

ABSTRACT

This study uses a firm-level dataset to examine the impacts of taxation on multinationals' decisions to set up new foreign subsidiaries in developing ASEAN countries. While overall the taxation plays a crucial role on the location decision, the findings suggest that, at low tax rates, further tax reductions may be less effective at attracting MNEs. The analyses also indicate important heterogeneity in the tax responsiveness. First, the tax sensitivity for high-tech firms is significantly lower than that for low-tech firms. Second, having a prior presence in the respective host country is associated with substantially lower tax responsiveness. Finally, in accordance with international-tax-avoidance considerations, the tax responsiveness is significantly diminished for affiliates with a connection to tax-haven countries. These findings together underline the important role of firm heterogeneity and provide important policy implications for developing-country governments that consider employing tax incentives to attract MNEs.