

By PwC Deutschland | 20 June 2022

# Update: Traffic Light Coalition Agreement

**On November 24, the SPD, the Greens and FDP concluded their coalition talks. The party membership of the three parties have yet to approve the Coalition Agreement. Members of the Green party can vote on the Coalition Agreement and the proposals for personnel in the ten days following 24 November 2021.**

*The SPD will hold an extraordinary federal party conference on December 4, 2021 to vote on the Coalition Agreement. The FDP plans to decide on the coalition agreement on December 5, 2021.*

Here you can find a brief overview of the **main tax-related items** from the "Traffic Light " Coalition Agreement:

### Income tax

- Extension and evaluation of the "tax regime for **Working From Home**" ("WFH") for employees until December 31, 2022 (this probably refers to the **WFH allowance** under Section 4 (5) Sentence 1 No. 6b Sentence 4 Income Tax Act "ITA");
- Stronger focus on purely electric vehicles vis-à-vis **company car taxation**; hybrid vehicles are to be privileged in future only if the pure electric drive option is used predominantly (> 50%) (withdrawal value 0.5%);
- Increase in the **mini-job** and **midi-job** thresholds to 520 euros and 1,600 euros respectively; in future, the mini-job threshold is to be based on a weekly working time of 10 hours at minimum wage conditions;
- Increase in the **lump-sum savings allowance** to € 1,000 or € 2,000 euros in the case of a married couples joint tax assessment;
- Increase the **tax allowance** for the **care bonus** to € 3,000 according to Section 3 No. 11a ITA);
- Increase of the education allowance from € 924 to € 1,200;
- Preventing double **taxation of pensions** (to this end, the full deduction of pension insurance contributions as special expenses is to be brought forward - instead of from 2025 according to the phased plan - and is to take place as early as 2023; in addition, the taxable pension portions are to increase by only half a percentage point from 2023; thus, full taxation of pensions is not to be achieved until 2060);
- Making **employee share ownership** more attractive, inter alia, by further increasing the tax allowance (under Section 3 No. 39 ITA);
- Promotion of household-related services, among other things through an allowance and voucher system and the possibility of accompanying tax-free employer subsidies;
- Further development of family taxation, inter alia by transferring the combination of tax classes III and V to the factor procedure of tax class IV;
- Relief for single parents through tax credit.

### Business taxes

- Introduction of "**super depreciation**" for investment in **climate protection and digitization** in the year of acquisition, which is intended to provide targeted investment incentives in 2022 and 2023;

- Extension of the extended **loss offset** introduced by the Third Corona Tax Assistance Act until the end of 2023 and extension of the **loss carry-back** to the two immediately preceding assessment periods;
- Evaluation and testing of the **Option Model** (introduced as part of the Act to Modernize Corporate Income Tax Law) and of the **Taxation of Retained Earnings** for necessary practical adjustments;
- Introduction of a **limitation on interest rates** to supplement the existing interest limitation rules;
- Modernization and **acceleration of tax audits** (including 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)

### **New housing construction/real estate acquisition/real estate transfer tax**

- Increase straight-line depreciation for new residential construction from two to three percent;
- Facilitation of the acquisition of **owner-occupied housing** through more flexible structuring (e.g., through a tax free allowance) of the real estate transfer tax by the Federal States;
- Reciprocal financing for the easing of acquisition of owner-occupied residential property by closing tax loopholes used in the acquisition of real estate by corporate groups (share deals; relates to a tightening of the rules only recently introduced in the Act To Amend the Real Estate Transfer Tax Act);
- Proof of taxation required for commercial and private real estate buyers from abroad, as well as a ban on purchasing real estate with cash; addresses enabling legal service of documents should be mandatory for an entry in the land register; examination of the feasibility of the using the blockchain for the land register.

### **Inheritance tax / wealth tax**

- The statement contained in the exploratory paper that no new taxes on assets (e.g. wealth tax) would be introduced is now not included in the coalition agreement.

### **Changes at EU/International Level**

- Expansion of **withholding tax** rights in the area of tax treaty law;
- Active advocacy for the introduction of a **global minimum taxation**;
- Active advocacy for the introduction of a Europe-wide aviation tax based on the German model (pending a European decision on the introduction of a **kerosene tax** based on energy content);
- Further development of the import sales tax;

- Introduction of a definitive VAT system (e.g. reverse charge) at EU level;
- constant updating of the "tax havens list".
- Expansion of the exchange of information rules;
- Reduction of differences in insolvency, tax, consumer protection, supervisory and company law rules at EU level.

### Combating tax evasion, money laundering and tax avoidance

- Further intensification of the fight;
- Introduction of a global minimum taxation;
- Extension of reporting obligations for tax arrangements to **national tax arrangements** of companies with a turnover of more than 10 million Euro.

### Other

- All exemptions from the EEG levy and energy taxes as well as the compensation regulations are to be reviewed and adjusted;
- Creation of a modern corporate culture, e.g. through new forms of enterprise such as social enterprises or companies with tied assets; however, tax-saving structures are to be avoided;
- Reduction of, inter alia, tax-law hurdles applicable to donations-in-kind to charitable organizations to prevent the destruction of goods and food waste;
- Legal clarification that a non-profit organization can also engage in political activities without losing its tax privileges when pursuing its tax-privileged purposes;
- Introduction of an **electronic reporting system** for the preparation, verification and forwarding of invoices to prevent the **VAT system** from being susceptible to fraud and to modernize the interface between administration and businesses;
- Reducing (tax) bureaucracy through higher thresholds, fully digitized procedures and by establishing a central organizational unit at the federal level to ensure the tax administration's ability to adapt to digital transformation; introducing pre-filled tax returns (so-called Easy Tax);
- Examining the abolition of superfluous, ineffective and environmentally and climate damaging subsidies and expenditures;
- Expansion and fortification of the personnel and organization of the Ministry of Finance, Customs, the Federal Central Tax Office, the Federal Financial Supervisory Authority and the Financial Intelligence Unit;
- Promotion of the independence of auditors;
- Improved framework conditions for venture capital;

- Improving the quality of data in the **transparency register**;
- Review of the tax treatment of diesel vehicles in the motor vehicle tax.

### Update (21 June 2022)

According to reports from usually well-informed sources, the introduction of the "super depreciation" for investments in climate protection and digitization agreed in the coalition agreement and intended to provide targeted investment incentives in 2022 and 2023 is not planned until the currently limited declining-balance depreciation expires. Declining-balance depreciation was extended by the 4th Corona Tax Assistance Act and applies to movable fixed assets acquired or manufactured after Dec. 31, 2019, and before Jan. 1, 2023. The "super depreciation" is to be structured as an investment premium and limited to two years.

### Source

**Coalition Agreement** of SPD, BÜNDNIS 90/DIE GRÜNEN (Greens) and FDP of 24 November 2021.

### Keywords

Business taxation, Income Tax Act, coalition negotiations