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Tax Incentive As Determinant Factors of Tax Compliance: A Latest Systematic Review

Insentif Cukai Sebagai Faktor Penentu Pematuhan Cukai: Kajian Sistematik Terkini

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Abstract: This systematic literature review explores the role of tax incentives in influencing tax compliance, providing a structured analysis of recent research. The relationship between tax incentives and compliance is crucial for policymakers seeking to optimise tax systems and enhance revenue collection. Despite extensive studies, debates persist over the effectiveness of various tax incentives. Addressing this gap, the review synthesises findings from studies published between 2022 and 2024, selected using rigorous criteria from databases like Scopus and Web of Science. The PRISMA framework guided the review process, culminating in the analysis of 28 studies across diverse economic contexts and methodologies. Three key themes emerged: (1) tax incentives and corporate behaviour, (2) tax compliance and behavioural factors, and (3) tax policy and economic outcomes. Quantitative analysis reveals that tax incentives—such as deductions, credits, and tax cuts—can significantly enhance compliance, especially in jurisdictions with well-designed policies. However, the effectiveness depends on factors like enforcement mechanisms and socio-economic conditions. Non-monetary incentives, including social recognition and satisfaction, also positively impact compliance, complementing financial benefits. The findings underscore the importance of combining monetary and behavioural incentives for optimal compliance. Effective tax incentive policies require robust enforcement and transparent communication to maximise their potential. This review highlights the necessity of context-specific design and implementation, offering valuable insights for policymakers and researchers. By addressing gaps in the literature, it contributes to a deeper understanding of the dynamics between tax incentives and taxpayer compliance.

Keywords: Tax Compliance, Tax Incentive, Tax Policy.

Abstrak: Kajian literatur sistematik ini meneroka peranan insentif cukai dalam mempengaruhi pematuhan cukai, dengan menyediakan analisis berstruktur terhadap penyelidikan terkini. Hubungan antara insentif cukai dan pematuhan amat penting bagi penggubal dasar yang ingin mengoptimumkan sistem cukai dan meningkatkan kutipan hasil. Walaupun banyak kajian telah dijalankan, keberkesanan pelbagai insentif cukai masih menjadi perdebatan. Untuk mengisi jurang ini, kajian ini mensintesis penemuan daripada kajian yang diterbitkan antara tahun 2022 hingga 2024, yang dipilih berdasarkan kriteria ketat daripada pangkalan data seperti Scopus dan Web of Science. Proses kajian dipandu oleh rangka kerja PRISMA, menghasilkan analisis terhadap 28 kajian dalam pelbagai konteks ekonomi dan metodologi. Tiga tema utama yang dikenal pasti adalah: (1)

Insentif Cukai Dan Tingkah Laku Korporat, (2) Pematuhan Cukai dan Faktor Tingkah Laku, dan (3) Polisi Cukai Dan Hasil Ekonomi. Analisis kuantitatif menunjukkan bahawa insentif cukai—seperti potongan, kredit, dan pengurangan kadar pendapatan cukai—dapat meningkatkan pematuhan dengan ketara, terutamanya di negara yang mempunyai polisi yang dirancang dengan baik. Walau bagaimanapun, keberkesanannya bergantung pada mekanisme penguatkuasaan dan keadaan sosio-ekonomi. Insentif bukan kewangan, termasuk pengiktirafan sosial dan kepuasan, turut memberi kesan positif, melengkapi faedah kewangan. Penemuan ini menekankan kepentingan gabungan insentif kewangan dan tingkah laku untuk mencapai pematuhan yang optimum. Polisi insentif cukai yang berkesan memerlukan penguatkuasaan yang kukuh dan komunikasi yang telus bagi memaksimumkan potensinya. Kajian ini menonjolkan keperluan reka bentuk dan pelaksanaan yang sesuai dengan konteks, serta menawarkan pandangan bernilai kepada pembuat dasar dan penyelidik. Dengan menangani jurang dalam literatur, ia menyumbang kepada pemahaman yang lebih mendalam tentang dinamik pelbagai aspek antara insentif cukai dan pematuhan pembayar cukai.

Kata kunci: Pematuhan Cukai, Insentif Cukai, Polisi Cukai

Introduction

Tax compliance, adherence to tax laws and regulations, are essential for effective governance. Non-compliance results in revenue losses that weaken public services and economic stability (Budiman et al., 2022; Limantoro et al., 2022; Nurhayati & Witono, 2022). Tax incentives are pivotal in enhancing compliance (Budiman et al., 2022). These include deductions, credits, exemptions, and tax cuts to reduce taxpayers' financial burdens (Dippenaar, 2018; He et al., 2023). Lower compliance costs encourage adherence, aligning with rational choice theory, which suggests individuals weigh costs and benefits. Financially advantageous incentives increase compliance likelihood (Naitili et al., 2022). Empirical studies offer mixed results. Well-designed incentives significantly improve compliance, such as tax credits for low-income earners and investment tax credits that boost business cash flow (Ni Wayan Dian Irmayani et al., 2023; Alm & Torgler, 2011). However, effectiveness depends on clarity, awareness, perceived fairness, and economic conditions. Complex incentives create confusion, while simple, transparent structures enhance compliance. Taxpayers must understand available incentives, necessitating educational campaigns (Naitili et al., 2022). Fairness perception also matters; incentives seen as favouring specific groups can trigger resentment and non-compliance (Song et al., 2020). Economic factors further influence effectiveness, with limited impact during downturns as taxpayers prioritise immediate needs (Ni Wayan Dian Irmayani et al., 2023).

Despite their potential, tax incentives face criticism. They may create loopholes for avoidance, reduce revenue for essential services if overly generous, and incur significant administrative costs (Benitez et al., 2023; Swift et al., 2004; Shafaruddin et al., 2022). Policymakers must weigh benefits against these challenges, ensuring incentives target those likely to change behaviour (Qi et al., 2023). To maximise effectiveness, strategies include simplicity, education, equity, and ongoing review (Blesse et al., 2021; Naitili et al., 2022). Simple designs reduce confusion and administrative burdens (Gravoueille et al., 2023). Educational campaigns improve awareness and ease claims. Fair and broadly beneficial incentives foster compliance, and continuous evaluation ensures alignment with economic conditions and taxpayer behaviour. Tax incentives are powerful tools for promoting compliance but require careful design and implementation. By focusing on simplicity, awareness, fairness, and economic context, policymakers can enhance their effectiveness. Future research should explore long-term impacts and innovative strategies to engage taxpayers and improve compliance.

Literature Review

Tax incentives play a crucial role in shaping tax compliance behaviour, as they can effectively encourage individuals and businesses to fulfil their tax obligations. Various studies have examined the impact of tax incentives on compliance, highlighting their effectiveness across different contexts and the factors influencing their success. This literature review synthesises findings from multiple research works to provide a comprehensive understanding of how tax incentives determine tax compliance.Deng and Yang (2022) explored the application of big data technology in tax collection and management, emphasising its role in improving the tax business environment. The study revealed that big data enables comprehensive monitoring of tax sources, significantly reducing tax evasion and enhancing corporate compliance. Furthermore, it facilitates online tax collection and the dissemination of preferential policies through intelligent systems, thereby reducing taxpayers' costs and making compliance more appealing. These findings demonstrate the growing importance of technological advancements in making tax incentives more accessible and practical.Similarly, Stoilova and Patonov (2013) analysed sustainable tax system designs, focusing on how tax reliefs and rates influence economic and social outcomes. They found that progressive tax incentives were more effective in fostering compliance than flat or regressive incentives, as progressive measures are perceived as fairer, increasing taxpayers' willingness to comply with regulations. This study underscores the importance of equity and fairness in designing tax incentives to enhance compliance rates.Arginelli (2022) examined the relevance and limitations of taxation in fostering megaprojects, arguing that effective tax incentives should minimise deadweight losses and compliance costs. According to the study, the principles of equality and reasonableness should guide the use of tax incentives, ensuring they are lawful, efficient, and beneficial. This perspective aligns with findings from other studies, which suggest that clear, equitable, and efficient tax incentives significantly improve compliance.

In low- and middle-income countries, the promise and limitations of technological solutions for tax mobilisation have also been explored. Okunogbe and Santoro (2022) highlighted that technology improves tax collection by identifying the tax base, monitoring compliance, and simplifying tax processes. However, the effectiveness of these technological measures is often hindered by inadequate infrastructure, limited adoption, and resistance from taxpayers and collectors. This indicates the need for supportive regulatory environments and robust infrastructure to maximise the benefits of technology-driven tax incentives. The role of tax incentives in promoting compliance among Micro, Small, and Medium Enterprises (MSMEs) has been a particular focus. Basri et al. (2023) examined MSME compliance during the COVID-19 pandemic in Indonesia, finding that tax incentives positively influenced compliance when combined with a good understanding of tax rules. However, high-risk preferences among taxpayers reduced compliance, suggesting that while incentives are effective, their success also depends on contextual factors such as risk tolerance and economic stability. Similarly, Meiryani et al. (2022) investigated income tax incentives for MSMEs, revealing that simplifying tax processes, such as calculation and reporting, significantly enhanced compliance rates. These findings highlight the importance of reducing complexity to achieve higher compliance.

Fan and Li (2020) evaluated the effects of an accelerated depreciation policy in China, finding that it encouraged firms to invest in eligible capital, especially larger firms with better tax compliance. The study also noted that strong tax enforcement and lower provincial tax fraud rates amplified the policy's effectiveness. These results suggest that financial incentives are more impactful when combined with strict enforcement measures and a low prevalence of fraud.The integration of cultural and religious factors into tax policy has also been studied. Pratiwi and Siswantoro (2020) examined the feasibility of claiming zakat as a tax deduction in Indonesia, finding that integrating religious obligations with tax incentives significantly improved compliance among religious taxpayers. This demonstrates the effectiveness of culturally tailored tax policies in specific contexts. Similarly, Alfarizi and Sari (2024) explored green tax incentives in Indonesia's culinary MSME sector, showing that combining these incentives with sustainable business practices enhanced compliance and sustainability. This study illustrates how integrating environmental and fiscal policies can achieve multiple objectives, including improved compliance. The challenges of implementing tax incentives have also been explored. Karpowicz (2020) investigated tax grouping in Poland, finding that stringent entry requirements and limited benefits discouraged utilisation despite its potential to enhance compliance. Lavic (2023) analysed corporate income tax compliance costs in Bosnia and Herzegovina, concluding that factors such as company size, age, and the use of tax advisors influenced costs. Tailored tax incentives could help alleviate these burdens and improve compliance. Furthermore, Meiryani et al. (2023) emphasised the role of trust in tax authorities, tax morale, and socialisation in enhancing compliance among MSMEs in Indonesia, indicating that financial incentives alone are insufficient without addressing behavioural factors. The relationship between tax incentives and trust is further evident in the Jordanian context. Alasfour (2019) highlighted the issue of tax evasion driven by mutual distrust between the state and its citizens, suggesting that fostering a high-trust culture and implementing strategic reforms could enhance compliance. Similarly, Ratnawati et al. (2023) found that tax incentives significantly influenced compliance among MSMEs in Pekanbaru, Indonesia, particularly when combined with favourable motivational postures. These findings highlight the importance of comprehensive strategies that include fiscal and non-fiscal measures to create a compliant tax culture. The effectiveness of tax incentives in promoting compliance is further demonstated through empirical on specific sectors and regions.. Xu and Kong (2024) used the random forest model to identify tax risks in China's real estate sector, finding that targeted incentives and improved risk assessment mechanisms could mitigate significant underreporting issues. Zhao and Fang (2022) analysed accelerated depreciation policies in China, revealing that they increased the demand for skilled labour and stimulated investment, enhancing compliance through economic growth. These findings align with Zharaura et al. (2022), who examined COVID-19 tax incentives in Indonesia and found that higher tax knowledge, socialisation, and awareness improved compliance among MSMEs.

In the European context, Azevedo et al. (2023) analysed Portugal's e-fatura system, which combines e-government measures with tax incentives. The study found that while tax incentives encouraged taxpayers to request and validate invoices, compliance remained the primary motivation. Haga et al. (2019) investigated corporate tax rate cuts in OECD countries, finding that companies engaged in income-decreasing cost behaviour before tax rate reductions, particularly in low-compliance countries. This highlights the interplay between tax policy and corporate tax planning, suggesting that well-designed incentives can mitigate aggressive planning and improve compliance.Overall, the literature indicates that tax incentives significantly determine tax compliance across various contexts and sectors. Effective tax policies should focus on providing fiscal benefits and address non-fiscal benefits through behavioural factors such as trust, morale, and socialisation. By combining financial incentives with efforts to enhance taxpayer awareness and trust in tax authorities, governments can create a more compliant tax environment that supports sustainable economic development.

Material and Methods

3.1 Identification

The systematic review approach involved three essential stages to choose a substantial number of relevant papers for this inquiry. During the initial phase, relevant keywords are selected, and synonymous terms are identified by consulting thesauri, dictionaries, encyclopaedias, and existing research. We selected all relevant keywords after generating search queries for the Scopus and Web of Science databases (refer to Table 1). During the initial phase of the systematic review approach, 777 publications were acquired for the present study project from both databases.

Table 1. The Search String

Database	Search String	Access Date
Scopus	(TITLE-ABS-KEY ("tax incentive" OR "tax policy" OR "tax deduction" OR "tax relief") AND TITLE-ABS-KEY ("tax compliance" OR "tax non-compliance" OR "tax non-compliance" OR "tax avoidance" OR "tax evasion")) AND (LIMIT-TO (PUBYEAR , 2022) OR LIMIT-TO (PUBYEAR , 2023) OR LIMIT-TO (PUBYEAR , 2024)) AND (LIMIT-TO (DOCTYPE , "ar")) AND (LIMIT-TO (LANGUAGE , "English")) AND (LIMIT-TO (SRCTYPE , "j"))	May 2024
Web of Science (WoS)	("tax incentive" OR "tax policy" OR "tax deduction" OR "tax relief") AND ("tax compliance" OR "tax non-compliance" OR "tax non-compliance" OR "tax avoidance" OR "tax evasion") (Topic) and 2023 or 2024 or 2022 (Publication Years) and Article (Document Types) and English (Languages)	May 2024

3.2 *Screening*

The screening process involves examining the collection of potentially relevant research items to determine if their content aligns with the predefined research question(s). Commonly employed criteria during the screening phase involve utilising tax incentives as determinants of tax compliance and selecting research topics accordingly. In this stage, any duplicate papers will be eliminated from the list of papers that have been searched. During the initial screening, 638 publications were excluded. In the second stage, 139 papers were assessed using specific criteria for inclusion and exclusion, as outlined in Table 2. The literature, specifically research papers, was chosen as the initial criterion due to its status as the main source of practical advice. Additionally, it encompasses evaluations, meta-syntheses, meta-analyses, publications, book series, chapters, and conference proceedings that were excluded from the latest study. Moreover, the review was limited to literature written in the English language. It is crucial to bear in mind that the strategy exclusively targeted the year 2022. A total of 28 publications were rejected due to duplication criterion

Table 2: The Selection Criteria for Searching

Criterion	Inclusion	Exclusion
Language	English	Non-English
Timeline	2022 – 2024	< 2021
Literature type	Journal (Article)	Conference, Book, Review
Publication Stage	Final	In Press
Subject	Economic, Econometric, Finance, Business Management, Social Science,	Energy, Engineering, Computer Science, Medicine, Chemical Engineering, Agriculture,

3.3 *Eligibility*

The final review sample is created once all the specified criteria for inclusion and exclusion have been satisfied. A comprehensive disclosure of the complete inventory of research items contained in this sample is necessary, as readers will otherwise be unaware of the specific research things that serve as the basis for the study's findings. There are a total of 111 items in the third level, which is called eligibility. At this stage, we thoroughly analysed all article titles and important material to verify that they fit the inclusion criteria and were pertinent to the research objectives of the present study. Therefore, 83 articles were eliminated from consideration since their title and abstract did not have a meaningful connection to the study's goal, as determined by empirical data. Ultimately, a total of 28 papers were provided for assessment (see Figure 1).

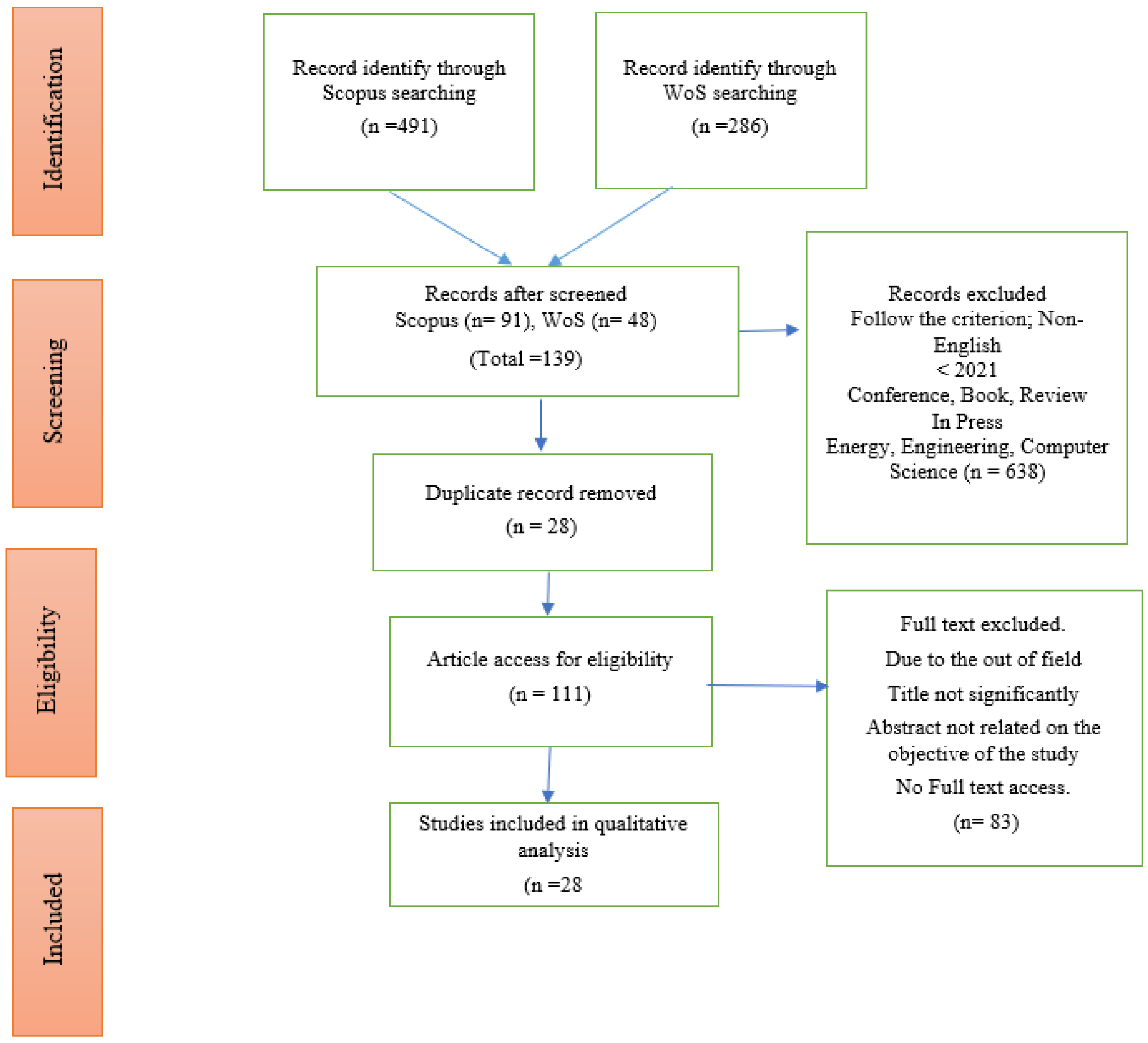

FIGURE 1: Flow diagram of the proposed search study (Moher et al., 2009)

3.4 *Data Abstraction and Analysis*

This study used an integrative analysis as an assessment strategy to comprehensively investigate and combine several research approaches, including quantitative, qualitative, and mixed methodologies. The objective of the proficient investigation was to ascertain pertinent subjects and subtopics. The data collection stage was the initial step in the theme's development. Figure 2 illustrates the authors' thorough examination of a collection of 28 publications to identify statements or content pertinent to the present study's subjects. The authors subsequently assessed the existing noteworthy papers pertaining to the categorization of tax incentives. The methods employed in these investigations, as well as the research findings, are under investigation. Subsequently, the author engaged in a collaborative effort with other co-authors to formulate themes derived from the findings within the specific setting of this study. A log was maintained throughout the data analysis process to document any analyses, perspectives, puzzles, or other thoughts pertinent to the data interpretation. Ultimately, the authors conducted a comparison of the data to identify any discrepancies in the process of designing the theme. It is important to mention that if there are any differences between the notions, the authors engage in discussions among themselves. The generated themes were ultimately adjusted to guarantee uniformity. The analytical selection was conducted by two specialists, one specialising in tax compliance and the other in direct and indirect taxation, to assess the accuracy of the issues. The expert review process verifies the clarity, significance, and appropriateness of each subtheme by proving the domain validity. This systemic analysis was developed to answer the main research question: How do tax incentives influence corporate investment decisions and behaviour in different economic contexts? What are the key determinants of tax compliance behaviour among individuals and businesses in various socio-economic settings? And how do various tax policies impact economic behaviour, tax avoidance, and overall economic outcomes? This research question aims to explore the intersectionality of the identified themes, allowing for a holistic investigation that integrates aspects of tax incentives and effectiveness and the context of tax compliance determinants.

Result and Finding

4.1 *Tax Incentive and Corporate Behaviour*

Tax incentives aimed at stimulating research and development (R&D) are a critical policy tool for fostering corporate innovation and economic growth. He et al. (2023) examined the effects of China's R&D tax deduction policy, finding that it led to increased R&D expenditures. However, the study highlighted a concerning trend of firms, particularly non-high and new technology enterprises (non-HNTEs), manipulating their R&D spending to maximise benefits from these deductions. This behaviour suggests that while the policy stimulates R&D investment, it can also drive unintended tax planning strategies that deviate from policy goals. Similarly, Sun (2022) explored the interplay between tax incentives, enforcement, and R&D investment in Chinese enterprises. The research indicated that preferential tax policies positively impact innovation activities by encouraging R&D investments. However, the effectiveness of these incentives depends significantly on the level of tax enforcement, as stronger enforcement enhances compliance and innovation behaviours among firms. These findings underscore the importance of integrating robust enforcement mechanisms with tax incentive schemes to achieve desired outcomes. The impact of tax incentives extends beyond R&D to corporate investment behaviour. Fang et al. (2022) investigated the effects of China's Income Tax Revenue Sharing Reform, which adjusted effective tax rates, on firm investment.

The study found that a 1% decrease in the effective tax rate led to a 0.7% increase in fixed asset investment (FAI), demonstrating the potential of tax incentives to stimulate corporate investment. Zhao and Fang (2022) further explored the role of accelerated depreciation policies in China, revealing that these measures increase the demand for skilled labour, especially in firms with financing constraints and high tax compliance. These incentives enhance cash flow, stimulate investment, and indirectly foster labour market improvements through capital-skill complementarity. Tax incentives also intersect with corporate social responsibility (CSR), but their effectiveness in this domain remains debatable. Kacem and Brahim Omri (2022) assessed the relationship between tax incentives and CSR practices in Tunisia, finding a negative association. Their results suggested that tax incentives might not effectively promote CSR activities, raising concerns about their design and implementation. Conversely, Zhao and Fang (2022) highlighted the potential for investment incentives to generate positive labour market effects, indirectly supporting CSR by improving firm productivity and employee benefits. Ali et al. (2022) investigated the performance of Malaysian small and medium enterprises (SMEs) benefiting from tax incentives. Their analysis indicates that while the incentives increased expenditures, their impact on profitability was minimal, suggesting that tax incentives alone may not be sufficient to drive significant improvements in corporate behaviour or performance. Collectively, these studies emphasise the importance of well-designed tax policies that consider the broader economic and social implications.

Policymakers must address potential misuse of incentives, as highlighted by He et al. (2023), and strengthen enforcement mechanisms to maximise their impact, as noted by Sun (2022). Additionally, as evidenced by Fang et al. (2022) and Zhao and Fang (2022), targeted incentives can promote economic growth by encouraging investment and enhancing labour demand. Finally, the research by Kacem and Brahim Omri (2022) and Ali et al. (2022) suggests that integrating complementary measures with tax incentives is crucial to achieving policy goals related to CSR and corporate performance.

4.2 *Tax Compliance and Behavioural Factors*

Tax compliance among Micro, Small, and Medium Enterprises (MSMEs) during the COVID-19 pandemic has been influenced by various factors, as revealed by numerous studies. Basri et al. (2023) examined the role of tax incentives and the understanding of tax rules in enhancing compliance among MSMEs in Pekanbaru, Indonesia. Their findings show that while tax incentives positively affect compliance, taxpayers' risk preferences moderate this effect. High risk diminishes compliance even with incentives, whereas a clear understanding of tax rules mitigates this risk and improves compliance. This highlights the importance of taxpayer education and effective communication of tax policies to ensure higher compliance rates. Similarly, Meiryani et al. (2023) explored compliance among individual taxpayers in Bandung Regency, focusing on the connection between tax incentives, trust in tax authorities, tax morale, and tax socialization. They found that trust in tax authorities and tax morale significantly boost compliance, whereas tax incentives alone have an insignificant effect. These findings highlight the importance of addressing psychological and social dimensions through targeted socialization and educational campaigns to build trust and morale within the taxpayer base.

In Addis Ababa, Ethiopia, Gobena (2023) studied the impact of procedural justice, legitimate power, and distributive justice on voluntary tax compliance. The research revealed that procedural justice enhances voluntary compliance, especially when paired with high legitimate power and low distributive justice. This indicates that fair and transparent tax processes and authoritative legitimacy are crucial for fostering cooperation. Ratnawati et al. (2023) also delved into compliance determinants among MSMEs in Pekanbaru, noting that motivational postures significantly influence the effectiveness of tax incentives. Positive postures amplify the impact of incentives on compliance, whereas negative postures hinder it. Recognizing compliant taxpayers and ensuring consistent communication about the benefits of compliance can encourage positive motivational postures. In Zimbabwe, Sebele-Mpofu (2023) highlighted the importance of tax morale in the informal sector, driven by a perceived social contract and peer behaviour. Enhancing tax morale through community-based initiatives and transparent use of tax revenues was found to significantly improve compliance. Tax policies must address the unique dynamics of the informal sector and cultivate mutual respect and trust between taxpayers and authorities. Similarly, Levenko & Staehr (2023) explored tax compliance in post-transition Estonia, finding that personal and social norms are more influential than rational evaluations of tax policies. Their results suggest that fostering positive social norms and community values can be more effective than purely deterrence-based measures. Surugiu et al. (2023) examined compliance across various regions, revealing that trust in authorities and the rule of law are critical, particularly in regions such as Eastern Europe, Africa, and the Middle East. Transparent and trustworthy institutions are essential for building long-term trust and compliance.

Lastly, Tohari et al. (2024) studied MSMEs in Kediri City, finding that while tax incentives, services, and sanctions positively influence compliance, tax morale does not have a significant effect. This suggests that while economic and service-related factors are crucial, more research is needed to enhance the role of tax morale through educational campaigns and quality public services. Collectively, these findings highlight the multiple nature of tax compliance and the need for a balanced approach combining economic, social, and psychological strategies.

4.3 *Tax Policy and Economic Outcomes*

Tax policy significantly influences economic outcomes, as demonstrated by various studies. Orsi and Seip (2023) examine tax reduction policies in Italy between 1982 and 2006, revealing that a 1% GDP loss in tax revenue is partially offset by GDP growth (0.31%) and reduced tax evasion (0.24%) due to a broader tax base and a shrinking underground economy. Their high-resolution lead-lag method establishes the causality of tax policy on economic performance. Biondo et al. (2022) explore tax evasion dynamics through a behavioural framework, highlighting the influence of individual evaluations, social factors, and public goods quality. Their model demonstrates that social satisfaction, imitation, and risk aversion significantly boost compliance, suggesting that behavioural interventions can effectively improve tax compliance without relying on increased penalties. Eichfelder et al. (2024) investigate the impact of corporate tax rate changes on domestic firms, finding that a 1-percentage point decrease in the tax rate results in a 1.1% increase in pre-tax book income due to conforming tax avoidance. Firms adjust via discretionary cash flows, reserves, and inventory valuation, indicating that tax cuts may inadvertently incentivise tax avoidance, challenging their effectiveness in stimulating economic activity without fiscal drawbacks.

Similarly, Mohamad Ariff et al. (2024) examine corporate tax avoidance and environmental, social, and governance (ESG) performance, finding that higher tax avoidance correlates with stronger ESG performance. However, financial constraints weaken this relationship, highlighting the need for policies, such as tax incentives, to enhance ESG initiatives without promoting avoidance behaviours. In Australia, Highfield and Warren (2023) use tax gap analysis to evaluate individual income tax policy and administration. Their findings suggest that socio-economic and demographic variations influence non-compliance, emphasizing the need for tailored tax reforms to reduce the tax gap effectively. Hines (2023) investigates the role of trusts in wealth preservation, noting that while trusts provide modest tax savings for wealthy families, they primarily facilitate intergenerational wealth transfers. This underscores the need for balanced policies that support wealth transfers while ensuring equitable taxation. Lu and Wang (2024) analyse multinational firms in China, finding that tax rate differentials between parent countries and domestic jurisdictions incentivise profit shifting via transfer pricing. Younger and wholly foreign-owned firms exhibit higher profit margins, emphasising the importance of harmonising tax rates to reduce avoidance and promote fair competition.

Pasculli and Maclennan (2022) investigate tax relief abuses in the U.K. film industry, uncovering fraudulent claims and elaborate avoidance schemes. Their study highlights the need for stricter oversight to curb misuse while encouraging genuine investment. Tang and Liu (2024) explore R&D tax incentives in emerging markets, emphasizing the critical role of intellectual property rights (IPR) protection. In regions with strong IPR frameworks, tax incentives significantly enhance innovation. Conversely, weak IPR regions see firms exploit tax benefits without meaningful innovation, underscoring the necessity of robust IPR systems for effective policy outcomes. Finally, Yoon et al. (2023) assess tax policies' impact on high-tech firms in China, revealing increased tax avoidance following significant rate cuts. Government ownership mitigates avoidance, except in the period preceding rate changes, reflecting strategic timing of tax avoidance activities. These studies collectively highlight the complexities of tax policy design, enforcement, and its broader economic and behavioural implications, emphasizing the need for well-calibrated, complementary measures to achieve policy goals effectively.

Discussion and Conclusion

Tax incentives designed to stimulate research and development (R&D) have been a focal point in understanding their influence on corporate behaviour. Research on China's R&D tax deduction policies shows that while these incentives lead to increased R&D spending, they often encourage strategic tax planning that may deviate from policy intentions. The intensity of tax enforcement plays a crucial role in moderating the effectiveness of these incentives, fostering greater compliance and genuine innovation among firms. Additionally, reforms like China's Income Tax Revenue Sharing Reform have boosted fixed asset investment (FAI), underlining the significance of well-structured tax policies in encouraging corporate investment. However, the impact of such incentives on corporate social responsibility (CSR) is less promising. Studies from Tunisia suggest that tax incentives have not effectively promoted CSR practices.

On the other hand, accelerated depreciation policies in China have positively influenced the labour market by increasing demand for skilled workers, indicating that specific investment incentives can yield beneficial spillovers, such as enhanced productivity and workforce development. Conversely, research on Malaysian small and medium-sized firms shows that tax incentives have led to increased expenditures without improving profit performance, suggesting that incentives alone may not drive meaningful behavioural changes in firms. These findings underscore the need for thoughtfully designed incentives, robust enforcement, and complementary measures to achieve targeted economic and social outcomes. Multiple factors have shaped tax compliance, particularly among Micro, Small, and Medium Enterprises (MSMEs) during the COVID-19 pandemic. Research indicates that tax incentives can improve compliance, particularly when taxpayers clearly understand tax rules, which helps mitigate risk aversion. High trust in tax authorities and strong tax morale further enhance compliance, highlighting the importance of social and psychological dimensions in tax policy. Ensuring procedural justice and exercising legitimate power by tax authorities can foster voluntary compliance by promoting fair and transparent processes. Motivational postures among taxpayers also play a critical role, as positive attitudes amplify the effects of tax incentives, while negative postures diminish them. Within the informal sector, tax morale—driven by social contracts and peer influences—proves essential for fostering compliance. Transparent use of tax revenues and community-based initiatives can strengthen this morale. Personal and social norms also significantly affect compliance, suggesting that fostering positive social norms can be more effective than deterrence-based measures.

Furthermore, institutional trust and adherence to the rule of law are pivotal, particularly in regions with lower institutional credibility. While tax incentives, improved tax services, and sanctions positively influence compliance, the role of tax morale remains underexplored. Enhanced educational campaigns and investments in public services could improve morale and, by extension, compliance rates. These findings reveal the multifaceted nature of tax compliance, underscoring the need to integrate economic, social, and psychological strategies for better outcomes among MSMEs. More broadly, the interplay between tax policy and economic outcomes is evident in various contexts. For instance, Orsi and Seip's study on the Italian economy shows that a 1% GDP reduction in tax revenue can be partially offset by increases in GDP driven by broader tax bases and reduced underground economic activity. This highlights the potential of tax policy to stimulate economic growth while addressing evasion. Similarly, Biondo et al. reveal the importance of behavioural factors such as social satisfaction in influencing tax compliance, suggesting a shift in focus from penalties to interventions that enhance taxpayer engagement and morale. Eichfelder et al. examine corporate tax rate reductions, finding that while these cuts increase pre-tax book income through conforming tax avoidance, they raise concerns about their fiscal sustainability and ability to stimulate genuine economic growth.

On the relationship between tax avoidance and corporate behaviour, Mohamad Ariff et al. demonstrate a link between tax avoidance and improved ESG performance. However, this relationship is weaker for financially constrained firms, highlighting the need for mechanisms such as tax incentives to support ESG initiatives without incentivising tax avoidance. Highfield and Warren's analysis of Australia's tax gap underscores the importance of tailored policies to address socio-economic disparities and improve compliance. Meanwhile, Hines' exploration of trusts reveals their role in wealth preservation and intergenerational wealth transfers, offering modest tax savings but creating opportunities for fair taxation policies.In the context of international tax challenges, Lu and Wang's research on multinational firms in China finds that tax rate differentials incentivise profit shifting through transfer pricing, with younger and wholly foreign-owned firms being more responsive. This underscores the need for harmonising tax rates to promote fair competition. In the U.K. film industry, Pasculli and Maclennan expose the misuse of tax reliefs, advocating for stricter oversight to balance genuine investment promotion with the prevention of abuse. Tang and Liu's study on R&D tax incentives in emerging markets emphasises that robust intellectual property rights (IPR) protection is critical for maximising innovation outcomes. Without strong IPR frameworks, firms may exploit tax benefits without contributing to substantive innovation. Lastly, Yoon et al. examine high-tech firms in China and highlight strategic tax avoidance influenced by ownership structures and the timing of tax rate cuts. This research underscores the complexities in designing tax policies that balance economic stimulation with minimising avoidance. Collectively, these studies highlight the nuanced impacts of tax policies on economic and social outcomes, emphasising the importance of comprehensive, well-implemented strategies that integrate enforcement, behavioural insights, and supportive frameworks to maximise their effectiveness.

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