

SUMMARISED TAX INFORMATION FOR GERMANY

January 2021

A. Taxation of companies

Tax year: the calendar year (or a deviating accounting year).

Company residence (AG [joint stock company], GmbH [limited company] or KGaA [partnership limited by shares]): Companies with production facilities / their residence or administrative offices based in Germany are subject to taxation in Germany.

1. Corporate income tax

Tax rate 15%. A surcharge of 5.5% of the assessed corporate income tax (solidarity surcharge) is levied on the corporate income tax. Dividends from other companies are – in principle – 95% exempt.

2. Local trade tax

The tax rate is between 7% and 31.5% of profit depending on multiplier (tax factor) of the municipality or town / city.

3. Withholding tax on dividends

Withholding tax of 25% plus solidarity surcharge of 5.5 %, producing a combined rate of withholding of 26.375%; reduced if a convention for avoidance of double taxation exists; exempted in special cases stipulated by the EU Parent / Subsidiary Directive.

4. Losses of domestic companies (Losses from commercial transactions)

- Setting off against profits of current year permitted.
- Loss carry-back: restricted to one year; amount increased from EUR 1 million to EUR 5 million (for 2020, 2021; not for trade tax); provisional loss carryback from 2020 upon request.
- Loss carry-forward: no time limit; since 2021 amount limited to EUR 5 million and also to 60% of amount of income in the following year which exceeds EUR 5 million (2020: EUR 1 million).
- Consolidation of tax assessment bases of several companies with residence in Germany: only possible in event of special contracts between parent company subsidiaries (tax group).
- Loss carry-forward will be cancelled if shareholders change within a period of 5 years; pro rate for a change from > 25% to 50%, complete for a change > 50% of shares.

5. VAT

Standard tax rate: 19%. Reduced tax rate: 7% (re-increase after the reduction in the 2nd half of 2020; continued reduced tax rate in the gastronomy sector).

6. Depreciation

Depreciation of assets acquired since January 1, 2011 is generally linear; temporary reintroduction of declining balance depreciation for acquisitions in 2020 and 2021 for fixed asset movable economic goods.

Buildings:	Commercially used properties (office buildings and factories): generally 3%. Other: generally 2% (At completion after December 31, 1924).
Land:	No depreciation
Machines:	Up to 25% (declining balance depreciation for investments in 2020 and 2021)
Intangible assets:	No depreciation for intangible assets, such as trademarks, copyrights, customer lists, or similar intangible assets, that have not been acquired.
Goodwill:	Generally 6.66%.
Inventory:	Fundamentally no depreciation, but depreciation in certain cases at a lower market value.
Motor vehicles:	Up to 25% (declining balance depreciation for investments in 2020 and 2021)

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7. Capital duty on share issue

None.

8. Transaction taxes

Land and buildings: Real estate transfer tax from 3.5% to 6.5% depending on state.
Shares: None.
Intangible assets: None.

B. Taxation of natural persons

1. Unrestricted tax liability

Individuals (natural persons) who reside in Germany or live and work in Germany for more than 183 days have unrestricted tax liability.

2. Restricted tax liability

Individuals who are not resident in Germany or do not live and work in Germany have restricted tax liability if they earn certain types of income in Germany.

3. Income tax

Tax exemption in 2021 of EUR 9,477 [in 2020: EUR 9,408] for singles, EUR 19,488 [in 2020: 18,816] for married. The progressive tax rate starts at 14% and is 42% for an income exceeding EUR 57,919. If income reaches EUR 274,613, the tax rate is 45%. There are tax reductions for married couples and children. (From 2021, the deductible allowance per child is up to EUR 8388). The solidarity surcharge will be waived from 2021 for taxpayers who are subject to an income tax burden of less than EUR 16,956 / EUR 33,912 (single / co-assessment).

4. Social security contributions

The social security contributions continues to be made out approximately 21% of the employment income. The amounts are borne roughly 50% each by employer and employee up following income limits:

- Health insurance: EUR 64,350 [in 2020: EUR 62,550]
- Pension insurance: EUR 85,200 [in 2020: EUR 82,800] in West Germany
EUR 80,400 [in 2020: EUR 77,400] in East Germany

5. Nationality

Nationality is fundamentally not a criterion for tax liability.

C. Taxation of partnerships

1. With the exception of trade tax, **taxation of profits** is at partner level (transparency principle) with income tax (partner = individual) or company tax (partner = legal entity). Since 2021, exemption from the solidarity surcharge (insofar as exclusively generating business income).
2. **Taxable income rules** are comparable to those for companies.
3. **Trade tax** can be set off against income tax of partners.
4. Tax concession for the **retention of profits** is possible.

The above information is an abridged version of current tax and social security legislation (as at January 2021). We believe the information contained in this publication to be correct at the time of going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result of any item herein. This publication cannot be regarded as a substitute for professional advice. Please do not hesitate to contact us if you require any further information. We are happy to advise you.