

Accounting Research Workshop (ARW) - WT2016/2017

- Speaker:** Andreas Löffler
- University:** Professor für Bank- und Finanzwirtschaft, Department of Finance, Accounting & Taxation, Freie Universität Berlin
- Research:** Unternehmensbewertungen
- Date:** November 22, 2016
- Topic:** Arbitrage And Nonlinear Taxes
- Abstract:** Incorporating a progressive or convex income tax into valuation problems raises the question of the appropriate tax rate to use in common valuation formulas. We apply arbitrage theory in a riskless (multiperiod) economy to answer this question. It turns out that the appropriate tax rate depends on the marginal tax rate of the investor's initial endowments. In case of no endowments this automatically leads to a marginal tax rate at a base of zero. We are able to give an intuitive explanation for the latter result. With tax liabilities that are a convex function of the tax base we identify a new kind of arbitrage: trading strategies where the gains from trades remain unchanged if this strategy is applied multiple times. We call these strategies 'bounded' arbitrage opportunities because the gain is bounded by a constant. Going beyond earlier research, we are able to give a complete characterization based on properties of the tax liability function as to whether bounded as well as unbounded arbitrage opportunities will occur.



We are very delighted that Prof. Löffler followed our invitation to speak about his recent research project as part of our Accounting Research Workshop. We wish him all the best for this and other upcoming projects.