



Capital Income Taxation and the Value of Risky Projects

A new paper by CAR's Rainer Niemann and Caren Sureth has been published in the latest issue of the Economics Bulletin. The paper analyzes the impact of differential capital income taxation on the value of risky investment under irreversibility. Niemann and Sureth argue that, under a uniform tax rate, raising the tax rate can either increase or reduce the value of a risky project. Many countries have introduced a separate flat tax on capital income; in contrast to uniform taxation, differential capital income taxation crowds out risky real investment. Such dysfunctional effect can neither be corrected by generous depreciation schedules nor by increasing the flat tax rate. This tax discrimination of risky real investment might have contributed to the current crisis.

To know more:

Niemann, R., and C. Sureth (2011). The Impact of Differential Capital Income Taxation on the Value of Risky Projects. Economics Bulletin 31, pp. 1047-1054.

Editorial Board of the Accounting Research Journal



Professor Wagenhofer has become a member of the Editorial Board of the Accounting Research Journal (ARJ) that is based at the University of Queensland, Australia. The Accounting Research Journal is now in its 22nd year of publication and has been part of the Emerald stable of journals since 2008. The objective of the ARJ is to provide a valuable forum for communication between the profession and academics on the research and practice of accounting, finance, auditing, commercial law and cognate disciplines. Expanding the Editorial Board to include international researchers aims at fostering the development of a broader readership of the journal.

To know more:

<http://www.emeraldinsight.com/products/journals/journals.htm?id=ARJ>

ARN Accounting Theory eJournal

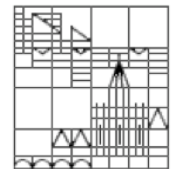
The well-known SSRN Website that hosts papers in all areas of management has recently added a new eJournal, "Accounting Theory – Analytical Models", on its Accounting Research Network (ARN) site. The editors are Anne Beyer (Stanford) and Jeremy Bertomeu (Northwestern). Prof. Wagenhofer from CAR serves as a member of the advisory board. The new eJournal distributes working and accepted paper abstracts of theory papers using economic models to examine questions relevant to all fields of accounting including auditing, financial accounting, managerial accounting, corporate governance and tax.

To know more:

<http://www.ssrn.com> -> ARN -> Subject Matter eJournals -> Accounting Theory – Analytical Models eJournal.

Visiting Professor at Constance

CAR's Roland Königsguber has been invited as a visiting professor to the University of Constance's Faculty of Law, Economics and Politics under the university's "Freedom for Creativity" Program. He is hosted by the Chair of Accounting; he teaches this semester's lecture "Management Accounting II" and holds a seminar on Earnings Management. Königsguber has also been invited to present a working paper on the compliance-inducing effect of participation in rule setting at the Thurgau Institute of Economics which is associated with the university.



Universität
Konstanz

DART Lunch Seminars

In the course of DART, the Doctoral Program in Accounting, Reporting and Taxation, a series of "Lunch Seminars" was started in this academic year. Besides the professors of the DART-faculty and some international visitors who presented their research papers, the appointment is also intended as a periodical platform for doctoral students.

CAR /University of Graz Papers at the EAA Annual Meeting



Five papers by CAR/University of Graz authors were presented at the annual meeting of the European Accounting Association in April 2011

at LUISS University, Rome.

CAR's Roland Königsgruber presented an analytical paper, "An Economic Model of Product Market-Related Incentives for Financial Reporting Manipulation", which he co-authors with Manuela Hirsch from the Vienna University of Economics and Business. They analyze incentives for earnings management stemming from the desire to influence a potential competitor's assessment of their competitive position. Their results suggest that incumbent firms have the strongest incentives to manipulate reported earnings if their results are in the mid-range, while both very good and very bad firms report truthfully in their model.

David Windisch, from the Institute of Accounting and Control, presented a joint empirical paper with Königsgruber, titled "Does the Political Costs Hypothesis Explain Accounting Choices in the European Union? An Empirical Analysis of the Effects of Investigations by the DG Competition on Accounting Choices". They examine reported figures by firms under investigation for cartel infringements by the European Commission's DG Comp, arguably the European Union's most powerful bureaucracy. They hypothesize that firms under investigation have incentives to deflect attention from themselves and use income-decreasing accruals to make themselves appear poorer than they are. Results are consistent with this hypothesis.

David Windisch is also the author of a second paper, "Do Asset Impairments Capture Diminished Expectations About Future Cash Flows?", with Aljoša Valentincic and Jernej Koren from the University of Ljubljana. The subject of this paper

is whether asset impairments capture diminished expectations about future operating cash flows. In addition to a negative relation between future operating cash flows and asset impairments, they find robust evidence that there is a positive association with relatively large (i.e. "big bath") impairments and with firms audited by a non-Big 4 auditor, and a negative association with high market-to-book ratio and high levels of financial debt.

CAR's Rainer Niemann presented "Limited Liability, Asymmetric Taxation, and Risk Taking – Why Partial Tax Neutralities Can Be Harmful", jointly written with CAR's Ralf Ewert. They examine the combined effects of tax law asymmetry and limited liability on the optimal risk taking of investors. They consider an investment project with a risk level to be chosen by the investor. Assuming the existence of an optimal risk level in the pre-tax case under full liability, they show that loss-offset restrictions reduce, and limited liability enhances, the incentives for taking risk. The results imply that different partial neutralities can be opposing objectives. Thus, neutrality of taxation with respect to the legal form of a firm may be harmful.

Magdalena Haring, from the Institute of Accounting and Taxation, presented her paper "The Impact of Individual Capital Gains Taxation on Corporate Ownership". The paper investigates the impact of individual capital gains taxation on ownership structures of Austrian corporations by analyzing the reduction of the threshold of taxable capital gains from 10% to 1% in Austria in 2001. This reform is expected to induce owners to adjust their investment decisions to avoid taxation and thereby change the ownership structures of Austrian firms. The results show that ownership structures changed after the tax reform act of 2001. The fraction of individual shareholders holding between 1% and 10% significantly decreased after 2001. For this shareholder type she also finds a significant influence of firm size, firm age and market indicators.



Imprint:

Professor Dr. Dr. h.c. Alfred Wagenhofer
Center for Accounting Research
Karl-Franzens-Universität Graz
Universitätsstraße 15/F1
8010 Graz

tel 0316 380 3500
e-mail car@uni-graz.at
web www.uni-graz.at/car

Editor in chief: Alfred Wagenhofer
Contributors: Birgit Beinsen, Magdalena Haring, Roland Königsgruber, Rainer Niemann, Pietro Perotti, Alfred Wagenhofer, David Windisch
Layout & Design: Thomas Gaber
Pictures: Archive

Date of Publication: June 2011