

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
B.	Personal Income Tax	20
I.	Liability for Personal Income Tax	20
	1. Taxable persons: residents and non-residents	20
	2. Taxable persons: extended liability of non-residents	21
	3. Taxable persons: partnerships	22
	4. Taxable income and calculation methods	22
II.	Income from Agriculture and Forestry	23
III.	Income from Commercial Trade or Business	23
	1. Definition of commercial trade or business	24
	2. Commercial asset management (immovable property)	25
	3. Dividends and gains from substantial participation	25
IV.	Income from Independent Professional Services	25
V.	Income from Employment	26
	1. Wages and benefits in kind	26
	2. Work-related costs	27
	3. Managing director	28
	4. Expatriates and cross-border workers	28
VI.	Income from Capital Investment/Capital Gains	28
	1. Private investment	28
	2. Business investment	29
	3. Fiscal versus financial accounting	30
	4. Exit taxes for individuals and partnerships	30
VII.	Rental Income (Immovable Property)	31
VIII.	Other Income	31
IX.	Accrual Accounting Method versus Cash Flow Accounting Method	31
X.	Tax Rates	33
	1. Tax rates on income and capital gains	33

Table of contents

2.	Withholding taxes	35
3.	Reduced tax rates	35
XI.	Personal Deductions, Allowances and Credits	35
1.	Tax allowances	35
2.	Work-related expenses and business expenses	36
3.	Special expenses (Sonderausgaben)	37
4.	Extraordinary expenses (außergewöhnliche Belastungen)	37
5.	Deductions for social security provisions	37
6.	Deductions for donations and contributions to charities	38
XII.	Offsetting losses, loss-carry-forward, loss-carry-back	38
XIII.	Assessment	39
C.	Other Taxes on Income and the Solidarity Surcharge	41
I.	Church Tax	41
II.	Solidarity surcharge	41
III.	Trade tax	41
D.	Social Security Contributions	42
E.	Corporate Income Tax	43
I.	Liability to Corporate Income Tax	43
1.	Taxable persons: resident, non-resident, dual resident companies	44
2.	Taxable income	45
II.	Tax Exemptions for Capital Gains	47
III.	Losses	47
IV.	Exit Taxes for Corporations	48
V.	Group Taxation	49
VI.	Tax Rates	49
VII.	Administration	50
VIII.	Advance Rulings	50
F.	Trade Tax	51
I.	Taxable Persons	51
II.	Taxable Income	51
III.	Solidarity Surcharge	52
G.	Real Estate Tax	53
H.	Real Estate Transfer Tax	54
I.	Anti-Avoidance Measures	55
I.	General Anti-Avoidance Rules	55
II.	Thin Capitalisation (Zinsschranke)	55
III.	Change-in-ownership Rules ("Mantelkauf")	56
IV.	Transfer Pricing and Authorized OECD Approach (AOA)	57

V.	Controlled Foreign Corporation Rules	58
J.	Value Added Tax (VAT)	60
I.	Taxable Persons	60
II.	Taxable Transactions	60
III.	Rates	61
K.	Inheritance and Gift Tax	62
I.	Taxable Persons	62
II.	Tax Base	62
III.	Tax Rates	63
IV.	Tax Allowances	64
L.	General Fiscal Code	65
I.	Assessment Procedure	65
II.	Determination and Disclosure Procedure	66
III.	Levy Procedure	66
	Glossary German – English	69
	Glossary English – German	80