

# Editorial



Dr. Bernhard Seidel,  
head of the "Public Finance"  
department, asks:

"Has German fiscal policy reform  
run out of steam?"

*Following a ruling by the Federal Constitutional Court, German fiscal policy has been forced to consider how best to exempt minimum subsistence income – in practice defined in terms of the level of social benefit transfers – from taxation. A uniform basic tax free allowance for all taxpayers would, under otherwise unchanged conditions, lead to a massive loss of tax revenue (of up to DM 60 billion). Consequently, a group of experts brought together by the Federal Finance Minister for the very purpose proposed that the tax base should be simultaneously and significantly broadened, by abolishing tax concessions, reducing the scope for tax deductions and making transfer income, currently largely tax free, subject to taxation. Instead the Finance Minister has opted for a smaller-scale solution, one which imposes initially sharply rising marginal tax rates in the low-income range, which then subsequently flatten out. This "solution" infringes the principle of taxation according to means, and there must be serious doubts as to whether it is in accordance with the German constitution.*

*In place of the long-awaited reform of business taxation, at the start of 1993 changes were made, under the somewhat pretentious banner of "safeguarding German competitiveness", which merely reduced – as compensation for trading tax – the top rate of tax on business earnings (within the income tax system) and the rate of corporation tax. The price of these changes was that different types of income are no longer treated equally within the income tax system, while the long-overdue reform of trading tax was again postponed indefinitely.*

*If one follows the political discussion in Germany, as far as taxes on assets are concerned, the most urgent problem would appear to be that of abolishing net worth tax on business enterprises. Much further down on the fiscal policy agenda, on the other hand, is bringing taxation on land – which holds a significant advantage over other forms of property due to the outdated assessed values on which it is based – into line with that on other assets.*

*In view of the apparent reluctance to make decisive changes to the German taxation system, it seems very unlikely that real progress will be achieved in implementing an ecological tax reform. Prior to the Federal General Election held last autumn, all the political parties were keen to convince voters of their ecological conscience. Now, however, political caution has regained the upper hand: Germany must wait, it is argued, for European solutions – solutions which, given the prevailing constellation within the European Union, are scarcely likely to be implemented for the foreseeable future.*

*It is thus apparent in a number of areas of taxation policy that the Federal Government, faced with legal imperatives, budget deficits and pressure from powerful interest groups, is resorting to "patching holes". Tried and tested principles of taxation are being thrown overboard and expert advice thrown to the wind. "Solutions" of this nature not only reveal a lack of will or ability to exert governmental power, they are inappropriate to the problems at hand.*