
[Download](#)

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). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. 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.

AUTHORS AND/OR EDITORS

[Rincón-Castro, Hernán](#)

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

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.