State-owned firms avoid taxes too, according to a new study

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Despite the assumption that governments are committed to tackling tax avoidance, certain state-owned enterprises exhibit low effective tax rates, implying that even these firms engage in tax planning. This is the somewhat striking finding of a new study conducted by Professor Eva Eberhartinger and David Samuel, Ph.D. from the Vienna University of Economics and Business (WU Vienna).

The empirical study focuses on a sample of German companies as Germany offers a setting where different types of governmental entities with different taxing rights (e.g., the municipalities) act as state owners.

Using financial statement data, the study finds that certain state-owned entities engage in tax planning behaviour that is similar to that of comparable privately owned firms.

However, not all state-owned firms exhibit the same degree of tax avoidance. Only those state-owned firms in which the state owners do not directly benefit from tax revenues engage in tax planning. In contrast, in cases where the state owner is the direct beneficiary of the firm´s tax payments, the tax planning of state-owned firms is significantly lower. The study concludes that a state owner that benefits from the tax payments has adequate incentives to properly monitor the firm´s tax planning activities.

As such, the researchers suggest that even state owners need an incentive to ensure that “their” companies do not seek tax loopholes. Ensuring that the state owner receives a share of the tax revenues can create such an incentive.

The study also makes an important contribution to the current discussion about nationalisations in the wake of the economic crisis caused by the COVID-19 pandemic. The findings inform policymakers about a potential measure – the participation of state owners in tax revenues – to ensure low tax planning activities of nationalised firms.

Eva Eberhartinger, Professor at the Institute for Accounting & Auditing and Head of the Business Tax Group at WU Vienna, says: “Shareholder incentives matter for tax planning activities. To curb tax avoidance, policymakers should not only focus on the firm itself, but also on the shareholders.”

The study, ‘Monitoring and Tax Planning – Evidence from State- Owned Enterprises’ (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3632938), was published as part of the WU International Taxation Research Paper Series.

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