Essays in Property Taxation and Multinational Tax Avoidance

Chapter 1: “Capitalizing on Capped Taxable Values: How Michigan Homebuyers are Paying for Assessment Limits” (Job Market Paper)

By capping the growth of taxable values against which property taxes are levied, acquisition-value assessment limits can give rise to wide variation in tax obligations for owners of similar homes. Under the Michigan property tax system, these idiosyncratic differences in tax liability are temporarily inherited by new homebuyers before evaporating in the year after purchase, possibly triggering a large upward revision in tax liability. I exploit the mechanical relationship between these differences and sellers' years of ownership to estimate the effect of initial homebuyer tax obligations on sale prices using data on homes sold in Ann Arbor, Michigan over the period 1997-2007. This approach avoids many of the econometric problems that typically plague estimation of property tax capitalization and provides an opportunity to evaluate whether households recognize the tax implications of their home purchases.

Consistent with anecdotal evidence, I find that homebuyers on average fail to understand the Michigan property tax system. In particular, sellers of homes with relatively low tax obligations are dramatically overcompensated—as if such reduced obligations were permanent. The limited salience of the property tax in this setting may thus mitigate the efficiency losses due to reduced real estate turnover and homeowner mobility that are typically associated with acquisition-value assessments.


The American Jobs Creation Act of 2004 provided a substantial tax benefit to U.S. multinational corporations (MNCs) in the form of a temporary 85 percent deduction for repatriated dividends. An unforeseen consequence of this tax holiday may have also been to induce firms to shift domestic corporate profits to low-tax foreign subsidiaries for immediate repatriation and thereby escape higher rates of corporate income taxation. This paper provides a theoretical model to illustrate round-tripping of this nature and estimates the extent to which income shifting by U.S. multinationals responded to changes in the effective country-specific repatriation tax on foreign-source income.

Using firm-level data collected by the Bureau of Economic Analysis on the operations of U.S. multinationals and their affiliates, I estimate the elasticity of several proxy measures of income shifting with respect to changes in the repatriation tax in a panel difference-in-difference-type setting around the tax holiday. Accounting for the endogeneity of
changes in the repatriation tax to the extensive margin repatriation decision, I find a short-run elasticity of affiliate non-equity pre-tax income of 1.3, slightly below the average long-run elasticity previously found in the literature. This likely represents an upper bound estimate of the round-tripping response given the relatively indirect nature of the proxy measure of income shifting used. Results involving more direct proxies such as the difference in related-party versus arm's-length goods trade balances, related-party sales ratios, and affiliate net interest payments are inconclusive. Hence, the overall results suggest very modest effects of a large temporary reduction in the repatriation tax on short-run income shifting activity and may alleviate concerns with respect to the income reallocation consequences of moving to a territorial tax system in the U.S., as is often proposed.

Chapter 3: “Investor Responses to the Proposed 2009 Boxer-Ensign Dividends Received Deduction: Rewarding Multinational Tax Avoidance?”

On February 3, 2009, the U.S. Senate rejected an amendment to the fiscal stimulus bill that would have instituted an 85 percent dividends received deduction for U.S. multinational corporations. An important criticism of the earlier version of this provision enacted under the American Jobs Creation Act of 2004 was that it offered a generous reward for international tax avoidance. In order to answer the question of how large this reward might have been, I exploit the relatively-precise timing of the announcement and subsequent rejection of the Boxer-Ensign Senate amendment in 2009 to examine investor valuations of the expected benefit accruing to U.S. multinationals under a renewed tax holiday. Of special interest is the relationship between abnormal stock market returns around the event dates and those firm characteristics that have elsewhere been shown to facilitate income shifting activity such as the importance of intangible assets and proxies thereof.