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Review Paper

Corporate taxation, debt financing and foreign-plant ownership

Peter Egger [a], Wolfgang Eggert [b], Christian Keuschnigg [c], Hannes Winner [d]

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Abstract

This paper compares domestically and foreign-owned plants with respect to their debt-to-assets ratio and analyzes to which extent the difference is systematically affected by corporate taxation. To derive hypotheses about influence of corporate taxation on a firm's debt financing we adapt a standard model of taxation and financing decisions of firms for the case of international debt shifting activities of foreign-owned firms. We estimate the average difference between a foreign-owned and a domestically owned firm's debt ratio, treating the mode of ownership as endogenous. Using data from 32,067 European firms, we find that foreign-owned firms on average exhibit a significantly higher debt ratio than their domestically owned counterparts in the host country. Moreover, this gap in the debt ratio increases with the host country's statutory corporate tax rate.

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JEL classification

H25; G32; F23; C21

Keywords

Corporate taxation; Multinational firms; Financial structure; Debt shifting; Propensity score matching

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