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Summer Term 2018

Master Seminar

**Taxes, Investment, and Production Technology:
Can Lower Taxes on Capital Distort the Allocation of Production Factors?**

Subject

In the last decades, we can observe a reduction of tax burdens on capital, while taxes on labor and consumption remain high. One of the most impressive cases is the current U.S. tax reform promoted by U.S. President Trump reducing especially the tax rate of the federal corporate income tax from 35% to 21%, while the tax rate on employment income was not reduced to a similar extent. While such tax reforms affect the distribution of income in a society they are also relevant for the efficiency of a tax system. Traditional research papers focus on the impact of taxes on the user costs of capital arguing that higher taxes on business investment may distort capital formation. However, from a more general perspective, higher taxes on specific input factors (e.g., employment compared to capital) might also affect the production technology of a firm and therefore distort the allocation of capital and labor in the production process. In our seminar, we address such issues and also consider related aspects like tax planning and the incidence of the tax burden (i.e., the question who really bears the tax burden raised on specific input factors).

Organisation

The seminar covers 10 CP. The number of seminar participants is restricted to 12 students. The application deadline begins on February 28, 2018 and goes over two rounds. The first 8 seminar places are assigned until March 31, 2018 (**deadline 1**). The remaining 4 places will be assigned until April 5, 2018 (**deadline 2**). The selection of applicants is based on their course credits with a main focus on taxation, finance, accounting, economics and statistics. Please send your application to steuern@ovgu.de. The **application** should include a **transcript of records**.

The **assignment of subjects/research papers** as well as the **compulsory enrolment** will take place in the **first seminar session on April 5, 2018**. After a short introduction into the topics of the seminar and the research methods, we will analyze a number of basic seminar papers in the following weeks as teamwork (group literature sessions). Afterwards, seminar groups of two students will analyze and present each an actual top research paper on taxes, investment, factor allocation in the seminar. In addition, each student will write a research proposal with regard to the seminar topics.

Relevant research papers for the seminar (selection):

- McLure, C. E. Jr. (1981), The elusive incidence of the corporate income tax: The state case, *Public Finance Review* 9, 395-413.
- Chirinko, R.S., Fazzari, S.M., Meyer, A.P. (1999), How responsive is business capital formation to its user cost? An exploration with micro data. *Journal of Public Economics* 74, 53–80.
- Hassett, K.A., Hubbard, R.G. (2002), Tax policy and business investment, A. Auerbach, Feldstein, M. (Eds.), *Handbook of Public Economics*, vol. 3. Elsevier, Amsterdam, 1294–1343.
- Eichfelder, S., Hechtner, F., Hundsdorfer, J. (2018), Formula apportionment: Factor allocation and tax avoidance, *European Accounting Review* (forthcoming).