

Tax Competition in European Diesel Excises

Ruud A. de Mooij*
Erasmus University Rotterdam
Tinbergen Institute, CPB and CESifo

Herman R.J. Vollebergh
Erasmus University Rotterdam

Michiel Evers
Erasmus University Rotterdam

Abstract

This paper estimates Nash-type fiscal reaction functions for European governments competing for revenue from diesel excises. It appears that European governments strategically set their excise levels by responding to their neighbors' tax rates. This provides evidence for the presence of tax competition in diesel excises. In particular, a 10% higher rate in neighboring countries (in terms of the user price) induces a country to raise its own rate by between 2 and 3%.

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Key words: Diesel excise; Strategic tax setting; European Union.

* - Corresponding author: Erasmus University Rotterdam, P.O. Box 1738, 3000 DR Rotterdam, The Netherlands. Tel. +31 10 4081485. Fax. +31 10 4089166. E-mail: demooij@few.eur.nl.