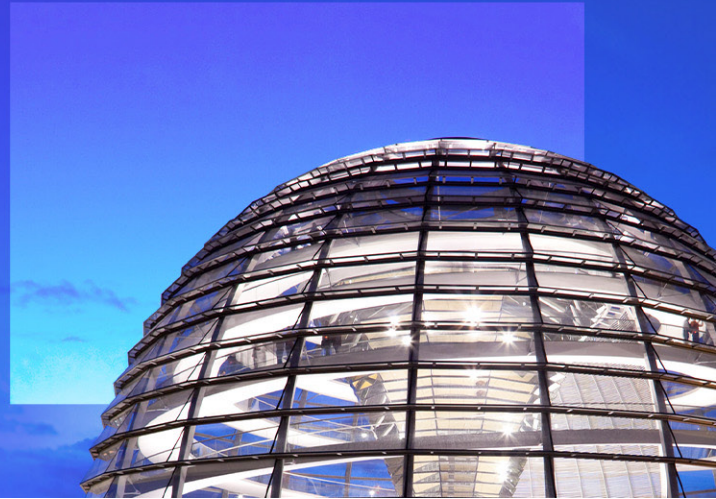


German Tax Monthly

Information on the latest tax developments
in Germany

July | 2025



Act for an Immediate Tax Investment Program

The Bundestag passed the "Act for an immediate tax investment program to strengthen Germany's business location" on 26 June 2025.

The Act includes the following measures, all of which are contained in the coalition agreement of the new federal government:

1. Investment Booster

The Investment Booster is designed as a temporary reintroduction and increase of declining balance depreciation. For movable fixed assets acquired or manufactured after 30 June 2025 and before 1 January 2028, a declining balance depreciation of up to 30%, but not more than three times the straight-line depreciation, is possible.

2. Reduction of corporate tax rate

Following the expiration of the Investment Booster, the corporate tax rate will be gradually reduced from currently 15% to 10% starting in 2028. The reduction will occur in five steps, decreasing by one percentage point annually:

- FY 2028 = 14%
- FY 2029 = 13%
- FY 2030 = 12%

- FY 2031 = 11%
- from FY 2032 = 10%.

According to the explanatory memorandum of the Act, the simultaneous implementation of both measures in one Act is intended to send clear signals for the location, create reliable framework conditions, and thus ensure planning security for companies.

3. Reduction of income tax rate for retained earnings taxation

To equally relieve retained earnings of partnerships, the income tax rate within the regime of preferential treatment of retained earnings will also be gradually reduced starting in 2028. According to the explanatory memorandum, this maintains the goal of tax neutrality between partnerships and corporations.

The reduction will occur in three stages from currently 28.25% to 25%:

- FY 2028 and 2029 = 27%
- FY 2030 and 2031 = 26%
- from FY 2032 = 25%.

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4. Tax incentives for electric vehicles

Declining balance depreciation:

For newly acquired, commercially used, purely electric vehicles, an arithmetically declining balance depreciation with decreasing tier rates is introduced:

- in the year of acquisition = 75%
- in the first following year = 10%
- in the second and third following years = 5% each
- in the fourth following year = 3%
- in the fifth following year = 2%.

In addition to passenger cars, electric commercial vehicles, trucks, and buses are also included. The declining balance depreciation can be claimed for acquisitions after 30 June 2025 and before 1 January 2028. In the case of an acquisition during the year, the full annual depreciation can still be claimed (no reduction of 1/12 for each month preceding the purchase).

Company cars: The upper limit of the gross list price for purely electric vehicles acquired after 30 June 2025, will be increased from currently EUR 70,000 to EUR 100,000. The upper limit is relevant for the flat-rate 1% taxation of the benefit for private use of a company car. For eligible electric vehicles, only a quarter of the gross list price is considered (the so-called quarter rule).

5. Research allowance

Changes to the Research Allowance Act include measures to make tax incentives for research and development (R&D) more attractive:

- Expansion of **eligible expenses** (currently: wages and investment expenses) to include additional overhead and other operating costs incurred in the context of an eligible R&D project that began after 31 December 2025. These overhead and other operating costs are exclusively calculated as a flat rate amounting to 20% of the other eligible expenses incurred during the fiscal year.
- Increase of the **maximum assessment base** for the research allowance from currently ten million euros to twelve million euros for eligible expenses incurred after 31 December 2025. The maximum research allowance can thus increase from currently 2.5 million euros to three million euros.

6. Outlook

The federal government aims to complete the legislative process as quickly as possible. The goal is to secure the approval of the Bundesrat before the parliamentary summer recess. This could take place in the last scheduled session of the Bundesrat before the summer recess, on 11 July.

Federal Government Plans Digital Levy

The federal government is planning a digital levy for large online platforms.

In an interview (published 29 May 2025), the German Minister of State for Culture presented the federal government's plans for introducing a digital levy for digital platforms. According to the minister, the corporations make billions in Germany with very high margins and benefit enormously from the media and cultural achievements as well as the infrastructure of the country – but they pay

hardly any taxes and invest too little. The large platforms would engage in clever tax avoidance.

The levy could be based on the Austrian model. Since 2020, Austria has introduced a simple and effective taxation of online advertising services at a rate of five percent for very large platform operators. The federal government considers a levy rate of ten percent to be moderate and legitimate. Experiences from Austria have shown that this form of levy has not led to any significant price changes for end customers. However, it has resulted in the corporations making a small tax contribution to society, thus slightly reducing their huge margins. At the same time, it opens up competition.

According to the minister, the federal government is working on a draft law. This will be discussed with stakeholders. At the same time, talks with platform operators at the highest level will be sought to explore alternative solutions.

Multilateral Instrument: Notice of Entry into Force Regarding Japan and Czech Republic

On 1 June 2025, Germany informed the OECD that the domestic measures to modify the two of the nine German Double Taxation Treaties (DTT) still outstanding as a result of the MLI Application Act - Japan and the Czech Republic - have been completed. The modifications to these two DTT will be applicable from 1 January 2026.

This means that the domestic measures for modification have been implemented for all nine DTT covered by the MLI. For the other covered German tax treaties - i.e. the DTT with France, Greece, Croatia, Malta, Slovakia, Spain and Hungary - the respective MLI modifications already came into effect on 1 January 2025.

The BMF has published synthesised texts of the double taxation agreements and the multilateral convention on its website as a working aid for the application of the law - these can be found under the country-specific information on the respective contracting state.

Background

Due to the large number of options and reservations provided for in the BEPS-MLI, Germany had reserved the right to ensure that the modifications to the German DTT covered only take effect after the conclusion of domestic measures. The implementation of these domestic measures was carried out by the "Law on the Application of the Multilateral Convention of 24 November 2016 and Further Measures" (MLI Application Act). The MLI Application Act was promulgated in the Federal Law Gazette on 21 June 2024. The legislative process has thus been concluded. In particular, this Act intends to specify the modifications resulting from the BEPS-MLI, considering the selection decisions of Germany and the respective other contracting state (so-called matching) for the DTT covered.

Federal Tax Court (IX R 32/23): „Switch-over“ Clause Requires Majority Interest in Foreign Partnership

The Federal Tax Court ruled on 8 April 2025, that the so-called "switch-over" clause of Section 20 para. 2 Foreign Transactions Tax Act (FTTA) – the change from the exemption method to the credit method as a counterpart to the CFC-taxation in the case of foreign permanent establishments / participations in foreign partnerships – is to be interpreted in a partnership-related manner. It therefore only applies if the domestic taxpayer holds a majority interest in the foreign partnership

that provides him with a foreign permanent establishment (contrary to the BMF guidances dated 26 September 2014, para. 4.1.1.2.2 and 22 December 2023, para. 1002).

In the dispute years 2007 to 2009, a domestic corporation held a 30% interest in a US partnership. The latter undisputedly generated passive business income from the granting of licenses, which was taxed at a low rate. According to the applicable double taxation treaty in the dispute years, the exemption method applied to the profits generated in the US partnership.

According to the tax office, the "switch-over" to the credit method occurs in the dispute case. The legal consequence of Section 20 para. 2 FTFA occurs – unlike the CFC-taxation according to Section 7 FTFA – regardless of the extent of the participation (so-called partner-related approach, as also BMF guidances dated 26 September 2014, para. 4.1.1.2.2 and 22 December 2023, para 1002). Control of the foreign partnership is therefore not required.

The Federal Tax Court, however, like the previous instance, is of the opinion that the "switch-over" clause does not apply in this case. It is to be interpreted in a partnership-related manner and therefore requires a majority participation in the foreign partnership. The Court justifies its result particularly with systematic interpretation. Section 20 para. 1 FTFA refers entirely to the CFC-taxation and thus also to the control requirement established there.

It should be noted that the judgment was issued on Section 20 para. 2 FTFA old version. However, the principles of the Federal Tax Court should also apply to the current version because the current version of the CFC-taxation also requires control.

Federal Ministry of Finance: Information Sheet on Cross-Border Audit Cooperation with Tax Administrations of Other Countries

On 15 May 2025, the Federal Ministry of Finance (MoF) issued a new version of the "Information Sheet on Cross-Border Audit Cooperation with Tax Administrations of Other Countries and Territories: Joint and Simultaneous Audits as well as Presence of Officials".

The principles outlined in the information sheet supplement the information sheet on intergovernmental administrative assistance through the exchange of information in tax matters (MoF guidance dated 29 May 2019). The newly revised information sheet replaces the information sheet on coordinated tax audits with tax administrations of other countries and territories (MoF guidance dated 6 January 2017).

The information sheet dated 15 May 2025, covers the following topics:

1. General information
2. Other forms of administrative cooperation and their application
3. Legal basis
4. Responsibilities
5. Practical implementation.

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