Downloaded from Blogs on 15.10.2026 16:34

By PwC Deutschland | 13 August 2026

UPDATE: The Federal Ministry of Finance publishes a draft bill for the Finance Act 2026

On 26 May 2026, the Federal Ministry of Finance (MOF) circulated a draft bill for the Finance Act 2026 to industry associations and invited comments by 12 June 2026. The key legislative changes relevant to businesses are summarised below.

Downloaded from Blogs on 15.10.2026 16:34

Content

CHANGES TO THE INCOME TAX ACT (“ITA”) 3

AMENDMENTS TO THE CORPORATION TAX ACT (“CTA”) 4

AMENDMENTS TO THE MINIMUM TAX ACT (“MTA”) 5

AMENDMENTS TO THE VALUE ADDED TAX ACT ("VATA") 7

AMENDMENTS TO THE GENERAL TAX CODE (“GTC”) 8

AMENDMENTS TO THE RESEARCH ALLOWANCE ACT (“RAA”) 8

FURTHER AMENDMENTS 8

Downloaded from Blogs on 15.10.2026 16:34

CHANGES TO THE INCOME TAX ACT (“ITA”)

Determination of the basic wage for calculating allowances for Sunday, public holiday and night work (Section 3b(2), first sentence, ITA-Draft)

With regard to determining the basic wage for the calculation of tax-free allowances for Sunday, public holiday and night work, the previous administrative practice is to be enshrined in law in response to Supreme Tax Court judgment VI R 11/21 of 10 August 2023. In future, only tax-free employer contributions to occupational pension schemes that constitute current wages are to be included in the basic wage, in addition to the taxable wage. The new rule is to enter into force on 1 January 2027 and apply for the first time to current wages paid for a pay period ending after 31 December 2026.

Allocation of a total purchase price for developed land (Section 6f ITA-Draft; Section 52(14b) ITA-Draft)

A new Section 6f of the Income Tax Act is intended to codify the case law of the Supreme Tax Court, in particular judgment IX R 12/14 of 16 September 2015, on the allocation of the purchase price for developed land. Under the draft, the division of the total purchase price between the land and the building as set out in the purchase agreement is to be used for tax purposes, provided that it does not materially distort the actual value ratios and appears economically reasonable.

If taxation cannot be based on the contractual allocation, the total purchase price must be allocated proportionately to the separately determined land and building values. The valuation must comply with the Real Estate Valuation Ordinance of 14 July 2021, as amended. The MOF is also to publish on its website a guidance document, agreed with the federal states, on simplified purchase price allocation, the results of which may serve as a basis for taxation. A different allocation may be substantiated by submitting a report from a publicly appointed and sworn expert or a person accredited in accordance with DIN EN ISO/IEC 17024.

The new provision is to apply to developed land acquired under a legally binding contract, or an equivalent legal act, concluded after the date on which the Act is published.

Permanent assignment to a place of work (Section 9(4), third sentence, ITA-Draft)

Section 9(4) ITA requires a permanent assignment of an employee to a primary place of work under service or employment law provisions. This is relevant, among other things, for determining the mileage allowance. Under the draft, the period in Section 9(4), third sentence, ITA, after which a permanent assignment is deemed to exist, is to be reduced from 48 to 24 months for domestic work. For a place of work abroad, the period is to remain 48 months. The general application rule in Section 52(1) ITA applies, meaning the amendment will take effect from 1 January 2027.

Taxation of capital gains involving partially exempt investment income (Section 34(2)(1) ITA-Draft)

Downloaded from Blogs on 15.10.2026 16:34

In future, capital gains within the meaning of Sections 14, 14a(1), 16 and 18(3) ITA are to be excluded from the reduced taxation under Section 34 ITA for extrGTCrdinary income to the extent that they include income from the disposal of investment units or special investment units that is wholly or partly exempt under Section 20 Investment Tax Act in conjunction with Sections 21 or 49(1) Investment Tax Act. This is intended to prevent unjustified double preferential treatment.

For capital gains subject to the partial income procedure under Section 3(40)(b) ITA in conjunction with Section 3c(2) ITA, the current version of Section 34(2)(1) ITA already contains a comparable rule. The new provision is to apply for the first time to the 2027 tax assessment period.

Increase in the exemption limit for tax deductions on artistic and similar performances (Section 50a(2), third sentence, ITA-Draft)

From 2027, the exemption limit for withholding tax on income from artistic, sporting, acrobatic, entertainment and similar performances carried out in Germany by persons with limited tax liability is to be doubled to EUR 500 per performance.

Withholding tax relief for licences under Section 50a ITA and shares held in collective custody (Section 50c(2), first sentence, No. 2 and sixth sentence, ITA-Draft; Section 52(47a), third and fourth sentences, ITA-Draft)

The exemption limit in Section 50c(2), first sentence, No. 2 ITA—most recently increased by the Growth Opportunities Act—is to be raised from EUR 10,000 to EUR 100,000. Up to this threshold, a remuneration creditor may claim the required exemption for income subject to limited tax liability arising from the granting of rights within the meaning of Section 50a(1), No. 3 ITA without prior review by the tax authorities and without an exemption certificate. The change is intended to allow significantly more remuneration payers to refrain from withholding tax where taxation is excluded under an applicable tax treaty.

In addition, the exemption procedure for investment income within the meaning of Section 43(1), first sentence, No. 1a ITA from shares held in collective custody under Section 50c(2), sixth sentence, ITA-Draft is to be excluded in future in order to prevent possible abuse through circumvention of dividend taxation. In these cases, only the refund procedure will remain available. This amendment forms part of a broader set of special rules for shares held in collective custody, including Sections 36a and 50j ITA and the exclusion of certificates of permanent overpayment.

The amendments to Section 50c(2) ITA are intended to apply for the first time to income or investment income accruing after 31 December 2026. Exemption certificates previously issued and no longer permissible under the new sixth sentence will expire no later than that date.

AMENDMENTS TO THE CORPORATION TAX ACT (“CTA”)

The provision in Section 8b(6), second sentence, CTA concerning the application of Sections 8b(1) to (5) CTA to income and gains accruing to a commercial enterprise of a legal person under public law, or to a

Downloaded from Blogs on 15.10.2026 16:34

corporation with a public-interest mandate in the banking sector, is to be extended.

Under the Business Location Promotion Act of 4 February 2026, savings banks in the legal form of a corporation that hold an interest in another corporation indirectly via one or more legal persons under public law were already treated as equivalent to savings banks in the legal form of a legal person under public law, particularly with regard to the resulting income and gains. In future, the rule is also to apply where the interest is held via a legal person under private law that is tax-exempt under Section 5 GTC and has acquired legal capacity through state conferral.

The new provision is to apply for the first time to the 2027 tax year, butmay also be applied to earlier tax years at the taxpayer's request.

AMENDMENTS TO THE MINIMUM TAX ACT ("MTA")

Side-by-Side Safe Harbour

As part of the implementation of the OECD Side-by-Side package, a Side-by-Side Safe Harbour is to be introduced in new Section 81a MTA - Draft.

Upon application by the reporting business entity, the tax increase amount for a financial year under Section 54 MTA - Draft is to be reduced to zero for the purposes of calculating both the primary supplementary tax and the secondary supplementary tax, provided that the ultimate parent company is continuously resident throughout the entire financial year in a jurisdiction that has a recognised side-by-side taxation regime for that year. According to the draft, this does not apply where an additional tax increase amount arises.

A jurisdiction is considered to have a recognised side-by-side taxation regime if it has established a suitable domestic and international taxation regime that entered into force no later than 1 January 2029. The regime must also credit recognised domestic top-up taxes in the same way as other taxes on foreign income.

A suitable domestic tax regime exists if it provides for a nominal corporate tax rate of at least 20 per cent, includes a recognised domestic top-up tax or an alternative minimum tax with a nominal rate of at least 15 per cent, and does not create a significant risk that corporate groups will face an effective tax burden of less than 15 per cent on profits from domestic business activities.

A suitable international tax regime exists if it provides for a broad tax base and taxes all foreign income, includes mechanisms to prevent base erosion and profit shifting, and does not create a significant risk that corporate groups will face an effective tax burden of less than 15 per cent on profits from foreign business activities.

Pursuant to Section 99(5)(5) MTA - Draft, the MOF is to determine by statutory order which jurisdictions have a recognised side-by-side taxation regime. According to the current OECD Central Record, only the United States currently has such a regime.

Pursuant to Section 101(5) MTA - Draft, the provision is to apply for the first time to financial years

Downloaded from Blogs on 15.10.2026 16:34

beginning after 31 December 2025.

UPE Safe Harbour

In addition as part of the implementation of the side-by-side package, the UPE Safe Harbour (Ultimate Parent Entity Safe Harbour) is to be introduced in Section 81b MTA - Draft.

Upon application by the reporting business entity, the tax increase amount for a financial year under Section 54 MTA - Draft is to be reduced to zero, for the purposes of calculating the secondary supplementary tax, in respect of the state of residence of the ultimate parent company, provided that the ultimate parent company is continuously resident throughout the financial year in a jurisdiction with a recognised UPE taxation regime for that year. According to the draft, this does not apply where an additional tax increase amount arises.

A jurisdiction has a recognised UPE taxation regime if it has established a suitable domestic taxation regime within the meaning of Section 81a(3) MTA - Draft that was in force and applicable on 1 January 2026.

Pursuant to Section 99(5)(6) MTA - Draft, the MOF is to determine by statutory order which jurisdictions have a recognised UPE taxation regime.

Pursuant to Section 101(5) MTA - Draft, the provision is to apply for the first time to financial years beginning after 31 December 2025.

Extension of the CbCR safe harbour

The deadline for the applicability of the CbCR safe harbour (Country-by-Country Reporting safe harbour) is also to be extended by one financial year as part of the implementation of the side-by-side package.

However, the so-called transitional penalty relief is expressly not to be extended by the amendment to Section 101(3) MTA.

Further amendments to the Minimum Tax Act

The draft also contains a number of further, largely editorial, amendments to the Minimum Tax Act, including:

1. adjustments to the definition of securitisation entities in Section 7(33b), second sentence, MTA ;
2. a reordering of the grounds for exclusion from the QDMTT safe harbour in Section 81(1) MTA ;
3. clarification of the treatment of safe harbours in Section 99(4), first sentence, MTA that does not necessarily reduce the tax increase amount to zero, such as the substance-based tax incentive safe harbour, which has yet to be implemented;
4. references to the new safe harbour provisions;
5. clarification on the use of accounting data in the CbCR safe harbour; and
6. amendments to the definition of “qualified shareholders” in Section 87(10) MTA .

Downloaded from Blogs on 15.10.2026 16:34

The implementation of the remaining elements of the side-by-side package—namely the permanent ETR safe harbour and the substance-based tax incentive safe harbour—is reportedly reserved for a statutory order under Section 99(4), second sentence, MTA. In addition, the OECD is working on further safe harbours and guidance on specific issues.

AMENDMENTS TO THE VALUE ADDED TAX ACT ("VATA")

New rules on VAT groups (Section 2(2)(2) VATA – repealed; Section 2c VATA-E; Section 27(42) VATA-E; Section 1 VAT Implementation Ordinance - Draft)

In the VAT area, the current Section 2(2)(2) VATA is to be repealed and the rules on VAT groups are to be comprehensively revised. In part, they are to be newly codified in Section 2c VATA-Draft.

In addition to legal entities, partnerships may also qualify as member companies under Section 2c(1), first sentence, VATA-Draft if, viewed in light of the overall actual circumstances, they are financially, economically and organisationally integrated into the business of the parent company. This amendment responds to case law of the Court of Justice of the European Union (judgments C-108/14 and C-109/14 of 16 July 2015) and the Supreme Tax Court (judgment XI R 17/11 of 1 June 2016).

Under Section 2c(1), fifth sentence, VATA-Draft, the legal consequences of a VAT group are no longer to arise automatically once the integration requirements are met. Instead, they are to arise only once the parent company submits an additional declaration to the competent tax authority on behalf of itself and the group companies named in the declaration, and only with future effect. In other words, the draft introduces a formal application requirement.

If the substantive legal requirements for a VAT group are not met, or cease to be met, the relevant tax assessments must be corrected retroactively. The legal basis for this is the new correction rule in Section 2c(2) VATA-Draft governing the reversal of incorrectly recognised VAT groups. However, upon a joint and irrevocable application by all parties involved, the reversal may be waived under Section 2c(3) VATA-Draft if this does not create any risk of tax revenue loss.

The declaration under Section 2c(1), fifth sentence, VATA-Draft may be submitted from 1 July 2028 with effect from 1 January 2029. Section 2(2)(2) VATA, in the version applicable on 30 June 2028, is to remain in force until 31 December 2028. Section 2c VATA-Draft is to apply for the first time from 1 January 2029. The new rules on VAT groups are to be accompanied by a new Section 1 VAT Implementation Ordinance.

Further amendments to the Value Added Tax Act

Further changes include:

- restricting gratuitous transfers to the non-business (private) sphere under Section 3(1b) and (9a) VATA-Draft;
- creating an exemption regarding the place of supply for telecommunications, radio and television

Downloaded from Blogs on 15.10.2026 16:34

services, other electronically supplied services, and intra-Community distance sales in Section 3f VATA-Draft; and

- introducing a time limit for the rule on intra-Community transfers (Section 6b(1) and (7) VATA-Draft; Section 28(7) VATA-Draft).

AMENDMENTS TO THE GENERAL TAX CODE ("GTC")

Under the German Tax Code, the interest rate for full interest under Section 233a GTC is to be increased from 0.15 per cent to 0.30 per cent per month for interest periods beginning on or after 1 January 2027.

In addition, with effect for financial years beginning after 31 December 2023, an obligation to correct country-by-country reports is to be introduced in Section 138a(8) GTC-Draft. Failure to make such a correction without undue delay is to constitute an administrative offence punishable by a fine under the revised Section 379(2)(1c) GTC-Draft As part of the revision of No. 1c, the existing grounds for administrative offences—failure to submit, late submission and incomplete submission—are each to be expanded to include the ground of incorrect submission which was previously omitted.

The provisions governing the use of personal data for automated procedures by the tax authorities are also to be extended to cover AI systems within the meaning of the AI Regulation (EU) 2024/1689, including their ongoing operation (Section 29c(1) GTC-Draft).

AMENDMENTS TO THE RESEARCH ALLOWANCE ACT ("RAA")

Under Section 4(3) RAA, the total amount of state aid granted for a research and development project, including research allowances, may not exceed EUR 15 million per company and per project. The Annual Tax Act 2026 is intended to raise this threshold retroactively to EUR 25 million for all claims to research allowances for an R&D project arising on or after 1 January 2026.

In addition, the application procedure is to be made more practical. Among other changes, the draft amendment to Section 12(2) RAA is intended to ensure that an application for a certificate under Section 6 RAA may be submitted no later than four years after the end of the calendar year in which the relevant financial year within the meaning of Section 5(1), first sentence, RAA ends, without the entitlement to a research allowance being forfeited.

FURTHER AMENDMENTS

In addition to the changes outlined above, further amendments are planned to, among other things, the Investment Tax Act, the Platform Tax Transparency Act (for example, to create the conditions for automatic exchange with third countries), the Valuation Act, the Financial Administration Act and the EU Mutual Assistance Act.

UPDATE (13 August 2026)

Downloaded from Blogs on 15.10.2026 16:34

Yesterday the Federal Government reached an agreement on a final text of the draft Finance Act 2026 and the draft bill will now be submitted to the Bundesrat.The official parliamentary document has not yet been issued.

Keywords

Corporation tax, Finance Bill, Income Tax Act, Research & Development (R & D), minimum taxation