

Uhl, Matthias

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Coordination: Bernd Hayo • Philipps-University Marburg  
Faculty of Business Administration and Economics • Universitätsstraße 24, D-35032 Marburg  
Tel: +49-6421-2823091, Fax: +49-6421-2823088, e-mail: [hayo@wiwi.uni-marburg.de](mailto:hayo@wiwi.uni-marburg.de)

# **A History of Tax Legislation in the Federal Republic of Germany**

**by Matthias Uhl<sup>\*,‡</sup>**

July 22<sup>th</sup>, 2012

University of Marburg

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‡ Contact details: Matthias Uhl, Faculty of Business Administration and Economics, University of Marburg, D-35032 Marburg, Germany, Phone: +49 6421 28-23087, E-mail: uhl@wiwi.uni-marburg.de.

**Abstract** This paper presents a historical account of legislated tax changes in the Federal Republic of Germany from 1964 to 2010, thus establishing a database appropriate for the macroeconomic analysis of the fiscal policy transmission mechanism. Ninety-five quantitatively important pieces of tax legislation are identified and characterized along several dimensions: Tax changes are classified as “endogenous” or “exogenous” with regard to current macroeconomic conditions, and their revenue impact and timing is reported. The evolution of tax acts is described, capturing changes in tax measures and associated revenue impacts over the whole legislative process. The exposition is also a comprehensive qualitative description of major tax changes and the motivation behind them over the last four decades.

**JEL Classification** E62 · H20 · K34 · N00

# 1 Introduction

This paper is a historical account of quantitatively important tax legislation in the Federal Republic of Germany from 1964 to 2010. The article establishes a database for the econometric analysis of the macroeconomic transmission mechanism of tax shocks, and is also a comprehensive exposition of major tax changes and the motivation behind them over the last four decades.

Interest in the macroeconomic analysis of fiscal policy has increased in recent years, including interest in the short-term output effects of changes in taxes and government expenditures (Fatás and Mihov, 2001; Blanchard and Perotti, 2002; Mountford and Uhlig, 2009; Romer and Romer, 2010). Regrettably, much of the extant literature utilizes U.S. data, which is problematic in the event that the fiscal policy transmission mechanism is country specific. And, indeed, the literature on Germany (e.g., Höppner, 2001; Perotti, 2004; Marcellino, 2006; Heppke-Falk et al., 2006) is inconclusive as to the sign, size, and statistical significance of fiscal policy effects on output, which is in contrast to the relatively unambiguous evidence found in U.S. data. Research on tax policy effects in Germany mainly relies on the Blanchard and Perotti (2002) structural vector-autoregression (VAR) approach for identification of exogenous policy innovations. Romer and Romer (2010) suggest a narrative approach for overcoming the identification problem. Rather than constructing artificial fiscal policy shocks based on the residuals of an identified VAR process, the authors use historical information on actual tax legislation to construct exogenous measures of tax changes, allowing consistent estimation of their macroeconomic consequences. Note that Romer and Romer (2010) criticize the structural VAR approach as being potentially downward-biased and, given the inconclusive state of the extant literature, an application to Germany seems of particular importance. The database established in this paper allows applying the narrative approach to analyzing the output effects of tax shocks to the case of Germany.

Other fundamental aspects of the fiscal policy transmission mechanism remain underresearched, such as monetary-fiscal policy interactions (Muscatelli et al., 2004) and the effects of fiscal policy on financial markets (Akitoby and Stratmann, 2008; Afonso and Sousa, 2011). The narrative approach offers new perspectives on these topics. Conventional measures of tax shocks rely on official government accounts, which are available only quarterly, whereas narrative measures of tax shocks can be constructed at arbitrary frequencies. The quarterly frequency seems inadequate for modeling structural relationships in highly dynamic environments. Another concern about conventional measures is that tax changes are often anticipated prior to their implementation. The narrative approach allows tracking the evolution of tax changes over all stages of their formulation process and thereby facilitates capturing the formation of expectations on tax changes. This is useful for studying rational agents' responses to "unanticipated" tax shocks, as well as their response to announced tax changes during the legislative process before their actual implementation.

The remainder of the paper is organized as follows. Section 2 starts with a description of the narrative approach and proceeds to establish methodological principles for its application to Germany. The section gives an account of Germany's tax system and its legislative process, describes guidelines for selection and characterization of important tax legislation, and discusses principles for assessing the motivation, size, and timing of tax shocks. Section 2 also introduces the key sources used to construct this history. Section 3 contains detailed case-by-case discussion of individual tax acts. Ninety-five important pieces of tax legislation associated with 845 distinct tax measures for the period 1964 to 2010 are identified and characterized along several dimensions. Important dates of the legislative process are collected and tax changes are classified as either

“endogenous” or “exogenous” with regard to current macroeconomic conditions based on a careful and extensive reading of official government documents. Finally, estimates for the law’s revenue impact are reported.

The primary objective of the paper is to transform historical information on tax legislation into a time series suitable for econometric analyses. However, independent of empirical applications, the paper provides a comprehensive overview and discussion of tax legislation in Germany, creating an opportunity to draw qualitative conclusions about important characteristics of fiscal policy. The Appendix contains summary information on the tax legislation forming the basis of the paper.

## 2 Methodological Principles

### 2.1 The Narrative Approach

Romer and Romer (2010) use the narrative approach to analyze the short-term output effects of tax changes, building on earlier work on the identification of monetary policy (Romer and Romer, 2004) and government spending shocks (Ramey and Shapiro, 1998; Ramey, 2011). The key characteristic of the narrative approach is that historical out-of-sample information is used to construct exogenous instruments suitable for making consistent inferences as to their macroeconomic consequences.

To illustrate the narrative approach, consider a standard structural model of the economy with

$$(1) \quad \mathbf{A}\mathbf{y}_t = \mathbf{A}(\mathbf{L})\mathbf{y}_{t-1} + \mathbf{B}\boldsymbol{\varepsilon}_t$$

at time  $t$ ,  $t=1, \dots, T$ , where  $\mathbf{y}_t$  is a  $K \times 1$  vector of endogenous variables including output, tax revenues, and, potentially, other macroeconomic variables such as government expenditures and interest rates.  $\mathbf{A}$  and  $\mathbf{B}$  are fixed  $K \times K$  matrices representing contemporaneous relations,  $\mathbf{A}(\mathbf{L})$  is a lag-polynomial, and  $\boldsymbol{\varepsilon}_t$  are structural innovations. The reduced-form of Equation (1) is the VAR model in Equation (2)

$$(2) \quad \mathbf{y}_t = \mathbf{A}^{-1}\mathbf{A}(\mathbf{L})\mathbf{y}_{t-1} + \mathbf{A}^{-1}\mathbf{B}\boldsymbol{\varepsilon}_t$$

where the reduced-form innovations can be defined as  $\mathbf{u}_t = \mathbf{A}^{-1}\mathbf{B}\boldsymbol{\varepsilon}_t$ .

The key challenge is that *a priori* observed innovations in macroeconomic variables  $\mathbf{u}_t$  cannot be differentiated in exogenous policy innovations  $\boldsymbol{\varepsilon}_t$  and endogenous comovements. Conventional solutions to this identification problem make direct assumptions about the matrices  $\mathbf{A}$  and  $\mathbf{B}$ , either by assuming a Cholesky-ordering of variables (Fatás and Mihov, 2001) or by following the structural VAR approach in Blanchard and Perotti (2002). Noteworthy identification assumptions of the Blanchard and Perotti (2002) approach include estimates on the automatic response of taxes to changes in output and the causal ordering between government expenditures and taxes. Rather than hypothesizing about  $\mathbf{A}$  and  $\mathbf{B}$  in order to recover policy innovations  $\boldsymbol{\varepsilon}_t$ , the narrative approach directly constructs tax innovations  $\Delta T_t$ . The narrative approach respects that tax innovations are discrete decisions, formulated in political processes and implemented through tax legislation. Hence, by constructing a legislative history of tax changes, relevant tax innovations can be identified. From official government documents, such as budgetary reports and the law code, it is then possible to assess the timing and size of legislated tax reforms and thereby construct a time series of tax innovations  $\Delta T_t$  for each  $t$ . Tax legislation typically consists of a multitude of distinct tax measures  $\Delta T_{i,t}$ ,  $i=1, \dots, N_t$  to be implemented at time  $t$ , thus

$$(3) \quad \Delta T_t = \sum_{i=1}^{N_t} \Delta T_{i,t}, \quad t = 1, \dots, T$$

Sections 2.2 to 2.4 describe principles for identification and characterization of tax changes  $\Delta T_{i,t}$ .

The collection of legislated tax changes  $\Delta T_{i,t}$  does not yet solve the identification problem as tax legislation may react to contemporaneous macroeconomic innovations. Romer and Romer (2010) argue that most tax legislation has a single predominant motivation, identifiable through official government documents. Tax changes may be a reaction to current macroeconomic deterioration and attempt to stimulate the business cycle or be implemented in order to finance recent expansions in government expenditure. As these innovations react to structural macroeconomic shocks, they are endogenous. However, some tax changes are implemented for reasons unrelated to contemporaneous macroeconomic conditions. Policymakers may increase taxes in consolidation efforts. Those tax changes are related only to past policy decisions and are independent of contemporaneous macroeconomic conditions. Also, some tax changes are undertaken for ideological or structural reasons. Parts of the tax system are designed to achieve social-political objectives, such as regulations related to tax allowances for children. The tax system is also regularly used to create behavioral incentives, for example, by increasing the cost of energy usage or by rewarding investment in social housing. An important category of structural tax changes involves technical adjustments in the tax code, sometimes required to comply with rulings of the constitutional court or with international law. The tax system is an important determinant of economic growth, and policymakers frequently implement tax reforms to improve the economy's structure and hence enhance conditions for long-term growth. Consolidation efforts and tax legislation motivated by structural considerations are "exogenous," and hence are valid instruments for estimating the macroeconomic consequences of tax changes. Using the superscript  $x$  to denote exogenous tax changes, after assessing the motivation of each tax measure  $\Delta T_{i,t}$  one obtains a series of exogenous tax shocks for each  $t$

$$(4) \quad \Delta T_t^x = \sum_{i=1}^{N_t^x} \Delta T_{i,t}^x$$

which can be included in Equation (2) as an exogenous variable to study the macroeconomic effects of tax changes. Section 2.5 describe principles of assessing the motivation behind tax changes  $\Delta T_{i,t}$ .

The narrative approach has at least three advantages over the benchmark structural VAR approach of Blanchard and Perotti (2002). First, artificially constructed tax innovations in a structural VAR framework may not coincide with actual policy innovations. The narrative approach emphasizes that tax changes are implemented in a political process and, by construction, identifies true policy changes. Second, cyclical adjustment, as used in Blanchard and Perotti (2002), may be an incomplete solution to the identification problem. Cyclical adjustment usually assumes that once systematic influences of economic activity are removed, the tax series is no longer related to structural innovations in output. This is problematic in the case that noncyclical influences, such as exchange rate or stock market movements, affect output *and* taxes or induce tax policy reactions. Cyclical adjustment also assumes that policy reaction to cyclical fluctuations is approximately constant across time, an assumption not borne out by either this narrative or that of Romer and Romer (2009a), both of which find that countercyclical policies were less frequent in the 1980s and 1990s. Third, the narrative approach requires no additional assumptions such as about the causal order between expenditures and taxes (Blanchard and Perotti, 2002) and is flexible to use in other VAR applications. In fact, expanding the VAR system to study the effects of tax changes on the trade balance, exchange rates, or government expenditures (Romer and Romer, 2009b) is possible without requiring additional identification assumptions.

The narrative approach offers a useful perspective on alternative applications such as monetary-fiscal policy interactions (Muscatelli et al., 2004) and the effects of fiscal policy on financial markets (Akitoby and Stratmann, 2008; Afonso and Sousa, 2011). Conventional measures of fiscal policy often rely on changes in official government accounts, implying that they are available only quarterly, whereas the narrative approach allows constructing measures of fiscal shocks at arbitrary frequencies. The quarterly frequency is problematic when investigating highly dynamic environments. Also note that changes in budgetary figures are regularly anticipated prior to their materialization because tax measures are extensively discussed in parliament and media throughout their formulation process. Hence, rational agents may take appropriate action in response to policy innovations before the same materialize. This timing relationship makes it difficult to model structural relationships with conventional budgetary measures of tax changes.

The narrative approach also has the advantage of being able to account for the formulation of tax changes over the legislative process, and thereby facilitates capturing expectations as to tax changes. This history of tax legislation collects important dates in the legislative process that are expected to proxy for dates at which new information emerges. Three steps in the legislative process seem particularly important: (1) publication of the draft bill, (2) recommendations by the leading parliamentary committee; and (3) resolution by the mediation committee of *Bundestag* and *Bundesrat*. This history provides measures for the revenue impact of tax legislation for each of these versions of the act and thereby tracks the evolution of expectations on future tax changes over the legislative process. Note that while some changes may be partially anticipated prior to these events, concrete details on future tax changes, including revenue forecasts and details on legal provisions, only truly materialize at these stages in the legislative process.

One shortcoming of this history is the empirical focus on quantitatively important tax legislation, corresponding to the emphasis on changes in aggregate tax liabilities deemed relevant for the fiscal policy transmission mechanism by standard Keynesian models such as the IS-LM model and by the majority of modern dynamic stochastic general equilibrium models. While the congruence between quantitatively and otherwise important tax legislation is large, the history constructed here is ill-suited to study effects of purely structural changes in the tax system. In fact, even though important reforms of the corporate or value-added tax codes have often been implemented as revenue-neutral, they may have important structural effects.

## **2.2 Legal Context**

Table 1 provides an overview of the most important tax types covered in this history. For the sake of brevity, exotic taxes, such as taxes on illuminants or decks of cards, are excluded from Table 1; however, these tax types are covered in the historical account. The range of considered taxes includes income taxes, corporate taxes, excise taxes, transfer taxes, and the value-added tax. In contrast to work dealing with the United States, social insurance is not covered here as in Germany this is financed by contributions rather than taxes, and hence is not part of the federal budget except as federal block grants to the social insurance institutions. As a consequence, changes in social insurance are not treated as tax changes and are not covered in this narrative.

**Table 1 Covered tax types**

Tax type	Legal foundation	Short-description
Branntweinsteuer	Branntweinmonopolgesetz (BrantwMonG)	Duty on spirits
Einkommenssteuer	Einkommenssteuergesetz (EStG)	Broad income tax
Energiesteuer	Energiesteuergesetz (EnergieStG)	Energy tax
Erbschaftssteuer	Erbschaftsteuer- und Schenkungsteuergesetz (ErbStG)	Inheritance tax
Feuerschutzsteuer	Feuerschutzsteuergesetz (FeuerschStG)	Insurance tax on fire insurance
Gewerbsteuer	Gewerbsteuergesetz (GewStG)	Local business tax
Grunderwerbssteuer	Grunderwerbsteuergesetz (GrEStG)	Land purchase tax
Grundsteuer	Grundsteuergesetz (GrStG)	Property tax
Körperschaftssteuer	Körperschaftsteuergesetz (KStG)	Corporate income tax
Kraftfahrzeugsteuer	Kraftfahrzeugsteuergesetz (KraftStG)	Automobile tax
Mineralölsteuer	Mineralölsteuergesetz (MinÖStG)	Taxes on fossil fuels
Schaumweinsteuer	Schaumwein- und Zwischenerzeugnissteuergesetz (SchaumwZwStG)	Sparkling wine tax
Solidaritätszuschlag	Solidaritätszuschlaggesetz (SolzG)	“Solidarity surcharge,” an additional levy on individual and corporate income taxes
Stromsteuer	Stromsteuergesetz	Electricity tax
Tabaksteuer	Tabaksteuergesetz (TabStG)	Tobacco tax
Umsatzsteuer	Umsatzsteuergesetz (UStG)	Value-added tax
Vermögensteuer	Vermögensteuergesetz (VStG)	Wealth tax
Versicherungssteuer	Versicherungssteuergesetz (VersStG)	Insurance tax

Notes: Table reports German titles and English descriptions of tax types covered in the narrative. Insignificant types are excluded.

The inclusion of some tax measures warrants special justification. The child benefit (*Kindergeld*) is partially designed to protect the minimum income needed to raise a child and, hence, is systematically part of the tax system even though it has a social transfer component. Changes in child benefits are formally treated as tax changes and covered as such in the narrative. The German tax code historically granted investment allowances for specific investments (*Investitionszulage*), such as for investment in border regions between East and West Germany, as well as for investment in eastern Germany after reunification. As they are financed and paid directly out of accrued tax revenues, they are formally treated as taxes. Similar reasoning applies to employee savings allowances in various forms. In general, measures that are treated as tax changes in official sources are included in this history.

The detailed discussion of individual tax acts also reports important dates of the legislative process. The introduction of a draft bill in parliament marks the beginning of the legislative procedure. The draft bill is usually combined with a statement on the introduction of the bill that justifies and explains intended changes, and that provides a forecast of the law’s revenue impact. Shortly after being introduced in parliament, the bill is debated in the *Bundestag*, which is the lower chamber in Germany. Formally, this step is known as the first reading. After discussion in parliament, the draft bill is passed to a specialist parliamentary committee, which for most laws is the finance committee (*Finanzausschuss*). The leading parliamentary committee passes a recommendation for potential augmentations of the original bill. This recommendation is accompanied by a report that contains useful information on the motivation of the law as well as updates on revenue forecasts. In the second reading, the law is again debated in *Bundestag* and afterward put to the vote in a third reading.

The action to be taken by the *Bundesrat*, Germany’s higher chamber, depends on whether the law is a statute requiring assent (*Zustimmungsgesetz*) or a bill to which the *Bundesrat* may object. (*Einspruchsgesetz*). Consider

first statutes requiring assent. If the *Bundesrat* denies its assent, the mediation committee (*Vermittlungsausschuss*), which works as a go-between for both chambers, might be convened by the government, the *Bundestag*, or the *Bundesrat*. In the event the mediation committee suggests changes to the law, the bill is put to another vote in the *Bundestag*. Afterward, it is again forwarded to the *Bundesrat*. This step can be repeated a maximum of three times as the government, the *Bundestag*, and the *Bundesrat* may each call in the mediation committee once. After passing *Bundestag* and *Bundesrat*, the head of state (*Bundespräsident*) needs to sign the law and it is forwarded for publication in the *Federal Law Gazette* (*Bundesgesetzblatt, BGBl*).

If the law is an *Einspruchsgesetz*, the *Bundesrat* may demand that the mediation committee be convened. The mediation committee attempts to find an acceptable compromise and only when no compromise can be found may the *Bundesrat* formally object to the law. A potential objection may be overruled by the *Bundestag* by simple majority.

### **2.3 Identification and Characterization of Important Tax Legislation and Tax Measures**

The first step in the narrative approach is to identify relevant tax laws. The *Finanzbericht*, an annual budgetary report of the Federal Ministry of Finance, provides extensive discussion and description of tax acts beginning with the year 1964. Over the period 1964 to 2010, a total of 297 pieces of tax legislation are mentioned in this publication. Usually, however, these laws have very minor revenue effects. To make the narrative more accessible and tractable, I follow a two-fold selection mechanism to discover the more important tax legislation. In a preliminary analysis, I take from the *Finanzbericht* the total expected revenue impact of the law on an annual basis after full implementation and divide it by the GDP current at the quarter of the law's publication. In the event the total expected revenue impact exceeds 0.1 percent of GDP, the law and all its tax measures are included in the narrative. Occasionally this selection criterion is inadequate. Some tax legislation implements only few tax measures, but fails to pass the 0.1 percent threshold by a small margin. These measures often have larger revenue impacts than negligible measures included in the history simply because they are combined with important tax measures in unified legislation. A strict application of the above criterion would imply that well-defined tax shocks of considerable importance are omitted and so I make an exception in these cases. This relativization also helps avoid the situation that tax measures from omitted laws in their combined aggregate constitute a significant tax shock at any point in time. Also, the revenue forecast for the total effect of a law in the *Finanzbericht* is sometimes misleading. Tax legislation may combine permanent and temporary measures that partially offset each other. While the temporary effect of such legislation may be small, its permanent effect can be substantial. In rare cases, the prospective revenue impact of the total law given in the *Finanzbericht* fails to reflect that the law's impact increases over time because the impact of some of its measures accumulates over time. In all these cases, the tax act and all its tax measures are included in this history. This selection procedure ensures that all significant tax shocks for the period 1964 to 2010 are included and results in a total of 95 pieces of important tax legislation. In comparison, Romer and Romer (2010) identify 50 important pieces of U.S. tax legislation over the period 1945 to 2007.

For each of the important tax laws, I extensively describe the legislative process. Important dates, such as the date the bill was introduced and the date of the first reading, are included. There are two stages during the process at which the law may change: first, after the resolution of the leading parliamentary committee, and second, in the mediation committee. Primary sources for this information are the online archives of the *Bundestag*, which contain all relevant printed papers (*Bundestag Drucksachen*) published since 1976, allowing construction of the legislative history of tax acts. Note that printed papers prior to 1976 are not publicly available.

Nevertheless, I am able to determine the date of each law's publication based on the law code published in the *Federal Law Gazette*. Sometimes, the law is introduced in two identical versions by both the government as well as by the parties forming the government. In that case, the reported date of the draft is the earlier one. The date of the committee action is chosen as the date of a proposal of resolution, which is important, as sometimes the accompanying report is published the following day.

The tax laws identified as important typically change more than one piece of the tax code and, in fact, tax laws can contain as many as 50 or more distinct tax measures. The next step is identification of tax measures for each of the identified important tax laws. The *Finanzbericht* contains discussion of important tax measures as well as revenue forecasts itemized by tax measures. This history covers 845 tax measures in 95 important tax laws. These tax measures are first qualitatively described and then coded according to several dimensions. First, the date the tax measure is expected to be implemented is collected from the law code. Thus, the focus is on the date tax liabilities, rather than accrued tax revenues, are changed, as is the case with the original Romer and Romer (2010) narrative. In the event the tax measure is only temporary, the date the tax measure is expected to phase out is also presented.

Timing the tax measures is difficult in a few cases. Changes in depreciation rules typically affect tax revenues for many years after the measure has phased out because present and future depreciation is affected over the whole lifespan of an investment good. Given the focus on changes in tax liabilities, the tax shock is timed according to the range of investment goods for which the measure was relevant. Sometimes, measures have retroactive components. In such cases, the implementation date is given as the date of publication in the *Federal Law Gazette*. This is done because publication of the act marks the formal end of the legislative process, implying that tax measures become legally binding around that time. Also note that some measures required the consent of the European Commission. In such cases, it was verified that such consent has indeed been granted. However, there was little evidence that the Commission's consent was critical, so it seems warranted to base the timing of tax measures on the actual law code. Note that following Romer and Romer (2010), tax shocks are assigned to the period in which they are enacted when they are implemented before the middle of that period, and to the next period otherwise.

## **2.4 Measuring Revenue Impacts and the Construction of Tax Shock Series**

The parliamentary rules of conduct mandate that any draft bill must be accompanied by a forecast of revenue effects. These forecasts are included in the statement on the introduction of the bill, revised in the report of the leading parliamentary committee, and summarized and potentially updated in the *Finanzbericht*. Generally, prospective revenue impacts after full implementation at an annual level (*volle Jahreswirkung*) and revenue forecasts for budgetary years are reported. Due to retroactive or temporary components, as well as in the situation where the tax measure will take time to have its full impact on actual tax revenues, the two figures may differ. The prospective revenue impact after full implementation at an annual level is my standard measure for the size of the tax shock. While revenue figures may differ across budget years, this is a single, transparent number. Also, it is the best proxy for the importance of the tax shock as the focus of this history is on changes in tax liabilities rather than in actual tax revenues. In some rare cases, the annualized prospective revenue impact after full implementation is not readily available. In those cases, revenue forecasts from budgetary years are used to construct an annualized revenue forecast after full implementation. Note that the *Finanzbericht 1968* contains information for the impact only on budgetary years. However, *Übersicht über die Steuerrechtsänderungen seit 1964*, published by the Federal Ministry of Finance, contains proxies for the effect after full implementation at an

annual level. All revenue forecasts reported in the case-by-case discussion are in billions of Euro. For the actual empirical applications, tax shocks are normalized by annual GDP.

Identifying correct revenue impacts is difficult in two situations that arise with some frequency in the narrative. Changes in depreciation rules typically have accumulating revenue impacts as they affect taxes on investment or business decisions over consecutive years. The annualized revenue impact then represents averages over all affected investment vintages. The German tax code historically had various tax benefits for home ownership, regularly offering tax deductions for eight consecutive years. In these cases, I was able to reconstruct precisely the series of steps in which tax liabilities changed.

This history supports the construction of two classes of tax shock series based on either the announcement or the implementation effect. The implementation effect measures actual innovations in tax liabilities, and best corresponds to  $\Delta T_t$  in Equation (3). To construct the series, the case-by-case discussion reports the implementation date of tax measures or, in case a tax measure is temporary, the exact time span for which it is in effect. In the construction of the series, temporary tax measures are removed by an equal-sized tax shock in the opposite direction once they expire. One-time revenue effects are treated as a one-period temporary measure. Extensions of tax measures as well as retroactive components are not included, following Romer and Romer (2010). In the case-by-case discussion, the implementation effect associated with each piece of tax legislation is reported under the heading *Implementation*. Note that in order to keep the presentation manageable, the removal of temporary measures once they are phased out is not represented in the table.

An act's announcement effect is designed to capture the act's importance in a single number. Extensions are included in the announcement effect, as the announcement of an extension may be useful information. The announcement series does not reflect the timing of tax measures, which could be important because some measures are announced up to four years before their actual implementation. Also, it does not distinguish between temporary and permanent tax measures. However, the announcement effect allows tracking changes in the tax acts during the legislative process and hence is computed for all three potential versions of the law, namely, the draft and the versions following resolutions by the leading parliamentary committee and by the mediation committee. Changes in the announcement amount may then reflect "unanticipated" changes in the total amount of the legislation. The detailed case-by-case discussion reports the announcement effect at the draft and publication stages of the process, as well as potential *changes* due to suggestions of the leading parliamentary committee and the mediation committee.

Two other special complications arise. Reunification changed the GDP basis of the revenue forecast provided in official government sources around 1990. Specifically, revenue forecasts for laws discussed in the *Finanzbericht* for 1991 rely on figures for a unified Germany, while revenue forecasts reported earlier were based on West Germany only. As a consequence, the GDP measure used to standardize the tax shock is adjusted at that time. However, none of the tax legislation passed during the reunification process in 1989/1990 was quantitatively important. Also, beginning with 2001, all revenue figures are in Euro. Before that date, revenue figures are transformed into Euro using the official exchange rate 1 EUR = 1.95583 DEM.

## 2.5 Classifying Motivation of Tax Changes

The motivation behind tax measures is inferred from official government sources. By rules of parliamentary procedure, motivation and intent must be explained in a statement on the introduction of the bill. In the event a bill is changed during the legislative process, the leading parliamentary committee's report contains justifications and explanations of potential changes. Furthermore, protocols from discussions in the two parliamentary chambers, *Bundestag* and *Bundesrat*, are helpful in assessing motivations for tax changes. The *Finanzbericht* contains explanations and, sometimes, classifications of the motivations behind law changes. Note that prior to 1976, documents such as the draft of the bill or protocols of parliamentary debates are not publicly available. However, the *Finanzbericht* classifies motivation for all tax measures during the time span when other official documents are not available. This classification is sufficient for categorizing the tax measures.

Extending the work of Romer and Romer (2010), tax measures are assigned to one of the following categories of motivation. I consider three endogenous classes of tax changes: spending driven (SD), countercyclical policies (CC), and policies driven by a recent macroeconomic shock (MS). Tax policies introduced for countercyclical reasons with the aim of offsetting current deviations of actual from potential output are clearly endogenous. Tax changes might be enacted to finance an increase in government spending. The increase in government spending can be interpreted as a structural innovation in the spending equation; hence, this tax change is an endogenous reaction to an important contemporaneous macroeconomic shock. However, this classification seems too narrow in the case of Germany. First, policymakers sometimes react to important policy events, such as the introduction of the Euro, reunification, and completion of the European common market. Also, sometimes policymakers increase taxes in response to an economic deterioration, with the intention of offsetting reductions in tax revenues. Neither type of reaction is exactly countercyclical nor spending driven, so I have labeled the category containing them "macroeconomic shocks."

I consider two classes of exogenous tax changes, those aimed at budget consolidation (C) and those implemented for structural reasons (S). Tax measures concerned with budget consolidation are related only to past spending and tax decisions and, hence, are exogenous with regard to contemporaneous macroeconomic conditions. Other tax policies are implemented for structural reasons. Policymakers might lower taxes in an effort to stimulate investment or consumption with the objective of improving structural conditions for long-term growth. Other measures in this category are undertaken to offset structural regional disparities or to promote social equity. Moreover, tax changes sometimes are made to increase the efficiency of the tax system, to create behavioral incentives, or because the constitutional court deemed former regulations unconstitutional. Both consolidation and structural tax measures are unrelated to contemporaneous macroeconomic shocks and thus are valid instruments for estimating the macroeconomic effects of tax changes.

In most cases, tax measures can be unambiguously assigned to one of the above categories, but in a few instances, alternative interpretations of the motive behind a tax change are feasible. These alternative assignments are explicitly stated in the detailed case-by-case analysis. Sometimes, tax acts are focused on a set of centerpiece tax measures, while implementing subordinate tax changes to offset their revenue effects. These subordinate measures are deemed to have the same motivation as assigned to the centerpiece measure as all measures together form a common package. In the event that separate tax measures combined in one law have different motivations, such is accounted for in this history of important tax changes in the Federal Republic of Germany.

### 3 Important Tax Legislation in the Federal Republic of Germany<sup>1</sup>

#### Gesetz zur Beschleunigung des Wirtschaftswachstums (Wachstumsbeschleunigungsgesetz)<sup>2</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
11/09/2009 (CC: -8.482 bn €)	11/12/2009	12/02/2009	12/04/2009
Bundesrat	Publication	Implementation	
12/18/2009	12/30/2009 (CC: -8.482 bn €)	12/30/2009 (CC: -0.05 bn €) 01/01/2010 (CC: -7.402 bn €)	

At the time of writing the *Wachstumsbeschleunigungsgesetz*, Germany was still in a recession as a consequence of the most recent financial crisis and, in essence, the law was a countercyclical stimulus. Noteworthy tax measures of the law were an expansion in child allowances and child benefits, changes in the corporate tax code related to loss carry over in case of takeovers, and reduction of the value-added tax rate to 7 percent on overnight stays in hotels.

The law's quantitatively most important tax measures was an increase to 7,008 € in the tax-free amount for dependent children and the increase in child benefits of 20 € (§§ 32 and 66 EStG) effective 2010. The *Finanzbericht* reported an annualized revenue impact of -4.61 bn €. The second most important tax measure had to do with changes in § 8c KStG, which limits loss carry over in case of company acquisitions implying that losses of the acquired company are not deductible. The new rules in § 8c KStG sec. 1 made loss carry over unlimited for acquisitions within concerns. Also, loss carry over was allowed insofar as it does not exceed cookie jar reserves of the acquired company. Changes in § 8c KStG sec. 1a allowed loss carry over in case of takeovers made with the intention of recapitalization. This exemption had been introduced in the *Gesetz zur verbesserten steuerlichen Berücksichtigung von Vorsorgeaufwendungen (Bürgerentlastungsgesetz Krankenversicherung)* signed July 16, 2009, however, the measure had initially been restricted to 2008 and 2009. With the *Wachstumsbeschleunigungsgesetz*, the tax exemption was made permanent. The combined prospective revenue impact after full implementation given in the *Finanzbericht* was -1.34 bn € at an annual level, expected to be implemented with the beginning of 2010. Unfortunately, the available revenue forecast does not allow distinguishing the components that were new tax measures from those that were mere extensions. To account for the law's extension, I subtract the revenue forecast for the original measure introduced by the *Bürgerentlastungsgesetz Krankenversicherung*, which leaves an implementation effect of -0.445 bn €. Note that the revenue forecast for the full measure including the extension is included in the announcement effect of the law. The most controversial measure of the law was the reduction of the value-added tax rate to 7% on overnight stays in hotels (§ 12 UStG). The measure was effective January 1, 2010 and was expected to lower revenues by -0.945 bn €.

Other measures of the law had only small revenue impacts. Changes in § 6 sec. 2 EStG eased deduction for low-value assets and were expected to change revenues by -0.4 bn € effective 2010. Restructuring of companies was eased (§ 6a GrEStG), which changed revenues by -0.2 bn € effective 2010. Changes in § 8 sec. 1 GewStG affected local business taxes on renting and leasing. The expected revenue effect was -0.08 bn € effective 2010. The inheritance tax code was changed in § 13a ErbStG and § 19 ErbStG. Changes in § 19 ErbStG included a reduction of tax rates in favor of close relatives, expected to become effective at the beginning of 2010. The prospective revenue impact was -0.37 bn €. Changes in § 13a ErbStG eased company succession. The change was retroactive for inheritances in 2009, hence, the tax shock is assigned the date of publication. Its expected revenue effect was -0.05 bn €. Changes in § 4h EStG and § 8a KStG affected the interest deduction ceiling rule that had been introduced with the *Unternehmensteuerreformgesetz 2008* signed August 14, 2008. The change in § 4h sec. 2 EStG increased exemptions from the interest deduction ceiling rule. The measure was expected to come into effect at the beginning of 2010 and was expected to change tax revenues by -0.1 bn €. Also, the *Bürgerentlastungsgesetz Krankenversicherung* had temporarily introduced a tax threshold of 3 m € initially designed to be phased out by the end of 2009. With the new rules, the threshold of 3 m € became permanent. I follow the convention of setting the implementation effect of the measure to zero, while allowing for an announcement effect of -0.06 bn €. The new § 4 h EStG sec. 1 was implemented at the beginning of the year 2010 and was expected to change tax revenues by -0.2 bn €. In essence, changes allowed for the shifting of deductible interest expenses across time. The provision also allowed deductible interest expenses from 2007 onward to be transferred across time, and hence had a retroactive component.

<sup>1</sup> Recall the following abbreviations for categories of motivation: CC: countercyclical, MS: macroeconomic shock, SD: spending-driven policy, S: structural, C: consolidation. Under *Draft* and *Publication*, the announcement effect of the law at that stage of the legislative process is reported. When applicable, changes in the announcement effect after suggestions by the leading parliamentary committee and the mediation committee are given. Under *Implementation*, the implementation effects associated with the tax legislation are given.

<sup>2</sup> BGBl. 2009, 81, pp. 3950–3956.

Finally, changes in § 50 sec. 3 EnergieStG adjusted tax relief for bio fuels. Basically, the tax measure prolonged the time periods for which high tax reductions are granted. Initially, the tax deductions were to be reduced at the beginning of 2010, 2011, and 2012. Under new regulation, the tax reduction was to remain at the old level until the end of 2012. Hence, the measure affected revenues in several steps in 2010, 2011, and 2012, while at the beginning of 2013, the tax reductions are back on track. The *Finanzbericht* quoted a revenue impact after full implementation of -0.127 bn € as well as effects on budgets in 2010, 2011, and 2012. To identify a sequence of shocks, the effects in budgetary years are taken. This results in a tax shock of -0.052 bn € at the beginning of 2010, of -0.102 bn € (total) at the beginning of 2011, and of -0.127 bn € (total) at the beginning of 2012. However, only the first tax shock is within the time horizon of the analysis. To compute the announcement effect the maximum effect of -0.127 bn € is used. The measure was designed to affect tax liabilities at the beginning of 2010, but it required the consent of the Commission of the European Communities, which was not obtained until April 29, 2010.

The opening sentence of the statement on the bill described the law as a reaction to the real economic effects of the 2007 financial crisis. It was clearly stated that the law was designed as a countercyclical reaction to the recent deterioration in economic growth with the intention of obtaining “stable and balanced” growth. Following the statement on the bill, the law’s tax measures were intended to deliver speedy stimuli for investment and consumption. Indeed, real GDP growth in the previous year was -5.2% in the third quarter and -2.2% in the fourth quarter of 2009. Although leading business cycle indicators at that time suggested a recovery, actual growth rates were still much lower than normal, hence leaving room for business cycle policies. Wolfgang Schäuble, finance minister at the time, acknowledged in his opening of the parliamentary debate that business cycle prospects were less gloomy than previously. Yet, he also spoke of “uncertainties” as to the extent and sustainability of the recovery. Mr. Schäuble acknowledged future risks for economic growth, such as higher unemployment, a credit crunch, and an increased incidence of company insolvency. Günther H. Oettinger, at that time head of state of *Baden-Württemberg*, explicitly labeled the law a business cycle policy in the final debate in the *Bundesrat*. Specifically, the largest component of the law, which was the increase in child benefits, was justified as increasing private demand. A slight complication in the classification of motivation arises because some of the tax measures—such as the reduction of taxes in case of company succession or the increase in the interest deduction ceiling rule—may have had structural motives. Still, from a careful reading of the introduction of the bill, as well as of the parliamentary debate, the primary motivation behind the tax measures was to compensate for the real economic deterioration following the financial crisis. In the speech mentioned above, Mr. Schäuble argued that changes in the taxation of inheritances and companies introduced by the bill will ease the burden of the economic crisis. The exemptions from the interest deduction ceiling rule were justified in the introduction of the bill as a relieving small and medium-sized companies from adverse consequences of the financial crisis. Changes in tax reductions for bio fuels were justified by decreased demand due to the recent economic deterioration. The single most controversial tax measure of the law was reduction of the value-added tax rate to 7% on overnight stays in hotels, which was regarded as clientele policy by the broad public. Given that observation, it may not be surprising that the government was relatively quiet on the motivation behind that part of the law. At best, the tax measure is justified on grounds of removing competitive disadvantage with other member states of the European Union. Still, here and elsewhere, I take the official government position at face value. Therefore, the general motivation of the law is also assigned to that specific tax measure.

The law did not change substantially in the legislative process. In total, the *Wachstumsbeschleunigungsgesetz* represented a tax shock of size 7.407 bn € in the first quarter of 2010.

**Gesetz zur Umsetzung steuerrechtlicher Regelungen des Maßnahmenpakets “Beschäftigungssicherung durch Wachstumsstärkung”<sup>3</sup>**

Draft	1st Reading	Committee	2nd & 3rd Reading
11/13/2008 (CC: -4.378 bn €)	11/25/2008	12/02/2008	12/04/2008
Bundesrat	Publication	Implementation	
12/05/2008	12/29/2008 (CC: -4.378 bn €)	12/29/2008 (CC: -0.263 bn €) 01/01/2009 (CC: -4.115 bn €)	

At the time of writing the law, Germany was moving into a recession and in reaction to the economic deterioration following the financial crisis, the grand coalition of Social Democrats (*SPD*) and Christian Democrats (*CDU/CSU*) decided to implement a stimulus package. This law contained the tax measures of the program. Noteworthy tax measures included an increased allowance for the deduction of craftsmen expenses and a temporary reintroduction of the declining balance method of depreciation.

The quantitatively most important component of the law was reintroduction of the declining balance method of depreciation (§ 7 sec. 2 EStG) for investment made in 2009 and 2010. It can be difficult to measure the size and timing of revenue impacts of changes in

<sup>3</sup> BGBl. 2008, 64, pp. 2896–2898.

depreciation rules. The *Finanzbericht* reported an annualized effect of the measure after full implementation of -2.52 bn €, which is close to the reported average effect over the five consecutive budgetary years 2009 to 2013. The figure -2.52 bn € hence seems a reasonable proxy for the annualized impact on tax liabilities. Deciding when to phase out the temporary depreciation rule seems more difficult as the tax measure will affect liabilities far past the end of 2010 as an implication of the declining balance depreciation is that depreciations will be high initially, but then fall below the linear depreciation. Hence, the revenue impact of the tax measure quickly returned to zero (or may even have turned sign) as declining depreciations undercut the linear depreciations. The way I decided to treat depreciation in this narrative is to take the range over which new investments are affected as a basis for the timing decision. This gives an annualized tax shock of -2.52 bn €, implemented at the beginning of 2009 and phased out at the end of 2010. § 52 sec. 23 expanded special depreciations in the years 2009 and 2010. The annualized impact of that measure was -0.095 bn €.

The measure in § 35a sec. 2 EStG increased allowances for craftsmen expenses from 600 € to 1,200 €. The annualized impact after full implementation was given as -1.5 bn €, expected to be implemented at the beginning of 2009. In contrast to the other tax measures, this was designed to be permanent. Also, the law introduced an exemption of new cars from the automobile tax. The measure was retroactive for all cars bought after November 5, 2008. Following the standard practice, the date of publication is given as the implementation date. Defining the lifetime of the measure is complicated by the fact that the exemption was granted for a longer time span for environmentally friendly cars. Still, the exemption was granted at a maximum until December 31, 2010, which is chosen as the phase-out date of the measure. Over the full lifetime of the measure, the expected revenue impact is -0.57 bn €. Given that the tax measure is in place for 26 months, I assign an annualized revenue impact of -0.263 bn €.

At the time of writing the law, the economic outlook was gloomy. Actual growth rates for the previous year were marginally positive in the third quarter, but turned negative in the fourth quarter of 2008. Nearly all economic observers expected a deep recession in 2009 as a consequence of the most recent financial crisis. The law was explicitly labeled as a stimulus package. Hence, the overall categorization of the law as a countercyclical policy is straightforward. Specifically, in the statement accompanying the introduction of the bill, the law was described as a response to the recent financial crisis. The temporary reintroduction of the declining balance method of depreciation was intended to stimulate investment. The expansion in special depreciations was supposed to temporarily improve business solvency and investment. The exemption of new cars from the automobile tax was designed to increase car sales, with the intention of stabilizing the business cycle. In course of the second reading in the *Bundestag*, Reinhard Schultz (SPD) of the coalition government justified the increased allowance for workmen expenses by claiming that doing so would increase private demand. In the final debate in the *Bundesrat*, the law was widely accepted as a countercyclical measure across parties, although there was some debate as to whether its range was sufficient. Taken together, classification of the law as a countercyclical policy is unambiguous.

Within the legislative process, the law was not changed substantially. The total announcement and implementation effect of the law correspond to -4.343 bn €, both in the first quarter of 2009.

#### **Gesetz zur Förderung von Familien und haushaltsnahen Dienstleistungen (Familienleistungsgesetz - FamLeistG)<sup>4</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
10/16/2008 (S: -2.24 bn €)	11/13/2008	12/02/2008 (S: -0.03 bn €)	12/04/2008
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
12/05/2008	12/17/2008	12/18/2008	12/19/2008
<b>Publication</b>	<b>Implementation</b>		
12/29/2008 (S: -2.27 bn €)	01/01/2009 (S: -2.27 bn €)		

The primary purpose of the *Familienleistungsgesetz* was to increase child benefits and the tax-free amount for children. Note that the total amount of the law falls short of the 0.1% threshold by a small margin, but as the law consisted mainly of one quantitatively important measure, it is included in the narrative.

The most important tax measure of this law was the increase in child benefits for the first two children by 10 € and by 16 € for additional children and the increase in the tax-free amount for children from 5,808 € to 6,024 € effective 2009. The measure was expected to change tax revenue by -2.14 bn € on an annual basis. Of somewhat lesser importance were the changes in § 35 a EStG, which expanded allowances for household employment and so called Minijobs (insignificant employment). The measure was expected to change tax revenues by -0.13 bn €, effective at the beginning of 2009.

The statement on the introduction of the bill reported welfare-political reasons for the tax change. The increase in child benefits was intended to increase family income. The staggered increase in child benefits for families with more than two children is reported as being

<sup>4</sup> BGBl. 2008, 64, pp. 2955–2958.

especially beneficial for households with many children. It is also reported that existing rules for household employment are too complicated and require simplification. The expansion in allowances for household employment was expected to promote family home care and to promote reconciliation of work and family life. In the opening speech in the first parliamentary reading, Mrs. Lydia Westrich (SPD) from the coalition government also reported welfare-political reasons for the increase in child benefits. She additionally justified the reform of household employment as reducing illegal employment in that area. Dr. Ursula von der Leyen (Federal Minister for Family Affairs, Senior Citizens, Women and Youth at that time) justified the increases in child benefits by referring to increases in costs of living, reporting that since the last adjustment in 2002, costs of living had changed substantially. This suggests an additional motivation, as child allowances are constitutionally required to cover the minimal living cost of children. Taken together, exogenous, structural reasons seem to have been responsible for the law change and the law is classified as being driven by structural reasons.

In the legislative process, the law was altered only modestly. The tax-free amount for children was originally designated as 6,000 € but was later increased to 6,024 €. The report by the leading parliamentary committee suggested technical reasons for this change. The total announcement and implementation effect of the law corresponded to -2.27 bn €, both in the first quarter of 2009.

#### **Gesetz zur Sicherung von Beschäftigung und Stabilität in Deutschland<sup>5</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
01/27/2009 (CC: -7.47 bn €)	01/30/2009	02/11/2009	02/13/2009
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
02/20/2009	03/05/2009 (CC: -7.47 bn €)	(CC: 03/05/2009 -3.11 bn €) (CC: 04/01/2009 -1.53 bn €) (CC: 01/01/2010 -2.83 bn €)	

The law was part of the second stimulus package passed by the coalition of CDU/CSU and SPD in course of the financial crisis and contained two important tax measures concerned with adjusting the income tax tariff and temporarily extending child benefits. In addition to these tax-related aspects, the law contained expansions in government expenditures, most noteworthy among which was an investment package worth 16.9 bn €, along with a car-scrap bonus.

On the revenue side, the bill had only two quantitatively important measures. The first was a single, one-time 100 € payment in child benefits. The expected annualized revenue impact of that measure was -1.53 bn €. For the majority of beneficiaries, the one-time child benefit was expected to be paid in April and May 2009. Hence, the tax measure is treated as a tax increase in the second quarter of 2009 and a tax decrease in the third quarter of 2009. Unfortunately, it is difficult to arrive at more precise implementation dates as the child benefit is paid out in a rolling procedure. Still, the first cohort of beneficiaries receives the child benefit at the beginning of the month, and the last at the end of the month. This allows choosing April 1, 2009 as the implementation date and May 30, 2009 as the phase-out date, in the event specific dates are desirable. The second measure was a change in the income tax tariff. Specifically, the tax-free amount, as well as the tax tariff, was adjusted in two steps, one retroactive for 2009, the other effective 2010. Regrettably, the revenue forecasts do not allow directly distinguishing the effects of the first step from the second, but taking revenue effects based on budgetary years offers a solution. Accordingly, the initial shock is chosen as -3.11 bn €, and the second as -2.83 bn €. These changes were intended to be permanent.

Identifying the motivation behind the tax law is straightforward. At the time of passage, the economy was in a recession, with little sign of immediate recovery. The statement on the introduction of the bill declared it as a reaction to the financial crisis. Specifically, the temporary expansion in child benefits, as well as the reduction in income taxes, was intended to increase aggregate demand. In the parliamentary debate, finance minister Peer Steinbrück claimed that the economy was in the worst recession since creation of the Federal Republic of Germany and proposed the need for a demand stimulus.

Changes within the legislative process had no effect on the revenue impact of the law. Its announcement effect was -7.47 bn €, implemented in the second quarter of 2009 and in the first quarter of 2010.

<sup>5</sup> BGBl. 2009, 11, pp. 416–433.

## Gesetz zur Fortführung der Gesetzeslage 2006 bei der Entfernungspauschale<sup>6</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
03/03/2009 (S: -2.53 bn €)	03/05/2009	03/18/2009	03/19/2009
Bundesrat	Publication	Implementation	
04/03/2009	12/09/2008 (S: -2.53 bn €)	12/09/2008 (S: -2.53 bn €)	

The *Gesetz zur Fortführung der Gesetzeslage 2006 bei der Entfernungspauschale* reintroduced commuter tax allowances previously abolished by the *Steueränderungsgesetz 2007*. In a ruling on December 9, 2008 the constitutional court decided that the changes brought about by the *Steueränderungsgesetz 2007* were unconstitutional and in effect reintroduced the commuter tax allowance.

Prior to 2007, commuters had been allowed to reduce taxable income by 0.3 € per kilometer commuting distance. The *Steueränderungsgesetz 2007* changed that regulation by restricting deductible expenses to commuting distances longer than 20 kilometers. Changes brought about by the *Steueränderungsgesetz 2007* also removed the possibility of deducting public transport expenses if they exceeded the lump-sum allowances. As another side effect of the 2007 regulation, accident costs were no longer deductible as extraordinary financial burdens. A ruling by the constitutional court on December 9, 2008 in effect reintroduced the commuter tax allowances retroactive to the first kilometer of commuting distance since 2007. The *Gesetz zur Fortführung der Gesetzeslage 2006 bei der Entfernungspauschale* was only a matter of form in regard to the commuter tax allowance, but it also reintroduced the increased allowance for public transport and for accident costs. Unfortunately, the available proxies for the revenue impact of the measure do not allow distinguishing the effect of the reintroduction of the lump-sum allowance for commuting expenses from the allowances for public transport and accident costs. However, it is clear that most of the revenue impact derived from the change in the lump-sum allowances, which in effect was reintroduced by the constitutional court's December 9 ruling. It thus seems reasonable to time the full tax shock in accordance with that ruling and hence the tax shock -2.53 bn € is dated December 9, 2008.

It is easy to classify the motivation behind this law. In its main parts, the law followed the ruling of the constitutional court. In cases where the government deviated from the ruling of the constitutional court, it is clear that sociopolitical reasons were the driving factors. The *Gesetz zur Fortführung der Gesetzeslage 2006 bei der Entfernungspauschale* was motivated by structural reasons.

The law constitutes an exogenous tax shock of size -2.53 bn € in the first quarter of 2009.

## Gesetz zur verbesserten steuerlichen Berücksichtigung von Vorsorgeaufwendungen (Bürgerentlastungsgesetz Krankenversicherung)<sup>7</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
02/20/2009 (S: -9.33 bn €)	03/19/2009	06/17/2009 (CC: -2.905 bn €) 06/17/2009 (S: -0.345 bn €)	06/19/2009
Bundesrat	Publication	Implementation	
07/10/2009	07/22/2009 (CC: -2.905 bn €) 07/22/2009 (S: -9.675 bn €)	07/22/2009 (CC: -2.655 bn €) 01/01/2010 (S: -9.675 bn €)	

Initially, the law was designed to expand tax allowances for health insurance and long-term care contributions in compliance with a ruling by the constitutional court requiring that such expenses should be treated as part of the minimum income needed to exist. Within the legislative process, however, the law became augmented with additional measures largely designed to accommodate the economic deterioration following the financial crisis, but unrelated to the initial intentions of the law.

Changes in § 10 EStG and related parts of the income tax code expanded allowances for contributions to health and long-term care insurance. The measure was expected to change tax revenue by -9.47 bn € on an annual level effective 2010. In comparison to this measure, changes in § 10 sec. 1 no. 1 EStG, § 32 sec. 4 sent. 2 EStG, and § 33a EStG are of minor importance, basically being necessary technical adjustments. Taken together, the measures were expected to change tax revenues by -0.205 bn € on an annual level effective 2010. Note that in contrast to the *Gesetz zur Fortführung der Gesetzeslage 2006 bei der Entfernungspauschale*, the constitutional court ruling did not seem to have immediate impact on tax revenues. Also, the revenue impacts of the ruling were less clear than in the previous case, especially as the lawmaker had considerable discretion on precisely how to implement the court's ruling. Hence, it seems warranted to base the timing of the tax measures on the law itself.

Based on the report by the leading parliamentary committee, the tax legislation was augmented by additional measures. Changes in § 20 sec. 2 UStG allowed companies with turnovers lower than 500,000 € to pay value-added taxes on actual revenues rather than on contracted sums, limited to the period July 1, 2009 to December 31, 2011. The effect of these changes was an immediate and one-time

<sup>6</sup> BGBl. 2009, 20, pp. 774–776.

<sup>7</sup> BGBl. 2009, 43, pp. 1959–1973.

liquidity effect for small companies, to be offset once the measure expired. Hence, the measure constituted a tax shock of -1.7 bn € effective retroactively for July 2009, to be offset by an equal-sized shock in the next period. The phase-out date of the temporary measure was beyond the time horizon of the narrative. A slight complication arises because companies in East Germany had higher thresholds until the end of 2009 even before implementation of the law. So, for East German countries, the tax measure was a mere extension of existing law. The *Finanzbericht* put an estimate of -0.25 bn € on the extension. As the measure is an extension, it appears in the announcement effect of the law, but does not constitute an implementation shock. Finally, the law introduced two temporary measures reducing the corporate tax burden. § 8c KStG sec. 1a allowed loss carry over in case of acquisitions made with the intention of recapitalizing a company. Also, the *Bürgerentlastungsgesetz Krankenversicherung* temporarily raised the exemption limit in the interest rate deduction rule to 3 m €. Both tax measures were retroactive for 2008 and designed to phase-out at the end of 2009; hence, their implementation date is the date of publication. By later regulation in the *Wachstumsbeschleunigungsgesetz*, both tax measures became permanent. Their combined revenue impact was -0.955 bn €.

In the statement on the introduction of the bill, it was stated that the constitutional court had demanded that expenses for health and long-term insurance should be treated as part of the minimum income needed to exist. Given the structure of the German tax code, this had far-reaching consequences as the minimum income is not taxable. The law at hand contained the necessary adjustments in the tax code. Also, the initial set of tax measures underwent some minor adjustment due to the report of the *Finanzausschuss*. Based on the report, technical reasons seem to have been responsible for the changes. Specifically, no business cycle motivation is assigned to the minor adjustments in the initial set of tax measures. Classifying the motivation behind the new tax measures is also straightforward. The report of the leading parliamentary committee clearly stated the last financial crisis as the underlying motivation. The increase in the exemptions from the interest deduction ceiling is justified as strengthening medium-sized companies in economically difficult times. Similar reasoning is given for the changes in § 8 c KStG. In the second reading, Gabriele Frechen (SPD) from the coalition government stated that the increase in the threshold in § 20 sec. 2 UStG gave small companies a liquidity advantage in times of economic turmoil. Eduard Oswald (CDU/CSU) from the coalition government also stated that the recent financial crisis was responsible for alternation of the law within the legislative process. Taken together, the tax measures related to the deduction of health and long-term care insurance contributions are classified as motivated by structural reasons, while the other measures were countercyclical.

Within the legislative process, the law was changed substantially. While the changes made to the original part of the law were modest, it was augmented with a group of countercyclical measures.

#### Unternehmensteuerreformgesetz 2008<sup>8</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
03/27/2007 (S: -8.915 bn €)	03/30/2007	05/23/2007 (S: 0.035 bn €)	05/25/2007
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
07/06/2007	08/17/2007 (S: -8.88 bn €)	08/17/2007 (S: 1.78 bn €)	
		08/18/2007 (S: -0.155 bn €)	
		01/01/2008 (S: -9.635 bn €)	
		01/01/2009 (S: -0.87 bn €)	

The law was concerned with reforming corporate and business taxation and introduced changes in the income, corporate, and local business tax code. The basic idea behind the reform can be traced back to the coalition agreement between the SPD and CDU/CSU governments. In essence, the law reduced statutory tax rates while broadening the tax base. Of interest also was the introduction of a flat rate tax on capital income beginning in 2009.

The law reduced the corporate tax rate from 25 percent to 15 percent effective 2008, which was expected to change tax revenues by -12.555 bn €. Also, the law reduced the local business tax burden starting in 2008 by changing the tax scale. This measure was expected to change tax revenue by -6.75 bn €. The law also changed other aspects of the local business tax. Changes related to the treatment of local business taxes in income taxation (§ 4 sec. 5b EStG, § 35 sec. 1 EStG) induced revenue effects of 6.18 bn € effective 2008. In essence, local business taxes were no longer deductible as business expenses. Other less important changes related to local business taxes had a net effect of 0.18 bn € effective 2008.

Changes in § 34a EStG benefited retained earnings. The expected revenue effect of the measure was a change in tax revenues of -4.045 bn € on an annual level effective 2008. Changes in § 8b sec. 10 KStG limited exemptions from corporate taxation and were expected to change tax revenues by 1.18 bn €, retroactive with 2007. The law also changed some depreciation rules. Changes in § 7 sec. 2 EStG abolished declining depreciation. This was expected to change tax revenues by 3.365 bn € on an annual basis effective 2008.

<sup>8</sup> BGBl. 2007, 40, pp. 1912–1938.

Changes to § 6 sec. 2 EStG abolished the immediate write-off of low-value assets. The expected change in tax revenues was 0.745 bn € effective 2008. Finally, some rather technical aspects in § 7g EStG related to special depreciations were changed, with an expected revenue effect of -0.155 bn € effective the day after publication. Changes in § 8a KStG, § 8b sec. 10 KStG and § 8 c KStG broadened the tax base. Changes in § 8a KStG were expected to lower tax revenues by -0.475 bn € effective retroactively May 2007. As an implementation date, I hence choose the day of publication. New regulations in § 8b sec. 10 were supposed to affect tax revenues by 1.18 bn € effective retroactively for 2007. Changes in § 8c KStG were expected to change tax revenues by 1.475 bn € effective with the beginning of 2008.

Importantly, the tax law introduces an interest deduction ceiling in § 4h EStG and § 8a KStG. The tax measure was expected to change tax revenues by 1.075 bn €, to be implemented retroactive to May 2007. Accordingly, I choose the publication date as date of implementation. Of interest also was introduction of a flat rate tax on capital income beginning with 2009, which was expected to change tax revenues by -0.87 bn €. Changes in § 1 AStG were designed to complicate the shifting of tax obligations to foreign countries with potentially lower tax burdens. The measures were expected to raise 1.77 bn € at an annual level effective at the beginning of 2008. The *Finanzbericht* also reported additional tax revenues of 3.89 bn € generated by “additional measures to secure the national tax basis.” It is unclear which measures of the law generated these revenues, making timing the tax measure difficult. Also, as argued by Romer and Romer (2009a), revenue forecasts for such components are extremely unreliable, either because the data basis for revenue forecasts is scarce or because the government may have a systematic incentive to misestimate such figures. The most sensible approach seems to omit the tax shock of 3.89 bn € from the analysis.

In the statement of the introduction of the bill, it was stated that statutory tax rates in Germany were high compared to other countries, but at the same time, loopholes hindered the effectiveness of the tax system. As a solution, the statement on the introduction of the bill proposed a reduction in statutory tax rates accompanied by broadening the tax base. The proposal for a corporate tax reform had originally been raised in the coalition agreement between SPD and CDU/CSU. It had been proposed that a corporate tax reform should be implemented that strengthens international competitiveness and broadens the tax base. According to the statement on the introduction of the bill, one consequence of the tax law would have been an increase in investment, inducing higher consumption and economic growth. Also, the statement on the introduction of the bill claimed that the interest deduction ceiling not only broadens the tax base, but also strengthens the equity of companies by reducing incentives to borrow capital. In addition, the tax law is claimed to contribute to bureaucratic neutrality and to go some way toward reducing the variance in local business tax revenues. In the final debate in the *Bundesrat*, then finance minister Peer Steinbrück (SPD) restated several of these objectives: the tax law was supposed to strengthen international competitiveness, broaden the tax base, reduce the variance of local revenues, and, finally, increase bureaucratic neutrality. It is clear that the primary motivation behind the tax law was structural.

Within the legislative process, the law experienced some technical alternations, none of which, however, were related to a change in motivation. In total, the law corresponded to an exogenous announcement effect of -8.88 bn €, to be implemented at various dates in 2007, 2008, and 2009.

#### **Gesetz zur steuerlichen Förderung von Wachstum und Beschäftigung<sup>9</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
01/19/2006 (S: -5.57 bn €)	02/16/2006	03/15/2006	03/17/2006
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
04/07/2006	05/05/2006 (S: -5.57 bn €)	05/05/2006 (S: -4.09 bn €) 07/01/2006 (S: -1.23 bn €)	

The law's main measures were temporary extensions of depreciation allowances and allowances for the wage component of household renovation expenditures.

The act expanded depreciation allowances for all investment made in 2006 and 2007. The annualized expected revenue impact was quoted as -2.41 bn €. Allowances for the wage component of home-care and household renovation expenditures were permanently increased effective retroactively for the tax assessment period 2006. The combined expected annualized revenue impact of both measures was given as -1.22 bn €. The law also introduced allowances for child-care expenses, changing tax revenue by -0.46 bn € retroactive for 2006. Finally, in § 20 UStG, the law changed thresholds for paying the value-added tax on realized revenues rather than on liabilities. In the old Laender, the threshold was permanently raised to 250.000 € starting July 2006. In the new Laender, the increased threshold of 500.000 € was extended three years to the end of 2009. The revenue impact of those measures was a change in the timing of revenues. The *Finanzbericht* reported a budgetary effect of the permanent increase in the threshold of -1.23 bn € in 2006 as well as of -0.25 bn € for

<sup>9</sup> BGBl. 2006, 22, pp. 1091–1094.

the extension in 2007. The implementation effect of just the extension is set to zero. The permanent increase in the threshold for West Germany is treated as a one-time levy to be offset by an equally sized shock in the next period.

The statement on the introduction of the bill left it somewhat open whether the law was a response to recent deteriorations in output or whether it was intended to change potential output growth. Specifically, the opening statement on the bill reported that the law's measures were intended to increase growth in economically difficult times. However, in the first quarter of 2006, the economy was growing by an annual rate of 2.85%, whereas growth had more sluggish in 2004 and 2005. Also, unemployment had been high in 2005, but the rates had already started to decline. Based on standard business cycle forecasts, there was little evidence for an approaching recession. This was also acknowledged by the government and indicated by Mr. Glos, Minister of Economic Affairs at that time, in the parliamentary debate. This macroeconomic background made countercyclical measures unnecessary, strengthening the interpretation that the measures were designed to change potential growth. Also, high unemployment rates at that time seemed to be more structural than cyclical. Note further that countercyclical reasons were given very little weight in the parliamentary debate accompanying the law. Still, given the somewhat indefinite categorization of motivation, a case-by-case study of the motivation behind these tax measures seems warranted.

The extensions of the depreciation allowances were intended to increase investment and were limited to two years. Mr. Steinbrück, Federal Minister of Finance at that time, justified the temporary nature of the measure on grounds that another, broader reform would replace these allowances in 2008. Hence, the temporary nature of these measures per se does not indicate a countercyclical motive. Mr. Glos reported that the measure was intended to increase investment and to have a favorable impact on economic activity. The statement on the bill reported that the measure will foster growth, which fits the structural interpretation. Still, as an alternative interpretation, the measure may have been designed as a response to a temporary reduction in investment, and hence may be countercyclical. The increases in the thresholds in § 20 UStG were justified in the statement of the bill on ground that they provide small companies with liquidity advantages. Mr. Steinbrück, however, reported that the measure may help companies to survive the currently harsh conditions, so an alternative countercyclical motivation is possible. The increased allowances for renovation expenditures are justified by Mr. Glos as reducing moonlighting in that area, inducing me to choose structural reasons as the primary motivation for this measure. However, Mr. Steinbrück reported that the measure was intended to create new jobs quickly, which may be interpreted as an offsetting measure. Still, it seems much more likely that this was a structural response to permanently high unemployment. The motivation behind two measures was unambiguous. In the statement on the introduction of the bill, the increased allowances for childcare were justified on grounds that it improved reconciliation of work and family. The increases in allowances for home care have quantitatively negligible effects and received little attention in the parliamentary debate. It was, however, stated that the measure may help to reduce the notoriously high level of moonlighting in that area. Taken together, the primary motivation of the law appeared to be structural. As discussed above, for some of the measures, an alternative interpretation is possible, albeit improbable.

Within the legislative process, the law was subject to only technical alternations, none of which had significant revenue impacts. In total, the law corresponded to a tax reduction of -5.57 bn € to be implemented at various dates in 2006 and 2007.

#### Haushaltsbegleitgesetz 2006<sup>10</sup>

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
02/24/2006 (SD: 7.648 bn €)	03/28/2006	05/17/2006 (S: -0.34 bn €)	05/19/2006
02/24/2006 (C: 16.887 bn €)			
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
06/16/2006	06/30/2006 (SD: 7.648 bn €)	01/01/2007 (SD: 7.648 bn €)	
	06/30/2006 (C: 16.547 bn €)	01/01/2007 (C: 16.547 bn €)	

The *Haushaltsbegleitgesetz 2006* contained both tax and expenditure measures intended to help consolidate the budget. Parts of the additional revenues were also used to finance a reduction in social insurance contribution rates.

The law's most important measure was an increase in the value-added tax rate to 19 percent effective 2007. The measure constituted a permanent tax increase worth 22.945 bn € on an annual basis. The law also raised the insurance tax rate to 19 percent, with an expected annualized tax impact of 1.59 bn € effective 2007. Somewhat less important and of a rather technical nature were the changes in § 24 Sec. 1 UStG related to tax benefits for the agricultural sector, which was expected to change tax revenues by -0.34 bn € effective 2007.

The motivation behind the law was clearly stated in the statement on the introduction of the bill. Tax revenue was running short of expenditures and, hence, a substantial increase in taxes was needed. One-third of the additional revenue in value-added taxes, however, was earmarked to finance a reduction in social insurance contribution rates. As such, the *Haushaltsbegleitgesetz 2006* aimed at reducing

<sup>10</sup> BGBl. 2006, 30, pp. 1402–1406.

the burden on labor income by an increase in indirect taxes. Given that, formally, social insurance is not part of taxes, it seems advisable to treat social insurance expenditures as spending and, accordingly, that part of the law was spending-driven. Changes in § 24 Sec. 1 UStG were intended to compensate for the increase in the value-added tax rate and, other than that, received little attention in the official documents or in parliamentary debate. Following the usual practice, the measure is assigned the same motivation as the primary law, although an alternative structural interpretation may be possible.

Within the legislative process, the law was augmented by the measure in § 24 Sec. 1 UStG related to value-added taxes on the agricultural sector. Taken together, the law increased tax revenues by 24.195 bn € effective 2007.

#### Steueränderungsgesetz 2007<sup>11</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
05/18/2006 (C: 4.389 bn €)	05/19/2006	06/29/2006	06/29/2006
Bundesrat	Publication	Implementation	
07/07/2006	07/24/2006 (C: 4.389 bn €)	01/01/2007 (C: 3.841 bn €)	
		01/01/2008 (C: 0.014 bn €)	
		01/01/2009 (C: 0.534 bn €)	

The law combined a diversity of tax measures, most of them associated with only minor revenue effects. Of most interest is the reduction in the lump-sum tax break for commuters, a measure later ruled unconstitutional.

Under new regulation, the commuter tax allowance only became applicable for the 21st kilometer of commuting distance. The measure changed tax revenues by 2.53 bn € on an annual basis, effective beginning in 2007. Later, the measure was ruled unconstitutional; see the discussion under *Gesetz zur Fortführung der Gesetzeslage 2006 bei der Entfernungspauschale*. Also of importance was the increased income tax rate of 45 percent on income above 250.000 € effective 2007, which was expected to raise 1.3 bn €. A temporary reduction in taxes on profits for the tax assessment period 2007 induced a revenue change of -1.05 bn €. Other tax measures were of limited importance in terms of their revenue impacts. The change in § 4 Sec. 5 EStG limited allowances for home offices, with an expected revenue impact of 0.3 bn € effective 2007. Also, allowances for saving were reduced. The expected revenue impact was 0.75 bn € effective 2007. Another measure involved the limitation of child allowances for children under 25 years, changing revenues by 0.534 bn € effective 2009. Changes in the *Bergmannprämienengesetz* altered tax benefits for miners in two steps effective with 2007 and 2008. Based on the *Finanzbericht*, the first change is associated with an expected revenue impact of 0.011 bn €, the latter with an expected revenue impact of 0.014 bn €.

The statement on the introduction of the bill reported consolidation motives as justification for the changes. Further stated motives were related to simplification of the tax code or ideology, for example, the increased tax rate for the top income bracket. The law is not related to contemporaneous macroeconomic shocks; rather, the question is whether the law was a reaction to an inherited budget deficit or more structurally motivated. In the parliamentary debates, there was a clear emphasis on budget consolidation, with little or no discussion of alternative motives. Accordingly, the law is classified as being driven by a consolidation motive.

#### Gesetz zur Abschaffung der Eigenheimzulage<sup>12</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
11/29/2005 (C: 5.893 bn €)	12/01/2005	12/14/2005	12/15/2005
Bundesrat	Publication	Implementation	
12/21/2005	12/30/2005 (C: 5.893 bn €)	01/01/2006 (C: 0.737 bn €)	
		01/01/2007 (C: 0.737 bn €)	
		01/01/2008 (C: 0.737 bn €)	
		01/01/2009 (C: 0.737 bn €)	
		01/01/2010 (C: 0.737 bn €)	

The law abolished home owner benefits, with the presumable motive of budget consolidation.

Home owner benefits were abolished for all owner-occupied dwellings built or bought after 2006. Previously, home owner benefits were paid for a total of eight consecutive years beginning with completion or acquisition of the dwelling. This is one example of a tax change affecting revenue in a series of steps. Unlike most depreciation rules, however, I am able to fully recover the sequence of shocks in this case. The fact that home owner benefits had been paid for eight consecutive years implies that eight cohorts of home owners obtained benefits in one assessment period, all having acquired their home in different years. In 2006, home owner benefits were no longer paid for

<sup>11</sup> BGBl. 2006, 35, pp. 1652–1658.

<sup>12</sup> BGBl. 2005, 76, p. 3680.

newly acquired homes, implying that only those seven cohorts that had acquired homes between 1999 and 2005 obtained benefits. In 2007, those who had acquired their homes in 1999 no longer received the benefit, leaving six cohorts. Continuing in this fashion implies that in 2012 only those who had acquired homes in 2005 still received the benefit. The full revenue impact for each cohort over the eight years is given in the *Finanzbericht* as 5.893 bn €, which, distributed over eight years, gives a series of revenue shocks in 2006, 2007, ... , 2013, each worth 0.737 bn €.

Identifying the motivation behind the tax measure is straightforward. The statement on the introduction of the bill reported that consolidation motives are the primary reason for the change. In the parliamentary debate, the measure received relatively little attention and no other motives were mentioned. Hence, budget consolidation was the motive for this tax measure.

Within the legislative process, the law did not experience any noteworthy alternations. In total, the tax law had a volume of 5.893 bn € distributed over the years 2006 to 2013.

#### **Gesetz zur Beschränkung der Verlustverrechnung im Zusammenhang mit Steuerstundungsmodellen<sup>13</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
11/29/2005 (C: 2.135 bn €)	12/01/2005	12/14/2005	12/15/2005
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
12/21/2005	12/30/2005 (C: 2.135 bn €)	12/30/2005 (C: 2.135 bn €)	

The law does not pass the 0.1% threshold; however, as it consisted of only one tax measure and that measure changed tax revenue by 0.09% of GDP it seems important enough to be included here. In essence, the law is concerned with closing loopholes in the income tax code.

Changes in § 15b EStG removed the possibility of discounting losses based on tax-shelter schemes. The measure was expected to raise revenues by 2.125 bn € on an annual basis and was effective retroactively to November 10, 2005. Accordingly, the date of publication is chosen as the implementation date.

As stated in the statement on the introduction of the bill, the motivation behind the tax measure was to increase tax justice and the efficiency of the tax system, as well as to raise additional revenue. In the parliamentary debates, the measure received relatively little attention and did not appear to be driven by any current macroeconomic distortions. Rather, the measure was regularly discussed in the context of consolidation motives. Hence, the law's motivation was consolidation.

Within the legislative process, the law did not experience any noteworthy alternations. The law had a volume of 2.135 bn € in the first quarter of 2006.

#### **Gesetz zur Förderung der Steuerehrlichkeit<sup>14</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
07/01/2003 (S: ? bn €)	07/03/2003	10/15/2003	10/17/2003
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/07/2003	12/16/2003	12/19/2003	12/19/2003
<b>Publication</b>	<b>Implementation</b>		
12/29/2003 (S: ? bn €)	01/01/2004 (S: 1.4 bn €)		

The law allowed taxpayers who had engaged in tax fraud in the past to declare their hidden income and pay a reduced tax rate of 25% on evaded income. In return, the taxpayers would no longer need to fear punishment for the past tax evasion. Such declarations were allowed only temporarily for 2004. The tax measure hence constitutes a tax shock at the beginning of 2004, offset at the beginning of 2005. The annualized revenue impact of the law was given as 5 bn €. Yet, it is clear from the debate accompanying the law that the original estimate of 5 bn € was overly optimistic. Accordingly, the revenue forecast used to assess the announcement effect of the law is set to zero. The true revenue impact was later reported as only 1.4 bn €. For the implementation series, the actual amount of 1.4 bn € is taken.

It is clear that contemporaneous macroeconomic shocks were not the driving force behind this law; indeed, the statement on the introduction of the bill reported concerns about tax justice as primary reason. This is also the primary motive mentioned in the parliamentary debates. Accordingly, the law is classified as structural.

In total, the law corresponds to a shock of 1.4 bn € at the first quarter of 2004.

<sup>13</sup> BGBl. 2005, 76, pp. 3683–3684.

<sup>14</sup> BGBl. 2003, 66, pp. 2928–2932.

## Haushaltsbegleitgesetz 2004<sup>15</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
08/15/2003 (C: 14.332 bn €)	09/09/2003	10/15/2003 (C: -0.165 bn €)	10/17/2003
08/15/2003 (CC: -15.05 bn €)			
Bundesrat	Vermittlungsausschuss	Bundestag	Bundesrat
11/07/2003	12/16/2003 (C: -6.982 bn €)	12/19/2003	12/19/2003
	12/16/2003 (CC: 6.61 bn €)		
Publication	Implementation		
12/31/2003 (C: 7.185 bn €)	01/01/2004 (C: 4.976 bn €)		
12/31/2003 (CC: -8.440 bn €)	01/01/2004 (CC: -8.44 bn €)		
	01/01/2005 (C: 0.316 bn €)		
	01/01/2006 (C: 0.316 bn €)		
	01/01/2007 (C: 0.316 bn €)		
	01/01/2008 (C: 0.316 bn €)		
	01/01/2009 (C: 0.316 bn €)		
	01/01/2010 (C: 0.316 bn €)		

The *Haushaltsbegleitgesetz 2004* does not qualify as important according to the requirement of an announced tax impact of at least 0.1% of GDP; however, it contained both sizeable tax increases and tax decreases, partially offsetting each other. Also, the quantitatively most important tax decreases were only temporary, whereas the tax increases were permanent. Thus, it seems justified to include the law in the narrative. Noteworthy measures included partial implementation of the income tax tariff 2005 as early as 2004, as well as reductions in home owner benefits.

Parts of the income tax tariff for 2005 that had been implemented by the *Gesetz zur Senkung der Steuersätze und zur Reform der Unternehmensbesteuerung (Steuersenkungsgesetz - StSenkG)* were put into effect ahead of schedule in 2004. Specifically, tax-free amounts and tax rates had to be adjusted in 2004 rather than in 2005. The measure was expected to change revenue by -8.93 bn € effective 2004. By former regulation in the *Zweites Gesetz zur Familienförderung*, the general household allowance was designed to be abolished in 2005. Under the new regulation, the household allowance was abolished in 2004, generating revenue of 0.49 bn € temporarily for 2004. Note that the original measures had an exogenous motivation, while the shift in timing was clearly endogenously motivated. The corresponding implementation effects of the original measures are set to zero, as otherwise it would appear that there was an exogenous tax shock in 2005, which is clearly not the case. This treatment is similar to the treatment of extensions and, indeed, the tax shocks in 2005 can be seen as an extension of the endogenous temporary tax shock implemented by the law at hand. See also the discussion under *Zweites Gesetz zur Familienförderung*, and *Gesetz zur Senkung der Steuersätze und zur Reform der Unternehmensbesteuerung (Steuersenkungsgesetz - StSenkG)*.

Changes in § 9 EigZulG reduced tax allowances for home ownership. The new rules were applicable at the beginning of 2004. As the *Eigenheimzulage* is paid for a total of eight consecutive years, the tax measure implies a series of steps in tax changes (see the discussion on the *Gesetz zur Abschaffung der Eigenheimzulage*). The impact over a cohort of eight years is given as 2.525 bn € in the *Finanzbericht*, distributed over a series of eight tax shocks, resulting in a sequence of shocks at the beginning of 2004, 2005, 2006, 2007, 2008, 2009, and 2010, each worth 0.316 bn €. The *Haushaltsbegleitgesetz 2004* also changed depreciation rules, with an expected revenue impact of 2.495 bn € effective 2004. In § 9a EStG, the standard deduction for tax allowable expenses was reduced to 920 €. The annualized expected revenue impact is 0.39 bn €, effective with the beginning of 2004. The law also reduced tax allowances for commuting expenses, which was expected to raise 1.11 bn € effective in 2004. The law contained several other tax measures, all of which were associated with only very minor revenue impacts, sometimes as small as 2 m €. Coding of these measures matches that of the discussed measures, but for the sake of brevity, detailed discussion is omitted.

At the time of the law's passage, the economy had had only sluggish growth for almost three consecutive years, yet, at the same time, the budget was perceived to have a high structural deficit. Reflecting this state of affairs, the statement on the introduction of the bill suggests that the law was intended to consolidate the budget, while providing a business cycle stimulus. Sorting the actual tax measures between these two motivations is straightforward as the only countercyclical measures of the law were the partial shift of the income tax tariff from 2005 to 2004, and the related shift in the timing of abolishing the general household allowance. This was also clearly stated by Mr. Eichel, Federal Minister of Finance, in the first reading of the law. Shifting abolishment of the household allowance to 2004 was clearly justified in the opening statement on the bill as related to the shift in the income tax tariff; hence, the measure is given a countercyclical motivation. Other measures, when mentioned in the parliamentary debate, were unambiguously associated with consolidation motives.

<sup>15</sup> BGBl. 2003, 68, pp. 3076–3092.

Accordingly, the changes related to the income tax tariff and to the general household allowance are treated as a countercyclical measure. All other measures are treated as driven by consolidation motives.

Within the legislative process, the law was substantially altered in the mediation committee. Most importantly, the committee suggested reducing rather than abolishing home owner benefits. Also, it suggested only partial implementation of the income tax tariff for 2005 in 2004.

#### **Gesetz zur Neuordnung der einkommensteuerrechtlichen Behandlung von Altersvorsorgeaufwendungen<sup>16</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
12/09/2003 (S: -3.68 bn €)	12/12/2003	04/28/2004 (S: -1.215 bn €)	04/29/2004
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
05/14/2004	05/26/2004	05/28/2004	06/11/2004
<b>Publication</b>	<b>Implementation</b>		
07/09/2004 (S: -4.895 bn €)	01/01/2005 (S: 0.27 bn €)		
	01/01/2006 (S: -1.38 bn €)		
	01/01/2007 (S: -0.985 bn €)		
	01/01/2008 (S: -1.005 bn €)		
	01/01/2009 (S: -0.9 bn €)		
	01/01/2010 (S: -0.895 bn €)		

The law was concerned with reforming the tax treatment of retirement provisions, in essence expanding tax benefits, thus resulting in lower revenue. The primary motive behind the changes was demands by the constitutional court. Formally, the law does not meet the threshold of an announced revenue impact of 0.1 percent of GDP. However, its budgetary effects increased substantially over the years, warranting coverage of it here. The step-wise increase in tax allowances for retirement savings is not adequately reflected in the full implementation effect given in the *Finanzbericht*.

The quantitatively most important measures of the law were related to allowances for retirement savings. In essence, the law expanded allowances for retirement savings in a series of annual steps beginning in 2005. The revenue forecast in our official sources does not allow quantifying the effects of each step individually. However, the given budgetary effects for the years 2005 to 2010 are a good proxy for the revenue effects. Accordingly, the measure implemented a shock of -0.925 bn € in 2005, of -1.38 bn € in 2006, of -0.985 bn € in 2007, of -1.005 bn € in 2008, of -0.9 bn € in 2009, and of -0.895 bn € in 2010. Additionally, income from life annuities such as provided by the statutory pension insurance system was made subject to income taxation, resulting in 50 percent of newly allotted pensions being taxed in 2005. This number is designed to increase in annual steps until it reaches 100 percent in 2040. Strictly speaking, the measure introduced a series of revenue shocks until 2040. However, except for the change in 2005, the step-wise changes seem minor. The tax measure is hence coded as a permanent shock of 1.5 bn € in 2005. The law contained several other measures of minor importance. First, the law exempted contributions to certain pension schemes from taxation. This changed revenues by -0.28 bn € effective 2005. The standard income deduction for pensioners' expenses was reduced effective at the beginning of 2005, thereby changing revenues by 0.22 bn €. The law contained other measures of a technical nature that changed tax revenues by -0.245 bn € at the beginning of 2005.

The constitutional court had demanded reform of the tax treatment of retirement provisions. Specifically, the quantitatively important parts of the law are designed to meet this demand by the constitutional court. The parliamentary debate did not actually mention any other motives, although a somewhat stronger emphasis was put on the social-political aspects of the reform. The law was motivated by structural objectives.

Within the legislative process, the law was altered in technical detail due to suggestions by the leading parliamentary committee. No change in the primary motivation was evident. In total, the law corresponds to an exogenous shock of -4.895 € to be implemented at various dates between 2005 and 2010.

<sup>16</sup> BGBl. 2004, 33, pp. 1427–1447.

### Gesetz zur Änderung des Tabaksteuergesetzes und anderer Verbrauchsteuergesetze<sup>17</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
07/01/2003 (C: 2.508 bn €)	07/03/2003	10/15/2003	10/17/2003
Bundesrat	Vermittlungsausschuss	Bundestag	Bundesrat
11/07/2003	12/16/2003 (C: ? bn €)	12/19/2003	12/19/2003
Publication	Implementation		
12/29/2003 (C: 2.508 bn €)	03/01/2004 (C: 0.836 bn €)		
	12/01/2004 (C: 0.836 bn €)		
	09/01/2005 (C: 0.836 bn €)		

The law increased tobacco taxes in three equal-sized steps, effective March 2004, December 2004, and September 2005. The total annualized revenue impact of the law was given as 2.508 bn €, which, distributed equally over the three steps, produced an effect of 0.836 bn € per step.

In the statement on the introduction of the bill it was stated that the additional revenues should be use to finance a block grant to the social insurance institutions. However, there is no evidence whether the block grant was related to changes in social insurance spending or to social insurance contribution rates. Rather, the financial burden was merely shifted from the social insurance institutions to the general government. Following this interpretation, the law was not spending driven, but related to general budgetary concerns. In the parliamentary debate, the law received little to no attention. The motivation behind the law was consolidation.

The law was altered during the legislative process, especially in the mediation committee, which suggested changes to the timing and the size of the tax rate change. Unfortunately, the available database does not allow constructing the revenue effect of the changes within the legislative process. Taken together, the law corresponded to an exogenous shock of 2.508 bn € to be implemented in three steps in 2004 and 2005.

### Gesetz zur Änderung steuerrechtlicher Vorschriften und zur Errichtung eines Fonds "Aufbauhilfe" (Flutopfersolidaritätsgesetz)<sup>18</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
08/26/2002 (SD: 7.097 bn €)	08/29/2002	09/10/2002	09/12/2002
Bundesrat	Publication	Implementation	
09/13/2002	09/20/2002 (SD: 7.097 bn €)	01/01/2003 (SD: 1.187 bn €)	

In August 2008, some parts of Germany were affected by a huge flood that caused devastating damages. This law temporarily raised taxes in order to pay for alleviating the consequences of the flood.

The law delayed an already proposed tax cut for 2003 to 2004, raising 6.45 bn €. Originally, the tax cut was proposed in the *Gesetz zur Senkung der Steuersätze und zur Reform der Unternehmensbesteuerung (Steuersenkungsgesetz - StSenkG)*. While the shift in timing was endogenous, the original measure had been exogenous. Or, in different words, the measure is a temporary endogenous tax shock exactly offsetting the permanent exogenous tax shock in 2003. As no tax change in 2003 actually occurred, the implementation effect of the temporary measure is set to zero. Also, while tax revenue did indeed change in 2004, it is no longer clear that the timing of the measure was exogenous. Accordingly, the implementation effect of the original measure from the *Steuersenkungsgesetz* is set to zero as well. Originally, the general household allowances were designed to be reduced in 2003 due to regulations of the *Zweites Gesetz zur Familienförderung*. This was shifted to 2004, affecting revenues by -0.405 bn €. For reasons similar to those just mentioned, the implementation effect of both measures is set to zero. The same logic applies to technical changes in the income tax code originally implemented by the *Steuersenkungsgesetz*, affecting revenues by -0.135 bn €. The tax rate on corporate income was increased by 1.5% for 2003, raising 1.187 bn € on an annual level.

In the statement on the introduction of the bill, it was stated that the flood had caused large damages and additional funds were needed to finance help and compensation. Specifically, the additional funds were supposed to be used as loans to affected people as well as for repairs to infrastructure. In fact, tax revenues were explicitly earmarked for expenditures related to the flood. The law was spending driven.

Within the legislative process, the law did not experience any substantial alternations. In total, the law raised 7.097 bn € at the beginning of 2003.

<sup>17</sup> BGBl. 2003, 66, pp. 2924–2927.

<sup>18</sup> BGBl. 2002, 67, pp. 3651–3653.

## Zweites Gesetz für moderne Dienstleistungen am Arbeitsmarkt<sup>19</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
11/05/2002	11/07/2002	11/13/2002 (S: -0.96 bn €)	11/15/2002
Bundesrat	Vermittlungsausschuss	Bundestag	Bundesrat
11/29/2002	12/17/2002 (S: -0.615 bn €)	12/19/2002	12/20/2002
Publication	Implementation		
12/30/2002 (S: -1.575 bn €)	01/01/2003 (S: -0.96 bn €) 04/01/2003 (S: -0.615 bn €)		

The law does not qualify as important according to the 0.1% threshold, but it had two well-defined measures related to insignificant and household employment that changed revenues by -1.46 bn €. In total, the law had an announcement effect of 0.07% of GDP. It hence seems warranted to include it here. In addition of the tax measures, the law contained a multitude of regulatory changes related to employment.

The law's quantitatively most important measure was the introduction, in § 35a Sec. 2 EStG, of allowances for the wage component of household services. The measure was expected to change tax revenues by -0.85 bn €, effective 2003. Related measures in § 35a Sec. 1 EStG were expected to change tax revenues by -0.11 bn € effective 2003. The law further changed regulations on insignificant employment in § 40a Sec. 2 EStG, with an expected revenue impact of -0.615 bn € effective April 1, 2003. All measures were permanent.

None of the measures discussed here were included in the original draft of the bill; the changes were introduced by the leading parliamentary committee and later adjusted and expanded by the mediation committee. The leading parliamentary committee's report stated that the changes in § 35a Sec. 2 EStG were designed to fight moonlighting in the area of household employment, as well as to give incentives for creating employment opportunities in private households. The changes in § 40a EStG had been described as rather technical in the statement on the introduction of the bill; however, they were substantially expanded in the mediation committee. Judging from the debate in the *Bundesrat*, it appears that the changes in § 40a EStG were associated with a fight against moonlighting as well as with creating employment opportunities. In general, the tax measures were part of a larger reform project concerned with restructuring employment regulations. Hence, classifying the law as structural seems warranted.

Disentangling the revenue changes between the mediation committee and parliamentary committee is difficult in this case; hence, the pragmatic decision was made to apportion the changes in § 35a EStG to the parliamentary committee, and the changes in § 40a EStG to the *Vermittlungsausschuss*. This apportionment reflects the body mainly responsibility for the respective changes. Taken together, the law represents a tax shock of -1.575 bn € in January and April 2003.

## Gesetz zum Abbau von Steuervergünstigungen und Ausnahmeregelungen (Steuervergünstigungsabbaugesetz - StVergAbG)<sup>20</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
28/11/2002 (C: 19.078 bn €)	01/16/2003	02/19/2003 (C: -1.407 bn €)	02/21/2003
Bundesrat	Vermittlungsausschuss	Bundestag	Bundesrat
03/14/2003	04/10/2003 (C: -13.77 bn €)	04/11/2003	04/11/2003
Publication	Implementation		
05/20/2003 (C: 3.9 bn €)	05/20/2003 (C: 4.4 bn €) 01/01/2006 (C: -0.5 bn €)		

In 2000, Germany switched from the tax credit method to "50 percent taxation" (*Halbeinkünfteverfahren*). Under the tax credit method, retained corporate income had been taxed at a rate of 40 percent, potentially reduced to 30 percent in case income was distributed. Taxes paid on distributed earnings were then credited at the individual level. Under the new regulation, the individual was no longer granted a tax credit, but instead had to pay taxes on only 50 percent of income derived from corporations. As a consequence of the transition from the tax credit method to "50 percent taxation," there was no longer any reduction of the tax rate on distributed income, thereby discriminating against retained earnings and hence requiring a transition rule. Indeed, corporations had been allowed to reduce their corporate tax burden in the transition period by up to one-sixth of distributed profits, provided they had sufficient allowances from the time period of the tax credit method. However, due to the changes to § 37 sec. 2a KStG, corporations were not allowed to reduce their corporate tax burden for distributed profits between November 4, 2003 and the end of 2005. The measure shifts the timing of revenues, but not necessarily the total tax burden, over the whole transition period. By later legislation in the *Gesetz über steuerliche Begleitmaßnahmen zur Einführung der*

<sup>19</sup> BGBl. 2002, 87, pp. 4621–4636.

<sup>20</sup> BGBl. 2003, 19, pp. 660–667.

*Europäischen Gesellschaft und zur Änderung weiterer steuerrechtlicher Vorschriften*, the total remaining allowances from the tax credit period as of December 2006 were to be distributed equally over the time remaining until the end of 2017.

The *Finanzbericht* gave a budgetary effect of 2 bn € for the measure in 2004 and 2005, which gives a good idea of the annualized impact related to the shift in timing. As the measure is retroactive, I choose the date of publication as the implementation date. The total budgetary effect of the measure is given as 5.5 bn € in the *Finanzbericht*, which leads to lower tax revenues in the period 2006 to 2017 of the same size. I have no information on the timing over the years 2006 to 2017, so I decided to distribute it equally over the 11-year period. This is in accord with the later regulation that allowances should be equally distributed over the remaining part of the transition period. This gives a shock of -0.5 bn € in 2006, to be offset by an equal-size shock outside the time horizon of this narrative.

The law also changed the technical regulation of fiscal unities in § 14 KStG. The measure was expected to raise 0.1 bn €, retroactive for 2003. The law further abolished certain regulations in § 14 sec. 2 KStG that had allowed companies jointly holding a subsidiary to form a fiscal unity. The measure was expected to change revenues by 1.2 bn €. The measure was retroactive for 2003; hence, the date of publication is chosen as the implementation date. Changes in § 15 sec. 4 EStG were designed to limit loss offsetting in silent partnerships. Specifically, these losses now could only offset earnings from the same source of the previous year or of later years. The measure was expected to raise 0.3 bn € on an annual basis effective 2003. Changes in the general tax code were concerned with increasing transparency in matters of transfer pricing. Specifically, § 90 sec. 3 AO required companies to document explicitly how transfer prices were constructed, thus allowing tax offices to approve (or not) the appropriateness of transfer prices. The measure was expected to raise 0.6 bn € on an annual basis effective at the beginning of 2003. The law also amended the international tax relations law (*Außensteuergesetz*). Sections 7 to 14 AStG were concerned with the taxation of income derived from foreign subsidiaries. Previously, such income was to some degree taxable in Germany in the circumstance that the foreign taxes paid were “low.” Under the new regulation, double tax treaties no longer generally excluded income derived from foreign subsidiaries. The measure was expected to raise 0.1 bn € on an annual basis, effective 2003. Given its retroactive nature, the measure was timed at the date of publication. Changes in § 8a GewStG were intended to close loopholes for local business taxes. Some municipalities had very low local business tax rates, which lowered total local business tax revenues, especially in larger municipalities. The new § 8a GewStG mandated that operating profits of subsidiary companies are added to the operating profits of the holding body in the event the local business tax rates of subsidiary companies are “low.” The measure was expected to raise 0.1 bn € effective 2003.

Based on the statement on the introduction of the bill, the law intended to generate more revenue by closing loopholes and result in a more efficient and just tax system. Specifically, it was argued that the tax system had too many exemptions and put too much emphasis on creating behavioral incentives, leading to an overly complex tax system. The statement on the introduction of the bill claimed that this has damaged transparency and equity of the tax system, leading to resentment about the tax system, and to misallocations. It was also stated that an overly complex tax system imposes high bureaucratic costs. Given this background, the law was designed to close loopholes and simplify the tax system. It was also noted that the law was designed to create additional revenue. The only difficulty arising in classifying the motivation behind this law is whether the primary objective was to increase revenues or, instead, to restructure the tax system. Mr. Eichel, Finance Minister at that time, reported in the parliamentary debate that the general budget had a structural deficit and that additional revenues were needed. Based on the parliamentary debate, the law seems best categorized as driven by consolidation, yet an alternative motivation may have been structural.

The law changed substantially throughout the legislative process, but no alternation in motivation is evident. In fact, most of the original content of the law did not survive the mediation committee.

#### **Gesetz zur Fortentwicklung der ökologischen Steuerreform<sup>21</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
11/05/2002 (S: 1.62 bn €)	11/07/2002	11/13/2002	11/14/2002
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundesrat</b>	<b>Bundestag</b>
11/29/2002	12/06/2002	12/20/2002	12/20/2002
<b>Publication</b>	<b>Implementation</b>		
12/30/2002 (S: 1.62 bn €)	01/01/2003 (S: 1.45 bn €) 01/01/2007 (S: 0.2 bn €)		

The law does not qualify as important according to the 0.1% threshold. However, it consisted largely of one important tax measure generating 1 bn € in additional revenue, which is large enough to warrant the law’s inclusion in the narrative.

<sup>21</sup> BGBl. 2002, 87, pp. 4602–4606.

The law's quantitatively most important measure was the increase in tax rates on gas and fuel, generating 1.02 bn € effective 2003. The law also extended tax benefits for greenhouses until the end of 2004, which changed revenues by -0.03 bn € effective with the beginning of 2003. As usual, the effect of the extension does not show up in the implementation volume of the tax law. Tax benefits for manufacturing and agriculture were reduced. This raised 0.38 bn € beginning in 2003. Finally, the law reduced tax benefits for the use of nighttime-produced electricity, effective 2003, lowering tax revenues by 0.05 bn €. These tax benefits were fully abolished at the beginning of 2007, generating additional 0.2 bn € in revenues.

The law was part of the so-called ecological tax reform, started with the *Gesetz zum Einstieg in die ökologische Steuerreform* and later continued in the *Gesetz zur Fortführung der ökologischen Steuerreform*. Besides creating behavioral incentives for economical consumption of scarce resources, the program was intended to reduce labor costs by lowering social insurance contributions and hence improving structural aspects of the economy. Specifically, reductions in labor cost were expected to increase employment. And, indeed, the first law of the program was closely related to reductions in social insurance contribution rates, financed by block grants from the government. However, revenues from the ecological tax reform were not explicitly earmarked. There is also evidence that later increases in taxes on petroleum and electricity were driven by general consolidation motives, providing evidence that other measures of the program were not necessarily spending driven. Indeed, the law at hand largely focused on reforming tax benefits, with no reference to any specific changes in social insurance contribution rates. Specifically, the statement on the introduction of the bill reported that the original program contained exemptions for certain companies, with the intention of giving them more time to adjust to increased energy taxes. The law at hand removed these exemptions. Ecological motives dominated the parliamentary debate. The law at hand reforms energy taxes oriented toward inducing incentives for ecological behavior and therefore is structural.

Within the legislative process, the law did not experience any significant alternations.

#### Zweites Gesetz zur Familienförderung<sup>22</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
05/29/2001 (S: -2.374 bn €)	06/01/2001	07/04/2001	07/06/2001
Bundesrat	Publication	Implementation	
07/13/2001	08/21/2001 (S: -2.374 bn €)	01/01/2002 (S: -3.047 bn €)	

The law was primarily concerned with expanding child benefits, off set by a set of financing measures.

Child benefits were increased effective 2002, changing revenues by -3.042 bn €. Tax-free limits and tax allowances related to children in § 32 Sec. 6 EStG and § 33 c EStG were changed, together affecting tax revenues by -0.795 bn € effective 2002. On the financing side, the general household allowance (§ 32 Sec. 7 EStG) was reduced in three steps, one each at the beginning of 2002, 2003, and 2005. The budgetary figures enable assigning a effect to each step. Revenues changed by 0.255 bn € in 2002, by 0.369 bn € in 2003, and by 0.304 bn € in 2005. This measure was reformed substantially by later regulation. The *Flutopfersolidaritätsgesetz* moved the step in 2003 to 2004, and the *Haushaltsbegleitgesetz 2004* implemented the 2005 step in 2004. As discussed in detail in the sections covering those laws, the motivations for the shift in timing was endogenous and, accordingly, the implementation effect of the measures is set to zero. There were further adjustments in allowances, raising revenues by 0.535 bn € in 2002.

Parts of the law were designed to comply with demands by the constitutional court to change how educational cost are accounted for. The general expansion in tax benefits for children also seems related to rulings of the constitutional court, as pointed out in the parliamentary debate. In the statement on the introduction of the bill, it was argued that general demographic developments require additional efforts in family promotion. Of course, the usual social-political justifications were also given. Changes on the financing side of the law were in some cases justified by structural reasons related to employment and distribution policies. In any case, financing measures seem closely related to the expansions in family benefits and hence are assigned the same motivation as the main law. Reading the parliamentary debate does not change these basic interpretations. The law was driven by structural motives.

Within the legislative process, the law was not been changed substantially.

<sup>22</sup> BGBl. 2001, 42, pp. 2074–2080.

### Gesetz zur Bekämpfung von Steuerverkürzungen bei der Umsatzsteuer und zur Änderung anderer Steuergesetze (Steuerverkürzungsbekämpfungsgesetz - StVBG)<sup>23</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
08/17/2001 (S: ? bn €)	09/25/2001	11/20/2001	11/27/2001
Bundesrat	Publication	Implementation	
11/30/2001	12/27/2001 (S: ? bn €)	01/01/2002 (S: ? bn €)	

The law's main objective was to reduce value-added tax fraud and, especially, missing trader intra-community fraud by introducing new supervisory powers and making organized value-added tax fraud a statutory crime. Also, companies knowing of missing trader intra-community fraud were made liable for missing value-added taxes and newly founded companies were subjected to additional supervision. As is often the case with such changes, the revenue forecast given in the official sources is highly suspicious. Still, the *Finanzbericht* reports an annualized impact of 2.5 bn €, which, as in the *Gesetz zur Förderung der Steuerehrlichkeit*, is set to zero. Most measures of the law are implemented at the beginning of 2002 and the implementation date is chosen accordingly.

The statement on the introduction of the bill explicitly mentioned organized value-added tax fraud as the law's primary motivation. It was also mentioned that the value-added tax rate is an important revenue source and needs to be protected from fraud, which was also supposed to be in the interest of honest companies. In the parliamentary debate, the government followed the same line of reasoning. Given the emphasis on making the tax system more efficient and just, the law is categorized as structural.

Within the legislative process, the law was altered due to suggestions by the leading parliamentary committee. These changes were not associated with changes in the revenue forecast or in motivation.

### Gesetz zur Finanzierung der Terrorbekämpfung<sup>24</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
10/09/2001 (SD: 2.09 bn €)	10/12/2001	11/07/2001 (SD: -0.02 bn €)	11/09/2001
Bundesrat	Publication	Implementation	
11/30/2001	12/14/2001 (SD: 2.07 bn €)	01/01/2002 (SD: 1.525 bn €) 01/01/2003 (SD: 0.545 bn €)	

The law increased the insurance tax and the tobacco tax. Additional revenue was supposed to finance expenditures related to combating international terrorism. The prospective revenue impact of the law amounts to around 0.07 percent of GDP, not enough to pass the 0.1 percent of GDP threshold, but as it consisted of only a few well-defined shocks, including it seems justified.

The general insurance tax rate was increased from 15 to 16 percent and the fire insurance tax rate from 10 to 11 percent, thereby generating 0.525 bn € in additional revenues on an annual basis effective at the beginning of 2002. The law increases the tobacco tax in two steps, the first at the beginning of 2002 and the second in 2003. Deriving a revenue forecast for each step individually is complicated by the fact that the *Finanzbericht* reported only the combined revenue impact. Based on the figures for budgetary years, I arrive at a revenue forecast of 1 bn € for the first step and 0.545 bn € for the second step.

In the statement on the introduction of the bill it was clearly stated that additional funds for combating international terrorism were needed after 9/11. In the parliamentary debate, it was mentioned that an additional 3 billion would be spent on army, police, and international development aid. The increase in taxes introduced by this law were specifically designed to finance these additional expenditures. One problem with this interpretation is that policymakers regularly find noble reasons for tax increases, with the intention of deceiving the general public as to their true purpose. This was exactly the argument brought forward by the opposition in the parliamentary debate, during which it was asserted that tax increases were really needed to cover budget deficits. In assessing the primary motivation of the law, I follow the government's official line.

The increase in the tobacco tax was originally designed to be implemented in only one step. However, the leading parliamentary committee suggested increasing the tax in two steps, while leaving other parts of the law broadly unchanged. Taken together, the law corresponds to a tax change of 2.025 bn € in 2002 and 2003.

<sup>23</sup> BGBl. 2001, 74, pp. 3922–3925.

<sup>24</sup> BGBl. 2001, 66, pp. 3436–3437.

**Gesetz zur Reform der gesetzlichen Rentenversicherung und zur Förderung eines kapitalgedeckten Altersvorsorgevermögens (Altersvermögensgesetz - AVmG)<sup>25</sup>**

Draft	1st Reading	Committee	2nd & 3rd Reading
11/14/2000 (S: -10.099 bn €)	11/16/2000	01/24/2001 (S: -0.46 bn €)	01/26/2001
Bundesrat	Vermittlungsausschuss	Bundestag	Bundesrat
02/16/2001	05/09/2001 (S: -0.143 bn €)	05/11/2001	05/11/2001
Publication	Implementation		
06/29/2001 (S: -10.702 bn €)	06/29/2001 (S: -0.076 bn €)		
	01/01/2002 (S: -3.062 bn €)		
	01/01/2004 (S: -2.538 bn €)		
	01/01/2006 (S: -2.442 bn €)		
	01/01/2008 (S: -2.548 bn €)		

The law was part of a large effort to reform Germany's pension system and introduced the so-called *Riester-Rente*, which is a scheme granting direct transfers for retirement savings.

The law's main measure was the step-wise introduction of tax benefits for private savings for old-age provisions. Basically, the new regulations allowed deducting—up to a certain limit—expenses for old-age provisions from the tax base. The government also pays a special surcharge on specific savings for old-age provisions. The measure was implemented in four steps at the beginning of 2002, 2004, 2006, and 2008. The reported budgetary effects in the *Finanzbericht* allow computing a series of tax shocks. This gives a shock of -2.153 bn € in 2002, -2.538 bn € in 2004, -2.442 bn € in 2006, and -2.584 bn € in 2008.

The law also had other, rather technical measures. In some specific cases, the law allowed using savings benefited by the government surcharge for buying homes. The revenue effect of that measure was -0.143 bn € effective 2002. Extant regulations had allowed companies to deduct certain expenses for pension funds once the beneficiary passed the age of 30. This threshold was reduced to 28, in effect allowing for larger deduction of business expenses. The measure applies to all new cases beginning with 2001; hence, given the retroactive nature, the date of publication is chosen as the implementation date. My sources report an annualized revenue impact of -0.076 bn €. The law exempted from income taxation employer contributions to pension funds, thereby changing revenues by -0.256 bn € effective 2002. Beginning in 2002, employees were granted the right to demand that their employer invest part of their earnings in company pension schemes. This had an annualized impact of -0.199 bn € on tax revenues. The law also allowed reclassifying book reserve arrangements for pensions as pension funds, which was likely to affect tax revenues by -0.204 bn € after full implementation. In the official revenue forecast it was assumed that making retirement savings more attractive would result in a substitution away from conventional forms of savings, thereby generating an additional loss in taxes on capital profits. The revenue effect was given as -0.107 bn € after full implementation. The latter two measures are effective 2002.

Identifying the motivation behind the law is straightforward. Policymakers were concerned about the sustainability of the public pension system and hence wanted to strengthen private retirement savings. This was also intended to help stabilize social insurance contribution rates, which otherwise would need to rise in order to finance higher pensions. The law is concerned with providing tax incentives for private pension schemes. It is clear that the motivation was structural.

Within the legislative process, the law was augmented by additional tax measures due to suggestions by the leading parliamentary committee and the *Vermittlungsausschuss*. No change in motivation was evident.

**Gesetz zur Fortführung der ökologischen Steuerreform<sup>26</sup>**

Draft	1st Reading	Committee	2nd & 3rd Reading
08/27/1999 (C: 10.635 bn €)	09/09/1999	11/09/1999	11/11/1999
Bundesrat	Publication	Implementation	
11/26/1999	12/22/1999 (C: 10.635 bn €)	01/01/2000 (C: 2.659 bn €)	
		01/01/2001 (C: 2.659 bn €)	
		01/01/2002 (C: 2.659 bn €)	
		01/01/2003 (C: 2.659 bn €)	

The law increased the petroleum tax, as well as the electricity tax, in a series of steps at the beginning of 2000, 2001, 2002, and 2003. The *Finanzbericht* reported a revenue effect of 2.659 bn € for the first step. As taxes are increased in equally-sized steps, this is a good proxy

<sup>25</sup> BGBl. 2001, 31, pp. 1310–1343.

<sup>26</sup> BGBl. 1999, 56, pp. 2432–2440.

for the revenue impact of the following steps. Also note that the series of shocks constructed thereby is similar to the budgetary figures given in the *Finanzbericht* for the years 2000 to 2003.

The law is part of the ecological tax reform, a centerpiece of the political program of the Social-Democratic and Green Party coalition government. The program started with the *Gesetz zum Einstieg in die ökologische Steuerreform*, which raised taxes on energy consumption to finance reductions in social insurance contribution rates. The program combined the intention of creating incentives for ecological behavior with an effort at reducing labor cost and hence stimulating employment. The present law further increased taxes on energy consumption, generating up to 0.52 percent of GDP in revenues. In the statement on the introduction of the bill, it was stated that additional revenues are to be used to finance a block grant to the government pension program, thereby financing future reductions in social insurance contribution rates. And, indeed, the draft of the *Gesetz zur Reform der gesetzlichen Rentenversicherung und zur Förderung eines kapitalgedeckten Altersvorsorgevermögens (Altersvermögensgesetz - AVmG)* contains a large reform of the pension system, leading to lower social insurance contribution rates in the long run financed partially by larger government grants. Still, the opposition argued that the additional revenues generated by the law at hand were much larger than the increase in government grants, and hence were used to finance general deficits. Additional revenues were not earmarked, nor is it clear that the additional revenues generated are directly linked to changes in social insurance contribution rates. In any case, the tax shocks were not directly related to immediate reductions in contribution rates; rather, the argument was that additional block grants avoid future increases. I thus classify the law as being driven by consolidation motives.

Within the legislative process, the core of the law remained broadly unchanged. No change in the revenue impact or in motivation is evident.

#### **Gesetz zur Familienförderung<sup>27</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
08/27/1999 (S: -2.817 bn €)	09/09/1999	11/09/1999 (S: -0.460 bn €)	11/12/1999
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/26/1999	12/15/1999 (S: -0.087 bn €)	12/16/1999	12/17/1999
<b>Publication</b>	<b>Implementation</b>		
12/28/1999 (S: -3.364 bn €)	12/28/1999 (S: -0.547 bn €)		
	01/01/2000 (S: -2.817 bn €)		

The law was concerned with reforming tax benefits related to the cost of raising children. Basically, it raised child benefits and introduced allowances for child-care costs. The primary motivation was a November 10, 1998 ruling by the constitutional court.

Direct transfer payment of child benefits was increased from 250 DEM to 270 DEM per month effective 2000. The measure was expected to change revenues by -1.943 bn € on an annual basis. The law introduced an allowance for child-care costs of 1,512 DEM per child and parent effective with 2000, thereby changing tax revenues by -0.971 bn € on an annual basis. An additional allowance for handicapped children changed revenues by -0.01 bn €. The introduction of allowances for child-care costs was a substitute for previous measures, thereby affecting tax revenues by 0.107 bn € per annum. Finally, the law changed tax allowances for children retroactive for the years 1983 to 1995. This produced a one-time revenue effect of -0.547 bn €.

Identifying the motivation of this legislation is straightforward. In the statement on the introduction of the bill, it is clearly stated that the reform was needed to comply with demands of the constitutional court. In the parliamentary debate, the law was relatively uncontroversial. In addition to references to the aforementioned ruling by the constitutional court, social and family political reasons were mentioned. It was clear that the motivation for the law was structural.

Within the legislative process, the law was supplemented with the retroactive tax allowances for children as discussed above. No alteration in motivation was evident.

<sup>27</sup> BGBl. 1999, 58, pp. 2552–2560.

### **Gesetz zur Bereinigung von steuerlichen Vorschriften (Steuerbereinigungsgesetz 1999 - StBereinG 1999)<sup>28</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
08/27/1998 (S: -0.843 bn €)	09/24/1998	11/10/1998 (S: -0.35 bn €)	11/12/1998
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/26/1998	12/15/1998 (S: -0.534 bn €)	12/16/1998	12/17/1998
<b>Publication</b>	<b>Implementation</b>		
12/29/1999 (S: -1.727 bn €)	12/29/1999 (S: -1.195 bn €)		
	01/01/2000 (S: -0.532 bn €)		

The law contained a series of rather technical changes made with the general intention of increasing the efficiency of the tax system. It fails to qualify as important according to the 0.1 percent of GDP threshold, yet is included in the narrative because some of its measures represent well-defined tax shocks of considerable importance.

Tax exemptions on income derived from part-time activity as a coach, educator, carer, and other related occupations were expanded. The measure came into effect at the beginning of 2000 and was expected to change revenues by -0.378 bn €. Changes in § 4 Sec. 2 EStG allowed changing balance sheets retroactively, affecting revenues by -0.048 bn € on an annual basis. The measure was retroactive; hence the date of publication is chosen as the implementation date. Section 4 Sec. 4a EStG limits interest cost deductions in case withdrawals exceed profits and deposits. The law at hand changed technical aspects of the regulation, thereby lowering tax revenues by -0.305 bn €. The measure was retroactive. Changes in § 39a EStG allowed using tax-free amounts for more than one occupation. This induced a one-time revenue effect of -0.153 bn € in 2000. Section 50a Sec. 7 EStG was removed. This section had allowed the tax office to require certain employees to take part in the system of tax deduction with limited tax liability. The removal was retrospective and changed revenues by -0.097 bn €. Under new regulation, 5 instead of 15 percent of dividends obtained from shares in foreign corporations are subject to corporate taxation. The measure was retroactive for 1999 and changed revenues by -0.767 bn €. Finally, the law implemented technical changes related to interest on tax liabilities, generating 0.021 bn € in revenues. The measure was retroactive. Also note that the law contained adjustments to the *Investitionszulagengesetz 1999* that had been demanded by the European Commission. Prospective effects on tax revenues, however, were small and as our sources do not allow establishing precisely how revenues were affected and hence make it difficult to time the tax shock, the measure is omitted.

According to the statement on the introduction of the bill, the law was concerned with reforming technical aspects of the tax code. It was an attempt to close tax loopholes, simplify the tax code, and comply with recent EU regulations. In the parliamentary debate, no specific macroeconomic shocks were mentioned. Taken together, the law had a structural motivation.

Within the legislative process, the law was supplemented with additional tax measures. No change in the primary motivation was evident.

### **Gesetz zur Senkung der Steuersätze und zur Reform der Unternehmensbesteuerung (Steuersenkungsgesetz - StSenkG)<sup>29</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
02/14/2000 (S: -36.833 bn €)	02/18/2000	05/16/2000 (S: -0.412 bn €)	05/18/2000
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
06/09/2000	07/04/2000 (S: -5.438 bn €)	07/06/2000	07/14/2000
<b>Publication</b>	<b>Implementation</b>		
26/10/2000 (S: -42.683 bn €)	01/01/2001 (S: -13.935 bn €)		
	01/01/2002 (S: -4.627 bn €)		
	01/01/2005 (S: -8.444 bn €)		

The law implemented one of the most extensive tax reforms in the history of the Federal Republic of Germany. The law substantially reduced the income and corporate tax burdens, financed partially by broadening the tax base. Also of considerable interest was the substitution of the existing corporate tax imputation system by a 50 percent income taxation rule.

The *Steuersenkungsgesetz* considerably reduced the corporate tax burden. Before the tax reform, the corporate tax rate had been 40 percent on retained profits and 30 percent on distributed profits. Under the new regulation, the corporate tax rate was uniformly set to 25 percent effective 2001. The prospective annualized revenue impact of these changes was -8.153 bn €. The law instituted a switch from the existing corporate tax imputation system to a 50 percent income taxation rule. Under the tax imputation system, corporate taxes had been considered only a downpayment that was later credited at the individual level. The 50 percent income taxation rule specified that only 50

<sup>28</sup> BGBl. 1999, 59, pp. 2601–2623.

<sup>29</sup> BGBl. 2000, 46, pp. 1433–1466.

percent of dividends and certain taxable profits from trading corporate shares were subject to income taxation at the individual level. The prospected revenue impact of the changes was 2.549 bn €. Timing of the measure is complicated by the fact that the transition was smoothed across 2001 and 2002, a process that involved some very technical details of the taxation process. Still, the 50 percent taxation rule was partially applicable in 2001, leading me to choose this date as the implementation date. The law introduced extensive transition rules for the change from the tax imputation system to the 50 percent taxation rule. The primary reason for the necessity of such transition rules lay in the fact that under former regulation, taxes paid by corporations on retained profits were allowed to be deducted partially at later stages once profits were distributed. Indeed, the corporate tax rate on retained earnings had been 40 percent, whereas it had been 30 percent on distributed profits. Under the new system, where taxation was final, there was no place for the deduction of formerly paid taxes, implying that transition rules were required to protect tax credits earned by paying corporate taxes on retained earnings previously. The law specified rules under which corporations were allowed to reduce their corporate tax obligations. The transition period is very long-term oriented; hence, for practical reasons, no phase-out date is specified. The measure was implemented in 2001, leading to changes in revenues of -2.104 bn €.

The capital return tax was reduced from 25 to 20 percent, inducing a revenue change of -0.059 bn €. Technical changes in the taxation of fiscal unities induced revenue effects of -0.054 bn € effective 2001. Beginning with 2002, profits derived by corporations from selling shares of domestic corporations were no longer taxed, inducing a revenue change of -2.168 bn €. In the income tax code, the participation threshold for the taxation of profits derived from selling shares of corporations was decreased from 10 to 1 percent, in effect changing revenues by 0.128 bn € effective 2002. So-called speculation gains were also subject to the newly established 50 percent taxation rule, changing revenues by -0.593 bn € effective 2002. The law further specified the way local business taxes were to be deducted from income tax obligations, leading to changes in revenues of -2.431 bn € in 2001. The tax-free amount related to the sale of sole traders and partnerships was increased from 60,000 to 100,000 DEM effective 2001, leading to a change in revenue of -0.256 bn €. Technical changes related to the taxation of partnerships induced revenue effects of 0.041 bn € effective 2001. Stricter depreciation rules generated 8.718 bn € effective 2001.

Of considerable importance were changes in the income tax tariff. The income tax tariff that had originally been designed to be implemented 2002 in the *Steuerentlastungsgesetz 1999/2000/2002* was introduced 2001, thereby changing revenues by -14.234 bn € in 2001. Note that the implementation effect in the *Steuerentlastungsgesetz 1999/2000/2002* is set to zero; accordingly, the measure is treated as a permanent measure in 2001 and subsumed under the *Steuersenkungsgesetz*. Next, the income tax tariff was reformed in two steps, one in 2003, leading to revenue changes of -6.89 bn €, and one in 2005, inducing changes of -17.374 bn €. The step in 2003 was later endogenously shifted to 2004 by the *Flutopfersolidaritätsgesetz*. As the shift in timing was endogenous, it seems warranted to remove the tax shock and, accordingly, its implementation effect is set to zero. The step for 2005 was later partially brought forward to 2004. Again, the motivation behind the change in timing was endogenous. To remove the proportion of the tax shock for which timing is endogenous, the revenue forecast from the *Haushaltsbegleitgesetz 2004* is subtracted from the implementation effect of the law at hand, leaving an effect of -8.444 bn €. Technical changes in the income tax code, effective 2003, induced revenue changes of 0.143 bn €. However, the measure was later endogenously shifted to 2004 by the *Flutopfersolidaritätsgesetz*. As before, the implementation effect is set to zero.

The statement on the introduction of the bill postulated that the law will promote growth and employment by reducing the tax burden. It was explicitly stated that the law pushes the economy onto a different growth path. The reduction in the corporate tax rate and the top income tax rate was intended to improve Germany's international attractiveness and its competitiveness. More generally, tax reductions in income and corporate taxes were supposed to stimulate consumption, employment, and investment. An important part of the tax reform is the transition from a corporate tax imputation system to a 50 percent income taxation rule. The reform was partially driven by considerations of tax harmonization in the European Union. Indeed, the tax imputation system was problematic because foreign investors were often unable to reclaim corporate taxes in their home countries. As such, the tax imputation system may have violated EU regulation. The statement on the introduction of the bill reported that the imputation system had been very complex and associated with high bureaucratic costs. It was also mentioned that the 50 percent income taxation rule is less prone to tax evasion. The parliamentary debate accompanying the tax legislation was extensive, but basically followed the same line of reasoning. Specifically, no macroeconomic shocks were mentioned in the debate. Taken together, it is evident that the *Steuersenkungsgesetz* was driven by structural motives.

### Gesetz zur Ergänzung des Steuersenkungsgesetzes (Steuersenkungsergänzungsgesetz – StSenkErgG)<sup>30</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
08/18/2000 (S: -3.49 bn €)	10/12/2000	11/08/2000	11/10/2000
Bundesrat	Publication	Implementation	
12/01/2000	12/23/2000 (S: -3.49 bn €)	01/01/2001 (S: -1.079 bn €) 01/01/2005 (S: -2.411 bn €)	

The compromise between the government and the opposition that had been made during the legislative process of the *Steuersenkungsgesetz* stipulated two additional tax measures. The marginal top income tax rate was reduced by an additional point to 42 percent in 2005, leading to additional revenue effects of -2.411 bn €. Sales of businesses received a reduced tax rate once in the lifetime of an entrepreneur, inducing revenue changes of -1.079 bn €.

In principle, the law has the same motivation as the *Steuersenkungsgesetz* as it was part of that reform program. In the statement on the introduction of the bill, it was stated that the changes are specifically designed to promote medium-sized companies. In the parliamentary debate, this supplementation of the *Steuersenkungsgesetz* was always justified as being beneficial to mainly medium-sized companies. Accordingly, the law was motivated by structural objectives.

Within the legislative process, the law was not changed substantially. Taken together, the law adds a tax shock of -3.49 bn € implemented at 2001 and 2005.

### Steueränderungsgesetz 1998<sup>31</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
11/09/1998 (S: -1.504 bn €)	11/13/1998	12/08/1998	12/10/1998
Bundesrat	Publication	Implementation	
12/18/1998	12/23/1998 (S: -1.504 bn €)	01/01/1999 (S: -1.504 bn €)	

The law was originally introduced as part of the *Steuerentlastungsgesetz 1999/2000/2002*, but later became a separate law. Accordingly, the dates of the introduction of the bill, as well as of the first reading of the law, are taken from the *Steuerentlastungsgesetz 1999/2000/2002*. The law's regulations are essentially identical in form to those in the original draft of that law. Accordingly, no relevant changes in the prospective revenue impact of the measure occurred over the legislative history of the law.

The German tax code allows companies to form book reserves for pensions, thereby reducing profits and the tax burden. At the beginning of November 1998, new guidelines on how to calculate pension liabilities accounting for the increase in life expectancy were published. Accordingly, book reserves were allowed to be considerably higher, leading to reduced tax liabilities over a transition period. By law, companies need to build up the larger book reserves over a three-year period. The annualized revenue impact was given as -1.504 bn € in the *Finanzbericht*, effective 1999 and phased-out at the end of 2001.

The law was originally part of the *Steuerentlastungsgesetz 1999/2000/2002*, so it receives the same motivation as that law. From the report of the leading parliamentary committee and the discussion in parliament, it is also clear that the law was concerned with a necessary technical adjustment due to increased life expectancy. Hence, the motivation behind the law was structural in nature.

### Steuerentlastungsgesetz 1999<sup>32</sup>

Draft	1st Reading	Comittee	2nd & 3rd Reading
11/09/1998 (S: -3.633 bn €)	11/13/1998	12/02/1998	12/04/1998
Bundesrat	Publication	Implementation	
12/18/1998	12/23/1998 (S: -3.633 bn €)	01/01/1999 (S: -3.633 bn €)	

The law was originally introduced as part of the *Steuerentlastungsgesetz 1999/2000/2002*, but was later introduced as a separate law. Accordingly, the dates of the introduction of the bill, as well as of the first reading of the law, are taken from the *Steuerentlastungsgesetz 1999/2000/2002*. The law's regulations are essentially identical in form to those in the original draft of that law. Accordingly, no relevant changes in the prospective revenue impact of the measure occurred over the legislative history of the law.

The law increased child benefits from 220 DEM to 230 DEM, thereby changing revenues by -2.965 bn € effective 1999. Also, the starting income tax rate was reduced to 23.9 percent, effective at the beginning of 1999, thereby changing revenues by -0.667 bn €.

<sup>30</sup> BGBl. 2000, 57, pp. 1812–1814.

<sup>31</sup> BGBl. 1998, 84, pp. 3816–3817.

<sup>32</sup> BGBl. 1998, 84, pp. 3779–3815.

Since the law was originally part of the *Steuerentlastungsgesetz 1999/2000/2002*, it's assigned motivation is the same as that law's. In the parliamentary debate, the two measures introduced by the law at hand received relatively little attention. The increase in child benefits was seen as a good idea by all parties, and the only discussion related to the question of how to finance them. It seems uncontroversial that the expansion in child benefits was driven by family political reasons. The second measure of the law was the reduction of the starting income tax rate. In the parliamentary debate, this was sometimes justified as necessary in order to comply with the principle of vertical tax justice. The reduction in the starting tax rate was also justified by sociopolitical reasons, as it benefited mostly low-income taxpayers. In any case, neither measure seemed related to any specific macroeconomic shock. Timing considerations were responsible for removing this law from the original proposal, as the government wanted to implement these measures in 1999. Altogether, it seems uncontroversial to categorize the law as being driven by structural objectives.

### Steuerentlastungsgesetz 1999/2000/2002<sup>33</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
11/09/1998 (S: -4.408 bn €)	11/13/1998	03/02/1999 (S: -0.353 bn €)	03/04/1999
Bundesrat	Publication	Implementation	
03/19/1999	03/31/1999 (S: -4.762 bn €)	03/31/1999 (S: 12.836 bn €) 04/01/1999 (S: 1.294 bn €) 01/01/2000 (S: -5.338 bn €)	

This law is one of the most extensive tax reforms covered in the narrative. The basic structure of the law was to change the income tax tariff, leading to substantial tax reductions, while financing these tax reductions by closing loopholes and eliminating tax exceptions.

The income and corporate tax tariff was reformed in three steps, one retroactively for 1999, one in 2000, and one in 2002. The combined revenue effect of the first step amounted to -2.542 bn €, the second step to -6.938 bn €, and the third step to -13.825 bn €. Note that the third step was later shifted to 2001 in the *Steuersenkungsgesetz* and that the implementation effect is subsumed in the volume derived for that law. These measures were accompanied by a multitude of others intended to close loopholes and abolish exemptions. The total volume of these measures was 18.544 bn €, to be implemented mostly at various dates in 1999, as well as at the beginning of 2000. The majority of the measures, although extremely technical in nature, had very minor revenue impacts, and so as to focus on the more important issues, these minor measures are not discussed here, although they were comprehensively analyzed. Briefly, the most noteworthy of these minor measures is the reduction in tax allowances for savings, which induced changes in revenues of 1.549 bn € effective 2000. Of considerable importance also were regulations on commercial reserves, inducing a total revenue effect of 5.54 bn € effective 1999. Changes in the taxation of extraordinary incomes induced revenue effects of 3.3 bn € effective 1999. Changes in the value-added tax code related to the deduction of prepaid taxes induced revenue effects of 1.008 bn € effective April 1999. A full list of measures not explicitly discussed is available on request.

Identifying the motivation behind the law is straightforward. In the statement on the introduction of the bill, it was stated that the tax reform is part of the coalition agreement between the Social Democratic Party and the Green Party. In fact, the law was introduced in parliament shortly after the election of that government. The objectives stated in the statement on the introduction of the bill were to increase growth by strengthening investment and internal demand, reduce the tax burden on employees and families, and foster tax justice and tax efficiency. Indeed, the basic structure of the law was to reduce tax rates and tax brackets, while at the same time removing exceptions and loopholes. In the parliamentary debate, many of these objectives were mentioned, but slightly stronger emphasis was placed on the law's role in promoting families and tax justice. Mr. Müller, Economics Minister at the time, stated in the *Bundesrat* that the law was also helpful in complying with requirements of the constitutional court. It seems uncontroversial to assign the law a structural motivation, especially since no specific macroeconomic conditions or shocks played a role in the parliamentary debate.

The final version of the law was very different from the one originally introduced. Parts of the original proposal were moved to separate laws (see the *Steueränderungsgesetz 1998* and the *Steuerentlastungsgesetz 1999*). I ignore those in my quantitative measure of changes during the legislative process and instead focus on the report by the budget committee (*Haushaltsausschuss*), which explicitly listed how tax measures included in the final version of the law compare to the original proposal. Based on the reports of the *Haushaltsausschuss* and the *Finanzausschuss*, no change in the original motivation was evident.

<sup>33</sup> BGBl. 1999, 15, pp. 402–496.

### Gesetz zur Neuregelung der geringfügigen Beschäftigungsverhältnisse<sup>34</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
01/19/1999 (SD: -1.079 bn €)	01/22/1999	03/01/1999	03/04/1999
Bundesrat	Publication	Implementation	
03/19/1999	03/29/1999 (SD: -1.079 bn €)	04/01/1999 (SD: -1.079 bn €)	

The law was concerned with reforming regulation on insignificant employment. Basically, employment yielding monthly wages below 630 DEM is no longer taxed. The law came into effect April 1, 1999 and was expected to change tax revenues by -1.079 bn €.

The law freed insignificant employment from income taxation, while at the same time introducing a flat-rate social insurance contribution rate for insignificant employment of 10 percent for health insurance and 12 percent for the governmental pension scheme. This was expected to generate additional social insurance revenue of roughly 2.5 bn €, larger in absolute value than the actual tax increase. It is clear from the statement on the introduction of the bill, as well as from the parliamentary debate, that the focus of the law was to increase social insurance contributions. The tax decrease cannot be viewed in isolation, as the tax measure was correlated with a corresponding increase in social insurance contributions. The tax measure is endogenous. The best fitting category seems to be spending driven.

Within the legislative process, the law was changed only in technical dimensions. No change in the revenue forecast or in motivation is evident.

### Gesetz zum Einstieg in die ökologische Steuerreform<sup>35</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
11/17/1998 (SD: 6.212 bn €)	11/20/1998	02/24/1999	03/03/1999
Bundesrat	Publication	Implementation	
03/19/1999	03/29/1999 (SD: 6.212 bn €)	04/01/1999 (SD: 6.212 bn €)	

The law increased energy taxes with the intention of lowering social insurance contributions.

The law increased taxes on electricity, petroleum, heating oil, and petroleum gas, thereby generating 2.301 bn €, 2.147 bn €, 0.793 bn €, and 0.971 bn € on annual basis, respectively. The law came into effect April 1, 1999.

The law was part of the so-called ecological tax reform, which started with this law and continued with the *Gesetz zur Fortführung der ökologischen Steuerreform* and the *Gesetz zur Fortentwicklung der ökologischen Steuerreform*. In addition to creating behavioral incentives for economical consumption of scarce resources, the program was intended to reduce labor costs by lowering social insurance contributions and hence improving structural aspects of the economy. Specifically, reductions in labor costs were expected to increase employment. Indeed, the statement on the introduction of the bill suggested that the additional revenue raised by the law would be used to finance a decrease in social insurance contribution rates, as well as be invested in renewable energies. The *Gesetz zu Korrekturen in der Sozialversicherung und zur Sicherung der Arbeitnehmerrechte*<sup>36</sup> had reduced social insurance contributions rates effective April 1, 1999 while increasing the block grant of the general government to the social insurance institutions. The total budgetary effect of that law was forecast to be around 7 bn €, even exceeding tax revenues generated by the law at hand. The law at hand was spending driven.

Within the legislative process, the law underwent a series of technical changes due to suggestions by the leading parliamentary committee. No changes in the revenue forecast or in motivation seem evident. The law represented a tax shock of 6.212 bn € to be implemented in April 1999.

### Gesetz zur Senkung des Solidaritätszuschlags<sup>37</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
05/24/1997 (S: -3.784 bn €)	06/14/1997	10/07/1997	10/09/1997
Bundesrat	Publication	Implementation	
11/07/1997	11/28/1997 (S: -3.784 bn €)	01/01/1998 (S: -3.784 bn €)	

The law was originally introduced as part of the *Jahressteuergesetz 1997*; however, during the legislative process, it was decided to split the original law into two parts. Accordingly, the dates for the draft and the first reading are taken from the *Jahressteuergesetz 1997*. The

<sup>34</sup> BGBl. 1999, 14, pp. 388–395.

<sup>35</sup> BGBl. 1999, 14, pp. 378–384.

<sup>36</sup> BGBl. 1998, 85, pp. 3833–3896.

<sup>37</sup> BGBl. 1997, 78, pp. 2743–2744.

law reduced the solidarity surcharge on income and corporate taxes from 7.5 percent to 5.5 percent, thereby lowering tax revenues by -3.784 bn € effective 1998.

The law was originally part of the *Jahressteuergesetz 1997*, so it has the same structural motivation of that law. The reduction in the solidarity surcharge tracks back to the *Aktionsprogramm für Investitionen und Arbeitsplätze*, which can be translated as the Agenda for Investment and Employment. The program recognized that unemployment in Germany had been high and suggested potential policy approaches, including a reduction in the solidarity surcharge. In the discussion of the program, it was argued that the government sector in Germany is too large and that reducing it would improve structural conditions for growth. As part of the agenda to reduce governmental influence, the program proposed reducing the solidarity surcharge. Finally, note that growth rates in the first and second quarter in comparison to the previous year were around 1.8 percent. Business cycle indicators also support that economic conditions were fairly normal, which support deeming this law to have a structural motivation.

The law was originally part of the *Jahressteuergesetz 1997*, where the original intention had been to reduce the solidarity surcharge in two steps as of 1997 and 1998. The measure is now implemented in one step as of 1998, but other than that, no substantial changes during the legislative process are evident.

### **Gesetz zur Finanzierung eines zusätzlichen Bundeszuschusses zur gesetzlichen Rentenversicherung<sup>38</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
10/07/1997 (SD: 5.778 bn €)	10/10/1997	10/29/1997	10/31/1997
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/28/1997	12/10/1997	12/11/1997	12/19/1997
<b>Publication</b>	<b>Implementation</b>		
12/23/1997 (SD: 5.778 bn €)	04/01/1998 (SD: 5.778 bn €)		

The *Gesetz zur Reform der gesetzlichen Rentenversicherung (Rentenreformgesetz 1999 - RRG 1999)*<sup>39</sup> reduced pension contribution rates and introduced an additional government block grant corresponding to the part of value-added tax revenues generated by a 1 percent value-added tax rate. The law at hand was concerned with increasing the value-added tax rate in order to finance the additional block grant to the government pension scheme. Effective April 1998, the value-added tax rate was increased from 15 to 16 percent, generating 5.778 bn € in additional revenues.

In the law, it was clearly stated that expected additional revenues of the value-added tax increase are to be used to finance a grant to the pension system. At the beginning of 1999, social insurance contribution rates were reduced in accordance with the law at hand. Taken together, it is clear that the law was spending driven.

Within the legislative process, the law experienced some alternations. The increase in the value-added tax rate was originally scheduled for January 1, 1999 but was shifted by the mediation committee to April 1, 1998. No changes in motivation were evident.

### **Jahressteuergesetz (JStG) 1997<sup>40</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
05/24/1996 (S: -1.398 bn €)	06/14/1996	11/05/1996 (S: -0.182 bn €)	11/07/1996
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/15/1996	12/12/1996 (S: 1.488 bn €)	12/12/1996	12/19/1996
<b>Publication</b>	<b>Implementation</b>		
12/27/1996 (S: -0.092 bn €)	12/27/1996 (S: 1.562 bn €)		
	01/01/1997 (S: -2.505 bn €)		
	01/01/1998 (S: -0.851 bn €)		

*Jahressteuergesetze* (annual tax laws) are often concerned with changing technical aspects of the tax code. Indeed, most of the measures contained in this law were very technical and associated with only minor revenue effects. However, partially due to demands of the constitutional court, the law also made important changes in the inheritance and wealth tax, leading to substantial revenue effects. The reason this law is given careful study in the narrative is that a couple of its measures are very substantial, changing revenues by more than 4 bn €. Still, as these measures partially cancel out, no substantial net revenue effect is achieved.

<sup>38</sup> BGBl. 1997, 86, pp. 3121–3126.

<sup>39</sup> BGBl. 1997, 85, pp. 2998–3038.

<sup>40</sup> BGBl. 1996, 68, pp. 2049–2081.

In 1995, the constitutional court ruled that the wealth tax in its current form is unconstitutional and demanded changes. Rather than changing the wealth tax, the government decided to suspend it, leading to an annualized revenue impact of -4.755 bn € effective 1997. Reforming the inheritance tax in accordance with the demands of the constitutional court led to a revenue change of 1.074 bn € effective retroactively for 1996. Accordingly, the date of publication is chosen as the implementation date. The land purchase tax was increased effective 1997, inducing a revenue effect of 2.684 bn €. Technical changes in the land purchase tax code lead to revenue changes of 0.179 bn € effective 1997. The law also introduces a couple of technical changes in the income tax code. Retroactively for 1996, special depreciations for airplanes and ships were abolished, inducing revenue changes of 0.038 bn € and special rules for loss deduction in relation to ships were introduced, changing revenues by 0.066 bn €.

All other changes in the income tax code were effective 1997. The way meals on business trips are treated was changed, inducing changes of -0.268 bn €. Some depreciation rules were changed, inducing revenue effects of -0.089 bn €. Tax allowances for household employment were increased, inducing revenue effects of -0.138 bn €. The way the income tax is charged was altered effective 1997, inducing one-time revenue effects of -0.182 bn € in 1997. The increase in the general tax-free amount due to the *Jahressteuergesetz 1996* was shifted to 1998, inducing revenue effects of 0.851 bn € in 1997. To model implementation of the measure correctly, I model a shock of -0.851 bn € at the beginning of 1998 and remove the implementation effect of the aforementioned law. This ensures that the tax shock hits at the correct time. Technical changes in the local business tax code induced changes of -0.018 bn € in 1997. Changes in tax benefits for home owners induced revenue effects of 0.082 bn € in 1997. Technical changes in the general tax code induced revenue changes of 0.383 bn € with immediate impact. Accordingly, the date of publication is chosen as the implementation date.

Identifying the motivation behind the law is straightforward. To a large extent, the law was concerned with rulings of the constitutional court. At the same time, the statement on the introduction of the bill cited structural reasons, such as improving opportunities for production, investment, and employment. The removal of the wealth tax, which not demanded by the constitutional court, was justified by arguing that the wealth tax was hindering economic growth by taxing the substance of companies in bad years. Changes in the depreciation rules were justified as improving conditions for investment and growth of small and medium-sized companies. Specifically, no specific economic shock was mentioned. Also, the law was concerned with balancing tax decreases and tax increases, making a business cycle stimulus unlikely. It is evident that the law was structurally motivated.

Within the legislative process, the law was changed to a substantial degree as it was augmented by a variety of new measures. Also, parts of the law were removed to separate legislations. No change in motivation was evident.

#### **Gesetz zur Fortsetzung der wirtschaftlichen Förderung in den neuen Ländern<sup>41</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
06/03/1997 (S: -2.937 bn €)	06/06/1997	06/25/1997 (S: -0.031 bn €)	06/26/1997
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
07/04/1997	08/25/1997 (S: -2.968 bn €)	01/01/1999 (S: 0 bn €)	

The law extended and reformed the investment surcharge for the New Laender.

The law implemented an investment surcharge of 10 percent on moveable assets in manufacturing until the end of 2004, affecting revenues by -0.435 bn. Investment in small and medium-sized companies was encouraged by an additional surcharge of 10 percent, affecting revenues by -1.120 bn € until the end of 2004. The investment surcharge was 10 percent for investment in crafts enterprises and in retail and wholesale trade until the end of 2004, affecting revenues by -0.143 bn € and -0.082 bn €, respectively. Until the end of 2004, investment in buildings used in manufacturing was benefited by an investment surcharge of 10 percent, affecting revenues by -0.358 bn €. Corresponding investment surcharges for buildings used for crafts enterprises and for retail and wholesale trade each changed revenues by -0.036 bn € until the end of 2001. Modernization of old homes and flats were benefited until the end of 2004, changing revenues by -0.348 bn €. New homes and flats let for rent were benefited until the end of 2001, changing revenues by -0.077 bn €. Owner-occupied buildings were benefited until the end of 2004, changing revenues by -0.143 bn €. West Berlin was included in the investment surcharge, changing revenues by -0.115 bn €. Previously, East German companies with turnovers less than 1,000,000 DEM were temporarily allowed to pay value-added taxes on actual revenues rather than on contracted sums. The law extended this provision, thereby inducing an announcement effect of -0.077 bn €. All measures of the law are effective at the beginning of 1999.

It is difficult to assess the implementation effect precisely because the law partially extended already existing measures that had been designed to expire in 1998. This is a frequent aspect of investment surcharges, which are usually limited to a specific time span and then later adjusted and prolonged. The statement on the introduction of the bill explicitly pointed out that the total volume of the investment

<sup>41</sup> BGBl. 1997, 59, pp. 2070–2074.

surcharge roughly corresponded to the total volume of previous benefits. Based on that argument, the law was not a true tax innovation and the implementation effect is hence set to zero.

Identifying the motivation behind the law is straightforward. The statement on the introduction of the bill recognized that the capital stock, productivity, and economic conditions in East Germany were still lagging those of West Germany. Therefore, the law extended and reformed the existing investment surcharge with the intention of fostering investment. In addition to investment in capital stocks, the law also allowed investment in buildings, recognizing that the standard of buildings and flats in East Germany is somewhat below the Western German level. The motivation of the law was structural.

Within the legislative process, the law was subject to only very modest changes.

#### Jahressteuergesetz 1996<sup>42</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
03/27/1995 (S: -15.354 bn €)	03/31/1995	05/31/1995 (S: -1.986 bn €)	06/02/1995
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
06/23/1995	07/07/1995	07/13/1995	07/14/1995
<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>	<b>Publication</b>
08/02/1995 (S: -3.219 bn €)	09/21/1995	09/22/1995	10/20/1995 (S: -20.559 bn €)

#### Implementation

10/20/1995 (S: -0.159 bn €)  
 01/01/1996 (S: -8.904 bn €)  
 01/01/1997 (S: -1.981 bn €)  
 01/01/1999 (S: -2.38 bn €)

Important parts of this law were related to reforms of the income tax tariff, as well as to changes in the tax treatment of families and children. Of relevance also was extension of the surcharge for investment in East Germany. In addition, the law contained a series of rather technical changes with limited revenue impact. The law has a record length of 164 pages, thus only the important measures are discussed in full detail here.

The income tax tariff was reformed in three steps. The general tax-free amount was adjusted in 1996, 1997, and 1999, inducing revenue changes of -7.15 bn €, -1.478 bn €, and -2.38 bn €, respectively. The change in 1997 was later shifted to 1998 in the *Jahressteuergesetz 1997*. The implementation shock is discussed in the section on that law and set to zero for purposes of the law at hand. Changes in the tax treatment of families affect revenues by -3.702 bn € effective 1996. A related increase in child benefits induced revenue changes of -1.961 bn € in 1997. The law further extended and slightly altered the already existing investment surcharge for investment in East Germany for the time period 1996 to 1998. The announcement effect of these measures was -5.437 bn € on an annual basis. It is clear that the largest part of the shock was due to the renewal of existing measures, and hence the implementation effect is set to zero. The total effect of the multitude of tax shocks not discussed here, yet analyzed in an identical matter, was 1.549 bn €, implemented mostly in 1996.

Identifying the motivation behind the law is straightforward. The constitutional court required the government to reform tax treatment of the minimum income needed to exist. This induced changes in the general tax-free amount and the tax treatment of family and children. The extension of the investment surcharge for the New Laender was motivated by a continued lag in economic activity and living standards in East Germany compared to West Germany. The remainder of the law was concerned with changing technical aspects of the tax code, with the intention of making the tax system simpler and more transparent. The discussion in parliament does not change this basic interpretation, although the parliamentary debate strongly emphasized the size of government in general at that time, potentially explaining the implementation of tax reductions. In any case, no endogenous motives for the law changes were present. The motivation of the law was structural.

Within the legislative process, the law was changed extensively, yet no change in motivation occurred.

<sup>42</sup> BGBl. 1995, 53, pp. 1250–1413.

**Gesetz zur Bekämpfung des Mißbrauchs und zur Bereinigung des Steuerrechts (Mißbrauchsbekämpfungs- und Steuerbereinigungsgesetz - StMBG)<sup>43</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
09/03/1993 (MS: 1.271 bn €)	09/07/1993	11/08/1993 (MS: -0.394 bn €)	11/11/1993
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/26/1993	12/08/1993 (MS: 0.57 bn €)	12/10/1993	12/17/1993
<b>Publication</b>	<b>Implementation</b>		
12/29/1993 (MS: 1.447 bn €)	12/29/1993 (MS: 0.182 bn €)		
	01/01/1994 (MS: 1.910 bn €)		
	04/01/1994 (MS: -0.716 bn €)		
	07/01/1994 (MS: 0.072 bn €)		

The law contained a series of technical changes in the tax code, primarily concerned with simplifying the tax code and closing loopholes.

Depreciation rules for buildings not used as accommodations were changed, affecting revenues by 0.051 bn € effective 1994. Tax allowances for commuting costs were increased, affecting revenues by -0.205 bn € effective 1994. Tax allowances related to the acquisition of buildings were reduced, thereby changing revenues by 0.317 bn € effective 1994. Under former regulation, employers had been allowed to grant employees tax-free equity participation as long as the value did not exceed 500 DEM. This threshold was reduced to 300 DEM, increasing revenues by 0.077 bn € effective 1994. Technical changes in the income tax code intended to close loopholes related to financial innovations changed revenues by 0.205 bn € effective 1994. Further changes in the income tax code were of minor importance and had a total revenue effect of 0.304 bn €.

Employee savings allowances for certain capital investment were reduced to 10 percent, affecting revenues by 0.051 bn € effective 1994. Closing loopholes in the Foreign Tax Act affected revenues by 0.332 bn € effective 1994. The law also introduced several changes in the Valuation Tax Act, the inheritance tax, and the value-added tax code, resulting in total revenue effects of 0.033 bn €, 0.038 bn €, and 0.105 bn €, respectively. The fire insurance tax rate was set to 8 percent. The prospected revenue forecast for that measure was 0.072 bn € effective July 1, 1994. The automobile tax for diesel cars was increased, inducing revenue changes of 0.332 bn € in 1994. The automobile tax for trucks was changed as of April 1, 1994, inducing revenue changes of -0.716 bn €. Technical changes in the general fiscal code induced revenue effects of 0.179 bn € effective on the date of announcement. Further technical changes in the corporate tax code and other minor parts of the tax code induced revenue effects of 0.271 bn € effective around 1994.

According to the statement on the introduction of the bill, the law was primarily concerned with simplifying the tax system and closing loopholes. Changes in the automobile tax code were also justified on an environmental basis. Moreover, some technical adjustments were needed to comply with EC regulations. However, in the parliamentary debate, the law was discussed in conjunction with the *Erstes Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms (1. SKWPG)*. It was repeatedly mentioned that both laws form a common program and share the same background. Accordingly, consolidation motives receive stronger emphasis in the parliamentary debate than do the technical arguments brought forward in the statement on the introduction of the bill. In the parliamentary debate, the law is seen as part of the consolidation program passed in response to a recent recession. It hence seems convincing to see both laws as having the same motivation, namely, macroeconomic shock.

Within the legislative process, the law experienced some changes, none of which changed its motivation.

**Erstes Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms (1. SKWPG)<sup>44</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
08/13/1993 (MS: 4.346 bn €)	09/07/1993	10/20/1993	10/22/1993
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/26/1993	12/09/1993	12/10/1993	12/17/1993
<b>Publication</b>	<b>Implementation</b>		
12/29/1993 (MS: 4.346 bn €)	01/01/1994 (MS: 4.346 bn €)		

The law increased the petroleum tax rate at the beginning of 1994, thereby generating 4.346 bn € in revenues. Along with the tax measures, the law introduced a series of consolidation measures on the expenditure side.

<sup>43</sup> BGBl. 1993, 72, pp. 2310–2352.

<sup>44</sup> BGBl. 1993, 72, pp. 2353–2368.

In the statement on the introduction of the bill, it was stated that a recent economic downturn had led to reduced revenues, inducing a large budget deficit. The government at that time was not willing to engage in additional borrowing and hence decided to increase taxes. In the parliamentary debate, it was stated that the government's budgetary targets would be in danger without additional revenue. Taken together, the official government stance suggested that the law increased taxes in response to a recent recession. It seems warranted to assume that the law is driven by a recent macroeconomic shock.

The part of the law related to changes in the tax code did not change substantially during the legislative process.

#### **Gesetz zur Neuregelung der Zinsbesteuerung (Zinsabschlaggesetz)<sup>45</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
04/08/1992 (S: -0.118 bn €)	05/07/1992	06/03/1992 (S: 0.394 bn €)	06/05/1992
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
06/26/1992	07/08/1992 (S: 1.751 bn €)	09/24/1992	09/25/1992
<b>Publication</b>	<b>Implementation</b>		
11/12/1992 (S: 2.027 bn €)	01/01/1993 (S: 1.567 bn €)		
	01/01/1994 (S: 0.46 bn €)		

The law reformed the tax treatment of interest income, leading to substantial tax increases. Increases in the tax burden were accompanied by expansions in tax allowances, most notably for savings and insurance contributions.

The law introduced a 30 percent withholding tax on interest income. Under the new regulation, banks were directly obliged to pay a 30 percent tax on interest income, with the possibility of later deduction against tax liabilities at the individual level. The measure was expected to be implemented in 1993 with expected revenue effects of 6.647 bn €. Accrued interest was included in the new regulations in 1994, changing revenues by 0.46 bn €. The tax rate on over-the-counter transactions was set at 35 rather than 30 percent, raising 0.205 bn € effective 1993. The law also expanded tax allowances. The general allowance for savings was increased to 6,000 DEM from 600 DEM in 1993, changing revenues by -2.592 bn €. Technical changes in the wealth tax affected revenues by -0.043 bn €. Finally, allowances related to savings and insurance contributions were increased, inducing changes of -2.648 bn € in 1993.

The primary motivation for the law was a ruling of the constitutional court demanding changes in the taxation of interest income. Given banking confidentiality, enforcing taxation of interest income was difficult, which was criticized as violating tax justice. The *Zinsabschlaggesetz* reacted to this ruling and introduced a withholding tax on interest income. Increases in allowances for savings and insurance contributions and related changes were justified in the statement on the introduction of the bill in terms of sociopolitical reasons. The parliamentary debate does not add insight to these basic qualifications. The debate was entirely oriented toward structural arguments, with no mention of specific macroeconomic shocks. The motivation of the law was structural.

#### **Gesetz zur Anpassung von Verbrauchsteuer- und anderen Gesetzen an das Gemeinschaftsrecht sowie zur Änderung anderer Gesetze (Verbrauchssteuer-Binnenmarktgesetz)<sup>46</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
10/02/1992 (S: -1.651 bn €)	10/29/1992	11/30/1992 (S: -0.836 bn €)	12/02/1992
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
12/18/1992	12/29/1992 (S: -2.487 bn €)	01/01/1993 (S: -0.249 bn €)	
		02/01/1993 (S: 0.056 bn €)	

The *Verbrauchssteuer-Binnenmarktgesetz* reformed two blocks of the tax code. It rewrote the majority of consumption tax laws while introducing several technical adjustments. The most noteworthy measure of the second block was extension of the investment surcharge for East German states.

The more extensive part of the law dealt with reformulating consumption tax laws while introducing slight alternations. Alcohol used for medicine, cosmetics, and groceries was no longer taxed effective 1993, affecting revenues by -0.205 bn €. Taxes on lubricants were abolished effective 1993, leading to a one-time effect of -0.008 bn € and a permanent effect of -0.153 bn €. Technical changes in the petroleum tax code as well as abolishment of the tax on petrol coke led to revenue effects of 0.074 bn € effective 1993. The beer tax was increased effective 1993, changing revenues by 0.051 bn €. Technical changes in the tobacco tax code led to revenue changes of -0.029 bn € effective 1993. The tax rate for so-called *Steckzigaretten*, which are made out of a ready-made paper tube into which tobacco is inserted, was increased in two steps. For a transition period between February 1993 and December 1995, the tax rate was slightly

<sup>45</sup> BGBl. 1992, 52, pp. 1853–1863.

<sup>46</sup> BGBl. 1992, 59, pp. 2150–2210.

increased, affecting revenues by 0.056 bn €. Afterward, the full tax rate for ordinary cigarettes was to apply, affecting revenues by 0.353 bn €. However, the transition regulation was regularly extended by later legislations, and thus the implementation effect of the final provisions is set to zero.

The *Verbrauchssteuer-Binnenmarktgesetz* also contained provisions affecting other parts of the tax code. The surcharge for investment in East Germany was both slightly altered and extended for the most part until the end of 1996. Regrettably, the *Finanzbericht* does not make a clear distinction between the effect of the prolongation and that of the expansion. However, it is clear that the largest part of the effect was caused by renewing extant regulation. It seems advisable to set the implementation effect of measures related to the promotion of investment in East Germany to zero. The announcement effect of the measure was -2.614 bn €. Finally, special depreciations granted in § 7c EStG related to tenements were renewed until the end of 1995, while those in § 7k EStG pertaining to social housing were slightly altered. The combined effect of the two measures is -0.013 bn €.

The law had two core topics, the promotion of economic development in the New Laender and the reformulation of consumption tax laws. Assessing the motivation behind the law is straightforward. The statement on the introduction of the bill cited EU regulations as the primary driving factor behind the legislation addressing consumption taxes. The investment surcharge, which aims at equalizing economic conditions across Germany, has a structural motive.

Within the legislative process, alternations related to the investment surcharge led to substantial changes in the prospective revenue impact of the law. No change in motivation occurred.

**Gesetz über Maßnahmen zur Bewältigung der finanziellen Erblasten im Zusammenhang mit der Herstellung der Einheit Deutschlands, zur langfristigen Sicherung des Aufbaus in den neuen Ländern, zur Neuordnung des bundesstaatlichen Finanzausgleichs und zur Entlastung der öffentlichen Haushalte (Gesetz zur Umsetzung des Föderalen Konsolidierungsprogramms - FKPG)<sup>47</sup>**

Draft	1st Reading	Committee	2nd & 3rd Reading
03/04/1993 (C: 10.303 bn €)	04/22/1993	05/18/1993 (C: 7.094 bn €)	05/27/1993
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
05/28/1993	06/26/1993 (C: 17.397 bn €)	06/26/1993 (C: -1.125 bn €)	
		07/01/1993 (C: 1.048 bn €)	
		01/01/1994 (C: -0.026 bn €)	
		01/01/1995 (C: 16.885 bn €)	
		01/01/1996 (C: 0.102 bn €)	
		01/01/1997 (C: 0.102 bn €)	
		01/01/1998 (C: 0.102 bn €)	
		01/01/1999 (C: 0.102 bn €)	
		01/01/2000 (C: 0.102 bn €)	
		01/01/2001 (C: 0.102 bn €)	

The centerpieces of this legislation were the increase in the insurance tax rate and the permanent introduction of a “solidarity” surcharge of 7.5 percent on income and corporate taxes. The *Gesetz zur Umsetzung des Föderalen Konsolidierungsprogramms* made other changes on both the revenue and the expenditure side of the budget, but these were of limited revenue impact.

The solidarity surcharge, which is an additional surcharge on income and corporate tax liabilities, was formerly levied in 1992 and 1993. The *Gesetz zur Umsetzung des Föderalen Konsolidierungsprogramms* reintroduced a solidarity surcharge of 7.5 percent effective 1995, associated with an annualized revenue impact of 15.339 bn €. The insurance tax was increased in two steps: by 2 percent on July 1, 1993, and by an additional 3 percent at the beginning of 1995. The revenue effect of the first step was 0.844 bn €; the effect of the second step was 1.329 bn €. Changes in the wealth tax effective 1995 induced effects of 0.499 bn €. Rated firms and other acts were no longer subject to the reduced value-added tax rate, inducing a revenue effect of 0.026 bn € in 1994. Temporarily, the general tax-free amount in the income tax code was set to 10,500 DEM in 1993, 11,000 DEM in 1994, and 11,500 DEM in 1995. This was associated with a series of tax shocks of -1.125 bn € in 1993, -0.46 bn € in 1994, and -0.358 bn € in 1995. Reducing home owner benefits induced a series of revenue shocks, each in the amount of 0.102 bn €, in 1994 to 2001. Other changes in the tax code were technical, with a combined revenue effect of 0.486 bn € implemented at various dates between 1993 and 1994.

The statement on the introduction of the bill reported that reunification had put tremendous financial burdens on the government budget, making additional revenue necessary. Noting that income per capita in East Germany is 15 percent lower than in West Germany

<sup>47</sup> BGBl. 1993, 59, pp. 944–991.

and that the economic structure in East Germany is still burdened by its socialist past, the statement claimed that about 5 percent of output is needed annually for resolving challenges associated with reunification. Assigning a motivation to the law is complicated because the law is also associated with reforming the financial equalization scheme between the federal government and the Laender and with constructing a federal special fund commissioned with servicing debt inherited from East Germany. However, the former is related only to redistribution of revenue across tiers of the federal state and not necessarily with expansions in expenditure. The latter deals with debt inherited from the past. As such, the *Gesetz zur Umsetzung des Föderalen Konsolidierungsprogramms* is not spending driven. The law is, instead, a reaction to the financial burdens created by reunification and was motivated by consolidation. Note that the quantitatively important parts of the law were implemented at the beginning of 1995. Reunification certainly was not a contemporaneous shock in 1995.

Within the legislative process, the law changed substantially. Due to suggestions from the leading parliamentary committee, the solidarity surcharge was set to 7.5 percent and the general tax-free amount was increased. No change in motivation was evident.

#### **Gesetz zur Verbesserung der steuerlichen Bedingungen zur Sicherung des Wirtschaftsstandorts Deutschland im Europäischen Binnenmarkt (Standortsicherungsgesetz - StandOG)<sup>48</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
01/04/1993 (S: -3.367 bn €)	02/04/1993	05/25/1993 (S: 0.476 bn €)	05/27/1993
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
06/18/1993	07/01/1993 (S: -0.414 bn €)	07/02/1993	07/09/1993
<b>Publication</b>	<b>Implementation</b>		
09/17/1993 (S: -3.306 bn €)	09/17/1993 (S: 0.123 bn €)		
	11/01/1993 (S: 0.026 bn €)		
	12/21/1993 (S: 1.534 bn €)		
	01/01/1994 (S: -2.308 bn €)		
	01/01/1995 (S: -0.688 bn €)		

The *Standortsicherungsgesetz* reduced the corporate tax rate, mainly through extensive changes in depreciation rules. The law also renewed special depreciation rules for disadvantaged regions in Germany.

The law reduced the corporate tax rate effective 1994, leading to revenue changes of -2.066 bn €. Starting in 1994, the top marginal tax rate for commercial income was reduced to 47 percent, leading to expected revenue changes of -0.716 bn €. The declining balance method of depreciation for commercial buildings was abolished, leading to changes in revenues of 1.534 bn € effective 1994. Although not effective until 1995, new special depreciations for small and medium-sized companies were enacted, leading to expected revenue changes of -0.46 bn €. Extending existing special depreciations for ships and airplanes led to an announcement effect of -0.015 bn €. As the measure was a mere extension of existing regulations, no implementation effect is assigned.

One centerpiece of the law was related to tax allowances for investment in disadvantaged regions. Renewing and slightly adjusting existing measures was associated with an announcement effect of -2.158 bn €. It is clear that the size of the renewal is much larger than of the adjustments, making it natural to set the whole implementation effect of the measures to zero. The law implemented a tax-free amount for business assets in the inheritance tax code of 500,000 DEM, inducing revenue changes of -0.128 bn € effective 1994. Certain travel sales were now no longer subject to the reduced value-added tax rate, inducing revenue changes of 0.026 bn €. Technical changes with minor revenue effects accounted for a revenue effect of 0.677 bn €, effective mostly 1994.

The statement on the introduction of the bill reported four objectives of the law. First, the law was intended to strengthen investment. The law was further concerned with increasing international competitiveness, improving tax conditions for medium-sized companies, and with providing incentives for investment in the new Laender. It also stated that the law was concerned with reducing top marginal tax rates, which had typically been higher in Germany than in other member states of the European Union. Reducing top marginal rates was supposed to strengthen entrepreneurial spirit and willingness to invest. Also, the reduction was intended to make Germany more attractive for foreign direct investment. It is clear that the *Standortsicherungsgesetz* was concerned with improving structural conditions.

Within the legislative process, the law was changed substantially. No change in motivation was evident.

<sup>48</sup> BGBl. 1993, 49, pp. 1569–1593.

**Gesetz zur Entlastung der Familien und zur Verbesserung der Rahmenbedingungen für Investitionen und Arbeitsplätze (Steueränderungsgesetz 1992 - StÄndG 1992)<sup>49</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
09/03/1991 (S: 2.678 bn €)	09/19/1991	11/07/1991 (S: -1.279 bn €)	11/08/1991
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/29/1991	02/10/1992 (S: 0.302 bn €)	02/13/1992	02/14/1992
<b>Publication</b>	<b>Implementation</b>		
02/28/1992 (S: 1.701 bn €)	02/28/1992 (S: -1.784 bn €)		
	01/01/1993 (S: 3.788 bn €)		
	01/01/1994 (S: -0.173 bn €)		
	01/01/1995 (S: -0.02 bn €)		
	01/01/1996 (S: -0.02 bn €)		
	01/01/1997 (S: -0.02 bn €)		
	01/01/1998 (S: -0.02 bn €)		
	01/01/1999 (S: -0.02 bn €)		

Two noteworthy tax measures of the *Steueränderungsgesetz 1992* were the expansions in tax allowances for children and in direct child benefits, financed by an increase in the value-added tax rate. Other tax measures were largely technical in nature and had very limited revenue impact.

Quantitatively most important was the increase in the value-added tax rate from 14 to 15 percent, changing tax revenues by 6.289 bn € effective 1993. Technical changes in the value-added tax code induced permanent revenue effects of 0.051 bn €, and one-time revenue effects of -0.128 bn €, both effective 1993. Expansions in tax allowances for children and in direct child benefits effective retroactively to 1992 induced revenue effects of -1.853 bn € and -1.582 bn €, respectively. The law reformed benefits for home owners. As those are paid for eight consecutive years, a series of revenue effects of -0.02 bn € from 1992 to 1999 occurred (see the discussion under *Gesetz zur Abschaffung der Eigenheimzulage*). Those measures related to real estate were accompanied by minor technical measures, inducing a revenue effect of 0.107 bn € effective retroactively for 1992, and by temporary measures limited for three years and implemented in 1992, 1993, and 1994, affecting revenues by -0.077 bn € on an annual basis.

Changes in the local business tax code, including increases in the tax-free amount, a new tax tariff, and technical changes, induced revenue effects of -1.185 bn € effective 1993. Changes in the Valuation Tax Act related to the tax balance sheet induced revenue changes of -1.066 bn € effective 1993. Reductions in tax allowances related to cash-value life insurance induced revenue effects of 0.767 bn € effective retroactively for 1992. Tax allowances related to business contributions to pension funds were reduced, affecting revenues by 0.545 bn € effective retroactively for 1992. Changes in the International Tax Relations Law affected revenues by 0.409 bn € effective retroactively for 1992. Further tax changes had only minor revenue effects. The total volume of these measures was -0.169 bn €.

In the statement on the introduction of the bill, it was explicitly stated that the law's intention had been to improve the economic structure in Germany. Changes in the tax treatment of families were partially motivated by requirements of the constitutional court. The increase in value-added taxes was implemented to improve the government's financial situation and to finance expansions in tax benefits, especially those related to families. Many of the more technical changes were concerned with improving the structure of the tax system and making it ready for introduction of the European common market. The parliamentary debate adds nothing to this basic interpretation. The motivation of the law was structural.

Within the legislative process, the law experienced substantial changes. No change in motivation was present.

<sup>49</sup> BGBl. 1992, 9, pp. 297–358.

**Gesetz zur Förderung von Investitionen und Schaffung von Arbeitsplätzen im Beitrittsgebiet sowie zur Änderung steuerrechtlicher und anderer Vorschriften (Steueränderungsgesetz 1991 - StÄndG 1991)<sup>50</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
03/08/1991 (MS: 1.379 bn €)	03/12/1991	05/11/1991 (MS: -0.375 bn €)	05/14/1991
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
06/07/1991	06/17/1991 (MS: 0.026 bn €)	06/19/1991	06/21/1991
<b>Publication</b>	<b>Implementation</b>		
06/27/1991 (MS: 1.03 bn €)	06/27/1991 (MS: -3.15 bn €)		
	07/01/1991 (MS: 1.687 bn €)		
	01/01/1992 (MS: -1.47 bn €)		
	01/01/1993 (MS: 0.281 bn €)		
	01/01/1994 (MS: 0.522 bn €)		
	01/01/1995 (MS: 0.230 bn €)		
	01/01/1996 (MS: -0.089 bn €)		
	01/01/1997 (MS: -0.089 bn €)		
	01/01/1998 (MS: -0.089 bn €)		

The main theme of the law was expansion of tax benefits for investment in the New Laender, partially replacing earlier tax instruments designed to promote growth in disadvantaged regions. In addition, the law included a collection of minor technical tax measures.

The most important parts of the law were concerned with reforming tax allowances for disadvantaged regions. The law largely removed tax benefits for companies in West Berlin. This induced revenue effects of 0.066 bn € retroactively for 1991, 1.36 bn € effective July 1991, 1.603 bn € effective 1992, and 0.238 bn € distributed over 1993 to 1995. Moreover, benefits for taxpayers and employees in West Berlin were reduced in a series of five steps. The revenue effects were 0.389 bn € effective October 1991, 0.251 bn € effective 1992, 0.307 bn € effective 1993, 0.537 bn € effective 1994, and 0.256 bn € effective 1995. The reductions in benefits for West Berlin were compensated by increases in tax benefits for disadvantaged regions and the investment surcharge tailored toward the needs of East Germany, with a total volume of -2.027 bn €, implemented retroactively for 1991. The law introduced, temporarily for 1991 to 1993, a tax-free amount for East German taxpayers, thereby affecting revenues by -0.409 bn €. For 1991 and 1992, the local capital tax was not imposed in East Germany, inducing a revenue effect of -0.046 bn €. The wealth tax was not imposed in 1992 to 1994, inducing revenue effects of -0.102 bn €. However, both the wealth tax and the local capital tax were never actually imposed in East Germany and were finally abolished and hence these tax shocks are treated as permanent.

Section 10e EStG had been concerned with special deductions for home owners, allowing deducting certain amounts for eight consecutive years after acquisition of a family-occupied flat or home. The law increased the upper limit for deductions and created additional child benefits, thereby inducing a revenue change of -0.089 bn € for each vintage accumulating over eight years. Also, but limited to acquisitions in 1991 to 1994, there were additional benefits for East Germany of -0.033 bn € per vintage, accumulating for 1991, 1992, 1993, and 1994, and then being paid for eight years. The law prolonged existing special deductions for social housing, implying an announcement effect of -0.128 bn €. Allowances for commuting costs were expanded in two steps, one retroactively for 1991, the other at the beginning of 1992. Unfortunately, the available revenue forecast is combined for both steps. It seems reasonable to distribute the shock equally across both steps, implying a shock of -0.281 bn € per step. Also, some technical changes related to child benefits retroactive for 1983 to 1985 induce revenue effects of -0.055 bn €. Technical changes related to the tax treatment of families induced a revenue effect of -0.023 bn € effective 1992. Changes in the local business tax tariff induced revenue changes of -0.036 bn € effective 1991. Changes in the automobile tax had a volume of 0.231 bn € effective at various dates in 1991.

The primary focus of the law was on improving economic conditions in East Germany. Tax benefits for West Germany were substantially reduced, while those benefiting East Germany were expanded. In the statement on the introduction of the bill, this was justified by promoting economic development in East Germany toward the goal of equalizing living conditions across Germany. The parliamentary debate centered on challenges raised by reunification. Treating reunification in 1989 to 1991 as a macroeconomic shock, which seems feasible, this suggests that the law was endogenous. In addition to measures related to the promotion of economic development in East Germany, the law contained a series of technical adjustments to the tax code. Some of these, such as the adjustments in the automobile tax or the expansion in commuter tax allowances, can be traced back to the reunification shock as they were either direct responses or responses to measures related to reunification. Only for measures with very minor revenue effects, such as the changes in the tax treatment of families, is an alternative motivation feasible. Taken together, it seems convincing to view the law as an endogenous reaction to the reunification shock. However, an alternative structural motivation is also a possibility.

<sup>50</sup> BGBl. 1991, 38, pp. 1322–1341.

**Gesetz zur Einführung eines befristeten Solidaritätszuschlags und zur Änderung von Verbrauchsteuer- und anderen Gesetzen (Solidaritätsgesetz)<sup>51</sup>**

Draft	1st Reading	Committee	2nd & 3rd Reading
03/08/1991 (SD: 20.022 bn €)	03/12/1991	05/11/1991	05/14/1991
Bundesrat	Vermittlungsausschuss	Bundesrat	Publication
06/07/1991	06/17/1991	06/21/1991	06/27/1991 (SD: 20.022 bn €)

**Implementation**

07/01/1991 (SD: 18.833 bn €)

03/01/1992 (SD: 0.525 bn €)

The law increased taxes on petroleum and tobacco and introduced the solidarity surcharge, which was an additional levy on income and corporate taxes.

Temporarily, between July 1991 and June 1992, a solidarity surcharge of 7.5 percent on income and corporate taxes was levied. The revenue effect was 10.226 bn € on an annual basis. The petroleum tax was increased as of July 1991, thereby generating 6.698 bn €. Note that part of the changes in the petroleum tax code consisted in the extension of extant measures. The extension effect of 0.665 bn € is not included in the implementation effect. Finally, the insurance tax was increased effective July 1991, inducing additional revenues of 0.971 bn €, and the tobacco tax went up as of March 1992, increasing tax revenues by 0.46 bn €. Increases in the petroleum and tobacco taxes created additional value-added tax revenues of 1.002 bn €, which are distributed on the implementation date of the increase in the tobacco tax and the increase in the petroleum tax in accordance to the relative size of the shocks.

It is clear that the law's main objective was to generate additional revenue. The statement on the introduction of the bill mentions that additional revenues are needed to finance expenditures related to the Gulf War and to reunification, and to assist eastern European transition economies. However, additional revenues were not earmarked and it was pointed out in the parliamentary debate that the increase in revenues exceeds the costs of the Gulf War by a fair margin. Nevertheless, the parliamentary debate was dominated by reunification and expenditure needs created by it. As such, the law is a response to the macroeconomic shock created by reunification in general. More specifically, it seems related to expenditure needs created by recent political developments. Taken together, the law was spending driven.

Within the legislative process, the law did not experience any substantial alternations.

**Gesetz zur Änderung des Steuerreformgesetzes 1990 sowie zur Förderung des Mietwohnungsbaus und von Arbeitsplätzen in Privathaushalten<sup>52</sup>**

Draft	1st Reading	Committee	2nd & 3rd Reading
05/09/1989 (S: -2.498 bn €)	05/12/1989	06/14/1989 (S: -0.043 bn €)	06/16/1989
Bundesrat	Publication	Implementation	
06/30/1989	06/30/1989 (S: -2.541 bn €)	07/01/1989 (S: -2.521 bn €) 01/01/1990 (S: -0.02 bn €)	

The law's main measure was abolishment of the so-called small capital return tax. Together with other minor measures, the law implemented substantial tax reductions.

The so-called small capital return tax was a withholding tax on capital returns introduced at the beginning of 1989 and abolished effective July 1989, changing revenues by -1.943 bn €. Savings allowances were increased, changing revenues by -0.297 bn € effective July 1, 1989. Changes in the income tax code expanded special depreciation for flats let for rent, thereby affecting revenues by -0.123 bn € effective July 1, 1989. Technical changes related to the capital gains tax changed tax revenues by -0.02 bn € effective 1990. Employment in private households was benefited by the introduction of special deductions, affecting revenues by -0.115 bn € effective July 1, 1989. Other technical changes affected revenues by -0.026 bn € effective July 1, 1989. Finally, the law allowed for additional special depreciations related to buildings in West Berlin, thereby changing revenues by -0.018 bn € effective July 1, 1989.

According to the statement on the introduction of the bill, the capital return tax was abolished because it has led to confusion in financial markets and to extreme administrative effort. Many of the minor changes introduced by the law, such as expansions in allowances for housing and in government incentives for savings, were justified with sociopolitical reasons. The parliamentary debate adds no insight. It is clear that the law was driven by structural reasons.

<sup>51</sup> BGBl. 1991, 38, pp. 1318–1321.

<sup>52</sup> BGBl. 1989, 31, pp. 1267–1272.

### Gesetz über Maßnahmen zur Entlastung der öffentlichen Haushalte (Haushaltsbegleitgesetz 1989)<sup>53</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
08/12/1988 (C: 0.879 bn €)	09/30/1988	11/18/1988 (C: -0.02 bn €)	11/23/1988
Bundesrat	Publication	Implementation	
12/16/1988	12/22/1988 (C: 0.859 bn €)	01/01/1989 (C: 0.854 bn €) 01/01/1991 (C: 0.01 bn €)	

The total announcement effect of the *Haushaltsbegleitgesetz 1989* fails to exceed the 0.1 percent threshold. However, the law contained a few, well-defined tax measures of considerable importance, warranting discussion in this history. Of importance was the increase in the insurance tax rate as well as in the automobile tax on diesel cars.

The automobile tax on diesel cars was increased effective 1989, changing revenues by 0.276 bn €. Technical changes in the automobile tax code induced a revenue effect of 0.01 bn € effective 1991. The increase in the insurance tax rate increased revenues by 0.603 bn € effective 1989. Minor changes in the capital returns tax affected revenues by -0.026 bn € effective 1989. Finally, the law prolonged the reduced value-added tax rate on ship travelling introduced with the *Gesetz zur Stärkung der Wettbewerbsfähigkeit der Wirtschaft und zur Einschränkung von steuerlichen Vorteilen (Steuerentlastungsgesetz 1984 - StEntlG 1984)*. The prospective revenue effect was -0.005 bn € on an annual basis. As usual, the measure is included in the announcement effect, but not in the implementation shock.

According to the statement on the introduction of the bill, the primary motive behind this tax legislation was to generate additional revenue. It states that grants to the European communities and to financially weak *Laender* have put financial burdens on the general budget, requiring compensation. It is, however, not clear that the revenue was earmarked for specific expenditure programs. The law appears to be chiefly related to distributing revenues across tiers of government, not necessarily to contemporaneous expansions in spending. It is also reported that the law was part of an ongoing effort to reduce budget deficits. For many of the tax measures included in the bill, structural motives were reported. Technical changes in the automobile tax code were justified by necessary modernizations and by the need to reduce administrative costs. The increase in the automobile tax on diesel cars was justified partially by tax justice, as previous increases in the petroleum tax fell disproportionately on other sorts of fuel. It was also noted that moving to indirect taxes may be beneficial for the economy, as direct taxes may discourage economic activity. The parliamentary debate does not add any fundamentally different insight. Given the emphasis on raising revenues, the law is classified as motivated by consolidation. However, an alternative structural motivation may be feasible.

During discussion in parliament, the law was altered only in very minor ways.

### Gesetz zur Änderung von Verbrauchsteuergesetzen (Verbrauchsteueränderungsgesetz 1988 - VerbrStÄndG 1988)<sup>54</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
08/12/1988 (C: 4.218 bn €)	09/30/1988	11/21/1988 (C: -0.146 bn €)	11/23/1988
Bundesrat	Publication	Implementation	
12/16/1988	12/22/1988 (C: 4.072 bn €)	01/01/1989 (C: 3.339 bn €) 05/01/1989 (C: 0.256 bn €) 01/01/1990 (C: 0.008 bn €) 01/01/1991 (C: 0.47 bn €)	

The *Verbrauchsteueränderungsgesetz 1988* implemented substantial increases in the petroleum and tobacco tax, with the primary intention of generating additional revenue.

The petroleum tax on gasoline and fuel oil was increased in two steps. In a first step, effective 1989, 3.339 bn € in additional revenues were created. In the second step, effective 1991, 0.47 bn € in additional revenues were created. Some technical changes in the petroleum tax code created 0.008 bn € effective 1990. Additionally, the tobacco tax was increased, generating 0.256 bn € effective May 1, 1989.

The *Verbrauchsteueränderungsgesetz 1988* was closely related to the previously discussed *Haushaltsbegleitgesetz 1989*. The laws were often discussed together in parliament, indicating that they did indeed share a common motivation. In the statement on the introduction of the bill, it is again stated that the government needs to compensate for grants to the European communities, to the *Laender*, and to the federal labor market authority. Again, no specific expenditure programs mentioned, nor are additional revenues earmarked. The motive of the law was one of consolidation.

<sup>53</sup> BGBl. 1988, 58, pp. 2262–2269.

<sup>54</sup> BGBl. 1988, 58, pp. 2270–2276.

Based on suggestions from the leading parliamentary committee, the tax increase in the petroleum tax was less severe than originally planned. No change in motivation is evident.

### Steuerreformgesetz 1990<sup>55</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
03/23/1988 (S: -11.156 bn €)	04/21/1988	06/21/1988 (S: -0.266 bn €)	06/23/1988
Bundesrat	Publication	Implementation	
07/08/1988	08/02/1988 (S: -11.422 bn €)	08/02/1988 (S: 0.133 bn €)	
		01/01/1989 (S: 3.244 bn €)	
		01/01/1990 (S: -14.799 bn €)	

The *Steuerreformgesetz 1990* is one of the more extensive tax reforms in this history. However, most of its tax measures had only very minor revenue effects. To keep focused on the more important parts of the reform, negligible measures are discussed only in the aggregate. The analysis of these smaller measures, however, was conducted in a manner identical to that for the measures discussed in more detail. Most noteworthy was the reform in the income tax tariff, leading to substantial tax reductions. Of interest also were reductions in the corporate tax rate.

The most important part of the law was the change in the income tax tariff effective 1990, which changed revenues by -16.31 bn €. The law also increased allowances for families effective 1990, thereby generating -1.107 bn €. Allowances for expenses of a provident nature were expanded effective 1990, leading to changes in revenues of -0.307 bn € and one-time effects of -0.153 bn €. The corporate tax rate was reduced, thereby generating -1.278 bn €. Compensations of employers for professional expenses were now taxed to a larger degree, changing revenues by 0.102 bn € effective 1990. The measure was also associated with a one-time revenue effect of size 0.256 bn €. Tax benefits for employment on Sundays, at night, or on bank holidays were reduced, thereby generating revenues of 0.130 bn € effective 1990. Effective 1989, allowances for provisions for jubilee benefits were removed, thereby generating revenues of 0.307 bn €. Effective 1990, a general tax deduction for work-related expenses of 2000 DEM was introduced, thereby changing revenues by 0.614 bn €. Only 50 percent of contributions to building savings contracts were allowed to be deductible effective 1990, thereby changing revenues by 0.128 bn €. The general allowance for special expenses was reduced effective 1990, thereby generating revenues of 0.179 bn €. The old age tax-free amount was removed, generating 0.215 bn € effective 1990. Additional wage components were included in the progression clause, changing revenues by 0.256 bn € effective 1990. The capital return tax was reformed effective 1989, inducing revenue changes of 2.199 bn €. The most noteworthy of these reforms was the introduction of a 10 percent withholding tax. The investment surcharge was removed, generating 0.818 bn € effective 1990. Tax debts were now subject to interest payment, changing revenues by 0.46 bn € effective 1989. Government incentives for savings were reduced, changing revenues by 0.307 bn € in 1990. Tax measures not discussed here were often technical and associated with only minor revenue impacts. Their total volume was 2.015 bn €, mostly effective 1989 and 1990.

The *Steuerreformgesetz 1990* was the core part of an attempt to reform and modernize the German tax system, with the general intention being to reduce tax rates financed by, at least partially, broadening the tax base. Based on the statement on the introduction of the bill, there is little doubt that the law was driven by structural considerations. According to this source, the law's measures were designed to lead to a more efficient tax system, to improve tax justice, to promote families, and to achieve sustainable long-term growth. It was also stated that the law increased international competitiveness. It was explicitly stated in the statement on the introduction of the bill that the law will improve conditions for sustainable growth, making its structural emphasis clear. The parliamentary debate was along similar lines. Dr. Stoltenberg from the CDU/CSU pointed out that the law followed the principal logic of expanding the tax base, while reducing tax rates. Not only is such a course of action often advised by leading economists, it is also the principle of tax reform in many countries. Mr. Stoltenberg further claimed ideological motivations for a reduction in marginal tax rates; as such a reduction should increase the benefits of work and effort. Dr. Dregger from the CDU/CSU government claimed that the objectives of the tax reform were to improve tax justice and the efficiency of the tax system, to improve structural conditions for growth, to reduce bureaucratic costs, and to increase international competitiveness. Neither the statement on the introduction of the bill, nor the discussion in parliament, justified the reform on the basis of specific macroeconomic shocks. The law was motivated by structural considerations.

Given the size of the tax reform at hand, it is not surprising that the law changed during the legislative process. However, most changes had only minor revenue impacts and none were related to alterations in motivation. The *Steuerreformgesetz* implemented a shock of 3.24 bn € in 1989 and of -14.8 bn € in 1990.

<sup>55</sup> BGBl. 1988, 36, pp. 1093–1186.

## **Gesetz zur Änderung des Einkommensteuergesetzes (Steuersenkungs-Erweiterungsgesetz 1988 - StSenkErwG 1988)<sup>56</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
04/03/1987 (MS: -2.677 bn €)	05/20/1987	06/24/1987	06/26/1987
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
07/10/1987	07/22/1987 (MS: -2.677 bn €)	01/01/1988 (MS: -2.677 bn €)	

The law introduced tax reductions, supplementing those already implemented at the beginning of 1988 due to the *Steuersenkungsgesetz 1986/1988*. One important motive was to comply with a February 22, 1987 international agreement among six industrial nations.

The general tax-free amount was increased with the beginning of 1988, thereby changing tax revenues by -0.734 bn € on an annual basis. In addition to measures that had already been designed to be implemented in 1988, the law further changed the income tax tariff, thereby inducing revenue changes of -1.534 bn €. The law increased training tax allowances, changing revenues by -0.153 bn €. Special depreciations for small and medium-sized companies were expanded, changing revenues by -0.256 bn € on an annual basis effective 1988.

In the parliamentary debate, Mr. Stoltenberg, Federal Minister of Finance, reported that an important motive of the law was to strengthen internal demand. It was stated that the DEM had appreciated strongly, thereby depressing external demand. The tax stimulus program was partially designed to offset these macroeconomic shocks. It is explicitly stated that economic growth was slowing down, providing incentive for a stimulus package. Mr. Stoltenberg also justified the law as an exercise in international cooperation. Germany at that time had a large trade surplus, and strengthening internal demand was expected to lead to more balanced trade. The statement on the introduction of the bill reported that the law had been designed to improve disposable income, employment, and investment. Based on the parliamentary debate, it also seems that the government was reacting to current macroeconomic conditions. The tax law was endogenous and reacted to a recent macroeconomic shock.

Within the legislative process, the law experienced no substantial alternation.

## **Gesetz zur Verbesserung der Abschreibungsbedingungen für Wirtschaftsgebäude und für moderne Heizungs- und Warmwasseranlagen<sup>57</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
08/16/1985 (S: -1.48 bn €)	10/25/1985	11/26/1985 (S: -0.091 bn €)	12/05/1985
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
12/19/1985	12/24/1985 (S: -1.571 bn €)	12/24/1985 (S: -1.571 bn €)	

The law was concerned with reforming depreciation rules, primarily those related to buildings.

First and foremost, the law expanded depreciation allowances. The depreciation period for commercial buildings was set to 25 rather than 50 years. The measure came into effect retroactively for 1985, implying that the date of publication should be chosen as the implementation date. Deciding on an appropriate revenue effect is complicated because the annualized revenue impact within the first 12 months after full implementation in this case does not account for accumulation effects over the years. The pragmatic solution is to take an average over the budgetary effects given for 1985 to 1990. This produces an effect of -1.429 bn €. The law authorized the government to allow special depreciations for heating systems, with a prospective average effect of -0.091 bn € in 1985 to 1991. In calculating the revenue effect, the same logic as above is applied. The law further expanded tax benefits for Berlin and the area adjacent to the German Democratic Republic. The investment surcharge on certain assets and buildings is increased by 5 percent retroactive to 1985. Also, special depreciations for certain assets in the area adjacent to the German Democratic Republic were increased retroactively to 1985. Both measures had a combined effect of 0.051 bn €.

Based on the statement on the introduction of the bill, it is not entirely clear whether structural or countercyclical reasons were the primary motive behind these changes. It was stated that increased depreciation allowances give companies increased flexibility and hence are beneficial in overcoming structural problems. At the same time, it was stated that one motive of the law was to increase employment in the construction sector given current economic conditions. Still, there are indications that this motive was sectoral and not economywide. First, in the third quarter of 1985, the economy was growing at 2.5% on an annual level, while the corresponding rate was 4% in the second quarter. There were hence no indications of a recession or unfavorable macroeconomic conditions. Also, the parliamentary debate focused on structural arguments. The motivation of the law was structural.

<sup>56</sup> BGBl. 1987, 37, pp. 1629–1670.

<sup>57</sup> BGBl. 1985, 62, pp. 2434–2435.

**Gesetz zur leistungsfördernden Steuersenkung und zur Entlastung der Familie (Steuersenkungsgesetz 1986/1988 - StSenkG 1986/1988)<sup>58</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
12/28/1984 (S: -9.899 bn €)	03/01/1985	05/15/1985 (S: -0.02 bn €)	05/24/1985
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
06/14/1985	06/28/1985 (S: -9.919 bn €)	01/01/1986 (S: -5.573 bn €)	
		01/01/1988 (S: -4.346 bn €)	

The law reformed the income tax tariff as well as the tax treatment of families, leading to large tax reductions.

At the beginning of 1986, the general tax-free amount was increased, changing revenues by -1.074 bn €. The income tax tariff was altered in two steps, the first in 1986 and the second in 1988. The first step changed revenues by -1.841 bn € and the second step by -4.346 bn €. These changes were accompanied by changes in the tax treatment of families starting in 1986. Of special importance was the increase in the tax-free amount for children, corresponding to -2.454 bn €. Further measures, such as changes in general household allowances and training tax allowances, affected revenues by -0.205 bn € in 1986.

In the statement on the introduction of the bill it was stated that the reform of the income tax tariff was designed to offset increased taxation as a consequence of growing income. Thus, the law was at least partially designed to offset cold progression. It was also stated that the tax burden of the low-income population will be reduced. The reform of the tax treatment of families was justified on sociopolitical grounds. There was also some indication that part of the reason behind these changes related to the tax treatment of families had to do with complying with certain requirements of the constitutional court. The parliamentary debate added no substantial information. The motivation of the law was structural.

Within the legislative process, the law experienced only very modest alternations. No change in motivation is evident.

**Gesetz zur Stärkung der Wettbewerbsfähigkeit der Wirtschaft und zur Einschränkung von steuerlichen Vorteilen (Steuerentlastungsgesetz 1984 - StEntIG 1984)<sup>59</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
07/22/1983 (S: -1.782 bn €)	09/07/1983	11/25/1983 (S: -0.01 bn €)	12/08/1983
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
12/16/1983	12/28/1983 (S: -1.792 bn €)	12/28/1983 (S: -0.895 bn €)	
		01/01/1984 (S: -0.897 bn €)	
		04/01/1984 (S: -0.051 bn €)	

The law implemented a multitude of technical changes and created new tax incentives, leading to substantial tax reductions.

In § 117 a BewG, details related to computation of the tax assessment basis of the wealth tax were changed, altering revenues by -0.593 bn € effective 1984. The wealth tax rate was reduced from 0.7 percent to 0.6 percent, changing revenues by -0.153 bn € effective 1984. Under the German Valuation Law, if a corporation holds more than 25 percent of another corporation, those shares do not qualify as business assets. The law reduced that threshold to 10 percent, leading to a change in tax revenues of -0.107 bn € effective 1984. The law also introduced changes in income-related taxes. Small and medium-sized enterprises were allowed to deduct special depreciations for moveable assets, changing revenues by -0.511 bn € retroactively. The law also introduced special depreciations for research and development, retroactively and limited until the end of 1989. The revenue effect was -0.153 bn €. Special depreciations for vessels and airplanes were extended until the end of 1989. Following the usual practice, this tax shock of -0.051 bn € is included in the announcement effect of the law, but excluded from the implementation tax shock series. Technical changes in the income tax code induced revenue effects of -0.005 bn € effective 1984.

The German tax code allows firms to transfer losses over time. The law doubled the amount for loss carry back to 10 million DEM, thereby changing revenues by -0.102 bn € effective 1984. § 16 sec. 4 EStG allowed for a tax-free amount in case of sale of business. This amount was increased to 120,000 DEM from 60,000 DEM, changing revenues by -0.02 bn € effective with 1984. Technical changes in the corporate income tax code changed tax revenues by -0.013 bn € effective 1984. There was also a large one-time effect of -0.128 bn €. From 1984 to 1989, passenger ship services were subject to a reduced VAT tax rate, changing revenues by -0.005 bn €. The measure was originally designed to be temporary, but it was in effect for the rest of the time horizon considered in this history. Finally, tax benefits in the automobile tax code for disabled persons were reduced, changing revenues by 0.051 bn € effective April 1, 1984.

<sup>58</sup> BGBl. 1985, 34, pp. 1153–1242.

<sup>59</sup> BGBl. 1983, 54, pp. 1583–1591.

The law's title suggests that it was concerned with strengthening growth. The statement on the introduction of the bill reported that the law was intended to increase growth and to decrease unemployment, both by improving the structure of the tax system and by fostering investment and innovation. However, while considerable emphasis was given to improving long-term conditions, no specific macroeconomic shock was mentioned. Indeed, the economy was growing at around 2 percent annually at the time the law was written, which seems about normal. Also, in the parliamentary debate, it is acknowledged that the economy was recovering at the time the law was written. The focus of the law is not countercyclical; rather, it is concerned with improving structural conditions.

Within the legislative process, the law was changed only in insubstantial ways. No change in motivation is evident.

#### Erstes Gesetz zur Änderung des Umsatzsteuergesetzes<sup>60</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
04/30/1984 (S: -0.98 bn €)	05/03/1984	06/20/1984 (S: -0.457 bn €)	06/27/1984
Bundesrat	Publication	Implementation	
06/29/1984	06/30/1984 (S: -1.437 bn €)	07/01/1984 (S: -1.437 bn €)	
		01/01/1989 (S: -0.98 bn €)	

The purpose of the law was to provide an income transfer to farmers implemented via the value-added tax.

The value-added tax code contains special regulations for farmers and agricultural businesses. Farmers are not required to engage in bookkeeping, implying that value-added taxation can be based on average rates. Specifically, the tax code allows for average rates for input tax deductions. The law changed the average tax rate for agricultural businesses and granted the right to reduce value-added tax liabilities by 5 percent of the tax base between July 1984 and December 1988 and by 3 percent between January 1989 and December 1991. Over the whole lifetime of the measure, the *Finanzbericht* reports an effect of -9.408 bn €, while for the first phase, the total revenue effect is given as -6.468 bn €. On an annual basis, this allows specifying an annualized revenue effect of -0.980 bn € on the second phase, to be phased out at the end of 1991, and one of -1.437 bn € on the first phase, to be phased out at the end of 1988.

Based on the parliamentary debate and the statement on the introduction of the bill, it is clear that the law was related to technical changes in the EU common agricultural policy. Using a complex system, the EU common agricultural policy fixed prices. By technical adjustments due to a decision of the Council of the European Union, the monetary compensatory amount for Germany was decreased. In essence, this led to reduced prices for German agricultural goods. The law's intention was to compensate farmers for their loss in income. It is clear that policymakers were acting on agricultural and social policy motives. Note that other than in the *Gesetz über einen Ausgleich für Folgen der Aufwertung der Deutschen Mark auf dem Gebiet der Landwirtschaft (Aufwertungsausgleichsgesetz - AufwAG)*, the law was not a reaction to a recent exchange rate alteration, but to a technical adjustment in the EU common agricultural policy. Hence, the motivation behind the law was structural.

Due to suggestions of the *Finanzausschuss*, the income transfer to farmers was increased in the period between July 1984 and December 1988, while it remained essentially unchanged for the remaining period. Originally, the regulations for the second phase were designed for the whole period between 1984 and 1991. Our annualized effect of -0.98 bn € seems a good proxy for the original revenue effect of the law.

#### Gesetz zur Wiederbelebung der Wirtschaft und Beschäftigung und zur Entlastung des Bundeshaushalts (Haushaltsbegleitgesetz 1983)<sup>61</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
11/04/1982 (MS: 2.81 bn €)	11/10/1982	12/09/1982 (SD: -0.153 bn €)	12/15/1982
11/04/1982 (SD: 0.639 bn €)			
Bundesrat	Publication	Implementation	
12/17/1982	12/23/1982 (MS: 2.81 bn €)	12/23/1982 (MS: -0.383 bn €)	
	12/23/1982 (SD: 0.486 bn €)	01/01/1983 (MS: -0.312 bn €)	
		01/01/1983 (SD: 0.486 bn €)	
		07/01/1983 (MS: 4.09 bn €)	
		01/01/1984 (MS: -0.279 bn €)	
		01/01/1985 (MS: -0.307 bn €)	

The law's title suggests it was designed to promote employment and economic activity, while in effect it implemented substantial tax increases, mostly via an increase in the value-added tax rate.

<sup>60</sup> BGBl. 1984, 26, pp. 796–797.

<sup>61</sup> BGBl. 1982, 54, pp. 1857–1911.

The general value-added tax rate was increased from 13 to 14 percent and the reduced value-added tax rate from 6.5 to 7 percent effective July 1, 1983. The prospected revenue effect was 4.09 bn € on an annual basis. A reform of the tax treatment of child-care expenses affected revenues by -0.271 bn € effective 1983. A related retroactive measure generated a one-time revenue effect of -0.077 bn €. Changes in § 21 a EStG allowed an increased interest deduction for family homes and owner-occupied flats from 1983 to 1986. The annualized impact was given as -0.307 bn €. The deduction was paid for three consecutive years, implying a series of revenue shocks in 1983, 1984, and 1985 (see the *Gesetz zur Abschaffung der Eigenheimzulage* for a justification). Tax allowances for private pensions were reduced, generating 0.460 bn € effective 1983.

Temporarily, the law allowed for book reserves in case of acquisition of endangered companies. The measure changed tax revenues by -0.307 bn €, was implemented retroactively, and was expected to phase out at the end of 1986. Previously, certain interest payments had been subject to the local business tax. Under new regulations, 50 percent of such interest was taxed in 1984 and only 40 percent beginning with 1983. Unfortunately, the revenue forecast provided in the official sources does not allow distinguishing between the revenue effects of these steps. Based on the effects on budgetary years, a good estimate seems to be -0.706 bn € for the first step and -0.176 bn € for the second step. Part of the law is the *Investitionshilfegesetz*, concerned with generating revenues for public housing schemes. In principle, the measure implements a surcharge on income and corporate taxes for the years 1983 and 1984, generating 0.486 bn € on an annual basis.

The temporary surcharge on income and corporate taxes in 1983 and 1984 was spending driven, as revenues were intended to finance public housing schemes. The rest of the law was justified in the statement on the introduction of the bill as related to recent economic deterioration. Specifically, it was stated that surprisingly gloomy business cycle prospects required adjustments in budgetary planning. Reductions in tax revenues and increased unemployment put a financial burden on the budget, requiring additional revenues. And, indeed, the economy was in a recession at the time the law was passed. Accordingly, the law was driven by a recent macroeconomic shock.

The law was slightly altered due to suggestions from the leading parliamentary committee; however, no change in motivation was evident. Taken together, the law implemented an endogenous shock of 3.295 bn € at various dates between 1982 and 1985.

#### Zweites Gesetz zur Verbesserung der Haushaltsstruktur (2. Haushaltsstrukturgesetz - 2.HStruktG)<sup>62</sup>

Draft	1st Reading	Committee	2nd & 3rd Reading
09/04/1981 (S: 0.119 bn €)	10/01/1981	11/03/1981 (S: -0.029 bn €)	11/12/1981
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/27/1981	12/08/1981 (S: -0.568 bn €)	12/10/1981	12/18/1981
<b>Publication</b>	<b>Implementation</b>		
12/29/1981 (S: -0.477 bn €)	12/29/1981 (S: -1.682 bn €)		
	01/01/1982 (S: 1.971 bn €)		
	01/01/1983 (S: -0.156 bn €)		
	01/01/1984 (S: -0.156 bn €)		
	01/01/1985 (S: 0.151 bn €)		
	01/01/1986 (S: -0.156 bn €)		
	01/01/1987 (S: -0.156 bn €)		
	01/01/1988 (S: -0.156 bn €)		
	01/01/1989 (S: -0.156 bn €)		

The law implemented a diversity of tax measures, most of which had limited revenue impact. One emphasis of the tax act was on removing tax exemptions, and yet noteworthy provisions of the law involved subsidies on housing and expansions in depreciation allowances.

The law extensively reformed the income tax code, with a net revenue effect of -0.517 bn €. Retroactively, the declining balance depreciation was expanded, changing revenues by -1.526 bn €. Also, again retroactively, depreciation allowances for single and two-family homes, as well as owner-occupied flats, were extended, changing revenues by -0.156 bn €. As benefits are paid for eight consecutive years, a revenue effect in the amount of -0.156 bn € resulted at each step (see the discussion under the *Gesetz zur Abschaffung der Eigenheimzulage* for more details). Given the retroactive nature of these shocks, the date of publication is chosen as the implementation date. Technical changes related to housing induced revenue changes of 0.087 bn € effective 1982. The law reduced tax allowances for training and education costs, thereby generating 0.102 bn € in 1982. Certain unemployment benefits had not previously been taxable; however, under the new regulation, they were considered as part of income when computing the tax rate. This was important because of

<sup>62</sup> BGBl. 1981, 58, pp. 1523–1559.

the progressivity of the tax tariff and generated 0.205 bn € in revenues. The law removed household allowances for singles older than 49 years, generating 0.263 bn € in 1982. The *Haushaltsstrukturgesetz* changed technical details related to pension reserves, generating 0.562 bn € effective 1982. Further technical changes in the income tax code affected revenues by 0.332 bn € effective 1982.

In addition to amending the income tax code, the law also touched on a diversity of other tax types. Privileges granted the self-employed in regard to the value-added tax were removed effective 1982, generating 0.169 bn €. Sales by the land-registry were included in the value-added tax base, generating 0.031 bn € in 1982. Starting in 1982, agricultural businesses were allowed to deduct larger input taxes, in effect reducing their tax burden by 0.128 bn € in 1982. Removing further exemptions in the value-added tax code generated 0.307 bn €, effective 1985. For 1982 to 1985 only, the law implemented an investment surcharge for investment in the iron steel industry, which affected revenues by -0.107 bn € on an annual basis. The law reduced tax incentives for savings, which generated 0.542 bn € effective 1982. The law also closed loopholes in the local business tax, thereby generating 0.005 bn € effective 1982. The tax code at that time had allowed creating book reserves for investment in developing countries, which in essence had reduced taxable profits. The *Haushaltsstrukturgesetz* abolished these tax benefits effective 1982, thereby changing revenues by 0.164 bn €. The law also reduced tax benefits for West Berlin, thereby changing revenues by 0.053 bn € in 1982. Some further technical changes affected revenues by 0.112 bn € in 1982.

At the time of writing the law, budget consolidation was the dominant political topic and, accordingly, the statement on the introduction of the bill, as well as the parliamentary debate, put considerable emphasis on consolidation. In the aftermath of the oil crises, the economy needed structural adjustments, and reductions in the budget deficit were expected to promote investment and growth. While growth at that time was relatively low, the statement on the introduction of the bill suggested that low growth rates at that time were structural in nature. Indeed, this is the general theme of a great deal of tax legislation implemented at that time (see the discussion under the *Gesetz zur Änderung von Verbrauchsteuergesetzen*, under the *Gesetz über steuerliche und sonstige Maßnahmen für Arbeitsplätze, Wachstum und Stabilität*, or under the *Mineralöl- und Branntweinsteuer-Änderungsgesetz 1981*). The *Haushaltsstrukturgesetz* abolished tax exemptions and special allowances, reflecting the general consolidation motive. Yet given substantial increases in depreciation allowances, and in allowances for housing, the law actually had a negative impact on tax revenues. In the parliamentary debate, considerable emphasis was given to the housing aspect, with sociopolitical reasons used in its justification. Increases in depreciation allowances were also expected to increase investment, and hence improve conditions for growth. Taken together, I see a slight dominance of structural considerations. The law was motivated by structural considerations.

Within the legislative process, the law experienced some modest alternations. No change in motivation was prevalent.

#### **Gesetz zur Änderung von Verbrauchsteuergesetzen (Verbrauchsteueränderungsgesetz 1982 - VStÄndG 1982)<sup>63</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
09/04/1981 (C: 1.679 bn €)	09/16/1981	11/04/1981	11/12/1981
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
11/27/1981	12/08/1981	12/10/1981	12/11/1981
<b>Bundestag</b>	<b>Publication</b>	<b>Implementation</b>	
12/18/1981	12/30/1981 (C: 1.679 bn €)	01/01/1982 (C: 0.007 bn €)	
		04/01/1982 (C: 0.394 bn €)	
		06/01/1982 (C: 1.278 bn €)	

The law increased taxes on tobacco, sparkling wine, and spirits.

The tobacco tax was increased effective June 1982, generating 1.278 bn €. Increases in the tax rates on sparkling wine and spirits generated 0.394 bn € effective April 1982. Finally, the law introduced some technical adjustments in the petroleum tax code, changing revenues by 0.007 bn € at the beginning of 1982.

The statement on the introduction of the bill reported that the law was motivated by budget consolidation and structural adjustments in the composition of tax revenues. Specifically, one of the law's purposes was to increase the importance of indirect taxes vis-à-vis direct taxes. Increasing the tobacco tax was also justified by health political reasons; however, this argument seems secondary. In the parliamentary debate, Mr. Matthoefer, Federal Minister of Finance at that time, opened by describing the economic background of the law. Substantial oil price increases in the 1970s had put considerable stress on the current account, and had induced structural adjustment processes in the economy, according to Mr. Matthoefer. The law's intention was to aid economic adjustment by consolidating budgetary positions and, as such, the law was part of a general consolidation program. In the parliamentary debate, it was explicitly stated that

<sup>63</sup> BGBl. 1981, 59, pp. 1562–1565.

budget consolidation would improve confidence and hence investment. Changing the composition of tax revenues by favoring indirect taxes over direct taxes was expected to preserve marginal returns of labor and capital, and hence to be beneficial for economic activity, according to Mr. Matthoefler. The only difficulty in assessing the motivation of the law arises because the law mixed consolidation and structural motives. Still, the main motivation of the law seems to have been consolidation.

Within the legislative process, the law was not altered substantially.

#### **Gesetz über steuerliche und sonstige Maßnahmen für Arbeitsplätze, Wachstum und Stabilität (Beschäftigungsförderungsgesetz - BeschäftFG)<sup>64</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
03/01/1982 (S: 0.409 bn €)	03/04/1982	03/25/1982	03/26/1982
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
04/30/1982	05/12/1982 (S: - 2.454 bn €)	05/27/1982	05/28/1982
<b>Publication</b>	<b>Implementation</b>		
06/08/1982 (S: - 2.045 bn €)	06/08/1982 (S: - 2.045 bn €)		

The law implemented a temporary investment surcharge of 10 percent on certain investment categories, in most cases restricted to 1982. The investment surcharge was granted only if the investment in 1982 was larger than that made in the three previous years. The measure was expected to change revenues by -2.045 bn € in 1982. Given the law's retroactive nature, the date of publication is chosen as the implementation date.

Dr. Graf Lambdsdorff from the coalition government started the parliamentary debate by outlining economic projections for 1982. According to these projections, the government expected modest economic growth and a slight recovery of employment. However, he continued by arguing that economic growth in general had been too weak to substantially reduce unemployment. Especially, international and national economic adjustment processes following the oil price increases in the 1970s had put considerable stress on economic growth. He pointed out that the necessary structural adjustment would require time and long-term effort. Dr. Graf Lambdsdorff stated explicitly that the temporary investment surcharge was expected to jump-start growth of the economy, as well as help make the necessary structural adjustments. Although the investment surcharge was designed to be only temporary, Dr Graf Lambdsdorff reported that the measure would be accompanied by additional structural measures at later points. The statement on the introduction of the bill followed a similar line of reasoning. It was explicitly stated that structural adjustment was needed and that the law had been designed to induce sustainable structural change. The motivation of the law was structural.

Within the legislative process, the law changed substantially. The government originally intended to increase the value-added tax rate to offset the budgetary effects of the investment surcharge, but this plan was rejected by the mediation committee.

#### **Mineralöl- und Branntweinsteuer-Änderungsgesetz 1981 - MinöBranntwStÄndG 1981<sup>65</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
12/19/1980 (C: 2.021 bn €)	01/23/1981	02/16/1981 (C: -0.051 bn €)	02/19/1981
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundesrat</b>	<b>Bundestag</b>
02/20/1981	03/06/1981	03/13/1981	03/18/1981
<b>Publication</b>	<b>Implementation</b>		
03/25/1981 (C: 1.969 bn €)	04/01/1981 (C: 1.765 bn €) 12/27/1981 (C: 0.153 bn €) 01/01/1982 (C: 0.051 bn €)		

The law increased the petroleum tax and taxes on spirits.

The petroleum tax was increased, which generated 1.348 bn € on an annual basis effective April 1982. Technical changes in the petroleum tax code had additional effects of 0.051 bn € and were implemented at the beginning of 1982. The remaining part of the law was concerned with changing taxation of spirits. First, the tax rate was increased, leading to 0.307 bn € in revenues effective April 1982. The law also broadened the tax base of the tax on spirits by introducing taxes on Isopropylalcohols. This generated 0.11 bn € in additional revenues. Last, the law changes the payment period, which generated a one-time revenue effect of 0.153 bn € in December 1982.

<sup>64</sup> BGBl. 1982, 19, pp. 641–645.

<sup>65</sup> BGBl. 1981, 13, pp. 301–305.

The *Finanzbericht* categorizes the law as motivated by budget consolidation. The statement on the introduction of the bill reported three objectives of the tax act: the law was designed to reduce public borrowing, to improve the structure of tax revenues by aiding changes in its composition, and to reduce energy dependence and oil imports by increasing the cost of energy consumption. Mr. Matthöfer, Federal Minister of Finance, stated in the parliamentary debate that the law was part of a general effort to moving from direct to indirect taxation, and pointed out that this agenda had been supported across parties. More importantly, past increases in oil prices had put considerable burdens on the current account. Increasing the cost of petroleum consumption would then reduce oil imports, and aid the economy in structural adjustments following escalating oil prices. Political uncertainties in the Arab region, and dependency on oil imports from that region, also determined to a considerable extent the first reading in parliament. However, it was also repeatedly stated that additional revenue was needed for budgetary reasons, recognizing that the current budgetary situation was not sustainable. Budget consolidation was a general theme at that time, with many hoping that consolidation itself would benefit economic growth. Taken together, it is evident that the law was motivated by both consolidation and structural concerns. Given the assignment in the *Finanzbericht*, I see a slight dominance of consolidation motives, specifically because budget consolidation was expected to have beneficial structural effects. The motivation of this act was budget consolidation; however, a structural motivation is not completely out of question.

Within the legislative process, the law was augmented in technical dimensions, none of them quantitatively substantial.

### **Gesetz zur Steuerentlastung und Familienförderung (Steuerentlastungsgesetz 1981)<sup>66</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
02/21/1980 (S: -8.334 bn €)	03/07/1980	05/14/1980	05/22/1980
<b>Bundesrat</b>	<b>Vermittlungsausschuss</b>	<b>Bundestag</b>	<b>Bundesrat</b>
06/13/1980	07/03/1980 (S: 1.278 bn €)	07/04/1980	07/04/1980
<b>Publication</b>	<b>Implementation</b>		
08/21/1980 (S: -7.056 bn €)	08/21/1980 (S: -1.79 bn €)		
	01/01/1981 (S: -3.272 bn €)		
	01/01/1982 (S: -1.994 bn €)		

The law introduced a series of tax reductions, mainly by extending child benefits and reforming the income tax tariff. The main intention of the law was to offset bracket creep.

The law's quantitatively most important measure was adjustment of the income tax tariff. Specifically, the tax-free amount and income brackets were expanded. This lowered revenues by 3.119 bn € effective 1981. Of considerable importance also was the increase in the maximum deduction for special expenses, as well as the advance deduction for insurance contributions. The measure was expected to change revenues by -1.841 bn € effective 1982. Two measures of the law were retroactive for 1980. First, the tax-free Christmas allowance was increased. This lowered tax revenues by 0.716 bn €. Also, allowances for child-care expenses were extended, lowering tax revenues by -1.074 bn €. Some other, rather technical measures changed revenues by -0.153 bn € both at the beginning of 1981 and in 1982.

In the *Finanzbericht*, it was reported that the law had been designed to assist families and to lower taxes. Based on the statement on the introduction of the law, the law was implemented for sociopolitical reasons and to offset bracket creep. Precisely these two motivations were mentioned in the parliamentary debate. It is hence clear that the law was not a reaction to a contemporaneous macroeconomic shock. The motivation of the law was structural.

Within the legislative process, the law was altered substantially. No change in motivation was evident.

<sup>66</sup> BGBl. 1980, 49, pp. 1381–1427.

**Gesetz zur Änderung des Einkommensteuergesetzes, des Gewerbesteuergesetzes, des Umsatzsteuergesetzes und anderer Gesetze (Steueränderungsgesetz 1979 - StÄndG 1979)<sup>67</sup>**

Draft	1st Reading	Committee	2nd & 3rd Reading
09/01/1978 (CC: -4.433 bn €)	09/20/1978	10/18/1978	10/19/1978
Bundesrat	Vermittlungsausschuss	Bundesrat	Vermittlungsausschuss
10/27/1978	11/09/1978 (CC: -0.636 bn €)	11/10/1978	11/17/1978 (CC: -0.636 bn €)
Bundestag	Bundesrat	Publication	Implementation
11/17/1978	11/24/1978	12/02/1978 (CC: -5.068 bn €)	01/01/1979 (CC: -5.686 bn €)
			07/01/1979 (CC: 3.298 bn €)
			01/01/1980 (CC: -2.599 bn €)
			01/01/1981 (CC: -0.082 bn €)

The law was a stimulus package in response to global economic imbalance financed partially by an increase in the value-added tax rate.

First, the law reformed the income tax tariff effective with 1979, thereby changing revenues by -5.42 bn €. Of some importance also were increases in advance deductions for health insurance, pension contributions, and other insurance. This changed revenues by -0.92 bn € effective 1980. Other changes in the income tax system were of less importance, affecting tax revenues by -0.266 bn € in 1979 and -0.256 bn € in 1980. The law also introduced substantial changes in the local business tax. At that time, the local business tax included a municipal payroll tax, a profit tax, and a trade capital tax. The law abolished the municipal payroll tax effective 1980, thereby lowering tax revenues by -1.125 bn €. Tax allowances and exemptions for the profit tax were increased at the beginning of 1980, thereby affecting revenues by -0.298 bn €. Similar changes for the trade capital tax affected revenues by -0.082 bn € effective 1981. To finance some of the tax reductions, the value-added tax rate was increased from 12 to 13 percent effective July 1979. This measure raised 3.298 bn € on an annual basis.

The *Finanzbericht* classified the law as a countercyclical policy. The statement on the introduction of the bill pointed out that the law was designed to cope with a recent global recession and that it is part of an international cooperation aimed at providing a demand stimulus. Specifically, global policymakers believed that global demand was insufficient, and hence implemented a coordinated stimulus. This tax act was Germany's contribution. The parliamentary debate also revolved around countercyclical arguments. It was mentioned that the law was part of an international cooperation effort to overcome recent imbalances, to which end the federal government had agreed to implement stimulus measures. Hence, the motivation of the law was clearly countercyclical.

Within the legislative process, the law was altered substantially. No change in motivation occurred.

**Gesetz zur Steuerentlastung und Investitionsförderung<sup>68</sup>**

Draft	1st Reading	Committee	2nd & 3rd Reading
09/13/1977 (CC: -4.671 bn €)	09/15/1977	10/05/1977	10/06/1977
Bundesrat	Vermittlungsausschuss	Bundestag	Bundesrat
10/14/1977	10/24/1977 (CC: -1.841 bn €)	10/27/1977	11/04/1977
Publication	Implementation		
11/08/1977 (CC: -6.512 bn €)	11/08/1977 (CC: -2.831 bn €)		
	01/01/1978 (CC: -3.681 bn €)		

The *Gesetz zur Steuerentlastung und Investitionsförderung* implemented a large business cycle stimulus.

The law increased the tax-free Christmas allowance from 51 € to 205 €, effective 1977, and changed revenues by -1.074 bn €. The tax-free income was increased from 1,534 € to 1,687 € effective 1977, which changed revenues by -1.074 bn € on an annualized basis. The law introduced a general tax allowance of 261 €, which affected revenues by -2.608 bn € effective 1978. Finally, the law reformed depreciation rules. Declining depreciation for buildings was reintroduced retroactively to September 1977. The measure changed revenues by -0.371 bn €. The law also allowed for increased rates in declining balance depreciation, changing revenues by -1.386 bn € retroactively to September 1977.

The *Finanzbericht* classified the law as driven by countercyclical reasons. In the statement on the introduction of the bill, it was explicitly stated that the economy had been doing worse than expected and that the law was intended to stimulate growth and employment. Mr. Westphal, SPD, gave the opening speech in the parliamentary debate, in which he stated very clearly that the law was

<sup>67</sup> BGBl. 1978, 65, pp. 1849–1908.

<sup>68</sup> BGBl. 1977, 71, pp. 1965–2015.

intended to increase consumer spending, economic activity, and employment. The tax law was a classical Keynesian stimulus and its motivation was countercyclical.

Within the legislative process, the law was changed in important ways in the *Vermittlungsausschuss*, but it is clear that these changes were not driven by alterations in motivation.

#### **Gesetz über steuerliche Vergünstigungen bei der Herstellung oder Anschaffung bestimmter Wohngebäude<sup>69</sup>**

<b>Draft</b>	<b>1st Reading</b>	<b>Committee</b>	<b>2nd &amp; 3rd Reading</b>
03/03/1977 (S: -1.329 bn €)	04/21/1977	05/17/1977	05/26/1977
<b>Bundesrat</b>	<b>Publication</b>	<b>Implementation</b>	
06/24/1977	07/14/1977 (S: -1.329 bn €)	07/14/1977 (S: -0.435 bn €)	
		01/01/1978 (S: -0.128 bn €)	
		01/01/1979 (S: -0.128 bn €)	
		01/01/1980 (S: -0.128 bn €)	
		01/01/1981 (S: -0.128 bn €)	
		01/01/1982 (S: -0.128 bn €)	
		01/01/1983 (S: -0.128 bn €)	
		01/01/1984 (S: -0.128 bn €)	

The law does not formally qualify as important according to the 0.1 percent criterion; however, it had two clearly defined measures of considerable importance. Also, the annualized revenue impact of the law reported in the *Finanzbericht* underestimates its impact, as part of the tax measures cumulate over time. The tax act was concerned with tax benefits related to family homes.

Under the new regulation, transactions involving one- and two-family houses, as well as owner-occupied flats, were exempted from the land purchase tax retroactive to 1977, thereby changing tax revenues by -0.307 bn € on an annual level. The tax law further expanded income tax deductions for the same class of real estate in case of acquisitions. For a total of eight consecutive years, the home owner was allowed to set off 5 percent of the acquisition costs against tax liabilities. Analysis of this law is very similar to that conducted for the law that abolished home owner benefits (see *Gesetz zur Abschaffung der Eigenheimzulage*). The total impact on tax liabilities accumulates over time, with a series of tax shocks of -0.128 bn € on July 14, 1977 as well as at the beginning of the years 1978 to 1984.

The statement on the introduction of the bill mentioned several policy objectives. Measures of the law were driven by concern over urban development, housing policies, and government incentives to save. In the parliamentary debate, mainly social political reasons were stated. It was also often argued that the exemption of acquisitions of owner-occupied homes from the land purchase tax increased labor mobility. The law had mainly social policy and structural reasons. It is hence classified as motivated by structural concerns.

The law experienced some technical adjustment within the legislative process, but according to my sources, none of these adjustments changed the prospective revenue impact.

#### **Gesetz zur Verbesserung der Haushaltsstruktur (Haushaltsstrukturgesetz - HStrukG)<sup>70</sup>**

<b>Publication</b>	<b>Implementation</b>
12/20/1975 (C: 1.468 bn €)	01/01/1976 (C: 0.944 bn €)
	01/01/1977 (C: 0.105 bn €)
	01/01/1978 (C: 0.105 bn €)
	01/01/1979 (C: 0.105 bn €)
	01/01/1980 (C: 0.105 bn €)
	01/01/1981 (C: 0.105 bn €)

The law reduced government incentives to save effective 1976, thereby raising 0.588 bn €. After the appreciation of the DEM in 1969, technical aspects of the Common Agricultural Policy led to reduced DEM prices for agricultural goods. As compensation, the *Aufwertungsausgleichsgesetz vom 23. Dezember 1969* had introduced tax benefits for the agricultural sector paid via the value-added tax system, which, under the new regulation, were reduced uniformly at the beginning of 1976, 1977, 1978, 1979, and 1980, and finally abolished at the beginning of 1981. The *Finanzbericht* reported a change in tax revenues of 0.105 bn € for the first step. Given that the tax measure was phased out uniformly, the estimate for the initial step seems a good proxy for later revenue effects. The law also reduced tax benefits for public banks, inducing a revenue change of 0.251 bn € effective 1976. The measure was intended to be in effect for 1976 and

<sup>69</sup> BGBl. 1977, 44, pp. 1213–1221.

<sup>70</sup> BGBl. 1975, 144, pp. 3091–3112.

1977; however, the *Körperschaftsteuerreformgesetz vom 31. August 1976*<sup>71</sup> permanently reduced these tax benefits. Hence, the measure is treated as permanent.

According to the *Finanzbericht*, the law was driven by budgetary reasons. There are no indications that additional revenues were used to finance specific expenditure programs. The motive of the law was consolidation.

#### **Gesetz zur Änderung des Tabaksteuergesetzes und des Gesetzes über das Branntweinmonopol**<sup>72</sup>

<b>Publication</b>	<b>Implementation</b>
07/08/1976 (C: 0.818 bn €)	01/01/1977 (C: 0.818 bn €)

The law increased taxes on tobacco and spirits effective 1977. The prospected revenue effects were 0.614 bn € and 0.205 bn €, respectively.

The *Finanzbericht* reported that the motive behind the the law was consolidation.

#### **Gesetz zur Förderung von Investitionen und Beschäftigung**<sup>73</sup>

<b>Publication</b>	<b>Implementation</b>
12/24/1974 (CC: -3.477 bn €)	12/24/1974 (CC: -3.477 bn €)
12/28/1974 (CC: -0.118 bn €)	12/28/1974 (CC: -0.118 bn €)
12/31/1974 (CC: -0.031 bn €)	01/01/1975 (CC: -0.031 bn €)

At the time of writing the law, the economy had been moving into a recession and the law implemented a temporary investment surcharge as a business cycle stimulus. Based on the discussion of the law in the *Finanzbericht*, it is clear that two other laws—the *Gesetz zur Änderung des Investitionszulagengesetzes vom 30.12.1974*<sup>74</sup> and the *Gesetz über Investitionszuschüsse für Mietwohnungen, Genossenschaftswohnungen und Wohnheime im sozialen Wohnungsbau vom 27.12.1974*<sup>75</sup>—were closely related. Thus, the two tax measures introduced by these laws are subsumed under the discussion here.

The *Gesetz zur Förderung von Investitionen und Beschäftigung* introduced a temporary investment subsidy between November 30 and June 30, 1975. Given the retroactive nature of the change, the date of publication is chosen as the implementation date. The measure was expected to change revenues by -3.477 bn € on an annual basis. The *Gesetz über Investitionszuschüsse für Mietwohnungen, Genossenschaftswohnungen und Wohnheime im sozialen Wohnungsbau vom 27.12.1974* extended the investment subsidy to nonprofit public housing organizations, changing revenues by -0.118 bn €. The timing of the tax shock is as before. Finally, the *Gesetz zur Änderung des Investitionszulagengesetzes vom 30.12.1974* introduced additional investment allowances for investment in energy consumption reductions. The tax measure was applicable for all investment conducted since 1975 and was expected to change revenues by -0.031 bn €. In contrast to the other measures, this measure was intended to be permanent.

The *Finanzbericht* reported that the law was countercyclically motivated. It was explicitly stated that Germany had moved into a recession in 1974, requiring countercyclical policies.

#### **Gesetz zur Reform der Einkommensteuer, des Familienlastenausgleichs und der Sparförderung (Einkommensteuerreformgesetz - EStRG)**<sup>76</sup>

<b>Publication</b>	<b>Implementation</b>
08/10/1974 (S: -8.024 bn €)	01/01/1975 (S: -6.879 bn €)
	01/01/1977 (S: -1.145 bn €)

The law's most notable provisions reformed the income tax tariff and the system of child benefits.

The reform of the income tax tariff affected revenues by -2.505 bn € effective 1975. The *Zweites Steueränderungsgesetz 1967* had introduced a 3 percent surcharge on income and corporate taxes. Effective 1975, the 3 percent surcharge on income taxes was removed, changing revenues by -1.007 bn €. The 3 percent surcharge on corporate taxes was abolished effective 1977, affecting revenues by -0.931 bn €. The wealth tax rate for legal entities was increased from 0.7 percent to 1 percent starting at the beginning of 1975, generating

<sup>71</sup> BGBl. 1976, 114, pp. 2597–2627.

<sup>72</sup> BGBl. 1976, 79, pp. 1770–1772.

<sup>73</sup> BGBl. 1974, 141, pp. 3676–3680.

<sup>74</sup> BGBl. 1974, 143, pp. 3726–3727.

<sup>75</sup> BGBl. 1974, 142, p. 3698.

<sup>76</sup> BGBl. 1974, 89, pp. 1769–1855.

revenues of 0.476 bn €. The *Einkommensteuerreformgesetz* also substantially reformed the system of child benefits. Child benefits of 50 DEM for the first, 70 DEM for the second, and 120 DEM for each further child were now directly paid to eligible parents per month. This replaced former tax allowances and direct payments, making it clear that the child benefit is systematically related to the income tax tariff as the child benefit was partially designed to exclude from taxation the minimum income needed to sustain a child. The net effect on revenues was -2.548 bn € effective 1975. The law also reduced government incentives for savings, generating 1.038 bn € effective 1975. In addition, the *Einkommensteuerreformgesetz* implemented 28 other tax measures associated with very modest revenue effects. In total, these other measures changed tax revenues by -2.331 bn € effective 1975 and by -0.215 bn € effective 1977. Quantitatively important were changes related to the general allowance for tax allowable expenses and to income tax allowances for special expenses.

The *Finanzbericht* reported that the main motivation of the law was to improve tax justice and to lower taxes on small and middle-sized incomes. It was also reported that the law had abolished “unwarranted” subventions and had improved the efficiency of the tax system. The motivation of the law was structural.

### Steueränderungsgesetz 1973<sup>77</sup>

Publication	Implementation
06/28/1973 (CC: 7.795 bn €)	06/28/1973 (CC: 7.411 bn €)
06/28/1973 (S: -0.115 bn €)	01/01/1974 (CC: 0.383 bn €)
	06/28/1973 (S: -0.038 bn €)
	06/29/1973 (S: -0.077 bn €)

The *Steueränderungsgesetz 1973* implemented substantial tax increases to cool down the economy and combined those with less important structural adjustments to the tax code.

According to the *Finanzbericht*, most of the tax measures were driven by countercyclical reasons. The law implemented a temporary tax of 11 percent on investment, which was expected to generate 4.857 bn € on an annual basis. Originally, the measure was designed to be in effect between May 9, 1973 and April 30, 1975 and, given its retroactive nature, the date of publication is chosen as the implementation date. By later regulation in the *Neunte Verordnung zur Durchführung des UStG vom 20. Dezember 1973*,<sup>78</sup> the measure was phased out at the end of November 1973. Additionally, the law levied a temporary surcharge on income and corporate taxes for the years 1973 and 1974, raising revenues of 2.454 bn €. Further countercyclical measures were related to depreciations for buildings, investment surcharges, and the tax treatment of interest payments. The combined effect was 0.483 bn €.

Technical adjustments in the tax code, related to the payment period for the value-added tax and to the tax treatment of work on public holidays, affected revenues by -0.115 bn €. According to the *Finanzbericht*, these measures were driven by structural motives.

### Dritte Verordnung über steuerliche Konjunkturmaßnahmen<sup>79</sup>

Publication	Implementation
06/09/1973 (CC: 0.358 bn €)	06/09/1973 (CC: 0.358 bn €)

At this point in the country’s history, the federal government was allowed to implement business cycle programs via simple decrees. This decree was one such countercyclical measure, making the motivation of the decree clear.

The decree temporarily abolished the declining balance depreciation between May 8, 1973 and May 1, 1974. Following the usual practice, the date of publication is chosen as the implementation date. The measure raised revenues by 0.307 bn € on an annual basis. For the same time span, the law also reduced tax allowances for investment in buildings, thereby generating revenue of 0.051 bn €. By later regulation in the *Verordnung zur Änderung der Dritten Verordnung über steuerliche Konjunkturmaßnahmen vom 4. Februar 1974*,<sup>80</sup> both measures were phased out at the end of November 1973 and at the end of December 1973, respectively.

<sup>77</sup> BGBl. 1973, 51, pp. 676–690.

<sup>78</sup> BGBl. 1973, 108, p. 1961.

<sup>79</sup> BGBl. 1973, 45, p. 530.

<sup>80</sup> BGBl. 1974, 12, p. 155.

### **Gesetz zur Reform des Grundsteuerrechts<sup>81</sup>**

<b>Publication</b>	<b>Implementation</b>
08/11/1973 (C: 0.409 bn €)	01/01/1974 (C: 0.409 bn €)

The law increased the tax assessment base of the land tax effective 1974 and thereby generated 0.409 bn € in revenue.

According to the *Finanzbericht*, the intention of the law was to generate additional revenue. The motivation of the law was consolidation.

### **Gesetz zur Änderung des Mineralölsteuergesetzes 1964 und des Gesetzes über das Branntweinmonopol<sup>82</sup>**

<b>Publication</b>	<b>Implementation</b>
06/28/1973 (C: 1.483 bn €)	07/01/1973 (C: 1.023 bn €)
	12/27/1973 (C: 0.256 bn €)

The law increased the petroleum tax effective July 1973, generating revenues of 1.023 bn € on an annual basis. The law further adjusted payment periods for the petroleum tax and the duty on spirits. Under former regulation, the petroleum tax had to be paid at latest three months after accrual. The *Gesetz zur Änderung des Mineralölsteuergesetzes 1964 und des Gesetzes über das Branntweinmonopol* mandated that taxes accrued in November must be paid by December 27 of that year. The measure generated one-time revenues of 0.256 bn €, to be offset by an equal-sized shock in the next period. Similarly, the time allowed for payment of the petroleum tax was shortened in a series of steps from five to three months beginning with July 1973. This corresponded to a shock of 0.205 bn €. Unfortunately, the available sources on the measure's revenue impact do not allow accounting for the step-wise nature of the measure. Therefore, the implementation effect of the measure is set to zero.

The *Finanzbericht* reported that all tax measures were enacted for budgetary reasons. The motivation of the law was consolidation.

### **Gesetz zur Änderung des Gesetzes über das Branntweinmonopol<sup>83</sup>**

<b>Publication</b>	<b>Implementation</b>
12/28/1971 (C: 0.297 bn €)	01/01/1972 (C: 0.297 bn €)

The law increased taxes on spirits, changing revenues by 0.297 bn € effective 1972.

According to the *Finanzbericht*, the motivation of the law was consolidation.

### **Gesetz über die weitere Finanzierung von Maßnahmen zur Verbesserung der Verkehrsverhältnisse der Gemeinden und des Bundesfernstraßenbaus<sup>84</sup>**

<b>Publication</b>	<b>Implementation</b>
02/29/1972 (SD: 0.716 bn €)	03/01/1972 (SD: 0.716 bn €)
02/29/1972 (S: 0.123 bn €)	04/01/1972 (S: 0.123 bn €)

The law increased the petroleum tax effective March 1972, generating 0.716 bn €. The automobile tax was increased effective April 1972, generating 0.123 bn € in revenues.

According to the *Finanzbericht*, revenues generated by the increase in the petroleum tax were earmarked for traffic policies, making this measure spending driven. The increase in the automobile tax was justified as a way of increasing rail usage. Accordingly, this measure was motivated by structural concerns.

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<sup>81</sup> BGBl. 1973, 66, pp. 965–974.

<sup>82</sup> BGBl. 1973, 51, pp. 691–692.

<sup>83</sup> BGBl. 1971, 135, pp. 2137–2138.

<sup>84</sup> BGBl. 1972, 14, pp. 201–205.

### **Elftes Gesetz zur Änderung des Tabaksteuergesetzes<sup>85</sup>**

<b>Publication</b>	<b>Implementation</b>
03/04/1972 (C: 0.818 bn €)	09/01/1972 (C: 0.818 bn €)

The law raised the tobacco tax effective September 1972, generating 0.818 bn € in revenues.

According to the *Finanzbericht*, the law was driven by budgetary reasons. The *Finanzbericht* gave no evidence that the additional revenues were used to finance specific expenditures. Therefore, the motivation of the law was consolidation.

### **Gesetz zur Wahrung der steuerlichen Gleichmäßigkeit bei Auslandsbeziehungen und zur Verbesserung der steuerlichen Wettbewerbslage bei Auslandsinvestitionen<sup>86</sup>**

<b>Publication</b>	<b>Implementation</b>
09/12/1972 (S: 0.263 bn €)	09/12/1972 (S: 0.263 bn €)

The law introduced a couple of measures aimed at hindering tax evasion and raised revenues of 0.263 bn €. Most parts of the law were retroactive to 1972; hence, I choose the date of publication as the implementation date.

According to the *Finanzbericht*, the main motivation of the law was structural.

### **Gesetz zur Änderung des Gesetzes über die Besteuerung des Straßengüterverkehrs<sup>87</sup>**

<b>Publication</b>	<b>Implementation</b>
12/31/1970 (S: 0.24 bn €)	01/01/1971 (S: 0 bn €)

The law renewed the transportation tax introduced in the *Gesetz über die Besteuerung des Straßengüterverkehrs*. Following my usual practice, the extension counts as an announcement, not as an implementation shock.

The original motivation for the transportation tax was structural. Based on the *Finanzbericht*, there is no reason to change this.

### **Gesetz zur Änderung des Mineralölsteuergesetzes 1964 und zur Änderung des Gesetzes zur Änderung des Mineralölsteuergesetzes 1964<sup>88</sup>**

<b>Publication</b>	<b>Implementation</b>
04/30/1971 (SD: 0.552 bn €)	05/01/1971 (SD: 0 bn €)

The law combined an extension of the general fuel tax with a reduction in the tax rate on heavy fuel oil in two steps in 1972 and 1973. Unfortunately, the *Finanzbericht* provided only a combined forecast for both measures, making it impossible to assess the revenue impact of each measure separately. However, taxes on heavy fuel oil accounted for only a minor fraction of total fuel tax revenues and the extension was clearly the important part of the law. Accordingly, the implementation effect is set to zero. The announcement effect of the two measures was 0.552 bn €.

According to the *Finanzbericht*, the law was spending driven. Revenues generated by the law's measures were intended to finance subventions of the coal industry. Also, the government wanted to install a strategic oil reserve and to assist German companies in developing foreign oil fields.

### **Gesetz zur Änderung des zweiten Gesetzes zur Förderung der Vermögensbildung der Arbeitnehmer<sup>89</sup>**

<b>Publication</b>	<b>Implementation</b>
06/30/1970 (S: -0.547 bn €)	06/30/1970 (S: -0.077 bn €)
	01/01/1971 (S: -0.470 bn €)

The law implemented important measures related to government incentives to save. First, it increased the maximum amount of the employee savings allowance from 312 to 624 DEM effective 1970. Further measures of the law were implemented in 1971, such as the

<sup>85</sup> BGBl. 1972, 17, pp. 261–264.

<sup>86</sup> BGBl. 1972, 98, pp. 1713–1724.

<sup>87</sup> BGBl. 1970, 119, p. 1869.

<sup>88</sup> BGBl. 1971, 36, pp. 377–378.

<sup>89</sup> BGBl. 1972, 17, pp. 261–264.

substitution of tax deductions by a direct payment, the introduction of income limits for eligibility, and specific tax allowances for small companies. Regrettably, the *Finanzbericht* provided only a combined revenue impact for all measures. However, revenue forecasts for budgetary years allow a reasonable distinction of the revenue impacts, giving a shock of -0.077 bn € in June 1970 and of -0.435 bn € in 1971. Additionally, the law implemented expansions in government incentives to save of -0.036 bn € effective 1971.

According to the *Finanzbericht*, the main intention of the law was to promote asset formation by people with low or medium income. As the law was concerned with social equity and sociopolitic motives, the motivation of the law is designated as structural.

#### **Gesetz über einen Ausgleich für Folgen der Aufwertung der Deutschen Mark auf dem Gebiet der Landwirtschaft (Aufwertungsausgleichsgesetz - AufwAG)<sup>90</sup>**

<b>Publication</b>	<b>Implementation</b>
12/31/1969 (MS: -0.399 bn €)	01/01/1970 (MS: -0.399 bn €)

According to the *Finanzbericht*, the motivation behind this law was to compensate agricultural business for the exchange rate appreciation that occurred on October 27, 1969.

The EU's common agricultural policy had fixed prices for agricultural goods. Exchange rate appreciations hence implied that prices in national currency would decrease, leaving farmers worse off. To compensate for the exchange rate appreciation, the law allowed agricultural businesses to deduct higher input value-added taxes, changing revenues by -0.399 bn € effective 1970. It is clear that the law was a reaction to a contemporaneous macroeconomic shock.

#### **Gesetz über die Erhebung eines rückzahlbaren Konjunkturzuschlags zur Einkommen- und Körperschaftsteuer<sup>91</sup>**

<b>Publication</b>	<b>Implementation</b>
07/25/1970 (CC: 2.659 bn €)	08/01/1970 (CC: 2.659 bn €)

The law implemented an additional surcharge on the income tax and the corporate tax between August 1, 1970 and June 30, 1971, generating revenues of 2.659 bn €.

According to the *Finanzbericht*, the law was an attempt at counteracting an economic upswing and hence was motivated by countercyclical reasons.

#### **Gesetz über die Gewährung von Investitionszulagen und zur Änderung steuerrechtlicher und prämienrechtlicher Vorschriften (Steueränderungsgesetz 1969)<sup>92</sup>**

<b>Publication</b>	<b>Implementation</b>
08/21/1969 (S: -0.7 bn €)	08/21/1969 (S: -0.427 bn €)
	01/01/1970 (S: -0.056 bn €)

The law implemented a variety of often minor tax changes.

The law introduced subsidies for investment in disadvantaged regions, with the intention of reducing regional inequality. These measures changed revenues by -0.138 bn € and were retroactive to 1969; accordingly, the date of publication is chosen as the implementation date. Also, the law introduced investment subsidies for research and development expenditures, changing revenues by -0.056 bn € effective 1970. Investment surcharges related to the coal industry were renewed, changing revenues by -0.077 bn € for 1970 and 1971. The law also renewed investment surcharges for West Berlin, inducing an announcement effect of -0.01 bn €. Associated expansions in investment surcharges for West Berlin had an additional effect of -0.005 bn €.

The law granted tax exemptions for a newly founded association of stone coal companies, with the intention of mitigating the effects of the structural change in the Ruhr region. The total revenue effect was -0.031 bn €. Changes related to international taxation affected revenues by -0.031 bn € retroactive to 1969. Additional changes in the income tax code, related to special depreciations, donations, and international trade, were associated with an announcement effect of -0.138 bn € and an implementation effect of -0.008 bn €. Of interest also were expansions in government incentives for savings, affecting revenues by -0.215 bn €.

<sup>90</sup> BGBl. 1969, 17, pp. 2381–2382.

<sup>91</sup> BGBl. 1972, 17, pp. 261–264.

<sup>92</sup> BGBl. 1969, 79, pp. 1211–1231.

The *Finanzbericht* classified the law's provisions as related to sociopolitics and structural policies. The motivation of the law was structural.

#### **Gesetz über die Besteuerung des Straßengüterverkehrs<sup>93</sup>**

<b>Publication</b>	<b>Implementation</b>
31/12/1968 (S: 0.194 bn €)	01/01/1969 (S: 0.194 bn €)

The law implemented a transportation tax on trucks. Although the total impact of the law did not exceed 0.1 percent of GDP, it is covered here because it consisted of mainly one measure having a significant impact on revenues. The law was expected to raise 0.194 bn € effective 1969. Originally, the measure was to expire at the end of 1970. However, the *Gesetz zur Änderung des Gesetzes über die Besteuerung des Straßengüterverkehrs* extended it by two years up to the end of 1972.

The *Finanzbericht* reported that the main intention of the law was to increase rail usage. Hence the law was structurally motivated.

#### **Gesetz über Maßnahmen zur außenwirtschaftlichen Absicherung gemäß § 4 des Gesetzes zur Förderung der Stabilität und des Wachstums der Wirtschaft (AbsichG)<sup>94</sup>**

<b>Publication</b>	<b>Implementation</b>
11/30/1968 (MS: 0.307 bn €)	11/30/1968 (MS: 0.307 bn €)

The law attempted to reduce the current account surplus by implementing a sales tax on exports, while warranting a negative tax on imports. The measure was expected to change revenues by 0.307 bn €, effective retroactively. Given the retroactive nature of the law, the publication date is chosen as the implementation date. The measure was originally designed to expire at the end of 1970. However, it was actually abolished by decree effective October 10, 1968.<sup>95</sup>

The *Finanzbericht* reported that the law was designed to achieve “external equilibrium.” At the time, Germany was running an account surplus, giving rise to fear of “international disequilibria” and price increases. It is evident that the law was related to contemporaneous macroeconomic conditions and hence is classified as being driven by a recent macroeconomic shock.

#### **Gesetz zur Verwirklichung der mehrjährigen Finanzplanung des Bundes, I. Teil Zweites Steueränderungsgesetz 1967<sup>96</sup>**

<b>Publication</b>	<b>Implementation</b>
12/23/1967 (C: 0.353 bn €)	01/01/1968 (C: 0.353 bn €)
12/23/1967 (S: 0.261 bn €)	01/01/1968 (S: 0.261 bn €)

The law implemented a supplementary tax to income and corporate taxes. The measure was expected to raise 0.353 bn € effective 1968. Additionally, the law reduced tax benefits for financial businesses, generating 0.261 bn € effective 1968.

The *Finanzbericht* classified the supplementary tax as being concerned with budget consolidation. The abolishment of tax benefits for financial businesses, on the contrary, was concerned with the efficiency of the tax system. The latter measure hence was motivated by structural concerns.

#### **Gesetz zur Sicherung des Haushaltsausgleichs (Haushaltsicherungsgesetz)<sup>97</sup>**

<b>Publication</b>	<b>Implementation</b>
12/24/1965 (C: 0.169 bn €)	01/01/1966 (C: 0.169 bn €)

The law increased duties on spirits and the sparkling wine tax, both effective at the beginning of 1966. The measures were expected to raise 0.133 and 0.036 bn €, respectively.

The *Finanzbericht* classified the law as concerned with budget consolidation.

<sup>93</sup> BGBl. 1968, 99, pp. 1461–1465.

<sup>94</sup> BGBl. 1968, 86, pp. 1255–1262.

<sup>95</sup> BGBl. 1969, 108, p. 1864 and BGBl. 1969, 115, p. 2045.

<sup>96</sup> BGBl. 1967, 74, pp. 1254–1258.

<sup>97</sup> BGBl. 1965, 72, pp. 2065–2072.

### Zweites Gesetz zur Überleitung der Haushaltswirtschaft des Bundes in eine mehrjährige Finanzplanung (Steueränderungsgesetz 1966)<sup>98</sup>

Publication	Implementation
12/29/1966 (C: 0.504 bn €)	01/01/1967 (C: 0.48 bn €)
12/29/1966 (SD: 0.337 bn €)	01/01/1967 (SD: 0.337 bn €)
	04/01/1967 (C: 0.024 bn €)

The law implemented a variety of tax measures. First and foremost, it raised the petroleum tax, changing revenues by 0.337 bn € effective 1967. The law abolished value-added tax exemptions related to petroleum consumption, generating 0.245 bn € effective beginning in 1967. Supersession of value-added tax exemptions related to housing development raised 0.038 bn € effective 1967. Also of some importance was the reduction in allowances for commuting expenses, raising 0.148 bn € at the beginning of 1967. The law also reformed government incentives for savers, changing revenues by 0.048 bn € effective 1967. Finally, the law implemented some technical changes related to duties on spirits, changing revenues by 0.024 bn € effective April 1967.

The *Finanzbericht* classified the law as concerned with budget consolidation. However, revenues due to the increase in the petroleum tax were explicitly earmarked for road construction and related expenditures, making this measure spending driven.

### Siebentes Gesetz zur Änderung des Tabaksteuergesetzes (Zweites Steueränderungsgesetz 1966)<sup>99</sup>

Publication	Implementation
12/31/1966 (C: 0.301 bn €)	03/01/1966 (C: 0.301 bn €)

The law increased tobacco taxes, effective March 1967. The budgetary figure for 1967 is given as 490 million DEM, which, annualized and transformed to Euro, corresponds to a change in revenues of 0.301 bn €.

The *Finanzbericht* classified the law as concerned with budget consolidation.

### Gesetz zur Änderung von Verbrauchsteuergesetzen, des Gesetzes über das Branntweinmonopol und des Zollgesetzes (Steueränderungsgesetz 1967)<sup>100</sup>

Publication	Implementation
04/01/1967 (C: 0.46 bn €)	?

The law adjusted payment periods for consumption taxes and thereby generated one-time revenues of 0.46 bn €. However, appropriately timing the tax shock is complicated by the fact that the law allowed for transition rules, effectively phasing in the new regulations by shortening the payment periods step by step. Unfortunately, the revenue forecasts do not allow recovering a series of revenue effects and, accordingly, the implementation effect of the measure is set to zero.

The *Finanzbericht* classified the law as concerned with budget consolidation.

### Gesetz zur Änderung des Umsatzsteuergesetzes 1967 (Mehrwertsteuer)<sup>101</sup>

Publication	Implementation
10/21/1967 (CC: -0.358 bn €)	01/01/1968 (CC: -0.358 bn €)
10/21/1967 (C: 1.125 bn €)	07/01/1968 (C: 1.125 bn €)

The law increased the value-added tax rate from 10 percent to 11 percent effective July 1, 1968. This measure was expected to raise revenues by 0.562 bn € in the budgetary year 1968, and hence 1.125 bn € on an annualized basis. Germany switched from a gross turnover tax to a net turnover tax at the beginning of 1968. During the transition period, companies had been allowed to subtract prepaid tax on existing stocks. The law expanded existing allowances for the transition period in 1968.

The *Finanzbericht* classified the increase in the value-added tax rate as concerned with budget consolidation. The expansion in allowances for the transition period was classified as driven by countercyclical reasons.

<sup>98</sup> BGBl. 1966, 56, pp. 702–708.

<sup>99</sup> BGBl. 1966, 57, pp. 747–749.

<sup>100</sup> BGBl. 1967, 18, pp. 385–387.

<sup>101</sup> BGBl. 1967, 60, pp. 991–992.

## **Gesetz zur Änderung des Einkommensteuergesetzes, des Spar-Prämiengesetzes und anderer Gesetze (Steueränderungsgesetz 1964)<sup>102</sup>**

<b>Publication</b>	<b>Implementation</b>
11/21/1964 (S: -1.651 bn €)	11/22/1964 (S: -0.069 bn €)
	01/01/1965 (S: -1.582 bn €)

The law had a substantial impact on tax revenues and contained a series of quantitatively important tax measures. First and foremost, the income tax tariff was adjusted effective 1965, changing revenues by -0.726 bn €. Of considerable importance also was introduction of a tax-free amount for employees, changing revenues by -0.419 bn € effective 1965. Also of note were changes in the standard deduction for expenses in the income tax code and changes in depreciation rules for low-value assets. Both measures were effective 1965, changing tax revenues by -0.215 bn € and -0.128 bn €, respectively. The law introduced a series of special depreciation that benefited expenditures for research and development, ocean-going vessels, airplanes, and investment in old buildings. Combined, the measures were expected to change revenues by -0.069 bn € on an annualized level. These measures were retroactive; hence, the date of publication is chosen as the implementation date. To some degree, these allowances were only temporary, but seeing as they were repeatedly extended by later regulation, it is justifiable to treat them as permanent. Other measures had quantitatively limited importance, but are coded identical to those discussed above. In total, these lesser measures changed revenues by 0.095 bn € effective 1965.

The *Finanzbericht* classified the law as structural.

## **Gesetz zur Änderung des Einkommensteuergesetzes, des Körperschaftsteuergesetzes, des Gewerbesteuergesetzes, des Bewertungsgesetzes, des Steuersäumnisgesetzes, der Reichsabgabenordnung und anderer Gesetze (Steueränderungsgesetz 1965)<sup>103</sup>**

<b>Publication</b>	<b>Implementation</b>
05/21/1965 (S: 0.218 bn €)	05/21/1965 (S: -0.199 bn €)
	07/01/1965 (S: -0.017 bn €)
	01/01/1966 (S: -0.001 bn €)

The law's quantitatively most important measures were concerned with tax allowances for pensions. These measures were expected to change tax revenues by -0.199 bn € effective 1966. The law further introduced tax allowances for sales of business, changing revenues by -0.01 bn € effective at the beginning of 1965. As usual, the date of publication is chosen as the implementation date. Changes in § 11 KStG increased tax exemptions for companies experiencing a change in legal status. The measure was expected to change revenues by -0.05 bn € effective retroactive to the beginning of 1965. The law increased tax-exemption-free limits for holiday premiums. The measure was expected to change revenues by -0.002 bn € retroactive to the beginning of 1965. Finally, the law abolished the *Süßstoffsteuer*, which was a tax on artificial sweetener. The measure changed tax revenues by -0.001 bn € effective July 1965.

The *Finanzbericht* classified the law as structural.

## **Zweites Gesetz zur Förderung der Vermögensbildung der Arbeitnehmer (Zweites Vermögensbildungsgesetz - 2. VermBG)<sup>104</sup>**

<b>Publication</b>	<b>Implementation</b>
07/08/1965 (S: -0.169 bn €)	07/08/1965 (S: -0.169 bn €)

This legislation expanded tax allowances for savings of employees. Employers had been allowed to make contributions to workers' asset formation funds on their employees' behalf. By the new regulation, these contributions were fully exempted from income taxation. Employers were also granted a tax credit of 30 percent of their contributions, up to a limit of 800 DEM a year. The law came into effect retroactively to April 1965; correspondingly, the date of publication is chosen as the implementation date.

The *Finanzbericht* classified the law as driven by sociopolitical objectives. Specifically, the law was intended to increase savings by wage earners and employees. Correspondingly, the law was motivated by structural concerns.

<sup>102</sup> BGBl. 1964, 57, pp. 885–916.

<sup>103</sup> BGBl. 1965, 20, pp. 377–385.

<sup>104</sup> BGBl. 1965, 29, pp. 585–588.

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## Appendix

**Table A1 Important Tax Legislation and its Revenue Impact**

No.	Title	Publication	Motivation	Impact
1	Gesetz zur Beschleunigung des Wirtschaftswachstums (Wachstumsbeschleunigungsgesetz)	Dec-09	CC	-0.35
2	Gesetz zur Umsetzung steuerrechtlicher Regelungen des Maßnahmenpakets "Beschäftigungssicherung durch Wachstumsstärkung"	Dec-08	CC	-0.19
3	Gesetz zur Förderung von Familien und haushaltsnahen Dienstleistungen (Familienleistungsgesetz - FamLeistG)	Dec-08	S	-0.10
4	Gesetz zur Sicherung von Beschäftigung und Stabilität in Deutschland	Mar-09	CC	-0.32
5	Gesetz zur Fortführung der Gesetzeslage 2006 bei der Entfernungspauschale	Dec-08	S	-0.11
6	Gesetz zur verbesserten steuerlichen Berücksichtigung von Vorsorgeaufwendungen (Bürgerentlastungsgesetz Krankenversicherung)	Jul-09	S/CC	-0.53
7	Unternehmensteuerreformgesetz 2008	Aug-07	S	-0.36
8	Gesetz zur steuerlichen Förderung von Wachstum und Beschäftigung	May-06	S	-0.24
9	Haushaltsbegleitgesetz 2006 (HBeglG 2006)	Jun-06	C/SD	1.04
10	Steueränderungsgesetz 2007	Jul-06	C	0.19
11	Gesetz zur Abschaffung der Eigenheimzulage	Dec-05	C	0.26
12	Gesetz zur Beschränkung der Verlustverrechnung im Zusammenhang mit Steuerstundungsmodellen	Dec-05	C	0.09
13	Gesetz zur Förderung der Steuerehrlichkeit	Dec-03	S	0.00
14	Haushaltsbegleitgesetz 2004 (HBeglG 2004)	Dec-03	C/CC	-0.06
15	Gesetz zur Neuordnung der einkommensteuerrechtlichen Behandlung von Altersvorsorgeaufwendungen und Altersbezügen (Alterseinkünftegesetz - AltEinkG)	Jul-04	S	-0.22
16	Gesetz zur Änderung des Tabaksteuergesetzes und anderer Verbrauchsteuergesetze	Dec-03	C	0.11
17	Gesetz zur Änderung steuerrechtlicher Vorschriften und zur Errichtung eines Fonds "Aufbauhilfe" (Flutopfersolidaritätsgesetz)	Sep-02	SD	0.33
18	Zweites Gesetz für moderne Dienstleistungen am Arbeitsmarkt	Dec-02	S	-0.07
19	Gesetz zum Abbau von Steuervergünstigungen und Ausnahmeregelungen (Steuervergünstigungsabbaugesetz - StVergAbG)	May-03	C	0.18
20	Gesetz zur Fortentwicklung der ökologischen Steuerreform	Dec-02	S	0.08
21	Zweites Gesetz zur Familienförderung	Aug-01	S	-0.11
22	Gesetz zur Bekämpfung von Steuerverkürzungen bei der Umsatzsteuer und zur Änderung anderer Steuergesetze (Steuerverkürzungsbekämpfungsgesetz - StVVBG)	Dec-01	S	0.00
23	Gesetz zur Finanzierung der Terrorbekämpfung	Dec-01	SD	0.10
24	Gesetz zur Reform der gesetzlichen Rentenversicherung und zur Förderung eines kapitalgedeckten Altersvorsorgevermögens (Altersvermögensgesetz - AVmG)	Jun-01	S	-0.51
25	Gesetz zur Fortführung der ökologischen Steuerreform	Dec-99	C	0.52
26	Gesetz zur Familienförderung	Dec-99	S	-0.17
27	Gesetz zur Bereinigung von steuerlichen Vorschriften (Steuerbereinigungsgesetz 1999 - StBereinG 1999)	Dec-99	S	-0.08
28	Gesetz zur Senkung der Steuersätze und zur Reform der Unternehmensbesteuerung (Steuersenkungsgesetz - StSenkG)	Oct-00	S	-2.08
29	Gesetz zur Ergänzung des Steuersenkungsgesetzes (Steuersenkungsergänzungsgesetz - StSenkErgG)	Dec-00	S	-0.17
30	Steueränderungsgesetz 1998	Dec-98	S	-0.08
31	Steuerentlastungsgesetz 1999	Dec-98	S	-0.18
32	Steuerentlastungsgesetz 1999/2000/2002	Mar-99	S	-0.24
33	Gesetz zur Neuregelung der geringfügigen Beschäftigungsverhältnisse	Mar-99	SD	-0.05
34	Gesetz zum Einstieg in die ökologische Steuerreform	Mar-99	SD	0.31
35	Gesetz zur Senkung des Solidaritätszuschlags	Nov-97	S	-0.19
36	Gesetz zur Finanzierung eines zusätzlichen Bundeszuschusses zur gesetzlichen Rentenversicherung	Dec-97	SD	0.30
37	Jahressteuergesetz (JStG) 1997	Dec-96	S	0.00
38	Gesetz zur Fortsetzung der wirtschaftlichen Förderung in den neuen Ländern	Aug-97	S	-0.15
39	Jahressteuergesetz 1996	Oct-95	S	-1.10

No.	Title	Publication	Motivation	Impact
40	Gesetz zur Bekämpfung des Mißbrauchs und zur Bereinigung des Steuerrechts (Mißbrauchsbekämpfungs- und Steuerbereinigungsgesetz - StMBG)	Dec-93	MS	0.08
41	Erstes Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms (1. SKWPG)	Dec-93	MS	0.25
42	Gesetz zur Neuregelung der Zinsbesteuerung (Zinsabschlaggesetz)	Nov-92	S	0.12
43	Gesetz zur Anpassung von Verbrauchsteuer- und anderen Gesetzen an das Gemeinschaftsrecht sowie zur Änderung anderer Gesetze (Verbrauchsteuer-Binnenmarktgesetz)	Dec-92	S	-0.15
44	Gesetz über Maßnahmen zur Bewältigung der finanziellen Erblasten im Zusammenhang mit der Herstellung der Einheit Deutschlands, zur langfristigen Sicherung des Aufbaus in den neuen Ländern, zur Neuordnung des bundesstaatlichen Finanzausgleichs und zur Entlastung der öffentlichen Haushalte (Gesetz zur Umsetzung des Föderalen Konsolidierungsprogramms - FKPG)	Jun-93	C	1.02
45	Gesetz zur Verbesserung der steuerlichen Bedingungen zur Sicherung des Wirtschaftsstandorts Deutschland im Europäischen Binnenmarkt (Standortsicherungsgesetz - StandOG)	Sep-93	S	-0.19
46	Gesetz zur Entlastung der Familien und zur Verbesserung der Rahmenbedingungen für Investitionen und Arbeitsplätze (Steueränderungsgesetz 1992 - StÄndG 1992)	Feb-92	S	0.10
47	Gesetz zur Förderung von Investitionen und Schaffung von Arbeitsplätzen im Beitrittsgebiet sowie zur Änderung steuerrechtlicher und anderer Vorschriften (Steueränderungsgesetz 2001 - StÄndG 2001)	Jun-91	MS	0.07
48	Gesetz zur Einführung eines befristeten Solidaritätszuschlags und zur Änderung von Verbrauchsteuer- und anderen Gesetzen (Solidaritätsgesetz)	Jun-91	SD	1.30
49	Gesetz zur Änderung des Steuerreformgesetzes 1990 sowie zur Förderung des Mietwohnungsbaus und von Arbeitsplätzen in Privathaushalten	Jun-89	S	-0.21
50	Gesetz über Maßnahmen zur Entlastung der öffentlichen Haushalte (Haushaltsbegleitgesetz 1989)	Dec-88	C	0.07
51	Gesetz zur Änderung von Verbrauchsteuergesetzen (Verbrauchsteueränderungsgesetz 1988 - VerbrStÄndG 1988)	Dec-88	C	0.35
52	Steuerreformgesetz 1990	Aug-88	S	-1.01
53	Gesetz zur Änderung des Einkommensteuergesetzes (Steuersenkungs-Erweiterungsgesetz 1988 - StSenkErwG 1988)	Jul-87	MS	-0.25
54	Gesetz zur Verbesserung der Abschreibungsbedingungen für Wirtschaftsgebäude und für moderne Heizungs- und Warmwasseranlagen	Dec-85	S	-0.15
55	Gesetz zur leistungsfördernden Steuersenkung und zur Entlastung der Familie (Steuersenkungsgesetz 1986/1988 - StSenkG 1986/1988)	Jun-85	S	-1.00
56	Gesetz zur Stärkung der Wettbewerbsfähigkeit der Wirtschaft und zur Einschränkung von steuerlichen Vorteilen (Steuerentlastungsgesetz 1984 - StEntlG 1984)	Dec-83	S	-0.19
57	Erstes Gesetz zur Änderung des Umsatzsteuergesetzes	Jun-84	S	-0.15
58	Gesetz zur Wiederbelebung der Wirtschaft und Beschäftigung und zur Entlastung des Bundeshaushalts (Haushaltsbegleitgesetz 1983)	Dec-82	MS/SD	0.37
59	Zweites Gesetz zur Verbesserung der Haushaltsstruktur (2. HStruktG)	Dec-81	S	0.06
60	Gesetz zur Änderung von Verbrauchsteuergesetzen (Verbrauchsteueränderungsgesetz 1982 - VStÄndG 1982)	Dec-81	C	0.20
61	Gesetz über steuerliche und sonstige Maßnahmen für Arbeitsplätze, Wachstum und Stabilität (Beschäftigungsförderungsgesetz - BeschäftFG)	Jun-82	S	-0.24
62	Mineralöl- und Branntweinsteuer-Änderungsgesetz 1981 - MinöBranntwStÄndG 1981 -	Mar-81	C	0.24
63	Gesetz zur Steuerentlastung und Familienförderung (Steuerentlastungsgesetz 1981)	Aug-80	S	-0.89
64	Gesetz zur Änderung des Einkommensteuergesetzes, des Gewerbesteuergesetzes, des Umsatzsteuergesetzes und anderer Gesetze (Steueränderungsgesetz 1979 - StÄndG 1979)	Dec-78	CC	-0.72
65	Gesetz zur Steuerentlastung und Investitionsförderung	Nov-77	CC	-1.00
66	Gesetz über steuerliche Vergünstigungen bei der Herstellung oder Anschaffung bestimmter Wohngebäude	Jul-77	S	-0.21

No.	Title	Publication	Motivation	Impact
67	Gesetz zur Verbesserung der Haushaltsstruktur (Haushaltsstrukturgesetz - HStrukG)	Dec-75	C	0.25
68	Gesetz zur Änderung des Tabaksteuergesetzes und des Gesetzes über das Branntweinmonopol	Jul-76	C	0.14
69	Gesetz zur Förderung von Investitionen und Beschäftigung	Dec-74	CC	-0.67
70	Gesetz zur Reform der Einkommensteuer, des Familienlastenausgleichs und der Sparförderung (Einkommensteuerreformgesetz - EStRG)	Aug-74	S	-1.50
71	Steueränderungsgesetz 1973	Jun-73	S/CC	1.57
72	Dritte Verordnung über steuerliche Konjunkturmaßnahmen	Jun-73	CC	0.07
73	Gesetz zur Reform des Grundsteuerrechts	Aug-73	C	0.08
74	Gesetz zur Änderung des Mineralölsteuergesetzes 1964 und des Gesetzes über das Branntweinmonopol	Jun-73	C	0.30
75	Gesetz zur Änderung des Gesetzes über das Branntweinmonopol	Dec-71	C	0.07
76	Gesetz über die weitere Finanzierung von Maßnahmen zur Verbesserung der Verkehrsverhältnisse der Gemeinden und des Bundesfernstraßenbaus (Verkehrsfinanzgesetz 1971)	Feb-72	S/SD	0.17
77	Elftes Gesetz zur Änderung des Tabaksteuergesetzes	Mar-72	C	0.22
78	Gesetz zur Wahrung der steuerlichen Gleichmäßigkeit bei Auslandsbeziehungen und zur Verbesserung der steuerlichen Wettbewerbslage bei Auslandsinvestitionen	Sep-72	S	0.06
79	Gesetz zur Änderung des Gesetzes über die Besteuerung des Straßengüterverkehrs	Dec-70	S	0.06
80	Gesetz zur Änderung des Mineralölsteuergesetzes 1964 und zur Änderung des Gesetzes zur Änderung des Mineralölsteuergesetzes 1964	Apr-71	SD	0.14
81	Gesetz zur Änderung des zweiten Gesetzes zur Förderung der Vermögensbildung der Arbeitnehmer	Jun-70	S	-0.02
82	Gesetz über einen Ausgleich für Folgen der Aufwertung der Deutschen Mark auf dem Gebiet der Landwirtschaft (Aufwertungsausgleichsgesetz - AufwAG)	Dec-69	MS	-0.25
83	Gesetz über die Erhebung eines rückzahlbaren Konjunkturzuschlags zur Einkommen- und Körperschaftsteuer	Jul-70	CC	0.72
84	Gesetz über die Gewährung von Investitionszulagen und zur Änderung steuerrechtlicher und prämienrechtlicher Vorschriften (Steueränderungsgesetz 1969)	Aug-69	S	-0.21
85	Gesetz über die Besteuerung des Straßengüterverkehrs	Dec-68	S	0.06
86	Gesetz über Maßnahmen zur außenwirtschaftlichen Absicherung gemäß § 4 des Gesetzes zur Förderung der Stabilität und des Wachstums der Wirtschaft (AbsichG)	Nov-68	MS	0.10
87	Gesetz zur Verwirklichung der mehrjährigen Finanzplanung des Bundes I. Teil Zweites Steueränderungsgesetz 1967	Dec-67	S/C	0.23
88	Gesetz zur Sicherung des Haushaltsausgleichs (Haushaltsicherungsgesetz)	Dec-65	C	0.07
89	Zweites Gesetz zur Überleitung der Haushaltswirtschaft des Bundes in eine mehrjährige Finanzplanung (Steueränderungsgesetz 1966)	Dec-66	C/SD	0.32
90	Siebentes Gesetz zur Änderung des Tabaksteuergesetzes (Zweites Steueränderungsgesetz 1966)	Dec-66	C	0.12
91	Gesetz zur Änderung von Verbrauchsteuergesetzen, des Gesetzes über das Branntweinmonopol und des Zollgesetzes (Steueränderungsgesetz 1967)	Apr-67	C	0.18
92	Gesetz zur Änderung des Umsatzsteuergesetzes 1967 (Mehrwertsteuer)	Oct-67	C/CC	0.28
93	Steueränderungsgesetz 1964	Nov-64	S	-0.69
94	Gesetz zur Änderung des Einkommensteuergesetzes, des Körperschaftsteuergesetzes, des Gewerbesteuergesetzes, des Bewertungsgesetzes, des Steuersäumnisgesetzes, der Reichsabgabenordnung und anderer Gesetze (Steueränderungsgesetz 1965)	May-65	S	-0.09
95	Zweites Gesetz zur Förderung der Vermögensbildung der Arbeitnehmer (Zweites Vermögensbildungsgesetz - 2. VermBG)	Jul-65	S	-0.07

Notes: Impact is the announcement effect of the tax law in percent of GDP. Abbreviations: CC: countercyclical, MS: macroeconomic shock, SD: spending driven, S: structural, C: consolidation.