

"The Impact of Corporate Taxes on R&D and Patent Holdings"

This paper complements a small but growing literature on the effect of corporate taxes on R&D investment and patent holdings. We provide evidence that patenting strategies are exploited as a device to transfer income to low-tax jurisdictions. Using data on the population of corporate patent applications to the European Patent Office, we show that the location of R&D investment and patent ownership is geographically separated in a non-negligible number of cases. Moreover, our results suggest that this geographical split is partly motivated by tax considerations. We find that countries which levy low patent income taxes attract ownership of foreign-invented patents, especially those patents that have a high earnings potential. Analogously, inventor countries with high patent income tax rates observe ownership relocations of high-quality patents from their borders. Moreover, our results suggest that the probability for a patent to be owned by a party in a tax haven country significantly decreases if the inventor country has implemented controlled foreign company laws.