

The Real Effects of Job Protection Legislation on Firm Performance – Evidence from German Inheritance and Gift Tax Law

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Abstract

This paper examines the real effects of employment protection measures on firm performance by leveraging a unique feature of German inheritance and gift tax law. Specifically, we exploit the preferential tax treatment granted to gratuitous business transfers, which is contingent on meeting minimum holding periods and payroll sum requirements. To study these effects, we identify firm ownership changes triggered by the death of the owner, utilizing Orbis ownership data and publicly available death records.

We merge this data with administrative employment data and employ a stacked difference-in-differences design, exploiting a size-dependent applicability threshold. By comparing firms subject to payroll-sum requirements to those exempted, we isolate the causal impact of these provisions, as both treatment and control group undergo an exogenous succession event. Our preliminary findings indicate that the minimum-employment requirements significantly reduce employment growth, with affected firms experiencing up to 20% slower growth relative to the control group.