

Passing It On: The Incidence of the Corporate Income Tax under Imperfect Competition

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ABSTRACT:

We model and estimate the extent to which the corporate income tax affects worker's wages under imperfect competition. We construct our dataset on individual and industry characteristics using the Current Population Survey and Commerce Department data for the years 1982, 1992 and 1997. Identification comes from variation in the effective marginal tax rates across industry and time. Our empirical results suggest that labor shares the burden of corporate taxes. Consistent with our theoretical prediction, the shifting of the tax to labor intensifies with the degree of market concentration. Accounting for the effect of imperfect competition measured by the concentration ratio, a ten percent increase in the marginal effective corporate tax rate decreases weekly wages by 0.042 percent. We further provide some direct evidence that labor shares a significant portion of the corporate income tax burden.

JEL Classifications: H22, H25, H31

Keywords: Effective marginal tax rates, Tax incidence, Wage determination, Corporate income tax