# Data for Research in European Business Taxation

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Comprehensive and thoughtful literature review.

The authors identify 3 open questions in the literature:

1. **Is there heterogeneity in firms' responses to taxation? Which firm characteristics drive the heterogeneity in responses?**
2. Which type of tax rate should be used in the analysis of business taxation?
3. What are the effects of taxes on the financial sector?

$\longrightarrow$ I will focus on the first question.

# Dimensions of heterogeneity

- firm size (small vs. large firms)
- scope (domestic vs. multinational firms)
- tax status (tax-exhausted/nontaxable vs. taxable firms)
- risk of business (fluctuating vs. stable businesses)
- input factors (capital vs. labour intensive businesses)
- ...

# Why is heterogeneity interesting from a policy point of view? (1)

- Knowledge about heterogeneity in responses to tax incentives might be needed to level the playing field.
  - Gumpert et al. (2011): Manufacturing firms more strongly react to tax incentives for setting up a tax haven affiliate than service firms do (as they differ in fixed costs for setting up a tax haven affiliate)
  - Dwenger/Steiner (forthcoming): Large firms are more likely to incur debts for tax reasons than small firms do (as large firms have better access to capital markets)

# Why is heterogeneity interesting from a policy point of view? (2)

- Tax incentives (e.g. for investment) might be less effective than response by the average firm would suggest.
  - Edgerton (2010): Non-taxable firms respond about 55% as strongly to bonus depreciation tax allowances as do taxable firms
  - Cummines et al. (1995): Relationship between user cost of capital and investment only established for firms without tax loss carry-forward

# But knowing about heterogeneity is not enough...

Consider the finding that bonus depreciation tax incentives work better for taxable firms. Is heterogeneity in response driven by

- financing constraints?
  $\longrightarrow$ provisions on bonus depreciation allowances should be accompanied by a measure to alleviate financing constraints (e.g. by an extension of the loss carryback period)
- fixed costs of adjustment?
  $\longrightarrow$ bonus depreciation allowances would only work at certain moments of the business cycle