

Do Corporate Taxes Affect Workplace Safety?

Daniel Bradley University of South Florida

Connie X. Mao Temple University

Chi Zhang University of Massachusetts Lowell

July 31, 2018

Abstract

We examine how workplace injury rates change when firms are subject to a corporate tax shock. We find that tax increases lead to a significant increase in reported injuries, but tax decreases have no similar effect. Our difference-in-differences empirical strategy relies on staggered state-level corporate tax changes that exploits spatial discontinuity in treatment and control establishments located in contiguous border counties within the same firm. The results are strongest in industries with low union bargaining power, for firms with high marginal tax rates, poor safety culture scores, firms that barely meet or beat analysts' earnings forecasts and firms that hire seasonal workers. Our results suggest that tax increases lead to real effects at the expense of employees, with no similar benefit accruing for tax cuts.

JEL Classification: G30; H25; H32; J28; K32

Keywords: workplace safety, employee welfare, corporate taxes, natural experiments

Daniel Bradley, Department of Finance, University of South Florida, Tampa, FL 33620. Tel: (813) 974-6358; Fax: (813) 974-3084; Email: danbradley@usf.edu. Connie X. Mao, Department of Finance, Fox School of Business, Temple University, Philadelphia, PA 19122. Tel: (215) 204-4895; Fax: (215) 204-1697; Email: cmao@temple.edu. Chi Zhang, Department of Finance, Manning School of Business, University of Massachusetts Lowell, MA 01854. Tel: (978) 9345472; Email: Chi_Zhang1@uml.edu. We thank Fernando Anjos, Richard Evans, Miguel Ferreira, Helena Isidro, Miguel Sousa and seminar participants at ISCTE-University Institute of Lisbon, Nova School of Business and Economics and the University of Porto. Part of this work was completed when Bradley was a Fulbright Scholar at ISCTE-University Institute of Lisbon.