

Berichte aus der Steuerlehre

**Martin Weiss**

**Labor Taxation - A Hidden Privilege**

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# FOREWORD

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The German tax reform 2008/2009 will introduce a differentiation of tax rates on capital and labor income for the first time by establishing a final withholding tax. This differentiation represents a partial Dual Income Tax and is often criticized as a questionable entry into a schedular taxation. The criticism disregards the fact that due to the dualism of the methods of income determination there has been unequal treatment of capital and labor income all along and that the future dualism between the tax rates can be regarded as a method to create a compensation for the dualism of the tax bases. From this point of view, the final withholding tax does not constitute a violation of equitable taxation, but a technique to attain it.

The present diploma thesis represents the first comprehensive monograph that analyzes the equal tax treatment of labor and capital income with regard to time and tax rate effects both within a theoretical and empirical context. The theoretical part of the diploma thesis investigates how labor and capital income can be traced back to a common arithmetic basis by employing the economic concept of profit. Subsequently, the calculations of the author are extended to an empirical investigation, based on a Human-Capital-Model. To this end, age-income-profiles are estimated for typical educational brackets and occupational groups, using econometric methods. This enables the author to determine for the first time the effective tax burden weighing on different types of labor income and to compare them with the tax burden on capital income. This comparison can support arguments in favor of a differentiation of the tax rates on capital and labor income.

The diploma thesis at hand shows strikingly how many theoretical and empirical efforts are necessary to buttress the case for the application of a final withholding tax through arguments that represent the state of the art of present economic thinking. At the same time, it becomes apparent how superficially the public discussion of the topic is conducted and how small a part of the problems is amenable to a discourse in legal categories.

I hope that the diploma thesis by Martin Weiss, which has been awarded the first price at the newly created Arqus-PwC-Competition 2007, will gain its well-deserved recognition in economic circles.



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# PREFACE

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The present diploma thesis was accepted by the Faculty of Economics and Business Administration of the University of Tübingen in the year 2006 under the title "How Well Does a Cash-Flow Tax on Wages Approximate an Economic Income Tax on Labor Income?".

My thanks go first and foremost to Prof. Dr. Dr. h.c. Franz W. Wagner for his constant support of the progress of this diploma thesis. His academic teachings laid the foundation on which the text is largely based. Further thanks are due for Prof. Dr. Renate Hecker for the second report on this thesis.

I also want to thank Prof. Dr. Joachim Grammig for showing me the way in econometrics and Dipl.-Kfm. Markus Bouziane for his help while tackling insidious mathematical problems.

Finally, I want to thank my family for the continuous support during my education. Without them, the present book would never have seen the light of day.

Tübingen, June 2007

Martin Weiss



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# OVERVIEW

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