Tax change law 2007

German government fleeces low and average wage earners

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For years all the main German political parties have demanded the repeal of so-called tax privileges. Now the German government has taken action. However, rather than eliminating the numerous depreciation possibilities and tax loopholes available to the wealthy and big business which pay little or no taxes, the government has exclusively penalized low and average wage earners. This was the consequence of the "Tax change law 2007" agreed by the German cabinet on May 10.

The quintessential point of the law is the elimination of the lump-sum write-off for commuters, which enabled ordinary workers to offset travel costs between their dwelling and place of work on their tax returns. In future this tax advantage will be remunerated at a rate of 30 cents only for those commuters whose distance to work exceeds 21 kilometers.

By this one measure alone the treasury expects additional receipts of €2.5 billion annually starting from 2007, when the new law enters into force. By 2010 savings will rise to €5.4 billion.

The elimination of the commuter allowance hits mostly workers and employees who spend not only a great deal of time traveling to work but also face high travel costs. Having preached for years the necessity of increased flexibility and mobility, the government is now penalizing precisely those who have followed its advice. The government's planned 3 percent increase in value added tax (due to come into affect at the start of 2007) will also lead to a further increase in travel costs.

A further measure contained in the new legislation is a halving of the savings allowance: down to €750 per year for single persons and €1,500 for married couples. This allowance applies to the amount of interest earned on personal savings which is not eligible for taxation. This measure almost exclusively hits small savers who have put aside a modest sum. Those with large savings will barely notice any change following the implementation of the new regulation.

According to the new law, the child benefit and tax allowance for children will only be paid to the age of 25 instead of the former limit of 27 years. That means a loss of €3,700 per child. Hardest hit once again are those on average earnings whose offspring are completing their studies or are unemployed and therefore have no independent income.

In addition tax allowances for the use of one's own home for the purposes of work will also be reduced. According to the new law such allowances will only be made when the dwelling constitutes the "center of all operational and vocational activity." Up to now such allowances were valid if the portion of domestic activity was over 50 percent. This is another measure directed against the fast growing number of independent, or so-called independent, workers who work in insecure and poorly paid jobs.

The new tax law accelerates the process of the re-division of wealth from the poor to the wealthy set in motion by the former Social Democratic Party (SPD)-Green Party coalition. Ornamental decoration of the new tax law is provided by a so-called "tax on the wealthy," which was announced with much propaganda and corresponding howls of protest by Germany's business lobby and the free market Free Democratic Party (FDP). The measure is nothing more than a bad joke.

This new levy will apply only to those with a yearly taxable income over €250,000 (for single persons), or €500,000 (for married couples), but not for independent persons and the self-employed. For the former category the highest tax rate will be increased from 42 to 45 percent.

The number of those paying tax on such a high income, who do not make use of the numerous forms of depreciation possibilities and loopholes, is likely to be rather small. Consequently the government expects to retrieve just €127 million annually from its “tax on the wealthy” instead of the initially announced figure of €1 billion. In the words of one commentator, the tax serves as a “party placebo,” an irrelevant concession to the SPD.

One week before announcing the new tax law the government had introduced extensive savings and cuts in welfare assistance for those receiving Hartz IV benefits. The measure is due to come into force on August 1 and should result in savings of several billion euro: a half billion this year and 1.5 billion in the coming year.

The new regulations are justified on the basis of alleged “abuse of benefits.” This year total national expenditures for Hartz IV is expected to exceed the planned sum of €24.4 billion by approximately €3 billion. The reason for this increase in expenditure, however, is not “abuse of benefits” but the rapid rise of open and disguised unemployment and the growth in precarious and insecure low-paid jobs.

In April this year the number of households dependent on Hartz IV unemployment benefits rose for the first time to over 4 million. At the time of the introduction of the new payments in January 2005 this figure stood at 3.33 million. Recipients include not only unemployed persons but also 900,000 low-wage earners whose incomes are lower than the miserly levels of Hartz IV payments.

Now national expenditure is to be lowered by subjecting Hartz IV recipients to systematic monitoring and spying. They are to be subject to selected personal controls and inquiries aimed at stopping their payments.

The new bill contains dozens of details which could be reminiscent of George Orwell’s *1984*. A man and woman, or two persons of the same sex, who live together for more than a year must in prove in future that they are not involved in a relationship. Otherwise they are obliged to support one another.

The law does not explain how this should be implemented. Perhaps a coworker from the Labor Agency will make a spot check in the morning to see how many beds are warm. Nevertheless a small step forward is to be noted in the law. While the conservative union parties (Christian Democratic Union, Christian Social Union) still reject same sex partnerships, the Ministry of Labor recognizes them as self evident unless proved otherwise.

The contempt shown by the government for the unemployed was made clear from an utterance by Labor Minister Franz Müntefering (SPD). Following criticism of the new regulations in the SPD parliamentary group, Müntefering is alleged to have answered: “Only those who work will eat.” And this despite the fact that official unemployment in Germany has remained around the 5 million mark for years!

In the meantime the other prominent Social Democrat in the German cabinet, Finance Minister Peer Steinbrück, plans a further drastic reduction of company taxes: According to a report in the *Süddeutsche Zeitung*, he wants to lower the tax burden for finance companies from its current rate of 39 percent to below 30 percent. Corporation tax is to be reduced from 25 to 16 percent while the rate of commercial tax retrieved from the municipalities will remain at approximately 14 percent.

In 2001 the SPD-Green Party coalition government led by chancellor Gerhard Schröder had already introduced a massive cut in corporation tax. As a result numerous major companies paid no more taxes or even received money back. Now the current grand coalition of the SPD-CDU/CSU is continuing this course.

The SPD has taken over the leading role in this respect. According to the *Süddeutsche Zeitung*, Steinbrück was keen to implement the tax rebates for business at the beginning of 2007, which would cost the treasury €5-10 billion annually. The value added tax is also to be increased at the same time. The union parties rejected this move, however, and insisted that the tax cut for business should first come into force in 2008.