

Table of Content

I	Introduction	17
II	Structure and development of the German tax system	19
1	The German tax system – overview	19
2	Historical roots of the German tax system	21
3	The development of the German tax system since 1950	22
3.1	Development of the revenue structure	23
3.2	Development of the German tax system in international perspective	24
3.3	Important trends in the development of the German tax system	29
4	The relationship of social security contributions and taxation	32
5	Summary	35
III	A new data-set of tax reforms in Germany	36
1	Empirical approaches to the analysis of tax policy	36
2	A new data-set on tax reforms in Germany	38
3	Reliability of the data	40
4	Summary	47
IV	Tax reforms in Germany 1964-2004	48
1	New insights on tax reforms in Germany from 1964 to 2004	48
1.1	The role of reunification and temporary measures	50
1.2	New regulations by fiscal effects	50
1.3	Timing of reforms	51
1.4	Increases, reductions and reform intensity in the main taxes	52
1.5	Summary of findings	55
2	Reform patterns in the most important taxes	56
2.1	Wage and income tax	57
2.1.1	Current Regulation (2007)	57
2.1.2	Tax reforms	59
2.1.3	The pattern of tax reforms in the wage and income tax	61
2.1.4	Linking fiscal effects of reforms and revenue developments	63
2.2	Business taxes – corporate profit and local trade tax	65
2.2.1	Corporate profit tax – current regulation (2007)	65

2.2.2	Corporate profit tax – reforms	66
2.2.3	Local trade tax – current regulation (2007)	68
2.2.4	Local trade tax – reforms	68
2.2.5	Reforms based on the new data-set	69
2.2.6	Linking fiscal effects of reforms and revenue developments	70
2.3	Value-added tax	72
2.3.1	Value-added tax – current regulation (2007)	72
2.3.2	Value-added tax – history and reforms	73
2.3.3	Fiscal effects of reforms and revenue developments	74
2.4	Main excises: mineral oil and tobacco taxes	75
2.4.1	Current regulation (2007)	75
2.4.2	Mineral oil and tobacco taxes – rates, reforms and revenue development	75
2.5	Property taxes	79
2.5.1	Property taxes: current regulation (2007)	79
2.5.1.1	The local real estate tax – current regulation	79
2.5.1.2	The real estate transfer tax – current regulation	79
2.5.1.3	The inheritance and gift tax – current regulation	80
2.5.2	Property taxes: reforms	80
2.5.2.1	Reforms of standard values	80
2.5.2.2	The real estate tax	80
2.5.2.3	The real estate acquisition tax	81
2.5.2.4	The inheritance and gift tax	81
2.5.2.5	The net wealth tax	81
2.5.3	Fiscal effects of reforms and revenue developments	82
2.6	Summary	84
3	Excursus: Macroeconomic development in Germany 1950-2005	85
V	The political economy of tax policy – evidence based on German tax reform data	89
1	The role of international tax competition for tax reforms	91
1.1	Capital mobility, international tax competition and tax policy	91
1.2	The influence of tax competition on tax policy – evidence from tax rates and tax burdens	93
1.3	The influence of tax competition on tax policy	96
2	Normative approaches	97
2.1	The financing and the stabilization function	99
2.1.1	The financing function of taxation	99
2.1.1.1	General approach	99
2.1.1.2	Hypotheses	99
2.1.2	The stabilization function of taxation	100
2.1.2.1	General approach	100

2.1.2.2	Hypotheses	100
2.1.3	Empirical testing of the financing and the stabilization hypotheses	101
2.1.3.1	Revenues, expenditure and deficits	101
2.1.3.2	Tests based on annual data	102
2.1.3.3	Tests based on legislative periods	104
2.2	Tax reforms as a reaction to cold progression	106
2.2.1	General approach and hypotheses	106
2.2.2	Empirical tests of tax reforms as reaction to cold progression	107
2.3	Tax smoothing	109
2.4	Summary of findings	109
3	Polit-economic theories	110
3.1	Legislative competencies in tax policy and political development	110
3.1.1	The financial constitution – legislative competencies in tax policy	110
3.1.1.1	Historical development of the German financial constitution before 1950	110
3.1.1.2	Development of the financial constitution since 1950	112
3.1.1.2.1	Tax revenue assignment	112
3.1.1.2.2	Legislative Competencies in tax policy	114
3.1.1.2.3	The current tax policy process	116
3.1.1.2.4	Implications for our study of the political economy of taxation	118
3.1.2	Political development	119
3.1.3	The role of the constitutional court	121
3.1.4	The role of the EU	122
3.1.5	Summary	123
3.2	Polit-economic approaches to tax policy – overview	124
3.3	Status quo bias and inertia in tax policy	126
3.3.1	General approach and related literature	126
3.3.2	Hypotheses	127
3.3.3	Empirical analysis	128
3.4	Fiscal illusion by timing of tax reforms	129
3.4.1	General approach	129
3.4.2	Hypotheses	129
3.4.3	Empirical analysis	130
3.5	Opportunistic behavior	131
3.5.1	General approach and related literature	131
3.5.2	Hypotheses	131
3.5.3	Empirical analysis	132
3.5.4	Summary of results	136
3.6	The partisan politics approach	136
3.6.1	General approach and related literature	136
3.6.2	Hypotheses on partisan interests and tax reforms in Germany	138

3.6.3	Empirical analysis	140
3.6.4	Summary of results	143
3.7	The role of divided government: partisan governments in a bicameral legislature	144
3.7.1	General approach and related literature	144
3.7.2	Hypotheses	145
3.7.3	Empirical analysis	145
3.7.4	Summary of results	150
3.8	Combined testing of different approaches	151
3.9	Summary	153
4	Economic voting: The influence of tax policy on elections	154
4.1	Economic voting and tax policy – general approach and related literature	154
4.1.1	Economic voting and tax policy	155
4.1.2	Economic voting and tax reforms – hypotheses	156
4.2	The influence of tax reforms on elections – empirical analysis	156
4.2.1	The independent variable – changes in the vote	157
4.2.2	<i>Empirical analysis of the influence of tax policy on voting</i>	159
4.3	Summary	165
VI	Summary and conclusion	166
VII	Bibliography	169