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Inheritance Tax and Wealth Tax in Germany

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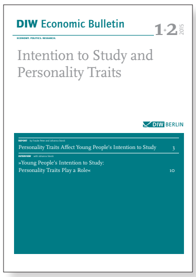

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NEXT ISSUE OF DIW ECONOMIC BULLETIN

Pupils' Demand of Tutoring

Inheritance Tax Revenue Low Despite Surge in Inheritances

By Stefan Bach and Andreas Thiemann

Every year in Germany, an estimated 200 to 300 billion euros is gifted or inherited. Due to the extremely unequal distribution of wealth, these capital transfers are also highly concentrated. Approximately half of all transfers are less worth than 50,000 euros. Transfers of over 500,000 euros were received by one and a half percent of beneficiaries, accounting for one-third of the total transfer volume. The 0.08 percent of cases with transfers of over five million euros received 14 percent of the transfer volume and more than half of corporate transfers, which are currently largely exempt from inheritance tax. Abolishing tax concessions could considerably increase the tax base of inheritance tax in the longer term. This would make it possible to reduce tax rates to a level that avoids placing a greater burden on family businesses.

The surge in inheritances continues. Those born in the 1930s when birth rates were very high are currently bequeathing or gifting their assets. Individuals from this generation who began their careers in the economic boom years generally had several children and were barely affected by the harsh economic climate of the 1970s and 1980s, in particular from the rise in unemployment.[1] For several years now, wealth generated and accumulated in the postwar period has been transferred to subsequent generations.

The total annual assets inherited and gifted in Germany is disputed, since there are no accurate statistics available. Although inheritance tax statistics record high and very high transfers, "normal" inheritances or gifts, such as owner-occupied housing, small businesses, or ordinary financial assets are not taxed in most cases. This is because high personal allowances apply to close relatives, who receive the majority of inheritances and gifts.[2] Transfers between distant relatives or unrelated individuals are, however, more frequently taxed because considerably lower personal allowances apply in these cases.

Household surveys provide another source of information on inheritances and gifts. For instance, in the Socio-Economic Panel (SOEP) study, respondents are asked annually about capital transfers they have received. Certainly, the aggregated volume of 40 to 50 billion euros per annum is a rather conservative estimate.[3] The German survey conducted as part of the Household Finance and Consumption Survey (HFCS) by the central banks of the euro area indicates considerably higher inheritance

1 T. Bönke and H. Lüthen, "Lebenseinkommen von Arbeitnehmern in Deutschland: Ungleichheit verdoppelt sich zwischen den Geburtsjahrgängen 1935 und 1972," *DIW Wochenbericht*, no. 49 (2014).

2 These allowances are 500,000 euros for married and life partners and 400,000 euros for children (Section 16, para. 1 of the German Inheritance Tax Law (*Erbschaftssteuergesetz, ErbStG*)).

3 S. Bach, H. Houben, R. Maiterth, and R. Ochmann "Aufkommens- und Verteilungswirkungen von Reformalternativen für die Erbschaft- und Schenkungsteuer," *Politikberatung kompakt* 83 (2014): 33 et seqq.

and gift flows in the second half of the 2000s.[4] In both surveys, inheritances and gifts are likely to be substantially underestimated since they underreport households with high incomes and assets, the number of respondents is small, and only transfers by individuals outside the household are recorded. Inheritance tax statistics also record transfers between spouses.

Since the total inheritance volume is inadequately recorded in inheritance tax statistics and household surveys, other studies utilize the macroeconomic aggregates of household net wealth[5] and deduce inheritances based on assumptions. Future inheritance flows are estimated using information from household surveys on wealth distribution by age and current mortality probabilities from population statistics. These studies suggest considerably higher transfer flows of between 200 and 300 billion euros per annum.[6] However, underlying macroeconomic net wealth aggregates for households are substantially higher than corresponding wealth aggregates measured in the household surveys. They are disputed in part because they are based on macroeconomic modeling or include assets from non-profit organizations.[7]

In the present study, we are taking the middle ground. The following analyses are based on a consistent micro-based distribution of wealth for German households in 2011. This distribution was created from the HFCS and includes a supplementary estimate for underreported households with very high net wealth. On this basis, we simulate the number of deaths over ten years using current mortality rates. This gives the likely potential inheritance flow in Germany currently and for the coming years. We also estimated the volume of gifts and potential tax bases for inheritance tax.

4 T. Bönke, G. Corneo, and C. Westermeier, "Erbschaft und Eigenleistung im Vermögen der Deutschen: Eine Verteilungsanalyse," *Fachbereich Wirtschaftswissenschaft, Diskussionsbeiträge Economics* 2015/10 (2015): 11 et seqq. However, the estimate error is very high due to the low number of cases.

5 German Bundesbank, Federal Statistical Office, *Sektorale und gesamtwirtschaftliche Vermögensbilanzen 1999–2013* (2014).

6 R. Braun, U. Pfeiffer, and L. Thomschke, *Erben in Deutschland. Volumen, Verteilung und Verwendung in Deutschland bis 2020* (Deutsches Institut für Altersvorsorge GmbH, 2011); R. Braun, *Erben in Deutschland 2015–24: Volumen, Verteilung und Verwendung* (Deutsches Institut für Altersvorsorge GmbH, 2015); C. Schinke, "Inheritance in Germany 1911 to 2009: A Mortality Multiplier Approach," *SOEPpapers* 462 (2012); see also T. Piketty and G. Zucman, "Wealth and Inheritance in the Long Run," in *Handbook of Income Distribution,* vol. 2 (2015), 1339 et seqq.

7 M. Grabka and C. Westermeier, "Real Net Worth of Households in Germany Fell Between 2003 and 2013," *DIW Economic Bulletin,* no. 34 (2015); H. Houben and R. Maiterth, "Erbschaftsteuer als „Reichenbesteuerung" mit Aufkommenspotential?," *Vierteljahrshefte zur Wirtschaftsforschung* 82 (1) (2013): 158 et seqq.

High concentration of wealth leads to greater inequality of inheritances ...

We used data from the HFCS to calculate the wealth distribution of households in Germany. The supplementary estimate of households with high and very high wealth is based on the rich list published in *manager magazin* for 2011 and the Pareto distribution (see box). The estimates show that the net wealth of German households in 2011 was 8,600 billion euros. This wealth is very highly concentrated: the richest ten percent of the population own 63 percent of total net wealth, the richest one percent own 32 percent and the richest 0.1 percent own 16 percent of total net wealth. As a result, future wealth transfers are expected to be similarly unequally distributed. Around one-third of total wealth is owned by households with the reference person aged 65 or over. As a result, considerable wealth transfers are expected presently and in the coming years.

We simulated the potential inheritance flow from 2011 to 2020 on the basis of current mortality rates of households with assets in 2011. In doing so, we made the following assumptions:

- Estimated wealth for 2011 will remain constant over the entire period. This assumption disregards any further savings and dissavings for consumption purposes or care expenses. This probably results in a slight underestimation of future inheritance flows because, to date, older people save more than dissave.
- We have disregarded changes in asset valuation since 2011. Market prices for companies have increased considerably in recent years and real estate prices are also rising. In particular, high household wealth, primarily consisting of companies, company shares, or real estate, is likely to have appreciated noticeably since 2011. Asset prices are likely to remain high since the current phase of low interest rates and returns due to high liquidity in the financial markets and the expansionary monetary policies of major central banks will probably continue for some years to come. As a result, we have underestimated current assets and their distribution as well as the inheritance volume.
- The imputed age distribution of estimated households with high and very high assets is uncertain, since it is based on a small number of households with high assets from the HFCS. An alternative imputation of age distribution of individuals with high assets based on the 29th wave of the SOEP for 2012 indicates a slightly higher average age of the wealthiest and therefore a higher inheritance volume for the coming years.

Box

Estimated distribution of wealth in Germany in 2011

In a study on the distribution of wealth in Germany, we combine survey data with information and estimates on households with high and very high assets.[1] The Household Finance and Consumption Survey (HFCS)[2] by the national banks of the euro area, the German section of which was conducted by the Deutsche Bundesbank in 2010/2011, samples wealthy households with a greater selection probability. This gives us a better picture of high income and assets than the 29th wave of the SOEP for 2012. However, there are still only a few households in the HFCS with assets worth tens of millions of euros and none worth hundreds of millions.

We integrate the 200 richest German households into the model dataset, which we derived from the list of the 500 richest Germans in *manager magazin* published in October 2011.[3] Further, we estimate the wealth and distribution of wealth of households with net wealth of three million euros or more using the Pareto distribution. Here, we combine HFCS survey data with the rich list to estimate the alpha coefficients of the Pareto distribution.[4] Then we impute synthetic households—according to the estimated distribution—with net wealth of three million euros up to the 200 richest households on the rich list. The portfolio components of imputed households, in particular real estate, own businesses, corporate shares, financial assets, and other assets, were derived from share estimates based on the sample of households in the HFCS, which have assets worth a minimum of one million euros. For households in the *manager magazin* list, it was assumed that all assets were corporate assets. By expanding the distribution of wealth at the top end, the calculations are then compatible with the macroeconomic asset aggregates of households.[5]

To estimate potential inheritances in the next few years, we simulated the distribution of deaths between 2011 and 2021. To achieve this, we first estimate an age distribution for the synthetic households and the list from *manager magazin*. We use the age distribution of households in the HFCS with minimum assets of 500,000 euros. We distinguish between single and couple households and by gender, here, in order to take account of structural differences. In couple households, assets are split equally between reference person and his or her partner. In households with no partner, the reference person is assigned all the assets. Children or other individuals in the household are disregarded.

Based on the distribution of wealth in 2011, we simulate annual deaths according to the Federal Statistical Office's gender-specific mortality tables,[6] where households moving up were disregarded. Each year, the age is updated by one year and the corresponding survey weight of the household is reduced by the number of deaths in the previous year. This results in an average of around 825,000 deaths per annum in the simulation period from 2011 to 2020. This roughly corresponds to the number of deaths reported by the German Federal Statistical Office.[7] The potential estate and inheritance volume is calculated on the basis of this number of deaths, excluding inheritances worth less than 500 euros.

1 S. Bach, A. Thiemann, and A. Zucco, "The Top Tail of the Wealth Distribution in Germany, France, Spain, and Greece," *DIW Berlin Discussion Paper*, no. 1502 (2015).

2 European Central Bank, *Household Finance and Consumption Network (HFCN)* (2015).

3 manager magazin, "Die 500 reichsten Deutschen," *manager magazin spezial* (October 2011). See also, "Liste der 500 reichsten Deutschen," *Wikipedia*, last modified January 18, 2016.

4 P. Vermeulen, "How fat is the top tail of the wealth distribution?," *European Central Bank, Working Paper Series* 1692 (2014); S. Bach, M. Beznoska, and V. Steiner, "A Wealth Tax on the Rich to Bring Down Public Debt? Revenue and Distributional Effects of a Capital Levy in Germany," *Fiscal Studies* 35 (2014): 67–89; see also "A Wealth Tax on the Rich to Bring down Public Debt?," *DIW Berlin Discussion Paper*, no. 1137 (2011).

5 German Bundesbank, Federal Statistical Office, *Sektorale und gesamtwirtschaftliche Vermögensbilanzen 1999 – 2013* (2014).

6 Federal Statistical Office, *Allgemeine Sterbetafeln für Deutschland – Früheres Bundesgebiet, neue Länder sowie die Bundesländer 2010/2012* (2015).

7 Federal Statistical Office, *Bevölkerung und Erwerbstätigkeit. Zusammenfassende Übersichten. Eheschließungen, Geborene und Gestorbene* (2015).

- Since assets recorded in the HFCS apply to entire households, we have divided these equally between both partners in couple households. For couples in the middle of the distribution, assets are mostly earned jointly and additional wealth is divided equally according to the statutory matrimonial property regime if the marriage ends. Things look very different for particularly wealthy couples with high inherited wealth. In these cases, we have underestimated the variance and concentration of inheritances. Other members of the household, such as adult children or grandparents, are disregarded.

Table 1

Simulation of inheritances and gifts as well as tax revenues of an inheritance flat-tax 2011–2020
Annual average

Acquisitions from … to below … euros	Simulation of Inheritances and gifts					Simulation 10% Inheritance flat-tax[2]	
	Inheritances			Gifts[1]	Total	Tax revenues	Effective tax rate[3]
	Total		Thereof: business assets				
	Taxpayer	Million euros					Percent
below 50,000	881,748	13,616	142	6,808	20,424	0	0.0
50,000–100,000	317,382	22,459	158	11,229	33,688	0	0.0
100,000–200,000	250,040	33,791	462	16,896	50,687	0	0.0
200,000–300,000	58,109	14,516	841	7,258	21,773	0	0.0
300,000-500,000	33,418	12,577	911	6,289	18,866	73	0.4
500,000–2,5 mil.	19,798	19,541	5,470	9,771	29,312	1,743	5.9
2.5 mil.–5 mil.	2,268	7,746	2,670	3,873	11,619	1,026	8.8
5 mil.–10 mil.	743	5,253	2,186	2,626	7,879	743	9.4
10 mil.–20 mil.	285	3,805	1,805	1,902	5,707	554	9.7
20 mil. and more	177	11,710	8,127	5,855	17,565	1,746	9.9
total	**1,563,968**	**145,014**	**22,771**	**72,507**	**217,521**	**5,885**	**2.7**
	In percent						
below 50,000	56.38	9.39	0.62	9.39	9.39	0.00	
50,000–100,000	20.29	15.49	0.70	15.49	15.49	0.00	
100,000–200,000	15.99	23.30	2.03	23.30	23.30	0.00	
200,000–300,000	3.72	10.01	3.69	10.01	10.01	0.00	
300,000–500,000	2.14	8.67	4.00	8.67	8.67	1.24	
500,000–2,5 Mio.	1.27	13.48	24.02	13.48	13.48	29.62	
2.5 mil.–5 mil.	0.15	5.34	11.72	5.34	5.34	17.43	
5 mil.–10 mil.	0.05	3.62	9.60	3.62	3.62	12.63	
10 mil.–20 mil.	0.02	2.62	7.93	2.62	2.62	9.41	
20 mil. and more	0.01	8.08	35.69	8.08	8.08	29.67	
total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	

1 Estimation: 50% of inheritances.
2 Individual tax allowance of 400,000 Euro per taxpayer, 10% tax rate.
3 Tax liability divided by aquisition.

Sources: Household Finance and Consumption Survey (HFCS), manager magazin rich list, own calculation.

According to the simulations, 218 billion euros of inheritances and gifts are transferred per annum.

- We used current mortality rates for the entire population. "Wealthier is healthier" most probably also applies to Germany since socially advantaged individuals with a higher income and assets probably also have a higher life expectancy. We disregarded this effect because there are no precise findings for Germany.[8] As a result, the inheritance volume for the next few years might be slightly overestimated.
- We disregarded the fact that heirs could also die during the period under observation, which would affect the inheritances of surviving spouses in particular. This results in the future inheritance flow being slightly underestimated.

Overall, we expect to noticeably underestimate future inheritance flows as a result of these assumptions.

In order to illustrate the distribution of inheritances, we have assumed that all simulated estates are divided equally between two individuals. There is no reliable in-

8 See also Schinke "Inheritance in Germany," 35 et seqq.

formation concerning the actual distribution of estates apart from inheritance tax statistics. This assumption is reasonable because the individuals in the generation under observation often have several children. Nevertheless, the assumption underestimates the actual variance of inheritances.

The simulations show an annual average for the period 2011 to 2020 of 1.6 million inheritance cases with an inheritance volume of 145 billion euros (see Table 1). The inheritances are as highly concentrated as the wealth: around half are below 50,000 euros, making up less than ten percent of the total inheritance volume. More than three-quarters of inheritances are less than 100,000 euros, which account for almost one-quarter of the total inheritance volume. Each year, only 23,000 individuals receive inheritances of over 500,000 euros—representing 1.5 percent of all heirs. These cases, potentially subject to inheritance tax, account for an inheritance volume of almost 50 billion euros or one-third of the total inheritance flow. The 1,200 cases with inheritances of over five million euros account for only 0.08 percent of all heirs, but they receive 21 billion euros, or 14 percent of the total inheritance volume.

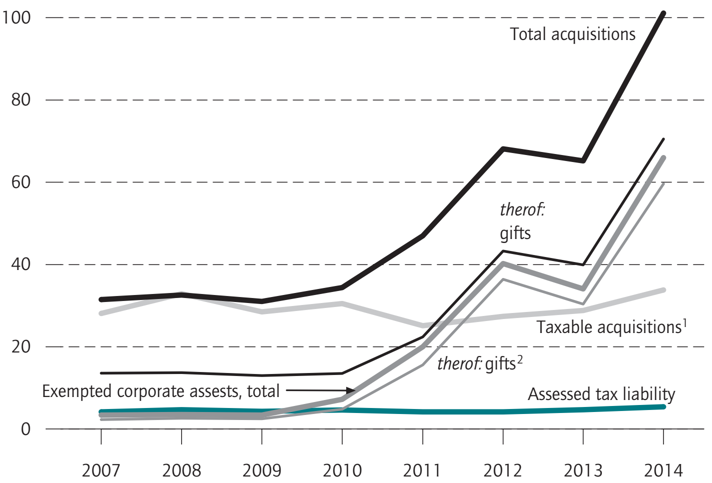
The current inheritance tax reform is concerned with limiting tax concessions for company transfers. We estimate their inheritance volume to be 23 billion euros. These transfers are largely exempt from tax as it currently stands. It is unlikely that much will change under the German government's draft bill. Since the high assets consist largely of companies and corporate assets, the corresponding inheritances are still considerably more concentrated on the high transfers. Around half of company transfers occurred in cases of inheritances worth over five million euros. In these cases, the company's assets account for almost 60 percent of the inheritance volume.

... and gifts

In addition to inheritances, assets are also transferred as gifts during the bequeather's lifetime. There is no reliable information on the extent and distribution of the total volume of gifts in Germany. The inheritance tax statistics show a massive increase in gifts from corporate assets, which occurred in anticipation of the new tax break regulations (see Figure 1). These are likely to decline considerably once the new regulations are in place. In the SOEP study, information about inheritances and gifts are surveyed separately. Between 2004 and 2009, aggregate gifts averaged just under 50 percent of the aggregated inheritances.[9] However, the data source may not be reliable, given the small sample size and low volume.

Figure

Taxable acquisitions, tax exemptions for corporate assets and tax burden of resident tax payers, 2007–2014
Billion euros



1 After deduction of asset-related exemptions and allowances, including former acquisitions from the same person within a ten-year period which are added together, before personal allowances.
2 Tax-free gifts of business assets.

Source: Federal Statistical Office, inheritance and gift tax statistics.

Among wealthier households, gifts should account for a considerably higher proportion, for example, in order to plan the transfer of assets in company successions or to repeatedly make use of personal allowances for inheritance tax. In its current revenue estimates for the long-term effects of the inheritance tax reform of taxable transfers, the German Federal Ministry of Finance (BMF) has assumed a total of 20 billion euros in gifts and 25 billion euros in inheritances.[10] However, in this ratio of gifts to inheritances, the volume of gifts appears to be too high, since the calculations only refer to taxed transfers with high acquisitions.

9 Bach et al., "Aufkommens- und Verteilungswirkungen," 35.

10 German Federal Ministry of Finance, "Bewertung und Quantifizierung verschiedener Steuermodelle sowie verschiedener Auswertungen," letter from Parliamentary State Secretary, Dr. Michael Meister, to Members of the Finance Committee of the Deutscher Bundestag, November 26, 2015, GZ IV C 7- S 3730/15/10001 :010, DOK 2015/1063309, Appendix 3. See also the results of various calculations on the different models for inheritance and gift tax reform. Letter from Parliamentary State Secretary, Dr. Michael Meister, to the Chair of the Financial Committee of the Deutscher Bundestag, December 15, 2015. GZ IV A 6 - Vw 7486/04/10001 :003, DOK 2015/1162101. (Deutscher Bundestag printed paper, 2015) 18 (07), 256, Appendix 3.

For a conservative estimate of the volume of gifts, we have assumed here that gifts account for 50 percent of the inheritance volume during the observation period between 2011 and 2020. This low share can also be explained by the fact that, in our dynamic simulation, we have already taken into consideration gifts to benefactors who die during the period under observation. In the absence of a suitable data source, we further assume that the distribution of gifts and inheritances correspond to each other. We underestimate the concentration of gifts because there have presumably been more of these from individuals from wealthy households.

Under these assumptions, our point estimates for the period from 2011 to 2020 give an average annual volume of inheritances and gifts of 218 billion euros. The 1.5 percent of cases with acquisitions over 500,000 euros, which would potentially be subject to inheritance tax, account for one-third of the total transfer volume, or 72 billion euros. The 0.08 percent of cases with inheritances over five million euros receive 14 percent of the transfer volume, which corresponds to 31 billion euros. It should be emphasized that this is a conservative point estimate. Under plausible assumptions, the total transfer volume could also amount to 250 billion euros and may be even higher if the asset price rises of recent years are taken into account. The current inheritance and gift flows should therefore range between 200 and 300 billion euros.

Abolishing all tax breaks would lead to high additional revenue or a low tax rate

General statements about the potential tax bases for inheritance and gift tax can be made on the basis of our simulation of inheritances and gifts (see Table 1). However, we can only simulate simple taxation concepts and not applicable legislation or the currently debated reform models because there is no detailed information on the distribution of tax-relevant characteristics available. To achieve this, microsimulations need to be performed using individual data from the inheritance tax statistics.[11]

However, a simple flat-tax or low-tariff model can be adequately represented: abolishing all tax breaks, a lower tax rate on acquisitions exceeding a high personal allowance. Here we have assumed a uniform allowance per beneficiary of 400,000 euros, which corresponds to the current allowance for children. Since we have presumed the estate will be divided equally between two beneficiaries, we have simulated a *de facto* estate tax with an allowance of 800,000 euros. We also applied a uniform tax rate of ten percent.

According to our calculations for the period from 2011 to 2020, a simple flat-tax, low-tariff model could achieve an annual revenue from inheritance tax of 5.9 billion euros. This would be slightly more than the annual inheritance tax revenue forecast for the coming years of around five billion euros.[12] Since our estimate here is on the conservative side, the additional revenue might be even higher however. In addition, we have assumed that all beneficiaries receive the allowance for children. In fact, only a small share of taxable inheritance and gifts go to spouses with slightly higher allowances but a considerable proportion to distant relatives or unrelated persons with lower allowances.[13] This would further increase the additional revenue.

More revenue could also be achieved with a progressive tax rate and relieve the burden on beneficiaries of smaller inheritances or gifts.[14] A tax rate of 15 percent appears to be acceptable, including on larger corporate assets, if the tax burden is distributed over a long period and the beneficiaries are allowed to repay the tax burden from current profits.[15] This would prevent strains on liquidity caused by inheritance tax.

With regard to potential revenue for the coming years, it should be noted that in recent years, tax-deductible gifts of corporate assets have increased massively (see Figure 1). Quite obviously, the pull-forward effects from expected restrictions on tax breaks have played a key role here. Between 2009 and 2014, corporate assets of 171 billion euros were transferred tax-free, 149 billion euros of which were gifts. However, inheritance tax revenues and taxable acquisitions after asset-related deductions and exemptions have remained virtually unchanged. Tax losses from tax breaks at the currently applicable tax rate are estimated at 45 billion euros.[16] A minimum taxation of these transfers at 15 percent would have achieved tax revenues of 26 billion euros. The existing law may currently be applied until the new regulation, to be approved in the next few months, comes into force. This taxation potential cannot be applied retrospectively. It is therefore lost for the coming decades. Our estimated revenue ef-

11 See H. Houben and R. Maiterth, "Zurück zum Zehnten: Modelle für die nächste Erbschaft-Steuerreform," *arqus Diskussionsbeitrag* 69 (2009); Bach et al., "Aufkommens- und Verteilungswirkungen," 28 et seqq.

12 Federal Ministry of Finance, *Ergebnisse der 147. Sitzung des Arbeitskreises „Steuerschätzungen" vom 3. bis 5. November 2015 in Nürnberg* (2015).

13 Federal Statistical Office, "Erbschaft- und Schenkungsteuerstatistik" (2016).

14 See also a proposal by Saarland's Minister of Economic Affairs, Anke Rehlinger, *Änderung der Erbschaftsteuer* (2015).

15 H. Noack and W. Wiegard, "Reform der Erbschaftsteuer: Wege zum Abbau der Verschonungsregeln," in *Impulse: Wirtschaft und Politik* (Managerkreis der Friedrich-Ebert-Stiftung, November 2015).

16 Federal Ministry of Finance, *Ergebnisse der 147. Sitzung*, Appendix 4.

Table 2

Taxable acquisitions, deductions and tax burden by the value of acquisitions before deductions[1]
Yearly average 2011–2014

Acquisitions before deductions from ... to below ... euros	Acquisitions before deductions		Deductions[2]			Personal allowance	Assessed tax liability	Effective tax rate[3]
	Taxpayer	Million euros	Million euros	As percent of acquisitions	1,000 euros per taxpayer	Million euros	Million euros	Percent
below 50,000	66,344	−927	77	−8.3	1	1,969	136	−14.7
50,000−100,000	32,875	2,317	181	7.8	5	1,121	305	13.2
100,000−200,000	24,837	3,494	360	10.3	14	1,525	511	14.6
200,000−300,000	11,933	2,898	409	14.1	34	1,385	337	11.6
300,000-500,000	13,975	5,487	1,015	18.5	73	2,958	434	7.9
500,000−2,5 mil.	17,723	16,424	5,502	33.5	310	5,002	1,394	8.5
2.5 mil.−5 mil.	1,429	4,927	2,670	54.2	1,869	434	426	8.6
5 mil.−10 mil.	633	4,387	2,903	66.2	4,587	194	311	7.1
10 mil.−20 mil.	315	4,282	3,300	77.1	10,485	104	242	5.7
20 mil. and more	311	30,149	28,479	94.5	91,719	81	539	1.8
total	**170,373**	**73,438**	**44,896**	**61.1**	**264**	**14,773**	**4,635**	**6.3**

1 Only first tax assessments with taxable acquisition ≥ 0 euros, resident taxpayers.
2 Deductions of tax exemptions according to Section 13 ErbStG (especially for household effects and other movable items, real estate, collections, charitable donations), tax exemptions for corporate assets according to Section 13a ErbStG, exemption for real estate leased for residential purposes according to Section 13c ErbStG, sum of deductible restrictions on transfers, incidental acquisition costs, and exempted transfers by double taxation agreements.
3 Assessed tax liability divided by acquisition before deductions.

Source: Federal Statistical Office, inheritance and gift tax statistics 2011–2014.

Over half of all transfers larger than 2.5 million euros were tax-free.

fects are therefore only likely to be realized in the longer term, when the pull-forward effects of previous years are no longer relevant.[17]

It should be noted that we have disregarded all tax breaks in our calculation. In addition to high tax breaks for corporate transfers, this also affects tax advantages for collections, rented residential real estate and a tax exemption on the "family home." However, this transfer volume only amounts to a few billion euros a year.[18] Tax exemptions on donations and foundations for charitable purposes, as well as the option of repeatedly applying personal allowances on gifts every ten years, probably carry more weight.[19] There is no information available on this because these transfers are not usually assessed for inheritance tax.

From 2011 to 2014, more than half of acquisitions from 2.5 million euros onward were tax-free (see Table 2). The tax-free share increases as the acquisition sum rises since it consists primarily of corporate assets. Almost 90 percent of acquisitions of 20 million euros or more during the observation period were tax-exempt. This applies to an annual average of more than 300 taxpayers who received an average of 92 million euros tax-free and results in low effective inheritance tax burdens for large or very large capital transfers. In contrast, the "normal" wealthy are considerably burdened by inheritance tax if their acquisitions exceed the personal allowances for beneficiaries.

Inheritance tax primarily burdens the "sandwich wealth" of "sandwich citizens,"[20] who possess higher net wealth, that is, citizens of the lower and middle upper class. Rich individuals with assets worth tens of millions, on the other hand, have a lower inheritance tax burden be-

17 In its current revenue estimates of the short-term effects of the inheritance tax reform, the Federal Ministry of Finance has assumed that, due to the pull-forward effect, the volume of taxed gifts will only amount to around one billion euros in the coming years and the inheritance volume will fall to 22 billion euros annually. Federal Ministry of Finance, *Ergebnisse der 147. Sitzung*, Appendix 4.

18 Federal Statistical Office, "Erbschaft- und Schenkungsteuerstatistik."

19 The aggregation of multiple acquisitions within ten years according to Section 14 of the German Inheritance Tax Law (*Erbschaftssteuergesetz*, ErbStG) only relates to the personal relationship of the asset transferor to beneficiaries. This allows one set of parents to use the personal allowance for a child (400,000 euros) twice, that is, giving each child 800,000 euros every ten years tax-free.

20 H.-W. Arndt, "Rechtfertigung der Besteuerung des Vermögens aus steuersystematischer Sicht," in *Steuern auf Erbschaft und Vermögen,* ed. D. Birk. Publications by the Deutsche Steuerjuristische Gesellschaft e.V., vol. 22 (DStJG, 1999), 33; W. Schön, "Wie viel Erbschaft gehört dem Staat?," *Frankfurter Allgemeine Zeitung*, March 27, 2015, no. 73 (2015): 18.

cause they make use of tax breaks. Consequently, the inheritance tax is "regressive," meaning that beneficiaries of high transfers pay a substantially lower tax rate than other taxpayers.

Conclusion

An estimated 200 to 300 billion euros a year are currently inherited or gifted in Germany, and this will continue to be the case in the coming years. These asset transfers are highly concentrated due to the very unequal distribution of wealth. Approximately half of all transfers are less than 50,000 euros and make up less than ten percent of the total transfer volume. However, 1.5 percent of beneficiaries received over 500,000 euros, accounting for one-third of the total transfer volume. The 0.08 percent of cases with transfers over five million euros made up 14 percent of the total transfer volume and more than half of corporate transfers currently remain largely exempt from inheritance tax. Abolishing tax breaks would considerably increase the potential revenue from inheritance tax in the longer term.

"After the reform is before the reform" seems to be the motto of repeated inheritance tax reforms in the past two decades in Germany. When wide-ranging tax privileges for company transfers were introduced in 2008 and extended in 2009, it was clear that this reform would fail before the German Federal Constitutional Court.[21] Draft legislation currently being considered by the grand coalition is likely to suffer a similar fate.[22] With its strategy of "minimally invasive reform," the grand coalition has been caught up in a web of conflicting objectives: Effectively reducing exaggerated tax breaks for large enterprises whilst, at the same time, maintaining them in order not to burden the major SMEs and family businesses. The proposed new regulations are also very complex and subject to tax planning.[23]

One way out of this dilemma is a strategy of reducing all tax breaks substantially in order to reduce tax rates. Our analyses show this would have considerable revenue potential. As a result, the tax burden on corporate transfers, in particular, could be limited to 15 percent, for example. In addition, if tax burdens are extended over longer periods of time, beneficiaries could pay them off from current profits. Further, moderate allowances or declining tax exemptions could be granted on corporate transfers in order to relieve small and medium-sized family businesses.[24]

However, this strategy will not remain revenue-neutral in the next few years because the pull-forward effects mean a large proportion of high and very high assets have already been transferred tax-free to the next generation. If, in a few years' time, the inheritance tax reform is thwarted by the German Federal Constitutional Court for a fourth time, then there need to be alternatives which not only take account of the "sandwich wealth" of the lower upper class but also of the rich in a moderately progressive taxation scheme. Possible alternatives might include increases to ongoing corporate and capital income tax or a reintroduction of the wealth tax.

21 The German Council of Economic Experts, "Die Finanzkrise meistern – Wachstumskräfte stärken," *Jahresgutachten 2008/09*, referred to a "screwed up reform proposal," which had the wrong approach and only served particular interests (see subsections 351 and 376).

22 See the "Stellungnahme des Bundesrates zum Entwurf eines Gesetzes zur Anpassung des Erbschaftsteuer-und Schenkungsteuergesetzes an die Rechtsprechung des Bundesverfassungsgerichts," *Bundesrat printed paper no.* 353/15 (resolution), and the statement by experts in favor of a public hearing of the German Bundestag's Finance Committee on draft legislation by the German Federal Government to amend the German Inheritance and Gift Tax Law in accordance with the decision of the German Federal Constitutional Court, *Deutscher Bundestag printed paper* no. 18/5923, Monday, October 12, 2015.

23 K. Kischisch and R. Maiterth, "Einladung zur Steuergestaltung durch den Gesetzentwurf zum ErbStG vom 06.07.2015," *Der Betrieb* 68 (36) (2015): 2033–2040.

24 See proposals by SPD Members of the Finance Committee of the Federal Ministry of Finance, Appendix 1 (2015), 5 et seqq.

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SEVEN QUESTIONS TO STEFAN BACH

»A Surge in Inheritances, yet Low Inheritance Tax Revenue«

1. Mr. Bach, how much wealth is being inherited or gifted within Germany? Assets among Germans are sizeable, and were for the most part built up during the *Wirtschaftswunderjahre* ("Economic Miracle"). This substantial wealth is now increasingly being passed on to the next generation: We estimate that 200 to 300 billion euros are transferred as inheritances or gifts in Germany every year. The exact number is unknown, because there are no reliable statistics—instead, we've had to piece it together from information we've collected from various sources.
2. How is the wealth distributed among the beneficiaries? The distribution of these inheritances and gifts is highly concentrated. A large portion of the total goes to a small group of individuals who are receiving major transfers. One-third of the total amount of the inheritances and gifts go to just 1.5 percent of beneficiaries, who are receiving inheritances of over 500,000 euros. And the wealthiest one percent of the heirs and gift recipients, who are receiving transfers of more than 5 million euros, account for 14 percent of the total transfer volume.
3. How much wealth is passed on to the next generation in the form of business transfers? We estimate that business transfers inheritances range from 30 to 40 billion euros per year in total. These transfers are significantly more concentrated, precisely because the large assets come primarily from companies and shareholdings.
4. Up until now, major business transfers have been largely tax exempt due to benefits. How much money has the government missed out on over the past few years as a result of this? Because many people had feared that the forthcoming inheritance tax reform would cut back the benefits, we've seen a substantial number of donations and clearly anticipatory behavioral effects over the past few years. As a result, 170 billion euros have been transferred virtually tax-free during this time period. If this amount had been subject to the inheritance tax, the government would have achieved 45 billion more euros in revenue.
5. Through the inheritance tax reform, benefits for large companies will be cut back; at the same time, family businesses and the middle class will not be too strongly burdened. Will this work? The grand coalition is trying to fit a square peg into a round hole. The largely tax-free transfers for large companies that have been in place up until now should be limited, or at the very least, a means test should take place. On the other hand, trade associations and family businesses are arguing that they are paying significantly more in taxes. That is the current conflict surrounding the inheritance tax, and this is what we have to solve right now.
6. How can we resolve this dilemma? One possibility would be radically cutting the tax breaks, which would lead to a significant broadening of the tax base. Then, tax rates could be lowered to such an extent—to no less than 15 percent—that they can also be borne by companies. Such a reform would actually achieve moderate extra revenue. However, the problem is that this will not work in the next few years, since many large assets have also been transferred tax-free due to the reform's anticipatory effects, and therefore will not be available for taxation.
7. What will the inheritance tax revenue look like over the next few years? The inheritance tax revenue will amount to roughly 4.5 to 5 billion euros. It won't be a major increase, because we are also dealing with the anticipatory effects of the reform, such that a slight decrease in revenue is actually to be expected under certain circumstances. With a much wider tax base and low tax rates, a noticeable spike in revenue could be achieved—just not in the short and medium term.

Interview by Erich Wittenberg

Reviving Germany's Wealth Tax Creates High Revenue Potential

By Stefan Bach and Andreas Thiemann

Compared to the rest of Europe, Germany exhibits an especially high concentration of wealth. According to estimates based on a microsimulation model, a German wealth tax could generate an estimated ten to 20 billion euros per year in revenue—even with high tax allowances—and slightly reduce the inequality of income distribution, as well. Collection costs would range from four to eight percent in relation to the tax revenue, and would thus be comparable to the collection costs for income and corporate taxes. However, it is possible that the tax revenue could be noticeably diminished as a result of tax avoidance.

The distribution of income and wealth has become significantly less equal in many countries, particularly at the top.[1] In Germany, this development has been observable for the income distribution since the mid-'90s,[2] and Germany's wealth appears to be more heavily concentrated than that of other countries.[3] At the same time, the redistributive impact of tax systems has declined in the OECD countries:[4] The top income tax rates, corporate taxes, and capital income taxes were lowered; personal wealth taxes were abolished; and in most countries, the inheritance tax was either suspended or abolished.

Over the course of this development, wealth taxation has been increasingly returning to the fore:[5] In some countries, such as France and Spain, wealth taxes have been increased or revived, and in Germany, there have been proposals for wealth taxes and capital levies, as well as capital income taxes and higher tax rates at the very top.[6]

In multiple studies, DIW Berlin examined the effects of a one-time capital levy and the reintroduction of a wealth

1 OECD (2015): In It Together: Why Less Inequality Benefits All. Paris; Alvaredo, F., Atkinson, A.B., Piketty, T., Saez, E. (2013): The Top 1 Percent in International and Historical Perspective. Journal of Economic Perspectives 27, 3–20.

2 Goebel, J., Grabka, M. M., Schröder, C. (2015): Einkommensungleichheit in Deutschland bleibt weiterhin hoch – junge Alleinlebende und Berufseinsteiger sind zunehmend von Armut bedroht. DIW Wochenbericht Nr. 25.2015; Bartels, C., Schröder, C. (2016): Zur Entwicklung von Top-Einkommen in Deutschland seit 2001. DIW Wochenbericht Nr. 1.2016; Bach, S., Corneo, G., Steiner, V. (2009): From Bottom to Top: The Entire Income Distribution in Germany, 1992–2003. Review of Income and Wealth 55, 331–359, as well as (2013): Effective Taxation of Top Incomes in Germany. German Economic Review 14, 115–137.

3 Grabka, M. M., Westermeier, C. (2015): Reale Nettovermögen der Privathaushalte in Deutschland sind von 2003 bis 2013 geschrumpft. DIW Wochenbericht Nr. 34.2015.

4 Förster, M., Llena-Nozal, A., Nafilyan, V. (2014): Trends in Top Incomes and their Taxation in OECD Countries. OECD Social, Employment and Migration. Working Papers, No. 159.

5 IMF (International Monetary Fund) (2013): Taxing Times. Fiscal Monitor. October 2013.

6 Institut der deutschen Wirtschaft (2013): Die Programme zur Bundestagswahl 2013 von SPD, Bündnis90/Die Grünen, Die LINKE, FDP und CDU/CSU. Cologne, July 10, 2013 as well as iw-dienst Nr. 8, 21. Februar 2013.

tax on revenue and income distribution in Germany.[7] The analyses of the wealth tax were updated and further developed in a new study commissioned by the Friedrich Ebert Foundation.[8]

Concept and data basis

The wealth tax is an annual tax on high personal net wealth—that is, taxable assets (real estate, financial assets, and business assets, excluding pension claims and personal effects) minus their associated debts.[9] In Germany, such a tax was in effect until 1996. The taxation scheme analyzed here is based on a 2012 proposal for reintroducing the wealth tax, which was drafted by several red-green-governed *Bundesländer* (see Box 1). With its high personal allowances, this tax targets the affluent share of the population.

The present study's microsimulation analysis is based on the euro-area central banks' Household Finance and Consumption Survey (HFCS); the survey's German component was carried out by the Deutsche Bundesbank in 2010–2011. The 200 richest Germans according to *manager magazin's* 2011 rich list are also integrated into the model data record.[10] For the very highest levels of wealth (over three million euros), the asset portfolios and wealth distribution are estimated—and because net wealth is highly concentrated on the very wealthy households, and the wealth tax scheme examined here includes high personal allowances, the simulation results regarding revenue and distribution are based primarily on these estimates. The wealth tax's revenue and distribution impact, as well its associated collection costs, are analyzed using a microsimulation model (see Box 2).

Substantial revenue, moderate redistributive effects

The 2011 estimated net wealth of all German households is 8,600 billion euros, and the concentration of wealth is remarkable: The richest one percent of the population owns 32 percent of the total net wealth, and the richest 0.1 percent own 16 percent. A wealth tax of natural persons can therefore generate significant income, even with high allowances.

In this study, the revenue and distribution effects of the wealth tax are analyzed for eight different tax base scenarios and two different tax rate scenarios (see Table 1). The calculations are based on two concepts for personal allowances (one million euros and two million euros, respectively, each with and without the "withdrawal adjustment"[11], which are then combined with or evaluated without a separate allowance for business assets.

In addition, two tax rate scenarios are analyzed:

- a proportional tax rate of one percent.
- a progressive tax schedule in which a marginal tax rate of 1.25 applies to taxable assets over 10 million euros, and a marginal tax rate of 1.5 applies to taxable assets over 20 million euros.

Depending on the scenario, between 150,000 to 435,000 taxpayers would be subject to the tax, either as individuals or as couples filing jointly. In all eight scenarios examined here, the wealth tax is concentrated on the percentile of the population with the highest net wealth (see Table 1).

With a one-percent proportional wealth tax rate, the annual tax revenue ranges from 11 billion euros (0.41 percent of the 2011 GDP) in the scenario with a non-withdrawn allowance of two million euros and a business asset allowance of five million euros, to nearly 23 billion euros (0.84 percent of GDP) in the scenario with a withdrawn personal allowance of one million euros with no allowance for business assets.[12] The wealth tax predom-

7 Bach, S., Beznoska, M., Steiner, V. (2010): Aufkommens- und Verteilungswirkungen einer Grünen Vermögensabgabe. DIW Berlin: Politikberatung kompakt 59 as well as (2014): A Wealth Tax on the Rich to Bring Down Public Debt? Revenue and Distributional Effects of a Capital Levy in Germany. Fiscal Studies 35; Bach, S., Beznoska, M. (2012): Aufkommens- und Verteilungswirkungen einer Wiederbelebung der Vermögensteuer. DIW Berlin: Politikberatung kompakt 68; see also DIW Wochenbericht Nr. 42/2012.

8 Bach, S., Beznoska, M., Thiemann, A. (2016): Aufkommens- und Verteilungswirkungen einer Wiedererhebung der Vermögensteuer in Deutschland. Research Project commissioned by the Friedrich Ebert Foundation. DIW Berlin: Politikberatung kompakt 108.

9 See also „Vermögensteuer" in the DIW Glossary: http://www.diw.de/de/diw_01.c.412762.de/presse/diw_glossar/verm_gensteuer.html, in German, 11.01.2016.

10 manager magazin (2011): Die 500 reichsten Deutschen. manager magazin spezial, October 2011.

11 A "withdrawal adjustment" describes the reduction ("withdrawal") of a personal allowance by a certain percentage of the taxable assets that exceed the allowance. A withdrawal rate of 50 percent is used here. For example, assume a taxpayer has taxable assets (before allowances) of 2.4 million euros: If the personal allowance was originally two million euros, it will be reduced by 200,000 euros down to 1.8 million euros. The personal allowance will never be melted down to zero—rather, it will stop being withdrawn when it reaches 500,000 euros (the "base amount"). This base amount is in place to ensure that the "family-use assets" are not taxed, and is doubled in the case of joint taxation (see Box 1). A 50-percent withdrawal rate of the personal allowance entails an increase of the effective marginal tax rate—i.e. the tax rate paid on each additional euro of taxable assets—by 50 percent over the withdrawal interval. With a personal allowance of two million euros, the withdrawal interval ranges from three million euros (1.5 million euros of withdrawal volume, when divided by 50 percent) to five million euros of taxable assets before personal allowances. At this level of assets and higher, the marginal tax burden drops back to the tariff rate. For a more detailed description, see Bach, Beznoska, and Thiemann (2016), p. 28 et seqq.

12 In addition to point estimates, we also specify 95-percent confidence intervals for taxpayers and tax revenues. These take into account the sampling errors and standard errors due to the HFCS being a relatively small household sample, the standard errors of the statistical imputations for the non-response cases of individual assets, and the standard errors involved in the estimation of the very high net wealth.

Box 1

Bringing back the wealth tax in Germany

The taxation concept analyzed here is based on several red-green *Bundesländer's* 2012 proposal for reintroducing the wealth tax.[1] This proposal is in turn based on the wealth tax that was in effect until 1996. The wealth tax base must be updated and reformed, particularly with regard to the valuation of tangible assets and the relation of taxation between natural and legal persons. For the microsimulation analyses, we consider the following items.

- Taxable assets include the total tangible and financial assets of the taxpayer, including owner-occupied housing and business assets, minus liabilities related to the taxable assets.
- Foreign assets are taxable, unless they are exempted under double taxation agreements.
- Taxable are valuable "luxury goods" such as precious metals, gems, coins, jewelry, works of art, and expensive vehicles (e.g.. boats, airplanes, and antique cars). Common household items and conventional motor vehicles are exempt from taxation.
- Tax-free assets include pension funds, including those for surviving dependents, covered by statutory social insurance, civil service pensions, occupational pensions, and private insurance contracts as well as retirement provisions covered by private health insurance.
- The assets will be valuated from a market-oriented perspective in accordance with the inheritance tax assessment regulations in effect since 2009.
- To ensure that all financial assets are duly recorded, financial service providers will be obligated to register managed funds totaling 50,000 euros or more.
- Spouses and life partners are assessed together, enabling them to balance positive and negative net assets.
- A personal allowance of at least one million euros will ensure that the tax burden is concentrated on the wealthy segments of the population. This personal allowance is doubled for spouses and life partners filing taxes jointly. Undiminished personal allowances serve as the basis. As an alternative scenario, they are subject to a "withdrawal adjustment" proposed by the red-green *Bundesländer.* Through this regulation, the personal tax allowance will be reduced ("withdrawn") by 50 percent of the excess taxable capital until it reaches 500,000 euros (base allowance).[2] The base allowance in intended to ensure the exemp-

1 For more on this subject, see Bach and Beznoska (2012); Häuselmann, H. (2012): Vermögensteuer 2014? Erste Vorschläge zur Wiederbelebung der Vermögensteuer – und die Folgen für Privatanleger und Unternehmen. Deutsches Steuerrecht 50, 1677–1680, Hey, J., Maiterth, R., Houben, H. (2012): Zukunft der Vermögensbesteuerung. Institut Finanzen und Steuern, IFSt-Schrift Nr. 483.

2 For a brief explanation of the "withdrawal adjustment," see Footnote 11; for more a more detailed explanation, see Bach, Beznoska, und Thiemann (2016), p. 28 et seqq.

inantly applies to the richest 0.1 percent of households, particularly in the scenarios with a personal allowance of two million euros (Table 1).

From an economic perspective, wealth is capitalized income, which means that an annually levied wealth tax indirectly burdens capital income as well—that is, the wealth tax reduces both the real value of wealth as well as the capital income. The distribution effect of the wealth tax can therefore be measured based on both the wealth distribution as well as the income distribution.[13]

We analyze the wealth tax's effect on wealth distribution by reducing the taxpayers' net wealth by the amount of the wealth tax, and calculating the change in the relevant distribution measures (see Table 1).[14] In addition to the

13 Differences between the effect on wealth distribution and the effect on income distribution are caused by varying asset returns, and especially by the fact that as a rule, no implicit assets are calculated for essential income components such as wages and social transfers, and by the fact that the corresponding "human capital" or "social capital" are not taxable assets.

14 We use the relevant analytical distribution measures a in this study: The Gini coefficient, which is in common usage, is derived from the Lorenz curve (see also "Gini coefficient" in the DIW Glossary: http://diw.de/de/diw_01.c.413334.de/presse/diw_glossar/gini_koeffizient.html, in German, 11.01.2016). It responds primarily to changes in the middle area of the distribution. The Gini coefficient has a value ranging from 0 (equality) to 1 (concentration of the distribution on only one person). The generalized entropy measures (GE) weight the income inequality in varying degrees: The GE(1) (also known as the Theil index), which corresponds to the information-theoretic entropy measure, gives greater weight to the distribution changes in the upper part of the distribution ("top-sensitive"), while the GE(2), which

tion of “family-use assets”; for spouses filing jointly, this amount will be doubled.

- Small businesses will be exempted from the tax through a separate 5 million-euro allowance for business assets. This is granted for own businesses, shares in partnerships, and substantial shares in corporate companies. According to the rules of the inheritance tax, the allowance is to be granted only for assets essential to the operation of the business, not for administrative assets.

- Neither child allowances nor joint taxation with children are stipulated. Non-resident taxpayers will receive a personal allowance of 200,000 euros, which will not be withdrawn.

- In addition to natural persons, legal persons such as corporations are also independently subject to the wealth tax.

- For legal persons, an exemption limit for taxable assets up to 200,000 euros will be in effect. Shareholdings between legal persons are not subject to taxation, irrespective of the shareholding quota. Thus double taxation is avoided.

- A “half assets system”—which entails that the taxable assets of legal persons as well as the shares of natural persons in corporations are subject to only half the tax—avoids possible double taxation of the assets of corporations and other legal persons.

- The tax rate will be levied proportionally at a uniform rate for both natural as well as legal persons. Most of the proposals from the last few years, as well as the plan from the red-green *Bundesländer*, stipulate a wealth tax of one percent. This rate is used as a basis here.

- As a supplement to this, a progressive tax schedule for the wealth taxation of natural persons is also examined; here, a marginal tax rate of 1.25 percent is applies to taxable assets over ten million euros, and a marginal tax rate of 1.5 percent is applies to taxable assets over 20 million euros. In cases of joint taxation between spouses or life partners, the asset limits are doubled.

- There are no crediting or deduction possibilities between the income taxes (local business tax, personal and corporate income tax) and the wealth tax.

The wealth tax of legal persons is not included in the analyses carried out here.[3] In the simulations regarding the effects of the wealth tax on revenue and wealth distribution, we only analyze households whose corporate shares are fully taxed.

3 The effects on revenue caused by the wealth taxation of legal persons can be estimated to the extent that they have to do with corporations in which domestic natural persons hold shares. For further discussion, see: Bach, Beznoska and Thiemann (2016), p. 52 et seqq.

Gini coefficient—a standard for measuring income inequality—the generalized entropy indexes (GE) are used here. These GE indexes react more strongly to changes in the upper range of the distribution than does the Gini coefficient, and this is also reflected in the present study: Since the wealth tax is highly concentrated on the rich, the GE index exhibits a stronger decline in inequality than does the Gini coefficient. Although the revenue is more heavily generated by the wealthier taxpayers in the scenarios with higher allowances, this is largely offset by the overall lower tax revenue.

measures half the squared coefficient of variation, is very sensitive to changes at the uppermost part of the distribution. The GE indexes’ range of values starts at 0 (uniform distribution), and continues with increasing distribution inequality to more than 1.

As a rule, the distributional effects of the wealth tax are more closely connected with income, since the tax is usually paid out of investment returns. The effect of the wealth tax on the income distribution is examined here based on the gross equivalent income,[15] which makes it possible to compare the income situations of households with different sizes and compositions (see Table 1).[16] It turns out that the distribution of the tax revenue by the household income is similar to the distribution by the net

15 The net-equivalent income is not available in the HFCS survey, since tax and social security contributions are not recorded and we could not use a microsimulation model to recreate them.

16 See also „Äquivalenzeinkommen“ in the DIW Glossary: http://www.diw.de/de/diw_01.c.411605.de/presse/diw_glossar/aequivalenzeinkommen.html, in German, 11.01.2016.

Box 2

Estimates of Germany's wealth distribution, 2011

To study the distribution of household wealth in Germany, we combine survey data with information and estimates on households with a high or very high level of net wealth.[1] The Household Finance and Consumption Survey (HFCS)[2] conducted by the euro-area central banks—the German component of which was carried out by the Deutsche Bundesbank in 2010–2011—samples the wealthy households with a higher selection probability. Even in the HFCS, however, there are still only a few households with assets in the two-digit millions, and zero households with assets in the three-digit millions.

Thus for the present analysis, the 200 richest German households—which were culled from *manager magazin's* 2011 "rich list" of the 500 wealthiest Germans[3]—are integrated into the model data set. Next, we use the Pareto distribution[4] to estimate the wealth distribution of households with wealth over three million euros. For this, we combine the HFCS survey data with the rich list to estimate the Pareto distribution's alpha coefficients.[5] Finally, using the estimated distribution, we impute hypothetical households with wealth ranging from three million euros up to the 200 wealthiest households.

The imputed households' portfolio components—in particular, real estate as well as business, financial and other assets—are derived using share estimates based on the HFCS's sample of households with minimum wealth of one million euros. For households from the *manager magazin* list, it is assumed that the total wealth can be attributed to business assets. Because of the imputation of net wealth at the top, the calculations are compatible with the macroeconomic aggregate of household net wealth.[6] We then infer socio-demographic information (such as household size, children, and age) for the imputed households based on the top percentile of the HFCS survey.

Given the rise in asset prices, the household net wealth in Germany may have experienced a significant increase since 2011. This is especially true for the assets of the richest households, which mainly consist of companies and corporate investments. The distribution of wealth is therefore likely to have become even more concentrated.

For the microsimulation analyses, we use the HFCS's detailed information on portfolio components, particularly the information on financial and private assets. The wealth tax's collection costs are simulated based on case-oriented cost rates for compliance costs, and for tax authorities' administrative costs. For this purpose, a concept from a previous study[7] has been updated and revised. To address criticism of the low cost rates as well as the minor expenditure of time, we use the higher rates used from a DIW Berlin study on inheritance tax.[8] Finally, we simulate the minimum revenue that results from the correction of estimation errors with regard to property valuation.

1 Bach, S., Thiemann, A., Zucco, A. (2015): The Top Tail of the Wealth Distribution in Germany, France, Spain, and Greece. DIW Berlin Discussion Paper 1502.

2 European Central Bank (2015): Household Finance and Consumption Network (HFCN).

3 manager magazin (2011): Die 500 reichsten Deutschen. manager magazin spezial, October 2011.

4 The Pareto distribution is often used to describe a highly concentrated distribution of income or wealth on the top share of the population. See Vermeulen, P. (2014): How fat is the top tail of the wealth distribution? European Central Bank, Working Paper Series 1692.

5 Vermeulen (2014); Bach, Beznoska, und Steiner (2014).

6 Deutsche Bundesbank, Statistisches Bundesamt (2014): Sektorale und gesamtwirtschaftliche Vermögensbilanzen 1999 – 2013.

7 Bach, Beznoska und Steiner (2010): 67 et seqq.

8 Bach, S., Houben, H., Maiterth, R., Ochmann, R. (2014): Aufkommens- und Verteilungswirkungen von Reformalternativen für die Erbschaft- und Schenkungsteuer. DIW Berlin: Politikberatung kompakt 83: 46 et seqq.

wealth. Relative to the income distribution, the reduction in inequality is significantly stronger with a wealth tax, because gross income is less heavily concentrated and, at roughly 2 trillion euros, is significantly lower than the total net wealth.

Overall, the distribution analyses show that in the scenarios analyzed here, the wealth tax would primarily affect the richest percentile of the population, and within this group, it would be largely concentrated on the top 0.1 percent. It is thus highly progressive. Due to its moderate revenue, it contributes only minimally to reducing the high inequality in the case of income and wealth.

The ratio of the wealth tax's collection costs to its revenue is based on the number of taxpayers and the total tax revenue (see Box 2). The collection costs are significantly lower relative to the revenue generated in the scenarios with the higher allowances, since in these instances, fewer cases are assessed and the relative revenue per case is significantly higher. However, this is more than offset by the sharp decline in tax revenues due to the allow-

Table 1

Wealth tax revenue for different scenarios of the personal allowance, the specific allowance for business property and tax schedules

	Personal allowance: EUR 1 million				Personal allowance: EUR 2 million			
	Withdrawal to EUR 500,000[1]		No withdrawal		Withdrawal to EUR 500,000[1]		No withdrawal	
	Specific allowance for business property (no withdrawal)							
	None	EUR 5 million	None	EUR 5 million	None	EUR 5 million	None	EUR 5 million
Taxpayer								
Total (thous.)	435	301	435	301	180	152	180	152
CI[2] lower bound	284	187	284	187	87	63	87	63
CI[2] upper bound	587	415	587	415	272	240	272	240
Percentile[3] onset								
Tax liability	98.9	98.9	98.9	98.9	99.6	99.7	99.6	99.7
Proportional tax rate of 1 %								
Tax revenue								
Total (EUR billion)	22.6	17.7	19.2	14.9	17.6	13.4	14.4	11.0
CI[2] lower bound	17.2	13.4	14.5	11.2	13.1	10.0	10.7	8.2
CI[2] upper bound	27.9	22.1	23.9	18.7	22.1	16.9	18.0	13.9
Distribution of tax revenue by percentiles[3] of net wealth in %								
1.–99. percentile	0.7	0.9	0.2	0.3	0.0	0.0	0.0	0.0
99.1.–99.9. percentile	39.7	36.0	31.8	27.3	23.6	16.7	14.6	9.1
Top 0,1 %	59.6	63.1	68.0	72.4	76.4	83.3	85.4	90.9
Change in wealth inequality measures due to wealth taxation %								
Gini coefficient	−0.07	−0.06	−0.06	−0.05	−0.06	−0.04	−0.05	−0.04
GE(1)	−0.45	−0.39	−0.42	−0.36	−0.42	−0.36	−0.38	−0.32
GE(2)	−1.47	−1.55	−1.54	−1.61	−1.58	−1.65	−1.64	−1.70
Distribution of tax revenue by percentiles[3] of gross equivalent income %								
percentile	19.0	16.1	12.1	9.3	1.2	0.7	1.0	0.6
99.1.–99.9. percentile	23.6	22.9	22.2	20.3	25.2	18.7	16.1	10.5
Top 0,1 %	57.4	61.0	65.7	70.3	73.6	80.6	83.0	88.9
Change in income inequality measures due to wealth taxation %								
Gini coefficient	−1.49	−1.24	−1.31	−1.05	−1.24	−0.96	−1.01	−0.79
GE(1)	−7.88	−6.91	−7.49	−6.50	−7.49	−6.43	−6.78	−5.82
GE(2)	−24.83	−24.96	−25.04	−25.13	−25.19	−25.27	−25.33	−25.35
Tax collection costs								
Total in % of tax revenue	6.6	7.2	7.5	8.2	4.4	5.5	5.4	6.5
Compliance costs[4]	2.4	2.3	2.8	2.7	1.5	1.7	1.8	2.0
Administrative costs[5]	1.1	1.0	1.2	1.2	0.7	0.8	0.8	0.9
Revenue loss from valuation corrections	3.2	4.0	3.4	4.3	2.2	3.1	2.7	3.5
Progressive tax rate of 1.0 % – 1.5 %								
Tax revenue								
Total (EUR billion)	25.0	19.8	22.4	17.7	19.8	15.5	17.4	13.8
CI[2] lower bound	18.9	14.8	16.8	13.2	14.8	11.5	13.0	10.2
CI[2] upper bound	31.1	24.7	27.9	22.2	24.9	19.4	21.9	17.3

1 Withdrawal of the personal allowance by 50 % of the taxable wealth above the personal allowance.
2 95% confidence interval, robust standard errors.
3 Percentiles of persons in private households (age: 18+).
4 Compliance costs of taxpayers.
5 Tax administration costs.

Source: Own calculations based on the Household Finance and Consumption Surveys (HFCS) 2011, including the estimated top-wealth households.

ance for business assets. Relative to revenue, the collection costs range from 6.6 to 8.2 percent in the scenarios with the personal allowance of one million euros, and from 4.4 percent to 6.5 percent in the scenarios with the personal allowance of two million euros (see Table 1).

In the scenarios with a progressive tax schedule, tax revenue increases by 11 to 25 percent compared to the scenarios with a proportional tax rate of one percent. The increase is even greater the more the tax base is concentrated on the high levels of wealth—i.e., with a higher personal allowance, a non-withdrawn personal allowance, or an allowance for business assets. Accordingly, the tax revenue in these scenarios is somewhat more concentrated on households with the highest incomes and wealth, and the reduction in the distribution measures is somewhat stronger.[17] Because the tax revenue is higher, the relative collection costs decrease.

Tax avoidance could noticeably reduce revenue

It is very likely that the (re)introduction of a wealth tax would lead to avoidance responses from taxpayers. Corporations may react to a wealth tax by transferring mobile assets to foreign countries, reducing self-financing, and reducing the corporate wealth through transfer pricing and comparable instruments. In the longer term, real investments could also be reduced or transferred abroad. Private investors could transfer assets abroad, or move abroad themselves.

The effects of such tax avoidance strategies on the tax revenue and collection costs are analyzed based on estimates regarding the elasticity of the corporate and capital income tax bases in the face of changes in the corporate and capital income tax rates (see Table 2). For this purpose, the wealth tax burden is converted into an implicit burden on corporate and capital income. As a baseline scenario, a base elasticity of –0.25 with regard to the collective tax burden of corporate and capital income is assumed[18]—that is, if the tax rate is increased (or decreased) by one percent (not percentage point), the tax base decreases (or increases) by 0.25 percent. For real estate assets, behavioral responses are not taken into consideration.

Since it is difficult to estimate the extent of the behavioral responses, the effects of elasticities of –0.4 and –0.1 are calculated in addition to the baseline scenario (see Table 2). The greater elasticity (–0.4) represents the much higher possibilities for tax avoidance and evasion, which existed up until 10 years ago and were measured in empirical studies for Germany.[19] The baseline scenario's average elasticity of –0.25 takes into account that the possibilities for tax avoidance and tax planning are likely to have significantly decreased since then. The weaker elasticity (–0.1) represents the possibilities that may arise in an intensified international tax policy coordination and cooperation by fiscal authorities.

Regarding the effects of the wealth tax burden, we factor in the actual individual marginal tax rate, taking into account the allowances, including the withdrawal adjustment for personal allowances. In addition to simulating the behavioral response-induced decrease in wealth tax revenue, we also simulate the indirect "shadow effect" on corporate and capital income tax revenues, for which we assume the same reduction in the tax base.[20] Further economic effects on the product and factor markets and the government budget are disregarded.

In the scenarios with the one-percent proportional tax rate, the tax revenue decreases by 30 to 46 percent compared to the baseline scenario (–0.25 elasticity) in the simulation without behavioral responses (see Table 2). In the scenarios with the higher, two-million euro personal allowance, as well as the scenarios with allowances for business assets, the decline in tax revenue is somewhat stronger. This is due to these scenarios' lower share of real estate assets, for which no avoidance responses are taken into account. The same effect can also be observed for the withdrawal adjustment of the personal allowance: This fattens up the tax base of taxpayers with lower levels of wealth, which have a high proportion of real estate assets.

The decline in revenue as a result of the indirect effect on the corporate and capital income tax revenue accounts for half to two-thirds of the total decline in revenue. With the stronger tax base elasticity (–0.4), the tax revenue declines by 50 to 68 percent compared to the simulation without behavioral responses. With the weaker tax base elasticity (–0.1), the tax revenue declines by ten to 24 percent.

17 Bach, Beznoska, and Thiemann (2016), p. 54 et seqq.

18 For a detailed explanation, see Bach, Beznoska, and Thiemann (2016), p. 41 et seqq.

19 Feld, L. P., Heckemeyer, J. H. (2011): FDI and Taxation: A Meta-Study. Journal of Economic Surveys 25, 233–272; Dwenger, N., Steiner, V. (2012): Effective Profit Taxation and the Elasticity of the Corporate Income Tax Base: Evidence from German Corporate Tax Return Data. National Tax Journal 65, 118–150; Fossen, F. M., Steiner, V. (2014): The Tax-rate Elasticity of Local Business Profits. DIW. Discussion Paper 1424.

20 If companies use tax planning or relocate investments abroad, it reduces the potential revenue of not only the wealth tax, but also the revenue of the existing corporate and capital income taxes. We set the income taxes levied at the company level at 30 percent of the business income; for capital income, we factor in the flat rate withholding tax, including a solidarity surcharge of 26.4 percent, and disregard the savings allowance. The decrease in income tax revenue is also factored in for the cases that no longer pay wealth taxes following a behavioral response, since their taxable assets now fall below the allowance level.

Table 2

Change of wealth tax revenue and assessment costs due to behavioral adjustment for different scenarios of the personal allowance and the specific allowance for business property, proportional tax rate of 1 %

	Personal allowance: EUR 1 million				Personal allowance: EUR 2 million			
	Withdrawal to EUR 500,000[1]		No withdrawal		Withdrawal to EUR 500,000[1]		No withdrawal	
	Specific allowance for business property (no withdrawal)							
	None	EUR 5 million	None	EUR 5 million	None	EUR 5 million	None	EUR 5 million
Baseline scenario: elasticity[2] −0.25								
Tax revenue change in billion euros								
Wealth tax	−3.3	−3.2	−2.0	−1.9	−3.1	−2.8	−1.6	−1.5
Capital income taxation[3]	−4.1	−3.8	−3.8	−3.5	−3.6	−3.4	−3.2	−3.0
Total	−7.5	−7.0	−5.7	−5.4	−6.7	−6.2	−4.8	−4.5
in % rev. before adjust.	*−33.1*	*−39.7*	*−29.9*	*−36.4*	*−38.0*	*−45.9*	*−33.1*	*−40.7*
Change of collection costs								
in % rev. before adj.	2.7	4.1	1.5	2.2	3.0	4.7	1.7	2.7
Compliance costs[4]	0.9	1.1	0.9	1.2	0.9	1.4	0.9	1.4
Administrative costs[5]	0.4	0.5	0.4	0.6	0.4	0.6	0.4	0.6
Revenue loss from valuation corrections	1.5	2.5	0.2	0.5	1.6	2.6	0.4	0.7
Baseline scenario: elasticity[2] −0.4								
Tax revenue change in billion euros								
Wealth tax	−4.8	−4.3	−3.2	−2.9	−4.4	−3.7	−2.5	−2.3
Capital income taxation[3]	−6.6	−6.2	−6.0	−5.6	−5.7	−5.4	−5.0	−4.7
Total	−11.4	−10.5	−9.2	−8.4	−10.1	−9.1	−7.6	−7.0
in % rev. before adjust.	*−50.7*	*−59.2*	*−47.7*	*−56.6*	*−57.2*	*−67.9*	*−52.9*	*−63.5*
Baseline scenario: elasticity[2] −0,1								
Tax revenue change in billion euros								
Wealth tax	−1.8	−2.0	−0.8	−1.0	−1.9	−1.8	−0.6	−0.8
Capital income taxation[3]	−1.7	−1.5	−1.5	−1.4	−1.4	−1.3	−1.3	−1.2
Total	−3.5	−3.6	−2.3	−2.4	−3.3	−3.2	−1.9	−2.0
in % rev. before adjust.	*−15.4*	*−20.1*	*−11.9*	*−16.1*	*−18.6*	*−23.6*	*−13.3*	*−17.8*

1 Withdrawal of the personal allowance by 50% of the taxable wealth above the personal allowance.
2 Elasticity of the corporate and capital income tax base with respect to changes in the corporate and capital income tax rates, related to the implicit corporate and capital income tax rate of the wealth tax.
3 Decline in corporate and capital income tax revenue when corporate and capital income tax base is reduced by the same amount.
4 Compliance costs of taxpayers.
5 Tax administration costs.

Source: Own calculations based on the Household Finance and Consumption Surveys (HFCS) 2011, including the estimated top-wealth households.

In the scenarios with the progressive tax schedule (which are not presented here), the behavioral responses are similar.[21] In the scenarios with the withdrawal adjustment, the behavioral responses are slightly lower than they are in the scenarios with the proportional tax rate; in scenarios without the withdrawal adjustment, they are slightly higher. Compared to the simulation without behavioral responses, the tax revenue in the baseline scenario declines by 30 to 44 percent. With the stronger tax base elasticity (–0.4), the tax revenue declines by 50 to 70 percent. With the weaker tax base elasticity (–0.1), the tax revenue declines by 14 to 20 percent.

It should be emphasized that the possible behavioral responses in the wealth tax base, including any indirect effects on the income taxes, are being simulated here. These responses reduce tax revenue as well as the redistributive impact of the wealth tax. This entails "excess burdens" in terms of efficiency losses only to the extent

21 Bach, Beznoska, and Thiemann (2016), p. 61 et seqq.

that negative real economic effects are also linked to production and employment.[22] As far as the behavioral responses are related to tax planning, no major real economic effects must be connected to this. Wealth taxation can also improve the efficiency of the tax system by reducing the negative economic externalities caused by a heavy and increasing concentration of wealth.

Advantages and disadvantages of the wealth tax

Through the implementation of high personal tax allowances and, if necessary, a progressive tax schedule, the wealth tax can target the richest strata of the population. Unlike the current corporate and capital income taxes, the wealth tax also encompasses assets' changes in value as well as imputed rents (such as those from owner-occupied property), valuable collections, and other luxury goods. In this way, the wealth tax is less affected by the complications that arise when determining profit or possibilities for tax planning, provided that the assets' market values can be determined or are already available.[23]

Because the wealth tax is levied regardless of actual income, it must be paid even in periods of loss. However, a consistent market or income valuation in the case of a persistently low return results in correspondingly low assets. Insofar as a risk premium is taken into account in the asset valuation, the wealth tax effectively burdens only the "safe" returns.[24] This primarily benefits small and medium companies with lower market values or high-risk premiums; however, investments with low returns will be heavily burdened. Because real rates of return are currently negative for safe investments such as savings accounts and government bonds, the wealth tax effectively reduces the capital stock. Investments and companies with high market values derived from alternative uses will also be heavily burdened—for example, the many real estate and housing companies with high-value land.

As long as it is not offset against the existing income taxes, the wealth tax creates an additional burden on corporate and capital income. This can cause noticeable taxpayer avoidance responses, which are simulated in this study. The possibilities for tax evasion in the case of financial assets have been significantly reduced over the past few years; however, there are still major opportunities for tax planning in the case of corporate taxation.

The wealth tax requires a separate asset assessment and appraisal, which is relatively complicated and must be updated regularly. Valuating real estate and corporate assets for which no appropriate market values are available necessitates the estimation of sustainable earnings potentials and the identification of discount rates, including risk premiums. This means that estimates and projections will inevitably be riddled with assumptions, which makes them vulnerable to controversy and tax planning.[25]

Conclusions

Overall, the analysis shows that the wealth tax is an effective tool for increasing the tax revenue from households with high or very high wealth. Germany's private wealth is heavily concentrated: The richest one percent of the population possesses an estimated 32 percent of the total net wealth, and the richest 0.1 percent alone possesses 16 percent. The wealth tax can therefore generate an estimated ten to 20 billion euros per year in revenue—even with high allowances—which slightly reduces the inequality of income distribution. The wealth tax's collection costs range from two to eight percent relative to the tax revenue, which is comparable to the collection costs for income taxes.

The wealth tax entails an additional burden on corporate and capital income, insofar as it is not offset against the existing income taxes. This means that the reduction of corporate- and wealth-related taxes from the past few decades—which was primarily due to the ever-increasing international tax competition—would be partially scaled back. Since tax competition and tax evasion are on the decline, opportunities to tax top wealth as well as high corporate and investment incomes are opening up again. However, noticeable taxpayer avoidance responses are still possible, and such responses reduce tax revenue and could also cause problems for the German economy. Opportunities for tax avoidance would therefore need to be reduced even more, and an international consensus on the wealth tax regime would need to be reached.[26]

22 See, for example: Schneider, K., Neugebauer, C., Eichfelder, S., Dienes, C. (2013): Besteuerung von Vermögen, höhere Einkommensteuer und Gemeindewirtschaftsteuer. Konsequenzen der Reformpläne für die Belastung von Unternehmen in Deutschland. Bergische Universität Wuppertal, Schumpeter School of Business and Economics, 80 et seqq.

23 This is advantageous when taxing very wealthy households whose actual periodic incomes can often be difficult to measure. See Piketty, T., Saez, E., Zucman, G. (2013): Rethinking Capital and Wealth Taxation. Working paper.

24 See also: Auerbach, A. and K. Hasset. (2015): Capital Taxation in the Twenty-First Century. American Economic Review: Papers & Proceedings 105(5): 41.

25 See Broekelschen, W., Maiterth, R. (2010): Gleichmäßige Bewertung von Mietwohngrundstücken durch das neue steuerliche Ertragswertverfahren? Eine empirische Analyse. Zeitschrift für Betriebswirtschaft 80, p. 203–225, Müller, J., Sureth, C. (2011): Marktnahe Bewertung von Unternehmen nach der Erbschaftsteuerreform? Zeitschrift für betriebswirtschaftliche Forschung 63, p. 45–83.

26 Piketty, T. (2014): Capital in the Twenty-First Century. Harvard University Press: 528 et seqq.

The wealth tax's primary objectives can also be achieved through higher corporate and capital income taxes. Since they will not create any additional collection costs, these changes are technically easier to implement; as well, additional non-income taxes incurred during periods of loss could also be avoided. Through moderate increases in the highest levels of income tax rates and corporate and capital income tax rates, and through a reduction in tax incentives for corporate and rental income, annual revenues amounting to tens of billions of euros could be achieved.[27] Additional revenues could also be achieved with the inheritance tax if the benefits for high business assets were to be reduced.[28] For various practical and political reasons, however, this is unlikely to happen.

The German tax system could therefore see the wealth tax coming into play once again. For very wealthy households in particular, the old approach, which involved monitoring and supplementing the income taxation, could be implemented.[29] Crediting the wealth tax against existing corporate and capital income taxes could allow it to function as a minimum tax.[30] This would counteract complications involved in determining profits and income—for example, in the recording of capital gains and losses, or in tax planning. This could more effectively and equally shape the taxation of very wealthy households with high corporate and capital income whose actual periodic incomes are difficult to measure in the tax practice, whereas their assets can be more easily determined.[31]

27 Finanzpolitische Kommission der Heinrich-Böll-Stiftung (2014): Nachhaltig aus der Schuldenkrise – für eine finanzpolitische Zeitenwende. Schriften zu Wirtschaft und Soziales Band 14: 85 et seqq.

28 Bach, S., Thiemann, A. (2016): Hohe Erbschaftswelle, niedriges Erbschaftsteueraufkommen. DIW Wochenbericht Nr. 3.2016.

29 The 1895 Prussian wealth tax introduced as an *Ergänzungssteuer* ("supplementary tax") during the course of the Miquelian tax reform expressed this function in its title: It was intended to close the income tax's coverage gap—for example, in the case of capital gains from private investment, or the non-performing assets of an upscale lifestyle, such as "country houses and parks." Furthermore, it stipulated that "protected" and "effortless" capital income that was not generated directly by human labor be taxed more heavily. Preussisches Ergänzungssteuergesetz vom 14. Juli 1893. Finanzarchiv 10 (2), 1893, p. 304 et seqq. For background and rationale, see: Gesetzentwurf, Finanzarchiv 10 (1), 1893, p. 370 et seqq.

30 Jarass, L., Obermair, G. M. (2003): Intelligente Vermögensteuer in Deutschland. Anrechnung der Vermögensteuer auf die anteilige Einkommensteuer. In: Grüne Perspektiven zur Vermögensbesteuerung. Bundesarbeitsgemeinschaft Wirtschaft und Finanzen, B90/Die Grünen, Berlin. Reader der BAG Wirtschaft und Finanzen, November 2003, p. 25–36.

31 See Piketty, Saez, und Zucman (2013).

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SEVEN QUESTIONS TO STEFAN BACH

»The Wealth Tax Reduces Income Inequality«

1. Dr. Bach, what is the real net worth of German households and how is this wealth distributed? German households have a real net worth of 8.6 trillion euros. This massive wealth is very highly concentrated and is equivalent to around two and a half times the country's GDP. We estimate that the richest one percent of the population own 32 percent of total assets and the wealthiest 0.1 percent even own as much as 16 percent.

2. What sort of revenue would we be looking at if very high assets were to be subject to a wealth tax? We developed various wealth tax scenarios with high personal allowances of at least one million euros. These scenarios show revenue from wealth tax to the tune of 10 to 20 billion euros per annum, depending on how the tax is levied. According to the wealth tax scenarios we examined, the richest one percent is taxed and, within this one percent, over 80 percent of the tax revenue is concentrated among the wealthiest 0.1 percent.

3. What are the pros and cons of a wealth tax? One advantage of a wealth tax is that it can specifically target the top income bracket. The downside of this approach is that these individuals have substantial influence over economic life through their use of factors of production. Consequently, if these individuals respond to a wealth tax by adopting tax avoidance strategies or choosing to invest abroad instead of in Germany, for instance, this could certainly have a negative impact on the economy.

4. Would a wealth tax reduce inequality in Germany? Since wealth tax is levied on current income, logically, it has an impact on actual income. Income inequality would be reduced slightly because, although the tax only applies to a very small number of taxpayers, those affected would be the extremely wealthy.

5. Not only a wealth tax but also an inheritance tax would target high assets. Which of these two taxes is fairer? Many see the inheritance tax as the fairer of the two because current assets are not affected and an individual's wealth is only taxed at the end of his or her life when the assets are transferred to the next generation. A wealth tax, in contrast, is levied on current assets. This has the advantage of a lower overall tax burden, whereas inheritance tax erodes economic substance and has a certain impact on liquidity. Moreover, among the wider population, inheritance tax is the less popular, whereas a greater number of people are in favor of a wealth tax.

6. What is the reason for this? Inheritance tax relates to the rather sensitive context of old age and death among family members. This could be the reason why inheritance tax is generally relatively unpopular, although the high personal allowances actually mean that the majority of people would never even come close to having to pay inheritance tax. With a wealth tax, on the other hand, it is clear from the outset that only very wealthy households will have to pay. People obviously have considerably fewer reservations on this front, at least according to surveys.

7. In your opinion, what is the chance of a wealth tax being a politically viable option in Germany? The wealth tax is very controversial. For the economy, it is like a red rag to a bull and is a risky option, particularly for German small and medium-sized enterprises. On the other hand, the German political parties, *Die Linke*, or the Left, and the Social Democrats as well as many members of the Greens, are in favor of introducing a wealth tax to stem the increasing concentration of wealth. Another possibility, of course, is to opt for a middle way by incorporating certain elements of a wealth tax into the current taxation on high income since it is often not possible to accurately measure high income. Bearing this in mind, a moderate wealth tax would certainly be another means of imposing higher taxes on the richer members of the population.

Interview by Erich Wittenberg