

# Financial and real impacts of the wealth tax in Colombia\*

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## Abstract \*

Taxing wealth has been one of the major changes of the tax policy in both advanced and emerging economies after the first stage of the COVID-19 pandemic. In this paper, we study the effects of a tax reform implemented in 2011 during a recovery period in Colombia. The reform consisted in the rise of the contribution rate for both financial and non-financial firms depending on their wealth level (i.e., measured by the firm's liquid capital). We evaluate the effects of the tax reform on the firms' capital structure and on their supply of bank credit. The analysis is conducted using administrative information from the Colombian credit registry that includes the universe of corporate credit at the bank-firm-loan level. We match the credit registry data with regulatory data on firms and banks' balance sheet and financial statements. We employ a Diff-in-Diff approach that allows identifying changes in the supply of credit to non-financial firms affected by the tax (Khwaja and Mian, 2008). We compare the effects of the tax reform among similar firms that only differs in their liquid capital that condition their tax treatment (i.e., treated firms are those taxpayers and non-treated firms are the non-taxpayers). We examine the real effects on the firms affected through the changes observed in their credit supply after the tax reform. We find three main results. First, we identify that the tax reform affected the firms' leverage and induced a higher demand for credit, confirming that changes on taxes affects the firms' capital structures. Second, banks increased the supply of credit to those affected firms and charged significantly higher interest rates. Furthermore, among affected firms, those highly leveraged firms exhibited lower supply of credit compared to affected firms with less leverage, suggesting that the tax reform did not induce higher bank risk-taking.

*Keywords: Capital Structure, Banks, Tax Levy*

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