Corporate Tax Cuts and Merger Activity *

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1 Introduction

Over the past four decades, statutory corporate tax rates have steadily declined worldwide, falling from an average of around 40% in 1980 to roughly 24% in 2024 (Tax Foundation, 2024). Switzerland has closely followed this international trend, particularly with the landmark 2019 corporate tax reform that substantially reshaped the fiscal environment for firms. This global trend has generated a lively debate not only about tax competition and revenue losses, but also about its potential impact on market structure. A common concern is that lower corporate taxes may fuel consolidation by enabling firms to expand more aggressively through mergers and acquisitions (M&A). At the same time, recent economic research has highlighted the increasing dominance of a small number of firms, raising concerns about declining labor income shares and reduced economic dynamism (Autor et al., 2020; De Loecker et al., 2020).

Yet the link between tax cuts and M&A activity is theoretically ambiguous. On the one hand, lower tax rates increase firms' after-tax profits, strengthening their internal financing capacity and potentially facilitating acquisitions. On the other hand, tax cuts reduce the value of debt tax shields, since interest payments are deductible. This not only makes debt-financed takeovers less attractive for acquirers, but also reduces the tax-related benefits of acquiring already leveraged targets. Whether corporate tax cuts stimulate or dampen M&A activity is therefore an open empirical question with important implications for how we think about the relationship between tax policy and market concentration.

This project provides new evidence on the relationship between tax policy and firm behavior using a novel dataset of Swiss M&A deals. The setting is particularly informative given Switzerland's decentralized tax system and the large statutory rate cuts implemented by many cantons in response to the 2019 reform. Our analysis shows that, contrary to widespread concerns, corporate tax cuts do not stimulate M&A activity. Instead, takeover activity declines in the years following a tax reduction, particularly among large and foreign

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acquisitions. These preliminary results suggest that tax competition may not fuel corporate consolidation through the M&A channel, and they highlight the need for a more nuanced understanding of how firms respond to changes in taxation.

Figure 1 provides a first look at these dynamics in Switzerland. The figure plots the number of M&A transactions alongside the average cantonal corporate tax rate between 2015 and 2022. While statutory rates declined substantially after the 2019 reform, takeover activity does not show a corresponding increase. If anything, transactions appear to level off or decline during the years when tax cuts were implemented. This descriptive evidence highlights the puzzle at the heart of our study: despite a large reduction in tax rates, there is no sign of a surge in M&A activity.

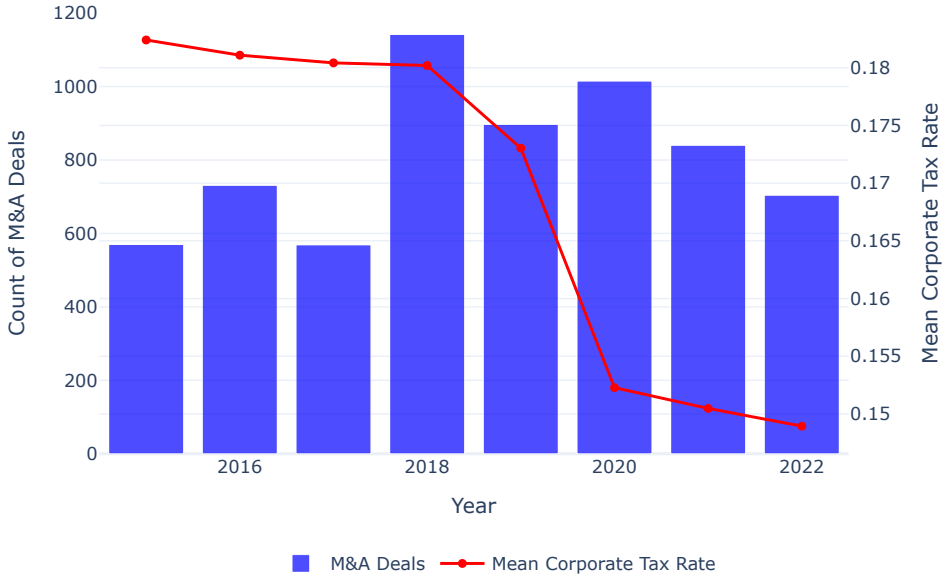


Figure 1: M&A activity and average corporate tax rates in Switzerland, 2015–2022. Bars show the total number of transactions per year, while the line plots the mean effective tax rate across cantons.

This project contributes to several strands of research on taxation and corporate behavior. First, it extends the literature on firm responsiveness to corporate taxation. Prior studies show that firms adjust along many margins when tax rates change, including location, scale, and organizational form (Brülhart et al., 2012; Krapf and Staubli, 2025). We add to this line of work by examining M&A activity as a distinct and economically important channel of adjustment. Our evidence shows that, despite substantial variation in cantonal corporate tax rates, M&A activity does not expand, and in fact declines in the aftermath of tax cuts–pointing to a previously undocumented mechanism.

Second, we contribute to the literature on the real effects of corporate tax cuts. Existing research has established impacts on investment, employment, and wages (Suárez Serrato and

Zidar, 2016; Fuest et al., 2018; Kennedy et al., 2025), but has largely overlooked implications for market structure. By analyzing how tax reforms shape takeover activity, our study shifts the focus from within-firm adjustments to broader patterns of consolidation, thereby bridging public finance and industrial organization.

Third, we build on work studying tax externalities and competitive distortions. For instance, Di Marzio et al. (2025) show how tax non-compliance can reshape competition by advantaging certain firms. We highlight a different mechanism: even when all firms comply, changes in statutory tax rates can affect the relative attractiveness of acquirers and targets, especially when targets are highly leveraged. This adds a new dimension to understanding how tax policy influences relative market positions.

Finally, the project contributes to the literature on mergers and acquisitions. Classic studies show that takeover activity often comes in waves driven by liquidity conditions or industry shocks (Harford, 1999, 2005). We bring taxation into this discussion, showing that corporate tax cuts–though they alter financing conditions – do not trigger merger waves. This finding directly challenges the widespread concern that international tax competition fuels consolidation through M&A.

2 Data and Institutional Context

Switzerland provides a particularly suitable setting to study these issues because of its decentralized tax system and recent reforms. Corporate taxation is levied at three levels of government: the federation, 26 cantons, and over 2000 municipalities. Cantons play the central administrative role in collecting corporate income taxes and enjoy significant autonomy, leading to substantial variation in tax rates both across regions and over time.

The 2019 Swiss corporate tax reform marked a turning point. Previously, so-called "status companies," which generated little domestic profit but substantial foreign profit, benefited from preferential cantonal taxation. This arrangement came under international scrutiny through the OECD's Base Erosion and Profit Shifting (BEPS) initiative. From January 2020, preferential treatment was abolished, and new patent box regimes were introduced, which required firms to demonstrate real economic substance. In response, many cantons substantially reduced their statutory tax rates to preserve competitiveness, thereby generating a unique source of variation for empirical analysis.

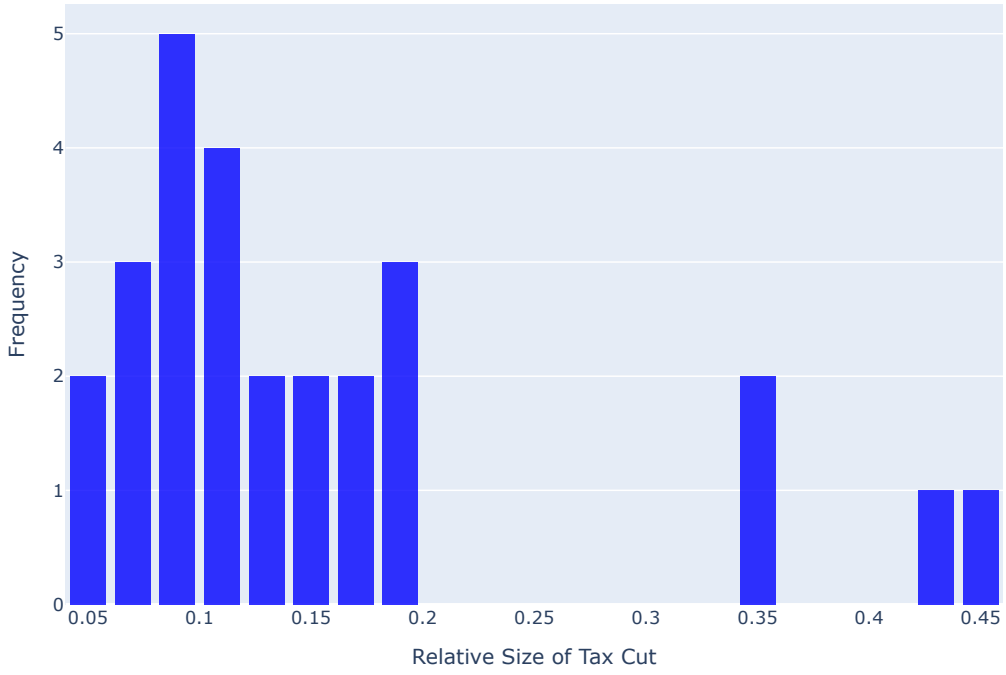


Figure 2: Distribution of the size of corporate tax cuts that occurred in Swiss cantons between 2015 and 2022.

To measure M&A activity, we constructed a novel dataset covering the years 2015 to 2022. Unlike commonly used M&A datasets in corporate finance, which typically focus on publicly listed firms, our data provide comprehensive coverage of all firms operating in Switzerland, including privately held and smaller enterprises. The dataset combines STAGRE, an administrative source on business groups, with the Swiss Commercial Registry, allowing us to identify 6,468 M&A events during the sample period. For each transaction, we observe detailed firm-level characteristics such as age, group membership, and employment, enabling a richer analysis of takeover dynamics than is possible with standard sources.

3 Empirical Strategy

To estimate how corporate tax cuts affect firms' propensity to engage in mergers and acquisitions (M&A), we exploit the substantial cross-cantonal and temporal variation in effective tax rates generated by the 2019 Swiss corporate tax reform.

As a first step, we conducted a canton-level analysis using a dyadic panel of canton-pairs, where M&A counts at the acquirer–target canton level were regressed on acquirer and target effective tax rates. These preliminary results suggested that M&A activity declined in the two years following cantonal tax cuts, with stronger effects for large and foreign acquisitions. While informative, this aggregate approach necessarily abstracts from firm-level heterogeneity and the mechanisms through which taxation affects takeover incentives.

We are therefore extending the analysis to a firm-level panel, which will constitute the core empirical contribution of the project. In this refined design, the unit of observation is a firm-year, and the dependent variable is the number of acquisitions undertaken by firm f in year t. The key explanatory variable is a firm-specific effective tax rate, ETR_{ft}, defined as a weighted average of the tax rates the firm's establishments face. This measure captures that multi-establishment firms are differentially exposed to cantonal reforms depending on the geographical composition of their operations.

The baseline specification is estimated using a Poisson pseudo–maximum likelihood (PPML) estimator:

$$\mathbb{E}[M\&A_{ft} \mid \cdot] = \exp\left(\alpha + \sum_{k=-2}^{2} \beta_k \, ETR_{f,t+k} + \mu_f + \delta_t + \theta_{st}\right),$$

where $M\&A_{ft}$ denotes the count of acquisitions by firm f in year t, and $ETR_{f,t+k}$ is the firm-specific effective tax rate in year $t+k$. Including two lags and two leads allows us to capture both delayed adjustment in takeover activity and any anticipatory effects. Firm fixed effects μ_f control for time-invariant heterogeneity across firms, δ_t are year fixed effects, and θ_{st} are sector-year fixed effects based on the firm's main industry.

This PPML event-study design has several advantages. First, it directly models the count nature of M&A outcomes, which include a large share of zeros, while remaining robust to overdispersion. Second, the distributed-lag structure provides a dynamic picture of how tax reforms affect takeover activity over time. Finally, the fixed effects absorb both firm-specific unobservables and broader macroeconomic shocks, isolating the variation coming from changes in cantonal tax rates.

Results from this firm-level PPML analysis are currently in progress and will be available for presentation at the conference.

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