

On the measurement of investment types: Heterogeneity in corporate tax elasticities

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Abstract:

This paper highlights the importance of different investment motives and to what extent they affect the responsiveness to corporate taxation. In particular, we discuss how to classify investment as non-related, horizontal, vertical and complex types using a combination of both firm-specific (ownership) information and sector-specific information from input-output tables. Hereby, we point out to what extent the resulting classification depends on assumptions made by the researcher. Following this, we examine the effects of host-country corporate taxation on the volume of investment within related firms (i.e., the intensive margin). We are able to quantitatively replicate the average result in the empirical literature with an overall tax semi-elasticity of approximately -1.5. Disentangling the investment types we find that non-related investments react stronger to corporate taxation compared the mean whereas horizontal investments are less responsive, though, significant negative tax semi-elasticities turn out for the sub-set of manufacturing industries where horizontal investments are much more prevalent. As the strict categorical classification still yields ambiguous results particularly for complex investments we employ an extension of the methodology and make the point that, by and large, stronger business motives reduce the tax responsiveness of investments.