

Some (well, two) International Aspects of Corporate Tax Reform

Michael Keen

IMF

#1: Corporate tax changes affect trade flows

Continuing controversy as to trade impact of VAT and corporate taxation

VAT

- Theory predicts? No impact on trade
(but practical people have trouble believing this)
- What does evidence say? For OECD, **no effect**

Corporate taxation

- Theory predicts? More complex...
 - a short run increase in net exports (counterpart of capital outflow)
 - then a recovery (more capital income from abroad)
 - and ultimately no effect
- What do we find? **Exactly that!**
 - with dependent variable net exports (NX):

	1	2	3
$NX_{i,t-1}$	0.687*** (0.090)	0.693*** (0.089)	0.687*** (0.076)
$CITR_{it}$	0.313* (0.169)		0.274* (0.159)
$CITR_{i,t-1}$	-0.324** (0.137)		-0.327*** (0.125)
$CITR_{i,t-2}$	-0.035 (0.075)		-0.041 (0.072)
$VATR_{it}$	-0.388*** (0.149)	-0.385** (0.154)	-0.383*** (0.146)
$VATR_{i,t-1}$	0.260** (0.123)	0.259** (0.125)	0.247** (0.125)
$VATR_{i,t-2}$	0.121 (0.089)	0.121 (0.089)	0.095 (0.091)
$DEVCITR_{it}$		0.300** (0.154)	
$DEVCITR_{i,t-1}$		-0.298** (0.133)	
$DEVCITR_{i,t-2}$		-0.031 (0.072)	
$GOVSIZE_{it}$			-0.003** (0.001)
Constant	0.000 (0.001)	0.000 (0.001)	0.001 (0.001)
Observations	492	491	465
	p-values of specification tests		
First-order s.c.	0.010	0.010	0.010
Second-order s.c	0.250	0.231	0.508
Sargan	1.000	1.000	1.000

Robust standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

#2: A US movement to territoriality would matter, maybe a lot, for RoW

- A key consideration in many developing countries is to set CIT rate close to US, since FTC is akin to a budgetary transfer to them
 - and a big one: US FTC was around US 42 billion in 2002, compared e.g. to official assistance around USD 17 billion

- More to the point, US FTC may act as a brake on tax competition in RoW
- So would **expect an intensification of tax competition...**
 - ...which can be a particular concern in developing countries given that they continue to rely heavily on CIT revenue, and already signs this is eroding...
 - ...and could in principle even harm US