NIM Nuremberg Institute for Market Decisions

Increase VAT—Slow Down Consumption?

A study on the acceptance of tax reforms and their potential effects on domestic demand in Germany

NIMpulse
19

Nuremberg Institute for Market Decisions

Founder of GfK

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The Nuremberg Institute for Market Decisions (NIM) is an independent, non-university economic research institute. We study consumer sentiment and consumption as a driving force of the economy. Based on scientific excellence, we formulate concrete recommendations to help policy and society make better decisions. We fund our research from our own resources.

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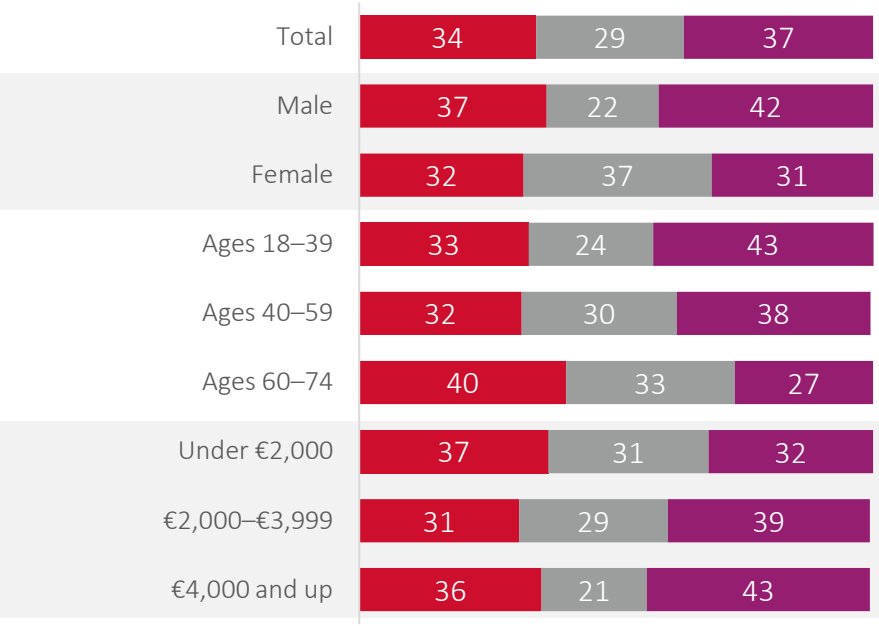
Background to the study

The economic situation in Germany continues to be characterized by subdued momentum. Private consumption, traditionally a key pillar of domestic demand, has also been weak for some time. Partly due to the Iran war and rising prices, NIM consumer sentiment is currently in decline.

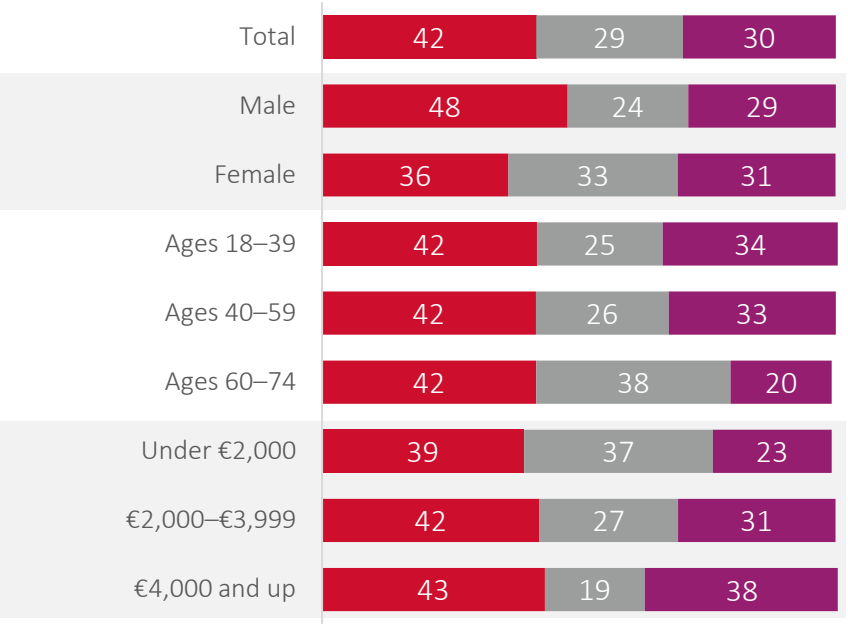
These developments are reflected in current reform debates. A repeatedly proposed idea is to combine tax relief on income with higher taxation of consumption—for example, by increasing VAT. The aim is to strengthen growth while securing government revenues.

This study examines how such a reform could affect people's consumption behavior. It is based on a representative survey of adults in Germany. With this, NIM aims to contribute to the current economic and tax policy debate and to make the consumer perspective visible.

Question version a: The government needs tax revenue to finance public services (roads, hospitals, schools, etc.). Which approach do you consider fundamentally fairer for generating government revenue?



Question version b: The government needs tax revenue to finance public services (roads, hospitals, schools, etc.). In general, (higher) income taxes tend to place a greater burden on higher-income earners, while (higher) VAT tends to affect low-income earners more. Which approach do you consider fundamentally fairer for generating government revenue?



- When respondents are asked to choose between income tax and consumption tax without additional information on the distribution of the tax burden (question version a), slightly more people—especially younger adults and higher-income earners—consider consumption taxes fundamentally fairer. Overall, however, respondents are polarized.
- When the question includes information on the distribution of the tax burden (question version b), responses shift toward income taxation.

Taxes should focus more on what people earn (income tax), so that the ability to pay is the key criterion in taxation.

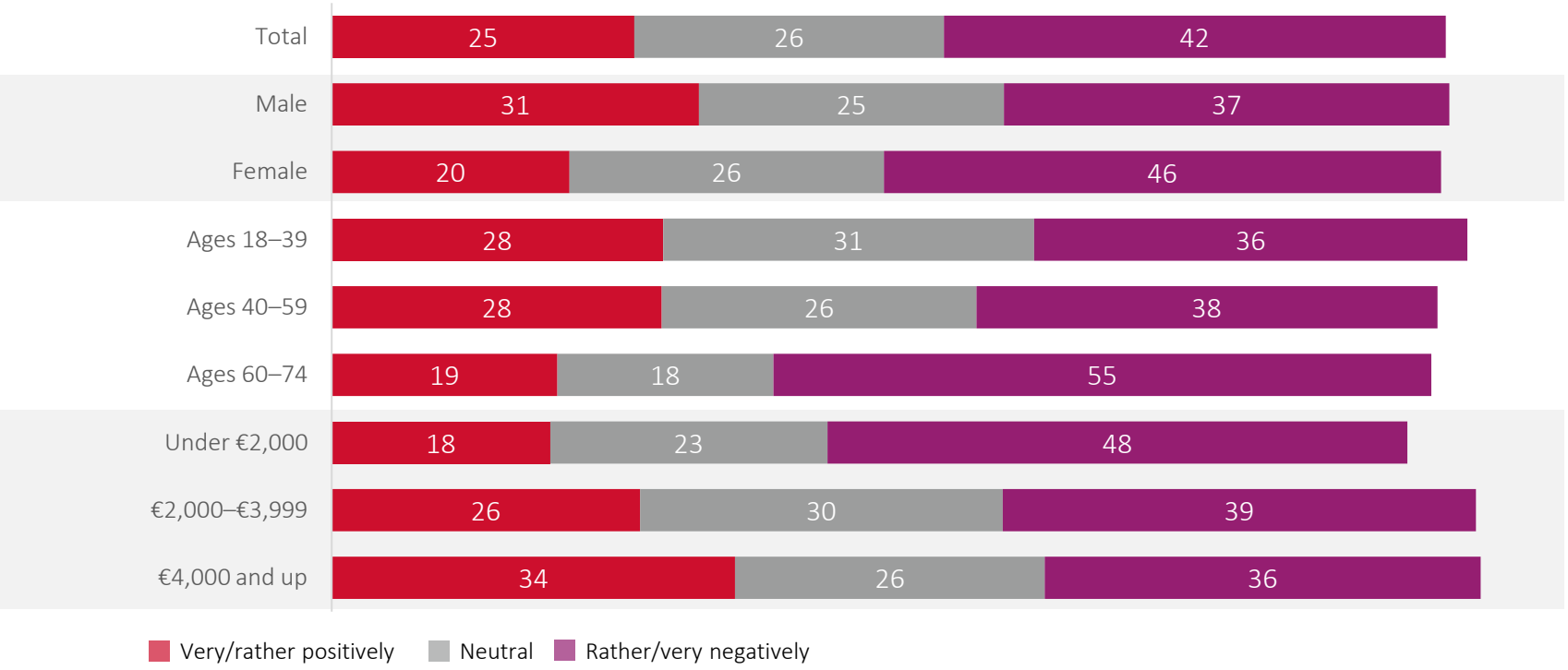
No answer / Don't know

Taxes should focus more on what people spend (VAT), so that consumption behavior is the key criterion in taxation.

Single choice | Values in % | Question version a: n = 527, question version b: n = 478 | Survey period: 04.30.2026–05.04.2026 | NIMpulse 19 | nim.org

Question: Imagine the federal government plans a tax reform with two effects: Your monthly net income increases by €100, but at the same time, prices for everyday purchases rise due to an increase in VAT from 19% to 21% (which would mean additional costs of about €40 per month for you).*

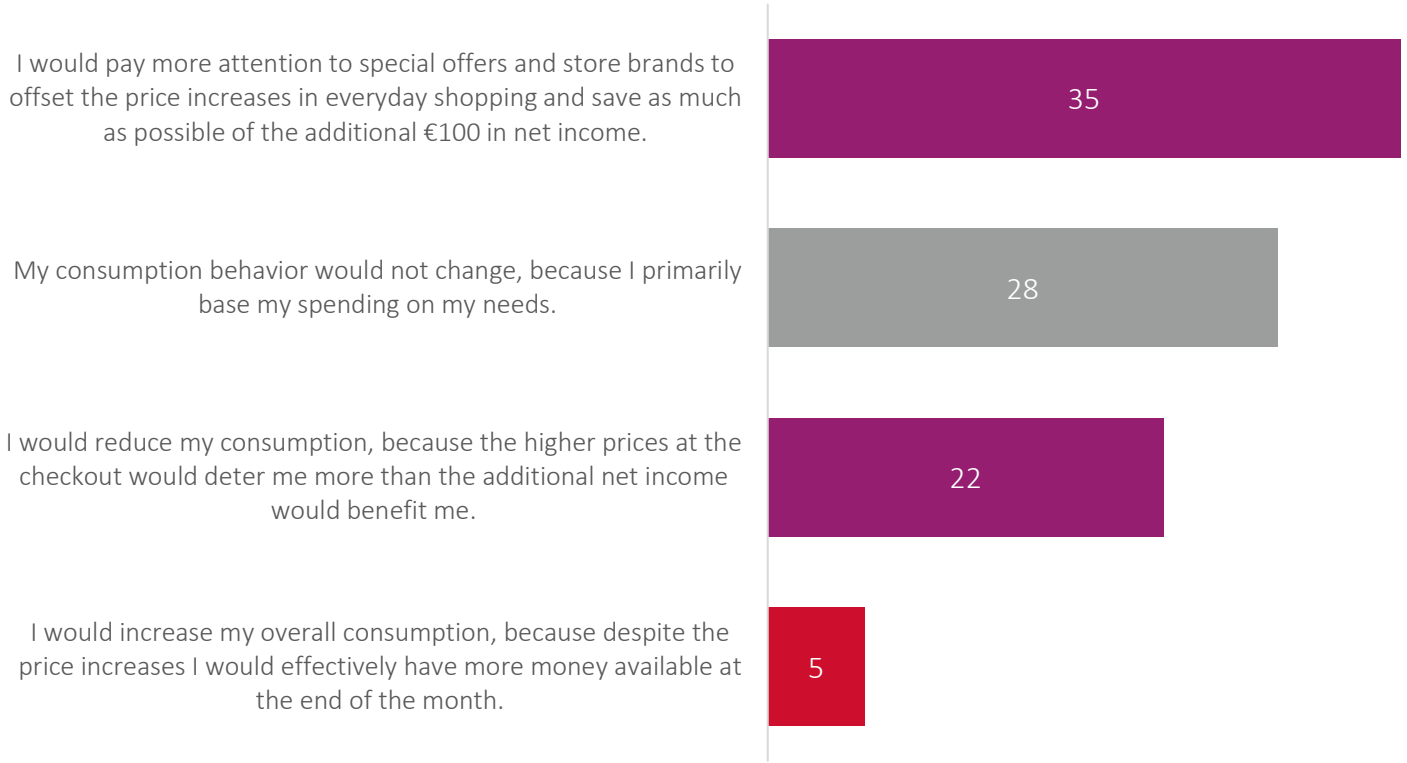
How would you assess this measure?



- A VAT increase is currently unpopular. This is true even if income taxes for average earners are sharply reduced in return.
- Only about one in four respondents approves of the scenario presented here (an income tax cut of €100 per month with additional costs of €40 due to a VAT increase).
- Opposition is particularly strong among older respondents and low-income earners. However, even those with higher incomes tend to oppose this policy.

*The figures in the scenario are based on a model calculation for an average earner to reflect the scale of the reform debate in April 2026. The net income relief is based on a proposal by members of parliament Bury and Dorn and has been rounded for this scenario. The additional costs from the VAT increase are based on internal estimates. | Single choice | Values in % | Missing values up to 100: Don't know/no answer | n = 1,005 | Survey period: 04.30.2026–05.04.2026 | NIMpulse 19 | nim.org

Question: If such a tax reform were to be introduced, your monthly net income would increase by €100, but at the same time, prices for everyday purchases would rise due to an increase in VAT from 19% to 21% (which would mean additional costs of about €40 per month for you). How would you react?



- The negative evaluation of the described tax reform is accompanied by a pessimistic outlook regarding respondents' own consumption behavior, should the reform actually take effect.
- According to more than half of respondents, such a reform would not stimulate consumption but would increase the propensity to save.
- Only 5% say it would motivate them to consume more.

Single choice | Values in % | n = 1,005 | Survey period: 04.30.2026–05.04.2026 | NIMpulse 19 | nim.org

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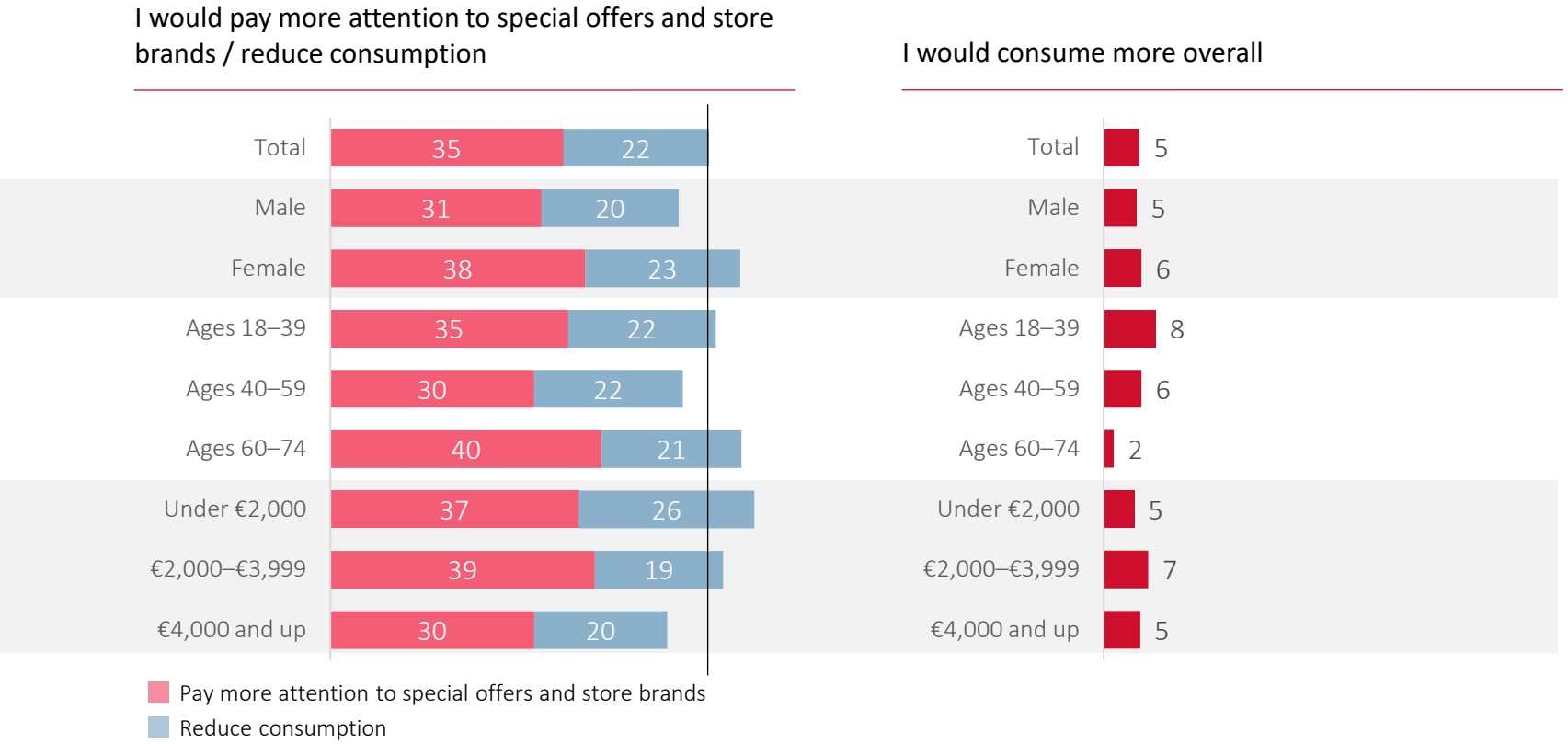
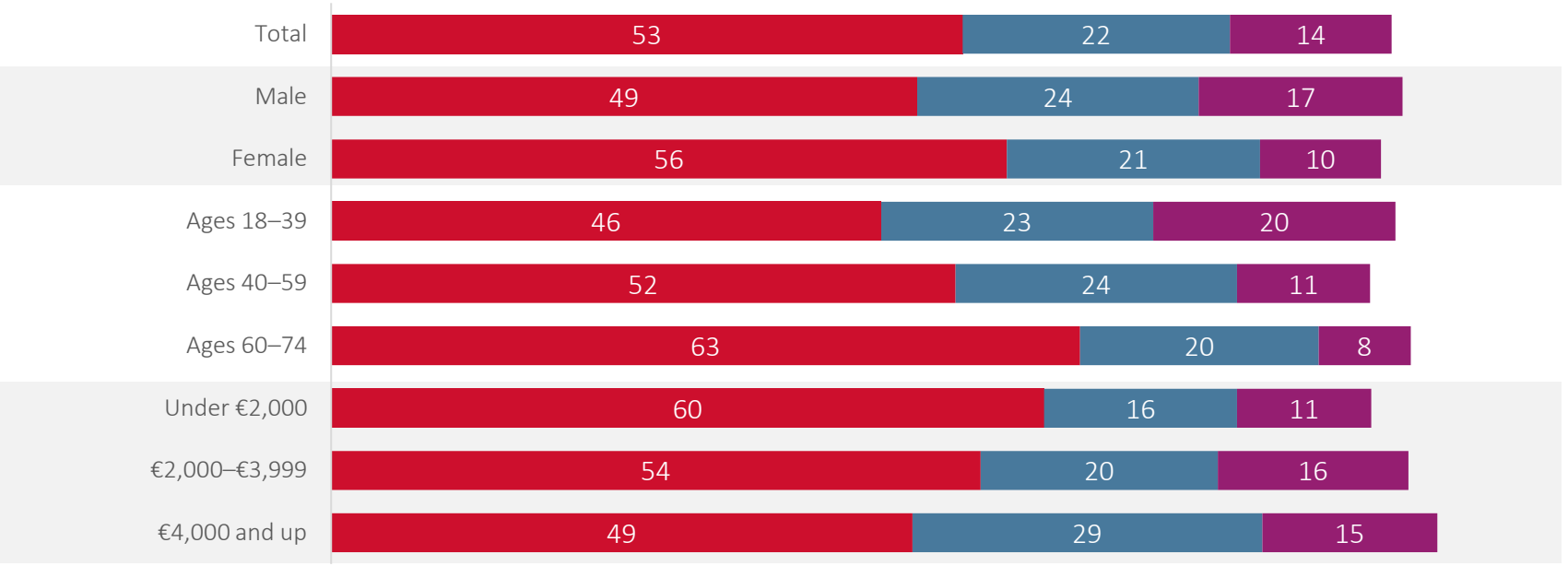


- If a reform like the scenario were implemented, low-income individuals, older respondents, and women in particular would pay more attention to special offers or reduce consumption.
- The actual negative effects on domestic consumption could be even greater than the figures suggest. One reason is that women still tend to do the weekly grocery shopping in households.
- Higher-income respondents are less likely to say they would reduce consumption, but they would not be more likely to increase it either.

Single choice | Values in % | n = 1,005 | Survey period: 04.30.2026–05.04.2026 | NIMpulse 19 | nim.org

Question: Beyond the balance between income tax and VAT, VAT rates themselves are also being debated. Currently, almost all food is taxed at the reduced VAT rate of 7%.

What should be the government's most important objective when taxing food?



- When it comes to the design of VAT rates, a majority of people in Germany believe that VAT on food should be as low as possible.
- Only a minority supports alternative objectives, such as higher taxation of less healthy or more climate-damaging products, or a uniform VAT rate across all goods and services.

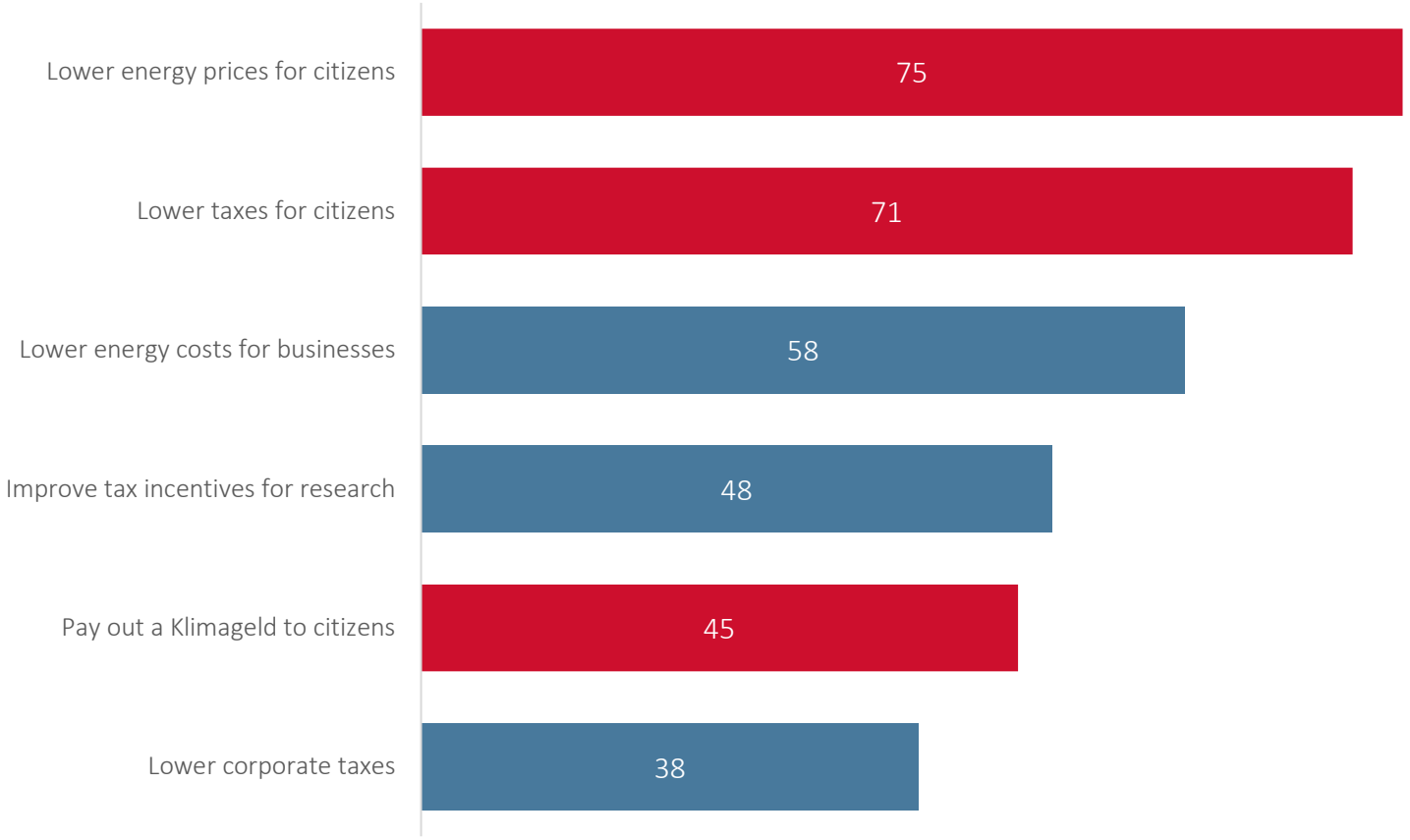
Social relief: VAT on food should be as low as possible.

Health and climate protection: Less healthy or more climate-damaging products should be taxed more heavily than healthier or less climate-damaging products.

Less bureaucracy: VAT on food should be the same as VAT on other goods and services.

Single choice | Values in % | Missing values up to 100: Don't know/no answer | n = 1,005 | Survey period: 04.30.2026–05.04.2026 | NIMpulse 19 | nim.org

Question: What should the government do right now (e.g., through tax policy) to promote economic growth and long-term prosperity?



- To promote economic growth and long-term prosperity, the federal government—according to the German public—should lower energy prices and taxes.
- Measures aimed at improving framework conditions for providers—such as reducing energy costs for businesses and strengthening support for research—also receive approval, albeit at a lower level.
- The “Klimageld” (a climate premium) remains controversial in Germany.

Single choice per measure | Share: rather/very sensible | Values in % | n = 1,005 | Survey period: 04.30.2026–05.04.2026 | NIMpulse 19 | nim.org

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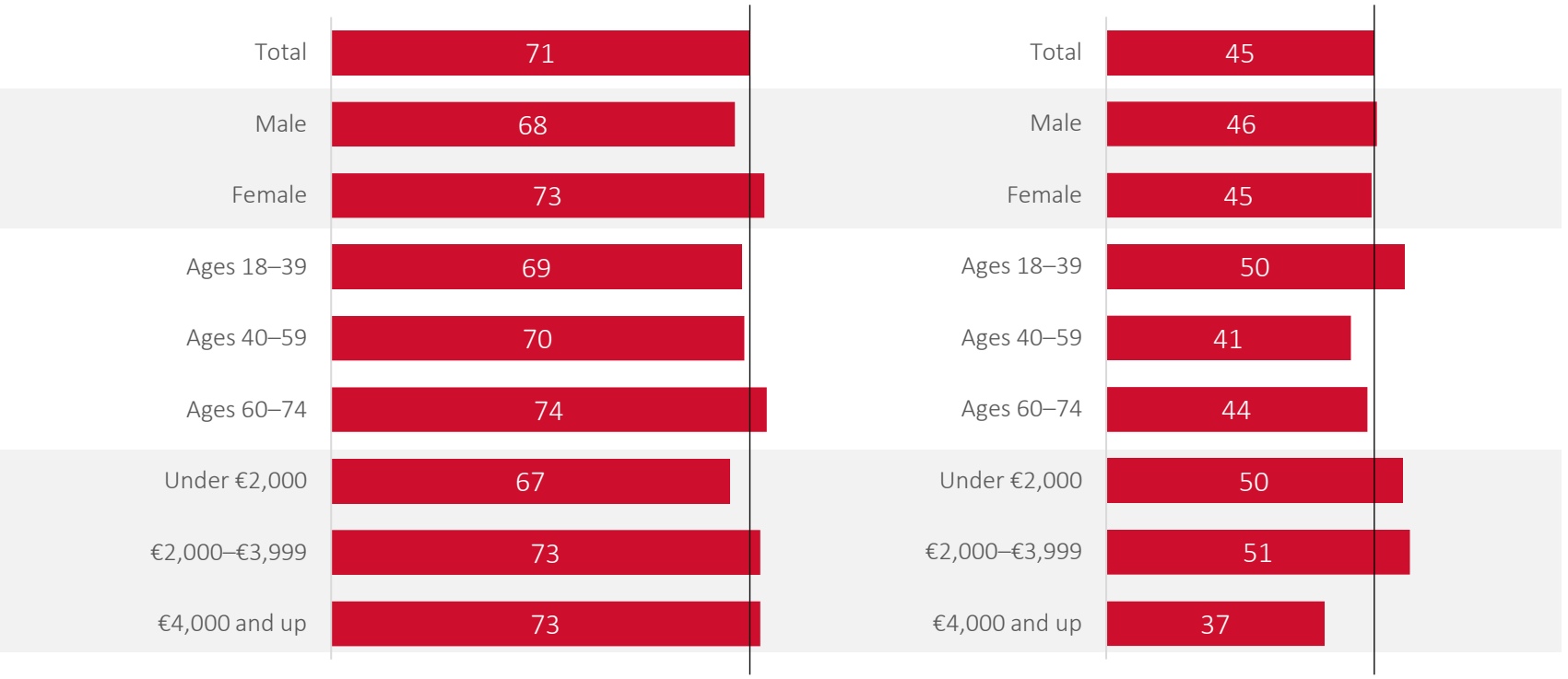
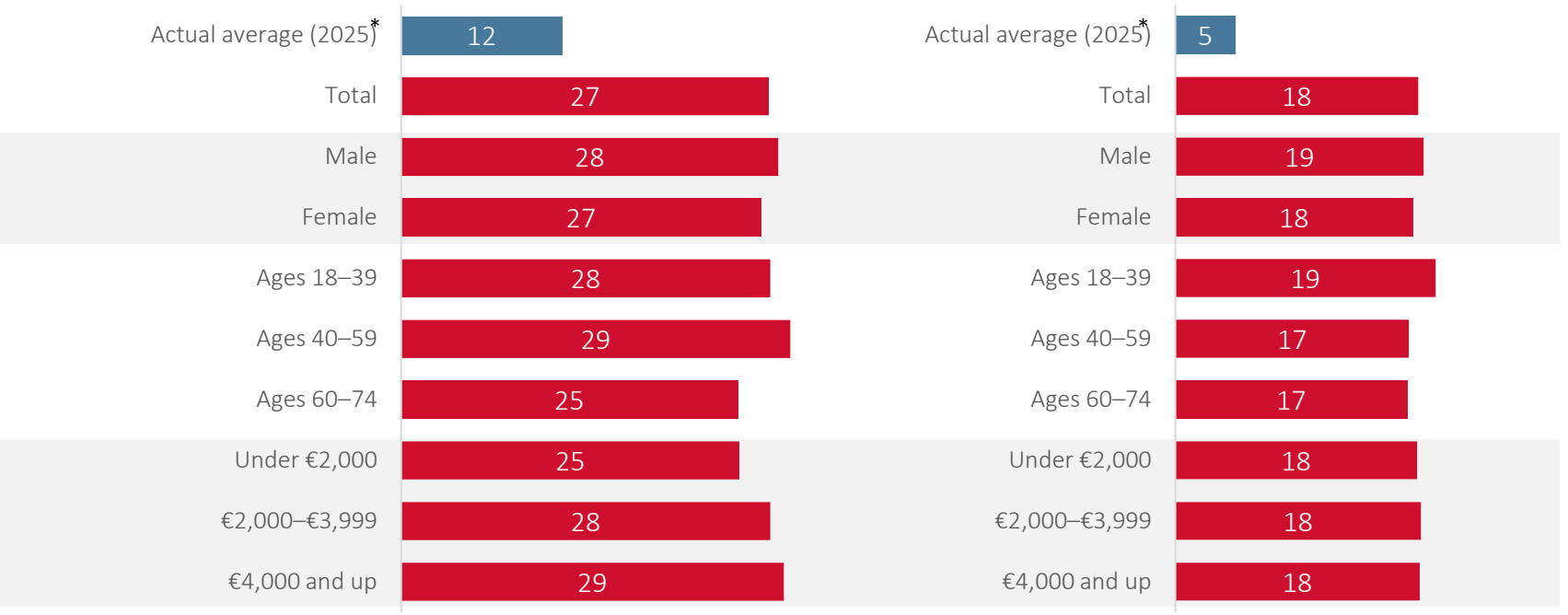


- Lowering taxes for citizens receives high approval across all groups, regardless of gender, age, or income.
- Even low-income respondents, who typically pay comparatively little tax, consider tax cuts sensible.
- Only just under half consider paying citizens a "Klimageld“ to be a sensible measure to promote the economy.
- Skepticism is especially high among middle-aged respondents and those with higher incomes.

Single choice per measure | Share: rather/very sensible | Values in % | n = 1,005 | Survey period: 04.30.2026–05.04.2026 | NIMpulse 19 | nim.org

Question: How much of every €100 earned does a German with an average income have to pay in wage and income tax and VAT?



- People in Germany are not well informed about the level and distribution of their tax burden.
- The average burden from wage and income tax is estimated at 27%; according to the *Bund der Steuerzahler*, the actual figure in 2025 was 12%.
- For VAT, the discrepancy between the estimated and actual burden is even larger: while respondents place it at an average of 18%, the actual figure is 5%.

*Source: Bund der Steuerzahler Deutschland e.V., Tax Burden Barometer 2025 | Question: How much of every €100 earned does a German with an average income have to pay in wage and income tax and VAT? Please enter the euro amount that you believe is paid on average for these two types of tax (please do not consider other taxes or social security contributions). | Open input between 0 and 80 per tax type | Values in euros | n = 1,005 | Survey period: 04.30.2026–05.04.2026 | NIMpulse 19 | nim.org

Our results clearly show: Increasing VAT would be a serious blow to private consumption in Germany. This is true even if it is paired with income tax relief.

People perceive rising prices in everyday life directly and react sensitively to them—far more than to additional room in their budgets. Concerns about higher living costs dominate, especially among older respondents and in low-income households. Women, who are slightly more likely than men to do weekly grocery shopping for families, also react negatively to higher consumption taxes.

Rather than igniting additional momentum, there is a risk—particularly against the backdrop of the current economic situation—that such a reform would lead consumers to postpone or reduce spending. We should be wary of this possibility, especially since exports are unlikely to provide much impetus in the medium term due to tariffs and increasing regionalization.

To strengthen domestic consumption, consumers need a clear signal of relief—such as lower taxes or structurally lower energy prices, driven not by subsidies but by greater energy supply—without new burdens elsewhere. Simple reshuffling of financial burdens from “one pocket to another” no longer seems to generate optimism in the current situation.

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Director Studies at NIM

Concept and questionnaire:

Nuremberg Institute for Market Decisions

Survey and Panel

NIQ eBUS®

Sample

1,005 men and women aged 18 to 74, representative of the German-speaking resident population of this age group

Scope

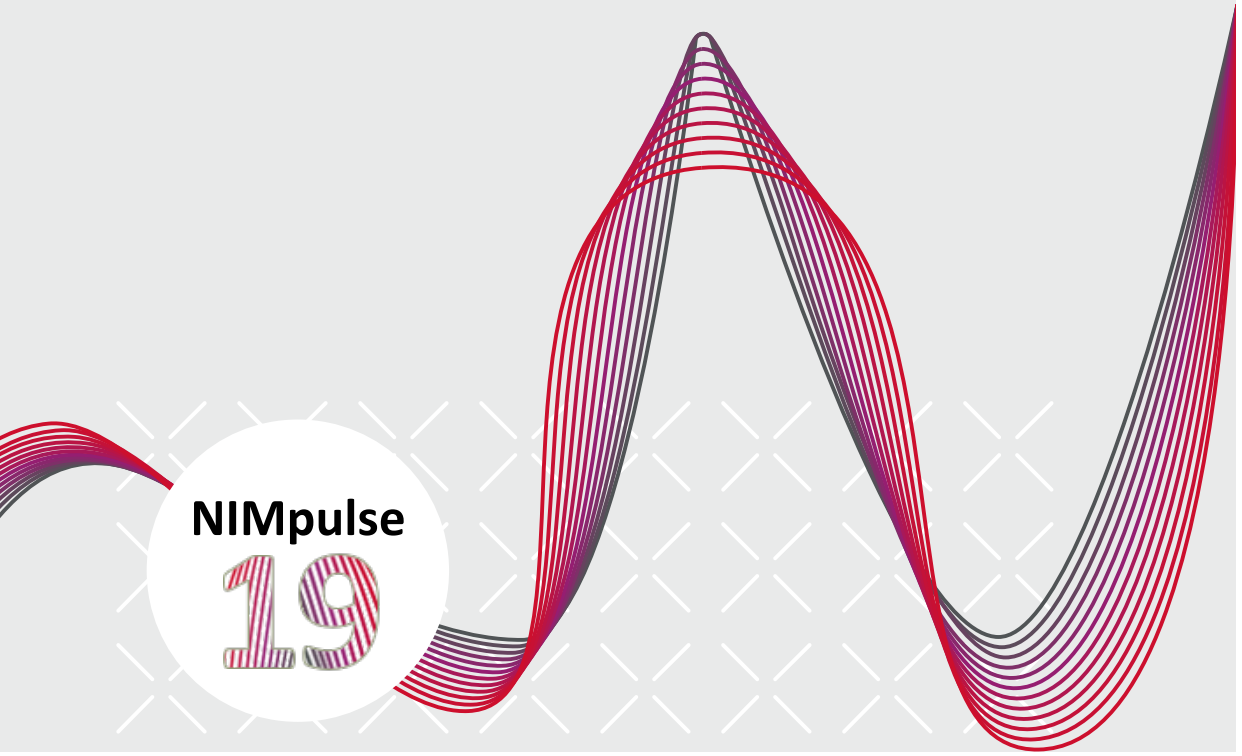
6 questions

Number of demographic characteristics

16

Survey period

04.30.2026–05.04.2026



About NIMpulse:

In the NIMpulse study series, NIM examines the relationships between attitudes, habits, and purchasing decisions among consumers. Methodologically, the studies are based on representative surveys in Germany and other countries. The focus is on the voice of the consumer and their opinions on current consumption-related topics.

Access to the publications in the series: https://www.nim.org/en/studies/nimpulse

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