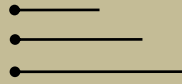


K A N Z L E I K J . H E I N R I C H

SIEBENBÜRGENER STR. 1  
TEL 089 / 61 20 32 - 8182024 TAUFKIRCHEN  
FAX 089/61 20 32 - 82**Mandanten Info**

*Info- Flyer:*  
*Overview: German Income Taxes*  
*(Individuals)*

The German tax system is considered one of the most complex tax-systems in the world and has undergone many comprehensive reforms in the past years.

The following provides you with an overview of the most important data:

Taxation of an individual's income is progressive. In other words, the higher the income, the higher the rate of tax payable.

Fiscal year	0% tax until	min. tax-%	tax base for max. tax-%	max. tax-%	Solidarity tax** (in % of income tax)
2012	8.004	14 %	52.882	42 %*	5,5 %
2013	8.130	14 %	52.882	42 %*	5,5 %
2014	8.354	14 %	52.882	42 %*	5,5 %
2015	8.354	14 %	52.882	42 %*	5,5 %

**\*Note:** On income above EUR 250,731 (for couples: on income above 2x EUR 250,731) the max. tax of **45%** before solidarity tax applies ("Reichensteuer").

**\*\*Solidarity tax (surcharge):** An additional tax has been imposed to help the merger of the two Germanys. This is "solidarity tax" which is 5,5% of the normal rate payable for income tax (e.g.: income tax EUR 1.000 = Solidarity tax EUR 55). The tax is levied on corporations and individuals, subject to the conditions specified in the law.

Due to the progressive system, the average tax rate is the ratio of the amount of taxes paid to the tax base (taxable income) and is – of course – lower than the maximum tax % as listed above.

## ***Germany Income Tax for an Individual:***

An individual is liable for tax on his income (e.g. as an employee or income as a self-employed Person). An individual who meets the test of a "**permanent resident**" of Germany will have the tax calculated on his income in Germany and from overseas ("**worldwide income**").

A **foreign resident** who is employed in Germany pays tax only on income earned in Germany. To be considered a German citizen, a test must be met of either a life centered in Germany or a continuous stay of 6 months in Germany.

**Note:** Between most nations bilateral **Double taxation agreements** specify details and try to avoid double taxation.

## ***Date and Method of Payment, Declaration:***

The tax year in Germany ends on December 31. (**fiscal year Jan 01. – Dec. 31**).

An individual who is obligated to file a return has to deliver the return generally by the **end of the month of May** (following the fiscal year).

Note: The delivery period is automatically extended until **end of the month December** (following the fiscal year) for taxpayers **represented by tax advisors** (power of attorney should be delivered until end of May to the fiscal authorities).

**Employees:** The employer is obligated to deduct the tax payable, income tax and social security immediately on a monthly basis from income earned as a wage. The employer transfers the tax and social security immediately to the tax office and social security system. The final assessment is done with the annual income tax return of the employee ("Einkommensteuererklärung").

**Self-employed person:** A self-employed person must prepay income tax that will be offset on filing an annual return. The advance payment is determined on the basis of the return made for the previous year. In the event of a new business, the advance will be calculated on the basis of estimates made by the owner of the business. The advance payment is made once every three months (on the 10th of the months of March, June, September and December.). Depending on the kind of self-employment several declarations have to be filed.

**Flat rate tax for income from capital („Abgeltungssteuer“):** The scope of taxable income from capital investments has been extended since 2009:

The following is taxable at a **flat rate of 25%** (+Solidarity tax – see above):

- Investment income, such as e.g. dividends and interest
- Capital gains on shares, bonds and all other capital investments (e.g. certificates)
- Capital gains on dividend and interest coupons, interest receivables, participations as a silent partner as well as from other rights
- Capital gains on investment fund units
- Option premiums
- ...

The flat rate tax ("Abgeltungssteuer") will be withheld at a consistent rate of 25 % at source. Where this is not possible, for example if the transaction is made via a foreign bank, this income and capital gain should be declared in the investors income tax return and will then also be taxed at a rate of 25 %.

In both cases, the investors may request the application of its individual tax rate in case it is lower than 25 %, e.g. as no income from other sources has been earned.

The investor will be able to **deduct an amount or EUR 801,-- as a lump sum** ("Sparer- Pauschbetrag"). In case of **joint assessment this amount will be raised up to EUR 1.602,--**.

With this deductible lump sum, all indirect expenses are compensated. Further indirect costs, such as those for account management and asset management, are no longer deductible. Under the new rules, the possibilities to offset losses from capital investments will be very much restricted. Losses from the sale of shares are offsettable only against capital gains from shares. Losses from other investments (e.g. bonds) are offsettable against all other capital gains on capital investments. Offsetting of overall losses from capital investments with other income (e.g. business, rental income) is not possible, such losses are to be carried forward and to be offset against positive capital gains from capital investments in following years.

Dividend and interest income will under the new rules still be taxable in case of distribution or accumulation (Deemed Distributed Income). Capital gains realized on fund level will not become taxable until distribution or disposal of the investment fund units; after deduction of the Deemed Distributed Income already subject to tax during the holding period, capital gains at the investor level are than taxable at the flat rate tax.

These rules ("Abgeltungssteuer") apply in general to all income earned and capital gains realized by the investment fund after 31 December 2008, respectively to all investment fund units purchased / subscribed after the 31 December 2008. The combination of the applicable transition rules as per the Income Tax Act and as per the Investment tax Act will result in an additional administrative workload. However, there will also be some considerable tax advantages for investors. Distributed capital gains from shares, which were purchased by the investment fund before 1 January 2009 will be tax-exempted for all private investors, regardless of when they have purchased / subscribed the investment fund units. In case of accumulation, those capital gains would increase the capital gain at disposal / redemption of the investment fund units and will therefore be taxable at investor level if the units were purchased / subscribed after 31 December 2008. This results in the separately from those related to shares purchased on/after that date. This applies accordingly to capital gains from bonds or short-term transactions. Profits from the sale of private real estate that has been held for more than 10 years is exempt from tax.

## ***Real Estate:***

German property is subject to a **real estate tax** ("Grundsteuer"), levied annually. The tax base is the 'assessed value' (Einheitswert). The tax depends on several factors including location, size, use, local municipal coefficient, etc.

**Rental income:** Rental income is taxed as income (see above) and is subject to the progressive tax rate. Interest on loans provided to finance real estate, expenses and property related cost (e.g. management fees, insurance, etc.) can be deducted from the taxable rental income.

**Depreciation:** Real estate is subject to tax depreciation on an annual basis. (Land cannot be depreciated.) Buildings are depreciated over 40-50 years, depending on the year of construction. (2%

annual depreciation applies to buildings constructed in/after 1925, 2.5% for buildings constructed prior to 1925.)

This effectively lowers the annual tax payable in Germany.

Special rates apply to modernization of listed ("Denkmalschutz") buildings – modernization costs can be depreciated less years.

For property abroad, between most nations bilateral Double taxation agreements specify a taxation in the country where the property is situated.

**Transfer tax:** Transfer of German property is subject to a transfer tax ("Grunderwerbsteuer") – equivalent of stamp duty. Since 2007 this tax is no longer set at federal level and comes under authority of local governments. While most states and cities have so far kept the transfer tax at the previous rate of 3.5% (of the purchase price), some increased. Transfer tax is generally paid by the buyer.

**Capital gains:** Currently profits made on sales of properties held as a private asset are not taxed if the property has been held for over 10 years.

If a property has been held for less than 10 years capital gains are taxed as income (progressive tax rates – as above).

## *Other Taxes:*

There is a number of other taxes, including VAT ("Umsatzsteuer" or "Mehrwertsteuer"), additional sales taxes on certain goods such as alcohol, tobacco, gasoline etc., other business taxes, church tax, etc. (Church tax of 8-9% of the income tax is only payable by those officially affiliated with one of the main churches).

VAT is 19% (effective since 1 January 2007), although a lower rate of VAT with 7% applies to certain products, while others (such as medical goods) are exempt.

Several other taxes may apply, depending on the individual situation. Next to this, the German tax system is known for a huge variety of exceptions and potential deductions.

You will find additional information and our checklist for download on our website / download area: <http://www.kanzlei-kjh.de/download.html>

Due to the complexity of the German tax systems and the interaction with other tax systems (bilateral Double taxation agreements etc.) individual tax consultancy is strongly recommend to guide you through the German "tax-jungle".

If you have any questions regarding the above, please to not hesitate to contact us!

Kind Regards

The Team of  
**KJH**

Bei Rückfragen zu den Inhalten unserer Informationsbroschüren oder weiteren Detailfragen beraten wir Sie gerne, wir freuen uns auf Ihren Anruf (Tel. 089 / 612 0 32 - 81) oder eine Email von Ihnen (info@kanzlei-kjh.de ).

Sie bekommen noch keine monatliche **Mandanten Info** von uns?

Die **Mandanten Info** ist ein Informationsservice für unsere Mandanten mit einer Fülle interessanter Neuerungen, Urteilen, Tipps und vielem mehr.

Haben wir Ihr Interesse geweckt?

Gerne nehmen wir folgende Email-Adresse/n in den Verteiler auf:

.....

- Ihr Team der Kanzlei KJH -

### **Disclaimer / Impressum**

Alle Angaben in vorstehender Informationsbroschüre wurden sorgfältig geprüft; trotzdem können sich Daten und Fakten inzwischen verändert haben. Wir übernehmen deshalb keine Garantie dafür, dass die Angaben vollständig, richtig und in jedem Falle aktuell sind.

Die Informationen sind kein Rechtsrat und können eine rechtskundige Beratung keinesfalls ersetzen. Für Fehler im Text und Abbildungen kann daher keine Haftung übernommen werden.

Der Inhalt dieser Informationsbroschüre darf ohne schriftliche Genehmigung außer zum eigenen Gebrauch weder bearbeitet, übersetzt, vervielfältigt oder verbreitet, noch sonst gewerblich auf Druckmedien oder elektronischem Wege vertrieben werden. Unter dieses Verbot fällt auch die gewerbliche Vervielfältigung per Kopie, die Aufnahme in elektronische Datenbanken und Online-Dienste sowie die gewerbliche Vervielfältigung auf CD-ROM, Diskette o.ä. Gestattet ist die Vervielfältigung zum eigenen Gebrauch durch Online-Abruf, Speicherung auf eigenen Datenträgern, Ausdruck und Kopie. Verantwortlich i.S.d. RStV: RA Klaus J. Heinrich, USt-IdNr. DE206876669, Gläubiger ID: DE81ZZZ00000406008. Zulassung in Deutschland, Mitglied der Rechtsanwaltskammer München, Tal 33, 80331 München, Berufshaftpflichtversicherung R+V Allg. Vers. AG, 65181 Wiesbaden. Räumlicher Geltungsbereich: EU-Gebiet und die Staaten des Abkommen über den Europäischen Wirtschaftsraum, der Versicherungsschutz besteht über die gesetzlichen Anforderungen nach § 51 BRAO hinaus je Versicherungsfall mit 1 Mio. Euro. Gem § 51 (4) BRAO ist der Ersatz eines fahrlässig verursachten Schadens auf 1 Mio. Euro begrenzt (Beachten Sie auch die Links zur Berufsordnung auf der Startseite, zudem im Internet abrufbar unter [www.brak.de](http://www.brak.de)). Bilder © red2000 - Fotolia.com

Weitere Informationen im Internet: [www.kanzlei-kjh.de](http://www.kanzlei-kjh.de).