Stiftung
Familienunternehmen

Press release

Munich, 1 March 2016

Higher effective tax rates for family businesses

For the first time, academics have quantified the contribution of family businesses to the earnings tax take on the basis of the statistics and microdata available. On behalf of Stiftung Familienunternehmen [The Foundation for Family Businesses], the ifo Institute for Economic Research compared the tax burden of the 500 largest family businesses in Germany with that of the non-family-owned companies listed on the DAX. The researchers estimate that, in absolute terms, the 500 largest family businesses paid an average of almost €11 billion per year in domestic tax on earnings between 2009 and 2013. At around €11 billion p.a., the domestic tax burden of non-family-owned DAX companies was roughly equivalent over the same period.

According to the study, large family businesses have higher effective tax rates than the DAX companies surveyed. If just corporate tax, trade tax and capital gains tax are taken into account, the 500 largest family businesses paid an average of 28 percent in tax on their profits in the period 2009–2013, compared with only 25 percent for non-family-owned DAX companies. The contrast is even more striking if the income tax paid by members of partnerships and the withholding tax on dividends paid by public limited companies are factored in. In that case, the 500 largest family businesses and their shareholders paid an average of 40 percent in tax, while the tax burden for DAX companies and their shareholders amounted to only 33 percent.

“The ifo Institute study underscores the fact that large family businesses contribute relatively more to the earnings tax take than non-family-owned DAX companies,” says Prof. Rainer Kirchdörfer, a member of the Executive Board of Stiftung Familienunternehmen. This result is based on taxes on earnings only, and excludes other tax types such as inheritance tax and gift tax. “Particularly when we consider that inheritance tax and gift tax are an issue mainly for family businesses, we have to be critical of calls to scale back preferential treatment of business assets when a new generation of owners takes over the reins,” he says.

More taxes paid in Germany

A breakdown of the absolute amount of earnings tax paid in Germany and abroad also reveals marked differences between the two groups of businesses. In the basic scenario of the study, the family businesses surveyed paid around 69 percent of their earnings taxes in Germany, with the comparable figure for non-family-owned DAX companies amounting to only around 42 percent. According to the researchers’ estimates, the remaining family businesses – i.e. those not among the top 500 – paid around €36 billion in domestic earnings tax.

In percentage terms, the share of all family businesses in the domestic earnings tax take amounted to 41.7 percent. “The remaining share can be explained in terms of the high amount of assessed income tax and the earnings tax paid by the large number of non-family-owned, unlisted public limited companies,” explains Prof. Niklas Potrafke, Director of the ifo Center for Public Finance and Political Economy. “The figures provided to us on the tax contribution of family businesses are a minimum estimate, given that they take only taxes on earnings into account,” he adds. In addition to taxes on earnings, enterprises pay consumption taxes (in particular sales tax), transaction taxes, motor-vehicle and energy taxes, property tax, inheritance tax and gift tax. What is more, they deduct and pay to the tax office the income tax and social security contributions for their employees.

“A relevant amount”

Prof. Thiess Büttner (Chair of Public Finance, University of Erlangen-Nuremberg FAU) and Prof. Wolfram Scheffler (Chair of Business Administration, University of Erlangen-Nuremberg FAU) also took part in the study. “A difference of three percentage points between the tax burden of the 500 largest family businesses and that of the non-family-owned DAX companies is a relevant amount, one that can affect management decisions,” warns Büttner, who is also chairman of the Academic Advisory Council of Germany’s Federal Ministry of Finance.

As Kirchdörfer sums up: “Overall, the figures show that family enterprises are the main contributors when it comes to financing the German state.”

» Download the study: „The contribution of family businesses to the tax revenue in Germany – development of taxes on income and earnings“
(http://www.familienunternehmen.de/media/public/pdf/publikationen-studien/studien/Studie_Stiftung_Familienunternehmen_Steuerbeitrag-der-Familienunternehmen-in-Deutschland.pdf)

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