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Abstract: In the reaction on the global economic crisis individual governments are trying to optimize their economic policy instruments to effectively allocate their resources. Capital can be considered as the most mobile production factor so the question of the corporate taxation still belongs between actual topics. The aim of this paper is to verify Laffer curve validity in the case of the Czech Republic. Within the paper will be evaluated Laffer point where are the tax revenues maximal and point out on the different tax rates application. Tax rates will be approximated by effective corporate tax rates (implicit corporate tax rate, marginal and average effective tax rate). The relationship will be explored on the basis of regression analysis of time series. Results of the empirical part shows that existence of Laffer curve for the Czech Republic is confirmed in the case of the marginal and average effective corporate tax rates. On the other hand estimation wasn't confirmed for the case of statutory tax rates.

Keywords: Laffer curve, Corporate Effective Tax Rate, Implicit Corporate Tax Rate, Average Effective Tax Rate, Marginal Effective Tax Rate, Tax Revenue

JEL classification: H25, C72, B63, E64, B22.

1. Introduction

Growing public debt deficits presents serious problem for many economies. One of the possible solutions is to set up tax system in a way that it could reach the greatest possible budget revenues and consequently do not disturb economic activity.

Corporate tax rate has decreasing trend in the last two decades (Brill and Hassing, 2007). Increase in foreign direct investments, trade and globalisation is evident in the same period. Increasing capital mobility can lead to the increase of revenues resulting from tax competition. In this case revenues of countries with lower corporate taxes can be importantly higher than they were at the beginning of 1990s. Consequently countries with higher tax rates can experience corporate tax revenue decrease resulting from high tax rates. Multinational companies can relatively freely move from one country to another so tax revenues would decrease if corporate tax rates in surrounding countries decreased. The paper is organized as follows. Section 2 summarizes existing literature on corporate income tax Laffer curve. Section 3 introduces taxation trends in the Czech Republic; Section 4 examines the data and methodology. Section 5 summarizes the main results.

The original concept of Laffer curve dates back to 1974. This curve was based on idea of relationship between tax rate and tax revenue. Following economic research modified this idea and attached it to many different forms (more in Chapter 2). Relationship between statutory tax rates and tax revenues is quite insufficient and in the relevant economic literature can be noticed growing interest about relationship between effective tax rates and tax revenues.

The aim of this article is to verify validity of Laffer curve in the case of Czech Republic. The evaluation will use effective corporate tax rates and estimate Laffer point which belongs to this rate. The analysis will be based on implicit corporate tax rate (ITRK) which is available for 1995-2012 period and effective marginal and average tax rates (EMTR, EATR) which are available for 1993-2013 period. The statutory corporate tax rate which is available for 1993-2012 period will be used for the completeness.