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Germany's top court just made a landmark ruling that affects us all. Here's how

The Constitutional Court ruled the Grundsteuer (land tax) for obsolete on Tuesday. Since almost everyone in Germany is affected by the tax, it is worth understanding its relevance.

What is the Grundsteuer?

The land tax is the most important form of income for local governments in Germany, bringing roughly €14 billion in revenue into their coffers every year.

And we all pay it - either directly or indirectly. The tax is levied on everyone who owns a property. But even if you are a tenant you still probably pay, as landlords almost always pass the cost onto tenants in the form of Nebenkosten (supplementary costs) in their contract.

You know that strange difference in Germany between Kaltmiete and Warmmiete? Well some of that is heating costs, but a lot is also the land tax.

Research by the Institute for the German Economy shows that the Grundsteuer on a typical apartment is €299 each year.

Why did the Constitutional Court rule on it?

Landowners have been complaining for years that the tax is unfair - and it's not hard to see why. The tax is based on an estimate of the value of a property which is, er, well, rather out of date.

Properties were last valued for the tax in west Germany in 1964 and in east Germany in 1935. So when your local Finanzamt calculates the tax, they are doing so based on the value of your property over half a century ago.

Property owners argue that values have changed somewhat since then. For instance an apartment that was stuck next to the Berlin Wall in 1964 could now be in one of the trendiest neighbourhoods in Germany.

Why has nothing been done about this before?

The small print of the land tax calls on the federal government to carry out a reassessment of property values every six years. But for the past 50 years governments have always said that new assessments are too time intensive.

Even before Tuesday's ruling though, there was general consensus among politicians across the country that something needed to change. A majority of the federal states therefore suggested a new way of assessing the tax back in 2016.

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The proposal foresaw that property value would be replaced by a calculation based upon size of property, location, transport connections and cost of build.

But both Bavaria and Hamburg blocked the change, fearing that it would lead to a rise in taxes for their inhabitants.

What happens now?

The Constitutional Court has given the federal government until the end of 2019 to come up with a new way of calculating the tax. Once the new law has passed through the Bundestag, the government will have a bridging period of 2024 to carry out the assessments necessary to start levying the tax accordingly.

The courts thus took into account the fact that it could take a long time to reassess all 35 million properties that exist in Germany.

How will the ruling affect us?

It is really hard to say at this point what the ruling means for the normal tax payer. The Constitutional Court rules on the validity of current laws, it doesn't prescribe how new laws should look.

Therefore it is too early to say what a new way of assessing the land tax might look like.

But the *Süddeutsche Zeitung* (SZ) reports that tax could increase for some properties by a multiple of forty if they were to be re-assessed according to value.

Property values have generally risen most sharply in inner city areas and in suburban areas with good transport connections. It is therefore possible that a new way of assessing the tax could lead to higher payments in areas of downtown Berlin and Munich where property prices have risen most dramatically in recent years.

The government reportedly favours a method of assessing the tax which would penalize properties that are unused, thus deterring speculation and freeing up land for badly needed new housing.

Property tax based on outdated values is unconstitutional

Germany's constitutional court ruled on Tuesday that the basis for calculating property tax is unconstitutional as it hinges on outdated valuations, and must be reformulated by the end of 2019, with the new structure to go into effect after 2024.

The ruling followed criticism by the federal finance court, which chided legislators for failing to update the basis for the tax in western Germany, which is linked to 1964 property values.

Property taxes in former East German states are based on 1935 values. This makes property taxes higher in western Berlin than the former east, and means taxes may be low on properties near the former Berlin Wall that have since rocketed in value.

Property tax generates 14 billion euros (\$17.30 billion) in revenues for local authorities annually, and affects not only property owners but also tenants through "additional costs" they pay with their rent, or so-called "Nebenkosten".

Finance Minister Olaf Scholz said the court's ruling on reformulating the tax basis by the end of 2019, with a view to implementation five years later, was "a constructive framework for legislators' work that is nonetheless very ambitious".

He said the government would soon meet state authorities and local communities to hammer out a new formula that also "ensures there are no tax increases for real estate owners, for tenants, for all those involved".

The German DIHK industry association called for a simple, unbureaucratic approach to the new tax structure.

"From industry's perspective the future property tax should not lead to an overall increase in tax rates," said DIHK Managing Director Martin Wansleben.

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Court declares German property tax system invalid in landmark ruling

Germany's existing system to calculate property taxes for 35 million plots of land is invalid and must be reformed by the end of 2019, a widely-publicized ruling on Tuesday by the Federal Constitutional Court concluded.

The Karlsruhe-based court described the so-called basic values under the calculation of German property taxes as "completely outdated." The judges criticized that the current system led to "severe inequities" in the treatment of property owners.

The Federal Constitutional Court justified the short time-window for legislators to adopt a new system with view to a transition period which would last until 2024 before the full implementation thereof. The judges further estimated that the issue had formed the subject of long-standing debate in Germany and that policymakers had hence had "ample time" to consider alternative legislative models.

Under German property taxation law, authorities are tasked with re-assessing basic property values every six years. In practice, however, this process has not occurred again since 1964 due to the high bureaucratic effort involved.

The original criteria for the basic value of properties is derived from data of the year 1964 for Western Germany and 1935 for Eastern Germany respectively. German media reported that the judicial decision to overhaul this circumstance could have far-reaching consequences for the value of properties in Germany owned by national citizens and international investors alike.

Property taxes flow to communal authorities in Germany and contribute substantial and stable funds of around 14 billion euros (17.2 billion U.S. dollars) each year to their coffers. The "grand coalition" partners in the federal government have on paper already agreed to reform the national system of property taxation and announced that they would seek to grant local governments more power to combat property speculation, as well as to limit cost increases for property owners to a minimum.

Nevertheless, the newspaper Frankfurter Allgemeine Zeitung (FAZ) reported on Tuesday that taxes could rise up to sharply for individual owners following a formal re-valuation of the 35 million properties in question under a new. FAZ cited the German Real Estate Association (IZA) and warned against a prospective "tenfold increase in property taxes" on average.

German real estate industry representatives are consequently lobbying for a different type of reform in which the value of properties is measured on the basis of size rather than economic value. Such a system would not entail an "automatic increase mechanism" and would be easier to implement, according to IZA.

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