

Accepted Manuscript

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PII: S0313-5926(18)30174-7
DOI: <https://doi.org/10.1016/j.eap.2018.05.003>
Reference: EAP 227

To appear in: *Economic Analysis and Policy*



Please cite this article as: Leigh A., Reply: Do firms that pay less company tax create more jobs?. *Economic Analysis and Policy* (2018), <https://doi.org/10.1016/j.eap.2018.05.003>

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Reply: Do firms that pay less company tax create more jobs?

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Abstract

Using data for around 1000 profitable Australian firms, Leigh (2018) explores the relationship between effective tax rates and job creation. On average, employment growth is slower at firms which pay less tax, a result that is robust across multiple specifications. Davidson (2018) speculates that this result might not hold up under certain conditions, and proposes including adding different combinations of control variables, changing the functional form, and controlling for firm profitability. Following his suggestions, I carry out eight new robustness checks, all of which produce results consistent with the original paper. This analysis reinforces the key finding of the original paper: firms that pay less tax do not create more jobs.

Keywords: corporate income tax; employment

JEL Codes: H25, D22

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