By PwC Deutschland | 27 August 2026

Update: Definition of “developed property” for inheritance tax exemption as family home

Under Section 13 (1) No. 4c of the Inheritance Tax and Gift Tax Act a family home may be transferred tax-free from a parent to a child upon the parent’s death if the parent lived there personally prior to death, the child moves in immediately after the death, and the living area does not exceed 200 square meters. According to the Supreme Tax Court, even a jointly used garden and associated pathways may be eligible for tax exemption.

The term “developed property” as defined in Section 13 (1) Number 4c of the Inheritance and Gift Tax Act (IGTA) must be interpreted in accordance with valuation law rather than civil law, the Supreme Tax Court explained.

The plaintiff inherited from his deceased father. The estate included a residential house that the father had occupied himself prior to his death and into which the son moved after his father’s death. **The tax office** had limited the inheritance tax exemption to the parcel of land on which the residential house was built. It did not take into account the garden and walkway areas used in conjunction with the family home. The plaintiff challenged this view.

This is what **the Supreme Tax Court** had to say:

The term “developed property” within the meaning of Section 13 (1) Number 4c IGTA must be interpreted in accordance with valuation law. It encompasses all areas that the competent tax office at the location of the property determines with binding effect for inheritance tax purposes. Thus, multiple parcels of land that are used jointly - such as a residential building with an adjacent garden or an access path - may qualify for the tax exemption if they are determined as constituting a single economic unit.

This interpretation reflects the actual residential use of the property which the local tax office is best placed to assess. However, heirs must first file a comlaint (appeal) against the determination of the economic unit with the responsible tax office if they disagree with the identification of the tax-exempt property. In subsequent inheritance tax proceedings objections as to the extent (scope) of the property will no longer be successful.

Update (27 August 2026)

In a subsequently published decision of 27 May 2026 II B 41/25 published on 27 August 2026, the Supreme Tax Court addressed two additional aspects of the tax exemption for owner-occupied family homes:

Whether a family home was immediately **designated by the acquirer for his or her own residential use** pursuant to Section 13 (1) Number 4c of the Inheritance and Gift Tax Act must be determined in each specific case through a comprehensive assessment of all facts by the tax court of first instance, acting as the court of fact. In this regard, the Supreme Tax Court clarifies that it is bound by these findings in the context of an appeal proceeding. Challenges to the tax court’s case-by-case assessment do not constitute grounds for granting appeal.

The **six-month grace period for personal use**, as developed by the case law of the Supreme Tax Court, is not a set deadline. The specific circumstances of each individual case, as assessed by the tax court of first instance, are always of decisive importance. The purchaser must designate the residence for personal use as a primary residence “without delay”. In order to obtain tax exemption, the purchaser must resolve to use the home for personal residential purposes within a reasonable time after the inheritance takes effect and must the also actually carry out this intention.

Source: Supreme Tax Court, judgment of 17 June 2026 (II R 27/23) published on 13 August 2026.

Keywords

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