

Nuremberg Germany

Construction of a new subway line has been underway in Nuremberg for the past 15 years

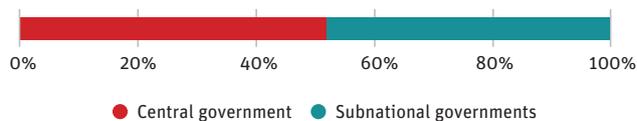
CITY:
0.5 mil. inhabitants

METROPOLITAN AREA
1.3 mil.
(+0.5% pop. change/5 years)

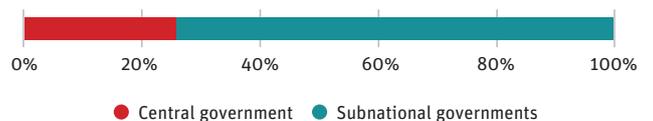
GDP: 144% of the average EU28 GDP
(+1.9% average annual change in GDP/5 years)

How local public finance systems work in Germany

PUBLIC REVENUE



CAPITAL EXPENDITURE



Germany has **three-tier system of subnational governments** (SNG). There are 16 federal lands (Länder), 401 districts (294 rural districts – Kreise and 107 municipal districts) and 11,054 municipalities (Gemeinden). Tax powers and transfers are defined by the Grundgesetz (basic law, i.e. constitution). It was amended in 2017 to strengthen the role of the federal government. Budgetary law was amended in 2017 as well, reorganizing the federal financial equalization scheme (coming into force in 2020).

Germany has a lower share of public investment than the OECD average (2% in Germany compared to 3% as OECD average) and this share is also growing more slowly. German SNGs are responsible for most public investment (62 %, which is higher than the OECD average, but it remains low in relation to GDP).

The share of public investment by municipalities is declining (58% of the public investment in 2010 vs. 33% today). Budget cuts are being felt most in transportation infrastructure, administration and education. The federal government has set up a fund to support municipal investment. It provides funding for investments in education to municipalities with financial problems. The federal government has also increased its grants to federal lands and municipalities for municipal development, housing, refugee integration and support for building capacities at the local level.

The relationships between individual public administrators are precisely defined and closely interconnected both horizontally and vertically.

SNG's revenues are divided between the federal lands (Länder, 62% of revenue) and other local governments (districts and municipalities, 38%). **Taxes are the main source of SNG revenue**, followed by transfers and grants and then fees. SNGs Tax revenue in Germany (12% of the GDP and 52% of revenue) is significantly below the OECD average (7% of GDP and 45% of revenue) and federations in the OECD (9% of GDP and 48% of revenue). Revenue from taxes and transfers is balanced in municipalities and, unlike federal lands, local fees determined by municipalities play a comparatively greater role.

The taxes and their distribution are determined by the federal government (certain taxes are even allocated by the constitution). **The tax revenue of SNGs includes both their own local taxes and shared taxes.** Shared taxes include: personal income tax, corporate income tax, VAT and since 2009 also a tax on motor vehicles. The first three taxes mentioned account for 74% of all SNG's tax revenue. The largest share comes from personal income tax (41% of SNG's tax revenue and 24% of total SNG's revenue), followed by VAT (29% of SNG's tax revenue and 16% of total SNG's revenue) and corporate income tax (4 and 2% respectively).

Federal lands have little influence over their tax revenue, since the overwhelming majority (84%) of their tax revenue is shared (personal income tax, corporate income tax, VAT) **and the redistribution of tax revenue is governed by a clearly defined mechanism.** Federal lands receive 44% of the tax on payroll and salaries and 50% of the withholding tax on capital gains collected at the national level. Federal lands also receive 77% of the personal income tax collected at the SNG

level (23% goes to SNGs), 48% of nationally-collected VAT and 96% of VAT collected at the SNG level. One-fourth of all VAT revenue is automatically redistributed to poorer federal lands within the equalisation scheme. The remaining 75% is redistributed to all federal lands according to the population formula. Federal lands receive 50% of the nationally collected corporate income taxes (municipalities and districts do not collect or receive this tax). The redistribution of revenue from personal and corporate income tax by federal lands depends on how much the particular land collected (principle of fair return).

Federal lands also collect their own taxes. The most important is the real estate transfer tax, which accounts for 4% of federal land tax revenue and inheritance tax (2%), then there are the betting and lottery tax, beer tax and firefighting tax.

Districts do not have the right to collect taxes.

Municipalities receive part of the shared revenue from personal income tax (14%, which corresponds to 37% of tax and 14% of total municipal revenue) **and VAT** (2%, which corresponds to 5% of the tax or 2% of their total revenue). **Municipalities also collect their own taxes. The most important are the local trade license tax (Gewerbesteuer) and property tax (Grundsteuer).** Less significant municipal taxes include a business tax, local entertainment tax and dog tax. The Gewerbesteuer is a major source of municipal revenue (44% of the tax and 17% of total municipal revenue). These figures are after the deduction of transfers to the state (4%) and federal lands (12%). This 16% (in 2016) is part of Germany's equalisation mechanisms. The Gewerbesteuer consists of a 3.5% base rate and municipal tax rate set by municipalities.

Reforms to the property tax are currently being prepared, since it is calculated in an antiquated and de facto unfair manner. Property tax calculations are based on the 1964 values of land in the former West Germany and 1935 values in the former East Germany. A German constitutional court has ruled that this tax must be reformed by the end of 2019 (to take effect as of 2025).

The transfer and subsidy equalisation mechanisms in

Germany are governed by the constitution, which says that all citizens should have equal living conditions.

Mechanisms focus primarily on income and not expenditures and are also being updated (the reform is to be presented in 2020). At the present time

in federal lands there are vertical transfers (described above, through VAT) and horizontal transfers (from wealthier to poorer federal lands, to ensure the same level of public services). In 2019, special "supplementary grants for special needs" were eliminated for lands in the former East Germany.

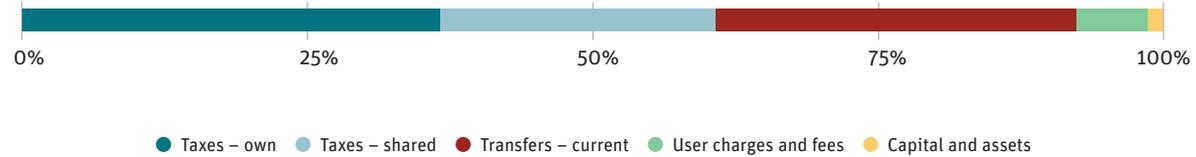
Municipalities do not receive any transfers from the state, only from federal lands. These make up a fundamental part of the municipal budgets (42% of their total revenue). The remaining SNG revenue (17%, or 19% for local government and 15% for federal lands) comes from fees (primarily fees for public services) and to an insignificant degree from property income.

Source: <http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>

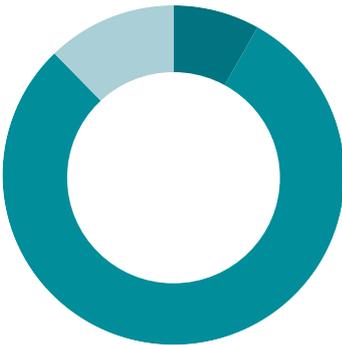
Finances of the City of Nuremberg

REVENUE SOURCES

Economic classification of revenue

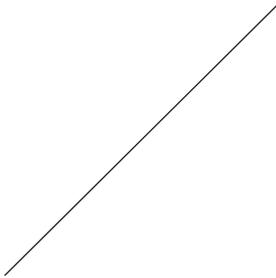


Tax base

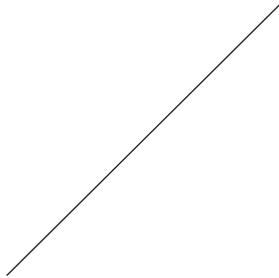


● Production ● Income and wealth
● Assets

Transfers conditionality (data unavailable)



Transfers origin (data unavailable)



Balance sheet and debt

-29%

BUDGET BALANCE

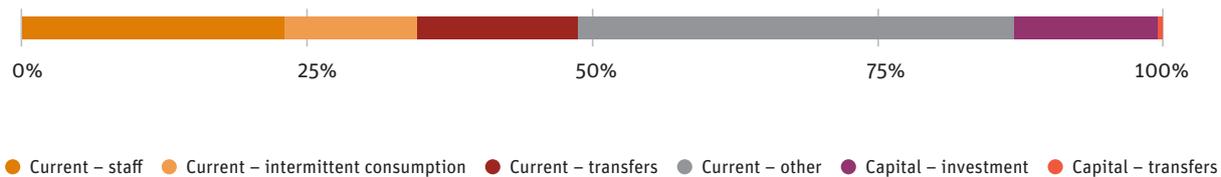
187%

DEBT AS A PERCENTAGE
OF ANNUAL REVENUE

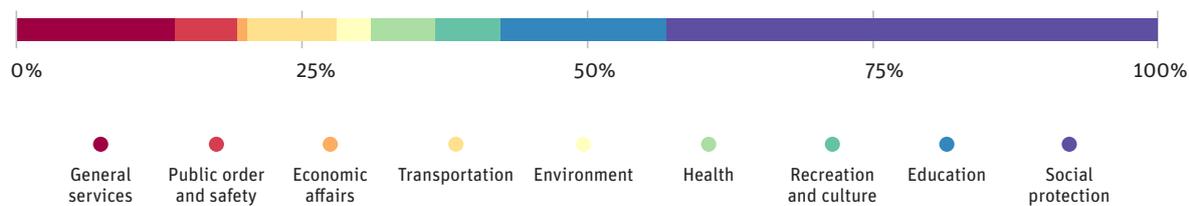
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EXPENDITURE COMPOSITION

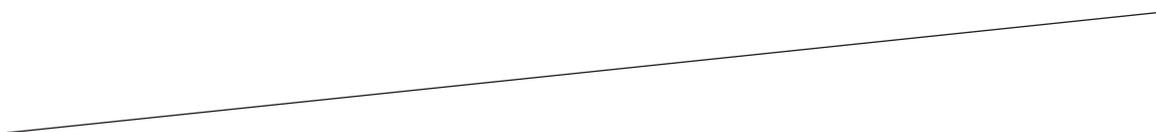
Economic classification of expenditure



Functional classification of expenditure



Functional classification of capital expenditure (data unavailable)



Source: Own questionnaire survey (2019)

Extension of the U3 line

Extension of the U3 line at both ends, a total of 3 stations and 2.3 km

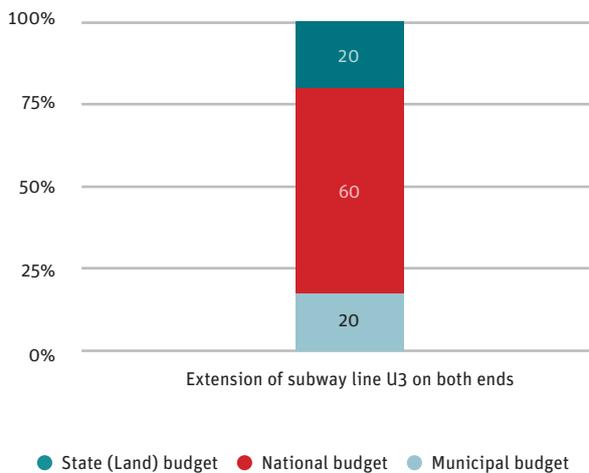
Extension of the U3 subway line at both ends, with 2 stations and 1.2 km (Klinikum Nord and Nordwestring) to the northwest and 1 station and 1.1 km to the southwest (Großreuth). Investment costs for both extensions together are anticipated to be EUR 176 million.

The U3 line was opened in 2008 as a northwest and southwest branch of the U2 line. Operations on the U3 are fully automated (operations on the parallel U2 line were automated gradually).

The northwest extension of the U3 line was opened in May 2017, the southwest extension is planned to open in 2020. There are also plans to extend the southwest section by an additional 2 stations (2 km).



U3 subway line in Nuremberg



Source: Own questionnaire survey, Urbanrail.net, VAG Nürnberg