



## GERMANY - July 2019

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### Germany's grand coalition to present bill on property tax reform

German lawmakers in the ruling coalition have settled a dispute over property tax reform. A bill is expected to be presented to parliament before the summer break.

Germany's grand coalition has reached an agreement regarding property tax reform, according to a joint statement from coalition leaders on Monday.

Lawmakers from Chancellor Angela Merkel's conservative Christian Democratic Union (CDU), its Christian Social Union (CSU) sister party and center-left coalition partner Social Democratic Party (SPD) had met for the first time since the resignation of former SPD leader Andrea Nahles.

The agreement on property tax reform came after a months long dispute. Finance Minister and SPD member Olaf Scholz had presented a value-based model for calculating property tax that would apply countrywide. But Bavarian and other CDU/CSU lawmakers wanted a system based on land area and demanded that the states have the right to deviate from federal requirements.

The details of the agreement have not been disclosed, but the document addresses "all substantial questions" in regards to property tax reform. The coalition intends to put the legislation up for debate in the German parliament before it goes on a summer break so the reforms can be implemented this year.

At 49.4%, Germany has the second highest tax rate among developed countries, according to data from the Organization for Economic Cooperation and Development (OECD). Property taxes make up around 2.7% of the tax share.

Property tax has been a hot button issue since Germany's constitutional court deemed the tax unconstitutional in 2018 because properties are taxed based on their value from the early 1960s (1930s in East Germany).

### Germany Publishes Draft Legislation for Reform of Property Tax Regime

The German Ministry of Finance has published draft legislation for the reform of the country's property tax regime. The reform is needed because of an April 2018 ruling issued by Germany's Constitutional Court, which found that the current property tax regime is unconstitutional because it applies based on different unit values in different regions of the country and the values are outdated (previous coverage).

The draft legislation will, among other things, provide for the harmonization and update of the unit values, some of which date back to 1935. The changes are to be revenue neutral, with the federal rate and municipal coefficients adjusted accordingly to

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take into account the updated unit values. Although neutral overall, some taxpayers will end up paying more property tax and some less as a result of the changes.

As per the Court's ruling, the amendments must be made by 31 December 2019, although the new regime does not need to be applied until after 31 December 2024. As drafted, the reform legislation would apply from 1 January 2025.

### What you need to know about the German property tax reform that affects us all

The government is reforming how it calculates property tax, which most of us have to pay in some form. Here's what you need to know.

#### What's happening?

Last year the Constitutional Court ruled the Grundsteuer (property/land tax) obsolete and gave the government until the end of 2019 to come up with a new way of calculating the tax for Germany's 35 million properties.

#### What exactly is the Grundsteuer and do I have to pay it?

It's the tax on the ownership of land and buildings. And almost all of us 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.

One tax expert told mortgage specialists Hypofriend that property tax for an 80 square meter apartment in Berlin (Altbau, located in a 1,500 square meter property and in good condition) amounts to €260 per year.

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

Owners of whole apartment buildings often have to pay four-digit amounts.

#### Why is it important?

For local governments, property tax is one of the biggest sources of income. It makes up 15 percent of their tax revenue, contributing to the building of community facilities such as roads and swimming pools. According to the Federal Statistical Office, revenue from property tax last year totalled €14.2 billion – all going to local governments.

#### How is the tax currently calculated?

How much you pay depends on the assessed value of the property, the property tax rate and the assessment rate set by the local government where you live. Germany has 11,000 local municipalities, so there are lots of variations on the typical amounts that people have to pay.

For houses with the same basic tax rating for example, the final tax due could end up being €100 in one municipality and €1000 in another.

#### Why does it have to be changed anyway?

There's been debate for years about the fairness of the tax. Why? Well, the tax is based on an estimate of the value of a property which is seriously 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.

It's fair to say the value of homes has 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.

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It's been on the agenda with the government for a while. A majority of states even suggested a new way of assessing the tax back in 2016.

The proposal back then prescribed 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 residents.

How will the tax be calculated in the future?

This will depend on the state where you live. Finance Minister Olaf Scholz (SPD) wants a general rule that will see the value of the land and the average rent play a role in the calculation.

At the same time, however, there is to be an opening clause in the bill which will allow individual states to introduce their own regulations. Bavaria, for example, wants to use only the size of the property for the calculation. No matter which model a federal state chooses, the local governments still have the last word on assessment rates.

Will anyone have to pay more – or less – tax?

This is hard to predict. Scholz has said that the "good news" for taxpayers is that overall there won't be higher rates.

But it is likely that, in individual cases, some people will have to pay more than before, and others less. The details are hard to predict because of the varying collection rates by local governments and how they will be adjusted after the change.

Which model is better for residents in Germany?

This is controversial. With the Scholz model, all houses and undeveloped land would have to be regularly revalued. This is not only costly and time-consuming for local authorities, but as property values and rents continue to rise, the property tax would automatically increase.

But the model proposed by Bavaria also has disadvantages: a farm in the north-east of Bavaria would have to pay just as much tax as a property of the same size but much more valuable in the centre of Munich. Many consider this unfair.

What happens next?

For the reform, the coalition made up of the centre-right Christian Democrats (CDU) and the CSU as well the centre-left Social Democrats (SPD) wants to make changes to the Basic Law. But they need the support of other parliamentary groups in the Bundestag.

The pro-business Free Democrats (FDP) have already stressed that more discussions need to be had. But there's no time for long negotiations as everything has to be in place by the end of this year.

Once the new law has passed through the Bundestag, the government will have a transition period to carry out the assessments necessary to start levying the tax accordingly, with plans to launch the new tax in 2025.

Those five years are needed because it will take some time to reassess all of the country's 35 million properties.

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