



SFB/Transregio 266

ACCOUNTING FOR  
TRANSPARENCY

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Survey

# Tax Burden on German Companies – Income Tax Burden and Administrative Costs

## Executive Summary

Fochmann | Heile | Huber | Maiterth | Sureth-Sloane

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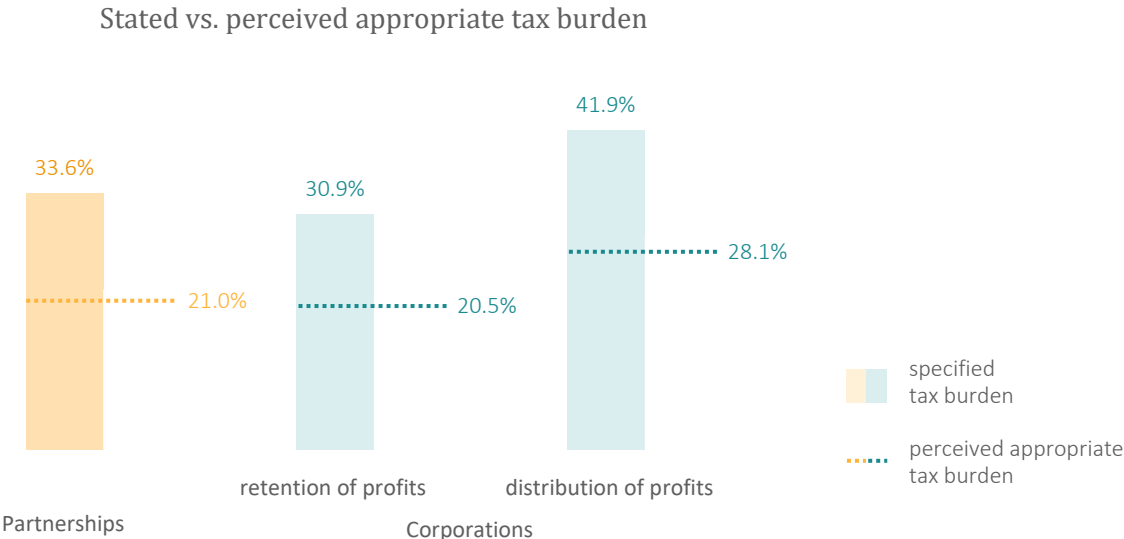
*This report presents the descriptive results of the survey "Tax Burden and Tax Administrative Costs - Assessments and Consequences". The online survey was conducted in the period from 08 January 2021 to 30 April 2021. A total of 1,806 companies participated in the survey. The results presented below are based on the responses of 657 companies that answered the questionnaire in full.*

# Tax burden on German companies - Most important results

What tax burdens do companies face and what causes them? This report takes an in-depth look at answering these questions: In the following, the stated income tax burden, as well as the burdens caused by tax bureaucracy, are considered. The report also deals with the increasing calls for tax relief, particularly as a result of the Corona pandemic, and shows which measures companies consider useful with regard to investment incentives. This report provides a brief overview of the most important findings on these topics.

## Companies perceive the income tax burden as too high

On average, the income tax burden is considered to be more than 10 percentage points higher than the appropriate tax burden as reported by the surveyed companies. While the average tax burden across all companies<sup>1</sup> is reported to be 35.9%, companies consider an average tax burden of 23.3% to be appropriate. Particularly, in comparison with foreign competitors, companies consider their own tax burden to be higher (74.9%).



**74.9 %**

of the companies surveyed estimate their tax burden to be higher than that of foreign competitors.

<sup>1</sup> For corporations, the tax burden in the case of full profit distribution is considered.

## **Taxes as a bureaucratic monster?**

Companies also face bureaucratic challenges: On average, the share of tax-related administrative expenses is estimated at just under one-third of the total bureaucracy cost in a company. This shows, across all legal forms and company sizes, a clear burden in everyday business life. Among the factors that account for the administrative burden on companies, the top three – in this case negative – factors are the burden of proof and documentation, the preparation of tax returns and the preparation of invoices in accordance with the German Value-Added Tax Act (VAT).

### Top 3 causes of the administrative burden

1. Burden of proof and documentation requirements
2. Preparation of the tax return
3. Invoicing according to VAT

## **Fiscal investment incentives**

Not only, but especially in times of crisis, tax incentives for investment play a decisive role. As part of the survey, companies were therefore asked to select measures that would promote their investment activity. The results indicate that above all a special depreciation is seen as a useful instrument to promote investments. A reduction in the income tax burden and an investment deduction complete the top 3 measures.

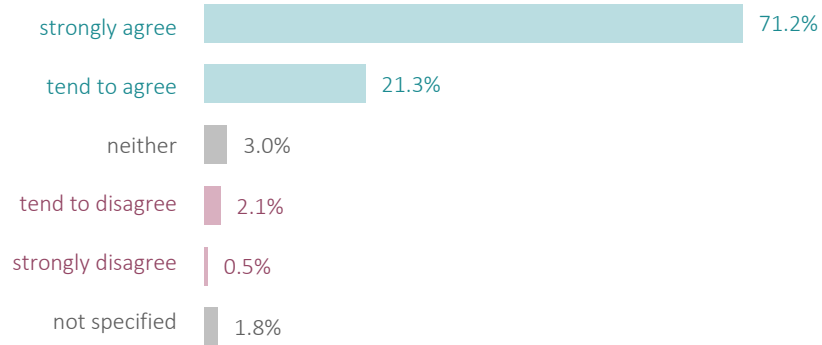
### Top 3 measures to incentivise investments

1. Special depreciation
2. Reduction of the income tax burden
3. Investment deduction

## High level of perceived complexity of the tax system

The results of the survey highlight that the vast majority of over 90% of the companies surveyed consider the German tax system in its current form to be too complex.

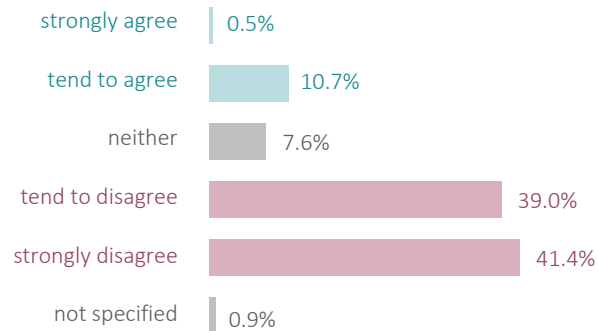
German income taxation is too complex.



## Little trust in the responsible use of taxpayers' money

Furthermore, the results show that there is a distrust in state action: 80.4% of the companies surveyed do not agree at all or tend to not agree that the state handles the tax money collected responsibly.

The state deals responsible with the taxes it collects.

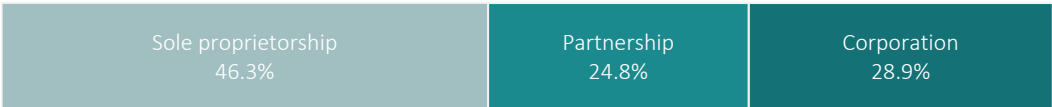


# Sample

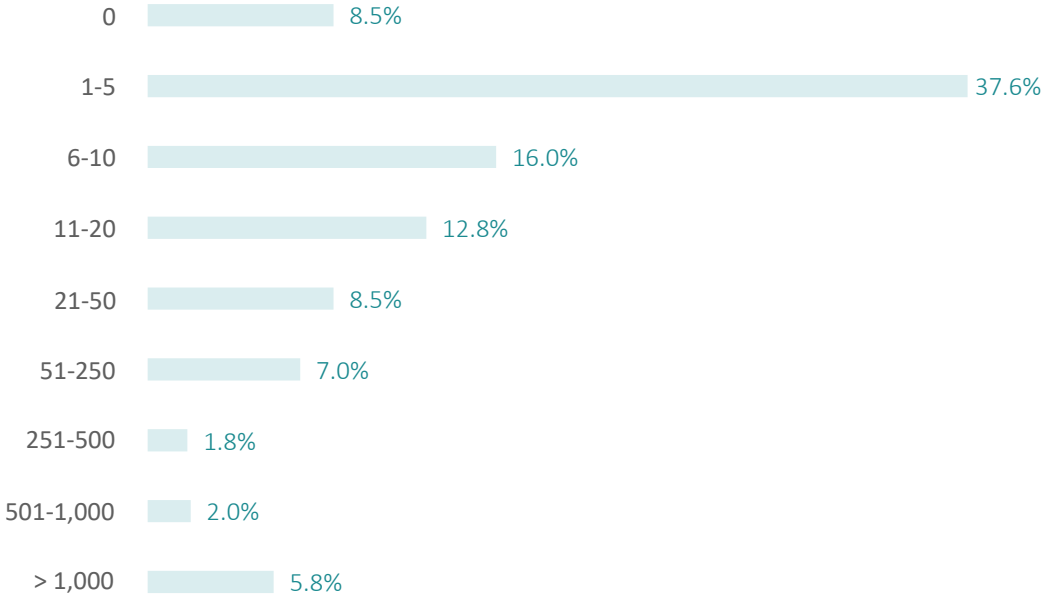
## Company-related characteristics

Our sample consists of a total of 657 German companies. The companies are made up of 46.3% sole proprietorships, 24.8% partnerships (incl. mixed forms)<sup>2</sup> and 28.9% corporations. Almost 90% of the companies surveyed can be classified as small or medium-sized enterprises based on the number of employees and the sales revenues reported.<sup>3</sup>

What is the legal form of your company?



How many employees (in full time positions) do you employ?



<sup>2</sup> The term "partnership" is used as a collective term for sole proprietorships, partnerships and mixed forms if sole proprietorships are not addressed separately.

<sup>3</sup> The size classes are determined according to § 267 German Commercial Code.

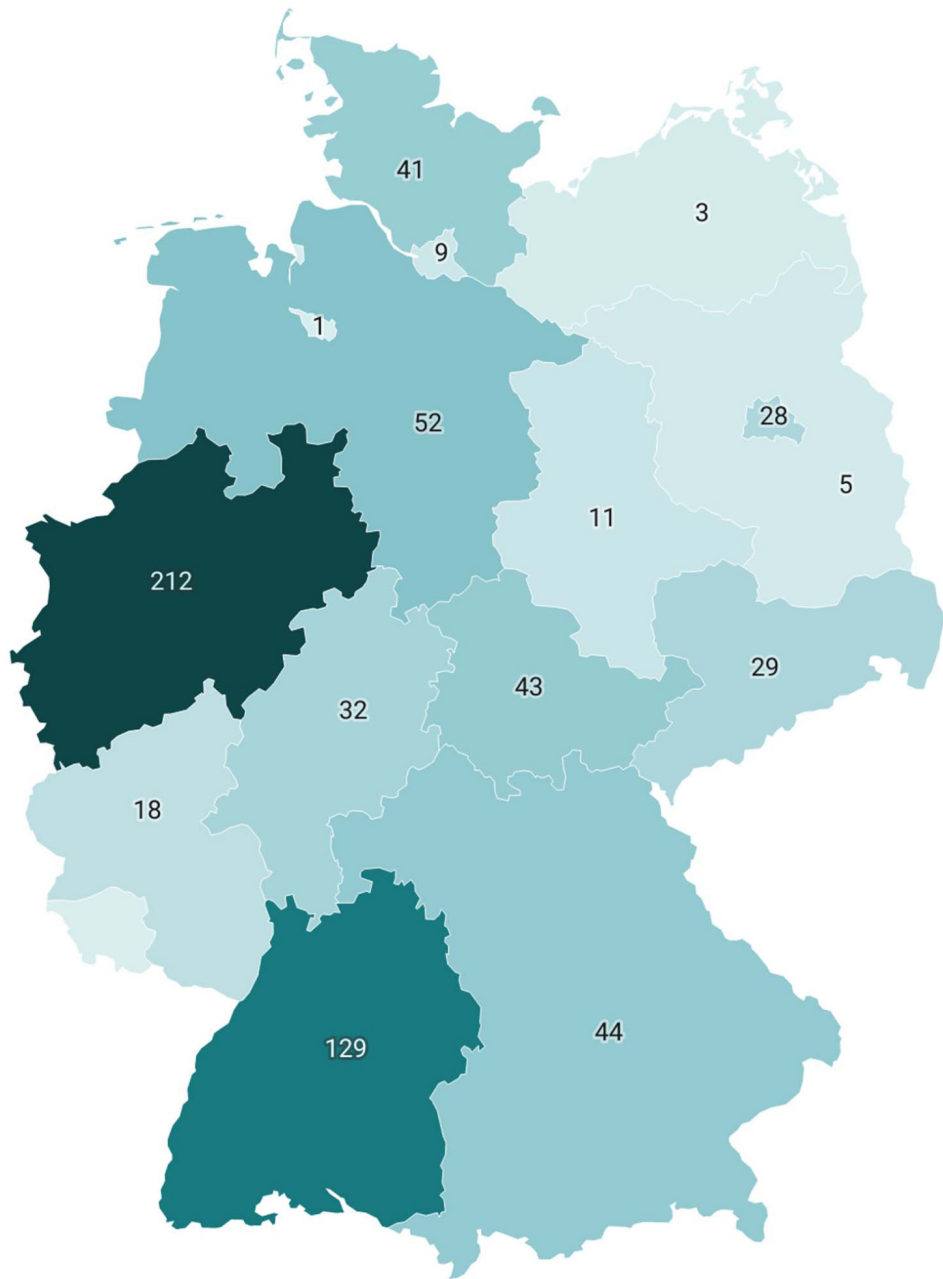
As can be seen in the map on page 8, companies from all over Germany were surveyed. The regional focus is particularly evident in North Rhine-Westphalia and Baden-Württemberg. With a view to the companies' field of activity<sup>4</sup>, it is also apparent that craft businesses are strongly represented (79.2%). Despite the effects of the Corona pandemic, over 78% of the companies were able to report a profit for the financial year 2020. In over 84% of the cases, the companies consult a tax adviser. 45.0% of companies with more than 50 employees report having their own tax department.

### Field of activity of the companies surveyed

20.9%		79.1%	
Industry & Trade		Craft	
Industries	%	Trades	%
Manufacturing industry	39.4	Building completion	36.2
Financial and insurance services	9.5	Main construction trade	15.0
Professional, scientific and technical services	9.5	Other trades	12.9
Information and communication	8.8	Motor trade	11.0
Other economic services	5.1	Crafts for commercial use	8.7
Health and social care	4.4	Personal services	8.1
Other services	4.4	Health industry	4.8
Energy supply	3.6	Food trade	3.5
Trade	3.6		
Transport and storage	3.6		
Real estate and housing	3.6		
Water supply	1.5		
Hospitality	1.5		
Construction	0.7		
Art, entertainment and recreation	0.7		

<sup>4</sup> The Industry & Trade field of activity also includes non-craft-specific services.

Companies surveyed according to Federal States

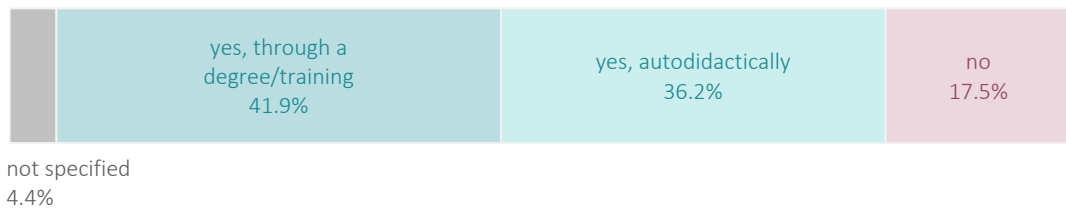




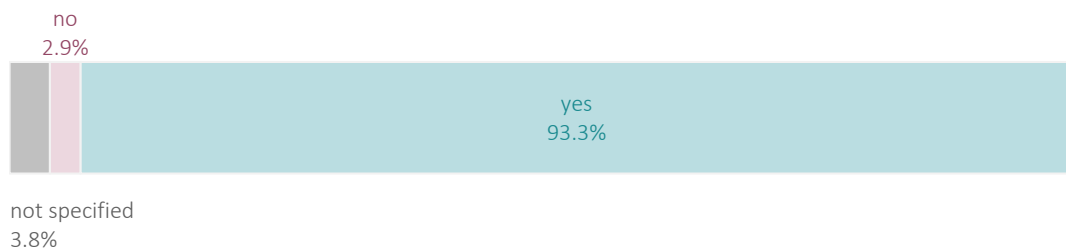
## Participant-related characteristics

The previous results show that the majority of companies receive tax advice or even have their own tax department. Most of the respondents also state that they have tax knowledge; they have either acquired it through a degree or training (41.9%) or autodidactically (36.2%). The clear majority of respondents hold a management position (93.3%). In terms of gender, 77.9% of respondents are male and 19.3% are female. 2.7% assigned themselves to the category “diverse” or chose “no information”.

### Do you have tax knowledge?



### Are you in a leadership position?



### Please state your gender.

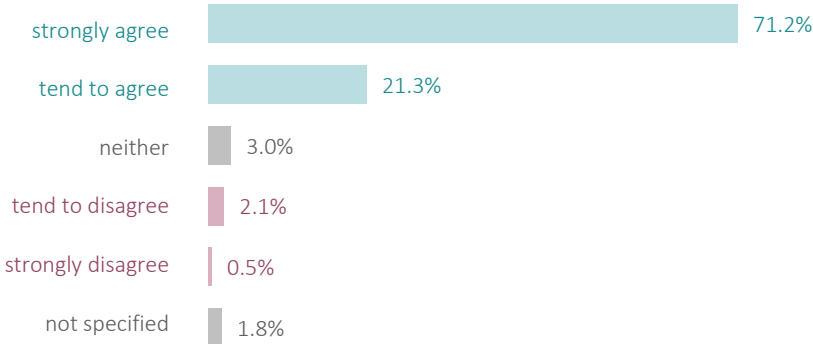


# Complexity, trust and provision of information

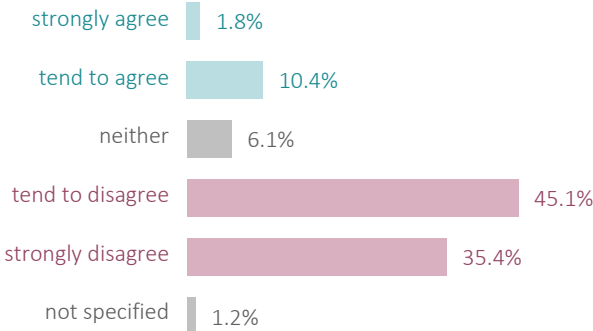
## Complexity

The comprehensive set of rules of the German tax system is already an indicator for its complexity. This is also reflected in the information provided by the companies surveyed: in more than 90% of cases they strongly or tend to agree that German income taxation is too complex. More than 80% of the companies disagree with the exception that the complexity is necessary to enable a differentiated and fact-dependent income taxation.

German income taxation is too complex.



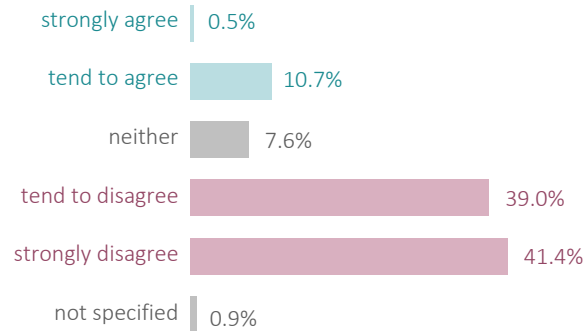
In my view, the present complexity in German income taxation is necessary to enable differentiated and fact-dependent income taxation.



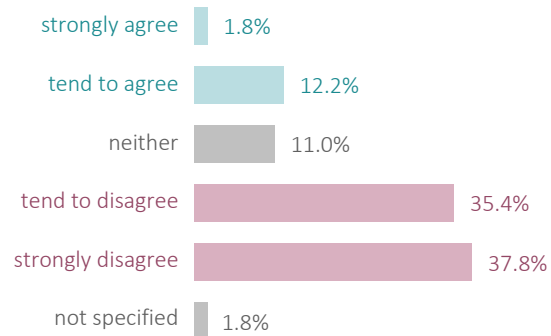
## Trust in the state & provision of information

The survey results show that it is not only the complexity of German income taxation that is criticized. In particular, it is also clear that there is little trust in the government's action: around 80% of the companies surveyed express doubts that the government handles the taxes it collects responsibly. It is also clear that companies are dissatisfied with the information provided to them by the tax authorities in connection with tax issues in over 70% of the cases.

The state deals responsibly with the taxes it collects.



The tax authorities provide sufficient information to assist my company with tax issues.



# Income tax burden

## Systematics of German income taxation

When talking about tax burdens, it is usually referred to as the burden on income or profit. The German tax system stipulates for partnerships that profits earned are generally subject to the progressive income tax rate of the individual partners and to trade tax at the company level. Profits of corporations, on the other hand, are subject to income taxation (corporate tax) and trade tax. If the profits are distributed to shareholders, they are also subject to the individual's income tax or capital gains tax. In many cases, the solidarity surcharge must also be considered.

## Reported tax burden

The following results show the average reported income tax burden of the companies surveyed.<sup>5</sup> The average reported tax rate refers to a profit that was specified individually for each company based on the given company characteristics (employees, legal form and industry). This specification is also used for further classification of the companies into profit classes. Due to the progressive income tax rate, the tax burden of partnerships is grouped according to these profit classes. For corporations, in addition to the tax burden at the company level, the taxation in case of full profit distribution is shown in order to increase comparability.

The average tax burden on income profits across all legal forms (in case of full profit distributions) and profit sizes is 35.9%. For partnerships, the average is 33.6%. For corporations, it is 30.9% in the case of retained earnings and 41.9% in case of full profit distribution. Group companies (exclusively corporations) state an average income tax burden of 28.6% (profit retention) and 39.6% (profit distribution).

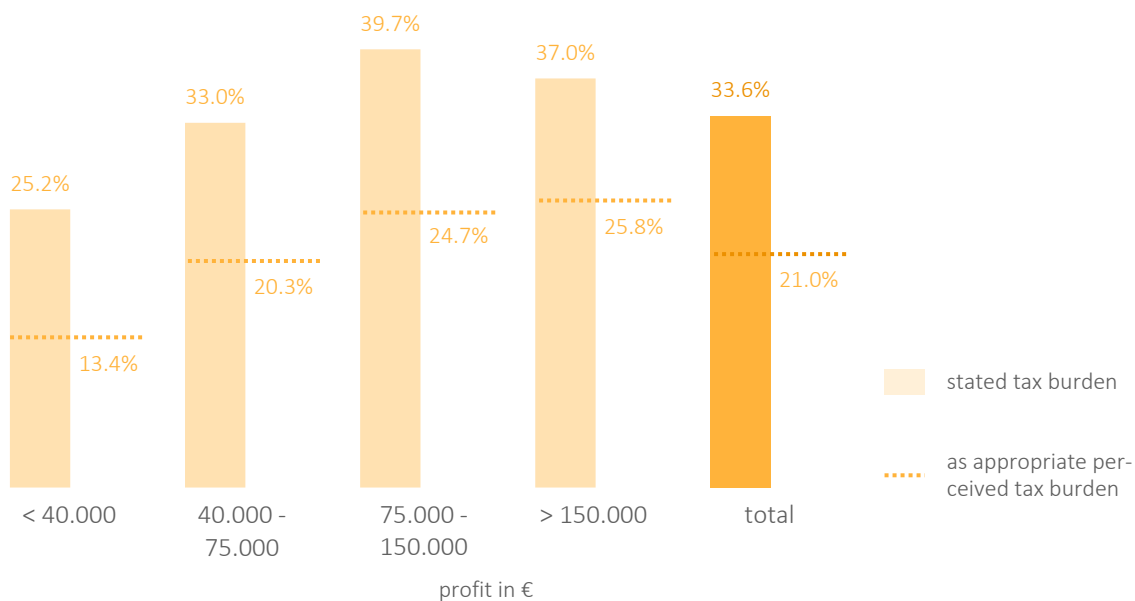
## Appropriate income tax burden from a business perspective

With a top income tax rate of 45% and a combined tax burden of around 30% on profits generated by corporations as well as the additional income tax on profit distributions, Germany is often counted among the high-tax countries. The companies surveyed in this study are also clearly in favor of reducing the income tax burden, as the following figures show. The charts illustrate the average deviation of the tax rate perceived as appropriate from the average tax rate indicated.

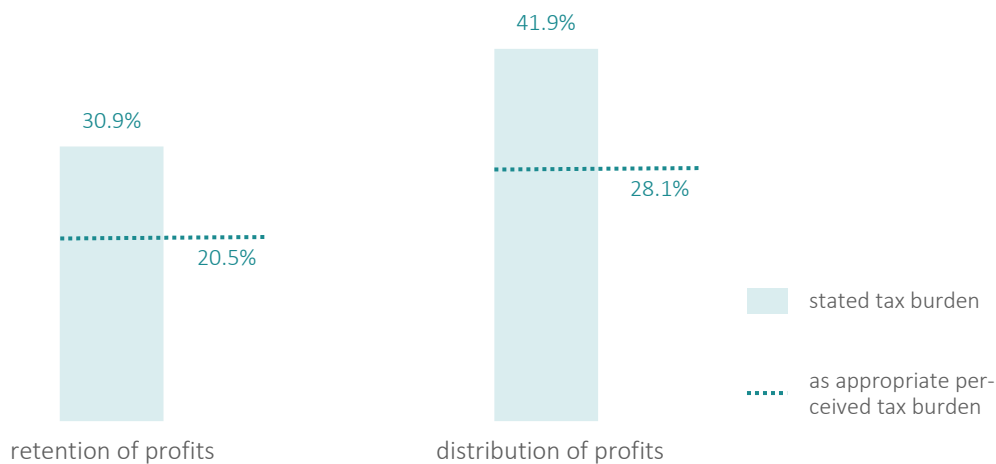
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<sup>5</sup> Partnerships were asked to indicate the combined burden of income and trade tax, corporations were asked to indicate the combined burden of corporation and trade tax as well as the total burden including income tax at the shareholder level.

### Stated vs. as appropriate perceived tax burden of partnerships



### Stated vs. as appropriate perceived tax burden of corporations



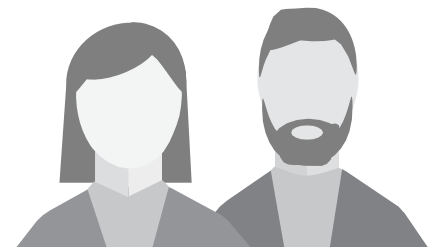
On average, partnerships consider a tax rate of 21.0% to be appropriate. The corporations surveyed are in favor of a tax rate of 20.5% on average if profits are retained; if the taxation of shareholders is included, the average total tax burden considered appropriate is 28.1%. Corporations that are part of a group perceive a tax rate of 23.6% respectively 32.4% as appropriate.

## A special case: “Thesaurierungsbegünstigung” (§ 34a German Income Tax Act)

In 2008, the so-called “Thesaurierungsbegünstigung” (§ 34a German Income Tax Act) was introduced in order to establish a taxation system that is neutral with regard to legal form (i.e. tax partnerships and corporations as equally as possible). This preferential tax treatment for retained earnings enables sole proprietorships and partnerships to apply for preferential taxation of profits that have not been withdrawn. At the time of withdrawal, these profits are subject to subsequent taxation.

However, the “Thesaurierungsbegünstigung” has proven to be of little practical use for a large number of companies, as the results of the survey confirm: Only 7.5% of the companies use the “Thesaurierungsbegünstigung”, whereas 43.7% state that they are not aware of this regulation. The reason given for this infrequent use is often the complexity of the regulation. In response to the criticism, policymakers suggest the introduction of the so-called “Optionsmodell” under the Corporate Income Tax Modernisation Act (KöMoG) as a solution. This model allows partnerships to be taxed like corporations while retaining their legal form. As part of this survey, companies were asked about their assessment of the general proposal that partnerships are able to opt for taxation in accordance with the statutory provisions for corporations. More than 50% of the respondents, who are aware of the proposal, consider it an improvement compared to the status quo. Nevertheless, the “Optionsmodell” according to § 1a German Corporate Income Tax Act also raises many new questions. Moreover, the reform did not improve the regulations regarding the “Thesaurierungsbegünstigung”.

Do you use the “Thesaurierungsbegünstigung” (§ 34a German Income Tax Act) in your company?



*There is an urgent need to create a uniform income taxation that is neutral in terms of the legal form.*

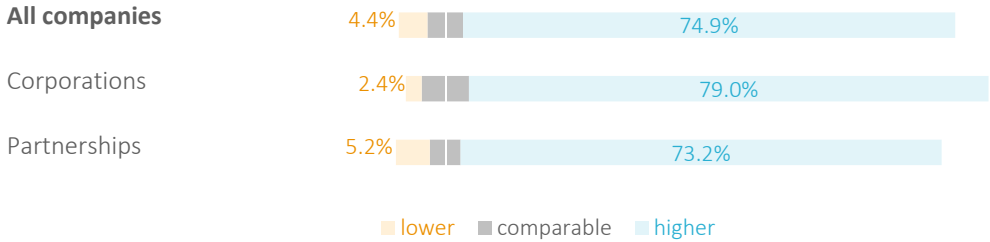
Partnership with more than 50 employees from Berlin

# Comparison of tax burden

## Foreign competitors

As part of the survey, companies were asked to assess their tax burden in comparison to foreign competitors. The assessment of the differences in tax burden underscores what is already reflected in the level of the income tax burden perceived as appropriate: On average, approximately 75% of the companies surveyed estimate their own tax burden to be higher than the tax burden of foreign competitors.

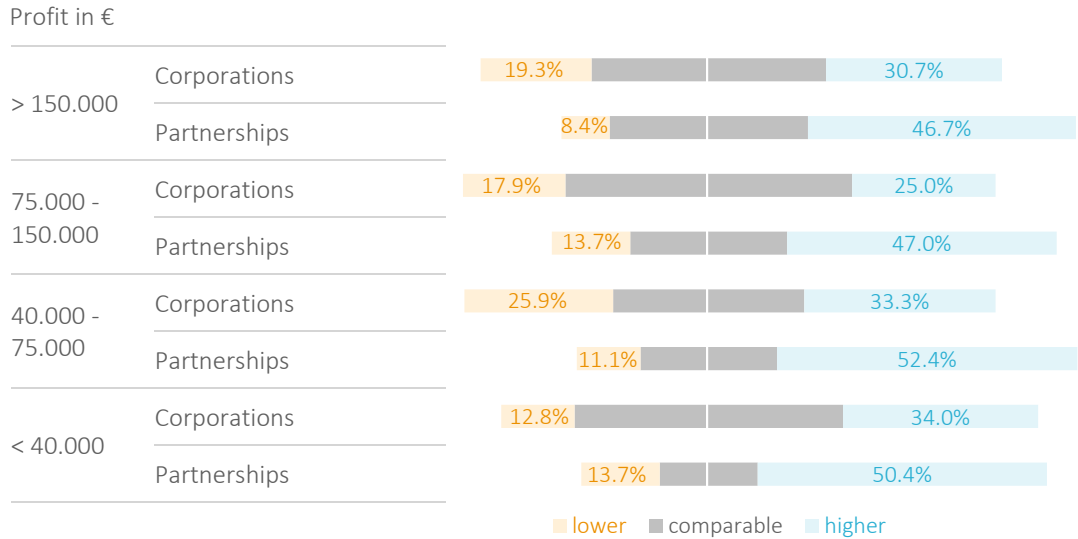
Income tax burden compared to foreign competitors



## Legal form

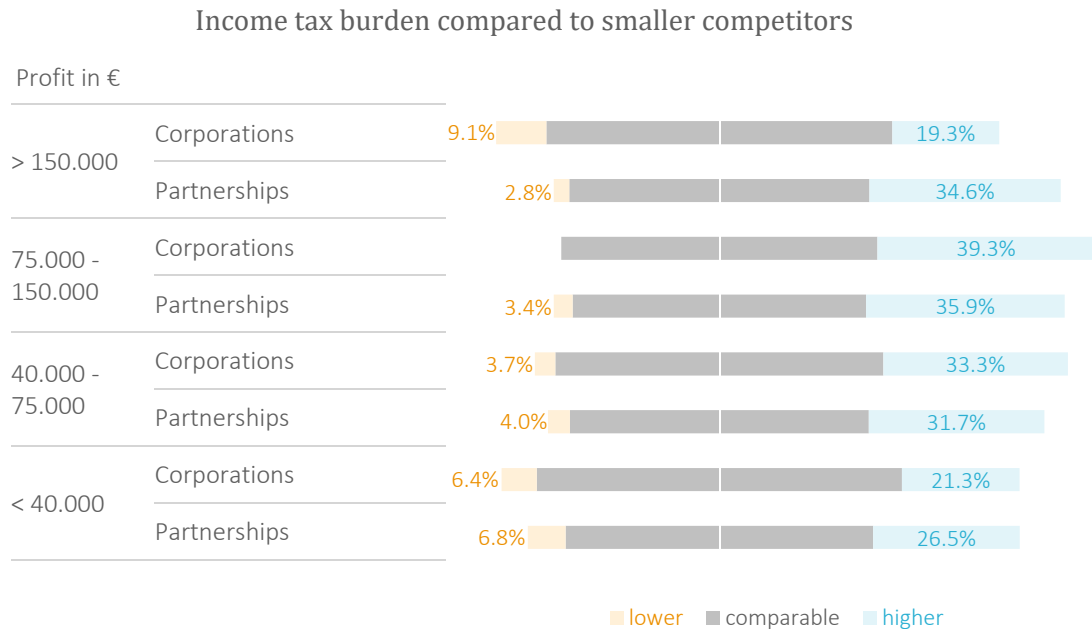
The companies were also asked to assess their tax burden in comparison to competitors with a different legal form. Here, an interesting trend emerges: sole proprietorships and partnerships often feel disadvantaged compared to corporations. While the majority of companies report a comparable or lower burden, approximately half of these companies estimate their own burden to be higher. The information provided by the corporations surveyed show a similar but more moderate picture: 31.1% of the corporations rate their own burden as higher than that of partnerships. In contrast, 30.4% of all companies report a comparable burden, which may indicate to a certain extent that the goal of neutral taxation with regard to different legal forms has been achieved.

Income tax burden compared to competitors with a different legal form

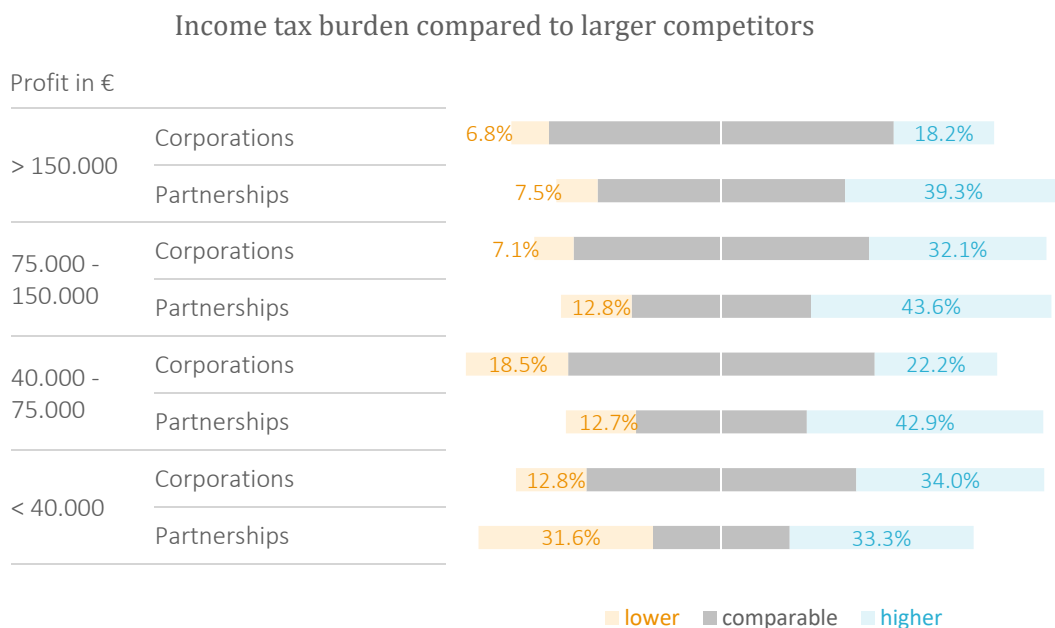


## Company size

In terms of company size, 32.1% (4.3%) of partnerships consider their own tax burden to be higher (lower) than that of smaller competitors with the same legal form; 54.2% consider it to be comparable. With regard to corporations, 24.7% (6.3%) rate their tax burden as higher (lower) and 62.1% as comparable.



If it is a larger competitor of the same legal form, 39.8% (16.3%) of the partnerships assess their tax burden to be comparatively higher (lower) and 33.0% to be comparable. Corporations, in turn, perceive a higher (lower) burden in 24.7% (10.0%) of cases and a comparable burden in 56.8% of cases.





# Tax compliance costs

## Extent of the tax compliance costs

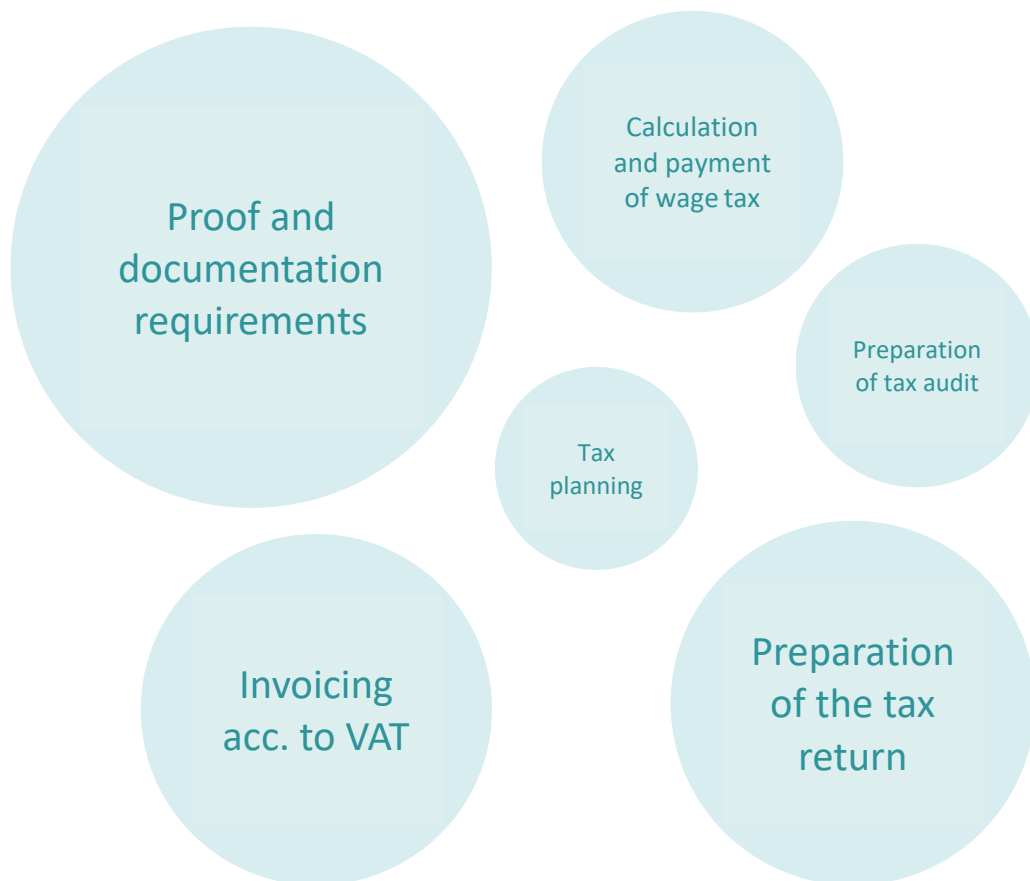
The share of the tax compliance costs is estimated by the companies surveyed at an average of 32.8% of the total bureaucratic expenses. Almost 25% of the companies are even confronted with a share of 50% or more. This means that administration-related costs associated with the fulfilment of tax obligations account for a significant proportion of the total bureaucratic expenditures.



Looking at different legal forms, it becomes apparent that the extent of the tax compliance costs is perceived uniformly high on average. If the companies are subdivided according to their size (based on the number of employees), there is a greater variation. Larger companies (more than 50 employees) perceive the burden of tax bureaucracy to be more than 6 percentage points lower on average (27.4%) than smaller companies (50 or fewer employees) (33.9%).

### Drivers of the tax compliance costs

The results on the previous page show that the tax compliance costs are perceived as a considerable burden by the companies surveyed. Therefore, the question arises, which factors companies perceive to contribute most to their tax compliance costs. The results show that the majority of respondents assess the burden of proof and documentation requirements to be particularly burdensome.<sup>6</sup> This is followed by the preparation of tax returns, invoicing in accordance with the Value Added Tax Act and the calculation and payment of payroll tax.



<sup>6</sup> The figure shows the weighted rank of the selected drivers. The larger the circle, the more important the driver is rated by the companies surveyed.

# Investment incentives

## Investment incentive measures

Investment incentives are a much-discussed topic that often involves tax incentives. Especially in the current crisis, investment incentives are an important instrument with which an improvement of the economic situation could be achieved. A survey on the effects of the Corona crisis, conducted as part of the TRR 266 Accounting for Transparency Collaborative Research Center, showed in mid-2020 that around 50% of the companies surveyed at the time were (or would be) postponing investments.<sup>7</sup> But which support measures do companies now perceive as useful?

The results of the present survey show that companies favor special depreciation allowances.<sup>8</sup> In addition, an investment deduction is also frequently seen as useful. In line with the above results on the tax burden, a reduction in the income tax burden is also very popular among the respondents.



<sup>7</sup> Detailed results on the impact of the Corona crisis on investment activity as well as other interesting findings can be found in Heile/Huber/Maiterth/Sureth-Sloane (2020): Steuerliche Maßnahmen als nützliches Mittel zur Bewältigung der Corona-Krise? - Ergebnisse einer Unternehmensbefragung, Deutsches Steuerrecht, 58 (42), 2327-2334 as well as in the short report at: [www.accounting-for-transparency.de/de/blog/umfrage-administrative-belastung-und-steuererleichterungen-in-der-corona-krise/](http://www.accounting-for-transparency.de/de/blog/umfrage-administrative-belastung-und-steuererleichterungen-in-der-corona-krise/).

<sup>8</sup> The diagram shows the weighted rank of the selected drivers. The larger the circle, the more important the driver is rated by the companies surveyed.

## Bureaucracy and investment

The fact that the bureaucratic burden can also have an influence on companies' investment strategies, is reflected in the statements made by the companies surveyed in conjunction with possible measures to promote investment activities<sup>9</sup>:

The regulatory frenzy of those in power inhibits any innovative spirit through the resulting bureaucracy and the extraction of profits

Individual enterprises with less than 50 employees from Saxony

Simplification of the legal requirements

Corporation with less than 50 employees from Hesse

(...) Implementation of improvements and optimizations - especially through less bureaucracy, e.g. simpler/clearer taxation rules, more efficient administration through fewer contact points etc.

Partnership with less than 50 employees from North Rhine-Westphalia

Bureaucracy reduction (...)

Corporation with more than 50 employees from Hesse

(...) positive and supportive attitude towards investment decisions by the authorities/financial administration, unbureaucratic assistance and approvals

Corporation with more than 50 employees from North Rhine-Westphalia

Less expensive bureaucracy (...)

Corporation with more than 50 employees from Bavaria

Reduce the basic tax burden. Reduce bureaucracy. Administrative expenses take up 30% of daily business

Partnership with less than 50 employees from Baden-Wuerttemberg

<sup>9</sup> Quotations are translated by the authors.

# Acknowledgements

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## **Associations & Societies**

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Bundesverband Deutscher Leasing-Unternehmen e.V. (BDL)  
Deutscher Industrie- und Handelskammertag (DIHK) incl. Industrie- und Handelskammern  
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Busse & Coll. Steuerberatungsgesellschaft mbH  
Deloitte GmbH Wirtschaftsprüfungsgesellschaft  
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# Collaborative Research Centre

This survey was conducted as part of sub-project B08 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.



## 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)



**Martin Fochmann**  
Free University of Berlin  
T. +49 30 838 67173  
M. [martin.fochmann@fu-berlin.de](mailto:martin.fochmann@fu-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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