**MAKERERE UNIVERSITY**

**COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES**

**(COBAMS)**

**MASTERS IN ECONOMIC POLICY AND PLANNING**

# CORPORATE TAX EFFECTS ON INVESTMENT DECISIONS IN UGANDA

**BY**


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**A RESEARCH PAPER SUBMITTED TO THE DIRECTORATE OF RESEARCHAND GRADUATE TRAINING OF MAKERERE UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTERS IN ECONOMIC POLICY AND PLANNING**

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## Abstract

The study sought to investigate the effects of corporate tax on private domestic investment; examines and presents the basic statistical relationship between corporate tax and private domestic investment using new data on effective 26year corporate income tax rates for Uganda. The study applied Johansen co-integration technique, Vector Auto Regression (VAR) estimation technique and then employed the Granger causality test using annual time series data for the period 1991 to 2017 to evaluate the empirical effects of corporate tax on private domestic investment.

The co-integration test results indicated a long-run relationship between corporate tax (Cotax), Private domestic investment (PRIV), income tax (Intax), GDP growth rate, private sector credit(PSC), and interest rate (IR). The VAR model results revealed that high corporate tax and corporate income taxcharges on companies' tans shareholders dividend is detrimental to growth in private domestic investment. And finally, the study then conducted the Granger causality test between corporate tax and the other variables; its results show Bidirectional causality between all other variables and private domestic investment.

This study recommended that the government should come up with policies to keep the corporate tax as low as possible because it is the only way to trim down the rate at which corporate tax reduces corporate profit in order to encourage private investors to expand their output base and by so doing increase the level of private domestic investments in the country.
**Key words;** corporate tax and private domestic investments