＜*FSA Research Review Vol. 6 (March 2010)*＞

Japanese Firms' Debt Policy and Tax Policy: A Panel Analysis

Shigeki Kunieda*

Abstract

Based on the cross-section data of the listed firms in Japan, Kunieda, Takahata and Yada (2009) estimates the marginal tax rates of individual firms with careful consideration to the asymmetric treatment of income and loss and the carry forward of loss in the corporate tax system, and shows that the difference in the marginal tax rates affects Japanese firms' debt policy significantly. In this paper, I extend the analysis using the panel data of marginal tax rates and other financial data of Japanese firms. As in Kunieda, Takahata and Yada (2090), the empirical analysis using cross section data and pooling data shows that the difference in marginal tax rates affects Japanese firms' debt policy. Further, these results are confirmed in the panel data estimation using fixed effect model with time effects and the random effect model, although the effects was insignificant in the fixed effect model with both time and individual effects. This conclusion is consistent with the previous studies such as Graham (1996). If the asymmetric treatment of debt and equity in the corporate income tax system distorts the choice of debt and equity, the corporate income tax reform toward equal tax treatment of debt and equity is desirable.

Keyword: debt policy, capital Structure, marginal tax rate, and corporate taxation

---

* Associate Professor, Graduate School of International and Public Policy, Hitotsubashi University (Research Fellow, Financial Research and Training Center, Financial Service Agency)

This paper is based on a part of the joint study "Japanese Firms' Debt Policy and Tax Policy" with Junichiro Takahata (Hitotsubashi University and Policy Research Institute of Ministry of Finance) and Haruna Yada (Policy Research Institute of Ministry of Finance). I would like to thank them for their kind approval of usage of a part of the results of the joint study. I also would like to thank Satoshi Watanabe (Hitotsubashi University) and the participants at the seminar at Financial Research and Training Center for their valuable comments. The opinions expressed are those of the author and do not represent the views of Mr. Takahata, Ms. Yada, Policy Research Institute of Ministry of Finance, Financial Service Agency or Financial Research and Training Center.