International Taxation

Tax Treaties: Germany has double taxation treaties with over 90 countries. These treaties are based on the OECD model taxation convention and reduce most forms of withholding tax.

EU Guidelines: Dividend distributions, as well as interest and royalty payments between parent and subsidiary companies within the EU are exempt from withholding tax provided certain minimum holding requirements are met.

CFC Rules: Low-taxed passive income (tax rate of less than 25%) earned by a foreign corporation in which one or more German shareholders hold qualifying ownership interests (so-called intermediary company) is imputed pro-rata to the German shareholder(s) and is fully subject to German taxation unless the foreign corporation is based in the EU or EEA, in which case limitations may apply.

Transfer Pricing: Transactions between affiliated parties will give rise to income adjustments to the extent that such transactions are not conducted at arm's length. Additionally, transactions with a foreign affiliated party are subject to extensive documentation requirements.

Solidarity Surcharge

The solidarity surcharge is a supplementary tax to income tax and corporation tax and amounts to 5.5% of the assessed tax.

Trade Tax

The trade tax is levied on every trade or business (also permanent establishments) located in Germany. Municipalities are authorized to determine their own rate of assessment independently (as a multiplier of the base amount) which must be at least 200%. The trade tax is not deductible as a business expense.
Sample calculation (simplified):

	Profit from a business enterprise under EStG or KStG
+/–	Trade tax additions/deductions
=	Trading profit
–	Tax-exempt amount of €24,500 only for individuals and partnerships
=	Trading profit (after deduction of losses, rounding and tax-exempt amount)
x	Basic tax rate 3.5%
=	Base amount
x	Multiplier (e.g. Frankfurt/Main as of 2007: 460%)
=	Trade Tax (effective tax burden e.g. for Frankfurt/Main: 16.1%)

Real Property Tax

Real property tax is levied on any German real estate (land, buildings) held for business or private purposes. In principle personal circumstances of the owner are disregarded. The real property tax is calculated as follows:

	Assessed value for tax purposes (value as of January 1, 1964; Eastern federal states: January 1, 1935 or alternative basis of assessment)
x	Basic tax rate (Western federal states: 2.6–3.5‰, Eastern federal states 5–10‰, for agriculture and forestry: 6‰)
=	Base amount
x	Multiplier (e.g. Frankfurt/Main as from 2013: 500%, agriculture and forestry: 175%)
=	Real property tax

VAT

- Standard tax rate 19%
- Reduced tax rate 7%

Energy Tax

	Tax rates in €
per 1,000 l gasoline*	654.50
per 1,000 l diesel*	470.40
per 1,000 l light heating oil**/***	61.35
per 1,000 kg heavy heating oil***	25.00
per 1 MWh natural gas***	5.50

* Sulfur content ≤ 10 mg/kg (sulfur-free). ** Sulfur content ≤ 50 mg/kg.
*** When used as heating oil or in tax-privileged equipment. Under certain circumstances, abatement, refund or rebate is available for companies of the manufacturing industry and agriculture and forestry.

Electricity Tax

- Regular tax rate €20.50/MWh

Inheritance and Gift Tax

Lifetime gifts and transfers at death are subject to inheritance tax. The amount subject to taxation is equal to the value received by the transferee.

Tax Brackets I	II	III
Spouses, registered life partners, (step) children and grand (step) children; (grand) parents (in the event of transfers at death)	Siblings, nieces/nephews, (step) parents, parents-in-law and children-in law, divorced spouses; registered life partner of a dissolved civil union; (grand) parents (in the event of gifts)	All other beneficiaries and recipients of special purpose gifts/bequests
Tax-free amounts in €		
500,000 Spouse, registered life partner 400,000 (Step) children* 200,000 Grand (step) children 100,000 Others	20,000	20,000

* and for children of predeceased (step) children.

A special tax exemption of €256,000 applies to transfers at death for the surviving spouse or the surviving registered life partner. Under certain conditions, property used by the transferee for residential purposes is not subject to inheritance tax. In the case of business assets, exemptions from gift and inheritance tax apply under certain conditions, which are currently (March 2014) under review by the German Federal Constitutional Court.

Tax rates in % Value of the taxable acquisition	I	II	III
≤ €75,000	7	15	30
≤ €300,000	11	20	30
≤ €600,000	15	25	30
≤ €6,000,000	19	30	30
≤ €13,000,000	23	35	50
≤ €26,000,000	27	40	50
> €26,000,000	30	43	50

Real Estate Transfer Tax

Real estate transfer tax is triggered primarily by conclusion of a sales contract or any other legal transaction which gives the right to demand transfer of domestic real estate. Real estate transfer tax is also triggered if at least a 95% ownership interest in a company which owns real estate is acquired. The same applies if at least 95% of the interests in a partnership are transferred to new partners within a 5-year period. In both cases the aggregation of interests from an economic point of view is sufficient to trigger real estate transfer tax. Intra-group business reorganisations are tax-exempt, if certain requirements are met. The tax is assessed on the basis of the value of the consideration or the surviving value of the real estate. The tax rate is 3.5% in the federal states of Bavaria and Saxony, 4.5% in Hamburg, 5.5% in Saarland, 6.0% in Berlin, 6.5% in Schleswig-Holstein and 5.0% in the other states.

Social Security Contributions

Income ceiling for assessing contributions (annual)	
Statutory pension/Unemployment insurance	€71,400/€60,000 1)
Health insurance 2)/Nursing care insurance	€48,600
Contribution rates (employer and employee each pay half of the contributions)	
Statutory pension insurance	18.9%
Unemployment insurance	3.0%
Nursing care insurance 3)	2.05% + 0.25% 4)
Health insurance (statutory)	15.5% 5)
Maximum contributions (monthly)	
Statutory pension insurance	€1,124.55/€945.00 1)
Unemployment insurance	€178.50/€150.00 1)
Nursing care insurance	€93.15 6)
Health insurance (statutory)	€627.75
Contributions granted by employer for private health insurance (monthly limit)	
Contribution for health insurance	€295.65
Contribution for nursing care insurance	€41.51 7)

1) For the Eastern federal states. 2) Ceiling for statutory health insurance: €53.550 p. a. 3) Special rule for Saxony: Employees bear the overall costs in the amount of 1.775% (incl. additional contribution) 4) An additional contribution is made by (certain) childless employees (no employer participation). 5) Contribution rate is 14.6% (paid in equal amounts by employer and employee) and additional surcharge of 0.9% paid by the employee. 6) Including an additional contribution for (certain) childless employees of €10.13. 7) Special rule for Saxony: maximum contribution is €21.26.

The German Tax Card 2014 was created by the National Tax Department of KPMG, THE SQUAIRE, Am Flughafen, 60549 Frankfurt/Main, Germany. Dr. Martin Lenz is responsible for the content under German Law (§7 II Berliner PresseG and MDStV). Should you have any questions or suggestions, please contact the Tax Hotline, T +49 69 9587-3500, DE-Tax@kpmg.com.

Visit our website www.kpmg.de.

cutting through complexity

German Tax Card 2014

An overview of tax-relevant information

Filing Period for Income Tax Returns (Assessment Period 2013)

May 31, 2014	The returns relating to a calendar year or a date specified by law must be filed no later than five months thereafter.
December 31, 2014	Extension of deadline is possible if tax advisers are involved.
	Further extensions of time are possible in individual cases.

Tax Liability

- Corporations are subject to corporation tax, solidarity surcharge and trade tax.
- Individuals are subject to income tax, solidarity surcharge, trade tax levied on business income and church tax if applicable.
- Partnerships may be subject to trade tax. In addition, the taxation depends on the circumstances of the partners.

Income Tax

Tax Rates and Personal Exemptions 2014

Personal exemption (€8,354*)	0%
Entry-level bracket rate (from €8,355*)	14%
End of tax rate progression (at €52,882*)	42%
Maximum tax rate for income over €250,731*	45%

Tax Allowances

Employee standard deduction Savers' standard deduction		€1,000 €801*
Standard deduction for other income		€102
Tax exemption for pensions in 2014: 25.6% of the pension received, plus additional allowance of	max.	 €1,920 €576
• Child allowance or Child benefits • Child care allowance		€2,184 for each child* €2,208 for each child** €1,320 for each child*
Children are taken into account in the following cases: i) under 18 years, ii) under 21 years and unemployed pursuant to the Code of Social Law, iii) under 25 years and still in professional training, iv) over 25 years only in the event of helplessness due to disability.		
Tax relief for single parents	€1,308 for single-parent families with at least one child living at home for which the parent is eligible for child benefits or child allowance.	
Old-age allowance in 2014	25.6% of the employment income and the positive sum of the (further) income (excluding other retirement benefits and life annuities), max. €1,216 p.a., if the taxpayer has turned 64 prior to the beginning of the calendar year.	
Educational allowance	€924 for children aged 18 and over not living at home and still in professional training or studying.	

* For spouses filing a joint tax return, the stated amounts are doubled.
** For the first two children.

Travel Expenses (Income-Related Expenses)

Expenses for travel between the residential home and the primary place of duty can be deducted as income-related expenses (commuter's tax allowance). For each full kilometre (one way), €0.30 can be deducted, up to a total of €4,500 p.a. If a private vehicle is used or a company vehicle is made available free of charge, a higher amount can be deducted. In case of using public transport, the expenses can be deducted, if they exceed the commuter's tax allowance. For business travel €0.30 can be deducted for each kilometre.

Vehicle Use

Private use of a company vehicle free of charge	
For a vehicle which qualifies as a necessary business asset, the taxable value for private use is determined as a percentage of the domestic list price at the time of the registration date plus any extras and VAT.	
• Value in use • If applicable travel between residential home and primary place of duty (one way)	1% per month 0.03% per km/per month or 0.002% per km/per day
Optional: The overall costs can be allocated by means of a driver's logbook.	

Dividends

Taxation under the partial-income rule	Taxation under the flat tax (final withholding tax)
Individuals hold shares in corporations as business assets.	Individuals hold shares in corporations as private assets.
40% of the dividends received from domestic or foreign corporations are tax-exempt. 60% are subject to income tax (plus solidarity surcharge, church tax if applicable) and trade tax under certain conditions.	Dividends received from domestic or foreign corporations are taxed at a flat rate of 25% (plus solidarity surcharge, church tax if applicable). The progressive income tax rate is applied on request. Special regulation for typically entrepreneurial investments.
60% of the expenses economically related to dividends may be deducted as business-related expenses.	Expenses related to dividends cannot be deducted as income-related expenses.
25% withholding tax plus solidarity surcharge (church tax if applicable) is deducted from the dividends. The withholding tax is credited against the income tax liability of the recipient of the dividends. For non-resident individuals, the withholding of tax is generally final.	Of the dividends, 25% withholding tax plus solidarity surcharge (church tax if applicable) are withheld. In general, the withholding of tax is final.

Gains from the Sale of Corporate Shares*

- The gains from the sale of shares in corporations held as private assets are taxed at a flat rate of 25% (plus solidarity surcharge and church tax if applicable). The tax is usually levied within the scope of the withholding tax and is generally final. Expenses related to the capital gains cannot be deducted as income-related expenses. Upon request, the progressive income tax rate applies.
- The gains from the sale of shares in corporations held as business assets are tax-exempt at 40% (partial-income rule). Correspondingly, only 60% of the expenses economically related to the capital gains (including the acquisition costs) may be deducted as business-related expenses. If shares in corporations are held as private assets, the partial-income rule also applies if a direct or indirect interest of at least 1% is established (at any point in time within a period of 5 years before the sale).

* For shares acquired before 1 January 2009, the previous law applies.

Depreciation

Type of asset	Depreciation method
Depreciable and amortizable fixed assets	Generally straight-line
Specific rules for movable fixed assets (as an alternative to the linear depreciation method)	
Acquired or manufactured after Dec. 31, 2005 and prior to Jan. 1, 2008	At most three times the straight-line rate, up to a maximum of 30%
Acquired or manufactured after Dec. 31, 2008 and prior to Jan. 1, 2011	At most 2.5-times the straight-line rate, up to a maximum of 25%
A transition from declining-balance to straight-line method is permissible, however, a transition from straight-line to declining-balance method is not.	
Separate regulations for buildings/parts of buildings, condominiums	Straight-line, to some extent declining-balance possible with staggered depreciation rates
Purchased goodwill	Straight-line over 15 years

Loss Offsetting

Losses up to €1 million* may be carried back to the immediately preceding assessment period. Loss carryforwards, which may be carried forward indefinitely, may only be used to offset up to 60% of the total income exceeding an amount of €1 million*. With respect to trade tax, the same limitations apply as for the income tax; however, a loss carryback is not possible.

Tax Reduction for Trade or Business Income

In general, the income tax is reduced for trade and business income from sole proprietorships and partnerships by 3.8 times the trade tax base amount (in the case of partnerships on a prorated basis).

Tax Privilege for Retained Profits

Under certain conditions the owners of partnerships and sole proprietorships may elect to subject the earnings retained in the business to a flat tax rate of 28.25% (in lieu of taxation at the owner´s marginal tax rate). Later withdrawals trigger a recapture tax of 25%.

Corporation Tax

Corporation Tax Rate

The corporation tax rate is 15% in all cases. The income is determined in accordance with the regulations of the Income Tax Law (EStG) and the Corporation Tax Law (KStG).

Dividends/Gains from the Sale of Corporate Stock

Dividends and capital gains from the sale of shares in a domestic or foreign corporation received by a corporate shareholder remain tax-free in general. This also applies if the shares are held via a partnership or such income is received by a German permanent establishment of a foreign corporation.

An amount equal to 5% of the dividends or capital gains is treated as a non-deductible business expense and added to taxable income. In turn, the actual business expenses are fully deductible. In the case of a direct shareholding < 10% of the nominal capital at the beginning of the calendar year, dividends are subject to taxation from 1 March 2013 onwards (so-called dividends from portfolio investments). EU/EEA corporations which received dividends from domestic portfolio investments until 1 March 2013 may apply for a refund of withholding tax under certain conditions.

* For spouses filing a joint tax return, €2 million.

Taxation of Shareholders*

Corporation			
Profit – Trade tax (multiplier 460%) – Corp. tax (15% on 100)	100.00 – 16.10 – 15.00	100.00 – 16.10 – 15.00	100.00 – 16.10 – 15.00
Profit after tax	68.90	68.90	68.90
Shareholder	**Corp. (shareholding ≥ 10%)**	**Indiv. (partial-income rule)**	**Indiv. (25% flat tax)**
Dividend thereof tax-free (95%/40%/0%)	68.90 – 65.45	68.90 – 27.56	68.90 0
Taxable – Corp. tax/Income tax (without trade tax) + Corp. tax/Income tax-free dividend	3.45 – 0.52 + 65.45	41.34 – 17.36** + 27.56	68.90 – 17.23 0
Dividend after tax	68.38	51.54	51.67
Total tax burden	**31.62%**	**48.46%**	**48.33%**

* For the sake of simplicity, withholding tax on dividends, solidarity surcharge and tax-exempt amounts as well as standard deductions are not considered.
** Assumed income tax rate: 42%.

Earnings Stripping Rules

The earnings stripping rules apply to all types of debt financing of unincorporated businesses and corporate entities including shareholder debt as well as any third party debt. Interest expenses are deductible without limits up to interest income of the same fiscal year; interest expense exceeding interest income (net interest expense) is deductible only up to 30% of tax EBITDA. Unused deduction capacity can be carried forward, limited to a maximum period of 5 years (EBITDA carryforward).

Interest expense that cannot be deducted is carried forward (interest expense carryforward). Exceptions to the earnings stripping rules:

- Net interest expense < €3 million (de minimis threshold)
- Business does not belong to a group of companies, or does so only partially (non-group business)
- Equity ratio of the business ≥ equity ratio of the group – 2% (escape clause)

Corporations may rely on the non-group exception and the escape clause only if no detrimental shareholder debt financing exists.

Tax Groups (Organschaft)

Controlled company: If a European Company (SE), stock corporation (AG), a partnership limited by shares (KGaA), a limited liability company (GmbH) or under certain requirements a corporation formed under the law of an EU/EEA country transfers its entire profit to another business enterprise based on a profit absorption agreement (the agreement has to be concluded and carried out for a period of at least five years), the income of the controlled company is allocated to the controlling enterprise.

The controlling enterprise must be an individual, a corporation not exempt from tax or a partnership which is engaged in a business activity. The controlling enterprise may also be a foreign commercial enterprise, provided the participation in the controlled company is assignable to a domestic permanent establishment of the controlling enterprise. Furthermore, the controlling enterprise must hold the majority of the voting rights in the controlled company, either via a direct or an indirect interest in the company.