Overview VAT and other taxes in Germany

Please find attached an overview of the following other taxes in Germany:

1. Value Added Tax
2. Real Estate Tax
3. Real Estate Transfer Tax

The overview consists of frequently asked questions from clients and provides an initial guidance for the taxation in Germany.

Should you have any further questions which have not been covered in this overview or should you require tax advice, please feel free to contact us.
1. Value Added Tax (VAT)

The VAT is imposed on the sale of goods and the provision of services. German entrepreneurs, which have no small business, generally must register for VAT purpose.

What are the tax rates?
- standard tax rate 19%
- reduced tax rate applied to specific transactions 7%
The VAT law considers certain transactions as exempt from VAT.

What are the exemptions for Small Business?

A small business is operated by the entrepreneur with total sales in the prior calendar year of max. EUR 17,500, not expected to exceed EUR 50,000 in the current calendar year. He has no obligation to pay VAT, but also no entitlement to input VAT deduction.

Also obliged to register in Germany are the nonresidents, which provide taxable supplies of goods and services in or to Germany. A foreign business providing non-taxable or taxable supplies of goods and other services in Germany generally must also register for VAT purpose in Germany. Excepted from this rule is the foreign supplier providing a transaction falling under the German reverse charge.

What are the Filing and payment requirements?

The VAT return must be electronically transmitted.

The trader is obliged to file a monthly preliminary VAT return by the 10th day of the following month. In case the annual tax liability in the prior year did not exceed EUR 7,500, only quarterly preliminary VAT returns must be filed.

The net VAT amount must be paid due to the tax authority. The grace period for payment is 3 days; this is not applicable for cash and check payments.

Upon request the tax office will grant the entrepreneur an extension of the deadline by 1 month for filing an advance VAT return. The entrepreneur must pay a special advance payment.

Since the tax year is the calendar year, the VAT return has to be filed also for the calendar year. This annual VAT return includes the data already reported in the monthly or quarterly preliminary returns and the correction of detected errors. The deadline for submitting the annual VAT return, even if the business year is different to the calendar year, is the 31 May of the following year. On application an extension of the submission deadline is possible. In case a tax consultant is engaged the deadline is automatically extended until the end of the year. The final payment is due within 1 month of the submission of the annual VAT return.

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What is the so called reverse charge mechanism?

Under the reverse charge mechanism the VAT tax liability shifts to the German recipient of a supply of goods or services. Generally, it is required that the recipient of the goods or services is a business. The reverse charge mechanism is mainly applied for the services, work and material supplies (Werklieferungen) to a German VAT registered business. Furthermore supplies within the scope of the Real Estate Transfer Tax Act are also covered by this procedure.

As a result, the foreign supplier has no need to register for VAT purpose in Germany. The VAT must not be shown on the invoice.

When is VAT for the German reverse charge due?

The VAT for a transaction falling under the German reverse charge is due at the end of the month following the month of supply of goods or services. However, if the seller raised the invoice prior to the supply, the date of the issued invoice is the due date of the VAT.

2. Real Estate Tax

The real estate tax is raised from the owner of the property by the municipal in which the real estate is located. Property tax is levied on the value of land, buildings and parts of buildings.

What are the components of the Real Estate Tax?

The annual tax is calculated:

\[
\text{Base Amount} \times \text{Municipal Factor (e.g. Munich: 535%)}
\]

\[
\text{Annual Real Estate Tax}
\]

\[
\text{Assessed Value (assessed value for tax purposes: value of Jan. 1, 1964; Eastern federal states: Jan. 1, 1935 or alternative substitute basis of assessment)} \times \text{Basic Tax Rate (Agricultural: 6.0‰, West Germ.: 2.6-3.5‰; East Germ.: 5-10‰)}
\]

Base Amount

Upon application a waiver of 25% (respectively 50%) of real estate tax can be realized for structural vacancy rates, which result in a reduction in earnings of more than 50% (respectively 100%).

3. Real Estate Transfer Tax

When does the real estate tax occur?

The purchase and sale of German real estate is subject to Land Transfer Tax. The real estate transfer tax amounts between 3.5% and 6.5% of the purchase price in the different German states.
Presently, the real estate transfer tax of the land of Bavaria is 3.5%.

The tax liability arises with the sales contract or any other legal transaction which establish a claim to conveyance of a domestic property. There are however special rules relating to the acquisition of interests in partnerships and shares in corporations with German real estate holdings.

All articles have been compiled to the best of our knowledge. However, no guarantee can be assumed for their correctness, completeness or actuality. Our current statements only reflect excerpts from the legislation, pending legislative proposals, administrative instructions of the finance authorities and other official publications.

It may thus be required in individual cases that you consult the full texts in order to avoid being misinformed, for which we cannot accept any liability. The content of websites we have linked to ours or to which we refer is beyond our control. We therefore exclude any liability whatsoever in this respect.

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