EFFECTS OF THE US CORPORATE TAX REFORM FOR EUROPE

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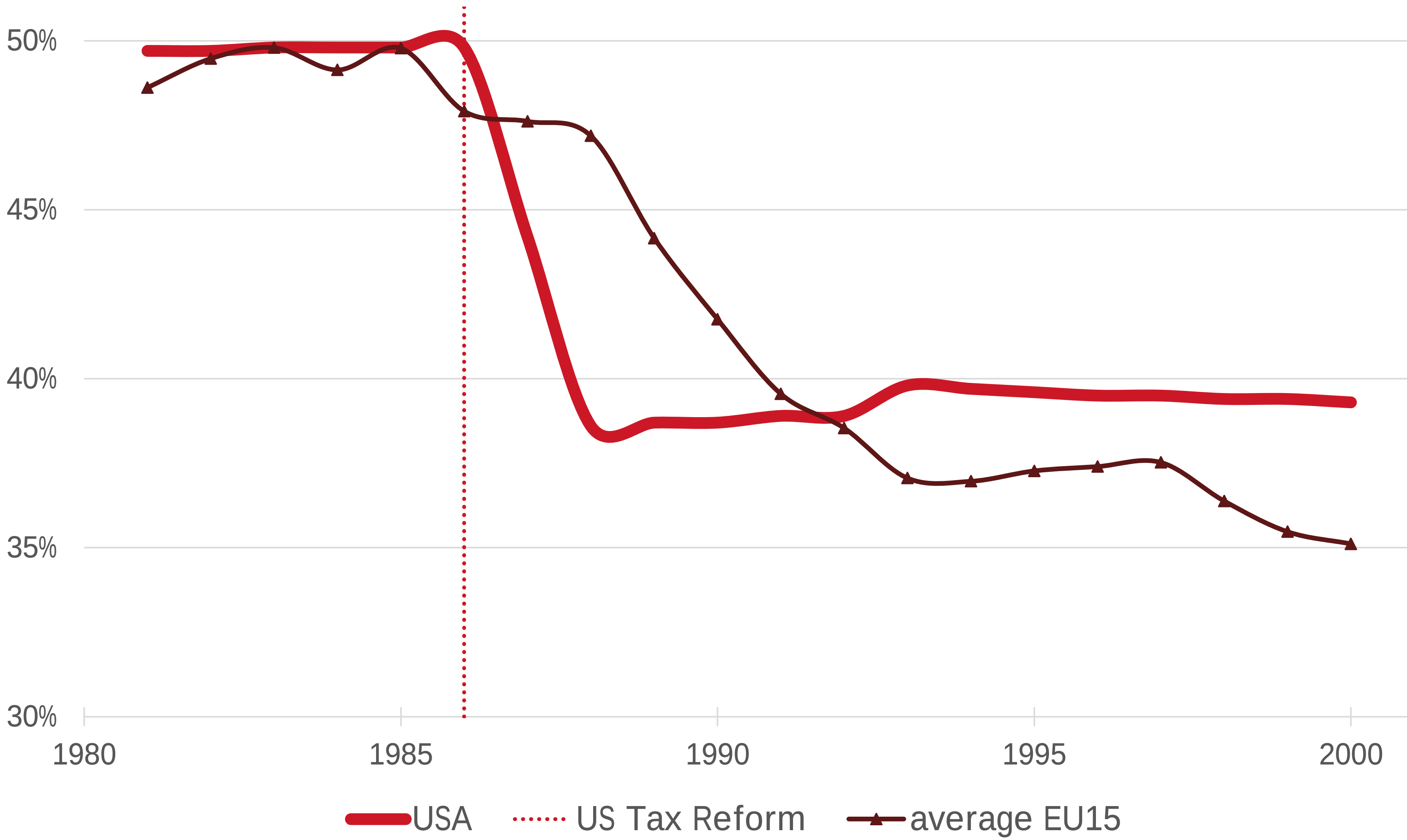
FALLING TAX RATES AFTER US TAX REFORM '86



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)

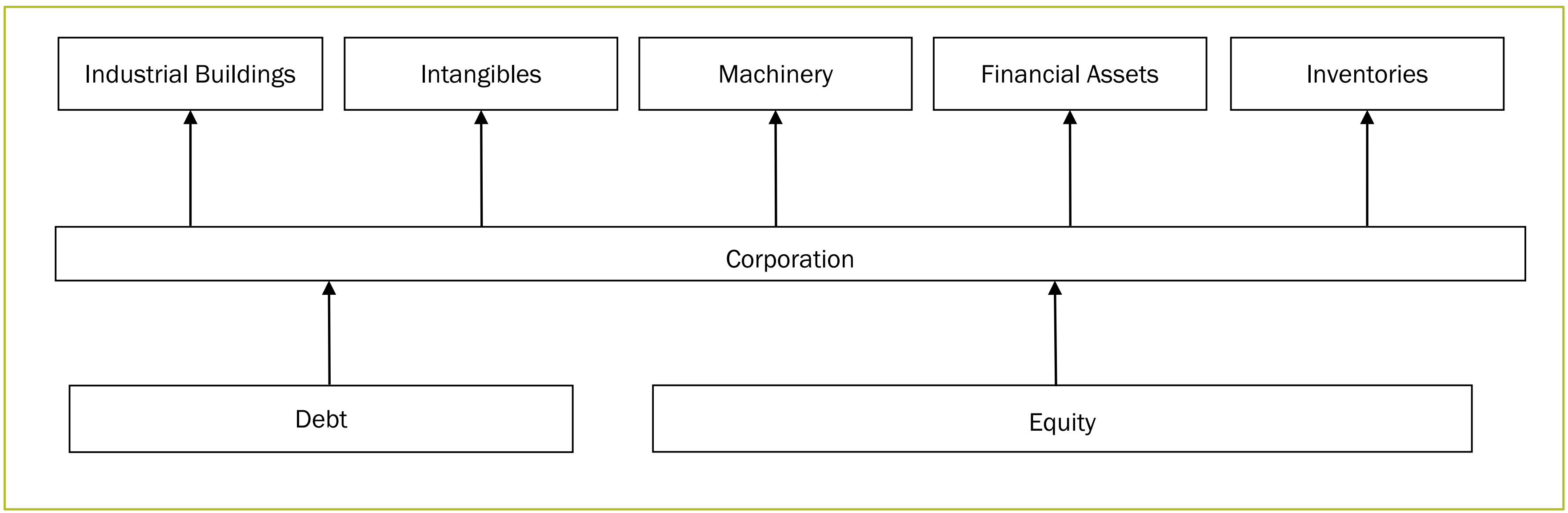
➔ Influencing effective tax burden in the US after reform

- Cost of capital
- Cross-border investments

BEYOND STATUTORY TAX RATES

Methodology: Devereux/Griffith (1999, 2003)

- Neo-classical investment model
- Consideration of various institutional details
- International comparability of tax burdens



BEYOND STATUTORY TAX RATES

Methodology: Devereux/Griffith (1999, 2003)

$$EATR^{R} = \frac{R^{*} - R}{p/(1+i)}$$

US domestic

Corporation
investing in US

US cross-border

US outbound

US parent corporation

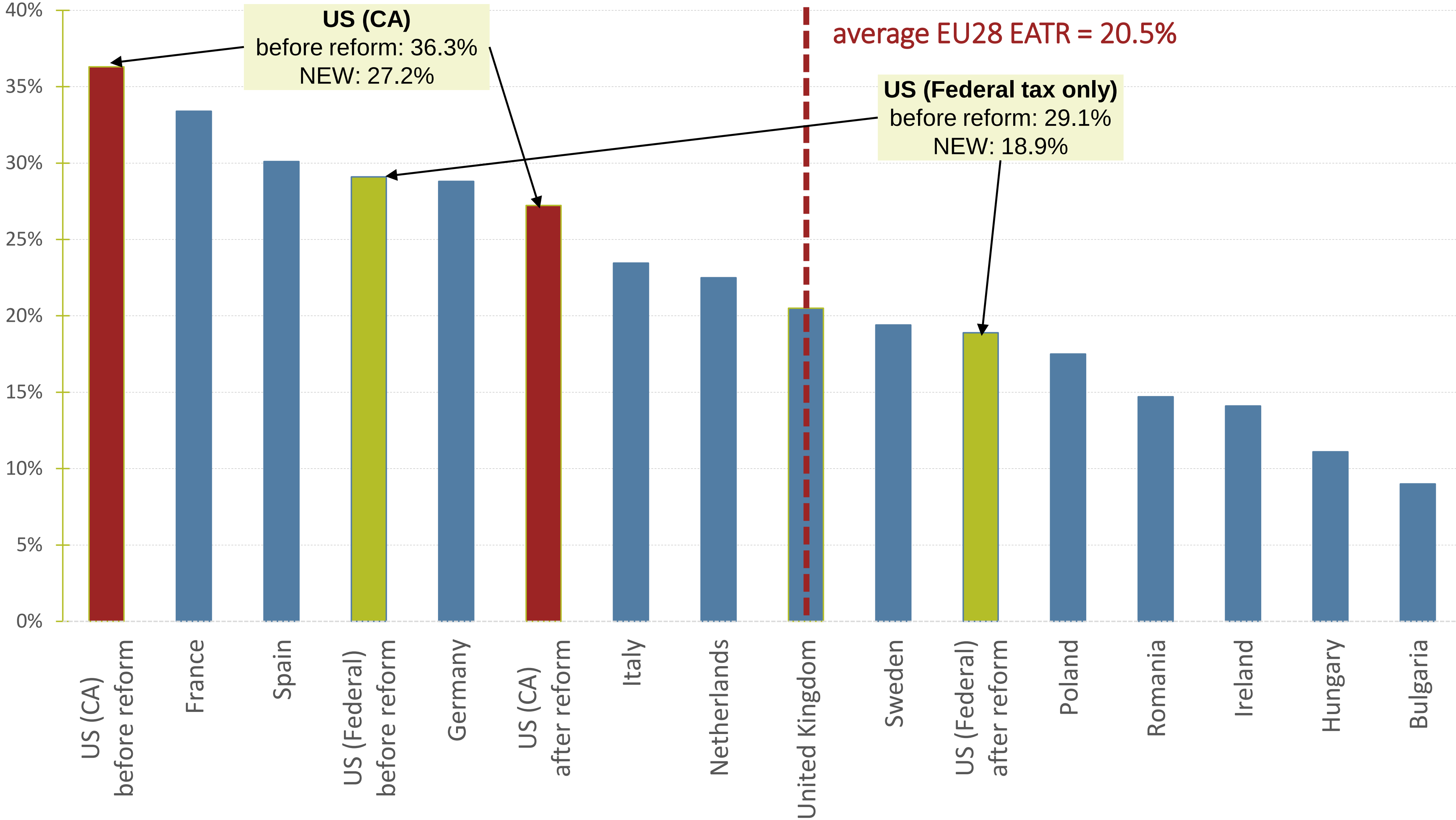
Subsidiary
investing in EU28
(Ireland, Germany)

US inbound

Subsidiary
investing in US

EU28 (Irish, German) parent corporation

US IMPROVES ITS POSITION IN TAX RANKING



SIGNIFICANT DROP IN TAX BURDENS FOR INTERNATIONAL INVESTMENTS

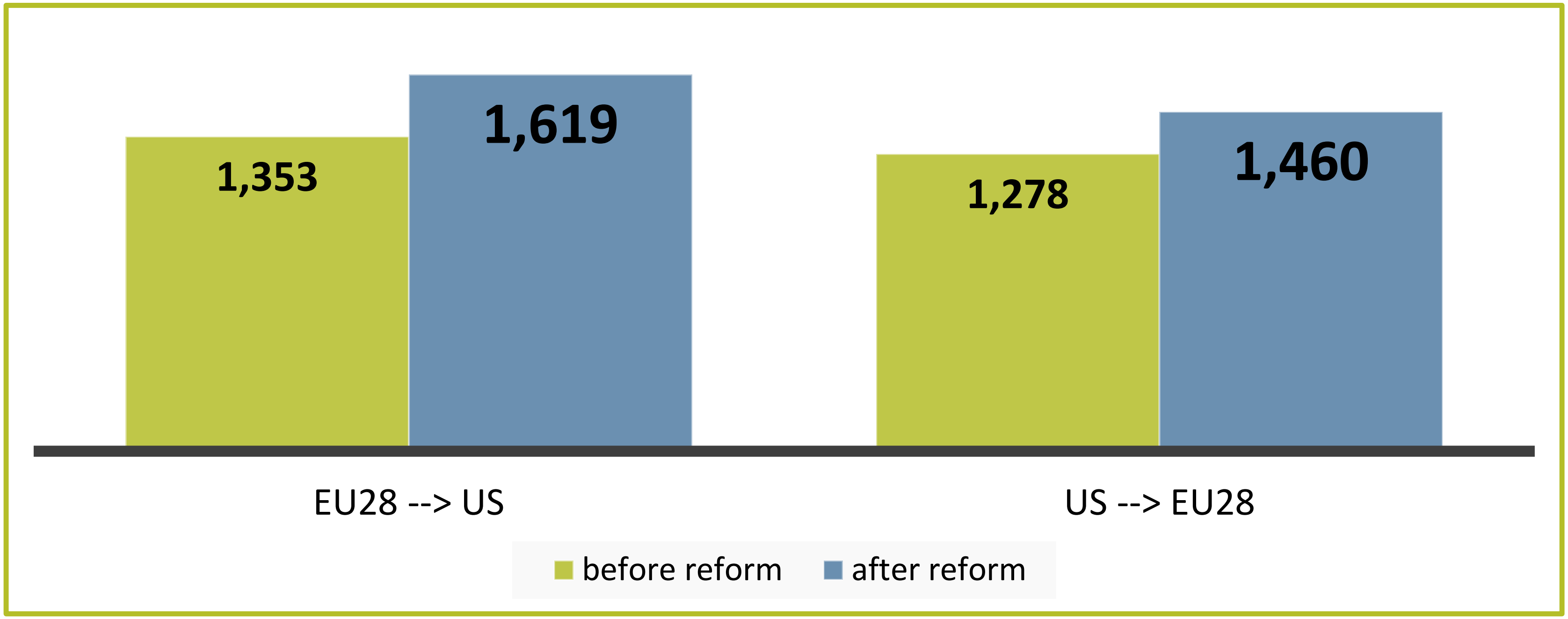
Germany (DE): CIT rate: ca. 30%

Ireland (IE): CIT rate: 12.5%

	before reform		after reform	
	EATR (CA)	**EATR (Fed.)**	**EATR (CA)**	**EATR (Fed.)**
DE → US	36.3%	30.4%	28.1%	19.0%
IE → US	34.7%	28.9%	27.9%	19.7%
US → DE	29.9%	30.6%	26.6%	27.4%
US → IE	25.6%	26.3%	12.7%	13.5%

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