Comments on Steve Bond "Business tax incentives"

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Review

Concept of tax expenditures difficult to apply to business tax incentives

- Standard tax base **discriminates**
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- Fundamental tax reform (ACE) would show up as tax expenditures...
- ... and would call into question the classification of other tax expenditures (accelerated depreciation)

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in dubio contra reum

Business Tax Incentives & Mobility

Alternative rationale for business tax incentives

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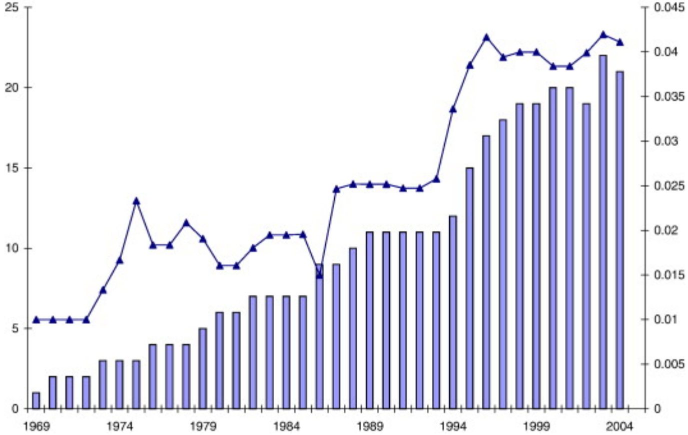
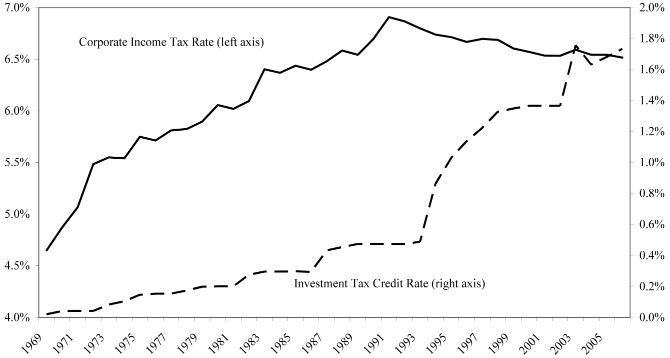
Case of state tax incentives in the US

State Investment Tax Credits in the US



State investment tax credits: number of states with a credit (left vertical axis) and average credit rate (right vertical axis) 1969 to 2004. Notes: Average credit rate is the average statutory investment tax credit rate among those states in a given year that have an investment tax credit. Tabulated investment tax credits (ITCs) include only general, statewide ITCs. Source: Chirinko and Wilson (2008).

State Investment Tax Credits vs Statutory Tax Rates



Top marginal tax rate and average investment tax credit calculated over all 50 states (unweighted) excluding the District of Columbia. Source: Chirinko and Wilson (2011).

State Investment Tax Credits: Explanations

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- Normative interpretation:
  discrimination of immobile *vs.* mobile investment (Wildasin, 2008)

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Theoretical predictions

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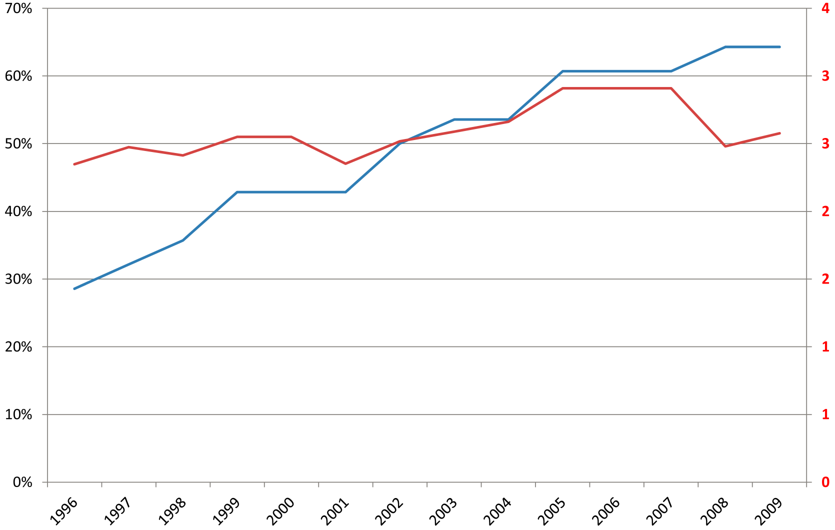
Consistent with empirical trends in taxation
(*e.g.*, Devereux, Griffith, Klemm, 2002)

Location Incentives: Assessment

- Rational policy for individual governments
- General equilibrium perspective points at ineffectiveness and inefficiencies
- Location tax incentives open up profit-shifting opportunities
- Countries are increasingly concerned with limiting these opportunities
- Emergence of loss offset restrictions and thin-capitalization rules

Thin-Capitalization Rules among EU-28



(*Blue line: share of countries imposing thin-capitalization rules. Red line: mean debt-equity ratio in these countries. Source: Buettner et al. (2012).*)

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- location tax incentives are associated with tax competition inefficiencies
- ... and force governments to introduce further tax distortions