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By PwC Deutschland | 18 October 2021

Germany: Social Democrats, Greens and Liberals ready to start coalition negotiations

On 15 October 2021, the leaders of Germany's Social Democrats (SPD), climate-friendly Greens and pro-business Free Democrats (FDP) presented their initial exploratory paper which also includes several tax issues. Tax increases are to be largely avoided, no tax cuts are planned. However, the issues addressed so far may still be subject to changes during future coalition negotiations and it should be expected that further topics might yet be brought up. Thus it is still a long way down the road until a joint coalition agreement can be signed since there are still several tricky questions remaining which will have to be brought in line by the acting team players and their political parties.

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It is a milestone in Germany's political history: To form the first three-party coalition since the 1950s, including the Social Democrats, the Greens and the Free Democrats, the leaders must resolve fundamental differences on taxes, regulation and the relative roles of government and business. Recent initial exploratory talks are widely considered by its participants as having been successful and apparently all parties “found a basis of trust” on which to proceed with further collation negotiations. Though such negotiations might be a trifle (...) more complicated than the most recent talks.

At this stage a number of specific tax-related targets are included in the exploratory paper. Common goal: Income tax, inheritance tax and value-added tax as well as corporate taxes shall not be raised. In detail:

Individual income tax:

- No increase of the income tax.
- Increase of the lump-sum savings allowance to €1000 (presently at €801 for single persons).
- Making employee participation (ownership) programs more attractive, e.g., by increasing the tax-free allowance.
- Increase of income threshold in the area of part-time jobs, i. e. for “**mini-jobs**” and for “**midi-jobs**”, to €520 and €1,600 respectively. The mini-job threshold should be based on a weekly working time of 10 hours at minimum wage conditions. Presently, the threshold for mini jobs is €450 whereas a under a midi job one could earn between €450,01 and €1.300,00 on a sliding contributions scale.

Corporate taxes:

- No increase in income tax, corporate tax or value added tax.
- Stimulating the economy through "super write-offs" for investments in climate protection and digitalization.

Acquisition of real estate / Real Estate Transfer Tax:

- The purchase of residential property acquired for personal use should be encouraged: Since the federal states (“Länder”) have the power to levy the Real Estate Transfer Tax (RETT), it is envisaged to grant them more flexibility in structuring the RETT.
- As a measure to counter-finance the facilitation of the acquisition of residential property, it is intended to close further tax loopholes on share deals in corporations.
- Fighting illegal financing of real estate by appropriate measures. These include proof of taxation for commercial real estate buyers from abroad and a ban on the purchase real estate for cash.

Gift and Inheritance tax / Wealth Tax (Net Worth Tax):

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- No introduction of new property taxes.

Changes at EU level / International aspects:

- Strengthening the fight against tax evasion, money laundering and tax avoidance.
- Commitment for the introduction of a global minimum tax.

Other measures:

- Shaping a modern corporate culture through new forms of businesses, such as the social enterprise (an organization that applies commercial strategies to maximize improvements in financial, social, and environmental well-being) or an asset locked company. However, tax-saving structures are to be avoided in the process.
- Putting an end to the financing of the Renewable Energy Act (EEG) surcharge through the price of electricity.
- Review of an abolition of unnecessary and ineffective subsidies and expenditures which are harmful to the environment and the climate.
- A good R&D environment that generates innovations is considered as essential. The portion of total government spending on R&D should be increased to 3.5 percent of GNP.

Source:

Result of the exploratory talks between SPD, BÜNDNIS 90/DIE GRÜNEN and FDP (exploratory paper of 15 October 2021)

Keywords

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