

Which should decide the corporate tax rate earlier; national government or local government*

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Abstract

When the local government decides the tax rate in the first stage, the vertical double taxation occurs. On the other hand, when the national government decides its in the first stage, the vertical double taxation occurs. Considering this situation, this study examines that which the national government or the local government should decide the corporate tax rate earlier. This paper makes the following conclusion. When the local government decides a corporate tax rate in the first stage and the central government does in the second stage, both inadequate national and local tax rates are decided when the spillover effect is large and the tax export effect is small. When the central government decides a corporate tax rate in the first stage and the local government does in the second stage, the same results as above hold. Finally, comparing the social welfare of former game with that of latter game, when both the spillover effect and the tax export effect are small, the latter social welfare is larger than the former one.

Keywords: Corporate tax, Spillover effect, Tax export effect, Vertical fiscal externalities

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