



Personal Taxes, Labour Regulation, and the Location Decision of Multinationals

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Contribution of the paper

MNC and taxation: large body of literature showing taxes do matter in FDI and headquarter location

Question here: What is the effect of PIT and labour market regulation on different types of FDI (Greenfield vs. M&A)

Negative impact of CIT rate and top statutory PIT rate on probability that German MNC will conduct Greenfield investment abroad (effect less pronounced for M&A). Labour regulation affects M&A stronger

Analysis uses a binary response model which analyses how the probability that an investment is undertaken is influenced by different variables.

Which tax regime?

*Role of expat tax regimes (like in ES, DK, NL, LU and BE)?
See e.g. Kleven, Landais, Saez (2010, NBER): “Beckham Law”. Preferential tax scheme for foreign residents in Spain introduced in 2005.*

Since headquarter is always DE: potential role of tax treaties and other legal issues (“Auslandstätigkeitserlass”)

Depending on the regime in place, effects could be more (less) pronounced

Which tax regime?

Tax rates are only one aspect: role of social contributions and the overall tax wedge

Case for using average tax rates? See Egger and Radulescu (2011, Scand. J. of Economics)

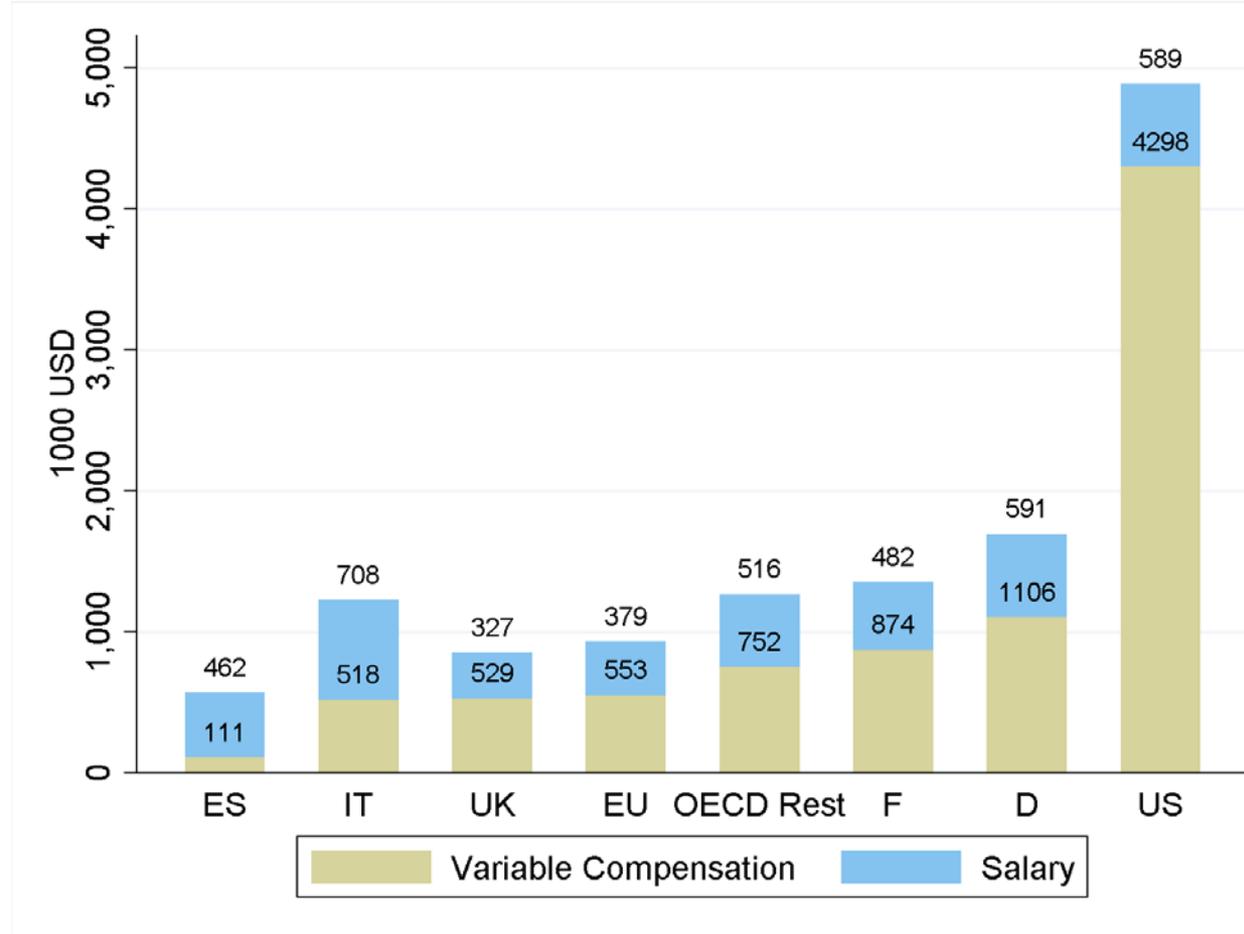
VAT rate might matter if consumption takes place abroad, too.

Tax data maybe too aggregated to give clear results?

Which tax base?

Figure shows mean salary vs. mean variable compensation (Bonus, LTIP, Options) of Industrial sector.

Could tax treatment of variable compensation differ?



Source: Egger and Radulescu (2012, CESifo Economic Studies)



Results

Plausible that PIT has a larger effect than CIT?
 Strong change of coefficient when real wage index enter (not significant)?

Table 3 Estimation Results for the Location Equation (Elasticities)

	Full Sample		Greenfield Sample		M&A Sample	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>OECD_protect_index</i>	-0.141 ^a (0.062)	-0.159 ^b (0.033)	0.047 (0.113)	0.006 (0.137)	-0.240 ^a (0.075)	-0.215 ^b (0.083)
<i>Personal tax rate</i>	-0.275 ^b (0.132)	-0.819 ^a (0.194)	-0.543 ^b (0.226)	-1.143 ^a (0.336)	-0.134 (0.164)	-0.688 ^a (0.238)
<i>Corporate tax rate</i>	-0.714 ^a (0.120)	-0.705 ^a (0.131)	-1.259 ^a (0.216)	-1.254 ^a (0.239)	-0.484 ^a (0.145)	-0.502 ^a (0.158)
<i>No. affiliates</i>	0.306 ^a (0.028)	0.308 ^a (0.029)	0.177 ^a (0.041)	0.162 ^a (0.043)	0.404 ^a (0.041)	0.415 ^a (0.042)
<i>Total assets</i>	0.015 ^a (0.005)	0.010 (0.006)	0.064 ^a (0.009)	0.064 ^a (0.009)	-0.014 ^c (0.007)	0.023 ^c (0.008)
<i>GDP capita</i>	1.092 ^a (0.085)	0.889 ^a (0.121)	1.799 ^a (0.152)	1.331 ^a (0.211)	0.716 ^a (0.103)	0.671 ^a (0.149)
<i>Population</i>	0.571 ^a (0.029)	0.560 ^a (0.033)	0.644 ^a (0.055)	0.646 ^a (0.064)	0.537 ^a (0.033)	0.521 ^a (0.039)
<i>Distance</i>	-0.385 ^a (0.019)	-0.478 ^a (0.027)	-0.190 ^a (0.031)	-0.258 ^a (0.047)	-0.486 ^a (0.024)	-0.586 ^a (0.034)
<i>Corruption</i>	0.129 (0.100)	0.138 (0.119)	-0.933 ^a (0.157)	-0.723 ^a (0.204)	0.342 (0.132)	0.186 (0.151)
<i>Market capitalization</i>	0.155 ^a (0.041)	0.028 (0.049)	0.216 ^a (0.071)	0.047 (0.088)	0.105 ^b (0.051)	0.017 (0.061)
<i>Real wage index</i>		-0.109 (0.146)		0.164 (0.248)		0.281 (0.181)
<i>R&D/GDP</i>		0.388 ^a (0.063)		0.536 ^a (0.108)		0.298 ^a (0.078)
Observations	108,220	88,241	41,760	34,227	66,460	54,014
Log likelihood	-15693.4	-13801.6	-5507.2	-4776.5	-10078.0	-8916.8

Might labour costs for staff matter more?

Real wage rate: Nominal wages index corrected for changes in purchasing power measured by the consumer price index.

Unit labour costs maybe more relevant? Average cost of labour per unit of output and are calculated as the ratio of total labour costs to real output.

Availability of skilled labour force?

Reference: Barrios et al. (2011, CEPR), International taxation and Multinational Firm Location

Other questions

Greenfield investment: period of four years and less sufficient?

Are high-skilled most relevant for foreign affiliates or rather for headquarter location? Put differently: the cost of local staff might be more relevant.

Summary

Interesting research question which adds to the debate about the nature of different FDI types

Analysis should be refined by improving the data basis, the estimation approach and

Ideally, micro-data on expat manager remuneration and taxation. Since this is not available closer look at specific tax regimes might be necessary