By PwC Deutschland | 20 August 2026

Federal Ministry of Finance publishes draft bill for the Income Tax Reform Act 2027.

The 2027 German Income Tax Reform draft bill ("Einkommensteuerreformgesetz 2027") is aimed at strengthening long-term labour and growth potential, support families, ensure tax fairness, and maintain fiscal stability.

. In particularthe stated goals are to:

- Boost Growth and Labour: Enhance labour force participation and growth potential through tax relief.
- Ensure Fairness: Adjust tax rates to better reflect taxpayers' ability to pay and support small and medium incomes.
- Support Families: Maintain tax-free subsistence levels for adults and children by raising allowances and benefits.
- Strengthen Digital Infrastructure: Support Germany's data centre strategy to boost digital sovereignty and competitiveness.
- Administrative Simplification: Raising the employee lump-sum allowance will reduce bureaucracy for ~1.3 million taxpayers who will no longer need to submit detailed expense claims .

The following summary outlines the key measures

1. Basic Tax-Free Allowance (Grundfreibetrag). The draft increases the basic annual tax-free allowance to secure the tax exemption of the subsistence level. For the tax year 2027, the allowance is to rise by EUR 216 to **EUR 12,564**, followed by a further increase of EUR 336 to **EUR 12,900** in 2028. (Section 32a draft ITA.)

2. Wealth Tax Rates (Reichensteuer). The reform draft proposes several changes to the higher income tax brackets from 2027:

- The second progressive tax bracket would be adjusted so that the **42% tax rate** applies to taxable income from **EUR 70,601 to EUR 249,999**.
- The threshold for the**45% top tax rate** would be reduced from **EUR 277,826 to EUR 250,000.**
- A new wealth tax**top rate of 47%** would apply to taxable income **exceeding EUR 280,000.**

(Section 32a draft ITA.)

3. Child Benefit (Kindergeld). The draft also proposes an increase in monthly child benefit. In 2027, the amount would rise by EUR 8 to **EUR 267 per month**, with a further increase to **EUR 272** planned for 2028. (Section 66 draft ITA and Section 6 Federal Child Benefit Act.)

Thereafter, child benefit and tax allowances for children will rise simultaneously and by the same percentage.

4. Child Tax Allowance (Kinderfreibetrag). For the child tax allowance, the total tax-free amount for a child's subsistence, including care and education, would increase by EUR 300 to **EUR 10,056 in 2027**. A further rise of EUR 180 to **EUR 10,236** is envisaged for **2028**. (Section 32 draft ITA.)

5. Employee Lump-Sum Allowance (Arbeitnehmer-Pauschbetrag). The employee lump-sum allowance would be increased from EUR 1,230 to **EUR 1,430 as of 2027**. This standard deduction is intended to cover employment-related expenses without requiring individual proof, thereby reducing the administrative burden for both the taxpayer and the tax authorities (Section 9a Sentence 1 Number 1a draft ITA.)

6. Tax Treatment of Sunday and Holiday Work. The draft raises the maximum basic hourly wage used to calculate tax-exempt surcharges for Sunday and holiday work from EUR 50 to **EUR 75.** The cap for night work would remain unchanged at EUR 50 per hour.

This is intended to implement an agreement reached by the coalition committee on 2 July 2026. Correspondingly, Sunday and public holiday allowances governed by collective agreements pursuant to Section 1(1), first sentence, No. 1 of the Regulations for the Taxation of Wages – draft - are to be exempt from social security contributions in future to the same extent as they are for income tax; for Sunday and public holiday supplements not covered by collective agreements, as well as for night work supplements, the existing rules on exemption from social security contributions will continue to apply (Section 3b (2) Sentence 1 draft ITA.)

7. Deductions for Craftsman Services. The tax deduction for craftsman services would be reduced under the reform draft. The deduction rate would decrease from **20% to 15%**, while the annual maximum deductible amount would fall from EUR 1,200 to **EUR 900**. (Section 35a (3) draft ITA.)

The new rules are to apply for the first time to the 2027 tax assessment period.

8. Mini-Job Tax Rate. The reform draft would also increase the uniform flat tax rate applicable to mini-jobs from **2% to 5%**. (Section 40a (2) draft ITA.)

The new rules are to apply for the first time to the 2027 tax assessment period.

9. Trade Tax Rules for Data Centres. Finally, the draft introduces a special apportionment rule for data center operators for trade tax purposes. Under this rule, 10% of the apportionment would be based on wages, while 90% would be based on non-redundant electrical nominal connection capacity. (See Section 29 (1) Number 4 Trade Tax Act).

This is intended to ensure a more equitable share of trade tax revenue from data centres for the local authorities where they are located and to increase acceptance of their establishment. The measure is intended to apply to data centres within the meaning of

Section 2(18) of the Energy Efficiency Act with an installed IT capacity of 500 kilowatts or more.

The new regulation is to apply for the first time to the 2027 tax assessment period.

Source:

Published on the website of the Federal Ministry of Finance on 18 August 2026.

Keywords

Income Tax Act, basic tax-free allowance, child benefit, trade tax