



Trend Chart on Innovation in Europe

DE 14

General presentation of the measure/scheme/action/regulation

Country

Germany

Geographical coverage, national or regional (state region)

(National)

Title of the measure

Tax Reform 2000

Information Source/Reference

www.bundesfinanzministerium.de

Overview (nature, main goals)

The tax reform passed parliament in July 2000 and came into force on January 1st, 2001. It significantly reduces tax rates both concerning income tax and corporate tax. A change in the system of taxing corporations and shareholders will favour SMEs. Firms will experience a net relief until the year 2005 of Euro 10 bill. Lower corporate taxes should stimulate investment, including investment in R&D.

Action Plan objective addressed by measure

II.4. Legal and Regulatory Environment

II.5. Financing

II.6. Taxation

Administering agency

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Name of the manager(s) responsible for the implementation of this measure with address, fax, phone

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Description of Scheme

General Information

Reference to legal basis (e.g. act, public document, ...)

Tax Reduction Act, approved by the Bundesrat in July 2000.

Does the measure receive central funding or regional funding?

Central

Start date

2001

Expected date of completion

2005

Previous measure (name, date, links with the current measure)

Tax Reform of 1997.

Reasons for launching/modifying the new measure

Since the last tax reform, tax payments increased due to implicit progression. With the reform 2000, the most ambitious tax reduction programme in the history of the Federal Republic of Germany was realised. In the reference period 1998 to 2005, taxpayers will benefit from net tax relief totalling more than Euro 47 bill.

Have any of the main features of the measure/scheme/action/regulation changed during its implementation

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no

What is the predominant role of the government?

Tax relief concerning R&D.

Target Group

Who are the target groups of the measure?

Large Companies/Large Industrial Companies

Organisation and Implementation

Organisation and Structure

In July 2000, a major tax reform was passed and is effective since January 1st, 2001. The tax reform covers the period 2001-2005. From 2001 on, the basic personal allowance increased and the basic rate of tax fell from 25.9 to 19.9 per cent. In two further steps, starting in 2003 and 2005 personal allowance will be increased further and the basic tax rate will be reduced down to 17 per cent while the top rate will be brought down to 47 per cent. Within the enterprise sector, the corporate tax rate are cut to a uniform 25 per cent from 2001 on. The full imputation system for dividends are substituted by a half-income system to make cross-border investment within Europe more attractive. Capital gains from the sale of shareholdings between corporations are generally exempted from tax. Private shareholders are now able to sell their stakes in corporations after one year without pay any tax. Unincorporate companies benefit from the significant cuts in income tax rates. The trade tax is credited against their income tax liability. The tax-free allowance for the sale or closure of a business was raised from Euro ca. 30.000 to Euro ca. 50.000. Advantages depreciation arrangements for new investment undertaken by SMEs are maintained. The restructuring of unincorporated companies by way of a tax-neutral transfer of undisclosed reserves is facilitated by reintroducing the so-called "co-partner tax remission". The tax relief is partially financed by restricting existing tax depreciation arrangements (lower rate declining-balance tax depreciation rate for moveable assets).

What are the criteria for eligibility?

The tax reform addresses all enterprises operating, and all individuals working in Germany.

What is the mode of delivery of the measure?

Reduction in tax rates, increase in personal allowances, reduction in depreciation rates

Financing : Overall budget allocated to the measure

net tax relief of Euro 32 bill. in the reference period 1998-2005. SMEs are estimated to profit by ca. 11.5 bill. Euro, larger corporations by about 3.5 bill. Euro.

Financing : expenditure per year

The measure is partially financed by lower depreciation rates on fixed capital. The bulk of tax relief is financed by lower tax incomes for the Federal Government (compared to the previous tax system), i.e. by a relative reduction in Public Expenditures (although economic growth will lead to an increase in tax payments despite the tax reform). Stimulation of investment and growth shall lead to a self-financing of the measure in the longer run.

Financing : other budgetary sources (additional financing)

no

Results

Result Measurement

What are the main indicators for the measurement of the results ?

reduction in tax payments

Where an evaluation has taken place, what were the main results achieved?

no evaluation so far

If no official evaluation has been undertaken, have there been any indicators of success?

the reduction in tax payments due to the Tax Reform was achieved. First effects on investment behaviour and R&D/Innovation expenditures may be expected for 2001 and 2002.

Observations

Which mechanisms seem to function well in the measure?

not available yet

Which mechanisms seem to be less successful in the measure?

not available yet

Are there any other measures planned or in operation as a follow up to this measure? Direction of the planned measures? Objectives? Target groups?

In April 2001, the Federal Ministry of Finance published its report on the further development of the Corporate Taxation Acts. Proposals for changes in the legal setting concerning restructuring of enterprises, profit clearing among corporations, and taxation activities abroad have been announced. These structural reforms are not regarded to

affect innovaton behaviour of enterprises.

