

# Corporate Taxation in Normal Times and in Turmoil: What Do We (Not) Know

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## Introduction

- Huge literature on corporate taxation.
- Not to be reviewed in 45 minutes: Highlight some key insights and open questions.
- Corporate taxation in 'times of turmoil':
  - Recessions
  - Low-growth environments
  - Structural change
  - Growing economic, social and political divide
- Organizing framework
  - Efficiency: How does corporate taxation change firm behavior?
  - Equity: Who is burdened by corporate taxation?
  - Administration of corporate tax systems
  - Optimal corporate tax design
  - International corporate taxation

## CORPORATE TAX POLICY IN TIMES OF TURMOIL: RECESSIONS

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## Corporate Tax Policy During Recessions

**State Dependence:** Does the impact of corporate tax policy on firm investment and employment differ during normal times and during recessions?

Potential theoretical **mechanisms at work:**

- During recession **liquidity constraints**  $\uparrow \Rightarrow$  Cash flow effects of tax  $\uparrow \Rightarrow$  Tax Response  $\uparrow$   
(e.g. Zwick and Mahon 2017; Orihara and Suzuki 2023)
- During recessions **macro and micro uncertainty**  $\uparrow$  (Baker and Bloom, 2013; Bloom, 2014)  
 $\Rightarrow$  Under adjustment costs/irreversibility, more "wait and see" and tax response  $\downarrow$
- During recessions **prevalence of tax losses**  $\uparrow \Rightarrow$  Tax response  $\downarrow$
- ...

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# Empirical Evidence

Empirical evidence is scarce and inconclusive.

- **Macro literature:**
  - Hardly any work on CIT effects during crisis and normal times
  - Auerbach and Gorodnichenko (2012, 2013): Government-purchase multipliers larger in recessions  $\Rightarrow$  contested in later work (e.g. Ramey and Zubairy 2018)
  - If tax effects are modeled, commonly focus on labor taxes or broad perspective
  - Exception: Ljungqvist and Smolyansky (2018)

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## Empirical Evidence

- **Micro literature:**
  - Guceri and Albinowski (2021)
    - Testing ground: Poland
    - Compare effect of investment tax incentives under certainty and uncertainty
    - Key finding: Strong positive investment responses of firms under certainty; firms exposed to uncertainty with no statistically significant tax response
  - Link et al. (2024)
    - Testing ground: Germany (local business tax)
    - Period 1980-2018
    - Key finding: Investment responses to tax about twice as large during recessions
    - But identification only from tax hikes
  - More well-developed literature on other discrete stabilizing policies during crisis (cash support, short-time work; loans;...)

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## Open Questions

- **Is there state dependence of CIT effects?**
  - Literature is scarce, see above.
- **What is the impact of different types of corporate tax-related stimuli during crisis?**
  - Broad possible policy space.
    - Statutory CIT cuts
    - Accelerated depreciation and investment allowances/credits
    - Loss carrybacks
    - Payment deferrals
  - **Particularly common: payment deferrals and loss carrybacks** (38% of OECD countries introduced or enhanced loss-carryback provisions during Covid in 2020, see OECD 2021); partly also **accelerated depreciation and investment incentives**

**Effects on firm performance and survival largely unknown.**

## CORPORATE TAX POLICY IN TIMES OF TURMOIL: LOW GROWTH

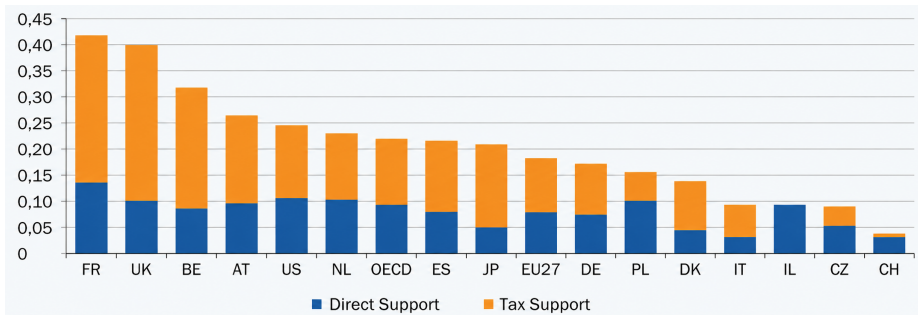
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## Low-Growth Environments

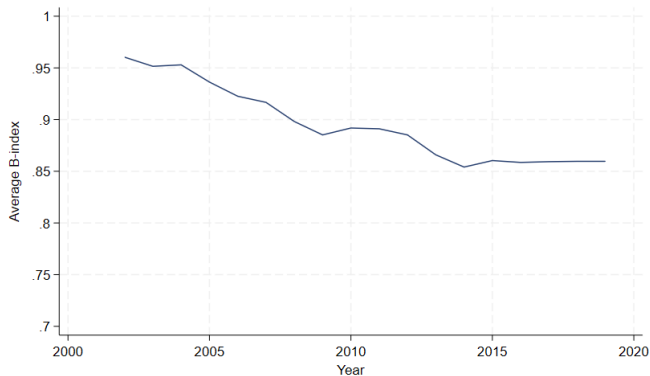
- Many countries in Europe struggle with low-growth environments
- Political and public discussions on corporate tax policy revisions to foster growth
  - Corporate tax cuts change optimal firm investment and capital accumulation
    - ⇒ Expansion of steady state capital stock and income
    - ⇒ But no increase in long-term growth
  - **Positive effects on long-term growth** if CIT design impacts **technological progress**
    - R&D and innovation
    - Entrepreneurship
    - Technology adoption
    - High-skilled immigration
    - Reduction of misallocation
    - ...

## Research & Development, Innovation and Corporate Tax

R&D support as % of GDP



## Research & Development, Innovation and Corporate Tax



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## Corporate Taxes and R&D: Empirical Evidence

- Empirical evidence supports effectiveness of R&D tax incentives
  - Positive effect of input-based tax incentives on R&D spending: elasticity of R&D spending with respect to its user cost -1 to -4

(Bloom et al. 2002; Rao 2016; Güçeri and Liu 2019, Dechezlepetre et al. 2023; and literature reviews in this paper)
  - But: relabeling of existing activities or real effects? Approaches:
    - Güçeri and Liu (2019) and Chen et al. (2021) study effect on non-R&D expenditures as indirect strategy (Güçeri and Liu (2019): no impact; Chen et al. (2021): 24% of relabeling)
    - Güçeri (2018) - BERD survey (no relabeling incentive) - user cost elasticity: -1
    - Effect on R&D outputs (quality-adj. patents), e.g. Dechezlepetre et al. (2023)

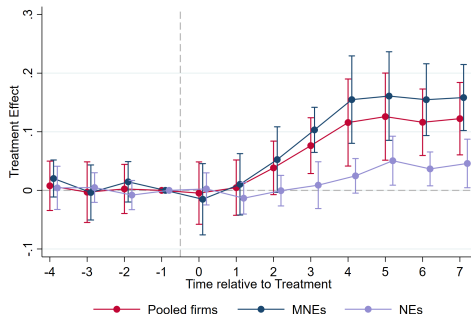
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## Corporate Taxes and R&D: Empirical Evidence

- Some evidence that small and credit-constrained firms respond more strongly to R&D tax incentives (see e.g. Rao and Simcoe 2026)
- **Open questions:**
  - Effects of input-based vs. output-based incentives (with nexus, BEPS Action 5)? (differences in timing; differences in tax benefit by firm profitability) Exception: Boie-Wegener (2026)
  - Take-up frictions w.r.t. incentive programs
  - Existing evidence largely captures *private* returns to R&D policy  
But do policies help overcome market failure w.r.t. knowledge externalities?  
(Dechezlepetre et al. 2023; Raabe et al. 2026)
  - Cross-border effect & international policy coordination:
    - Competition for mobile R&D (within MNEs), see e.g. Knoll et al. (2021), Boie-Wegener (2026)
    - Positive cross-border knowledge spillovers, see Raabe et al. (2026)

## R&D Tax Incentives and Knowledge Externalities - Raabe, Riedel and Voget (2026)

- Research question: Are R&D tax incentives associated with positive knowledge spillovers?
- Data: accounting data (BvD) linked to administrative patent data for firms in Europe
- Knowledge externalities: measured by 5-year-forward citations



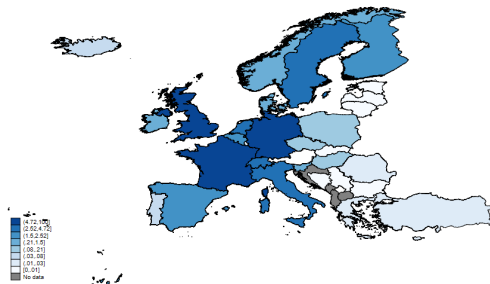
## R&D Tax Incentives and Knowledge Externalities - Raabe, Riedel and Voget (2026)

- Research question: To what extent do knowledge spillovers accrue domestically and abroad?

| Panel A: All Firms |                        |                        |                        |                        |                        |                        |
|--------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                    | (1)                    | (2)                    | (3)                    | (4)                    | (5)                    | (6)                    |
|                    | Total Cit.             |                        |                        | Foreign Cit.           |                        | Domestic Cit.          |
| B-index, Lag       | -2.7099***<br>(0.2180) | -2.6421***<br>(0.2409) | -2.7747***<br>(0.2467) | -2.7664***<br>(0.2546) | -2.6615***<br>(0.2681) | -3.6285***<br>(0.2560) |
| Observations       | 293,750                | 270,892                | 270,606                | 225,621                | 216,699                | 189,883                |

## R&D Tax Incentives and Knowledge Externalities - Raabe, Riedel and Voget (2026)

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(a) France

# CORPORATE TAX POLICY IN TIMES OF TURMOIL: STRUCTURAL CHANGE

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## Structural Change

- Times of rapid structural change.
- Requires ...
  - ... entry of new firms
  - ... experimentation
  - ... R&D and co-investments to make use of new technology
  - ... reallocation of production factors
  - ... scaling
- How can CIT be of relevance?
  - Tax treatment of R&D and innovation
    - ⇒ Adoption of new technology may require R&D and co-investment

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## Structural Change

- Tax treatment of young firms  $\Rightarrow$  Often disadvantaged  $\Rightarrow$  Misallocation
  - ... limited collateral and access to external finance  
Young firms disadvantaged as equity costs are not tax-deductible (in most countries)
  - ... more likely to make losses  
Incomplete loss offset; failure to preserve losses when ownership changes  
 $\Rightarrow$  Young firms disadvantaged  
 $\Rightarrow$  Bias against risky investment  
Firms only directly benefit from tax incentives if refundable
  - ... often credit constrained  
 $\Rightarrow$  Investment predicted to be more sensitive to corporate tax
  - ... over-proportionally burdened by tax administration  
(e.g. in the presence of fixed costs)
- CIT provisions that hamper scaling may cause inefficiencies

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## Structural Change

- **Limited literature on CIT effects on real activity of young firms.**

Exceptions, focus on small firms: Harju et al. (2022), Cui et al. (2025), Duan & Moon (2026)

⇒ Relevant tax response; patterns not fully aligned; no comparison to large firms

Albertini et al. (2024): CIT elasticity of employment large among young firms

- **Corporate taxes and loss offset: not systematically studied w.r.t. young firms**

Ljungqvist et al, 2017; Langenmayr and Lester 2018: firms which can use losses:

CIT  $\uparrow$  ⇒ Risk  $\uparrow$  (Domar-Musgrave); firms which cannot use losses: no effect

Bührle et al. (forthcoming): tighter loss-trafficking rules reduce VC investment

Bethmann et al. 2018: lossoffsets foster survival of unproductive firms

- **Bunching at SME thresholds:** IMF 2017; Almunia & Lopez-Rodriguez 2018; Liu et al. 2021

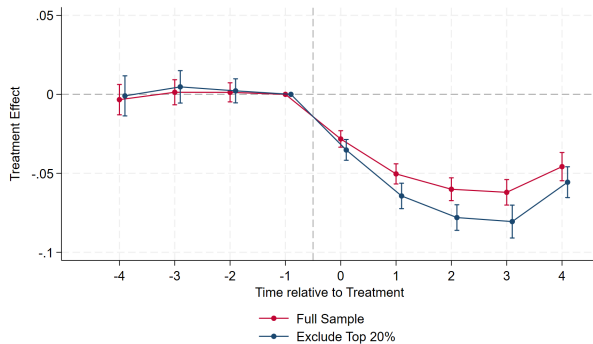
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## Structural Change: Tax Complexity & Take-up of Tax Incentives by Young/Small Firms

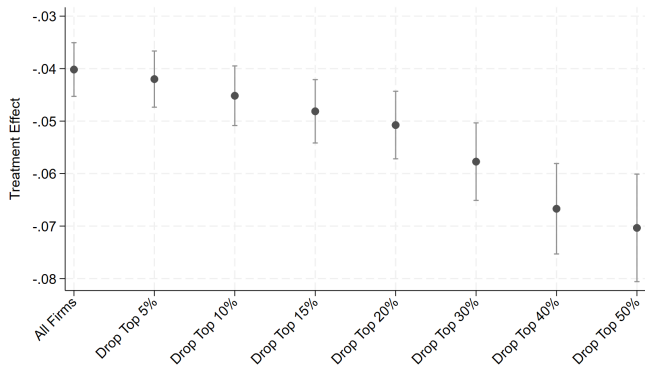
- Tax systems characterized by complexity
- Associated with ...
  - ... information frictions
  - ... compliance burdens
- Limited evidence, see e.g. Hoppe et al. (2023), Zwick et al. (2021)
- Small firms may be over-proportionally affected
- Riedel et al. (2025)
  - Study take-up of tax incentives in South Africa
  - Key findings:
    - Imperfect take-up of tax incentives
    - Use of tax-practitioner increases use of tax benefits, in particular for small firms

## Tax Practitioner Take-up – Effect on Firm Tax Payment

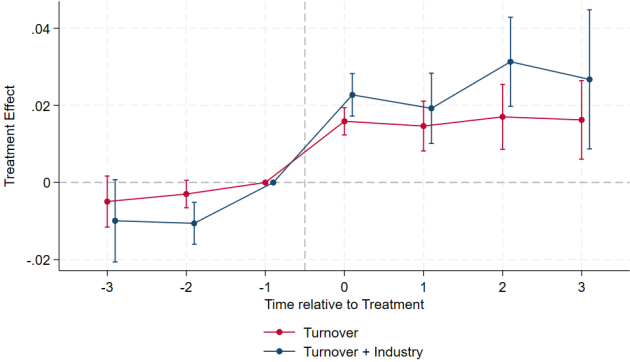
Figure 3: Dynamic Difference-in-Differences Model for Taxable Income / Assets



## Effect by Size Group

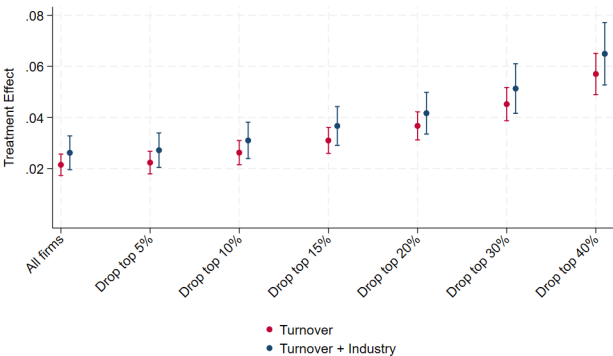


# Effect of Tax Practitioner on Use of Small Business Tax Scheme



# Effect of Tax Practitioner Takeup on Small-Business-Tax Use

Figure 8: Effect of tax practitioner take-up on SBC claim – Drop large firms



# CORPORATE TAX POLICY IN TIMES OF TURMOIL: GROWING ECONOMIC, SOCIAL AND POLITICAL DIVIDE

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## Growing Economic, Social and Political Divide

### Income and wealth inequality

- Technological change, automation and changing demand for skills/tasks  
⇒ Unequal effects across workers and places  
(e.g. Autor et al. 2008; Autor et al. 2006; Acemoglu and Autor 2011)
- Globalization ⇒ Unequal effects across workers & places  
(e.g. Autor et al. 2013; Autor et al. 2014)
- Concerns about labor market effects of generative AI – effects highly uncertain (e.g. Brynjolfsson et al. 2025; Brynjolfsson et al. 2026)
- Increasing spatial inequality: high-skill and high-productivity agglomerations vs. declining industrial and lagging regions (limited geographic worker mobility & slow adjustment to adverse local shocks (e.g. Autor et al. 2016)
- Greater support for populist/radical parties and political polarization in adversely affected regions (e.g. Colantone and Stanig 2018; Autor et al. 2020; Dippel et al. 2022)

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## Corporate Taxes and Employment

- Array of possible policies
  - Redistribution through the tax and transfer system
    - ⇒ CIT part of the progressive tax system
  - **Creation of "good" jobs** (e.g. Hanson and Moretti 2025)
    - ⇒ non-pecuniary benefits of employment (e.g. Hussam et al. 2022) and positive externalities
      - "So the first thing is, let's create more new jobs." – Barack Obama
      - "[...] fighting unemployment must be our top priority." – Emmanuel Macron
      - "I ran for president to [...] bring back good-paying jobs." – Joe Biden
      - "[...] we want to preserve jobs [...]" – Friedrich Merz
    - ⇒ CIT may exert effects on firm activity and employment creation

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## Corporate Taxes and Employment

- **Politically opposing views:**
  - Advocates for CIT cuts:  
lower CIT increases investment, employment, and income across full income distribution
  - Critics of CIT cuts:  
lower CIT with little impact on employment; primarily benefit shareholders
- **Growing literature - but still many open questions. Consensus on...**
  - ... changes in corporate tax rates or in depreciation rules impact firm employment (e.g. Suárez Serrato and Zidar 2016; Garrett et al. 2020; Kennedy et al. 2026; Duan and Moon 2026)
  - ... corporate tax burden partly shifted to workers through lower wages (e.g. Suárez Serrato and Zidar 2016; Fuest et al. 2018; Gstrein et al. 2025, Kennedy et al. 2026)

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## Corporate Taxes and Employment

- **Effect heterogeneity** (if it exists) decisive for distributional impact.

Little evidence and no consensus:

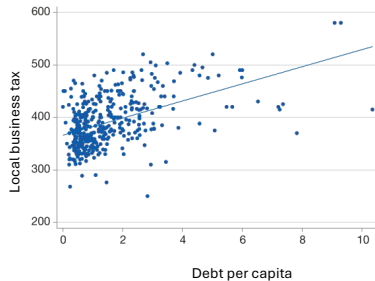
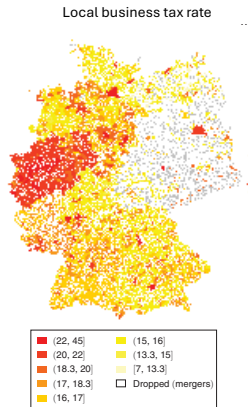
- **Employment:** Which type of employment/jobs are created? For whom? By whom (e.g. 'high-paying' vs. 'low-paying' firms, AKM)? Where do new workers transition from (out-of-labor-force, unemployed, non-treated firms)? Are there income gains?  
⇒ Theory: Effects likely vary by CIT instrument
- **Wage incidence - Conflicting evidence:**
  - Kennedy et al. 2026: **No wage gains from TCJA for bottom 90% of incomes**; Dobridge et al. 2026: domestic production tax incentive mainly benefit high-earners/incumbents
  - Duan and Moon 2026: also positive effects of CIT cuts on lower income workers; Fuest et al. 2018: **burden of local business tax increases on lower income workers**
  - Other channels not yet accounted for (consumers, landowners)
  - Institutions may matter? Asymmetric pass-through (Winter et al. 2026)?

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## Corporate Taxes, Employment and Regional Disparities

- Pronounced regional disparities in terms of economic development
- Rapid structural change; can cause geographically concentrated losers  
⇒ Insufficient migration and shock adoption
- Differences in effective CIT rates across regions  
⇒ Misallocation & welfare losses, e.g. Fajgelbaum et al. (2019)
- Particularly pronounced if lagging regions (have to) set high local CIT

# Corporate Taxes, Employment and Regional Disparities



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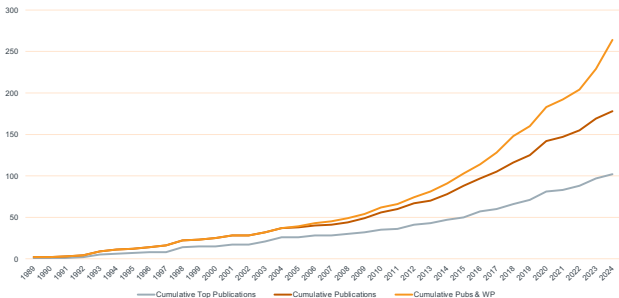
## Corporate Taxes, Employment and Regional Disparities

- But: Also **nationally set rules may exert heterogeneous effects** across regions if...
  - ... different firm and worker types are affected heterogeneously by a certain CIT reform (investment, employment, incomes)
  - ... and firms and worker types are distributed heterogeneously across regions
  - ... largely ignored so far (recent exception: Kennedy et al. 2026)

# INTERNATIONAL CORPORATE TAXATION

## International Taxation

- Traditionally focused on how to avoid double taxation
- Recent decades: strong academic and policy focus on international tax avoidance
- Academic papers on profit shifting:



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# Corporate Taxation and Misallocation: Tax Avoidance and Evasion

- **Profit shifting: quantitatively relevant phenomenon**
  - Size still debated. Effects depend on data and methodology used. For example:
  - Tørsløv et al. (2023): MNEs relocate €55 billion from Germany to low-tax countries annually (28% of corporate income tax revenue)
  - Fuest et al. (2025): MNEs relocate €10.9 billion from Germany to low-tax countries annually (7.8% of corporate tax revenue)
- **Profit Shifting Channels:**
  - Transfer price distortions (e.g. Cristea und Nguyen 2016; Liu et al. 2020; Wier 2020)
  - Distortion of capital structure (e.g. Overesch und Wamser 2014; Goldbach et al. 2021)
  - Strategic location of immaterial property (e.g.. Karkinsky & Riedel 2012; Griffith et al. 2014; Alstadsaeter et al. 2018)
  - Strategic location of risk (Becker et al. 2020)
- Profit shifting gained in importance over recent decades (e.g. Bilicka 2019, Wier und Zucman 2022)
- **Heterogeneity across firms: size, organisational structure ...**

(z.B. Davies et al. 2018, Bilicka 2019; Wier und Erasmus 2022; Bilicka und Seidel 2020; Bilicka und Scur 2024)

# Profit Shifting and Firm Size (Clifford et al. 2025)

Figure 3: Tax haven usage across group size

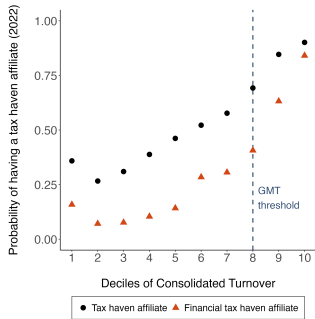
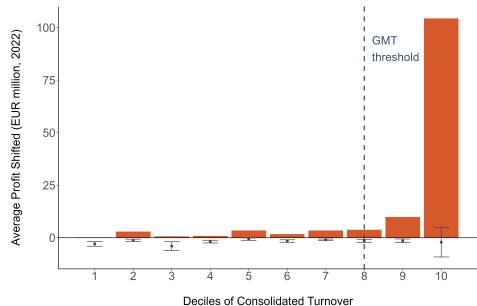
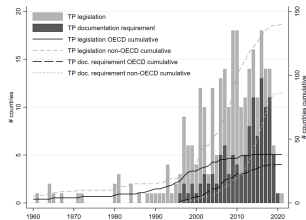


Figure 4: Profit shifted across group size

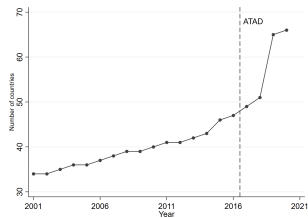


# Development of Anti-Shifting Rules

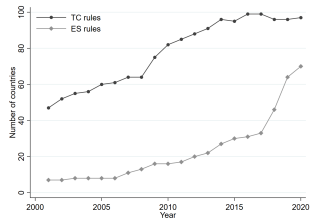
TP Regulations



CFC Rules



Interest Deduction Rules



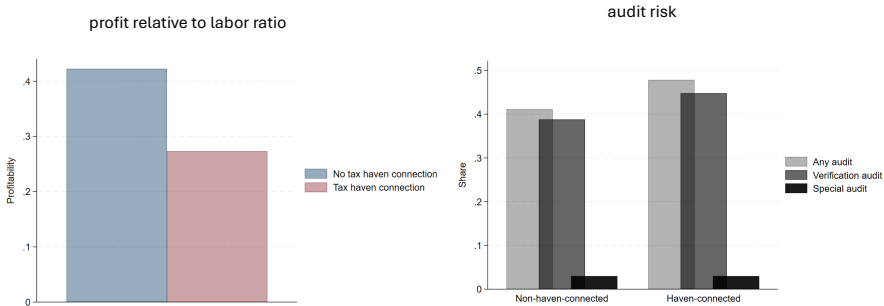
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## Effectiveness of Measures against Tax Avoidance

- Some evidence on effectiveness of unilateral anti-shifting policies (see e.g. Riedel 2026 for a survey)  
But substitution to other tax avoidance and evasion options (cat-and-mouse)?
- Emerging literature on multilateral efforts to constrain shifting (BEPS Actions, ATAD, DAC, GloBE Rules)  
Mixed evidence: Incremental effect of BEPS rules limited; in part, in part relocation of real activity to LTCs (De Simone and Olbert 2022 Doelemann et al. 2024; Hohmann et al. 2025; Boukal et al. 2026)
- What is the role of tax enforcement?
  - Focus audits on (the few) large shifters?
  - Avoidance (non-recoverable in audit) or evasion (in principle recoverable in audit)?
  - Connection to domestic avoidance and evasion (substitutes or complements?)?

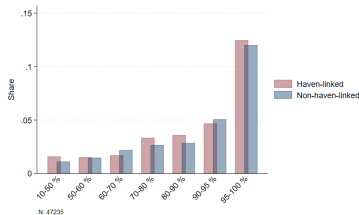
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# MNE Profit Shifting and Tax Audits - South Africa (Kankaanranta, Pirttilä and Riedel 2026)

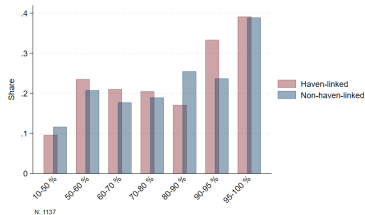


# MNE Profit Shifting and Tax Audits - South Africa (Kankaanranta, Pirttilä and Riedel 2026)

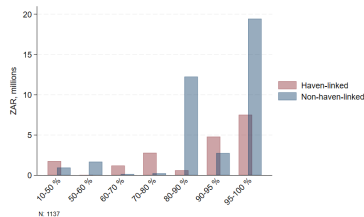
Audit Risk



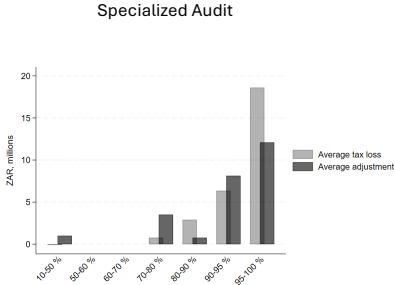
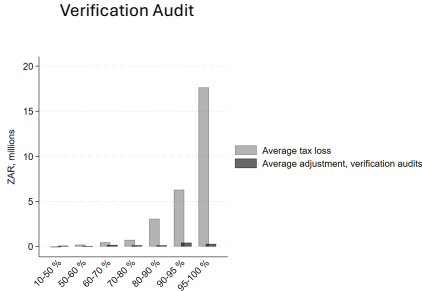
Adjustment Rate – Conditional on Audit



Average Adjustment – Conditional on Audit



# Average Shifted Profit vs. Adjustment Per Audit (Kankaanranta, Pirttilä and Riedel 2026)



# Corporate Taxation and Misallocation

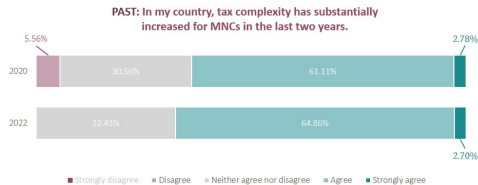
## Further open questions

- How effective are recent (multilateral) efforts to constrain profit shifting? (BEPS & GMT)
- What is the incremental benefit of additional anti-shifting rules?
- What are implications of constrained profit shifting for real activity and misallocation?

(de Mooji and Lui 2020, 2021; Bilicka et al. 2022; Gauss et al. 2024)

- How large are compliance costs associated with the rules (Bustos et al. 2022; ZEW Policy Brief 2022;

Hoppe et al. 2023; Bjørkheim and Scheuerer 2025)



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## Conclusion

- Many more interesting aspect to discuss, e.g.

- Cross-border externalities of CIT
- Tax competition
- Shareholder taxation
- ...

... but no time left!

- Summary
  - Much exciting and illuminating research on corporate taxation ...
  - ... but many open questions left, too
- Many thanks for your attention!

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