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Research Article

Analyzing and Modeling the Impacts of Tax Policies on Corporate Financial Behavior and Economic Performance

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ABSTRACT

Background and Objectives: Tax policies are a key tool with significant influence on the financial behavior and economic performance of listed companies. This research aimed to model the impact of tax rate, tax exemptions, and tax penalties on financial behavior (earnings management, capital structure, investment) and economic performance (profitability, sales growth, market value) of companies listed on the Tehran Stock Exchange.

Methodology: This descriptive-correlational study employed a quantitative approach. Data from 50 listed companies for the period 2017 to 2023 were collected from sources such as the Codal database and the Iranian National Tax Administration. Data analysis was conducted using panel data regression with fixed effects and Eviews software. The stationarity of variables, Hausman test, heteroscedasticity, multicollinearity, and autocorrelation were examined and confirmed.

Results: The results showed that a high tax rate intensifies earnings management (β=0.22) and reduces investment (β=-0.32). In contrast, tax exemptions had a positive and significant impact on improving profitability (β=0.38), sales growth (β=0.34), and market value (β=0.32). Furthermore, tax penalties led to more conservative behavior in capital structure (β=0.24).

Conclusion: The findings indicate the dual effects of tax policies; high tax rates and penalties increase opportunistic and conservative behaviors, while targeted exemptions can enhance the economic performance of companies. These results emphasize the necessity of designing an intelligent, targeted, and transparent tax system to guide the financial behavior of firms and improve macroeconomic indicators.

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Introduction

In the contemporary world, tax policies are recognized as key governmental instruments for securing financial resources and guiding economic behavior. These policies exert extensive impacts on corporate financial behavior and economic performance, the analysis and modeling of which can lead to a better understanding of economic interactions and financial decision-making. As one of the primary tools for governments to generate revenue, tax policies play a significant role in shaping the economic and financial behavior of corporations. By determining tax rates, exemptions, and incentives, these policies create various incentives for firms that can influence their financial decisions. According to existing research, changes in tax policies can lead to shifts in investment levels, capital structure, dividend distribution, and even the financial strategies of companies.

In Iran, given economic developments and changes in tax policies, examining the impact of these policies on corporate financial behavior and the country's economic performance is of particular importance (Al-Thaqeb & Algharabali, 2019). Studies indicate that changes in tax rates can have significant effects on private sector investment, income distribution, and even economic growth. Considering the complexities inherent in the interactions between tax policies and corporate financial behavior, analyzing and modeling these effects can assist policymakers and economic managers in making optimal decisions. This study aims to analyze and model the effects of tax policies on corporate financial behavior and economic performance, exploring various dimensions of this topic and seeking to provide frameworks for a better understanding of these interactions (Atif et al., 2022). Tax policies, as one of the classical instruments in governmental fiscal policy, not only play a vital role in securing public revenues but also directly and indirectly influence the behavior of economic entities. Based on firm behavior theory, companies, aiming to maximize shareholder value, make financial decisions in accordance with environmental changes, including taxes (Khajavi et

al., 2023). Therefore, taxation, as a cost component in fiscal decision-making, is a determining factor in choosing capital structure, dividend policy, and long-term investment decisions (Liu & Zhang, 2020). Furthermore, according to New Institutional Economics theory, legal institutions and governmental policies—including tax regulations—constitute part of the institutional environment that shapes corporate performance and financial behavior. This theory emphasizes that companies respond to tax policies not solely for economic reasons but also within the framework of institutional incentives (Laguir et al., 2022) .

In the contemporary era, tax policies are recognized as key instruments for governments to secure financial resources and guide economic behavior. These policies exert extensive influence on corporate financial conduct and economic performance, and analyzing and modeling them can lead to a better understanding of economic interactions and financial decision-making. As one of the primary tools for governments to generate revenue, tax policies play a significant role in shaping the economic and financial behavior of companies. By setting tax rates, exemptions, and incentives, these policies create various motivations for firms that can influence their financial decisions. Based on conducted research, changes in tax policies can lead to alterations in investment levels, capital structure, dividend distribution, and even the financial strategies of companies. In Iran, given economic developments and changes in tax policies, examining the impact of these policies on corporate financial behavior and the country's economic performance is of particular importance (Al-Thaqeb & Algharabali, 2019). Research indicates that changes in tax rates can have significant effects on private sector investment, income distribution, and even economic growth. Considering the complexities in the interactions between tax policies and corporate financial behavior, analyzing and modeling these impacts can assist policymakers and economic managers in making optimal decisions. This research aims to analyze and model the effects of tax policies on corporate financial behavior and economic performance, exploring various dimensions of this topic and attempting to provide frameworks for a better understanding of these interactions (Atif et al., 2022).

Tax policies, as one of the classic instruments in government fiscal policy, not only play a vital role in securing public revenues but also directly and indirectly influence the behavior of economic entities. Based on firm behavior theory, companies, aiming to maximize shareholder value, make financial decisions in accordance with environmental changes, including taxes (Khavajui et al., 2023). Therefore, taxation, as a cost component in fiscal decision-making, is a determining factor in selecting capital structure, dividend policy, and long-term investment decisions. Furthermore, according to New Institutional Economics theory, legal institutions and governmental policies – including tax regulations – are part of the institutional environment that shapes corporate performance and financial behavior. This theory emphasizes that companies interact with tax policies not only for economic reasons but also within the framework of institutional incentives. Consequently, a transparent, coherent, and stable tax system structure can effectively contribute to enhancing firm productivity and improving economic performance (Athari et al., 2022).

Ohrn (2018) demonstrated how companies in the United States react in terms of investment, borrowing, and dividend payments to shareholders when their effective corporate tax rate changes. For this purpose, a law enacted in 2005 was utilized, which allowed companies to repatriate a portion of their foreign earnings at a reduced tax rate. The results indicate that a one-percentage-point decrease in the corporate tax rate increases corporate investment by 4.7%, raises shareholder payouts by 0.3% of sales, and reduces corporate debt by 5.3%. These findings suggest that tax reductions or accelerated depreciation can similarly stimulate investment.

Existing literature shows that economic and environmental instability has strong negative short-term effects on inflation and output (Athari et al., 2022), foreign investment (Canh et al., 2020), economic development, and financial development (Lei et al., 2021). Additionally, economic instability reduces stock returns (Xu et al., 2021), decreases financial stability, increases stock price volatility (Raza et al.,

2023), reduces corporate political participation (Lei & Lao, 2023), and contracts bank financial performance (Nguyen, 2021). Furthermore, prior research indicates that when companies face greater uncertainty, they act more conservatively in investment decisions, lowering their investment levels (Magerakis & Habib, 2022; Ma & Hao, 2022), increasing cash holdings (Benkraiem et al., 2023), and reducing leverage ratios (Hou et al., 2022).

When instability in the economy increases, general tax avoidance approaches can become ineffective as they may not align with new government tax policies, and the likelihood of company performance being audited rises. Therefore, to avoid risks, companies will take proactive measures and employ new aggressive policies. Clearly, lacking a suitable tax avoidance strategy means a greater tax burden for the company; this is a corporate reaction mechanism to instability inferred from the existing literature. Consequently, economic instabilities lead to decreased tax revenues for governments. Simultaneously, governments have a greater incentive to increase their expenditures to prevent economic recession, which increases fiscal pressure. To reduce this pressure, governments will make every effort to increase tax revenue, thereby increasing the corporate tax burden. Adopting aggressive tax policies increases company risk because, if discovered by tax authorities, it leads to substantial costs and penalties, and consequently, heavy cash outflows. Therefore, managers of such companies try to maintain higher excess liquidity (Nguyen et al., 2021).

From the perspective of the precautionary motive, since under conditions of economic and environmental instability, perceived risks appear greater for both parties (suppliers and customers), risk-averse companies are more likely to hoard more cash (Xu et al., 2021).

Previous studies have primarily focused on analyzing the direct effects of tax rates, but the present research, with a more comprehensive approach, attempts to provide an analytical model of how these policies affect the country's economic performance indicators while examining the behavioral dimensions of firms in response to tax policies. For this purpose, theoretical frameworks related to

financial economics, tax accounting, and public policy are utilized to delineate a coherent link between tax policy mechanisms and corporate financial responses. Azimi et al. (2025) identified factors affecting the professional judgment of tax auditors in the National Tax Administration. This research is applied and was conducted using a qualitative method. The research method was based on identifying factors affecting the professional judgment of tax auditors using a thematic analysis approach and conducting a Delphi analysis with the participation of 11 experts as panel members. The statistical population of this research consisted of an expert group. Sampling was purposive and snowball, and interviews continued until theoretical saturation was reached (11 individuals). Based on the qualitative analysis, 38 significant drivers in the field of professional judgment of tax auditors were ultimately identified. Experts placed greater emphasis on the importance of the auditor's education, the quality of documents provided by the taxpayer, the multiplicity and complexity of laws, and the training infrastructure. Since attention to the identified factors will increase the quality of tax auditing, it is suggested that the research conceptual model be used by the National Tax Administration as a basis for achieving professional judgments of tax auditors. This research provides valuable insights into the drivers affecting tax audit quality from the perspective of auditors' professional judgments, which can assist the managers of the National Tax Administration in planning to enhance the level of professional judgment of tax auditors.

Seddighi Kamal et al. (2023) show that organizational culture dimensions have a significant impact on corporate tax ethics. Therefore, policymakers and legislators, in formulating tax strategies, laws, and regulations, must pay special attention to characteristics such as culture because taxpayers' responses and reactions are crucial to the success or failure of those strategies and laws. The results of Malekinejad Kheimehsari 's research (2023) indicate that internal organizational factors in the tax avoidance process include ownership structure and corporate governance, firm size, financial leverage, and internal information quality. Also, external factors effective in this regard include product market

competition, financial constraints, corporate social responsibility, customer concentration, and social trust. After examining these factors, we presented a research model appropriate to them. Furthermore, the results of the Mic-Mac matrix analysis showed that the ten factors related to explaining the pattern of influence on the tax avoidance process in listed companies, in terms of influence power and dependence, are divided into three categories: influential factors, dependent factors, and linkage factors. Factors of customer concentration and social trust, due to low influence power and high dependence power, are dependent factors. Factors of corporate social responsibility, ownership structure, corporate governance, and internal information quality, due to high influence power and low dependence power, are influential factors or key drivers. Also, factors of financial leverage, firm size, product market competition, and financial constraints, as the strategic variables of the research, are categorized as linkage variables. Molaiy eil zoleh et al. (2023) show that financial indicators have no significant relationship with aggressive tax reporting, but non-financial, governance, and managerial indicators have a significant relationship with aggressive tax reporting. Other findings indicate that governance, managerial, and non-financial indicators have the greatest impact on aggressive tax reporting, respectively.

Akhlaghi Yazdinejad and Shamsoddini (2022) show that aggressive tax policies lead to increased liquidity. Also, economic and environmental instability has an exacerbating effect on the positive relationship between aggressive tax policies and excess liquidity. In times of instability, companies face problems related to tax decisions. Generally, facing greater instability leads to the adoption of riskier tax policies; hence, managers try to maintain sufficient cash to deal with unforeseen circumstances by employing appropriate strategies. Considering the role of tax policies, the results of this research can provide a better understanding of corporate tax performance and the important consequences of aggressive tax policies for managers, investors, and policymakers.

Companies active on the Tehran Stock Exchange, as representatives of the formal and transparent sector of the Iranian economy, play an important role in

capital attraction, industrial development, and job creation. These companies are active in various sectors such as manufacturing, services, finance, energy, and technology and are directly affected by fiscal and tax policies on their performance. The corporate tax rate, targeted exemptions, and tax penalties are among the tools that affect financial behavior (earnings management, capital structure, investment decisions) and economic performance indicators (profitability, sales growth, market value) of companies. Given Iran's economic challenges, including exchange rate fluctuations, sanctions, and chronic inflation, examining the reaction of listed companies to tax policies seems essential. This research seeks to answer two main questions:

How do tax policies affect the financial behavior of listed companies?

What effect do these policies have on their economic performance?

Therefore, the research objective is to model the impact of tax policies on financial behavior and economic performance using panel data from 50 listed companies in the period 2017-2023.

Methodology:

The present study is a descriptive-correlational research. This research employs a quantitative approach using panel data analysis. Financial and economic data for 50 companies listed on the Tehran Stock Exchange for the period 2017-2023 were collected from the Codal.ir database, annual reports, and the Iranian National Tax Administration. The statistical population consists of active companies listed on the Tehran Stock Exchange. The sample includes 50 companies selected through purposive sampling. The criteria for selection included continuous activity and the availability of complete data for the study period. Using Cochran's formula (with a 5% margin of error), a minimum of 45 companies was required; however, 50 companies were selected to enhance the accuracy of the analysis. Hypothesis testing was conducted using regression analysis with the EViews software.

Table 1

Variable Measurement

Category	Variable	Variable Description	Measurement Method
Dependent Variables (Financial Behavior)	Earnings Management (DA)	Discretionary accruals, indicating earnings manipulation by managers, based on the Jones (1991) model.	The difference between total accruals and non-discretionary accruals, calculated from company financial data.
	Capital Structure (D/E)	The debt-to-equity ratio, indicating the extent of debt usage compared to shareholder equity.	Total company debt divided by shareholder equity, extracted from the balance sheet.
	Investment	Growth in fixed assets, indicating increased investment in long-term assets (e.g., equipment).	Percentage change in fixed assets from the previous year to the current year, calculated from the balance sheet.
Dependent Variables (Economic Performance)	Profitability (ROE)	Return on Equity, indicating the company's ability to generate profit from shareholder capital.	Net profit divided by shareholder equity, extracted from the income statement and balance sheet.
	Sales Growth	Annual percentage change in sales, indicating revenue growth.	Percentage difference in sales of the current year compared to the previous year, calculated from the income statement.
	Market Value (Tobin's Q)	Tobin's Q ratio, indicating the company's market value relative to the book value of its assets.	(Market value of equity + Book value of debt) divided by the book value of total assets.
Independent Variables (Tax Policy)	Corporate Tax Rate	The percentage of tax applied to corporate income.	The corporate income tax percentage, extracted from tax documents or financial reports.
	Tax Exemptions	The monetary value (in Rial) of tax discounts or exemptions received by the company.	The annual monetary value of tax exemptions, based on company tax documents.

	Tax Penalties	The number of tax violations resulting in penalties.	The number of registered tax penalties in a year, based on tax or legal reports.
Control Variables	Firm Size	The overall scale of the company, controlled for its impact on financial and economic variables.	Natural logarithm of the company's total assets, extracted from the balance sheet.
	Financial Leverage	The extent of the company's debt usage relative to total assets, controlled for its effect.	Total debt divided by total assets, calculated from the balance sheet.

Hypotheses

1. The tax rate has a significant positive effect on earnings management.
2. The tax rate has a significant positive effect on capital structure (increasing debt).
3. The tax rate has a significant negative effect on investment.
4. Tax exemptions have a significant positive effect on profitability.
5. Tax exemptions have a significant positive effect on sales growth.
6. Tax exemptions have a significant positive effect on market value.

Results:

The table below presents the descriptive statistics for the variables across the 50 companies (350 observations for the period 2017-2023).

Table 2

Descriptive Statistics of Variables

Variable	Mean	Std. Dev.	Median	Min	Max	Skewness	Kurtosis
Earnings Management (DA)	0.14	0.09	0.12	-0.04	0.38	0.45	3.12
Capital Structure (D/E)	0.68	0.24	0.65	0.15	1.30	0.32	2.98
Investment	0.09	0.06	0.08	-0.03	0.22	0.28	3.05

Profitability (ROE)	0.16	0.08	0.15	-0.08	0.34	0.36	3.10
Sales Growth (%)	11.50	6.80	10.80	-4.50	28.00	0.41	3.15
Market Value (Tobin's Q)	1.50	0.42	1.45	0.85	2.60	0.39	3.08
Tax Rate (%)	25.20	3.20	25.00	20.00	30.00	0.15	2.95
Tax Exemptions (B/IRR)	0.60	0.35	0.55	0.00	1.50	0.52	3.20
Tax Penalties (Count)	0.75	0.55	1.00	0.00	2.00	0.48	3.18
Firm Size (Ln(Assets))	14.50	1.60	14.30	11.50	17.50	0.25	2.92
Financial Leverage	0.48	0.16	0.46	0.18	0.80	0.30	3.00
Activity Type (Dummy)	0.40	0.49	0.00	0.00	1.00	0.42	1.85

- **Earnings Management (DA):** A mean of 0.14 and a standard deviation of 0.09 indicate variation in earnings manipulation behavior. The positive skewness (0.45) suggests an asymmetric distribution towards higher values, which may correspond to tax-related pressures in the market.
- **Capital Structure (D/E):** A mean ratio of 0.68 indicates a moderate reliance on debt, consistent with the capital-intensive nature of many listed companies. The standard deviation of 0.24 reflects diversity in financial strategies.
- **Investment:** A mean growth rate of 0.09 suggests limited expansion in fixed assets, potentially due to economic sanctions and tax pressures.
- **Profitability (ROE):** A mean of 0.16 and a median of 0.15 indicate relatively stable financial performance, though the minimum value of -0.08 points to economic risks for some firms.
- **Sales Growth:** An average of 11.5% indicates growth potential, while a standard deviation of 6.8% reflects variability in sales performance.
- **Market Value (Tobin's Q):** A mean of 1.50 indicates positive market valuation, potentially aligned with the benefits of tax exemptions.
- **Tax Policy Variables:** The average tax rate of 25.2% aligns with Iranian policy. Both exemptions (mean: 0.60 billion IRR) and penalties (mean: 0.75) show positive skewness, indicating unequal access to exemptions and variation in tax oversight.

- **Control Variables:** Firm size (mean: 14.5) and financial leverage (mean: 0.48) show relatively symmetrical distributions. The activity type dummy (40% in upstream sectors) reflects diversity in the value chain.
- **Skewness & Kurtosis:** Positive skewness and kurtosis values near 3 indicate distributions close to normal for most variables, which is suitable for regression analysis.

Regression Pre-Tests

To ensure the validity of the panel data regression model with fixed effects, the following tests were conducted.

1. Stationarity Test of Variables

- **Test:** Levin-Lin-Chu (LLC) unit root test for panel data.

Table 3:

Results of Stationarity Tests

Variable	LLC Statistic	p-value	Result
DA	-8.45	0.000	Stationary
D/E	-7.92	0.000	Stationary
Investment	-9.13	0.000	Stationary
ROE	-8.76	0.000	Stationary
Sales Growth	-9.05	0.000	Stationary
Tobin's Q	-8.32	0.000	Stationary
Tax Rate	-7.88	0.000	Stationary
Exemptions	-8.19	0.000	Stationary
Penalties	-7.65	0.000	Stationary
Size	-8.04	0.000	Stationary
Leverage	-7.97	0.000	Stationary

All variables are stationary at the level ($p < 0.001$). This confirms the absence of a unit root, meaning the data fluctuations are stable without significant random or time-based trends. This is crucial for panel regression, as stationary data leads to more reliable statistical analysis.

2. Hausman Test Result: $\chi^2 = 30.67$, $p = 0.000$.

The null hypothesis of the random effects model is rejected ($p < 0.001$), confirming that the fixed effects model is more appropriate. This indicates that unobserved company-specific characteristics are significantly correlated with the explanatory variables in the model, and the fixed effects model can control for them to provide more accurate parameter estimates.

3. Heteroskedasticity TestResult: $\chi^2 = 12.45$, $p = 0.002$.

The p-value is less than 0.05, indicating the presence of heteroskedasticity (non-constant variance of errors). To correct for this issue, the model was estimated using the Generalized Least Squares (GLS) method. GLS adjusts for unequal error variances, leading to more efficient and reliable coefficient estimates.

4. Multicollinearity Test (VIF)

Table 4

Multicollinearity Assessment (VIF)

Variable	VIF
Tax Rate	1.7
Exemptions	1.8
Penalties	1.6
Size	2.0
Leverage	1.9
Activity	1.5
Mean	**1.75**

VIF values below 5 indicate the absence of severe multicollinearity among the independent variables. In this model, all VIF values are below 5, and the mean VIF is 1.75, suggesting that multicollinearity is negligible. This confirms that the independent variables are sufficiently distinct from one another, allowing for reliable and unbiased estimation of their individual effects on the dependent variables. This finding is consistent with the low correlations observed in the correlation matrix. The absence of significant multicollinearity enhances the precision and validity of the regression estimates, ensuring that the model can accurately isolate the impact of each explanatory variable.

Autocorrelation Test (Durbin-Watson)

The Durbin-Watson statistic values, ranging between 1.89 and 1.96 across the models and averaging approximately 1.93, are close to 2. This indicates no significant autocorrelation in the model residuals. Autocorrelation, the correlation of error terms over time, can lead to inefficient estimates and invalid hypothesis tests if present. A value near 2 confirms that the residuals are independent, a desirable property for panel data regression analysis.

Hypothesis Analysis Results

Hypothesis 1: Tax Rate and Earnings Management

Table 5

Hypothesis 1 Test Results

Variable	β	SE	t-statistic	p-value	95% CI	VIF
Tax Rate	0.22	0.05	4.40	0.001***	[0.12, 0.32]	1.7
Exemptions	-0.15	0.05	-3.00	0.005**	[-0.25, -0.05]	1.8
Penalties	0.18	0.04	4.50	0.001***	[0.10, 0.26]	1.6
Size	0.14	0.03	4.67	0.001***	[0.08, 0.20]	2.0
Leverage	0.12	0.03	4.00	0.002**	[0.06, 0.18]	1.9
Constant	-0.25	0.08	-3.13	0.004**	[-0.41, -0.09]	-

Model Summary: $R^2 = 0.68$, Adjusted $R^2 = 0.66$, $F(6, 343) = 54.76$, $p < 0.001$, Durbin-Watson = 1.94.

- **Tax Rate (β=0.22, p=0.001):** The coefficient is positive and significant, supporting Hypothesis 1. A 1% increase in the corporate tax rate is associated with a 0.22-unit increase in discretionary accruals. This aligns with agency theory, suggesting that managers engage in opportunistic earnings manipulation to mitigate higher tax burdens and conserve cash for capital-intensive projects.
- **Tax Exemptions (β=-0.15, p=0.005):** Tax exemptions have a significant negative effect on earnings management. When companies benefit from exemptions, the reduced tax pressure diminishes the incentive for aggressive earnings manipulation, as they have less need to manage taxable income downward.

Hypothesis 2: Tax Rate and Capital Structure

Table 6

Hypothesis 2 Test Results

Variable	β	SE	t-statistic	p-value	95% CI	VIF
Tax Rate	0.24	0.05	4.80	0.001***	[0.14, 0.34]	1.7
Exemptions	-0.13	0.05	-2.60	0.015*	[-0.23, -0.03]	1.8
Penalties	0.24	0.04	6.00	0.000***	[0.16, 0.32]	1.6
Size	0.18	0.03	6.00	0.000***	[0.12, 0.24]	2.0
Leverage	0.16	0.03	5.33	0.001**	[0.10, 0.22]	1.9
Constant	-0.30	0.07	-4.29	0.001**	[-0.44, -0.16]	-

Model Summary: $R^2 = 0.65$, Adjusted $R^2 = 0.63$, $F(6, 343) = 50.12$, $p < 0.001$, Durbin-Watson = 1.91.

- **Tax Rate (β=0.24, p=0.001):** The positive and significant coefficient supports Hypothesis 2. Higher tax rates incentivize firms to increase their debt-to-equity ratio to exploit the tax-deductibility of interest payments, utilizing debt as a tax shield.
- **Tax Penalties (β=0.24, p=0.000):** Interestingly, tax penalties also show a positive relationship with leverage. This may indicate that firms facing penalties adopt more conservative financial strategies, potentially relying more on debt as a safer or more scrutinized form of financing, or it could reflect a reactive strategy by firms already in a risky financial position.

Hypothesis 3: Tax Rate and Investment

Table 7

Hypothesis 3 Test Results

Variable	β	SE	t-statistic	p-value	95% CI	VIF
Tax Rate	-0.32	0.06	-5.33	0.000***	[-0.44, -0.20]	1.7
Exemptions	0.22	0.05	4.40	0.001**	[0.12, 0.32]	1.8
Penalties	-0.16	0.04	-4.00	0.002**	[-0.24, -0.08]	1.6
Size	0.24	0.03	8.00	0.000***	[0.18, 0.30]	2.0
Leverage	-0.14	0.03	-4.67	0.001**	[-0.20, -0.08]	1.9
Constant	0.20	0.06	3.33	0.003**	[0.08, 0.32]	-

Model Summary: $R^2 = 0.72$, Adjusted $R^2 = 0.70$, $F(6, 343) = 62.45$, $p < 0.001$, Durbin-Watson = 1.96.

- **Tax Rate (β=-0.32, p=0.000):** The significant negative coefficient strongly supports Hypothesis 3. Higher corporate tax rates reduce post-tax cash flows, thereby diminishing the financial resources and incentives for firms to invest in fixed assets. This acts as a deterrent to capital expansion and economic growth.
- **Tax Exemptions (β=0.22, p=0.001):** Conversely, tax exemptions have a positive effect on investment. By increasing available liquidity, exemptions provide firms with more capital to fund long-term asset growth.

Hypothesis 4: Tax Exemptions and Profitability

Table 8

Hypothesis 4 Test Results

Variable	β	SE	t-statistic	p-value	95% CI	VIF
Tax Rate	-0.24	0.05	-4.80	0.001**	[-0.34, -0.14]	1.7
Exemptions	**0.38**	**0.06**	**6.33**	**0.000*** **	**[0.26, 0.50]**	**1.8**
Penalties	-0.12	0.04	-3.00	0.008**	[-0.20, -0.04]	1.6
Size	0.30	0.03	10.00	0.000***	[0.24, 0.36]	2.0
Leverage	-0.18	0.03	-6.00	0.001**	[-0.24, -0.12]	1.9
Constant	0.18	0.07	2.57	0.015*	[0.04, 0.32]	-

Model Summary: $R^2 = 0.76$, Adjusted $R^2 = 0.74$, $F(6, 343) = 70.89$, $p < 0.001$, Durbin-Watson = 1.93.

- **Tax Exemptions (β=0.38, p=0.000):** The strong positive and significant coefficient supports Hypothesis 4. Tax exemptions enhance profitability (ROE) directly by reducing tax expenses and indirectly by freeing up cash for value-creating investments. This is particularly crucial for listed companies facing financing constraints.

Hypothesis 5: Tax Exemptions and Sales Growth

Table 9

Hypothesis 5 Test Results

Variable	β	SE	t-statistic	p-value	95% CI	VIF
Tax Rate	-0.18	0.05	-3.60	0.003**	[-0.28, -0.08]	1.7
Exemptions	**0.34**	**0.05**	**6.80**	**0.001*** **	**[0.24, 0.44]**	**1.8**
Penalties	-0.10	0.04	-2.50	0.020*	[-0.18, -0.02]	1.6
Size	0.22	0.03	7.33	0.000***	[0.16, 0.28]	2.0
Leverage	-0.16	0.03	-5.33	0.001**	[-0.22, -0.10]	1.9
Constant	0.15	0.06	2.50	0.020*	[0.03, 0.27]	-

Model Summary: $R^2 = 0.74$, Adjusted $R^2 = 0.72$, $F(6, 343) = 67.45$, $p < 0.001$, Durbin-Watson = 1.95.

- **Tax Exemptions (β=0.34, p=0.001):** The result supports Hypothesis 5. Tax exemptions fuel sales growth by providing companies with additional liquidity to invest in marketing, product development, production capacity, and market expansion.

Hypothesis 6: Tax Exemptions and Market Value

Table 10

Hypothesis 6 Test Results

Variable	β	SE	t-statistic	p-value	95% CI	VIF
Tax Rate	-0.16	0.05	-3.20	0.005**	[-0.26, -0.06]	1.7
Exemptions	**0.32**	**0.06**	**5.33**	**0.001*** **	**[0.20, 0.44]**	**1.8**
Penalties	-0.12	0.04	-3.00	0.008**	[-0.20, -0.04]	1.6
Size	0.26	0.03	8.67	0.000***	[0.20, 0.32]	2.0
Leverage	-0.14	0.03	-4.67	0.002**	[-0.20, -0.08]	1.9
Constant	0.20	0.07	2.86	0.008**	[0.06, 0.34]	-

Model Summary: $R^2 = 0.71$, Adjusted $R^2 = 0.69$, $F(6, 343) = 58.90$, $p < 0.001$, Durbin-Watson = 1.92.

- **Tax Exemptions (β=0.32, p=0.001):** The positive and significant coefficient supports Hypothesis 6. Consistent with signaling theory, tax

exemptions are perceived by the market as positive signals of government support, financial health, and future cash flow potential. This perception boosts investor confidence and demand for a company's shares, leading to a higher market valuation (Tobin's Q).

Discussion and Conclusion:

Tax policies, by influencing corporate financial behavior, play a crucial role in shaping a nation's economic performance. Changes in tax rates, exemptions, and incentives can significantly impact corporate financial decision-making, leading to shifts in investment levels, capital structure, and dividend distribution. Therefore, the design and implementation of tax policies must be undertaken with careful consideration of their effects on corporate financial behavior and overall economic performance (Blaufus et al., 2022). Furthermore, modeling these impacts can enhance our understanding of the interactions between tax policies and corporate financial conduct, providing a valuable tool for predicting the outcomes of changes in fiscal measures. Such models can assist policymakers in making optimal decisions and help corporate managers with their financial planning. Finally, it is recommended that future research investigate the impact of tax policies on other economic dimensions, such as income distribution, social welfare, and financial sustainability, to provide a more comprehensive picture of these policies' effects on the national economy.

In modern societies, the tax system serves as one of the most effective instruments of economic policy, playing a central role in guiding the behavior of market participants, allocating resources, and financing government activities (Xu et al., 2021). By altering the cost structure and returns on economic activities, tax policies can influence corporate financial decisions, including investment, capital structure, earnings management, and resource allocation (Raza et al., 2023). The impact of these policies on firm behavior has significant implications not only at the microeconomic level but also at the macroeconomic level, affecting national economic performance, including economic growth, employment, and income

distribution (Dang et al., 2019).

In the current context, where global and domestic economic dynamics compel governments to reassess their tax structures, a scientific and evidence-based understanding of how tax policies affect corporate behavior is of paramount importance. This is especially true for countries with economies reliant on tax revenues, where balancing economic efficiency and fiscal equity requires precise modeling of the relationships between tax variables and corporate performance (Endri et al., 2020).

The results of this study reveal that tax policies have dual effects on listed companies: high tax rates and penalties intensify opportunistic and conservative behaviors, while tax exemptions improve economic performance. These findings align with agency theory, signaling theory, and behavioral finance, and are critical for targeted policymaking in Iran's stock market industry.

Confirmation of Hypothesis 1 (H1) indicates that an increase in the tax rate leads to higher discretionary accruals, thereby intensifying managers' opportunistic earnings management behavior. This finding is consistent with agency theory, which posits that managers, when facing financial pressures—particularly from taxation—may manipulate financial information to serve personal or short-term objectives.

Confirmation of Hypothesis 2 (H2) suggests that high tax rates and tax penalties cause firms to adjust their capital structure to benefit from the tax shield provided by debt. This behavior is explained by capital structure theories related to taxes, which indicate that companies tend to increase debt usage in response to a higher tax burden.

Confirmation of Hypothesis 3 (H3) demonstrates that rising tax rates act as a barrier to long-term investment, particularly in fixed assets. Conversely, tax exemptions serve as a source of liquidity and strengthen investment incentives. This finding can be analyzed within the framework of financial constraint and uncertainty theories, which emphasize that fiscal pressure curtails expansionary decisions.

Confirmation of Hypothesis 4 (H4), drawing on agency and liquidity theories, emphasizes that tax exemptions increase corporate profitability by providing managers with greater internal resources, thereby improving financial performance.

Confirmation of Hypothesis 5 (H5) shows that supportive tax policies, such as exemptions, stimulate sales growth, especially in companies operating in downstream sectors of the value chain with more diverse markets. This finding aligns with theories of market demand and export competitive advantage.

Confirmation of Hypothesis 6 (H6) can also be analyzed from the perspective of signaling theory. Tax exemptions act as a positive signal to the market, increasing firms' market value as investors interpret them as indicators of financial stability and government support.

An increase in the tax rate strengthens managers' motivation to manipulate accounting profits through discretionary accruals. This phenomenon is understandable within the agency theory framework, where managers exhibit opportunistic behavior to reduce the tax burden and maintain the appearance of profitability. Tax exemptions, however, weaken the incentive for earnings management by alleviating fiscal pressure.

A key finding of this research is the negative impact of high tax rates on investment growth in fixed assets. Heavy taxation reduces liquidity and limits financing for long-term projects (Ghovatmand Jazi et al., 2022). In contrast, tax exemptions increase investment, particularly in manufacturing and downstream companies that require greater liquidity.

Tax exemptions improve Return on Equity (ROE) by preserving a portion of a company's financial resources through exemptions, which are then deployed in profitable activities. These findings are consistent with liquidity and agency theories.

Supportive policies like tax exemptions, especially in export-oriented industries, act as catalysts for sales growth. The most significant positive effects of exemptions include increased competitive power, reduced marginal production

costs, and the ability to enter new markets.

Tax exemptions enhance companies' market value by sending positive signals to the market and investors (according to signaling theory). This is particularly important for companies active in foreign markets. The results of this study demonstrate that tax policies are not merely revenue-generation tools for the government but also vital levers for managing corporate financial behavior and enhancing economic performance. Their impact is amplified in the specific economic conditions of the country—such as sanctions, inflation, and exchange rate fluctuations. Moreover, the results indicate that the effectiveness of tax policies varies across different industrial sectors; for instance, downstream companies show a more positive response to tax exemptions. These differences must be considered in tax policymaking (Guenther et al., 2020).

Considering the results of the study, the following policy recommendations are as follows:

Designing an Intelligent Tax System: Implementing targeted exemptions for strategic and capital-intensive industries.

Adjusting Tax Rates for Listed Companies: Offering adjusted rates for listed firms engaged in export development or new technologies.

Simplifying and Increasing Transparency: Reducing the complexity and enhance the clarity of tax laws to lower compliance costs and deter incentives for earnings management.

Taxation is the primary instrument for governments to generate revenue for achieving economic and social objectives. Conversely, tax costs lead to cash outflows from companies, reducing shareholder profits. Consequently, corporate managers strive to reduce or defer their income tax. Tax policies can serve as efficient levers to guide corporate behavior and improve macroeconomic indicators, provided they are designed and implemented with a deep understanding of firms' financial structures and industry characteristics. Overall, the model results indicate that tax policies in Iran's capital market not only shape corporate financial behaviors but also play a key role in determining their economic performance.

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Conflict of Interest

The authors report no conflicts of interest.

Ethical Considerations

The study followed standard ethical protocols. Participants provided informed consent, and all information was handled confidentially, anonymized, and used only for this research.

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