“Tax and the Corporate Pyramid”

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(and Brian R. Cheffins)

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Jerome Greene Hall, Room 940

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Corporate pyramids are the exception to the rule in the United States. Morck (2005) and Morck and Yeung (2005) attribute this largely to the U.S. introducing intercorporate taxation of dividends -- a feature of tax law most countries lack -- as part of the New Deal. We test the impact of the introduction of intercorporate taxation of dividends by examining SEC filings made between 1936 and 1938 by companies owning 10% or more of shares of companies registered with the SEC. We find companies owning large stakes in publicly traded firms rarely sought to exit, which implies intercorporate taxation of dividends had at best a modest impact on whatever pyramidal structures were in place. We account for the rarity of corporate pyramids in the U.S. largely in terms of history, indicating that prior to the New Deal they were only ever prevalent in the utilities sector, where elimination of pyramidal structures was driven primarily by the Public Utilities Holding Company Act of 1935.