

Differentiated Taxation in Imperfectly Competitive Markets: Evidence from the Irish Automobile Market

Anna Rita Bennato^a, Franco Mariuzzo^{ab} and Paul Walsh^c

^a*ESRC Centre for Competition Policy, University of East Anglia*

^b*School of Economics, University of East Anglia*

^c*SPIRe and Geary Institute, University College Dublin*

Departamento de Teoría e Historia Económica

Universidad de Málaga

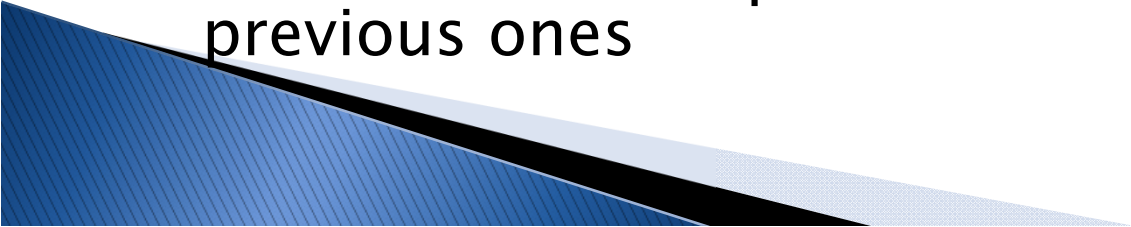
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*“In this world nothing can be said to be certain,
except death and taxes”.*

Benjamin Franklin



Summary

1. We have studied the incidence of taxation and possible tax over shifting, in a third best world where *ad-valorem* taxation and imperfect competition interact in a differentiated good industry.
 2. We have written down propositions that link the incidence of *ad-valorem* taxation to products quality and marginal costs.
 3. We have estimated demand and cost primitives consistent with a structural model of equilibrium in the presence of product and tax differentiation.
 4. We have computed the incidence of taxation and possible tax over shifting and related those to estimated quality and marginal cost.
 5. As counterfactual we have imposed homogeneous taxation and compared the new results with the previous ones
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Conclusions

1. Incidence of taxation is higher for low marginal cost and high quality products. Consistent with the idea that the incidence of *ad-valorem* taxation is been driven by imperfect competition.
 2. Over shifting mimics the pattern of the incidence of taxation for marginal costs, but goes in the opposite direction for the quality variable.
 3. A sufficiently large gap in tax differentiation can be crucial for the dominance of the incidence of taxation.
 4. The analysis undertaken is not only relevant for IO.
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