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Comment on “FDI and Taxation: Some Methodological Aspects and New Evidence for Central and Eastern European Countries”

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I would like to start my comments with a general note on the issue discussed. Surveys examining the effects of the New Member States’ different corporate tax systems are mostly based on a presentation of the given statutory tax rates and a comparison of the effective average tax rates applied in these countries. The effective average tax rate may be derived in two different ways: it may be derived from a model based on the existing tax law (“forward-looking method”), or it may be measured by empirical observation (“backward-looking method”).

In the case of the Eastern European countries, these two measures might yield rather different results. Friends of mine operating in these countries tell me that the statutory tax laws are mainly “something for the European Commission” and/or the international presentation of these countries, since the actual effective tax burden is largely the result of a bargaining process with the fiscal authorities. However, this does not necessarily mean that the tax burden in these countries is lower than that of Austria, for instance – as was shown by the consultancy firm KMPG, which did some interesting empirical research: They applied the tax codes of the Czech Republic, Slovakia and Hungary to a particular Austrian production firm, taking into account all tax planning strategies offered by the respective countries. They found the tax burden of this firm to be almost as high in Slovakia as in Austria, but nearly twice as high in the Czech Republic and in Hungary.

I am grateful that Mr. Bellak and his colleagues in their presentation showed us two things: First that “bilateral effective average tax rates” can explain foreign direct investment much better than domestic tax rates and second, that foreign direct investment is affected by a large number of factors, not by taxes alone. Numerous regression analyses have been undertaken to investigate the impact of taxes on industrial investment. The speakers presented us a long list of literature on this subject. The Chamber of Labor, for example, investigated the impact of payroll taxes and social security contributions on industrial investments. We found that insufficient research has been done on this issue in the past – an astonishing result, if one takes into account that a typical Austrian industrial firm pays ten times more taxes of this kind than corporate tax. Thus the question arises why the research interest in this specific issue is so small? Would you think that the reasons for this phenomenon are of a political nature or that scientific reasons may explain it? Another angle to look at the issue at hand: how does an industrial firm view corporate tax payments? I would say, for a company, corporate taxes are simply costs. For a typical Austrian industrial firm, corporate tax represents about 2% of the overall costs. Do you think that policymakers actually believe that 2% of the overall costs will determine investment decisions? Of course, the investment decision can be influenced by the tax laws and by the tax burden, respectively, but they are not the key factors for investors in my eyes. Thus, my last question to the speakers is whether they are aware of any empirical studies which test for the impact of factors other than taxes that would explain foreign industrial investment decisions?