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Client Information
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Overview of German company taxation 2013

Please find attached an overview of the company taxation in Germany:

1. General information
2. Corporate tax
3. Trade tax

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

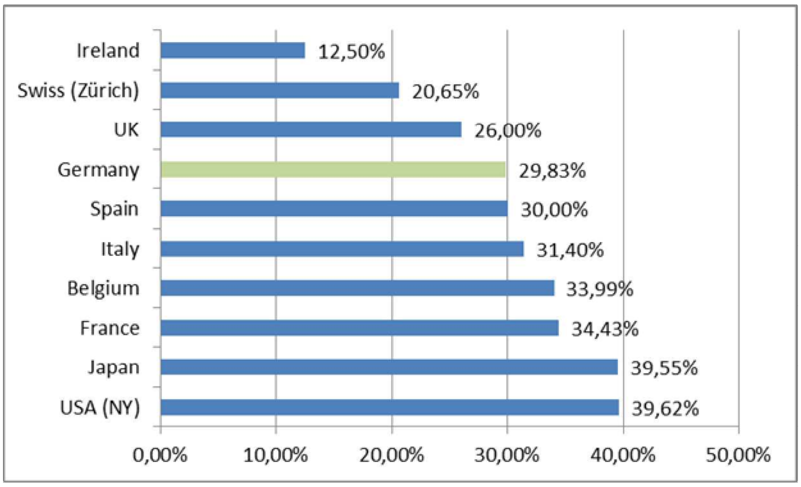
Should you have any further questions which have not been covered in this overview or should you require tax advice, please feel free to contact us.

1. General information

Germany offers a highly competitive tax system in terms of corporate taxation compared with other leading industrial countries.

For German corporations the average total tax burden is roughly 30 percent.

The following table shows the average tax burden for corporations in selected countries 2011 (including corporation tax, solidarity surcharge and trade tax):



Source: German Federal Ministry of Finance, corporate taxation 2011 in international comparisons
Please note, that this is a national average, higher and lower overall German tax rates in certain areas are possible; e.g. in Munich the effective tax rate including corporation tax, solidarity surcharge and trade tax amounts to 33,0%.

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2. Corporate tax

What are the components of the company taxation regarding corporations?

Companies are taxed on different levels.

First level:
Corporate companies, such as the limited liability company (GmbH) or the stock corporation (AG) based in Germany or with an executive board in Germany are subject to corporation tax and the trade tax. The corporate rate of 15% is imposed on taxable income, regardless of whether the income is distributed or retained.

Under consideration of the 5.5% solidarity surcharge, the effective cooperation tax rate is 15.825%.

Second level:
If profits are distributed to the shareholders, the shareholders must in turn pay income tax on these profits.

What is the tax burden for the shareholders?

The tax burden on distributed profits depending on the individual type of shareholder is shown in the following table:

Assumptions:

Income of corporation	100.0
Corporate income tax and solidarity surcharge (15%)	- 15.8
Trade tax (Munich, multiplier 490%)	- 17,2
Income after tax	67.0

Type of shareholder	***Corporation*** (>=10%)	***Partnership*** (partial income system*)	***Individual*** (25 % flat rate tax)
Dividend	67.0	67.0	67.0
Taxable amount of dividend 5%/60%/100% taxable:	3.4	40.2	67.0
- Corp./Income Tax	-0.5	-16.9	-16.8
Income after taxation	**66.5**	**50.1**	**50.2**

* Please note that for simplification a tax rate of 42% was assumed for the partnership owner income.

What is the tax base for dividends distributed to corporations?

For German corporations which hold shared in corporations, the dividends are exempt from tax. Five percent of the tax-exempt dividend income is treated as a nondeductible expense, while the expenses actually accrued are deductible. Consequently, only 95% of the dividends received by a corporation are effectively exempt from tax.

The 95% tax exemption is not granted to typically financial services institutions and banks, which purchase shares with the intention of realizing short term profits.

New rule with effect for dividends received from 1 March 2013:
The amended German law does impose a 10% minimum shareholding requirement for the qualification of the dividend as tax exempted. In case the shareholding is below 10% at the beginning of the year, dividends will be fully taxable and therefore subject to the full corporate income tax rate.

How is the personal income tax for partnerships established?

From a German income tax perspective commercial partnerships such as the civil law partnership (GbR), the general commercial partnership (OHG) and the limited partnership (KG) are generally treated not as legal entities (tax transparent vehicles), since the partners themselves are generally subject to all rights and obligations.
The German tax authority will therefore "look through" the partnership and determine the German tax liabilities at the level of the investors. The partnership respectively the partners are subject to the personal income tax.

The personal tax rate is depending on the level on taxable income of the partner:

	tax rate
Personal exemption (EUR 8,130)	0%
Entry-level bracket rate (from EUR 8,131)	14%
End of tax rate progression (at EUR 52,882)	42%
Maximum tax rate for income over EUR 250,731	45%

What is the tax base for dividends distributed to partnerships?

In case Commercial Partnerships hold shares in corporations as private assets, the income partial rule is applied.
Investment income in the form of dividends is 60% taxable. Income related expenses therefore are deductible at 60%.
The 25% withholding tax that has already been withheld at source will be offset against the tax liability of the beneficial owner of dividends.

What must be considered in the context of interest expenses?

The Interest Deduction Ceiling rule applies to all types of debt financing, including loans within the group and third party debt.
Accordingly business interest expenses are deductible:
- to the amount of the interest income and above this
- only up to 30% of tax EBITDA, regarding the interest expense exceeding the interest income

Nondeductible interest expenses are to be carried forward to the following fiscal years. They increase the interest expenses of the following years (unused interest carry forward).
An EBITDA carry forward for a period is limited to a maximum period of 5 years (EBITDA carry forward).

The Interest Deduction Ceiling does not apply, in case:
- net interest expenses (= interest income minus interest expense) < EUR 3 million
- the business does not belong to a group of companies or
- the business belongs to a group of companies and its equity ratio at the close of the last balance sheet date is equal to or higher than that of the group companies – 2% (escape clause).

What must be considered in the context of losses of the corporation?

Changes in the ownership of corporations could result in a forfeiture of loss for tax purposes under the restriction of the loss deduction rule:

- Proportional loss of the loss deduction
  The acquisition of more than 25% and up to 50% of shares or voting rights within 5 years by a person or affiliated person will result in a pro rata forfeiture of losses.
- Complete loss of the loss deduction
  The transfer of more than 50% of shares or voting rights under the above conditions will result in a complete trigger a complete forfeiture of losses.

The restriction covers the direct and indirect transfer of shares.

Amendment from the year 2010:
The loss deduction is no longer applicable for reorganizations in a group of companies (100% of the shares are held directly or indirectly by the same person).
Furthermore the tax losses can be utilized up to the amount of hidden reserves of the corporation's fully taxable business property.

3. Trade tax

Municipalities impose a trade tax on trade income.
The tax base trade income results from taxable income adjusted by add-backs and deductions.
The trade tax in not deductible as operational expenses within the scope of corporation tax.

How is the trade tax calculated?

Taxable profit as per EStG or KStG

\+ Add-back, for example:
  \+ 25% of the total of: a) the total of debt charges
  b) 20% of the rent and leasehold rent including leasing rates for the use of movable fixed assets owned by a third party
  c) 65% of the rent and leasehold rent including leasing rates for the use of immovable fixed assets owned by a third party
  \+ total loss share in a domestic or foreign OHG, KG or other company (co-partnership)

\- deductions, for example:
  - total profit shares in a domestic or foreign OHG, KG or other company (co-partnership)
  - total profit share in a domestic corporation with a holding quota of at least 15% at the start of the taxation period

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Trading profit

\- Tax exemption of natural persons and partnerships EUR 24,500
\- Trade tax loss carry forward..
Trading profit (rounded down to the full EUR 100)

x 3,5% base rate..

Base amount

x Multiplier (e.g. Munich 2012: 490%)...................................

Trade tax

The effective trade tax rate amounts to 17.15% for a company located in Munich.
The minimum municipal factor amounts to 200%; therefore the minimum effective trade tax rate is 7%

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