## Is local Tax policy really local?

by

## Anna Rauch

## Caroline Goerl

27.05.2013

## Abstract:

We investigate the impact of the standard tax rate in municipal fiscal equalization systems on local tax policy. Theoretical considerations suggest that standard tax rates exert an upward pressure on actual business tax rates, thereby mitigating local tax competition. We empirically test our theoretical predictions using a panel of municipalities in North Rhine-Westphalia spanning eleven years. The empirical results confirm our hypothesis.