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INTERVIEW WITH STEFAN BACH

»Little room for maneuver with tax relief in the medium term«

1. Mr. Bach, there is growing criticism that the middle income segments are suffering from a tax and social contribution burden that is too heavy. Does the middle class pay a disproportionately high amount of income tax? *Actually, the middle class has a relatively low income tax burden. This is because we use the basic personal exemption to shield the subsistence level from taxation, and a range of deductions can be taken before taxes. The income tax burden does not rise sharply until the high income segments. The wealthy members of the population are primarily responsible for Germany's income tax revenue. The wealthiest ten percent pay around 56 percent of the total.*
2. But the tax rate rises quite rapidly in the lower income segments, while the tax curve is flatter in the higher income segments. Why not flatten out the "belly shape" (*Mittelstandsbauch*) at the beginning of the curve? *The *Mittelstandsbauch* refers to marginal tax rates, that is, the tax burden on the next euro earned. The burden rises steeply in that segment of the curve indeed. However, the mean burden is still very low in the lowest levels because most of the income there is exempt from taxes. The average tax burden rises gradually at first and then accelerates. If we initiate a sweeping reform of the tax tables—flatten the belly-shaped curve—this means that all taxpayers would experience a relief, and wealthy taxpayers with high tax burdens would benefit as well. They would not be greatly relieved in relative terms, but in absolute terms they would experience a greater relief than the middle income segments. This would lead to those with high incomes being responsible for a significant portion of the resulting large losses in tax revenue.*
3. How much of an impact would flattening the curve have on taxpayers' pocketbooks? *Again, in absolute terms taxpayers with high incomes would have the most relief: approximately 1,600 euros per year. The tax burden of the middle income segments, which do not pay a high rate of income tax, would only be around 500 euros less per taxpayer. And there would, of course, be even less relief for low earners in the bottom segment because they hardly pay any income tax as it is. However, these relief effects would only take hold in this form if taxes were not raised in the upper income segments.*
4. What would a tax reform like this cost the state? *If we flattened the curve completely, Germany's tax revenues would be 35 billion euros lower each year. That is a lot of money—1.1 percent of GDP, in fact. The balanced budget would be endangered. Right now the country could finance a hole that size by raising the maximum tax rates. But the results would be disappointing, especially if keeping the effect within a moderately economically viable framework was necessary. Depending on where middle income households are in the income hierarchy, a change like this would provide them with tax relief ranging from 200 to 600 euros annually, but then the top income segments would have to bear a higher tax burden.*
5. Income tax revenues have surged in recent years. Doesn't this mean we have some room to maneuver with tax relief? *The budget surpluses that we have experienced in recent years are of course due to the pronounced increase in income tax revenue because of the tax system's progressive nature. We only adjusted the tax tables slightly, which is why this is the area pinpointed in the current discussion on tax policy. And proposals are currently envisioning tax relief worth between 10 and 30 billion euros, depending on political preference. The problem is that we can also expect to have growth on the expenditure side of the balance sheet and deficits in the social security system. This eliminates our room to maneuver in the medium term: major tax relief is not possible in Germany if we do not want to run a budget deficit.*

Interview by Erich Wittenberg



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