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Reform options for Germany: Reduction of corporate privileges and other reliefs

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Inheritance and gift taxation in Germany

Recipient-based taxation, series for reforms, last major reform 2009

Market valuations for real estate and business properties

Broad reliefs for business property as of 2009, reform 2016

Exempted business assets 2009-19: €390 billion

Further exemptions

10 percent discount for leased residential properties

Exemption for inherited family homes used by spouse or children

Exemption for donations to churches, charitable organizations,
and political parties

Considerable personal allowances for close family members

Partner: € 500,000; children: € 400,000; grandchildren: € 200,000; other: € 20,000.

Aggregation of multiple transfers (by the same person) over 10 years

Progressive tax scheme up to 30% for close relatives, 50% for others

Unpopular in the broader public, low relevance for election campaign

Compared to recurrent wealth taxation, capital income taxation

Discussion on corporate privileges

Highly regressive impact

- No upper limit, also benefit billionaires' fortunes

- De-legitimation of inheritance tax progression: “sandwich tax”

Economic distortions

- Incentives to family-owned firm continuation

- Lock-in effects on investment, employment, management, and governance

- Prone to tax planning and avoidance, administration and compliance costs

However: SMEs, family businesses, German “Mittelstand”

- Low leverage, no external investors, internal financing

- Burdens on firm continuation

=> Moderate reliefs

Reform options

Restriction of business privileges to SMEs

Limit exemption, e.g. to max. Euro 5 million, to operative assets

Reduced tax rates, e.g. to max. 15 percent, or similar valuation discount

Extended deferral arrangements for remaining liquidity constraints

- e.g. annuitization over 20 years
- subordination to other liabilities, pegged to economic performance

Revenue impact: up to Euro 7 billion per year (0.2 % of GDP)

Reduction or suspension of further reliefs and exemptions

Reliefs for leased residential properties and family homes

Restriction of multiple use of personal allowances over time

- Extension of the period of aggregation with previous transfers to 15 or 20 years
- Lifetime aggregation of transfers

Increase of personal allowances, general reduction of tax rates

Counteract middle class reservations against inheritance tax

Reduction of assessment costs

Thank You for Your Attention!

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