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By PwC Deutschland | 03 July 2026

Coalition Committee: Proposed changes to tax law

On 2 July 2026, as part of the Federal Government's Programme for Economic Recovery and Employment, the coalition parties announced the results of the coalition committee’s deliberations. These also include changes to tax law.

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The following changes to tax law, amongst others, are planned:

Small and medium incomes are to be relieved through

- an increase in the basic allowance,
- an increase in the child allowance,
- an increase in child benefit,
- an increase in the employee's flat-rate allowance and
- a flattening of the second progressive tax bracket, which goes hand in hand with a shift in the threshold for the top tax rate.

To finance this relief, the following measures, inter alia, are to be introduced:

- the tax rate (the so-called 'wealth tax') is to be increased to 45 per cent for taxable incomes of 250,000 EUR or more, and to 47 per cent for taxable incomes of 280,000 EUR or more,
- the flat-rate tax on so-called 'mini-jobs' is to be raised from two to five per cent,
- the tax deductibility of tradesmen's services will be reduced from 20 per cent to 15 per cent (i.e. from up to 1,200 EUR to up to 900 EUR per year).

Furthermore, for the tax-privileged Sunday and public holiday allowance, the upper limits under Section 3b of the Income Tax Act are to be raised to an hourly wage of up to 75 EUR with effect from 1 January 2027, whilst at the same time the tax-free allowance within the scope of a collective agreement will be made entirely exempt from social security contributions.

Further planned changes

To make a swift transition from one job to the next more attractive, there are also plans to grant tax relief on **severance payments** if new employment is taken up promptly. The tax benefit is intended to be greater the sooner new employment is taken up. No details have been provided regarding the specific arrangements.

To make **data centre** projects attractive to local authorities, the trade tax system is to be adjusted. A provision is planned that will regulate the allocation criteria for the trade tax base in the case of data centres as an alternative to the standard approach.

In order to relieve the tax payer from unnecessary expense and to simplify the tax return process, an automatically pre-filled digital tax return is to be introduced, along with an obligation for tax offices to issue a tax number to businesses within a maximum of four weeks. Furthermore, to simplify and automate processes, as well as to better prevent errors and combat abuse, the tax identification number is to be used and processed by social security providers without restriction in future The legislative amendment required for this use is to be implemented by 1 January 2027.

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Tax Simplification Act in the autumn?

Further steps to reduce red tape in tax law have also been announced. It is envisaged that the Federal Government will bring together proposals on tax simplification, improving the optional model and speeding up procedures in a Tax Simplification Act by the Autumn of this year.

Source:

Federal Government website: " A Programme for Economic Recovery and Employment"

Keywords

Income Tax Act, personal reliefs, tax exemption