

Partial Harmonization of Corporate Taxes among Asymmetric Countries in a Repeated Game Setting*

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Abstract

This paper investigates under which conditions partial harmonization for capital taxation is sustained in a repeated interactions model of tax competition when there are three heterogeneous countries with respect to their capital endowments. We show that regardless of the structure of the coalition (i.e., any group of countries), whether partial tax harmonization is sustainable or not crucially depends on the capital endowment of a median country relative to that of a large or small country. The surprising result emerges that the closer the capital endowment of the median country to the average capital endowment of large and small countries, the harder the tax coordination involving a median country is to prevail, while the easier is the partial tax coordination excluding a median country.

JEL classification: H73; F59; F21

Keywords: Tax coordination; Asymmetric countries; Repeated game; Tax competition

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