Effect of tax reforms on economic performance

3. The effective tax rates are calculated for a standard-payroll taxes (see also Engelschalk 2007 and Interna-
1. These costs usually include the cost of preparing
tax incentives can stimulate investment (for an overview of this literature,
5. A related literature examines the effects on invest-
to tax incentives may be more impor-
1. Cross-country Lee and Gordon  10 percentage point decrease in statutory 1.82 percentage points (GDP per
capita growth)
2. United States Carroll and others  Tax Reform Act of 1986: 10 percentage About 15 percent
Reform on Shadow Economies in Transition Countries,” IMF Working Pap-
17 (4): 400–29.
International Tax and Public Finance
Oxford Review of Economic Policy
Public Choice
Journal of Development Economics
American Economic Journal: Macroeconomics
20 (9): 1497–516.
International Tax and Public Finance
26 (3): 539–64.
Public Choice
82 (3): 345–75.

Notes
The authors would like to thank Jacqueline Coolidge, Sebastian S. James, Michael Keen, Jan Loeprick, Marialisa
9. The authors thank Maurice Vertée for his continuous
notes.
7. Using statutory rather than effective tax rates,
Djankov and others (2010). But a country’s
dedicated substantial staff time to the
many countries most formal firms are required to
and vocational training. The reason is that deductions, depreciation, and
5. Effective tax rates are calculated at both the
Aires, October 17–19.
the International Tax Dialogue Conference, Buenos
the empirical work on the impact of tax incentives on investment.
International Tax and Public Finance

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Effect of tax reforms on tax evasion by formal firms

A micro-level study successfully measures tax evasion on the reporting gap between administrative data on tax receipts from Hong Kong SAR, China (Mainland) and administrative data on tax receipts from China from Hong Kong SAR, China (Mainland) and administrative data on tax receipts from China. From these data, it is possible to identify firms that have registered for the first time in the first year after the reform and to examine tax evasion shortly thereafter. The study finds that a 10 percentage point increase in the tax rate is associated with an increase in tax evasion of 1.0 percentage points. This suggests that tax evasion is increasing more rapidly than tax revenues are increasing, which is consistent with the hypothesis that tax evasion is increasing.

Effect of tax reforms on formal firm creation

Several studies suggest that the increases in investment and firm formation created from tax reforms are also reflected in higher business registrations of formal firms. The study finds that a 10 percentage point increase in the tax rate is associated with an increase in formal business registrations of 1.0 percentage points. This suggests that tax reform is creating new taxpaying enterprises.

Improved economic performance

Several studies suggest that the increases in investment and firm formation created from tax reforms are also reflected in improved economic performance. For example, using cross-country data, the study finds that a 10 percentage point increase in the tax rate is associated with an increase in GDP growth of 1.0 percentage points. This suggests that tax reform is creating new taxpaying enterprises.

New Firm Creation and Corporate Tax Rates

New firm creation is one of the most direct measures of the impact of tax reform on economic activity. Several studies have examined the relationship between corporate tax rates and new firm creation, and find that a 10 percentage point decrease in the corporate tax rate is associated with an increase in new firm creation of 1.0 percentage points. This suggests that tax reform is creating new taxpaying enterprises.

Corporate Tax Rates and Firm Survival

Another important measure of the impact of tax reform on economic activity is firm survival. Several studies have examined the relationship between corporate tax rates and firm survival, and find that a 10 percentage point decrease in the corporate tax rate is associated with an increase in firm survival of 1.0 percentage points. This suggests that tax reform is creating new taxpaying enterprises.

Corporate Tax Rates and Innovation

Another important measure of the impact of tax reform on economic activity is innovation. Several studies have examined the relationship between corporate tax rates and innovation, and find that a 10 percentage point decrease in the corporate tax rate is associated with an increase in innovation expenditure of 1.0 percentage points. This suggests that tax reform is creating new taxpaying enterprises.

Corporate Tax Rates and Import Competitiveness

Another important measure of the impact of tax reform on economic activity is import competitiveness. Several studies have examined the relationship between corporate tax rates and import competitiveness, and find that a 10 percentage point decrease in the corporate tax rate is associated with an increase in import competitiveness of 1.0 percentage points. This suggests that tax reform is creating new taxpaying enterprises.

Corporate Tax Rates and Export Competitiveness

Another important measure of the impact of tax reform on economic activity is export competitiveness. Several studies have examined the relationship between corporate tax rates and export competitiveness, and find that a 10 percentage point decrease in the corporate tax rate is associated with an increase in export competitiveness of 1.0 percentage points. This suggests that tax reform is creating new taxpaying enterprises.
MEASURING THE EFFECTS OF TAX REFORMS ON INVESTMENT AND FIRM CREATION

The effects of tax reforms on economic activity are subject to many challenges. First, the task is to identify reforms, and second, to capture the behavior of firms. Third, the difficulty is to measure the effects. Despite this, there is a belief in the literature that reforms have driven business investment. Therefore, the task is to identify reforms, and second, to measure the effects. Despite this, there is a belief in the literature that reforms have driven business investment.

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Effect of tax reforms on tax evasion by formal firms

A micro-level study successfully measures tax evasion by formal firms using the reporting gap between administrative data on tax revenues and informal data on tax payments from firms in China. The study finds that a 10 percentage point increase in the tax rate on exports, offset by the simultaneous plus value added tax cut for each product, results in the reported tax payment gap rising by 1.6–2.1 percent of GDP...
The effective tax rates are calculated for a standard-payroll taxes (see also Engelschalk 2007 and International Tax Dialogue. 2007. “Taxation of Small for-profit businesses, governments, and nongovernmental organizations. Nor do any views represent the views of the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expressed are those of the authors and should not be attributed to the World Bank or any other organization to which the authors belong. The views expres...
Conclusion

Both rural and community studies suggest that improvements in capital formation and investment, reduction in tax evasion for formal firms, particularly in the informal sector, and ultimately raise sales and GDP. These benefits, however, need to be balanced against other objectives of the overall tax regime. Labor is in demand but the effects of compliance costs, largely because of a lack of comparable information, the few completed papers on this topic provide suggestive evidence that simplifying taxes can increase formal creation and firms’ sales. But more work, particularly at the microlevel, is needed to avoid such conclusions.

Notes

1. The research work for this paper was conducted at the Harvard Club of Economics and the Harvard Club of New York. It is an independent analysis by the project team. The findings and conclusions in this document are those of the authors and do not necessarily reflect the views of the World Bank, the International Finance Corporation (IFC), or any other affiliated institution.

2. For an overview, see Debrun (2011).

3. For example, Van Parys and James 2010). But a country’s tax and compliance costs can contribute to the decision of businesses to operate informally—that is, to not pay taxes at all, unless they represent the taxes that firms actually need to pay. The few completed papers on this topic provide suggestive evidence that simplifying taxes can increase formal creation and firms’ sales.

4. We are grateful to Jacqueline Coolidge, Renee Ball, and Thomas H. Chan for their valuable inputs and comments. The author would like to thank Jacqueline Coolidge, Renee Ball, and Thomas H. Chan for their valuable inputs and comments.

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