

# **Election Announcement Puts Tax Measures in Limbo**

**by Frank Schoenherr and Claus Lemaitre**

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The German government on May 4 approved two draft tax bills — the Improvement of Tax Conditions Act and the Protection of Succession in Businesses Act — that would reduce the corporate income tax rate from 25 percent to 19 percent, *inter alia*. (For prior coverage, see *Tax Notes Int'l*, May 16, 2005, p. 554.)

The government wants the measures implemented as soon as possible, but it faced a disastrous loss of votes in May 22 elections in the state of Northrhine-Westphalia; Chancellor Gerhard Schroeder responded by announcing his intention to hold general elections for the German Parliament in the fall.

With those campaigns ahead, there is only a slight chance that the tax bills will be implemented, because the government is expected to face resistance from the ruling Christian parties.

The Christian opposition parties last year said that if elected, they would replace the current income tax rates of 15 percent to 42 percent with progressive rates of 12 percent, 24 percent, and 39 percent. However, the government had already reduced the tax rates from the previous range of 25.9 percent to 53 percent. Now facing a change of

government, opposition politicians are increasingly reluctant to propose further tax cuts, saying there is little room in the budget.

Also, the Christian parties still lack a concept for business tax reform. They want to base their tax program on a study still being conducted by a market-oriented economic policy think tank. Its objective is a comprehensive reform of business taxation, a simplification of income tax law, and a more general municipal tax reform. The think tank is expected to present its proposals in July.

A third opposition party, the Liberal Democrats (FDP), proposes ideas similar to those of the Christian parties, envisaging a progressive tax scale with rates of 15 percent, 25 percent, and 35 percent. The 25 percent rate would apply to the profits of corporations and businesses, including the business profits of passthrough entities with individuals as partners. The FDP also wants the municipal trade tax abolished. ♦

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