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DUAL INCOME TAX: A PRAGMATIC TAX REFORM ALTERNATIVE FOR GERMANY

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Without doubt, the German red-green coalition government has implemented substantial tax reforms since coming into office in 1998. After all, the top marginal income tax rate will be reduced from 53 percent in 1998 to 42 percent in 2005; similarly, the lowest marginal tax rate will have fallen by 10.9 percentage points, from 25.9 percent in 1998 to 15 percent in 2005. As to corporate income tax, in 2001 a uniform tax rate of 25 percent on retained and distributed profits has been introduced replacing the former tax rates of 40 percent (on retained earnings) and of 30 percent (on distributed profits). Moreover, the full imputation system has been replaced by the so called half-income method (*Halbeinkünfteverfahren*) which exempts 50 percent of dividends from personal income tax.

While lowering statutory and effective tax rates, these tax reforms have introduced considerable complications and distortions at the intersection of personal and corporate income taxes: the tax rate differentials between corporated and unincorporated firms have widened; the tax treatment of different kinds of investment and sources of finance has become more distortive; and numerous tax regulations do not conform to basic provisions of the

EC Treaty. Nowadays, there is widespread agreement that the German tax system has become too complicated, that tax burdens as well as social security contributions are still too high, and that German income and business taxes are far from being neutral with respect to investment and financing decisions and to the choice of the legal form of a business. Tax experts as well as the general public agree that some fundamental tax reform is unavoidable in Germany in order to cope with international tax competition becoming fiercer.

Against this background, a variety of tax reform proposals have emerged during the last few months. Actually, there is such a diversity of tax reform plans that even tax experts can lose orientation. Amongst the political parties, CDU and CSU presented a joint tax program called "concept 21"; the FDP submitted a "proposal for a new income tax" to parliament; finally, the SPD of Schleswig-Holstein launched its own income tax reform proposal. From academic circles, Paul Kirchhof (2003), a former judge at the Federal Constitutional Court, presented a fully integrated tax system for personal and business income; Manfred Rose (2003) continues to fight for a consumption based income tax; Joachim Lang (2004) and a group of tax law professors added the so-called "Kölner Entwurf", whereas the German Council of Economic Experts (2003) favors a dual income tax (DIT) for Germany. All these proposals differ in detail as well as in substance. What they have in common, however, is the aim to simplify the tax system and reduce tax rates.

In the following sections we will outline the need for a fundamental tax reform in Germany in more detail, and we will argue that the DIT is a pragmatic, but serious reform candidate.

Is Germany a low-tax or a high-tax country?

According to OECD revenue statistics, the tax-revenue-to-GDP-ratio (taxes on income and profits) in Germany is one of the lowest amongst OECD countries. In 2002, it amounted to 10.1 percent



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only, whereas the EU-15 average was 14.1 percent. Including social security contributions, the corresponding figures in 2002 were 36.2 for Germany and 40.5 for the EU-15. This could lead to the conclusion that Germany is a low-tax country and further tax reductions were unwarranted; instead, social security systems should be reformed, possibly including a shift from contributions to taxes.

Even if the numbers were correct, these conclusions would be misleading for a number of reasons. One main objection is that aggregate tax ratios do not allow any conclusion as to the incentive effects of taxes on investment, savings, work effort or other decisions. High unemployment, sluggish investment demand and a weak growth performance constitute the major problems of the German economy. However, no investor is interested in aggregate tax ratios when considering additional investment in an established firm or when deciding about the creation of a new firm at alternative locations in, say, France, Germany, Ireland or elsewhere. By contrast, there is clear evidence that it is the marginal or the average

effective tax burden on investments that is relevant for investment and location decisions.

Similarly, labor demand and supply decisions depend on effective tax burdens on wages, including social security charges and payroll taxes, but not on aggregate tax-to-GDP ratios. Measuring the effective tax burden on capital and labor is no easy exercise, and different methods may yield different results; see the papers in Sorensen (2004). Most studies, however, agree that Germany is a high-tax country with respect to effective tax burdens on capital as well as on labor. Table 1 displays statutory and effective average tax rates at the corporate level in different EU member states, excluding additional tax burdens on shareholders.

In the first column, we compare nominal (statutory) corporate tax burdens. In Germany, for example, these include the corporate tax rate of 25 percent (26.5 percent in 2003), the local trade tax at an assumed average municipal levy of 428 percent and the solidarity surcharge of 5.5 percent. In the second column, we present effective average tax rates,

taking into account different tax depreciation schemes, essential features of inventory valuation and other rules concerning the determination of the tax base. Effective tax rates are calculated by following the Devereux-Griffith-methodology (see Devereux and Griffith 1998, 1999, or Schreiber, Spengel and Lammersen 2002). Effective average tax rates are of crucial importance for discrete location decisions, whereas effective marginal rates indicate the tax burden on marginal investment at a given location. Table 1 illustrates that in Germany effective average tax rates are the highest in the EU, while for statutory rates Germany ranks second close behind Italy.¹ Hence, there is

Table 1

Nominal tax rates and effective average tax burden on corporate income

	Nominal ^{a)} (percent)	Rank	Effective ^{b)} (percent)	Rank
Austria	34.00	8	29.00	10
Belgium	33.00	9	35.60	3
Cyprus	15.00	23	14.52	23
Czech Republic	31.00	10	24.18	16
Germany	39.35	2	36.00	1
Denmark	30.00	11	27.80	12
Estonia	26.00	18	22.52	18
Spain	35.00	4	32.00	7
Finland	29.00	15	27.40	14
France	34.33	7	35.80	2
Greece	37.50	3	27.80	12
Hungary	19.60	21	19.37	21
Ireland	12.50	25	10.80	25
Italy	40.00	1	28.80	11
Lithuania	19.00	22	13.11	24
Luxembourg	29.89	14	33.20	4
Latvia	15.00	23	17.76	22
Malta	35.00	4	32.81	6
Netherlands	34.50	6	32.90	5
Poland	27.00	17	24.73	15
Portugal	30.00	11	31.70	8
Sweden	28.00	16	23.60	17
Slovak Republic	25.00	19	22.10	19
Slovenia	25.00	19	21.60	20
United Kingdom	30.00	11	29.10	9
Average EU-25	28.59		26.17	
EU-15	31.80		29.43	
Accession Countries	23.76		21.30	

^{a)} Federal and local profit taxes, base year: 2003. – ^{b)} Base year EU-15: 2001, Accession Countries: 2003.

Source: Spengel (2004 a).

¹ In Germany, the solidarity surcharge of 5.5 percent is levied on the corporation tax rate of 25 percent, increasing it to 26.375 percent. Since trade tax is deductible from corporation tax, the nominal tax rate on profits amounts to 39.35 percent (= 26.375% + 17.62% – 17.62% * 26.375%).

good reason to consider Germany as a high-tax country. And international tax competition will become even stronger. As Table 1 illustrates, corporate tax rates are considerably lower in the new EU member states than in Germany. Moreover, when comparing the ranking of the countries from the highest to the lowest statutory and effective tax rate it is clearly evident that the statutory tax rate is a crucial factor for the determination of the effective average tax rate on corporate profits.

As a reaction, some of the old member states of the EU are planning tax reforms in order to improve their position in international tax competition. In 2005, Austria will reduce its corporate tax rate to 25 percent from currently 34 percent, Finland to 26 percent from 28 percent, and France is considering a switch from the imputation system to the half-income method, combined with a reduction of effective tax burdens on corporate income.

German tax policy has no other choice but to react too. The options are very limited. First, one could try to fix minimum corporate tax rates in the EU. Due to the unanimity principle in taxation matters, however, success is very limited. Why should low-tax countries agree to abolish one of their major advantages when competing for internationally mobile capital? Furthermore, to achieve unanimity on minimum tax rates will require such a long time that the tax competition game will be lost for Germany before new rules have been enacted. As a consequence, Germany has no other choice but to accept the rules of the game and to lower its tax rates as well. To become attractive as an investment location, the total tax burden on business income should be reduced to about 25 percent, but definitely not exceed 30 percent.

Neutrality of the tax system

A second defect of the German income tax system concerns its lack of neutrality with respect to investment and financing decisions and to the choice of the legal form of businesses. From an efficiency point of view, taxation should not interfere with the production sphere according to the Diamond/Mirrlees production efficiency theorem.

As a matter of fact, the current income tax system does not meet any neutrality requirements. This is illustrated in Table 2, which compares tax burdens

of corporated and unincorporated businesses. In the upper part we consider tax burdens when profits are retained; the lower part includes the taxation of dividend payments at the shareholder level. Throughout, we assume that the top marginal income tax rate applies. An unincorporated business is subject to personal income tax, solidarity surcharge and trade tax, the latter being partly offset against the personal income tax; there is no difference in the tax treatment of retained and distributed earnings. This does not hold for the taxation of corporate profits. Retained earnings are subject to corporate income tax, trade tax and solidarity surcharge. Distributed profits are subject to additional taxes. According to the half-income method, one half of the dividend is subject to personal income tax including solidarity surcharge. Therefore, retained earnings are treated more favourably than distributed profits.

A comparison of corporations with non-corporations reveals that the latter are taxed more heavily in case of retained earnings but they are treated more favourably in case of distributions. In this case the tax discrimination of corporations has been steadily increasing in the past few years, since the marginal personal income tax rate has been reduced.

The CDU/CSU tax reform proposal would make things even worse. According to this proposal, a top marginal income tax rate of 36 percent should be supplemented by a corporate income tax rate of 36 percent. Adding taxes on dividends under the half-income method would increase the total tax burden on equity to about 47.5 percent [= 36 +

Table 2
Statutory tax rates* in Germany,
planned reform stages

	(1) Corporation	(2) Unincorporated business	(1) - (2)
Retained Earnings			
2003	40.7	52.0	-11.3
2004	39.4	48.9	-9.5
2005	39.4	46.3	-6.9
Distributed Earnings			
2003	55.8	52.0	+ 3.8
2004	53.2	48.9	+ 4.8
2005	52.8	46.3	+ 6.5
* Top marginal income tax rate; municipal levy of 428 percent on local trade tax.			

Source: own calculations.

$(64/2) \times 0.36]$. The tax rate differential between corporate and non-corporate income would almost be doubled as compared to the situation in 2005.

Similarly, the FDP draft for a new income tax would distort financing decisions and discriminate investment activities. The FDP is planning to tax retained earnings and distributions at a uniform top marginal rate of 35 percent but interest income at only 25 percent. This would not only favour debt financing over retained earnings and new equity but also increase the cost of capital and thereby reduce investment. This becomes clear if we assume a bank deposit with a risk-free rate of return of 10 percent before taxes, and of 7.5 percent net of taxes. Then the cost of capital, i.e. the pre-tax rate of return necessary for an investment to yield at least the net-of-tax return of the financial asset, amounts to 11.54 percent [$11.54 - 0.35 \times 11.54 = 7.5$]. If a uniform tax rate was imposed on all financing alternatives, the cost of capital would drop to 10 percent. Hence, the FDP tax provisions will suppress all investment projects yielding a gross-of-tax rate of return between 10 percent and 11.54 percent.

Tax simplification

It is certainly true that the German income tax law is much too complicated. All the different tax reform proposals agree that simplification of tax laws ranks very high on the reform agenda. Unfortunately it is not clear at all what tax simplification really means. One interpretation is that tax laws should be understandable not only to tax professionals but to the layman as well. This is the basic idea behind the "Tax Law Rewrite" of the UK Inland Revenue, a project which intends to make tax laws clearer and easier to read. But there are natural limits to this endeavour. The taxation of stock options or of foreign subsidiaries, for example, refer to rather complicated issues which are not easily accessible to the layman; and one may wonder whether definitions like "A single animal may constitute a herd"² will really reduce his confusion.

The sheer length of the tax code could be another indicator of the tax system's complexity. According to Paul Kirchhof (2003, p. VII), a clear sign of the simplicity of his tax reform proposal is the reduced

number of paragraphs and words. Whereas the current income and corporate income tax laws in Germany together count 235 paragraphs and 109,489 words, his draft gets along with only 23 paragraphs and 1,715 words. These are impressive numbers but one can doubt that fewer words and paragraphs really contribute to tax simplification. A detailed set of tax provisions may make tax planning simpler than gray areas in the tax law, which are almost unavoidable when complicated real world taxation issues are compressed in a few words and paragraphs.

Economists, therefore, use a third criterion to evaluate the complexity of a tax system and its need for simplification. These are the resource and compliance cost of collecting taxes and of filing tax returns. The more complicated a tax system is, the more money is spent on tax accountants, taxation guides or computer software and the more time is devoted to keep track of tax documents, to file tax returns and, for the tax authorities, to audit tax returns and other documents. From an economic point of view, simplifying the tax system is equivalent to reducing its compliance cost. A neutral tax system would contribute greatly to the reduction of compliance costs. If taxes are neutral, they do not interfere with investment or financing decisions; there is no room for sophisticated tax-avoidance strategies; and there is no need to re-optimize in the presence of taxes. In this sense, tax simplification is not a separate tax reform goal but part of the broader goal of tax neutrality.

Implications for the German tax reform debate

The weaknesses of the German tax system, sketched in the preceding sections, define the main tasks for a fundamental tax reform in Germany. In our view, the most important point is to reduce tax burdens on internationally mobile tax bases. Statutory tax rates on business income will have to be reduced to a maximum of 30 percent if Germany is to become a more attractive location for international investment. Higher investment would also increase labor productivity and wages. Even if it may sound bizarre to non-economists, in an open economy, wage earners can benefit from a reduction of capital income taxes. A second important task is to make the tax system more neutral with respect to investment and financing decisions and to the choice of the legal form of a business. All

² Income Tax (Trading and Other Income) Bill, Part 2, Chapter 8, 117 (4) of the United Kingdom.

these decisions should be independent of tax considerations. The rate of return on real estates, shipping shares or film rights should signal relative scarcities and direct capital to its most productive use. Instead, under the current law, investment in special activities is guided by tax loopholes or generous loss allowances. Neutrality of the tax system would also contribute to tax simplification because there would be no need to re-optimize investment or financing decisions in the presence of taxes. Tax neutrality requires integration of the corporate income tax into the personal income tax. Any tax reform proposal neglecting this requirement will miss the point.

There are, of course, other elements to take into account for a fundamental tax reform. First, taxes should be "fair". Admittedly, fairness is a very vague concept; in the end, it is not a question of economics but an ethical issue. However, most people would agree that the average tax rate should increase with income. An open question is whether or not the marginal income tax rate, too, should increase with income. Second, revenue requirements define a serious constraint on any fundamental tax reform. Any tax reform proposal implying a considerable loss of revenue is bound to fail in the political process; a minimum requirement is to reveal how to compensate for possible revenue losses. Third, any tax reform must be compatible with EU law.

Unfortunately, some of the goals of and constraints on tax policy are conflicting. The most well-known and controversial conflict is the trade-off between equity considerations and economic efficiency. The more progressive the tax system is, the more it reduces incentives to invest, to work harder or to acquire education and training. In the political arena, equity considerations clearly dominate efficiency arguments. In our view, the main problems in Germany are not a lack of distributional justice but insufficient economic growth, low investment activities and high unemployment. As a consequence, efficiency consideration should be given more weight in re-designing the tax system.

Outlines of a reform of the corporate and personal income tax

With respect to the above mentioned criteria the introduction of a flat tax would be the preferential solution. An alternative solution, however, could be a dual income tax. The following deals in more

detail with both options for reforming corporate and personal income taxation in Germany.

The crucial element of a flat tax is an income tax schedule which combines a constant marginal tax rate and a considerable personal allowance. The annual personal allowance could amount to EUR 10,000 for singles; couples would receive a doubled allowance of EUR 20,000. Each euro above the personal allowance would be taxed at the uniform income tax rate. In order to strengthen the attractiveness of Germany as a location for internationally mobile production factors and companies, the income tax rate should not exceed 30 percent. If we assume an annual personal allowance of EUR 10,000, annual income tax payments would amount to 1,500, 3,000 and 4,500, respectively, if the taxable income is EUR 15,000, 20,000 or 25,000. Consequently, taxable income is subject to an effective burden of income tax of 10, 15 or 18 percent. Since the average burden of income tax increases with an increase of taxable income, a flat tax obviously is a progressive income tax. In order to render the maximum rate of 30 percent effective, personal tax benefits such as the exemption of additional remunerations for work on Sundays and public holidays and for night-work should therefore disappear.

A flat tax in the area of personal income taxation has to be amended by a reform of corporate income tax. Firstly, the rate of corporate income tax should equal the personal income tax rate of, say, 30 percent. This maximum tax rate includes surcharges on corporate and personal income tax (e.g. the German solidarity surcharge of currently 5.5 percent) as well as local surcharges which should replace the trade tax levied by communities in Germany. Secondly, with respect to the taxation of corporations, dividends and capital gains upon the disposal of shares from corporations should be exempt from both corporate and personal income tax. As a result, corporate income tax would be definite and double taxation on corporate income would be avoided.

A flat tax offers several advantages: with regard to the uniform marginal tax rate arbitrage would be limited to a considerable extent in the field of personal income tax. There would be no incentives, for example, for income shifting in periods where the marginal tax rate is low while deducting expenses and allowances in periods with a high marginal tax rate. Moreover, the discussion about the taxation of families and spouses would come to an end since

income splitting between spouses and family member would no longer offer advantages. Finally, personal income taxes on earned income and a considerable part of capital income (e.g. income from interest and royalties) could be collected by levying final withholding taxes at source. Profits made by partnerships, sole proprietors and corporations would be subject to a uniform rate irrespective of whether they are retained or distributed. Since interest income from debt financing would also be taxed at the same rate, a flat tax would make income taxation widely neutral towards decisions with respect to the financing and the choice of legal business forms.

The above-mentioned advantages of a flat tax, however, are counterweighted by two disadvantages. A radical cut in the marginal personal income tax rate to 30 percent and its unification with the corporate income tax would result in a considerable loss of tax revenue. From the reform proposals which are currently in the centre of discussion, the model developed by Paul Kirchhof (2003) is closest to a flat tax. This model suggests a maximum income tax rate of 25 percent. According to official estimates the proposal of Kirchhof would result in a loss of tax revenue in the first year of EUR 40 billion. In the long run, after cutting back all major tax incentives, the annual loss of tax revenue would still amount to at least EUR 12 billion. With a tax rate of 30 percent, the deficiency in tax receipts would be certainly less but still considerable. Since it is impossible to increase the net borrowing of the state at the moment, a corresponding reduction in public spending would be necessary. There is evidence from past experience that it seems very difficult or even impossible to reach political consent about such a large reduction in public spending.

A second objection could refer to the distributional effect of a flat tax. In comparison to a situation without levying taxes, income will still be redistributed from high to low income brackets. If we refer to the current tax rate as a benchmark, however, the introduction of a flat tax obviously favours richer household vis-à-vis individuals which have an income just above the tax free personal allowance. Both aspects – a considerable loss in tax revenue and a reduced intensity of redistribution compared to the status quo – become even more important if the current proposals of introducing a lump sum premium (*Kopfpauschale* or *Gesund-*

heitsprämie) in the area of compulsory health insurance are realised. In this situation necessary social transfers to individuals with low income have to be financed by increasing the tax burden on richer households. However, this would be in conflict with the loss of tax revenue and the disproportionate tax relief of richer households accompanied by the introduction of a flat tax. If instead social transfers were financed by an increase of the value added tax, the resulting distributional effects would even be more objectionable. Since value added tax is regressive this option results in a disproportional increase of the tax burden on low income.

Although a flat tax would offer considerable advantages the loss of tax revenue and the objectionable effects of redistribution raise doubts whether a flat tax is a realistic option for tax policy in the near future. However, a fundamental reform of the personal and corporate income tax cannot be postponed until that time. In particular with respect to the increased international tax competition action is necessary. Otherwise, even more mobile business activities will be shifted from Germany to low tax jurisdictions abroad. Therefore, the German Council of Economic Experts has proposed the introduction of a dual income tax as a second-best solution. Among others, Hans-Werner Sinn also argues in his well-known book *Ist Deutschland noch zu retten?* (Is There Any Hope for Germany? 2004) also argues in favour of a dual income tax.

A dual income tax allows a considerable reduction in the tax burden on internationally mobile capital income without threatening total tax revenues too much. Therefore, under a dual income tax, capital income and earned income are taxed separately and are subject to different tax rates. Capital income is defined very broadly. It covers income from businesses, dividends, interest receipts, royalties, rental income and capital gains. By contrast, earned income covers employment income including income of the self-employed, pensions and compulsory old-age pensions. Capital income is subject to a uniform and proportional tax rate of not more than 30 percent. Under a dual income tax, the taxation of corporations is the same as under a flat tax (i.e. full integration of corporation tax into personal income tax: the corporation tax rate equals the personal income tax rate, and both

dividends and capital gains upon the disposal of shares are exempt from income taxes).

In contrast to capital income, earned income is taxed at a progressive rate. Although the detailed structure of the tax rate is less important there are good reasons to introduce a graduated tariff. As a benchmark, the tax rate on earned income could vary between 15 and 35 percent. This seems to be feasible from a political standpoint. For the short term one could accept also a marginal tax rate of 42 percent (which equals the marginal personal income tax rate in the current tax system as from 2005) if losses in tax revenue cannot be compensated otherwise. This leaves room for subsequent tax rate reductions.

Similar in its effect to the flat tax, the dual income tax makes income taxation widely neutral towards decisions with respect to the financing and the choice of the legal business forms. It also makes it possible to collect taxes on capital income by levying final withholding taxes. Moreover, the dual income tax reduces the effective tax burden where it is most urgent, i.e. in the field of internationally mobile income.

As a result of the separate taxation of capital income and earned income the loss of tax revenue would be limited. This is also important with respect to reforming company taxation in the European Union. If the proposals of a common consolidated tax base for multinationals with a subsequent division of the tax base to the member states were introduced (see European Commission 2001), a closer coordination of the national tax rates on capital income would be necessary (see Spengel, 2004b). A dual income tax obviously maintains the flexibility of the member states to adjust their tax rates accordingly.

Finally, there is evidence that a dual income tax may lead to an increase in investments, capital accumulation, GDP and household consumption. Such a welfare gain is mainly based on the increase in lifetime wealth as a result of the lower tax burden (see Fehr and Wiegard 2004 or Radulescu and Stimmelmayer 2004).

A dual income tax, however, also causes problems. Firstly, the separate and different taxation of capital income and earned income might be questionable with respect to the ability to pay principle. But one has to admit that capital income and earned income in Germany – although treated equally

from a legal perspective – are taxed differently in reality since internationally mobile capital income can escape more and more from taxation. Secondly, and even more severe are the incentives to transform earned income, which is taxed at higher progressive rates, into capital income which is taxed at lower proportional rates. In particular, these incentives exist in closely held companies (i.e. those with only a small number of shareholders). Under a dual income tax, therefore, total profits of closely held companies have to be divided into earned income and capital income. With respect to this division of income one could benefit from the experience of the Nordic countries. Finland, Norway and Sweden all introduced a dual income tax at the beginning of 1990. In any case, the division of income is a difficult task and known as the Achilles heel of the dual income tax.

Conclusion

In the field of personal and corporate income taxation in Germany action is needed. Germany has to reduce the effective tax burdens on internationally mobile activities – i.e. capital income including business profits – in order to survive in the ongoing international tax competition. One can complain about this situation but it cannot be changed. Most of the current proposals for reforming income taxation in Germany – in particular those by made by the political parties – concentrate on the taxation of individuals without taking serious account of company taxation and the interaction of corporation tax with personal income tax. These areas, however, are the real challenges for tax reform. A flat tax and a dual income tax are both options for reforming company taxation and the taxation of capital income. At the same time the attractiveness of Germany as a place of location for investments could be increased considerably. Both proposals have specific pros and cons. However, compared to the current system of income and company taxation they seem to have considerable advantages. Now it is up to the politicians to act.

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Capital income and earned income following the Norwegian income tax reforms: is the dual income tax fair? Jan 1993. 141-156. F Zimmer. Zimmer, F. (1993): "Capital income and earned income following the Norwegian income tax reforms: is the dual income tax fair?", en Nordic Council for Tax Research (ed.), pÅígs. 141-156. The tax system of Sweden.Å This paper analyzes how the introduction of a dual income tax can affect the tax planning opportunities available to taxpayers today in personal income tax and the corporation income tax. The paper shows that the dual income tax allows some tax planning strategies in the sphere of the family, in the election between financial and real assets investments, in the choice of organizational form of A dual rate income tax is often proposed in combination with ideas for simplifying the overall tax system by eliminating most tax deductions and loopholes. For example, an income tax system using a dual rate structure may charge 20% on all income up to \$100,000 and charge 25% on every dollar of taxable income above \$100,000. Therefore, if you had an income of \$150,000, your tax owed would be \$32,500 ($\$100,000 \times 20\% + \$50,000 \times 25\%$). Pros and Cons of a Dual Rate Income Tax. Proponents of the dual rate income tax argue that is both simpler and more fair than the current federal tax code, which h