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Global Tax Alert

German Government announces additional stimulus package in response to COVID-19

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On 3 June 2020, the German Government has agreed on an extensive stimulus package with a cost of €130b. In total, the package includes 57 different measures, aiming at stimulating the economy in the short term to further mitigate the economic impact of the COVID-19 crisis. The package is expected to be subject to discussion in Parliament shortly.

In addition to several tax-related measures, the package includes various non-tax related measures as well, e.g., a decrease of the Renewable Energies Levy (*EEG-Umlage*), stabilization of social security contributions, interim loans for small and mid-cap businesses and further innovation premiums (production of private and environmental cars).

The key highlights of the proposed tax-related measures include:

Reduction of value-added tax (VAT) rate

A temporary reduction of VAT rates for the period from 1 July 2020 to 31 December 2020 from 19% to 16% (respectively 7% to 5% for services subject to reduced VAT). This temporary reduction leads to several administrative challenges which need to be considered by companies, e.g., adaption of IT invoice system to show reduced tax rates. Furthermore, companies not entitled to a full input VAT refund, might consider a postponement of acquisition of goods/receiving services to this period.

Building a better working world

▸ Extension of tax loss carryback

The maximum amount for tax loss carrybacks shall be increased temporarily for 2020 and 2021 losses from €1m to €5m (€10m for joint filings). In order to provide an immediate effect, a recognition of a corona reserve for 2020 tax losses shall be allowed in the tax returns for 2019. The reserve needs to be dissolved by the end of 2022 at the latest. For tax loss carrybacks of 2021 losses, no corona reserve is contemplated to date.

▸ Descending depreciation

Descending depreciation shall be temporarily allowed for fiscal years 2020 and 2021 at a rate of 25% annually for movable fixed assets (limited to 2.5x of the current linear depreciation rate).

▸ Modernization of taxation of partnerships

Partnerships shall have the possibility to opt for an opaque taxation, i.e., besides trade tax (TT) also being subject to corporate income tax at the partnership level instead of income tax at the level of the partners ("check the box" option for partnerships). Furthermore, the maximum amount of TT which, at the level of an individual, can be credited against income tax levied on income subject to TT shall be increased by raising the relevant factor from 3.8 to 4.0.

▸ Tax allowance for research and development (R&D)

To encourage investments in R&D, the eligible base amount for the R&D tax allowance shall be doubled for the period from 1 January 2020 to 31 December 2025 to €4m, leading to a potential maximum tax allowance for R&D of €1m annually.

▸ Postponement of due date of import sales tax

The due date for import sales tax will be postponed to the 26th of the following months. While businesses demanded a solution to set off the import sales tax directly in the monthly VAT filing, under the current provision, companies still need to pre-fund import sales tax until a refund has been claimed in the VAT filing, however for a shorter period of time.

▸ Trade tax add-backs

The exemption for TT add-backs in accordance with Sec. 8 Nr. 1 TTA shall be increased from €100k to €200k. This change would be permanent and not only for a specific period of time.

▸ Child bonus and increase of relief amount for single parents

For every child eligible for the child subsidy, families shall receive a one-off bonus payment of €300, treated analogously to child benefits within the annual tax return. The date of payment of the bonus has not been announced yet. Furthermore, the relief amount for single parents shall temporarily be significantly raised for 2020 and 2021 from €1,908 to €4,000 annually.

▸ Vehicle tax

The tax base for the vehicle tax shall be adapted as of 1 January 2021 for cars which are newly registered, based on the CO_2 emissions. Furthermore, the exemption from the vehicle tax for electric cars shall be extended from 31 December 2025 to 31 December 2030.

▸ Taxation of electric company cars

The maximum value of electric company cars eligible for beneficial taxation under the fringe benefit regime shall be raised from €40k to €60k.

▸ Depreciation of digital assets

An extended depreciation of digital assets is under consideration. Further details are still to be negotiated.

Although the package is extensive and includes several tax-related stimulus measures, several issues raised by businesses and economists have not been considered (e.g., further reliefs for taxation of corporations and partnerships, full elimination of solidarity surcharge, increase of threshold for inferior goods).

It is expected that the stimulus package shall be adopted in an accelerated legislative process before the beginning of the German Parliament's summer break in July. If the federal states request amendments or have additional requests, the terms of the package would need to be renegotiated.

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