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WORKING PAPER

**The effects of local fiscal policy on firm profitability in the Flemish hospitality
industry**

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Abstract

Since decades, scholars and policy makers have been interested in how fiscal policy influences entrepreneurship. Until now, research has focused on fiscal policy at the federal or regional level and used macro-economic outcome measures. Considerably less attention was given to how municipal governments can influence economic outcomes at the micro level. The present study examines the effect of municipal taxes, spending and tax compliance costs on firm profitability within the Flemish hospitality industry. This is a unique research setting, since Flemish municipalities have far-ranging fiscal autonomy which has resulted in a proliferation of local taxes, many of which are specific to the hospitality industry. The findings reveal that local taxes have a negative impact on firm profitability, while aggregate public spending has a positive influence. While both influences are economically significant, the tax effect exceeds the public spending impact. Finally, we find no impact of compliance costs from local taxes.