

## Accounting Research Workshop | TRR 266 Research Series

Winter Term 2019/20

Speaker: Assistant Professor Silke Rürger

University: University of Graz, Austria

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Topic: The Effect of a Tax Exemption of Retained Profits on Firm's Equity – Evidence from Croatia

Abstract: A tax exemption of retained profits (TERP) exempts firms' profits from taxation as long as the profits are retained and not distributed to shareholders. Several tax legislators have used a TERP in the past, promoting it as to stimulate an increase in firms' equity. Although a TERP reduces a firm's corporate tax payment, it also imposes a lock-in effect on corporate equity. We argue that agency issues related to the lock-in effect might outweigh the tax benefits of a TERP. To test our assumption, we examine the Croatian TERP that was in place over the period 2013-2016. We find that, on average, Croatian firms used the TERP, but its application varies substantially depending on the ownership structure of the firm. Although Croatian firms significantly increased their subscribed capital after the introduction of the TERP, total equity did not increase.



We thank Silke Rürger for the great opportunity to learn more about the effects of a tax exemption of retained profits on firm's equity. We wish her all the best and much success with the paper!