

Title:	Taxation and Bank Efficiency: Cross-Country Evidence
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Abstract:	This paper investigates the relationship between the effective tax rate on bank income and bank profit efficiency. Our sample consists of 3,472 observations from 533 publicly quoted commercial banks operating in 46 countries between 2001 and 2009. We estimate a global frontier while controlling for various country-specific characteristics such as regulations, macroeconomic conditions, market concentration, financial and overall development. The results indicate that higher tax rate results in higher pre-tax profit efficiency. However, the relationship is non-linear indicating that there is a point after which a further increase in taxation reduces bank profit efficiency. We also find that concentration in the banking sector enhances the effect of taxation on profit efficiency. Overall, the results provide some support to the tax-shifting hypothesis; however, there is no robust evidence that the impact of taxation on profit efficiency is influenced by the extent of private monitoring.