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Germany V: Laws governing tax & tax like contributions

Simplified Version

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27.07.2016

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1 Legal basis and administrative structure

Taxation in Germany is a shared responsibility of the federal state, the 16 individual states (*Länder*) and the municipalities. The Legal foundation for this are articles 20-37 and 104-108 and other articles of the German Basic Law (BL, *Grundgesetz*). As a rule of thumb can be said: Whereas the legal responsibility of drafting and passing taxation laws is largely done within the federal institutional framework (federal parliament (*Bundestag*) and chamber of states (*Bundesrat*)), the responsibility for the execution of taxation laws lies largely in the responsibility of the *Länder*. While the federal government introduces laws via the *Bundestag*, the *Länder* can initiate laws individually or in groups via the *Bundesrat*.

There are two important legal codes regulating this complex system of shared rights, shared tasks, and the relevant procedures alongside. First, the Fiscal Code of 1st October 2002, which 'brings together the rules applying to all taxes as a compendium of general tax law' (Federal Ministry of Finance, 2011, p. 4). The Fiscal Code regulates the taxation procedure (i.e. the determination of dues to be paid by individuals and corporations are due), the collection and enforcement of taxes. Equally important for the distribution of revenue is another law, the Revenue Administration Act.

Outcome of this complicated system is, that there are taxes exclusively within the responsibility of the federal level, or the state level, or the municipality, i.e. there are taxes which the federation, states and municipalities can decide upon.[1] This underlies tax competition between German states and municipalities in a similar way as there is tax competition between international states in the attempt to attract wealthy people and/or businesses.

And there are "mixed" cases where parts of legal regulation are decided at different levels of government. Regarding Real Property Tax, for example, the federation regulates the basis for assessment, while local municipalities determine the tax rate of assessment. Similarly, regarding the real property transfer tax, states individually determine the tax rates which they want to apply within their area.[2]

[1] Cf. pages 26-29 of brochure 'An ABC of Taxes' (Federal Ministry of Finance, 2011), most importantly the overview page 28f. ('Tax competence at a glance') which illustrates (a.) the types of tax, (b.) who legislates that tax, (c.) who gets the revenue and (d.) who administers that tax. Cf. also G/VI/1.

[2] For the two tables cf. (Bundesministerium der Finanzen, 2012a, p. 16)

Federal Level	State Level	Municipal Level
E.g. Consumption Tax (except Beer Tax), Insurance Tax	E.g. Inheritance Tax, taxation on Beer and levies on Gambling Houses	E.g. Local Business Tax, Real Property Tax

Other taxes, include shared taxes (*Gemeinschaftssteuern*) which are collected by the revenue authorities and after collection are divided among the federal, state and the municipal level in accordance to individually changing allocation formulae:

Income Tax (including Wages Tax)	Corporation Tax	Final Withholding Tax on income from capital (*Abgeltungsteuer*)	Revenue of Turnover Tax (2012)
Federation 42.5% States 42.5% Municipalities 15%	Federation 50% States 50%	Federation 44% States 44% and Municipalities 12%	Federation 53.4% States 44.6% Municipalities ca. 2%

As the chart “revenue of Turnover Tax” indicates by mentioning explicitly the year 2012, the allocation formula here is up to regular re-negotiation which means that the allocation formula for the revenue from Turnover Tax to federation, state and municipality can change accordingly.

2 Taxes, Levies, Duties, mandatory Social Security Contributions

The total tax burden for German citizens consists in taxes proper, levies and duties as well as mandatory Social Security Contributions. The reason for inclusion of these contributions into the assessment of the overall tax burden is international comparability, since care for social security elsewhere is financed differently: In Scandinavia, the share of taxes in financing social security is higher, while Anglo-Saxon tradition encourages private provisions. In General, therefore, the following different categories need to be borne in mind all together:

Taxes: “shall mean payments of money, other than payments made in consideration of the performance of a particular activity” (§ 3,1 Fiscal Code), meaning that the one who pays the tax has no control on how the money is being spent.

Contributions: Charges levied for the (potential) entitlement of a (later) service, e.g. insurance against sickness or unemployment.

Levies and Duties: They are paid voluntarily or involuntarily for the reception of some service provided by a public authority, e.g. customs, issuing of passports or certificates.

Mandatory Social Security Contributions exist for health, unemployment, accident, long-term care and pensions. They are paid by both employer and employees (cf. below 5.2.1). Because they are mandatory by law they are exempt of the regular collective bargaining, in which the federations of employer and the trade unions negotiate regularly future terms of employment and payment. Social contributions are mandatory only, if the kind of job done is subject to social security contribution. Low paid jobs or precarious employment are exempt from this obligation, those working in this segment of employment, if in need of assistance, are supported by the tax-financed Social Welfare.

3 Main categories of taxes

There are many ways to group the many individual taxes into umbrella-categories in order to facilitate some sort of overview. A first one is between taxes on proceeds and taxes on transfers (Besitz-/Ertragsteuern, Verkehrsteuern).

However, since this distinction is a rather "German" one, I am following the categorization of OECD and its Revenue Statistics.

3.1 Taxation of income – sub categories

Within the category of income, four sub-categories are commonly distinguished, even though there is overlapping:

1. Income Tax (*Einkommensteuer*) taxes all sorts of income, i.e. income beyond salaries and wages (which, of course is also income, but collected in a special way). The law mentions seven categories of income:

1. Income from agriculture and forestry
2. Income from business
3. Income from independent labour (self-employed)
4. Income from dependent labour
5. Income from capital assets (interest, capital gains…)
6. Income from rent and leasing
7. Other income

Income Tax is applied to either one or several of the above categories. Taxed is always the sum of income from as many categories as applicable with a progressive tax rate, with one major exception: Income from capital is taxed at a flat rate of 25%, withheld by the banks and later transferred to the state.

Subject to Income Tax are two categories of tax payers, namely: People and corporations with fixed residence. Such tax payers have unlimited tax liability, which means that they have to pay tax on all categories of income irrespective of whether it is made inland or abroad. People and corporations with residence abroad have limited tax liability on income received in Germany.

There is a special way for collecting income from dependent labour and income from capital: They are collected automatically at "the source", i.e. they are collected by automatic deduction from where the taxable event occurs in the first place. In the case of wage, the employer transfers the tax directly to the tax authority, while in the case of capital this obligation falls to the banking institution.

Because of its respective importance, there are separate laws regulating specifically the following sub-categories of income-taxation:

2. Wage Tax (*Lohnsteuer*) is the taxation of income generated from dependent employment and collected directly through the employer.

3. Local Business Tax (*Gewerbesteuer*) taxes the income generated from a (local) business and is paid to the municipality. Since municipalities determine the leverage relevant to calculate this tax, it varies from municipality to municipality

4. Corporation Tax (*Körperschaftssteuer*): While income-tax taxes "natural" (real) persons, Corporation Tax applies to legal persons such as companies. Corporation Tax differs from Income Tax insofar as Income Tax utilises the progression and tax bands system while Corporation Tax is a flat tax of 15%.

3.2 Taxation of wealth – sub categories

Since 1997, there is no proper and recurrently determined **Wealth Tax** (*Vermögensteuer*) in Germany.This is because the Federal Constitutional Court directed the government in 1995 to reform the tax base, which has not been done and which is why the tax was suspended after the limit set by the court expired. However, there are still two important taxes which tax net wealth and belong into this category:

1. Real Property Tax and **Real Property Transfer Tax** (*Grundsteuer, Grunderwerbssteuer*) is paid for the possession of land property and on income resulting from selling land property.

2. Inheritance Tax (*Erbschaftsteuer*) and **Gift Tax** (*Schenkungsteuer*) is paid on the monetary value of any inheritance and endowment.

Since the question of wealth taxation will be dealt with and discussed in depth later (cf. GW), it is referred to that later treatment.

3.3 Taxation of turnover, consumption, goods and services – sub categories

The third and last main category of taxation covers indirect taxes. Duties and levies fall into this category

1. The most important sub-category here are "**Taxes on Consumption**" and **Turnover Taxes** which is collected in Germany as **Value Added Tax**.
2. The second sub-category contains **taxes on energy and electricity**, followed by
3. "**other indirect taxes**", e.g. taxes on tobacco, insurance, cars etc. and – finally –
4. **Customs and Excise Duties** arising from import and export outside the European Union.

The most widespread and common consumer tax for the ordinary citizen is the Value Added Tax which was increased from 16% to 19% in 2007. However, there is a lower VAT taxation of 7% on various items, most importantly food. There is a third rate, namely 0%, upon certain goods, among which are products of the financial industry.

For the German country study, the question of Customs and Excise is of indirect importance because this revenue is not going directly to the German government. Rather, it is one of the direct sources of finance for the European Unions budget – as is the revenue of Customs and Excise of the other 26 EU member states.[3] This is different in Kenya and Zambia, where revenue from Customs and Excise make up a considerable part of the nations' national budgets.

3.4 Research focus

Due to the complexity of the German taxation system, there are numerous variations in tax rates, tax bands, allowances, exemptions etc., depending on whether an individual is taxed

[3] http://ec.europa.eu/budget/explained/budg_system/financing/fin_en.cfm#own_res

or a married couple or a family with children. This research proceeds from the assumption that we are dealing with single tax entities and tax payers.

A more technical discussion of some laws and their implication for this research on tax justice and poverty will take place in the chapters dealing with the taxation of the wealthy and the informal sector.

4 International comparison

German has lost complete sovereignty in taxation policy principally on two fronts. Increasingly, tax policy decisions are being made by the European Union. Secondly, tax policy is being formulated premised on the over 3000 international multilateral and bilateral tax treaties[4]. We could add to this, international judicial bodies which have an increasing say in German taxation matters, most specifically the European Court of Justice.

However, if there were more pragmatic fiscal cooperation among European states and beyond, it should be possible to work towards a harmonized and transparent system which would make tax administration and law enforcement easier. Sadly, indications are that the relationship between member states in the EU is characterized by tax competition rather than cooperation. Accordingly, a frequent argument advanced against raising tax rates and revising tax bands is that this would on the whole disadvantage the country against other member states.

Is that so? How do we rate Germany’s performance in comparison with other juridical taxation systems? At the outset of this overview, let us consider first some comparisons with some more general indicators normally used to illustrate the tax burden which of course indicates whether a state taxes its citizens over proportionally or optimally.

4.1 Tax and contribution ratio

Two important statistics for international comparison is the tax quota, i.e. how much tax is raised in comparison to the Gross National Income (GNI). Since the question of social security contribution needs to be considered as well, mandatory costs for social security need to be added to the tax quota:

Table 1 Taxes and Social Security Contributions in percent of the GNI, selected OECD countries[5]

State	1985	1995	2000	2010	2012	2013
Denmark	46.1	48.8	49.4	47.4	47.2	48.6
France	42.8	42.9	44.4	42.9	44.0	45.0
Germany	36.1	37.2	37.5	36.2	36.5	36.7
Ireland	34.2	32.1	30.9	27.4	27.2	28.3
Italy	33.6	39.9	42.0	43.0	42.7	42.6
Spain	27.6	32.1	34.3	32.5	32.1	32.6
United Kingdom	37.0	33.6	36.4	34.9	33.0	32.9

[4] Figure from (OECD, 2013a, p. 8)

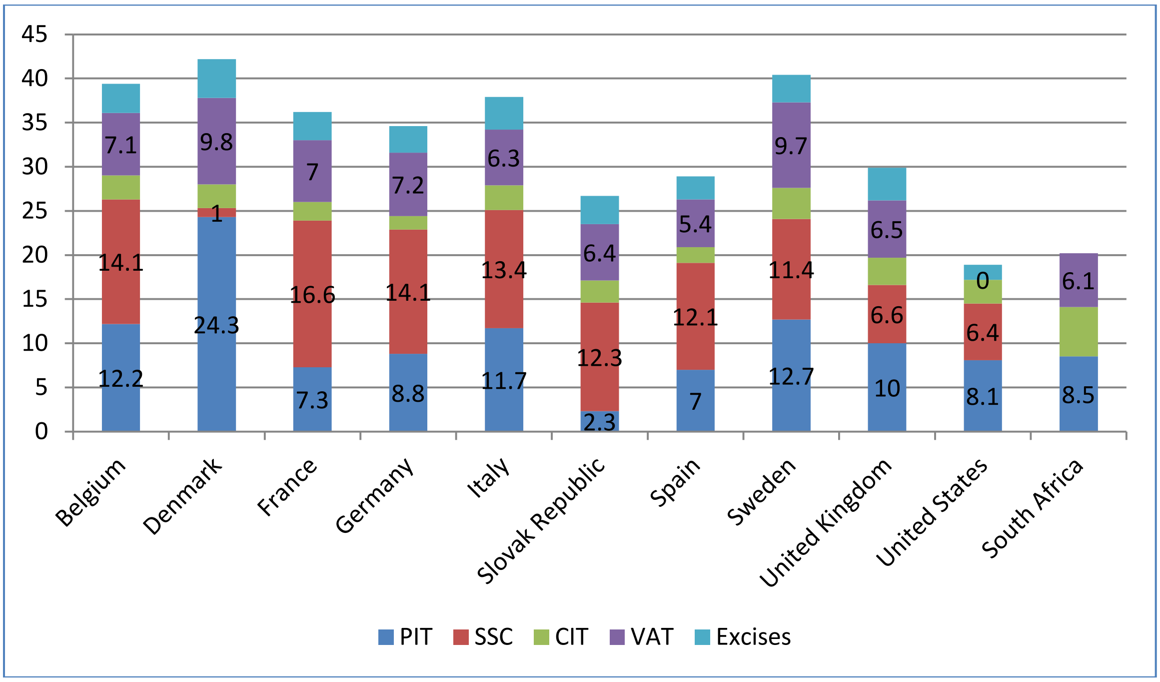
[5] Based upon OECD-Revenue Statistics 1965 bis 2013, Paris 2014. Retrieved from https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/2015-06-11-wichtigsten-steuern-im-internationalen-vergleich-2014.pdf?__blob=publicationFile&v=5 The 1985 figure for Germany comprises the Federal Republic before unification, the 2013 findings are preliminary.

The table above shows that Germany is, in international comparison, taxing her citizens and businesses optimally.[6] It is a rather average tax and contribution quota marginally different from the often quoted "business friendly" United Kingdom. Of course, the general tax quota system doesn't indicate anything about the composition of the taxes. It also doesn't describe the tax rates, tax refunds, the share and size of informal economy, the extent of tax avoidance and tax evasion.

4.2 Comparison of individual categories of taxation

The 2013 OECD Report on Tax Administration examined the share of major tax categories in different some OECD member states and non-member states. The table below highlights the extent of tax type ratio to GDP in these countries:

Graphic 1 Aggregate tax collections by major tax type in 2010 (tax/GDP %)



Source 1 (OECD, 2013e, p. 197)

Some findings are striking: Scandinavian states have a much higher effective tax rates than more southernly European states. The share of VAT on revenue is pretty comparable, but there are wide variations regarding PIT and CIT as well as Social Security Contributions. In the United States of America, there is no national/federal VAT sales-tax which would be comparable with the VAT revenue in other states in the OECD statistics. Various sales taxes are levied, on the Federal and the individual states making up the USA.

One deductible feature emerging here is that some states require additional staff to undertake physical assessments collecting and other administrative features than others. Notably in this category include PIT and CIT. It is here were a tax administration has to employ comparatively a higher number of human resources which of course incurs costs in training, salary and pensions. In contrast the collection of VAT is comparatively cheap for any tax administration and therefore prima facie an attractive source for revenue on the one

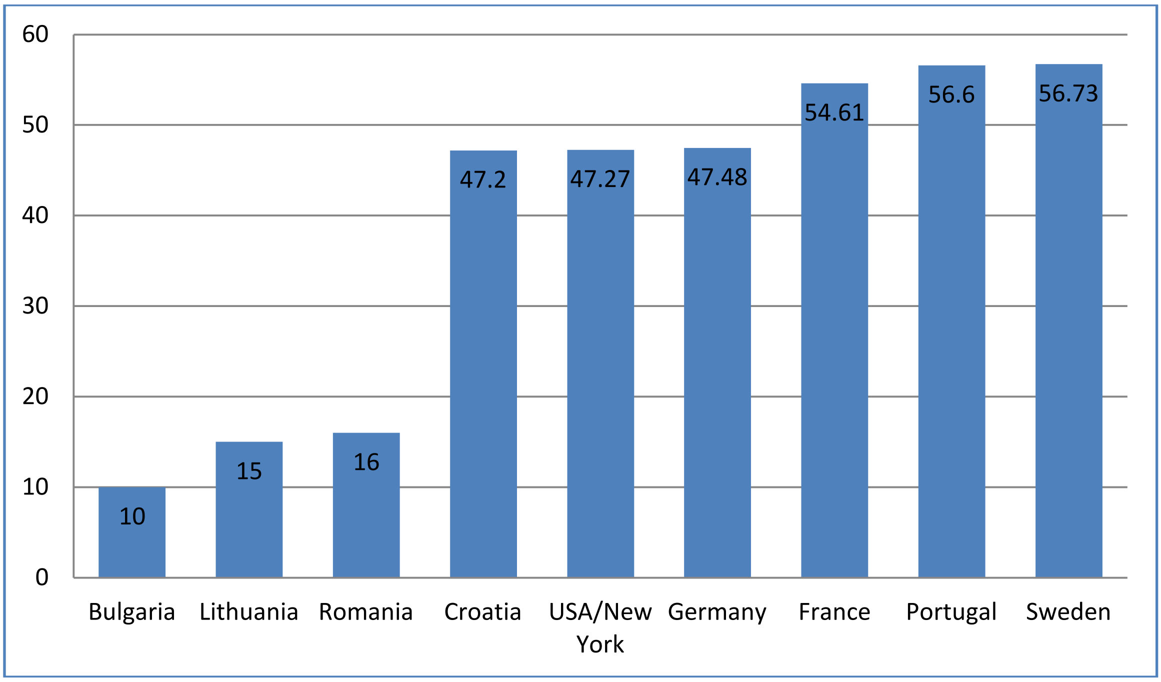
[6] This table, however, only indicates efficiency of the tax collecting system. There might be, for example, a high amount of people evading the payment of taxes which are not known to the authorities and therefore not investigated and prosecuted. Assuming, those people, if they exist, pay their taxes faithfully, the ratio could be different.

hand, and saving (because people in the personnel intensive areas can be made redundant), cf. GER/VIII/2.1.6).

4.3 Personal Income Tax (PIT)

As to personal Income Tax, two comparisons are illustrative in this category: First, the comparison of the highest rate of Income Tax in international comparison. This more general category is important because it covers both dependently employed and self-employed. It is only the taxation of income, to which in the case of the dependently employed fixed rates for social security rates need to be added, while wealthy self-employed have a choice to opt out of the public social security system and go for private insurance.

Graphic 2 Top Income Tax Rates in selected OECD countries

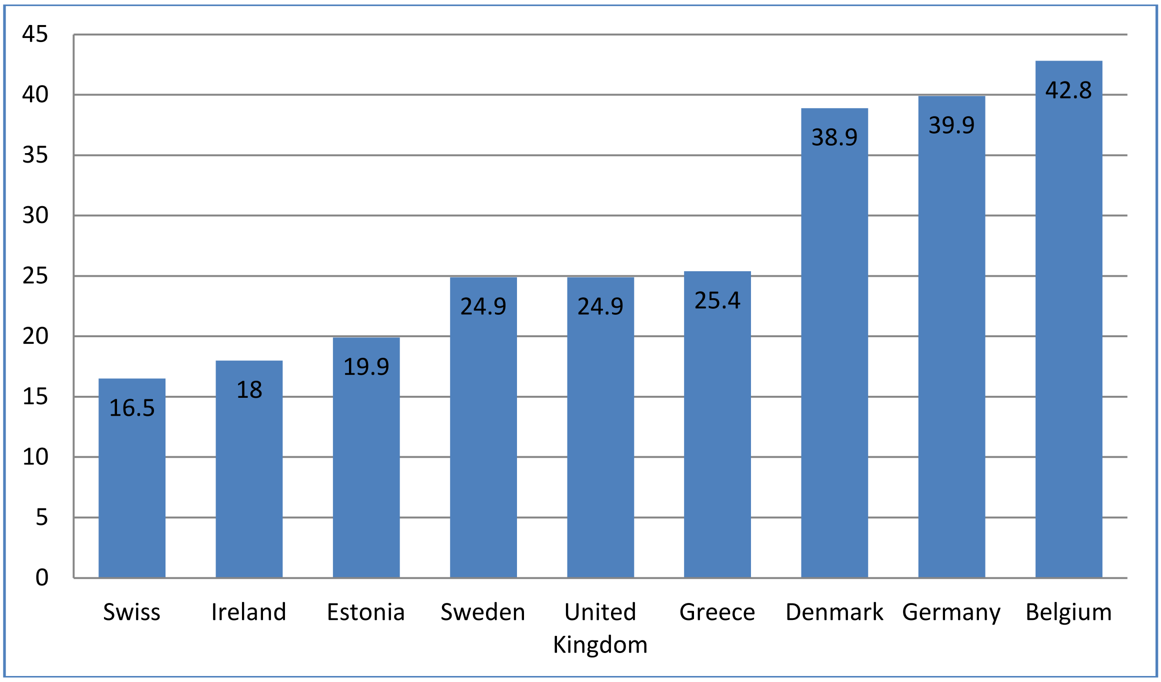


Source 2 (Bundesministerium für Finanzen, 2014a, p. 34)

Given the fact, that this graphic selects of OECDs 34 member states those three states at the bottom, in the middle and the top end of OECD statistics, it demonstrates that Germany's top Income Tax rate is in the middle of the OECD average. However, in this consideration, the costs for social security are not included since at this level of income people normally tend to have privately financed health insurance.

This is different on the level of dependent employment, where mandatory Social Security Contributions are part of the package and outside the bargaining mechanisms of employer and trade unions. Therefore, if comparing the burden upon dependently employed, tax and Social Security Contributions need to be viewed together. The following and second comparison regards Wage Tax, i.e. the tax which is automatically deducted from wages by the employer and subsequently remitted to the tax authorities prior any tax declaration.

Graphic 3: Tax and social security burden upon dependently employed (Single, no child, average wage)



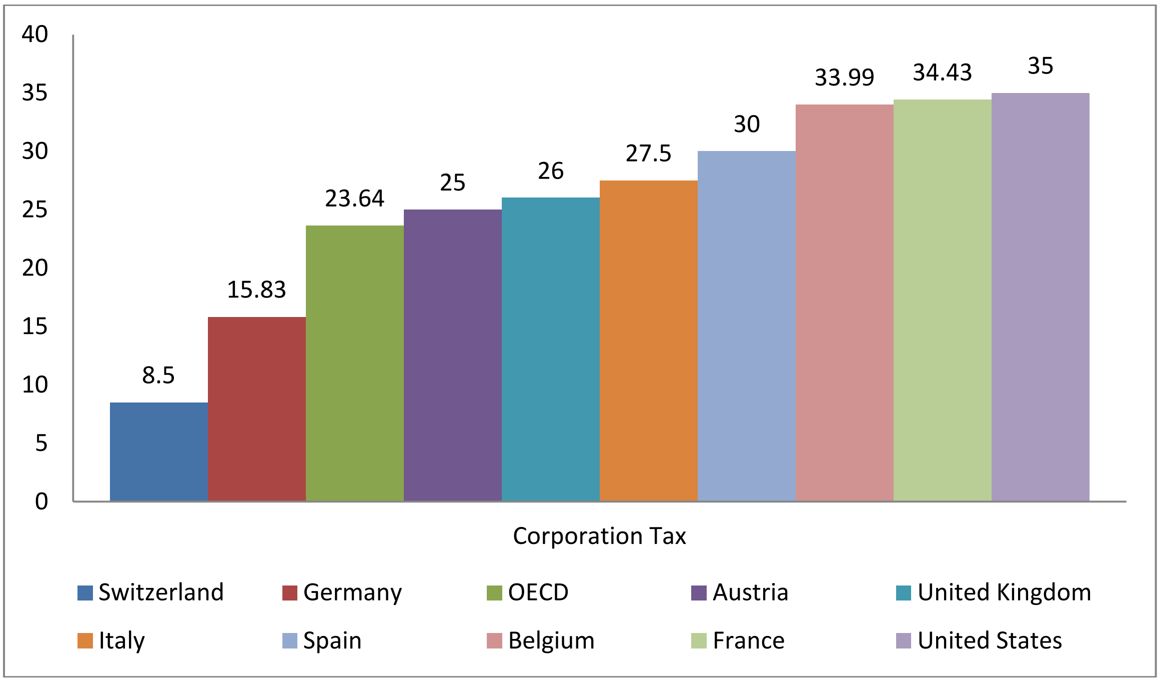
Source 3 (Bundesministerium für Finanzen, 2014a, p. 43)

This graphics shows that in Germany the dependently employed are bearing a comparatively heavy burden, in fact the second heaviest burden among OECD member states. This indicates already that there might be a disproportionate burdening between the self-employed and dependently employed in Germany.

4.4 Corporation Income Tax (CIT)

The next tax applies on business entities, through statutory corporation Income Tax rate or Corporation Tax (CIT). Here, an OECD comparison is as follows:

Graphic 4 Statutory corporate Income Tax rate (2011)



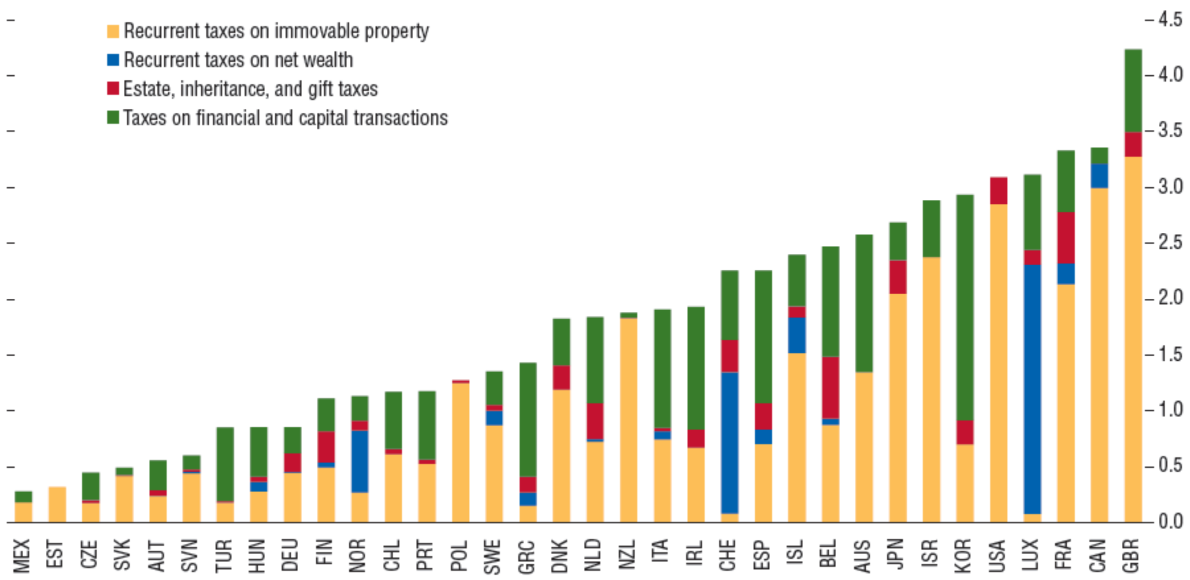
Source 4 (OECD, 2012, p. 88)

This comparison is, however, to be used with caution. In Germany corporations not only have to pay Corporation Tax, but additionally local business (Trade) Tax, whose rate differs from municipality to municipality. In order to get the total burden, both would need to be considered.

4.5 Wealth taxes (0verview)

In international comparison Germany does not raise a lot of taxes from top wealth holders:

Figure 21. Average Property Taxes in OECD Economies, 2000–11
(Percent of GDP)



Source: Organisation for Economic Co-operation and Development (OECD) Revenue Statistics.

Source 5 (International Monetary Fund, 2013a, p. 40)

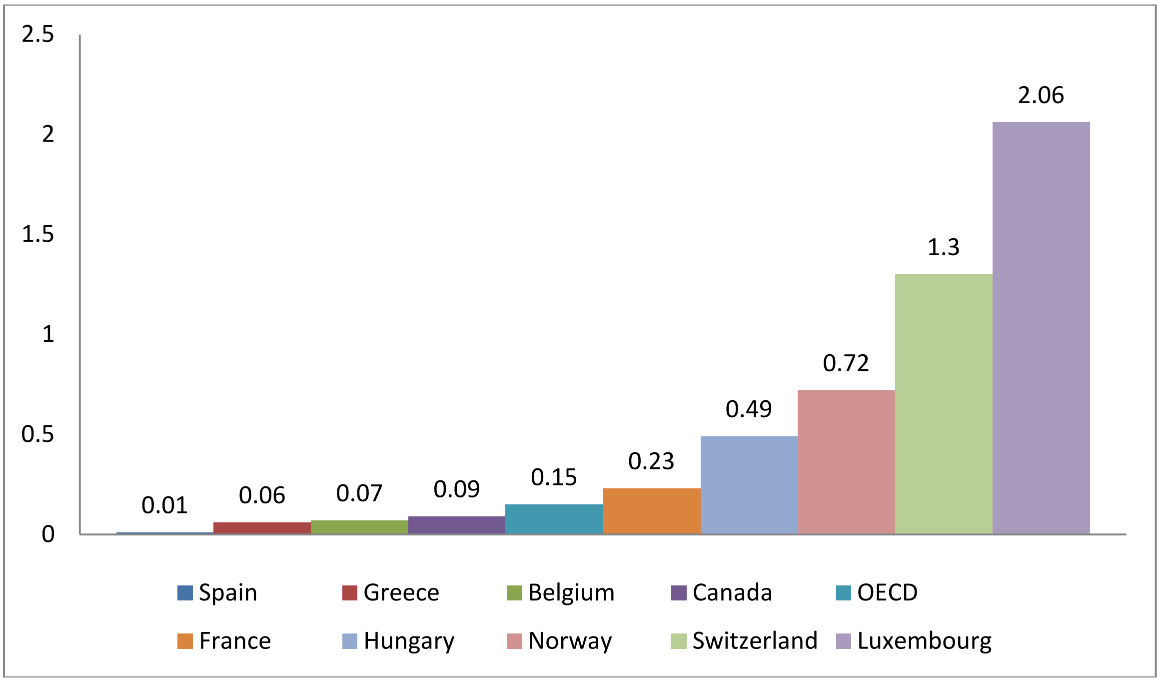
4.6 Comparing individual categories of wealth taxation

Having looked at the general picture, now a more detailed look follows regarding key taxes which would be aimed most particular towards those who are considered to be. Sadly, the Norway database (OECD, 2012) is mostly of 2010 which is not the most update. But it can safely be assumed that the taxes for the rich have not been increased dramatically ever since – except perhaps in some southern European States, e.g. Greece, where it is known that which has been imposed, is not or cannot adequately be enforced and collected.

4.6.1 Wealth Tax

In OECD statistics, Wealth Taxes are listed as sub-categories in the umbrella category of Property Taxes and it can be seen that not all states have such a tax in the first place.

Graphic 5 Recurrent taxes on net wealth (2010) as a percentage of GDP



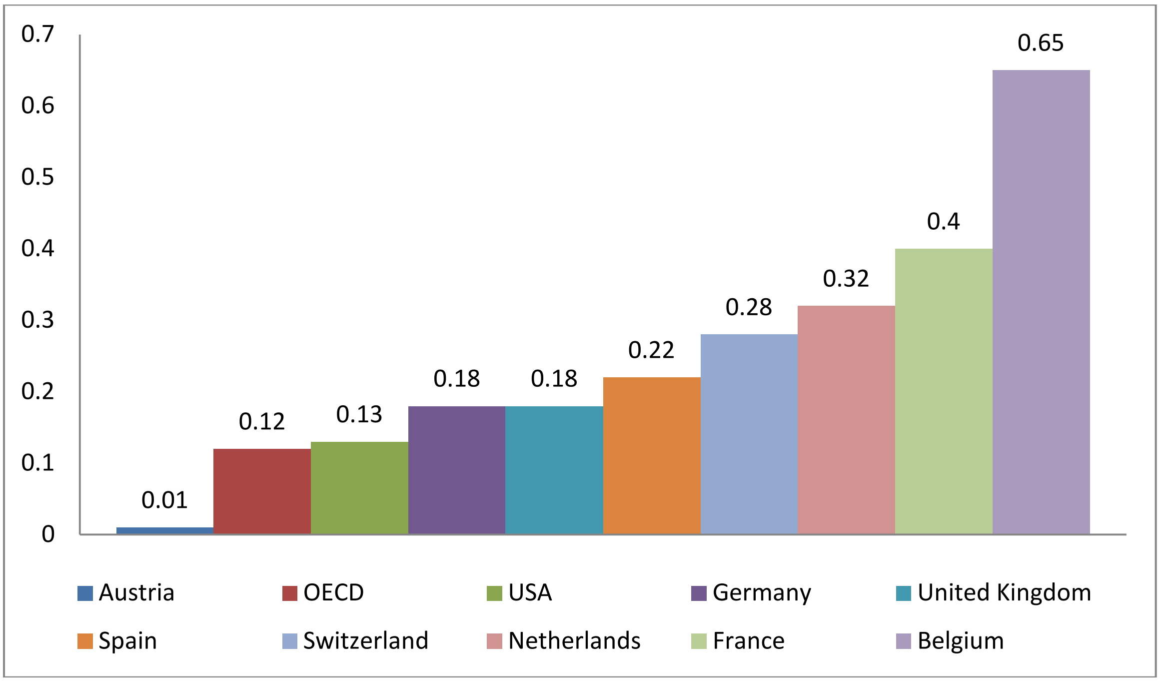
Source 6 (OECD, 2012, p. 82)

Two more things are striking: First, gains on Wealth Taxes are pretty modest. Second, as can be expected, those states with a large number of very rich people have the strongest income from this tax, namely Switzerland and Luxembourg.

4.6.2 Inheritance Tax

Similar is the situation regarding Inheritance Taxes: They are increasingly being abolished and abandoned – e.g. in parts of Switzerland and Austria. In other states they have high tax rates, but a large number of exemptions and exceptions. Which is why, in spite of the nominally high rates, the revenue factually generated by this case is pretty moderate:

Graphic 6 Revenue from Gift and Inheritance Tax (2010) as a percentage of GDP

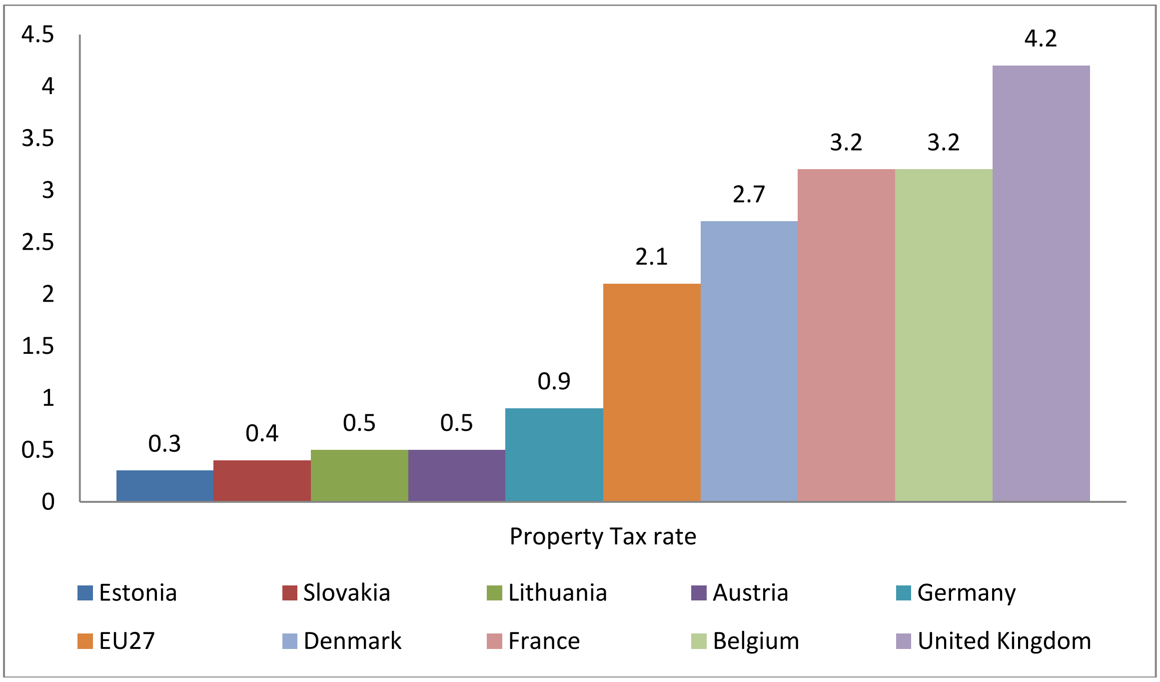


Source 7 (OECD, 2012, p. 84)

4.6.3 Real Property Tax

Finally, a comparison of tax rates upon real estate and real property: Here, too, Germany is not at all excessive, but right in the center:

Graphic 7 Taxes on property as % of GDP

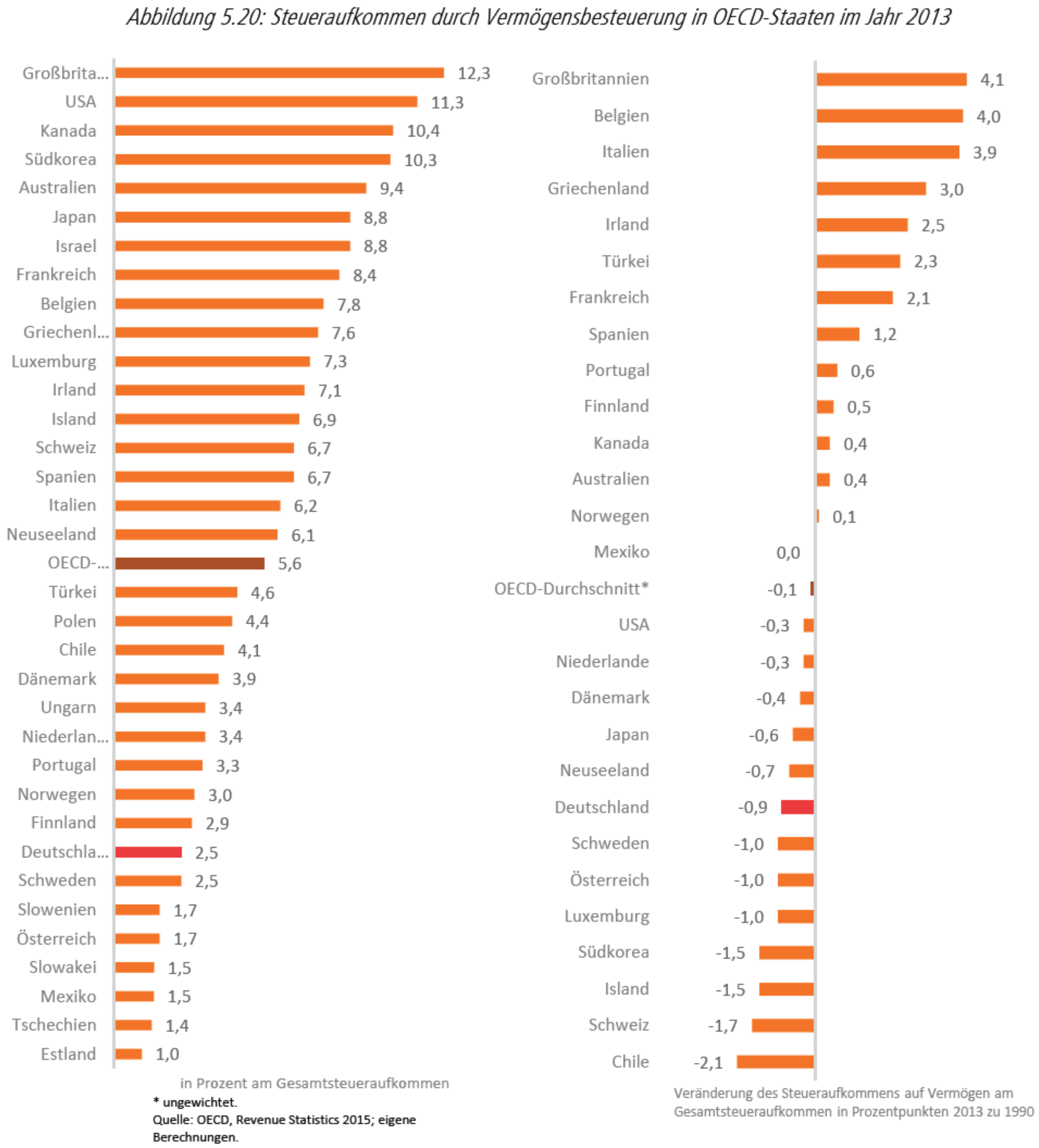


Source 8 (Eurostat, 2013, p. 247)

4.7 Conclusion

According to calculations based on the OECD revenue statistic, revenue from Wealth Taxes varies widely within the OECD. In 2013, the revenue statistics from Wealth Taxes were as follows;

Graphic 8 Revenue arising from Wealth Taxes in international comparison (2013)



Source 9 quoted in (Deutscher Gewerkschaftsbund, 2016a, p. 65)

At the same time, international comparisons are limited since every country has a complex and varying history which includes a complex and varying development of taxation. This impacts on the composition and share which different tax categories have in the overall composition of taxation. In some states, for example, Income Tax may be highly progressive and Wealth Tax non-existent which would nevertheless collect a fair share from the wealthy. In other countries social security is not funded by (regressive) social security contributions but taxation, which nevertheless safeguards an effective system of redistribution. Hence it makes sense to focus on Germany and see whether the existing system is adequate to tax those who have much and to safeguard social justice via redistributive mechanisms. It is, however, encouraging to read that even super-wealthy Germans emphasize that the taxation of the upper 1% in Germany is only a fraction of what it is e.g. in France, Japan, USA and UK. According to the owner of a shipping company, Krämer, the combined tax burden from wealth, inheritance and Real Property Tax is four to five times as high as in Germany. If

Germany had a Wealth Tax as France of 2.4%, it would make an additional EUR 43.5 billion revenue (Krämer, 2015).

5 Discussion

Aspects to be considered here are progressivity of tax rate on the one hand, but also the awarding of tax cuts and tax breaks for some rather than others. For example, there are, admittedly, tax allowances (tax credits, Grundfreibetrag) for some at the lower end of the income scale. At the same time, those at the top of the income scale also receive tax breaks (e.g. on private retirement savings) and it can be asked who is profiting proportionally more. Another important question addresses the negative impact which direct or indirect taxes have for some more than others.

Another issue, which shall not be discussed here, is the question of means-tested (bedarfsorientiert) and universal benefits: Means tested transfers are specifically targeting low-income households, while universal benefits are for all (e.g. child benefits), independently whether they earn a lot or not.

5.1 How progressive is the tax burden?

Regarding addressing the problem of income inequality it is often argued that progressive taxation is the best remedy. In this consideration Income Tax merits most care in treatment because it is correct: ‘If we talk about tax justice, we normally discuss merely the Income Tax,’[7] leaving out the question of Wealth Tax. And it is here where statements originate such as “The Wealthy pay already most taxes,” “The Wealthy pay the highest tax” or “10 percent pay 50 percent”[8]

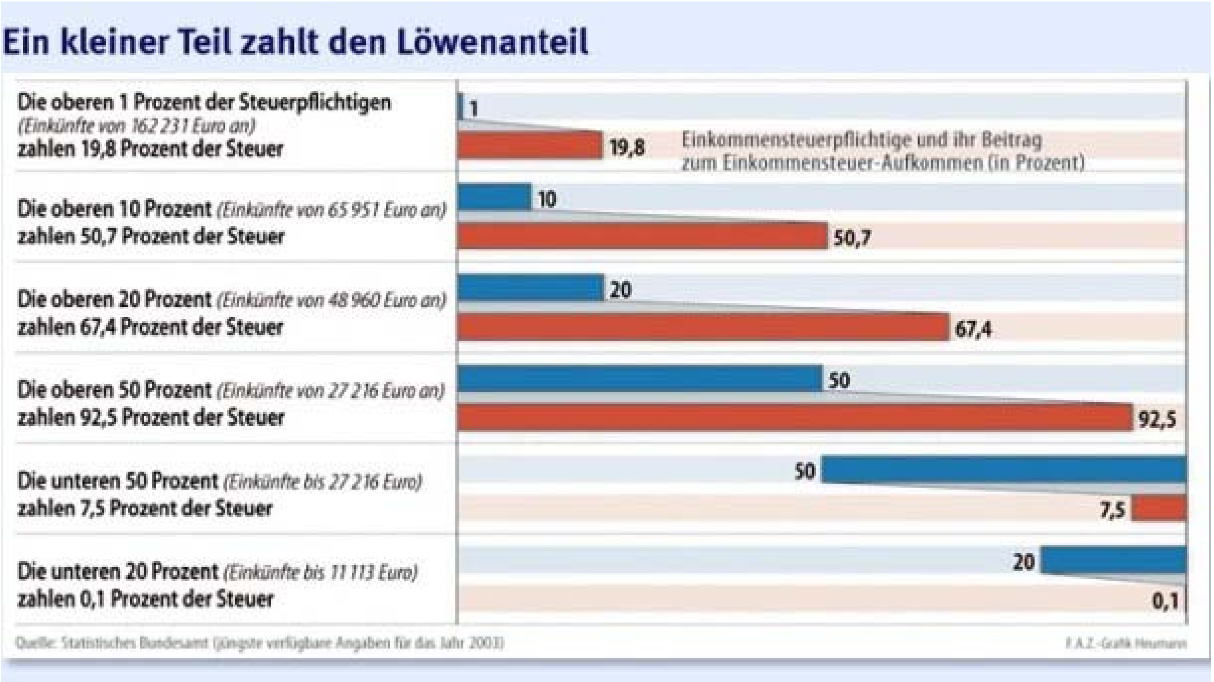
5.1.1 At first sight

The following Frankfurter Allgemeine Zeitung graph highlights the argument;

[7] Michael Thöne, Professor and expert for finance of the University of Cologne. In: Bigalke.

[8] Reiche zahlen schon jetzt die meisten Steuern (2012, August 6). In: BILD. Retrieved from http://www.bild.de/geld/wirtschaft/steuern/7-wahrheiten-ueber-die-reichensteuer-25504576.bild.html Reiche zahlen die höchsten Steuern (2008, February 25). In: Handelsblatt. Retrieved from http://www.handelsblatt.com/politik/deutschland/diw-studie-reiche-zahlen-die-hoechsten-steuern/2926312.html Schäfers, M. 10 Prozent zahlen 50 Prozent. (2007, October 20) In: Frankfurter Allgemeine Zeitung. Retrieved from http://www.faz.net/aktuell/wirtschaft/recht-steuern/einkommensteuer-10-prozent-zahlen-50-prozent-1490750.html

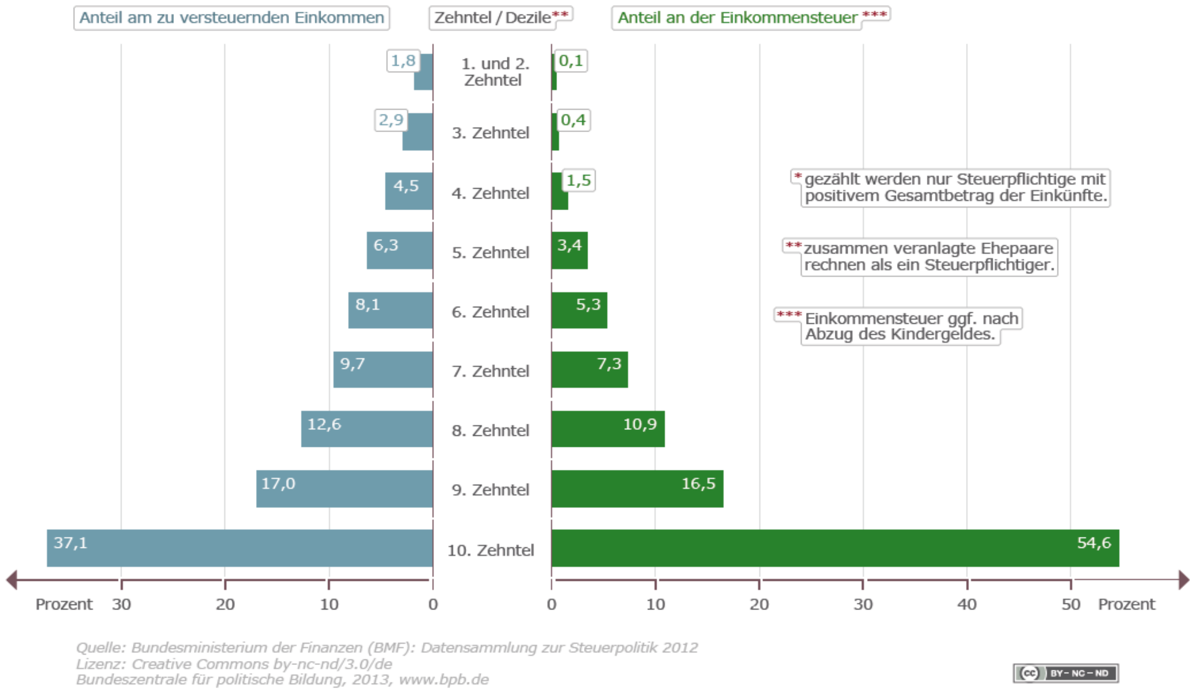
Graphic 9 Distribution of Income Tax Burden



What is not stated in the graph above is that the figures of the Frankfurter Allgemeine refer to the tax set by the tax administration (festgesetzte Steuer), which is altogether different from that which is subsequently paid (cf. below 5.1.2.4).

What about more recent statistics Looking at the distribution of income and Income Tax in 2011, one can still see a fair distribution between the share of income and the share of Income Tax. In deciles 1-9, the share of income is larger than the share in Income Tax – only the top deciles share of tax is higher than its share of income.

Graphic 10 Share of income, share of Income Tax in 2011[9]



More detailed in view of the Top 1% and top 0.1% in relation to the bottom 20% regarding the number of Income Millionaires, the sum of income (SoI) and the respective share in the payment of set income duty:[10]

Table 2 Top and bottom earners Sum of Income and Share in set Income Tax

	Income millionaires	Top 1% minimum SoI	Top 0.1% minimum SoI	Bottom 20% maximum SoI	Share in set Income Tax Top 1%	Share in set Income Tax bottom 20%
2008	18600	218906	803678	13852	23,3	0,2
2009	12400	202750	637080	14179	20,3	0,4
2010	14600	210745	698013	14032	22,3	0,4
2011	16300	221229	742952	14617	22,3	0,5

However, over and above the progressive taxation of income, more needs to be considered when it comes to tax assessment of the overall burden of the top and bottom households.

5.1.2 A closer look

5.1.2.1 Middle Class

First of all one should not forget that the main taxpayers are still the middle class:

Table 3 Categories of income and share of revenue 2011

[9] Grafik „Einkommensteueranteile“, (2013, September 27). Bundeszentrale für politische Bildung. Retrieved from http://www.bpb.de/nachschlagen/zahlen-und-fakten/soziale-situation-in-deutschland/61772/einkommensteueranteile

[10] Deutsches Statistisches Bundesamt, Jährliche Einkommensteuerstatistik

Gesamtbetrag der Einkünfte von ... bis unter ... €	Gesamtbetrag der Einkünfte				Festgesetzte Einkommensteuer			
	Stpfl.	%	1.000 €	%	Stpfl.	%	1.000 €	%
0 - 2 500	822 371	3,1	686 747	0,1	25 816	0,1	60 442	0,0
2 500 - 5 000	559 092	2,1	2 102 260	0,2	47 155	0,2	35 386	0,0
5 000 - 7 500	680 021	2,5	4 271 345	0,4	71 888	0,3	44 219	0,0
7 500 - 10 000	915 977	3,4	8 073 390	0,7	160 808	0,7	78 224	0,0
10 000 - 12 500	1 248 429	4,7	14 064 416	1,2	665 089	3,0	204 437	0,1
12 500 - 15 000	1 249 055	4,7	17 154 287	1,5	863 724	3,9	495 216	0,2
15 000 - 20 000	2 433 839	9,1	42 560 296	3,7	1 789 171	8,2	2 220 239	1,1
20 000 - 25 000	2 459 892	9,2	55 322 441	4,8	2 134 063	9,7	4 013 449	2,0
25 000 - 30 000	2 416 793	9,1	66 427 982	5,7	2 333 083	10,7	6 093 005	3,0
30 000 - 37 500	3 184 385	11,9	106 990 487	9,3	3 148 870	14,4	11 898 944	5,9
37 500 - 50 000	3 753 668	14,1	162 429 074	14,0	3 737 014	17,1	21 890 561	10,9
50 000 - 75 000	3 827 406	14,3	231 864 808	20,0	3 817 989	17,4	38 271 807	19,0
75 000 - 100 000	1 534 366	5,8	131 472 491	11,4	1 530 964	7,0	26 260 162	13,0
100 000 - 125 000	658 784	2,5	73 032 475	6,3	657 000	3,0	16 703 813	8,3
125 000 - 175 000	487 958	1,8	70 817 152	6,1	486 203	2,2	18 583 670	9,2
175 000 - 250 000	231 386	0,9	47 537 555	4,1	230 264	1,1	14 160 737	7,0
250 000 - 375 000	115 261	0,4	34 492 398	3,0	114 427	0,5	11 147 521	5,5
375 000 - 500 000	39 057	0,1	16 746 027	1,4	38 737	0,2	5 685 880	2,8
500 000 - 1 000 000	38 183	0,1	25 514 184	2,2	37 740	0,2	8 977 056	4,5
1 000 000 - 2 500 000	12 374	0,0	18 107 908	1,6	12 213	0,1	6 339 775	3,1
2 500 000 - 5 000 000	2 567	0,0	8 750 453	0,8	2 554	0,0	2 924 677	1,5
5 000 000 oder mehr	1 400	0,0	18 042 618	1,6	1 395	0,0	5 459 827	2,7
zusammen	26 672 264	100	1 156 460 795	100	21 906 167	100	201 549 048	100
insgesamt	26 924 837		1 151 715 365		21 906 167		201 549 048	

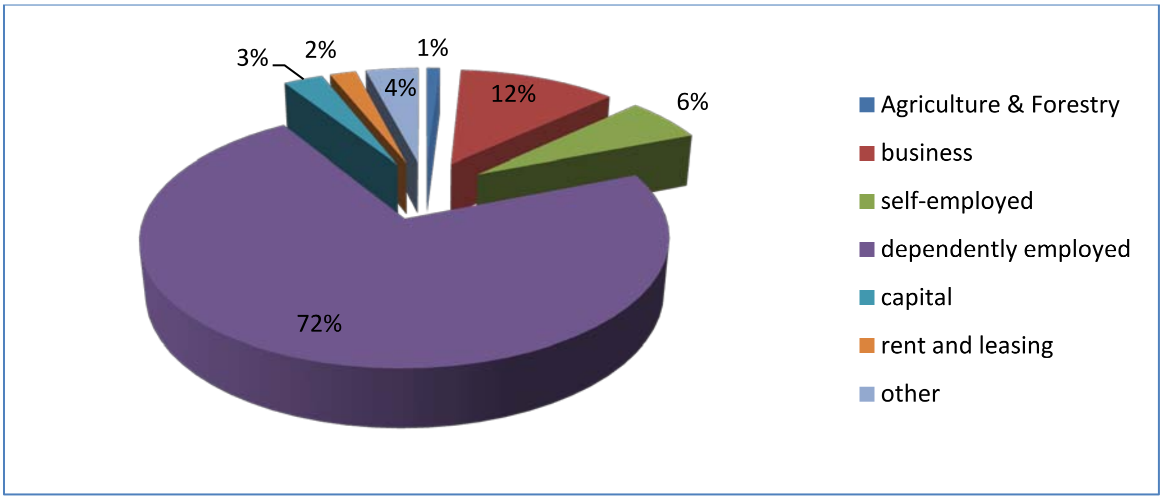
Source 10 (Federal Statistical Office, 2015a, p. 8)

As can be seen: 80.4% of German income-taxpayers are grouped within the earning categories between EUR 15,000 and EUR 125,000 Euro annually, accounting for more than 62% of Income Tax revenue.

5.1.2.2 Shifts among income categories

But does this hold at a closer examination? This requires a look at more detailed data. A detailed examination of some recent data on the composition of income in Germany reveals shifts in revenue arising from different categories of income. According to the Federal Statistical Office 2008 & 2010, the share of revenue generated from the seven categories of income shows overwhelmingly the predominance of income from those dependently employed:

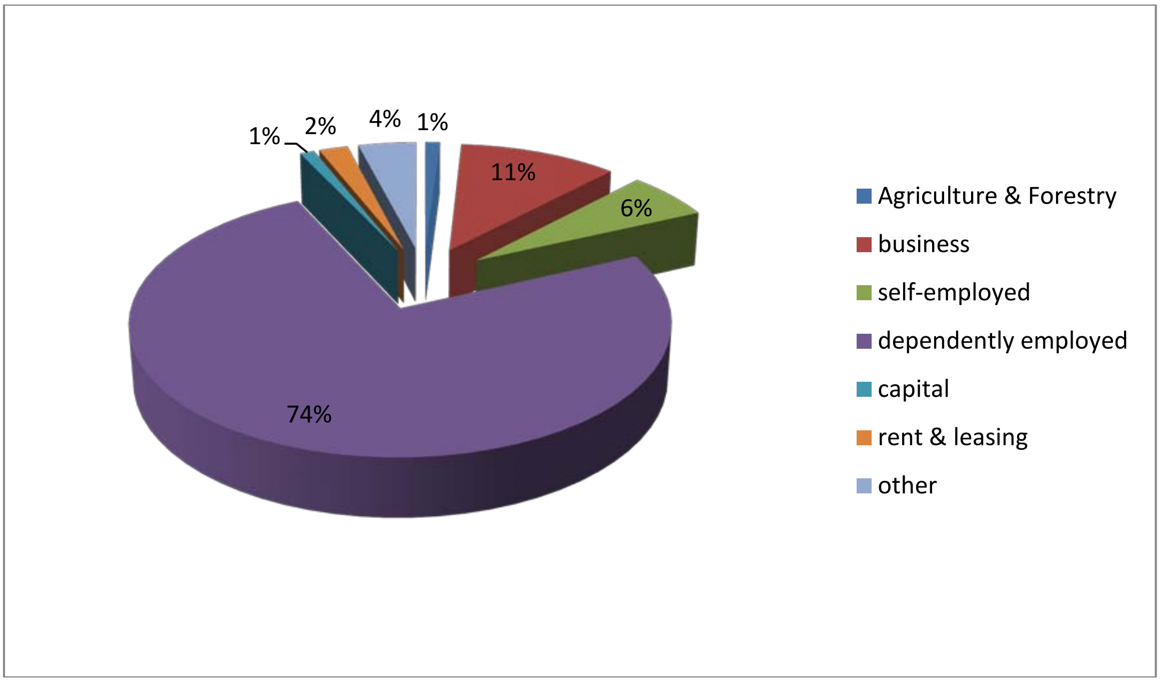
Graphic 11 Share of income categories at total income 2008



Source 11 (Federal Statistical Office, 2012)

The same statistics for 2011 looks as follows:

Graphic 12Share of income categories at total positive income 2011



Source 12 (Federal Statistical Office, 2015a, p. 11)

In absolute figures it reads for 2011:

Table 4 Positive income in absolute terms arising from various categories 2011

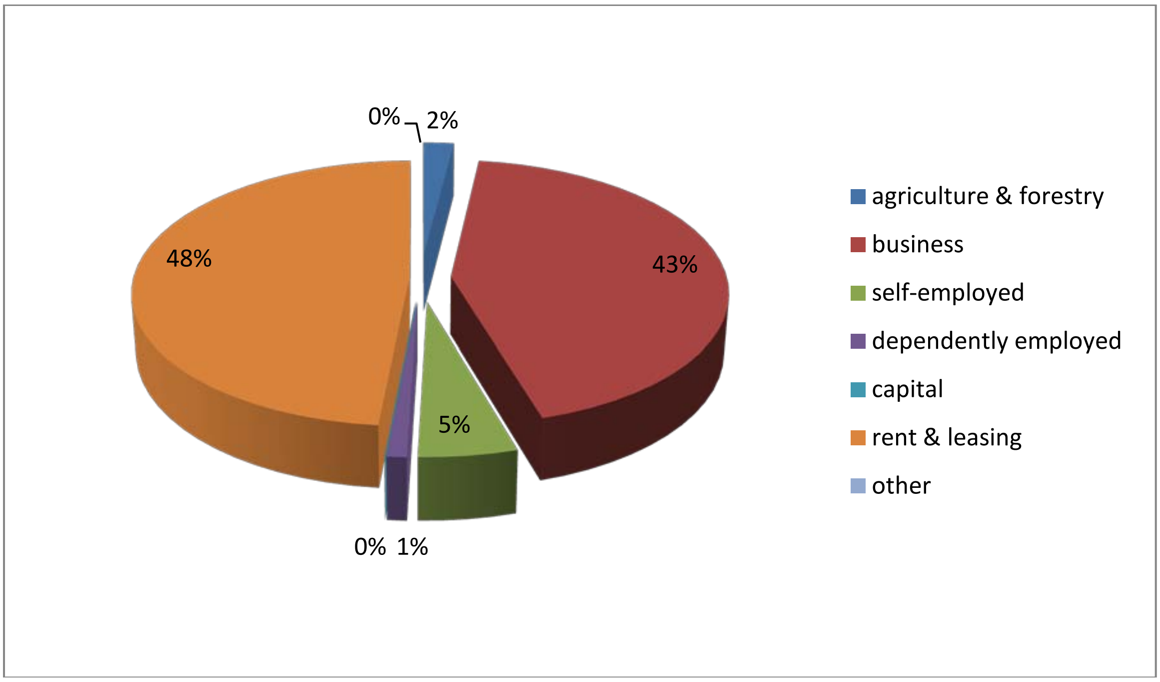
Income arising from	Nr. Of tax subjects	Positive Income in EUR 1000
Agriculture & forestry	512,717	10,143,960
Business	3,847,211	132,571,771
Self-employed	1,841,246	74,602,608
Dependent labour	22,204,246	873,416,861
Capital	2,273,382	9,770,528
Rent	3,317,974	28,473,828
Other	5,824,640	49,033,170
Accumulated	26,426,704	1,161,761,101

Source 13 (Federal Statistical Office, 2015a, p. 10)

And here it is interesting to note that, compared with 2008, the share of income from dependently employed labour has been rising, while the share of income from capital is decreasing, as well is income from rent and lease. Income tax on capital income raised in 2008 4% and dropped to 2% in 2011. The Federal Statistical Office states, when looking back in its Annual Statistics on Income Tax: 'Proven (accounted) income from capital is falling since the year 2010, which is due to the introduction of the flat rate withholding tax on capital in 2009.' (Federal Statistical Office, 2015a, p. 6).[11]

Those figures about positive income are countered by "negative income". Those are declared losses within certain income categories which can be netted within the Income Tax procedures with positive income, that way reducing taxable income and profits. Looking at the 2011 figures, the picture is as follows:

[11] ‚Die nachgewiesenen Einkünfte aus Kapitalvermögen sind schon seit dem Veranlagungsjahr 2010 rückläufig, was mit der Einführung der Abgeltungsteuer für Kapitaleinkünfte 2009 zusammenhängt.' (own translation



In absolute figures;

Table 5 Negative income in absolute terms arising from various categories 2011

Income arising from	Nr. Of tax subjects	Negative Income in EUR 1000
Agriculture & forestry	81,179	-496,939
Business	1,164,987	-9,087,822
Self-employed	271,579	-954,538
Dependent labour	109,545	-245,231
Capital	13,769	-77,594
Rent	1,856,836	-10,027,826
Other	93,619	-68,550
Accumulated	237,904	-4,712,877

Source 14 (Federal Statistical Office, 2015a, p. 10)

There are several striking insights: First, the small number of tax subjects relative to all tax subjects who are able on balance (“Sum of all income”) bring negative income effectively into the equation at all (even though, of course, the “negative income” is of a noticeable difference in size in the first place!).

Second, that the largest categories of negative income are those where private and corporate wealth-holder receive their largest income (besides capital, which is outside the Income Tax calculation due to the Abgeltungsteuer).

Netting both positive and negative income in the process of setting the Income Tax results in the following overall balance:

Table 6 Income in absolute terms arising from various categories 2011

Income arising from	Nr. Of tax subjects	Income in EUR 1000
Agriculture & forestry	593,896	9,647,021
Business	5,012,198	123,483,948
Self-employed	2,112,825	73,648,070
Dependent labour	22,313,913	873,171,630

Capital	2,287,151	9,692,934
Rent	5,174,810	18,446,002
Other	5,918,259	48,964,620
Accumulated	26,664,608	1,157,054,225

Source 15 (Federal Statistical Office, 2015a, p. 10)

Accordingly, Income from dependent labour is that which is borne mostly by the ordinary employee, while income from capital, business assets and rent and lease are those categories most heavily concentrated among the top wealth-holder.

5.1.2.3 Privileging income from capital

In the early years of the new millennium the question arose whether the uniform synthetic and progressive taxation of income might not disadvantage Germany in the world of international “tax competition”. More favourable conditions elsewhere might tempt tax planning or tax avoidance (thus reducing revenue) or corporations might simply dislocate businesses to greener pastures. The solution was seen in a tax model which would both remove some burden from capital income and restructure the collection of capital taxes in a way which would make tax avoidance more difficult. The discussion circled around two options: A Flat Tax model and a Dual Income Taxation, distinguishing between income from labour and income from capital. The discussion is summarized in an expertise of the Scientific Advisory Council to the Federal Ministry of Finance (Bundesministerium der Finanzen, 2005):

A flat tax would continue a “synthetic” income taxation by taxing all sorts of income beyond a threshold of EUR 10,000 with a tax rate of 30%. The Dual Income Taxation would have continued taxation of income from labour beyond a threshold of EUR 7,664 with a progressive tax rate of up to 35%, while taxing income from capital with a unitary-proportionate tax of 30%, the latter being collected at the source in form of a Withholding Tax. Besides the two reasons stated above, other arguments were brought into the debate. For example, removing taxation differences between unincorporated and corporate businesses, between equity and external financing, between capital gains and income from dividends etc.. The experts emphasized that, whatever decision in favor of selection of a particular model is taken, the ‘burden upon capital should be as low as possible’ (p.82). At the same time they admitted that this unequal treatment of income, given the widening wealth gap of those days, poses problems for any social policy of distribution. On that background, the abandonment of a progressive taxation of all forms of income (and preferential treatment of capital) would raise doubts about fairness (p.83).The experts further anticipated a number of challenges in implementing a Dual Income Tax System. For example, top earners might be tempted to declare their income not as salary from labour but, as manager being part of a company, as earnings from capital. Similarly, a business owner could treat business profits as “income from labour” or “capital gains” (p.84), the temptation could further be to move low-profit assets from private portfolio into the business portfolio in order to profit from lower tax rates (p.85) and so on. The experts predicted that a Dual Income Taxation would pose new challenges unknown under a unitary and synthetic taxation of all sorts of income: tax subjects and tax administration will have to wrestle to what sector what share of income generated in businesses will have to be attributed for taxation purposes (p.86).

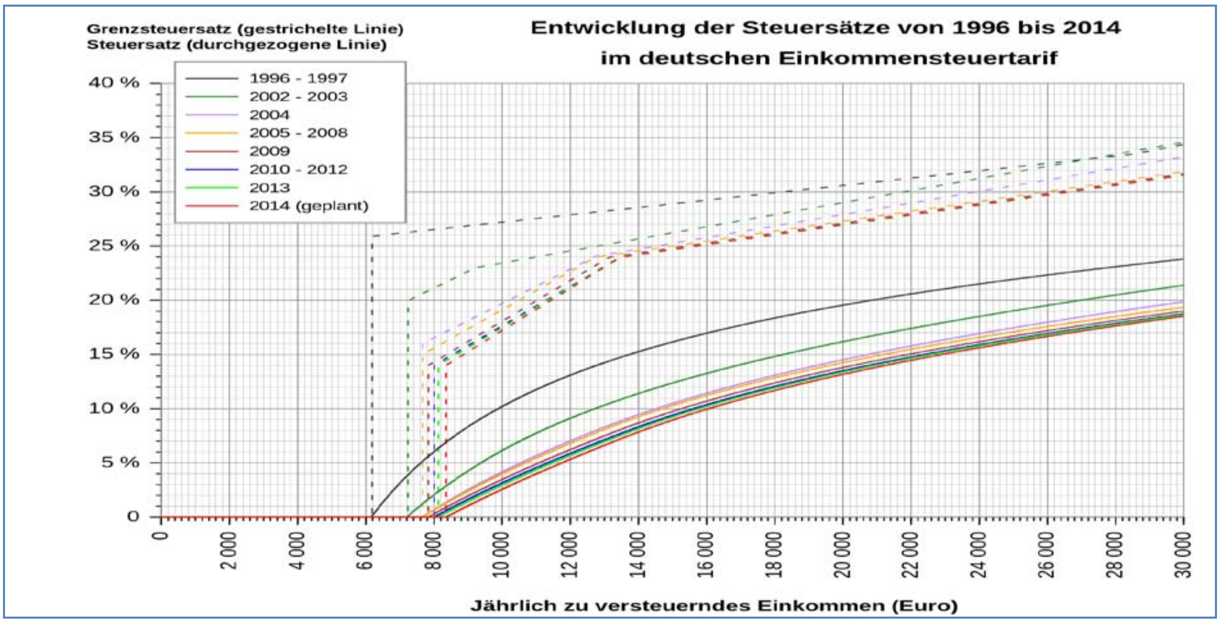
Eventually, however, the arguments regarding the position of Germany in a globalizing world of tax competition prevailed and the old system of progressive taxation of all forms of income was discarded. While the Advisory Council favoured the flat tax option because it would avoid a number of administrative problems linked with the Dual Income Taxation, the decision eventually was taken to implement the latter.

5.1.2.4 Nominal and effective tax burden

When discussing the tax burden, one has to distinguish between the nominal and effective tax burden. To start with, there were improvements to low income groups over the past years. The personal allowance the amount of money which is not taxed at all, rose to EUR 8,472 for single persons in 2015 (which means: taxation only starts with EUR 8,473), the allowance will rise in 2016 to EUR 8,652. The lowest tax bracket for taxation went down from 22% (1975) to 14% (2013) – a drop of ca. 30%. At the same time, however, the top rate for taxation went down from 56% (1975) to 42% resp. 45 % resp. 47.48% (with Solidarity Surcharge added) in 2007 (the latter only on annual income beyond EUR 254,447)[12] - a drop of ca. 20%.

The important point, however, is that a higher tax rate is not applied "backwards" to the entire income, but only to the share of income which is beyond the threshold leading to the higher marginal tax rate and tax bracket. Which is why the "real" tax rate is an *average* made up from all tax rates applying progressively to one's income. In other words, even the "Wealth-Income-Tax" of 45/47.48% applies only to income of EUR 254,447 and above. For income lower than EUR 254,447 the respective lower tax rates apply to all, the wealthy included. For that reason, even the wealthy never pay 47.48% Income Tax for all their income, but only the top-share of their income beyond EUR 254,447, which is why the real tax rate also for the wealthy is always lower than 47.48%. This divergence between nominal and effective tax rate, applies, of course, to all taxable subjects and not only the wealthy.

Graphic 13 Development of nominal and effective Income Tax rate



Source Udo Brechtel, Wikimedia Commons

5.1.2.5 Different progressivity for low and top incomes

A further justice issue emerges on account of the fact that the Flat-Tax/Withholding Tax for income from capital profits over proportionately taxes wealthy people, while many progressivity related problems emerging for low and middle income from work are still unresolved. Regarding low income jobs, for example, a situation immediately after the 2007 World Financial and Economic Crisis Here the government prevented the redundancy of thousands of employees by paying public subsidies (Kurzarbeitergeld) in the attempt to

[12] Regarding the personal allowance cf. http://www.steuer-schutzbrief.de/grundfreibetrag.html Regarding the top rate: here also Church Tax would be added (Bundesministerium für Finanzen, 2014a, p. 30).

compensate losses to the worker due to reduced work hours, and to businesses due to reduced production. Here the situation could occur that recipients of income moved, due to subsidies, into a higher tax band, resulting in even less disposable income than otherwise the case could have been without the subsidy (Müller, 2010, p. 44).

Yet another important issue concerns the fact that tax progression rises faster and steeper in low-wage segments than it does in the higher wage segments, which is why low-wage households are more subject to the so-called "cold progression" (or bracket-creep).Diminishing purchasing power of income due to inflation and changes in prices and/or a rise in nominal wages, because a household moves to a higher taxation class, which leads to higher taxation, which results in less net disposable income for the household .

5.2 Progressive tax, SSCs, regressive VAT

'You want to inquire into injustice?' a journalist asked, 'then you have to look into the burden arising from Social Insurance rather than into taxation.' And there is indeed a large burden to carry. While the entire federal annual budget for 2016 amounts to EUR 316.9 billion ,[13] for pension payments alone in 2012 EUR 229,2 billion are needed – while only EUR 193,7 billion were covered by SSCs. The deficit in SCC budget was financed from taxpayers money and not from SSC recoveries (Bundeszentrale für politische Bildung, 2014).

5.2.1 The German system of social insurance

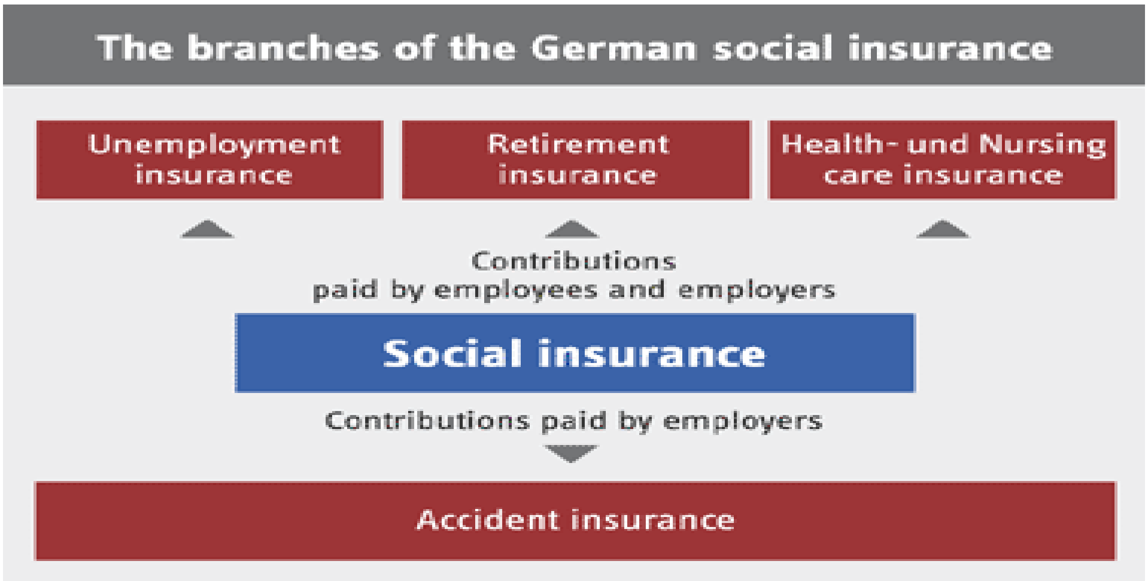
The German system of social contributions goes back in time to the "first empire" and chancellor Bismarck, who established its basic structure. The institutions of social insurance are not directly operated by the state, but self-governing public corporations. Insurances exist against, accidents, health and long-term (nursing) care, pension and unemployment. There is a legal obligation for everybody working to be insured. Depending on the salary amount and/or the kind of job there is a choice between participation in the public solidarity system (*gesetzliche Krankenversicherung*) which is financed via a "pay as you go" System (*Umlageverfahren*), or private options (*Privatversicherung*), financed via private contributions to private insurances.

Of the German workforce and in 2013, 86% were part of the public solidarity system (90% of dependently employed, 54% of self-employed), the rest were privately insured (9% of dependently employed, 45% of self-employed). In spite of legal obligation, about 0.2% of the workforce is not insured, among which non-German males between 35 and 44 years are the largest group. Insurance of those working also covers family members, which means that nowadays, around 90% of the German population are covered by this system of insurance. The system is financed by mandatory social security contributions, partly divided among employer and employees. In the event of an accident insurance is solely financed by the employer.[14]

[13] http://www.bundesfinanzministerium.de/Web/DE/Themen/Oeffentliche_Finanzen/Bundeshaushalt/Bundeshaushalt_2016/bundeshaushalt_2016.html

[14] More information http://www.deutsche-sozialversicherung.de/en/guide/introduction.html and http://www.deutsche-sozialversicherung.de/en/guide/pillars.html 86% der Erwerbstätigen sind gesetzlich versichert. (2013, April 16). In: Statistisches Bundesamt. Retrieved from https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/zdw/2013/PD13_016_p002.html

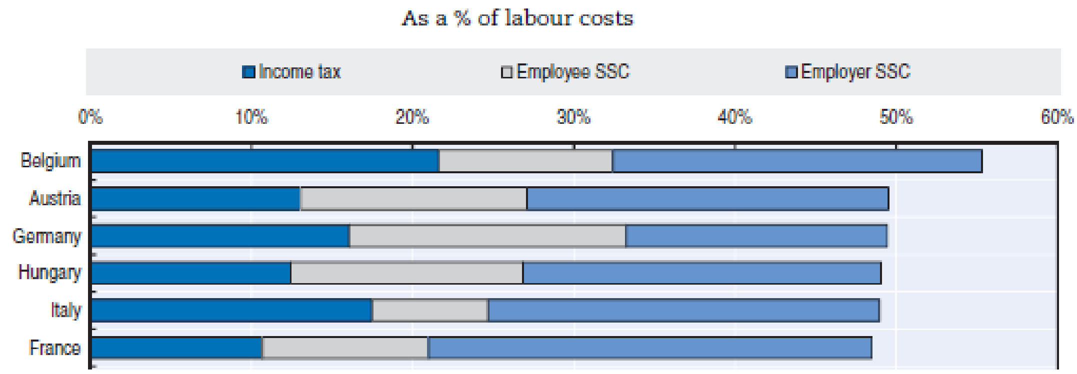
Graphic 14 The branches of German Social Insurance[15]



5.2.2 Wage tax plus SSC contributions

When employers, e.g. the Federation of Employer, talk about German labour a frequent complaint is that German labour is, in international comparison, "too expensive" to be competitive and that "labour costs" need to be decreased for economic competitiveness' sake.[16] When considering the statistics published by EU or the OECDs annual "Taxing Wages" Statistics, the position of the Federation of Employers is confirmed in respect of Germany labour being comparatively expensive. This is also expressed by the term "Tax wedge" [17] on labour, a category introduced to enable comparability of total labour costs. Germany is indeed always among the top states in OECD comparisons. In 2015, it was on No.3 after Belgium and Austria.

Graphic 15 Income tax plus employer and employee SSC in 2015



Source 16 (OECD, 2016a, p. 20)

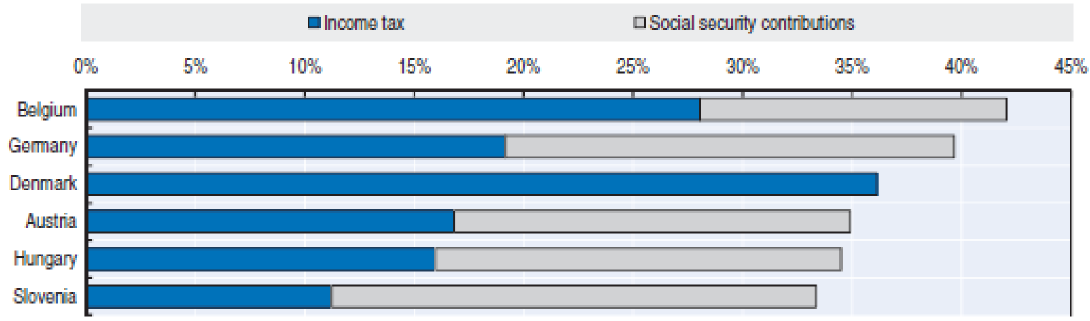
[15] http://www.dguv.de/en/Organization-and-structure/index.jsp

[16] Bund Deutscher Arbeitgeber-Website, Unterverzeichnis „Wissenswertes", Unterverzeichnis „Arbeitskosten":'Deutschland ist und bleibt ein Hochlohnland. ... Arbeitskosten haben einen hohen Einfluss auf die Attraktivität eines Landes als Standort für Unternehmen. Ihre Höhe bestimmt die Rentabilität von Investitionen entscheidend mit.'. Retrieved 2 June 2016 from http://www.arbeitgeber.de/www/arbeitgeber.nsf/id/DE_7KWDZT_Arbeitskosten

[17] Definition: 'The tax and social security contribution burden is measured by the 'tax wedge as a percentage of total labour costs' – or the total taxes paid by employees and employers, minus family benefits received, divided by the total labour costs of the employer.'

Similarly, there is a high percentage of gross wage going off for the payment of Income Tax and employee SSCs. Here Germany ranks second, with Belgium being ranked as first.

Graphic 16 Percentage of gross wage earnings paid in Income Tax and employee SSC in 2015



Source 17 (OECD, 2016a, p. 22)

But, of course, there is more to this aspect than just aggregate figures. A disaggregation of the data shows that

- "Income" from dependent labour consists in wage + social security contribution by the employer
- "Wage" consists in income from dependent labour – social security contribution employee – Wage Tax.

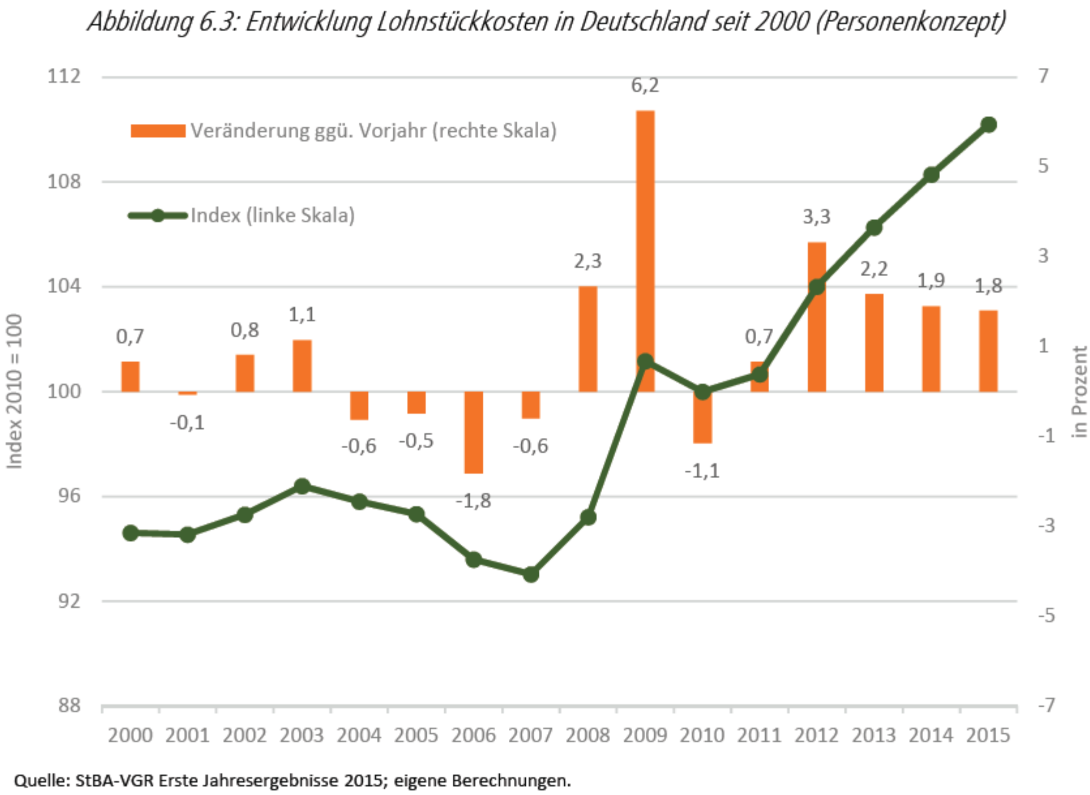
The calculation was (ideally)[18] as follows: If a worker earns EUR 2,000, he has to pay 20% for his SSC, i.e. EUR 400. To this, the EUR 400 SSC of the employer are added which raises the total income to EUR 2,400 and results in a total SSC contribution of EUR 800, i.e. 33% of total income.

This illustrates, that the employers SSC is de-facto part of the employees total income and it needs to be added because both wage and SSC is in totality paid by the employer. In other words: The employer & employee share of SSC is de facto withheld and deducted/transferred as part of gross income. Yet in other words: "Income" signifies what, in the eyes of the employer, the labour rendered by the employee is "worth" for him or, in a different phrasing, how "expensive" labour is.

Looking at the "cost of labour" is, however, only part of the picture. A complementary side is how much goods and services are produced by employees, i.e. how much profit can be realized from their work and the (negative) burden of "costs of labour" is outbalanced by the (positive) income via selling goods and services. This is being measured by the entity "Lohnstückkosten", when they are negative, profits outbalance the cost. The graph below indicates, that this relationship is quite acceptable for Germany:

[18] It was said "ideally" because employer and employees no longer contribute equal shares.

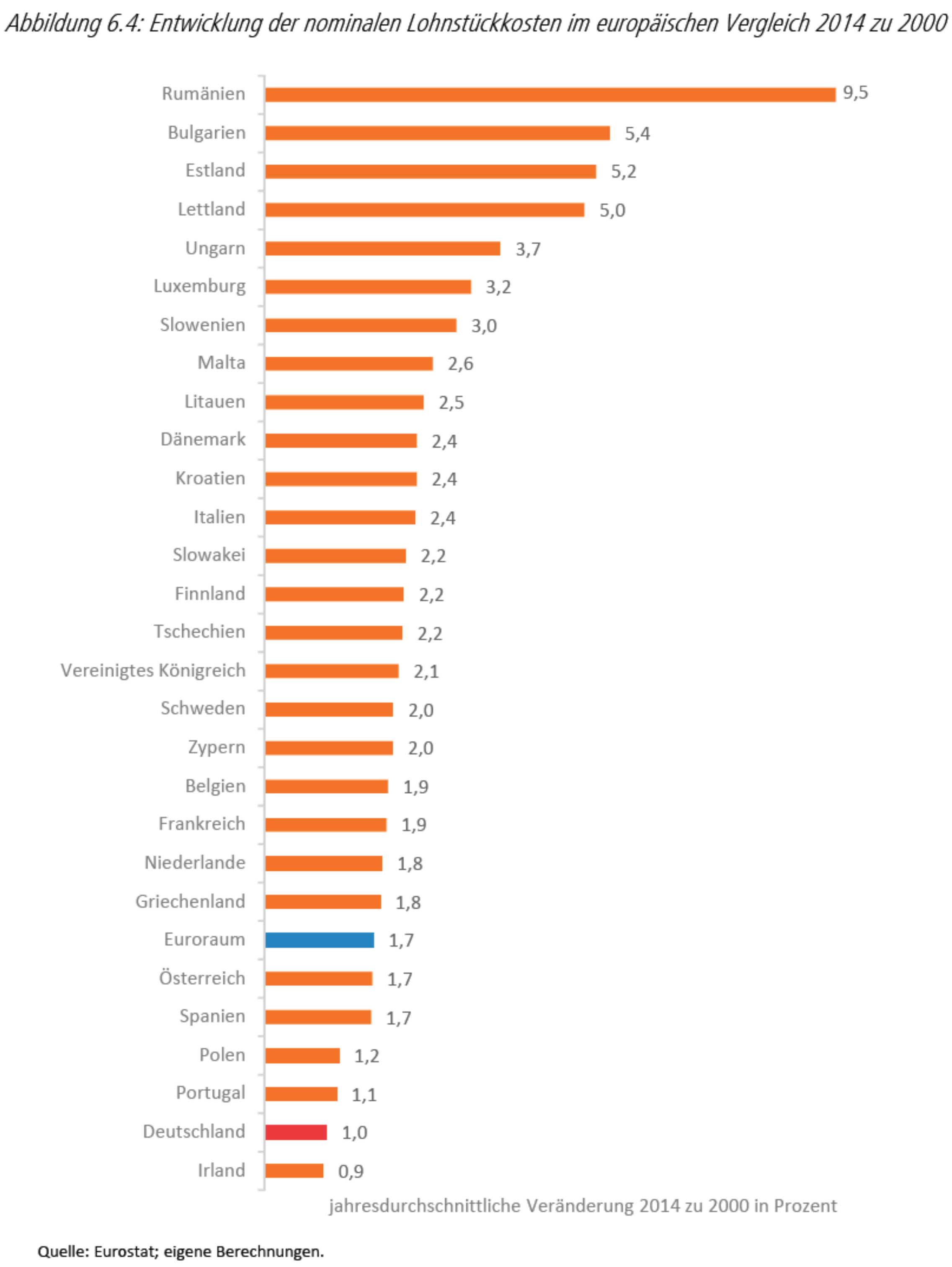
Graphic 17 Development of „Lohnstückkosten“, i.e. costs of goods and services produced



Source 18 (Deutscher Gewerkschaftsbund, 2016a, p. 78)

More importantly, they have been hardly grown since the year 2000:

Graphic 18 Germany's Lohnstückkosten in international comparison



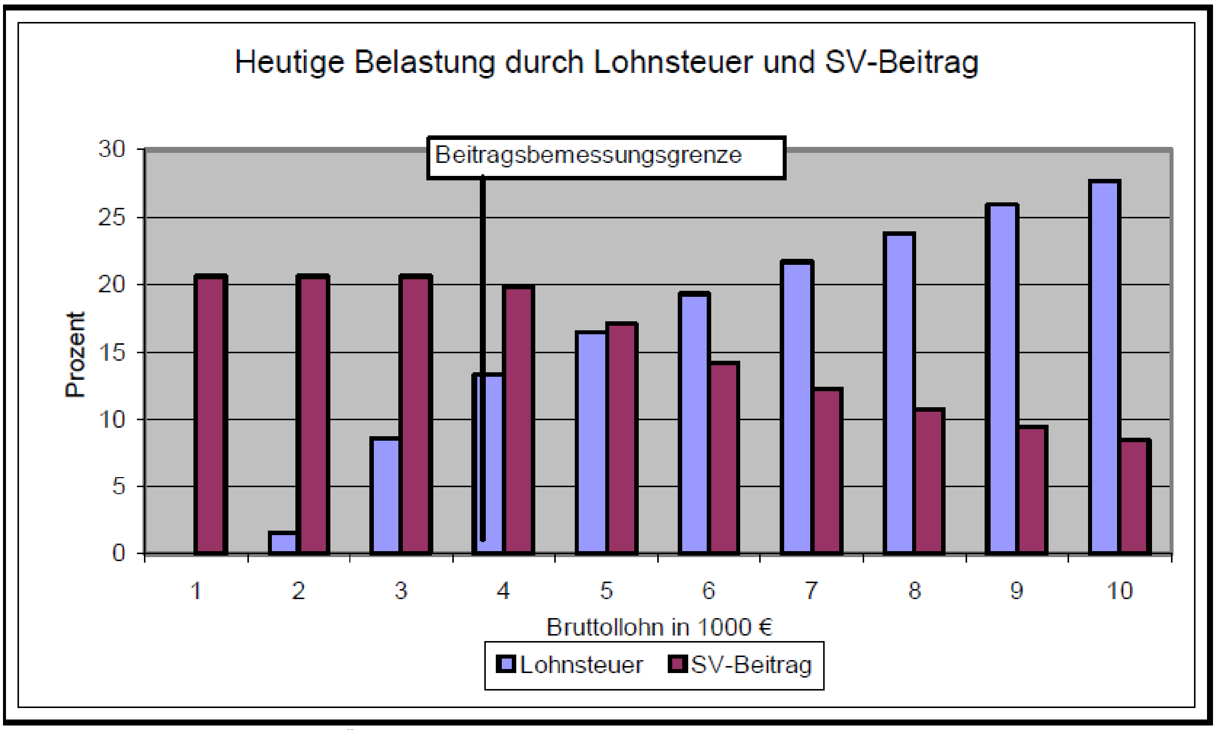
Source 19 (Deutscher Gewerkschaftsbund, 2016a, p. 79)

Government is aware that high SSCs are posing a problem, but its remedies are not necessarily the best when it comes to the impact on low-income households. In 2007, government cross-financed a lowering of unemployment SSCs by raising VAT rates from 16 to 19%. On this background it is even more problematic that the equal share contribution between employer and employee is no longer holding and the employers share is “frozen” and all increases have to be paid by the employee alone (cf. 5.5).

5.2.3 Regressive character of the SSC

While Income Tax is indeed progressive, Social Security Contributions are more like a Flat Tax and have regressive character for the lower income households, and, at the same time, privileging high income. This is because beyond a certain income Social Security Contributions cease to rise. In 2016, this assessment ceiling was as follows: beyond a monthly gross income of EUR 6,200 (West) and EUR 5,400 (East) contributions regarding the insurance for unemployment and pension are "frozen" and rise no more; beyond a labourer gross income of EUR 4,237.50, both in west and east, contributions regarding the insurance against sickness are "frozen" .[19] The following graph demonstrates how the proportional share of taxes vs. SSCs is changing in the course of increasing income (towards the left no tax is indicated due to the existing personal allowance for low-income).

Graphic 19 Proportional share of tax and SSC, rising income



Source 20 (Arbeitskreis Ökonomie und Kirche, 2009, p. 5)

In addition one has to be aware that beyond a gross income of EUR 56,250 one is at liberty to opt out of the solidarity system and organize private insurance for themselves and their family.

5.2.4 Absolute + relative (direct+indirect) tax + SSC burden

This leads to the question of the absolute and relative impact of the combined (direct and indirect) tax plus social security burden, i.e. including the impact of indirect taxation, most specifically on consumption such as VAT or consumer levies, e.g. on fuel or electricity. A research looking into these relationships was being done by the Rheinisch Westfälisches Institute for Economical Research in 2011 (Beimann, Kambeck, Kasten, & Siemers, 2011). The researchers confirm the following:

- The wealthiest (super rich) 10 percent have a lower relative social security burden: The social security burden rises in proportion for decile one to nine, while the last

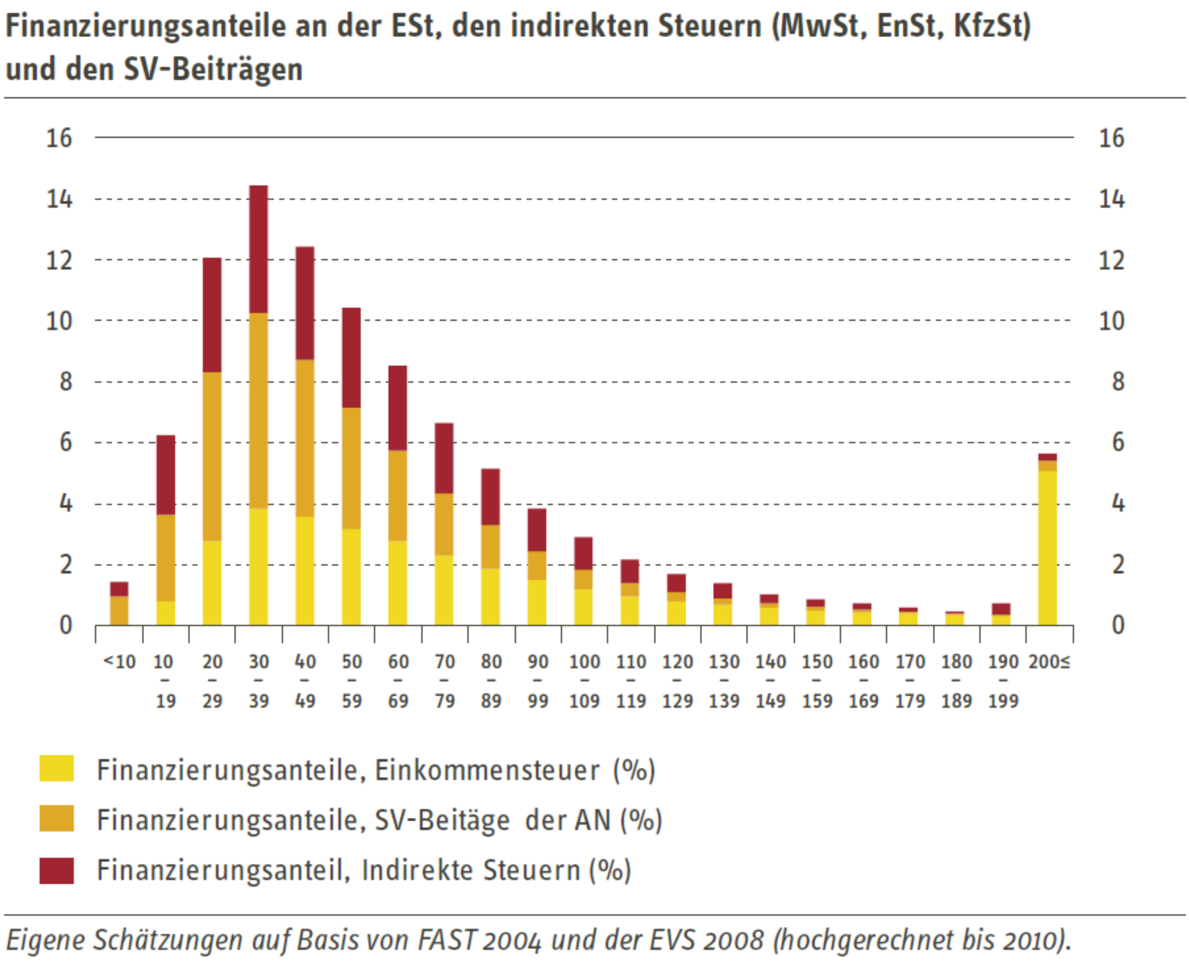
[19] https://www.bundesregierung.de/Content/DE/Artikel/2015/10/2015-10-14-sozialversicherung.html

decile profits of the social security assessment ceiling, which shrinks the social security contribution in relation to the other income.

- The wealthy are less hard hit by indirect taxes. This is on account of the fact that VAT is the same for all consumers, those with meagre disposable income are the most negatively affected than those with higher disposable income. Generally, it has been argued that disposable income of specific categories of income earners can be quantified. That is, the burden of indirect taxation in relation to normal household spending for the lowest decile is around 14% of their spending, the burden for the richest decile is set at 4% (ibid., p. 10). This is also confirmed by the OECD (Keely, 2015, p. 102).

However, the researchers wish to add a word of caution, namely that there are various factors that influence the extency of disposable income such as household size and household types. The burden of tax and social security contribution is very different for – e.g. – a single person, married couples and families with children, families with the aged. All this tends to mitigate against generalized statements in such matters that have dynamic variables that influence probable outcomes. Nevertheless, the researchers are confident with their conclusion, that the major burden on direct and indirect taxation as well as Social Security Contributions is borne by middle-income households within the range of 20,000-70,000 Euros annually, even more specifically those between 30,000-40,000 Euros.

Graphic 20 Accumulated share of contribution to finance the common good of respective income groups[20]

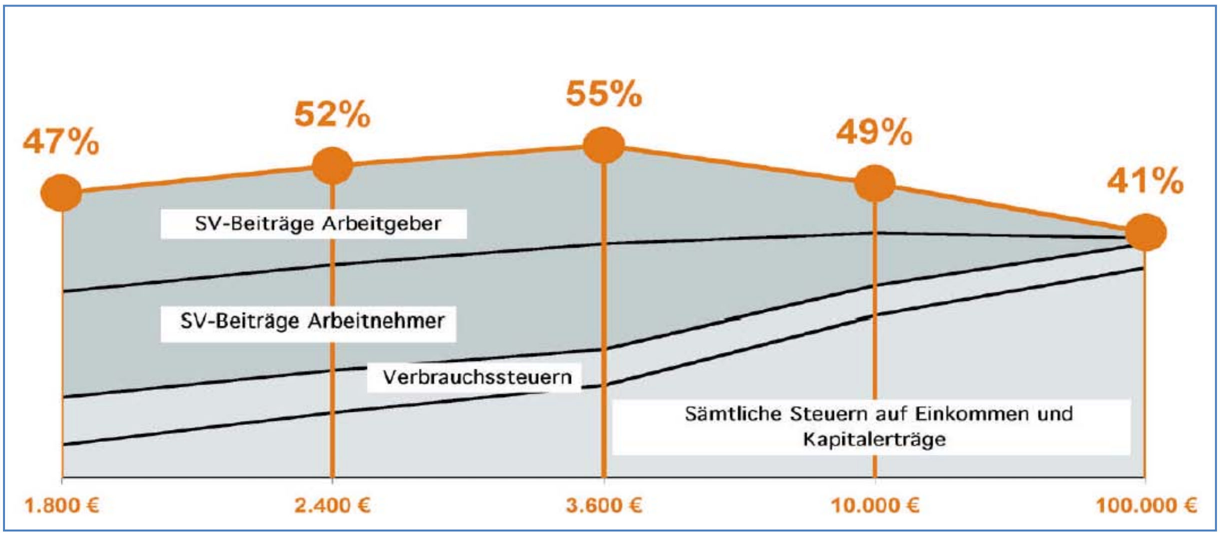


Given these complexities, the study of Beimann & colleagues concludes, that the decision, whether Top Earners or the Middle Class contribute more to taxes cannot be answered conclusively by research and scholarship, but is finally a question of choice subject to a political point of view (ibid., pp. 18f.).

Another research also combined the burden cumulatively of progressive Income Taxation, mandatory social security contribution and indirect consumer tax and generated a graph of the aggregated tax burden from 2008, applied exemplarily to five income categories:

[20] ‚Den größten Beitrag zur Finanzierung des Gemeinwesens leisten die Haushalte mit einem Bruttoeinkommen zwischen 30 000 und 40 000 €.‘ This and graphic are taken from (Beimann, Kambeck, Kasten, & Siemers, 2011, p. 13)

Graphic 21 Combined burden made up of PIT, Social Security Contributions and indirect taxation[21]



Conversation partners with legal expertise in social policy and social administration confirmed to the researcher that this graphic, even though the data is not the latest, in principle continues to depict the current tax & SSC burden of different income groups.

The Federal Constitutional Court ruled in 2014, referring to the Sozialstaatsprinzip, that an unequal treatment arising from a higher (relative) tax burden due to regressive taxation is unconstitutional even if other parties pay a higher absolute amount of taxes.[22]

5.2.5 Household composition, children and OAPs

The OECD as well as German governmental and non-governmental institutions point out that change in household composition are one reason behind increasing inequality and, at times, poverty, e.g. single parent households (cf., GER/IV). Equally this research has pointed out the importance of household composition and household size repeatedly. Now it shall be indicated that even traditionally composed households of father, mother and children are threatened by risk of poverty which are not adequately balanced by redistribution. The following graphic illustrates, how disadvantaged households with children are when compared with single or adult-only households in the present system of taxes and SSCs. The first green line contains the gross income of the households (one person earning), the second green line contains the netting of income plus benefits minus taxes and SSCs. This net-income is contrasted with the (fictitious) situation in which household net income would be determined by granting and applying the added personal allowances of adults and children. The third green/red line demonstrates that the net-income following the present system of taxes and SSCs disadvantages households with children over those households without.

[21] Thie, H. (2008, May 30) Das Libretto vom Netto. In: Der Freitag. Retrieved from https://www.freitag.de/autoren/der-freitag/das-libretto-vom-netto.

[22] Cf. Nr. 57ff. of the Verdict BvR 1656/09 of 15 January 2014, Retrieved from http://www.bundesverfassungsgericht.de/SharedDocs/Entscheidungen/DE/2014/01/rs20140115_1bvr165609.html

Table 7 Illustrating the financial situation of households with and without children[23]

Was am Jahresende übrig bleibt

Horizontaler Vergleich 2015 bei 35.000 Euro[1)]

Einkommen/Abzüge	Ledig,	Verheiratet, ohne Kind	Verheiratet, 1 Kind	Verheiratet, 2 Kinder	Verheiratet, 3 Kinder
Jahresbrutto	35.000	35.000	35.000	35.000	35.000
Lohnsteuer	5.163	2.376	2.376	2.376	2.376
Kirchensteuer (8%)	413	190	67	0	0
Solidaritätszuschlag	284	86	0	0	0
Krankenversicherung (AN 8,2%)	2.870	2.870	2.870	2.870	2.870
Rentenversicherung (AN 9,35%)	3.273	3.273	3.273	3.273	3.273
Arbeitslosenversicherung (AN 1,5%)	525	525	525	525	525
Pflegeversicherung (AN 1,175%, 1,425% Kinderlose)	499	499	411	411	411
Kindergeld			2.208	4.416	6.696
Netto	21.973	25.181	27.686	29.961	32.241
Steuerliches Existenzminimum					
Erwachsener	8.354	16.708	16.708	16.708	16.708
Kinder			7.008	14.016	21.024
frei verfügbar	13.619	8.473	3.970	-763	-5.491

[1)] Für unsere Berechnungen gehen wir vom Durchschnittsentgelt/West pro Jahr aus.

This table illustrates and supports the claim that children are among the largest poverty risk factors in Germany. Even though the birth rate dropped by half from 1.3 million in 1965 to 650,000 in 2012, the share of children depending on social transfers rose 16-fold. In 1965, every 75th child was needy, today it is almost every fifth, in some of Germanys poorer inner cities almost half (Borchert, 2014, p. 73). Forms of support would be, for example, state subsidies for day care institutions, school meals, participation in school trips, clothing or special nutritious needs.

And in spite of all social transfers, the situation of families with children is not satisfactory. For example, the Federal Constitutional Court ruled in 1999 that indirect taxation burdens families with children disproportionately and in a way which is not compensated by current levels of child benefits. The Court asked the government to improve on that, e.g. via reforms in the Income Taxation which, according to conversation partners to this research is yet to happen.

Given the present system of solidarity, the decreasing number of children will eventually impact on the situation of the old because there will no longer be an adequate number of young people paying for the sustenance of the old. In the original concept of the German SSC solidarity system, a double generation solidarity treaty was envisaged between the active generation and the old, and the active generation and their children. The goal behind this concept was that only those undertaking the effort to raise children will eventually benefit fully from old age benefits. The present system only realized the solidarity between the present generation and the old, while the costs of raising children are hardly recognized or adequately compensated (Borchert, 2014, p. 56ff.). From a Catholic Social Teaching (CST) perspective, one of its most eminent representatives, Oswald von Nell-Breuning called the present system "blatantly unjust." Quoted in (Borchert, 2014, p. 23).

[23] Graphic provided by Jürgen Borchert.

5.2.6 Privileged income, opt out option for the wealthy

As indicated already, there are several privileges for the wealthy. First of all, SSC contributions are only collected from income from labour. Income from rent or capital is not subject to SSC contributions: While a super-market cashier working part time and earning EUR 900 gross has to pay ca. EUR 200 in taxes and mandatory SSCs, somebody possessing real property or capital and draw earnings here merely has to pay 25% Withholding tax on capital income.[24]

In addition, the wealthy have the option to opt out from the mandatory social security system above an annual income of EUR 56,350 in 2016.[25] Whoever earns equal to or above EUR 56,350 may opt for private insurance.

While the solidarity based system redistributes income of presently working citizens to sick, unemployed or retired citizens, i.e. it is pay-as-you-go system. Private insurance options require that capital is accumulated from which eventually a percentage is being paid during times of sickness and retirement – this in turn causes problems: As more private capital enters the markets, looking for profitable investment, chances are rising that, if no reliable investment is possible or does not generate adequate profit, more risky investments are being ventured into. This contributes to the volatility of the entire system, resulting in more “financial bubbles” and “financial crises”. That way, those accepting private insurance, are both co-guilty of the market volatility and its consequences (cf. I/IV/5.3.).

5.2.7 Rebates for some, higher payments for others

Finally, the wealthy are able to ask for rebates or credits in other areas of income, for example, when employing household aides. Furthermore, they are able to employ tax lawyers who can advise them about how to reduce their taxable income due to loopholes in tax law and tax administration.

At the same time, there are more discriminations for dependently employed, increasing their overall burden: Whereas for labourer allowances such as extra pay for nightshifts or working overtime on holidays and weekends were originally exempt of mandatory social security payments. This has since changed effective 1st July 2006. From then on a considerable share of those allowances also fell under that payment obligation.

5.3 Special case professionally insured

5.3.1 Civil Servants

A special case are civil servants (Beamte), who are exempt from paying Social Security Contributions and for whom the taxpayer is footing bills for sickness or pension. A 2014 study by the German Federal Statistical Office revealed that there are 1.7 million civil servants, about 4% of the workforce. It also was revealed that this segment of the population is very wealthy. This is on account of economic wages and permanent and pensionable employment. Hence, they are able to invest into housing or stock market consequently receiving on average twice as much for retirement, with full entitlements after 40 years of service as those paying SSCs after 45 years of service.

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[24] ‚Während eine Supermarkt-Kassiererin mit Teilzeitjob und 900 Euro brutto knapp 200 Euro ihres Einkommens an den Sozialstaat abtreten muss, werden einem Immobilienbesitzer, der von seinen Kapitalerträgen lebt, im Extremfall nur 25 Prozent Abgeltungsteuer abverlangt.‘ Niejahr, E. (2010, March 4) Das Einmaleins der kleinen Gehälter. In: Die Zeit. Retrieved from http://www.zeit.de/2010/10/Sozialstaat/komplettansicht

[25] http://www.krankenversicherung.net/beitragsbemessungsgrenze

Civil servants do not pay any SSCs, they earn less than other employees obliged to pay SSCs. Because they pay less, they are also in a lower Income Tax class, which is also beneficial if there is income from other categories of income. Beyond that, they have more options to deduct expenses from the tax burden and they receive a variety of lucrative fringe benefits. In 2013, there were 1.13 million pensioners, i.e. civil servants enjoying their retirement (as opposed to the 1.4 million civil servants in employment). Because of the high cost of pensions and the increasing longevity of people, the rising wages of public sector employees, and the attendant cost borne by the taxpayer, the cost of pensions will keep rising right into the foreseeable future.[26]

5.3.2 Other professionally insured

Beyond self-employed in the low-wage sector or even informal sector there are also sizeable groups of well-paid self-employed such as doctors, lawyers, notaries or tax consultants. These tend to have their own collective social-security system, thus not remitting into the general solidarity system. Altogether, there are 89 such professional insurance systems, insuring 900,000 well-off people.[27]

5.4 Privileging private and corporate wealth

As has been demonstrated in GER/IV/2 regarding absolute and relative growth in national income from private, corporate wealth and income from wage, there is a perceivable shift from income from labour to income of private and corporate wealth. This suggests some sort of redistribution from the bottom to the top. These figures contrast with the findings above, that the revenue share arising from taxing dependent labour rose, while the revenue share from taxing income from capital decreased and that the revenue share from the top 1% decreased, while the revenue share from the bottom 20% rose.

The discussion above (5.1+ 5.2) indicated already that corporate, private income and wealth has been privileged over the past decades. This shall now be investigated in more depth and detail, starting with contextual factors.

5.4.1 Lower rates for corporate and private wealth

On that background one wonders why at the same time tax rates were reformed which benefited private and corporate wealth holders.

For example, the share of tax for businesses arising Corporate Income Tax dropped from 40% (2000) to 15% in 2008; the tax burden from the combined Corporation Tax plus average Local Business Tax dropped from 57.5% (1997) to 29.4% (2009). (Liebert, 2011, p. 62+82ff.). The table below presents an overview of the Tax-Share changes:[28]

Table 8 Exemplary development of tax rates for selected taxes 1998-2014

Tax	1998	2005	2014
Income Tax Top Rate	53%	42%	45%

[26] Siehe Beamte/Sozialversicherung. In: Haufe. Retrieved from https://www.haufe.de/personal/personal-office-premium/beamte-sozialversicherung_idesk_PI10413_HI726625.html sowie Pennekamp, J., Plickert, P. (2014, July 27) Wie die Pensionäre so reich wurden. In: FAZ. Retrieved from http://www.faz.net/-gqe-7s11k Astheimer, Schwenn (2013, August 9) Pensionslast auf öffentlichen Haushalten wächst. In: FAZ. Retrieved from http://www.faz.net/-gqe-7fe9i sowie Ermel, T. (2016) Beamte. 5 special parts published in Manager Magazin

[27] Siehe http://www.abv.de/daten-und-fakten.html sowie Wikipedia https://de.wikipedia.org/wiki/Berufsst%C3%A4ndische_Versorgung

[28] Berger Pos 2588

Tax on income from capital	53%	42%	25%
Corporation Tax	45%	25%	15%
Corporation Tax on Capital Gains[29]	45%	0	0
Inheritance Tax	30%	30%	30%[30]
Wealth Tax	0	0	0

Regarding personal Income Tax, hardly anybody can imagine that once upon a time the top rates of Income Tax was so much higher, even under conservative-liberal coalition governments. It only dropped to its present rate under a social democratic government

Table 9 Development of top rate of Income Tax 1946-2016

Year	Top marginal tax rate
1946	95%
1951	95%-80%
1953	70%
1955	63.45%
1958	53% (for 17 years!)
1975	56% (Increase! 15 years!)
1990	53% (for 10 years!)
2000	51%
2001	48.5%
2003	47%
2005	42% (resp. 45 % without, 47.48% with Solidarity Surcharge, beginning EUR 254,447

In addition, the introduction of Final Withholding Tax on capital income has to be mentioned which meant that income from capital was no longer subject to progressive Income Taxation.

5.4.1.1 Special situation of reunification

‘Especially during the first couple of years after German re-unification, special depreciation allowances, tax reliefs and generous accounting rules for investments in real estate and business capital formation in East Germany, in combination with tax-free capital gains that could be offset against income from other sources, created vast tax savings opportunities. Between 1992 and 1998, most forms of capital gains from business income were taxed at half the rate of the then prevailing PIT .Other capital gains from capital investment were taxable only if realized within certain time periods defined by the tax law. Reducing those massive tax expenditures so as to broaden the tax base has been advertised as a prominent aim of the subsequent tax reforms introduced since the late 1990s.’ (Bach, Corneo, & Steiner, 2011, p. 6)

There was certainly something good in that for all, but it also seems to suggest that some profited more from it than others, which opens once more the question of repayment, e.g. via a wealth levy (Vermögensabgabe).

5.4.2 Excuse “Tax Competition”, Subsidies

One frequent excuse when it comes to justifying tax privileges for top private and corporate income and wealth holder is international tax competition: Because other states are lowering their respective tax rates, it is generally considered economically prudent to do

[29] Gilt nur für Veräußerungsgewinne aus dem Verkauf von Anteilen an einer Kapitalgesellschaft, nicht für die Veräußerung von Betriebsvermögen (Kudert). Auch Veräußerungsgewinne von Privaten werden besteuert! Bayerischer Oberster Rechnungshof 2014!

[30] Since 2008, business assets are exempt from Inheritance Tax.

likewise in order to promote the economic competitiveness of the country and hence stem capital and investment flight.

Even the discussion surrounding the introduction of a 0.1% or 0.01% Financial Transaction Tax could not escape this argument. This is a realistic option in a world, where the top 1% belongs to a mobile elite which feels at home in almost all capitals of the world and where companies can be run from almost any place in the world.

Sadly, however, this competition is not only raging between different nations, but also within Germany and among individual states. Especially Bavaria and its Finance Minister Söder are at the forefront by arguing that competition exists already among municipalities due to differences in the Local Business Tax, hence that also German states should be permitted to offer different rates e.g. regarding real estate taxation, inheritance taxation or income taxation. For that reason, advancing tax competition is also an important policy goal for the Bavarian State Government. Interesting enough, this argument is not only found between states, but also within states, when it comes to the differences of tax legislation and administration as is the case in Germany. (cf. GER/VI/3.2).

5.4.3 Double Taxation vs. Double Non-Taxation

A big problem in taxation is admittedly the fact that in some cases income can be taxed several times, both nationally and internationally. First, examples intra national double taxation shall be given:

- Any inheritance has been taxed before already, yet an Inheritance and/or Wealth Tax would tax it again.
- Equally, income generated from capital is said to be taxed several times: As Income/Corporation Tax, Local Business Tax, Capital Gains Tax, Trade Tax on Capital , other forms of Sales Tax and/or eventually a Financial Transaction Tax would be applied on the income within a given national tax jurisdiction.

An even larger and complex challenge exists in the field of international taxation. Here both individuals and corporations suffer from the absence of any coordinated approach to enforce internationally uniform standards of taxation. States prefer (for the sake of simplicity) either to improve the situation unilaterally (which more often than not has undesired effects such as double or triple taxation or capital flight to other favourable places) or to delay tax revisions because – as always – some country’s un-competitiveness is an advantage to others.

This problem has been tackled vigorously and early on by Big Businesses. They insisted early on that states remove obstacles to trade so that corporations have a “level playing field” by way of investment decisions not being distorted by fiscal interventions. As early as 1920s, at the League of Nations, this problem was dealt with by international politics and quite a number of contemporary principles regulating the taxation of cross-border activities originate in these days. They found their way into OECD and UN Model Treaties, such as the determination of the “jurisdiction to tax” or the “arms-length principle”, measuring profits emerging along a chain of production and regulating transfer-pricing (OECD, 2013a, p. 35ff.). Most specific outcome of this work are Double-Tax-Agreements or Conventions of which Germany has several signed treaties with a number of countries.

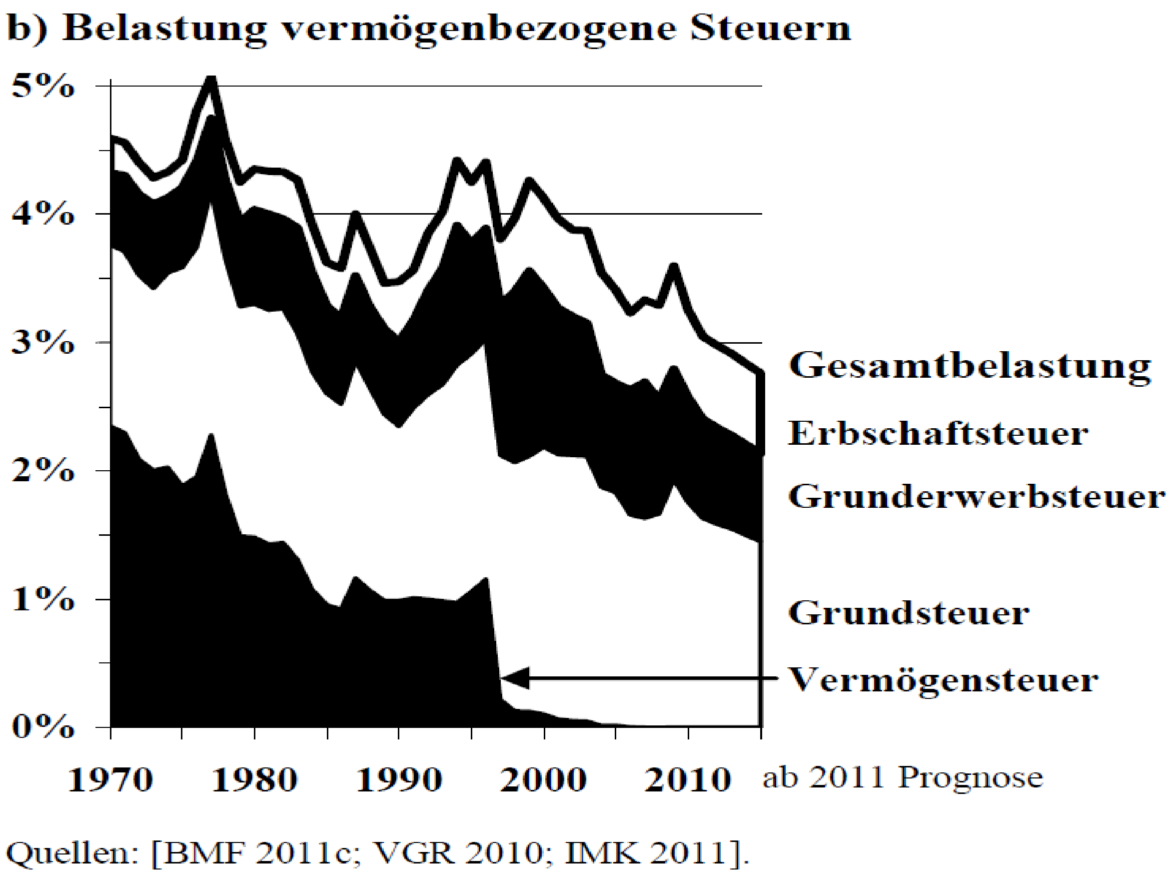
In contrast the opposite problem, namely double non-taxation, has not been addressed with equal vigour and rigour both by corporations and nations. Consequently, it is easy for corporations to avoid paying taxes. And no improvement is yet in sight. The OECD notes and argues that, the problem is fundamental, 'The current international tax standards may not have kept pace with changes in global business practices' (OECD, 2013a, p. 7).

Naturally that which has been advocated by Transnational and Multinational Corporations (TNCs and MNCs) in respect of favorable tax and trade treatment also profits private wealth owners. The resultant net effect is that private and corporate wealth holder and their tax lawyer and adviser will continue to have options to avoid and evade tax payments. Lobby groups, claim that the "Big Four" as well as international tax competition will promote the retention of the status quo.

5.4.4 Result: Comparatively little revenue from "Wealth Taxes"

At first sight, revenue from Wealth Taxes appears impressive and rising. But here again, absolute and relational interpretation is of importance, as (Jarass & Obermair, 2012, p. 72f.) point out. Wealth related taxes generate around EUR 20 billion per year, which is about 1% of German GDP, about one third of EU 27 average of 2.7% and only 0.3% of privately held wealth of (2007) EUR 8.5 trillion. It is clearly visible regarding the decrease in revenue caused by the suspension of Wealth Taxation. At the same time, the effective burden imposed by these taxes is decreasing:

Table 10 Development of tax burden of Wealth Taxes 1970 -2010



The increase in 1991-1996 results in increases of Real Property Tax and real property transfer tax, the increase in 2009 resulted into a massive drop in assets compounded by the World Financial and Economic Crisis which, given the remaining tax rate, increased the tax burden. But the world economic recovery in 2010 brought back the tax burden to pre-crisis levels.

5.4.5 The problem of employer solidarity

On this background Borchert or (Langendonck, 2002) argue, the discussion about injustice in "freezing" the employers share in health insurance when paying SSCs for health insurance is fictitious. If the "employer's" (fictitious) contribution will be frozen at a fixed rate of 7.3% while any future increases in insurance have to be borne by the employee alone, it does not have any effect on the payment as such, since it is still the employer who is deducting the total SSC contribution (i.e. the fictitious parts of SSC employer plus SSC employee) and transfers it to the proper institutions. At the same time, there is indeed a shift away from the employers burden to the employees burden, as some rightly point out when they argue that between 2000 and 2018, the social security contribution by employers will increase about 1 percent, for employees about 21% since the overall forwarded amount is increasing (Jarass & Obermair, 2015, p. 21).

The question is asked as to what the employer's justifiable contribution to social security in Germany might be? The problem is made manifest in the employers reference to international competition. While wage increases are acceptable because they are linked to the production of goods and services, in contrast SSC paid by employer is not in relation to the production of goods and services, but an "unproductive" social transfer for insurance. Lowering the "employers SSC", therefore, employers argue, amounting to a decrease of overall employer payment, will improve Germany's competitive position, preserve and create jobs while still safeguarding an adequate, performance related wage-payment for the worker.

The problem is: Should employers get away from their co-responsibility to finance social security for their employees? Experts argue that this problem can only be resolved in an overall package, addressing the combined weaknesses of the present social security system in Germany, i.e. reforming the entire system in line with the changing and emerging employment scenarios. The current system is considered moribund as it has been in existence since when Bismarck and his ministers devised the system.

5.5 Low-pay and atypical employment, tax & SSC revenue

Above (in 5.1+5.2.) the situation was already in view of low and middle income households as far as tax and SSC burden is concerned. This shall be deepened now. At the latest since the labour market reforms around the change of the millennium a "precariate", a low income sector, emerged where large parts are not even able to pay tax or SSCs. In this chapter some areas should be covered regarding the impact of this development on state revenue and state spending, both regarding taxation and SSCs.

5.5.1 Definitions

The Low-pay segment (Niedriglohnsektor) statistically and commonly contains those who earn less than two third of the median income.[31]

There is an overlap to atypical employment: 'Atypical employment forms – as distinguished from normal employment – comprise part-time jobs with 20 or less hours per week, minor employment, fixed-term employment and temporary employment.'[32]

That there is a tax and SSC revenue implication is also noted by the standard distinction between "steuer- und sozialversicherungspflichtigen" and "geringfügig entlohnten" Jobs without tax and SSC obligations (cf. Below 5.5.2.2).

[31] http://www.diw.de/de/diw_01.c.433588.de/presse/diw_glossar/niedriglohnsektor_niedriglohn.html
[32] https://www.destatis.de/EN/Meta/abisz/AtypischBeschaeftigte_e.html

5.5.2 Context and dimension

From a historical point of view, the combined system of a progressive wage tax and proportional, flat-rate SSC made sense as long as there were mainly two “classes” and “relation” in labour life (Langendonck, 2002): The employer and the dependently employed. Those who “share” in the burden of financing the German social security system so that, in case of an occupational accident, employment or retirement, the dependently employed was entitled to support (and did not have to ask for alms). Self-employed, e.g. Lawyers and doctors, and civil servants, e.g. tax inspectors, policemen..., had to care for themselves or were part of the tax funded pension system.

This distinction is no longer applicable. Nowadays, however, given the liberalization and deregulation of labour markets, there are two categories who do no longer fit into the system:

5.5.2.1 *“Self-employment”*

The category of self-employed has grown and changed in nature: There are self-employed who are equally dependent from customers or employers but who are outside this system of solidarity.

In 2012, 4.42 million Germans are self-employed.[33] Among that number, first of all 1.2 million are self-employed in the strict, more narrow sense like lawyers, doctors, architects and others who do not act following commercial trade regulations (*Gewerbeordnung*). The technical term for this category being self-employed in free professions is *Freiberufler*. Yet they own business assets, such as a computer for deskwork, multi-million equipment needed by surgeons to do their job etc. Their business assets do not reflect in official government statistics due to their exclusion from commercial regulation.

The remaining self-employed in the wider sense are in three categories, namely Self-employed with dependently employed or Solo-Self-Employed who work on their own. The first group may be a larger business, the second group may be at the lowest end are small business people, a one-man enterprise (“*Ich AG*”), leading a very hard life with little assets, often less paid than regular employees in other businesses, at times even less paid than those employed by them or even part of tax saving constructions as fake-self-employed (cf. GSE#). But even the Solo-Self -Employed may not work alone, since he may incorporate in his business family and friends, e.g. in agriculture.

Berger (2014) in his chapter “Armut GmbH & Co KG: unsere prekäre Selbstständigen” quotes a study by the DIW, arguing, that today 1.1 million self-employed exist whose income is below the legally defined mandatory minimum wage of EUR 8.50; 130,000 of them have to add social welfare payments in order to have a decent life, 180,000 of them have difficulties in financing their health insurance. On the whole, the category of solo-self-employed increased 2000-2011 from 1.8 to 2.6 million, and in particular among certain vulnerable professional groups, e.g. artists, craftsmen, certain service sectors including journalists, massage experts, and jobs in the construction industry (cf. also G/IV/2.1.5).

There is an overlapping in the informal sector, because a lot of people employed in this sector are “fake-self-employed” (*Scheinselbständige*). They are as dependent on the

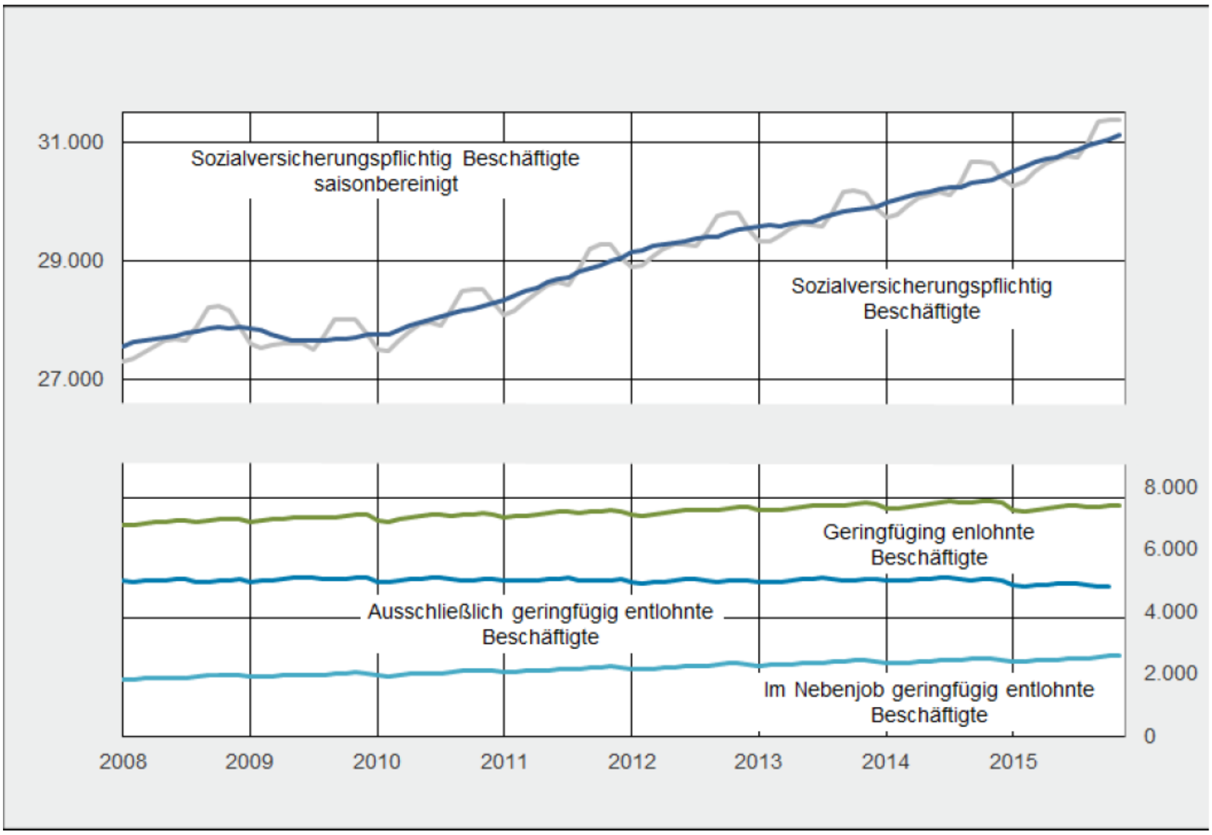
[33] Mai, Chr./ Marder-Puch, K. (2013 July) Selbstständigkeit in Deutschland. In: Statistisches Bundesamt – Wirtschaft und Statistik, pp. 482-497. Retrieved from https://www.destatis.de/DE/Publikationen/WirtschaftStatistik/Arbeitsmarkt/SelbststaendigkeitDeutschland_72013.pdf?__blob=publicationFile

employer as dependently employed are, but they are paid only wage without any SSC. This implies that he is earning a regular wage, but from that he has to take personal responsibility for his and her insurance. This invariably affects the disposable income to meet everyday livelihood. It is unfortunate that this considerably large group lives and works outside the established social security system.

5.5.2.2 Low pay segment

The largest segment to be considered are Minijobs (geringfügige Beschäftigung), which are either part time employment in its own right. In some cases even a second job in addition to a regular one. Towards the end of 2015, there were about 31 million sozialversicherungspflichtige Jobs in Germany, but also 7.419 million low pay jobs.[34]

Graphic 22 Development of quality jobs and low-pay jobs 2006-2015



5.5.2.3 Conclusion

The previous questions the statement above (5.2.1) that “the German workforce” is as a whole part of the mandatory insurance system. This statement, and the related statistics, only refer to jobs which are under obligation (and ability) of insurance membership, as the smallprint in the relevant Microcensus databook portrays.[35] The graph above illustrates the trend that a large (and growing) number is outside the mandatory insurance system.

This confirms the criticism of the OECD that a far too high share of German jobs belongs to this segment of employment (cf. GER/III/2.1.5). One could even argue that this

[34] Current, monthly updated figures under https://statistik.arbeitsagentur.de/Navigation/Statistik/Statistik-nach-Themen/Beschaeftigung/Beschaeftigung-Nav.html#top

[35] p. 12 of Statistisches Bundesamt (2011) Sozialleistungen – Angaben zur Krankenversicherung.

sector contains "working poor". Even in a wealthy country such as Germany, namely people who are unable to lead a decent life with the market income they earn in their jobs. Independently whether people choose to work in the low pay sector, e.g. because they do not want to work full time, payment and resulting losses in taxes and SSCs erode the public solidarity system.

5.5.3 Consequences for tax revenue

Whether or not somebody is in gainful employment in this sector pays taxes or not is largely dependent on the family where somebody else earns adequate income. So a tax category applies to tax payments of the low paying job. If the person concerned is the only earner (either with or without family) there is a considerable threshold which exempts them from tax payments.

5.5.4 Consequences for SSC revenues

This is different for SSC contributions which commence as soon somebody has a job and earns any income, s/he has to pay SSC contributions. But, of course, there are exemptions. A very sizeable category include Minijobs, whose incumbents do not pay any taxes and social security contributions and whose share is being paid/carried by the state itself. At the end of the third quarter of 2015 there were 6.6 Minijobber in Germany for whom the state did subsidize through payments (vs. 31 million who paid SSCs on their own.)

5.5.5 Consequences for tax payments

5.5.5.1 Kombilohn & Aufstocker

The low-payment segment contains two categories of jobs which are de facto subsidized with taxpayers money: Kombilohn and Aufstocker. And this is big money: In Bavaria, the 87,067 Aufstocker cost the Bavarian state in 2010 EUR 300 million annually.[36]

Common in both cases is that those holding those jobs could not lead a decent life from that which they could earn on the "market". It certainly would merit a close examination to what extent employer profit from those subsidized employment and whether they carry their fair share from those profits.

Here is an overlap to Minijobs since most Aufstocker are employed in a Minijob wich does not provide adequate means for the existential minimum. Regarding the distinction between income and wealth it is also noteworthy that households headed by Aufstocker are more frequently indebted than others and thus restricted in what they do with their earned income.[37]

5.5.5.2 Tax financed subvention of social insurance

➔ Cf. below, 7.5.

5.5.5.3 Tax funded Social welfare

If (fake/solo) self-employed" do not have enough means to finance their private insurance and if they lose their insurance coverage, they and their families are dependent on the tax-financed Social Welfare (*Sozialhilfe*). According to Berger,180,000 among those self-

[36] (Beyer, 2015, p. 21) . Regarding Germany and according to Berger, 130 000 self-employed are in need of being subsidized with taxpayers money via the Hartz IV mechanism (Position 1757-1763

[37] Aufstocker überproportional häufig überschuldet. (2015, June 10) In: Statistisches Bundesamt https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2015/06/PD15_212_635.html

employed and paying private insurance are lacking back with their contribution payments (Position 1757-1763).

This also makes it obvious that a surge of old-age poverty is foreseeable for the time that those earning less than the mandatory SSC threshold or those who are (Fake/Solo) Self Employed cease working and get dependent from tax funded support (Bach, 2016a)

5.5.6 Low pay segment, Minimum wage, black labour

One effort by the legislator to put pressure on employers to pay better wages was the legal Minimum Wage of EUR 8.50. Ever since it was introduced there has debate whether the minimum wage indeed gets people out of low pay employment and/or reduces tax payer subsidies for those earning low wages and/or are not able to pay for their social security insurance.

While government official and trade unionists argue that Minimum Wages enables people to earn better market income, others argue that those requirements deleted Minijobs and rather increased those who will in future depend on unemployment benefits.[38]

Another way to deal with the situation if the combined burden of taxes and SSCs is too high is resorting to the informal sector and engage in Black Labour (cf. GSE#).

5.6 Conclusion

Regarding the questions arising within the Tax Justice & Poverty project, this chapter examines a number of relevant issues arising from the policies and legislation related to taxes and tax like contributions. In order to judge whether taxation is fair, one needs to examine

1. The difference between the nominal and effective progressive tax rate.
2. The burden arising from the payment of tax-like mandatory SSCs (as well as the question, who is exempt from payments or for whom alternatives are preferable).
3. The impact of indirect taxation (VAT) upon a household.
4. The size and composition of households.
5. The burden on households regarding the economic development, including ups and downs due to crises and inflation.
6. The question whether tax policy and legislation is adequate towards real (inflation adjusted) income and the principle of “ability to pay” and therefore the burden of redistribution is resting on strong shoulders rather than those of whom revenue is more easy to collect.

The first sets of conclusions are derived from examining the question whether Germany’s taxation of income can still be called “progressive”. The analysis done above first confirms that indeed top income households generally still carry a progressively increasing share in absolute Income Tax revenue and that indeed the German progressive Income Tax rates are contributing to the lowering of inequality. However, a closer look also discovers some injustices in the current system:

- A decreasing tax burden for the top 0.001% and 0.0001%.

[38] Borstel, St.v. (2015, June 24) Die Wahrzeit hinter Nahles‘ Mindestlohn Wunder. In: Die Welt. Retrieved from http://www.welt.de/wirtschaft/article143000596/Die-Wahrheit-hinter-Nahles-Mindestlohn-Wunder.html

- A privileged taxation of income from capital, a category of great importance for the wealthy, due to intransparency and mobility.
- A shift within Income Tax revenue from income from capital to income from dependent labour.
- The share of revenue contributed by the top 1% is decreasing, the share of revenue contributed by the bottom 20% is increasing → BachCorneoSteiner in GW/I#Intro.

A second set of conclusions arises from examining the combined burden of direct and indirect tax plus mandatory SSCs. Here, too, a number of systemic weaknesses have been discovered, burdening low and middle-income households rather than private and corporate wealth holder:

- The regressive effect of impact of indirect taxes, levies and mandatory Social Security Contributions is stronger felt by low and middle-income households.
- High income households may opt out of the solidarity system and go for private (supplementary or alternative) provisions,
- Civil servants, which make up 4% of the national workforce, does not pay any SSCs at all,
- Single and adult-only households are privileged over households with children, this strains the solidarity system and forces the state to bridge gaps with making debts or increase of indirect taxation.
- The option for privately financed insurance options contributes to international volatility of capital markets.

A third part of the discussion was devoted to the explicit development of privileges for the private and corporate wealth holder. Here it was observed, that present taxation instruments are not merely inadequate when examining the de-facto increase of income and wealth, but rather, that taxation policies even contributed to inequality and considerable unfairness in society's burden sharing.

- While the personal Income Tax is still progressive, rates here, as well regarding corporate income, were substantially decreased over the past decades, in spite of increasing earnings.
- Certain important categories of income are not included for the amount of SSC calculation.
- Above the threshold of an annual income of EUR 54.900 (in 2015) people can leave the public solidarity system.
- Taxes specifically targeting at the wealthy have been abandoned, reduced and/or contain high allowances and exemptions. Furthermore, its tax burden can be reduced nationally and internationally due to legal tax design options as well as legislative loopholes and enforcement deficits as will be shown in more detail.
- The share of employer in maintaining the solidarity system is decreasing and his contribution is "frozen".

A final part was dealing with the low-income segment

- A large number of those working in the low-income segment are no longer adequately covered by the existing SSC system. They are, however, over proportionately burdened by consumer taxes and levies. They need to be supported by other taxpayers, e.g. by topping-up their wage or financing Social Welfare.

- For the sake of employment, the state abandoned the goal to collect SSCs from a large job segment, the Minijobs and rather paid them itself.
- To the extent that an increasing number of jobs no longer generates adequate income to contribute to tax and SSC revenue, the state is forced to bridge gaps via Social Welfare.

This leaves us with two major issues:

First of all, the Federal Constitutional Court ruled that in times of growing public spending the state is asked to look for a just and fair burden sharing. [39] The present situation is everything but that. The "burden sharing" among Germanys taxpayers is clearly to the disadvantage of dependently employed as well as low and middle income households, and not upon the owner of high income as well as private and corporate wealth. This is, however, not an isolated trend. As the European Union presented their Taxation Report 2013, the respective Press Release titled 'Labour taxes remain major source of tax revenue' all over the EU.[40]

Secondly, and looking back upon the development of tax rates over the past decades, it remains unclear, whether changes in Income Tax rates and other tax related changes indeed contributed to the increase of inequality or not. But, in the word of the IMF:

> 'It is notable that those countries with the largest reductions in the top marginal income have experienced the greatest increase in inequality. What has happened to the distribution of wealth is ... less clear, but for the advanced economies that have been studied, there is more wealth around: ratios of private wealth to national income have more than doubled since about 1970. ... The aim here is to identify the trade-offs and practical issues that arise in taxing the rich. Is there room for those with the highest income and wealth to pay more without undue damage to efficiency?'. (International Monetary Fund, 2013a, p. 34)

6 Trends in the taxation of environment, capital, labour

Finally, and given the long-term importance of initiating and financing climate change policies, a look towards the impact of green taxes and its relationship and burden towards the taxation of capital and labour:

6.1 Decreasing share of "green taxes"

This leads to a final perspective with which one can assess and evaluate taxation trends over the past decades, given the double meaning of "Steuer" in German language (being associated both with the collection of revenue and correcting non-desirable trends), two areas emerge for specific consideration on grounds of a Catholic Social Teaching background: the relationship between the taxation and tax-like contributions of capital and labour, and those related to environmental issues, either trying to prevent or slow down harm to the environment and natural resources ("Tax the bad, not the goods").

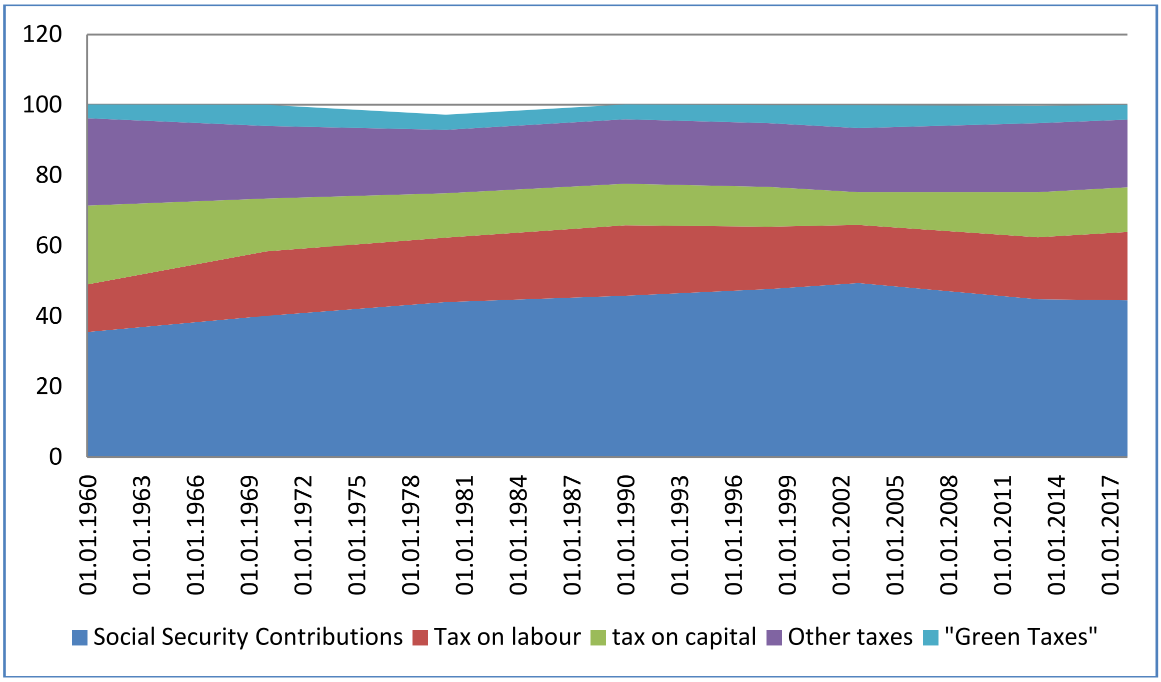
A study summarizing tendencies and results over the past years (Ludewig, Mahler, & Mayer, 2014) comes to the following conclusion: It first confirms the familiar observation that labour was and is disadvantaged compared to capital. It also states that tender beginnings

[39] BVerfG-Beschluß vom 25.9.1992 (2 BvL 5/91, 2 BvL 8/91, 2 BvL 14/91): „Gerade bei wachsendem staatlichem Finanzbedarf und seiner ihm entsprechenden steigenden Steuerbelastung ist der Gesetzgeber gehalten, eine gerechte Verteilung der Lasten zu gewährleisten." Retrieved from http://www.bfh.simons-moll.de/bfh_1993/XX930413.HTM

[40] Press Release 29 April 2013 http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-29042013-CP/EN/2-29042013-CP-EN.PDF

of environmental related taxation are on reverse course. In 2013, the state collected its fiscal and parafiscal revenue in taxes and social security contribution to almost two thirds from (dependent) labour (62.5%), while merely 12.8% was raised from capital, 5.1% from "green taxes", and the remaining 19.6% from all other remaining taxes and levies.

Graphic 23 Development of factor taxation, i.e. labour, capital and environment, since 1960



Source 21 (Ludewig, Mahler, & Mayer, 2014, p. 4)

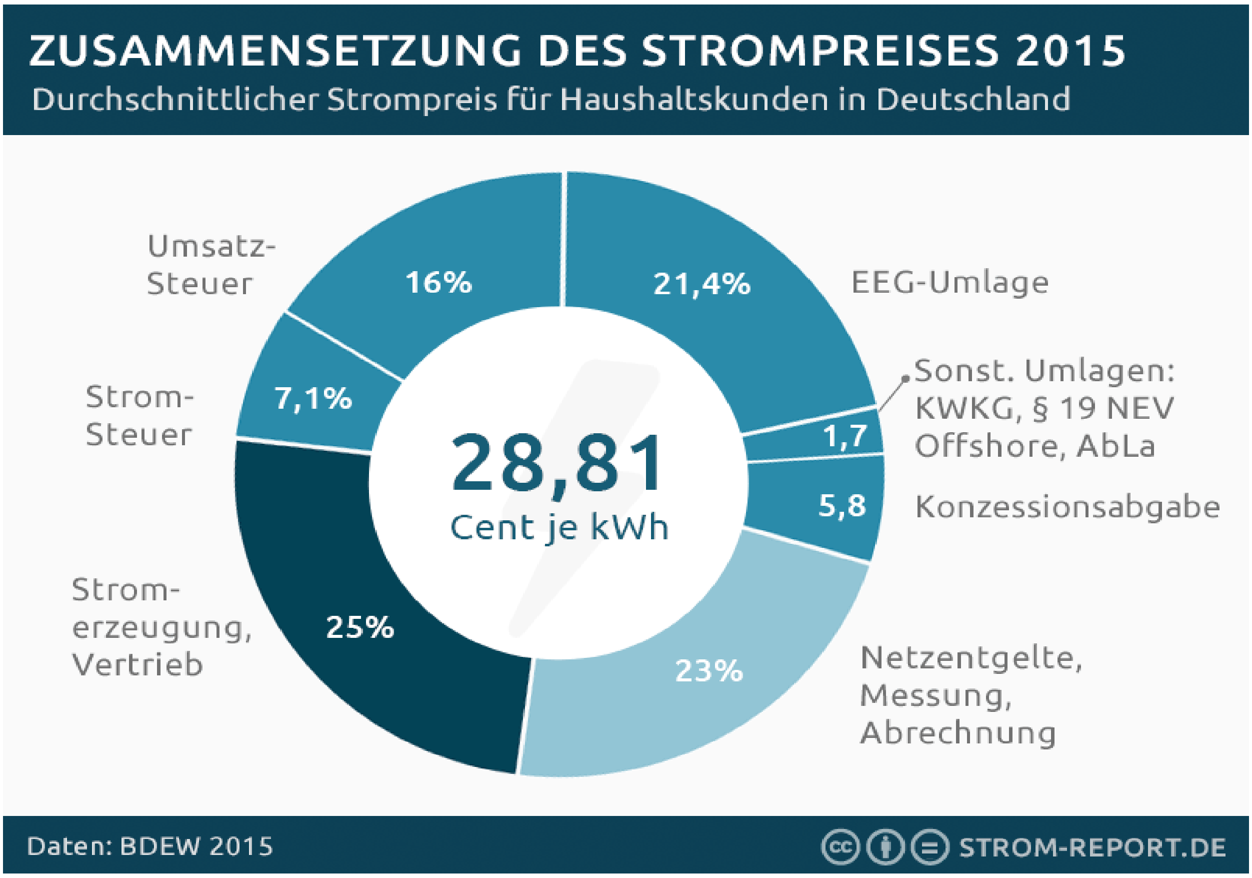
Over the past years, the share of "green taxes" decreased from a peak of 6.5% in 2003, when an "Ecological Tax Reform" was instituted, to 5.1% in 2013 (and is projected to decrease further) for two reasons: Firstly, they are related to the quantity of resources used, not its price. Here the development of revenue is detached from inflation and therefore not adjusted – different from labour, where income and taxes are adjusted to inflation. Second, because the taxes were successful and, e.g. the use of gasoline decreased because of the tax. Beyond that, here, too, are concerns regarding inequality and poverty, as can be shown at the following example:

6.2 Unfair distribution of burden and profit

The good intention of combating Greenhouse Effect and Climate change led to legislation which increased the costs for electricity enormously. Germany introduced a Levy for Renewable Energies in 2000 and reformed and reworked it ever since. It adds considerably to already existing contributions. For example: the price for electricity for the end-user was composed as follows:

Graphic 24 Composition of costs for electricity[41]

[41] http://strom-report.de/strompreise/#strompreisentwicklung



This adds up to a combined tax and tax-like burden per unit of 52%. As to the Renewable Energy levy: The idea behind was to generate a cashflow from consumers to the producer of renewable energies, not showing at all in the public budget. Due to an increase in renewable energy sources, the levy is rising fast since there is a corresponding increase in numbers of producers who want their investments to be rewarded. The cash flow between end-user and producer amounted in 2013 alone to 20 Billion Euro. However, there are many exemptions for industries, including sectors using a lot of energy, the burden of this levy is increasingly borne by ordinary consumers and households, while businesses (and their owner) profit from the present regime.[42]

As to the Renewable Energy Levy, Germany is clearly moving from something which is good for the environment to something which is increasingly bad on ground of social justice: Especially the large exemptions of industries raise eyebrows and reform blockades by those profiting from the present system (including Bavaria!) need to be addressed. The German way of trying to counteracting of Climate Change by making the usage of fossil energy more expensive is not a bad idea as such. But it should be part of a larger and fairer package which should also have a closer look at subsidies and exemptions.[43]

[42] Cf. also Salavati, N. (2013, July 26) Wie eine Steuer den Klimawandel stoppen könnte. *Süddeutsche Zeitung*. Retrieved from (Süddeutsche Zeitung, 2013b) and http://www.insm-oekonomenblog.de/10604-wenn-einige-profitieren-und-andere-zahlen/

[43] 'Implement effective carbon pricing, either by carbon taxation or by full auctioning under cap-and-trade schemes; eliminate fossil fuel subsidies and review environmental taxes more generally. Pricing measures are essential to encourage efficient mitigation and so are a particularly efficient source of revenue; fuel subsidies are very poorly targeted to distributional aims.' (International Monetary Fund, 2013, p. 25)

6.3 Global dimension

Finally, two international aspects since problems arising here are indeed borderless and need to be tackled globally:

Climate change is a universal phenomenon and ordinary Germans question why they should shoulder an over proportional share of the burden. After all, it is argued, poor countries are all too often all too busy to repeat all the mistakes wealthy countries did because their prime intention is to catch up with the economic development of wealthy countries first and all too often advance growth at the cost of social inequality by burdening labour more than capital and at the costs of resource-depletion and environment. This certainly applies to China, this will be now, if Narendra Modi transfers his “success model” of Gujarat, determine the course of India. And it is certainly the temptation of any developing country in Africa, cf. (Andebo, 2014a). Here the Germans (rightly) find that it is unjust and unfair to bear the larger burden.

And: There is criticism towards available instruments and their misuse, e.g. the Emissions Trading System introduced by the European Union following the Kyoto Protocol: admittedly, billions of Euro were cheated here by fraudsters (cf. G/VII/1.7.2). The following can be held against it: First, the price of these certificates is established by the market and not by states. For that reason, and because the system successfully cut CO_2 emissions, a surplus of certificates now lowers its price which makes it less attractive for industries to bother about those additional costs. Thus the system is victim of its own success and the German government plays a sad role in international efforts of reform. Second: As within Germany, also too many states want too many exemptions for their favourite industries on grounds of competition. Third: The fact of fraud only emphasizes the need of an even better international cooperation and enforcement system.

All in all, therefore, green taxes and levies are urgent, present models are in urgent need of further reform. The burden needs to be spread more evenly both nationally and internationally or, if this does not happen, it needs to be brought into line with justice requirements in other ways, e.g. by subsidizing poor households or providing other forms of relief for them.

7 Justice Considerations

7.1 Shifts in revenue, rising costs and debt, cutting assistance

The formerly simple system of taxing all forms of labour comprehensively and also drawing SSCs from them as well originates in a time when income from labour and salaries still were a large and stabile source of income. With globalization, other forms of generating income emerged, together with the mobility of capital, which both contributed to the fact that this form of income would not and could not be taxed adequately and progressively and was also spared from contributing to SSCs. Here, not even a flat rate contribution was asked for, as at least the Abgeltungsteuer took away a 25% Flat Tax from capital income.

In addition: even under the old system, the wealthy were privileged already even inside the public solidarity system because of the Beitragsbemessungsgrenze, which is the first injustice, especially if considering that some categories of income are exempt from assessment for SSCs in principle.

Similarly globalization contributed to reforms of the labour market which brought about diversified forms of employment which, as time went on, were neither able to pay taxes nor adequate SSCs nor, where required, rates for private insurance arrangements. If they do not earn enough, they risk not to pay their rates and lose their coverage of insurance, eventually becoming a burden for tax funded Social Welfare.

Those increases in costs were made up by the state, due to the lack of revenue, by making debt or cutting services and assistance, e.g. by lowering social welfare assistance. This in turn reduced the effect of redistribution e.g. by cutting services, raising eligibility criteria or excluding groups from benefits. This in turn might decrease social mobility, increase the tendency of households to enter into private debt, lead to even less income, leading to even less revenue. A vicious circle.

7.2 Falling out at the bottom, opting out at the top

The base of financing the public solidarity system is shrinking on both ends: While labour market reforms made people at the bottom fall out of the system of social security and/or the state paying for SSCs from taxpayers money and generally has the obligation to finance for the needs of all who cannot pay themselves via social welfare, here, a second privilege of the wealthy occurs: If they opt out and look for private provisions, they withdraw their “ability to pay” from the community and change into a system where they care only for themselves and those like themselves. While payments in the solidarity system are spent immediately for those in need, payments in the private, capital based system creates resources and demands for the future, meanwhile strengthening capital markets and contributing to its volatility.

The growing share of self-employed is yet another nail in the coffin of the solidarity system because it indirectly deprives the system of resources: If those whose insurance rests in the payment of SSCs are treated by a doctor, this doctor earns money from the solidarity system, he himself is, however, being self-employed outside the solidarity system and will buy private insurance – yet another leak of resources out of the solidarity system to capital markets.

7.3 Shift from taxing wealth to indirect taxation

A basic rule is that savings in one area have to be counter-balanced by increasing revenue in others. In the German case, two developments are visible: First, the tax burden upon dependent labour remained high or even increased, while the tax burden on income from capital was lowered when this income was excluded from progressive taxation and replaced by a flat tax. Here again the reason is that capital is mobile and can easily be transferred all over the world, out of the reach of the tax man, while dependent labour remains where they live and are easily taxable.

Second: reductions of PIT and CIT for the wealthy were counter-financed by increasing indirect taxation. Between 1993 and 2007, VAT went up from 15% to 19%. This cross-financing idea is seen by a number of authors, e.g. Liebert (pp. 62+82ff.).

Regarding tax avoidance and evasion option, another reason for this shift is obvious: There is no major option for avoidance and evasion regarding consumption – this tax is being paid with every purchased article. However: here, too, wealthy people have more avoidance options than low and middle income households; for example, if they purchase expensive luxury items abroad in countries where VAT is lower or refund options exist.

There are other reasons, too, for the shift to indirect taxation, e.g. its collection costs (cf. G/VIII/2.1.6). All this comes together when one wants to comprehend the development visible in the following table:

Table 11 Over time development of selected tax rates 2000-2013[44]

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Tax burden upon labour (tax & SSC)	52.9	52.1	52.3	51.8	51.3	50.8	49.1	49.7	49.6	49.3
CIT	40	25	25	25	15	15	15	15	15	15
Top PIT rate	51	45	45	45	45	45	45	45	45	45
Net PIT on dividend income	31.1	22.2	22.2	23.7	26.4	26.4	26.4	26.4	26.4	26.4
VAT	16	16	16	16	19	19	19	19	19	19

7.4 SSCs, not taxes, are the problem

Die größte Quelle ungleicher, ungerechter Besteuerung, sind die Sozialabgaben für Renten-, Pflege- und Arbeitslosenversicherung. Sie werden für jeden Euro erhoben, sind wg. der Bemessungsgrenzen de facto degressiv und mehr als ein Drittel des gesamten Volkseinkommens (Selbständige, Beamte und Kapitaleinkünfte + Einkünfte oberhalb der Bemessungsgrenzen) wird gar nicht erfasst![ ]

Der Parafiskus (holt) den dicksten Batzen, und die indirekten Steuern (Abgrenzung im amtl. Materialien habe ich noch nirgendwo klar herauszufinden vermocht) die zweitwichtigste Einnahmequelle darstellen, mithin die regressiven Einnahmen bei weitem überwiegen. Zudem wäre hier noch zu berücksichtigen, dass es mehrere direkte Steuerarten gibt und bei der ESt-Steuer die LohnSt den mit großem Abstand größten Posten ausmacht. Was ebenfalls nicht übersehen werden darf, ist die Finanzierung der öffentl. Haushalte über Kreditaufnahme; eine Staatsverschuldung in Höhe von über 2.1 Billionen bedeutet im Klartext ja, dass implizit eine entsprechende Steuerverschonung der Reichen (in der Größenordnung von rd 7 Bundeshaushalten!) stattfand. Diese Kreditaufnahme verschleiert somit eine ungeheure Verlagerung der Verantwortung für die Staatsfinanzierung auf die Schultern der Arbeitnehmer.

SSCs have a direct and indirect importance for German public finance: Direct, because it is a mandatory, tax like contribution and is therefore, following OECD categorization, listed in the public revenue statistics. Indirect, because the state is obliged to cover those areas which cannot be covered by the mandatory social security system, i.e. if costs for a growing and ageing population cannot be financed by the social insurance institutions anymore, the state has to fill in. There are two sources of potential loss: First, that an increasing number of people at the lower end of income distribution cannot pay for their participation in the mandatory insurance system anymore – even though the mandatory SSCs are those which have to be paid even if the income earner is tax exempt because he is below the tax exemption threshold. There is a second risk: Since private insurances for health, pensions, life etc. are covered by capital markets, turbulences as those having happened during the World Financial and Economical Crisis might delete assets and make it difficult and/or impossible for the insurer to cover expenses. Then, too, the state has to come in and bridge the gap. Even though this does not seem to have happened in 2007/2008 for Germany, because investments of those insurer are comparatively conservative – as yet. The risk is there and it might happen one day.

[44] Cf. http://www.oecd.org/tax/tax-policy/tax-database.htm and own addition

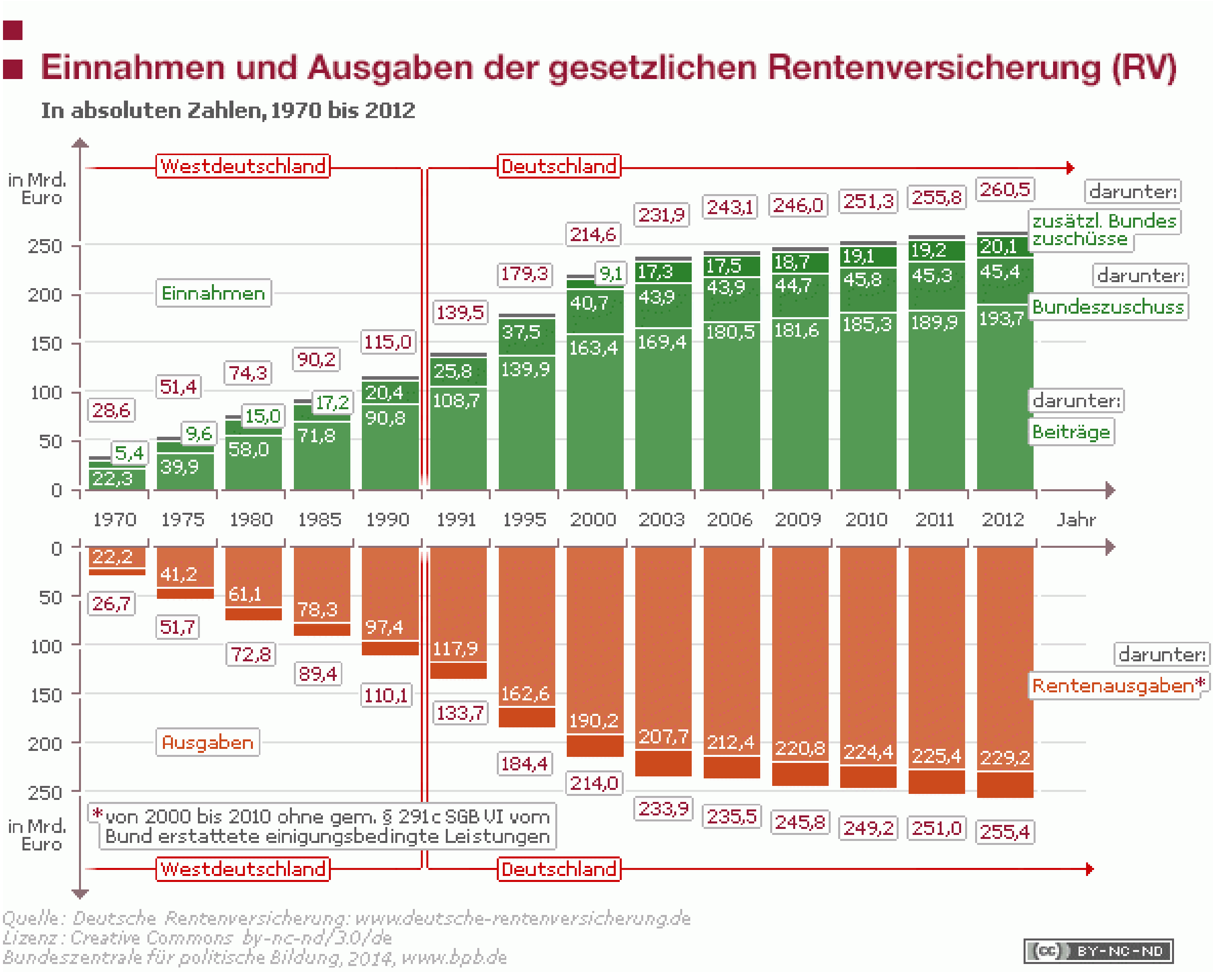
Ironically, those insurer are part of the problem: exactly because they have to cover costs they are tempted to do risky investments (because here profits are highest), thus fuelling instability.

7.5 Balancing Social Insurance deficit with new and indirect taxes

7.5.1 Pensions

By far the largest crisis exists and will grow in the pension insurance, mainly, because SSC payments cannot balance the payment of entitlements.

Graphic 25 Tax funded subvention of the public pension system



Source 22 (Bundeszentrale für politische Bildung, 2014)

The problem with pension payments are multiple:

- First of all, the number of those actively contributing to insurance is decreasing, while those receiving benefits are increasing. When insurance was conceived in 1957, the ratio between those paying and those receiving support was 5:1. Nowadays it is 3:1 and in 2030 it is supposed to be 2:1.[45]
- Secondly, the opt-out age for retirement was lowered from 65 to 63, additional pension entitlement for non-contributors (Mütterrente) were introduced.

[45] Jährlich 81 Milliarden Zuschuss vom Bund für Rente. In: Regierung Online, 11/2011. Retrieved from https://www.bundesregierung.de/Content/DE/Magazine/01MagazinSozialesFamilie/2011/11/11.html?context=Inhalt%2C3

- Thirdly, social insurances were awarded a number of tasks by legislator and government which are not originally theirs – those, too, requiring topping-up with taxpayers money.[46]

The gap between SSC payments and pay-outs is covered by three means: [47]
- The general government subsidy (allgemeiner Bundeszuschuss)
- An additional subsidy by raising VAT in 1998 from 15 to 16% (Zusätzlicher Bundeszuschuss)
- Yet another additional subsidy by introducing an "Ecological Tax" in 1999 and dedicating those revenues to pension insurance (Erhöhungsbeitrag zum zusätzlichen Bundeszuschuss – Ökosteuer). This meant in fact that the tax on mineral fuels was raised 6 cents.

The latter tax is particularly remarkable because it mixes ecological and demographic intentions and violates the principle that tax revenue are for the general budget and not to be dedicated to a particular purpose: At first sight the "Eco-Tax" should make fuel more expensive, discourage the use of private cars and encourage the use of public transport. At second sight, the funds raised were diverted to cover the deficit in the pensions insurance. Towards 2004, when the last increase was implemented, a double digit billion Euro contribution for the pension insurance could be collected, usually something between EUR 15 and 20 billion.[48]

7.5.2 Insurance against sickness

Also insurance against sickness receives a topping-up with taxpayers money because the insurance, as pension insurance, has also to cover tasks which are not financed via SSCs. For example SSC exempt insurance of children and spouses of those insured or special payments for motherhood and pregnancy. Those government subsidies amount currently to annually EUR 14.5 billion.[49]

7.5.3 Insurance against unemployment

Regarding insurance against employment, government did pay some indirect subsidies against unemployment to the Federal Agency for Employment up to 2012.[50] This ceased, and nowadays government does not pay subsidies to this insurance system anymore.[51]

However, here, too, is a link between taxpayers and SSCs: In the attempt to lower the costs on labour, government in 2007 raised VAT from 16 to 19% to cross-finance the lowering of the need to lower the mandatory SSC for unemployment insurance.[52]

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[46] Die Bundeszuschüsse zur Renten- und Krankenversicherung. (2012, February 23) In: Sozialpolitik aktuell. Retrieved from http://www.sozialpolitik-aktuell.de/tl_files/sozialpolitik-aktuell/_Kontrovers/GesundheitsreformGesundheitsfonds/2012-02-22%20Bundeszuschuesse.pdf

[47] Jährlich 81 Milliarden Zuschuss vom Bund für Rente. In: Regierung Online, 11/2011. Retrieved from https://www.bundesregierung.de/Content/DE/Magazine/01MagazinSozialesFamilie/2011/11/11.html?context=Inhalt%2C3

[48] Cf., e.g. http://www.wiwo.de/politik/deutschland/oekosteuer-15-jahre-oekosteuer-das-phantom-aus-berlin/9695548.html

[49] Finanzierungsgrundlagen der gesetzlichen Krankenversicherungen. Retrieved from http://www.bmg.bund.de/themen/krankenversicherung/finanzierung/finanzierungsgrundlagen-der-gesetzlichen-krankenversicherung.html

[50] Unemployment, Assistance for re-integration and social benefits (ALG 2) Eur 40 billion (Bund Katholischer Unternehmer, 2012, p. 45)

[51] Cf. https://de.wikipedia.org/wiki/Arbeitslosenversicherung

7.5.4 Conclusion

Currently the steeply rising governmental subsidies towards pension insurance are by far the largest spending post in the federal budget[53] and given the retirement of those working in the low payment sector it can be expected that expenses here will rise further. Equally it can be assumed that within the ageing society costs for health will increase.

Handling the opening gap between SSCs and spending can be countered by the following option:

- cutting entitlements in general or for specific groups.
- introducing new, specifically introduced and dedicated taxes to cross-finance social insurance, as was the case in the 1998 increase of VAT and the 1999 introduction of the Eco Tax for pension insurance and the 2007 increase of VAT for lowering the unemployment SSCs.
- adding more and more taxpayers money taken from the general budget to the social insurance system or
- directly paying for requirements via the tax funded social welfare system.

All tax increases mentioned above followed, once more, the insight that they focused on those who cannot avoid or evade those taxes, by that burdening once more lower and middle income households rather than wealthier ones.

7.6 Different transparency for low and high income

The analysis of Bach/Corneo/Steiner proves the necessity of transparency, i.e. of getting access to an anonymous data set of tax declarations in order to understand better and more differentiated the situation of the top 1%.

The financial situation of dependently employed (and recipients of social welfare and social benefits) is very transparent to the authorities, their share of taxation can be collected easily and cheaply by applying automated procedures. At the same time, the assessment of Income Tax dues of wealthy people, who submit their own tax declaration, requires more administrative effort and costs. Because of intransparency, truth and adequacy of self-declarations can only be verified if tax auditors check upon submitted data – which happens very rarely due to the lack of capacities on part of the authorities (cf. GER/VI/4.3.4).

To the knowledge of the research, a comparable research aiming for the top private and corporate wealth holder was not permitted again. A similar quantitative research project by the FAU in Nuremberg, also trying to examine anonymous chance sample, was not permitted to look into tax data of those earning an annual income of EUR 5 million for data and privacy protection concerns.

7.7 Demography and generational justice

There is an intragenerational and an intergenerational justice problem: The intragenerational problem concerns the fact that the present system privileges single persons rather than those raising up children (cf. above 5.2.5). The intergenerational problem follows

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[52] Alles wird teurer (2006, May 19). In: Die Zeit. Retrieved from http://www.zeit.de/online/2006/21/Mehrwertsteuer

[53] https://www.bundesregierung.de/Content/DE/Magazine/01MagazinSozialesFamilie/2011/11/11.html?context=Inhalt%2C3

from here because there are fewer and fewer young people which have to stem the growing burden of retired people calling for pensions and attendant health care. Linked to this is the question whether – and how – the work of mothers could be compensated which they spent on the raising of children. So far, “unemployed” mothers are disadvantaged against professional or at least part time working women.

7.8 From “Ability to pay” to “Inescapability”

The German tax and SSC system certainly has some privileged persons who certainly resist tax reforms. The problem is increased by the fact that among the privileged are those who decide the laws (MPs), administer them (public employees, civil servants and politicians) and judge their application (judges). But: There is an increasing number of those withdrawing from contributing to the SSC, namely private and corporate wealth holders. Because of that, the German system of taxation and, most importantly, system of social security contains a number of injustices and is no longer sustainable:

- Direct taxes, especially those aimed at private and corporate wealth, are lowered, the burden on indirect taxes and SSCs remains high or is increasing.
- Even though Consumption Taxes are regressive and burdening over proportionate to lower and middle income households, rates were increased and/or even new indirect taxes and levies were introduced.
- To make the system “bearable” for the poor, certain products are taxed with a lower VAT rate – this, however, also benefits the wealthy who purchase the same goods.
- There is already a large group, whose SSCs are being paid by the state and whose care is financed via the general taxpayer and social welfare payments. It is foreseeable that this group will grow if those dependent on private insurance, but unable to pay their rates, will grow older and sicker.

Therefore and as chapter 7.3 illustrates: In not too distant a past, tax revenue in Germany was composed to 60% from direct and 40% from indirect taxes. It moves now, after the reform of Income and Corporation Tax the opposite way round: 40% direct, 60% indirect (Wieland, 2013, p. 38), in talks with senior tax administrator, a higher share is seen to be preferable because there is little room for cheating (cf. G/VIII/2.1.6)

If one adds federal subvention of the mandatory social security institutions (cf. 5.5.5) and adds interest payment for public debt on the federal level, the total amount for 2012 is EUR 175 billion, which covers 57% of the federal budget. It is more, if debt of state and municipal government is added and it is all money which at best finances indirect investment and services. The need to add taxpayers money for the sustainability of those institutions is certainly also due to the fact that wealthy people often opt-out of the mutual system of solidarity and prefer private arrangements. Obviously, the chance is high that the need for subventions towards social security institutions will increase over the next years, given the demographic development of Germany.

Accordingly, the German system of taxation and mandatory SSCs moves from the Principle of Ability to Pay to the Principle of Inescapability. The heavier burden is on those groups and assets which cannot be transferred or hidden abroad but must be paid on the spot.

All this only deals with necessities and the needs of day-to-day policies and financing. Important issues such as climate change seem to be the victim of such short-term planning.

8 Research focus

8.1 *Social Security questions & Reform*

The importance of weaknesses of the German SSC system regarding unequal treatment of low and high income is considerable. As is its inability to do justice to emerging poverty risks, resulting from changes in family composition, demographic development and the labour market. Here, however, the researcher is neither competent, nor does he has the resources to work himself into the issues in a way that a sensible position facing the many reform proposals could be found. For example, the weaknesses which have accumulated over the decades, starting with the discrimination of families with children up to the deregulation of markets as a consequence of financial globalization and the states' surrendering of powers, to regulate and protect national labour markets, are extremely complex and need more competent experts than the researcher is. Just two short comments on different approaches to reform:

8.1.1 Bedingungsloses Grundeinkommen/Basic Income Grant

Here, therefore, merely reference shall be given to models under discussion. For example, a major point of discussion is, whether payments arising from a reformed system should be linked to conditions or not. Here, for example, the discussion surrounding the "Bedingungslose Grundeinkommen" has its place,[54] which is gaining popularity in Germany and Austria, but also abroad. It is, for example, piloted in Namibia under the name Basic Income Grant,[55] equally Finland is thinking about a larger piloting scheme which has, however, some shortcomings.[56]. This transfer system is tax funded, payments are not linked to any conditions.

Interesting enough is the suggestion submitted by a very unusual suspect, namely the CEO of the Deutsche Telekom, supporting the Bedingungsloses Grundeinkommen to be funded from money arising from IT business.[57]

There would be indeed advantages to some sort of Basic Income Grant under the given circumstances:

- It would replace a highly costly means tested social welfare system which produces (willingly or unwillingly) as much injustice as it cures.
- It would compensate women for their work in child rearing.
- It would compensate who do not want to work in a job, but to voluntary work which under the present system would not be paid (e.g. neighbourhood assistance…)

It could be a solution to reduce the amount in work in society because right now employment can only be secured by stimulating the people to purchase things they don't need, which break or waste prematurely or follow the dictatorship of fashion. All this goes on the expense of natural resources which are overexploited. Perhaps there are some who are happy and content with their Basic Income Grant since it finances that which the truly need to live so that they turn to other things which are not financially, but otherwise rewarding.

[54] Cf. http://de.wikipedia.org/wiki/Bedingungsloses_Grundeinkommen
[55] Cf. http://de.wikipedia.org/wiki/Basic_Income_Grant
[56] http://www.grundeinkommen.de/09/12/2015/grundeinkommen-in-finnland.html
[57] Soziale Sicherung – Telekom-Chef für Bedingungsloses Grundeinkommen (2015, December 29). In: FAZ. Retrieved from http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/soziale-sicherung-telekom-chef-fuer-bedingungsloses-grundeinkommen-13989579.html

Exempt from the Basic Income Grant would be those earning more than the amount set for the Basic Income Grant since their income is above anyhow.

Others argue that any transfer should be linked to certain conditions (e.g. Borchert, Nell-Breuning).

8.1.1.1 Namibia

Namibia is set to implement a national Basic Income Grant from April 2016 onwards with the goal to eradicate poverty in Namibia by 2025.

> In short, Geingob's plan includes four key pillars such as social development, effective service delivery, economic development and infrastructure development. One of the key announcements made by the head of state is the implementation of the Basic Income Grant under which the government would pay every Namibian, regardless of age or income, a cash grant (e.g. N$100) every month. "The basic income grant will be revised and linked to the activities of the food bank. Other conditions may be attached to the BIG, thereby making it a conditional basic income grant," Geingob said.[58]

8.1.2 Reward and unburden labour

A central reform should be that labour is unburdened. A fairer burden sharing between labour on the one hand, and capital on the other is needed. Regarding the unburdening of labour, the lowering of tax rates is less promising than reforms of the mandatory SSCs.

A fundamental reform being advocated by this study is that labour is unburdened from excessive taxation corresponding with all that which so far politics does not want to have private and corporate wealth to shoulder. A fairer burden sharing between labour on the one hand, and capital on the other is needed. Regarding the unburdening of labour, the lowering of tax rates is less promising than reforms of the mandatory SSCs.

This finds support by the OECDs Secretary General, A. Gurria, on the occasion of presenting the OECDs Economic Survey on Germany 2014:[59]

> We recommend that the tax system should be mad more supportive to inclusive growth by broadening the tax base, by updating taxable property valuations and by phasing out tax expenditures for activities that damage the environment. Part of the fiscal room gained in this way should be used to reduce the high tax wedge on labour, in particular for low-productivity workers as well as to raise spending to increase the wage mobility of low income earners.

Regarding social security and the question of Basic Income Grants, reforms have to make sure that labour is better paid than unemployment benefits.

8.1.3 Reform the foundation of the SSC system

The Federal Constitutional Court ruled that in times of growing public spending the state is asked to look for a just and fair burden sharing. [60] Accordingly, a fairer burden sharing

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[58] Geingob makes more promises. (2015, December 15) In: The Namibian. Retrieved 25 February 2016 from http://www.namibian.com.na/index.php?page=archive-read&id=145391

[59] Speech from 13 May 2014, Retrieved from http://www.oecd.org/berlin/Wirtschaftsbericht-Deutschland-2014-Speech-Gurr%C3%ADa.pdf

[60] BVerfG-Beschluß vom 25.9.1992 (2 BvL 5/91, 2 BvL 8/91, 2 BvL 14/91): „Gerade bei wachsendem staatlichem Finanzbedarf und seiner ihm entsprechenden steigenden Steuerbelastung ist der Gesetzgeber gehalten, eine gerechte Verteilung der Lasten zu gewährleisten." Retrieved from http://www.bfh.simons-moll.de/bfh_1993/XX930413.HTM

between labour and capital is also needed to finance the SSC system, e.g. by including income from capital for calculating SSC rates. The question is whether the present system, based on mandatory SSC, from whose payment many are exempted, is still sustainable or whether it needs to be replaced by a tax funded system as it is in other states.

8.1.3.1 Die Bürgerversicherung

Here, some propose the Bürgerversicherung by arguing, that it would put away with all criticism which right now can be levied against the present system and which would be much more in tune with the original vision at the beginning of the national Social Insurance System.[61]

The system is best explained in (Arbeitskreis Ökonomie und Kirche, 2009). It ends the option to choose between the established pay as you go system and private insurance. It ends the partition of the social security system into one, which increases transparency and lowers administrative costs. Most importantly it is progressive and includes all categories of income, as does the Income Tax. The social security contribution of each individual is calculated similar to the system of finding out the German Church Tax. Based on that, lower and middle income are relieved of the present burden, those well-off, receiving a higher income and pay already a higher Income Tax will then be forced to also pay a mandatory SSC.

8.1.3.2 Contributions from business transactions

Further, there are still possible alternative sources of funding that might be explored such as those arising from business transactions. For example, the money earmarked by the Telekom for the unconditional income should be paid into the umlagefinanzierte funds covering, e.g., health costs (Gesundheitsfonds), as long as that one is having deficits and could lower tax and SSC costs for human labour even more than the proposed system of the Bürgerversicherung.

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[61] Solidarische Bürgerversicherung: fair teilen statt sozial spalten. http://www.oekonomie-und-kirche.de/diskussion/BuergerversicherungLang.pdf

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