

Comments on "Taxes and the Co-Location of Intangibles and Tangibles", by Simon Loretz

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Taxation and the Location of Assets of Multinational Firms

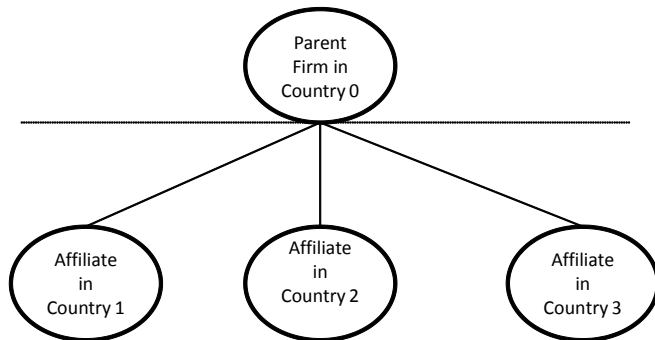
- Previous studies suggest that the location of intangible assets within the multinational group is sensitive to taxation
- The main idea of the current paper is to add the location of tangible assets to the picture
- The main findings are:
 - The tax elasticity for intangible assets is higher than that for tangible assets
 - Intangible and tangible assets are potentially positively associated

Two questions:

- 1 Why is this important?
 - A joint analysis of both types of assets provides new estimates for the effects of taxation
 - Provide microeconomic evidence for macroeconomic policies
- 2 How should we do this?

Employ econometric technique that identifies tax effects and also the causal relationship between both types of assets

Illustration



- The econometric approach assumes:
- There are three (country level) variables that explain intangible assets but do not explain tangible assets: 1) R&D expenditure, 2) number of patents, and 3) trademarks
- There are two variables that explain tangible assets but do not explain intangible assets: 1) Tax depreciation buildings, and 2) tax depreciation machinery
- These assumptions require motivation. For example, the variable "tax depreciation machinery" does not show particular significant power in explaining $\log(\text{tangible assets})$; see table on slide 19

- I suggest using a modified dependent variable linked to the parent firm
- The paper may benefit from considering in the regression analysis the role of royalty withholding taxes and also tax rates of other available countries within the multinational group
- Are there potential differences across industries regarding the co-location of tangibles and intangibles ?
- The estimated significant positive effect of the corruption index on intangible assets is puzzling; property rights concerns, etc

Taxes and the Co-Location of Intangibles and Tangibles", by Simon Loretz

- The paper is a an important contribution to the literature. It uses rich data and careful econometrics.