Preserving Jobs, Freezing Dynamics?
Employment Effects of Conditional Inheritance Tax Relief

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Abstract

We analyze the impact of tying preferential tax treatment of family firms undergoing succession to an employment preservation clause (EPC), which requires the new owners to maintain a specified fraction of the firm's pre-transfer wage bill. Exploiting the 2016 extension of the German EPC to firms with 6–20 employees and linked ORBIS-IAB employer-employee data, we show that exposed firms forgo employment growth and shift the workforce toward cheaper labor. The composition shift begins before the transfer, while pre-transfer headcount remains unchanged.

After the transfer, an employment gap opens: within five years, exposed firms are about 4 percent smaller than comparable non-family transfers and pay about 4 percent lower average wages, with no detectable change in revenue or productivity. These intention-to-treat estimates suggest that employment preservation clauses secure wage-bill stability at the cost of slower growth in succeeding firms.