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By PwC Deutschland | 20 December 2024

Update: Former coalition parties to agree on a light version of the Tax Development Act

Social Democrats (SPD), the Green Party (Bündnis 90/Die Grünen) and the Liberals (FDP) have unexpectedly agreed on the implementation of selected measures from the Act for the Further Development of Tax Law (Tax Development Act) already before the early general election in February 2025. Politically highly controversial initiatives, above all the planned introduction of a national reporting obligation for tax structures, are not part of this settlement.

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After the break-up of the traffic light coalition, it was unclear whether and in what shape the Tax Development Act would be implemented during this legislative period. While the SPD and Bündnis 90/Die Grünen had spoken in favor of passing the Tax Act in its original form already this year, FDP and CDU/CSU have refused to give their consent. In particular, both parliamentary groups had firmly rejected the planned introduction of a national reporting obligation for tax arrangements. Selected measures from the Tax Development Act are now apparently to be implemented as a „cut-down version“ prior to the early elections in February 2025. The current plan is for the Bundestag (Federal Parliament) to approve the reduced package in good time. Whether the CDU/CSU-led federal states will ultimately give their approval to the reduced law in the Bundesrat (Federal Council/upper house) is yet unclear.

1. According to what is known at present, the revised Tax Development Act includes the following measures:

- Increase of the basic tax-free allowance in Section 32a (1) Income Tax Act for the 2025 assessment period of EUR 312 to EUR 12,096 (for 2096: EUR 12,348) as well as the other basic income bracket rates (except for the so-called wealth tax rate).
- Increase of the tax-free allowance for children by EUR 30 EUR up to a total of EUR EUR 3,336 (EUR 60 in case of joint assessment, up to EUR 6,672) for the 2025 assessment period; for 2026: increase of EUR 78 up to a total of EUR 3,414 (EUR 156 in case of joint assessment, up to a total of EUR 6,828).
- Increase of child benefit (family benefit) pursuant to Section 66 Income Tax Act from EUR 250 to EUR 255 for 2025; for 2026: EUR 259.
- Increase of the exemption threshold for the solidarity surcharge for assessment periods from 2025 and 2026.

2. On the other hand, **a variety of measures are no longer included** in the revised Tax Development Act, in particular:

Introduction of a national mandatory reporting obligation for tax arrangements.

Tax improvements regarding e-mobility (e. g. introduction of specific declining balance depreciation for purely electrically powered vehicles and comparable zero-emission vehicles).

Improvement of tax depreciation conditions (e.g. removal of record-keeping and documentation requirements for low-value assets; extension of declining balance depreciation in accordance with Section 7 (2) Income Tax Act until 2028).

Extension of the research subsidy through a further increase of the assessment base.

Abolition of the wage tax class combination III/V (available for married couples or couples living in a registered marriage where one partner earns significantly more than the other) and change to the factor method of wage tax class IV.

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Adjustments to the regulations on tax privileged non-profit status (charitable/public-benefit purposes).

Update (20 December 2024)

Today, the Bundesrat (Federal Council) has approved the Tax Development Act. The new legislation can now be enacted and will come into force partly on January 1, 2025, and partly on January 1, 2026.

Update (19 Dec 2024)

Today, the Bundestag passed the Tax Development Act in the version recommended by the Finance Committee. The Bundesrat must now give its final consent in its session on 20 December 2024. Shown above is the adjusted summary of specific regulations included in the Tax Development Act, as agreed by the Bundestag today.

Source (i.a.)**:**

German Parliament, press release of 18 Dec 2024 (Bundestag daily – hib).

Keywords

Tax Reporting, child benefit