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The Top of the Distribution – Evidence and Some New Richness Measures
for Self-employed and Employees from German Income Tax Microdata 1992 to 2003

Joachim Merz

For additional information please contact:

Name: Joachim Merz
Affiliation: Research Institute on Professions (FFB), Leuphana University of Lüneburg
Email address: merz@leuphana.de

This paper is posted on the following website: http://www.iariw.org
Introduction

Many studies of the distribution of income focus on its lower tail. The rich, however, are rarely analyzed. As to many other arguments to be interested in the top income distribution (Atkinson 2007), the gap is worth the candle’s since e.g. the top 10% (or more) of the 2003 German taxpayers pay 55% (15% of all incomes)

Based on our contributions to the two first German Federal Poverty and Richness Reports (after 2001, Merz, Merz and Zeck 2003) this study is about the income rich feeling

• Top Income and poverty evidence
• Self-employed (as entrepreneurs and businesspeople) and employees
• Exceptional new microdata: The German Income Tax Statistics
• New measures combining quantity, intensity and income distribution of the rich
• Sound results about the actual situation and the development from 1992 to 2003

Main result: the rich are getting richer, in particular the very rich. A different picture for self-employed and employees, and a different picture within the group of self-employed for liberal professions and entrepreneurs will be evident.

Keywords: Gini, OLS, OLS

Data

Though there are many microdata bases for income analyses in Germany - like the Survey of Income and Expenditure, EIDS or the Socio-Economic Panel (SOEP) - because of the survey characteristics and their design there are problems to achieve accurate data for the self-employed and for high income in particular. Our top income analysis could use the new microdata of the German Income Tax Statistics, which:

• Complete statistics for all taxpayers in Germany (ca. 30 million)
• Three years representing respectively
• Microdata taxpayer single or joint assessment

The German Income Tax Statistics provide the most detailed and sound information about different income sources (income and employment) and taxes at all taxpayers in Germany.

Since income analyses require a more economic tax income concept, we consider diverse deductions, gains (benchmarks/gross) and transfers according income from tax and less individually, dimensions which are of interest for high income in particular.

Our Microdata:

• Enhanced German Income Tax Statistics (EKT) introduced since 2003
• Respectful 10% sample of 1992, 1995, 1998, 2003 (by microsimulation with more than 12 Million individual rows)
• 2003 Microsimulation is based on demographic and institutional changes

Definitions

Income net monthly income as gross economic income minus taxes

Occupational status self-employed as entrepreneurs (trade and business) and professionals (‘free Berufe’), and employees from respective predominant income-sources.

Results


Table 1. Overall Net Income Distribution 2003 by Occupational Status

<table>
<thead>
<tr>
<th>Income Category</th>
<th>Employees</th>
<th>Professions</th>
<th>Entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Income 500€</td>
<td>10.5%</td>
<td>17.4%</td>
<td>68.3%</td>
</tr>
<tr>
<td>Medium Income 501-1500€</td>
<td>43.3%</td>
<td>37.9%</td>
<td>18.7%</td>
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<td>High Income 1501-5000€</td>
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<tr>
<td>Millionaires 20000+€</td>
<td>1.3%</td>
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Top Income 2003

Top income thresholds question:

- Plato (427 B.C.):
- Fewer rich, more poor, should be obtained at http://ffb.uni-leuven.de

Acknowledgements / Information

Many more information, results and related projects can be obtained at http://ffb.uni-leuven.de

Literature cited


Figure 1: Net Income Distribution 2003 and 1992-2003 by Occupational Status

Figure 2: Top Income 2003 by Occupational Status

Figure 3: Dynamics of Top Income Shares 1992, 1995, 1998, 2003 (left)

Figure 4: Dynamics of Combined Richness Measures (Net Income)


Joachim Merz

Research Institute on Professions (FFB), Leuphana University of Lüneburg

Conclusions

Overall Inequality:

• Self-employed show the highest actual inequality
• Entrepreneurs favor the highest growth of inequality
• Professionals show the lowest growth.

Top Income:

• Self-employed act the highest income population and income shares
• Intensity of richness: the higher the top income the higher the richness; intensity of most professions second highest

Top Income Dynamics 1992-2003:

• Richness increased by 1992-2003 but not for professions
• In particular the very rich increased their income
• The social gap has increased in 2003 where the more divergent growth of top income
• The income of richness increases of the richest shares

Top New Income Measures:

• All measures for the new importance of richness
• RADD in particular does not overstate the small number of the very rich

Top Income Measures:

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Table 3. Top Income Measures: Net Income 2003

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