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ATTRACTIVENESS OF THE DOMICILE ECONOMY THROUGH TAX INCENTIVES

Atraktivnost domicilne privrede kroz prizmu poreskih olakšica

Abstract

In most world economies, foreign investments are recognized as an important means of development, but also as an important channel for activating their own potentials. Taking into consideration global trends in foreign direct investment, it is noticeable that they are very significant for the overall development of the world economy, which can be seen through the value of the investments made in the last twenty years. In order to become the leading state in attracting foreign capital in the region, Serbia needs to practice fiscal incentives that can attract foreign investors.

The main goal of this paper is to present in an adequate manner how certain tax incentives may affect the business of foreign investors in Serbia. In order to determine the significance of tax incentives, it was necessary to collect enough information from foreign investors, aimed to present their attitudes, opinions, expectations and perceptions regarding the investment of their own capital. In this paper, special attention is paid to tax incentives in certain areas of business conducted by foreign investors in Serbia, depending on the activity of foreign investors and the level of internationalization of business operations. The methodology of empirical research is focused on a quantitative approach, which is reflected in the collection of primary data, the survey carried out among foreign investors, comparison of the collected data, and analysis of causality of the researched phenomena.

The results of the conducted empirical research express the views of foreign investors operating in Serbia in an objective and comprehensive way, showing the great significance of tax incentives that undoubtedly influence the choice of the country as an investment destination. Therefore, in the following period, it is extremely important to offer even better conditions to foreign investors, which will primarily be related to a wider range of tax incentives, not diminishing the importance of other factors that may also have an impact on raising the competitiveness of the Serbian economy.

Key *words: tax incentives, FDI, competitiveness, foreign investors, capital.*

Sažetak

U većini svetskih ekonomija strana ulaganja su prepoznata kao važno sredstvo razvoja, ali isto tako i kao značajan kanal za aktiviranje vlastitih potencijala. Posmatrajući globalne trendove u kretanjima stranih direktnih investicija uočljivo je da one imaju veoma veliki značaj na celokupan razvoj svetske ekonomije, što se može videti i kroz vrednost ostvarenih ulaganja u poslednjih dvadesetak godina. Kako bi postala vodeća država u regionu po pitanju privlačenja inostranog kapitala, od izuzetne važnosti su fiskalni podsticaji koji mogu u velikoj meri zainteresovati strane investitore za ulaganje kapitala u Srbiju.

Osnovni cilj ovog rada jeste da se na adekvatan način prikaže kako pojedine poreske olakšice utiču na poslovanje stranih investitora u Srbiji. Kako bi se utvrdio značaj poreskih olakšica, bilo je neophodno prikupiti dovoljno informacija od stranih investitora, a koje je trebalo da prikažu njihove stavove, mišljenja, očekivanja i percepcije po pitanju ulaganja sopstvenog kapitala. U ovom radu posebna pažnja je usmerena na poreske olakšice u pojedinim oblastima za poslovanje stranih investitora u Srbiji, u zavisnosti od delatnosti stranih investitora kao i nivoa internacionalizacije poslovanja. Sama metodologija empirijskog istraživanja usmerena je na kvantitativni pristup koji se ogledao kroz prikupljanje primarnih podataka, anketiranje stranih investitora, komparaciju prikupljenih podataka kao i analizu kauzalnosti istraživanih pojava.

Sve ovo je u velikoj meri doprinelo da rezultati obavljenog empirijskog istraživanja na jedan objektivan i celishodan način iskažu stavove stranih investitora koji posluju u Srbiji, prikazujući veliki značaj poreskih olakšica koje nesumnjivo utiču na izbor zemlje kao investicione destinacije. Zbog toga je u narednom periodu od izuzetne važnosti da se investitorima ponude još bolji uslovi, koji će se prevashodno ogledati kroz širi spektar poreskih olakšica, ne umanjujući značaj drugih faktora koji takođe mogu imati uticaj na podizanje konkurentnosti srpske privrede.

Ključne reči: *poreske olakšice, SDI, konkurentnost, strani investitori, kapital.*

Introduction

After expansion of the European Union in 2007, the countries of Southeast Europe became very interesting to foreign investors as investment destinations. In particular, this was expressed in terms of risk reduction, which until then was at a very high level and therefore decelerated the inflow of foreign capital. For this reason, for most of the countries, including Serbia, it was of the utmost importance to attract as many foreign direct investments as possible, which would contribute to the introduction of new technologies and the creation of new workplaces.

Analyzing the effects of tax competition between countries, it can be concluded that it leads to a change in the relative tax burden on labor and capital factors. However, the effects of tax competition in individual countries are in many cases different, given that they depend on the initial level and structure of taxation. It is therefore very important that the competitiveness of the tax system is analyzed through its simplicity, transparency and compliance with international standards governing this area. In addition to tax incentives, it is necessary to emphasize that other tax instruments also influence the overall assessment of the tax competitiveness of a country.

As part of the economic policy, fiscal policy tends to achieve certain objectives through the management of public revenues and public expenditures. Fiscal policy measures are an essential instrument for the realization of basic macroeconomic goals. Fiscal policy can affect the level of production, employment, prices, balance of payments and emerging of the recession.

It is of utmost importance that every modern state creates its own fiscal policy which will stimulate economic development, development of underdeveloped areas, development of entrepreneurial initiative, and expansion of technical and technological innovations. After fiscal consolidation, the future fiscal policy must be income-neutral [10]. If an inadequate fiscal policy is being conducted, this can be an obstacle to the development of a country, affecting the investment of both domestic and foreign capital.

Along with determining the fiscal system and fiscal policy as the key factors in starting the process of improving the competitiveness of the Serbian economy is necessary, there is still a need to intensify the process of overall institutional regulation in Serbia based on the EU model. Also, the current policy of harmonizing the legislative regulation in the economy should be continued. However, it is clear that the effects of a complete institutional arrangement of economic life in Serbia will be perceived only in the long run [7]. In that case, the regulation of the institutional basis of the fiscal system, raising tax administration capacity to the European level as well as ensuring the control of public finances in terms of establishing full public confidence should be the priority. One of the most important factors that influence multinational companies to invest is tax competition.

In order to be tax competitive, countries provide tax incentives, reducing the risk of investment and giving the investor the opportunity to earn more profits. In countries where high taxes are the biggest obstacle to investing, tax incentives will have the greatest effect. However, if other non-profit factors are barriers to investment, then tax incentives will not greatly affect the inflow of foreign direct investment. Therefore, investors should first determine whether it is possible to achieve the desired rate of return, and afterwards take into account tax incentives as a factor of allocation of funds.

Literature review

Competition is created in moments when individuals and companies can have a choice. The tendency towards as little jurisdictional expenses as possible, i.e., to the state in which they operate, is considered as the most satisfying among individuals and companies [19]. Nowadays, companies make their investment decisions primarily based on the goal of maximizing profits and minimizing the cost of production and services [18]. In order to improve competitiveness, economic policy includes, inter alia, the policy of stimulating foreign direct investment [1]. Policy makers should first examine current position of the national economy and competitiveness of certain industries within it [11].

One of the main tasks of each country is to increase production and exports, which should result in achieving stable economic growth over a longer period of time. In order to achieve this, the necessary condition is to attract foreign direct investments [5].

Multinationals are the most important bearers of foreign direct investment. Investment arrangements require significant financial resources from business entities, while on the other hand they achieve the highest level of control, their business dependency decreases, and are more agile in prepossessing local market [24]. The accelerated process of globalization, the liberalization of foreign investment regime and the deregulation of many activities has allowed multinational companies to choose amongst a huge range of investment locations.

As a result of that, multinationals are becoming increasingly demanding when choosing the host country for investment. Countries that ensure the environment in which conditions are stable for unobstructed and profitable operations, through their overall policy, will surely attract foreign direct investments more easily than the countries where the investment environment is not sufficiently favorable [8], [9].

Due to the lack of domestic investment potential, countries must engage in international flows to attract investors from other countries. In addition to the large number of incentives that states offer to investors, tax incentives are among the most important [25]. Despite the fact that there is a long history of tax incentives, it seems that a debate on tax competition began in the last decade of the twentieth century.

Issues related to the active versus neutral tax policy, i.e., the choice of instruments of active tax policy, were replaced by the issue of tax competition [1], [3], [7]. It is in each country's interest to attract as many foreign investors as possible by offering a number of incentives. Tax incentives represent a concession made by the state in favor of a taxpayer (tax exemption), a tax base (tax deduction), tax rates and the amount of tax calculated (tax credit) [35].

Tax incentives are common around the world, especially in developing countries. The governments of these countries are trying to attract domestic and foreign capital using tax incentives that usually provide for a favorable tax treatment to certain economic activities [6], [21], [22]. Tax incentives have the potential to achieve different economic development goals. However, their excessive use and poorly designed programs can badly affect the development of a country [26], [27]. The dramatic increase in the use of tax incentives over the past 40 years and the long-term challenges faced by many countries have suggested that fiscal policy makers must seriously consider how these incentives should be used [20], [23].

Research methodology

Since the choice of the method which will be applied in empirical research directly influences the results of the research and determines whether the researcher has managed to find the answer to the questions asked, it is necessary to define the appropriate strategy prior to data collection [2]. An empirical research strategy represents a general approach dedicated to answering the set of research questions, which sequence of steps to follow, and which methods and techniques should be used [39].

In this research, the emphasis is on a quantitative approach, since it seeks to adequately understand the problem stated in the research. In order to obtain as precise data as possible, the aim was to focus on descriptive data obtained in a natural environment, all through the collection of numerical data, their mutual comparison, and the analysis of the interrelationships between them.

For this reason the survey technique based on the use of a structured questionnaire was selected. The reason for the choice of this technique is the fact that in comparison with other techniques, it is easier to administer, respondents are limited in their answers to several fixed alternatives, while encoding, analyzing and interpreting of the obtained data is much clearer and more precise [12].

Although survey is one of the most commonly used techniques in business research, it is very important to carefully plan and test its instruments in order to minimize the disadvantages. It is possible to get the information promptly, there is a high level of quality and quantity of data obtained, eliminating every kind of bias of the person performing the research.

Considering that Serbia is a very attractive investment destination, one of the first tasks was to provide a representative sample for this research. This was achieved through the direct involvement of 300 largest foreign investors, which invested their capital in Serbia in the last 15 years. Out of the total number of foreign investors planned to participate in this survey, positive response was received from 88 investors, representing a response rate of 29.33%. That percentage can be considered quite satisfactory, since survey questionnaires were sent exclusively to managers in charge of investment or operations in foreign markets, general managers or owners of enterprises, with the remark that only authorized persons familiar with the companies' business in Serbia had the opportunity to fill in the questionnaires. It should also be noted that the average response rate in research involving business entities is generally around 30% [14].

The basic characteristics of the companies that participated in the survey are presented in the form of frequency and percentage schedules in Table 1.

The data collected in this research were analyzed at two levels. The first level implied a graphical representation technique for each of the dependent variables and descriptive statistics with the aim of showing results with the calculation of frequencies, average grades, percentages, variances, and standard deviations. The second level involved analyzing the differences in dependent variables, and according to subgroups, the independent variables, i.e., linking dependent and independent variables in order to determine the possible existence of statistically significant differences.

$$\eta^2 = \frac{\sum_{i=1}^{k} N_i \left(\overline{X}_i - \overline{X}\right)^2}{\sum_{i=1}^{k} \sum_{j=1}^{N_j} \left(X_{ij} - \overline{X}\right)^2} \qquad (1)$$

If there is a difference between three and more groups of respondents, the best way is to apply a single-factor analysis of variance of different groups, in order to determine the existence of statistically significant differences in the evaluation of the investigated issues among different groups of foreign investors. (1)

$$\eta^2 = \frac{t2}{t2 + (N1 + N2 - 2)} \qquad (2)$$

Provided that a comparison is made between two groups of respondents, a *t*-test of independent samples was used to calculate the values of a statistically significant difference. (2)

Research results

In order to thoroughly investigate the direct attitudes of foreign investors that already operate in Serbia, this empirical research examined the significance of tax incentives in certain areas of their business in Serbia, depending on (a) the level of internationalization of foreign investors' operations, and (b) their field of activities.

The existence of statistically significant differences among foreign investors in assessing the importance of tax incentives in certain areas of their business in Serbia was investigated through ANOVA different groups and *t*-test of independent samples.

In order to invest their capital in Serbia, foreign investors pay special attention to tax incentives. As the most important tax incentives the following are stated: corporate income tax incentives (35.2%), tax incentives for employment of new employees (26.1%) and tax incentives for exporting companies (21.6%).

In a slightly smaller percentage, although not less important, are tax incentives for investment in insufficiently developed regions (18.2%), tax incentives for investment in certain branches of industry (11.4%), tax incentives for

Table 1: Basic characteristics of the companies that participated in the survey

MAIN ACTIVITY OF FOREIGN COMPANY			
Production industries (PI)		Service industries (SI)	
Frequency	Percentage	Frequency	Percentage
55	62.5	33	37.5

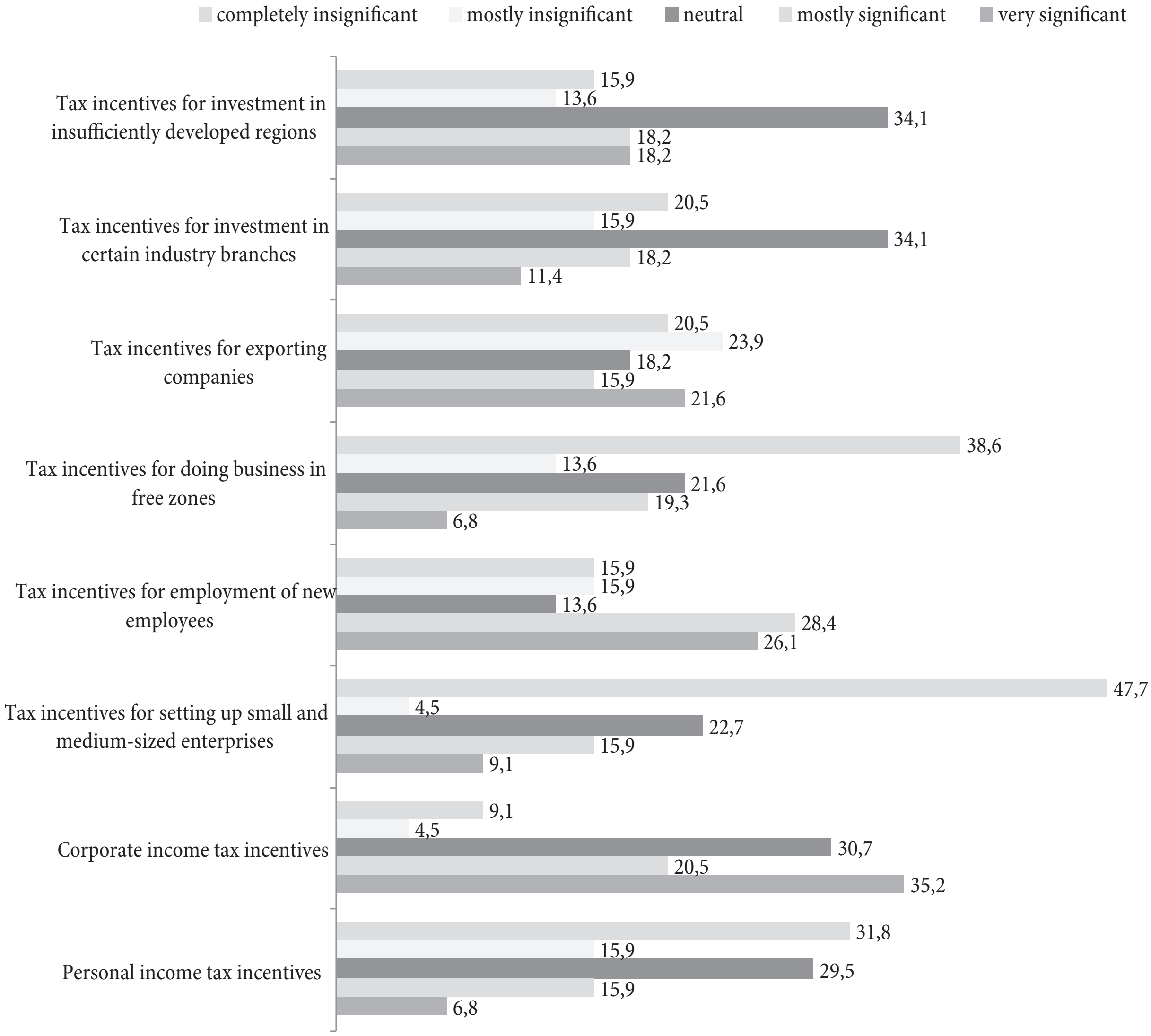
LEVEL OF INTERNATIONALIZATION OF FOREIGN COMPANY					
Regional companies (RC)		Multinational companies (MC)		Global companies (GC)	
Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
24	27.3	41	46.6	23	26.1

Source: Authors' research.

setting up small and medium-sized enterprises (9.1%), personal income tax incentives (6.8%) and tax incentives for doing business in free zones (6.8%).

Using descriptive statistics, Table 2 shows more detailed data on how foreign investors assess the impact of tax incentives in certain areas on their business.

Figure 1: The importance of tax incentives in certain areas of foreign investors' businesses in Serbia



Source: Authors' research.

Table 2: The importance of tax incentives in certain areas of foreign investors' businesses in Serbia – descriptive statistics

	Degree of evaluation							
	1 *f* (%)	2 *f* (%)	3 *f* (%)	4 *f* (%)	5 *f* (%)	M	SD	V
Tax incentives for investment in insufficiently developed regions	14 (15.9)	12 (13.6)	30 (34.1)	16 (18.2)	16 (18.2)	3.0909	1.30107	1.693
Tax incentives for investment in certain industry branches	18 (20.5)	14 (15.9)	30 (34.1)	16 (18.2)	10 (11.4)	2.8409	1.26751	1.607
Tax incentives for exporting companies	18 (20.5)	21 (23.9)	16 (18.2)	14 (15.9)	19 (21.6)	2.9432	1.44920	2.100
Tax incentives for doing business in free zones	34 (38.6)	12 (13.6)	19 (21.6)	17 (19.3)	6 (6.8)	2.4205	1.35377	1.833
Tax incentives for employment of new employees	14 (15.9)	14 (15.9)	12 (13.6)	25 (28.4)	23 (26.1)	3.3295	1.42814	2.040
Tax incentives for setting up small and medium-sized enterprises	42 (47.7)	4 (4.5)	20 (22.7)	14 (15.9)	8 (9.1)	2.3409	1.43748	2.066
Corporate income tax incentives	8 (9.1)	4 (4.5)	27 (30.7)	18 (20.5)	31 (35.2)	3.6818	1.25529	1.576
Personal income tax incentives	28 (31.8)	14 (15.9)	26 (29.5)	14 (15.9)	6 (6.8)	2.5000	1.27757	1.632

Source: Authors' research.

Table 3: Differences among foreign investors in assessing the significance of tax incentives in certain areas, depending on their field of business

	M (SD)		MD	95% CID		t	p*
	PI, N = 55	UI, N = 33		Lower	Upper		
Tax incentives for investment in insufficiently developed regions	3.3091 (1.38608)	2.7273 (1.06867)	0.58182	0.05709	1.10655	2.206	0.030
Tax incentives for investment in certain industry branches	3.0182 (1.44646)	2.5455 (0.83258)	0.47273	-0.01034	0.95579	1.945	0.055
Tax incentives for exporting companies	3.3818 (1.42063)	2.2121 (1.19262)	1.16970	0.60717	1.73222	4.141	0.000
Tax incentives for doing business in free zones	2.5091 (1.50151)	2.2727 (1.06867)	0.23636	-0.31047	0.78320	0.860	0.392
Tax incentives for employment of new employees	3.4182 (1.49927)	3.1818 (1.30993)	0.23636	-0.39035	0.86308	0.750	0.455
Tax incentives for setting up small and medium-sized enterprises	2.3818 (1.64981)	2.2727 (1.00849)	0.10909	-0.45427	0.67245	0.385	0.701
Corporate income tax incentives	3.7455 (1.32243)	3.5758 (1.14647)	0.16970	-0.36344	0.70283	0.612	0.542
Personal income tax incentives	2.5636 (1.39793)	2.3939 (1.05887)	0.16970	-0.35484	0.69424	0.644	0.522

*There is statistically significant difference at the level $p < 0.05$.
Source: Authors' research.

Tax incentives in certain areas of foreign investors' business in Serbia, depending on their activity

The results of the *t*-test of independent samples on the existence of statistically significant differences between foreign investors whose main activity refers to production and those whose main activity refers to the service industry in assessing the significance of tax incentives in certain fields of business are shown in Table 3.

The results of the *t*-test of independent samples showed that there are following statistically significant differences among foreign investors:

1. In assessing the impact of tax incentives on investing in insufficiently developed regions, t (86) = 2.206, p = 0.030, MD = 0.58182, 95% CID: from 0.05709 to 1.10655 between foreign investors belonging to production industries (M = 3.3091, SD = 1.38608), and those belonging to service industries (M = 2.7273, SD = 1.06867). The size of the difference between these two groups of foreign investors expressed by the eta square is $\eta^2 = 0.053$ and can be considered as a small difference.
2. In assessing the impact of tax incentives on exporting companies, t (86) = 4.141, p = 0.000, MD = 1.16970, 95% CID: from 0.60717 to 1.73222 between foreign investors belonging to production industries that entered the Serbian market by direct investment (M = 3.3818, SD = 1.42063), and those belonging to service industries (M = 2.2121, SD = 1.00849). The size of the difference between these two groups of foreign investors expressed by the eta square is $\eta^2 = 0.166$, and can be considered as a big difference.

Tax incentives in certain areas of foreign investors' business in Serbia, depending on the level of internationalization of their operations

The results of ANOVA different groups on the possible existence of statistically significant differences in assessing the significance of tax incentives in certain areas, depending on the level of internationalization of foreign investors' operations, are presented in Table 4.

The ANOVA results have shown that there is statistically significant difference among foreign investors in the following:

1. In assessing the degree of impact of tax incentives on investing in certain branches of the industry, F (2, 85) = 3.980, p = 0.022, where the size of the difference among different groups of foreign investors expressed by the eta square is η^2 =

Table 4: Differences among foreign investors in assessing the degree of importance of tax incentives in certain areas depending on the level of internationalization of foreign investors' businesses

		M (SD)	95% CIM Lower	Upper	F	p*
Tax incentives for investment in insufficiently developed regions	RK, *N* = 24	2.8333 (1.43456)	2.2276	3.4391	2.622	0.079
	MK, *N* = 41	2.9512 (1.16084)	2.5848	3.3176		
	GK, *N* = 23	3.6087 (1.30520)	3.0443	4.1731		
Tax incentives for investment in certain industry branches	RK, *N* = 24	2.2500 (1.25974)	1.7181	2.7819	3.980	0.022
	MK, *N* = 41	3.0000 (1.18322)	2.6265	3.3735		
	GK, *N* = 23	3.1739 (1.26678)	2.6261	3.7217		
Tax incentives for exporting companies	RK, *N* = 24	2.2500 (1.39096)	1.6626	2.8374	10.513	0.000
	MK, *N* = 41	2.7805 (1.25523)	2.3843	3.1767		
	GK, *N* = 23	3.9565 (1.33070)	3.3811	4.5320		
Tax incentives for doing business in free zones	RK, *N* = 24	2.1667 (1.23945)	1.6433	2.6900	1.543	0.220
	MK, *N* = 41	2.3415 (1.37131)	1.9086	2.7743		
	GK, *N* = 23	2.8261 (1.40299)	2.2194	3.4328		
Tax incentives for employment of new employees	RK, *N* = 24	3.0000 (1.56038)	2.3411	3.6589	4.240	0.018
	MK, *N* = 41	3.1220 (1.26876)	2.7215	3.5224		
	GK, *N* = 23	4.0435 (1.36443)	3.4535	4.6335		
Tax incentives for setting up small and medium-sized enterprises	RK, *N* = 24	2.5000 (1.35133)	1.9294	3.0706	0.203	0.817
	MK, *N* = 41	2.2683 (1.44956)	1.8108	2.7258		
	GK, *N* = 23	2.3043 (1.55021)	1.6340	2.9747		
Corporate income tax incentives	RK, *N* = 24	3.4167 (1.47196)	2.7951	4.0382	1.538	0.221
	MK, *N* = 41	3.6341 (1.19909)	3.2557	4.0126		
	GK, *N* = 23	4.0435 (1.06508)	3.5829	4.5041		
Personal income tax incentives	RK, *N* = 24	2.5833 (1.28255)	2.0418	3.1249	3.345	0.040
	MK, *N* = 41	2.1707 (1.20213)	1.7913	2.5502		
	GK, *N* = 23	3.0000 (1.27920)	2.4468	3.5532		

*There is statistically significant difference at the level $p < 0.05$.
Source: Authors' research.

0.085, and can be considered as a medium-sized difference. Subsequent comparison through the THSD test, the results of which are shown in Table 5, found that the abovementioned statistically significant difference exists between foreign investors belonging to regional companies (M

= 2.2500, SD = 1.25974), and those belonging to global companies (M = 3.0000, SD = 1.26678).

2. In assessing the degree of impact of tax incentives on exporting companies, F (2, 85) = 10.513, p = 0.000, where the size of the difference among different groups of foreign investors expressed by the eta square is $\eta^2 = 0.198$, and can be considered as a big difference. Subsequent comparison through the THSD test, the results of which are shown in Table 6, found that the abovementioned statistically significant difference exists between foreign investors belonging to regional (M = 2.2500, SD = 1.39096) and multinational companies (M = 2.7805, SD = 1.25523), and those belonging to global companies (M = 3.9565, SD = 1.33070).

3. In assessing the degree of impact of tax incentives on employing new employees, F (2, 85) = 4.240, p = 0.018, where the size of the difference among different groups of foreign investors expressed by the eta square is η^2 = 0.090, and can be considered as a medium-sized difference. Subsequent comparison through the THSD test, the results of which are shown in Table 7, found that the abovementioned statistically significant difference exists between foreign investors belonging to regional (M = 3.0000, SD = 1.56038) and multinational companies (M = 3.1220, SD = 1.26876), on the one hand, and those belonging to global companies (M = 4.0435, SD = 1.36443), on the other hand.

4. In assessing the degree of impact of tax incentives on personal income tax, F (2, 85) = 3.345, p = 0.040, where the size of the difference among different groups of foreign investors expressed by the eta square is η^2 = 0.073, and can be considered as a medium-sized difference. Subsequent comparison through the THSD test, the results of which are shown in Table 8, found that the abovementioned statistically significant difference exists between foreign investors belonging to multinational

Table 5: The results of THSD test on differences among foreign investors depending on internationalization of their business in evaluating the impact of tax incentives for investing in certain industry branches

	(I)	(J)	*MD* (I-J)	*p**	95% *CIM* Lower	Upper
Tax incentives for investment in certain industry branches	RK	MK	-0.75000	0.051	-1.5018	0.0018
		GK	-0.92391	0.031	-1.7774	-0.0704
	MK	RK	0.75000	0.051	-0.0018	1.5018
		GK	-0.17391	0.850	-0.9359	0.5881
	GK	RK	0.92391	0.031	0.0704	1.7774
		MK	0.17391	0.850	-0.5881	0.9359

* There is statistically significant difference at the level p < 0.05.
Source: Authors' research.

Table 6: The results of THSD test on differences among foreign investors depending on internationalization of their business in evaluating the impact of tax incentives on exporting companies

	(I)	(J)	MD (I-J)	p*	95% CIM Lower	Upper
Tax incentives for exporting companies	RK	MK	-0.53049	0.263	-1.3353	0.2744
		GK	-1.70652	0.000	-2.6203	-0.7928
	MK	RK	0.53049	0.263	-0.2744	1.3353
		GK	-1.17603	0.003	-1.9918	-0.3602
	GK	RK	1.70652	0.000	0.7928	2.6203
		MK	1.17603	0.003	0.3602	1.9918

* There is statistically significant difference at the level p < 0.05.
Source: Authors' research.

companies (M = 2.1707, SD = 1.28255), and those belonging to global companies (M = 3.0000, SD = 1.27920).

Discussion

Tax incentives are the most common form of state intervention in the function of increasing competitiveness. The policy of tax incentives includes measures and instruments of state intervention in order to encourage competitiveness. One of the most important measures is the creation of an investment climate that can attract foreign direct investments, whereby the stimulating tax environment is a very important instrument for increasing foreign investments.

In order to determine the significance of tax incentives, special attention has been paid to tax incentives in certain areas of foreign investors' business, depending on their business activity, as well as depending on the level of internationalization of foreign investors' operations. In the analysis of the main activity of foreign investors, 55 production and 33 service companies participated in the survey.

Having compared the obtained results, the conclusion can be made that foreign investors belonging to production industries value the impact of tax incentives for investing in underdeveloped regions more than those from service industries. On the other hand, foreign investors belonging to production industries emphasize the impact of tax incentives for companies that export, more than those coming from service industries.

Observed by the level of internationalization of a foreign company, the research included 24 regional companies (operating in one region or in neighboring countries), 41 multinational companies (operating in many countries, with certain geographic regions having priority), and 23 global companies (which operate in almost all countries, no geographic region has a priority). Foreign investors belonging to global companies have given more importance to tax incentives for investing in specific industries than foreign investors which belong to regional companies.

Table 7: The results of THSD test on differences among foreign investors depending on internationalization of their business in evaluating the impact of tax incentives on employment of new employees

	(I)	(J)	*MD* (I-J)	*p**	95% *CIM* Lower	95% *CIM* Upper
Tax incentives for employment of new employees	RK	MK	-0.12195	0.937	-0.9666	0.7227
		GK	-1.04348	0.030	-2.0025	-0.0845
	MK	RK	0.12195	0.937	-0.7227	0.9666
		GK	-0.92153	0.032	-1.7777	-0.0653
	GK	RK	1.04348	0.030	0.0845	2.0025
		MK	0.92153	0.032	0.0653	1.7777

* There is statistically significant difference at the level $p < 0.05$.
Source: Authors' research.

Table 8: The results of THSD test on differences among foreign investors depending on internationalization of their business in evaluating the impact of tax incentives on personal income tax

	(I)	(J)	*MD* (I-J)	*p**	95% *CIM* Lower	95% *CIM* Upper
Personal income tax incentives	RK	MK	0.41260	0.405	-0.3504	1.1756
		GK	-0.41667	0.488	-1.2829	0.4496
	MK	RK	-0.41260	0.405	-1.1756	0.3504
		GK	-0.82927	0.033	-1.6026	-0.0559
	GK	RK	0.41667	0.488	-0.4496	1.2829
		MK	0.82927	0.033	0.0559	1.6026

* There is statistically significant difference at the level $p < 0.05$.
Source: Authors' research.

On the other hand, investors belonging to global companies place greater importance on tax incentives for companies that export in relation to foreign investors that belong to regional and multinational companies. As for tax incentives for employment of new employees, they were given greater importance by foreign investors belonging to global companies, compared to regional and multinational companies. Foreign investors which belong to global companies gave greater importance to tax incentives for personal income tax in relation to foreign investors belonging to multinational companies.

Conclusions

In the era of globalization of business, characterized by the elimination of obstacles so as to enable the free flow of capital, goods, services and labor, the study of the problem of tax competition is one of the most important tasks in finance and economics in general. After the admission of most Eastern European countries into the European Union, the focus of the tax competitiveness issue was transferred to the countries of South East Europe that were left outside the European Union, including Serbia, which do not have enough domestic capital in their economies, nor enough investments necessary to encourage economic activities.

Particular attention should be paid to the influence that tax competition can have on the overall economy, so the primary task of the fiscal policy makers in these countries is to constantly monitor world trends in this area, and harmonize domestic regulations in order to attract foreign investments. With the rise in the free capital movement on the world market, all countries are in a position to compete with one another to engage economic entities, in order to attract as many investments as possible to their territory.

They support the standpoint that fiscal policy is a very powerful instrument for attracting investment, meaning that tax competition is one of the most important indicators of overall competitiveness. For this reason, it is very important for them to try to provide favorable conditions for foreign investments, above all by favorable tax treatment, in order to secure high capital inflow.

In most international studies dealing with doing business conditions and competitiveness, Serbia was ranked rather low compared to the other countries from the CEE and the Western Balkans [36]. In the last 10 years, the issue of the tax system reform has been constantly in the focus, with two basic reasons why it is important to implement it in practice. The first reason is the low efficiency of the public sector, i.e., a relatively high level of costs in relation to the quality and scope of services that this sector can offer. Therefore, it is necessary to reduce the costs of the public sector, but also to improve the quality of public services.

The second reason is to ensure a long-term sustainability and stability of public finances. The existing tax system and the level of public spending may result in a high level of fiscal deficit, as well as the rapid growth of public debt. Additional income is possible only if the fiscal discipline is tightened. It is necessary to amend the existing tax regulations, because with the change in tax rates and taxation coverage, the tax system would become more fair, simple and efficient.

In order to make the tax system as good as possible, it is also necessary to use the experience of other countries. Serbia should rely on the experience of more developed countries from the region, since they are direct competitors, among other things, in attracting foreign investments, which are one of the factors enabling the progress of the economy [8]. It is very important for the tax authorities not to violate the principle of security when conducting tax policy. For this reason, tax regulations must be made only after a detailed analysis of all the consequences that these changes may bring.

Based on the results obtained by the conducted empirical research, it can be concluded that tax incentives are very important to foreign investors operating in Serbia. Foreign investors pay special attention to tax incentives in the income taxation system, as incentives that could have a decisive influence on the final decision for capital investment in Serbia.

In addition to these incentives, foreign investors expressed the view that tax incentives related to the employment of new workers as well as tax incentives for enterprises that are predominantly export-oriented are very important to them, while the significance of other stimuli is far less significant. Therefore, it is very important that fiscal policy makers pay special attention to these tax incentives, since they can contribute to the improvement of the business environment in Serbia to some extent.

In this manner, the conditions created will greatly be in favor of foreign investors, consequently making Serbia an attractive investment destination for all business entities aiming to invest their own capital in other countries.

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