

The impact of taxation on corporate holdings

On March 1 the Austrian Science Fund (FWF) has decided to fund the stand alone project “The Impact of Taxation on Corporate Holdings” by CAR’s Rainer Niemann. The project is going to start on July 1 and will allow CAR to host two research assistants (Andrea Gauper and Silke Runger) over a three year period. The aim of the project is to empirically analyze European tax reforms which include amendments affecting the shareholding structure of corporations.

Primarily, the German corporate tax reform 2001 and the Austrian corporate tax reform 2005 are taken into consideration. The main goal of the German corporate tax reform was to facilitate the demerger of German cross holdings by repealing the taxation of capital gains realized on the disposal of shares in other corporations. The Austrian corporate tax reform 2005 induced the opposite effect: by introducing group taxation and thus the possibility to offset losses of foreign group members against domestic profits a stronger integration process of cross holdings was put up. Using firm level data available from databases hosted by CAR, the project members are going to empirically examine the effect of the repeal of corporate capital gains taxation on the selling of single corporate holdings as well as the effect on the network of German crossholdings. In addition, the effect of the Austrian group taxation on the investment and financing decisions of Austrian companies using regression analysis is going to be analyzed.

The results of the investigation will permit forecasts about the influence of future tax reforms regarding capital gains taxation or group taxation on the shareholder structure.

Austrian Single Accounts and Earnings Quality

Like several other countries, Austria has a dual financial reporting system, in which individual and a group accounts (consolidated) are prepared by a parent company. While group accounts are often subject to accounting research, there is little

evidence about the quality of earnings of single accounts. Although the accounting principles of UGB for individual accounts in Austria have widely remained unchanged, an extension of the liabilities for auditors, accountants and the company’s supervisory board, increased corporate governance requirements and possible spill-over effects due to the introduction of International Financial Reporting Standards (IFRS) may have caused changes in the earnings quality of individual accounts. In order to measure the changes in earnings quality, CAR’s Alfred Wagenhofer and David Windisch analyzed 1,565 non-financial Austrian individual accounts in the years from 1996 to 2005, using the predictability, persistence and volatility of earnings as well as earnings management and conservatism measures as metrics for earnings quality. The results indicate that the earnings quality of the metrics employed varies over time, but there is no significant trend in one or the other direction. This suggests that, although the legal and institutional setting has changed during the analyzed period, earnings quality remained systematically unchanged.

To know more:

Wagenhofer, A., and D. Windisch (2010). Die Ergebnisqualität von Einzelabschlussen nach UGB. *Zeitschrift fur Recht & Rechnungswesen (RWZ)*, Nr.3, 93-100.



CAR papers in recent conferences

CAR’s Pietro Perotti presented two of his working papers in recent conferences. In the annual meeting of the British Accounting Association (Cardiff, March) he presented “What Do Audit Fees Tell Us About IAS/IFRS Implementation Costs? The Case of the Banking Industry”, written together with Mara Cameran from Milan’s Bocconi University. The paper examines audit fee determination in the Italian banking industry and finds an increase in fees after the adoption of the new accounting standards. Perotti also presented in the annual Forecasting Financial Markets Conference (Hannover, May) “Transaction Size Regulation and Market Quality”, jointly written with Barbara Rindi

and Roberta Fredella from Bocconi. The article studies the effect on market quality of the natural experiment of Borsa Italiana, where in 2002 the minimum trade unit was exogenously reduced by the exchange.

Rainer Niemann continues as editor of BuR – Business Research



The term of CAR's Rainer Niemann as department editor Accounting of BuR - Business Research has been extended to a second period until 2014. Business Research was established in 2008 and it is the official journal of the German Academic Association of Business Research. It is an electronic journal with free and open access to the archive. The journal is organized along five research areas: accounting, finance, management, marketing, and operations & information systems.

The role of tax uncertainty in investment decisions



A new paper by CAR's Rainer Niemann, titled "The Impact of Tax Uncertainty on Irreversible Investment", has been accepted for publication in the Review of Managerial Science. The paper analyzes the effects of taxation uncertainty on investment behavior within the framework of a real options model. It contributes to previous literature on capital budgeting, which is traditionally founded on the assumption that tax rates and tax bases are deterministic. On the contrary, Niemann argues that a number of elements of uncertainty underlie tax policy, which can then be regarded as a stochastic process. The model shows that increased tax uncertainty is likely to accelerate investment. This effect occurs if tax uncertainty is small compared to cash flow uncertainty and if both processes are positively correlated. Only in the case of weak correlation of cash flows and tax payments and for very high levels of tax uncertainty does increased

Imprint:

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tax uncertainty tend to delay investment. Furthermore, it is shown that an expected increase of the tax payment delays investment; whereas the effects of varying the after-tax discount rate are ambiguous.

To know more:

Niemann, R. (2010). The Impact of Tax Uncertainty on Irreversible Investment. *Review of Managerial Science*, Forthcoming.

CAR-Member joins INTACCT research training programme



CAR's David Windisch was granted a research fellowship from the European Commission's 6th Framework Marie Curie Programme to join the pan-European INTACCT research training program at the University of Ljubljana. The scientific training program is centred on empirical financial reporting research, with special emphasis on the impact of the adoption of IFRS by European companies. Under the supervision of Alfred Wagenhofer, David Windisch recently successfully completed the research project entitled "Factors Determining Earnings Quality of Austrian Companies", which was funded by the Jubiläumsfonds of the Austrian National Bank.

DART: organization and teaching



DART, the new Doctoral Program in Accounting, Reporting and Taxation located at the Universities of Graz, Vienna and the Vienna University of Business and Economics, which will commence in Autumn 2010, has settled the position of a central coordinator.

Birgit Beinsen, who recently finished her doctoral studies at the Institute for Accounting and Control, will be responsible for the coordination of the organizational work and teaching program. As a senior lecturer at the University of Graz the focus of her teaching and research activities will be on financial reporting and management accounting.

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Layout & Design: Patrick Zirngast
Pictures: Archive

Date of Publication: June 2010