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By PwC Deutschland | 16 October 2026

Federal states challenge key details of planned income tax reform

The Bundesrat has proposed targeted amendments to the Federal Government’s income tax reform, focusing on Sunday and public holiday allowances, trade tax rules for data centres, and measures intended to reduce bureaucracy

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Criticism of plans for Sunday and public holiday allowances

In its statement of 16 October 2026, the Bundesrat called for the planned increase in the basic wage ceiling used to calculate tax-free Sunday and public holiday allowances—from €50 to €75 per hour—to be abandoned. Instead, it proposed moderate increases in the allowance rates to 50% for Sunday work and 125% for work on public holidays.

The Federal States argue that the Federal Government's approach would require employers to distinguish between the calculation of tax-free allowances for night work and those for Sundays and public holidays, creating an additional administrative burden.

Trade tax changes for data centres

The Bundesrat broadly welcomes the draft bill's proposed trade tax changes for data centres. Under the new approach, trade tax would be allocated primarily according to energy consumption rather than wages paid at the relevant business premises, potentially directing more revenue to municipalities that host data centres.

However, the Federal States want the legislation to close potential loopholes consistently, including structures involving international tax avoidance or the establishment of only a negligible ancillary business at the site.

Tradespeople's services and holiday supplements

The draft bill provides for a reduction of the deductible share of expenses for tradespeople's services from 20% to 15%, whereby the maximum tax reduction would decrease from €1,200 to €900. The Bundesrat recommends that this amendment be dropped.

Private sales of real property

The Bundesrat proposes abolishing the 10-year holding period for real property sales, according to which sales of privately held real estate are not subject to income tax after a 10-year holding period. Gains arising from the sale of real estate held as a private asset would thus be taxable whatever the holding period. The self-use exemption would be adapted requiring 36 continuous months of own residential use, ending no earlier than 6 months before the sale. The use of the real property by a child, or transfer to a spouse or partner in a divorce or separation settlement, would, subject to meeting certain requirements, also count as self-use. An amendment to Section 52 (31) Income Tax Act would be introduced to avoid an unconstitutional retroactive effect.

Mini-jobs

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The Bundesrat recommend that the proposal to increase the flat-rate tax rate for mini-jobs from 2% to 5% should be abandoned.

Other

The Bundesrat raised no specific objections to the following of the Federal Government's proposals:

Personal Allowances

The basic personal allowance, currently €12,348, should rise to €12,564 in 2027 and €12,900 in 2028. The child allowance should increase from €9,756 to €10,056 in 2027 and €10,236 in 2028. Child benefit should also rise from €259 to €267 per month in 2027 and to €272 in 2028.

Higher taxes on top incomes

The 45% top tax rate should apply to taxable income of €250,000 or more, while a new 47% rate- a so-called "super-rich tax" - should apply from €280,000.

Higher employee lump-sum allowance

The employee lump-sum allowance for income-related expenses should increase from €1,230 to €1,430.

What happens next?

The Bundesrat's proposals will now be forwarded to the Federal Government, which may issue a counterstatement. The Bundestag will then debate the draft bill. If it passes the legislation, the bill will return to the Bundesrat for final consideration.

Source:

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Keywords

Income Tax Act, capital gain, trade tax