

Berichte aus der Steuerlehre

Martin Weiss

Labor Taxation - A Hidden Privilege

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Martin Weiss: Labor Taxation – A Hidden Privilege

Recent developments in the German political arena – particularly the introduction of a final withholding tax slated for 2008/2009 - have refreshed academic and public interest in the Dual Income Tax. The case for this mode of taxation is conventionally buttressed by a line of reasoning that contains the increasing mobility of financial capital at its core. The present book pursues a different argument in favor of the Dual Income Tax: that the differences in the composition of the tax bases of capital and labor income render a differentiation of the tax rates necessary. The time effect that forms the basis of this dualism is researched, using a cross-sectional dataset from the 2003 wave of the Socio-Economic Panel (SOEP) by the DIW, Berlin. The spread in the tax rates necessary to align the tax burdens on labor and capital is determined empirically, employing the concept of effective tax rates. A major unevenness at the heart of the income tax system is uncovered, and proposals for systematic remedies are provided. The results provide universally applicable insights for policymakers and researchers alike.