

GERMAN PROPERTY TAX INFORMATION

Owners of rental property in Germany, who are non-resident there, are liable to pay taxes in Germany. An Individual is considered non-resident in Germany if s/he does not spend 183 days or more in any tax year (calendar year) in Germany or does not have their primary residence there.

German taxes payable when purchasing a property are as follows:

German Transfer Fees. The transfer of German real estate is subject to a real estate transfer tax (RETT) of 3.5 % on the purchase price of the property.

VAT is charged at the standard rate of 16% (19% from 2007) or a reduced rate of 7%. The transfer of real estate is not subject to VAT, however, it is possible to 'opt to tax' depending on the purchaser's VAT status.

Ongoing property taxes payable in Germany are as follows:

German Income Tax rates vary between 15% - 42%, however non-residents are subject to a minimum rate of 25%. The Tax Office (Finanzamt) estimate the tax liability for the current year based on the final payment for the previous year and require you to make quarterly payments of tax in March, June, September and December.

The final tax liability is determined by filing an Income tax return, which must be filed by the 31May.

Non residents are subject to German withholding tax on income from rental or leasing of certain property. The withholding tax rate is 25% (of gross income without deduction for costs). Non-Residents can avoid withholding tax on rents if they register with the German tax office and elect to be taxed on net rents after costs at rates varying from 15%-42%, similar to residents.

German Corporate Income Tax is payable if property is purchased through a company and is calculated @ 25% on the company profits after costs. No tax is withheld on rental payments to non-resident companies holding German property. A Solidarity tax of 1.25% approx is also applied.

Local German Property tax is a communal tax levied by the local authority in each region. There are 2 types: A applies to agricultural property and B to building land & buildings. The tax is calculated using the unit value (einheitswert) as fixed by the Finance Authority (ie assessed value which is usually lower than the purchase price) and rates depend on the location of the property. Rates in West Germany range from 2.6% - 6%. However the average rate for residential property is 3.5%. A multiplier is then applied to the % calculation.

Other applicable taxes are as follows:

German Capital Gains Tax (CGT) rate is the same as the personal income tax rate. The profits from the sale of private real estate that has been held for more than 10 years is exempt from capital gains tax. Capital gains from the sale of real estate that is re-invested in the purchase of alternative real estate is exempt from tax, subject to certain conditions.

German Inheritance Tax (IHT) and gift tax are assessed on the basis of the taxable property with rates varying between 7% -50%. This is the amount by which the beneficiary is enriched and which is not subject to tax exemption. The value of each asset is determined in accordance with the Valuation Law. The rates of German IHT or gift tax vary and depend on the relationship between the donor and beneficiary and the value of the inheritance/gift.