Journal of Business

Volume 10, Issue 03, 2025: 01-10
Article Received: 03-09-2025
Accepted: 28-09-2025
Available Online: 07-10-2025
ISSN 2380-4041(Print), ISSN 2380-405X(Online)
DOI: https://doi.org/10.18533/journal.v10i3.369

Impact of tax incentives on tax revenue, GDP, and foreign direct investment: A study on the Bangladesh economy

Rumel Ahmed[1], Sajib Hossain Aoyan[2], Md. Akhirul Islam[3], Saifuddin Khan[4*]

ABSTRACT

The objective of this study is to empirically investigate how tax incentives affect three significant economic indicators in Bangladesh: tax revenue, Gross Domestic Product (GDP), and Foreign Direct Investment (FDI), using the Neoclassical Growth Model. The study collected data from secondary sources covering a period of 10 years from 2014 to 2023. The data was analyzed using the Ordinary Least Squares (OLS) multiple regression test, which was used to test the developed hypotheses. The result found that tax revenue is positive and insignificantly associated with tax incentives. GDP is positive and significantly influenced by tax incentives. On the other hand, FDI inflows are negative and insignificantly associated with tax incentives. The study's findings will help the government and policymakers to serve the interests of investors, including both foreign and local, and understand how they benefit from tax incentives.

Keywords: Tax incentives, Tax revenue, Foreign Direct Investment (FDI), Economic growth, Industrial development.
JEL: M21, M48, O11, O23.

This is an open access article under Creative Commons Attribution 4.0 License.

1.0 Introduction

Tax incentives are identified as tax rules that deviate from the normal procedures of tax impartiality and fairness, which are intended to attract both foreign and local investment (Minh Ha et al., 2022). In the current global economic landscape, emerging countries are continually faced with the challenge of promoting economic development while offering tax incentives to investors. Hence, tax incentives have proven to be a vital policy for governments everywhere, facilitating the attraction of investment, fostering economic development, and enhancing competitiveness amid growing global interdependence (Pecho et al., 2024). The fiscal instruments through which ordinary tax practices are diverged to grant some advantage to selected activities, sectors, or regions are central to economic development policy for emerging economies and South Asia as a whole (Stotsky, 2024).

The fundamental logic of tax incentives is straightforward: reducing fiscal burdens associated with certain economic activities can stimulate investment, enhance productivity, and ultimately yield superior

1Research Student, Department of Accounting and Information Systems, University of Rajshahi, Bangladesh, Email: rumel8366@gmail.com
2 Research Student, Department of Accounting and Information Systems , University of Rajshahi, Bangladesh, Email: aoyan203@gmail.com
3 Lecturer, Department of Accounting, Haji Lalmia City College, Gopalganj, Bangladesh, Email: akhirulaa@gmail.com
4* Associate Professor and corresponding author,, Department of Accounting and Information Systems, University of Rajshahi, Bangladesh, Email: saifuddink@ru.ac.bd

economic performance from the foregone taxes (Wang et al., 2024). Tax incentives are a broad array of fiscal instruments, ranging from tax holidays to lower tax rates to accelerated depreciation of depreciable assets to investment tax credits to tax exemptions from some taxes (OECD, 2025). In emerging countries, they are generally believed to be crucial to pulling in foreign direct investment (FDI) in a highly competitive global investing environment (Stotsky, 2024). According to Pecho et al. (2024), well-designed tax incentives can substantially promote investment in the manufacturing sector when an economy has sound institutional foundations. In South Asia, with its rapidly expanding economies and transforming industrial landscapes, tax incentives have emerged as key instruments of economic policy. South Asian countries like Bangladesh, India, Pakistan, and Sri Lanka have utilized some tax incentives to address investment attraction, promote export-based sectors, and bring about economic diversification (Razzaque et al., 2024).

The case of Bangladesh is particularly useful for analyzing the effectiveness of tax incentives, given the significant economic changes observed over the last three decades. The country has achieved steady GDP growth, a significant reduction in poverty incidence, and a remarkable improvement in human development indicators (World Bank, 2024). Recently, the Bangladesh Investment Development Authority (BIDA) has implemented a range of tax incentive programs for specific industries, locations, and types of investment. They include income tax holidays for companies, reduced tax on export-oriented manufacturing, and incentives for special economic zones (BIDA, 2024).

1.1 Statement of problem and research gap

Most previous research has shown how tax incentives influence other variables, and it has examined the relationship between two variables individually: tax incentives and economic development (Appiah-Kubi et al., 2021; Babatunde et al., 2017; Siyanbola et al., 2017). The gap is most pronounced in developing economies, where tax revenue losses in the short term and long-term economic gains are critical for policy formulation (Begum, 2024). Additionally, the economic recovery following the COVID-19 pandemic has sparked renewed interest in fiscal policy instruments, particularly tax incentives, as mechanisms for economic stimulation and structural change (Mooij et al., 2020). Thus, it is essential to comprehend the diverse effects of tax incentives for effective policy formulation in recent times (Mataba et al., 2023).

In Bangladesh, there are various tax incentives for various taxpayers, such as companies, individuals, business organizations, etc. They are getting a tax advantage, but in most cases, they deny the tax or they do not report the tax filing appropriately (Chowdhury & Hossain, 2019). As a result, every year there is a huge amount of deficit in government revenue, and a huge amount of borrowing is required. In Bangladesh, in most cases, especially the people who belong to the wealthy and elite class, they willingly avoid taxes. They exploit the inappropriate practice of tax avoidance, and individuals who provide government services conceal their real properties and other taxable assets by leveraging the power of a government servant (Ahmed, 2019). It is also noticeable that the government provides various tax incentives. However, the taxpayers are not aware of this, and they miss the opportunities (Ahmed, 2019). There is another problem that creates discrimination during the classification of people based on their various attributes, such as age, children and dependents, and living standards, because there is not the same balance between the income of these groups of people (Hassan & Prichard, 2016).

Despite the implementation of tax incentives in Bangladesh and other developing countries, there is a lack of comprehensive empirical studies on their effectiveness. Although various studies have examined specific aspects of tax policy implications, few have estimated the effect of tax incentives on key economic indicators, including tax receipts, GDP growth, and foreign direct investment (Okoth, 2023; Salma et al., 2023). Therefore, this research aims to bridge this gap by providing a comprehensive empirical analysis of the effect of tax incentives on three key economic performance variables: tax revenue, GDP growth, and FDI inflows for Bangladesh, using econometric analysis of data from 2014 to 2023.

The research has a number of contributions to prior research. Firstly, it provides fresh empirical evidence on the effectiveness of tax incentives, utilizing contemporary data that reflects economic behavior following the global financial crisis. Secondly, it conducts multi-outcome analysis, offering a broader picture regarding the tax incentive effect beyond studies with a single variable. Thirdly, it contributes to the sparse literature on South Asian tax policy effectiveness, offering insights and policy advice for regional policy learning and formation.

2.0 Literature review and hypothesis development

2.1 Tax revenue

The amount of money the government earns through taxes is not just counted as revenue, but also depends on various factors, including people's lifestyle, economic development, foreign investment, and the country's employment rate (Minh Ha et al., 2022). The government undertakes various initiatives for the country's development, including infrastructure development, regular maintenance, defense, education, and healthcare expenses. To execute these activities, the government requires a substantial amount of money, with the majority of the budget derived from taxes, which the government records as tax revenue (Ewa et al., 2020).

Taxes that the government collects have a direct impact on the expenditure because they define the boundary of expenses. When there is a deficit in the yearly budget, the amount that is in deficit needs to be collected through loans or donations from various organizations. However, if they understand how much of their deficit budget can be covered by loans or donations, they will manage their budget accordingly; otherwise, they cannot extend the budget, as tax revenue is limited (Ojong et al., 2016).

The ultimate goal of taxation is to meet the public demand and help with the various activities of government. For the economy, tax is regarded as a major revenue source since it is collected from citizens of the country, companies, and foreign investors. In the era of globalization, governments need to reduce the tax rates for a particular sector so that investors, including local and foreign, can invest their money, which helps to manage the economy perfectly (Basheer et al., 2019). Tax incentives must be balanced between encouraging compliance and spurring economic activity without compromising revenue growth to the government (Ángeles & Ramírez, 2014). By reducing the tax burden, incentives can play a crucial role for firms to expand, increase production, and ultimately provide more taxes in the future, further expanding the revenue base (Ewa et al., 2020). Hence, the study developed the following hypothesis to test the impact of tax incentives on tax revenue.

H1: Tax incentives have a positive and significant impact on tax revenue.

2.2 Economic growth

In developing countries like Bangladesh, the government plays a crucial role because of various limitations, including limited capital, and initiatives undertaken by private authorities are insufficient to promote economic growth. When the government provides a budget for the country, the majority of the portion comes from taxation (Chukwuebuka & Obiora, 2018). Various sectors influence a country's economic growth, including investment, government expenditure, interest rates, consumption, and taxation. Among those factors, taxation has a significant impact on the economy's changes (Akanbi, 2020). When countries measure the size of economic growth over time, it is referred to as economic growth. Economic growth occurs when a country's production capacity increases. The measurement of growth is the total value of goods and services produced by a country over a specified period, within its borders. In simple terms, it is referred to as Gross Domestic Product (GDP).

When a particular year produces goods and services in greater quantities than the previous year, it is referred to as economic growth (Akhor & Ekundayo, 2016). When the tax incentive is given, extra money saved outside of the incentive, which does not have to be paid, can be invested in the business, which will play a helpful role in increasing the profit of the business, resulting in more profit in the business in the next year, and more tax revenue from there can be generated. The money that is saved from the benefits of tax incentive that boosts the business and can create more employment opportunities (Daiyabu et al., 2023). Tax incentives typically motivate businessmen to increase their investment. When businessmen increase their investment, it affects the production process, resulting in the production of more goods and services. This, in turn, creates productive human resources, employment opportunities, and exports, as well as savings. This process has a direct effect on the economy (Siyanbola et al., 2017). Tax incentives are expected to stimulate economic activity by reducing operating costs and freeing up capital for reinvestment, which increases productivity and competitiveness (Paddel & Kouassi, 2018). In the long run, such a policy not only raises business profits but also promotes industrial diversification and the adoption of new technologies. As businesses expand, they generate employment, boost domestic incomes, and increase aggregate demand, further bringing about sustainable growth (Akanbi, 2020). Therefore, the study developed the following hypothesis to test the impact of tax incentives on GDP.

H2: Tax incentives have a positive and significant impact on GDP.

2.3 Foreign direct investment

Generally, investment refers to the acquisition of assets or other resources for generating revenue in the future through daily activities. When a person invests in a country other than their home country to generate revenue, it is subject to the applicable laws and regulations of that country, which is known as foreign direct investment (FDI). When an investor invests in a country other than their home country that time the most required thing is security, then by others that including tax reduction (Etim et al., 2019). The economy of a country should be arranged in such a way that it is easy for foreign investors to invest; it is a major measure of the country's economic success (Ślusarczyk, 2018). A well-conceived scheme of tax incentives can be a successful device to attract foreign investors by making business cheaper and more profitable (Appiah-Kubi et al., 2021). By delineating industries or backward areas, the incentives can channel foreign capital into sectors or regions where it is needed most and bring about balanced development. Further, if foreign investors perceive there is stability and certainty in the tax environment, faith in long-run operations increases (Etim et al., 2019).

According to the Bangladesh Bank (BB) report for the calendar year 2023, Bangladesh attracted $ 3,969 million in foreign direct investment (FDI), a decrease of nearly 18 percent compared to the previous year. There are many reasons that show the scholar among them is tax, which is a major one. Some unfair tax burdens create dissatisfaction among investors, and they lose interest in investing in the local market (Shahabuddin et al.,

2013). A more favorable tax rate can attract more foreign investors who are interested in setting up business in the local market. Multinational companies can initiate their operations if the tax rate is favorable, as unfavorable tax rates create uncertainty for growing businesses (Abdulla & Ali, 2022). Tax incentives serve as a motivational factor for investors, increasing their willingness and fostering a competitive mindset among them. This, in turn, enhances the nation's human resources and creates employment opportunities. An attractive tax rate works as a driver of foreign direct investment (Appiah-Kubi et al., 2021). Tax incentives are provided to FDI, possibly for a specific industry or geographical location, to stimulate growth in the sector, encouraging and motivating investors to invest in this area. The government needs to provide incentives to sectors that are not growing or generating revenue at a rate lower than that of other sectors. This will then attract foreign investors to the particular sector (Hsu et al., 2019). Many incentives attract foreign investors; among them, tax incentives hold special importance in encouraging foreign investors to invest their capital directly. The government of the host country needs to introduce this policy among the investors who are interested (Ślusarczyk, 2018). Hence, the study developed the following hypothesis to test the impact of tax incentives on FDI.

H3: Tax incentives have a positive and significant impact on FDI.

3.0 Research theory and conceptual framework

Many theories are related to economic development, as well as theories that describe how tax incentives contribute to economic growth, including neoclassical growth theory, Endogenous growth theory, and Keynesian theory.

In 1956, Neoclassical Growth Theory was introduced by Robert Solow and Trevor Swan. The main idea of the theory is the combination of three factors: labor, capital, and technology, which are considered external factors that directly influence a nation's economic growth. Economic growth depends on the amount of capital invested by an entrepreneur for business or innovation, the amount of labor input compared to the invested capital, and the technology developed for investment, as these three factors play a crucial role in improving GDP (Chukwuebuka & Obiora, 2018). When a tax incentive is available in the industrial sector, the amount saved through the incentive can be reinvested in the business, serving as capital. This capital enables the organization to hire more employees, introduce new technology, and create more opportunities for production, ultimately helping to reduce production costs. This overall process has a huge impact on the growth of the economy and industrial development. When advanced technology is available, foreign investors will be more interested in investing in the local market, which will strengthen the economy. As a result, the economy's growth will be high when foreign investment occurs in the local market.

In the 1980s, a theory known as the Endogenous Growth Theory emerged. For developing the economy of any nation, the endogenous growth theory plays a crucial role, that describe how internal factor affects the growth of economy, these internal factors include human resources, ideas and innovation that create something new for development of economy, the factor that are created internally can be controllable rather than the factor that are created externally (Gáti, 2023). To grow the economy using this theory, the government of a country must play a significant role by investing in human resources, fostering active market competition among investors, and introducing innovative new technologies into the economy (Cong et al., 2021). The growth of economy will depend on several thing that include internal and external factors, by using this theory tax incentives has impact on economic growth, when the tax incentives is provided to taxpayers include individuals, companies and others they may get tax rebate and the amount save can made reinvestment or by using this amount they can made the human resources more skillful and innovate new ideas and can purchase technology, this overall process has impact on growth of economy (Chirwa & Odhiambo, 2018).

In the 1940s, the British economist John Maynard Keynes introduced a theory that became known as Keynesian theory. When a recession occurs in the economy or economic growth does not occur as expected due to various reasons, government intervention is necessary to stabilize the economy's growth. This is the ultimate goal of Keynesian theory of economic growth (Sharipov, 2015). It describes the rate of wages as well as the price of goods that should adjust with people's income. The government should provide a fiscal policy that adjusts the taxation (Afrique et al., 2018). During the COVID-19 pandemic, the global situation was unstable, particularly in terms of the economy. At that time, the World Health Organization (WHO) declared a worldwide pandemic, which negatively impacted the world economy. Overall, supply and demand were not the same as before COVID-19, and the economy faced trouble at that time. Most of the countries at that time used the Keynesian theory to stabilize the situation and meet aggregate supply with aggregate demand (Abbass et al., 2022). During any recession, the government should provide tax incentives in various formats, such as corporate tax credits and tax holidays, so that industries that are affected can overcome the situation and adjust to the economy (Commendatore et al., 2002).

Therefore, the study selects the Neoclassical Growth Theory, which discusses mainly some factors that influence the economy, among them, tax is one of the major factors, than capital, labor, and technology. The model describes how these factors affect the economy in the long run, while there exist many issues in the economy.

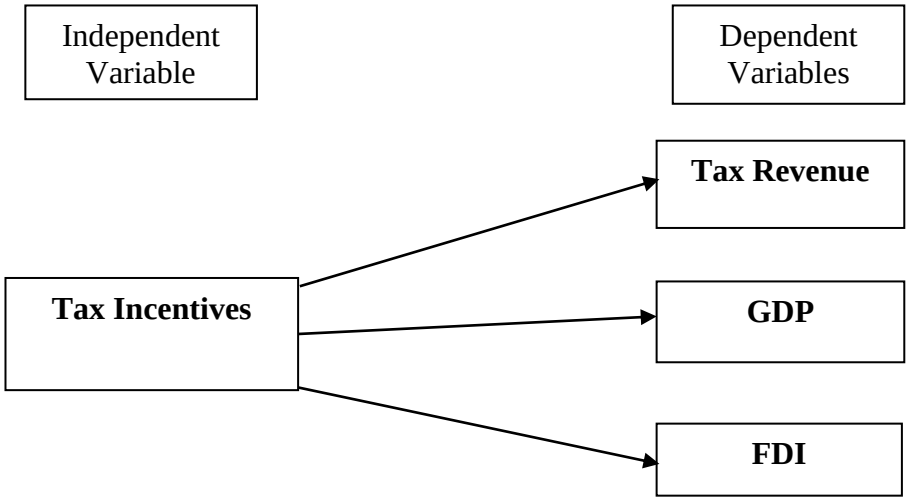

Figure 1: Conceptual Framework. Source: Authors' creation.

4.0 Methodology

4.1 Research design

The study adopted an explanatory non-experimental research design to examine the relationship between tax incentives and tax revenue, GDP, and foreign direct investment. The study data were collected from various secondary sources, including the Bangladesh Bureau of Statistics, the Ministry of Finance, the Bangladesh Investment Development Authority, and the National Board of Revenue. The data that was collected from various sources covered a period of 10 years, from 2014 to 2023.

4.2 Model specification

Based on the relationship between dependent and independent variables, multiple linear regression models were analyzed to link between tax incentives and tax revenue, GDP, and FDI. The study adopted an economic approach and employed the Ordinary Least Squares (OLS) regression. Table 1 describes the variables used in the study.

$$TaxRevenue = \beta_0 + \beta_1 TaxIncentive + \beta_2 GDP + \beta_3 FDIInflow + \varepsilon \dots (1)$$

$$GDP = \beta_0 + \beta_1 TaxIncentive + \beta_2 FDIInflow + \beta_3 TaxRevenue + \varepsilon \dots (2)$$

$$FDIInflow = \beta_0 + \beta_1 TaxIncentive + \beta_2 GDP + \beta_3 TaxRevenue + \varepsilon \dots (3)$$

Table 1.
Definition of the variables.

Acronym		Variable definition	References
TaxRevenue	=	The amount of money collected through taxes during a fiscal period.	Minh Ha et al. (2022)
TaxIncentive	=	The amount of money that taxpayers gained as a discount.	Erick (2023)
GDP	=	Gross Domestic Product.	Ewa et al. (2020); Ojong et al (2025)
FDIInflow	=	Inflows of Foreign Direct Investment.	Etim et al. (2019); Kamaran Abdulla & Ali (2022)

Source: Researchers' compilation.

5.0 Data analysis and findings

5.1 Descriptive statistics

Table 2 presents the descriptive statistics by summarizing key variables of the study based on 10 observations. Tax revenue ranges from 1,412 to 3,324 billion, with a mean of 2,499.8 and moderate variation (SD = 733.84). GDP is more variable, ranging from 17,608 to 44,908 billion, with a mean of 27,384.5 (SD = 9,881.90). FDI inflows are fairly consistent, ranging from 120 to 345 billion, with a mean of 224.5. Tax incentives are highly diverse, ranging from 289 to 1,369 billion, with a mean of 748.6 (SD = 473.80).

Table 2.
Descriptive statistics.

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
TaxRevenue	1412.0	3324.0	2499.800	733.8431	-.316	-1.563
GDP	17608.0	44908.0	27384.500	9881.8975	.712	-.974
FDIInflow	120.0	345.0	224.500	64.3225	.487	.494
TaxIncentive	289.0	1369.0	748.600	473.7951	.199	-2.228
Valid N (listwise)	10					

Source: Secondary data analysis.
Note: All the values are presented in billion (Taka).

5.2 Correlation and multicollinearity test

Table 3 shows a high positive correlation between FDI inflow, GDP, tax revenue, and tax incentives, which are significant at the 0.01 or 0.05 level. The VIF results provide evidence that all the values were between 1 and 5, and there is no multicollinearity problem. At the same time, the Durbin-Watson statistics are presented in Table 4 of the three models, 2.760, 1.136, and 2.200, respectively, which confirm that there is no autocorrelation influence in the regression models.

Table 3.
Correlations analysis.

	FDIInflow	GDP	TaxRevenue	TaxIncentive	Tolerance	VIF
FDIInflow	1				.419	2.386
GDP	.760*	1			.115	8.673
TaxRevenue	.822**	.857**	1		.156	6.419
TaxIncentive	.728*	.933**	.880**	1	.128	7.784

*. **. Correlation is significant at the 0.05 and 0.01 levels (2-tailed).

Source: Secondary data analysis.

5.3 Hypothesis test (Regression Analysis)

The regression outcomes analyze the impacts of tax incentives, GDP, tax revenue, and FDI inflows in three models, which are presented in Table 4.

5.3.1 Effect of tax incentives on tax revenue

The first model R^2 value is 0.844, and the Adjusted R^2 is 0.767. Hence, the results account for 84.4% of the variation in tax revenue. The model is significant, with $F = 10.851$ and $p = 0.008$. The results of tax incentives ($\beta = 0.570$, $p = 0.252$), FDI inflows ($\beta = 0.379$, $p = 0.179$), and GDP ($\beta = 0.037$, $p = 0.941$) indicate positive but statistically insignificant effects on the collection of tax revenue. Thus, these results suggest that increasing tax incentives can lead to higher tax revenue.

5.3.2 Effect of tax incentives on GDP

The second model explains 88.5% of the variance in GDP, with an R^2 of 0.885 and an adjusted R^2 of 0.827. The model is significant, with $F = 15.364$ and $p = 0.003$. The results of tax incentives ($\beta = 0.791$, $p = 0.035$) are significant in influencing GDP growth at the 5% level. Therefore, the results confirm that tax incentives play an important role in boosting economic performance, especially in terms of increased GDP. Tax revenue results ($\beta = 0.027$, $p = 0.941$) and FDI inflows ($\beta = 0.162$, $p = 0.530$) do not have a significant impact on GDP.

Table 4.
Regression results.

Variables	Model 1 (TaxRevenue)			Model 2 (GDP)			Model 3 (FDIInflow)		
	Stand. β	t	Sig.	Stand. β	t	Sig.	Stand. β	t	Sig.
(Constant)		1.433	0.202		1.298	0.242		0.252	0.810
TaxIncentive	0.570	1.268	0.252	0.791	2.712	0.035**	-.316	-.456	.664
GDP	0.037	0.077	0.941				0.425	0.666	0.530
FDIInflow	0.379	1.523	0.179	0.162	0.666	0.530			
TaxRevenue				0.027	0.077	0.941	0.736	1.523	0.179

R^2	0.844	0.885	0.698
Adjusted R^2	0.767	0.827	0.547
Durbin-Watson (d)	2.760	1.136	2.200
F	10.851	15.364	4.617
Sig. (p)	0.008	0.003	0.053

Source: Secondary data analysis.

5.3.3 Effect of tax incentives on FDI

The third model explains 69.8% of the variance, where R^2 is 0.698 and adjusted $R^2 = 0.547$. The model is significant, with $F = 4.617$ and $p = 0.053$. Hence, the results of tax incentives ($\beta = -0.316$, $p = 0.664$), GDP ($\beta = 0.425$, $p = 0.530$), and tax revenue ($\beta = 0.736$, $p = 0.179$) are not significant determinants of FDI inflows. Thus, these results indicate that tax incentives do not influence the tax FDI.

6.0 Discussion

The ultimate goal of the study is to evaluate the relationship between tax incentives, tax revenue, GDP, and foreign direct investment (FDI) in Bangladesh. To accomplish the research objectives, the study focuses on theories related to economic growth to gain deeper insight into the factors that influence the impact of tax incentives. Therefore, using the Neoclassical Growth Model, the study formulated three hypotheses. Consistent with the theory's expectations, the findings reveal that tax incentives contribute significantly to economic activity; however, their impacts differ across various macroeconomic measures.

The study revealed that regression model 1, which includes tax incentives, has a positive and statistically insignificant impact on tax revenue. It suggests that incentives may induce some degree of compliance. However, little towards government revenue, which indicates that the collection of tax revenue does not meet expectations, i.e., the amount of revenue collected through taxes is lower than the budgeted amount. These results corroborate those of Babatunde et al. (2017), who emphasized that while tax incentives provide an economic stimulus, they tend to generate revenue leakages in emerging economies. Likewise, Minh Ha et al. (2022) observed that dependence on incentives in the absence of strong compliance measures can undermine the fiscal space of the government. However, this finding supports the Neoclassical Growth Theory's contention that incentive savings can be reinvested, resulting in future revenue growth as business operations expand.

Model 2 indicated that a country with a high GDP can generate more tax revenue than a country with a medium or low GDP. The study found a strong and statistically significant positive correlation between GDP and tax incentives, supporting the second hypothesis. Therefore, tax incentives play a crucial role in the economic development of Bangladesh. While providing tax incentives might seem like a loss for the government initially, it can encourage higher tax payments in the long run (Romer, 1999). This finding aligns with earlier research that emphasizes the importance of fiscal incentives in supporting small and medium-sized enterprises (SMEs), promoting industrial growth, and creating jobs (Feyitimi et al., 2016; Khan et al., 2023). Erick (2023) also noted that, for emerging economies, incentives stimulate business expansion, resulting in increased employment and enhanced production capacity. The results confirm that fiscal policy tools, such as tax holidays and rate reductions, have helped maintain GDP growth, particularly in the textile, agricultural, and manufacturing sectors.

Contrary to expectation, the analysis in Model 3 exposed a negative and insignificant association between tax incentives and FDI flow. The finding suggests that foreign investors are less influenced by tax relief itself when making the investment decision in Bangladesh. Instead, other structural drivers like political stability, regulatory certainty, infrastructure, and market accessibility may be given higher priority in their decision. This finding contrasts with studies by Appiah-Kubi et al. (2021) and Ślusarczyk (2018), which indicated the appeal of FDI in other developing contexts to be significantly boosted by tax incentives. However, it is consistent with Shahabuddin et al. (2013), who noted that incentives in Bangladesh have not been impactful due to administrative inefficiencies and investor skepticism about the consistency of long-term tax policy. The negative sign also supports Stausholm (2017) argument that poorly planned or unfocused tax holidays can contribute to unproductive investment promotion since foreign investors would be more interested in institutional stability than in short-term budgetary gains.

7.0 Conclusion

The study was conducted to examine the impact of tax incentives on tax revenue, GDP, and foreign direct investment. The findings suggest that tax incentives are positively associated with tax revenue and economic growth, but exhibit a negative relationship with foreign direct investment. The overall result suggests that the tax percentage should be reviewed periodically. The tax rate imposed on taxpayers should not be increased beyond a level that could have a negative impact on the overall economy. Special consideration should be given to foreign investors, and the tax structure should be designed to attract both foreign and local investors.

During the pandemic, as the entire world faced an economic downturn, Bangladesh also faced these challenges. Policymakers and government authorities should carefully monitor the tax system to ensure it does not burden taxpayers. Based on the situation, they should adjust or set the tax rate for specific industries to promote efficient business growth. The focus should be directed toward understanding the key issues affecting foreign investors. They need to identify the reasons behind the negative relationship between tax incentives and foreign direct investment. If the returns do not justify their investments, investors lose motivation. A well-designed tax structure is a crucial factor in effectively attracting investors.

The study will support policymakers and higher government authorities in making effective decisions and developing new ideas related to foreign investment, local investment, and increasing GDP and tax revenue. It will also help foreign investors understand how tax incentives influence their investment choices. The government should clearly communicate the benefits and drawbacks of the options offered to taxpayers. Additionally, this study highlights the importance of tax revenue for the efficient functioning of government operations.

Although the study contributes to the existing literature, it has certain limitations. For example, it covers a 10-year period; future research could analyze a larger dataset over a longer timeframe or include panel data to compare developing countries. Additionally, future researchers should explore various theories related to the tax system, which may assist in developing policies for government officials. Since the study relies on secondary data, further studies could be conducted using primary data or a combination of both.

References

Abbass, K., Begum, H., Alam, A. S. A. F., Awang, A. H., Abdelsalam, M. K., Egdair, I. M. M., & Wahid, R. (2022). Fresh Insight through a Keynesian Theory Approach to Investigate the Economic Impact of the COVID-19 Pandemic in Pakistan. *Sustainability*, *14*(3), 1054. https://doi.org/10.3390/su14031054

Ahmed, S. U. (2019). Taxation challenges for Bangladesh. The cost and management, 47(4), 13-21.

Akanbi, A. (2020). The Impact of Tax Collection and Incentives on Economic Growth: Evidence from Nigeria. *International Journal of Business and Economics Research*, *9*(4), 170. https://doi.org/10.11648/j.ijber.20200904.12

Akhor, S. O., & Ekundayo, O. U. (2016). The impact of indirect tax revenue on economic growth: The Nigeria experience. *Igbinedion University Journal of Accounting*, *2*(08), 62–87.

Ángeles Castro, G., & Ramírez Camarillo, D. B. (2014). Determinants of tax revenue in OECD countries over the period 2001–2011. *Contaduría y Administración*, *59*(3), 35–59. https://doi.org/10.1016/S0186-1042(14)71265-3

Appiah-Kubi, S. N. K., Malec, K., Phiri, J., Maitah, M., Gebeltová, Z., Smutka, L., Blazek, V., Maitah, K., & Sirohi, J. (2021). Impact of Tax Incentives on Foreign Direct Investment: Evidence from Africa. *Sustainability*, *13*(15), 8661. https://doi.org/10.3390/su13158661

Babatunde, O. A., Ibukun, A. O., & Oyeyemi, O. G. (2017). Taxation revenue and economic growth in Africa. *Journal of Accounting and Taxation*, *9*(2), 11–22.

Basheer, M. F., Ahmad, A. A., & Hassan, S. G. (2019). Impact of economic and financial factors on tax revenue: Evidence from the Middle East countries. *Accounting*, 53–60. https://doi.org/10.5267/j.ac.2018.8.001

Begum, K. (2024). Contribution of Tax Induced Foreign Direct Investment for Sustainable Development in Bangladesh. *International Journal of Science and Business*, *34*(1), 76–91. https://doi.org/10.58970/IJSB.2336

BIDA, B. I. D. A. (2024). *Incentives for Unit Investors*. https://cdn.prod.website-files.com/6820331d027084bef793fadb/68bd3ed99c8527d4dfc7ebe4_Incentives%20for%20Economic%20Zones.pdf

Chirwa, T. G., & Odhiambo, N. M. (2018). Exogenous and Endogenous Growth Models: A Critical Review. *Comparative Economic Research. Central and Eastern Europe*, *21*(4), 63–84. https://doi.org/10.2478/cer-2018-0027

Chowdhury, M. M., & Hossain, S. Z. (2019). An Overview of Tax Reforms in Bangladesh: Corporate Perspective. *Global Journal of Management and Business Research*, 15–25. https://doi.org/10.34257/gjmbrdvol19is4pg15

Chukwuebuka, I., & Obiora, F. C. (2018). Effect of tax incentives on economic growth in Nigeria. International Journal of Social Sciences and Conflict Management, 3(2), 142-160.

Commendatore, P., D'Acunto, S., Panico, C., & Pinto, A. (2002). *Keynesian Theories of Growth*. 103–138. https://doi.org/10.4337/9781800373259.00013

Cong, L. W., Wei, W., Xie, D., & Zhang, L. (2021). *Endogenous Growth Under Multiple Uses of Data* (arXiv:2109.10027). arXiv. https://doi.org/10.48550/arXiv.2109.10027

Daiyabu, Y. A., Manaf, N. A. A., & Mohamad Hsbollah, H. (2023). Extending the theory of planned behaviour with application to renewable energy investment: The moderating effect of tax incentives. *International Journal of Energy Sector Management*, *17*(2), 333–351. https://doi.org/10.1108/IJESM-11-2021-0011

de Mooij, R., Fenochietto, R., Hebous, S., Leduc, S., & Osorio-Buitron, C. (2020). *Tax Policy for Inclusive Growth after the Pandemic*. https://www.imfsti.org/content/dam/STI/Schedule-of-STI-Virtual-Training/2021-Schedule-of-Expert-Webinar-Series/STR2102/en-special-series-on-covid-19-tax-policy-for-inclusive-growth-after-the-pandemic.pdf

Erick, O. (2023). Effects of Tax Incentives and Subsidies on Economic Growth in Developing Economies. *International Journal of Research and Innovation in Social Science*, *VII*(VII), 567–581. https://doi.org/10.47772/IJRISS.2023.70744

Etim, R. S., Jeremiah, M. S., & Jeremiah, O. O. (2019). Attracting Foreign Direct Investment (FDI) In Nigeria through Effective Tax Policy Incentives. *International Journal of Applied Economics, Finance and Accounting*, *4*(2), 36–44. https://doi.org/10.33094/8.2017.2019.42.36.44

Ewa, U. E., Adesola, W. A., & Essien, E. N. (2020). Impact of Tax Revenue on Economic Development in Nigeria. *International Business Research*, *13*(6), 1. https://doi.org/10.5539/ibr.v13n6p1

Feyitimi, O., Temitope, O. A., Akeem, L. B., & Samuel, O. (2016). Tax Incentives and the growth of small and medium scale enterprises in developing economy–The Nigerian experience. *European Journal of Research and Reflection in Management Sciences*, *4*(2).

Gáti, L. (2023). Monetary policy & anchored expectations—An endogenous gain learning model. *Journal of Monetary Economics*, *140*, S37–S47. https://doi.org/10.1016/j.jmoneco.2023.06.009

Hassan, M., & Prichard, W. (2016). The Political Economy of Domestic Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform. *The Journal of Development Studies*, *52*(12), 1704–1721. https://doi.org/10.1080/00220388.2016.1153072

Hsu, M., Lee, J., Leon-Gonzalez, R., & Zhao, and Y. (2019). Tax incentives and foreign direct investment in China. *Applied Economics Letters*. https://www.tandfonline.com/doi/abs/10.1080/13504851.2018.1495817

Kamaran Abdulla, S. M., & Ali, H. K. (2022). Determinants of Tax Incentives and the Effect of Corporate Tax Rate on the Foreign Direct Investment; Empirical Analysis of Iraqi Government Tax Policy with Comparison to KRG's Regulations. *Cihan University-Erbil Journal of Humanities & Social Sciences*, *6*(1), 92–96. https://doi.org/10.24086/cuejhss.vol6n1y2022.pp92-96

Khan, M. O. F., Chowdhury, K., Bari, M. A., Chowdhury, M. M. I., & Rahman, M. M. (2023). Tax Expenditure Reporting in Developing Countries: A Case Study on Bangladesh. *Journal of Tax Administration*, *8*(1), 104-131.

Mataba, K., Lassourd, T., Readhead, A., & Nikièma, S. (2023). *Revisiting Tax Incentives as an Investment Promotion Tool: Q&A for investment policy-makers*. https://www.taxexpenditures.org/wp-content/uploads/2023/10/IISD-tax-incentives.pdf?utm_source=chatgpt.com

Minh Ha, N., Tan Minh, P., & Binh, Q. M. Q. (2022). The determinants of tax revenue: A study of Southeast Asia. *Cogent Economics & Finance*, *10*(1), 2026660. https://doi.org/10.1080/23322039.2022.2026660

OECD. (2025). *OECD Investment Tax Incentives Database 2024 update: Corporate income tax incentives in emerging and developing economies* (79th ed., OECD Business and Finance Policy Papers) [OECD Business and Finance Policy Papers]. https://doi.org/10.1787/b0de19dc-en

Ojong, C. M., Anthony, O., & Arikpo, O. F. (2016). *The Impact of Tax Revenue on Economic Growth: Evidence from Nigeria*.

Ojong, C. M., Anthony, O., & Arikpo, O. F. (2025). *The Impact of Tax Revenue on Economic Growth: Evidence from Nigeria*.

Okoth, E. (2023). *Effects of Tax Incentives and Subsidies on Economic Growth in Developing Economies* (SSRN Scholarly Paper 4532631). Social Science Research Network. https://papers.ssrn.com/abstract=4532631

Paddel Afrique, France, & Kouassi, K. B. (2018). Public Spending and Economic Growth in Developing Countries: A Synthesis. *Financial Markets, Institutions and Risks*, 22–30. https://doi.org/10.21272/fmir.2(2).22-30.2018

Pecho, M., E Markov, S., R Wood, P., & Auclair, R. (2024). Managing Tax Incentives in Developing Countries. *Technical Notes and Manuals*, *2024*(007), 1. https://doi.org/10.5089/9798400289590.005

Razzaque, M. A., Rabi, R. I., & Dey, B. K. (2024). *Fostering Export Diversification in Bangladesh: Issues and Way Forward*. Asian Development Bank. https://doi.org/10.22617/WPS240339-2

Romer, P. (1999). *Increasing returns and long-run growth*. David K. Levine. https://econpapers.repec.org/paper/clalevarc/2232.htm

Salma, U., Khan, M. F. H., & Billah, M. M. (2023). *Foreign Capital and Economic Growth: Evidence from Bangladesh* (arXiv:2312.04695). arXiv. https://doi.org/10.48550/arXiv.2312.04695

Shahabuddin, Mustafa Manir Chowdhury, & Md. Kazi Golam Azam. (2013). An Analysis of Tax Incentives to Attract FDI in Bangladesh: An Empirical Study. *China-USA Business Review*, *12*(08). https://doi.org/10.17265/1537-1514/2013.08.003

Sharipov, I. (2015). Contemporary Economic Growth Models and Theories: A Literature Review. *Editura Universităţii »Alexandru Ioan Cuza« din Iaşi*, *VII*(3), 15.

Siyanbola, T. T., Adedeji, S. B., Adegbie, F. F., & Rahman, M. M. (2017). *Tax incentives and industrial/economic growth of sub- Saharan African States*. *7*(2).

Ślusarczyk, B. (2018). Tax incentives as a main factor to attract foreign direct investments in Poland. *Administratie Si Management Public*, *30*, 67–81. https://doi.org/10.24818/amp/2018.30-05

Stausholm, S. N. (2017). Rise of ineffective incentives: New empirical evidence on tax holidays in developing countries. *Copenhagen Business School*.

Stotsky, J. (2024). *Tax Incentives and Investment* (Issue 54). Asian Development Bank. https://www.adb.org/publications/tax-incentives-investment

Wang, K. T., Walpola, S., Zhu, N. Z., & Ulima, I. (2024). R&D Tax Incentive Reforms Around the World: The Impact on Firm Value. *European Accounting Review*, *0*(0), 1–29. https://doi.org/10.1080/09638180.2024.2433231

World Bank. (2024). *Bangladesh Overview (country page, 2024)* [Text/HTML]. World Bank. https://www.worldbank.org/en/country/bangladesh/overview