

## Tax & Legal Newsflash

### Grand Coalition: Union and Social Democrats reach an agreement

*The Union and Social Democrats have finally clinched a deal and assented to a coalition agreement. The policy document includes a considerable number of matters impacting the tax system.*

Approval was given yesterday to the final draft of the coalition agreement (altogether 177 pages) between the Christian Democratic Union (CDU), the Christian Social Union (CSU) and the Social Democratic Party (SPD). The final draft must be confirmed by the party committees and the members of the SPD will be asked if they wish to enter into the coalition.

According to the draft the main matters addressed relating to taxation were:

#### Income taxation (incl. social security)

- No increased tax burden for citizens; continued application of a bi-annual review of the so-called “cold-progression” and adjustment of income tax tariffs as appropriate.
- Relief for lower- and middle-income earners in particular by way of the solidarity surcharge; gradual abolition of the solidarity surcharge from 2021 through increase of the tax-free thresholds (with a “flex zone”), so that 90% of all solidarity surcharge payers will be exempt.
- Move to increase acceptance of the apportionment procedure for married couples through the provision of better information. This would mean for example that taxpayers with the wage tax withholding category combination of Class III and Class IV would be informed in their tax assessments about the apportionment procedure and about the option to change to the wage tax withholding category combination of Class IV/Class IV.
- Abolition of final withholding tax on interest income through the establishment of a functioning automatic exchange of information; prevention of tax avoidance.
- Review of modifications to the lump-sum tax free allowances for disabled people.
- Reduction of the rate for unemployment benefit contributions by 0.3% percentage points.
- Reinstatement of the parity rule for contributions to the state health insurance from 2019.
- Relief for low-paid workers through social security contributions (increase of “Midi-Jobs”); this is intended to ensure that low pension contributions do not lead to low pensions in later life.

#### Business taxation – changes at EU/International level

- New initiatives should be developed together with France to adapt to the changes and challenges arising at an international level, including those involving the US.
- Support for a common tax base and for the introduction of minimum business tax rates at a European level.
- Amendment of the Foreign Transaction Taxes Act to meet with modern demands.
- Introduction of a financial transaction tax at a European level.
- More measures to combat tax evasion, tax avoidance, unfair tax competition and money laundering on a national, European and international level.



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- Strong expression of support for all efforts to ensure a fair taxation of large affiliated groups on an international level, in particular internet conglomerates; implementation of obligations made under OECD-BEPS.
- Implementation of the EU Anti-Tax Avoidance Directive in favour of the business centre Germany; adaption of the interest-limitation rules and the introduction of regulations for hybrid entities.
- Introduction of measures to provide for a suitable system of taxation for the digital economy.

### **VAT**

- Optimisation of import VAT collection and refund procedures.
- Introduction of legislation to further combat VAT fraud in online trading of goods (imposition of obligations on operators of virtual market places).

### **Real estate transfer tax**

- Implementation (after the conclusion of a review by the Federation and the federal states) of compliant and effective legislation to combat abusive structuring using share deals to avoid the real estate transfer tax (RETT). The federal states could use the additional tax take to reduce tax rates
- Consideration of the introduction of a RETT tax-free threshold for first time purchases of residential real estate by families without any negative effect on income distribution between the federal states.

### **Real estate tax**

- Subject to a review of the constitutional law impact, the introduction of a “real estate tax C” to improve the release of building land (for residential purposes).

### **General**

- Introduction before the end of 2021 of a time-limited special depreciation for the building of private residential property.
- Legal appropriation of all increases in wealth and of all illicit proceeds arising from a criminal offence.
- Simplification of the tax system using the technical resources of modern data processing. Increased opportunities for electronic communication between taxpayers and the tax authorities. Introduction of “pre-filled” tax returns for all taxpayers by the 2021 year of assessment.
- Federal Central Tax Office to be the centre for tax queries from non-residents and for binding rulings.
- Support for the customs office in its various duties (such as the fight against white-collar crime, money laundering and the financing of terrorism), in particular through personnel measures.

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