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In Search of Optimal Corporate Tax Rate for Turkey: An Econometric Analysis

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ABSTRACT

The importance of corporate taxation is due to the effect on investment, which may affect economic growth and development. Since corporates are the main agents in this type of taxation, after-tax profit is their only incentive to invest. So deciding the tax rate will be crucial. Increasing tax rate may discourage investors, whereas decreasing it may spoil fiscal balance. This trade-off between collecting more revenue by imposing higher tax rate and attracting domestic and foreign investors by lower rates has been long discussed in the literature in the context of the Khaldun-Laffer curve. The objective of this paper is to examine the existence of the curve for corporate taxation for Turkey and to find out the optimal tax rate for corporate income tax. We plan to apply time series analysis from short and long-run perspectives. We will control the effects of economical changes in order to avoid misspecification problem when interpreting the effect of corporate tax rate on potential corporate tax revenue generated. In addition, with the help of these coefficients, we plan to detect the revenue-maximizing rate for corporate tax for Turkey.

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