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Taxing the wealth of SMEs negatively affects their capital structure and real activity.

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## **Abstract**

We study the financial and real effects of a wealth tax reform in Colombia that included a large share of small and medium-sized enterprises (SMEs) as new taxpayers. The tax was introduced in response to a severe weather shock that affected several regions of the country. We use a unique administrative dataset consisting of business loans from the credit registry, matched with balance sheet data and tax reports from both banks and non-financial firms. We identify a concentration of firms around the new tax threshold confirming anticipation of the tax by some affected firms. The new taxpayer firms exhibit tighter credit conditions compared to non-taxpayers firms. Those firms that anticipated the tax and those with ex-ante higher leverage show even tighter credit conditions. The reallocation of credit is higher among banks with high tax contributions. The tax reform also affected the allocation of trade credit among new taxpayers. Affected firms exhibit substantial negative real effects on investment, productivity, and employment. Our results indicate that taxing the wealth of SMEs affects their capital structure and real activity.