

The background features three overlapping blue circles of varying shades, creating a Venn diagram-like effect. A horizontal grey bar with a slight gradient is positioned across the middle of the image, serving as a backdrop for the main title.

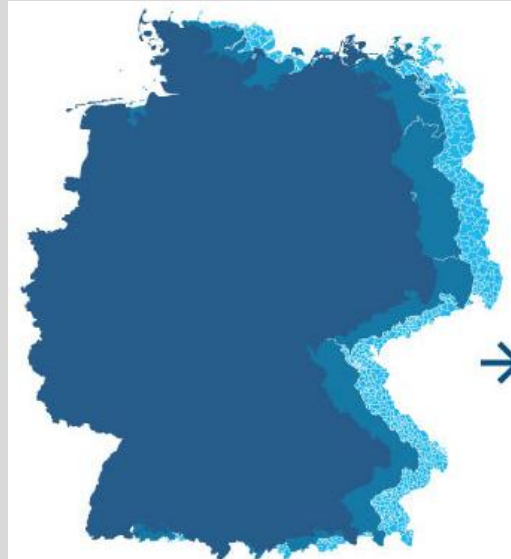
Decentralization in Germany

Werner Gatzer

Former State Secretary

Phnom Penh, June 1-5, 2026

The Three Levels of Germany



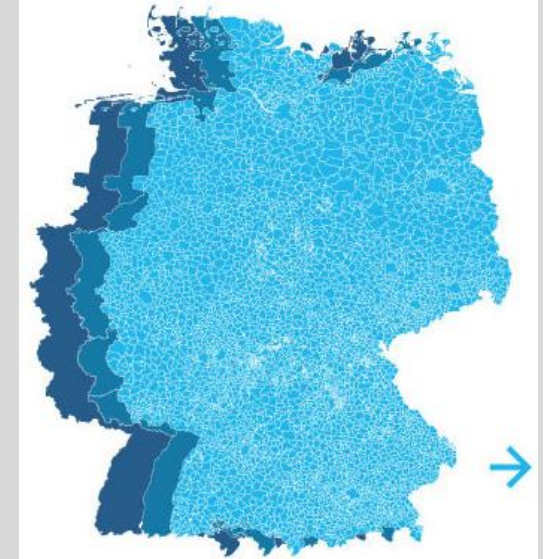
1 Federal

Population: 83 million



16 states

from 560,000 inhabitants (Bremen)
up to 17.9 million inhabitants
(North Rhine-Westphalia)



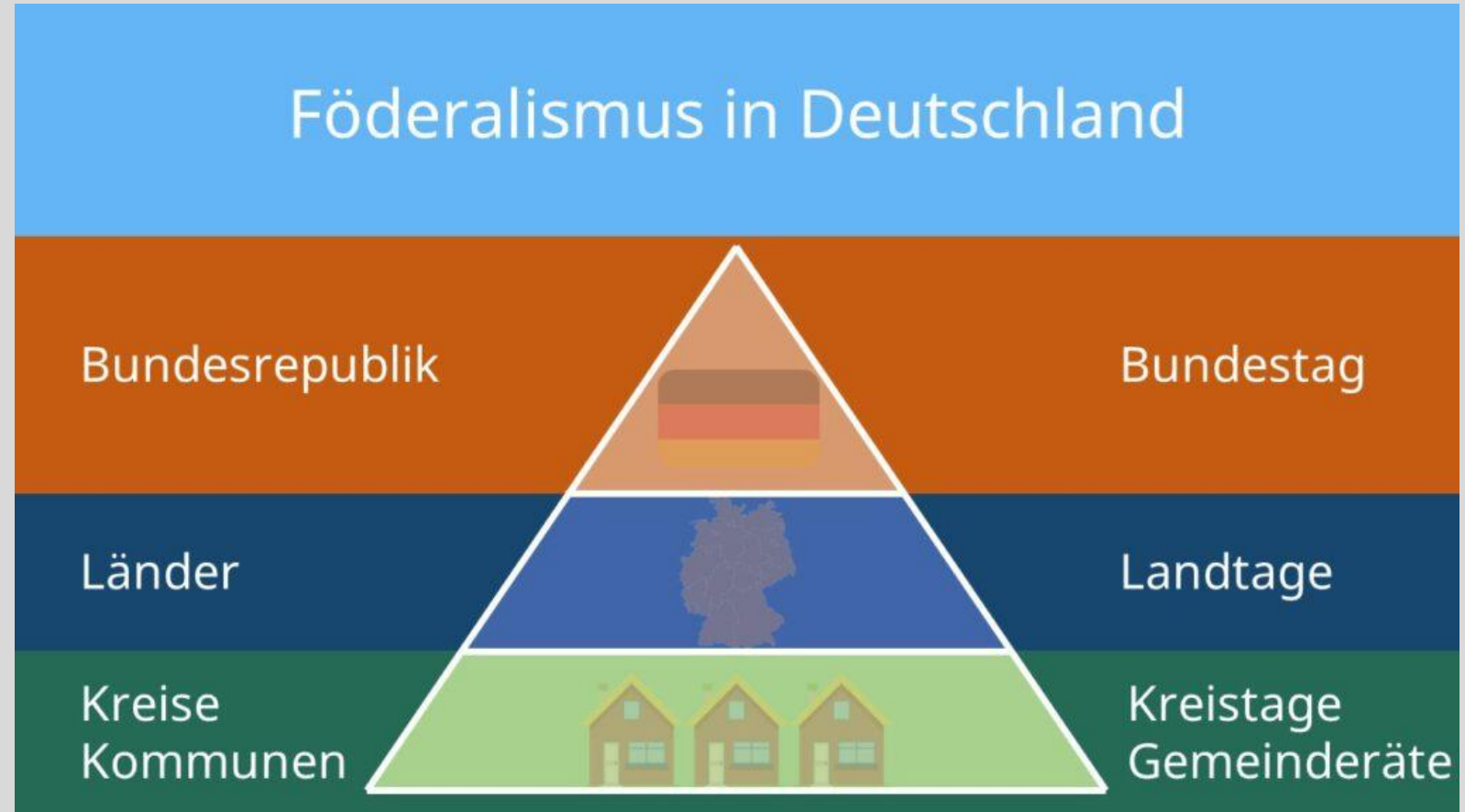
**approx. 11,000
municipalities**

from 10 residents (Hallig Gröde)
up to 3.6 million inhabitants (Berlin)

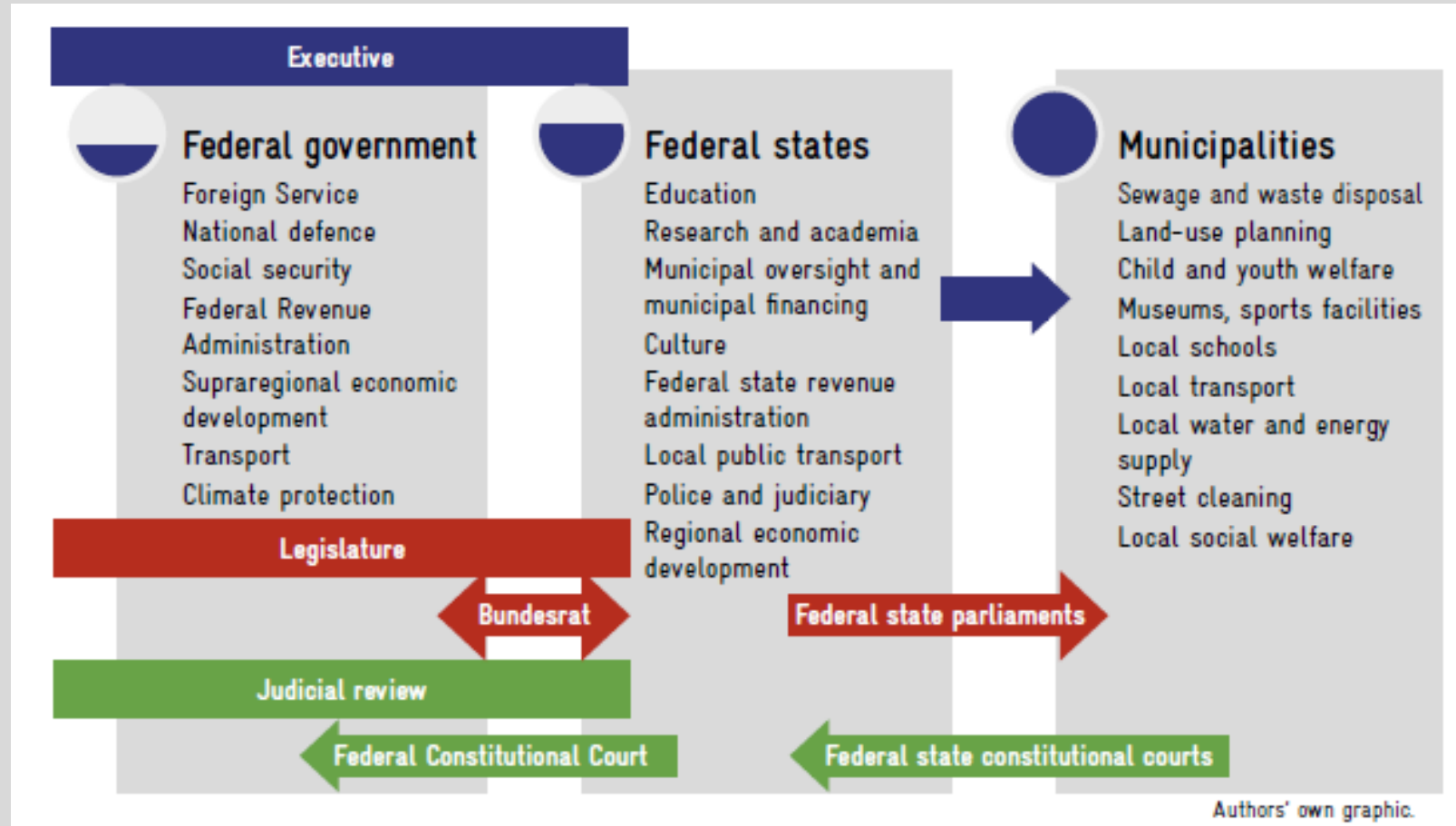
What does decentralization mean?

Decentralization means shifting power, decision-making authority, and responsibilities from a central authority to subordinate, smaller units.

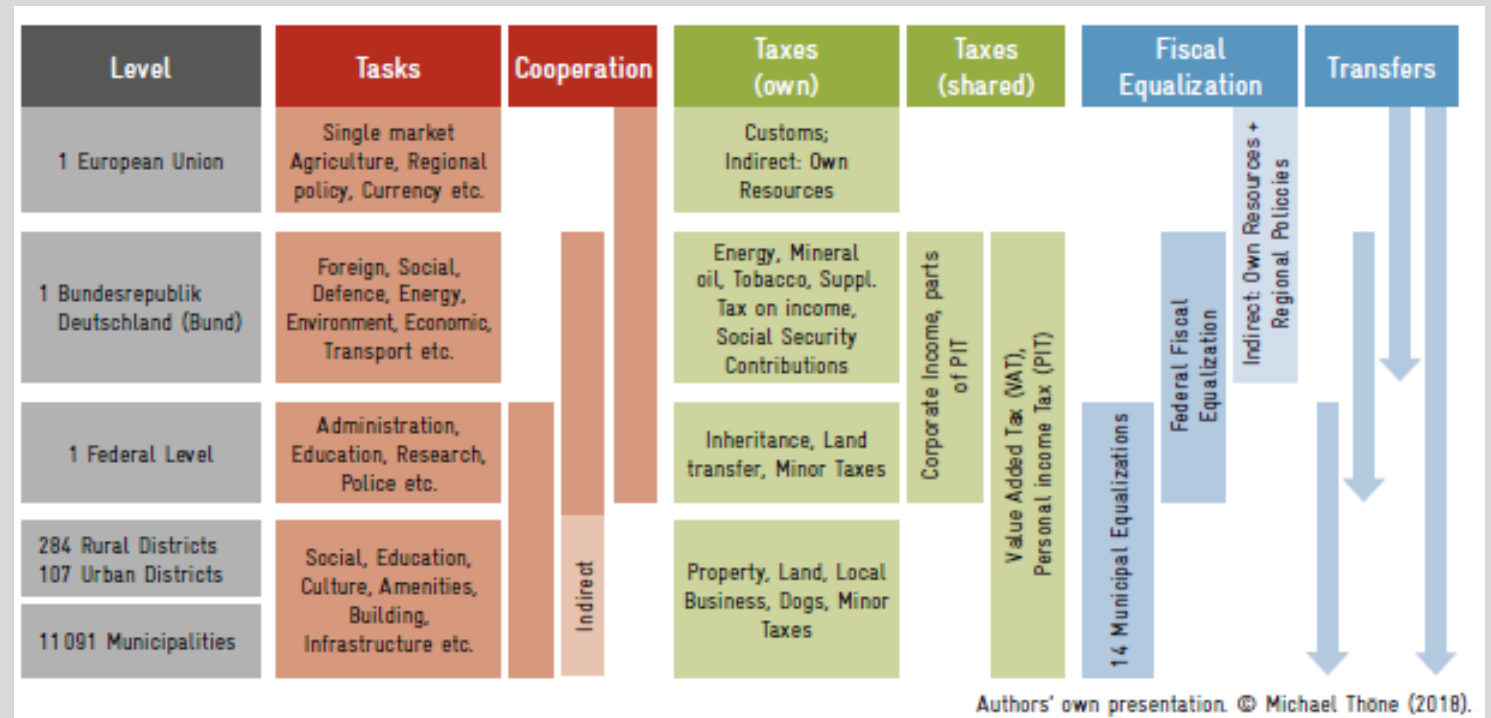
This makes the system more flexible, more responsive to citizens' needs, and less prone to failure.



Division of Responsibilities Among the Federal Government, the States, and Local Governments



Local Governments in Germany's Multi-Level System



Source: Jens Bullerjahn / Michael Thöne

Legislation

- The **federal government** has legislative authority when regulations must be uniform across all states, such as in foreign affairs, defense, railways, and certain areas of tax law (exclusive legislative authority)
- **States** may enact laws for their own jurisdiction when authority is not assigned to the federal government and no uniform federal regulation is required (concurrent legislation), such as education, culture, police, and municipalities
- **Municipalities** have authority over local self-government, urban planning, water and sewage systems, and hospitals

Government in Germany

- Federal Administration
 - Highest federal authorities, e.g., federal ministries
 - Higher federal authorities, e.g., Federal Police, General Customs Directorate
 - Federal agencies at the intermediate level, e.g., Waterways and Shipping Administration
 - Lower federal authorities, e.g., Main Customs Office,
 - 16 federal states with their own parliaments and governments
 - 16 state administrations
 - State supreme authorities, e.g., state ministries
 - State higher authorities, e.g., State higher authorities
 - State-level agencies, e.g., regional councils
 - Lower state authorities, e.g., tax offices
- Local self-government, Art. 28 of the Basic Law including counties, cities, and municipalities

Fiscal Federalism

- The responsibility of the federal government, states, and local governments for financing their own tasks
- Tax revenue sharing based on responsibilities
- Combination of separate and joint taxes
- Distribution formula for joint taxes
- Horizontal and vertical fiscal equalization among the states
- Joint responsibilities and financial assistance
- Debt brake

Structure of German Tax Revenue

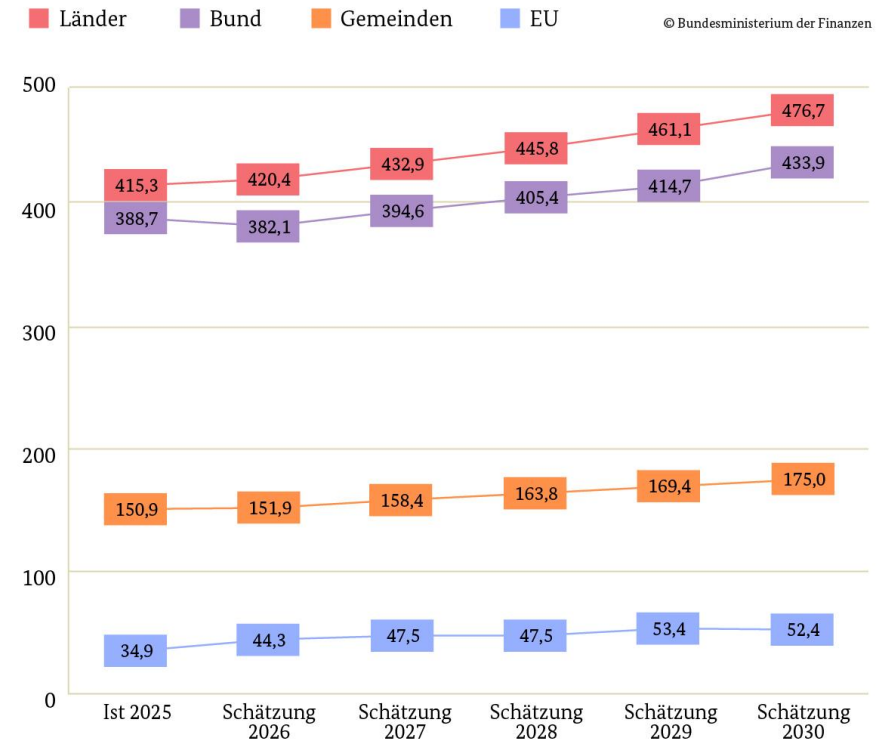
2018 (EUR million)	Fed. govt	Fed. states	Municipalities	Totals	Share
Joint taxes	262 022	256 350	48 666	567 038	74 %
Income tax (incl. wage tax)	117 208	117 208	41 182	275 598	36 %
VAT	116 513	110 841	7 484	234 838	30 %
Corporation and withholding tax	28 301	28 301		56 602	7 %
Federal taxes	108 586			108 586	14 %
Energy tax	40 882			40 882	5 %
Vehicle tax	9 047			9 047	1 %
Tobacco tax	14 339			14 339	2 %
Electricity tax	6 858			6 858	1 %
Insurance tax	13 779			13 779	2 %
Solidarity surcharge	18 327			18 327	2 %
Others	5 354			5 354	1 %
Fed. state taxes		23 913		23 913	3 %
Real estate transfer tax		14 084		14 084	2 %
Inheritance tax	9 047	6 813		6 813	1 %
Beer tax	14 339	655		655	0 %
Others	6 858	2 361		2 361	0 %
Joint taxes	2 058	7 020	62 707	71 785	9 %
Property tax			14 202	14 202	2 %
Local business tax	2 058	7 020	46 795	55 873	7 %
Others			1 710	1 710	0 %
Totals by level	372 666	287 283	111 373	771 322	100 %

(without customs duties to EU: EUR 5 057 million)

Projected tax revenue through 2030

Ergebnisse der Steuer-schätzung Mai 2026

in Milliarden Euro



Tax revenue sharing between the federal government and local governments

- Vertical tax distribution
 - Federal taxes (e.g., solidarity surcharge, insurance tax, motor vehicle tax)
 - State taxes (e.g., inheritance tax, beer tax, real estate transfer tax)
 - Municipal taxes (e.g., business tax, property tax)
 - Joint taxes
 - Income tax: 42.5% federal; 42.5% state; 15% municipal
 - Withholding tax on capital gains 44% federal; 44% state; 12% municipal
 - Corporate income tax 50% federal; 50% state
 - Value-added tax 8.1% federal; 49.1% state; 2.8% municipal

Tax Distribution

Horizontal tax distribution

- Based on local revenue
- Taxpayer's residence for income tax purposes
- Company headquarters for corporate income tax
- Population for value-added tax

Joint responsibilities

For certain areas of responsibility, joint funding by the federal government and the state;

- usually 50% federal, 50% state
- Improvement of the regional economic structure
- Improvement of agricultural infrastructure and coastal protection

Financial Assistance

- The Basic Law allows the federal government to provide financial assistance to the states in exceptional cases:
 - to prevent a disruption of the overall economic balance
 - to compensate for differences in economic strength
 - to promote economic growth
 - Investments in educational infrastructure
 - Social housing

Federal-State Financial Equalization

- State taxes based on the revenue from state shares of income and corporate income taxes, as well as revenue from state taxes
- State shares of sales tax
- Financial capacity of the states prior to the financial capacity equalization
- Deductions (-) and surcharges (+) in the financial capacity equalization
- Financial capacity of the states after financial capacity equalization
- Federal supplementary grants (BEZ)
- Fiscal capacity after fiscal equalization and general and municipal tax capacity BEZ

Goal: Creating equal living conditions in Germany

Local Local self- government

- Generating its own revenue, determining expenditures, managing its own assets
- Structure of internal organization
- Selection, hiring, promotion, and dismissal of civil servants and employees
- Independent planning within the municipal area
- Regulation of its own affairs through statutes
- Collection of levies such as consumption and expenditure taxes, contributions, and fees; setting the assessment rates for property and business taxes; tax assessment authority

Principles of the Local Government System and Its Finances

'Municipalities must be guaranteed the right to regulate all local affairs on their own responsibility within the limits prescribed by the laws.' (Article 28 II GG). The following principles must be borne in mind:

- Principle of subsidiarity

• Decisions to be as decentralised as possible. The higher level only intervenes if a uniform regulation is clearly advantageous.

- Principle of connexity

• 'He who orders, pays': centrally established tasks call for adequate central financing.

- Principle of equivalence

• Revenues must correspond to the locally provided services.

- Principle of solidarity

• Redistribution from financially strong to financially weak municipalities

- Uniformity of living standards

• Constitutional standard that justifies a centrally organised regional equalisation.

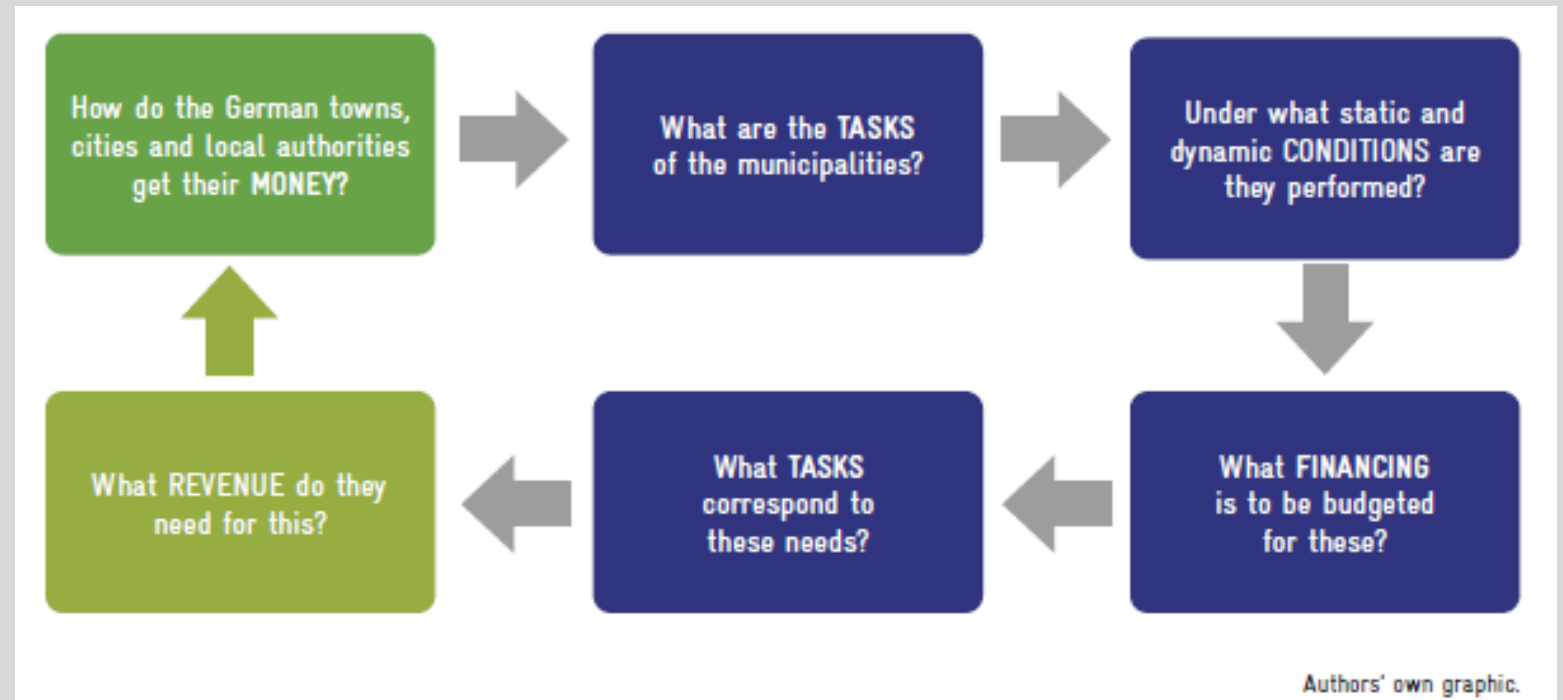
- Loyalty to the federal government

• Reciprocal commitment (in the last resort)

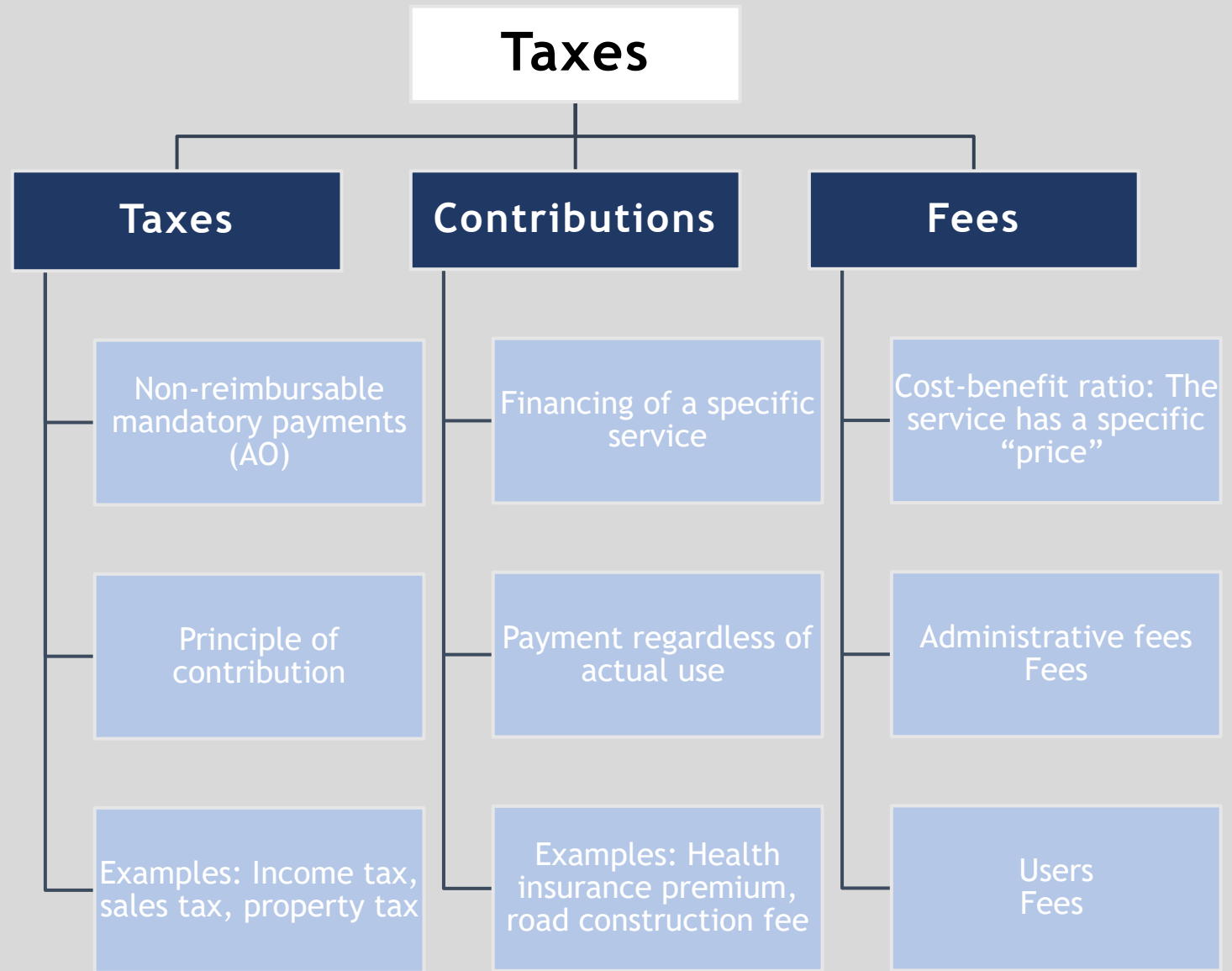
Authors' own graphic.

Introduction: Our Path to Local Currency

- Despite all the complexity and the discussions about responsibilities, in Germany, too, it ultimately often comes down to one big and important question: the question of money.

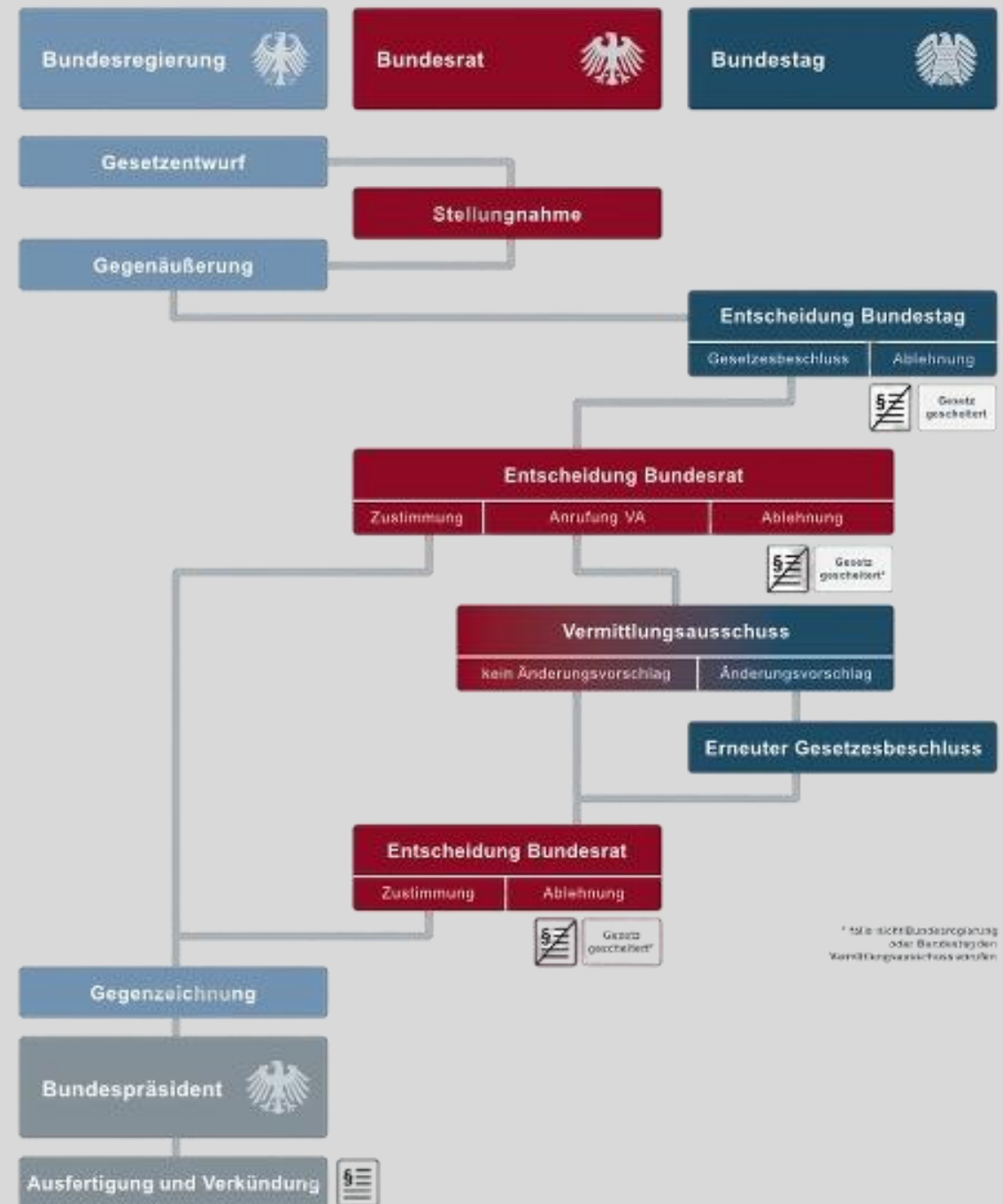


Taxes, Contributions, Fees



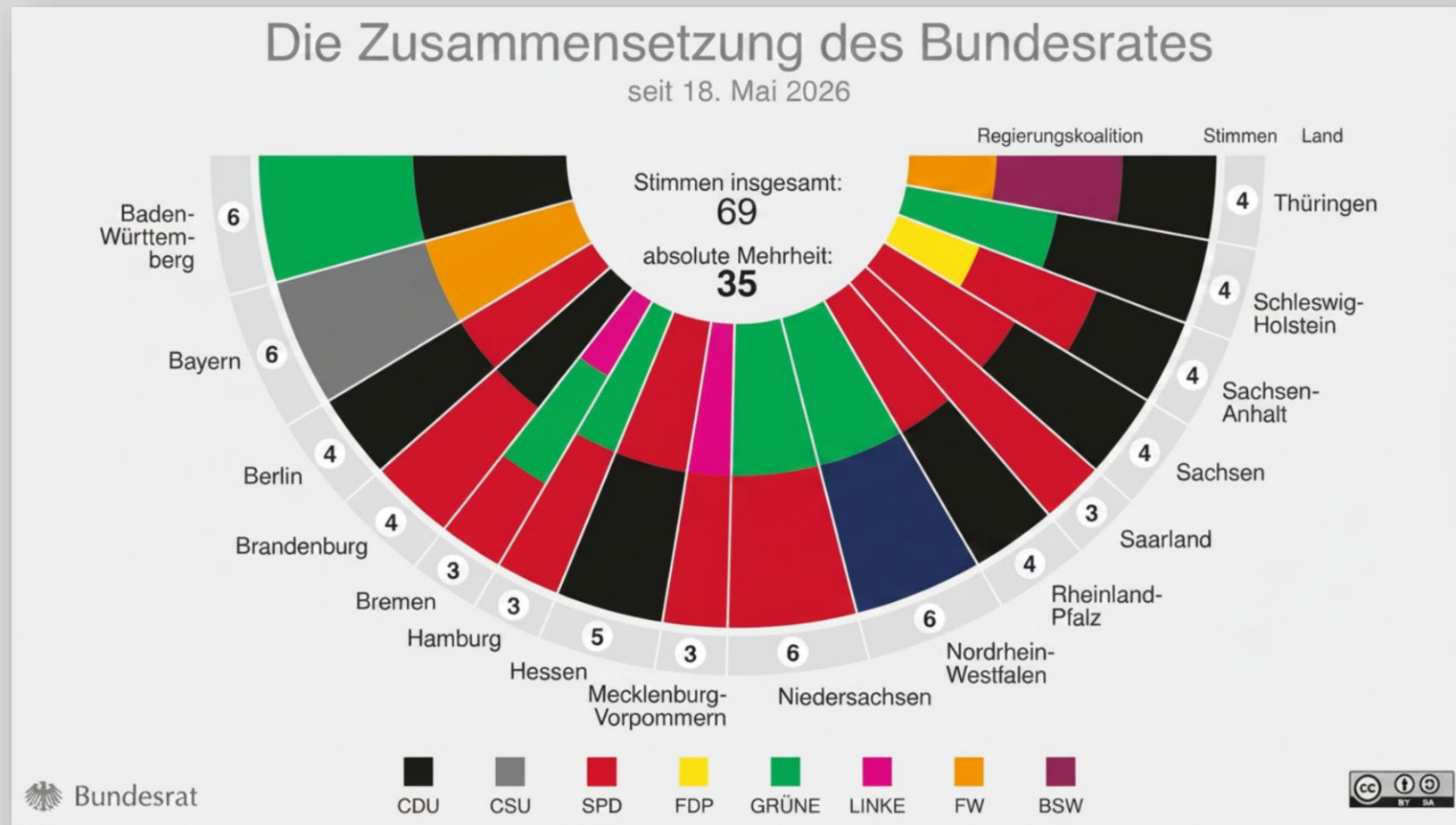
BACKUP

Structure of the Legislative Process in Germany



Source: Bundesrat

Composition of the Federal Council



Federalism in Germany

- The Provisions of the Basic Law -

- Article 20 of the Basic Law states:
“The Federal Republic of Germany is a democratic and social federal state.”
- Article 79, Paragraph 3 of the Basic Law:
“An amendment to the Basic Law that affects the division of the Federation into states, the fundamental participation of the states in the legislative process, or the principles laid down in Articles 1 and 20 is impermissible.” (Perpetuity Clause)
- Article 84 of the Basic Law
The states implement federal laws as their own responsibility through their own administration. The federal government exercises only legal supervision. The states implement federal laws on behalf of the federal government. The organization remains a matter for the states. However, the federal government may issue administrative regulations. The federal government shall, in exceptional cases, implement its laws itself if this is provided for in the Basic Law.

Article 28 of the Basic Law

Grundgesetz für die Bundesrepublik Deutschland Art 28

(1) Die verfassungsmäßige Ordnung in den Ländern muß den Grundsätzen des republikanischen, demokratischen und sozialen Rechtsstaates im Sinne dieses Grundgesetzes entsprechen. In den Ländern, Kreisen und Gemeinden muß das Volk eine Vertretung haben, die aus allgemeinen, unmittelbaren, freien, gleichen und geheimen Wahlen hervorgegangen ist. Bei Wahlen in Kreisen und Gemeinden sind auch Personen, die die Staatsangehörigkeit eines Mitgliedstaates der Europäischen Gemeinschaft besitzen, nach Maßgabe von Recht der Europäischen Gemeinschaft wahlberechtigt und wählbar. In Gemeinden kann an die Stelle einer gewählten Körperschaft die Gemeindeversammlung treten.

(2) Den Gemeinden muß das Recht gewährleistet sein, alle Angelegenheiten der örtlichen Gemeinschaft im Rahmen der Gesetze in eigener Verantwortung zu regeln. Auch die Gemeindeverbände haben im Rahmen ihres gesetzlichen Aufgabenbereiches nach Maßgabe der Gesetze das Recht der Selbstverwaltung. Die Gewährleistung der Selbstverwaltung umfaßt auch die Grundlagen der finanziellen Eigenverantwortung; zu diesen Grundlagen gehört eine den Gemeinden mit Hebesatzrecht zustehende wirtschaftskraftbezogene Steuerquelle.

(3) Der Bund gewährleistet, daß die verfassungsmäßige Ordnung der Länder den Grundrechten und den Bestimmungen der Absätze 1 und 2 entspricht.