

Michael Stimmelmayer

Fundamental Capital Income Tax Reforms

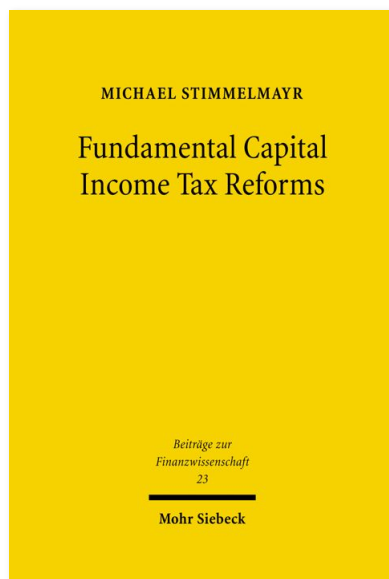
Discussion and Simulation using ifoMOD

[Fundamental Capital Income Tax Reforms]

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The present German tax system is complicated, non-transparent and does not follow any theoretical model of taxation in a consistent way. Moreover, in the light of international tax competition, German tax rates are too high and thus scare away economic activity. Therefore, a fundamental tax reform is imperatively required in Germany. Michael Stimmelmayer analyzes the outcome and especially the efficiency gains of capital income tax reforms which is, however, an intricate task. The simultaneous alteration of several tax rates will induce multiple economy wide repercussions as well as different first and second round effects, as firms and households will change their optimal behaviour due to taxation. For these reasons, a dynamic computable general equilibrium (CGE) model is the only instrument which allows for a consistent quantification of all short and long run effects arising from capital income tax reforms. The simulation results show that, for example, the 2000 German Tax Reform will lead to a substantial increase in GDP of approximately 6% in the long run. But, in the short run the reform is very expensive since the gains of economic growth will occur at a later stage in time. Moreover, due to the enhanced economic activity the wealth of German households will increase by nearly one percent in the long run. In addition to the 2000 German Tax Reform, the introduction of a flat tax of 25% - the so called »Kirchhof's *Einfachsteuer* « - as well as a consumption based tax system is analyzed in detail.

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