Incidence of corporate tax credit on profits, wages and employment: the case of France

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Abstract

This paper exploits a far-reaching French reform as well as a very rich set of administrative data to evaluate the impact of a corporate tax credit aimed at reducing labor costs on several outcomes: employment, profit and wages. The effects of the Competitiveness and Employment Tax Credit (CETC), a refundable tax credit based on the wagebill, introduced in France in 2013, are estimated thanks to double (and triple) difference methodologies, instrumented by the intensity of the intention to treat, thanks to data at the firm and individual levels on the period 2010-2014. Our results show that this relatively large tax break - about 17 billion euros per year - does not succeed in boosting employment in the first two years after being set. We do not see neither clear-cut positive impact on corporate profits. However, wages seem to have increased significantly in more intensively treated firms, particularly those of white-collar employees. If these results cast doubts about the effectiveness of such tax credits, they give new quasi-experimental evidence about the importance of rent sharing in the labor market.

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