Institut für Arbeitsmarkt- und Berufsforschung

Die Forschungseinrichtung der Bundesagentur für Arbeit

IAB

# Gastvortrag

## Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany

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Because of endogeneity problems very few studies have been able to identify the incidence of corporate taxes on wages. We circumvent these problems by using an 11-year panel of data on 11,441 German municipalities' tax rates, 8 percent of which change each year, linked to administrative matched employer-employee data. Consistent with our theoretical model, we find a negative effect of corporate taxation on wages: a 1 euro increase in tax liabilities yields a 77 cent decrease in the wage bill. The direct wage effect, arising in a collective bargaining context, dominates, while the conventional indirect wage effect through reduced investment is empirically small due to regional labor mobility. High and medium-skilled workers, who arguably extract higher rents in collective agreements, bear a larger share of the corporate tax burden.

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