# Module 3 Intro

Our Tax Justice & Poverty research project took place in three very different countries:

| | Bavaria | Kenya | Zambia |
|---|---|---|---|
| Inhabitants | Ca. 12.6 million (2014) | Ca. 45 million (2014) | Ca. 14 million (2012) |
| Ethnic/language groups | Homogeneous | 42 | 73 |
| Size of Economy (nominal GDP) | EUR ca. 533 billion (2014) | USD ca. 69.0 billion (2015) | USD ca. 26.6 billion (2014) |

But the results reveal some interesting similarities – some to be expected, some unexpected:

- Considerable public debt
- Growing income and wealth inequality
- Considerable informal sector, without contributing taxes and mandatory social security contributions
- Tax burden is shifting from direct taxes, burdening the wealthy, to indirect taxes, burdening ordinary citizens or SMEs.

| | Germany | | Kenya | | Zambia | |
|---|---|---|---|---|---|---|
| | 1975 | 2017 | 1974 | 2017 | 1970 | 2017 |
| Top PIT Rate | 56% | 45% | 65% | 30% | 45% | 37.5% |
| Sales Tax or VAT | 11%-5.5% | 19%-7%-0% | 10% | 16%-0% | n.a | 16%-0% |

In further analysis, there are also similarities when it comes to the question why this is the case:

First, there are deficits in, or even absent, tax laws

| | Germany | Kenya | Zambia |
|---|---|---|---|
| Wealth Tax | Suspended | None | None |
| Capital Gains | 25% Flat Tax | 5% | None |
| Inheritance & Gift Tax | Yes, but riddled with holes | None | None |
| Real Property Taxation | Yes, but undergoing reform | Yes | Yes |
| Real Property Transfer Tax | Yes, but undergoing reform | Yes | Yes |

But even regarding the tax laws which exist we state enforcement and compliance problems, which is, among other reasons, due to underpaid and overworked tax administrations

| | Bavaria | Kenya | Zambia |
|---|---|---|---|
| Actual Number of tax officials | 14,633 (2013) | 4,629 (2015) | 1,450 (2013) |
| Should-be number of tax officials | 16,477 (2013) | 6,618 (2015) | 1,482 (2013) |
| Relation of tax officials to 1000 citizens (2010) | 1.15 | 0.104 | 0.099 |

Underpaid and overworked in relation to whom? Private sector tax lawyers or tax accountants who, with the same education and training, earn much more than public servants and therefore attract far more able candidates than public administrations.

There are, of course, differences between  Germany, Kenya and Zambia: While there are Illicit Financial outflows from Kenya and Zambia, there are Illicit Financial Inflows in Germany –

| Germany, IFF ***inflow*** (money laundering only) | Kenya: IFF ***outflow*** | Zambia: IFF ***outflow*** |
|---|---|---|
| 50-100 billion Euro (average) | Ca. 907 billion USD (2013) | Ca 2.9 billion USD (2015) |

Not surprising, since somebody's loss is always somebody's gains.

This brings us, finally, to the question: Why is nobody really engaging in fighting this system and trying to get it more fair. There are many reasons, but most importantly everybody tries to preserve its "competitive advantage": Germany blocks the EU call for more transparency regarding companies and trusts, Nairobi defends its Nairobi Financial International Centre and really poor countries like Zambia remain at the bottom and continue to suffer.

However, and based on yesterdays ethical analysis: It is our conviction, that, if tax competition remains the prevailing paradigm, the race to the bottom will continue and, in the end, everybody will be worse off.

The previous explains our choice of the following three Keynote Speakers:

- Max Lawson, on growing wealth inequality and the importance of taxation to counter this trend
- Raymund Baker on global IFFs and what governments should do in fighting it
- Thomas Pogge and his new book, with an emphasis on tax competition and tax cooperation.