

Referee report on tsoutsoura, margarita, 2010

[Literature](#), [Russian Literature](#)



Referee Report on Tsoutsoura, Margarita, The effect of succession taxes on family firm investment: Evidence from a natural experiment Institution: The Effect of Succession Taxes on Family Firm Investment: Evidence from a Natural Experiment This paper looks at the impacts of succession taxes on investment decisions and firm succession. The author uses a tax reform in 2002 in Greece to show these effects by developing a unique database that has all the information on transfers. The findings of this paper show that financial constraints resulting from tax are another way through which taxes can impact a firm's investment. The author comes up with two outstanding findings using two methodologies to carry out the study. The first one is that transfer taxes have a highly negative impact on the investments of a firm after succession within the family. Secondly, that these effects on investment are exceptionally high for family firms belonging to owners with little income from other sources. In most cases, these entrepreneurs do not have an alternative way to service costly external finance). However, the potential of this paper is not fully, but nearly realized in the current version, and some issues need to be checked before publishing the paper. One such issue is about the use of data in your study. As you have clearly stated, you show that when firms undergo an intra-family transfer of ownership in the presence of high succession tax rates they experience a more than 40% drop in investment around succession, depletion of cash reserves, and slow total asset growth. However, in your analysis, you decide to use data up to the time when the tax reform became enacted in 2002 even though you collected data for up to 2007. In my opinion, for better comparison purposes, I think you need to involve a bit more data after the enactment of the law. In

this way, one will clearly see the effect of the high tax rates of 20% as compared to that of less than 2.4%. Another issue is that you need to show how identifying the gender of the owner's first-born child aids your bid to determine the effect of succession taxes on the succession, investment, and decisions of a firm. I think the gender of the first-born child should not be a main variable in this case because it does not clearly bring out the intended meaning. Instead, it is better to use the "first-born" variable because it can affect succession in terms of family and unrelated successions. The entrepreneur can decide to either choose his or her first-born child or choose an unrelated person to succeed them, thus the succession tax. Therefore, it is better to show the relevance of the information that you use with regard to your topic of study. Also, show the relevance of data about the percentage of women in parliament to the effect of succession taxes to the decision of companies. Finally, the third issue is determining whether an individual would transfer the ownership of their company to another person, related or not, regardless of the succession taxes. In this case, you need to identify the variables to use when identifying internal financial constraints and their relationship with ownership transfer. There was a case where entrepreneurs have to sell their companies to despite the fact that a family succession could be highly efficient. Is there a variable that one can use that does not involve succession taxes? I ask this because as you have concluded, some transfers do not require the consideration of succession taxes since they will still occur with or without them. However, since your study is to determine the impact of succession taxes, then you could find a way to include this data in relation to the taxes. For instance, you can determine the probability

of the individuals experiencing economic constraints to decide to sell their company before, and after the succession tax reform act. In summary, paper provides a quite substantial descriptive overview of how succession taxes affect the decision to invest or choose a successor. As I had mentioned earlier, try to avoid including irrelevant data that do not contribute to the objective of your study. For instance, one cannot determine the relevance of data about gender equality the percentage of women parliamentarians that you included in the paper. In addition, it is advisable to use data from an acceptable timeframe of the study so as to ensure accuracy of your findings. Therefore, there should be further assessment of valuable data so as to filter what is relevant for the effects of succession taxes on a firm's decisions..

References Burkart, M., Panunzi, F., and, Shleifer, A. (2003) Family Firms. *The Journal of Finance*, 58, p. 2167-2202. Faccio, M., and Lang, L. (2002) The ultimate ownership of western European corporations. *The Journal of Financial Economics*, 65, p. 365-395. Gross, D. B. (1995) The investment and financing decisions of liquidity constrained firms. Ph. D. dissertation, Massachusetts Institute of Technology. Tsoutsoura, Margarita. (2009) The Effect of Succession Taxes on Family Firm Investment: Evidence from a Natural Experiment. Working Paper, Columbia University. Rauh, J. D. (2006) Investment and financing constraints: Evidence from the funding of corporate pension plans. *The Journal of Finance*, 61, p. 33-71.