

The new evidence of the impact of taxes on economic performance: Using balanced panel data and cross-sectional analyses

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Abstract

The previous studies that relate taxes and economic development especially economic growth were found tax and its compositions will burden the economic performance in a country. The previous published researches do not show more light on the higher taxes will confirm better economic performance and standard of living. This study investigates further the real impact of taxes that can prove either taxes will burden or expand several economic indicators in the different group of countries. We employed both cross-sectional and panel data analyses that consists low income, lower middle income, upper middle income, high income and OECD countries for 10 recent years (2000-2009). The general findings suggest that there is the inconsistent impact of taxes for both analyses, which the cross-sectional data, taxes was proved will burden and have significantly negatively correlated with economic growth for all group of countries. Surprisingly, for panel data analysis, we found an opposite result that shows highest marginal tax rates and tax to GDP ratio in both high income and OECD countries have positively correlated with the development of economic. This study proved that lower taxes especially in low income and middle income countries will not confirm for the greater economic development in a country as found by most of the previous studies of taxes.