Deutsches Institut für Wirtschaftsforschung

DIW BERLIN

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The Debate on Wealth Taxation in Germany

ECFIN Taxation Workshop

'Taxing Wealth: Past, Present, Future'

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Outline

Background

Top wealth taxation

- Recurrent wealth tax
- One-time capital levy
- Inheritance and gift taxation

Lessons from the policy debates

Conclusion

Background

Rising inequality in income and wealth

Noticed for several OECD countries, especially for Germany

- Rising income concentration
  - 4%-points Gini coeff. household net equivalent income since the mid 90ies
  - Rising top incomes up to the financial crisis
- High wealth concentration

Reduction in tax progressivity

Reduction of top income tax rate, capital income taxation, wealth taxation

Increase of indirect taxation: VAT, green taxes

Proposals for higher taxes on the “rich”

By left-wing parties, esp. in national poll campaign 2013

Top income taxation, capital income taxation

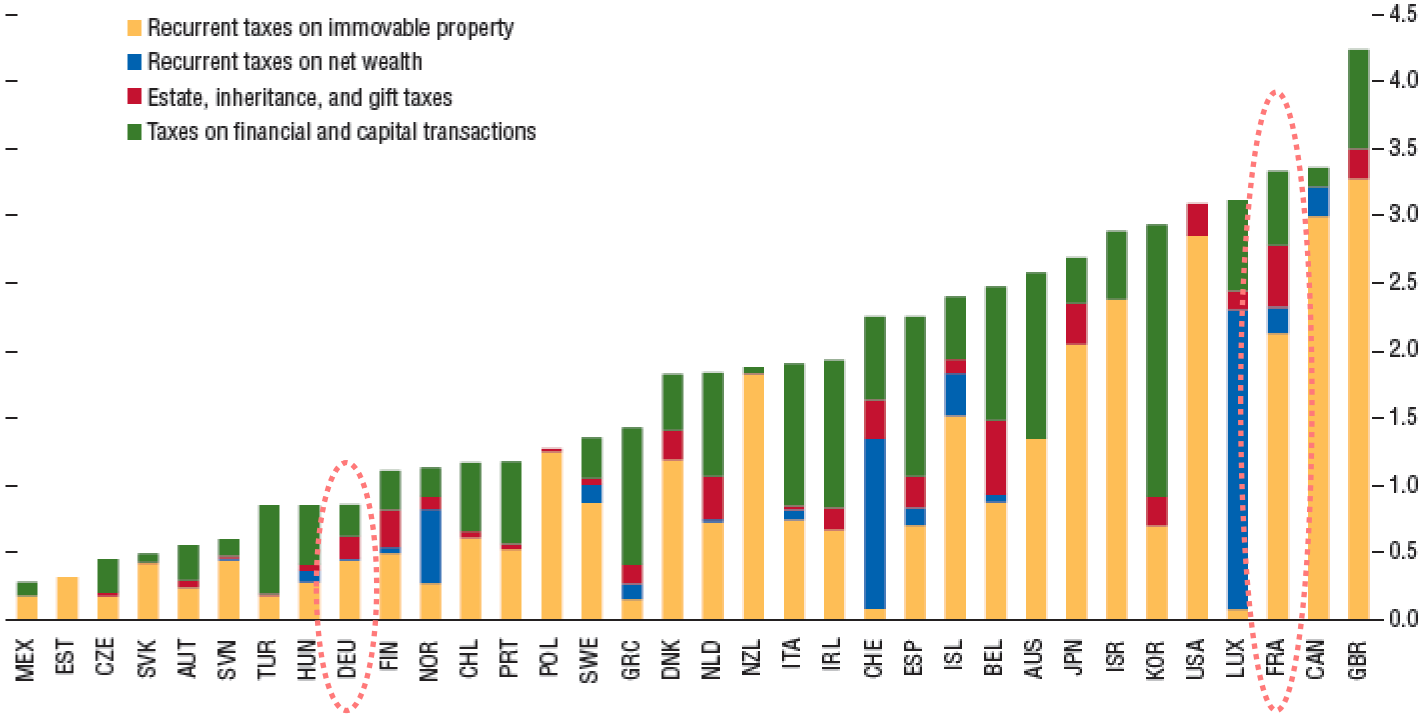
Top wealth taxation

- Recurrent wealth tax
- One-time capital levy
- Inheritance and gift taxation

(Property taxes, property transfer taxation, financial transaction taxation)?

No clear incidence to the “rich”

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



Source: IMF (2013): Taxing Times. FISCAL MONITOR October 2013, p 40.

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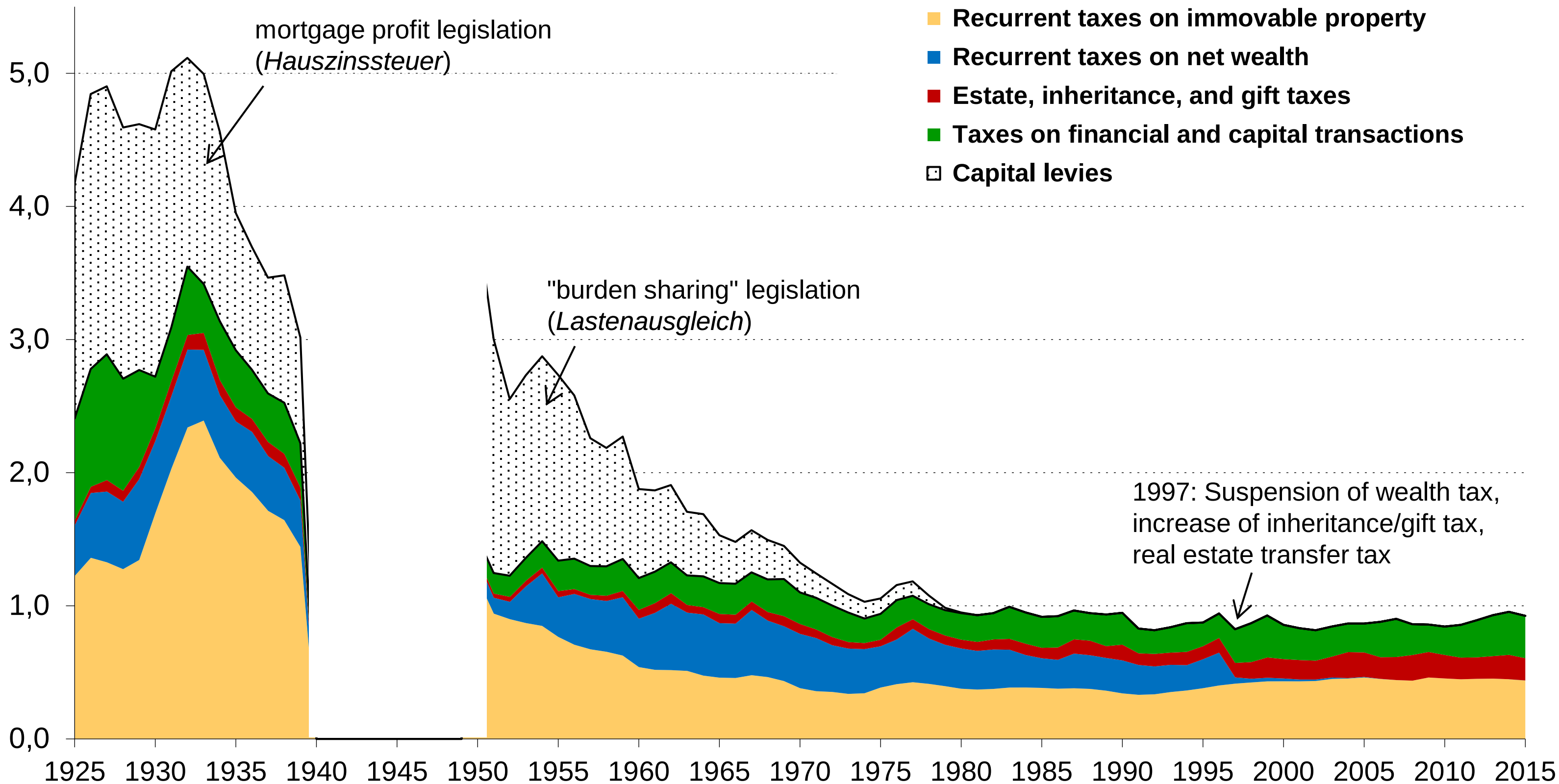
Average Property Taxes in Germany 1925-2015

Percent of GDP



Source: Federal Statistical Office, Germany.

Assessing top wealth

Assets (real estate properties, business properties, financial assets) less liabilities

Complex appraisal procedures

High personal allowances

To concentrate the tax burden to the top 5% or 1% …

Reliefs for business property, SMEs?

Data on wealth distribution for Germany for policy evaluation

Survey data: German Socio-economic Panel Study (SOEP), HFCS

Estimation and imputation of top wealth distribution

- Listing of the 500 richest Germans provided by manager magazin
- Using Pareto distribution

Potential tax base of a capital levy / wealth tax in Germany

	Personal allowance: 250 000 Euro Child allowance: 100 000 Euro		Personal allowance: 500 000 Euro Child allowance: 250 000 Euro		Personal allowance: 1 mill. Euro Child allowance: 250 000 Euro		Total net wealth
	Specific allowance for business property						
	none	5 mill. Euro	none	5 mill. Euro	none	5 mill. Euro	
Tax base, bill. Euro	2 941	2 303	2 234	1 694	1 864	1 398	7 215
CI[1] lower bound	*2 551*	*2 024*	*1 855*	*1 426*	*1 500*	*1 144*	*6 739*
CI[1] upper bound	*3 332*	*2 582*	*2 613*	*1 962*	*2 229*	*1 653*	*7 691*
Tax base, % GDP	118%	92%	89%	68%	75%	56%	289%
CI[1] lower bound	102%	81%	74%	57%	60%	46%	270%
CI[1] upper bound	133%	103%	105%	78%	89%	66%	308%
Taxpayers, 1 000	4 787	4 384	1 394	1 162	414	332	
Percentile[2] onset of tax liability	92.3	92.3	97.7	97.7	99.4	99.4	
	For information: simulations based on original SOEP database						
Tax base, bill. Euro	1 768	1 402	1 060	792	691	496	6 045
CI[1] lower bound	*1 412*	*1 103*	*736*	*520*	*401*	*252*	*5 645*
CI[1] upper bound	*2 123*	*1 700*	*1 384*	*1 064*	*980*	*740*	*6 445*

1) 95% confidence interval, robust standard errors.

Sources: Simulations based on German Socio-Economic Panel Study (SOEP), 2007, adjusted for top wealth concentration.

Source: Bach et al., Fiscal Studies 2014, DIW Economic Bulletin 8.2012.

Recurrent wealth tax

Periodic tax on current net wealth

High personal allowances

Tax rate: up to 1 percent

Similar to capital and corporate income taxation

1% annual wealth tax equals to

- 50% income tax rate for 2% return on investment
- 25% income tax rate for 4% return on investment
- 12.5 % income tax rate for 8% return on investment

Drawbacks

Tax avoidance incentives similar to capital and corporate income

- Assumption for Germany: -0.25 elasticity of the tax base

Liquidity/financial constraints in the case of low returns or losses

- Reliefs for business property, SMEs

Periodical reappraisal of the tax base

Capital levy

One-time tax on the net wealth stock

- High personal allowances
- Higher tax rates (e.g. 10 percent)
- Payable by annual instalments, e.g. over 10 years

No substitution effects, less tax evasion

- However: expectations to repeated levies
- Income/wealth effects could harm SMEs

Expropriation by unexpected levy

- Political resistance, constitutional reservations
- Feasible only in case of fiscal emergency, national bankruptcy
  - Eurozone crisis, over-indebted countries

Inheritance and gift taxation

Donee-based taxation in Germany

New valuation procedures as of 2009: market values

High personal allowances for close family members

Broad reliefs for business property

- To ensure family continuation of the German “Mittelstand”

Low revenue of Euro 4.5bn (0.15% GDP)

No clear perspective for tax hikes

- Unpopular in the public
- Tax competition by small countries (Austria, Switzerland)

Lessons from the policy debates

Strong resistance from business sector, German “Mittelstand”

- Emphasizing dangers to domestic investment and employment
- Complains on extra appraisal and assessment procedures

Upper middle class voters anxious against tax hikes

- Uncertainty or ignorance of tax burden
- High tax revenue, balanced budget: “no need for tax hikes”
- Disappointing election results for Social Democrats and Green Party

No tax plans by the new Grand Coalition government (Christian Democrats and Social Democrats)

Conclusion

Low support for top wealth taxation in Germany

- At most: modest increase in inheritance taxation

Rather, some perspectives for top income taxation

- Moderate hike in top income tax rate
- Capital income taxation, tax privileges
- Potential revenue in Germany: Euro 15bn / year (0.5 percent GDP)
- Used for extra expenditure, reduction of middle class tax burden

Enhanced opportunities by international tax coordination

Thank You for Your Attention!

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