

## Every taxpayer counts

How Germany ensures tax compliance through administrative coordination

**giz** Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH

On behalf of



Federal Ministry  
for Economic Cooperation  
and Development

## Imprint

As a federally owned enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development.

**Published by:**  
Deutsche Gesellschaft für  
Internationale Zusammenarbeit (GIZ) GmbH

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Frankfurt /Germany

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### On behalf of

German Federal Ministry for Economic Cooperation and Development (BMZ), 53113 Bonn

GIZ is responsible for the content of this publication.

### Status

Hamburg, May 2026

# Executive summary

## 1. Overview

Germany's systematic registration of taxpayers represents an internationally leading approach which, through the integration of legal, technical and administrative mechanisms, achieves a probability of detecting undeclared economic activities of almost 100%. This study analyses this highly developed system and its transferability to partner countries in order to strengthen their tax collection capacities.

## 2. Key findings

The German system integrates four main elements:

1. multi-level reporting requirements that cover all economic activities through proactive reporting obligations and administrative linkage;
2. unique digital identification features that enable seamless connection of data across all public entities;
3. automated risk management systems with AI-supported pattern recognition which identifies individuals with unexplained income;
4. comprehensive identification of taxpayers without their involvement through automatic payroll tax deduction, bank reporting requirements and cross-agency data matching.

## 3. Case Studies

Three detailed case studies demonstrate how the system works and show that multiple, independent control mechanisms operate in parallel, making circumvention virtually impossible:

1. An undeclared employee in a craft business is discovered within a few weeks by the Financial Control Unit for Illegal Employment and Social Security Audits.
2. An undeclared café fails systematic food inspections and conspicuous supply consumption checks.
3. An unlicensed bicycle taxi is identified by public order office inspections in public spaces.

## 4. Administrative coordination

Comprehensive compliance is ensured by three coordinated instruments:

1. A central digital tax registration and payment system (ELSTER) allows for automatic plausibility checks and international information exchange;

2. systematic monitoring through financial controls on undeclared work, cash register security regulations and risk-oriented audits;
3. strict legal enforcement with immediate reporting requirements, high fines and criminal tax proceedings with up to ten years' imprisonment.

## 5. Preventive effect

The German system also achieves its highest effectiveness through its preventive psychological effect on potential tax evaders. Since rational actors estimate the probability of detection to be almost 100% and perceive the consequences as threatening their existence, they act voluntarily compliant in most cases. This deterrent effect is just as important as the technical control mechanisms themselves.

## 6. Future prospects

The recently initiated law on the modernization and digitalization of the fight against undeclared work aims to significantly increase the number of staff and expand the powers of the Financial Control Unit for Undeclared Work. The ongoing integration of AI and international networking will further improve detection quality.

## 7. Transferability

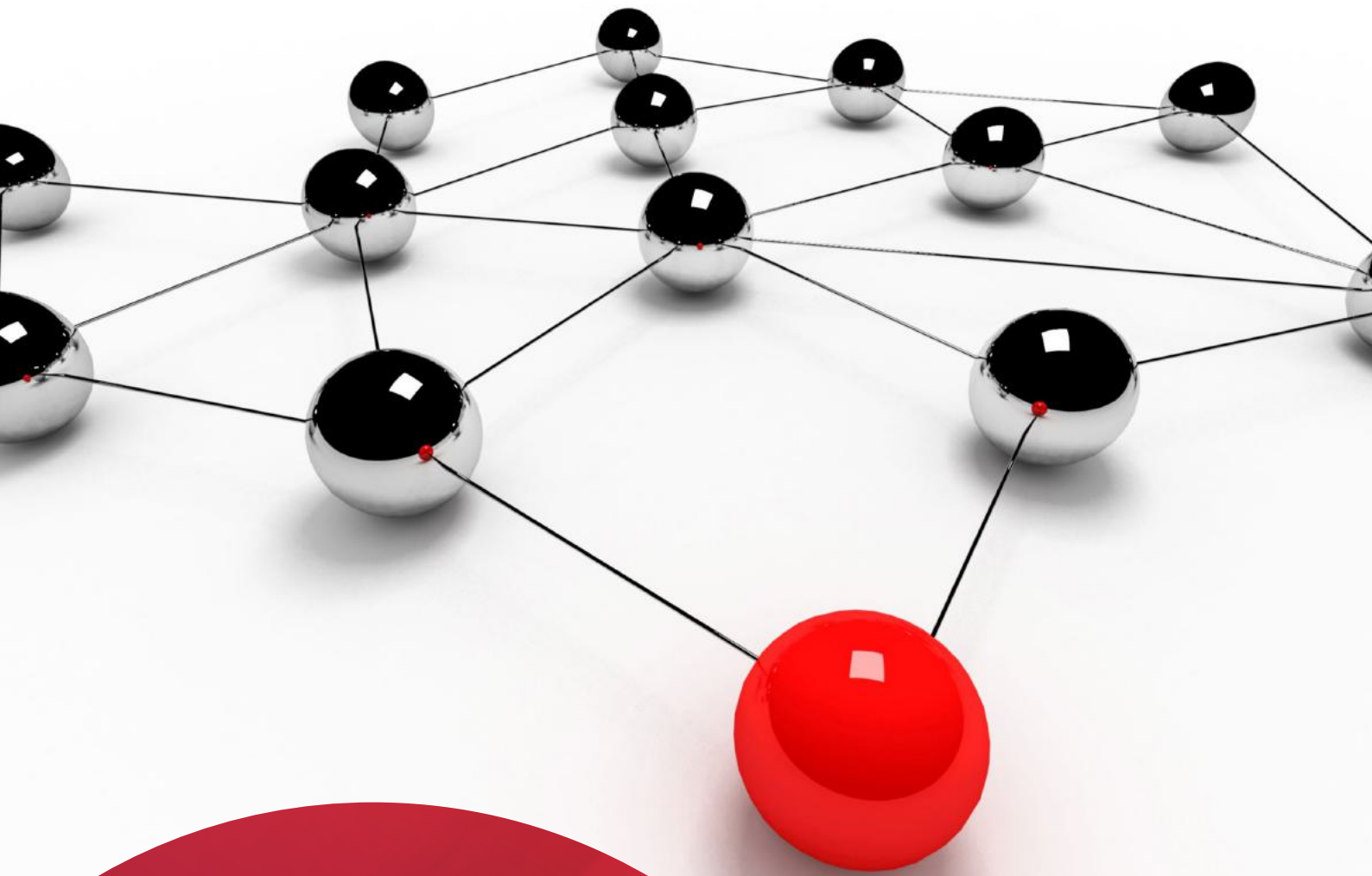
For partner countries, the German model offers several transferable success factors, with the key lying in the coherent interlinking of all elements to form a self-reinforcing system that achieves the highest compliance rates through its preventive effect:

1. the systematic integration of all recording mechanisms,
2. the use of unique identification features for cross-agency data linking,
3. the implementation of automated analysis systems,
4. the creation of credible deterrence through consistent sanctions, and
5. securing this deterrent effect through visible, risk-based controls and sufficient staffing levels.

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# I. INTRODUCTION

# I. Introduction

## a. Purpose and Objectives

This study examines Germany's integrated approach to systematically registering taxpayers and analyses how agency cooperation, digital infrastructure and systematic data integration create an environment in which undeclared business activities are virtually impossible.

Through three detailed case studies on employee taxation, small businesses and local business activities, this research aims to identify transferable best practices that partner countries can adapt to their specific contexts. Against this backdrop, the study addresses the following research questions:

1. How does Germany's integrated approach to systematically registering taxpayers for different activities work, resulting in a detection rate of undeclared activities of nearly 100%?
2. What instruments does administrative coordination use to ensure comprehensive compliance and tax collection?

This report focusses on the legal aspects of the taxation process. As a result, technical and organizational details are largely disregarded. Due to the comprehensive nature of the subject matter and in order to be sufficiently precise in the specific treatment, the focus is on income taxes (income tax and corporation tax), which are of overriding importance; the sub-area of customs administration is not covered.

### The study is divided into six chapters:

**Chapter I** introduces the topic and develops the central research questions.

**Chapter II** sets out the legal and institutional foundations by providing an overview of the German taxation procedure.

**Chapter III** analyzes the systematic registration of taxpayers. This includes the core provisions of Sections 137 and 138 of the German Fiscal Code (AO) on active reporting obligations, the system of unique identification features (Sections 139a–139c AO) and the special registration of employees through automatic wage tax deduction and the ELStAM procedure.

**Chapter IV** portrays select mechanisms for detecting taxpayers who are not registered in the Federal Tax Register.

**Chapter V** illustrate in detail the effectiveness of the German system by discussing three case studies: an undeclared employee in a small craft business, an undeclared café and an undeclared bicycle taxi in Berlin.

Finally, **chapter VI** provides an outlook on current developments in Germany and future potential for international cooperation.

## b) Commissioning and Funding

This study is implemented by the Governance Fund, financed by the Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. The Governance Fund supports the implementation of transformation processes and reform priorities in selected partner countries by drawing on Germany's governance experience. To this end, the Fund is establishing and expanding a network of high-level current and former German decision-makers, civil servants, academics and technocrats.

## c) About the author

Prof. Dr. iur. Christoph Schmidt is a professor at the University of Public Administration and Finance in Ludwigsburg. He also founded the Institute for Digital Transformation in Tax Law (IdTStR) at the same university and has been its director since March 2023. Christoph Schmidt currently teaches in the field of general tax law and is also a member of the board and chairman of Technical Committee I (Digitization of Tax Standards) of the Institute for Digitalization in Tax Law (IDSt). In his research, Christoph Schmidt focuses in particular on interdisciplinary issues at the interface between law, administrative science and computer science.





## II. AN OVERVIEW OF THE GERMAN TAXATION PROCEDURE

## II. An overview of the German taxation procedure

### 1. Preliminary remark

The German taxation system is a highly developed, systematically structured and increasingly digitized system based on a clear legal foundation and supported by a multi-level institutional structure. As the foundation for the comprehensive recording and taxation of all economic activities, it forms the basis for a tax system that is among the most efficient in international comparison: In 2023, Germany ranked 12th out of 38 OECD countries with a tax-to-GDP ratio of 38.1%<sup>01</sup> and performs comparatively well in terms of the efficiency of tax collection in relation to administrative costs. It has an efficient and fair tax system that sets international standards.<sup>02</sup>

### 2. Legal framework and institutional structure

The German tax system is based on a constitutionally enshrined division of powers between the federal government, the states and the municipalities, which establishes a decentralized and multi-level financial administration. Unlike many other European countries, Germany thus has a federal structure that ensures both efficiency and local proximity. All details are regulated by ordinary law in the Financial Administration Act (FVG). Section 6 (2) of the German Fiscal Code (AO) refers to this law and provides an exhaustive list of the tax authorities within the meaning of the Fiscal Code.

The Federal Financial Administration is headed by the Federal Ministry of Finance as the highest authority with approximately 2,400 employees<sup>03</sup>. The specialized higher authorities include the Federal Central Tax Office (BZSt), which also has approximately 2,400 employees, the General Customs Directorate with its eleven directorates and approximately 48,000 employees<sup>04</sup>, and the Federal Information Technology Centre. The BZSt performs central functions, including the allocation of VAT identification numbers and the administration of identification features.

Depending on the federal state, the state finance administrations are organized in two or three tiers. The sixteen state finance ministries act as the highest authorities, followed by regional finance offices or state offices as intermediate authorities in nine federal states.

Around 517 local tax offices with approximately 97,000 employees form the operational basis and are directly responsible for citizens and businesses. This federal structure ensures both uniform standards through nationwide coordination and regional adaptability through state competence.

### 3. The systematic structure of the German Fiscal Code as a guideline

The German Fiscal Code (AO) serves as the foundation of tax procedural law, standardizing the basic procedural rules for all types of tax. Its systematic structure reflects the chronological sequence of the taxation procedure and is divided into nine parts. The taxation procedure follows a three-phase process: The tax investigation procedure serves to clarify the facts and determine the basis for taxation, whereby taxpayers have comprehensive obligations to cooperate, such as submitting tax returns or fulfilling information obligations. As regards form, the relevant regulations distinguish between tax returns prepared on officially prescribed forms, electronic tax returns, tax returns recorded at the tax office, and verbal or implied tax returns.<sup>05</sup>

The legal obligation to submit tax returns electronically is an essential part of the German taxation procedure. An exemption from this obligation is available only in cases of undue economic or personal hardship, and in practice such exemptions are now granted only very rarely.<sup>06</sup> This comprehensive digitization enables automated plausibility checks, risk-oriented case selection and AI-supported processing. The assessment procedure follows seamlessly and culminates in the issuance of the tax assessment notice pursuant to Section 155 of the German Fiscal Code (AO), which, as an administrative act, creates the legal basis for tax collection. Finally, the collection procedure enforces the assessed claims by means of payment demands.

Enforcement measures may follow if necessary. These core procedures are flanked by the appeal procedure, which guarantees extrajudicial and judicial legal

01. OECD, Revenue Statistics 2024 – Germany, p. 1.

02. A detailed report by the OECD is available at <https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/tax-administration/tax-administration-series-country-snapshot-deu.pdf>, last checked on 26 October 2025.

03. Unless otherwise stated, all figures cited in this section can be found in the publication released by the Federal Ministry of Finance, which is available at [https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren\\_Bestellservice/steuerverwaltung-in-deutschland.pdf?\\_\\_blob=publicationFile&v=7](https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/steuerverwaltung-in-deutschland.pdf?__blob=publicationFile&v=7), last checked on 26 October 2025.

04. [https://www.zoll.de/DE/Der-Zoll/Struktur-des-Zolls/Generalzolldirektion/generalzolldirektion\\_node.html](https://www.zoll.de/DE/Der-Zoll/Struktur-des-Zolls/Generalzolldirektion/generalzolldirektion_node.html), last checked on 26 October 2025.

05. Tipke/Kruse/Seer, AO/FGO, Section 150 AO margin number 1

06. For details, see Tipke/Kruse/Seer, AO/FGO, Section 150 AO margin number 32–36

protection, and the criminal and fine proceedings, which have a preventive and repressive effect in the event of breaches of duty. This systematic interlinking ensures both legal certainty and the enforceability of tax law.

#### 4. Digital infrastructure (ELSTER system)

The ELSTER system (electronic tax return)<sup>07</sup> forms the technical backbone of the German tax administration and has been one of the most successful eGovernment implementations worldwide since 1996. As a joint project of all German federal and state tax administrations, coordinated by the Bavarian State Office for Taxation, ELSTER embodies the digital sovereignty of the German state through the consistent use of open standards and open-source technologies.<sup>08</sup>

The technical architecture is based on a scalable multi-layer architecture with the central production and service center (ZPS) in Nuremberg as the nationwide access point. The sixteen state data centers and the Federal Finance Administration are connected via secure VPN tunnels, ensuring secure end-to-end encryption of all data. Platform independence is ensured through the use of Java as the preferred programming language and standardized XML formats, while modern KVM-based virtualization technologies enable flexible scalability.<sup>09</sup>

“Mein ELSTER” offers citizens and businesses web-based access for tax returns and registrations, while the ERiC library (ELSTER Rich Client) enables integration into third-party software for around 200 software partners with approximately 500 programs. This dual strategy ensures both direct citizen access and professional use by tax advisors and businesses.<sup>10</sup>

The ELSTER system guarantees the highest security standards through ISO 27001 certification. Regular certifications by the German Federal Office for Information Security (BSI), together with load testing, ensure system availability even under peak load conditions. With the ElsterSmart app for mobile authentication and support for all market-relevant browsers and operating systems, ELSTER is technologically positioned for the future.<sup>11</sup> ELSTER delivers significant efficiency gains: electronically submitted returns are given priority, thereby laying the foundation for fully automated risk management systems. In summary, Germany’s tax procedure constitutes a highly integrated system that combines a coherent legal framework, an institutional allocation of responsibilities, and technological innovation; by coupling a federal structure with centralized digitalization, it serves as an international benchmark for modern tax administrations.

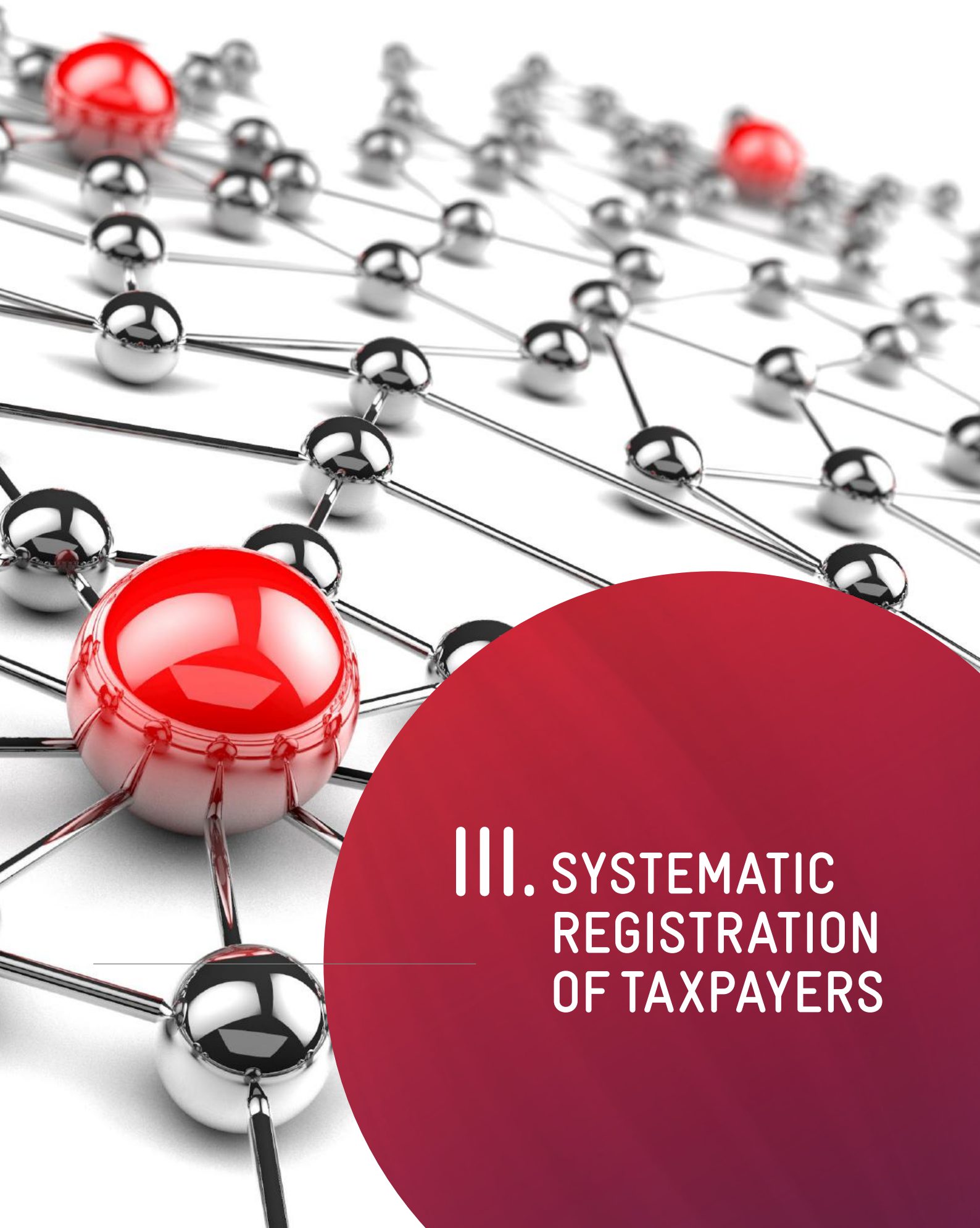
07. The official website can be accessed at <https://www.elster.de/elsterweb/start>, last checked on 23 September 2025.

08. Various milestones are presented at [https://www.elster.de/eportal/infoseite/elster\\_eine\\_erfolgsstory](https://www.elster.de/eportal/infoseite/elster_eine_erfolgsstory), last checked on 23 September 2025.

09. For detailed information on the technical concept, see [https://www.elster.de/eportal/infoseite/elster\\_eine\\_erfolgsstory](https://www.elster.de/eportal/infoseite/elster_eine_erfolgsstory), last checked on 23 September 2025.

10. [https://www.elster.de/eportal/infoseite/elster\\_eine\\_erfolgsstory](https://www.elster.de/eportal/infoseite/elster_eine_erfolgsstory), last checked on 23 September 2025.

11. [https://www.elster.de/eportal/infoseite/elster\\_eine\\_erfolgsstory](https://www.elster.de/eportal/infoseite/elster_eine_erfolgsstory), last checked on 23 September 2025.



### III. SYSTEMATIC REGISTRATION OF TAXPAYERS

## III. Systematic registration of taxpayers

### 1. Overview and objectives

The German tax system is based on the fundamental principle of registration of all taxpayers. The first section (registration of taxpayers) of the fourth part (implementation of taxation) of the German Fiscal Code standardizes a close-knit system of notification, reporting and identification obligations with threefold purpose: the early, complete and unambiguous registration of all taxpayers, the automatic linking of relevant register and administrative data, and the creation of a basis for risk-oriented, partially automated assessment and enforcement procedures.<sup>12</sup>

Registration takes place in several stages: independent notifications by taxpayers (Sections 137, 138 AO), identification features (Section 139a AO) and unambiguous identification by means of identification numbers (Section 139b AO) and economic identification numbers (Section 139c AO). Natural persons are assigned an identification number, while those engaged in economic activity are assigned an economic identification number (Section 139a (1) sentence 3 AO). The identification feature is thus the generic term for both types of numbers. Special features arise from the registration of employees, which is therefore presented separately.

### 2. Corporations and associations (Section 137 AO)

Section 137 AO establishes the tax registration obligation for all non-natural persons, thus ensuring complete registration from the moment of their creation. Paragraph 1 of the provision systematically covers all relevant phases of life: According to the exemplary list ("in particular"), events subject to reporting include the formation, acquisition of legal capacity, change of legal form, relocation of management or registered office, and dissolution. The system of dual reporting to the tax office and the local authority ensures that both the tax authorities (for corporate taxes) and the local authorities (trade tax and property tax) are informed simultaneously of any changes relevant for tax purposes.<sup>13</sup> This dual reporting obligation significantly reduces the risk of gaps in registration. The one-month period specified in Section 137 (2) of the German Fiscal Code (AO) ensures that there is only a minimal time lag between the tax-relevant event and the authorities becoming aware of it, which means that tax can be recorded promptly and, if necessary, the tax liability can be taken into account retroactively.

### 3. Gainful employment (Section 138 AO)

Section 138(1) AO covers the entire spectrum of business and freelance activities of natural persons, thus ensuring that all sources of income are fully registered. The provision distinguishes between trade or business activities, agriculture and forestry, and independent professional services, and in each case covers the commencement, relocation, and discontinuation of those activities. Of particular importance is the automatic forwarding of information by local authorities: commercial and agricultural/forestry notifications are first submitted to the local authority (business registration), which immediately forwards this information to the tax office responsible for the Federal Revenue Service. This administrative link creates an additional safeguard and makes it possible to initiate tax registration as soon as the business registration is completed.

Section 138 (2) of the German Fiscal Code (AO) extends the reporting obligation to activities abroad and covers permanent establishments abroad, participations in foreign partnerships and significant participations in foreign corporations with a participation threshold of 10% or a value of 150,000 euros. This provision is of paramount importance in combating international tax avoidance and ensures that cross-border structures are also known to the German tax authorities. The extended reporting period of 14 months (Section 138(5) AO) takes into account the practical difficulties in obtaining information from abroad.

### 4. System of identification features (Sections 139a et seq. AO)

#### a) Identification feature (Section 139a AO)

Section 139a AO serves as the central standard for the allocation of identification numbers by the BZSt and represents the link between the physical person and their digital tax registration. Paragraph 2 of the provision precisely defines taxpayers within the meaning of Sections 139a et seq. AO as anyone who is liable for tax under tax law, thus covering not only current but also potential taxpayers. The only decisive factor is that they fulfil the subjective requirements for tax liability, i.e. that a potential obligation exists.<sup>14</sup>

12. Tipke/Kruse/Brandis, AO/FGO, preliminary remarks on Sections 134–139d, margin numbers 1–2.

13. For detailed information on reporting obligations, see Gosch/Beermann/Schmieszek, AO/FGO, Section 137 AO margin numbers 7–10.

14. Tipke/Kruse/Brandis, AO/FGO, Section 139a AO margin number 3.

15. Detailed information is available at [https://www.bzst.de/DE/Privatpersonen/SteuerlicheIdentifikationsnummer/steuerlicheidentifikationsnummer\\_node.html](https://www.bzst.de/DE/Privatpersonen/SteuerlicheIdentifikationsnummer/steuerlicheidentifikationsnummer_node.html), last checked on 24 September 2025.

16. [https://www.bzst.de/DE/Unternehmen/Identifikationsnummern/Wirtschafts-Identifikationsnummer/wirtschaftsidentifikationsnummer\\_node.html#js-toc-entry7](https://www.bzst.de/DE/Unternehmen/Identifikationsnummern/Wirtschafts-Identifikationsnummer/wirtschaftsidentifikationsnummer_node.html#js-toc-entry7), last checked on 24 September 2025.

Newborns therefore also receive an identification number for natural persons under the conditions of Section 1 (1) sentence 1 of the German Income Tax Act (EStG).

According to the legal definition in Section 139a (3) AO, persons engaged in economic activity within the meaning of Sections 139a ff. AO include natural persons engaged in economic activity, legal entities and associations of persons. This broad definition ensures that all forms of entrepreneurial or commercial activity are covered, regardless of the legal form or scope of the activity. The identification feature consists of a unique sequence of digits with a verification digit and is assigned permanently, thus ensuring lifelong unique assignment.

#### **b) Identification number (Section 139b AO)**

The identification number, the content and legal framework of which are regulated in detail in § 139b AO, is automatically assigned to every citizen registered in Germany by the BZSt and remains unchanged, unique and valid for life. This 11-digit number is assigned at birth or upon initial registration with the authorities in Germany and accompanies the person until 20 years after their death.<sup>15</sup> The system is designed in such a way that manipulation or multiple assignment is technically impossible.

The identification number forms the backbone for use in all taxation procedures and enables the automated linking of data from a wide variety of sources: income tax data, social security information, capital gains reports, child benefit data or international exchange procedures are uniquely assigned via the identification number. This enables comprehensive transparency across all types of income for a person and makes attempts at concealment virtually impossible.

#### **c) Economic identification number (Section 139c AO)**

The economic identification number, the content and legal framework of which are regulated in detail in Section 139c AO, is a new, nationally uniform economic number that has been introduced in stages since 2024. It follows the format DE + 9 digits + 5-digit distinguishing feature, thus creating a unique, permanent identification for all economically active persons.<sup>16</sup> The system is designed to standardize the previously fragmented landscape of tax numbers, VAT identification numbers and other economic numbers.

The once-only principle for reducing bureaucracy means that in the future, companies will only have to report their data once to an authority, which will then automatically forward it to all relevant bodies. The economic identification number serves as a key for the basic business data register and is intended to form the basis for fully digitized and networked business administration in the long term.<sup>17</sup>

## 5. Employee registration (Sections 38 ff. EStG)

### **a) Automatic income tax deduction**

Germany's employee tax system relies on fully automated wage-tax withholding, making tax evasion in salaried employment virtually impossible as regards wage income. Section 38 EStG requires every employer to withhold wage tax from each wage payment for the employee's account and transfer it to the tax office. This obligation is independent of the employee's willingness to cooperate and cannot be circumvented by private law agreements.

### **b) ELStAM procedure and integration with social security**

Incorporation with social security systems<sup>18</sup> creates extra security for data entry. Every employee must be registered for both tax and social security purposes, with the identification number serving as the central allocation criterion. The ELStAM procedure (electronic income tax deduction characteristics) has completely replaced the paper income tax card since 2013. The employer electronically retrieves the required income tax deduction characteristics (Section 39 EStG), such as tax class, allowances or number of children, from the BZSt and automatically receives updates when personal circumstances change.<sup>19</sup>

The system ensures that discrepancies between reported employment relationships and tax returns are immediately detected through automatic data comparisons between various social security institutions, the BZSt and other authorities. The new data exchange procedure for distinguishing between social care insurance contributions (DaBPV), which will be fully implemented from July 2025, also automates the recording of parental status and number of children for the assessment of contributions, using the identification number as the central reference point for allocation.<sup>20</sup>

17. [https://www.bzst.de/DE/Unternehmen/Identifikationsnummern/Wirtschafts-Identifikationsnummer/wirtschaftsidentifikationsnummer\\_node.html#js-toc-entry7](https://www.bzst.de/DE/Unternehmen/Identifikationsnummern/Wirtschafts-Identifikationsnummer/wirtschaftsidentifikationsnummer_node.html#js-toc-entry7), last checked on 24 September 2025.

18. Social security is a statutory insurance system that offers protection against general life risks such as unemployment, illness, long-term care, disability, occupational accidents and occupational diseases, as well as providing security in old age. <https://www.bmas.de/DE/Soziales/Sozialversicherung/sozialversicherung-art.html>, last checked on 25 October 2025.

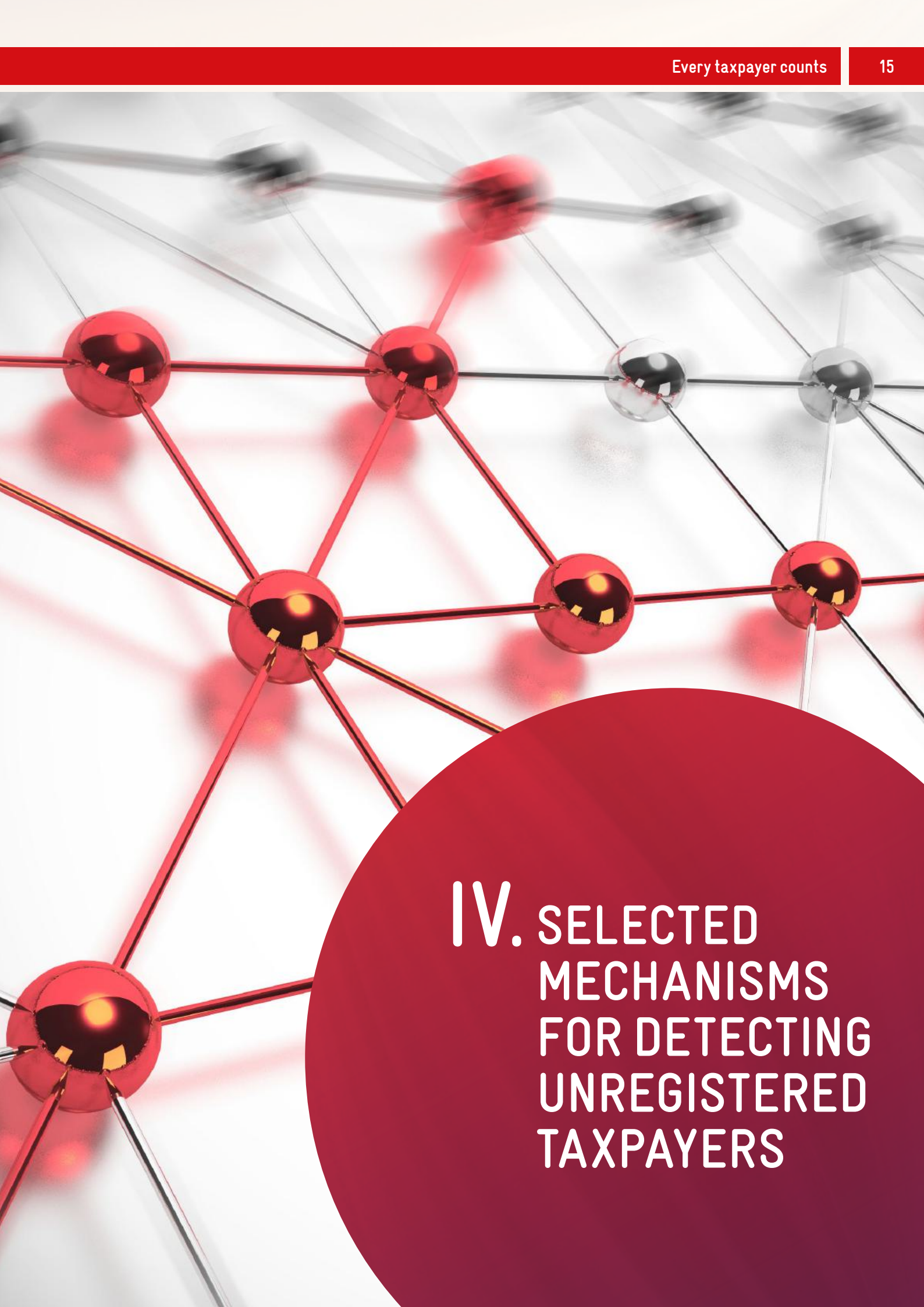
19. Detailed information is available at [https://www.bzst.de/DE/Privatpersonen/ELStAM/ELStAM\\_node.html](https://www.bzst.de/DE/Privatpersonen/ELStAM/ELStAM_node.html), last checked on 24 September 2025.

20. Detailed information is available at [https://www.zfa.deutsche-rentenversicherung-bund.de/de/Navigation/public/5\\_Datenaustausch\\_Pflegeversicherung/51\\_Allgemeines/51\\_nodes.html](https://www.zfa.deutsche-rentenversicherung-bund.de/de/Navigation/public/5_Datenaustausch_Pflegeversicherung/51_Allgemeines/51_nodes.html), last checked on 24 September 2025.

This systematic linking of tax and social security data via the identification number creates a seamless monitoring system that makes any form of undeclared work or unreported employment virtually impossible, while ensuring accurate, automated taxation.

**MECHANISM 1:  
MULTIPLE RECORDING PREVENTS GAPS**

Every economic activity is recorded by various independent systems: business operators register with the local authority, which automatically informs the tax office. At the same time, each person is assigned a lifetime identification number, which is used to connect all information. Even if one report is forgotten, other control mechanisms come into play, such as bank reports, social security data or supplier invoices.



## IV. SELECTED MECHANISMS FOR DETECTING UNREGISTERED TAXPAYERS

## IV. Selected mechanisms for detecting unregistered taxpayers

### 1. Automated risk management systems

The German system for detecting unregistered taxpayers combines traditional audit methods with sophisticated digital technologies, creating a comprehensive control system through multiple, complementary mechanisms. Nevertheless, the so-called "tax gap" – the difference between taxes owed and taxes actually collected – shows that even Germany is not immune to tax evasion: studies estimate annual tax losses at 75 to 125 billion euros, with about 62% attributable to undeclared work, 16% to VAT fraud and 22% to classic tax evasion. The tax investigation department can only uncover and collect around €2.4 billion of this annually, which corresponds to a detection rate of approximately 2-3%.<sup>21</sup>

The following explanations illustrate the most important instruments used by the German tax authorities to systematically identify and pursue undeclared economic activities, as well as the limitations of these mechanisms.

The legal basis for the use of automated risk management systems is provided by Section 88(5) of the German Fiscal Code (AO), which expressly permits the tax authorities in sentence 1 to use automated systems "to assess the need for further investigations and audits for the uniform and lawful assessment of taxes". This provision is now a core element of modern taxation procedures.<sup>22</sup> The German tax authorities use risk management systems that automatically identify suspicious cases on the basis of risk parameters.<sup>23</sup> These systems use secret algorithms for systematic analysis. This secrecy is enshrined in law and is intended to prevent taxpayers from adapting their strategies to these parameters. The systems are programmed to detect irregularities in tax returns, such as implausible expenditure structures, conspicuous profit developments or deviations from industry-standard key figures.<sup>24</sup>

The identification of patterns that indicate undeclared activities is particularly effective: for example, the system recognizes individuals with high private expenses without corresponding reported income or companies with atypical operating expense-to-revenue ratios. Cases for manual review are automatically selected based on a risk assessment that is also continuously optimized through machine learning. A current example of the effectiveness of these systems can be seen in the large-scale campaign against influencers<sup>25</sup> in the federal state of North Rhine-Westphalia:

the State Office for Combating Financial Crime is currently evaluating a data package containing 6,000 data records that indicate untaxed profits amounting to several hundred million euros. Two hundred criminal proceedings have already been initiated, not including the new data records.<sup>26</sup>

Even more significant are the results from international cases: the Panama Papers (2016) led to 155 criminal tax proceedings in Germany and generated 57 million euros in additional revenue (including 38.4 million euros in back taxes and 19 million euros in penalties).<sup>27</sup> The Paradise Papers (2017) were also systematically evaluated, with the German authorities working closely with international partners.<sup>28</sup>

The Pandora Papers (2021) were purchased by the state of Hesse for a six-figure sum and are being evaluated on behalf of Germany and other countries.<sup>29</sup> These cases demonstrate the international network of German tax investigators and show that even complex offshore structures can be uncovered, although the process takes years and only covers a fraction of the actual tax evasion.

### 2. Third-party reports and reporting obligations

The German tax system continues to be characterized by a particularly dense network of automatic third-party reporting, which covers almost all relevant economic actors. Banks and financial institutions form a central pillar of this system: they automatically report all types of investment income, account openings and closures, and larger transactions that exceed certain thresholds. In addition, capital gains tax is withheld and paid. As already discussed, employers are obliged to report all wage tax deductions with the corresponding identification number, supplemented by detailed social security reports. Reports on managing-director functions are particularly relevant, as they often provide clues to undeclared business activities. This data is automatically compared with the tax returns of the persons concerned.

Other institutions complete the reporting network: insurance companies, for example, report insurance tax-relevant facts via tax returns and records in accordance with the Insurance Tax Act. In the case of payments from capital-forming life insurance policies, capital gains tax must

21. A concise presentation with appealing visualizations is available at <https://story.handelsblatt.com/75-billion-euros-in-damages-why-the-state-does-not-detect-97-percent-of-all-evaded-taxes?payloadcache=b53ddaba-1dad-443d-b2ee-2f9b492037e6#fehlende-milliarden>, last checked on 26 October 2025.

22. For more details, see Marx, Ubg 2016, p. 358.

23. Peuthert/Schmidt/Müller/Schaeps, becdigitax 2021, p. 236, 236 ff.

24. For more details on the newly aligned investigation principle, see Schmidt, DB 2021, p. 2654.

25. An influencer should be understood here as a person who has a large following on social networks such as Instagram, TikTok or YouTube and who, through their regular communication and content, can influence the opinions, decisions and purchasing behavior of this following.

26. <https://www.finanzverwaltung.nrw.de/uebersicht-rubrik-aktuelles-und-presse/pressemitteilungen/verdacht-auf-steuerbetrug-grossem-stil>, last checked on 28 August 2025.

also be withheld and reported; in the case of payments to parties other than the policyholder, there is also a reporting obligation under the Inheritance and Gift Tax Act. For real estate transactions, notaries, courts and authorities must report transactions relevant to real estate transfer tax in accordance with the Real Estate Transfer Tax Act; in certain cases, the parties involved are themselves obliged to report.

### 3. International automatic exchange of information

Germany actively participates in the Common Reporting Standard (CRS) with over ninety partner countries and receives several million data records annually on German taxpayers with foreign connections. The CRS systematically records reports on foreign accounts, interest and dividends<sup>30</sup>, making attempts to hide assets from the German tax authorities virtually impossible. Special agreements with former tax havens such as Switzerland, Liechtenstein and other financial centers have effectively abolished their banking secrecy. The Federal Information Technology Centre (ITZBund) supports the BZSt in the Europe-wide DAC6 information exchange and provides a business intelligence tool that analyses cross-border tax arrangements, thereby contributing to fair taxation. AI-assisted enrichment and data linkage in the data warehouse make patterns, concentrations, and anomalies visible that would remain undetected in manual case-by-case reviews.<sup>31</sup>

#### MECHANISM 2: DIGITISATION AND DATA MATCHING CREATE TRANSPARENCY

Algorithms regularly compare data from different sources: Does the reported income match the cash deposits in the bank account? Does the lifestyle match the declared income? Algorithms automatically detect discrepancies, but not in real time, rather during periodic comparisons (monthly to annually).

Modern digital cash register systems store every business transaction in a tamper-proof manner, while the ELSTER system checks all tax returns for plausibility. International networking via the Common Reporting Standard also makes foreign matters transparent.

### 4. Practical implications for undeclared activities

The German system makes it practically impossible to conceal major economic activities in the long term, first because every business activity leaves traces in various systems (banks, social security, suppliers, authorities), second because automatic comparisons detect inconsistencies between different data sources, and third because long time limits for tax evasion of up to 10 years provide sufficient time for detection. Fourthly, high fines and penalties create a significant deterrent effect.

Particularly relevant for international transferability is the fact that the German system also has a preventive effect: simply knowing about these comprehensive monitoring mechanisms leads to a high level of voluntary compliance, as the probability of detection is considered to be very high. This psychological component is just as important as the technical control mechanisms themselves and makes the German model a particularly effective instrument of tax enforcement.

27. <https://rsw.beck.de/aktuell/daily/meldung/detail/panama-papers-bringen-deutschland-57-millionen-euro-mehreinnahmen>, last checked on 26 October 2025.

28. <https://finanzen.hessen.de/presse/pressearchiv/millionen-fuer-das-gemeinwesen-hessen-wertet-erfolgreich-daten-leaks-aus>, last checked on 26 October 2025.

29. All details can be found in the presentation for the press conference, [https://hessen.de/sites/hessen.hessen.de/files/2023-07/presentation\\_ankauf\\_und\\_auswertung\\_der\\_pandora\\_papers\\_durch\\_die\\_hessische\\_steuerverwaltung.pdf](https://hessen.de/sites/hessen.hessen.de/files/2023-07/presentation_ankauf_und_auswertung_der_pandora_papers_durch_die_hessische_steuerverwaltung.pdf), last checked on 26 October 2025.



## V. PRACTICAL EXAMPLES OF UNREPORTED ACTIVITIES

## V. Practical examples of unreported activities

### 1. Preliminary remark

The following examples illustrate how the German tax collection system makes undeclared work and unregistered business activities virtually impossible through a combination of strict legal measures, technical networking and intensive controls. They demonstrate that even seemingly invisible economic activities are recorded by the close-knit network of automated reporting systems, cross-agency data comparisons and systematic controls. It is particularly significant that the probability of detection is almost 100% and the consequences are so severe that rational actors overwhelmingly choose to act in compliance voluntarily. This preventive effect of the German system is just as important as its reactive control mechanisms and makes it an internationally exemplary model for effective tax enforcement.

The three selected examples represent typical attempts at tax evasion: the undeclared employee in a small business, a fully concealed business operation and a mobile service business with an anonymous customer base. All three scenarios show why even the most sophisticated attempts at concealment are bound to fail in the German system.

### 2. Example 1: Non-registered employee in a small craft business

#### a) Facts of the case

A small craft business (e.g. a tiler) employs a worker without registering him with social security or the tax office. The employer pays exclusively in cash and hopes to remain undetected due to the supposed lack of paper trails. This constellation is particularly common in the construction industry, where the temptation to forego social security contributions and taxes is great in view of cost and competitive pressures.

#### b) Automatic detection mechanisms

Immediate reporting requirements and official checks form the first line of defense against undeclared work. In high-risk sectors such as construction, there is an immediate reporting requirement: employees must be registered with social security at the latest when they start work. The date of commencement of employment must be reported to the pension insurance data center at the latest when the employee starts work, in addition to the normal registration with the collection agency. Automatic data comparisons

between registered employees and those actually employed immediately reveal any discrepancies. The Customs Office's Financial Control Unit for Undeclared Work<sup>32</sup> carries out unannounced checks on construction sites and can verify the personal details of everyone present. An ID requirement for employees in high-risk industries makes it impossible to circumvent checks: failure to register is immediately detected.<sup>33</sup>

Social security institutions and external audits by the tax authorities continue to ensure systematic monitoring. The German Pension Insurance Fund has approximately 1,500 employees in its audit service<sup>34</sup> and conducts audits of employers at least every four years.<sup>35</sup> The audits are carried out in the interests of the insured (employees) and the social security institutions. Their purpose is to ensure that contributions are paid to the individual branches of social security.

Their purpose is twofold: first, to help prevent shortfalls in contribution revenue; and second, to protect insurance carriers against benefit claims arising from the acceptance of contributions for persons who are not subject to compulsory insurance.<sup>36</sup> Social security audits are completely separate from the (income tax) external audits carried out by the tax offices in terms of organization and law:

- Tax offices: State authorities, audit tax obligations, e.g. income tax
- Pension insurance institutions: Federal or state-level public-law corporations that check social security obligations.

However, since 2010, employers have had the option of requesting that both audits be carried out at the same time. At the same time does not mean a joint audit in terms of content. The separation of the administrative branches remains in place, and tax secrecy and social security secrecy must continue to be observed.

Digital networking and reporting chains create a seamless monitoring network. The social security reporting portal<sup>37</sup> detects missing registrations through systematic data comparisons. Anyone who works only temporarily in another European country but remains subject to German social security law must be able to prove the applicable legislation by means of an A1 certificate.<sup>37</sup>

32. The Financial Control Unit for Illegal Employment is a subordinate authority of the Federal Ministry of Finance, which is authorized to act domestically in coordination with the federal states. It currently employs just under 9,000 people, a figure that is set to rise to 11,500 by 2029. [https://www.zoll.de/SharedDocs/Downloads/DE/Publikation/Broschuere\\_Bestandteile/Zoll-aktuell/2024/2024\\_6\\_6.pdf?\\_\\_blob=publicationFile&v=2](https://www.zoll.de/SharedDocs/Downloads/DE/Publikation/Broschuere_Bestandteile/Zoll-aktuell/2024/2024_6_6.pdf?__blob=publicationFile&v=2), last checked on 25 October 2025.

33. For detailed information on the tasks and powers, see [https://www.zoll.de/DE/Fachthemen/Arbeit/Bekaempfung-der-Schwarzarbeit-und-illegalen-Beschaefigung/Aufgaben-und-Befugnisse/aufgaben-und-befugnisse\\_node.html](https://www.zoll.de/DE/Fachthemen/Arbeit/Bekaempfung-der-Schwarzarbeit-und-illegalen-Beschaefigung/Aufgaben-und-Befugnisse/aufgaben-und-befugnisse_node.html), last checked on 24 September 2025.

34. <https://www.humanresourcesmanager.de/arbeitsrecht/scheinselbsttaendigkeit-betriebspruefungen-der-drv-ab-2025-mit-ki/>, last checked on 25 October 2025.

35. For more information on pension insurance audits, see <https://www.deutsche-rentenversicherung.de/DRV/DE/Experten/Arbeitgeber-und-Steuerberater/summa-summarum/Lexikon/B/betriebspruefung.html>, last checked on 24 September 2025.

36. <https://www.deutsche-rentenversicherung.de/DRV/DE/Experten/Arbeitgeber-und-Steuerberater/summa-summarum/Lexikon/B/betriebspruefung.html>, last checked on 24 September 2025.

37. The portal can be accessed at <https://info.sv-meldeportal.de/fragen-antworten/>, last checked on 24 September 2025.

In addition, the Knappschaft-Bahn-See operates special reporting procedures for certain industries with increased control density.<sup>39</sup>

Information and reports from a wide variety of sources supplement official controls. Registered craft businesses can report unfair competition to the authorities, and anonymous reporting portals in federal states such as Baden-Württemberg offer low-threshold online reporting platforms.<sup>40</sup>

Neighbors and customers report suspicious employment relationships, while dismissed workers often report undeclared work at their former employers. Financial and tax trails make even cash transactions transparent.

The employee's inability to support themselves without a recognizable source of income is noticeable during social security benefit checks, the procurement of materials and tools without the employer having the corresponding personnel capacity attracts attention, and the discrepancy between business volume and registered workers is regularly detected during tax audits. Accidents and insurance claims are also particularly effective in uncovering undeclared work. Undeclared workers have no insurance cover. Accidents at work inevitably lead to the discovery of illegal employment. Health insurance companies check the insurance status when treating patients, while the employers' liability insurance association checks that all employees are properly registered in the event of accidents.

### c) Practical detection scenario

The undeclared worker is likely to be discovered after a few weeks because various mechanisms come into play at the same time: a routine inspection by the Financial Control Unit for Illegal Employment on the construction site immediately reveals the lack of registration, an accident at work leads to investigations by the employers' liability insurance association, a report by another competing craftsman to the customs authorities triggers targeted checks, or a tax audit reveals the discrepancy between the company's capacity utilization and its staffing levels.

## 3. Example 2: Undeclared café

### a) Facts of the case

A café is opened without being registered with the trade office, tax office or other authorities. The operator hopes to remain undetected by not registering with the authorities and to avoid both taxes and other regulatory obligations.

### b) Automatic detection mechanisms

Commercial leases and real estate trigger automatic reporting chains. Commercial electricity and gas consumption is detected by higher volumes and different tariffs, typical water consumption in restaurants is noticed by waterworks, commercial waste requires special disposal, and commercial contracts with telecommunications companies show different usage patterns than those used privately.

In addition, food inspection<sup>41</sup> carries out risk-based, partly random and usually unannounced inspections at food businesses (Art. 9 Regulation (EU) 2017/625). How often a business is inspected is based on a nationally harmonized assessment (AVV Framework Monitoring – AVV RÜb). In addition, a nationwide sampling guideline applies: at least five food samples per 1,000 inhabitants per year (plus 0.5 samples per 1,000 for consumer goods/cosmetics/tobacco). Trade and occupational safety authorities may also carry out unannounced inspections in businesses and initiate targeted campaigns, but always in a proportionate manner.

Tax investigations require criminal proceedings to be initiated; however, unannounced inspections by the tax authorities are permissible without suspicion. Regular and/or atypical cash deposits may attract attention. Banks monitor transactions in accordance with the Act on the Detection of Profits from Serious Crimes (Money Laundering Act – GwG); unusual cash deposits may trigger suspicious activity reports.

### c) Practical discovery scenario

The café is likely to be discovered after a few months because multiple detection channels are working in parallel: a neighbor reports increased customer traffic to the authorities, the food inspector finds no business registration during a routine inspection, unusual electricity consumption triggers an enquiry from the utility company, or unannounced inspections by the tax authorities reveal the lack of (tax) registration.

38. A list of questions and answers is available at [https://www.deutsche-rentenversicherung.de/SharedDocs/FAQ/a1\\_bescheinigung/a1\\_bescheinigung\\_faq\\_liste.html#ee74188a-d5fd-4ce8-86fa-bf7b935f84cb](https://www.deutsche-rentenversicherung.de/SharedDocs/FAQ/a1_bescheinigung/a1_bescheinigung_faq_liste.html#ee74188a-d5fd-4ce8-86fa-bf7b935f84cb), last checked on 24 September 2025.

39. The Knappschaft-Bahn-See information portal for employers can be accessed at <https://www.informationsportal.de/kbs/sv-bibliothek/meldevfahren/>, last checked on 24 September 2025.

40. One example is the anonymous whistleblower system of the Baden-Württemberg tax administration, which can be accessed at <https://anonymer-steuerhinweis.finanzeamt.landbw.de/whistle/#/mainpage/OFDKAcase/ofdka>, last checked on 24 September 2025.

41. Official food inspection in Germany is the responsibility of the federal states. Local monitoring is usually carried out by the veterinary and food monitoring authorities of the districts and independent cities; this is supervised by central authorities (e.g. regional councils/district governments) and the highest state authorities. At federal level, coordination is carried out by the Federal Office of Consumer Protection and Food Safety (BVL), [https://www.bvl.bund.de/DE/Arbeitsbereiche/01\\_Lebensmittel/01\\_Aufgaben/01\\_WerMachtWas/lm\\_WerMachtWas\\_node.html](https://www.bvl.bund.de/DE/Arbeitsbereiche/01_Lebensmittel/01_Aufgaben/01_WerMachtWas/lm_WerMachtWas_node.html), last checked on 25 October 2025.

#### 4. Example 3: Unregistered bicycle taxi in Berlin

##### a) Facts of the case

A bicycle rider transports tourists through Berlin, accepts only cash and does not issue invoices. He believes that without booking receipts and due to his anonymous clientele, he cannot be discovered.

##### b) Automatic detection mechanisms

Bicycle taxis are not covered by the Passenger Transportation Act, as this only applies to transportation by motor vehicle and "taxi" explicitly refers to transportation by passenger car. Actively soliciting customers and waiting at hotspots such as the Brandenburg Gate goes beyond common use and constitutes special use of public roads, which requires a permit.

Without a permit, the road construction authority may prohibit use and order appropriate measures. If the bicycle rider is checked in a public space, the office of public order<sup>42</sup> and the police can establish their identity and demand that they show their permits. The legal basis for this is the General Act on the Protection of Public Safety and Order in Berlin (Allgemeines Sicherheits- und Ordnungsgesetz – ASOG Bln). In practice, such checks result in immediate prohibitions and fines if no special use permit is available.

Digital traces are also created in supposedly analogue businesses. Internet presences, Google entries and review portals make the business visible, social media such as Instagram or TikTok also show possible indications of commercial activity, and online booking platforms record providers.

Competition and reports create additional pressure for checks. Taxi companies report illegal competition to the office of public order, registered bicycle operators report point out missing registrations, registered city guides complain about unfair competition, and hotels report unlicensed transport providers to the authorities. Accidental discovery further increases the risk. Traffic accidents reveal the lack of business registration through insurance claims, customer complaints lead tourists to contact tourist information offices, and administrative offences such as illegal parking lead to checks on commercial authorization. Finally, traffic and equipment requirements apply to bicycles: people may only be carried if the bicycle is built and equipped for this purpose and the rider is at least 16 years old. Lighting and other lighting equipment must comply with the specifications. This can also be checked during traffic checks.

Finally, financial discovery also works for purely cash transactions. In this respect, reference can be made to the explanations in example 2 of the unregistered café, which concern tax investigations, unannounced inspections by the tax authorities and unusual cash deposits that can trigger suspicious activity reports.

##### c) Practical detection scenario

The bicycle taxi is likely to be discovered after a few weeks because various control mechanisms interact: the special right of use ensures visibility in public spaces (checks by the office of public order and police), a complaint by a taxi company to the office of public order triggers targeted investigations, an online review leads to an official inquiry, or a traffic check reveals the lack of commercial insurance.

#### MECHANISM 3: DETERRENCE THROUGH HIGH PROBABILITY OF DISCOVERY

The combination of diverse checks, automatic data comparison and severe penalties means that most citizens voluntarily report correctly. The mere knowledge that discovery is practically inevitable within weeks or months has a preventive effect. The three case studies show that even sophisticated attempts at concealment fail due to multiple recording.

42. Offices of public order are municipal authorities. Their powers are derived from state law. They cover, for example, disturbances of the peace, noise, illegal dumping of rubbish, special uses of road space and dog control.

## 5. Conclusion

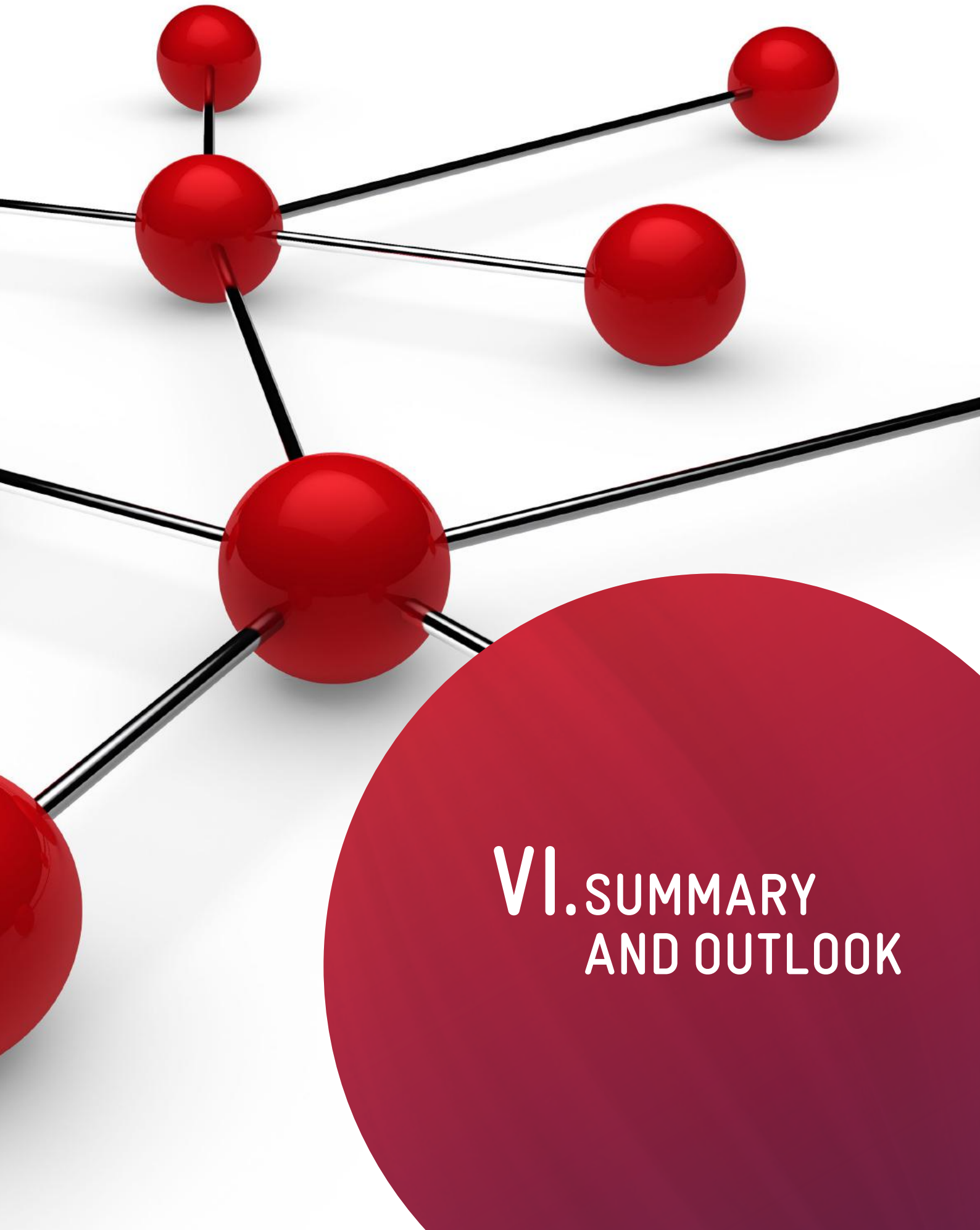
The three examples illustrate the exceptional effectiveness of the German system for detecting undeclared activities. This achievement is due to the following factors:

**Preventive effect:** Simply knowing that comprehensive monitoring is in place leads to a high level of voluntary compliance. Most companies and self-employed individuals report correctly in order to avoid the considerable risk of detection. This psychological dimension is just as important as the technical control mechanisms.

**Multi-level safeguards:** Every economic activity is recorded by multiple, independent systems. Even if one control mechanism fails or is circumvented, other levels of monitoring take effect, making the system virtually impenetrable. Automated checks: Also Germany's digital systems enable regular automated comparisons between different data sources: card payments, for instance, are checked periodically (monthly to annually). Linking different databases via unique identification features increases the probability of detection. It is important to note though that German tax systems are not yet able to perform these checks in real time.

**Legal severity:** The consequences of discovery are severe. High fines, prison sentences of up to 10 years and full back taxation with additional interest mean that rational actors assess the risks as unacceptable.

**Result:** The German tax collection system makes undeclared work and unregistered business activities virtually impossible through a combination of legal severity, interlocking digital systems and intensive controls. The probability of detection is almost 100%, and the consequences are so severe that rational actors overwhelmingly choose to act in compliance. This system makes the German model an instrument of tax enforcement that can also be transferred to other legal systems, provided that the necessary technical infrastructure, institutions, legal basis and inter-agency cooperation are in place.



## VI. SUMMARY AND OUTLOOK

## VI. Summary and outlook

### 1. Answers to the research questions

This paper provided answers to the research questions elaborated above,, summarized as follows:

*How does Germany's integrated approach to the systematic registration of taxpayers engaged in various activities work, so that the probability of detecting undeclared activities is almost 100%?*

*Germany's integrated registration approach achieves its exceptional effectiveness through the systematic interlocking of four core elements:*

- 1. The system is based on multi-level registration requirements that cover all economic activities through active reporting obligations and automatically forward them through administrative coupling.*
- 2. These are linked by unique digital identification features (identification number and economic identification number), which enable seamless data linking across all authorities.*
- 3. Automated risk management systems continuously analyze all tax data using secret algorithms and AI-supported pattern recognition to identify individuals with unexplained income.*
- 4. This is supplemented by virtually seamless recording without the involvement of taxpayers, in particular through automatic income tax deductions, bank reports and cross-authority data comparisons between tax offices, social security and other institutions. These four pillars create a close-knit network in which every economic activity leaves multiple digital traces that are automatically collated, making even the most sophisticated attempts at concealment virtually impossible.*

*What instruments does administrative coordination use to ensure comprehensive compliance and tax collection?*

*Administrative coordination ensures comprehensive compliance through a combination of interlocking digital systems, systematic monitoring and rigorous legal enforcement. The central ELSTER system allows for automatic plausibility checks, data comparisons between all relevant authorities and international information exchange. Systematic monitoring is ensured in particular by financial controls on undeclared work with unannounced inspections, the Cash Register Security Regulation, which prescribes tamper-proof digital systems, and risk-oriented audits. Legal enforcement is manifested in immediate reporting obligations for high-risk industries, high fines for violations of reporting obligations and criminal proceedings with up to ten years' imprisonment for tax evasion. The preventive psychological effect of the system is particularly significant here: since rational actors estimate the probability of detection to be almost 100% and perceive the consequences as threatening their existence, the multiple redundant control mechanisms lead to a high level of voluntary compliance, which is the real secret of the German system's success.*

### 2. Summary in the form of theses

The answers to the research questions and the other findings obtained can be summarized as follows:

#### **a. Thesis: Seamless digital networking makes tax evasion practically impossible.**

The German system achieves a detection probability of almost 100% through the digital interlinking of all relevant authorities and institutions via unique identification features. Every economic activity automatically leaves multiple traces in various systems, which are continuously compared, in particular by AI-supported risk management systems.

#### **b. Thesis: Multi-level recording requirements create redundant safeguards.**

The combination of active reporting requirements, automatic third-party notifications and cross-agency data comparisons creates a tight-knit safety net. Even if individual control mechanisms fail or are circumvented, other levels of monitoring take effect, making the system virtually impenetrable.

#### **c. Thesis: Automatic income tax deduction effectively prevents tax evasion by employees.**

The ELStAM procedure and the integration of tax and social security systems make tax evasion in dependent employment virtually impossible from a revenue perspective. Automatic income tax deduction is independent of the employee's willingness to cooperate and cannot be circumvented by private law agreements.

#### **d. Thesis: Preventive effect through deterrence is just as essential as reactive controls.**

The system achieves its highest effectiveness not only through the technical control mechanisms themselves, but also through their preventive effect. Rational actors voluntarily comply because they perceive the probability of detection as almost 100% and the consequences as threatening their livelihood.

#### **e. Thesis: Technical progress continuously strengthens the regulatory control mechanisms.**

Advancing digitalization through AI systems, automatic international information exchange and modern detection methods is making the overall system continuously more effective.

### 3. Critical assessment: Limits and challenges of the German system

#### a) Bureaucratic complexity and compliance costs

Despite its effectiveness, the German system has considerable challenges and limitations. Multiple registrations, diverse reporting requirements and redundant control mechanisms create a considerable administrative burden for citizens and businesses. Striking a balance between effective control and reasonable bureaucratic burden remains a constant challenge. The once-only principle of the new economic identification number is intended to remedy this situation but has not yet been fully implemented. Small and medium-sized enterprises complain about the complexity of tax regulations and the time required to comply with reporting obligations.

#### b) Tax evasion continues to exist

There is still considerable tax evasion in Germany. Scientific studies estimate the annual tax losses at 75 to 125 billion euros, of which the tax investigation department can only uncover and collect about 2-3%. Control mechanisms sometimes fail, especially in the case of international structures and complex financial transactions. This study deliberately focuses on the recording of taxpayers: the prevention of all forms of tax evasion is a more far-reaching problem.

#### c) Digitalization backlogs in the multi-level system

Despite the ELSTER system, there are still significant gaps in digitization, particularly in communication between different levels of government and between the federal and state governments. The federal structure makes it difficult to establish uniform standards and has led to sixteen different implementations in the federal states. Many processes still run in parallel digitally and on paper, which reduces efficiency gains. The modernization backlog is exacerbated by staff capacity bottlenecks and limited IT budgets.

#### d) Data protection tensions

The comprehensive collection and linking of data via unique identification features is in constant tension with data protection rights and the constitutional protection of data privacy rights. The balance between effective tax control and data privacy rights must be constantly re-evaluated.

#### e) Limits of international enforcement

While the German system is very effective at collecting data domestically, the control mechanisms reach their limits when it comes to cross-border issues. Although automatic information exchange works with many countries, the quality and timeliness of the data varies considerably. Tax havens and countries with weak governance remain weak points in the fight against international tax avoidance.

### 4. Outlook

The German system is set to become even more professional and internationally networked. The recently initiated law on the modernization and digitalization of the fight against undeclared work<sup>43</sup> is expected to increase the number of employees at the Financial Control Unit for Undeclared Work from 9,000 to 11,500 and grant it telecommunications surveillance and independent investigative powers. At the same time, the range of high-risk industries is expanding to include hairdressing and cosmetics, while stricter criminal provisions threaten fake invoices with up to five years' imprisonment.

This study lays the conceptual foundation for transferring the German model to other legal systems. A concrete road-map for gradual implementation in interested partner countries and specific pilot project proposals can be worked out in detail in targeted follow-up studies. In doing so, it is particularly important to focus on the respective partner country and take into account its specific legal, technical and administrative structures as well as the capacity of the public sector.

43. The current status is documented at [https://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze\\_Gesetzesvorhaben/Abteilungen/Abteilung\\_III/21\\_Legislaturperiode/2025-07-07-SchwarzArbMoDiG/0-Gesetz.html](https://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_III/21_Legislaturperiode/2025-07-07-SchwarzArbMoDiG/0-Gesetz.html), last checked on 26 September 2025.

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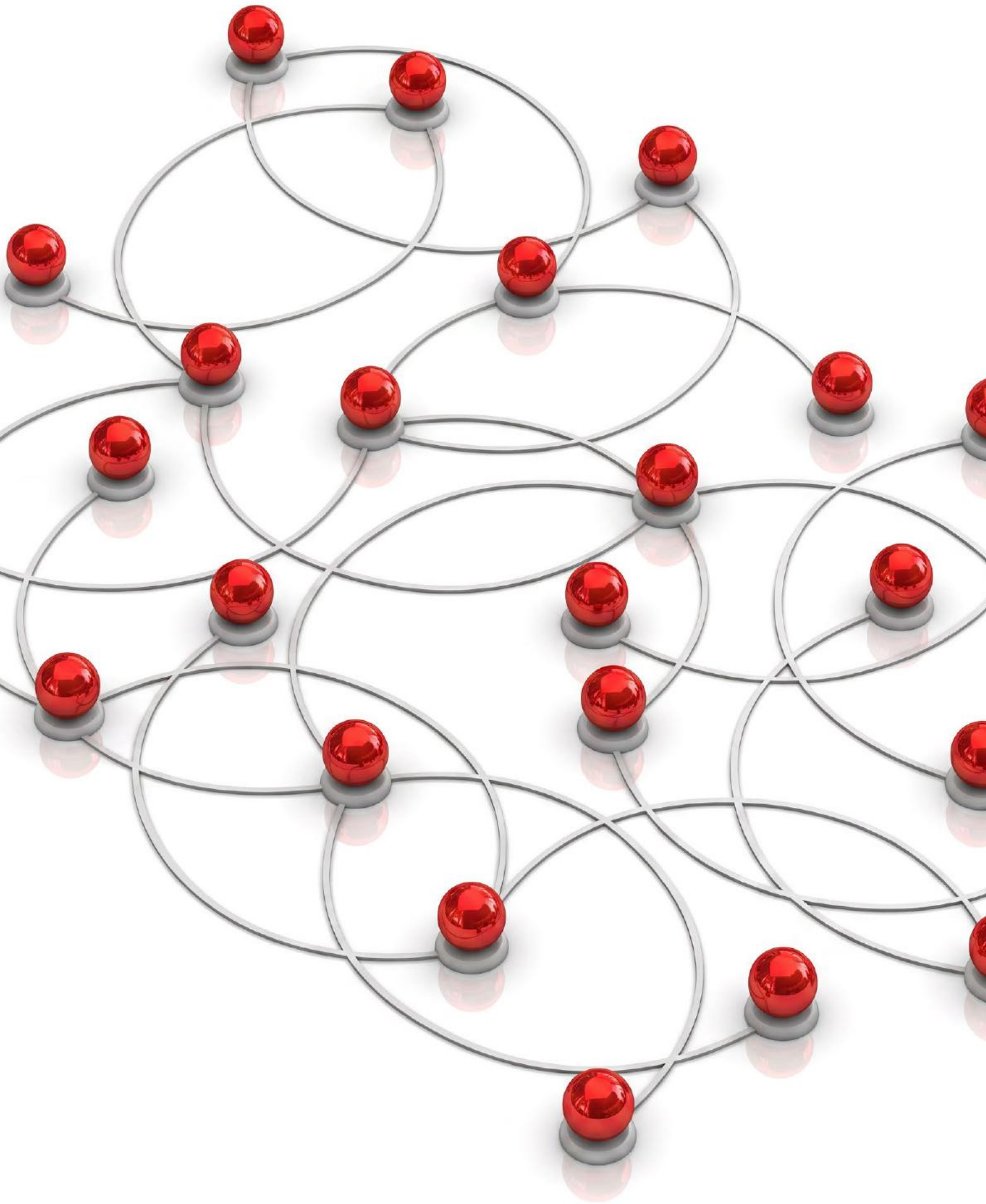
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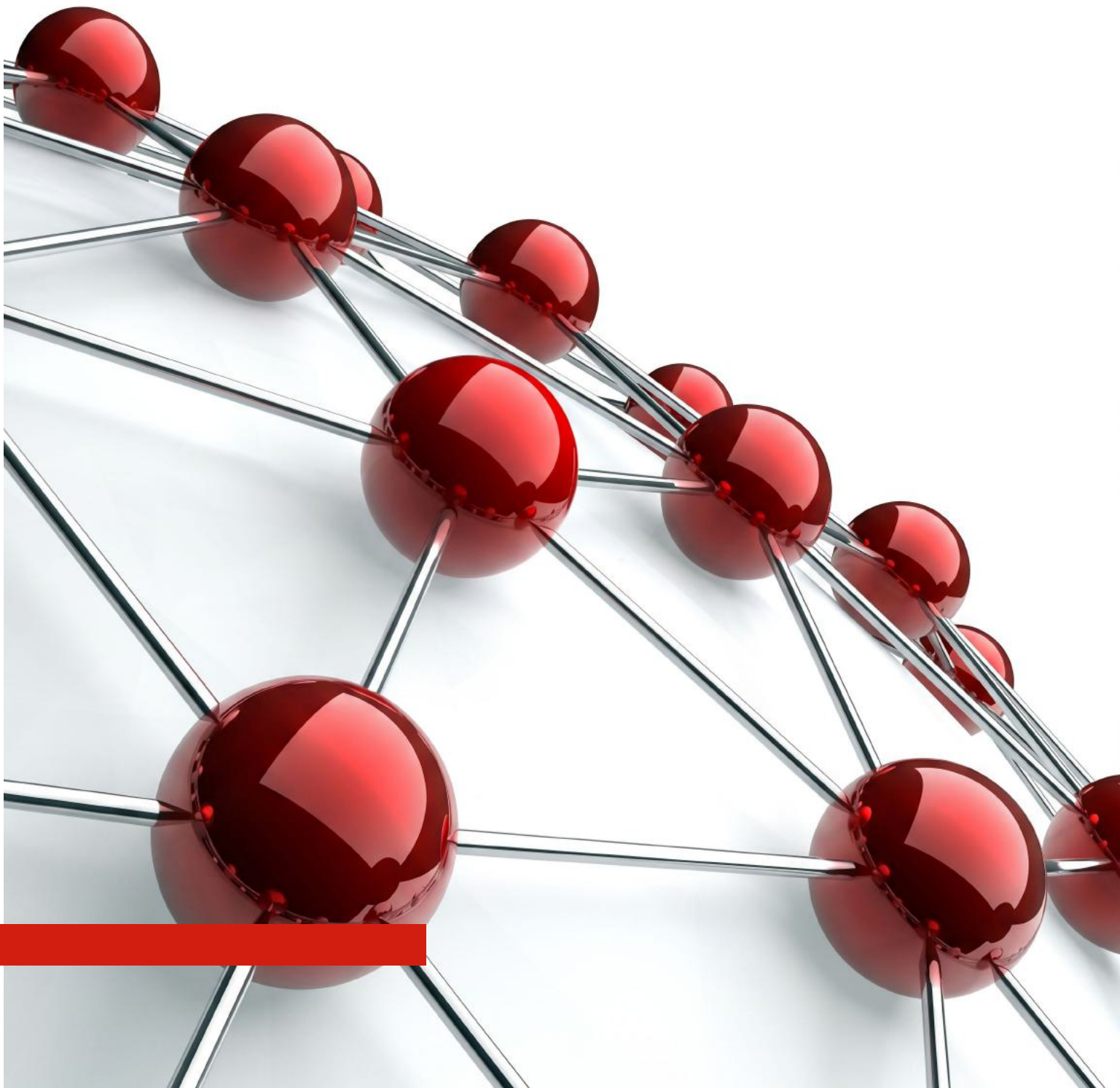
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On behalf of



Federal Ministry  
for Economic Cooperation  
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