

Research paper on tax systems

[Finance](#), [Investment](#)



Introduction

There are several challenges that face multinational institutions as they carry on their businesses in different countries. These challenges stem from the fact that each country has different structures and modes of doing business besides the differences in economic situations. Below are some of the problems that face any multinational or global business.

Different countries have different tax systems. They also have different tax rates for various types of businesses. It becomes difficult for the multinational to consolidate its financial information since the operations in different countries are taxed differently. In some countries for instance, the corporation tax rate is higher than in others. More over, different tax systems also base their taxes on different tax bases. In some countries, value added tax, sales tax, excise duty among others are levied while other countries only charge the corporate tax which is usually a percentage of the net earnings (Emmerij, Louis 1992)

Legislation

Each country has its own legal system that governs the conduct of business in its jurisdiction. For instance, some countries restrict particular sectors of the economy from outside interferences. They do not allow multinationals to venture into some particular sectors of the economy as they may want to operate monopolies in those sectors. They may do this to protect the domestic industries or simply to create government monopolies (Casson, Marc, 1992)

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Economic situation

Operating a multinational firm is faced with challenges from the different economic situations in the different countries of operation. In some countries, inflation is so high that the investors do not get value for their money. At the same time, some countries economy may be stable thus creating good investment opportunities. In the recent financial crisis, different countries experienced different levels of severity of the crisis. Operations in these countries must have suffered more than others in countries that were not much affected (Casson, Marc, 1992)

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Social cultural influences

The social cultural perspective of a society determines what that particular society demands. In some countries, due to the general acceptance of a particular product, the demand may be quite high signaling societal acceptance of the particular products. In some other countries however, some products may not receive a lot of acceptance as a result of social-cultural considerations. It's important that a multinational considers the likely response to its products before investments are made (Casson, Marc, 1992).

Political environment

The political atmosphere of the country affects the business activities in that particular country. In relatively stable countries, business is quite good since such an economy is likely to be vibrant and the purchasing power of the people is likely to be high. In a politically charged atmosphere however,

business levels may be affected due to uncertainties in the future of the ruling class. Such uncertainty has a significant influence on the economic activities in a particular country and negatively impacts on business. Operations in such countries are thus negatively affected by such an atmosphere (Casson, Marc., 1992)

Conclusion

Operating a global business is a very challenging venture due to the dynamics in the different states. It's thus important that a manager in a multinational set up considers the effects of the above factors before making investment decisions.

One method of cushioning the company against the risks involved in running such global businesses is licensing instead of Foreign Direct Investments. This is because in licensing, the licensee bears all the risks involved in the running of the business in foreign countries (Barnet, Richard J., Global D, 1994).

References

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- Casson, Marc. (1992) International Business and Global Integration . Basingstoke. Macmillan
- Emmerij, Louis (1992) " Globalization, Regionalization and World Trade," Columbia Journal of World Business