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May - June 2020

Survey

# **Tax Administrative Burden, Tax Relief and Investment during the Corona Crisis**

## **Executive Summary**

Heile | Huber | Maiterth | Sureth-Sloane



PADERBORN  
UNIVERSITY



Deutsche  
Forschungsgemeinschaft



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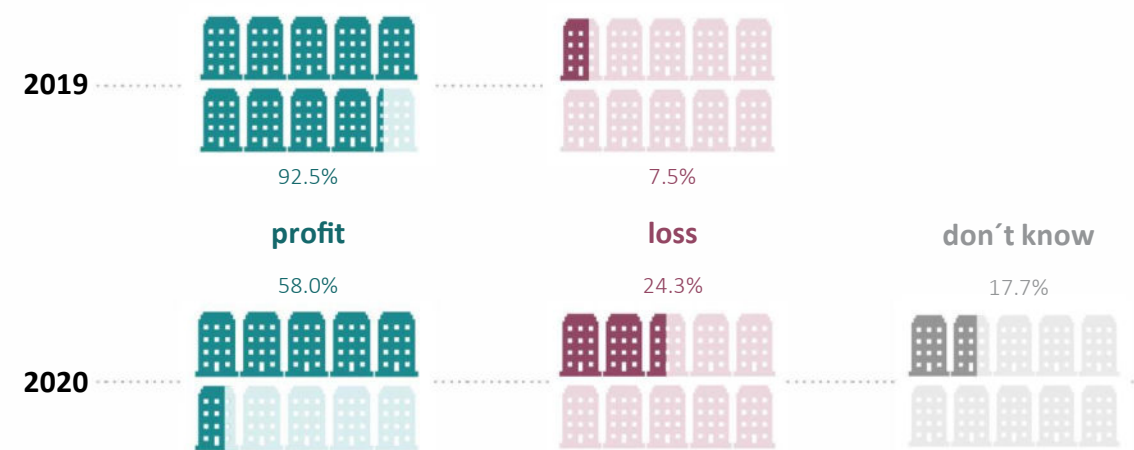
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This report presents the descriptive results of the survey „Tax Administrative Burden, Tax Relief and Investment during the Corona Crisis“. The online survey was conducted between May 13, 2020 and June 25, 2020. A total of 390 companies, most of which are headquartered in the Ostwestfalen-Lippe region, participated in the survey. Of these, 305 companies answered the questionnaire completely.

Key facts

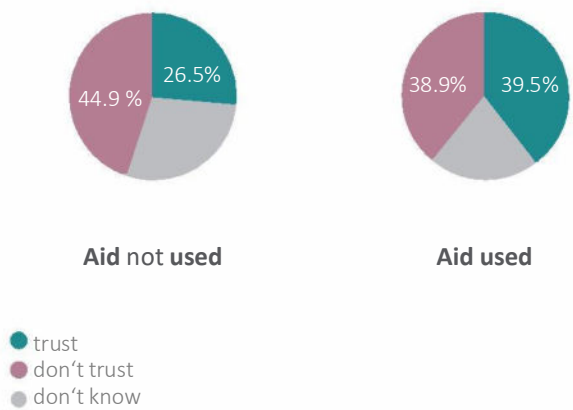
The Corona crisis heavily impacts small and medium-sized businesses

The Corona crisis has negative consequences for the majority of companies: More than 55% of companies see themselves confronted with a worsened business situation; for another about 10% of companies, the Corona crisis and its effects pose a threat to their existence. This is also reflected in the proportion of respondents who expect a profit or loss in 2020:



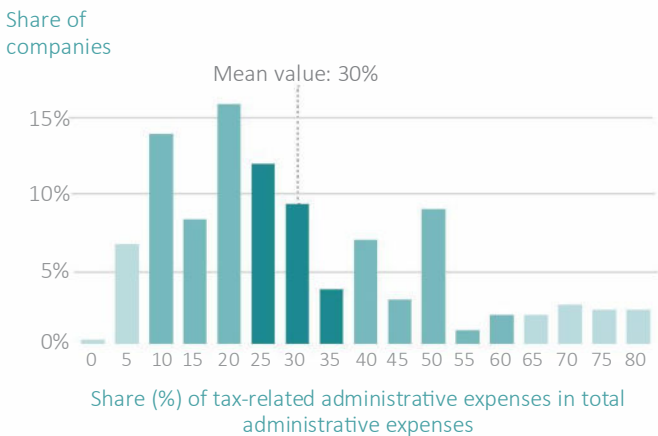
„Unbureaucratic processing“ of requests for tax relief to help deal with the Corona crisis

The companies surveyed are skeptical: among those that have not taken advantage of any government aid, only 27% trust the announced „unbureaucratic processing“ of applications. Among the companies that have already taken advantage of the government aid, however, there is an upward trend: Close to 40% trust the „unbureaucratic processing“.



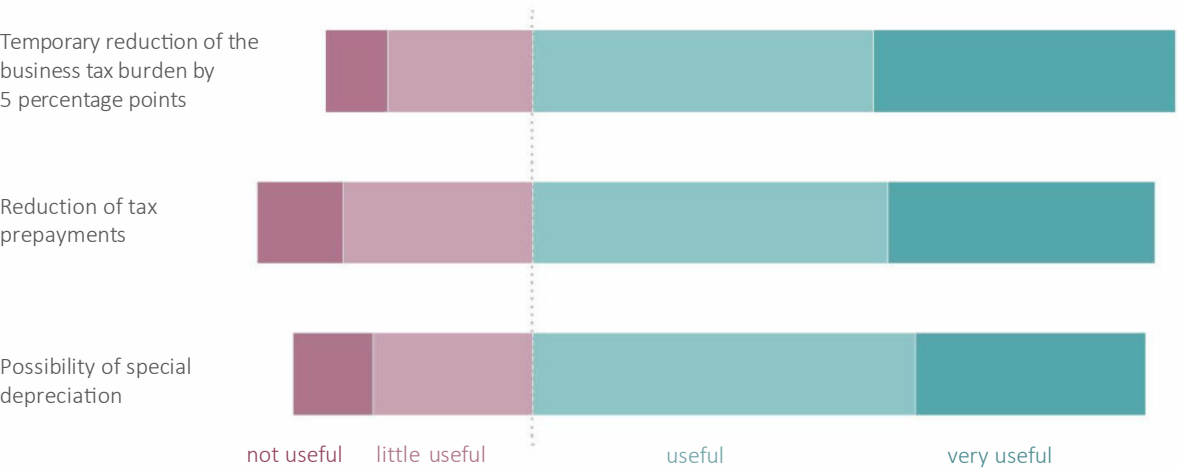
Tax bureaucratic burden an obstacle even in non-crisis times

However, bureaucratic hurdles are not only relevant in times of crisis, they also have an impact on day-to-day business: Almost 65% of companies state that the tax administrative burden is not easy for them to manage. On average, tax-related administrative expenses account for around one-third of total administrative expenses.

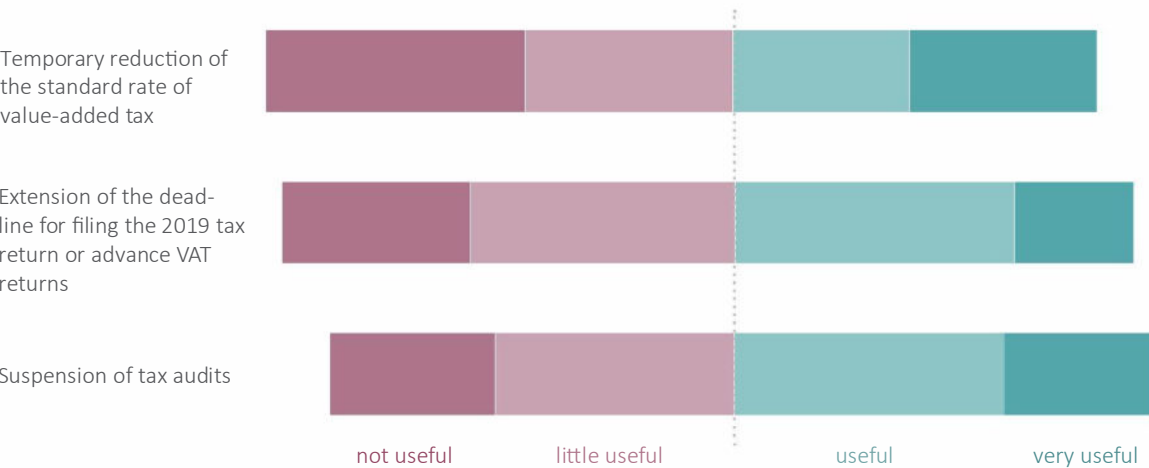


Usefulness of the tax-related government aid measures

A temporary reduction of the business tax burden as a tax-related measure to address the Corona crisis receives the highest level of support.



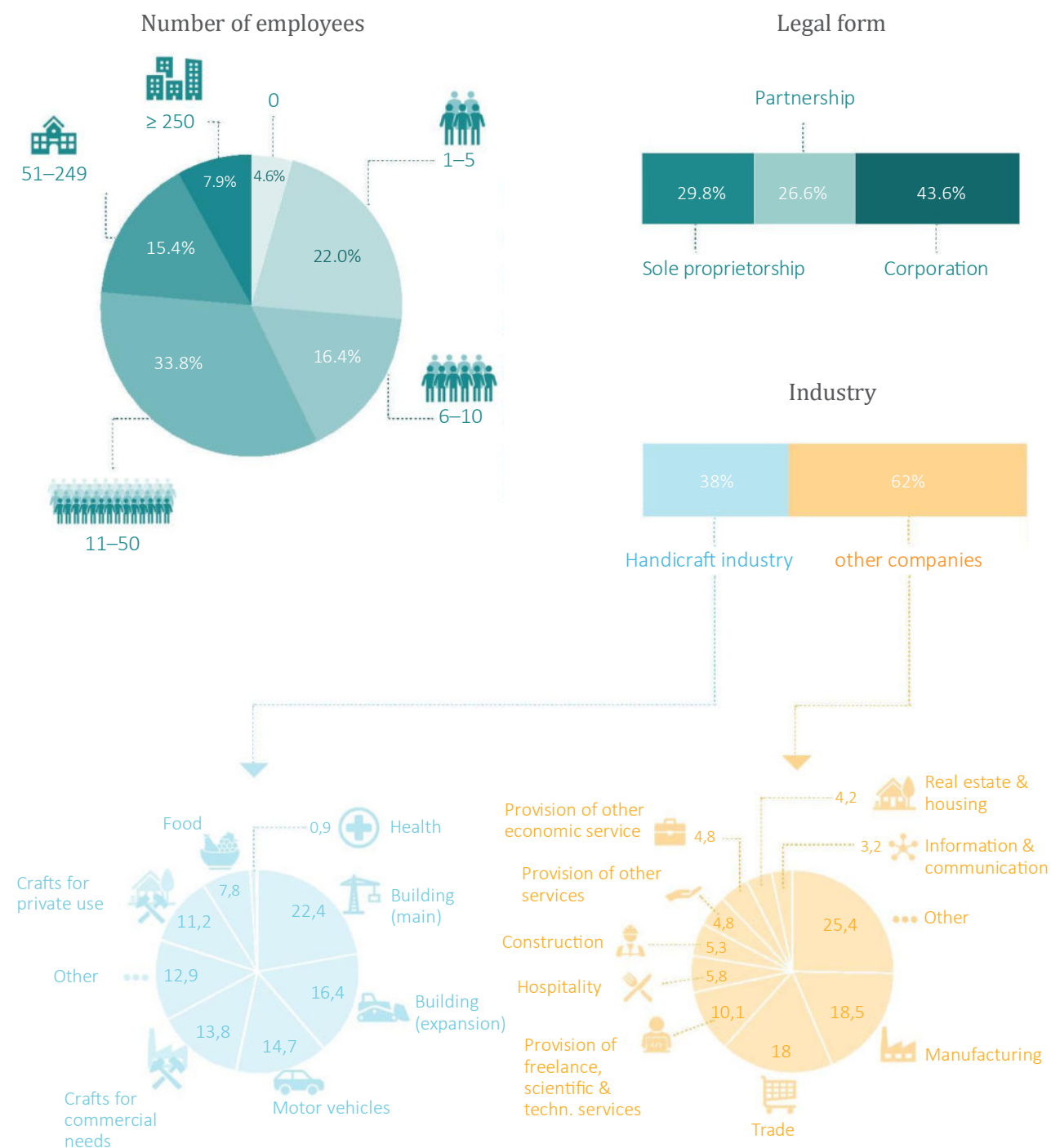
A temporary reduction in the VAT rate, on the other hand, is seen as little/not useful.





## Sample

Our sample consists of a total of 305 companies. The majority of the companies are headquartered in North Rhine-Westphalia (91.8%). More than half of the companies surveyed are either sole proprietorships (29.8%) or partnerships (26.6%). 43.6% of the companies are corporations. More than 90.0% of the companies surveyed can be classified as small or medium-sized enterprises.<sup>1</sup> Among these, companies with 11 to 50 employees are the most strongly represented subgroup (33.8%). In addition, more than one third of the companies surveyed are handicraft businesses (38.0%).



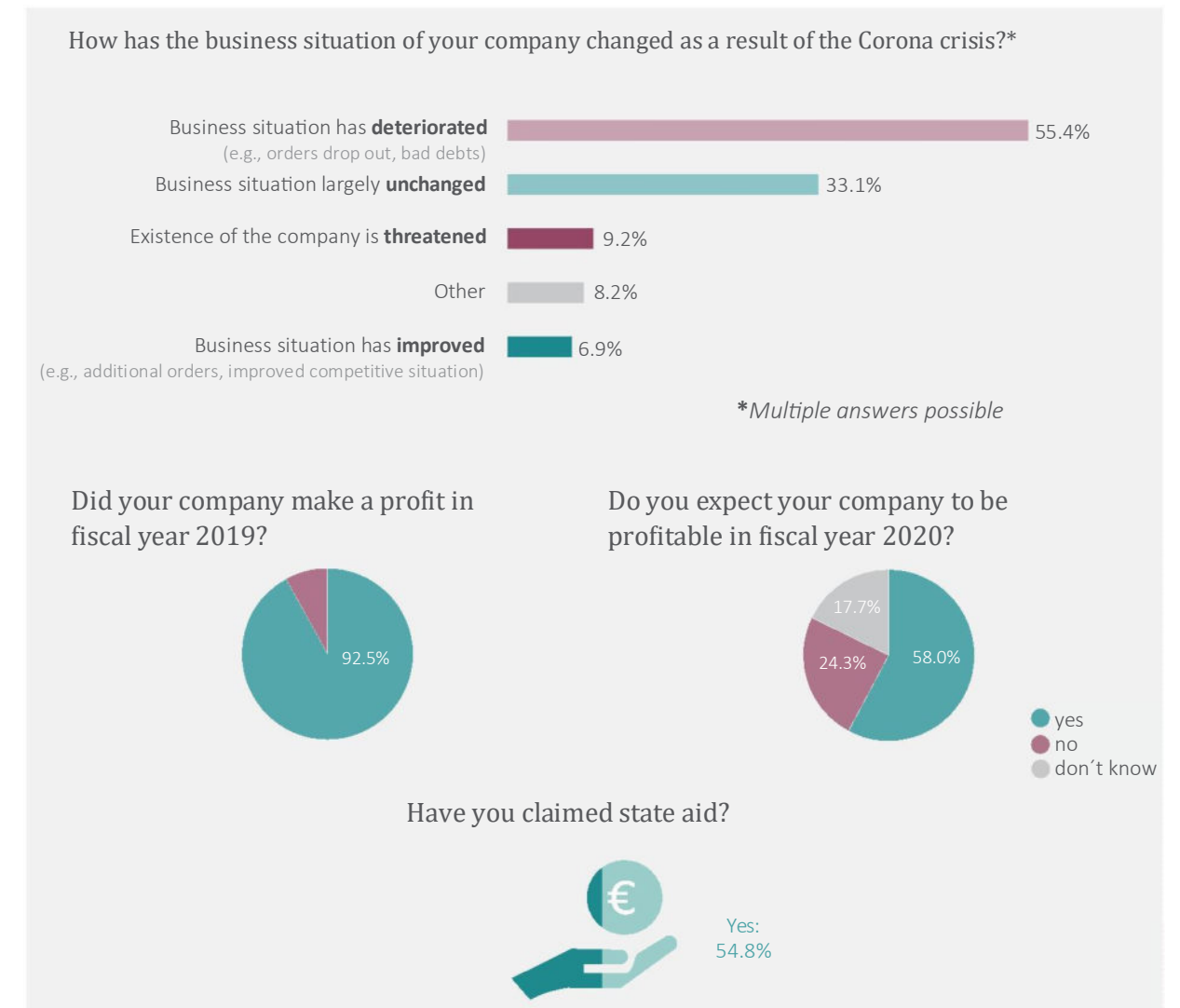
<sup>1</sup> The size classes are determined according to Section 267 German Commercial Code.

## Corona crisis – general impact

The Corona pandemic has had a major impact on the economy in recent months – and the consequences are lasting. This is also shown by the responses to the present survey questions.

55.4% of the companies surveyed state that their business situation has deteriorated as a result of the Corona crisis. About 10% of all companies see their existence threatened by the crisis. Loss of sales as well as orders, higher costs due to additional hygiene efforts and restrictions in sales areas are some of the challenges mentioned. But there are also a few winners of the crisis: 6.9% of the surveyed companies can report an improved business situation.

Expected profits are lagging behind last year's results. While 92.5% of companies were still able to generate profits in fiscal year 2019, only 58.0% of the surveyed companies expect to make a profit in 2020. In addition, 24.3% of companies fear making a loss in 2020 and 17.7% cannot estimate at the time of the survey whether they will end the year with a profit or loss.

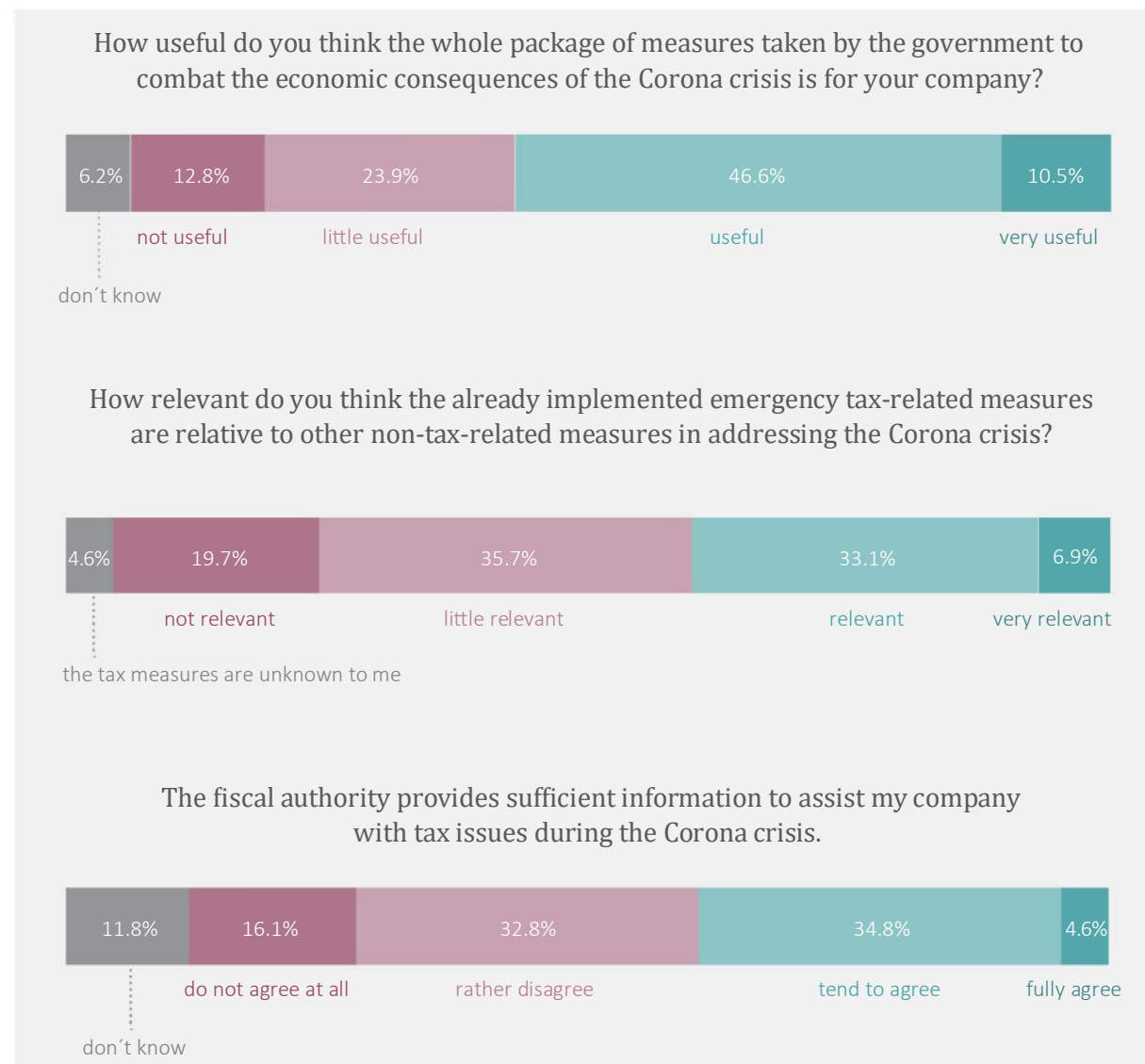


The results clearly indicate that the Corona crisis confronts the majority of companies with unforeseeable problems. Therefore, support from the federal or state governments to deal with the Corona crisis appears necessary. The results of the survey support this assessment: a total of 54.8% of the companies participating in this survey have already claimed state support.

## Corona crisis – tax-related measures I

Companies can apply for government aid in various ways, ranging from short-time allowances and bureaucratic relief to emergency monetary assistance. The measures taken by the government to support companies are considered (very) useful by a total of 57.0% of the companies surveyed.

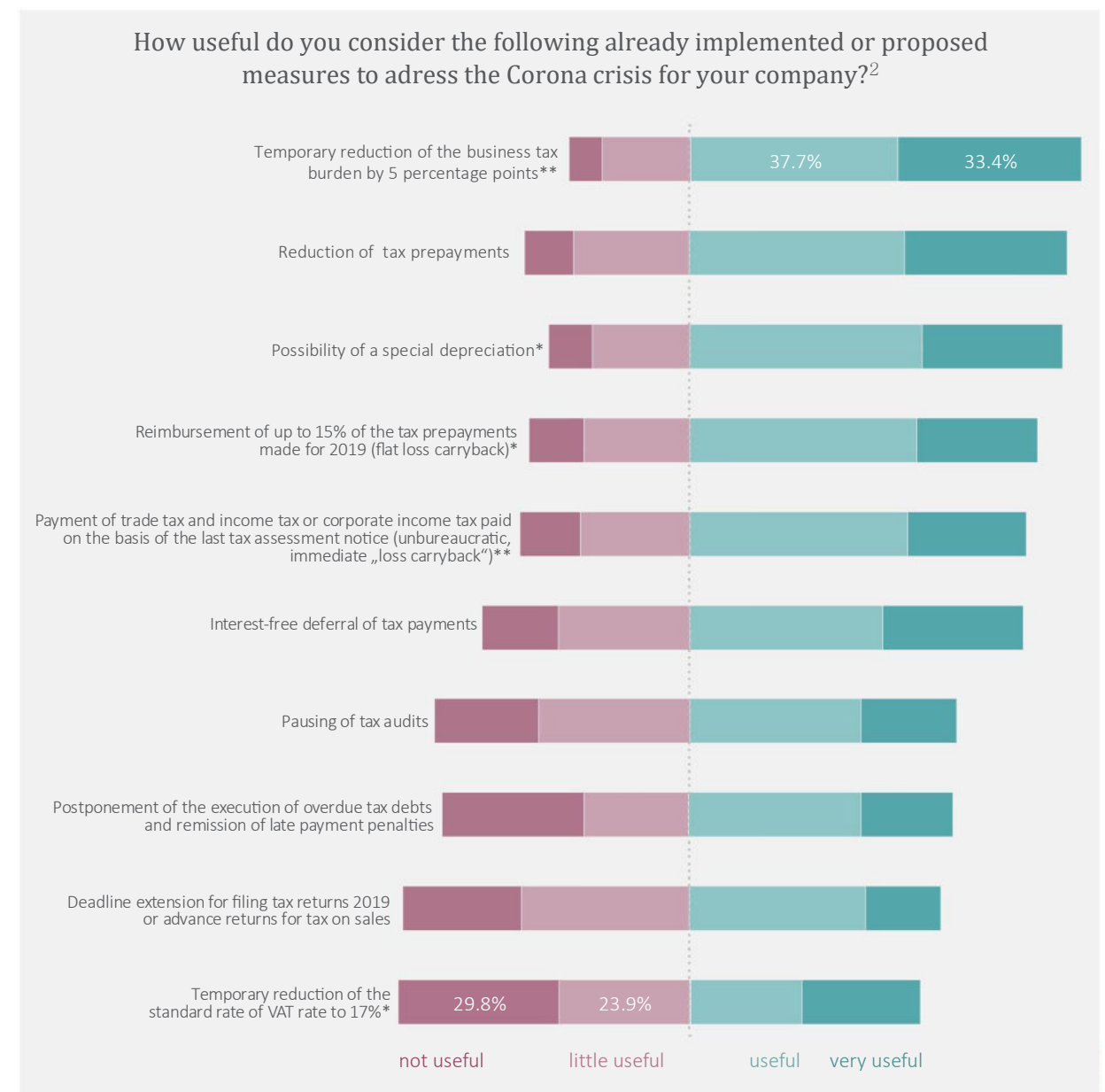
In addition, purely tax-related aid measures have been drawn up by the German government with the aim of improving the liquidity situation of companies and boosting the economy. Compared to other, non-tax measures, however, these tax measures are perceived as having little or no relevance in more than half of the cases (55.4%). Around half of the companies surveyed disagree or tend to disagree with the statement that the tax authorities provide sufficient information in connection with the tax measures (48.9%).



The fiscal authority as a service provider - [...] taxpayers must be proactively made aware of opportunities that are relevant to them. The information is there, after all.

## Corona crisis – tax-related measures II

The previous results show that more than half of the companies surveyed perceive the tax measures implemented by the federal government as having comparatively little relevance. Nevertheless, clear trends emerge regarding the usefulness of tax measures already implemented or proposed:



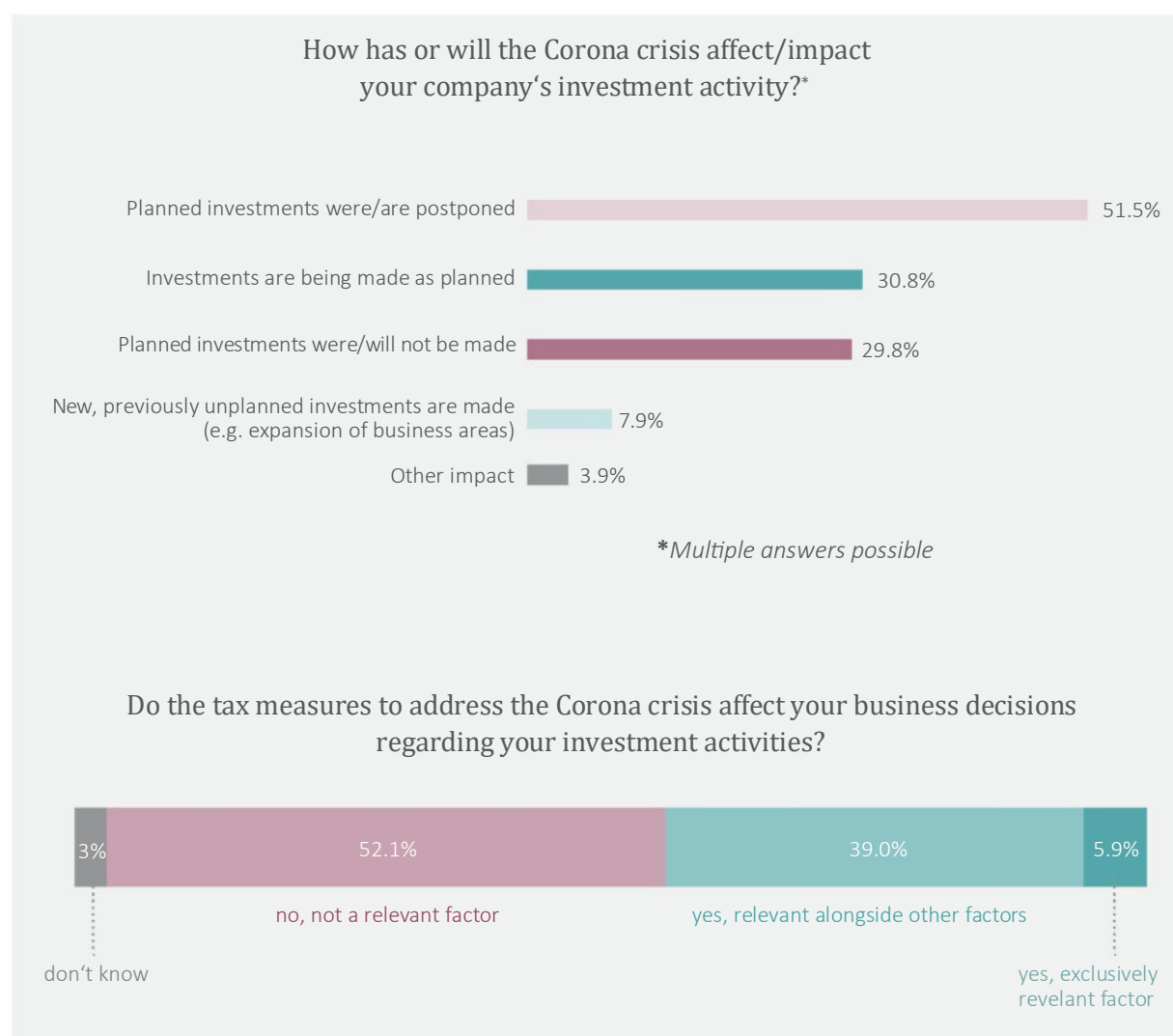
In particular, a temporary reduction of the business tax burden by 5 percentage points is considered (very) useful by the companies surveyed (71.1%). In more than 60% of cases, the following measures are also perceived as (very) useful: the reduction of advance tax payments, the option of taking a special write-off, the option of a general or immediate loss carryback, and the interest-free deferral of tax payments. In less than 50% of cases, on the other hand, the suspension of tax audits, the postponement of the enforcement of overdue tax debts and the extension of the deadline for filing the 2019 tax return or advance VAT returns are considered (very) useful. The temporary reduction of the standard VAT rate is considered to be the least useful.

<sup>2</sup> The measures queried are based on the status as of May 2020. At the time of publication (July 2020), these measures consist of implemented, modified implemented (\*) and proposed (\*\*) measures. Implemented measures also refer to measures that, according to the Federal Ministry of Finance, are dependent on individual decisions by the tax offices, municipalities, etc. or are only applied in individual federal states.

## Investments during and after the Corona crisis

Decreasing revenue and a lack of profits can also have an impact on the investment behavior of companies. In connection with the Corona crisis, 29.8% of planned investments were not or will not be made. Around half of all surveyed companies stated that planned investments had been or would be postponed (51.5%).

When we ask the question whether the tax measures to cope with the Corona crisis influence company investment decisions, a dichotomy emerges: for 52.1% of the surveyed companies the tax measures are not a relevant factor for investment decisions. By contrast, for 44.9% of the companies tax measures are a relevant factor alongside other factors, or even the only relevant factor.

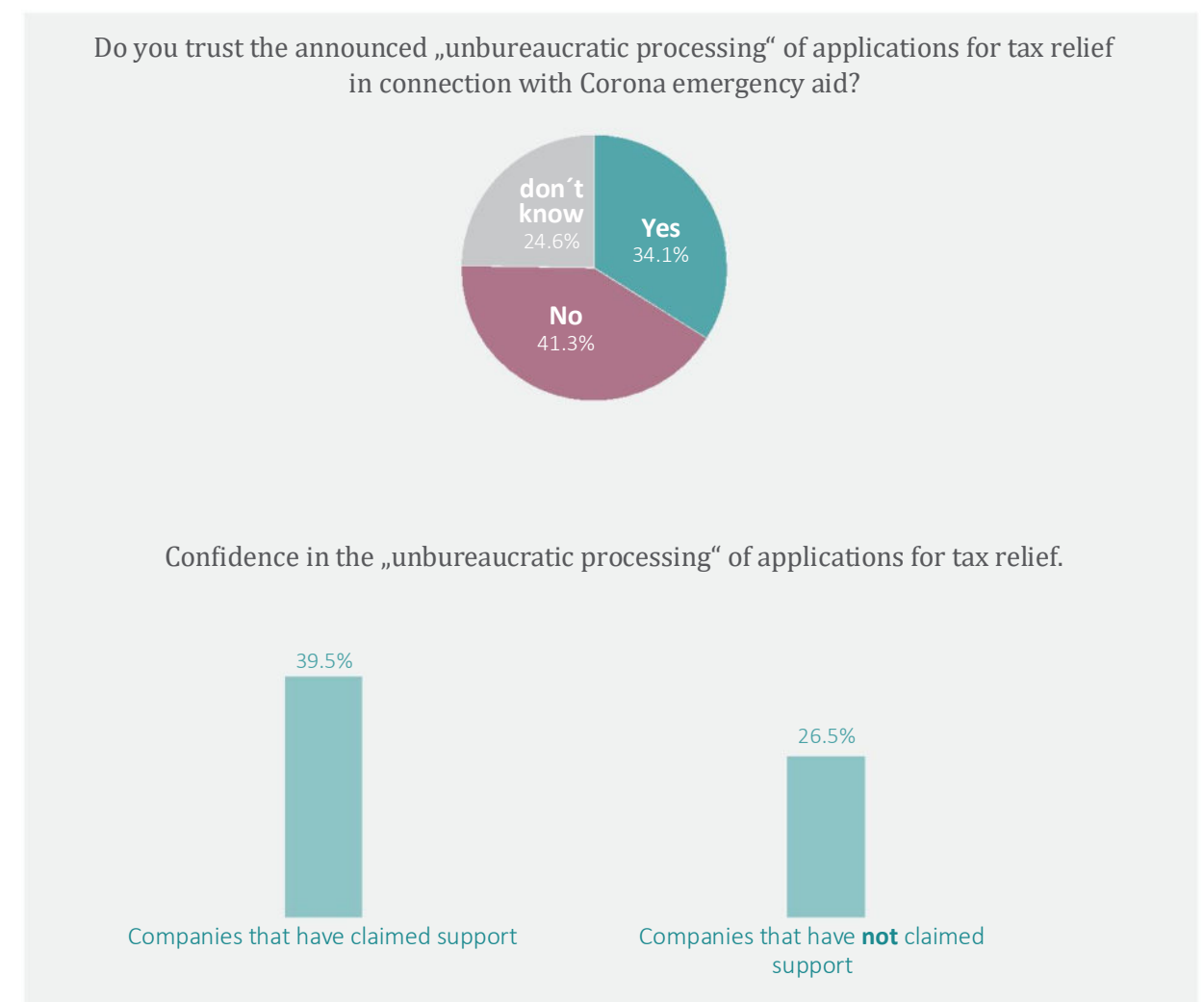


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The steadily increasing fiscal burden, especially for partnerships, is considerably slowing down the willingness to invest. We have been postponing urgently needed investments for a long time in order to keep the proportion of borrowed capital in the company manageable and thus also to remain crisis-proof.

## Tax administrative expenses in the crisis

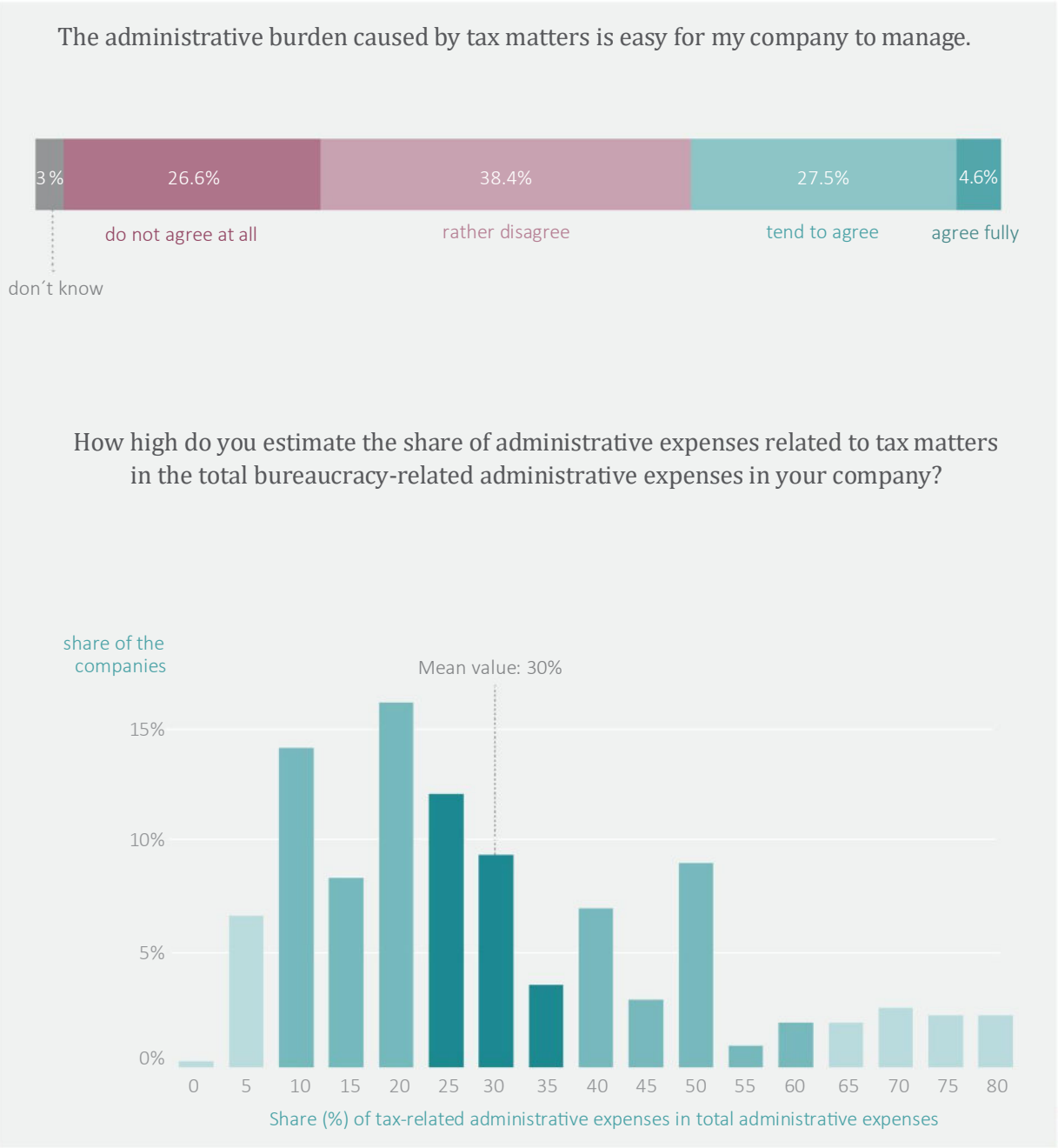
Particularly in times of crisis, bureaucratic burdens can present companies with additional challenges. For this reason, the German government has announced „unbureaucratic processing“ of applications for tax relief in connection with the Corona emergency aid. The companies surveyed are skeptical in this regard: only 34.1% of the companies trust that the applications will be processed „unbureaucratically“. The majority of the companies surveyed, on the other hand, do not trust this (41.3%) or are unsure (24.6%). The picture is more positive for companies that have already claimed support: 39.5% of these companies believe that applications will be processed „unbureaucratically“.



The results of the analysis clarify that companies have little confidence in the non-bureaucratic processing of tax assistance measures. However, this study also shows that this negative attitude is less pronounced if a Corona support measure has been claimed. This observation indicates positive experiences in the context of applying for support measures. Nevertheless, the level of approval remains below 40%.

# Tax administrative expenses in general

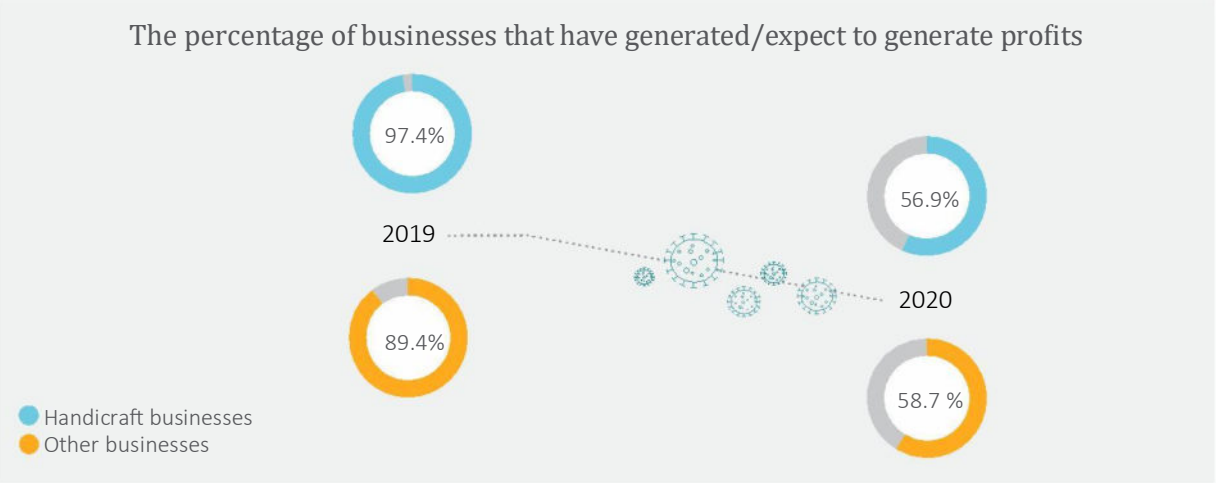
The fact that the tax-related administrative burden is perceived as significant in many areas is also shown by other results of the survey: Around two-thirds of the participating companies tend not to agree or do not agree at all that the administrative workload caused by tax matters is easy to manage (64.9%). The share of tax-related administrative expenses in total administrative expenses is estimated by the respondents at an average of 30.0%.



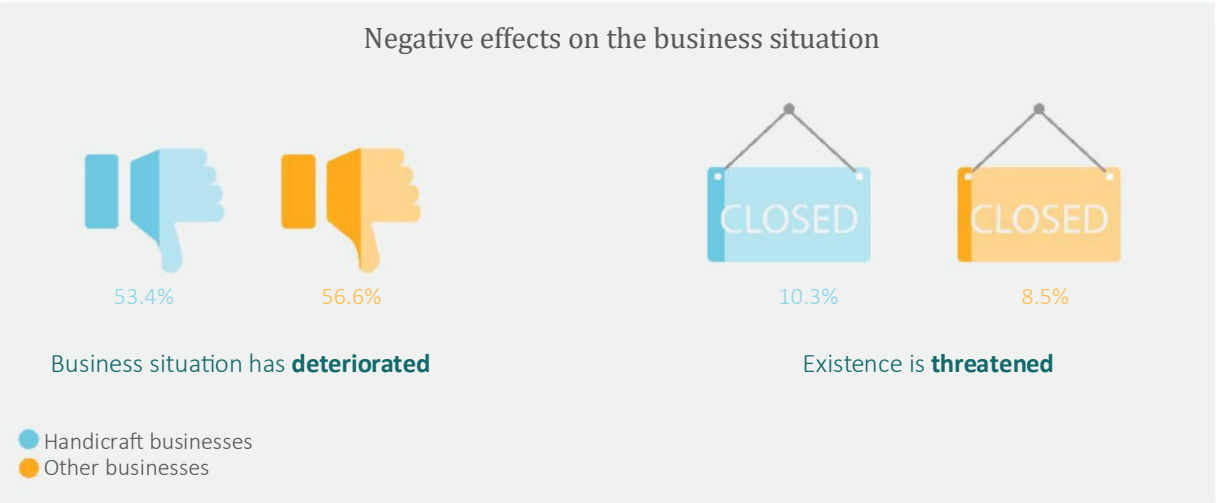
Companies that perceive an above-average share of tax-related administrative costs do not agree at all or tend to disagree that the administrative burden caused by tax-related matters is easy to manage (77.1%). In particular, these are companies that are experiencing an existential threat as a result of the Corona crisis.

# Handicraft businesses vs. other businesses

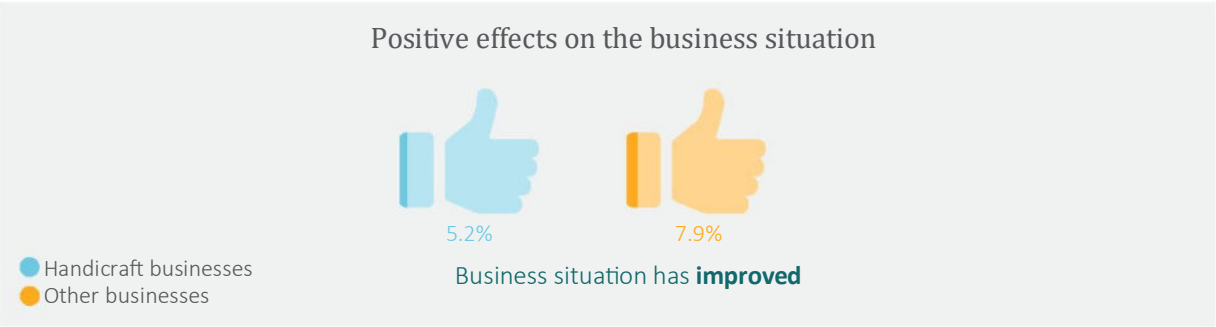
The consequences of the Corona crisis have had a similar impact on both handicraft businesses and the wider business community as a whole:



The impact on the business situation and the level of existential threat are also similar in both groups:

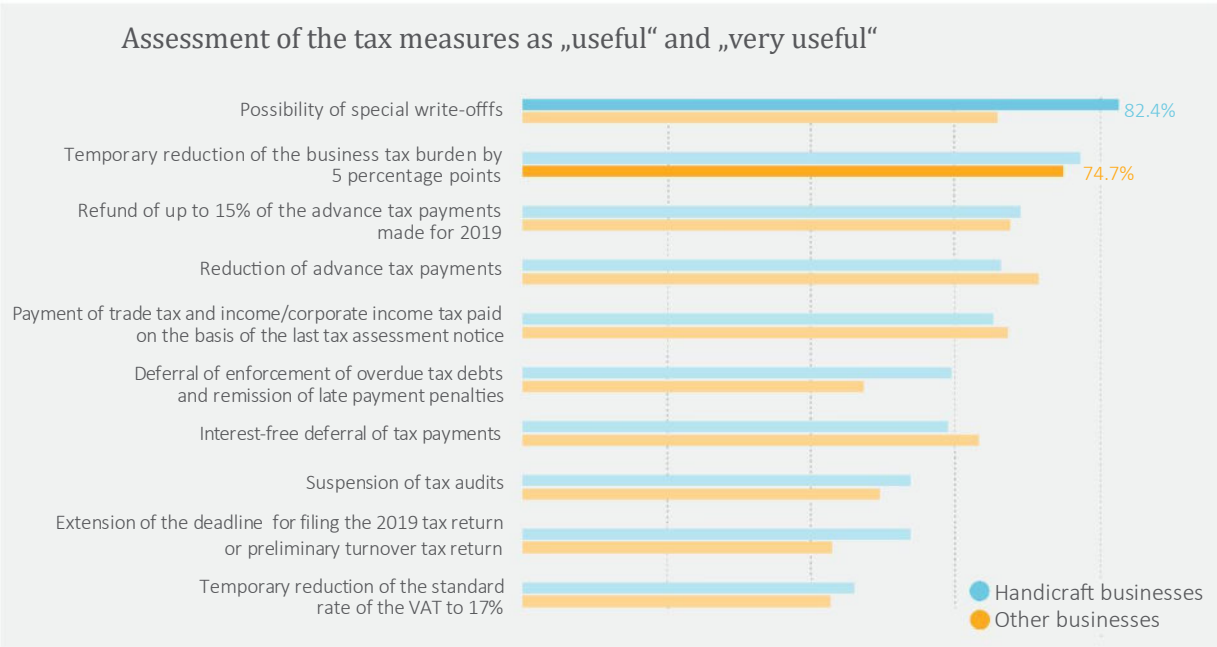


However, the proportion of winners in the crisis differs between the two groups. Fewer handicraft businesses report a better business situation than is the case for other companies:

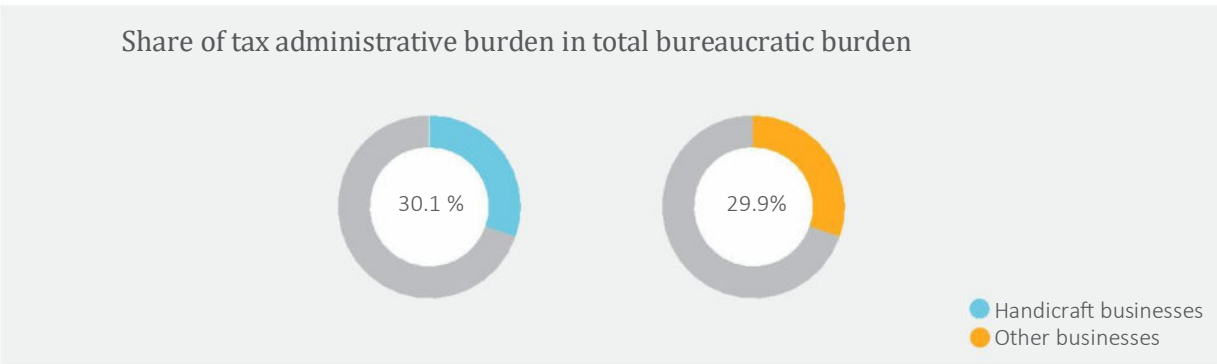




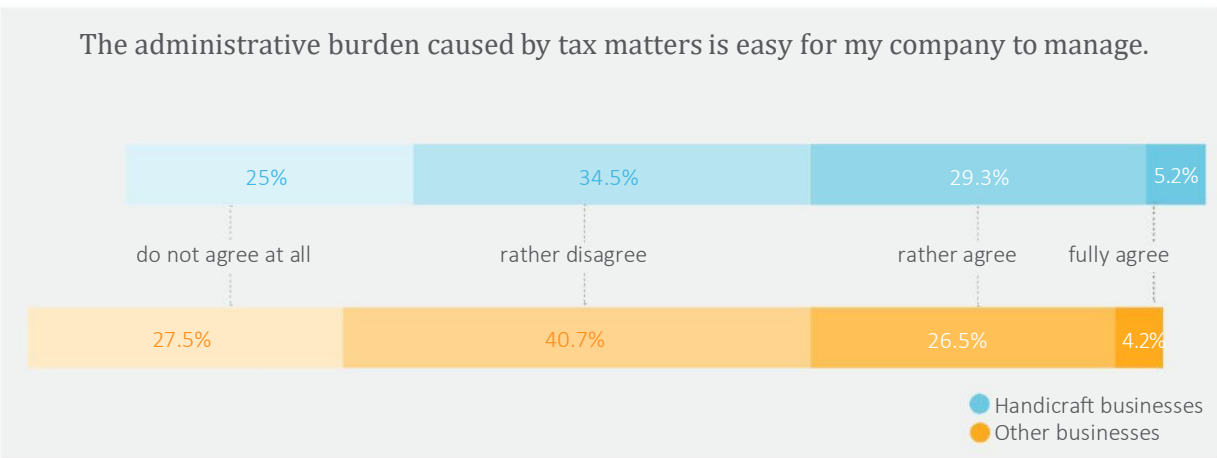
With regard to the assessment of the non-tax measures, it can be seen that craft enterprises assess the measures more positively overall than non-craft businesses. There are also differences in the assessment of which tax measures are considered „(very) useful“:



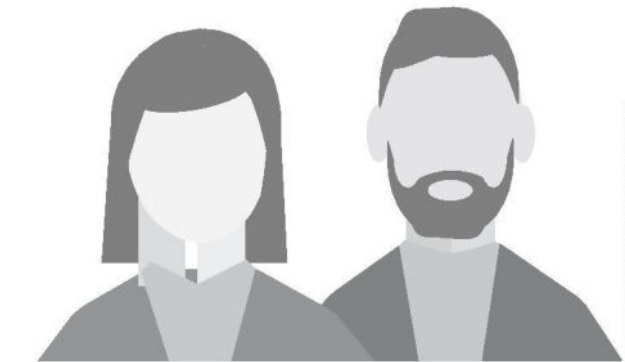
On average, the tax-related administrative expenses are estimated to be similar to the overall administrative expenses:



The answers to the question as to whether the administrative workload caused by tax matters is easy for the company to manage also show no noticeable deviations:



Topics of concern to the companies surveyed<sup>3</sup>



<sup>3</sup> The illustration above provides an overview of the most frequently mentioned words on the question of whether there are any further comments on the topics of tax-related administrative costs and Corona emergency aid.



## Acknowledgments

For valuable advice in designing the questionnaire, we would like to express our sincere thanks to:

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*The interpretation of the data is the responsibility of the authors and does not necessarily reflect the opinions of the supporting organizations.*

## Collaborative Research Center

This survey was conducted as part of sub-project B08 „Tax Burden Transparency“ of the DFG-funded Collaborative Research Center „TRR 266 Accounting for Transparency“.

The TRR 266 Accounting for Transparency is a trans-regional Collaborative Research Center funded by the German Research Foundation (Deutsche Forschungsgemeinschaft – DFG). Our team of more than 80 dedicated researchers examines how accounting and taxation affect firm and regulatory transparency and how regulation and transparency impact our economy and society. We intend to help develop effective regulation for firm transparency and a transparent tax system. Naturally, we also ensure transparency of our own research.

We are currently working on more detailed evaluations and related questions. Interested? Stay in touch with us and subscribe to our TRR 266 newsletter, our blogposts and/or our social media channels (Twitter and LinkedIn).



## Contact information

We look forward to your suggestions and an exciting discourse on our research results. Please feel free to contact us.



**Caren Sureth-Sloane**

Project management

Paderborn University

P. +49 5251 60 1781

M. [caren.sureth@upb.de](mailto:caren.sureth@upb.de)



**Ralf Maiterth**

Project management

Humboldt University of Berlin

P. +49 30 2093 99021

M. [ralf.maiterth@hu-berlin.de](mailto:ralf.maiterth@hu-berlin.de)

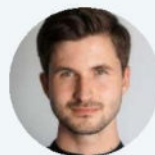


**Vanessa Heile**

Paderborn University

P. +49 5251 60 1786

M. [vanessa.heile@upb.de](mailto:vanessa.heile@upb.de)



**Hans-Peter Huber**

Humboldt University Berlin

P. +49 30 2093 99027

M. [h-p.huber@hu-berlin.de](mailto:h-p.huber@hu-berlin.de)



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