

Corporate Tax Stimulus and Investment in Colombia

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We use a yearly dataset of plant level investment in Colombian firms during the period 1997 to 2007, to assess the impact of a tax incentive for firms that invest in fixed assets implemented in 2004. We find that there is a positive and statistically significant correlation between the boom observed in investment and the adoption of the tax policy. However the correlation vanishes when we control for year specific effects. This result is robust to changes in the empirical specification, changes in estimation techniques, the inclusion of additional controls, and changes in the data set among others. Overall we conclude that the analyzed tax stimulus was ineffective to promote investment in Colombia.