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Mannheim, 15 March 2023

Press Release

GBP Monitor: Fast Internet Is More Important to Companies than Low Trade Tax

A well-developed digital infrastructure with a strong network and the availability of a qualified local workforce are more important to companies when selecting their location than low municipal taxes and fees. For attracting business, investing in public infrastructure is more powerful than lower taxes. This is shown in the March report of the German Business Panel (GBP) at the University of Mannheim.

Municipal trade tax is often seen as a way to attract business investments. If the municipal trade tax is low, this means lower costs for companies and thus a strong location advantage. But when making business decisions, other local characteristics such as infrastructure, schools, daycare centers, a good connection to the highway, or business development measures also play a role. The newest GBP survey shows the factors that are particularly important to companies.

The most important factor for a business location is a powerful digital infrastructure. Companies make their investment decisions dependent on whether fast Internet with broadband networks is available at the location. "Data transfer without delay is decisive because many applications with a promising future, such as cloud services, are data-intensive" says Professor Johannes Voget, holder of the chair of Taxation and Finance at the University of Mannheim and project manager of the GBP. The survey further shows that a qualified local workforce, a good transport infrastructure as well as suitable commercial spaces also determine how attractive a community is as potential business location.

In comparison, low municipal local taxes and fees are of medium importance. Many companies are underestimating their tax saving options due to a move, which also shows the lower importance of tax advantages: Comparing the GBP data with the municipalities' data shows that a total of 82 percent of the companies in the survey underestimate the share of municipalities with a low local trade tax factor (Gewerbsteuerhebesatz) in Germany. "Only a few companies move because of low taxes", explains Professor Davud Rostam-Afschar, who conducted the study. "Many companies consider public investments in better conditions at a business location as compensation for the taxes they pay. Municipalities are thus not only competing for lower taxes but also for the

quality of life and work at a business location to attract company investments”, says the head of the study.

In the survey, companies were also asked how likely it is that they will invest at particular locations in the next two years. The result is that 15 percent of the companies in the survey plan to invest outside of their main business location. For them, the competitiveness of the locations could determine where their medium-term investments go. Taxes are playing a less important role than previously known.

The report also shows that the business situation of companies has continued to stabilize despite economic concerns: Currently, companies in Germany expect their sales (+5.6 percent), investments (4.9 percent) and profits (1.5 percent) to increase relative to the previous year.

The complete report on company trends in March 2023 (“GBP-Monitor: Unternehmenstrends im März 2023”) can be found here: https://www.accounting-for-transparency.de/wp-content/uploads/2023/03/gbp_monitor_2023_03.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.

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