

How Do Tax Policy and Government Economic Policy Affect CIT Revenue? An Empirical Analysis

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Abstract

This study examines the impact of tax and non-tax determinants of corporate income tax (CIT) revenue. By conducting an empirical assessment, this paper seeks to highlight the key determinants currently affecting CIT revenue and their significant role in shaping tax policy. For a comprehensive analysis, the research is divided into two parts and examines both tax policy and government economic policy. The principal objective of this research is to determine how tax policy and government economic policy affect CIT revenue in selected countries. Using panel regression models, the analysis includes data from the EU Member States for the period 2000 – 2020. The contribution of this research lies in examining the interaction between tax policy and government economic policy, showing that in addition to tax determinants, non-tax determinants also significantly impact CIT revenue. A particular contribution of the empirical part of the research is the identification of the positive effects of human capital and government governance on CIT revenue. The research proposes a new concept of CIT that aligns with modern business conditions and provides a direction for reforming this tax, aiming to address its divergence and inconsistency globally.

Keywords: corporate income tax revenues, tax determinants, macroeconomic determinants, panel data estimation

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Introduction

Taxes represent the primary source of national revenues (Macek, 2015; Yan et al., 2022), and the level of tax revenues collected affects a country's economic growth (Gechert and Heimberger, 2022; Đurović Todorović et al., 2024). Accordingly, the structure of the tax system represents one of the critical objectives of economic policy for both developed and developing countries.

The corporate income tax (CIT) is the most significant form of taxation within the category of direct taxes (Koester et al., 1989; Slemrod, 1995; Galli et al., 2001; Widmalm, 2001) and significantly mitigates cyclical economic fluctuations (Đurović Todorović et al., 2022), while also serving as an indicator of corporate sector profitability (Nguyen, 2024). However, the trend of declining CIT revenue has been evident for many years (Dobranchi et al., 2023). In addressing the question “Why is CIT revenue declining?” some authors have attempted to provide answers as early as the 1980s (Auerbach and Poterba, 1987). By analyzing the effects of tax rates and other determinants from the earliest periods of CIT implementation within tax systems, the academic literature has initiated discussions on CIT reform and the determinants that can influence its revenue. Previous studies suggest that although the list of determinants potentially explaining the paradoxes of CIT is extensive, the significance of these factors is not sufficiently understood and requires further investigation (Piotrowska and Vanborren, 2008). The principal objective of this study is to analyze and evaluate the effects of tax and government economic policies on CIT revenue. This research is motivated by the growing importance of CIT revenue as a fiscal policy tool, particularly in the context of economic fluctuations and policy adjustments within the European Union (EU). Despite extensive research on tax revenue determinants, there is still a gap in understanding how the interplay between tax and non-tax factors shapes CIT revenue over time. Addressing this gap, our study contributes to the literature by providing a comprehensive empirical assessment of CIT revenue determinants across EU countries over the period 2000 – 2020. Unlike previous studies that often focus on either tax policy or macroeconomic factors in isolation, this paper integrates both aspects to offer a more holistic perspective.

To achieve this objective, the study is structured as follows: it commences with an introduction, followed by a literature review that examines previous studies on the tax and non-tax CIT revenue determinants. The methodology and data section then specify the variables, econometric techniques, and conditions necessary for an optimal panel regression model. Subsequently, an empirical investigation of the CIT revenue determinants in EU countries is performed for the period 2000 – 2020. This study concludes by outlining the primary findings and their implications for tax policy.

1. Literature Review

Numerous studies have examined CIT revenue determinants (Gordon, 1967; Adejare, 2015; Nicodème and Majewski, 2018; Greoning et al., 2019; Cung and Son, 2020; Robinson and De Beer, 2021). The measurement of the impact of various economic determinants of CIT revenue is also the subject of contemporary quantitative research (Shimada, 2023). The research includes an analysis of tax and non-tax determinants. In the domain of tax determinants, both direct and indirect tax determinants of CIT revenue are analyzed. Non-tax determinants of CIT include the degree of economic stability in the analyzed country and the level of economic openness. In the domain of government economic policy, decisions made by policymakers that can affect CIT revenue are analyzed.

1.1. Tax Determinants

CIT revenue primarily depends on tax variables, with the most significant being the statutory CIT rate, which directly influences the amount of CIT revenue. However, the literature presents conflicting views on the effects that the statutory CIT rate can have on CIT revenue. Grubert (1998) found a negative correlation between company income and statutory CIT rates, a view supported by Devereux et al. (2004), with Bartelsman and Beetsma (2003) noting that a 1% increase in the CIT rate reduces revenue by 3%, a claim also echoed by Nicodeme et al. (2018). On the other hand, there are studies indicating a positive impact of statutory CIT rates on CIT revenue (Clausing, Lee and Gordon, 2005; 2007; Tahlova and Banociova, 2019; Helcmanovská and Andrejovská, 2021; Andrejovská and Glova, 2023).

Considering that the effect of the statutory CIT rate is limited by tax incentives, the analysis includes the effective tax rate. The extensive literature on tax incentives has revealed that tax incentive policies are very important for increasing tax revenues (Dackehag and Hansson, 2012; Đurović Todorović et al., 2022). The effective tax rate provides a more accurate measure (Bayer, 2012; Gupta, 2007; Bird et al., 2008; Barrios et al., 2014; Pavel et al., 2024). Many authors have examined this rate as a determinant of CIT revenue (Clausing, 2007; Cozmei, 2015; Andrejovska and Pulikova, 2018; Tahlova and Banociova, 2019; Helcmanovská and Andrejovská, 2021). The analysis also includes the effective marginal tax rate, which some studies link to higher CIT revenue (Cozmei, 2015). According to Pavel et al. (2024), the statutory, effective, and marginal CIT rates represent direct and very important determinants of CIT.

In addition to tax determinants that directly influence CIT revenue, there are also tax determinants that indirectly affect it. Since the personal income tax was the basis for the introduction of CIT in tax systems, there is an interaction between

these two forms of taxation (Karpowicz and Majewska, 2018). Tax revenues also affect CIT revenue. The analysis of the impact of tax revenues is justified by the two-way relationship between tax revenues and CIT revenues. Higher overall tax revenues can contribute to a more stable fiscal environment and economic growth, which in turn increases CIT revenues. However, at the same time, the growth of CIT revenues raises overall tax revenues (Helcmanovská and Andrejovská, 2021).

The positive relationship between CIT revenue and statutory, effective, and marginal tax rates is based on standard tax revenue theory, which suggests that higher tax rates should lead to increased revenue, assuming a stable tax base and limited tax avoidance (Clausing, 2007; Devereux et al., 2023). However, empirical studies show mixed results due to factors such as tax competition, capital mobility, and corporate tax planning (Clausing, 2007; Devereux et al., 2023). Despite these variations, higher tax rates can still boost revenue if compliance remains stable, profit reporting is inelastic, and effective tax rates accurately capture the real tax burden. Additionally, marginal tax rates influence investment decisions, which can affect taxable profits and overall revenue. However, this relationship may not always be linear, as excessively high tax rates could encourage tax avoidance and capital flight, reducing revenue beyond a certain point. To address this, quadratic terms (TR^2 and $EATR^2$) are included as control variables, capturing potential diminishing returns of higher tax rates, as supported by prior studies (Clausing, 2007; Kawano and Slemrod, 2016). Based on the above discussion, we hypothesize that:

Hypothesis 1 (H1): Tax policy has a significant effect on the amount of CIT revenue.

H1.1. *CIT revenue is positively associated with the statutory CIT rate.*

H1.2. *CIT revenue is positively associated with an effective CIT rate.*

H1.3. *CIT revenue is positively associated with the marginal CIT rate.*

1.2. Non-Tax Determinants

We analyzed macroeconomic variables influencing CIT revenue, including public debt, inflation, and unemployment. While some studies suggest that public debt increases CIT revenue (Krogstrup, 2002), others find a negative impact (Andrejovská and Pulikova, 2018). Inflation, as an economic stability indicator, also affects CIT revenue (Kubátová and Říhová, 2009; Andrejovská and Pulikova, 2018). Additionally, unemployment negatively impacts CIT revenue (Kubátová and Říhová, 2009). The macroeconomic factors of trade openness, such as globalization, import, and export, were analyzed. While some studies (Garrett, 1995; Swank, 2001) suggest that globalization lowers CIT revenue, others (Karpowicz and Majewska, 2018) find a positive effect, with import and export being assessed separately to measure their impact.

Finally, to examine government economic policy, we analyzed its indicators. To analyze government economic policy and its effect on CIT revenue, we examined key indicators such as government revenues, expenditures, control of corruption, regulatory quality, and human capital. Government policies and legislative changes directly impact tax collection (Ogbuabor et al., 2024), while economic activity can boost CIT revenue (Remeur, 2015). Studies show a positive link between government expenditures and CIT revenue (Cozmei, 2015) and highlight the role of government revenues in tax collection (Dráb and Mihóková, 2013). Strengthening tax administration and combating corruption are also crucial for increasing CIT revenue (Nashashibi and Bazzoni, 1994; Ogbuabor et al., 2024). Corruption negatively impacts CIT revenue (Fjeldstad and Tungodden, 2013; Cung and Son, 2020), and regulatory quality supports private sector development and a stable economy (Arndt and Oman, 2006; Kraipornsak, 2014). Governance indicators significantly influence fiscal pressure (Ghețu et al., 2023), and human capital is key to economic growth (Mihóková, 2019; Savić et al., 2015). Ghura (1998) found that economic policy and corruption influence tax revenues in African countries, emphasizing human capital's role in economic growth. Human capital, consisting of employees' skills and competencies, is crucial for private sector development and national economic growth (Sullivan, 1998; Bontis, 2004; Holubec and Tomka, 2023). This study is based on the assumption that CIT revenue is significantly influenced by selected non-tax determinants, and thus we formulate the second hypothesis:

Hypothesis 2 (H2): The government's economic policy has a significant effect on the amount of CIT revenue.

H2.1. *CIT revenue is positively associated with government activities.*

H2.2. *CIT revenue is positively associated with the control of corruption.*

H2.3. *CIT revenue is positively associated with regulatory quality.*

H2.4. *CIT revenue is positively associated with human capital.*

2. Materials and Methods

This research analyzes EU countries for the period 2000 – 2020. We selected this sample due to the very low level of harmonization of CIT in these countries (Andrejovská and Glova, 2023). The analyzed sample is limited to a twenty-year period, considering that the period following the COVID-19 crisis is accompanied by numerous tax implications (Gdovcová and Menzl, 2023; Athira and Ramesh, 2023; Nwankwo and Nwakeze, 2024; Shavshukov et al., 2024). COVID-19 disrupted CIT revenue collection, with fiscal measures like tax deferrals and reductions introduced globally to mitigate the crisis (Wawire, 2022).

Table 1

Independent Variables Selection

		Variable	Symbol	Calculation	Data source	Expected direction of impact
Tax determinants	Direct effect	Top statutory corporate income tax rate	TR	%	Eurostat database: Taxation Trends Report (European Commission)	+
		Average Effective Tax Rate	EATR	%	ZEW (Devereux/Griffith Model)	+
		Effective Marginal Tax Rate	EMTR	%	ZEW (Devereux/Griffith Model)	+
		Control Variable Considering Nonlinear Relationship Between Statutory CIT Rate and CIT Revenue	TR ²	%	Calculation by the authors based on the ZEW (Devereux/Griffith Model)	–
		Control Variable Considering Nonlinear Relationship Between Effective CIT Rate and CIT Revenue	EATR ²	%		–
	Indirect effect	Top statutory personal income tax rate	PIT	%	Eurostat database	+
		Total tax	TT	% GDP	Eurostat database	+
Non-tax determinants	Macroeconomic Determinants of Cyclical Variations	Public debt	DEBT	% GDP	Eurostat database	–
		Inflation	INF	%	World Bank national accounts data, and OECD National Accounts data files.	+
		Unemployment	UR	Unemployment rate (%)	World Bank national accounts data, and OECD National Accounts data files.	–
	Macroeconomic Determinants of Trade Openness	Globalization	GLOB	Globalization Index (quantifies a country's economic, social, and political globalization)	KOF Swiss Economic Institute	+
		Import	Import	% GDP	Eurostat database	+
		Export	Export	% GDP	Eurostat database	–
	Government economic policy	Total general government revenue	GR	% GDP	World Bank national accounts data, and OECD National Accounts data files.	+
		General government consumption expenditure	GS	% GDP	World Bank national accounts data, and OECD National Accounts data files.	–
		Control of Corruption (measures the extent of corruption and the effectiveness of anti-corruption policies)	CC	%	World Bank national accounts data, and OECD National Accounts data files.	+
		Regulatory Quality (reflects the ability of the government to create and implement policies that support private sector development)	RQ	%	World Bank national accounts data, and OECD National Accounts data files.	+
		Human capital	HDI	lnHDI	World Bank national accounts data, and OECD National Accounts data files.	+

Source: Own processing

As a result, revenue analysis during this period is unreliable. The dependent variable is expressed as a CIT-to-GDP ratio (Clausing, 2007; Kubátová and Říhová, 2009; Ohno et al., 2015; Nicodeme et al., 2018).

The results of the panel data regression models are based on the analysis of key indicators from the descriptive statistics of the selected variables.

Table 2

Descriptive Statistics for the EU Countries in the Period from 2000 to 2020

Variable	Mean	S.D.	Min.	Max.	Skewness	Kurtosis
CIT	0.0280	0.0121	0.00	0.08	1.2905	5.1119
TR	24.5671	7.7209	10.00	51.61	0.4916	2.3623
TR²	663.0557	388.5532	100.00	2663.75	0.7092	3.4802
EATR	22.1780	6.9407	8.80	40.40	0.2306	2.2795
EATR²	539.9580	323.3873	77.44	1632.16	0.7753	2.8806
EMTR	16.0193	8.7095	−19.50	35.40	−0.1776	4.1442
PIT	40.0211	13.2946	10.00	62.28	−0.6598	2.4283
TT	25.2119	6.4501	15.40	49.70	1.6674	6.0646
DEBT	58.7866	34.9710	3.80	205.60	1.0271	4.3940
INF	2.5004	3.3129	−4.48	45.67	6.4137	70.7855
UR	8.5456	4.3357	1.81	27.47	1.4859	5.4906
GLOB	81.6636	6.1414	61.65	91.31	−0.8387	3.4085
Import	57.8061	29.9775	22.84	187.16	1.7965	6.7813
Export	59.6393	35.6244	18.54	221.19	2.0122	7.8860
GR	42.4789	6.3428	23.40	56.40	0.0895	2.3749
GS	19.8008	2.8310	11.88	27.93	0.3662	3.0245
CC	1.0577	0.7807	−0.44	2.47	0.0657	1.8300
RQ	1.1944	0.4420	−0.04	2.10	−0.1233	2.1997
HDI	0.8649	0.0480	0.72	0.96	−0.4945	2.7978

Source: Own calculations.

The analysis of descriptive statistical indicators reveals the following features:

The analysis of descriptive statistics reveals significant fluctuations across variables, as summarized in Table 2. For instance, statutory tax rate (TR) ranges from 10% (Bulgaria, Cyprus) to 51.61% (Germany, 2000), while effective average tax rate (EATR) shows a maximum of 40.40% (Germany, 2000) and a minimum of 8.80% (Bulgaria, 2007 – 2010). The effective marginal tax rate (EMTR) exhibits a negative minimum (−19.50% in Croatia, 2000) and a maximum of 35.40% (France, 2004), reflecting an unharmonized tax policy across the sample. The personal income tax (PIT) is highest in Denmark and lowest in Bulgaria and Romania, while total tax (TT) peaks in Denmark (2014) and reaches its minimum in Romania (2018). Public debt is highest in Greece (2020) and lowest in Estonia (2007). Inflation (INF) shows extreme values, with a maximum in Romania (2000) and a negative minimum in Ireland (2009). The Human Development Index (HDI) reaches its highest value in Ireland (2019) and its lowest in Bulgaria (2002). Similarly, Globalization (GLOB) peaks in the Netherlands (2015) and is lowest in Latvia (2000). Trade-related variables (Import and Export) are highest in Luxembourg (2015) and lowest in Italy and Greece (2003), respectively.

3. Assessment of the Impact of Tax Policy on CIT Revenue

In all models, CIT is used as the dependent variable, while the independent variables in this first part of the research relate to tax determinants, including the statutory corporate income tax rate (TR), the effective corporate income tax rate ($EATR$), the marginal corporate income tax rate ($EMTR$), a control variable for the statutory corporate income tax rate (TR^2), a control variable for the effective corporate income tax rate ($EATR^2$), the personal income tax rate (PIT), and total tax revenues (TT). These tax determinants represent variables that directly and indirectly affect CIT revenue. To ensure a more precise estimation of the impact of tax determinants, certain non-tax determinants are also included in the model, such as public debt ($DEBT$), inflation (INF), unemployment (UR), and globalization ($GLOB$). These determinants represent macroeconomic determinants that are considered to have a significant impact on CIT revenue.

In the first model, the independent variables are TR , TR^2 , PIT , TT , $DEBT$, INF , UR , and $GLOB$.

Model 1

$$CIT_{it} = \alpha_i + \beta_{it}TR + \beta_{it}TR^2 + \beta_{it}PIT + \beta_{it}TT + \beta_{it}DEBT + \beta_{it}INF + \beta_{it}UR + \beta_{it}GLOB + \varepsilon_{it} \quad (1)$$

where CIT_{it} is the corporate income tax revenue in relation to GDP; TR is the statutory corporate income tax rate; TR^2 -control variable for statutory corporate income tax rate; PIT is the personal income tax rate; TT is the total tax revenues percentage share in the GDP; $DEBT$ is the public debt percentage share in the GDP; INF is the inflation rate; UR is the unemployment rate; $GLOB$ is the globalization index.

In the second model, the independent variables are the ETR , $EATR^2$, PIT , TT , $DEBT$, INF , UR , and $GLOB$. After calculating the estimators, the results of the Hausman test indicated that it is more appropriate to apply the random effects model, which was later confirmed by the Breusch-Pagan LM test and the acceptance of the alternative hypothesis regarding the adequacy of this model.

Model 2

$$CIT_{it} = \alpha_i + \beta_{it}EATR + \beta_{it}EATR^2 + \beta_{it}PIT + \beta_{it}TT + \beta_{it}DEBT + \beta_{it}INF + \beta_{it}UR + \beta_{it}GLOB + ui + \varepsilon_{it} \quad (2)$$

where $EATR$ is the effective average tax rate; $EATR^2$ is the control variable for the effective average tax rate.

In the third model, the independent variables are the EMTR, PIT, TT, DEBT, INF, UR, and GLOB. After calculating the estimators, the F-test results in both models indicated that it is more appropriate to apply the fixed effects model. This was further confirmed by the results of the Hausman test. According to the results, the models take the following forms.

Model 3

$$CIT_{it} = \alpha_i + \beta_{it}EMTR + \beta_{it}PIT + \beta_{it}TT + \beta_{it}DEBT + \beta_{it}I + \beta_{it}UR + \beta_{it}GLOB + \varepsilon_{it} \quad (3)$$

where *EMTR* is the marginal effective tax rate.

The results of the estimated regression models are presented in Table 3.

Table 3

Estimation Results from Panel Regression (tax policy determinants)

Dependent variable: CIT as a percentage of GDP			
Variable	Model 1	Model 2	Model 3
	FE	RE	FE
Constant	−0.113060*** (0.0121)	−0.083989*** (0.0124)	−0.067603*** (0.0103)
TR	0.001336*** (0.0003)		
TR ²	−0.000131* (0.0000)		
EATR		0.001173** (0.0004)	
EATR ²		−0.000010 (0.0000)	
EMTR			0.000226*** (0.0001)
PIT	0.000288*** (0.0001)	0.000225*** (0.0001)	0.000389*** (0.0001)
TT	0.001301*** (0.0002)	0.000942*** (0.0002)	0.001355*** (0.0002)
DEBT	−0.000138*** (0.0000)	−0.000130*** (0.0000)	−0.000143*** (0.0000)
INF	0.000193** (0.0000)	0.000231** (0.0001)	0.000181* (0.0001)
UR	−0.000334** (0.0001)	−0.000351** (0.0001)	−0.000358** (0.0001)
GLOB	0.001026*** (0.0001)	0.000852*** (0.0001)	0.000663*** (0.0001)
No. of observations	468	468	468
R ²	0.8322	0.4103	0.8137
Adjusted R ²	0.8194		0.8000
θ		0.8021	
p		0.8837	
F (Pooled, FE); Wald (RE)	38.29 (0.0000)	245.39 (0.0000)	33.34 (0.0000)

Note: Robust standard errors in (). Statistical significance levels are denoted as follows: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. Hausman test: Model 1 $\chi^2 = 514.22$ ($p = 0.0000$), Model 2 $\chi^2 = 12.37$ ($p = 0.1353$), Model 3 $\chi^2 = 53.00$ ($p = 0.0000$).

Source: Own calculations.

In Model 1, all variables are statistically significant determinants of corporate income tax (CIT) revenue. The statutory tax rate (TR), personal income tax (PIT), total tax revenue (TT), inflation (INF) and globalization (GLOB) positively affect CIT revenue, while the quadratic term of TR, public debt (DEBT) and unemployment (UR) have negative effects. A 1% increase in TR, PIT and TT increases CIT revenue by 0.001%, 0.0002% and 0.001%, respectively, whereas a 1% rise in DEBT and UR reduces it by 0.0001% and 0.0003%. The model explains 83.22% of the variation in CIT revenue and is statistically significant (F-test).

In Model 2, all variables except EATR² are statistically significant. The effective average tax rate (EATR), PIT, TT, INF and GLOB positively influence CIT revenue, while DEBT and UR exhibit negative effects. A 1% increase in EATR, PIT and TT raises CIT revenue by 0.001%, 0.0002% and 0.0009%, whereas DEBT and UR reduce it by 0.0001% and 0.0003%. The model explains 41.03% of the variation in CIT revenue, with the Wald test confirming overall significance. The random-effects model (REM) is appropriate ($\theta = 0.8021$; $p = 0.8837$), indicating that individual effects account for 88.37% of the total error variance.

In Model 3, all estimated coefficients are statistically significant. The effective marginal tax rate (EMTR), PIT, TT and INF positively affect CIT revenue, while DEBT and UR have negative effects. A 1% increase in EMTR, PIT and TT raises CIT revenue by 0.0002%, 0.0003% and 0.001%, respectively, while DEBT and UR reduce it by 0.0001% and 0.0003%. Unlike the previous two models, globalization shows a negative effect, decreasing CIT revenue by 0.006%. The model explains 81.37% of the variation in revenue and is statistically significant (F-test).

4. Assessment of the Impact of Government Economic Policy on CIT Revenue

Since there are indications that government economic policy determinants may influence CIT revenue, four models were created. In all models, the dependent variable is CIT, while the independent variables relate to government economic policy. These include government revenues (GR), government expenditures (GS), control of corruption (CC), regulatory quality (RQ), and human capital (HDI). In addition to these variables representing government economic policy, other non-tax determinants are included. Therefore, the models also analyze the following macroeconomic determinants, which serve as control variables globalization (GLOB), import (Import), and export (Export). Since tax policy directly affects the dependent variable, it is necessary to include some tax determinants to estimate regression parameters more precisely. Within the tax determinants, the statutory

corporate income tax rate (TR), personal income tax rate (PIT), and total tax revenues (TT) are included. Control variables reflecting cyclical movements in the country are also considered: public debt (DEBT) and inflation (INF).

The first model analyzes the impact of GR and GS, while the control variables included are TR and INF.

Model 1

$$CIT_{it} = \alpha_i + \beta_{it}TR + \beta_{it}INF + \beta_{it}GR + \beta_{it}GS + ui + \varepsilon_{it} \quad (4)$$

where CIT_{it} is the corporate income tax revenue as a share of GDP; TR is the statutory corporate income tax rate; INF is the inflation rate; GR is the total general government revenue percentage share in the GDP; GS is the general government consumption expenditure percentage share in the GDP.

The second model analyzes the impact of control of corruption as an indicator of institutional performance in the analyzed countries. Therefore, the control variables included are the statutory corporate income tax rate, inflation, government revenues, and government consumption expenditure.

Model 2

$$CIT_{it} = \alpha_i + \beta_{it}TR + \beta_{it}INF + \beta_{it}GR + \beta_{it}GS + \beta_{it}CC + ui + \varepsilon_{it} \quad (5)$$

where CC is the control of corruption.

The third model analyzes the impact of RQ in the analyzed countries. In this model, the control variables included are TR, TT, INF, GLOB, Import and Export.

Model 3

$$CIT_{it} = \alpha_i + \beta_{it}TR + \beta_{it}TT + \beta_{it}INF + \beta_{it}GLOB + \beta_{it}Import + \beta_{it}Export + \beta_{it}RQ + \varepsilon_{it} \quad (6)$$

where RQ is the regulatory quality.

The fourth model analyzes human capital. In addition to HDI, the independent variables analyzed in this model include TR, PIT, DEBT, Import, Export, GR, and GS.

Model 4

$$CIT_{it} = \alpha_i + \beta_{it}TR + \beta_{it}PIT + \beta_{it}DEBT + \beta_{it}Import + \beta_{it}Export + \beta_{it}GR + \beta_{it}GS + \beta_{it}HDI + \varepsilon_{it} \quad (7)$$

where HDI is the human capital.

Table 4
Estimation Results from Panel Regression
 (government economic policy determinants)

Dependent variable: CIT as a percentage of GDP				
Variable	Model 1	Model 2	Model 3	Model 4
	RE	RE	FE	FE
Constant	0.023126*** (0.0071)	0.023701*** (0.0071)	−0.096626*** (0.0114)	−0.089079*** (0.0176)
TR	0.000296*** (0.0001)	0.000248** (0.0001)	0.000694*** (0.0001)	0.000421*** (0.0001)
PIT				0.000345*** (0.0001)
TT			0.001496*** (0.0002)	
DEBT				−0.000193*** (0.0000)
INF	0.000351*** (0.0001)	0.000422*** (0.0001)	0.000379*** (0.0001)	
GLOB			0.000797*** (0.0001)	
Import			0.000242*** (0.0001)	0.000019* (0.0001)
Export			−0.000296*** (0.0001)	−0.000235** (0.0001)
GR	0.000369** (0.0002)	0.000359* (0.0014)		0.000796*** (0.0001)
GS	−0.000961*** (0.0002)	−0.001050*** (0.0002)		−0.001139*** (0.0003)
CC		0.002745* (0.0014)		
RQ			0.006475*** (0.0020)	
HDI				0.111242*** (0.0181)
No. of observations	527	493	457	540
R ²	0.1069	0.1114	0.8041	0.7906
Adjusted R ²			0.7888	0.7765
Θ	0.733122	0.712772		
P	0.8663	0.8559		
F (Pooled, FE); Wald (RE)	60.88 (0.0000)	62.12 (0.0000)	27.59 (0.0000)	24.68 (0.0000)

Note: Robust standard errors in (). Statistical significance levels are denoted as follows: *** p < 0.01, ** p < 0.05, * p < 0.10. Hausman test: Model 1 $\chi^2 = 3.55.22$ (p = 0.4710), Model 2 $\chi^2 = 6.05$ (p = 0.3018), Model 3 $\chi^2 = 47.46$ (p = 0.0000), Model 4 $\chi^2 = 48.24$ (p = 0.0000).

Source: Own calculations.

In Model 1, all explanatory variables are statistically significant. The statutory tax rate (TR), inflation (INF) and government revenue (GR) positively affect CIT revenue, while government spending (GS) has a negative impact. A 1% increase in TR, INF and GR raises CIT revenue by 0.0002%, 0.0003% and 0.0003%, respectively, whereas a 1% rise in GS reduces it by 0.0009%. The model explains 10.69% of the variation in CIT revenue and is statistically significant (Wald test).

The random-effects model (REM) is adequate ($\theta = 0.7331$; $p = 0.8663$), with individual effects explaining 86.63% of the total error variance.

Model 2 also confirms the statistical significance of all variables. TR, inflation (INF), government revenue (GR) and control of corruption (CC) positively influence CIT revenue, while GS remains negatively signed. A 1% increase in TR, I and GR raises CIT revenue by 0.0002%, 0.0004% and 0.0003%, respectively; GS reduces it by 0.0010%, while CC increases revenue by 0.0027%. The model explains 11.14% of the variation in CIT revenue, is statistically significant (Wald test), and the REM is justified ($\theta = 0.7128$; $p = 0.8559$), with 85.59% of the variation attributed to individual effects.

In Model 3, all variables are statistically significant. Statutory tax rate (TR), total tax revenue (TT), inflation (INF), globalization (GLOB), imports (Import) and regulatory quality (RQ) positively affect CIT revenue, while exports (Export) exert a negative influence. A 1% increase in TR, TT, INF, GLOB, Import and RQ raises CIT revenue by 0.0006%, 0.0014%, 0.0003%, 0.0007%, 0.0024% and 0.0064%, respectively, whereas exports reduce it by 0.0002%. This specification explains 80.41% of the variation in CIT revenue and is statistically significant (F-test).

Model 4 shows that all variables are statistically significant. TR, PIT, GR, imports and human development (HDI) positively affect CIT revenue, while public debt (DEBT), exports and GS have a negative impact. A 1% increase in TR, PIT and GR increases CIT revenue by 0.0004%, 0.0003% and 0.0007%, respectively. Import raises revenue by 0.0001%, while HDI has the strongest effect (0.11%). DEBT, exports and GS reduce CIT revenue by 0.0001%, 0.0002% and 0.0011%, respectively. The model explains 79.06% of the variation in CIT revenue and is statistically significant (F-test).

5. Robustness Check with Dynamic Panel Data Analysis

To account for the potential persistence of corporate income tax revenues and to control for endogeneity concerns (Arellano and Bond, 1991), we augment our analysis with dynamic panel data models using the two-step System Generalized Method of Moments (GMM). This approach includes the lagged dependent variable as a regressor and is particularly suited for situations with persistent series and potential reverse causality. Furthermore, to ensure robustness and to mitigate possible endogeneity biases that cannot be fully captured by fixed effects estimators, the dynamic specification using the System GMM framework provides a consistent and efficient approach relative to traditional static models. The estimation follows the general specification:

$$CIT_{it} = \alpha + \rho CIT_{it-1} + \beta' X_{it} + \mu_i + \varepsilon_{it}$$

where CIT_{it-1} represents the lagged dependent variable capturing persistence in tax revenue, X_{it} denotes the vector of fiscal, macroeconomic, and institutional determinants, μ_i captures unobserved country-specific effects, and ε_{it} is the idiosyncratic error term. The System GMM estimator employs lagged levels dated $t-2$ and earlier as instruments for the differenced equation, and lagged differences as instruments for the level equation.

Table 5 presents the results of dynamic specifications that directly correspond to all static models presented in Tables 3 and 4. The diagnostic statistics confirm the validity of our GMM estimations.

The Arellano-Bond tests for AR(2) in first differences show no evidence of second-order serial correlation ($p > 0.1$), while the Hansen J tests of over-identifying restrictions indicate valid instrument sets ($p > 0.1$). The dynamic estimation provides compelling evidence for the persistence of CIT revenues across all specifications, with coefficients on the lagged dependent variable ranging from 0.385 to 0.446 and being highly statistically significant. This confirms that approximately 39 – 45% of the CIT-to-GDP ratio from the previous year carries over to the current period, underscoring the strong path dependency in corporate tax revenues. Most importantly, the dynamic models fully corroborate the core findings from our static analyses. All key tax policy determinants maintain their expected signs and statistical significance. The statutory rate (TR), effective tax rates (EATR, EMTR), personal income tax (PIT), and total tax revenues (TT) continue to show positive and significant relationships with CIT revenue. The macroeconomic control variables similarly preserve their influence, with public debt (DEBT) and unemployment (UR) exerting negative pressure, while globalization shows consistent positive effects. The government economic policy variables demonstrate remarkable robustness in the dynamic framework. Government revenues (GR), control of corruption (CC), regulatory quality (RQ), and human capital (HDI) all retain their positive and statistically significant impact on CIT revenues. The strong performance of human capital across specifications is particularly noteworthy, emphasizing that investments in education and health substantially enhance the corporate tax base. The consistent negative coefficient on government consumption expenditure (GS) further reinforces the conclusion that the composition of public spending critically affects corporate tax performance. Based on the above, the dynamic panel data analysis confirms that our initial findings are not artefacts of model misspecification but represent robust economic relationships that persist even when accounting for revenue dynamics and potential endogeneity. The remarkable consistency between static and dynamic estimations across

all model specifications strengthens the validity of our conclusions and enhances the reliability of our policy implications.

Table 5

Dynamic Panel Data Estimation – GMM

Dependent variable: CIT as a percentage of GDP							
Variable	Tax policy			Government economic policy			
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3	Model 4
Lagged CIT	0.438022*** (0.0713)	0.425163*** (0.0682)	0.441289*** (0.0665)	0.392145*** (0.0751)	0.385072*** (0.0724)	0.446381*** (0.0693)	0.431256*** (0.0687)
TR	0.001182* (0.001)			0.000281* (0.0001)	0.000242* (0.0001)	0.000642*** (0.0002)	0.000388** (0.0020)
TR2	-0.000011* (0.0006)						
EATR		0.00094** (0.0004)					
EATR2		-0.000008 (0.0000)					
EMTR			0.000187** (0.0000)				
PIT	0.000251*** (0.0000)	0.000228*** (0.0000)	0.000312*** (0.0000)				0.000302*** (0.0000)
TT	0.001142*** (0.0004)	0.000885*** (0.0003)	0.001228*** (0.0003)			0.001423*** (0.0004)	
DEBT	-0.000116*** (0.0000)	-0.000108*** (0.0000)	-0.000122*** (0.0000)				-0.000178*** (0.0000)
INF	0.000168* (0.0000)	0.000201** (0.0000)	0.000157 (0.0000)		0.000395*** (0.0001)	0.000352*** (0.0001)	
UR	-0.000292** (0.0001)	-0.000311** (0.0001)	-0.000322** (0.0001)				
GLOB	0.000859*** (0.0003)	0.000798*** (0.0003)	0.000628*** (0.0003)			0.000763*** (0.0003)	
GR				0.000348** (0.0001)	0.000338** (0.0001)		0.000741*** (0.0002)
GS				-0.000894*** (0.0003)	-0.000978*** (0.0003)		-0.001088*** (0.0003)
CC					0.00287* (0.0015)		
RQ						0.006288*** (0.0018)	
HDI							0.10427*** (0.0231)
Import						0.000228** (0.0000)	0.0000174* (0.0000)
Export						-0.000281*** (0.0001)	-0.000221** (0.0000)
Constant	-0.108624*** (0.0289)	-0.080372*** (0.0273)	-0.064893*** (0.0291)	0.021845** (0.0108)	0.024812** (0.0110)	-0.092847*** (0.0265)	-0.086342*** (0.0259)
No. of observations	455	455	455	493	460	424	507
Arellano-Bond AR(2) Test	0.231	0.245	0.218	0.267	0.259	0.224	0.238
Hansen J Test	0.348	0.361	0.339	0.375	0.382	0.351	0.365

Note: p-values in parentheses; * p < 0.10, ** p < 0.05, *** p < 0.01.

Source: Own calculations.

Discussion and Policy Implication

We examined the tax and non-tax determinants of CIT revenue in EU countries, where harmonization of CIT tax elements has not been achieved. The results showed that tax policy determinants have a significant impact on CIT revenue, thus hypothesis H1 can be accepted. It has been established that the statutory rate, effective tax rate, and marginal tax rate have a positive impact on the amount of CIT revenue, and thus H1.1, H1.2, and H1.3 can be accepted. As suggested by the Laffer Curve theory (Shiller, 2017), excessively high tax rates may lead to diminishing returns by discouraging investment and economic activity, which could ultimately reduce CIT revenue. Our findings on the statutory CIT rate align with studies by Clausing (2007), Cozmei (2015), Karpowicz and Majewska (2018), Bayer (2011), Tahlova and Banociova (2019), and Helcmanovská and Andrejovská (2021), but differ from Lee and Gordon (2005), Grubert (1998), Bartelsman and Beetsma (2003), and Nicodeme et al. (2018). The effective CIT rate results are consistent with Clausing (2007), Cozmei (2015), Andrejovska and Pulikova (2018), Tahlova and Binianociova (2019), and Helcmanovská and Andrejovská (2021), while marginal rate results are in line with Cozmei (2015). The positive relationship between the income tax rate and CIT revenue is supported by Karpowicz and Majewska (2018). While the impact of tax revenues on CIT revenue is underexplored, Helcmanovská and Andrejovská (2021) found a positive correlation. Public debt has a negative impact on CIT revenue, as confirmed by Andrejovska and Pulikova (2018). This aligns with the view that public debt worsens economic stability and hinders revenue collection, despite some studies (Krogstrup, 2002) suggesting otherwise. Inflation positively influences CIT revenue, supporting findings by Kubátová and Říhová (2009), Andrejovska and Pulikova (2018), and others. Unemployment negatively affects CIT revenue, consistent with studies by Clausing (2007), Kubátová and Říhová (2009), and others. High unemployment reduces demand, lowers business profits, and discourages investments, all contributing to decreased CIT revenues. Globalization offers numerous opportunities for legal entities through radical changes in business models, as confirmed by the research of Karpowicz and Majewska (2018), Tahlova and Banociova (2019), Dreher (2005), and Pejović (2023). Increasing import positively affects CIT revenue. The reduction of import and labor productivity leads to a decline in economic activity. Export has a negative impact on CIT revenue, likely due to reduced domestic production and lower taxable profits as goods are redirected to foreign markets, which is in line with the research by Morrissey et al. (2016). The positive impact of government revenue on CIT revenue aligns with the research of Cozmei (2015) and Dráb and Mihóková (2013).

However, government activities related to inefficient spending negatively impact CIT revenue, meaning that hypothesis H2.1 is not confirmed, which contrasts with the findings of Cozmei (2015). Our results, consistent with the research of Thomas (2010), confirm that good governance, control of corruption, and regulatory quality positively impact CIT revenue. Additionally, human capital has a positive effect on tax revenue, in line with the findings of Ghura (1998). Based on this, hypotheses H2.2, H2.3, and H2.4 are accepted, as the research shows that effective economic policy, control of corruption, regulatory quality, and investments in human capital positively affect CIT revenue. Future reforms should focus on these factors to improve the efficiency of the tax system.

Conclusion

This study confirms the significant influence of tax policy and government economic policy on CIT revenue. The empirical findings highlight the importance of institutional quality, regulatory efficiency, and economic stability in shaping an effective corporate tax system. While tax determinants such as CIT rates, income tax rates, and total tax revenues play a crucial role, non-tax factors such as public debt, inflation, unemployment, globalization, and government efficiency also contribute to the overall tax revenue structure.

However, this research has certain limitations. Despite a comprehensive approach, some CIT determinants remain difficult to quantify due to variations in tax structures across countries. The geographical focus of this study is limited to EU member states, making it necessary to extend future research to OECD countries or other economic regions to provide broader comparative insights. Furthermore, this study does not include fiscal changes following the COVID-19 pandemic, which significantly influenced global tax policies. Exploring the impact of pandemic-related tax reforms could provide further understanding of CIT revenue fluctuations in recent years.

Given these limitations, future research should explore CIT determinants in a wider range of countries and include more recent tax policy adjustments. Comparative analyses between developed and emerging economies could offer deeper insights into how different economic conditions shape CIT revenue. Additionally, incorporating firm-level data could help identify how specific industries respond to tax policy changes. Examining the role of sector-specific tax incentives and the digitalization of tax administration could offer valuable policy recommendations. Policymakers should consider integrating these insights into long-term tax planning strategies to improve CIT performance and ensure fiscal sustainability.

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