

The Theory Of International Tax Competition: Comparative Analysis

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Abstract

The country's ability to compete for financial and investment resources in the international arena depends on a number of factors that determine the favorable business environment, the level of protection of citizens' rights, and the material well-being of the population. One of the indicators of the quality of the economic environment in the country is the level of tax competitiveness, as an integrated indicator that summarizes the indicators of the effectiveness of the tax system and the quality of tax policy. The article summarizes the arguments and counterarguments within the scientific discussion on the generalization of the main theories of formation and development of tax competitiveness of the country. The main purpose of the article is a comparative analysis of theories of tax competitiveness, determining the nature of the impact of tax competitiveness on indicators of economic and social development of the country. The methodological tools of the study are analytical and comparative methods, methods of generalization and synthesis. The object of research is the theory of the formation of tax competitiveness of the country. Based on the results of the analysis, a conclusion about the dual nature of the impact of tax competition on the country's development indicators is made. Thus, tax competition reduces the level of taxation in countries, which negatively affects the amount of tax revenues and reduces the country's potential to finance socio-economic development programs, stimulates the growth of labor migration and relocation of tax bases in jurisdictions with more attractive tax conditions. On the other hand, tax competition stimulates economic growth in the leading countries by increasing their investment attractiveness, business activity, stimulating certain sectors of the economy. The results of the study can be useful for public authorities in making decisions on identifying key vectors of public tax policy in the country.

Keywords: tax competitiveness, tax policy, tax rate, jurisdiction, economic security.

JEL Classification: H20, H71, F38.

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Introduction

One of the main tasks of our time, which forms the preconditions for the development of international trade, financial globalization, international capital movements, the formation of a single financial market is the maximum approximation of regulations to the provisions and requirements of the international community. These standards are consistent with the main activities of the European community, which focuses its efforts on create an ever closer union. The result of these actions is the formation of a free trade zone, the introduction of a single currency that has free circulation in the maximum number of countries, harmonized tax, economic, educational standards.

At the same time, despite the significant efforts of the international community to solve the problem of inconsistency of the regulatory framework of business and the existence of significant differences in tax policies of individual countries ensures the formation of sustainable competitive tax advantages of some countries over others. Ultimately, this leads to increased capital and labor inflows, increased investment attractiveness, the opening of branches of international companies in some countries, and limits the government's ability to increase revenues in others. Thus, a more comprehensive study of the concept of tax competitiveness, the analysis of its main theories is forming an important instrument of increasing the financial potential of the countries.

Literature Review

In recent years, research on tax competition has significantly intensified. Michael Keen (2008) in «The New Palgrave Dictionary of Economics» considered tax competition as a process of gaining competitive strategic advantage as a result of a non-cooperative game between individual jurisdictions. This is based on the establishment of tax rates or individual parameters of the tax system.

Wilson and Wildasin (2004) looked at tax competition in a broad and narrow sense. In a broad sense, it is any form of non-cooperative setting of taxes and fees by independent governments. This approach is based on competition between governments of different countries for the location of tax bases in their territory. The choice of government policy affects the distribution of the tax base between individual jurisdictions or regions subordinate to those governments. This approach is based on competition for tax bases (capital, labor, income), companies. In a narrower sense, tax competition can be understood as any form of non-cooperative setting of taxes and fees by independent governments and tax policy that affects the process of distribution of tax revenues between the treasuries of different states. In contrast to the previous definition, this understanding of tax competition presupposes the existence of vertical and horizontal (taxation of the same tax base by public authorities of different levels (central, regional, local)) tax competition.

Methodology and research methods. The methodological basis of the study are analytical, comparative, synthetic methods of analysis.

Results

The above-analyzed theories of tax competition allow us to conclude that there is both positive and negative impact of tax competition on the development of the country. At the same time, the negative effects of tax competitiveness are poorly understood and their magnitude cannot be accurately measured. One of the reasons for this situation is that tax competition can serve as a significant threat to the country's economic security, which requires government intervention and regulation, cooperation between governments of several countries, the implementation of joint measures, and insignificantly affect economic development. Wildasin (1989) was one of the first to study the negative impact of tax competition on the country's development. Based on empirical calculations, the author tried to quantify the inefficiency of tax competition. The author argued that the shortfall in public goods could be remedied by providing higher-level subsidies to each jurisdiction. On the example of the United States of America, the author estimated the amount of these subsidies (almost 40%).

At the same time, according to Parry (2003), the loss of welfare due to tax competition does not exceed 3% of tax revenues or 0.15% -0.45% of GDP.

Sorensen (2001) on the example of EU countries proved the lack of direct impact of tax competition on the volume of public services and the significant dependence of public spending on it.

According to the study, the author stressed the need to harmonize tax policy between countries. Based on the scenario modeling, he analyzed the tools of government cooperation (setting a minimum tax rate of return on capital tax, harmonization of tax legislation) and proved the existence of a slight positive impact of these measures on economic development (0.15-0.35% of GDP).

Patterson & Martínez-Serrano (2003) highlight the dual nature of tax competition. On the one hand, tax competition reduces the level of tax burden on the territory of competing countries, thus acting as a significant

competitive advantage of one country over others. As a rule, business is more actively developing in the countries with a lower level of tax burden, and a favorable tax policy serves as a driver of capital and labor flows to the territory of the country. At the same time, the results of the analysis show that the existence of the phenomenon of tax competition has not led to a reduction in the tax base in either the EU or the OECD. Thus, despite the fact that trends in the tax burden on the country's GDP show a trend towards their steady growth, comparisons of average total tax burden over the past ten years with similar figures 20 years ago show a decrease in tax growth in the world. Based on this analysis, the authors conclude that tax competition has actually reduced the trend of increasing tax burden in countries with high levels and led to the convergence of tax policies within the EU.

On the other hand, tax competition leads to a decrease in tax revenues to the budget, thereby threatening the economic security of the country. Quite often in the process of competition for additional tax bases, countries significantly reduce the level of tax burden to an economically unreasonable level.

One of the first issues of tax competition was studied by Wallace Oates (1972). In his work, the author substantiated the negative impact of tax competition on the indicators of economic development of the country. The author defined the participation of local governments in the competition for attracting mobile capital as a prerequisite for low efficiency of the economy. Later, these hypotheses formed the basis of the first official models of tax competition.

Thus, according to the Zdrov-Meshkovsky model, the source of funding for local government expenditures is the receipt of capital tax. This leads to lower tax rates and, as a result, insufficient funding for public goods and services. Despite a number of advantages, the model developed by the authors has some limitations:

- the model does not take into account the existence of a significant number of identical jurisdictions (cities, regions, etc.);
- the model assumes the existence of a fixed population in each jurisdiction that has the same tastes and more or less equal income;
- the activities of local authorities were aimed only at meeting the needs of residents of these areas;
- material goods produced in one jurisdiction are consumed only by residents of that jurisdiction.

The authors of this model put into scientific circulation the phenomenon of "race to the bottom", which consists in the predominance of taxes on real resources (labor) over taxes on capital. Given the state-imposed maximum level of tax burden on real estate and the need to revise tax rates, the government is reducing public services to levels that are not optimal in other jurisdictions.

The shortcomings of the previous model were eliminated in the model of "asymmetric tax competitiveness". Thus, unlike their predecessors, Bucovetsky (1991) and Wilson (1991) took into account the presence of a significant number of regions that differ in size and population. Thus, the authors hypothesized the existence of asymmetric tax competition as a result of competition for tax bases of large and small regions. This model was based on the assumption that larger jurisdictions have a greater demand for capital than small jurisdictions. This will increase the level of tax burden and, consequently, reduce the return on capital after tax. Thus, the authors emphasized that the cost of capital in large jurisdictions is less dependent on changes in tax rates than in small ones.

Differences in the levels of taxation of individual regions lead to the formation of tax havens in small regions, and, consequently, the movement of capital from large to small regions. If there is a significant difference between regions, small competitive jurisdictions receive tax competitive advantages. Thus, proponents of this theory point out that despite the many negative effects of the elimination of tax competition on the economy, some small jurisdictions still have the opportunity to benefit from tax competition, which is to obtain additional capital and improve public services.

Tax competition affects a significant number of indicators of economic development. Thus, according to Wilson (1987), tax competition has an impact on production and consumption in the country. This assumption formed the basis of the model of trade between jurisdictions, which is a system of three variables: the number of

jurisdictions, capital-intensive goods and labor-intensive goods. Even if trade relations are established between the same jurisdictions, they will still choose different tax schemes, which will lead to different specializations. Thus, regions with a lower level of taxation will specialize in the production of capital-intensive goods, while regions with a higher level of taxation will produce more labor-intensive goods. Thus, residents of regions competing for the development of capital-intensive industries have relatively higher incomes, but receive significantly fewer public services.

Tax competition has an equally significant impact on labor migration. One of the features of the traditional model of tax competition is the assumption of a fixed population living in each tax jurisdiction, and the lack of migration between regions. At the same time, globalization processes in the world have led to a significant increase in the level of migration and significantly complicated the possibility of applying the traditional model in most countries.

This problem has become especially relevant for the European Union countries, for which the freedom of movement of the individual is one of the main components of the value system. This has led to a revision of the traditional system of tax competition and the inclusion of population mobility.

The model developed by Bruckner (2000) was based on the assumption that the community could freely choose to invest money, start a business, and live.

Thus, the government by changing tax rates on basic payments increases the investment attractiveness of its territory. As a rule, in the process of making a decision on migration, first of all, the population takes into account the quality of state services and income levels.

One of the little-studied theories of tax competition is the theory of income distribution, according to which government spending is directed not only to ensure public goods, but also to finance social programs and activities. If previous theories provided only one source of spending holders, the theory developed by Sinn (1994) provided for the presence of a significant amount of financial transfers aimed at the benefit of certain social categories of the population. Later, in the process of empirical calculations, the authors proved the validity of this hypothesis for the member states of the European Union. Proponents of this theory emphasized the need for state intervention in the process of redistribution of state revenues in favor of socially vulnerable groups and ensuring social justice in the country.

The presence of tax competition only deepens the already existing disparities in the social development of the population and exacerbates economic problems. Thus, manipulation in the framework of tax competition with tax rates leads to a decrease in budget revenues due to the inability to finance social programs and activities.

Representatives of another scientific school consider tax competition as a tool for economic growth of the country. Thus, according to the theory of fiscal federalism, the leading countries have significantly higher amounts of tax revenues due to additional revenues from tax payments from residents of other communities. This phenomenon in the economic literature is called "export of taxes". This theory has become the most studied under the influence of financial globalization, which is accompanied by an increase in the share of assets owned by non-residents. Thus, the state receives additional sources of funding for public services and improve the quality of their provision.

Conclusions

The results of the analysis show a significant impact of tax competition on the indicators of economic and social development of the country. Currently, there is no unified understanding of the role of tax competition, its advantages and disadvantages in the economic literature. On the one hand, tax competition reduces the level of tax burden in the country, increases the mobility of financial and labor resources, investment attractiveness of the country, improving the quality of public services. At the same time, the result of competition between individual jurisdictions on the basis of taxation is the maximum concentration of means and resources of production in one area and the reduction of production capacity in another. Based on the analysis of models of tax competition, we can conclude that they do not correspond to modern realities of economic development and, consequently, the inability to fully describe the relationship between countries - tax competitors.

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