



Corporate taxes and firms' performance: A meta-frontier approach

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Abstract

Corporate taxes play an important role in the firm's decision-making as they are part of the cost of capital. Thus, understanding the effect of taxes on the performance of firms in the context of frequent tax reforms, as is the case of Colombia, is of great relevance. We use meta-frontier stochastic techniques, which allow us to estimate in two-steps the technical efficiency of firms within each economic sector and between economic sectors in relation to the set of firms in the country. Then, using quantile regression analysis, we estimate both the effect of corporate taxation on firm performance as well as the effect of efficiency on firms' tax payments. Results indicate that firms in some economic sectors could be benefiting from better production conditions and that the most efficient firms within each sector paid more taxes, as a share of assets. However, when compared to the meta-frontier, firms with higher efficiency paid less taxes, suggesting differences in the tax burden of firms across economic sectors.