Press release

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Study reveals need for corporate taxation reform

Concerned about the threat to the competitiveness of German family-owned companies, the Foundation for Family Businesses is calling for reforms to corporate taxation: "The grand coalition must not allow German family businesses to be put at a disadvantage," says Executive Board member Prof. Rainer Kirchdörfer.

"While other industrialised countries are making their tax systems more competitive, Germany is changing from an already high-tax regime into one of the highest-taxed countries in the world."

A study commissioned by the Foundation for Family Businesses and published today found that family-owned enterprises are likely to lose out if international tax competition intensifies. According to the findings of the study conducted by the Centre for European Economic Research (ZEW) in Mannheim, "recent developments in international tax competition benefit family firms only to a certain extent." The report cites three reasons:

Firstly, in recent years many countries have designed their tax systems around companies with high intangible assets, creating favourable competitive conditions for them. As a result, the number of European countries offering patent boxes has risen from two to fourteen since 2000. This trend especially benefits companies with digital business models and relatively few fixed assets. However, many large German family concerns are active in sectors that involve substantial fixed assets, for example machine engineering or automotive-engineering.

Secondly, if Germany and the European Union go beyond the requirements internationally agreed to create fair corporate taxation within the framework of the BEPS process, this places an extra burden on companies and puts family businesses in particular at a disadvantage. One example is the European Commission's plans to publish sensitive business data on the internet as part of public country-by-country reporting. This will negatively impact large family-owned enterprises in particular.

Thirdly, Germany is increasingly becoming one of the highest-taxed countries in the world. Many countries (e.g. Belgium, France, Great Britain, Switzerland and the US) have either decided on or are considering significant cuts to business taxes. The US has enacted a historic reduction in its corporate tax rate from 35 percent to 21 percent.

According to the study, "the interplay of these three trends is posing a threat to the competitiveness of German family businesses." The authors therefore recommend reducing the corporate tax burden: "In view of increasing competitive pressure, there is an urgent need for action. Reducing the corporate tax burden, for instance, would not only strengthen the competitiveness of businesses but also discourage companies from shifting real investments."

Over 90 percent of all companies in Germany are family-owned. The purpose of the Foundation for Family Businesses, a non-profit organisation, is to preserve the country's family-business landscape. The foundation is the most important promoter of scientific research in this field and first port of call for politicians and the media in matters related to economic policy, legislation and taxation. Established in 2001, the Foundation is now supported by more than 500 companies that are among the largest enterprises of their kind in Germany.

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Download the study (in German) "International tax competition – analysis, current trends and conclusions for fiscal policy" at www.familienunternehmen.de

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