

By PwC Deutschland | 01 October 2026

Exit tax tightened for shareholders of small and medium-sized businesses moving abroad

Relinquishing domestic residence could lead to significant tax liability for shareholders of small and medium-sized businesses - even without selling their shares. How come? Under Section 6 of the Foreign Tax Act, such change of residence is treated as a sale of the shares (and taxation of the built-in gains) if certain minimum ownership requirements are met. Here is some information as to the current requirements, the key restrictions and changes in the statute, but nevertheless also some opportunities for taxpayers.

*For German small and medium-sized businesses and increasingly globalized entrepreneurial families, this has become one of the key tax challenges, because even children who already hold shares in the company and move abroad to study may be subject to exit taxation- for example, if they permanently relocate their center of life (center of vital interests), says **Astrid Schade, Partner at PwC specializing in tax advisory services for private clients and succession planning for family businesses.***

I. Three scenarios under which the exit tax in Section 6 Foreign Tax Act (FTA) applies

1. Individuals who have been subject to unlimited tax liability in Germany for a total of at least 7 years within the last 12 years. As of January 1, 2022, this period was reduced from the 10-year period in previous years thereby significantly expanding the group of individuals affected.
2. The provision covers shares in corporations in which the taxpayer has held, at any time during the past five years, a direct or indirect interest of at least 1 percent and which are held as part of the taxpayer's private assets. For owners of family-owned businesses, this requirement is generally met.
3. The exit taxation comes into play because of the ensuing restriction and loss of Germany's right to tax built-in gains from the sale of shares. For example, this may occur through the termination of unlimited tax liability - typically by relinquishing domestic residence or habitual residence, or through a transfer without consideration in the context of inheritance or as gifts.

II. Four changes brought by the ATAD Implementation Act

Since **the ATAD reform in 2022**, the legal situation has become even more challenging. This results in what is known as "dry income". Basically, dry income refers to income that is recognized for tax purposes without any actual cash inflow or liquidity.

1. Elimination of the EU/EEA indefinite deferral of the tax payment. As of 2022, the tax becomes due immediately upon relocation, also within the EU. However, the legal situation should be monitored in light of the judgment of the Supreme Tax Court in the case number I R 35/20 (there, the Supreme Tax Court clarified, inter alia, that the exit tax for individuals moving from Germany to Switzerland is not automatically waived by the EU's free

movement agreement. The court decided that despite the agreement's provisions, the exit tax can still be imposed, as it does not prevent the tax from being set).

2. Payment in installments only if collateral is provided. Upon request, payment may be made in seven equal annual installments (interest-free). However, the tax office generally also requires collateral such as bank guarantees or the pledge of assets.

3. Prerequisites in case of intention to return. Those who move abroad only temporarily and return to Germany within 7 (maximum 12) years may avoid the exit tax retroactively. However, this does not apply if, during their absence, they receive dividend distributions totaling more than 25% of the value of their shares at the time of departure.

4. Where exit tax is deferred, taxpayers are required to report their current address electronically to the appropriate tax office by July 31 of each year. If this deadline is not met, the installment plan may be revoked, and the remaining tax becomes due immediately.

III. Two scenarios where exit tax does not apply

1. GmbH & Co. KG as holding company

Prior to the relocation, the GmbH shares held as private assets are transferred on a tax-neutral basis at book value to a domestic GmbH & Co. KG that is primarily engaged in commercial activities and performs the key functional tasks of the corporate group. Since the KG maintains a domestic permanent establishment and assumes management functions for the group, Germany's right to tax built-in gains (hidden reserves) remains secured under tax treaty.

2. Domestic family foundation

The GmbH shares are transferred free of charge to a domestic family foundation. After the transfer, the founder is no longer the owner of the shares. A subsequent change in the founder's place of residence therefore does not trigger an exit tax. However, the transfer of assets generally gives rise to gift tax which may be reduced due to the tax benefits currently available to businesses.

IV. Summary in brief

In consulting practice, the same pitfalls arise time and again, these should therefore be addressed as follows in advance:

KG Model: It is mandatory to maintain a genuine, management-level permanent establishment in Germany.

Foreign foundations: The direct transfer of shares to a foreign foundation immediately triggers the exit tax under Section 6 (1) Sentence 1 Number 2 FTA. In addition, there is a risk of the additional tax charge (income attribution) under Section 15 FTA.

The recommendation of a particular structure essentially depends on the individual case.

Note: This is in part a free translation from an article published in our German blog *Steuern & Recht* of 29. September 2026. In cases of legal inquiries or doubts, reference should therefore be made to the German blog, which also shows the contact to the PwC professional in charge (**Wegzugsbesteuerung, § 6 AStG: Wie Mittelständler mit rechtzeitiger Strukturierung Steuerrisiken vermeiden**).

Keywords

exit tax, personal residence