

Head of Communications:
Dr. Maartje Koschorreck
Phone: 0621 181 - 1080
koschorreck@uni-mannheim.de
www.uni-mannheim.de

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Press Release

GBP Monitor: Property Tax Reform - Digital Transformation Paralyzed by Current Cost-Benefit-Ratio

Companies are very slow in implementing digitalization measures relating to the property tax reform. Only companies providing law and tax consulting services have completed the planned measures. The “digital property tax”, promised by Olaf Scholz when he was Federal Minister of Finance, is still a long way off. One reason for this is that the cost-benefit ratio is not favorable for many companies. For small companies and for companies in Baden-Württemberg, where the processes are less complex due to Baden-Württemberg’s standard land value (Bodenrichtwert) model, digitalization measures do not seem to pay off. This is documented in the February report of the German Business Panel (GBP).

The property tax reform in Germany was designed to reevaluate property, and, at the same time, to allow for a digitized and thus more efficient property tax law. The deadline for submitting the property tax return, which had already been extended, expired at the end of January. However, a property tax return has not been submitted for 25 percent of real estate property. Companies are also slow in implementing the planned measures in the field of digital transformation. This is documented in the February report of the German Business Panel. Only companies providing law and tax consulting services have completed the planned measures. In a January survey, companies in other sectors indicated that, on average, they had only implemented 43 percent of the planned measures. The progress, compared to the previous months, is insignificant. Currently, the digital transformation efforts seem to stagnate.

Companies owning a lot of real estate property embrace digitalization

This may surprise at first. Fulfilling the new property tax law obligations could be significantly easier after introducing digitalization measures. But for many companies, the costs seem to outweigh the benefits. “More efficient processing and better monitoring of property tax matters are set off against the initial costs for implementing digitalization measures”, explains Professor Johannes Voget, holder of the chair of Taxation and Finance. “Currently, the digital property tax law is an issue of costs for companies and is only feasible if the cost-benefit ratio is favorable”, says the co-director of the study.

Companies in charge of a lot of real-estate properties are often implementing digitalization measures (61 percent). Companies with only a few real estate properties are much more reluctant; only 38 percent of them are implementing such measures. The cost-benefit ratio

also explains the quick digitalization of companies offering legal and tax consulting services: “If successfully implemented, digitalization leads to more efficient processes. If this means that property tax returns for clients are submitted more quickly, the digitalization costs are quickly amortized since the company still receives the same amount per property tax return”, says Professor Davud Rostam-Afschar. “If there are no direct incentives, the implementation must require as little effort as possible to be accepted by companies”, explains the academic director of the GBP.

The property tax model is decisive

The property tax model chosen by the individual state is also relevant for companies to decide if digitalization measures are worth the hassle. Companies in Bavaria, Hamburg, Hesse and Lower Saxony make the most progress when it comes to digital transformation processes. Here, 40 percent of the companies are implementing digitalization measures. The models in these states are driven by the principle of equivalence. The property is evaluated considering the land and the building, and sometimes the location of the real estate property. Baden-Württemberg has chosen the standard land value model and has the smallest percentage of companies taking digitalization measures. Only 28 percent of the companies state that the reform caused them to implement such measures. The simpler model for the standard land value could be the reason for this. The model requires less data and is characterized by an easy calculation. At the same time, the most complex model in Germany can only motivate 34 percent of the companies to take such measures.

The complete report on company trends in February 2023 (“GBP-Monitor: Unternehmenstrends im Februar 2023”) can be found here: https://www.accounting-for-transparency.de/wp-content/uploads/2023/02/gbp_monitor_2023_02.pdf

Further information on the GBP monitoring report

The German Business Panel interviews more than 800 companies per month on the economic situation in Germany and collects data on 1) any expected changes in revenue, profit, and investments, 2) economic decisions, 3) the expected default probability in the sector and 4) the satisfaction with the economic policy. Furthermore, GBP reports on particularly relevant questions once per month.

Background information on the German Business Panel

The GBP is the long-term survey panel of the trans-regional Collaborative Research Centre “Accounting for Transparency” (www.accounting-for-transparency.de). The Collaborative Research Centre (CRC) “TRR 266 Accounting for Transparency” started in July 2019 and is funded by the German Research Foundation (DFG) for four years. It is the first CRC with a focus on business administration. Approx. 100 researchers from the following nine universities are involved in the CRC: Paderborn University (host university), Humboldt-Universität zu Berlin, University of Mannheim, Ludwig-Maximilians-Universität München, ESMT Berlin, Frankfurt School of Finance & Management, Goethe University Frankfurt am Main, WHU - Otto Beisheim School of Management. The researchers examine how accounting and taxation affect the transparency of companies and how regulation and firm transparency impact our economy and society. The CRC is funded with approx. EUR 12 million.

Contact:

Prof. Dr. Johannes Voget
Chair of Taxation and Finance
University of Mannheim
Phone: +49 621 181-3538
E-mail: voget@bwl.uni-mannheim.de