



# Joint taxation of couples can be a trap

The tax rule from the 1950s is no longer fit for purpose today

As discussed in this column last week, working life should be increased in Germany in order to secure the pay-as-you-go public pension system. It is usually argued that people need to work longer, i.e. retire later than currently. This is also correct, but solves only one part of the problem. Another building block for correcting the financial imbalance in Germany's social security system is that we need to work more in the years in which we are employed. Germany has one of the highest part-time employment rates of all developed economies, especially among women.

## Origin of preferential tax treatment of spouses

The rule that married couples are assessed jointly for tax purposes ("Ehegattensplitting") dates back to the 1950s. It is often justified with the special protection of the family enshrined in Article 6 of the German Constitution. However, 70 years ago, the typical family was completely different from today's reality. The classic family used to consist of a working man, a housewife and two or three children. Before 1977, women in Germany were not even allowed to take up paid employment without the husband's permission! And in the past, very few marriages were divorced (see Fig. 1). Non-working wives could reasonably assume that she would be provided for in old age. The social reality today could not be more different.

## The incentives are wrong

Attempts are often made to explain the high proportion of women working part-time by the lack of childcare capacity. This cannot be dismissed out of hand. There is an estimated shortage of 300.000 childcare places in Germany. But that cannot be the only explanation. The fact that Germany has one of the lowest

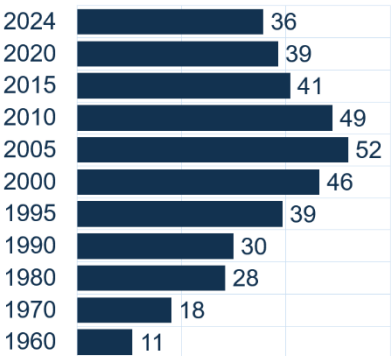
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## Today's family reality is a far cry from that of the 1950s

Fig. 1: Divorce rate in Germany, in (%)



Source: Destatis, LBBW Research .

birth rates (just 1.35 children per woman in 2024) and one of the highest part-time rates for female employees (Fig. 2) does not fit together well. Although the availability of childcare facilities is indeed likely to influence the labor supply, they cannot explain the high proportion of around [45%](#) of childless married women who work part-time.

**Incentives to take up work are reduced**

The current joint taxation of married couples favors households with unequal incomes between the spouses. It also leads to high effective tax rates for second earners with lower incomes, most of whom are still women. If the wife works full-time in addition to the husband, her income is taxed at a much higher rate than in other [OECD](#) countries. These negative financial incentives are reinforced by the system of cost-free co-insurance in the public health insurance scheme for non-working spouses. If the partner, usually the female partner, takes up employment, she must pay her own contributions. The effective taxation (including social contributions) of a spouse taking up employment in Germany is one of the highest in the [OECD](#) (see Fig. 3).

**Recipe for old-age poverty among women**

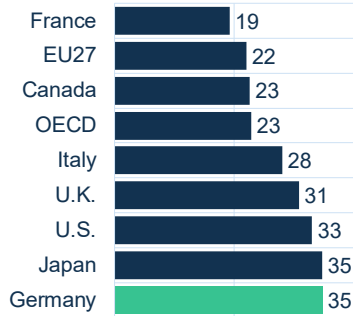
The incentives for many women to work less or possibly not at all due to the joint taxation regime harbors considerable poverty risks for this population group. This is because if the marriage breaks down, women often lack the continuous employment history and their incomes from employment are accordingly stunted. The fact that public pension entitlements are routinely shared equally in the event of divorce reduces this negative side effect of separation. Even so, women are disproportionately affected by poverty in old age: In the 65+ age group, women had an at-risk-of-poverty rate of 21%, compared to 17% for men. The rates are even further apart for over 75-year-olds: 22% compared to 15%. The retirement income of women over 65 is on average more than a quarter lower than that of men. Excluding survivors' pensions, the gender gap is 39%. This large gap also affects divorced women who, due to the tax rules, worked less than they would have done in the absence of joint taxation.

**Politicians are missing out on a win-win option**

It actually seems like a no-brainer. An abolition of the joint taxation could simultaneously increase the labor supply, help stabilize the social security system and reduce poverty among women in old age. It is regrettable that the word "Ehegattensplitting" (i.e. joint taxation for married couples) is nowhere to be found in the coalition agreement.

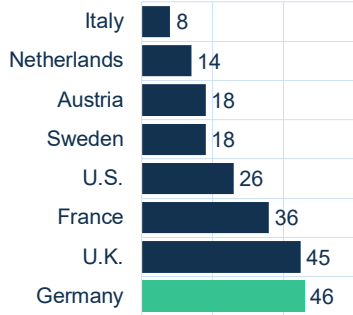
Here, too, the coalition is kicking the can down the road. A reform of this outdated tax rule is complicated and controversial. Let the next government take care of it. Or the one after that.

Fig. 2: Female part time employment rate (G7, 2024), in %



Source: [OECD](#), [World Bank](#) (for USA 2023), LBBW Research

Abb. 3: Effective participation tax rate of second earner in marriage (% , 2024)



Source: [OECD](#), LBBW Research

The coalition does not acknowledge the problem

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