Measuring the corporate marginal tax rate

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Abstract

This paper examines the statistical properties of alternative measures of the corporate marginal tax rates to assess their incremental benefit relative to simpler measures easily extracted from financial statements. While empirical research has generally adopted the use of simulated rates when a control for marginal tax rates are needed, the results of the analysis suggest they yield few, if any, quantifiable improvements over simple controls. In both cross-sectional and panel data settings, binary variables provide statistically equivalent results that are also easier to interpret. Additional analyses show the use of binary variables to control for firms' tax incentives have several advantages over other available tax rate measures including dramatically larger sample sizes, the ability to capture greater cross-sectional variation in tax incentives, and coefficient estimates that represent readily observable and discrete tax states.

JEL classifications: G3, H25, M4, C200

Keywords: corporate tax rate, marginal tax rate, taxes, measurement error

Data: All data were obtained from public sources.

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