

**THE EFFECTS OF MULTIPLE TAXES ON THE FLOWS OF FOREIGN DIRECT INVESTMENT:
THEORETICAL AND EMPIRICAL STUDIES**

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ABSTRACT

This paper theoretically and empirically investigates the effects of multiple tax rates on the flows of foreign direct investment (FDI). Firstly, in the theoretical model, it iterates that tax rates have a negative effect on FDI; however, the indirect taxes, such as sales taxes, have a heavier impact on FDI than the direct taxes, such as income taxes. It also shows the favorable tax treaties, such as subsidy, tax credit and exemption, will encourage more foreign investment activities. As a result, the paper suggests the host government can adjust the indirect taxes to attract more FDI inflows, and the home government can work on the tax treaties to encourage more FDI outflows. Secondly, in the empirical study, we pooled cross-section data for 114 economic entities to examine the effects on FDI inflows of multiple taxes in those economies. The empirical results strongly support our theoretical results.

Keywords: *Foreign direct investments; Tax policy; Direct taxes; Indirect taxes; Tax treaty*