Diskussionsbeitrag Nr. 97

Georg Schneider / Caren Sureth

The Impact of Profit Taxation on Capitalized Investment with Options to Delay and Divest

Februar 2010
The Impact of Profit Taxation on Capitalized Investment with Options to Delay and Divest

Georg Schneider*, Caren Sureth†

Abstract

In entrepreneurial decisions making uncertain future profits often are a main characteristics of real investment opportunities. If investors can react to uncertainty the degree of irreversibility and timing flexibility inherent in the available project should be integrated into the decision calculus. In this paper we investigate the interdependencies of effects from profit taxation and real options. We model an investment decision including an option to invest and an option to abandon. We show that increasing the tax rate can lead to paradoxical tax effects, i.e. may foster an investor’s willingness to invest into a capitalized investment. Instead, if we abstract from the possibility to abandon the investment object such paradoxical effect cannot be identified. Determining the after-tax value of the option to enter the investment project with and without an abandonment option we receive a critical cash flow cut-off level. We find that the value of the option to abandon depends on the tax rate and the amount of periodical cash flows. The option value can be increasing or decreasing in the tax rate. We find scenarios with paradoxical tax effects and show that the observed paradoxical effects are due to the presence of the real abandonment option itself. This finding contributes to the stream of literature that explains potential sources of paradoxical tax effects. The generated decision rules are helpful for investors facing risky investment opportunities and for discussing the economic impact of tax reforms. Furthermore, we highlight the overwhelming importance of integrating taxes in typically applied valuation approaches.

Keywords: investment decisions, real options, tax effects, timing flexibility, uncertainty

JEL Code: H25, H21

* University of Paderborn, Faculty of Business Administration and Economics, Warburger Str. 100, D-33098 Paderborn, Germany.
† Corresponding author: University of Paderborn, Faculty of Business Administration and Economics, Warburger Str. 100, D-33098 Paderborn, Germany. Tel.: +49-5251-60 5311, fax: +49-5251-60 3520, e-mail: csureth@notes.upb.de, http://www.upb.de/taxation and arqus, Quantitative Tax Research, www.arqus.info.
The Impact of Profit Taxation on Capitalized Investment with Options to Delay and Divest

1 Introduction

In entrepreneurial decisions making in real world investment situations future cash flows are usually highly uncertain. Appropriate investment rules should hence account for that. If investors can react dynamically upon possible states of nature, the degree of irreversibility and timing flexibility inherent in the projects in question should be integrated into the decision calculus. Moreover, it is well-known and has been a central issue in accounting and public finance research for many years that taxes can significantly affect investment decisions.

In recent years real option models have been widely accepted for assessing investment projects with stochastic cash flows (e.g., Dixit and Pindyck (1994); Trigeorgis (1996); Bertola (1998)). These models have been extended with respect to taxes and allow us to develop after-tax decision rules for investment projects that are characterized by timing flexibility, uncertainty, and irreversibility. Thus, they enable us to account for the fact that investors cannot usually disinvest without costs once they realize a real investment project and then unexpectedly experience an unfavorable investment environment. Furthermore, the investor may postpone the investment to a future point in time in the hope of better investment conditions, i.e. higher cash flows.

In this paper we investigate the interdependencies of effects from profit taxation on risky investment decisions and real options. We model an investment decision characterized by stochastic cash flows and an option to invest.
Further, once the investment project is realized it includes an abandonment option. We show that increasing the tax rate can lead to paradoxical tax effects, i.e. may foster an investor’s willingness to invest. By contrast, if we abstract from the possibility to abandon the investment object, we cannot identify such paradoxical effects.

To understand the mechanism of all involved effects and the economic intuition behind these effects, we determine the after-tax value of the option to enter the investment project with and without an abandonment option and finally receive an investment threshold or critical cash flow cut-off level. Evaluating the option to enter and simultaneously the option to abandon we derive the investor’s after-tax decision rule. We find that the value of the option to abandon depends on the tax rate and on the periodical cash flows. That said, the tax effects are ambiguous. The option value can be an increasing or decreasing function in the tax rate. In contrast to classical tax paradoxa caused by tax timing effects as described in the literature, we find paradoxical patterns that are due to tax rate effects and the characteristics of the underlying investment object and that particularly depend on the existence of an inherent option to abandon.

This finding contributes to the stream of literature that explains potential sources of paradoxical tax effects under uncertainty. The resulting decision rules are helpful for investors facing risky investment opportunities. They help to forecast the impact of taxes on investment activities. Our results can be used to improve typical valuation approaches and hence are relevant to individual investors’ tax planning as well as interesting for discussing the economic impact of tax reforms. From the viewpoint of an investor, they can anticipate whether a risky project is discriminated, subsidized or treated neutrally by taxation. Hence tax planning is facilitated, i.e., it is easier for
an investor to forecast the tax effects. Furthermore, from the viewpoint of the government our results provide important information for tax reform discussions.

The remainder of the paper is organized as follows. After a brief literature review in section 2 we introduce the reader to the basic features of the model in section 3. In section 4 we model the decision on the investment opportunity in the absence of the abandonment option as a benchmark situation and analyze the impact of taxation on the investment rule. For the benchmark scenario, we show that only normal, rather than paradoxical, effects occur. In section 5 we expand the model framework with respect to an abandonment option at the second investment stage. We find that, unlike in the previous scenario, paradoxical tax effects can occur. We draw final conclusions in section 6.

2 Literature

Several studies analyze whether and in what direction income and profit taxation distort individual and corporate investment decisions. The existence of so-called neutral tax systems that do not affect investment decisions have been proven under certainty and serve as a reference concept for analyzing tax effects. Prominent examples of such neutral tax systems are the cash flow tax and the taxation of true economic profit (e.g., Brown (1948); Samuelson (1964); Johansson (1969), Boadway and Bruce (1984) and Bond and Devereux (1995)).

Integrating uncertainty, MacKie-Mason (1990) models nonlinear tax effects under uncertainty and demonstrates that policy may subsidize or dis-
courage individual investment depending on the tax system. Alvarez, Kanniainen and Södersten (1998) investigate whether or not tax policy uncertainty is harmful for investments in a dynamic stochastic adjustment model.\footnote{Problems created by anticipated tax reforms have been addressed by Alvarez, Kanniainen and Södersten (1998) as well. These questions go back to King (1974) and later Auerbach and Hines (1988), Robson (1989), and Auerbach and Hassett (1992). In the following we abstract from such anticipatory and transitional problems.} Altug, Demers and Demers (2001) theoretically examine the implications of tax risk and persistence on irreversible investment decisions. Panteghini and Scarpa (2003) show that regulatory risk may or may not negatively affect investment decisions. Pawlina and Kort (2005) find that policy changes under uncertainty may have a non-monotonous impact on the investment threshold, whereas Bloom, Bond and Van Reenen (2007) point out that companies’ responsiveness to any given policy is much lower in periods of high uncertainty.

Beyond theoretical and analytical contributions, a body of empirical papers has emerged studying investor reactions to tax rate changes and tax reforms. Lang and Shackelford (2000) empirically document the extent to which stock prices react to cuts in the capital gains tax rate. Shackelford and Verrecchia (2002) and Blouin, Raedy and Shackelford (2003) show that capital gains taxes lead investors to defer selling appreciated stock. Keuschnigg and Nielsen (2004) empirically analyze the influence of capital gains taxes on start-up finance with a double moral hazard. They point out that an increase in capital gains taxes particularly discourages entrepreneurial efforts. Edmiston (2004) estimates tax volatility in a cross-country investigation and provides a panel regression suggesting that the volatility of effective tax rates on capital income has a significant negative impact on investment.

This research highlights that more light should be shed on the interaction
of investment decisions under uncertainty and tax effects and to derive elaborated investment rules that account for entry and exit options. Until now, the existing real option-oriented analyses that derive investment rules for risky investment projects with entry option and that account for tax effects have been rather limited (e.g., Agliardi (2001); Panteghini (2001, 2004, 2005); Niemann and Sureth (2004); Alvarez and Koskela (2008)). Under specific assumptions in this context it has been possible to identify tax systems that are neutral with respect to investment decisions and may serve as a yardstick for measuring tax effects under uncertainty. For risk neutral investors, the existence of neutral tax systems has been proved in a real option context by Niemann (1999) and Sureth (2002). First results for neutral taxation under risk aversion were presented by Niemann and Sureth (2004). Moreover, there are a few analyses of tax effects in the real options framework that abstract from individual risk behavior, refer to risk neutral valuation and apply contingent claims analysis (e.g., Panteghini (2001); Niemann and Sureth (2002); Sureth (2002); Niemann and Sureth (2005); Sarkar and Goukasian (2006); Wong 2009). These studies focus on investment projects that are traded on complete markets and hence fulfill the required spanning property. Using the real option framework, some investigations on the tax effects are restricted to numerical investigations (e.g., Pawlina and Kort (2005), p. 1204).\(^2\) Alvarez and Koskela (2008) focus on the impact of progressive taxation on irreversible investment and among other findings show that for sufficiently high volatilities, the investment threshold depends positively on volatility but negatively on the tax rate. The latter can be regarded as a tax paradox. Agliardi and Agliardi (2008, 2009) analyze the influence of different tax schemes on liquidation decisions. Furthermore, extending this contribution Wong (2009)

\(^2\) For a brief overview see, e.g., Alvarez and Koskela (2008).
shows that firms with an option to liquidate are led to liquidate their operation earlier under progressive taxation as the corporate income tax rate rises. Thus, in the presence of tax progression and corporate income taxes holding decisions are distorted in a real option setting.

Beyond the well-known tax paradoxes under certainty caused either by depreciation allowances that exceed economic depreciation in present value terms or by loss carry forwards, minimum taxation or wealth taxation, Gries, Prior and Sureth (2007) pursue a general analytical approach to identify tax paradoxes under uncertainty in case of an option to invest. They point out that paradoxical tax effects can occur, i.e., a higher tax rate can lead to more or in this specific context, earlier investments. In a scenario with an option to wait they show that the identified paradoxes are not due to tax scales or base effects but to uncertainty.

To date, it has been Agliardi (2001), who analyzes the impact of a corporate cash flow tax and a subsidy to asset values on investments with entry and exit options and finds ambiguous effects on investment timing under this specific tax setting in a continuous time real option framework. Moreover, Sureth and Voß (2005) analyze the impact of taxation on the option to defer an investment decision anticipating a possible exit from the investment. They derive tax rates that do not influence the extent of postponement and show that capital gains taxation often reduces the investor’s willingness to invest, whereas asymmetric tax treatment of profits and losses may compensate this effect at least partially. Moreover, Niemann and Sureth (2009) investigate whether capital gains affect immediate and delayed investment asymmetrically under a combined exit-and-entry option for risky irreversible investment projects and uncertain cash flows. They finally show that taxing capital gains may induce a tax paradox. A more general analysis on
tax effects from a profit tax for investments with entry and exit flexibility has not been performed yet. To fill the void we model a scenario in which the investor faces the opportunity to realize a non-depreciable investment project with stochastic cash flows. This project includes an option to delay the realization and also an option to abandon the risky project should the environment become unfavorable after realization. Then, we deduce investment rules for the given framework and analyze the possible tax effects on investment decisions.

3 Model

We consider an investor with an opportunity to invest in one of two mutually exclusive non-depreciable investment projects, one at time $t = 0$ and the other at $t = 1$. The investment object is a capitalized investment, e.g., an investment in property or in corporate stock with completely distributed earnings. The investment object neither increases nor decreases in value due to macroeconomic effects or speculative bubbles so that overall, no capital gains occur. As no capital gains have accrued in $t = 1$, capital gains taxation does not have to be considered.$^3$

To optimize the decision the investor compares the after-tax costs and benefits from an immediate real investment with the expected costs and benefits of a delayed investment. The investor is assumed to be risk neutral and will carry out the project if a sufficiently high realization of the cash flow process at the time of decision can be observed. Alternatively, the investor

$^3$ If the investor liquidates the project, they will receive the book value of the capitalized investment which is equal to the original exogenously given initial outlay.
will wait for better conditions and until then may invest funds in a capital market investment earning the risk-free market rate of return. Besides effects from uncertainty, taxation and more specifically the tax rate may asymmetrically affect an immediate real investment in comparison to a delayed risky real investment. This is all the more the case if the delayed investment offers the flexibility to react to future developments. More precisely, the value of a real option may be influenced by the tax rate in a non-linear fashion.

Unlike the Dixit-Pindyck type of real option model, e.g., Pawlina and Kort (2005), Gries, Prior and Sureth (2007) or Alvarez and Koskela (2008), uncertainty is modeled as the realization of a binary random variable in a one period model rather than a Brownian motion for an infinite time horizon. Thus, we are able to focus more on economic intuition. Again, an investor can choose between investing immediately \( t = 0 \) or at some pre-specified future date \( t = 1 \). While the cash flow from the investment can be observed at the time of decision \( t = 0 \), future cash flows are subject to uncertainty. Hence, we have to refer to information about the time structure of future cash flows given by the binomial model to be able to decide between immediate or delayed investments.

The investor’s pre-tax cost of capital is denoted by \( r \). We assume that the tax system is characterized by a profit tax on income from real investment and a final tax on interest income. Thus, profits from the real investment are subject to profit tax at tax rate \( \tau \). Losses at \( t = 0 \) or \( t = 1 \) can be completely offset at this tax rate \( \tau \), i.e., there is a tax refund in case of a negative tax base.\(^4\) Interest payments are taxable or tax-deductible at a tax rate \( \tau_f \), i.e.,

\(^4\) This assumption of complete loss-offset can be justified by considering the investor to have positive cash flows from other sources that serve as loss compensation potential for the underlying project for tax purposes.
\( r_{\tau_f} = r(1 - \tau_f). \)\(^5\)

Against this background, at \( t = 0 \) the risk neutral investor has two alternatives.

Firstly, the investor can invest a fixed net amount \( I \) at \( t = 0 \). Having realized the investment project at \( t = 0 \) the investor will receive the deterministic cash flow \( CF_0 \) at \( t = 0 \).

Alternatively, the investor could decide at \( t = 0 \) on an investment to be realized at \( t = 1 \). Investing later requires an effective net cash outlay of \( \beta I \) at \( t = 1 \), where \( \beta \) is some exogenously given growth parameter.\(^7\) However, the decision on the delayed project has to be made at \( t = 0 \), so the project must be initiated at the same time as the immediate project.

We assume that the investor evaluates both alternative investments based on their expected after-tax net present value (NPV). An investment at \( t = 0 \) in our one-period model leads to a deterministic cash flow of \( CF_0 \) with \( CF_0 > 0 \), while an investment at \( t = 1 \) results in a stochastic cash flow \( \hat{CF}_1 \). In case of the good state of nature \( G \) the cash flow from the delayed project equals \( \hat{CF}_1 = \alpha(CF_0 + 1) \), while it is \( \hat{CF}_1 = \alpha(CF_0 - 1) \) in case of the bad state of nature \( B \). Both states of nature are equally likely, i.e.,

\[ CF_0 = \alpha(CF_0 + 1), \quad \hat{CF}_1 = \alpha(CF_0 - 1) \]

\(^5\) Several countries levy a final tax on interest income. Austria has such a tax, and Germany introduced it at the beginning of 2009. Furthermore, the Nordic dual income tax systems are characterized by a preferential tax rate for all types of capital income. See, e.g., Nielsen/Sørensen (1997); Boadway (2004); Lindhe/Södersten/Öberg (2004); Sørensen (2005) and Kanniainen/Kari/Ylä-Liedenpohja (2007).

\(^6\) We assume an initial investment of \( \hat{I} \) at \( t = 0 \) and that the investor liquidates the project in the subsequent period and hence receives the book value of the capitalized investment \( \hat{I} \) at \( t = 1 \). Discounting the book value and deducting this present value of the book value from the initial investment \( \hat{I} \) leads to the initial effective net investment outlay \( I \) with \( I := \hat{I} - \frac{\hat{I}}{1 + r_{\tau_f}} = \hat{I} \left(1 - \frac{1}{1 + r_{\tau_f}}\right) \). For simplicity we focus in the following on investing the initial effective net investment outlay \( I \).

\(^7\) In line with an immediate investment for the delayed investment we implicitly assume that \( \beta I := \beta \hat{I} - \frac{\beta \hat{I}}{1 + r_{\tau_f}} = \beta \hat{I} \left(1 - \frac{1}{1 + r_{\tau_f}}\right) \).
their probability is \( p = \frac{1}{2} \). Therefore, the expected value of the pre-tax cash flow of an investment in period \( t = 1 \) is \( E[\hat{CF}_1] = \alpha CF_0 \). Consequently, the parameter \( \alpha \), with \( \alpha > 0 \), can be interpreted as a growth factor of the (expected) cash flows between period 0 and period 1. In order to keep the model transparent and to avoid unnecessary case distinctions we assume that \( \alpha \leq 1 + r_{\tau_f} \). That is, the cash flow growth rate is below the investor’s cost of capital.

The investor cannot anticipate the state of nature at \( t = 1 \) in \( t = 0 \), i.e., when the choice between immediate and delayed investment is made. Thus the investor faces the following investment strategies:

(1) invest immediately and receive the deterministic cash flow at \( t = 0 \) (invest now), or

(2) invest later and receive the stochastic cash flow at \( t = 1 \) (invest later without exit flexibility).

The investor decides to delay the investment and invest in \( t = 1 \). We abstract from the possibility to abandon the investment. Thus, the investor cannot react on the extra information available at \( t = 1 \). Hence, a potential investment decision at \( t = 0 \) for an investment at \( t = 1 \) is irreversible (benchmark scenario for a delayed investment);

(3) invest later and exercise the option to abandon (invest later with exit flexibility to abstain from delayed investment).

The investor decides to delay the investment to \( t = 1 \). In contrast to (2), we include an abandonment option at \( t = 1 \) for the \( t = 1 \)

\[ \text{In the following we focus on scenarios with } \alpha \leq 1 + r_{\tau_f}, \text{ to keep the model simple. For reasons of completeness and to show that this does not restrict the generality of our results we have inserted a consideration for the case } \alpha > 1 + r_{\tau_f} \text{ in section 4.} \]
investment project. Abandoning will eliminate the cash flow in $t = 1$. The salvage value equals the necessary investment outlay and therefore formally no net investment occurs if the exit option is exercised. More concretely, if the exit option is not exercised the gains from a $t = 1$ investment equal $\alpha(CF_0 + 1) - \beta I \geq 0$ in the good state of nature and $\alpha(CF_0 - 1) - \beta I \leq 0$ in the bad state. If the option is exercised, the gains are zero.

We abstract from an option to abandon at the first stage of the analysis and regard the outlined scenario with an entry option only (investment strategies (1) and (2)) as a benchmark scenario for analyzing later the effects of an exit option. Then, at the second stage of our investigation we model a scenario that comprises an abandonment option (investment strategies (1) and (3)).

Against this background we analyze how taxes influence investor behavior (investment, divestment). Do taxes foster an investor’s willingness to remain invested? Do taxes hinder real investment? Do taxes influence the timing and duration of an investment and in turn, the timing of divestment?

To identify how taxes affect investment behavior we have to distinguish between normal, non-distorting, and paradoxical effects. If taxes are not neutral with respect to investment decisions but distortive, typically we expect that levying taxes on profits from real investment will decrease an investor’s willingness to invest (normal effect). By contrast, under a neutral tax system taxation would not affect investment behavior at all. Further, if investors are more willing to realize real investment projects that are subject to tax than a tax-free alternative, the tax effect is referred to as paradoxical. Such paradoxical effects are well-known under certainty and are caused either by
depreciation allowances that exceed economic depreciation in present value terms or investment credits\(^9\) or by loss carry forwards, minimum taxation or wealth taxation.\(^10\)

In the following section we investigate the impact of taxes on the investment decision. We will see that paradoxical tax effects do not occur in the benchmark case while they may arise if an abandonment option is available. Therefore, we will be able to conclude that paradoxical tax effects can emerge in the presence of real options, particularly if the investment includes an abandonment option.

\section{No flexibility to abandon the investment}

To analyze the impact of taxation on the investment decision in \(t = 0\) we focus on an option to wait only (investment strategies (1) and (2)) as a benchmark case for further investigations. We assume that the option has a strictly positive value and therefore affects the decision calculus.

The sequence of events and the decision problem in our benchmark scenario without an abandonment option is illustrated in Figure 1.

At \(t = 0\) the investor can either invest immediately or delay the investment until \(t = 1\), and until then invest in the capital market. Consequently, at \(t = 1\) there is no longer a default alternative if the investor has refrained from immediate investment at \(t = 0\) and has committed to postponing the investment until \(t = 1\). Having decided to delay the investment the investor


cannot react to new information at $t = 1$. In this case a capital market investment at $t = 1$ is not available to the investor; instead the real investment project has to be realized.

Invest now Invest later

\[ \alpha(CF_0 + 1) - \beta I \quad \quad \alpha(CF_0 - 1) - \beta I \]

Figure 1: Decision tree in the benchmark case (no option to abandon)

Abstracting from an option to abandon at the first stage of the analysis we identify settings in which only normal tax effects occur.

An immediate investment of $I$ at $t = 0$ yields a cash flow of $CF_0$ at date $t = 0$, and the surplus from the investment is subject to a profit tax at tax rate $\tau$. The investment yields after-tax profits (or losses) $P_0$ with
\[ P_0 = (1 - \tau)CF_0 - I. \] (1)

Alternatively, the investment can be delayed to \( t = 1 \) but then must definitely be carried out. At \( t = 1 \) two equally probable states are possible. Investing \( \beta I \) leads to either \( CF_1 \) in the good state or \( CF_1 \) in the bad state.\(^{11}\)

Since there is no possibility to abandon the investment at \( t = 1 \), the expected profit in present value terms of a delayed project is

\[ E \left[ \frac{\tilde{P}_1}{1 + r_{\tau_f}} \right] = (1 - \tau) \frac{\alpha}{1 + r_{\tau_f}} CF_0 - \frac{\beta I}{1 + r_{\tau_f}}. \] (2)

Therefore, a necessary condition for the project to be delayed rather than realized immediately at \( t = 0 \) is:

\[ (1 - \tau) \frac{\alpha}{1 + r_{\tau_f}} CF_0 - \frac{\beta I}{1 + r_{\tau_f}} \geq (1 - \tau) CF_0 - I. \] (3)

This condition can be rewritten as

\[ I \left( 1 - \frac{\beta}{1 + r_{\tau_f}} \right) \geq (1 - \tau) CF_0 \left( 1 - \frac{\alpha}{1 + r_{\tau_f}} \right). \] (4)

Since, according to our assumption, \( \alpha < 1 + r_{\tau_f} \) this is equivalent to

\[ CF_0 \leq \frac{I \left( 1 - \frac{\beta}{1 + r_{\tau_f}} \right)}{(1 - \tau) \left( 1 - \frac{\alpha}{1 + r_{\tau_f}} \right)}. \] (5)

\(^{11}\) Since we have assumed an interest rate of \( r_{\tau_f} \), an immediate investment of \( I \) corresponds to an investment of \( (1 + r_{\tau_f})I \) at \( t = 1 \). However, in this section we make no assumption about the relation of the growth factor \( \beta \) to \( 1 + r_{\tau_f} \). By contrast, we will assume \( \beta > 2(1 + r_{\tau_f}) \) in the following section in order to simplify the investigation and focus on first-order effects.
We denote the corresponding threshold or cut-off level by $CF_0^*$. That is, since we have to take into account that the cash flows $CF_0$ are positive,

$$CF_0^* = \max \left\{ 0, \frac{I \left(1 - \frac{\beta}{1 + \tau_f}\right)}{(1 - \tau) \left(1 - \frac{\alpha}{1 + \tau_f}\right)} \right\}. \quad (6)$$

This result can be interpreted as follows. Since the cash flow grows at a lower rate than the firm’s cost of capital (i.e. $\alpha \leq 1 + \tau_f$), it is obvious from equation (3) that higher cash flows favor early investments. An immediate investment is chosen for all positive values of $CF_0$ with $CF_0 \geq CF_0^*$. For lower values of $CF_0$ the investment is postponed to $t = 1$. Since delayed investments can be interpreted as a decrease in the investor’s willingness to invest, we have normal tax effects if $CF_0^*$ increases in $\tau$. Contrary, if $CF_0^*$ decreases in $\tau$ we will have fewer delayed and more immediate investments and consequently paradoxical tax effects.

If the growth rate $\beta$ of the investment outlay is below the firm’s cost of capital ($\beta < 1 + \tau_f$), it follows from equation (6) that

$$CF_0^* = \frac{I \left(1 - \frac{\beta}{1 + \tau_f}\right)}{(1 - \tau) \left(1 - \frac{\alpha}{1 + \tau_f}\right)}. \quad (7)$$

In this case we have a strictly positive value of the cut-off level. Again, this is observable by taking a look at equation (3). Since the discounted value of outlay for a delayed investment is smaller than the required initial outlay for an immediate investment, postponing the investment is attractive at least for small values of $CF_0$. It is obvious that in this case the critical cash flow threshold $CF_0^*$ increases in $\tau$ and therefore we have normal tax effects.
If $\beta > 1 + r_{\tau_f}$, it follows that the second term under the max-operator in equation (6) is negative. Therefore, we have $CF^*_0 \equiv 0$ for all $\tau$ and hence no distorting tax effects. Note that here, neutrality is due to the assumption of positive cash flows.

**Proposition 1** The optimal investment strategy in the setting described above is as follows:

1. If $\beta < 1 + r_{\tau_f}$, the investor strictly prefers to delay the investment for all $CF_0 \in [0, CF^*_0)$, where $CF^*_0 > 0$. They are indifferent for $CF_0 = CF^*_0$ and prefers early investment for $CF_0 > CF^*_0$.

2. If $\beta = 1 + r_{\tau_f}$, the investor can choose to either invest or delay the investment for $CF_0 = CF^*_0 \equiv 0$, but prefers early investment for $CF_0 > CF^*_0 \equiv 0$.

3. If $\beta > 1 + r_{\tau_f}$, the investor never delays the investment. This corresponds to $CF_0 = CF^*_0 \equiv 0$.

Therefore, since the function

$$CF^*_0 = \max \left\{ 0, \frac{I \left( 1 - \frac{\beta}{1 + r_{\tau_f}} \right)}{(1 - \tau) \left( 1 - \frac{\alpha}{1 + r_{\tau_f}} \right)} \right\}$$

(8)

does not decrease in $\tau$, paradoxical tax effects never can occur for this benchmark investment problem.

More specifically,

1. normal tax effects occur for $\beta < 1 + r_{\tau_f}$ and

2. no distorting tax effects occur for $\beta \geq 1 + r_{\tau_f}$.
One of our crucial assumptions is a tax system with a profit tax. We have justified this assumption by the neutrality property of this tax system which enables us to concentrate on tax effects that are caused by uncertainty modeled in a real option framework. If we had a cash flow tax instead of a profit tax, the cut-off level $CF_0^*$ will not depend on $\tau$ and hence there is no interdependence between the taxation and the investment problem under uncertainty and timing flexibility emerges. This can be seen in the analogue of equation (3) where the term $(1 - \tau)$ vanishes:

\[
(1 - \tau) \left[ \frac{\alpha}{1 + r_{\tau_f}} CF_0 - \frac{\beta I}{1 + r_{\tau_f}} \right] \geq (1 - \tau) [CF_0 - I] \tag{9}
\]

and therefore it can be argued as above that the cut-off level $CF_0^*$ satisfies

\[
CF_0^* = \max \left\{ 0, \frac{I \left(1 - \frac{\beta}{1 + r_{\tau_f}}\right)}{1 - \frac{\alpha}{1 + r_{\tau_f}}} \right\}. \tag{10}
\]

It is obvious from the above equation that under a cash flow tax the cut-off level does not depend on the tax rate $\tau$.

Furthermore, we could include an analysis of the case $\alpha > 1 + r_{\tau_f}$ at this point. For sake of completeness, we briefly sketch the arguments for such a setting here. For $\alpha > 1 + r_{\tau_f}$ we receive from equation (3) that

\[
CF_0 \geq \frac{I \left(1 - \frac{\beta}{1 + r_{\tau_f}}\right)}{(1 - \tau) \left(1 - \frac{\alpha}{1 + r_{\tau_f}}\right)}. \tag{11}
\]

Again, we denote the corresponding cut-off level by $CF_0^*$. That is again for positive cash flows.

\footnote{Note that a cash flow tax has been proven neutral for risk neutral investors in a real option setting, cf. Niemann and Sureth (2004).}
\[ CF_0^* = \max \left\{ 0, \frac{I \left( 1 - \frac{\beta}{1 + r_{\tau f}} \right)}{(1 - \tau) \left( 1 - \frac{\alpha}{1 + r_{\tau f}} \right)} \right\}. \] (12)

The two equations above can be interpreted as follows. Conversely to the case \( \alpha < 1 + r_{\tau f} \), the cash flow grows at a higher rate than the firm’s cost of capital (i.e. \( \alpha > 1 + r_{\tau f} \)). Therefore, it is obvious from equation (3) that higher cash flows favor delayed investments. A postponed investment will be chosen for all values of \( CF_0 \) in the interval \([CF_0^*, \infty)\). For lower values of \( CF_0^* \) more possible investments are delayed to \( t = 1 \). Since we associate delayed investments with fewer investments, we find normal tax effects if \( CF_0^* \) decreases in \( \tau \). Contrary, if \( CF_0^* \) increases in \( \tau \), we get fewer delayed and therefore more early investments and consequently paradoxical tax effects. Finally, it can be argued as above that for \( \beta > 1 + r_{\tau f} \) normal tax effects occur and in all other cases (\( \beta \leq 1 + r_{\tau f} \)) the tax is neutral. Since most effects are similar, we will not refer to this case in the following section, where the option to abandon the \( t = 1 \) investment is included.

To summarize, we find that in our benchmark investment scenario where the investment does not include an option to abandon, in general no paradoxical tax effects arise. In the following section we expand our model framework to include an option to abandon a delayed investment after the investor has observed the state of nature and show that paradoxical tax effects can occur.

5 Flexibility to abandon the investment

Integrating an option to abandon, we prove that there are situations that lead to paradoxical tax effects. Our analysis clarifies that these paradoxical
tax effects are caused by the presence of the underlying (abandonment) real option.

The events and the decision tree in case of the extended scenario with an abandonment option are illustrated in Figure 2.

![Decision tree in the presence of the abandonment option](image)

The events are fairly similar to the benchmark case presented before. The investor can choose to invest at $t = 0$ (invest now) or schedule an investment for $t = 1$ (invest later). In case of an investment at the later date, the state of nature can be observed at $t = 1$. In contrast to the previous scenario, the
investor can now abstain from the originally planned delayed investment and exercise the option to abandon it. In case of an abandonment, on the one hand the investor does not receive the cash flows from the real investment project, but on the other faces no initial outlay \( \beta I \) and in turn, realizes neither gains nor losses. If the investor holds the exit option and thus carries out and keeps the investment project, they have to invest an amount of \( \beta I \) and realize cash flows \( \tilde{CF}_1 \) as in the benchmark case.

First, we assume that \( \alpha(CF_0 + 1) - \beta I \geq 0 \). This ensures that an investment at \( t = 1 \) is not abandoned in the good state of nature for at least low tax rates \( \tau \). We define the cut-off level \( \tau^* \) for the tax rate as

\[
(1 - \tau^*)\alpha(CF_0 + 1) - \beta I = 0. \tag{13}
\]

Thus, for all \( \tau \leq \tau^* \) the investment will not be abandoned in the good state of nature at \( t = 1 \). For all other values of the tax rate, it will.

We analyze the investment problem by backward induction. First, we consider the case \( \tau \leq \tau^* \). Since it is possible to abandon the investment (with a salvage value that equals the necessary investment), the investor terminates the project in the bad state. Here, the assumption \( \alpha(CF_0 - 1) - \beta I \leq 0 \) is crucial. The investor will hold it in the good state of nature. Therefore, taking into account the optimal execution of the abandonment option the present value of a postponed investment is given by

\[
\frac{1}{2} \left[ (1 - \tau)\alpha \frac{CF_0 + 1}{1 + r_{\tau_f}} - \beta \frac{I}{1 + r_{\tau_f}} \right]. \tag{14}
\]

Hence, a necessary criterion for delaying the project is that
\[
\frac{1}{2} \left[ (1 - \tau) \alpha \frac{CF_0 + 1}{1 + r_{\tau_f}} - \beta \frac{I}{1 + r_{\tau_f}} \right] \geq (1 - \tau) CF_0 - I.
\] (15)

This condition can be rewritten as

\[
I \left(1 - \frac{1}{2} \frac{\beta}{1 + r_{\tau_f}} \right) + \frac{1}{2} \frac{1 - \tau}{1 + r_{\tau_f}} \alpha \geq (1 - \tau) CF_0 \left(1 - \frac{1}{2} \frac{\alpha}{1 + r_{\tau_f}} \right).
\] (16)

Remember the assumption \(\alpha < 1 + r_{\tau_f}\). Since this assumption implies \(\alpha < 2(1 + r_{\tau_f})\), this condition is equivalent to

\[
CF_0 \leq \frac{I \left(1 - \frac{1}{2} \frac{\beta}{1 + r_{\tau_f}} \right)}{(1 - \tau) \left(1 - \frac{1}{2} \frac{\alpha}{1 + r_{\tau_f}} \right)} + \frac{1}{2} \frac{\alpha}{1 + r_{\tau_f}}.
\] (17)

We denote the corresponding threshold or cut-off level by \(CF_0^*\). Since we have to take into account that the cash flows \(CF_0\) are positive, that is \(CF_0 \geq 0\) and \(CF_0 < CF_0^*\), this condition is equivalent to

\[
CF_0^* = \max \left\{ 0, \frac{I \left(1 - \frac{1}{2} \frac{\beta}{1 + r_{\tau_f}} \right)}{(1 - \tau) \left(1 - \frac{1}{2} \frac{\alpha}{1 + r_{\tau_f}} \right)} + \frac{1}{2} \frac{\alpha}{1 + r_{\tau_f}} \right\}.
\] (18)

The optimal investment decision and especially the cut-off level \(CF_0^*\) can be explained as follows. In line with the benchmark case the cash flow grows at a lower rate than the firm’s cost of capital (i.e. \(\alpha \leq 1 + r_{\tau_f}\)). Therefore, it is obvious from equation (15) that higher cash flows favor early investments. A \(t = 0\) investment is chosen for all values of \(CF_0\) with \(CF_0 \geq 0\) and \(CF_0 < CF_0^*\). For values of \(CF_0\) that are higher than \(CF_0^*\) the investment is postponed to \(t = 1\). Again, delayed investments can be interpreted as a decrease in the investor’s willingness to invest. Therefore, we have normal tax effects if \(CF_0^*\) increases in \(\tau\). By contrast, if \(CF_0^*\) decreases in \(\tau\)
we would have fewer delayed and instead more immediate investments and consequently paradoxical tax effects.

Unlike in the benchmark case without flexibility to abandon, the equation for strictly positive values of $CF_0^*$ consists of two parts. In a sense the first part is similar to the equation of the cut-off level $CF_0^*$ in the benchmark case. The fraction $\frac{1}{2}$ has to be inserted because a $t = 1$ investment will be abandoned in the bad state and therefore the investment is only conducted with a probability of $\frac{1}{2}$. The second term reflects that the cash flows from real investments are higher in the good state at $t = 1$ than at $t = 0$ (i.e., $CF_0 + 1$ instead of $CF_0$). Since this “gain” is taxed at the same rate as the whole cash flow, this second term is independent of the tax rate $\tau$. This independency contrasts with the first term that non-trivially depends on the tax rate $\tau$. Here, the dependency on the tax rate $\tau$ is due to all investments being capitalized and non-depreciable and therefore having no influence on the periodical tax base.

Additionally, note that

$$\frac{1}{2} \left( \frac{\alpha}{1 + r_f T} \right) > 0$$

(19)

by our assumption concerning $\alpha$. In addition, if $\beta > 2(1 + r_f)$ is satisfied,

$$\frac{I \left( 1 - \frac{1}{2} \frac{\beta}{1 + r_f} \right)}{(1 - \tau) \left( 1 - \frac{1}{2} \frac{\alpha}{1 + r_f} \right)}$$

(20)

decreases in $\tau$ which leads to paradoxical tax effects. For $\tau > \tau^*$ the present value of a $t = 1$ investment taking into account the optimal execution
of the abandonment option is given by zero. Therefore, a necessary criterion for delaying the project is that

\[ 0 \geq (1 - \tau) CF_0 - I \]  

or

\[ CF_0 \leq \frac{I}{1 - \tau}. \]  

(21)

In this case we have normal tax effects. In the following we summarize this result.

**Proposition 2** If \( \alpha < 1 + r_{\tau_f} \) and \( \beta > 2(1 + r_{\tau_f}) \), then we have paradoxical tax effects in the presence of the option to abandon.

To interpret the above proposition it is firstly helpful to provide some economic intuition for this setting and secondly to focus on the effects of the option to abandon.

First, intuitively a setting with \( \alpha < 1 + r_{\tau_f} \) and \( \beta > 2(1 + r_{\tau_f}) \) is likely for all export-oriented industries. For instance, it is given for the German automotive industry which sells its products in the US. If the US dollar weakens against the euro and if the products are manufactured in Germany and thus input prices are driven by local cost, \( \beta \) will exceed \( \alpha \). In this case US revenues may only increase slightly or even decrease while production costs may rise in Germany. A similar argument is valid for oil-producing countries in the Middle East. Their costs are mainly based in the euro, because these countries mainly hire European companies while revenues are denominated in US dollars.

Second, in our case we define the value of the option to abandon as the value of the flexibility associated with the possibility to abandon. The expected net present value from a delayed investment in the absence of the abandonment option \( V_{abs} \) is
\[ V_{\text{abs}} = (1 - \tau) \frac{\alpha}{1 + r_{\bar{r}} CF_0} - \frac{\beta I}{1 + r_{\bar{r}}}, \]  

(22)

while the value of a delayed investment in the presence of the abandonment option \( V^{\text{pres}} \) is

\[ V^{\text{pres}} = \frac{1}{2} \left[ (1 - \tau) \frac{CF_0 + 1}{1 + r_{\bar{r}}} - \beta \frac{I}{1 + r_{\bar{r}}} \right]. \]  

(23)

The value of the flexibility \( V^{\text{op}} \) to abandon can be described by

\[ V^{\text{op}} = V^{\text{pres}} - V^{\text{abs}} \]  

(24)

\[ = (1 - \tau) \left( \frac{1}{2(1 + r_{\bar{r}})} \alpha [1 - CF_0] \right) + \frac{1}{2} \frac{\beta I}{1 + r_{\bar{r}}}. \]

It must be considered that the above equation is only valid under the assumption that the abandonment option is exercised in the bad state and not in the good state. For parameters for which this execution pattern is optimal the above value difference \( V^{\text{op}} \) will be positive and therefore the option will always have a positive value. Obviously, the value of the option to abandon decreases in \( \tau \) as long as \( CF_0 < 1 \) and increases as long as \( CF_0 > 1 \).

Exercising the option to abandon affects both the cash flows and the investment outlay. Specifically, the option is exercised whenever cash flows do not justify the investment costs. This can happen even if cash flows are positive. Therefore, the expected value of cash flows may increase in the presence of the real option. The first term in equation (24) captures the effect of the expected cash flow. The second term reflects the effect from the expected investment outlay.
In case $CF_0 < 1$ expected cash flows increase if the abandonment option is exercised. Since the tax system provides a complete loss offset for a negative tax base (losses), this positive effect decreases with the tax rate. Exercising the abandonment option eliminates the possible benefit from a loss-induced tax refund. Therefore the value of the option decreases with the tax rate. This mechanism is the reason for the paradoxical tax effects. Hence, the occurrence of such effects is due to the assumption that the tax system provides a complete loss offset. However, in line with our definition of paradoxical effects, a rise in the tax rate makes the immediate investment including the option to abandon more attractive.

By contrast, for $CF_0 > 1$ expected cash flows decrease if the investor refrains from holding the abandonment option. As negative cash flows imply a tax refund, this negative effect decreases with the tax rate. These interdependencies explain why – at first glance – the value of the option increases in the tax rate $\tau$.

For further intuition, let $NPV_0$ denote the net present value of an immediate investment and let $NPV_{abs}^1$ denote the net present value of a delayed investment in the absence of the abandonment option. Specifically, we have

\[
NPV_0 = (1 - \tau)CF_0 - I \quad \text{and} \quad NPV_{abs}^1 = (1 - \tau)\frac{\alpha}{1 + r_{\tau_f}}CF_0 - \frac{\beta I}{1 + r_{\tau_f}}.
\]

Correspondingly, by $NPV_{pres}^1$ we denote the net present value of a delayed investment with an abandonment option

\[
NPV_{pres}^1 = \frac{1}{2}\left[(1 - \tau)\frac{\alpha}{1 + r_{\tau_f}}CF_0 + \frac{1}{1 + r_{\tau_f}} - \frac{\beta I}{1 + r_{\tau_f}}\right].
\]
The difference $DIFF_{\text{abs}}$ between a delayed and an early investment in the absence of the real option is given by

$$DIFF_{\text{abs}} = NPV_{1}^{\text{abs}} - NPV_{0}$$

$$= (1 - \tau)CF_{0} \left[ \frac{\alpha}{1 + r_{\tau}} - 1 \right] - I \left[ \frac{\beta}{1 + r_{\tau}} - 1 \right].$$

The investment will be delayed whenever $DIFF_{\text{abs}}$ is positive. According to our assumptions about $\alpha$ and $\beta$ in this section the difference will always be negative (see also Proposition 1 (3).)

Furthermore, the difference $DIFF_{\text{pres}}$ between delayed and early investment in case of an option to abandon at $t = 1$ is

$$DIFF_{\text{pres}} = NPV_{1}^{\text{pres}} - NPV_{0}$$

$$= (1 - \tau)CF_{0} \left[ \frac{1}{2} \frac{\alpha}{1 + r_{\tau}} - 1 \right] + (1 - \tau_{f}) \frac{\alpha}{2} \frac{1}{1 + r_{f}} - I \left[ \frac{1}{2} \frac{\beta}{1 + r_{\tau}} - 1 \right]$$

$$= DIFF_{\text{abs}} + V_{\text{op}}.$$

Obviously, $DIFF_{\text{pres}}$ decreases in the cash flow $CF_{0}$. As $DIFF_{\text{abs}} < 0$, it can only be positive if the value of the option is sufficiently large. Since the value of the real option decreases for $(CF_{0} < 1)$, the difference also decreases. Therefore, higher tax rates induce more early investments.

---

13 It can be shown, using our assumptions of this section about $\alpha$ and $\beta$, that scenarios with $CF_{0} < 1$ are the decisive outcomes for the cash flow at time $t = 0$ for our investigation.
6 Conclusions

Our investigation focuses on the influence of tax rates on investment decisions under uncertainty and timing flexibility. In this paper we study investment decisions concerning two mutually exclusive real investments at two different points in time. We assume that the underlying investment has to be capitalized. As it is non-depreciable by assumption it does not imply a reduction in the tax base thanks to depreciation allowances. If we find that the investor prefers to delay the investment, we interpret this as a low willingness to invest (immediately). Analyzing the influence of taxes on investor behavior, we look for scenarios with taxes that foster investment activities, leave investment activities unaffected or discriminate investment activities. In our model a tax effect is considered normal if higher tax rates induce a postponement. If an increase in the tax rate does not influence investment timing, we refer to it as a non-distorting tax. By contrast, if higher tax rates lead to earlier investments, we have paradoxical tax effects.

Assuming the investor faces two options, an option to wait and an option to abandon, we regard a scenario without an option to abandon as the benchmark case. Here, it turns out that only non-distorting or normal tax effects on investment timing and thus an investor’s willingness to invest occur. Finally, we receive an investment threshold or critical cash flow cut-off level for a scenario with an abandonment option. Evaluating the option to enter and simultaneously the option to abandon, we derive the investor’s after-tax decision rule. We find that the value of the option to abandon depends on the tax rate and on the periodical cash flows. The option value can be an increasing or decreasing function in the tax rate. Hence, in the presence of the abandonment option, we find scenarios with paradoxical tax effects. We
show that the observed paradoxical tax effects are due to the presence of the real abandonment option itself.

This finding contributes to the stream of literature that explains potential sources of paradoxical tax effects. Our result is due to the fact that the value of the real abandonment option depends on the tax rate. More precisely, if the cash flows are small, the value of the option decreases with a rise in the tax rate. This is because when exercising the option to abandon and cash flows are small, abstaining from the real investment eliminates negative cash flows that would have been realized otherwise. As negative cash flows reduce the tax base or even lead to a negative tax base and hence a tax refund, the value of the option to abandon decreases in the tax rate. Consequently, higher tax rates induce earlier investment and therefore a boost in the investor’s willingness to invest.

The resulting decision rules are helpful for investors facing risky investment opportunities. They help to forecast the impact of taxes on investment activities. Our results are relevant to individual investors’ tax planning and also for discussing the economic impact of tax reforms. Furthermore, we highlight the overwhelming importance of integrating taxes in typical valuation approaches.

For future research on tax effects under uncertainty, our model can be extended with respect to more complex tax rules. For instance, asymmetric taxation of ordinary income and capital gains could be integrated into this approach by inserting exogenous or, in case of depreciable investment objects, even endogenous liquidation proceeds. Asymmetric taxation of gains and losses could be integrated by introducing a separate (lower) tax rate for losses representing loss offset restrictions, yielding testable hypotheses for empirical or quasi-experimental investigations.
References


Bislang erschienene **arqus** Diskussionsbeiträge zur Quantitativen Steuerlehre

**arqus** Diskussionsbeitrag Nr. 1
Rainer Niemann / Corinna Treisch: Grenzüberschreitende Investitionen nach der Steuerreform 2005 – Stärkt die Gruppenbesteuerung den Holdingstandort Österreich?
*März 2005*

**arqus** Diskussionsbeitrag Nr. 2
Caren Sureth / Armin Voß: Investitionsbereitschaft und zeitliche Indifferenz bei Realinvestitionen unter Unsicherheit und Steuern
*März 2005*

**arqus** Diskussionsbeitrag Nr. 3
*April 2005*

**arqus** Diskussionsbeitrag Nr. 4
Rainer Niemann: Entscheidungswirkungen der Abschnittsbesteuerung in der internationalen Steuerplanung – Vermeidung der Doppelbesteuerung, Repatriierungspraktik, Tarifprogression –
*Mai 2005*

**arqus** Diskussionsbeitrag Nr. 5
Deborah Knirsch: Reform der steuerlichen Gewinnermittlung durch Übergang zur Einnahmen-Überschuss-Rechnung – Wer gewinnt, wer verliert? –
*August 2005*

**arqus** Diskussionsbeitrag Nr. 6
Caren Sureth / Dirk Langeleh: Capital Gains Taxation under Different Tax Regimes
*September 2005*

**arqus** Diskussionsbeitrag Nr. 7
Ralf Maiterth: Familienpolitik und deutsches Einkommensteuerrecht – Empirische Ergebnisse und familienpolitische Schlussfolgerungen –
*September 2005*

**arqus** Diskussionsbeitrag Nr. 8
Deborah Knirsch: Lohnt sich eine detaillierte Steuerplanung für Unternehmen? – Zur Ressourcenallokation bei der Investitionsplanung –
*September 2005*

**arqus** Diskussionsbeitrag Nr. 9
Michael Thaut: Die Umstellung der Anlage der Heubeck-Richttafeln von Perioden- auf Generationentafeln – Wirkungen auf den Steuervorteil, auf Prognoserechnungen und auf die Kosten des Arbeitgebers einer Pensionszusage
*September 2005*
arqus Diskussionsbeitrag Nr. 10
Ralf Maiterth / Heiko Müller: Beurteilung der Verteilungswirkungen der "rot-grünen" Einkommensteuerpolitik – Eine Frage des Maßstabs –

Oktober 2005

arqus Diskussionsbeitrag Nr. 11
Deborah Knirsch / Rainer Niemann: Die Abschaffung der österreichischen Gewerbesteuer als Vorbild für eine Reform der kommunalen Steuern in Deutschland?

November 2005

arqus Diskussionsbeitrag Nr. 12
Heiko Müller: Eine ökonomische Analyse der Besteuerung von Beteiligungen nach dem Kirchhof'schen EStGB

Dezember 2005

arqus Diskussionsbeitrag Nr. 13
Dirk Kiesewetter: Gewinnausweispolitik internationaler Konzerne bei Besteuerung nach dem Trennungs- und nach dem Einheitsprinzip

Dezember 2005

arqus Diskussionsbeitrag Nr. 14
Kay Blaufüs / Sebastian Eichfelder: Steuerliche Optimierung der betrieblichen Altersvorsorge: Zuwendungsstrategien für pauschaldotierte Unterstützungskassen

Januar 2006

arqus Diskussionsbeitrag Nr. 15
Ralf Maiterth / Caren Sureth: Unternehmensfinanzierung, Unternehmensrechtsform und Besteuerung

Januar 2006

arqus Diskussionsbeitrag Nr. 16
André Bauer / Deborah Knirsch / Sebastian Schanz: Besteuerung von Kapitaleinkünften – Zur relativen Vorteilhaftigkeit der Standorte Österreich, Deutschland und Schweiz –

März 2006

arqus Diskussionsbeitrag Nr. 17
Heiko Müller: Ausmaß der steuerlichen Verlustverrechnung - Eine empirische Analyse der Aufkommens- und Verteilungswirkungen

März 2006

arqus Diskussionsbeitrag Nr. 18
Caren Sureth / Alexander Halberstadt: Steuerliche und finanzwirtschaftliche Aspekte bei der Gestaltung von Genussrechten und stillen Beteiligungen als Mitarbeiterkapitalbeteiligungen

Juni 2006
**arqus** Diskussionsbeitrag Nr. 19
André Bauer / Deborah Knirsch / Sebastian Schanz: Zur Vorteilhaftigkeit der schweizerischen Besteuerung nach dem Aufwand bei Wegzug aus Deutschland
*August 2006*

**arqus** Diskussionsbeitrag Nr. 20
Sebastian Schanz: Interpolationsverfahren am Beispiel der Interpolation der deutschen Einkommensteuertarifunktion 2006
*September 2006*

**arqus** Diskussionsbeitrag Nr. 21
Rainer Niemann: The Impact of Tax Uncertainty on Irreversible Investment
*Oktober 2006*

**arqus** Diskussionsbeitrag Nr. 22
Jochen Hundsdöerfer / Lutz Kruschwitz / Daniela Lorenz: Investitionsbewertung bei steuerlicher Optimierung der Unterlassensalternative und der Finanzierung
*Januar 2007, überarbeitet November 2007*

**arqus** Diskussionsbeitrag Nr. 23
Sebastian Schanz: Optimale Repatriierungspolitik. Auswirkungen von Tarifänderungen auf Repatriierungsentscheidungen bei Direktinvestitionen in Deutschland und Österreich
*Januar 2007*

**arqus** Diskussionsbeitrag Nr. 24
Heiko Müller / Caren Sureth: Group Simulation and Income Tax Statistics - How Big is the Error?
*Januar 2007*

**arqus** Diskussionsbeitrag Nr. 25
Jens Müller: Die Fehlbewertung durch das Stuttgarter Verfahren – eine Sensitivitätsanalyse der Werttreiber von Steuer- und Marktwerten
*Februar 2007*

**arqus** Diskussionsbeitrag Nr. 26
*April 2007, überarbeitet Dezember 2007*

**arqus** Diskussionsbeitrag Nr. 27
Jan Thomas Martini / Rainer Niemann / Dirk Simons: Transfer pricing or formula apportionment? Taxinduced distortions of multinationals’ investment and production decisions
*April 2007*

**arqus** Diskussionsbeitrag Nr. 28
Rainer Niemann: Risikoübernahme, Arbeitsanreiz und differenzierende Besteuerung
*April 2007*
**arqus Diskussionsbeitrag Nr. 29**
Maik Dietrich: Investitionsentscheidungen unter Berücksichtigung der Finanzierungsbeziehungen bei Besteuerung einer multinationalen Unternehmung nach dem Einheitsprinzip
*Mai 2007*

**arqus Diskussionsbeitrag Nr. 30**
Wiebke Broekelschen / Ralf Maiterth: Zur Forderung einer am Verkehrswert orientierten Grundstücksbewertung – Eine empirische Analyse
*Mai 2007*

**arqus Diskussionsbeitrag Nr. 31**
Martin Weiss: How Well Does a Cash-Flow Tax on Wages Approximate an Economic Income Tax on Labor Income?
*Juli 2007*

**arqus Diskussionsbeitrag Nr. 32**
Sebastian Schanz: Repatriierungspolitik unter Unsicherheit. Lohnt sich die Optimierung?
*Oktober 2007*

**arqus Diskussionsbeitrag Nr. 33**
Dominik Rumpf / Dirk Kiesewetter / Maik Dietrich: Investitionsentscheidungen und die Begünstigung nicht entnommener Gewinne nach § 34a EStG
*November 2007, überarbeitet März 2008*

**arqus Diskussionsbeitrag Nr. 34**
Deborah Knirsch / Rainer Niemann: Allowance for Shareholder Equity – Implementing a Neutral Corporate Income Tax in the European Union
*Dezember 2007*

**arqus Diskussionsbeitrag Nr. 35**
Ralf Maiterth / Heiko Müller / Wiebke Broekelschen: Anmerkungen zum typisierten Ertragsteuersatz des IDW in der objektivierten Unternehmensbewertung
*Dezember 2007*

**arqus Diskussionsbeitrag Nr. 36**
Timm Bönke / Sebastian Eichfelder: Horizontale Gleichheit im Abgaben-Transfersystem: Eine Analyse äquivalenter Einkommen von Arbeitnehmern in Deutschland
*Januar 2008*

**arqus Diskussionsbeitrag Nr. 37**
Deborah Knirsch / Sebastian Schanz: Steuerreformen durch Tarif- oder Zeiteffekte? Eine Analyse am Beispiel der Thesaurierungsbegünstigung für Personengesellschaften
*Januar 2008*
**arqus Diskussionsbeitrag Nr. 38**
Frank Hechtner / Jochen Hundsdoerfer: Die missverständliche Änderung der Gewerbesteueranrechnung nach § 35 EStG durch das Jahressteuergesetz 2008 – Auswirkungen für die Steuerpflichtigen und für das Steueraufkommen
*Februar 2008*

**arqus Diskussionsbeitrag Nr. 39**
Alexandra Maßbaum / Caren Sureth: The Impact of Thin Capitalization Rules on Shareholder Financing
*Februar 2008*

**arqus Diskussionsbeitrag Nr. 40**
Rainer Niemann / Christoph Kastner: Wie streitanfällig ist das österreichische Steuerrecht? Eine empirische Untersuchung der Urteile des österreichischen Verwaltungsgerichtshofs nach Bemessungsgrundlagen-, Zeit- und Tarifeffekten
*Februar 2008*

**arqus Diskussionsbeitrag Nr. 41**
Robert Kainz / Deborah Knirsch / Sebastian Schanz: Schafft die deutsche oder österreichische Begünstigung für thesaurierte Gewinne höhere Investitionsanreize?
*März 2008*

**arqus Diskussionsbeitrag Nr. 42**
Henriette Houben / Ralf Maiterth: Zur Diskussion der Thesaurierungs begünstigung nach § 34a EStG
*März 2008*

**arqus Diskussionsbeitrag Nr. 43**
*März 2008*

**arqus Diskussionsbeitrag Nr. 44**
Nadja Dwenger: Tax loss offset restrictions – Last resort for the treasury? An empirical evaluation of tax loss offset restrictions based on micro data.
*Mai 2008*

**arqus Diskussionsbeitrag Nr. 45**
Kristin Schönemann / Maik Dietrich: Eigenheimrentenmodell oder Zwischenentnahmemodell – Welche Rechtslage integriert die eigengenutzte Immobilie besser in die Altersvorsorge?
*Juni 2008*

**arqus Diskussionsbeitrag Nr. 46**
Christoph Sommer: Theorie der Besteuerung nach Formula Apportionment – Untersuchung auftretender ökonomischer Effekte anhand eines Allgemeinen Gleichgewichtsmodells
*Juli 2008*
arqus Diskussionsbeitrag Nr. 47
André Bauer / Deborah Knirsch / Rainer Niemann / Sebastian Schanz: Auswirkungen der deutschen Unternehmensteuerreform 2008 und der österreichischen Gruppenbesteuerung auf den grenzüberschreitenden Unternehmenserwerb
Juli 2008

arqus Diskussionsbeitrag Nr. 48
Dominik Rumpf: Zinsbereinigung des Eigenkapitals im internationalen Steuerwettbewerb – Eine kostengünstige Alternative zu „Thin Capitalization Rules“?
August 2008

arqus Diskussionsbeitrag Nr. 49
Martin Jacob: Welche privaten Veräußerungsgewinne sollten besteuert werden?
August 2008

arqus Diskussionsbeitrag Nr. 50

arqus Diskussionsbeitrag Nr. 51
Rainer Niemann / Caren Sureth: Steuern und Risiko als substitutionale oder komplementäre Determinanten unternehmerischer Investitionspolitik? – Are taxes and risk substitutional or complementary determinants of entrepreneurial investment policy?
August 2008

arqus Diskussionsbeitrag Nr. 52
Frank Hechtner / Jochen Hundsdoerfer: Steuerbelastung privater Kapitaleinkünfte nach Einführung der Abgeltungsteuer unter besonderer Berücksichtigung der Günstigerprüfung: Unsystematische Grenzbelastungen und neue Gestaltungsmöglichkeiten
August 2008

arqus Diskussionsbeitrag Nr. 53
Tobias Pick / Deborah Knirsch / Rainer Niemann: Substitutions- oder Komplementenhypothese im Rahmen der Ausschüttungspolitik schweizerischer Kapitalgesellschaften – eine empirische Studie
August 2008

arqus Diskussionsbeitrag Nr. 54
Caren Sureth / Michaela Üffing: Proposals for a European Corporate Taxation and their Influence on Multinationals’ Tax Planning
September 2008
Claudia Dahle / Caren Sureth: Income-related minimum taxation concepts and their impact on corporate investment decisions
_Oktober 2008_

Dennis Bischoff / Alexander Halberstadt / Caren Sureth: Internationalisierung, Unternehmensgröße und Konzernsteuerquote
_Oktober 2008_

Nadja Dwenger / Viktor Steiner: Effective profit taxation and the elasticity of the corporate income tax base – Evidence from German corporate tax return data
_November 2008_

_November 2008_

Martin Fochmann / Dominik Rumpf: Modellierung von Aktienanlagen bei laufenden Umschichtungen und einer Besteuerung von Veräußerungsgewinnen
_Dezember 2008_

_Dezember 2008_

Nadja Dwenger / Viktor Steiner: Financial leverage and corporate taxation
Evidence from German corporate tax return data
_Februar 2009_

Ute Beckmann / Sebastian Schanz: Investitions- und Finanzierungsentcheidungen in Personenunternehmen nach der Unternehmensteuerreform 2008
_Februar 2009_

Sebastian Schanz/ Deborah Schanz: Die erbschaftsteuerliche Behandlung wiederkehrender Nutzungen und Leistungen – Zur Vorteilhaftigkeit des § 23 ErbStG
_März 2009_

Maik Dietrich: Wie beeinflussen Steuern und Kosten die Entscheidungen zwischen direkter Aktienanlage und Aktienfondsinvestment?
_März 2009_
arqus Diskussionsbeitrag Nr. 65
Maik Dietrich / Kristin Schönemann: Unternehmensnachfolgeplanung innerhalb der Familie: Schenkung oder Kauf eines Einzelunternehmens nach der Erbschaftsteuerreform?
März 2009

arqus Diskussionsbeitrag Nr. 66
Claudia Dahle / Michaela Bäumer: Cross-Border Group-Taxation and Loss-Offset in the EU - An Analysis for CCCTB (Common Consolidated Corporate Tax Base) and ETAS (European Tax Allocation System) -
April 2009

arqus Diskussionsbeitrag Nr. 67
Kay Blaufus / Jochen Hundsdoerfer / Renate Ortlieb: Non scholae, sed fisco discimus? Ein Experiment zum Einfluss der Steuervereinfachung auf die Nachfrage nach Steuerberatung
Mai 2009

arqus Diskussionsbeitrag Nr. 68
Hans Dirrigl: Unternehmensbewertung für Zwecke der Steuerbemessung im Spannungsfeld von Individualisierung und Kapitalmarkttheorie – Ein aktuelles Problem vor dem Hintergrund der Erbschaftsteuerreform
Mai 2009

arqus Diskussionsbeitrag Nr. 69
Henriette Houben / Ralf Maiterth: Zurück zum Zehnten: Modelle für die nächste Erbschaftsteuerreform
Mai 2009

arqus Diskussionsbeitrag Nr. 70
Christoph Kaserer / Leonhard Knoll: Objektivierte Unternehmensbewertung und Anteilseignersteuern
Mai 2009

arqus Diskussionsbeitrag Nr. 71
Dirk Kiesewetter / Dominik Rumpf: Was kostet eine finanzierungsneutrale Besteuerung von Kapitalgesellschaften?
Mai 2009

arqus Diskussionsbeitrag Nr. 72
Rolf König: Eine mikroökonomische Analyse der Effizienzwirkungen der Pendlerpauschale
Mai 2009

arqus Diskussionsbeitrag Nr. 73
Lutz Krutschwitz / Andreas Löffler: Do Taxes Matter in the CAPM?
Mai 2009
Hans-Ulrich Küpper: Hochschulen im Umbruch
*Mai 2009*

Branka Lončarević / Rainer Niemann / Peter Schmidt: Die kroatische Mehrwertsteuer – ursprüngliche Intention, legislative und administrative Fehlentwicklungen
*Mai 2009*

Heiko Müller / Sebastian Wiese: Ökonomische Wirkungen der Missbrauchsbesteuerung bei Anteilsveräußerung nach Sacheinlage in eine Kapitalgesellschaft
*Mai 2009*

Rainer Niemann / Caren Sureth: Investment effects of capital gains taxation under simultaneous investment and abandonment flexibility
*Mai 2009*

Deborah Schanz / Sebastian Schanz: Zur Unmaßgeblichkeit der Maßgeblichkeit – Divergieren oder konvergieren Handels- und Steuerbilanz?
*Mai 2009*

Jochen Sigloch: Ertragsteuerparadoxa – Ursachen und Erklärungsansätze
*Mai 2009*

Hannes Streim / Marcus Bieker: Verschärfte Anforderungen für eine Aktivierung von Kaufpreisdifferenzen – Vorschlag zur Weiterentwicklung der Rechnungslegung vor dem Hintergrund jüngerer Erkenntnisse der normativen und empirischen Accounting-Forschung
*Mai 2009*

Ekkehard Wenger: Muss der Finanzsektor stärker reguliert werden?
*Mai 2009*

Magdalene Gruber / Nicole Höhenberger / Silke Höserle / Rainer Niemann: Familienbesteuerung in Österreich und Deutschland – Eine vergleichende Analyse unter Berücksichtigung aktueller Steuerreformen
*Juni 2009*

Andreas Pasedag: Paradoxe Wirkungen der Zinsschranke
*Juli 2009*
arqus Diskussionsbeitrag Nr. 84
Sebastian Eichfelder: Bürokratiekosten der Besteuerung: Eine Auswertung der empirischen Literatur
Juli 2009

arqus Diskussionsbeitrag Nr. 85
Wiebke Broekelschen / Ralf Maiterth: Gleichmäßige Bewertung von Mietwohngrundstücken durch das neue steuerliche Ertragswertverfahren? Eine empirische Analyse
September 2009

arqus Diskussionsbeitrag Nr. 86
Ute Beckmann / Sebastian Schanz: Optimale Komplexität von Entscheidungsmodellen unter Berücksichtigung der Besteuerung – Eine Analyse im Fall der Betriebsveräußerung
September 2009

arqus Diskussionsbeitrag Nr. 87
Wiebke Broekelschen/ Ralf Maiterth: Verfassungkonforme Bewertung von Ein- und Zweifamilienhäusern nach der Erbschaftsteuerreform 2009?– Eine empirische Analyse
September 2009

arqus Diskussionsbeitrag Nr. 88
Martin Weiss: How Do Germans React to the Commuting Allowance?
October 2009

arqus Diskussionsbeitrag Nr. 89
Tobias Pick / Deborah Schanz / Rainer Niemann: Stock Price Reactions to Share Repurchase Announcements in Germany – Evidence from a Tax Perspective
October 2009

arqus Diskussionsbeitrag Nr. 90
Wiebke Broeckelschen: Welche Faktoren beeinflussen die Gleichmäßigkeit der Bewertung von Mietwohngrundstücken?
November 2009

arqus Diskussionsbeitrag Nr. 91
Caren Sureth / Pia Vollert: Verschärfung der Verlustabzugsbeschränkung durch § 8c KStG und deren Einfluss auf den Erwerb von Anteilen an Kapitalgesellschaften
November 2009

arqus Diskussionsbeitrag Nr. 92
Martin Fochmann / Dirk Kiesewetter / Abdolkarim Sadrieh: The Perception of Income Taxation on Risky Investments – an experimental analysis of different methods of loss Compensation –
November 2009
arqus Diskussionsbeitrag Nr. 93
Nadja Dwenger: Corporate taxation and investment: Explaining investment dynamics with form-level panel data
Dezember 2009

arqus Diskussionsbeitrag Nr. 94
Kristin Schönemann: Finanzierungsstrategien und ihre Auswirkungen auf den Unternehmenswert deutscher Immobilien-Kapitalgesellschaften
Dezember 2009

arqus Diskussionsbeitrag Nr. 95
Henriette Houben / Ralf Maiterth: Inheritance tax-exempt transfer of German businesses: Imperative or unjustified subsidy? – An empirical analysis
Dezember 2009

arqus Diskussionsbeitrag Nr. 96
Markus Diller / Andreas Löffler: Erbschaftsteuer und Unternehmensbewertung
Februar 2010

arqus Diskussionsbeitrag Nr. 97
Georg Schneider / Caren Sureth: The Impact of Profit Taxation on Capitalized Investment with Options to Delay and Divest
Februar 2010

Impressum:
Arbeitskreis Quantitative Steuerlehre, arqus, e.V.
Vorstand: Prof. Dr. Jochen Hundsdoerfer, Prof. Dr. Dirk Kiesewetter, Prof. Dr. Ralf Maiterth
Sitz des Vereins: Berlin

Herausgeber: Kay Blaufus, Jochen Hundsdoerfer, Dirk Kiesewetter, Rolf J. König, Lutz Kruschwitz, Andreas Löffler, Ralf Maiterth, Heiko Müller, Rainer Niemann, Deborah Schanz, Caren Sureth, Corinna Treisch

Kontaktadresse:
Prof. Dr. Caren Sureth, Universität Paderborn, Fakultät für Wirtschaftswissenschaften, Warburger Str. 100, 33098 Paderborn, www.arqus.info, Email: info@arqus.info

ISSN 1861-8944