

A 4 Area for action: entrepreneurship

Start-ups make an important contribution to economic growth and to maintaining a country's competitiveness. Successful start-ups create jobs through local value creation. However, the number of business start-ups in Germany is small by international comparison, especially in the knowledge-based economy.

Funding is a key challenge for young companies during both the start-up and growth phases. They need a flexible financing environment that also allows exits by going public. The venture-capital market is less well developed in Germany than in many other European countries. To remedy this situation, policy-makers have launched a wide range of funding programmes and announced further measures in the meantime. Furthermore, as repeatedly proposed by the Commission of Experts, the restrictive treatment of loss carryforwards has been newly regulated.

Despite the progress made particularly in recent times, there is still a need for action to expand start-up activities in Germany on a permanent basis. To achieve this, it is essential to reduce bureaucratic obstacles and establish planning security on financing – for both founders and investors. The framework conditions for start-ups and company growth must be designed in such a way that potential founders and their ideas do not move abroad and their potential can be used to maximum effect. Also at tertiary education institutions and non-university research organisations there is underused start-up potential which should be better deployed.

Lower administrative costs for start-ups

The administrative obstacles for start-ups are large by international comparison and must be reduced. A starting point could be the project known as *Einheitlicher Ansprechpartner 2.0* (Point of Single Contact). However, this project still needs to be efficiently

implemented in order to give start-ups access to all necessary information and procedural rules of the public administration. Furthermore, it is vital to take the specific interests of young companies into account in the design and implementation of funding programmes. Possible scope for discretion should be used generously in favour of young companies.

Begin early with start-up training

A greater awareness of the option of launching start-ups can now be found in study courses relating to economics, but hardly in other courses of study such as engineering, natural sciences, humanities or other social sciences. As a result, the start-up potential that exists in Germany is not being sufficiently exploited. In addition to the technical skills that are needed, start-up awareness must also be created across all disciplines, so that launching a business is perceived as a realistic option. To achieve this, it is helpful to begin start-up training early in a person's education, ideally already at school. Initial positive examples can now be found throughout Germany.

Improve start-up funding – expand incentives for private investors

Compared to other countries, too little support is provided by private funding sources in Germany for start-up funding in the early phase, and particularly during the growth phase. The Commission of Experts calls for more commitment from private players, especially from large enterprises. For example, in the context of the *High-Tech Gründerfonds III*, private players could contribute a much larger share of funding than in the case of its predecessor funds. Potential anchor investors – e.g. life insurers – are often hesitant because of restrictive regulations in this segment.

For this reason, the framework conditions for institutional investors in Germany should be designed in such a way that investments in venture-capital funds that finance innovative growth businesses are supported, and recognised anchor investors can emerge.

KfW's return to the market as a fund investor in 2015 should be seen as an initial positive signal, as it can make a contribution to winning over other domestic and foreign institutional investors. Policy-makers' focus should not be so much on providing additional public funding but on creating the kind of incentives that make it attractive for private investors to invest in venture-capital funds and start-ups. The INVEST programme has already been impressively successful in this.

border tax competition, the conditions governing the establishment and management of venture-capital funds should be made internationally competitive.

End the restrictive treatment of loss carryforwards

Germany's 2008 corporate tax reform introduced a particularly restrictive regulation by international comparison on the use of loss carryforwards. The Act on the Further Development of Tax Loss Carryforwards for Corporations (Gesetz zur Weiterentwicklung der steuerlichen Verlustverrechnung bei Körperschaften), which was passed in December 2016, can now effect a considerable improvement in overall conditions and financing incentives. The newly introduced section 8d of the Corporation Tax Act (Körperschaftsteuergesetz) aims to ensure that unused losses (loss carryforwards) can still be used despite a change in shareholders. The precondition is that the entity's business operations are maintained after the change of shareholders, and any other use of the losses is excluded. The Expert Commission welcomes this law. However, when it is implemented, the continuation of the business must be interpreted flexibly enough, since start-ups often change their business model, customer target group or technology.

Secure attractive overall tax conditions for start-ups

In the past, the Commission of Experts has already welcomed the fact that the Federal Government does not tax capital gains on sales of free-float shares in corporations. No such tax should be introduced in the future. Furthermore, there should be no increase in the existing taxation of fund-initiators' remuneration (carried interest). To prevent distortions in cross-