EFFECTS OF THE US CORPORATE TAX REFORM FOR EUROPE

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FALLING TAX RATES AFTER US TAX REFORM ‘86

Graph showing the trend of tax rates from 1980 to 2000. The graph includes lines for the USA, US Tax Reform, and average EU15. The tax rates are marked at 30%, 35%, 40%, 45%, and 50%.
BEYOND STATUTORY TAX RATE CUT

US Tax Reform 2017 with various institutional changes:

• Introduction of full expensing
• Limitations in interest deductions/loss compensation
• Switch to territorial income taxation
• Introduction of special regimes (BEAT, GILTI, FDII)

➔ Influencing effective tax burden in the US after reform
• Cost of capital
• Cross-border investments
BEYOND STATUTORY TAX RATES


- Neo-classical investment model
- Consideration of various institutional details
- International comparability of tax burdens
BEYOND STATUTORY TAX RATES


\[ EATR^R = \frac{R^* - R}{p} \frac{1}{1+i} \]

US domestic

- Corporation
  - investing in US

US outbound

- US parent corporation

US cross-border

- Subsidiary
  - investing in EU28 (Ireland, Germany)

US inbound

- Subsidiary
  - investing in US
- EU28 (Irish, German) parent corporation
US IMPROVES ITS POSITION IN TAX RANKING

US (CA) before reform: 36.3%
NEW: 27.2%

US (Federal tax only) before reform: 29.1%
NEW: 18.9%

average EU28 EATR = 20.5%
**SIGNIFICANT DROP IN TAX BURDENS FOR INTERNATIONAL INVESTMENTS**

**Germany (DE):** CIT rate: ca. 30%

**Ireland (IE):** CIT rate: 12.5%

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<thead>
<tr>
<th></th>
<th>before reform</th>
<th>after reform</th>
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<tr>
<td></td>
<td>EATR (CA)</td>
<td>EATR (Fed.)</td>
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<tr>
<td><strong>DE → US</strong></td>
<td>36.3%</td>
<td>30.4%</td>
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<tr>
<td><strong>IE → US</strong></td>
<td>34.7%</td>
<td>28.9%</td>
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<tr>
<td><strong>US → DE</strong></td>
<td>29.9%</td>
<td>30.6%</td>
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<tr>
<td><strong>US → IE</strong></td>
<td>25.6%</td>
<td>26.3%</td>
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THE US WILL IMPROVE ITS FDI POSITION

- Calculations for changes in FDI stocks EU28 ↔ US (CA)
- Tax semi-elasticity: -2.49 (consensus estimate Feld/Heckemeyer 2011)
- Reduction EATR for FDI EU28 → US: -7.9%, US → EU28: -5.7%

Data source: Eurostat. Average of FDI positions 2008-2012, in billion EUR.
IMPLICATIONS FOR EUROPE

• US improves its relative position in global tax rankings

• Investing in the US becomes more attractive for both domestic and foreign investors

• Switch to territorial income taxation means that tax differentials become relevant for US investors
  – Change in tax planning strategies
  – New round of tax competition to be expected
  – Already first announcements for tax cuts in Europe