ABSTRACT

Tax avoidance practices undertaken by multinational companies to minimize tax burden, such as transfer pricing and utilization of tax havens, have the potential to erode the corporate income tax base in ASEAN countries. This is made even worse by the race to the bottom phenomenon where countries compete to lower tax rates to attract investment, which in turn can create distortions and hamper long-term economic growth. This study aims to investigate how changes in CIT rates impact the corporate income tax base in 4 ASEAN countries—Indonesia, Malaysia, Singapore, and Thailand—between 2003 and 2022.

The study uses a two-stage least squares (2SLS) regression with instrumental variables to address potential endogeneity issues. The corporate tax base is the dependent variable, while the independent variables include the CIT rate, lagged corporate tax base, other countries' CIT rates, top personal income tax rates, export prices, labor costs, and economic growth. To address endogeneity, the study instruments CIT with its lagged values and lagged unemployment rates.

The results reveal a significant positive relationship between the corporate tax base and both the lagged tax base and the other countries CIT rates, as well as economic growth. These findings highlight the competitive dynamics of tax policies within ASEAN, suggesting that countries adjust their tax rates in response to neighboring economies. However, variables such as CIT, top personal income tax rates, export prices, and labor costs did not show a statistically significant impact on the corporate tax base. The study provides valuable insights for policymakers regarding the competitive pressures that influence taxpayer behavior in the region.

Keywords: Corporate Income Tax Rate, Tax Base, ASEAN, Instrumental Variables, Tax Policy