

Do Tax Loss Restrictions Distort Venture Capital Funding of Start-ups?

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Abstract

I analyze whether anti-loss trafficking rules affect the funding of start-ups in Europe. I base my empirical analysis on a panel of VC-funded companies in the EU28 Member States from 1999 to 2014. These regulations disallow the use of loss carry-forwards after a substantial change in ownership or activity. This restriction could threaten accumulated loss carry-forwards of start-ups. Accounting for the increased risk and reduced return on their investment, venture capital (VC) investors could reduce their funding. My findings suggest that strict anti-loss trafficking rules indeed impair VC funding. Especially companies in high-tech industries are affected.