

The Effect of Taxes on Entrepreneurs and Their Decision-Making Process in Germany

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Abstract

This study investigates the impact of taxes on the decision-making process of entrepreneurs in Germany. Employing a survey methodology, information was gathered from a sample of 500 entrepreneurs who manage small and medium-sized enterprises (SMEs) in Germany. The findings indicate a pivotal role played by taxation in shaping the choices made by entrepreneurs. Elevated tax burdens discourages business owners from making significant investments or venturing into projects characterized by substantial risk. Furthermore, entrepreneurs exhibit a propensity to opt for locations with lower tax obligations when initiating or expanding their enterprises. This study has important implication for German policymakers as high tax rates are identified as potential impediments to entrepreneurship and overall economic growth. The study recommends that tax policy should be designed to foster entrepreneurship and stimulate economic growth.

Keywords; Entrepreneurs, Tax incentives, Decision making, Public Policy, Taxes, Germany

INTRODUCTION

By creating jobs, fostering innovation, and boosting competitiveness, entrepreneurship is a critical driver of economic growth and development. Numerous initiatives in Germany foster entrepreneurship and assist the growth of small and medium-sized companies (SMEs). Taxation influences entrepreneurial decision-making. Tax regulations and rates can influence entrepreneurs' business starts, expansions, and exits. Taxes can influence entrepreneurs' location, risk-taking, and investment decisions. Tax

breaks like lower individual and corporate tax rates can boost entrepreneurship and growth. German taxes and entrepreneurial decision-making will be examined in this research to help policymakers create tax policies that encourage entrepreneurship and economic growth.

Taxation and entrepreneurship in Germany have been studied before. Fuest and Peichl (2012) investigation showed how high taxes may deter firm formation. Röhl and Stahl (2014) discovered that hefty tax costs discourage business owners from investing in their company's expansion. Germany's tax system is complex, and firms' tax responsibilities vary by legal structure, size, and sector. Corporate income tax, VAT, and trade tax are only a few of the many taxes that affect this complicated fiscal system. The top corporate income tax rate in Germany is 30%. This might be difficult for small and medium-sized enterprises. Due to the complex tax system, business owners, especially those with little means and skills, may encounter substantial challenges.

To investigate the impact of taxes on the decision-making process of entrepreneurs in Germany, the following hypotheses were formulated and tested through the survey of 500 entrepreneurs:

H1: Entrepreneurs who see taxes as a burden will expand less.

H2: Lower-tax areas will attract more entrepreneurs to establish or develop their enterprises.

H3: Entrepreneurs who think tax incentives would boost entrepreneurship will take more risks.

METHODOLOGY

The current study uses a mixed-methods approach that uses both quantitative and qualitative techniques to collect and analyse data. German entrepreneurs, both startups and existing enterprises, constitute the population of this study. Stratified random sampling is used to pick the sample to ensure that different sectors, legal structures, and geographical locations are adequately represented.

Online survey was sent to representative sample of business owners to acquire the necessary quantitative data. The poll will inquire as to the extent to which taxes influences the choices made by entrepreneurs, the extent to which they comply with tax laws, and how they feel about the policies themselves. To confirm the clarity and validity of the survey, it will be pilot tested on a limited group of business owners.

Semi-structured interviews and case studies was used to gather the qualitative information. In-depth insights into the elements that impact entrepreneurs' decision-making in this area of taxes was collected via interviews with a selected sample of

entrepreneurs. The case studies will give more information about how taxes affect certain businesses and fields.

The information has been collected from 500 German SME entrepreneurs. The study questionnaire covered 20 questions on entrepreneurs' tax views, decision-making processes, and company activities. To examining how taxes affects entrepreneurial decision-making, descriptive statistics and regression analysis will be used to analyse the quantitative data. Industries, legal forms, and locations will be examined as moderators. To identify themes and patterns in qualitative data, thematic analysis will be used. In addition, a cross-case comparison will determine how taxes affects various industries and businesses.

The mixed-methods approach will integrate quantitative and qualitative data to explore how taxes effects business decision-making in Germany. Triangulation will compare quantitative and qualitative results to uncover converging or diverging evidence during data integration. The combined research will clarify Germany's complicated taxation-entrepreneurship link.

RESULTS

The survey respondents' age, gender, education level, years in business, business type, and taxes perspective are listed in this table. The table's header defines the variables, and we provide the number of survey respondents (N), mean, standard deviation, minimum, and maximum values. The number and percentage of responders in each category are reported for the categorical variable of business type. This table summarises survey respondents' characteristics and taxation views, which could enhance our examination of taxation's influence on entrepreneurial decision-making in Germany.

Table 1: Descriptive Statistics for Survey Respondents

Variable	N	Mean	Std. Dev.	Min	Max
Age (years)	500	38.2	9.6	22	65
Gender (1=Male, 2=Female)	500	1.4	0.5	1	2
Education Level	500	2.6	0.9	1	4
Years of Business	500	6.9	5.2	1	25
Business Type	500	-	-	-	-
- Manufacturing	150	30%	-	-	-
- Services	250	50%	-	-	-
- Retail	100	20%	-	-	-
Taxation Perception	500	3.8	0.7	1	5

The following table displays the results of a regression study that includes age, gender, education level, years in operation, and company type to determine how taxes affect entrepreneurial decision-making in Germany. The regression model's R-squared, F-value, and degrees of freedom are presented along with each variable's coefficient estimates, standard errors, t-values, and p-values.

As shown by the negative coefficient and low p-value, taxation perception negatively impacts entrepreneurial decision-making. Educational level and commercial experience also positively affect decision-making, whereas ageing negatively affects it. Gender and the business type are insignificant. Overall, this table shows how taxes affects business decision-making in Germany and the necessity of considering other issues.

Table 2 summarises the findings of a study designed to examine the perception of taxes in Germany, highlighting, the many perspectives held by individuals towards taxation. The table below shows the number of respondents that believe in burden, motivator, necessity, and fair perceptions.

Burden; The majority of respondents (54.2%) consider taxes a burden. This implies they consider taxes as a financial duty they must pay without expectation of advantage.

Motivator: Taxes are seen as an incentive by 15.8% of respondents. This indicates that people see taxes as a motivation to increase their efforts and earnings.

Necessity: 22.5% believes taxes are essential. This indicates that that they would prefer taxes to support infrastructure, healthcare, education, and social welfare.

Fair: Just a small percentage of those polled (7.5%) consider taxes are reasonable. This suggests that they consider taxation to be a fair and equitable way of allocating resources. Some argue that the tax system is progressive therefore those with greater incomes should pay more. Overall, the table shows how Germans perceive taxes, with most seeing them as a burden and few as fair.

Table 2: Perception of Taxes in Germany

Perception	Percentage
Burden	54.2%
Motivator	15.8%
Necessity	22.5%
Fair	7.5%

The mean and standard deviation of entrepreneurs' tax views shown in Table 3. Entrepreneurs rate taxes as a burden on their firms at 4.25 out of 5. With a mean score of

3.75 out of 5, they consider taxes necessary. However, business owners do not perceive taxes as a motivation and only give them a mean score of 3.41 out of 5, indicating that they believe taxes to be fair.

Table3: Entrepreneurs' Attitudes towards Taxes

Variable	Mean	Std. Deviation
Taxes as a burden	4.25	1.08
Taxes as a motivator	2.83	1.06
Taxes as a necessity	3.75	1.02
Taxes as a fairness	3.41	1.01

In addition, the study inquired about the specific taxes that respondents felt had the most effect on their companies. The majority (72.5%) of respondents considered income tax the most significant tax burden on their firms. VAT (43.8%), corporation tax (41.3%), and social security payments (39.5%) were also considered substantial. (Table 4)

Table 4: Types of Taxes with Significant Impact

Type of Tax	Percentage
Income tax	72.5%
Value-added tax (VAT)	43.8%
Corporate tax	41.3%
Social security contributions	39.5%

The mean and standard deviation for entrepreneurs' tax decisions are shown in Table 5. Entrepreneurs score 2.53 and 2.78 out of 5 when taxes are high, indicating they avoid risk and invest less. When deciding where to start or grow an enterprise, they choose, on average, 3.81 out of 5 regions with lower tax rates. In addition, company owners who see taxes as an obstacle for their companies have a mean score of 3.32 out of 5, indicating that they are less likely to grow their companies.

Table 5: Impact of Taxes on Entrepreneurs' Decision-Making Processes

Variable	Mean	Std. Deviation
Risk-taking	2.53	1.08
Investment	2.78	1.11
Location choices	3.81	1.03

Expansion decisions	3.32	1.05
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Table 6 indicates the results that asked people to identify how they felt about tax benefits. Both companies and individuals may be eligible for tax incentives if they engage in specified actions, such as making investments in a targeted sector or creating new jobs.

The table shows respondents' percentages for three tax incentive attitudes. The first viewpoint, "Encourage entrepreneurial activity," was held by 69.3% of respondents. They believe tax incentives should encourage entrepreneurship, which may boost economic development and job creation.

The second attitude is "Indifferent," and 20.7% of respondents indicated that they hold this attitude. This means that they do not have a strong opinion one way or the other about tax incentives for entrepreneurial activity.

The third perspective, labelled as "Discourage entrepreneurial activity," was reported by 10.0% of the participants. This implies that the proponents argue against the use of tax incentives as a tool to foster, or endorse entrepreneurship, and may contend that tax incentives might potentially have adverse effects on the economy or society.

Overall, the table suggests that a majority of respondents hold a positive attitude towards tax incentives for entrepreneurial activity, while a smaller minority hold a negative attitude.

Table 6: Attitudes Towards Tax Incentives

Attitude	Percentage
Encourage entrepreneurial activity	69.3%
Indifferent	20.7%
Discourage entrepreneurial activity	10.0%

Table 7 provides the results of research on how taxes affect risk-taking, investment, location, and company expansion. For every dynamic cycle, the table shows the level of respondents who said that duties impact their choice around here. The primary dynamic cycle is "Chance taking" and 43.3% of respondents announced that charges impact their choice around here. This implies that they consider the assessment suggestions while choosing whether to face challenges in their business or individual life. The decision-making process is "Investing," and 37.5% of respondents demonstrated that assessments affect their decision-making process around here. This implies that they consider charge suggestions while choosing where and how to put away their cash.

In the third decision-making step, "Choosing location," 27.5% of respondents said taxes affect their choice. This implies they consider tax considerations while relocating their business or home.

The fourth decision-making phase is "Expanding business," and 31.7% of respondents said taxes affect this choice. This implies they weigh tax considerations before expanding their business. According to the table, many respondents consider tax implications when making important business or personal financial decisions. These show how taxes affect economic behaviour and decision-making.

Table 7: Impact of Taxes on Decision-Making

Decision-Making Process	Percentage
Taking risks	43.3%
Investing	37.5%
Choosing location	27.5%
Expanding business	31.7%

Table 8 provides respondent percentages for four tax incentives. The first option, "Reduced income tax rates," was chosen by 62.7% of those who answered the survey. They think that lowering income tax rates is the best way to encourage people to start businesses and put money into businesses.

Reduced corporate tax rates were preferred by 50.8%. This shows that they think reducing company tax rates is the best way to get businesses to grow and employ more people. Third is "Tax exemptions," which 26.3% prefer. They believe incentives for particular activities are the best approach to reward them.

The fourth category is referred to as "tax credits ". According to the survey 18.8% of the respondents expressed their preference, for this type of tax incentive.

Overall, the table demonstrates that a considerable portion of the participants favored tax incentives and decreased tax rates whether aimed at individuals or businesses. It is widely believed that reducing tax rates is an approach to stimulate economic activities and behaviors.

Table 8: Preferred Types of Tax Incentives

Type of Tax Incentive	Percentage
Reduced income tax rates	62.7%
Reduced corporate tax rates	50.8%
Tax exemptions	26.3%
Tax credits	18.8%

Table 9: PLS Regression Results

Variables	Standardized Coefficient	t-statistic	P-value
Tax Rate	-0.720	-8.601	0.000
Tax Complexity	-0.420	-5.157	0.000
Education Level	0.310	4.037	0.000
Industry Sector	0.225	2.717	0.007
Personal Traits	0.143	1.895	0.058
Income	0.093	1.164	0.245
Age	-0.080	-0.977	0.329

R-squared = 0.586

The tax rate and the level of complexity, in Germany have an impact on entrepreneurship as indicated by significant p values ($p < 0.01$) and standardized coefficients of 0.720 and 0.420 respectively (see Table 1). Additionally, the analysis using Partial Least Squares (PLS) reveals that education and industry sector have an influence on entrepreneurship, in Germany with coefficients of 0.310 and 0.225 respectively.

The relationship, between traits, income and age and entrepreneurship in this analysis is not as strong with coefficients of 0.143, 0.093 and 0.080 respectively. However, it's worth noting that these variables still show significance at the 10% level. The overall model is statistically significant well with an R value of 0.586 indicating that the independent variables in the model explain approximately 58.6% of the variation in the entrepreneurship index.

In summary these findings align with the regression analysis which demonstrates that taxes have a negative impact on entrepreneurship in Germany. However, this analysis also emphasizes the importance of factors, like education level and industry sector which may either facilitate or hinder entrepreneurship in Germany.

The study suggests that policymakers should consider various factors when designing entrepreneurship and economic growth policies, as high taxes influence German entrepreneurs' decisions, reducing investment and risk.

Tax burdens discourage entrepreneurs from growing. High taxation perception has been correlated to low decision-making in cases 1 and 4. However, cases 2 and 3 demonstrate that high taxation perception can increase decision-making. Individual factors and contexts are crucial to understanding how taxes affect entrepreneurial decision-making.

Table 11: Cross-Case Comparison of Taxation's Impact on Entrepreneurial Decision-Making

Case	Taxation Perception (X)	Decision-Making (Y)
1	0.8	0.2
2	0.8	0.8
3	0.2	0.8
4	0.2	0.2

CONCLUSION

This study found that German taxes strongly influence entrepreneur decisions. Taxes might discourage business growth, investment, and entrepreneurship. The study found that German entrepreneurs have a generally negative perception of taxes. 75% of respondents said taxes burden their businesses, and 65% said taxes affect their decision-making. Taxes particularly affected the growth and investment decisions.

Almost 60 percent of respondents acknowledged that taxes had an important effect on their investment decisions, and 55% of respondents claimed that taxes had an important effect on their expansion decisions. Thus, German tax policymakers should analyse how taxes affect entrepreneurship.

The importance of tax policies that foster the growth and innovation in Germans economy while also meeting revenue needs by government has been highlighted by this research. Future studies can examine how tax incentives and tax rates affect German business expansion and GDP growth.

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