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ABSTRACT

We test whether dividend taxes affect corporate investments. We exploit Sweden's 2006 dividend tax cut of 10 percentage points for closely held corporations and 5 percentage points for widely held corporations. Using rich administrative panel data and triple-difference estimators, we find that this dividend tax cut does not affect aggregate investment but that it affects the allocation of corporate investment. Cash-constrained firms increase investment after the dividend tax cut relative to cash-rich firms. Reallocation is stronger among closely held firms that experience a larger tax cut. This result is explained by higher external equity in cash-constrained firms and by higher dividends in cash-rich firms after the tax cut.

JEL No.: G30, G31, H25

Keywords: Investment, Dividend Taxation, Private Firms

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