

C o m p e t i t i o n

The Humanistische Stiftung is offering prize money totaling € 240,000 for three scholarly legal essays and three scholarly economics essays on each of the following topics:

1. When deferred taxation is applied to corporate profits do the basic liberties set out in the EC and EU treaties prohibit Member States of the European Union from securing the taxation of income earned domestically?

2. Can deferred taxation provide a uniform measure for assessing the taxation of corporate profits in the European Union?

The prize money for each winning entry will amount to € 20,000. The jury will select a total of 12 winners based on the jury members' own judgment. There is no recourse to legal action.

Natural persons and legal persons of all kind and origin as well as combinations of such persons are eligible to enter the competition. Essays must be submitted to the Humanistische Stiftung, Holzhausenstrasse 19, 60322 Frankfurt/Main by April 30, 2007 at the latest. Participants who do not live in a German speaking country can write the essay in English. Once an entry is submitted to the competition the right to exploit a winning text in any manner and free of cost passes to the Humanistische Stiftung.

Background to the competition tasks:

In the Federal Republic of Germany the idea is gaining ground that the profits earned by businessmen, unincorporated firms, corporate bodies, freelancers and those engaged in agriculture and forestry should not be taxed until they are withdrawn or distributed, a practice known as "deferred taxation". Unlike customary taxation, which is known to hinder growth and employment, deferred taxation has the advantage of fostering innovativeness and thus promoting growth and employment. Unlike other reform proposals and tax reduction measures, deferred corporate taxation neither results in a shifting of the tax burden from income from business to income from labor, nor does it lead to definitive shortfalls in tax revenue. Seen economically and over the mid-term – deferred taxation merely results in interest-earning tax deferrals without actual loss of tax revenue – a positive effect from which the government as tax collector also benefits.

The general objection that deferred corporate taxation could lead to tax losses of unmanageable proportions, has recently been dismissed by the Fiscal Economics Institute of Cologne University¹. On the contrary: it was calculated that implementing Joachim Mitschke's² introductory phase of deferred taxation as part of his reform proposal for Germany would increase gross domestic product by 1.1 % and lead to an additional 370,000 persons in employment.

Responsibility for the national budgets lies with the individual EU Member States. It follows that the competence for direct taxation lies with Member States. Until now in interpreting the basic liberties set out in the EU Treaty, the European Court of Justice has increasingly limited the authority Member States have in structuring their direct taxation. Only recently has a possible turnaround begun to emerge

In addition to encouraging growth, employment and the positive impact on equity capital in companies, deferred corporate taxation offers several other benefits; it treats all forms of business entity equally; it offers great simplicity – corporate tax law provisions need no longer be applied - and consequently, it seems feasible to apply the withdrawal or distribution of profits as a starting point for taxation in all Member States.

Our intention is that essays inspired by the competition will go towards clarifying and eliminating differing legal, economic and political opinions.

- 1) Fuest, C., A. Peichl and T. Schäfer (2005): "Aufkommens-, Beschäftigungs- und Wachstumseffekte einer Steuerreform nach dem Vorschlag von Mitschke," Fifo Berichte, no. 5, Fiscal Studies Research Institute, University of Cologne.
- 2) Erneuerung des deutschen Einkommensteuerrechts – Gesetzestextentwurf und Begründung. Mit einer Grundsicherungsvariante. (Cologne, 2004, Verlag Dr. Otto Schmidt).

Frankfurt, June 30, 2006

sgd. Dr. Hansgeorg Jehner