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Press Release

GBP Monitor July: Gap between Companies' Expectations and the Governments' Tax Policy

Last week, the federal government announced a legislative package that is expected to provide six billion euros in annual relief to companies. The tax rates on company profits are to remain the same. The July report of the German Business Panel (GBP) at the University of Mannheim shows that the government's tax policy and the companies' expectations do not match.

The tax position of companies has remained stable during the crises of the last three years. According to the new reforms of the German finance minister, this is not about to change. But nevertheless, the governments' stabilizing tax policy leads to insecurities at the companies, because the expectations companies have of the governments' policy differ greatly, as the July Report of the German Business Panel shows. At the beginning of the coronavirus pandemic, companies expected a drop in tax rates in the short term, but they expected a significant increase in tax rates in the medium term. A short-term increase in capital yield tax (by 0.4 percent) and social security contribution (by 0.3 percent) were also expected.

"Insecurity about possible tax adjustments may have negative consequences on business actions and may cause, for example, the postponement of investments," explains Professor Davud Rostam-Afschar, who conducted the study. "It is essential that the long-term tax policy strategy is communicated in an unambiguous way so that companies reach their goals," says Rostam-Afschar.

In the July report, the researchers also analyzed which factors influence tax expectations. Economic and profit forecasts influence, for example, corporate tax expectations: If a company expects a positive development of the economic situation, this company expects higher tax rates in the medium term, compared to a company which expects a lower GDP. Companies which expect higher profits also expect an increase in tax rates.

Clear vote for abolishing the solidarity surcharge

In July, the GBP also asked companies about their wishes for tax reforms, in addition to their tax expectations. There was a high agreement for completely abolishing the solidarity

surcharge (5.5 percent). Companies also wish for a lower corporate tax, income tax, and trade tax.

“The desired tax rates also say something about the risk ability of the persons making the decisions at a company,” says Rostam-Afschar. “Entrepreneurs who think they are willing to take more risks are rather in favor of lower tax rates,” he concludes. One explanation could be that managers who are willing to take risks want to be compensated with lower taxes – but are also willing to accept failure.

The report also shows that, contrary to the upward trend recorded at the beginning of the year, the change in profits has been stagnating for the past three months (up 0.16 percent, compared to the previous month). Despite the stagnating profit expectations, the current market environment is easing: Compared to May, the average expected shutdown rate has decreased by 1.38 percent.

The complete report on company trends in July 2023 (“GBP-Monitor: Unternehmenstrends im Juli 2023”) can be found here: https://www.accounting-for-transparency.de/wp-content/uploads/2023/07/gbp_monitor_2023_07.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 shutdown rate 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 as well as Frankfurt School of Finance & Management, Goethe University Frankfurt am Main, WHU - Otto Beisheim School of Management and University of Cologne. 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. 18 million euros.

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