

Fighting despondence: Germany needs a bold company tax reform

Situation

Germany's company tax burden remains one of the highest in Europe, nowhere else are enterprises subject to higher taxes than here. At the same time experts attest that the growth of the German economy is lagging behind the development of most other European countries.

Whoever wishes to get Germany back on track will have to reorient the taxation of companies under the demands of international competition. AmCham is therefore alarmed to observe that the election platforms of the political parties only announce very hesitant steps for the path to a competitive taxation of companies.

In the light of current domestic taxation levels, hesitantly "playing catch-up" with the investment-friendly measures of other countries is not sufficient to measurably increasing the position of Germany as an economic location in international competition. On the contrary, Germany is facing a permanent fallback.

Necessary Measures

Germany desperately needs a bold restructuring of company taxation which can make the location attractive by international comparison. Fiscal reform should be carried by the following cornerstones in order to generate a sustainable stimulus for investment:

1. **Decrease the general tax burden** of companies competing internationally to 25%. This measure would enable Germany to rise to the level of the most important competitors in terms of international taxation level comparison – a distinct and necessary move compared to the current situation.
2. **Abolish business tax (Gewerbesteuer)**. The abolition of this peculiar burden for German companies, unknown by international comparative standards, is long overdue. For the municipalities' required compensatory financing the Stiftung Marktwirtschaft foundation has already made a constructive proposal.
3. **Abolish investment-hostile regulations** contradicting the principle of taxing business operating efficiency, because such regulations lead to the taxation of fictional, effectively non-earned profits and thus have a detrimental effect on investment decisions. Major issues to be taken into consideration here are the possibility of carrybacks (key-word: minimum taxation) and a drastic reduction in the deduction of interest for financing investment.

Financing company tax reform:

In addition to the compensatory financing concept for business tax of the Stiftung Marktwirtschaft foundation the following is to be said about financing a reform in company tax:

1. Increase in revenues as a result of company tax reform

The paramount goal – in fiscal as well as in general policy– must be to create jobs for the people in Germany. Next to a fundamental labor market reform encompassing liberalization and a perceptible lowering of non-wage labor cost it is especially a bold restructuring of company taxes able to keep up with international competition, which will form the basis of a significant decrease of unemployment thanks to the creation of sustainable investment stimuli. Giving people jobs again will have a much stronger effect on public finances than any tax-increasing intervention in company taxation.

The reason for this is that the income tax produced and earned by companies makes up a substantially larger part of revenues than all company taxes added up together. Contrary to what certain circles might portray, this is not due to companies exploiting so called “tax loopholes”. Rather it results from overstrain of domestic costs, which include personnel expenditures. If wage-dependent dues for social insurance are included in the consideration, it becomes even clearer that companies participate considerably to public finances by way of income taxes and social insurance contributions contained in gross wages.

2. Abolition of tax deferral models and tax subsidies

Room to maneuver remains, e.g. considering preferential tax treatment for investment in various fund models or the continuation of the Koch/Steinbrück list.

3. Fight against VAT-fraud

Depending on the estimation, VAT fraud cost the German tax authorities between 15 to 20 billion Euros in 2003, a sum which is double the amount of all corporate tax revenues of the same year.

4. Increase in administrative efficiency

Estimates suggest a saving potential of 2 billion Euro per year in this area.

AmCham Germany

With about 3.000 members AmCham Germany is the largest bilateral business association in Europe. Its member companies represent about 110 billion Euros in investment and 800.000 direct employments. The chamber sees itself as a communications bridge to investors in the United States. To the fore of its activities stand the promotion of German-American business relations and the economic location of Germany.

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