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Tax Competition and Harmonization in Southeast Asia

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Abstract

Policy makers in the Southeast Asian region are faced with many challenges in national policy taxation from globalization, in particular the increasing cross-border mobility of capital. One of the challenges is the competition to attract a mobile capital base which leads to a trend towards declining statutory corporate taxation rates and a pressure to harmonize taxation policy. This study explores taxation literature and uses empirical evidence from the period of 1996-2006 to examine tax competition and tax harmonization in the region.

The study seeks evidence for the existence of tax competition by analyzing recent trends in two groups of measures of taxation: tax rates and tax revenues. This begins with looking at the trends of statutory corporate tax rate. Evidence is found for a decline in statutory corporate tax rates, developments commensurate with the existence of tax competition. On the contrary, the tax revenue data presented here, show that the expected decline in total tax revenues has not occurred; indeed, a significant increase has been recorded. It is also supported by empirical evidence of the ratio of corporate tax revenue either relative to GDP or to total tax revenue. The strengthening of these revenues has meant that the expected shift in the tax burden away from mobile to immobile factors has also failed to materialize. The two groups of measures of taxation thus provide apparently inconsistent views of the impact of tax competition.

There follows an analysis of the elements of tax competition according to literature, in an attempt to draw out its implications for the experience within the Southeast Asian region. This study also examines the case for tax harmonisation and the Southeast Asian experience and it is concluded that the progress of tax harmonisation between countries has tended to be difficult to achieve because of the differences among the countries in terms of the tax structures and level of economies.

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