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By PwC Deutschland | 15. September 2022

Federal Cabinet introduces a simplification of tax legislation and further relief for citizens and companies: Finance Bill 2022, Bill for a temporary reduction in VAT on gas supplies, and an amendment of the Energy and Electricity Tax Act to extend the peak compensation scheme.

On 14 September 2022, the Federal Cabinet approved a draft Finance Bill 2022, a working model for a bill to temporarily reduce the VAT rate on gas supplies made through the natural gas grid, and to amend the Energy and Electricity Tax Act peak compensation scheme.

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The Finance Act 2022 is intended to prepare the way for a transparent and fair tax system. The focus is on tax relief and the necessary modifications to further advance the digitization of the tax administration. At the same time, necessary adjustments are be made to EU law and to the case law of the ECJ, the Federal Constitutional Court and the Supreme Tax Court. Furthermore, the cabinet introduced further measures to ease the burden on citizens and companies, implementing the resolutions of the coalition committee of 3 September 2022.

The measures include:

Finance Act 2022

Preparation of a direct payment channel for future social benefits by using the tax identification number.

A legal basis will be created in the General Tax Code to establish a direct disbursement channel using the tax identification number. This is intended to create a low-bureaucracy and - at the same time - fraud-proof option for paying out future social benefits (such as the climate subsidy) directly to citizens on the basis of the data contained in the Tax ID Number database.

Specifically, Section 139b of the General Tax Code will create a legal basis for storing an account number (IBAN) for all citizens registered in Germany in the Tax ID Number database for the payment of future social benefits. The IBAN stored in the Tax ID Number database will be subject to a strict restrictions.

Time limit on the so-called working from home allowance removed and further modernization of the regulations on working from home

The tax deduction of expenses for working from home (“WFH”) is to be simplified and standardized in the future and adapted to suit the flexibility of the arrangement.

The time limit on applying the WFH allowance of EUR 5 per day will be lifted and the maximum deduction amount will be increased from EUR 600 to EUR 1,000 per annum. The deduction will be available regardless of whether the activity takes place in a corner workplace or in a separate office in the home and regardless of whether it is the centre of professional activity or another workplace exists.

On the other hand, if a separate office in the home is available, the situation will be simplified and a higher flat rate will be applicable.

Increase in the straight-line depreciation rate for residential buildings to 3 percent

The annual straight-line depreciation rate for buildings completed after 30 June 2023 and used for residential purposes will be raised from 2 to 3 percent of the acquisition or construction costs, thus shortening the depreciation period from the current 50 to 33 years. This should help support a climate-friendly new construction initiative.

Full special expense deduction for pension expenses from 2023 onwards

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The full deduction of payments into old-age pension plans will be brought forward to 2023 as envisaged in the coalition agreement; this was previously not planned until 2025. Full deductibility as of 2023 means that pension expenses deductibility will increase by 4 percentage points in 2023 and by 2 percentage points in 2024 when compared with the previous situation. This should reduce taxes for a large number of taxpayers while at the same time, help to avoid the "double taxation" of pensions.

Increase in the lump-sum savings allowance

The lump-sum savings allowance will be increased from EUR 801 to EUR 1,000 for single people and from EUR 1,602 to EUR 2,000 for married couples/civil partners from the 2023 assessment period. Exemption instructions already in place will be automatically increased by almost 25 percent. This is intended to promote private pension plans.

Increase in the so-called "training allowance”

The allowance to compensate for the special needs of an adult child in vocational training who is accommodated away from home (so-called "training allowance") will be increased from EUR 924 to EUR 1,200 per calendar year from the 2023 assessment period.

Tax exemption of the basic pension supplement

There are also plans to exempt from tax the basic pension supplement paid by the statutory pension insurance institutions to eligible pensioners.

The aim of the basic pension supplement is to recognize the lifetime achievements of people who have been compulsorily insured for many years in the statutory pension insurance scheme with a below-average income.

Measures to promote the expansion of photovoltaic systems effective 1 January 2023.

Tax and bureaucratic hurdles to the installation and operation of photovoltaic systems are to be reduced.

Introduction of an income tax exemption

An income tax exemption is to be introduced for income from the operation of photovoltaic systems up to a gross nominal capacity (according to the market master data register) of 30 kW on single-family homes and commercial properties or 15 kW per residential and commercial unit for other buildings used predominantly for residential purposes (e.g. apartment buildings, mixed-use properties).

Extension of the consulting mandate of wage tax assistance associations

Wage tax assistance associations ("Lohnsteuerhilfevereinen") are to be allowed to provide services in the future to their members in relation to income tax if the members operate photovoltaic systems with an installed capacity of up to 30 kW (peak) which are subject to the above-mentioned income tax exemption.

Value added tax: zero tax rate

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In the future, a zero VAT rate is to apply to the supply, intra-Community acquisition, import and installation of photovoltaic systems and electricity storage systems, insofar as the service is provided to the operator of the photovoltaic system and the system is installed on or in the vicinity of private residences/apartments and public and other buildings used for activities serving the public good. Since photovoltaic system operators will no longer be charged VAT on the purchase of the system, they will no longer have to waive the small business regulation to have the input tax amounts refunded. They should thus be relieved of bureaucratic burdens.

Extensive amendment of non-resident taxation of German registered rights

In the area of income subject to limited taxation (i.e. non-resident taxation) there will be a significant change. Royalty income received by a non-resident will generally no longer be subject to taxation in Germany only because the underlying right was registered in a domestic public book or register. This extensive abolition will apply both for the future and - in the case of third-party licenses - also retroactively. With respect to tax havens that are on the EU's so-called blacklist, the tax obligation will be maintained.

Temporary reduction of VAT rate on gas supplies

The bill proposes to reduce the VAT rate on the supply of gas through the natural gas network to 7 per cent from 1 October 2022 to 31 March 2024. The Federal Government expects taxable companies to pass this reduction on to citizens on a 1:1 basis. If it is passed on in full, a corresponding price reduction and thus a noticeable reduction in the burden on citizens should be made possible.

This implements the decision of the coalition committee of 3 September 2022 to take measures to secure an affordable energy supply and strengthen incomes as part of the third relief package.

The aim is to compensate for the substantial rise in gas prices due to the war in Ukraine and the impending price increase due to the levy to finance the replacement costs arising from the shortfall in Russian supplies (known as the gas levy).

As the gas levy is only charged on the supply of gas via the natural gas grid, supplies of gas via other distribution channels, such as tankers or cartridges, will continue to be subject to the regular VAT rate.

Extension of the peak compensation scheme for electricity and energy tax

The peak compensation scheme (“Spitzenausgleich”) which provides for relief on electricity and energy tax will be extended by a further year. This was decided by the coalition committee on 3 September 2022.

This will provide around 9,000 energy-intensive companies with relief of around EUR 1.7 billion. Companies benefiting from the peak compensatory adjustment are also to take measures to reduce their energy consumption.

The extension is aimed at curbing energy price increases, counteracting a further increase in inflation, and thus safeguarding the competitiveness of energy-intensive and internationally competitive companies in

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Germany.

Schlagwörter

Finance Bill, Income Tax Act, Royalty income, basic tax-free allowance, energy tax