

The Effect of Tax Rates on Tax Compliance in *International Joint Venture: A Systematic Literature Review*

Mareta Putri*, Belandina Anita Sere Sihombing, Mukhtaruddin

Faculty of Economics, Sriwijaya University

Corresponding author: 01042682428011@student.unsri.ac.id*,
01042682428007@student.unsri.ac.id, mukhtaruddin67@unsri.ac.id

Article Information:

Received: March 12 2025, Accepted: March 17, 2025, Published: March 20, 2025

Abstract

This review systematically analyzes the literature on the effect of tax rates on tax compliance in *International Joint Ventures*. Of the 19 studies reviewed, 16 studies show that tax rates have a positive influence on *International Joint Venture* compliance, by increasing transparency, investment incentives, and financial stability. Meanwhile, the remaining 3 studies suggest that rate uncertainty can have a negative impact on *joint venture* compliance, especially in countries with unstable tax regulations. The results of this study provide a deeper understanding of the role of taxation in providing a reference for investors and policymakers in designing tax policies that are more conducive to cross-border investment.

Keywords: Taxation, Tax Compliance, International Joint Venture

JEL Codes: H24, H26, L24

1. Introduction

An *International Joint Venture* (IJV) is a separate legal entity organization partially held by parent companies from different countries ([Shenkar & Zeira, 1987](#)) that is widely used in the world of global markets and competition. In addition to other economic benefits, IJVs promise cost advantages of coordination, increased knowledge flows and risk sharing between countries. Due to these advantages and influenced by government interests, IJVs have been the preferred form of market entry and governance structure in China since the mid-1980s e.g. ([Walsh et al., 1999](#)). Despite China's entry into the World Trade Organization (WTO) an increasing number of wholly foreign-owned companies still play a major role in post WTO China, (e.g. ([Meschi & Cheng, 2002](#))). Despite their widespread use, IJVs have not been an economic success. Research shows that IJVs especially in developing countries ([Sim & Ali, 1998](#)) experience unsatisfactory performance and serious management problems. As a result, most IJVs are terminated before achieving the objectives pursued by their partners.

Published by:

Tax compliance in IJV schemes is a complex issue and involves various factors, one of which is the tax rate. This study aims to systematically examine how rates affect tax compliance in the context of IJVs through literature from various academic studies. The distribution of taxes imposed on each company is based on an agreement between IJV members in the application of taxes ([Dewi & Lestari, 2012](#)). Studies on taxes in the economic context have shown that under certain conditions the government can increase welfare by adjusting consumption taxes and tariffs. In the same context, ([Keen & Ligthart, 2002](#)) examined a case involving a reduction in tariffs with an increase in domestic unit taxes, they further pointed out that for economies characterized by competition it can be detrimental to welfare as a result of shifting profits from home to foreign countries. *International Joint Ventures* (IJVs) are a form of business cooperation between companies from two or more countries that aim to improve competitiveness and market expansion, in the context of taxation, tax rates are one of the main factors that can affect tax compliance in IJVs. Studies by ([Hanlon & Heitzman, 2010](#)) show that high tax policies can encourage tax avoidance strategies, while strict regulations can increase compliance levels.

Apart from financial aspects, management factors and cultural differences also affect the success of IJVs. Research conducted by Tetteh et al. revealed that applicable taxation policies can affect the dynamics of relationships between partners in IJVs, especially in the aspects of conflict management and business strategy alignment ([Tetteh et al., 2021](#)). Therefore, adaptive taxation policies can help reduce operational barriers and improve the efficiency of IJV management. Differences in tax regulations between countries as well as tax incentive policies can affect the tax compliance strategies implemented by companies ([Dharmapala, 2020](#)). Therefore, this systematic literature review aims to identify and analyze the relationship between tax rates and tax compliance in IJVs based on previous research.

2. Literature Review

2.1 Agency Theory

Agency theory explains the relationship between principals and agents, where there is a potential conflict of interest that can affect business decisions, including in the context of *international joint ventures* (IJV) ([Yassine, 2023](#)). In an IJV, the *principal* owner of capital is the government that collects and prescribes taxation policies and the *agent* management is the taxpayer who pays taxes in accordance with applicable regulations. Taxation plays an important role in this case, because tax policy can affect the incentives for both parties in decision making. For example, high taxes can reduce the net profit received by capital owners, so they may be more reluctant to invest in IJVs ([Edwards & Todtenhaupt, 2020](#)). In addition, different taxes in the home and destination countries may create greater uncertainty, which in turn may affect the capital structure of the IJV ([Wild et al., 2023](#)).

2.2 Tax rates and international joint

According to [Mardiasmo \(2019\)](#), tax payment is a form of state obligation and taxpayers in state financing for state development. Research ([Zou & Chen, 2016](#)) states that tariff reduction can be considered as a way for a country to achieve trade openness by reducing trade barriers and increasing trade flows. For the government, the potential revenue loss caused by tariff cuts is always a major concern. Therefore, tariff reductions are combined with domestic tax increases. However, empirical evidence shows that such reforms have no impact on the rate of income recovery in low-income countries ([Baunsgaard & Keen, 2010](#)).

2.3 The importance of tax and the IJV decision

IJV performance is also affected by tax policy. Research shows that IJVs operating in more favorable tax environments tend to perform better than those operating in strict tax environments ([Chapagain et al., 2023](#)). International business activities confront a range of legal and taxation issues e.g. voting rights, property rights, profit taxation, income shifting which can influence the decision to establish, maintain and close an IJV ([Nippa & Reuer, 2019](#))

3. Research Methods

This research uses a Systematic Literature Review (SLR) approach to collect and analyze previous research related to this topic. A total of 19 scientific journals relevant to this topic will be systematically reviewed. The journals were obtained from academic databases such as Scopus, ScienceDirect, Research Gate and Google Scholar with the inclusion criteria of journals that discuss taxation in the context of international joint ventures, published within a certain time span, and have a clear methodology with the keywords "*tax rate compliance*", "*joint venture tax policy*", and "*international taxation*." The studies taken were those published in the range of 2005 - 2023.

After the literature review, the journals will be categorized based on their findings, i.e. whether they state the effect of tax rates on *international joint venture* compliance or not. The data obtained will be analyzed descriptively to see the patterns that emerge and determine the proportion of journals that support or do not support the research hypothesis. Final conclusions will be made based on the majority of the findings as well as considering the factors that contribute to the differences in research results.

4. Research Results

Table 1 Source of Journals and Articles

No.	Accreditation Index	Number of Articles
1	Scopus Q1	1
2	Scopus Q4	5
3	Sinta 2	1
4	Sinta 4	3
5	Sinta 5	1
6	Sinta 6	1
7	Not Identified	7

Table 1 presents data regarding the source of journals and the number of indexed articles with their respective accreditations, showing that these journals are recognized at the national level in Indonesia, although with varying quality and influence. In addition, there are two journals indexed in Scopus, namely the *Journal of Business Research* with Q1 quartile, which indicates higher international quality than journals with Sinta accreditation. The table also shows variations in the number of articles published in each journal, with some journals publishing only one article, while others publish more articles. This gives an idea of the productivity and contribution of each journal to the development of knowledge in management, accounting and taxation.

Table 2. Research Countries

Published by:

No	Country	Number
1	Indonesia	14
2	China	2
3	Amerika	3

Table 2 shows the country distribution of the recorded studies. Out of a total of 19 studies, the majority came from Indonesia with 14 studies, reflecting that these research topics are mostly done in Indonesia. The US contributed 3 studies, China recorded 1 study, indicating that despite their smaller contributions, China and Amerika also participated in the topics raised in this study. Overall, Indonesia did not dominate the number of studies.

Overall, studies in these sectors show that taxation not only affects the level of corporate tax compliance, but also has a significant impact on financial planning, capital structure and the effectiveness of international joint ventures. The integration of tax and business strategy in the context of international joint ventures is crucial, especially to minimize tax risks and maximize returns on cross-border investments.

Table 3. Research Results on the Effect of Tax Rates on Tax Compliance

Author	Findings	Country
Mufidah (2024) ; Wulanningrat & Rachmawati (2023) ; Hendo & Marfiana (2024) ; Kurniandi & Yanuar (2023) ; Ayem & Staquf (2022) ; Maulana et al. (2024) ; Masyhur (2013) ; Rahman et al. (2022) ; Muhtadi & Hernat (2023) ; Damanik & Zulian (2021) ; Dewi & Lestari (2012)	(+)	Indonesia
Jin dan wang (2021) ; Zou & Chen, (2016)		China
Nippa & Reuer (2019) ; Konara & Mohr (2023)		Amerika
Dewi & Wijaya (2023) ; Septiananda & Pratiwi (2023) ; Suyanto, (2020)	(-)	Indonesia
(+) Efek Positif; (-) Efek Negatif		

Research on the effect of tax rates on IJV compliance has been widely conducted by academics and practitioners in various countries. Some of the previous studies highlighted how tax policies can influence a company's strategy in forming IJVs. This research provides a basis for further studies in understanding the role of taxes as a determinant factor in business decisions.

Based on the table above, it can be seen that more studies discuss the positive impact of taxation on the joint venture structure than the negative impact. From a total of 19 studies summarized in the table, 16 journals found that taxation has a positive effect on IJV tax compliance. This finding suggests that taxation policy can provide incentives for companies to form strategic partnerships, either through optimization of tax burden, capital efficiency, or reduction of business risk. Meanwhile, only three journals found a negative impact of taxation on IJV tax compliance. These studies generally highlight how high tax burdens or complex regulations can act as barriers to the formation and operation of joint ventures. This suggests that while

taxation has potential benefits, in some cases, unfavorable policies can actually hinder a company's business strategy.

4.1. Discussion

4.1 Tax Rates and Tax Compliance

Indonesia dominates the research in this context, given the large amount of foreign investment in the country that is potentially affected by tax policy. Overall, the dominance of research from Indonesia reflects the need to understand and respond to the challenges faced. This research is expected to make a major contribution to the development of business strategies in the era of globalization Research ([Zou & Chen 2016](#)) shows welfare impacts are highly relevant to competitors' profit margins in IJVs, if the host government implements tax and tariff changes jointly to set world prices, such reforms cannot have an impact on joint venture profits. The increased tax liabilities and administrative complexities associated with IJVs result in the reduced attractiveness of the co-ownership structure, thus demonstrating the important role of tax policy in determining the ownership strategy of foreign investment.

In addition, host country tax policies, including corporate tax rates, withholding taxes on dividends, and international tax treaties, also affect the attractiveness of joint ventures. For example, a high corporate tax rate or the absence of tax treaties to prevent double taxation may discourage companies from entering into a joint venture in a particular country. Conversely, tax incentives such as reduced tax rates for joint ventures, *tax holidays*, and investment tax credits can encourage the formation of joint ventures by providing financial advantages over full ownership by a foreign company ([Chen & Ma, 2010](#)). Thus, tax policies ranging from corporate tax reform, environmental taxes, foreign ownership restrictions, to investment incentives play an important role in shaping the joint venture structure. These factors affect not only ownership decisions, but also the investment strategies of multinational companies and the investment climate in the host country. In the context of IJVs, tax compliance is influenced by international regulations and differences in tax policies between countries. IJVs that operate in multiple jurisdictions tend to experience higher tax uncertainty, which may impact tax compliance.

4.2 Impact of Tax Rates on Tax Compliance in IJVs

Some studies suggest that excessively high tax rates may encourage tax avoidance practices in IJVs. Studies by ([Mihir et al 2004](#)) show that differences in tax rates between countries affect IJV capital structure and tax compliance. In addition, it found that firms tend to engage in financial engineering to reduce tax burden if tax rates are too high. Differences in tax rates between partner countries in IJVs can lead to aggressive transfer pricing schemes to allocate profits to countries with lower taxes. Tax compliance with tax rates is particularly high in multinational companies that have flexibility in determining the location of their profits.

Tax policy has a significant role in determining the ownership and control structure in international joint ventures. Ownership decisions in R&D joint ventures are affected by volatile tax risks, which may hinder the efficiency and sustainability of the IJV. In many cases, companies choose a majority or minority ownership structure based on the tax incentives available in a country.

4.3 Additional Factors Affecting Tax Compliance

In addition to tax rates, some other factors that affect tax compliance in IJVs include:

Published by:

1. The tax administration system, namely the clarity of regulation, transparency, and efficiency of the tax administration system which greatly affects tax compliance. Where countries that have a complex tax administration system often face lower compliance problems because taxpayers feel burdened.
2. Stricter penalties and certainty of law enforcement have an impact on tax compliance. From the study ([James, et al\), 2015](#) shows that when tax sanctions are applied consistently and in adequate amounts, the level of tax compliance increases significantly.
3. The ownership structure in IJVs suggests that companies with majority ownership in an IJV are more likely to comply with tax regulations due to greater managerial control over compliance strategies compared to companies with minority ownership.

According to [Luo \(2004\)](#), the complex characteristics of transactions in joint ventures are often complicated by changing tax regulations, leading to increased compliance costs and legal risks. These uncertainties can affect the competitiveness of companies in carrying out business partnerships abroad. ([Meschi & Cheng, 2002](#)) also asserts that political and economic risks related to taxation have a significant impact on the sustainability of joint ventures. Unexpected changes in tax policy can increase a company's financial burden, thereby reducing the incentive for investors to remain committed to the partnership. For international joint ventures to run optimally, a more stable and supportive tax policy is necessary.

5. Conclusion

This research shows that taxes have a significant role in influencing investment decisions and corporate tax compliance structures. This study analyzes 19 scientific journals published between 2005 and 2023, focusing on how tax policy affects IJVs in various countries, especially in Indonesia.

First, the results of the study show that different tax policies between the home and destination countries can create uncertainty that disrupts the decision-making process by capital owners and management in IJVs. Research conducted by Edwards & Todtenhaupt (2020) emphasizes that high tax rates can reduce the incentive for capital owners to invest, as it potentially reduces the net profit they receive. In addition, the existence of complicated and high taxes may encourage companies to engage in tax avoidance through aggressive transfer pricing schemes, potentially increasing legal risks and high administrative costs.

Secondly, the study also found that the majority of the 19 journals studied showed that taxes can provide positive incentives for compliance in IJVs. A total of 16 out of 19 journals proved that tax policies, such as reduced tax rates for joint ventures, tax exemptions, and investment tax credits can increase the attractiveness of IJVs. In this context, the rewards of tax compliance can stimulate the formation of strategic partnerships that benefit both parties. On the other hand, only 3 journals show a negative impact, where high taxes and overly complex regulations become barriers to the implementation of IJVs.

Third, in addition to tax rates, additional factors such as the tax administration system, legal sanctions, and ownership structure in IJVs have an important impact on tax compliance. Clarity in regulation, transparency, and administrative efficiency are key to improving the level of tax compliance. In addition, companies with majority ownership in IJVs tend to have greater control over tax compliance than those with minority ownership.

Fourth, that the stability and clarity of tax policy is critical to the sustainability of IJVs. Unexpected changes in tax policy can increase uncertainty and financial risk, prompting companies to withdraw from international collaboration. Therefore, there needs to be a more

Published by:

stable and supportive tax policy, which not only focuses on increasing state revenue but also considers the impact on foreign investment.

References

- Ayem, S., & Staquf, A. T. (2022). The Effect of Modernization of the Tax Administration System, Tax Socialization, Tax Relaxation on Taxpayer Compliance in Using E-Filling During the Pandemic Period. *Journal of Accounting and Management*, 33 (3), 131-142. <https://doi.org/https://doi.org/10.53916/jam.v35i3.63>
- Baunsgaard, T., & Keen, M. (2010). Tax revenue and (or?) trade liberalization. *Journal of Public Economics*, 94 (9-10), 563-577. <https://doi.org/10.1016/j.jpubeco.2009.11.007>
- Chapagain, R., Yadhav, K., & Baral, A. (2023). Existence of Joint Venture Banks and their Impacts on the Performance of Non-Joint Venture Commercial Banks in Nepal. *INTELLIGENCE Journal of Multidisciplinary Research*, 2(1), 1–16. <https://doi.org/10.3126/ijmr.v2i1.53542>
- Chen, T. L., & Ma, Y. (2010). International joint venture, commitment and host-country policy in an integrated market. *International Review of Economics*, 57 (4), 411-421. <https://doi.org/10.1007/s12232-010-0105-6>
- Damanik, N. A., & Zulian, I. (2021). Cooperation between the Indonesian and American Governments in Handling Joint Venture. *FISK*, 2 (1), 109-117.
- Dewi, I. R., & Wijaya, S. (2023). Trade Liberalization, Foreign Investment, and Its Effect on Tax Revenue in Emerging Asia with Moderation of Economic Growth. *My Journal*, 3 (2), 203-221. <https://doi.org/10.54957/jurnalku.v3i2.467>
- Dewi, M. S., & Lestari, S. B. (2012). Application of Income Tax in Joint Venture Company (Case Study: Pt. Bk, Persero). *Binus Business Review*, 3 (2), 908-922. <https://doi.org/10.21512/bbr.v3i2.1273>
- Dharmapala, D. (2020). The tax elasticity of financial statement income: implications for current reform proposals. *National Tax Journal*, 73 (4), 1047-1064. <https://doi.org/10.17310/ntj.2020.4.06>
- Edwards, A., & Todtenhaupt, M. (2020). Capital gains taxation and funding for start-ups. *Journal of Financial Economics*, 138 (2), 549-571. <https://doi.org/10.1016/j.jfineco.2020.06.009>
- Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50 (2-3), 127-178. <https://doi.org/10.1016/j.jacceco.2010.09.002>
- Hendo, N. F., & Marfiana, A. (2024). The Impact of Appointment of Value Added Tax Collector for Trade Through Electronic System on Tax Compliance in Indonesia. *Jurnalku*, 4 (3), 260-274. <https://doi.org/10.54957/jurnalku.v4i3.898>
- James, A., Vazquez, Jorge Martinez, & Chandler, M. (2016). Corruption and firm tax evasion. *Journal of Economic Behavior and Organization*, 124 (October 2017), 146-163. <https://doi.org/10.1016/j.jebo.2015.10.006>

- Jin, J. L., & Wang, L. (2021). Resource complementarity, partner differences, and international joint venture performance. *Journal of Business Research*, 130, 232-246. <https://doi.org/10.1016/j.jbusres.2021.03.037>
- Keen, M., & Ligthart, J. E. (2002). Coordinating tariff reduction and domestic tax reform. *Journal of International Economics*, 13 (2), 385-390. <https://doi.org/10.1111/j.1467-9396.2005.00510.x>
- Konara, P., & Mohr, A. (2023). Cultural bridging and the performance of international joint ventures. *International Business Review*, 32 (4), 102-109. <https://doi.org/10.1016/j.ibusrev.2023.102109>
- Kurniandi, A., & Yanuar. (2023). The effectiveness of joint venture strategies to increase the profitability of MSME companies. In *Journal of Business Management and Entrepreneurship* (Vol. 7, Issue 3, pp. 491-500). <https://doi.org/10.24912/jmbk.v7i3.23860>
- Suyanto, L. (2020). The Effect of Tax Evasion and Implementation of Tax Regulations on Taxpayer Compliance. *Journal of Accounting and Taxation Analysis*, 4, 78-91. <https://doi.org/http://dx.doi.org/10.25139/jaap.v4i2.2666>
- Masyhur, H. (2013). The Effect of Modern Tax Administration System on Taxpayer Compliance. *Journal of Management Science and Business*, 4 (1), 1-10. <https://doi.org/10.17509/jimb.v4i1.983>
- Maulana, A. F., Maryanto, H., Ariadina, Kusumah D. A., & Saputra, K. (2024). Analysis of the Effect of Monetary Policy on Economic Growth in Indonesia. *Scientific Journal of Multidisciplinary Studies*, 6 (2), 751-757. <https://doi.org/10.57235/mantap.v2i2.3345>
- Meschi, P. X., & Cheng, L. T. W. (2002). Stock price reactions to Sino-European joint ventures. *Journal of World Business*, 37 (2), 119-126. [https://doi.org/10.1016/S1090-9516\(02\)00071-8](https://doi.org/10.1016/S1090-9516(02)00071-8)
- Mihir A, D., Foley F.C., James R, H., & Jr. Hines (2004). The costs of shared ownership: Evidence from international joint ventures. *Journal of Financial Economics*, 73 (2), 323-374. <https://doi.org/10.1016/j.jfineco.2003.07.001>
- Mufidah, I. F. (2024). Journal Economic Insights. *Journal Economic Insights Journal Homepage: <https://Jei.Uniss.Ac.Id/> ISSN Online: 2685-2446*, 3 (1), 17-26. <https://doi.org/10.51792/jei.v3i1.92>
- Muhtadi, M. A., & Hernat, O. P. (2023). The Impact of Changes in International Tax Regulations on Multinational Tax Accounting Practices in Manufacturing Companies in West Java. *West Science Journal of Accounting and Finance*, 2 (03), 222-230. <https://doi.org/10.58812/jakws.v2i03.645>
- Nippa, M., & Reuer, J. J. (2019). On the future of international joint venture research. *Journal of International Business Studies*, 50 (4), 555-597. <https://doi.org/10.1057/s41267-019-00212-0>
- Rahman, A. N. A., Firdaus A.A., & Efhaes, M. (2022). Intervention of Local Tax Rates Under the Job Creation Law: Analysis of Implications and Strategies for Economic Recovery during the Covid-19 Pandemic. *Educoretax*, 2 (1), 35-48. <https://doi.org/10.54957/educoretax.v2i1.151>

- Septiananda, N., & Pratiwi, A. P. (2023). Capital Structure: Inflation, Non-Debt Tax Shield, and Tax Aggressiveness. *Scientific Journal of Accounting and Finance (JIaKu)*, 2 (3), 242-257. <https://doi.org/10.24034/jiaku.v2i3.5999>
- Shenkar, O., & Zeira, Y. (1987). Human Resources Management in International Joint Ventures: Directions for Research. *Academy of Management Review*, 12 (3), 546-557. <https://doi.org/10.5465/amr.1987.4306569>
- Sim, A. B., & Ali, Y. (1998). Performance of international joint ventures from developing and developed countries: An empirical study in a developing country context. *Journal of World Business*, 33 (4), 357-377. [https://doi.org/10.1016/S1090-9516\(99\)80080-7](https://doi.org/10.1016/S1090-9516(99)80080-7)
- Tetteh, M., Chan, A., Darko, A., Yevu, S., Boateng, E., & Nwaogu, J. (2021). Key drivers for implementing international construction joint ventures (icjvs): global insights for sustainable growth. *Engineering Construction & Architectural Management*, 29(9), 3363-3393. <https://doi.org/10.1108/ecam-07-2020-0512>
- Walsh, J. P., Wang E., & Xin, K. R. (1999). Same bed, different dreams: Working relationships in Sino - American joint ventures. *Journal of World Business*, 34 (1), 69-93. [https://doi.org/10.1016/S1090-9516\(99\)00008-5](https://doi.org/10.1016/S1090-9516(99)00008-5)
- Wild, J. J., Wild, J.M., & Wild, K. L. (2023). International joint ventures, shareholder returns, venture complexity, and political risk. *Journal of Corporate Accounting and Finance*, 34 (2), 135-148. <https://doi.org/10.1002/jcaf.22600>
- Wulannigrat, N. D., & Rachmawati, S. (2023). The Effect of Tax Socialization and Tax Fairness on Tax Compliance with Tax Awareness as an Intervening Variable. *COMSERVA: Journal of Research and Community Service*, 2 (09), 1685-1699. <https://doi.org/10.36418/comserva.v2i09.478>
- Yassine, O. (2023). Understanding the Paradox in the Results of National Cultural Distance Impact on International Joint Venture Performance: A Narrative Review of Prior Literature. *Modern Applied Science*, 17(1), 1– 17. <https://doi.org/10.5539/mas.v17n1p1>
- Zou, Y., & Chen, T.-L. (2016). International joint ventures and welfare-improving tariff-tax reforms. *International Review of Economics and Finance*, 46 , 27-35. <https://doi.org/10.1016/j.iref.2016.07.017>

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>)

