

**GERMANY'S TAX SYSTEM AND ITS DISTINCTIVE FEATURES**

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**Abstract.** This article provides a comprehensive analysis of Germany's tax system and its distinctive features. In the course of the study, the dynamics of the tax burden relative to GDP, the structure of taxes, and the functioning principles of fiscal federalism mechanisms were examined. In addition, Germany's tax system was comparatively analyzed with the member countries of the Organisation for Economic Co-operation and Development, and its social orientation and institutional stability were substantiated. Based on Germany's experience, scientifically grounded conclusions and recommendations for improving the tax system of Uzbekistan were developed.

**Keywords:** Tax system, tax burden, fiscal federalism, tax structure, social security contributions, income tax, value added tax, tax policy.

**Introduction**

In the context of the modern global economy, the tax system is one of the key mechanisms ensuring the financial stability of the state. In particular, the experience of developed countries demonstrates that an effective tax policy not only forms budget revenues but also plays an important role in stimulating economic growth, ensuring social equity, and reducing regional disparities. From this perspective, studying Germany's tax system is of great scientific and practical importance, as it is distinguished by its stability, transparency, and social orientation.

The relevance of the topic lies in the fact that many countries today, including Uzbekistan, are implementing large-scale reforms aimed at modernizing their tax systems and improving their efficiency. In recent years, regulatory and legal documents adopted to liberalize tax policy, optimize the tax burden, and digitalize tax administration have become an important stage of this process. In this regard, studying the experience of developed countries such as Germany and adapting it to national conditions is emerging as a pressing scientific issue.

The scientific significance of this article lies in identifying the distinctive features of Germany's tax system through a comprehensive analysis based on the level of the tax burden relative to GDP, the structure of taxes, and the mechanisms of fiscal federalism. During the research, the institutional foundations of Germany's tax model, its impact on economic efficiency, and its applicability for other countries are revealed. This contributes to enriching existing scientific perspectives and developing new approaches to improving tax systems.

Furthermore, the practical significance of the study is that the obtained results and proposed conclusions can be used to further improve the tax system of developing countries, particularly Uzbekistan. Based on Germany's experience, proposals are developed for advancing a progressive tax system, ensuring the effective distribution of tax revenues among different levels of government, and maintaining fiscal stability. Thus, this study serves as an important theoretical and practical resource for scientific research in the field of tax policy.

**Literature review**

Many researchers have conducted scientific studies on Germany's tax system. In particular, in the article titled "German Tax System: Double Taxation Avoidance Conventions, Structure and Developments" by F.C. Dumiter, the structure of Germany's tax system, the typology of taxation, and double taxation avoidance agreements are extensively analyzed. The article

provides a detailed explanation of the general foundations of the tax system, its key elements, and the mechanisms of tax collection in Germany, while also emphasizing Germany's role as an economic "locomotive" within the European Union and the main features of its fiscal policy. The significance of this study for the topic lies in its systematic description of Germany's tax system in both historical and contemporary contexts, particularly highlighting its extensive network of international tax treaties and mechanisms for avoiding double taxation. The author attempts to demonstrate the role of taxation in Germany's global economic integration by analyzing the tax system as a tool of fiscal policy; however, the study lacks sufficient quantitative empirical analysis regarding the impact of taxation on economic growth and the investment environment, which constitutes a research gap for future studies [1].

Similarly, in the article titled "The Entangled State: How State-Business Relations Shaped the German Corporate Tax Regime" by I. Rademacher, the historical formation of Germany's corporate tax system and the influence of state-business relations on this process are examined. The study shows that the German government implemented a series of corporate tax reforms in 1999–2000, which had a significant impact on business taxation and altered the structure of investments. However, unlike the general European trend toward reducing individual income taxes, these reforms were more focused on expanding access to international capital. The importance of this article lies in its analysis of Germany's tax system not only from a legal-technical perspective but also through a political-economic lens. The author demonstrates how the German model uniquely responded to neoliberal reforms and argues that equating it with other Western models is misleading. The main contribution of the study is the interpretation of institutional factors shaping Germany's tax regime as a historical process, emphasizing that the outcomes of tax reforms should be understood through political-economic coalitions and state involvement. Nevertheless, the article does not sufficiently address the adaptability of Germany's tax model to the challenges of the digital economy, leaving this as an open issue for further research [2].

At the same time, in the article "Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany" co-authored by C. Fuest, A. Peichl, and S. Siegloch, the impact of corporate taxes on wage levels is examined empirically. Using a 20-year panel dataset of German municipalities and analyzing 6,800 tax changes, the researchers found that workers bear approximately half of the total tax burden. In other words, corporate taxes are borne not only by firms but also by employees, particularly low-skilled, young, and female workers. This study is highly significant for the topic, as it provides one of the first micro-empirical analyses of how the burden of corporate taxation is distributed within society in Germany. The authors' scientific contribution lies in testing the theory of tax incidence with real-world data and revealing the potential adverse implications of Germany's tax policy from the perspective of social equity. However, the article does not sufficiently analyze the relationship between Germany's tax burden and international competitiveness, leaving this as a gap for further research [3].

Another important study, "Profit Shifting in the EU: Evidence from Germany" by A.J. Weichenrieder, investigates the behavior of multinational corporations in shifting profits from Germany to low-tax jurisdictions based on empirical data. The research analyzes data on Germany's foreign direct investments and identifies a relationship—explained by profit shifting—between the tax rate in the parent company's home country and the profitability of its subsidiaries in Germany. Specifically, it is found that a 10 percentage point increase in the tax rate in the parent company's country leads to an approximate 0.5 percentage point increase in the profitability of its German subsidiaries. This article is significant as it explores the interaction between Germany's tax system and the international fiscal environment, representing one of the early empirical studies capturing cross-border tax effects. Weichenrieder's main contribution lies in examining Germany's case from a comparative fiscal policy perspective and quantifying the

mechanisms and scale of profit shifting. Nevertheless, contemporary issues such as profit shifting in the digital services sector are not addressed within the scope of this study [4].

Among Uzbek scholars, B.A. Normatov, in his article “Tax System of the Republic of Uzbekistan”, examines the structure of Uzbekistan’s tax system, forms of tax control, international audit models, and provides a comparative analysis of foreign practices. The study analyzes global tax audit models, including the Roman-German model covering Germany, France, and Japan, highlighting that the concept of “tax audit” is represented differently abroad and risk management systems are named variously. This article is significant for the topic as it not only systematically describes Germany’s tax system but also studies it as a methodological benchmark for Uzbekistan, contributing to comparative tax scholarship in the Uzbek academic language. Normatov’s contribution lies in comparing Uzbekistan’s tax control practices with international standards and identifying their weaknesses; however, the study does not address the economic efficiency of the German tax system or the characteristics of fiscal federalism [5].

P.B. Bekmurod, in the article “Comparative Analysis of the Tax System of Uzbekistan and the Countries of the Commonwealth of Independent States”, comparatively studies the tax burden, its optimal level, and impact on the economy in Uzbekistan and other foreign countries. The article considers the recent situation of the tax burden in Uzbekistan, factors determining the optimal level, and formulates scientific conclusions and recommendations for optimizing the tax burden in the economy. The study is relevant to the topic because comparing the tax systems of Germany and Uzbekistan provides a foundation for developing concrete recommendations for national tax policy improvement. Bekmurod’s scientific contribution lies in combining theoretical and empirical analysis of the tax burden to offer practical conclusions for fiscal optimization in developing economies; however, the challenges of modernizing the tax system in the context of the digital economy are insufficiently explored [6].

### **Research methodology**

In this article, a combination of several scientific methods was employed to comprehensively study the German tax system. Specifically, a systematic analysis method was used to examine the dynamics of the tax burden relative to GDP, the structure of taxes, and the mechanisms of fiscal federalism. Comparative analysis enabled the evaluation of Germany’s indicators in relation to other OECD<sup>1</sup> countries. Using a descriptive-statistical approach, the composition, shares, and rates of tax revenues were analyzed, and their economic significance was thoroughly interpreted.

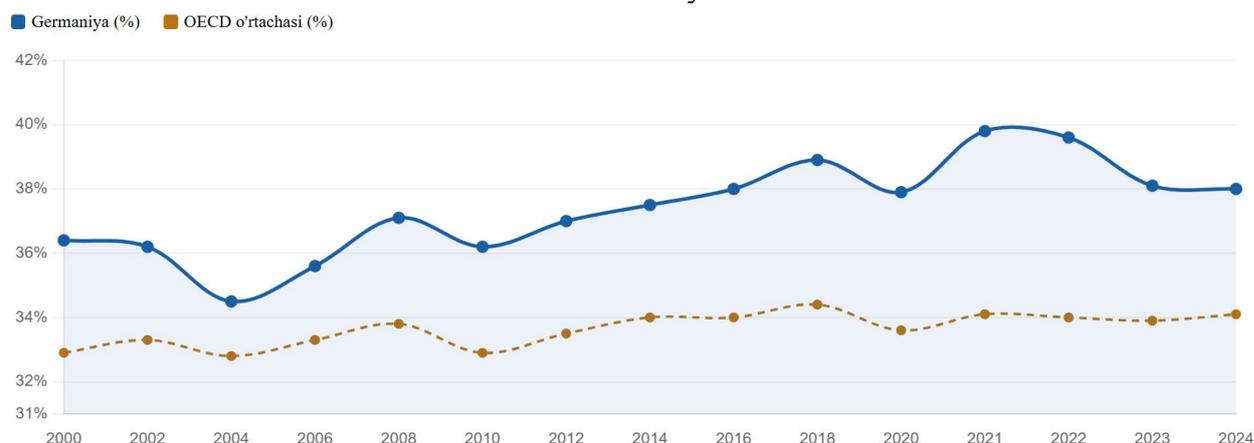
### **Analysis and results**

In modern economic conditions, evaluating the efficiency of the tax system is important not only for ensuring fiscal stability but also for supporting economic growth and social equity. From this perspective, a thorough study of the German tax system, analyzing the dynamics of its tax burden relative to GDP, its structural composition, and fiscal federalism mechanisms, allows for identifying the institutional characteristics of this model. The results of such analyses and calculations serve to form conclusions regarding the stability of tax policy, the efficiency of resource allocation, and practical recommendations applicable to other countries, particularly Uzbekistan.

The above statistical and comparative analyses help comprehensively reveal the level of Germany’s tax burden relative to GDP, its structural composition, and the mechanisms of fiscal federalism. In particular, comparative analysis with OECD countries, the share of different tax types, and the distribution across levels of government substantiate the institutional stability and socially-oriented nature of the German model. From this perspective, based on the conducted empirical analyses, the following key scientific conclusions can be drawn:

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<sup>1</sup> Organisation for Economic Co-operation and Development (OECD) - This organization is an international institution aimed at coordinating economic policies among countries worldwide, facilitating the exchange of experiences, and ensuring sustainable economic growth.

**Figure 1.**Coefficient of tax burden relative to GDP in Germany <sup>2</sup>

As we can see, Germany's tax burden relative to GDP decreased from thirty-nine point six per cent in 2022 to thirty-eight point one per cent in 2023, while the OECD average fell slightly from thirty-four point zero per cent to thirty-three point nine per cent. In 2024, this indicator increased by zero point seven percentage points to thirty-eight point zero per cent, whereas the OECD average reached thirty-four point one per cent. This demonstrates that Germany's tax burden remains consistently about five percentage points higher than the OECD average. From a historical perspective, it is worth noting that in 2021, this ratio was thirty-nine point five per cent, representing a significant increase compared to thirty-six point four per cent in 2000.

According to comparative data provided by the OECD, Germany's tax structure stands out with a significantly higher proportion in social insurance contributions and personal income taxes compared to the OECD average. Only two types of taxes account for fifty-seven point six per cent of total tax revenues, while the largest four taxes together make up seventy-four per cent of total revenues.

**Table 2.**Analysis of Tax Composition<sup>3</sup>

Tax Type	Approximate Share	Approximate Share
<b>Social security contributions</b>	36%	41.9%
<b>Personal income tax</b>	27%	14–45%
<b>VAT (Umsatzsteuer)</b>	21%	7%
<b>Corporate tax</b>	6%	5.5%
<b>Trade tax (Gewerbesteuer)</b>	5%	14%
<b>Other taxes</b>	5%	—

The total volume of social insurance contributions amounts to approximately forty-one point nine per cent of labor income, with this burden distributed roughly equally between employers and employees. The standard rate of VAT is nineteen per cent, while a reduced rate of seven per cent applies to goods and services such as food products, books, and medical equipment for persons with disabilities.

Germany operates under a three-tier tax allocation model. Income tax and corporate tax revenues are shared equally between the federal government and the Länder; seventy-five per

<sup>2</sup> <https://www.aeaweb.org/articles?id=10.1257/aer.20130570>

[https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/revenue-statistics-2025\\_07ca0a8e/3a264267-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/revenue-statistics-2025_07ca0a8e/3a264267-en.pdf)

<sup>3</sup> <https://www.sciencedirect.com/science/article/pii/S0047272724000847>

cent of VAT revenues are redistributed among the Länder to ensure uniform living standards nationwide. According to 2022 data, the federal government receives forty-two point five units of income tax, fifty per cent of corporate tax, and forty-six point six per cent of VAT; the Länder receive forty-two point five units of income tax, fifty per cent of corporate tax, and fifty point five per cent of VAT; local authorities collect fifteen per cent of income tax and more than two point eight per cent of VAT.

**Table 3.**

Fiscal Federalism: Distribution of Tax Revenues Across Levels of Government.<sup>4</sup>

Level of governance	Main taxes	Share in total revenue
<b>Federal government</b>	Excise taxes, customs duties, share of VAT	42%
<b>States (länder)</b>	Share of income tax, property tax	36%
<b>Municipalities</b>	Trade tax, real estate tax	17%

The most important tax sources—wage and income taxes, corporate tax, and VAT—have historically provided nearly three-quarters of total tax revenues in Germany, all of which have been allocated based on a joint distribution scheme.

The three-tier tax allocation model gives Germany a unique characteristic: the financial balance and equity mechanism across federal, state, and municipal levels helps equalize the standard of living among the country's sixteen federal states. More than seventy per cent of total tax revenues assigned to the Länder are formed through the joint allocation mechanism of federal taxes, while the Länder practically do not have the authority to set separate tax rates. This represents the main paradox of Germany's fiscal federalism.

**Table 4.**

Comparative Analysis with OECD Countries<sup>5</sup>

Country	Tax burden relative to gdp (2023)	OECD ranking
<b>France</b>	46.9%	2
<b>Denmark</b>	46.0%	2
<b>Belgium</b>	44.7%	4
<b>Germany</b>	38.1%	12
<b>OECD average</b>	33.9%	—
<b>USA</b>	27.0%	32
<b>Uzbekistan</b>	24%	—

In 2023, Germany ranked twelfth among the thirty-eight OECD countries. At the same time, its tax burden was 4.2 percentage points higher than the OECD average. Germany's tax burden has remained stable within the thirty-four to forty percent corridor of GDP since 2000. This demonstrates the strong institutional foundation of the country's fiscal policy and its consistency relative to economic cycles. The increase in the tax burden from thirty-six point four percent to thirty-eight point one percent of GDP represents a long-term positive trend.

Within the tax structure, social security contributions play a leading role, accounting for approximately thirty-six percent, which fully aligns with Germany's "social market economy" (German: Soziale Marktwirtschaft) model. According to OECD analyses, Germany's tax structure differs significantly from the OECD average in terms of social security contributions and personal income taxes.

The German experience shows that, to establish a strong fiscal system, three factors are crucial: (1) a progressive personal income tax system, (2) independence of trade taxes at the municipal level, and (3) a transparent mechanism for distributing tax revenues among

<sup>4</sup> <https://unesdoc.unesco.org/ark:/48223/pf0000374566>

<sup>5</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=998420](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=998420)

administrative levels. In the context of ongoing tax reforms, Uzbekistan would benefit from considering these three directions as strategic priorities.

### **Conclusion and suggestions**

The conducted analyses indicate that the German tax system possesses a high level of institutional stability and consistency. In particular, the tax burden relative to GDP has remained within the thirty-four to forty percent range for many years, reflecting the well-developed nature of the country's fiscal policy. This situation confirms the existence of a flexible tax system that adapts to economic cycles while maintaining stability in its core principles.

The structural composition of the German tax system is shaped in accordance with its "social market economy" model, with social security contributions and personal income taxes occupying a leading role. This demonstrates that the tax system plays a decisive role in financing the state's social obligations. At the same time, the high concentration of key tax sources simplifies fiscal management and ensures stable revenue flows.

Germany's three-tier fiscal federalism model enables effective distribution of tax revenues among the federal, state, and municipal levels. This system helps reduce regional economic disparities and balance living standards across the country. Consequently, the German experience highlights the importance of strong fiscal institutions, transparent distribution mechanisms, and balance between central and regional authorities.

Based on these findings, the following recommendations are proposed:

Firstly, in reforming Uzbekistan's tax system, it is advisable to gradually expand elements of a progressive personal income tax, which will support social equity and reduce income disparities.

Second suggestion is to strengthen local budgets' autonomy, it is necessary to expand stable municipal-level tax sources (such as trade or property taxes) and enhance local authorities' management powers.

Third suggestion is related to fiscal federalism mechanisms that they should be further developed by organizing the distribution of tax revenues across administrative levels on transparent and clearly defined criteria.

Fourth, adopting Germany's experience in digitizing and automating tax administration is recommended to reduce the share of the informal economy and increase the stability of tax revenues.

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