



Online-Appendix zu

„Personal Taxes and Corporate Investment“

Frédéric Herold

WHU - Otto Beisheim School of Management

Junior Management Science 4(1) (2019) 81-100

Appendix

Table A.1: Definitions of Main Variables

Variable	Definition
Panel A: Tax Policy Variables	
Source: Tax Handbooks published by KPMG, PwC, Ernst & Young, and Deloitte	
Personal Tax	<i>Personal Tax</i> is the top marginal income tax rate on labour income
Corporate Tax	<i>Corporate Tax</i> is the top marginal tax rate on corporate profits
Consumption Tax	<i>Consumption Tax</i> is the value-added tax (or sales tax) rate
Payout Tax	<i>Payout Tax</i> is the average of the top marginal income tax rate on capital gains and the top marginal tax rate on dividends. For capital gains, long-term and non-substantial shareholdings are assumed.
Accelerated Depreciation	<i>Accelerated Depreciation</i> is a dummy variable equal to one if country j allows for accelerated depreciation in year t
LCB	<i>LCB</i> is a dummy variable equal to one if country j allows tax loss carrybacks in year t
Group Taxation	<i>Group Taxation</i> is a dummy variable equal to one if country j allows for group taxation in year t
Progressive	<i>Progressive</i> is a dummy variable equal to one if country j has a progressive corporate tax rate in year t
Panel B: Extended Tax Definitions	
Source: OECD Tax Database	
67% Earner	<i>67% Earner</i> is the sum of the marginal income tax rate on labour income and social security contributions of employee and employer, as a percentage of labour costs* (applicable to the income class of employees earning 67 percent of the average wage)
100% Earner	<i>100% Earner</i> is the sum of the marginal income tax rate on labour income and social security contributions of employee and employer, as a percentage of labour costs* (applicable to the income class of employees earning the average wage)
133% Earner	<i>133% Earner</i> is the sum of the marginal income tax rate on labour income and social security contributions of employee and employer, as a percentage of labour costs* (applicable to the income class of employees earning 133 percent of the average wage)
167% Earner	<i>167% Earner</i> is the sum of the marginal income tax rate on labour income and social security contributions of employee and employer, as a percentage of labour costs* (applicable to the income class of employees earning 167 percent of the average wage)

Panel C: Macroeconomic Variables and Governance Indicators

Source: World Bank

GDP Growth	<i>GDP Growth</i> is the annual percentage growth rate of GDP in constant 2005 US dollars
Ln(GDP per Capita)	<i>Ln(GDP per Capita)</i> is the natural logarithm of GDP per capita in constant 2005 US dollars
Inflation	<i>Inflation</i> is the rate of price change in a country as a whole as measured by the annual growth rate of the GDP implicit deflator
Deficit	<i>Deficit</i> is the government budget deficit scaled by GDP
Openness	<i>Openness</i> is the sum of imports and exports scaled by GDP
Interest Payments	<i>Interest Payments</i> is the ratio of government interest payments scaled by GDP
Government Debt	<i>Government Debt</i> is the ratio of government debt scaled by GDP
Voice and Accountability	<i>Voice and Accountability</i> is the yearly estimate of a country's quality relating to voice and accountability
Political Stability	<i>Political Stability</i> is the yearly estimate of a country's quality relating to political stability
Government Effectiveness	<i>Government Effectiveness</i> is the yearly estimate of a country's quality relating to government effectiveness
Regulatory Quality	<i>Regulatory Quality</i> is the yearly estimate of a country's quality relating to regulatory quality
Rule of Law	<i>Rule of Law</i> is the yearly estimate of a country's quality relating to rule of law
Control of Corruption	<i>Control of Corruption</i> is the yearly estimate of a country's quality relating to control of corruption

Panel D: Firm-level Variables

Source: Compustat Annual North America and Global

Investment	<i>Investment</i> is defined as capital expenditure (CAPEX) scaled by lagged total assets
Cash Holdings	<i>Cash Holdings</i> are defined as the sum of cash holdings and short-term investments scaled by lagged total assets
Profit	<i>Profit</i> is defined as earnings before interest and taxes (EBIT) scaled by lagged total assets
Leverage	<i>Leverage</i> is defined as the sum of debt in current liabilities and long-term debt scaled by total assets
Ln(Sales Growth)	<i>Ln(Sales Growth)</i> is defined as the natural logarithm of sales growth from t-1 to t
Sales Growth	<i>Sales Growth</i> is defined as the growth rate of sales from t-2 to t
Loss	<i>Loss</i> is a dummy variable equal to one if firm <i>i</i> reported a negative pre-tax income in year <i>t</i>
Tobin's q	<i>Tobin's q</i> is the market value of equity scaled by total assets
Size	<i>Size</i> is the natural logarithm of total assets

*Notes: Labour costs are defined as gross wage earnings plus employer social security contributions.

Table A.2: Relative Effects and Elasticities of Baseline Results

This table presents my regression results on investment behaviour for all five regression specifications. Column (1) displays coefficients (robust standard errors clustered at the country level) estimated in my baseline regression. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively. In column (2), I compute the investment response relative to the sample average of *Investment* (= Coefficient / 0.0719). In column (3), the estimates in column (2) are converted into implied elasticities (= Relative Effect / (1 / Sample Average of Tax Rate)).

	Coefficient (s.e.) (1)	Relative Effect (2)	Implied Elasticity (3)
Personal Tax	0.0367* (0.0213)	0.51%	0.20
67% Earner	0.0003 (0.0367)	0.00%	0.00
100% Earner	0.0129 (0.0243)	0.18%	0.07
133% Earner	-0.0268 (0.0308)	-0.37%	-0.16
167% Earner	0.0258 (0.0327)	0.36%	0.15