Tax Competition in European Diesel Excises

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Abstract
This paper estimates Nash-type fiscal reaction functions for European governments competing for revenue from diesel excises. It appears that European governments strategically set their excise levels by responding to their neighbors’ tax rates. This provides evidence for the presence of tax competition in diesel excises. In particular, a 10% higher rate in neighboring countries (in terms of the user price) induces a country to raise its own rate by between 2 and 3%.

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Key words: Diesel excise; Strategic tax setting; European Union.

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