

Pietro Perotti Joins CAR: Empirical Research Capacity Enhanced

Pietro Perotti from Milan's Bocconi University has joined the Center for Accounting Research as an assistant professor. He obtained a PhD



in Business Administration at Bocconi University in May 2008 and since then he has worked there as a research fellow in the Accounting Department. Before enrolling in the PhD, he graduated in Economics and he took a Master in Quantitative Finance, both

from Bocconi University. His research interests are on the intersection of market microstructure and market-based financial accounting research. Among his current projects, he is working on an article which proposes to use traders' strategies as a metric to test investors' response to the release of accounting information; in another work, he studies the effect of IAS/IFRS adoption on fees paid to auditors in the banking industry; in a more finance-oriented paper, Perotti investigates how information disclosure requirements for market makers affect market quality.

New CAR Project to be Financed by Austrian Central Bank

CAR is proud to announce that it has been awarded financing for the project "Factors determining earnings quality of Austrian companies" from the Jubiläumsfonds of the Austrian Central Bank. The new project is the successor of the project "Earnings Quality on the Austrian capital market", which was carried out by Hannes Dücker and Oliver Schinnerl under the supervision of Alfred Wagenhofer. The former project was very successful and led to three publications.

Even though numerous reforms in Austrian accounting regulations were undertaken in the last ten years, the findings of the project show that this only partially led to an increase in earnings quality. Dücker and Schinnerl's project only analysed earnings quality overall and did not investi-

gate possible reasons and influence factors for this development. Therefore numerous factors might exist that affected the earnings quality metrics and do not stand in relation to the accounting system. In order to isolate the effects of the accounting system new statistical techniques will be applied in the successor project. Through the application of these techniques it should be possible to determine the individual factors affecting the level of earnings quality.

Research News: Implementing a Neutral Business Tax in the European Union

Current business taxation in the European Union is characterised by a large variety of corporate tax systems. Due to the ongoing economic integration it is necessary to develop a tax system that is consistent with the requirements of the Common Market and that does not discriminate against cross-border activities, as CAR's Rainer Niemann explains. There have been many unsuccessful attempts to harmonise corporate taxation within Europe, the most recent initiative being a proposal to introduce formula apportionment. This proposal intends to avoid the problems associated with transfer pricing, especially the shifting of tax bases to low-tax jurisdictions. Due to tough documentation requirements on multinational groups, compliance costs are high for taxpayers as well as for tax authorities.

Apart from low compliance costs, neutrality is another crucial economic requirement of a "good" tax system, i.e., business taxation should be neutral with respect to entrepreneurial decisions. However, current corporate tax systems in Europe have considerable effects on investment and financing decisions. Taking cross-border activities into account introduces a variety of additional tax effects. Neither the current tax systems nor the EU reform proposals are able to correct these economic shortcomings. Despite extensive theoretical knowledge about the economic effects of taxation, practical implementation of tax reforms in most countries does not refer to theoretical insights. In a joint paper with Deborah Knirsch, Niemann proposes a consumption-based neutral tax system which takes cross-border activities and transition problems into account.



The proposal is based on the S-base cash flow tax. Under the S-base tax, transactions within the corporate sector are not taxable and only transactions between shareholders and corporations are subject to tax. Unlike existing S-base cash flow tax systems, tax deductibility of investments is deferred. Rather, the acquisition costs and capital endowments are compounded at the capital market rate and are set off against future capital gains. Dividends and withdrawals are fully taxable at the shareholder level. Therefore the proposal is called 'Deferred Shareholder Tax' (DST). The DST exhibits the same neutrality properties as the traditional cash flow tax and comprises taxation of business profits independent of the legal form of the business. The DST is neutral with respect to investment and financing decisions.

As distributions are taxed according to the tax system in the shareholders' country of residence, problems of profit shifting or investment shifting to other low-tax countries are eliminated. Foreign withholding taxes can be credited against the domestic tax liability.

As a consequence, profit shifting incentives are eliminated and fiscal authorities can remove costly transfer pricing documentation requirements. Thus, complicated and distorting formula apportionment rules and harmonised tax accounting rules are unnecessary. Another important simplification compared to current tax law is the dispensability of an accrual tax accounting system.

The DST is neutral with respect to investment and financing decisions, to the distribution policy, and to the choice of the legal form of the business. Equity and debt financing are equally taxed; current thin capitalisation rules and other complicated anti-tax avoidance rules like CFC legislation can be abolished. As a result, the DST offers substantial advantages over current business tax systems.

To know more:

Knirsch, Deborah and Niemann, Rainer (2008): Deferred Shareholder Taxation – Implementing a Neutral Business Tax in the European Union, in: *Accounting in Europe* Vol. 5 No. 2, 101-125.

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New Edition of Successful IFRS-Book Published

The 6th edition of the German-language book on international accounting standards, Alfred Wagenhofer's *Internationale Rechnungslegungsstandards – IAS/IFRS*, has been released. The new edition contains all new standards promulgated in 2008 as well as numerous practical examples.



CAR Well Represented at IAAER Conference

This year's midyear congress of the Accounting Section of VHB, organized jointly with the International Association for Accounting Education and Research (IAAER) had a strong participation from Graz. Professor Alfred Wagenhofer was a member of the scientific committee and chaired a symposium on executive compensation. Three accounting researchers from the University of Graz presented current work. Hannes Dücker empirically examined the effects of recent German financial reporting regulation on earnings quality. Roland Königsgruber analysed incentives to truthfully reveal or conceal information by lobbyists in the context of accounting regulation. Alfred Wagenhofer presented a joint work with Robert Göx from the University of Fribourg in which they provide an economic rationale for impairment rules in accounting.

Wagenhofer to Head VHB

Alfred Wagenhofer has taken over the function of President of the German Academic Association for Business Research (Verband der Hochschullehrer für Betriebswirtschaft, VHB) in January 2009. The VHB is the organisation of all German-speaking academics of business administration, with a membership of more than 1800, coming mostly from the three German-speaking countries Austria, Germany, and Switzerland.

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