

Does Endogenous Timing Matter in Implementing Partial Tax Harmonization? *

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Abstract

The endogenous timing of moves is analyzed in a repeated game setting of capital tax competition, where a subgroup of countries implementing partial tax harmonization and outside countries choose whether to set capital taxes *sequentially* or *simultaneously*. It is shown that the simultaneous-move outcome prevails in every stage game of the repeated tax-competition game as its subgame perfect equilibrium if a tax-union consists of *similar* countries, whereas Stackelberg or the sequential-move outcome can arise in every stage game when a tax-union consists of *dissimilar* countries. This is due to the fact that asymmetry among countries in terms of productivities creates different incentives to manipulate the price of capital; in particular, a greater asymmetry makes the tax-union members of tax union have opposite incentives towards the terms of trade and choose to be a second mover.

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