The Impact of tax on the transactions

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- The impact of taxes on business transactions and financial decision-making is a controversial element in economic studies.

- It is always debated whether the cost of taxes results in a burden on the customer or the company or other parties such as employees.

- Taxpayers, as entities and individuals, would like to pay as little tax as possible.

Expenses and tax advantage

- Value added tax is a tax paid by the customer.
- Since VAT is a tax burden for individuals, they will be interested in avoiding VAT.
- In the case where there will be a difference in the market between the prices of products offered by suppliers who differ from the regime they belong to, then individuals would buy the product in businesses that do not apply VAT and have lower prices.

- As far as businesses are concerned, the impact of taxes is more complex.
- In financial literature, the impact of income tax on net profit has always been addressed.

- The higher the tax on the profit, the lower the net profit valid further for dividends or for investments which will depend on the retained profit, available funds.

- In the case of investment financing, the structure of financing sources is analyzed, whether the investment will be fully or partially realized with the company's resources.
- In the case of using borrowing, an important aspect, in addition to the lower cost of borrowing compared to the cost of own capital, is also the impact of taxation as a tax advantage.
- The tax advantage or positive impact of taxes applies to all expense's deductible for tax effect.

Income and tax costs

- The net present value of the inflows is used for the evaluation of the selected investments.There are several methods for calculating financial flows:

1. The calculation of financial flows starts with the amount of net profit plus depreciation expenses and any movement of investing and financing items is added or subtracted.
2. For the actualization of the free financial flows of a business, the operating profit is first calculated, from which the hypothetical tax is deducted.

3. In the adjusted present value method, the effect of the tax advantage from the interest expense is calculated separately and added to the inflows of the business assumed to be financed only with equity capital.

- Regardless of the method, what is important to note is that the tax rate affects the value of a business.
- A high tax rate will decrease cash inflows and a low tax rate will increase them.

Tax savings

- The cost of expenses in general has been increasing, due to the use of resources and due to inflation.
- Also, economic activities require high investments in technology to be as competitive as possible.

- A company may have an increase in various expenses, for example, from the expansion of the activity premises, depreciation expenses may have increased, or more premises may have been rented.

The impact of taxes on decision making among employees

- One of the most important cost elements for businesses is salary expenses.
- For business, salary expenses are presented as gross expenses, including personal income taxes and social security contributions.
- Salary expenses are outflows for the business.

- The individual, the employee receives inflow from the employer only the net salary, even though the gross salary is an expense for the business.

- To calculate the net salary, personal income tax and social and health insurance contributions explained in detail in the previous topics are deducted from the gross salary.
- While gross wages are inflows, income tax payments and contributions are outflows, and net inflows are net wages.

- For the business, every salary expense will be accompanied by tax savings.

- For the calculation of the net salary, the personal income tax rate and the social and health insurance contribution rates are of great importance.

- In the case when the personal income tax is built with a schedule and is not global, then the individual will be encouraged to select the source of income with the lowest tax cost.

The impact of taxes on investment decision making

- The impact of new investments, such as the creation of a new product or a new production method, is very important because the survival and future of businesses in a free economy market depends on them.
- To calculate investment values, we use time value of money concepts, discounting inflows.
- For the calculation of the time value of investments, the discount is carried out with the cost of funds necessary for their financing, the cost of capital, which also includes the calculation of risk.

Tax risks faced by businesses

- Entrepreneurs are interested in knowing the tax obligations so that the payments they make to the tax authorities are in accordance with the real obligations.

- The reason is not only correctness to the law but also the fear of penalties in case of non-payment of tax obligations on time.

- A high level of corruption, characteristic of developing countries, would enable non-payment of obligations.

- This would result in revenue shortfalls in the state budget and the need to increase tax rates in order to fill the gap created.
- So, we can say that the risk of corruption increases the risk of increasing tax rates for businesses.

- The risk of frequent change of tax procedures and the possibility of penalties for not understanding them.
- This risk is very important if taxes and tax procedures change frequently, and the business does not have information or has misinterpreted it.

- The frequent change of tax laws also has other associated costs which are related to the time spent to understand and apply, as well as financial costs for experts to get an explanation on how to apply or even to be sure that the change is understood.

- The risk of changing the tax rate.

- Tax rate risk is not only related to possible errors during implementation but is also very important in business plans or investment assessments.

- Risk of not being treated equally. States put priority sectors and industries in the focus of their strategies, which will enable high employment, and great impact on the country's economic growth.

- The tax rates of the main taxes such as profit tax or VAT for priority sectors are reduced, harming the equality of treatment of businesses.