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**Working Paper**

## Expected Effects of the US Tax Reform on Other Countries: Global and Local Survey Evidence

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# Expected Effects of the US Tax Reform on Other Countries: Global and Local Survey Evidence

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# Expected Effects of the US Tax Reform on other Countries: Global and Local Survey Evidence

## Abstract

The Tax Cuts and Jobs Act constitutes the largest change to the US tax system since the 1980s and thoroughly alters the way in which multinational companies are taxed. Current assessments on the reform's international impact vary widely. This article sheds light on the tax reform's expected effects on other countries. We first use representative German business survey data to analyse the impact of the reform on German firms. Many firms with substantial US revenues or production capacities in the US intend to expand US investment in response to the reform, in particular large firms and manufacturing companies. The effects on investment in Germany are ambiguous: While some firms substitute between investment locations, others expand in both countries. We subsequently extend our analysis to the global level using worldwide survey data. The results suggest a negative impact on tax revenues and investment in countries with close economic ties to the US.

JEL-Codes: H250, H320, H710, E620, F620.

Keywords: US tax reform, corporate tax, firm responses, survey, Germany.

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# 1. Introduction

On December 22, 2017, US President Donald Trump signed into law the Tax Cuts and Jobs Act.<sup>1</sup> This tax reform constitutes the most substantial overhaul of the US tax system since President Reagan's 1986 reform. It changes both the personal and the corporate income tax. In this paper, we primarily focus on the corporate tax reform. Yet, the survey data we use reflects views about the impact of the entire reform package, including the significant personal income tax cuts.

The most important element of the corporate tax reform is the reduction of the federal corporate income tax rate from 35 to 21 percent. In addition, the reform lowers the tax burden on pass-through entities, temporarily allows immediate expensing of short-lived capital investments, and limits the deductibility of interest expenses. By converting from a worldwide to a territorial tax system, the reform thoroughly changes the tax treatment of multinational firms. Prior to the reform, US companies faced taxation on their worldwide income. Taxation of foreign profits was deferred until repatriation, taxes paid abroad were credited against US tax. Now repatriated dividends are exempt from domestic taxation, but a transition tax of between 8 and 15.5% is levied on past foreign profits accumulated abroad. Further provisions aim at curbing tax base erosion. First, the 'Base Erosion and Anti-Abuse-Tax' (BEAT) is a minimum tax on US profits intended to limit profit shifting to other countries. Second, the 'Global Intangible Low Taxed Income' (GILTI) and the 'Foreign-Derived Intangible Income' (FDII) provisions remove tax incentives to shift profits derived from intangible assets to low tax countries. These provisions make it more attractive to locate intangible assets in the US.

The reform is expected to have a far-reaching impact not just in the US but around the globe. While some commentators welcome the stimulus to demand expected from the tax reform, others argue that the reform will intensify tax competition and induce companies to shift investment as well as taxable profits to the US, harming other countries.

This paper uses survey evidence to shed light on the likely effects of the reform on international investment, trade and tax revenues. We use two types of survey evidence. The first is evidence from firm surveys in Germany. We then supplement our

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<sup>1</sup> It was introduced in Congress under this name. When it was finally signed it was called 'Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018'.

findings with results from a worldwide economic expert survey to gauge the reform's effects on a wide array of countries.<sup>1</sup>

As Germany is among the world's most export intensive economies and amongst the largest providers of US inbound FDI, information on German firm responses is instructive for assessing the tax reform's international effects. Our most important findings are as follows. We focus on firms with US exposure, measured by revenue generated in the US or by having US subsidiaries. Among these firms, a large share plans to increase US investment. Effects on German domestic investment are ambiguous. While some firms intend to invest more in both countries, others intend to cut investment in Germany and replace it by higher investment in the US. Companies which intend to invest more in the US also plan to increase exports to the US. The idea that companies will invest and produce in the US to replace exports from Germany finds little support in our data. Furthermore, our global survey results suggest a negative impact on tax revenues and investment in countries with close economic ties to the US.

## 2. Background: The International Impact of the US Corporate Tax Reform

How should we expect the US corporate tax reform to affect other countries? A growing number of contributions in the literature discuss the reform impact, partly on the basis of macroeconomic simulation models. One strand of the literature, such as Chalk et al. (2018), Slemrod (2018) and Auerbach (2018), evaluate the effects of the reform from a US perspective, focusing on the effects on the US economy. Other studies analyse the international impact. Beer et al. (2018) use a simulation model to quantify international tax spill overs. Focusing on the tax rate cut and calibrating their model with parameters found in the literature, they find declining taxable profits of multinational firms reported in other countries. Hence, tax revenue collected abroad from these firms will fall by between around 1.6 to 5.2 percent. If countries respond by cutting their tax rates as well, this figure rises to between 4.5 and 13.5 percent. Investment in turn is expected to decrease by 1.2 to 3.8 percent of the capital stock.

Taking into account further reform provisions, Spengel et al. (2018) and Heinemann et al. (2018) assess the effects of the reform on FDI flows between Europe and the US.

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<sup>1</sup> This paper is partially based on Krolage and Wohlrabe (2018), Rathje and Wohlrabe (2019), and Boumans and Krolage (2018).

They calculate the change in the effective tax burden for cross-border investments and then simulate the impact on FDI by using standard elasticity assumptions. They conclude that the effective tax burden both on European FDI in the US and on US FDI in Europe falls. Additional US inbound investment from the EU is estimated to rise by about EUR 411 billion, while outbound investment in the EU increases at a lower magnitude of about 175 billion. Low-tax countries, such as Ireland, are predicted to benefit more than high-tax countries, such as Germany.

Chalk et al. (2018) highlight various reasons why it may be difficult to predict the effects of the reform on FDI. Notably, while some firms may increase investment abroad, capital constrained firms or firms serving integrated markets from different locations might substitute between investment in the US and in other countries. Also, the GILTI and BEAT provisions may create ambivalent investment incentives for some firms. While investing in the US becomes more attractive for US tax residents, the tax reform increases the tax burden on choosing US residence for many firms (Dharmapala, 2018). These sources of uncertainty are amplified by the tax law foreseeing substantial further changes over the course of the next ten years (Auerbach, 2018), including phasing out investment expensing and raising the GILTI, BEAT and FDII tax rates. Investment responses will also depend on whether companies expect corresponding future tax law modifications.

We add to this literature in two ways. First, we use representative German firm survey data to describe the expected effects of and the planned responses to the US tax reform. Second, by analyzing economic expert survey data we provide an overview over the expected worldwide impact of the U.S. tax reform.

### 3. Firm-level Evidence from Germany

Our firm-level analysis is based on two business surveys administered by the ifo Institute. Conducted in March 2018 as a part of the ifo business survey, our first survey addresses the impact of the US tax reform on the tax burden of German firms, on their investment choices and on trade with the US. The ifo business survey is a representative monthly survey of German firms and forms the basis of the ifo business climate index, an important leading indicator for German economic activity. The questions about the US tax reform were included as supplementary questions and were answered by 5,405 firms. As many small and medium sized enterprises do not operate on the US market, we show separate results for firms with US exposure. This subgroup

consists of companies who get at least 5% of their revenue from the US. These firms are primarily found in the manufacturing industry.

Table 1 shows the expected impact on the tax burden of all firms in the survey. We distinguish short and long run effects. As expected, only a small fraction of German firms is directly affected by the reform. Unsurprisingly, the share of firms expecting a changing tax burden is larger in the subgroup of firms with US exposure. In this group, 14-20% anticipate their tax burden to decline. This number rises in the long run, and is also increasing in firm size and with the share of revenues derived from the US. In contrast, 8% of all firms with substantial US exposure expect a rising tax burden in the long run. This effect could be due, for instance, to the more restrictive treatment of R&D spending in the US, or it could be related to tax avoidance measures like BEAT and GILTI.



**Table 1: The TCJA's effect on firms' tax burden (first firm level survey)**

	All firms	Firms with at least 5% US revenue			
		Total	Manufacturing	Services	Wholesale/ retail
Short-run					
Decrease	3%	14%	16%	7%	17%
No change	96%	82%	79%	90%	83%
Increase	1%	4%	5%	3%	0%
Long run					
Decrease	3%	17%	20%	9%	17%
No change	93%	75%	71%	85%	74%
Increase	3%	8%	9%	6%	9%
N	4116	540	369	129	42

Data source: ifo business survey March 2018

One of the most important aspects of the tax reform is its impact on investment. Table 2 shows that 14% of the firms with US exposure intend to invest more in the US.<sup>1</sup> This number rises to 31% among the firms expecting a decline in the tax burden they face, suggesting a strong firm response to tax incentives. As expected, only few businesses plan to reduce US investment. Table 2 also summarizes the responses regarding investment in Germany. While most businesses do not plan to adjust their German investment, 10% of the firms with US exposure intend to invest more in Germany. This may have a number of reasons. Expanding economic activity may require inputs produced in Germany. Liquidity effects of US tax cuts may remove constraints on investment in other countries as well.<sup>2</sup>

However, for many companies we also find a substitution effect between investment in Germany and the US. Among the firms which intend to invest more in the US, 26% want to cut back on German investment. These are twice as many as those who intend to invest more in both countries. Overall, while investment effects are positive in the US, they are more ambiguous in Germany.

<sup>1</sup> Unsurprisingly among all firms including those without US exposure most do not react to the US tax reform.

<sup>2</sup> Becker and Riedel (2012) show that multinational firms benefitting from national tax cuts often expand their activities in other countries as well.

**Table 2: Effects on investment in the US and in Germany (first firm level survey)**

	N	De- crease	No change	In- crease
Investment in the US				
All firms	3372	4%	92%	3%
Firms with at least 5% US revenue	492	6%	80%	14%
Firms expecting a reduction in their tax burden	157	8%	61%	31%
Investment in Germany				
All firms	3571	2%	92%	6%
Firms with at least 5% US revenue	489	3%	87%	10%
Firms expecting a reduction in their tax burden	153	10%	79%	11%
Firms planning to increase investment in the US	105	26%	61%	13%

Data source: ifo business survey March 2018

As a third part, we surveyed possible effects of the reform on exports to the US and imports from the US to Germany.<sup>1</sup> Across the overall firm sample, the effect on exports and imports is very limited. However, planned trade and investment responses are positively correlated. Amongst the firms with growing US investment, 11% intend to import more from the US and 34% plan to increase their exports to the US, compared to 14% who intend to export less to the US. The idea that firms may replace exports to the US by products produced in the US finds little support in our survey data. Along similar lines, of the firms cutting back on US investment 70% intend to import less from the US and 49% expect they will export less to the US. Investment and trade seem to be complements, rather than substitutes.

<sup>1</sup> Note that while we explicitly asked for responses to the TCJA, the survey was conducted at a time of high uncertainty regarding US trade policy. Threats of tariffs between the US and the EU might have hence impacted responses.

**Table 3: The firm level effects on trade (first firm level survey)**

	N	De-crease	No change	Increase
Imports from the US				
All firms	3430	4%	95%	1%
Firms with at least 5% US revenue	490	5%	93%	1%
By investment choice				
Firms planning to increase investment in the US	99	5%	84%	11%
Firms planning to decrease investment in the US	147	70%	30%	0%
Firms planning to increase investment in Ger-many	200	33%	63%	5%
Firms planning to decrease investment in Ger-many	57	37%	54%	9%
Exports to the US				
All firms	3483	3%	95%	2%
Firms with at least 5% US revenue	528	4%	89%	8%
By investment choice				
Firms planning to increase investment in the US	104	14%	52%	34%
Firms planning to decrease investment in the US	145	49%	49%	2%
Firms planning to increase investment in Ger-many	205	19%	73%	8%
Firms planning to decrease investment in Ger-many	57	44%	44%	12%

Data source: ifo business survey March 2018

We supplement this firm-level analysis by results from a firm-level survey which the ifo Institute conducted for the organisation *Stiftung Familienunternehmen*.<sup>1</sup> Based on a representative layered sample, the 2018 survey in May/June addressed international tax competition. More than 70 000 firms were contacted either via letter or electronic mail. In the end 1 263 firms sent in a filled-out questionnaire, corresponding to a response rate of about 2%. The distribution of respondents across sectors and firm size is similar to the German economy as whole.<sup>2</sup>

Our analysis focuses on a survey question which specifically addresses the US tax reform and its potential impact on German firms. Answers extend and complement the previous firm-level analysis. For once, instead of classifying US exposure based on US revenue, the survey directly identifies firms with existing US capacities.

<sup>1</sup> This is a non-profit organisation which is highly engaged in research with respect to family firms.

<sup>2</sup> More details on the survey can be found in Stiftung Familienunternehmen (2018).

Results on firm-level consequences are shown in Table 4. We first display the share of firms perceiving any consequences, then group answers into active reactions and indirect consequences, and subsequently present results by more detailed categories. Active reactions to the reform encompass increased procurement from and sales in the US as well as increasing investment in US firm capacity (options (1)-(4)). In turn, options (5) to (7) encompass changes in the tax burden as well as increasing US competition. These can be interpreted as an impact without further activities on the firm's part.

About 11% of all firms expect to benefit from tax cuts, with a much higher share of 73% amongst the firms with US production. Overall, one quarter of the firms are affected by the reform, either directly or indirectly. This reverses if we only consider firms with production plants in the US. In line with our ifo business survey results, manufacturing firms seem to be the most frequently affected, followed by firms in the trade and service sectors. The construction sector seems not influenced at all. Not surprisingly, large firms (both with respect to employees and turnover) tend to be more affected as they are more likely to be active on the US market. Answer shares to individual answers (1) to (7) are relatively small and quite similar across categories. Almost three quarters of firms with US subsidiaries anticipate increasing competition. Yet, 34% of firms with US subsidiaries intend to expand their existing capacities, while only one quarter expects an increase in US sales. This hints at some firms expanding in the US in order to export more following the reform.

**Table 4: Firms' impact and responses to the TCJA (second firm level survey)**

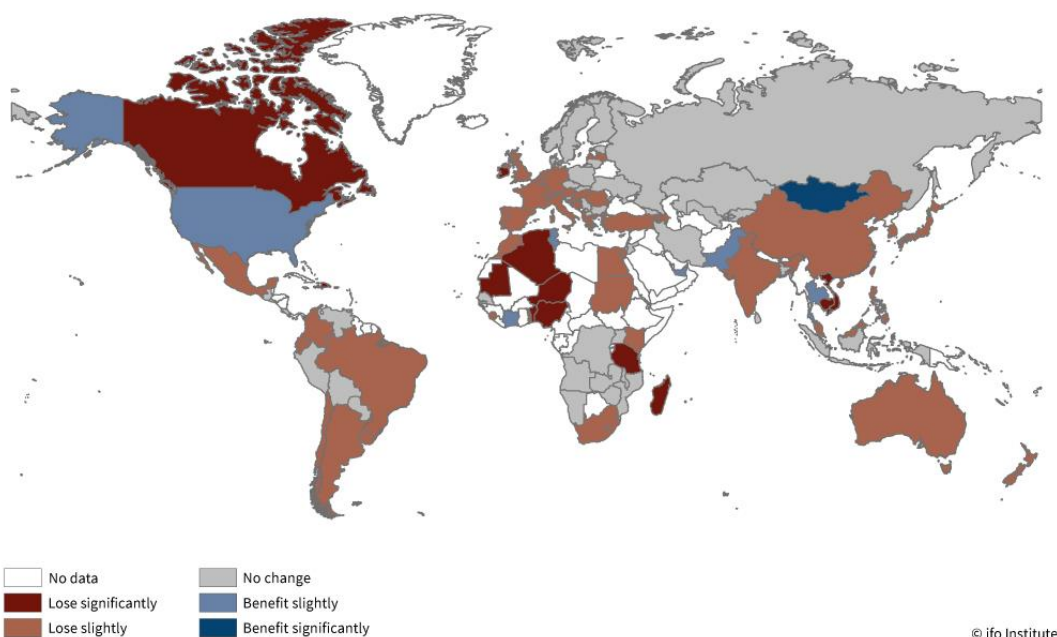
		Overall		Reaction?		Impact?									
		1-7		1-4		4-7		Reaction					Impact		
								(1)	(2)	(3)	(4)	(5)	(6)	(7)	
		N	Yes	No	Yes	No	Yes	No	Inputs	Sales	Extension US Capacities	New In- vestment capacities	Competition	Loss carry forward	Tax Cuts
	All	1263	26%	72%	10%	90%	22%	78%	1%	4%	5%	3%	11%	2%	11%
	US-Production	189	85%	14%	40%	60%	73%	27%	7%	25%	34%	17%	72%	15%	73%
Sector	Industry	416	35%	64%	15%	85%	31%	69%	1%	6%	8%	2%	13%	4%	16%
	Construction	111	6%	92%	2%	98%	5%	95%	0%	1%	1%	1%	2%	2%	2%
	Trade	158	22%	76%	8%	92%	20%	80%	1%	3%	5%	3%	14%	2%	6%
	Services	578	25%	72%	8%	92%	20%	80%	2%	3%	3%	3%	10%	1%	10%
Employees	Small	416	13%	86%	3%	97%	12%	88%	1%	1%	1%	1%	9%	0%	3%
	Medium	515	24%	75%	8%	92%	20%	80%	1%	4%	3%	2%	12%	1%	8%
	Large	332	46%	50%	20%	80%	39%	61%	2%	6%	12%	6%	11%	6%	27%
Turnover	Small	310	10%	90%	3%	97%	8%	92%	1%	0%	2%	1%	6%	1%	2%
	Medium	272	21%	76%	7%	93%	18%	82%	1%	3%	3%	1%	12%	1%	6%
	Large	681	36%	62%	14%	86%	31%	69%	1%	6%	7%	4%	13%	4%	17%

Data Source: Representative firm level survey for Stiftung Familienunternehmen from May/June 2018.

## 4. Global Survey Evidence

While the analysis in the preceding section focuses on planned reactions of German firms to the US tax reform, this section takes a wider perspective. We compare the views of around 1000 economic experts from 120 countries who participate in the ifo World Economic Survey (WES).<sup>8</sup> Each quarter, the panellists are asked to assess main macroeconomic variables in their respective country. In addition, the survey includes supplementary questions about political or economic issues of current interest. In the April 2018 survey, the recent US tax reform was the topic of these additional questions. In total, 1055 experts from 119 countries participated in the April survey. 907 respondents answered the supplementary questions.<sup>9</sup>

**Figure 1: Who stands to lose or benefit from changes in US tax policy?**



Note: Data based on the answers of WES II/2018. Colours represent the answer categories after recoding, where lose significantly was coded -2, lose slightly -1, no change 0, benefit slightly 1, and benefit significantly 2. Then an average of the answers was taken where -2 till -1 represents lose significantly, -0.9 till -0.2 lose slightly, -0.2 till 0.2 no change, 0.2 till 1 benefit slightly and 1.1 till 2 benefits significantly.

<sup>8</sup> The WES, compiled by the ifo Institute since 1981, aims at providing a timely and accurate picture of the current economic situation and economic trends over 100 key advanced, emerging and developing economies by polling more than 1000 experts quarterly. In selecting experts, emphasis is placed on their professional competence in economic matters and inside knowledge of their countries. See Boumans & Garnitz (2017) for further details. The survey has been proven to predict business cycles quite well, cf. Kudynowa et al. (2013). More studies have used the supplementary question for further research cf. Boumans et al. (2018).

<sup>9</sup>Initial results were published by Boumans and Krolage (2018).

We first asked our experts if they saw either benefits or losses for their own country. This initial assessment underlines the relevance of the reforms for the global economy: Figure 1 shows that experts around the world do expect their country to be affected by the TCJA. Experts in the United States are expecting a slight benefit from the tax reform, whereas negative assessments are most prevalent in countries with substantial US FDI (Jackson, 2017): in Canada, Germany, Ireland, Mexico, Switzerland and the United Kingdom. In these countries, three quarters or more of respondents anticipate negative consequences. However, most respondents from the Netherlands, which is one of the largest US FDI destinations, reported not to be affected by the reform (86.7%), while 31.2% expect to lose slightly.<sup>10</sup>

Table 6 addresses the effects of the reform on the US and on different worldwide regions.<sup>11</sup> As Table 6 shows, the responses clearly indicate that regions with close trade ties to the US most frequently anticipate negative outcomes (EU15 and the other advanced economies). Regions with comparably less economic integration with the US, for example the Commonwealth of Independent States (CIS) and Eastern Europe, expect to be less affected. While respondents from the US lean towards a positive assessment of the reform's impact, roughly a third of respondents think the US is going to be negatively affected by this reform. These perceptions may be driven by several factors, including the impact the reform might have on tax planning structures, tax revenues and investment. To further assess these impacts, the respondents were asked to evaluate the effects more specifically along various policy relevant dimensions.

Responses in Table 7 show the expected impact on tax revenues, investments, profit shifting to the expert's country, location of intellectual property rights, relocation of business headquarters, repatriation of offshore profits and balance of trade. Respondents from the US clearly expect increases along the previous mentioned dimensions. A vast majority of US respondents expects decreasing tax revenues. This is in line with the Congressional Budget Office's (2018) and the Joint Committee on Taxation's (2017) estimates. Most respondents from other countries, however, do not expect the reform to have a substantial impact on their countries' revenues. The largest effects are anticipated in non-EU advanced economies, where 31% expect a decrease and 14% anticipate an increase in revenue. Explanations are conceivable for both assessments. If profits or investments are moved towards the

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10 This might be explained by the bilateral investment agreement between the Netherlands and the US, the so-called Dutch-American Friendship Treaty (DAFT), which provides national treatment and free entry for foreign investors. Another explanation might be that although it is a large recipient of American FDI, the Netherlands is also a key export platform and pan-regional distribution hub for US firms (US Department of State, 2017).

11 The US category consists of 36 respondents from the US.

US, other countries' tax revenues would possibly decrease. However, firms around the world may also benefit from increasing consumption in the United States, and may even direct some of their possible revenue increases towards investment in other countries. This is in line with the results from the German business survey, which shows that while some firms substitute investment between countries, 14% of firms with US exposure plan to invest more in the US and in Germany.

**Table 5: Survey results of the expert survey - general impact**

	N	Lose significantly	Lose slightly	No change	Benefit slightly	Benefit significantly
United States	36	3%	31%	19%	33%	14%
EU15	292	4%	50%	37%	9%	1%
Newer EU members	126	0%	22%	70%	7%	0%
Other Advanced economies	100	5%	55%	23%	15%	2%
CIS & Emerging Europe	87	5%	18%	70%	7%	0%
Emerging Asia	51	6%	44%	40%	9%	0%
Latin America	107	13%	39%	38%	8%	2%
Africa	108	16%	26%	47%	10%	0%

Data Source: ifo World Economic Survey II/2018.

Although one of the aims of the tax reform was to boost domestic investment, US experts are divided about whether or not the reform will raise investment. Just over half of the US respondents agree that investment will rise in the US. Experts in other regions of the world are more prone to expecting a decline in investment in their own countries. Negative assessments are particularly prevalent across the border in Canada and Mexico, in emerging and advanced Asian economies, as well as major European economies with substantial US FDI, such as Germany and Ireland. In addition, negative perceptions are far more frequent in countries with moderately to high marginal effective tax rates (METR) that now exceed those of the US.<sup>12</sup> All else being equal, those countries offered lower corporate taxes than the US before the reform, but have now lost this advantage.

Roughly half of all US respondents expect the location of intellectual property rights to shift towards the US. Negative effects are predominantly feared in Asia and in advanced economies, including the EU-15, with the most negative assessment in Ireland and Canada. Positive assessments occur more frequently in emerging economies. However, responses do not

<sup>12</sup> Marginal effective tax rates were based on the analysis of Mintz (2018)



differ much between countries with and without an IP box regime.<sup>13</sup> In addition to strategically locating IP rights, multinational companies have access to additional strategies, for example shifting profits to low tax jurisdictions. 66% of US respondents expect that more profits will be shifted towards the US following the reform. The picture varies between other countries: around 30% of experts in advanced economies, in- and outside the EU, as well as in Asian economies, expect that profits will be shifted away from their countries, while this is expected by fewer experts in other regions of the world. Here it seems to make a difference whether a country has an IP box in place. While 31% of experts in countries with IP regimes expect decreasing profit shifting, this only applies to 20% in other countries. By contrast, around 12% of the respondents expect that more profits will be shifted towards their country.

In recent years, several large US companies raised substantial attention in the media, as they relocated their legal residence to a low tax country such as Ireland (Jolly, 2016). On average, companies reduced their effective tax burden, measured by the ratio of worldwide tax payments to profits, from 29% to 18% via corporate inversions (Congressional Budget Office, 2018). The US tax reform brings a shift from a worldwide towards a territorial tax system. This drastically reduces incentives to invert, as US corporations are now only liable to taxes on their US profits. Nevertheless, some relocation incentives remain, as some of the provisions of the Tax Cuts and Jobs Act specifically apply to US corporations. Notably, the reform introduces a minimum tax of 10.5% on the global income of US firms from intangible assets (GILTI). Corporate inversions could still be attractive to avoid this tax. Despite this incentive over half of US respondents believe the reform will result in an increasing number of headquarters being located in the US. As before, countries located in the vicinity of the United States like Canada, Mexico and some further Latin American countries, as well as those with substantial US FDI, such as Ireland, Switzerland, the UK and Germany, tend to expect the most negative impact. A similar finding applies to emerging Asian countries, with Chinese respondents more often expecting a relocation of headquarters than respondents in smaller Asian countries. By contrast, positive evaluations are not as concentrated across countries, but tend to occur more often in Emerging Europe, Asia, and Latin America.

As mentioned above, the tax reform also brought a fundamental change to the treatment of foreign profits earned by US multinational firms. Prior to the reform, foreign profits were taxable in the US, with credits for income taxes paid abroad. These taxes were deferred until repatriation. This led to a substantial accumulation of profits in foreign subsidiaries, often

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<sup>13</sup> Countries are classified as having an IP regime based on the OECD's assessment in: OECD (2017).

located in low tax jurisdictions. Moody's estimated that US non-financial corporates' offshore cash holdings amounted to \$1.4 trillion in 2017 (Moody's, 2017). Including re-invested profits, the Joint Committee on Taxation estimated that undistributed offshore earnings and profits even amounted to \$2.6 trillion in 2015 (Joint Committee of Taxation, 2016).

After the tax reform foreign profits will be exempt from US tax. However, a repatriation tax of between 8 and 15.5% - depending on the liquidity of assets - will be charged on non-repatriated foreign profits accumulated until 2017. This tax will be charged regardless of whether those earnings are repatriated or not, resulting in large one-time tax payments for many companies. As a result, around 80% of US respondents expect an increase in the repatriation of offshore profits to the United States.

Across the world, decreasing foreign cash holdings are expected by 23% of all experts, while 14% expect offshore profits to rise in their country. Negative perceptions are particularly high in some countries. According to a Congressional Research Service Report (Keightley, 2013), 43% of US corporations' overseas profits were reported in Bermuda, Ireland, Luxembourg, the Netherlands, and Switzerland. Unsurprisingly, experts in those countries anticipate a particularly large impact, with 43% predicting a decrease in reported earnings in their country. Amongst the remaining countries, experts in advanced economies and Asian countries tend to expect a negative outcome. Overall, negative anticipations are most frequent in countries with very low marginal effective tax rates, as well as countries with moderate tax rates that now exceed those of the US.

Next to the tax-related questions discussed above, the WES experts were also asked to assess how the tax reform will influence their countries' balance of trade (i.e. exports - imports). With the US president frequently criticizing the US trade deficit, trade effects also figure prominently in the political discussion. Overall, assessments are more ambiguous. While 20% of US experts expect net exports to increase, a third expect a decrease, in line with 38% of experts in other countries around the world. Experts in Asian countries as well as Latin America, although to a lesser degree, are likely to envisage decreasing net exports. Experts in other advanced economies have the comparatively highest likelihood of expecting an increase.

**Table 6: Survey results of the expert survey - effects of the tax reform**

	Tax Revenues			Investments			Profit shifting to country			Location of IP rights			Relocation of Head-quarters			Repatriation of off-shore profits			Balance of trade		
	+	=	-	+	=	-	+	=	-	+	=	-	+	=	-	+	=	-	+	=	-
United States	10	5	86	59	39	2	66	29	5	53	48	0	58	43	0	80	20	0	19	48	33
EU15	4	75	21	8	65	27	11	58	31	4	77	19	7	72	22	10	62	28	11	61	27
Newer EU members	1	94	5	6	78	16	8	85	7	2	86	12	7	81	12	15	81	4	12	73	15
Other Advanced economies	14	55	31	9	50	41	17	50	33	3	74	22	8	71	22	15	60	25	22	47	31
CIS & Emerging Europe	7	82	10	4	69	28	7	78	15	2	89	9	14	71	15	8	73	18	8	68	24
Emerging Asia	1	79	19	8	54	38	11	61	28	16	55	29	12	62	26	17	56	27	10	39	51
Latin America	2	85	13	7	54	39	14	62	24	9	76	15	11	71	18	16	69	15	14	47	39
Africa	3	85	12	16	62	22	13	76	11	20	75	5	5	89	6	8	84	8	16	62	22

Note: “+”, “=” and “-”, denote “increase”, “no change” and “decrease”, respectively. Numbers are in percentages. Source: ifo WES II/2018

## 5. Discussion

The Tax Cut and Jobs Act drastically altered the US tax system, also with substantial implications for multinationals with ties to the US. We assess firm-level survey data from Germany as well as global survey data to gauge the reform's impact around the world. Our results indicate that while the majority of German firms does not plan on adjusting their investments, many firms with considerable US exposure respond to the reform: About a third of German firms that expect to benefit from the tax cut and/or that have capacities in the US intends to invest more in the US. Effects on German domestic investment are more ambiguous: While some firms substitute between investment in both countries, others expand capacities in both locations. However, our results do not indicate that firms substitute US investment for German exports. When supplementing our analysis with worldwide survey data, our results point to a negative impact on tax revenues and investment in countries with close economic ties to the US.

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## Appendix: Exact wording of the survey questions

### Ifo Business Survey questions (March 2018):

- 1) Wieviel Prozent des Umsatzes erzielt ihr Unternehmen in den USA? \_\_\_\_%
- 2) Wie steht Ihr Unternehmen im Wettbewerb mit Unternehmen in den USA?  
☐ Stark      ☐ Mittel      ☐ Gering      ☐ Gar nicht
- 3) Die steuerliche Belastung Ihres Unternehmens wird durch die US-Steuerreform  

verringert
gleich bleiben
steigen

kurzfristig	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
langfristig	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- 4) Wie werden Sie als Unternehmen auf die US-Steuerreform reagieren?  

verringern
unverändert lassen
erhöhen

Exporte in die USA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Importe aus den USA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investitionen in den USA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investitionen in Deutschland	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### English Translation:

- 1) How many percent of your turnover is generated in the US? \_\_\_\_%
- 2) How exposed is your company to competition to US firms?  
☐ strong      ☐ medium      ☐ less      ☐ not at all
- 3) The tax burden of our company due to the US tax reform will  

decrease
stay the same
increase

Short-term	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Long-term	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- 4) How will your company react to the US tax reform?  

reduce
stay the same
increase

Exports to the US	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Imports from the US	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment in the US	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment in Germany	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Familienstiftung Unternehmen questions (May/June 2018):

Die USA haben die Unternehmenssteuern drastisch reduziert. Welche Auswirkungen hat dies für Ihren Betrieb?

(Mehrfachantworten möglich)

- |                                                                                         |                                                                                                      |
|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> (1) Wir beziehen Vorprodukte verstärkt aus den USA             | <input type="checkbox"/> (5) Verstärkter Wettbewerb durch US-Konkurrenz                              |
| <input type="checkbox"/> (2) Wir setzen Produkte und Leistungen verstärkt in den USA ab | <input type="checkbox"/> (6) Wir erwarten einmalige Belastung durch Neubewertung der Verlustvorträge |
| <input type="checkbox"/> (3) Wir bauen US-Kapazitäten aus                               | <input type="checkbox"/> (7) Wir profitieren von reduzierten Steuersätzen                            |
| <input type="checkbox"/> (4) Wir errichten US-Kapazitäten neu                           | <input type="radio"/> Keine                                                                          |

English Translation:

The United States have drastically reduced corporate tax rates. Which consequences does this have for your own business? (Multiple answers possible).

- |                                                                             |                                                                                                         |
|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> (1) We obtain more inputs from the USA.            | <input type="checkbox"/> (5) Increasing competition with US firms                                       |
| <input type="checkbox"/> (2) We sell more products and services in the USA. | <input type="checkbox"/> (6) We expect a single liability due to a re-evaluation of loss carry forward. |
| <input type="checkbox"/> (3) We extend existing US capacities.              | <input type="checkbox"/> (7) We benefit from reduced tax rates.                                         |
| <input type="checkbox"/> (4) We build up new US capacities.                 | <input type="radio"/> None                                                                              |

### Ifo World Economic Survey II/2018 questions:

Who stands to lose or benefit from the US tax reform?

	Lose significantly	Lose slightly	Nothing will change	Benefit slightly	Benefit significantly
Your country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The US	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

How will the US tax reform affect your country/ the US?

	Increase	No change	Decrease
Tax revenues in	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trade balance (exports – imports) in	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investments in	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit shifting to	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Location of intellectual property rights in	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Relocation of business headquarters to	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Repatriation of offshore profits to	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>