



ELSEVIER

Journal of Public Economics 87 (2002) 129–155

JOURNAL OF
PUBLIC
ECONOMICS

www.elsevier.com/locate/econbase

The impact of corporate and personal income taxes on the location of firms and on employment: some panel evidence for the Swiss cantons

Lars P. Feld, Gebhard Kirchgässner*

SIAW, Institutsgebäude, University of St. Gallen, Dufourstr. 48, CH-9000 St. Gallen, Switzerland

Received 13 August 2000; received in revised form 14 June 2001; accepted 19 June 2001

Abstract

The impact of corporate income taxes on location decisions of firms is widely debated in the tax competition literature. Tax rate differences across jurisdictions may lead to distortions of firms' investment decisions. Empirical evidence on tax-induced relocation and subsequent economic development in the US and Europe is still inconclusive. Much the same applies to Switzerland. While there is some evidence on personal income tax competition between Swiss cantons, evidence on the impact of intercantonal corporate income tax differences on the location of business within Switzerland is missing. In this paper, we present econometric evidence on the influence of corporate and personal income taxes on the regional distribution of firms in 1981 and 1991 and on cantonal employment using a panel data set of the 26 Swiss cantons from 1985 to 1997. The results show that corporate and personal income taxes deter firms to locate in a canton and subsequently reduce cantonal employment.

© 2003 Elsevier Science B.V. All rights reserved.

Keywords: Corporate income taxes; Personal income taxes; Tax competition; Business location.

JEL classification: H71; H73; H25.

1. Introduction

The interest of politicians, economists and the general public in international

*Corresponding author.

E-mail address: gebhard.kirchgaessner@unisg.ch (G. Kirchgässner).

and interregional tax competition is lasting for decades now. This holds for example for the European Union (EU) where proposals about a minimum harmonisation of corporate and capital income taxes are presented again and again. It also holds for the group of OECD countries that pushes in the direction of a basic harmonisation and information exchange about corporate and capital income (OECD, 1998). Although Switzerland, often blamed of being one of the tax havens in OECD countries, still refuses to adjust to international tax harmonisation pressures, some discussion about corporate and personal income tax harmonisation in Switzerland at the level of the states (cantons) takes place, that has resulted in a tax harmonisation law for the Swiss cantons in 1993. This law forces the Swiss cantons to comply with a set of minimum standards of personal and corporate income taxation in order to prevent harmful tax competition among them. Indeed, tax competition for business location should be considerable in Switzerland given the large variation in corporate income tax burden between the cantons.

Theoretically, corporate income tax competition will lead to allocative distortions which can be circumvented by proper economic policy. According to Sinn (1997), tax competition results in a suboptimal provision of public services if the latter are public goods in the Samuelsonian sense and if governments do ‘what they ought to do’ (p. 254). Gordon (1983, 1986, 1992) and Razin and Sadka (1991) show how tax harmonisation or at least co-operation between governments may lead to Pareto-improvements as compared to the competition case. The precondition for allocative distortions to arise is that private investment is actually influenced by fiscal incentives.

The evidence on the impact of taxes on location and investment decisions of firms and subsequent economic development is however inconclusive. On the one hand, some authors, like Devereux and Griffith (1998) or Altshuler and Grubert (1999), find a strong impact of corporate income taxes on investment and financing decisions of multinationals. Bartik (1985), Papke (1991) and Hines (1996) present evidence on the negative relationship between taxes and firms’ location decisions in U.S. states. Mark et al. (2000) report a significant negative impact of business taxes on annual employment growth in the metropolitan area of Washington, DC. On the other hand, Carlton (1983) and Tannenwald (1996), among others, find contradicting evidence.¹

These studies mainly use data on the regional location decisions of US firms or on investment decisions of US multinationals. Given that the US studies do not tell an unambiguous story about the impact of taxes on private investment and firm location, evidence from European countries may be welcome to lend support for or against this relationship. However, there is only limited evidence on corporate income tax competition in the European context. Despite its strong variation in the

¹Hines (1997) provides a survey of the studies of international tax competition while Newman and Sullivan (1988), Wasylenko (1991), Mark et al. (1997) and Feld (2000b) summarise the empirical results of interregional fiscal competition for business.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات