Corporation Tax Rate-Revenue Paradox: Income Shifting and Corporatization

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Governments have reduced the corporate tax rate to attract foreign capital in the process of globalization especially after the 1980s. Additionally, they have taken some measures supportively such as tax incentives and tax exemption for this goal. These tax competition practices brought up some questions and concerns about financing public spending issue. But corporate tax revenue actual data shows relatively stable path over the time while corporate tax rates are reducing among countries. Some researches called this doubtful fact “corporate tax rate-revenue paradox” and explaining it with corporatization and income shifting effects.

In this study we examine the development of corporate tax rates and revenues in EU countries briefly. Then we are trying to analyses which factors are dominant in this paradox using available annual panel data for EU countries. In empirical part of the study we employ panel unit root tests for determining the stationarity of data set. After this procedure we perform alternative estimation techniques and provide estimation results. According to these result threats and opportunities are evaluated at national tax policy perspective and at union level.

Keywords: Corporate Tax, Corporate Tax Revenue, Corporate Tax-Revenue Puzzle, Panel Estimation, European Union.