

Table of contents

A.	Introduction	11
I.	History of the German Tax System	11
II.	Impact of Constitutional Law on German Tax Law	13
III.	Tax Sovereignty	16
IV.	Distribution of Tax Revenue	17
	1. Federation (Bund)	17
	2. German states (Länder)	18
V.	Joint Taxes	18
VI.	Tax Equalisation (Länderfinanzausgleich)	18
VII.	German Municipalities	19
VIII.	Administration of German Taxes	19
IX.	German Treaty Policy	20
	1. Business profits	20
	2. Interests, royalties, capital gains and dividends	20
	3. Exit tax	21
	4. Exemption versus credit method and switch over clauses	21
B.	Personal Income Tax	22
I.	Liability for Personal Income Tax	22
	1. Taxable persons: residents and non-residents	22
	2. Taxable persons: extended liability of non-residents	23
	3. Taxable persons: partnerships	24
	4. Taxable income and calculation methods	24
II.	Income from Agriculture and Forestry	25
III.	Income from Commercial Trade or Business	25
	1. Definition of commercial trade or business	26
	2. Commercial asset management (immovable property)	27
	3. Dividends and gains from substantial participation	27
	4. Special business expenses	27
IV.	Income from Independent Professional Services	28
V.	Income from Employment	29
	1. Wages and benefits in kind	29
	2. Work-related costs	29
	3. Managing director	30
	4. Expatriates and cross-border workers	30
VI.	Income from Capital Investment/Capital Gains	31
	1. Private investment	31
	2. Business investment	32
	3. Fiscal versus financial accounting	32
	4. Exit taxes for individuals and partnerships	33

VII.	Rental Income (Immovable Property)	33
VIII.	Other Income	34
IX.	Accrual Accounting Method versus Cash Flow Accounting Method	34
X.	Tax Rates	35
	1. Tax rates on income and capital gains	35
	2. Withholding taxes	37
	3. Reduced tax rates	37
XI.	Personal Deductions, Allowances and Credits	38
	1. Tax allowances	38
	2. Work-related expenses and business expenses	39
	3. Special expenses (Sonderausgaben)	39
	4. Extraordinary expenses (außergewöhnliche Belastungen)	40
	5. Deductions for social security provisions	40
	6. Deductions for donations and contributions to charities	40
XII.	Offsetting Losses, Loss-carry-forward, Loss-carry-back	40
XIII.	Assessment	41
C.	Other Taxes on Income and the Solidarity Surcharge	43
I.	Church Tax	43
II.	Solidarity Surcharge	43
III.	Trade Tax	43
D.	Social Security Contributions	44
E.	Corporate Income Tax	45
I.	Liability to Corporate Income Tax	45
	1. Taxable persons: resident, non-resident, dual resident companies	46
	2. Taxable income	47
II.	Tax Exemptions for Capital Gains	49
III.	Restructuring Gains	49
IV.	Losses	50
V.	Exit Taxes for Corporations	51
VI.	Group Taxation	51
VII.	Tax Rates	52
VIII.	Administration	52
IX.	Advance Rulings	53
F.	Trade Tax	54
I.	Taxable Persons	54
II.	Taxable Income	54
III.	Solidarity Surcharge	55
G.	Real Estate Tax	56

H.	Real Estate Transfer Tax	57
I.	Anti-Avoidance Measures	58
I.	General Anti-Avoidance Rules	58
II.	Thin Capitalisation (Zinsschranke)	58
III.	Tax Deduction of Royalties (Lizenzschranke)	59
IV.	Change-in-ownership Rules (Mantelkauf)	60
V.	Country-by-country Reporting	62
VI.	Transfer Pricing and Authorized OECD Approach (AOA)	63
VII.	Controlled Foreign Corporation Rules	64
J.	Value Added Tax (VAT)	66
I.	Taxable Persons	66
II.	Taxable Transactions	67
III.	Rates	67
IV.	Administration	68
K.	Inheritance and Gift Tax	69
I.	Taxable Persons	69
II.	Tax Base	69
III.	Tax Rates	71
IV.	Tax Allowances	72
L.	General Fiscal Code	73
I.	Assessment Procedure	73
II.	Determination and Disclosure Procedure	74
III.	Levy Procedure	75
IV.	Combating Tax Avoidance by Reporting Obligations	75
	Glossary German – English	77
	Glossary English – German	108