

The Impact of Minimum Taxation Concepts on Corporate Investment Decisions

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- This paper
 - Models minimum tax laws of several countries using deterministic and stochastic simulation
 - Compares cash flow present values with a financial asset base case
 - Derives comparative results for the differences across assets and countries

- Paper's design
 - Defines minimum tax as tax paid with losses in prior periods
 - Distills a simplified model to focus on key concepts
 - Abstracts from the “regular” tax system to focus on minimum tax effects
 - Uses simulations of several cases to estimate relative returns

- Advantages of Simulation
 - Not limited to trivial unrealistic assumptions to ensure tractability like some analytical work
 - Able to estimate realistic parameters from actual economy
 - Can validate simulation by comparing results with actual economic values
 - Can evaluate numerous possible scenarios, which are more convincing because of validation
- Disadvantage
 - Can produce any result with some set of parameters

- Suggestions

- Do not abstract away from “regular” tax system

- Minimum tax is likely a response to regular tax, therefore one correlated with other
 - Correlation in systems means that minimum tax does not act in isolation
 - Not valid to compare isolated results
 - May be unrelated to actual corporate decisions

- Make the tax model more realistic

- Commercial full-tax-system models are available
 - Best to run such models and get real world results
 - Example, straight line depreciation, though depreciable method is major legislative tool
 - For example, more than just prior period losses

- Validate the model with real data
 - A more realistic model can be evaluated, calibrated, with real economic data to ensure validity
 - Such assurance makes predictions and tests more reliable
- Use real economic data from real corporations to evaluate distributive effects of minimum tax
 - Which industries
 - Which kinds of companies
 - Debt versus equity

- Use real economic data to determine effect of minimum tax in differing economic environments
 - Impacts of economic cycles on different industries and firms
 - Effect of conglomeration of distribution of minimum tax effects and economic variation
- Abstracting from real complexity yields findings that may not relate to real decisions
 - Legislature intended the finer system to promote behavior
 - Real tax directors use the details