Coalition agreement for a new federal government

Around nine weeks after the parliamentary elections, the Social Democrats (SPD), the Greens (Bündnis 90 / Die Grünen), and the Free Democrats (FDP) have agreed on a coalition agreement. The ministries, too, were distributed among the parties. The federal ministry of finance goes to the FDP.

The coalition parties emphasize that fair taxes form the basis for a state’s ability to act. The tax system shall become much simpler for people and companies. Digitalization and de-bureaucratization of the tax administration shall be promoted. Tax evasion and tax avoidance shall be combated more intensely. The coalition agreement provides for a large number of individual tax measures.

In the following, we summarize the most important fiscal proposals of the government coalition.

1. Fiscal policies contained in the coalition agreement

Corporate taxes and international tax law

- “Super depreciation” for climate protection and digital assets acquired or produced in 2022 and 2023.

- Prolongation of the extended loss offset (€10m instead of €1m) until the end of 2023 and extension of the loss carryback to the two immediately preceding years.

- Extension of withholding taxation, in particular through an adjustment of the DTTs, and introduction of a limitation on interest rates to supplement the interest limitation rules in order to avoid undesired tax planning arrangements.

- Intensified combat of tax evasion, tax avoidance, and aggressive tax arrangements.

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– Introduction of a reporting obligation for national tax arrangements of companies with a turnover of more than €10m.

– Constant updating of the EU tax havens list (“EU black list”), implementation of the OECD rules against tax avoidance arrangements in the international exchange of information about financial accounts (CRS and FATCA) as well as advocacy for an extension of the exchange of information.

– Active advocacy for the introduction of the global minimum taxation.

– Film funding: analysis of the introduction of investment obligations and tax incentive models and creation of legal framework conditions in order to structure the tax treatment of film co-productions with legal certainty.

Environment and climate

– Company car taxation: for newly registered vehicles, the current privileging of plug-in hybrid vehicles is to be geared more towards purely electric driving performance.

– Reallocation of the EU plastic tax to manufacturers and distributors.

– Advocacy for the introduction of a Europe-wide aviation tax, pending a European decision on the introduction of a kerosene tax.

– Expiry of the promotion of renewable energies. Analysis and adjustment of all exceptions from the levy for renewable energies and the energy taxes as well as the compensation regulations. No additional burden for companies.

– Implementation of the EU Energy Tax Directive, i.e. adjustment of the taxation levels of diesel and petrol, review of the tax treatment of diesel vehicles in the motor vehicle tax.

Real Estate

– More flexible structuring of the real estate transfer tax by the Federal States, e.g. through a tax exempt allowance for the acquisition of owner-occupied residential property.

– Closing of tax loopholes used by corporate groups in the acquisition of real estate (share deals) for reciprocal financing purposes.

– Increase of the depreciation rate for new residential buildings from 2% to 3%.

– Combat of illegal financing of real estate through suitable measures, i.e. a through proof of taxation required for commercial and private real estate buyers from abroad for any acquisition of real estate in Germany, as well as a ban on purchasing real estate with cash.

VAT

– Further development of import VAT.

– Combating VAT fraud: introduction of a nationwide uniform electronic reporting system for the preparation, verification and forwarding of invoices. Advocacy for a definite VAT system (e.g. reverse charge) at EU level.

Modernization of the taxation procedure and de-bureaucratization

– Simplification of the tax system: advancement of digitalization and de-bureaucratization of the tax administration.

– Reduction of tax bureaucracy, e.g. through higher thresholds and fully digitalized procedures.

– New Bureaucracy Relief Act to provide relief for the economy, citizens as well as the administration.

– Modernization and acceleration of corporate tax audits, in particular through improved interfaces, standardization and the sensible use of new technologies.

– Establishment of a central organizational unit at federal level to ensure the tax administration’s ability to adapt to digital transformation and to provide for a noticeable reduction in tax bureaucracy.

– Strengthening of Customs, the Federal Central Tax Office (BZSt), the Federal Financial Supervisory Authority (BaFin), and the Financial Intelligence Unit (FIU) in order to take strategic action against tax evasion, financial market crimes, and money laundering.

Other

– Extension of the tax regulation with respect to working from home for employees until 31 December 2022 and evaluation.

– Making employee share ownership more attractive, i.e. by a further increase of the tax allowance.

– Increasing the midi job threshold to €1,600 and the mini job threshold to €520.

– Tax-free employer subsidies for household-related services.

– Abolishing existing tax law-related obstacles for donations-
in-kind to charitable organizations by way of a legally safe, bureaucracy reduced and simple regulation.

- Introduction of EU legal forms for associations and foundations, simplification of the equivalence tests to examine the non-profit status from other member states, and thus relaxation for cross-border donations and co-operations.

2. **Comparison with the election programs**

A whole range of fiscal proposals that were included in the election programs of the coalition parties are not mentioned in the coalition agreement. This concerns for instance:

- Lowering of the corporate tax burden to max. 25% (FDP)

- Limitation of the deductibility of manager salaries (SPD, Bündnis 90 / Die Grünen)

- Higher taxation of large assets and high income, e.g. by increasing the tax rate, adjusting inheritance tax, re-introducing wealth tax (SPD, Bündnis 90 / Die Grünen)

- Lowering of the tax ratio for individuals to below 40 % and complete abolition of the solidarity surcharge (FDP)

3. **Outlook**

Even though the party leaders of SPD, Bündnis 90 / Die Grünen and FDP have agreed on a coalition deal, the agreement has not yet been adopted. SPD and FDP will vote on the agreement at a party convention (scheduled for 4th /5th December). Bündnis 90 / Die Grünen will consult their party members. The election of the new Chancellor (Olaf Scholz, SPD) is planned for the week after 6 December.

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Your direct contact persons at KPMG AG Wirtschaftsprüfungsgesellschaft are always at your disposal to answer any question you may have.