

[Working Paper No. 1001](#)

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

Autores y/o editores

[Melo-Becerra, Ligia Alba](#)

[Ávila-Mahecha, Javier](#)

[Ramos-Forero, Jorge Enrique](#)

The paper assesses the role of taxes on investment in Colombian firms. The analysis is carried out at the firm level for the period 2003-2014. During this period, the national government set five different tax reforms, including changes in the statutory tax rates, tax credits and incentives for corporate investment. The effect of corporate taxation on investment is estimated by first determining the impact of taxation on the cost of capital by computing the effective marginal tax rates (EMTRs) at firm level. Then, we estimate the impact of the cost of capital on investment through a panel data regression. Endogeneity is controlled by an instrumental variable approach, simulating post-reform effective marginal tax rates under pre-reform firm characteristics. Results are robust with different control variables, although some significant differences by size and economic sector of the firm are found.