

Social Justice in the Tax System

Current situation in Germany

Barbara Bültmann

(Stiftung Marktwirtschaft)

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“We shall never make taxation popular, but we can make taxation fair.”

(Richard Milhouse Nixon)

“One man's “loophole” is another man's “incentive”

(Richard Milhouse Nixon)

German tax system

Principles of taxation

- Taxation according to the “Leistungsfähigkeit” i.e. the ability to pay tax
- Principle of the Welfare State (Sozialstaatsprinzip)
- Legality of Taxation (Gesetzmäßigkeit der Besteuerung)
- Equality of taxation (Gleichmäßigkeit der Besteuerung)
- Net principle (Nettoprinzip)

Tax justice

- Horizontal tax justice:
Tax payers with the same degree of fiscal capacity have to be taxed in the same way
- Vertical tax justice
Tax payers with different fiscal capacities have to be taxed differently.

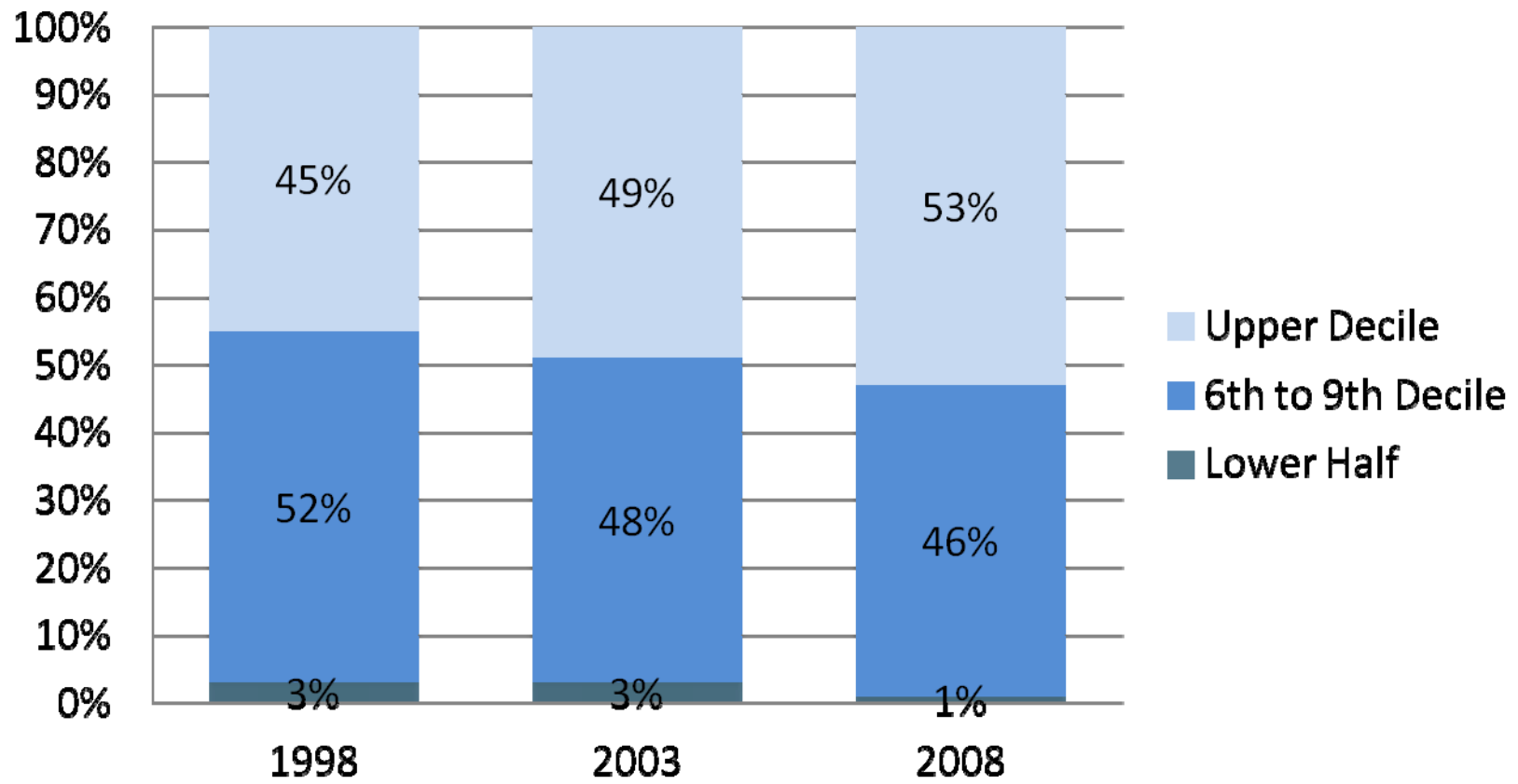
Taxes as a means of reallocation and social justice

- Tax exemption for the breadline
- Progressive tax rate
- Support for families (child relief and child allowance)

Share of the taxpayers in the income tax revenue 2011

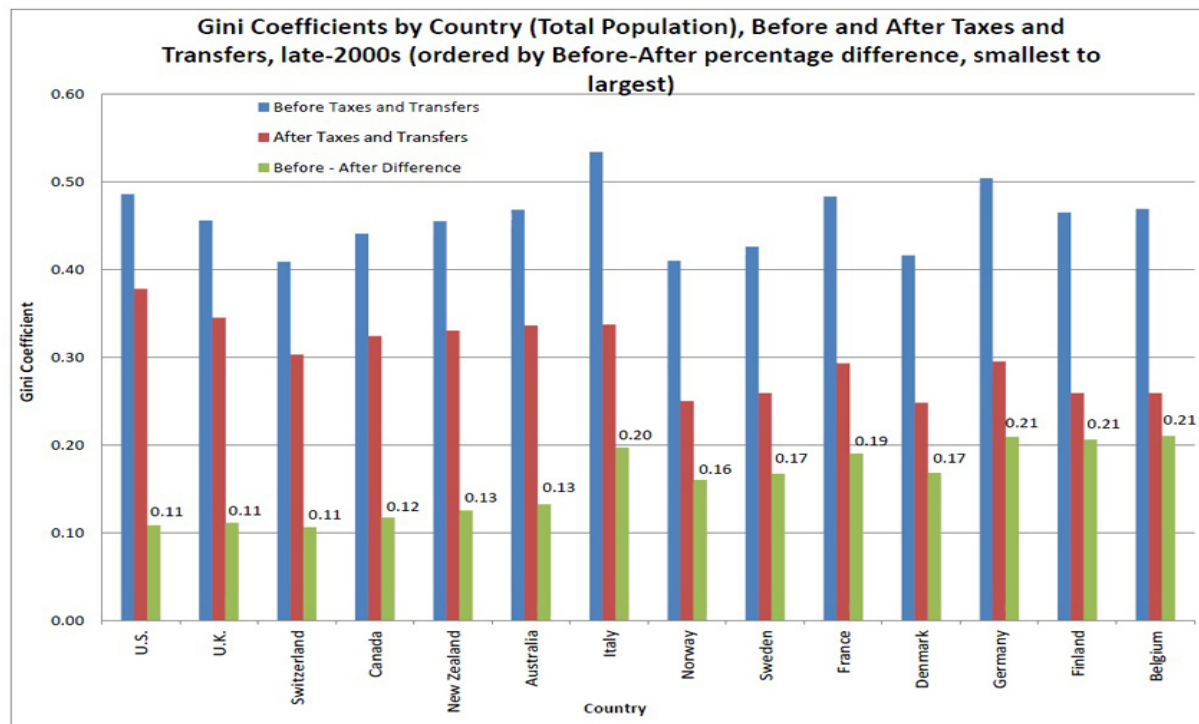
Upper....% of tax payers	Income from... €	of income tax (acc.)	of Income (Gesamtbe- trag der Einkünfte) (acc.)	of taxable income (zvE) (acc.)	of disposable income (acc.)
1	184.701	22.0	12.5	13.5	10.5
5	92,130	41.5	25.9	26.8	22.0
10	69,582	54.6	36.4	37.1	31.3
20	50,059	71.1	53.3	54.1	48.0
25	44,084	76.9	59.9	60.7	54.5
30	39,370	82.0	65.9	66.7	60.5
40	32,173	89.3	75.6	76.4	70.7
50	26,191	94.6	83.8	84.5	79.5

Distribution of Private Net Assets in Germany



Source: German Ministry of Labour (German Federal Statistical Office based on the Sample Survey of Income and Expenditure (EVS))

Gini index by Country, before and after Taxes and Transfers

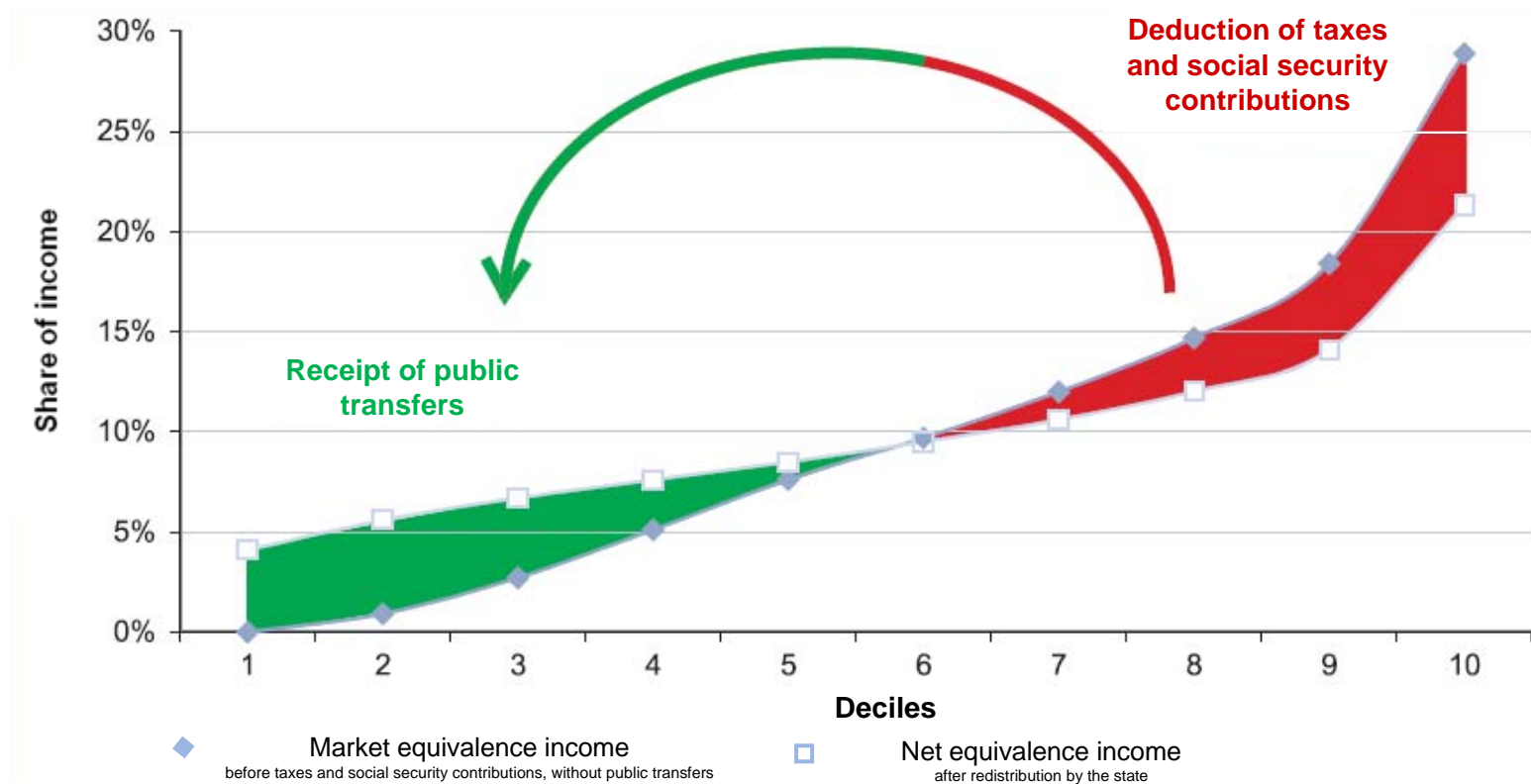




Redistribution in Germany works

Economic success allows social protection. High performers provide solidarity:

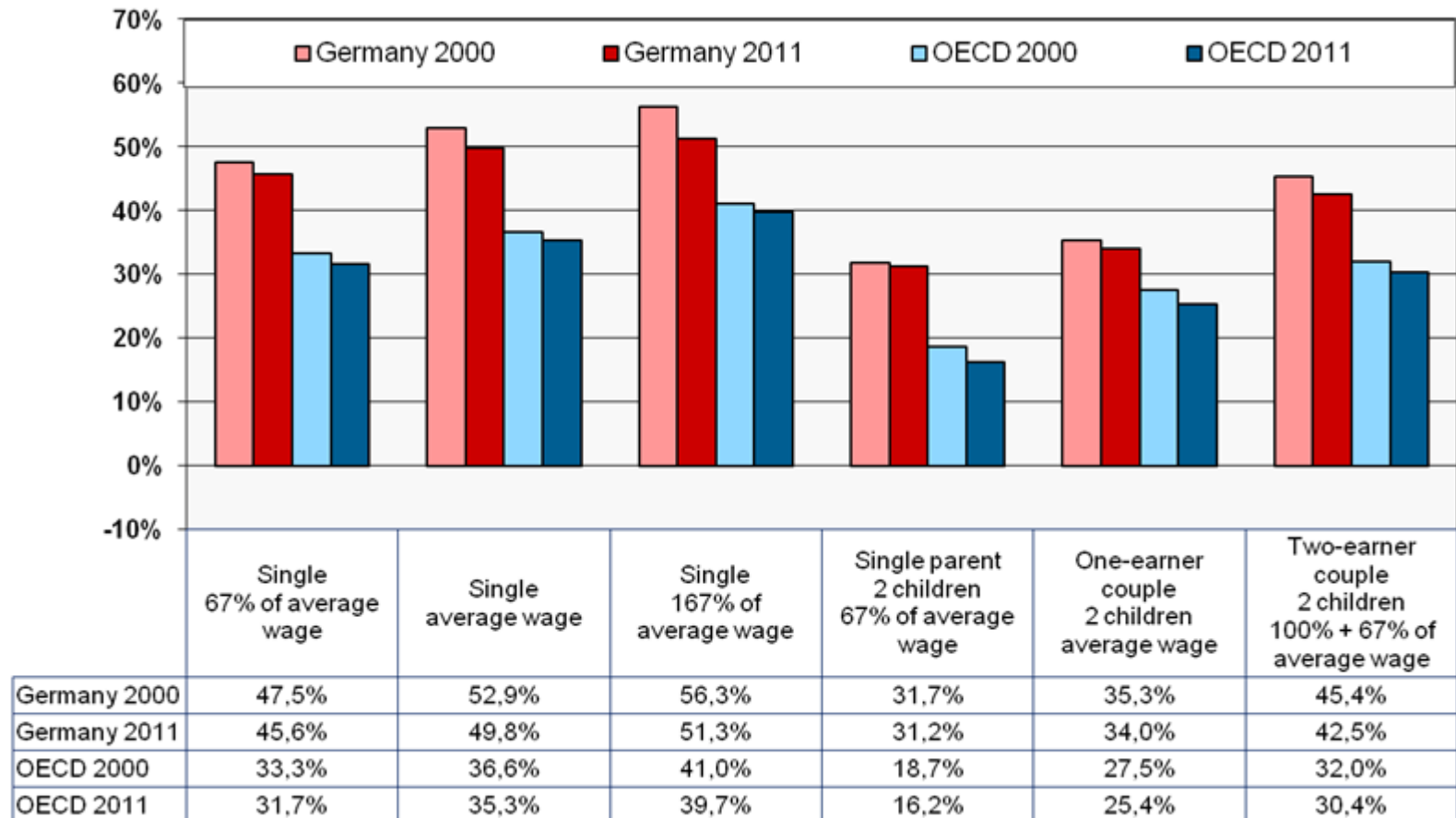
The highest 10% of earners paying income tax provide 50% of the revenue from income tax



Tax Wedge in % of labour costs for different wage levels and household types, 2000 and 2011

Tax Wedge = income tax plus employee and employer social security contributions minus cash transfers

average wage = yearly gross wage earnings of the average worker

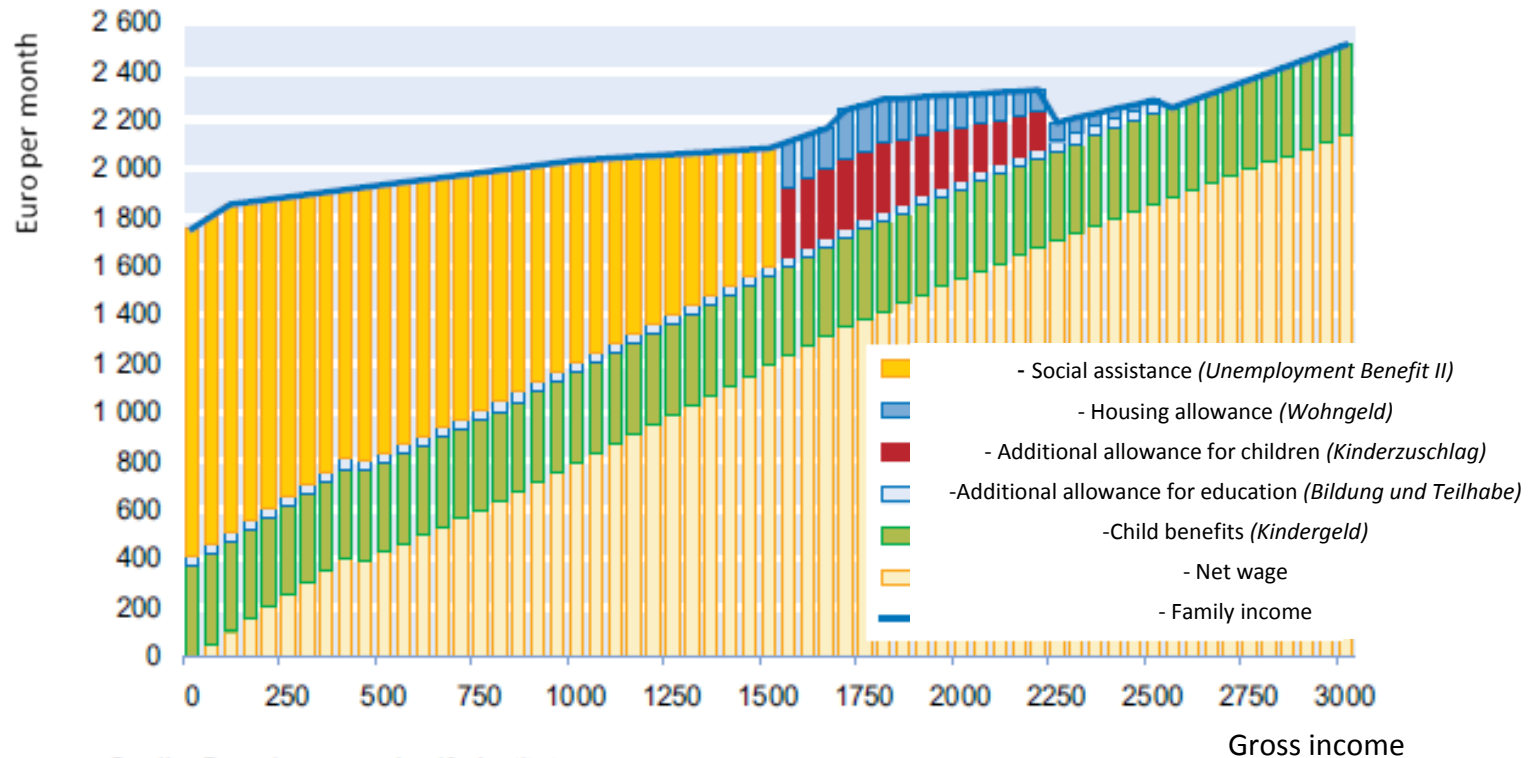


Source: OECD

The welfare state ... too generous to provide sufficient incentives?

Components of net family income including transfers 2011:

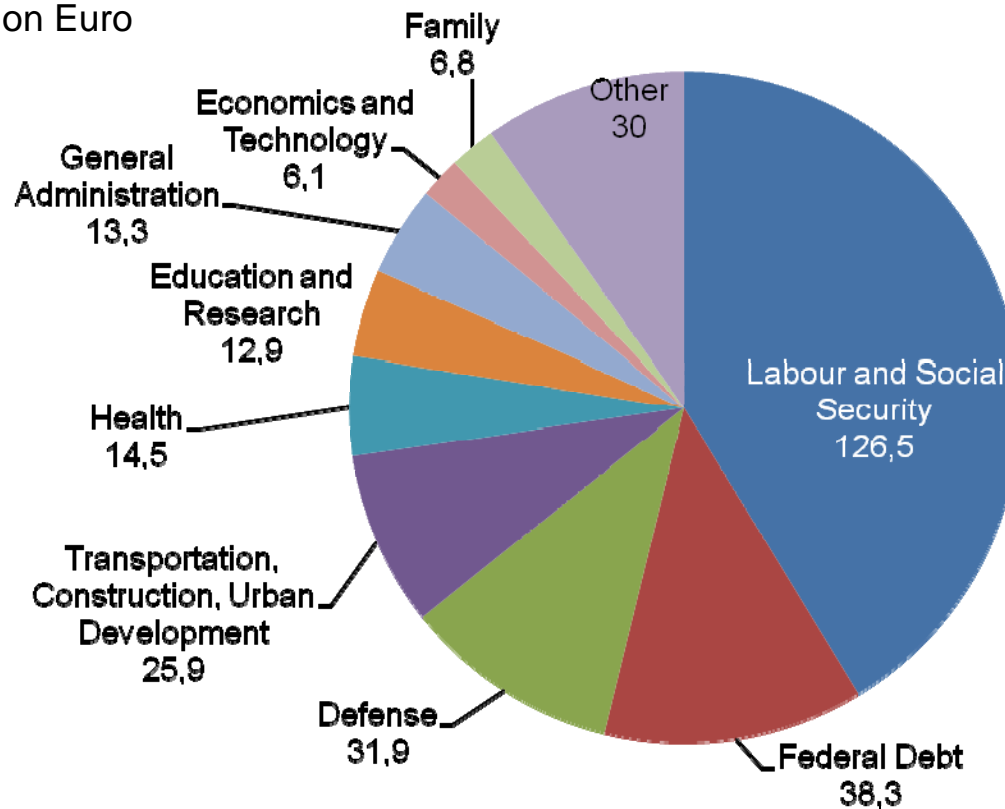
Family with two children (one under 6 years; one between 6 and 14 years)



Quelle: Berechnungen des ifo Instituts.

Central Government Budget 2012 – Expenditure Structure

in Billion Euro



Total expenditures = 306,2 Mrd. Euro

Source: Ministry of Finance