

# Chair of Business Taxation

---

**Activity Report 2013/2014  
(01.09.2013–31.08.2014)**



Prof. Dr. Martin Jacob  
Chair of Business Taxation  
WHU – Otto Beisheim School of Management  
Burgplatz 2  
D-56179 Vallendar  
Fon: +49 – 261 / 6509 350  
Fax: +49 – 261 / 6509 359  
Email: [taxation@whu.edu](mailto:taxation@whu.edu)  
Internet: [www.whu.edu/steuer](http://www.whu.edu/steuer)

Excellence in  
Management  
Education



# Contents

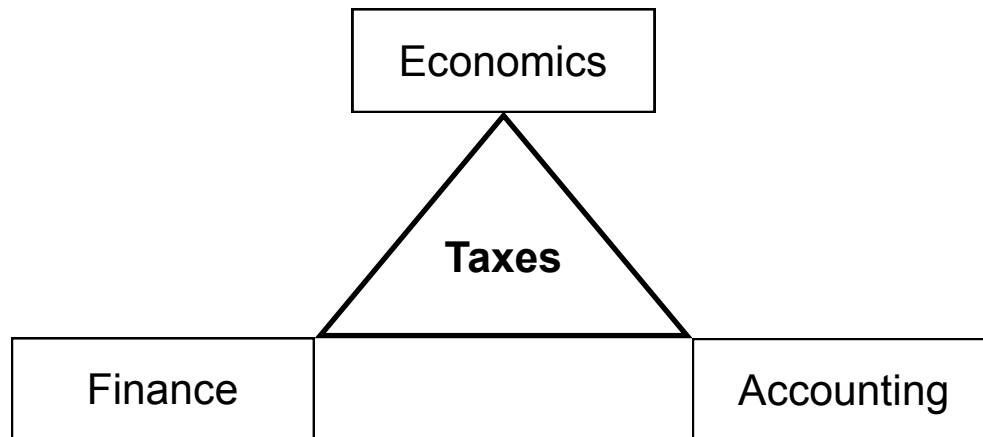
---

Editorial	4
Team	5
Academic Program Business Taxation	6
Lectures 2013/2014	7
Research	10
WHU FAcCT Center Research Seminar Series 2013/14	16
Services for the <i>WHU</i> Community	19
Community Outreach	19
Contact Details	20

# Editorial

---

Tax policy has important implications on individual behavior and firm decisions. For example, location decisions of firms, profit shifting of multinationals, capital structure, payout policies, and corporate investments are affected by corporate and individual taxes. Individuals decide on their labor supply, migration, or becoming a business owner. All these decisions are affected by taxes. Taxation is an important aspect when studying economics, finance, and accounting.



The Chair of Business Taxation aims at deepening the understanding of the effects of taxation. The Chair's research and teaching relates to the three subjects economics, finance, and accounting. First, the Chair's research relates to the *economics* literature on individual tax evasion and tax avoidance decisions. Second, teaching and research focus on *finance* topics, for example, the effects of taxes on payout policies and investment policies of firms. Third, the Chair's research focuses on the role of taxes in *accounting*, in particular, on the effect of accounting norms on tax revenues and the valuation relevance of tax accounting.

This report summarizes activities of the Chair of Business Taxation during the academic year 2013/2014.

Martin Jacob

Vallendar, September 2014

# Team

---



**Prof. Dr. Martin Jacob**  
Chairholder

**Room D-110**

Phone: +49-(0)261-6509-350

Fax: +49-(0)261-6509-359

**Hanna Op den Camp**  
Personal Assistant

**Room D-108**

Phone: +49-(0)261-6509-731

Fax: +49-(0)261-6509-739



**Inga Bethmann**  
Doctoral Student

**Research Interests:**

Determinants of Tax Compliance

Tax Avoidance

International Tax Planning

Empirical Tax Research

**Antonio de Vito**  
Doctoral Student

**Research Interests:**

Corporate Tax Avoidance

Empirical Tax Research



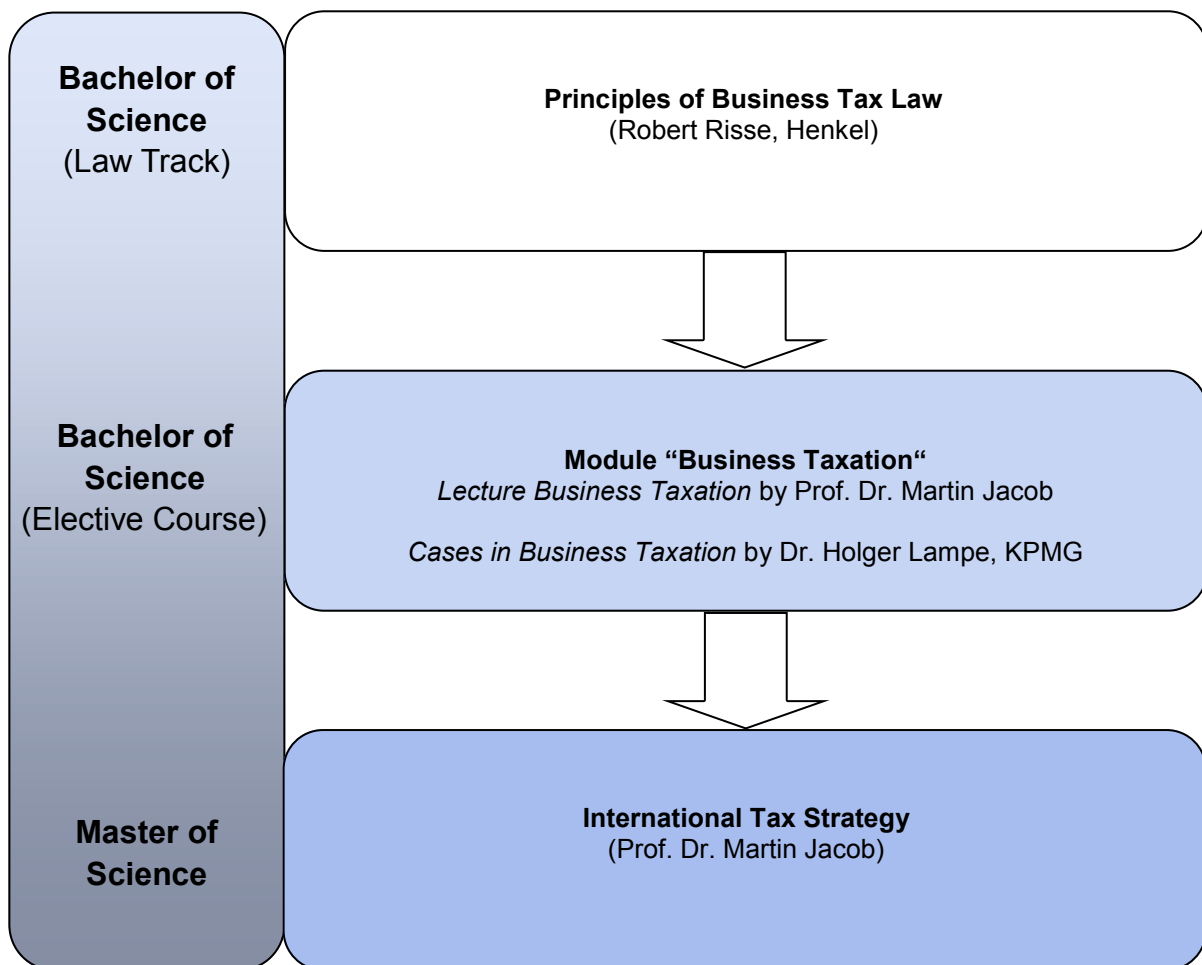
# Academic Program

---

The academic program “Business Taxation“ aims at providing knowledge on how taxes affect business decisions. In collaboration with external lecturers, the chair offers lectures in undergraduate, graduate, and post-experience programs.

In the BSc program, the chair offers one lecture on the principles of business taxation. This course is taught in German and focuses on German tax law. Further, the module “Business Taxation” combines a lecture on the effects of corporate and individual taxation on business decisions with a case study course.

In the MSc, the chair offers the lecture “International Tax Strategy” which covers the taxation of globally active companies from a multinational perspective.



# Lectures 2013/2014

---

## Fall Term 2013

### **BSc, Business Taxation**

The aim of the module *Business Taxation* is to give an introduction to the topic of taxation of corporations, shareholders, and businesses and to deepen the understanding of how taxes affect business decisions. The course, for example, deals with the tax influence on investment decisions, financing decisions, the choice of organizational form, and mergers and acquisitions. The lecture focuses on concepts that can be applied to different tax systems around the world. To deepen the understanding of these concepts, the second part of the module is based on case studies. After successfully participating in the module *Business Taxation*, participants understand the role of taxes in key business decisions and are able to apply the concepts to practical problems.

# Lectures 2013/2014

---

## Spring Term 2014

### **BSc, Business Taxation**

The aim of the module *Business Taxation* is to give an introduction to the topic of taxation of corporations, shareholders, and businesses and to deepen the understanding of how taxes affect business decisions. The course, for example, deals with the tax influence on investment decisions, financing decisions, the choice of organizational form, and mergers and acquisitions. The lecture focuses on concepts that can be applied to different tax systems around the world. To deepen the understanding of these concepts, the second part of the module is based on case studies. After successfully participating in the module *Business Taxation*, participants understand the role of taxes in key business decisions and are able to apply the concepts to practical problems.

### **Msc, International Tax Strategy**

The goal of the module International Tax Strategy is to deepen the understanding of the influence of taxation on multinational companies. The course focuses on taxation of globally active companies from a multinational perspective. It is not necessary to have detailed knowledge of German or any other national tax law. It is the goal of the course to teach critical concepts of international taxation from a global perspective, which are relevant for decision making in multinational companies. The course covers, for example, the treatment of foreign profits, tax treatment of branches and subsidiaries, cross-border financing of companies, anti-avoidance rules, and transfer pricing. The second major focus of the course relates to the economic consequences of international tax rules and how companies react to tax incentive, for example, through international tax planning.



## **Bachelor Thesis (2013/2014)**

---

**Stefan Katzenmeier**

**Agency Problems, Taxation and Payout Policy of Listed Firms**

**Lukas Pünder**

**Dividend Tax Cuts and the Allocation of Investments: Evidence from the United States and Japan**

**Pascal Schäfer**

**Corporate Tax Avoidance in Europe**

**Justus Sprengler**

**The Effect of the 2008 Tax Reform on Capital Structure and Investment Policy**

## **Master Thesis (2013/2014)**

---

**Marik Hermann**

**Why do Countries implement Favorable Tax Rules?**

**Felicia Hommel**

**The Effect of the 2000 Tax Reform on Investments**

**Tobias Weiper**

**Banks' Stock Price Reactions to the Announcement of the Financial Transaction Tax**

**Cheng Zeng**

**Payout Policy of Chinese Firms**

## **Dissertation Projects (2013/2014)**

---

**Sara Keller, (secondary supervisor), finalized December 2013**

**The Influence of Taxation on Corporate Group Structure**

# Research

---

## Main Research Areas

Taxation and Investment Decisions

Taxation and Payout Policies

Capital Gains Taxation

Empirical Tax Research

## Publications in 2013/2014

3:12-Corporations in Sweden: The effects of the 2006 Tax Reform on Investments, Job Creation and Business Start-Ups, Report to the Expert Group on Public Economics (ESO) 2014:2, Swedish Ministry of Finance, Stockholm. (with Annette Alstadsæter and Altin Vejsiu).

## Working Papers & Presentations 2013/2014

Employment, Wages and Dividend Taxation, 2014, FAccT Center Working Paper 18/2014 (with Annette Alstadsæter and Altin Vejsiu)

Self-Serving Bias and Tax Morale, 2014, FAccT Center Working Paper Nr. 17/2014 (with Kay Blaufus, Matthias Braune and Jochen Hundsdorfer)

Cross-Base Tax Elasticity of Capital Gains, 2014, FAccT Center Working Paper Nr. 16/2014

Do Dividend Taxes Affect Corporate Investment?, 2014, FAccT Center Working Paper 15/2014 (with Annette Alstadsæter)

Corporate Finance and Governance Implications from the Removal of Government Support Programs, SSRN Working Paper (with Sofia Johan, Denis Schweizer and Feng Zhan)

Do Corporate Tax Cuts Increase Investments?, 2013, FAccT Center Working Paper 14/2013 (with Laura Brandstetter)

Firm Valuation and the Uncertainty of Future Tax Avoidance, 2013, FAccT Center Working Paper 13/2013 (with Harm Schütt)

# Research

---

## Working Papers & Presentations 2013/2014

### **Employment, Wages and Dividend Taxation (with Annette Alstadsæter and Altin Vejsiu)**

**ABSTRACT:** This paper tests the effect of dividend taxation on employment. Since dividend taxation affects real investments, tax-induced changes in real investments should map into employment effects. Using a difference-in-difference approach around the Swedish 2006 dividend tax cut and unique corporate-level data with income tax information on every employee, we find robust evidence of dividend tax-induced employment effects. In response to the dividend cut, both employment and wage levels increase in cash-constrained firms relative to cash-rich closely held corporations.

### **Self-Serving Bias and Tax Morale (with Kay Blaufus, Matthias Braune and Jochen Hundsdoerfer)**

**ABSTRACT:** In a real-effort laboratory experiment to manipulate evasion opportunities, we study whether the moral evaluation of tax evasion is subject to a self-serving bias. We find that tax morale is egoistically biased: Subjects with the opportunity to evade taxes judge tax evasion as less unethical as opposed to those who cannot evade. The detection probability does not affect this result. Further, we do not find moral spillover effects, for example, on legal activities.

### **Cross-Base Tax Elasticity of Capital Gains**

**ABSTRACT:** This paper studies the cross-base tax elasticity of capital gains realizations to labor income taxes when capital gains are taxed at a separate proportional tax rate. Using a longitudinal panel of over 265,000 individuals in Sweden, this paper shows in a regression kink design that labor income taxes affect capital gains at the extensive and intensive margins. An increase in the marginal labor income tax rate increases the likelihood of realizing capital gains and the amount of realized capital gains. One implication of this result is that the excess burden of labor income taxation is affected by cross-base tax elasticities.

Presented at:

- 76th Meeting of the Annual VHB Meeting in Leipzig
- Free University of Berlin

# Research

---

## Working Papers & Presentations 2013/2014

### **Do Dividend Taxes Affect Corporate Investment? (with Annette Alstadsæter)**

**ABSTRACT:** We test whether dividend taxes affect corporate investments. We exploit Sweden's 2006 dividend tax cut of 10 percentage points for closely held corporations and five percentage points for widely held corporations. Using rich administrative panel data and triple-difference estimators, we find that this dividend tax cut affects allocation of corporate investment. Cash-constrained firms increase investment after the dividend tax cut relative to cash-rich firms. Reallocation is stronger among closely held firms that experience a larger tax cut. This result is explained by higher nominal equity in cash-constrained firms and by higher dividends in cash-rich firms after the tax cut. The heterogeneous investment responses imply that the dividend tax cut raises efficiency by improving allocation of investment.

Presented at:

- TAPES, Trans-Atlantic Public Economics Seminar in Vienna

### **Corporate Finance and Governance Implications from the Removal of Government (with Sofia Johan, Denis Schweizer and Feng Zhan)**

**ABSTRACT:** This paper explores whether fund managers exhibit value-destroying behavior in response to tax subsidy phase-out policies. We study the tax subsidy phase-out for Labour-Sponsored Venture Capital Corporations (LSVCC) in Ontario, and find that fund managers' investment behavior caused large negative returns for investors of affected LSVCCs. We noted a shift in investment strategy from venture capital to public equity. However, the management fee structure remained higher compared to that of mutual funds. Thus, the portfolio value of retail investors decreased in two ways: First, over the short run, the tax subsidy phase-out policy led to large negative returns due to the change in investment strategy as well as a reduction in diversification potential. Second, over the long run, inappropriately high management fees will further reduce the overall wealth of LSVCC investors.

# Research

---

## Working Papers & Presentations 2013/2014

### Do Corporate Tax Cuts Increase Investments? (with Laura Brandstetter)

**ABSTRACT:** This paper studies the effect of corporate taxes on investment. Corporate taxes are considerable costs to investments that vary across corporations. For example, since firms with a foreign parent have more cross-country profit shifting opportunities than domestically owned firms, their effective tax rate and consequently their tax-induced costs to investment are lower. Thus, we expect that investment responses to a corporate tax cut are heterogeneous across firms. Using firm-level data on German corporations, we exploit the 2008 tax reform that cut corporate taxes by 10 percentage points as an exogenous policy shock. We show in a matching difference-in-differences setting that domestically owned firms increased investments more than foreign-owned firms. Our results imply that corporate tax changes can increase corporate investment but have heterogeneous investment responses across firms.

### Firm Valuation and the Uncertainty of Future Tax Avoidance (with Harm Schütt)

**ABSTRACT:** The paper studies the effect of uncertainty in tax avoidance on firm value. We first show in a clean surplus valuation model that expected tax rates interact with expectations about future profitability. This paper builds and tests a valuation framework that incorporates two outcome dimensions of corporate tax avoidance strategies: the stability and the level of expected tax rates. We develop a tax planning score that captures these two dimensions. The measure improves the prediction of future tax avoidance. We finally show that the tax planning score strengthens the effect of pre-tax earnings on firm value. Pre-tax earnings have a stronger effect on firm value for firms with effective and persistent tax planning. Firms with poor tax planning or volatile effective tax rates receive a discount on their earnings.

Presented at:

- Annual Congress of the European Accounting Association, Tallinn, Estonia
- Midyear Meeting American Taxation Association, San Antonio, TX.
- University of Tuebingen

# Research

---

## Other Research Activities 2013/2014

### Best Paper Award of the X Workshop on Empirical Research in Financial Accounting

From April 2 to 4, 2014, the X Workshop on Empirical Research in Financial Accounting took place in Corunã, Spanien. One of the features of the Workshop is the "Best Paper Award". This year, out of 45 submissions, the joint paper by Martin Jacob and Harm Schütt, entitled „Firm Valuation and the Uncertainty of Future Tax Avoidance“ (both WHU – Otto Beisheim School of Management) received this award. The researchers investigate firm value implications of corporate tax planning. The key finding is that not only the level of tax avoidance but also the sustainability of tax avoidance has firm value implications. Firms with effective and persistent tax planning have a stronger effect of pre-tax earnings changes on firm value. Firms with poor tax planning or volatile effective tax rates receive a discount on their earnings.



### Prof. Martin Jacob receives Young Talent Award by VHB

At this year's annual meeting of the VHB (Verband der Hochschullehrer für Betriebswirtschaft e.V., German Academic Association for Business Research), which took place from July 11 to 13 in Leipzig, Prof. Martin Jacob was awarded with the Young Talent Award for the paper „Taxation, Dividends and Share Repurchases: Taking Evidence Global“ (co-authored with Marcus Jacob). The awarded paper „Taxation, Dividends and Share Repurchases: Taking Evidence Global“ is published in the Journal of Financial and Quantitative Analysis, 2013. The authors compiled a comprehensive international dividend and capital gains tax data set to study tax-based explanations of corporate payout for a panel of 6,035 firms from 25 countries for the period 1990-2008. They find robust evidence that the tax penalty on dividends versus capital gains corresponds closely with firms' propensity to pay dividends and repurchase shares, and with the amount of dividends and shares repurchased. Their coefficient estimates suggest a smaller tax effect than reported in recent single-country, single-event studies. Instead, results correspond more closely with historic long-term estimates of the elasticity of dividends. The underlying tax database is now available online for other researchers and upcoming research projects.

# Research

---

## Editorial Activity

- Guest Editor, Special Issue on Tax Research, European Accounting Review

## Reviewer Activities

- Applied Financial Economics
- Business Research
- European Accounting Review
- Zeitschrift für betriebswirtschaftliche Forschung (zfbf)
- Journal of Accounting Research
- Journal of Public Economics
- Schmalenbach Business Review (sbr)

## WHU FAcct Center Research Seminar Series 2013/14

### **Stefan Reichelstein, Stanford University:**

#### **"Conservatism Correction for the Market-To-Book Ratio and Tobin's q"**

The paper of Prof. Reichelstein presents a decomposition of the Market-to-Book ratio into two additive components: a Conservatism Correction factor and a Future-to-Book ratio. The authors demonstrate that their measure of Tobin's q, obtained as the Market-to-Book ratio divided by the Conservatism Correction factor, has greater explanatory power in predicting future investments than the Market-to-Book ratio by itself.



### **Juan Manuel Garcia Lara, Universidad Carlos III de Madrid:**

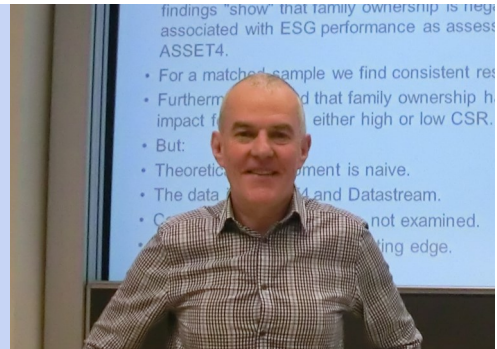
#### **"Accounting quality effects of imposing gender quotas on boards of directors"**

Juan Manuel García Lara, Associate Professor of Accounting and Finance at Universidad Carlos III de Madrid presented his research paper and held an interesting presentation on the topic of how gender quotas on boards of directors influence a firm's accounting quality.

### **Bill Rees, University of Edinburgh Business School:**

#### **"Problem Families: the Influence of Strategic Family Holdings on Environmental, Social and Governance Rankings"**

The project investigates the influence of different ownership structure and incentives on the CSR behavior of listed companies across 46 countries.



### **Nadja Dwenger, Max Planck Institute for Tax Law and Public Finance:**

#### **"Extrinsic vs Intrinsic Motivations for Tax Compliance: Evidence from a Field Experiment in Germany"**

### **Stephan Hollander, Tilburg School of Social and Behavioral Sciences:**

#### **"Learning, Fast or Slow? Investor Learning and Auditor Differentiation"**

The paper examines how quality differentiation among auditors influences the rate of investor learning. The results indicate that, in the IPO aftermarket, learning about the time-series parameter of a firm's earnings process is faster for firms audited by larger auditors.





## WHU FAcct Center Research Seminar Series 2013/14

---

### **Ann Gaeremynck, KU Leuven:**

"Beyond diversity: a tale of faultlines and frictions in the board of directors"

The study examines the relation between board performance and board diversity. The authors analyze characteristics that lead to the building of groups within the board of directors and in how potential conflicts between the groups affect board performance.



### **Steven J. Monahan, INSEAD, France:**

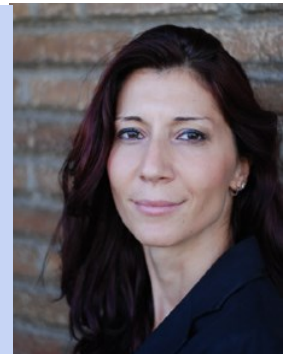
"The Higher Moments of Return on Equity"

The authors use quantile regressions to evaluate the higher moments of future return on equity, ROE. First, they evaluate the in-sample relations between current firm-level attributes and the moments of lead ROE. Secondly, they show that the in-sample relations generate reliable out-of-sample estimates of the probability of a loss as well as the standard deviation, skewness, and kurtosis of lead ROE. Lastly, they evaluate the role that the higher moments of future ROE play in determining valuation multiples and credit ratings.



### **Petya Platikanova, ESADE Business School, Spain: "Legislating Investors"**

The paper examines the role of equity holdings and political contributions in shaping US tax policy by investigating the determinants of voting on the passage of a one-time tax holiday under the American Job Creation Act (AJCA) of 2004. She finds a negative effect of legislator equity in beneficiary stocks on the probability of a favorable vote for the repatriation tax holiday which is consistent with previous work on the AJCA.



### **Aljosa Valentincic, University of Ljubljana, Slovenia:**

"Does Financial Statement Audit Reduce the Cost of Debt of Private Firms?"

The authors examine the effect of audit on private firms' cost of debt, by using a sample of 1,949 small private firms operating in the period 2006-2010 with optional financial statement audit. After controlling for obvious sources of demand for voluntary audits they find a robust central result that voluntary audits increase rather than decrease the cost of debt financing, contrary to several existing studies.



### **Edith Leung, Erasmus University Rotterdam, The Netherlands:**

"The Geography of Disclosure: Evidence from Segment Reporting"

In their project, the authors examine how geographical characteristics affect companies' segment reporting.



**Ane Tamayo, London School of Economics,  
United Kingdom:**

**"Trust and Corporate Social Responsibility: Evidence from the  
2008-2009 Financial Crisis"**

The paper examines whether the intensity of a firm's corporate social responsibility (CSR) activities affects valuation during the 2008-2009 financial crisis. They show that firms that entered the crisis period with high CSR ratings have significantly higher crisis-period stock returns than those who entered with low CSR ratings.



**Christian Leuz, The University of Chicago, USA:**

**"The effect of regulatory harmonization on cross-border labor  
migration:  
Evidence from the accounting profession"**

The study examines the relation between regulatory harmonization and cross - border migration (labor mobility). The authors analyze whether the introduction of IFRS in Europe led to higher labor mobility of employees in the field of accounting quality.

# Services for the WHU Community

---

- Chairman of the Search Committee “Assistant Professorship in Financial Accounting”
- Member of the Search Committee “Professorship in Financial Accounting”
- Organization of the “FAcCT Center Research Seminar Series”
- Weekly Organization of FAcCT Center Brown Bag Seminar
- Coordination of Teaching in Accounting & Taxation
- Deputy Group Speaker “Finance and Accounting Group”

## Community Outreach & Sustainability

---

The sustainability of a tax system is one of the key issues of policy makers as not only short-term consequences but also long-term effects are relevant for the evaluation of tax reforms. Sustainability in taxation is discussed in all lectures of the chair of Business Taxation. This year, a research project had direct influence on Swedish tax policy.

The joint project “*3:12-Corporations in Sweden: The effects of the 2006 Tax Reform on Investments, Job Creation and Business Start-Ups*” with Annette Alstadsæter, University of Oslo and Altin Vejsiu, Ministry of Entreprises on the tax influence on investment and job creation has received great attention by the Swedish press and, ultimately, the Swedish parliament.

We have been asked to testify in front of the tax committee of the Swedish parliament about the tax policy in Sweden. Our message on obtaining a sustainable and fair taxation of closely held corporation is very clear: While there are positive effects of a dividend tax cut, for example on investments and efficiency, the opportunities to shift income need to be limited. We derived several specific reform elements based on the report’s results. Rather than questioning the lower dividend tax on active corporations, we recommended the tax committee to tackle firms that are purely designed for income shifting purposes.

# Contact Details

---



Chair of Business Taxation

Prof. Dr. Martin Jacob

WHU – Otto Beisheim School of Management

Burgplatz 2, D-56179 Vallendar

Fon: +49 – 261 / 6509 350

Fax: +49 – 261 / 6509 359

Email: [martin.jacob@whu.edu](mailto:martin.jacob@whu.edu)

Internet: [www.whu.edu/steuer](http://www.whu.edu/steuer)