)	3.0162	4.2566		
	LBE. <i>N</i> = 50	2.4000 (1.17803)	2.0652	2.7348		
Tax incentives for export companies	SBE. <i>N</i> = 16	3.5625 (1.36473)	2.8353	4.2897	6.688	0.002
	MBE. <i>N</i> = 22	3.5455 (0.80043)	3.1906	3.9003		
	LBE. <i>N</i> = 50	2.4800 (1.54180)	2.0418	2.9182		
Tax incentives for doing business in free zones	SBE. <i>N</i> = 16	3.1875 (0.65511)	2.8384	3.5366	11.479	0.000
	MBE. <i>N</i> = 22	3.0909 (1.41115)	2.4652	3.7166		
	LBE. <i>N</i> = 50	1.8800 (1.25584)	1.5231	2.2369		
Tax incentives for the employment of new employees	SBE. <i>N</i> = 16	4.0625 (1.06262)	3.4963	4.6287	3.396	0.038
	MBE. <i>N</i> = 22	3.4545 (1.33550)	2.8624	4.0467		
	LBE. <i>N</i> = 50	3.0400 (1.49775)	2.6143	3.4657		
Tax incentives for setting up small and medium-sized enterprises	SBE. <i>N</i> = 16	3.6250 (0.71880)	3.2420	4.0080	10.367	0.000
	MBE. <i>N</i> = 22	2.3636 (1.59001)	1.6587	3.0686		
	LBE. <i>N</i> = 50	1.9200 (1.30681)	1.5486	2.2914		
Tax incentives in paying corporate income taxes	SBE. <i>N</i> = 16	3.8750 (1.02470)	3.3290	4.4210	0.965	0.385
	MBE. <i>N</i> = 22	3.9091 (1.26901)	3.3464	4.4717		
	LBE. <i>N</i> = 50	3.5200	3.1468	3.8932		

		<i>M</i> (<i>SD</i>)	95% <i>CIM</i>		<i>F</i>	<i>p</i> *
			Lower	Upper		
	<i>N</i> = 50	(1.31304)				
Tax incentives in paying income taxes by citizens	SBE. <i>N</i> = 16	3.1250 (0.61914)	2.7951	3.4549	2.416	0.095
	MBE. <i>N</i> = 22	2.3636 (1.46533)	1.7139	3.0133		
	LBE. <i>N</i> = 50	2.3600 (1.30556)	1.9890	2.7310		

* statistically significant difference occurs at the level $p < 0.05$

Source: authors` calculations

The results of ANOVA showed that there are statistically significant differences between foreign investors in the following:

1) In assessing the degree of impact of tax incentives on investments in certain industries, $F(2,85) = 9.227$, $p = 0.000$, where the size of the difference between different groups of foreign investors expressed by eta squared indicator totals $\eta^2 = 0.050$ and the difference can be considered to be a medium size difference.

Table 4: The results of T-HSD test on differences among foreign investors depending on the size of business entity in Serbia and evaluation of the impact of tax incentives on investing in certain industries

	(I)	(J)	<i>MD</i> (I-J)	<i>p</i> *	95% <i>CIM</i>	
					Lower	Upper
Tax incentives for investments in certain industries	SBE	MBE	-0.51136	0.378	-1.4224	0.3997
		LBE	0.72500	0.082	-0.0714	1.5214
	MBE	SBE	0.51136	0.378	-0.3997	1.4224
		VPS	1.23636	0.000	0.5270	1.9457
	LBE	SBE	-0.72500	0.082	-1.5214	0.0714
		MBE	-1.23636	0.000	-1.9457	-0.5270

* statistically significant difference occurs at the level $p < 0.05$

Source: authors` calculations

Subsequent comparison by T-HSD test showed that the previously indicated statistically significant difference exists between the foreign investors whose business entities in Serbia are of a medium size ($M = 3.6364$, $SD = 1.39882$), on the one hand, and on the other, those whose business entities in Serbia are large in size ($M = 2.4000$, $SD = 1.17803$).

2) In assessing the degree of impact of tax incentives on companies that export, $F(2,85) = 6.688$, $p = 0.002$, where the size of the difference between different groups of foreign investors expressed by eta squared indicator totals $\eta^2 = 0.135$ and can be considered a huge difference.

Subsequent comparison using *T-HSD* test showed that the previously indicated statistically significant difference exists between the foreign investors whose business entities in Serbia are small in size ($M = 3.5625$, $SD = 1.36473$) and medium ($M = 3.5455$, $SD = 0.80043$), on the one hand, and those whose business entities in Serbia are large in size ($M = 2.4800$, $SD = 1.54180$), on the other hand.

Table 5: The result of T-HSD test on differences among foreign investors depending on the size of business entity in Serbia in evaluation of the impact of tax incentives for export companies

	(I)	(J)	MD (I-J)	p*	95% CIM	
					Lower	Upper
Tax incentives for export companies	SBE	MBE	0.01705	0.999	-1.0511	1.0852
		LBE	1.08250	0.019	0.1487	2.0163
	MBE	SBE	-0.01705	0.999	-1.0852	1.0511
		LBE	1.06545	0.008	0.2337	1.8972
	LBE	SBE	-1.08250	0.019	-2.0163	-0.1487
		SPS	-1.06545	0.008	-1.8972	-0.2337

* statistically significant difference occurs at the level $p < 0.05$

Source: authors' calculations

3) In assessing the degree of impact of tax incentives on business in free zones, $F(2.85) = 11.479$, $p = 0.000$, where the size of the difference between different groups of foreign investors expressed by eta squared indicator totals $\eta^2 = 0.212$ and can be considered a huge difference.

Table 6: The results of T-HSD test on differences among foreign investors depending on the size of business entity in Serbia in evaluation of tax incentives for doing business in free zones

	(I)	(J)	MD (I-J)	p*	95% CIM	
					Lower	Upper
Tax incentives for doing business in free zones	SBE	MBE	0.09659	0.968	-0.8559	1.0491
		LBE	1.30750	0.001	0.4748	2.1402
	MBE	SBE	-0.09659	0.968	-1.0491	0.8559
		LBE	1.21091	0.001	0.4692	1.9526
	LBE	SBE	-1.30750	0.001	-2.1402	-0.4748
		MBE	-1.21091	0.001	-1.9526	-0.4692

* statistically significant difference occurs at the level $p < 0.05$

Source: authors' calculations

Subsequent comparison by *T-HSD* test showed that the previously indicated statistically significant difference exists between the foreign investors whose business entities in Serbia are small in size ($M = 3.1875$, $SD = 0.65511$) and medium ($M = 3.0909$, $SD = 1.41115$), on the one hand, and those whose business entities in Serbia are large in size ($M = 1.8800$, $SD = 1.25584$), on the other hand.

4) In assessing the degree of impact of tax incentives on hiring new workers, $F(2.85) = 3.396$, $p = 0.038$, where the size of the difference between different groups of foreign investors expressed by eta squared indicator totals $\eta^2 = 0.074$ and can be considered to be the medium-sized difference.

Table 7: The results of T-HSD test on differences among foreign investors depending on the size of business entity in Serbia in evaluation of the impact of tax incentives on the employment of new employees

	(I)	(J)	MD (I-J)	p^*	95% CIM	
					Lower	Upper
Tax incentives for the employment of new employees	SBE	MBE	0.60795	0.382	-0.4818	1.6977
		LBE	1.02250	0.032	0.0699	1.9751
	MBE	SBE	-0.60795	0.382	-1.6977	0.4818
		LBE	0.41455	0.477	-0.4340	1.2631
	LBE	SBE	-1.02250	0.032	-1.9751	-0.0699
		MBE	-0.41455	0.477	-1.2631	0.4340

* statistically significant difference occurs at the level $p < 0.05$

Source: authors' calculations

Subsequent comparison by *T-HSD* test showed that the previously indicated statistically significant difference exists between the foreign investors whose business entities in Serbia are small in size ($M = 4.0625$, $SD = 1.06262$), on the one hand, and those whose business entities in Serbia are large in size ($M = 3.0400$, $SD = 1.49775$), on the other hand.

5) In assessing the degree of impact of tax incentives on the establishment of small and medium-sized enterprises, $F(2.85) = 10.367$, $p = 0.000$, where the size of the difference between different groups of foreign investors expressed by eta squared indicator totals $\eta^2 = 0.196$ and can be considered to be a huge difference.

Table 8: The results of T-HSD test on differences among foreign investors depending on the size of business entity in Serbia in evaluation of the impact of tax incentives in setting up small and medium-sized enterprises

	(I)	(J)	MD (I-J)	p^*	95% CIM	
					Lower	Upper
Tax incentives for setting up small and medium-sized enterprises	SBE	MBE	1.26136	0.012	0.2394	2.2834
		LBE	1.70500	0.000	0.8116	2.5984
	MBE	SBE	-1.26136	0.012	-2.2834	-0.2394
		LBE	0.44364	0.383	-0.3522	1.2394
	LBE	SBE	-1.70500	0.000	-2.5984	-0.8116
		MBE	-0.44364	0.383	-1.2394	0.3522

* statistically significant difference occurs at the level $p < 0.05$

Source: authors' calculations

Subsequent comparison by *T-HSD* test showed that the previously indicated statistically significant difference exists between the foreign investors whose business entity in Serbia is a small-sized business ($M = 3.6250$, $SD = 0.71880$), on the one hand, and those whose business entities in Serbia are of medium size ($M = 2.3636$, $SD = 1.59001$) or large businesses ($M = 1.9200$, $SD = 1.30681$), on the other hand.

5. Discussion

Among the most important objectives of economic policy makers, great importance is given to creation of investment climate which should encourage foreign direct investment. In order to increase investment, a very important instrument is a stimulating tax environment within which the income tax mostly enhances economic activity in domestic environment and contributes to attracting the necessary foreign capital. The various tax incentives in income tax system have become a key determinant of tax competition in attracting foreign capital. Countries that allow foreign investors preferential tax treatment through a wide range of tax incentives (mostly in the system of income tax), providing the necessary economic and social conditions, have achieved significant growth, respectively inflow of foreign capital.

In order to thoroughly analyze the explicit attitudes of foreign investors who are already doing business in Serbia, the importance of tax incentives has been examined in certain areas of operations of foreign investors through empirical research. The aim of this research is to identify potential problems that could adversely affect the decision of foreign investors when investing capital in Serbia. That is, to show which tax incentives are important to the investors and to what extent they matter, so as to contribute improving business environment and economic growth in Serbia in future.

Tax incentives for investment in certain industries are very important to foreign investors whose business entity in Serbia is of a medium-size. Unlike them, foreign investors with a large business entity in Serbia do not consider these tax incentives so important. Foreign investors, whose business entities in Serbia represent small and medium-sized businesses ascribed greater importance to tax incentives for companies that export. Foreign investors, whose business entities in Serbia are large enterprises, consider that these tax incentives do not impact greatly their commitment to invest capital in Serbia.

Analyzing the importance of tax incentives for doing business in free zones, the conclusion can be drawn that foreign investors, whose business entities in Serbia represent small and medium-sized businesses, estimated that they these tax incentives are significant in their business. Foreign investors, whose business entities in Serbia represent large businesses, considered that these tax incentives do not have huge impact on their business. Foreign investors, whose business entities in Serbia are small businesses, put greater importance on tax incentives regarding hiring new workers in comparison with foreign investors whose business entity in Serbia is of a large size. If

tax incentives for the establishment of small and medium-sized enterprises are taken into consideration, it can be noted that foreign investors whose business entities in Serbia are of a small size ascribe more importance to these incentives in comparison with foreign investors whose business entities in Serbia are medium and large businesses.

6. Conclusion

According to the results of the conducted empirical research, foreign investors doing business in Serbia consider the most significant tax incentives relating to the tax on corporate profit, tax incentives for hiring new workers and tax benefits for companies that export, while other incentives are far less important. In order to create business environment in Serbia which would meet expectations of foreign investors, it is necessary to highlight the importance of these tax incentives. Tax competition, which is reflected in the implementation of tax incentives for foreign investors, reduces the tax base in the amount of exemption from payment of income tax. On the other hand, tax incentives should stimulate investors to invest capital that will contribute to the growth of employment. Employment growth allows the increase of effective demand and increase the tax base, due to the increased purchasing power, i.e. the increase of revenues from taxes collected on final consumption.

Economic policy makers in Serbia should adequately implement the requirement which foreign investors have expressed through this research. Analyzing the results, it is evident that there are good prospects for growth, respectively increasing the inflow of foreign capital. In order to achieve that, it is necessary to offer investors a wider range of tax incentives as soon as possible, while taking into account other variables that may have an impact on investors when choosing Serbia as an investment destination. Since the results of the research indicate that tax incentives could to some extent contribute to the improvement of business environment in Serbia, clearly showing the direction which Serbia should pursue in cooperation with foreign investors, hence the contribution of this research is even greater since it will provide information which may be useful for any future reform of the tax system in Serbia.

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