The researchers Francisco Pérez-González (Mexico), Frédéric Panier (Belgium) and Pablo Villanueva (Mexico), are the authors of the paper which has won the fifth edition of the Award

A PAPER ON THE IMPACT OF INTRODUCING TAX SUBSIDIES FOR EQUITY, WINNER OF THE Vth JAIME FERNández DE ARAOZ CORPORATE FINANCE AWARD

Madrid, 20 June 2013.- The researchers and academics Francisco Pérez-González (Mexico), Frédéric Panier (Belgium) and Pablo Villanueva (Mexican), have obtained the V Jaime Fernández de Araoz Corporate Finance Award, for their papel entitled “Capital Structure and Taxes: What Happens When You (Also) Subsidize Equity?”, which examines the use of tax incentives to stimulate the equity financing of companies. Francisco Pérez-González will receive the award this afternoon from H.R.H. the Prince of Asturias at CaixaForum Madrid.

Pérez-González lectures in Finance at the Graduate School of Business, Stanford University while Panier and Villanueva are researchers at the same institution. Pérez-González has received numerous major prizes for his academic work and has covered subjects such as corporate governance, family businesses and corporate finance, amongst others. He is a researcher at the National Bureau of Economic Research (NBER).

“Capital Structure and Taxes: What Happens When You (Also) Subsidize Equity”, shows that tax policies which focus on encouraging the use of equity lead to lower levels of corporate debt, and therefore lower leverage and greater capitalisation.

The paper analyses the impact of a novel tax reform introduced in Belgium in 2006. This reform reduces tax deductions which foster indebtedness by allowing a tax deduction in relation to the company’s level of equity. Thus, unlike traditional tax incentives, the financing of companies receives a tax deduction regardless of the source of financing used and not just when companies are financed via debt.

Main conclusions:

Con el patrocinio:
- Tax distortions to the detriment of equity have a significant impact on firms’ financing decisions. In particular, the introduction of a tax deduction in relation to companies’ equity levels leads to a significant reduction in the aggregate leverage of the economy as well as of the indebtedness as a percentage of firms’ assets.
- Reduced levels of leverage have been found across the board. Both firms in existence before the reform and companies which started operating after the new tax regime came into force have increased equity levels as a source of financing.
- Tax incentives for equity lead to a significant increase in the capitalisation of companies.
- The reduced weight of debt as a percentage of all assets can largely be explained by a significant increase in firms’ equity levels and not by a reduction in the nominal value of their indebtedness.

The Award, the only one of its kind in Spain, aims to contribute to the development of the economy and corporate finance by recognising research carried out in this field. The winners of this Award, sponsored this year by Deutsche Bank, in collaboration with CaixaBank, CUNEF and Universia, receive 10,000 euros and a sculpture by Martín Chirino.

The Jury was composed of individuals with a proven track record in economic, business and academic circles, and was chaired by Antonio Rodríguez-Pina, President of Deutsche Bank España.

The Jury ruled that "the winning study tackles one of the main subjects in corporate finance: the factors determining firms’ financial structure, in particular, the proportion of the two main components of assets, namely debt and equity."

The Technical Committee of the Jury ruled that the study was technically sound and offered a fresh vision of the factors which determine firms’ capital structure.

Since the Award came into being in 2005, more than 150 papers have been submitted by authors from more than 30 different countries relating to a wide variety of subjects. The first edition of the Award was won by a study concerning international transactions, in 2007 the winning work looked at the question of executive pay; 2009 saw the award go to a study of internal corporate governance and in the last edition the winning paper was about the question of talent in the financial market in the USA.
In this fifth edition of the Jaime Fernández de Araoz Corporate Finance Award the Secretariat received 40 papers from 85 authors with 26 different nationalities, mostly from the academic world, with teams from the main universities and business schools.

The Award commemorates Jaime Fernández de Araoz Gómez-Acebo, a CUNEF graduate in Economics and Business Science, who devoted his professional life to investment banking. Between 1989 and 2003, he worked for Lehman Brothers, Banco Santander and, finally, Citigroup where he was Managing Director. In all of these companies, Jaime showed his immense human and professional qualities. In 2003, he died in an accident at the age of 37.

For more information: www.premiojfa.org

Eurocofín

Tom Burns
Joan Tarzian