

Euroframe 2014

What future for taxation in the EU?

Sarah Guillou

OFCE – Sciences-Po Paris

Corporate Taxation session: discussion

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Corporate Taxation : a tool for growth?

Corporate Taxes are ... **Taxes**

Meaning, they are a way to get money back to finance public spendings which benefit all firms: infrastructure, educational system, institutions (legal, sanitary, regulations, judicial)...Often Corporate taxes have a redistributive objective.

Research questions: Welfare issues, loopholes problems, MNEs taxation.

Corporate Taxes are ... **Incentives**

The papers presented in this session are interested in corporate taxation as a tool to affect firm's behavior. Behind these concerns of research, there is a larger question to design the best taxation system for growth. The policy objective is to increase the base/decrease the rate to collect more tax revenue.

Research questions: Efficiency of the tax system regarding diverse performance objectives.

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How taxation affects firm's behavior?

- 1 Profit and investment
- 2 Employment against investment
- 3 Outsourcing, location and tax competition

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Hendrik Vrijburg (2014), Do SMEs respond to the corporate Tax System?

Long, empirical paper theoretically founded, Huge dataset on Dutch firms, diverse empirical strategies.

- Why shouldn't they? Refine your question.
- Investment and financing decision (debt vs equity)
- Are Investment and financing decisions separable for SMEs? 2.1 and 2.2 should be merged.
- A weak space to labor and no consideration of labor taxes in the model.
- Investment is also influenced by labor cost and tax rate level is not exogenous to labor cost (through social contributions).
- Address the expectation issue in the diff-in-diff exercise on the 2007-2008 reform.
- Identification of financially constrained firms based on dividends is too simple.
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- Broad objective: don't know what's the crucial question is?
- Description of the Italian fiscal system does not end up with conclusions that would justify the empirical exercise following.
- In general, add links between different parts.
- ICT investment are crucial for growth. Are Immaterial investment included in your gross fixed capital formation?
- R&D tax credit in Italy? If yes, is it included in the computation of the user cost of capital?
- The relative user cost of capital includes tax reforms, doesn't it?
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- Clear-cut question : Do Tax Treaties boost investment?
- Uneasy empirical question: would a world without treaty have less investment stocks? No unanticipated shock.
- Tax Treaties are strongly correlated with geographical proximity (no time varying) and with increasing economic interdependencies (time varying), do we capture something else ?
- The non time varying of the instrument makes the FE quasi unuseful, FE on a time invariant variable?
- What is the interpretation of dummies in a fixed effect model?
- A treaty means more legal certainty that companies seek for. Would it be possible to measure legal stability and its impact on investment to discriminate this effect from the revenue effect (less taxes)?
- The answer of the paper is yes: treaties do boost investment. Is it a signal of eviction of domestic investment, a within-Europe distribution ?
- But isn't the positive answer mostly explain by the non European countries (as one of the pair) because no much variance in the European countries group?

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- Tax Treaties are strongly correlated with geographical proximity (no time varying) and with increasing economic interdependencies (time varying), do we capture something else ?
- The non time varying of the instrument makes the FE quasi unuseful, FE on a time invariant variable?
- What is the interpretation of dummies in a fixed effect model?
- A treaty means more legal certainty that companies seek for. Would it be possible to measure legal stability and its impact on investment to discriminate this effect from the revenue effect (less taxes)?
- The answer of the paper is yes: treaties do boost investment. Is it a signal of eviction of domestic investment, a within-Europe distribution ?
- But isn't the positive answer mostly explain by the non European countries (as one of the pair) because no much variance in the European countries group?


Frank Streif: Tax competition from a European perspective.

The topical question and the result of corporate taxation being an incentive tool.

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- Regarding this figure: no evidence (at least counterintuitive) that Europe could be in competition with other regions corporate tax level !
- Is corporate tax level in competition with other taxes? Does the decline in corporate tax level a compensation of rising labor cost, rising hurdles to do business?
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Figure 1: Development of EATRs

