

Journal of Economics and Management

Artur Walasik, Joanna Błach (eds.)

Sponsors:



Journal of Economics and Management

Artur Walasik, Joanna Błach (eds.)

Contents

Part I: Economic and Social Aspects of Public Finance

Janusz Kudła, Impact of Fiscal Instruments on Fertility: a Synthesis of the Economic Theory

Krzysztof Kluzza, Impact of Economic Slowdown on Local Government Investments, Debt and Productivity in the EU Countries

Marta Postuła, Specific Factors Determining Optimal Accomplishment of Spending Review

Part II: Influence of Tax Policy and Tax Regulations on Corporate Finance Decision

Jolanta Iwin-Garzyńska, Common Consolidated Corporate Tax Base (CCCTB) versus Canons of Taxation

Danuta Kozłowska-Makós, Transfer Pricing Optimization in Complex Capital Structures

Anna Leszczyłowska, Relationships Between Book Profit and Taxable Income From Research Perspective – Evidence Based on Corporations in Poland

Wojciech Stiller, How to Tax Partnerships Limited by Shares

Part III: Problems of Monetary and Non-monetary Financial Institutions

Ewa Dziwok, Asset Allocation Strategy in Investment Portfolio Construction – a Comparative Analysis

Lubomira Gertler, Cross-country RoE in Banks and its Decomposition”

Małgorzata Iwanicz-Drozdowska, Global Systematically Important Banks – How to Identify and Regulate Them?

Ornella Moro, Luisa Anderloni, Non-life Insurance Economic Performances. An Empirical Investigation

Jolanta Szolno-Koguc, Małgorzata Twarowska, Taxation of the Financial Sector in the European Union – an Attempt to Find the Best Solution

Part IV: Contemporary Problems of Corporate Finance

Luisa Anderloni, Alessandra Tanda, The Determinants of Leverage: a Comparative Analysis

Joanna Błach, Monika Wieczorek-Kosmala, Maria Gorczyńska and Anna Doś, Innovations in Liquidity Management – the Potential of Corporate Treasury

Agata Sierpińska-Sawicz, Dividend Policy of State Treasury Shareholding Companies

Alessandra Tanda, Luisa Anderloni, The Role of Venture Capital in the Underpricing of European Life Science Companies

Janusz Kudła
University of Warsaw

**IMPACT OF FISCAL INSTRUMENTS ON FERTILITY: A SYNTHESIS OF THE
ECONOMIC THEORY¹**

Abstract

The observed decline in fertility in developed countries raises the question about the possibility of implementing a pronatalist government policy. In particular, possible policies involve modification of: income taxes, consumption taxes and the introduction of subsidies on children. The effectiveness of the listed fiscal policy instruments is debatable and it can be considered from theoretical or empirical point of view. The present work mainly focuses on the first approach, making a synthesis of existing economic theory in terms of the postulated effects of the fiscal instruments used to stimulate the number of children in families. The survey pinpoints two prevalent classes of models: the life cycle with taxpayer having children and multi-period overlapping generation models. The predictions of the models have been criticized, especially in the context of several simplifying assumptions undermining the practical utility of the results. Based on the literature review it can be seen that regardless of the context of redistribution of wealth, the fiscal instruments should affect the number of children in households. Additionally the effective pronatalist policy is not unique and in most cases, it should cover more than one fiscal policy instrument stimulating increase of birth rate.

¹ The paper is financed by Polish National Science Centre as a research project number 2012/07/B/HS4/03254.

Krzysztof Kluza

Warsaw School of Economics

**IMPACT OF THE ECONOMIC SLOWDOWN ON LOCAL GOVERNMENT
INVESTMENTS, DEBT AND PRODUCTIVITY IN THE EU COUNTRIES**

Abstract

The recent economic crisis had a significant influence on the activities of public sector entities at both central and local levels. This research paper shows an analysis of changes in investments, debt and productivity of local governments in European Union countries in the years 2003-2012. During the crisis period, local governments performed a visibly positive role from the perspective of the countercyclical policy of the public sector. In the years 2009-2010, the share of local government investments in total investments (GFCF) grew to 10%.

The active investment policies of local governments resulted in their higher indebtedness. Average annual net borrowing amounted to 0.5% of GDP per country during the crisis period. Although the borrowing was for purely investment activities, it was not noticeably correlated with an increase of productivity. In addition, after productivity growth in the 2008-2009 period, the subsequent years experienced an overall decrease of local government sector productivity. Further analysis showed a relative deterioration of the financial position of local governments regardless of their productivity profile. Taking into consideration the lasting fiscal strains, further stimulation of the economy with debt instruments appears an unsustainable policy for local governments, both in the context of future debt repayments, as well as the failure to lead to increased productivity.

Marta Postula

University of Warsaw

**SPECIFIC FACTORS DETERMINING OPTIMAL ACCOMPLISHMENT OF
SPENDING REVIEWS**

Abstract

A spending review is one of the main instruments of public policy evaluation. A broader term evaluation of public policies is defined as the analysis of the results of public interventions on the state of the economy and on society. The paper seeks to verify the thesis that expenditure maintenance requires an individualized approach taking into account the specifics of the country, which determine the optimal realization of the objectives of the review. The use of universal, general methods is a necessary condition, but not sufficient, for optimal achievement of the objectives.

Jolanta Iwin-Garzyńska

University of Szczecin

COMMON CONSOLIDATED CORPORATE TAX BASE (CCCTB) VERSUS CANONS OF TAXATION²

Abstract

One of the main objectives to be accomplished by the European Union law is to eliminate barriers to the functioning of domestic market and in particular improve the competitiveness of enterprises. After several years of efforts, on 16 March 2011 the European Commission approved a proposal for the directive on a Common Consolidated Corporate Tax Base which is to remove obstacles to the functioning of internal market and increase tax harmonization in the EU. The paper addresses issues relating to tax in corporate finance. Canons of taxation will be discussed and special emphasis will be placed on principles behind formulating fiscal law provisions (including the EU law). Furthermore, the article presents the results of surveys into the importance of taxation canons for Polish and EU companies.

² The paper is the outcome of research conducted as part of the project financed by MNiSW (the Ministry of Science and Higher Education) nr N N113 291337 entitled *Tax potential of Polish enterprises in the context of common consolidated corporate tax base and harmonization of tax law in the European Union*, project manager – prof. dr hab. Jolanta Iwin-Garzyńska, 2009-2013

Danuta Kozłowska-Makós
University of Economics in Katowice

TRANSFER PRICING OPTIMIZATION IN COMPLEX CAPITAL STRUCTURES

Abstract

Complex capital structures are a particular organizational form of business entities in a developed market economy. An important element of their internal financial links are transfer prices. Transfer pricing policy affects in different ways the transactions made between related parties, and varies depending on the decisional discretion of individual responsibility centers. Managers of decision-making centers aim at determining such a transfer price which will enable them to achieve own benefits, which often leads to conflict of interests and individual aims with aims of whole complex capital structure. This article is an attempt to assess methods and principles of setting optimal transfer pricing from the viewpoint of internal decision-making centers' aims as well as whole complex capital structure with the assessment of its efficiency impact.

Anna Leszczyłowska

Poznań University of Economics

**THE RELATIONSHIP BETWEEN BOOK PROFIT AND TAXABLE INCOME
FROM A RESEARCH PERSPECTIVE –
EVIDENCE BASED ON CORPORATIONS IN POLAND**

Abstract

One of the major obstacles faced by research into corporate taxation is connected with the lack of empirical data. Since tax returns are not publically available due to confidentiality requirements, firms' financial statements seem to be an alternative. The aim of the paper is to analyze whether financial statements are an adequate and useful source of information from the perspective of a researcher searching for data proper for a quantitative analyses of corporate taxation. The investigation is aimed at answering the following questions: In what way do corporations present their income tax liabilities and deferred taxes in profit and loss accounts? How can the amount of the tax due be derived from financial statements and what is the accuracy of the applied formula? To what extent do companies incurring book losses have also a zero tax base? The research is based on the financial statements of companies (4.059 observations within the period of four years), which were obliged to publish them in the official register *Monitor Polski B*, which is accessible in the database of Emerging Markets Information Services. The method applied in the paper is based on an analysis of particular items of firms' financial statements and their formula-based adjustment.

Wojciech Stiller

Hochschule für Wirtschaft und Recht Berlin

HOW TO TAX PARTNERSHIPS LIMITED BY SHARES

Abstract

A partnership limited by shares (PLbS) is a hybrid that combines the characteristics of both a limited partnership and a joint stock company. While a partnership is usually a so-called pass-through tax entity, a corporation is subject to tax. Therefore, the income of an incorporated company is taxed twice, first at the corporate level and again at the shareholder level. In order to answer the question whether a partnership limited by shares shall be subject to tax, this paper discusses the reason for the corporate income tax. Furthermore, different tax regimes for the PLbS are considered, paying particular attention to the German tax provisions and the tax law amendments in Poland. For the purpose of better understanding the tax impact, this paper analyses the popularity of the PLbS in Germany and Poland with a focus on the tax burden and liability.

Ewa Dziwok

University of Economics in Katowice

**ASSET ALLOCATION STRATEGY IN INVESTMENT
PORTFOLIO CONSTRUCTION – A COMPARATIVE ANALYSIS**

Abstract

The investment portfolio management process consists of an integrated set of steps to create an appropriate mixture of assets. Since it is highly depending on characteristics of the investor, it is possible to stress three main steps: planning, execution and feedback. The most crucial part of portfolio management is the execution step during which a suitable portfolio is built. The procedure takes into account asset allocation, security analysis and clients' requirements. The main aim of the article is to present and compare asset allocation procedures used today, such as mean-variance approach, Black-Litterman one and risk based strategies.

Lubomíra Gertler

University of Economics in Bratislava

CROSS-COUNTRY ROE IN BANKS AND ITS DECOMPOSITION

Abstract

Given large differences in return on equity in the banking sector of individual euro area countries, we look under the surface of this measure and decompose it to its contributing factors: i) profits, ii) total assets and iii) leverage. We find that i) dramatic declines in RoE in stressed countries were driven mostly by losses on the asset side and that ii) CEE countries deleveraging contribution to RoE has helped to maintain a good balance and prepared solid grounds for future sustainable development.

Malgorzata Iwanicz-Drozdowska

Warsaw School of Economics

**GLOBAL SYSTEMICALLY IMPORTANT BANKS
- HOW TO IDENTIFY AND REGULATE THEM?**

Abstract

In this paper we investigate the issues of identification and capital regulation of global systemically important banks (G-SIBs). Both issues are fundamental for global financial stability. However, there are many open questions that remain on the political and academic agenda. We underline that the simple ratio-based solution for the identification and regulation of G-SIBs presents many drawbacks and the idea to increase loss absorption capacity may generate new risks that are not covered under the current regulatory framework.

Ornella Moro*, **Luisa Anderloni****

** Università degli Studi di Sassari*

*** Università degli Studi di Milano*

**NON-LIFE INSURANCE ECONOMIC PERFORMANCES.
AN EMPIRICAL INVESTIGATION**

Abstract

The purpose of this paper is to provide new empirical evidence on the determinants of economic performances in the insurance industry. To this end, we test the impact of several firm characteristics, such as dimension, capital structure and investment policies on economic performance for a panel of non-life insurance firms operating in the main European markets spanning from 2004 to 2012. Empirical findings suggest that various factors contribute to the performance measured by return on equity and return on asset and, additionally, the insurance specific characteristics interact with country institutional features in determining profitability. In particular, the profitability of equity appears to be strongly linked to the profitability of assets, which is therefore investigated separately. The three main areas that constitute the core insurance activity (insurance in its narrower sense, financial and reinsurance activities) strongly influence profitability, but reinsurance does not seem to contribute either positively or negatively to performance. Further investigations are needed and welcome, therefore, to better understand the dynamics of performance and shed additional insight on the insurance industry.

Jolanta Szolno-Koguc, Malgorzata Twarowska

Maria Curie-Skłodowska University in Lublin

**TAXATION OF THE FINANCIAL SECTOR IN THE EUROPEAN UNION –
AN ATTEMPT TO FIND THE BEST SOLUTION**

Abstract

The purpose of this paper is to assess the proposals of taxation of the financial sector and to identify the advantages and disadvantages of each proposal. This paper is based on the actual reports of international economic organizations (International Monetary Fund, European Commission), statistical data and a number of analyses carried out by economists across a number of geographies. This paper identifies the most common types of taxation imposed upon the financial sector, and provides discussion of their costs and the revenues they are likely to bring. Such estimates can be seen as valuable research material, and they often justify the conceptual reasoning for application of such tax.

Luisa Anderloni, Alessandra Tanda

Università degli Studi di Milano

THE DETERMINANTS OF LEVERAGE: A COMPARATIVE ANALYSIS

Abstract

This paper develops an analysis of the determinants of leverage in European listed companies in the last decade. To test the impact of firm characteristics on the capital structure, we use panel data of companies located in 7 countries (Austria, Czech Republic, Germany, Hungary, Italy, Poland, and Slovakia) from 2001 to 2012. Results show that several firm characteristics, such as size, profitability, and the tangibility of assets are able to influence the capital structure and overall confirm the theories developed by the literature.

Joanna Błach, Monika Wieczorek-Kosmala, Maria Gorczyńska, Anna Doś

University of Economics in Katowice

**INNOVATIONS IN LIQUIDITY MANAGEMENT – THE POTENTIAL OF
CORPORATE TREASURY³**

Abstract

The paper discusses the problem of the importance of corporate treasury function in liquidity management, with particular focus on cash management. The aim of the study is to support a thesis that corporate treasury has potential to enhance innovative actions due to the expert knowledge and the deep understanding of the functioning of a particular company. By providing an overview of corporate treasury development, objectives and functions, the paper indicates the prime importance of liquidity management function and in this context describes the specifics of cash management actions. Further, by addressing the contemporary challenges of corporate treasury, the paper addresses the prime innovations in cash management, including state-of-the-art settlement techniques, information channeling systems, new ways of investing cash surpluses and managing risk.

³ The research project was founded by National Centre of Science, Poland, granted with the decision No. DEC-2011/03/D/HS4/01924.

Agata Sierpińska-Sawicz
Poznan University of Economics

**DIVIDEND POLICY OF STATE TREASURY
SHAREHOLDING COMPANIES**

Abstract

This article tries to evaluate dividend policies of state shareholding stock exchange listed companies and determine whether dividend payments are higher than in other companies as pertaining to a budget hole. State Treasury holds shares in 16 stock exchange listed companies with stock exceeding 50% in six of them. Dividend policy evaluation was performed with the use of such indicators as dividend payout ratio, dividend per share and dividend yield which is a relation of dividend amount per share and its price. Average dividend rate on GPW regulated market in Warsaw in 2012 was 3,9% and in some State Treasury companies these rates were much higher.

Alessandra Tanda, Luisa Anderloni

Università degli Studi di Milano

**THE ROLE OF VENTURE CAPITAL IN THE UNDERPRICING OF EUROPEAN
LIFE SCIENCE COMPANIES**

Abstract

This study evaluates the underpricing of the European companies operating in the life science industries at IPO. Results show a positive and high underpricing for the IPOs occurred between 2002 and 2007. Moreover, when differentiating between VC backed and non VC backed firms, we find that the first exhibit a lower underpricing both for the first day of trading and the first week after the IPO, and evidence support the idea of a positive contribution of venture capitalists to the performance of the listing firms. Moreover, VC backed firms appear less risky, registering a lower volatility of returns in the days following the IPO date.