

TAXATION IN GERMANY

Foreign nationals living in Germany can become subject to limited or unlimited tax liability. The German tax system is similar to the structures in other countries. Income taxes have to be paid throughout the year and adjustments are then made at the end of the year for possible under or overpayments.

Individual Income Tax

Taxation of an individual's income in Germany is progressive. That means, the higher the income, the higher the tax rate. In 2010 an income of less than EUR 8,004 is tax-free for a single person (EUR 16,008 for a married couple). Incomes up to EUR 52,881 for a single person (EUR 105,762 for a couple) are then taxed with a rate progressively increasing from 15 % to 42 %. Incomes over EUR 52,882 (EUR 105,764) up to EUR 250,730 (EUR 501,460) are taxed at 42 %. For taxable income above that, the income tax amounts to 45 %. In addition to the income tax there is the "solidarity surcharge" of 5.5 % of the tax, which was introduced to finance the German reunification.

Germany allows taxpayers to deduct expenses if the deductions are related to income that is taxable in Germany. Deductions are also granted for circumstances such as children under 18 (or under 25 if still attending school and without earnings), specified insurance premiums, charitable and political contributions to German entities. Extraordinary expenses that are deductible could be e. g. medical expenses or support of relatives. We can tell you more about other deductible expenses and the requirements to earn them.

Furthermore, there are deductions for four social programs; retirement, unemployment, health insurance and long-term nursing care. The employer and the employee bear payments to these programs in equal shares. The employer's share of contributions is not considered as taxable income to the employee and the employee's portion is tax deductible up to a certain limit. A tax adviser can tell you more about other deductions and the requirements to earn them.

If you are subject to German tax, generally most sources of your income are then taxable. The wage tax (referred to as "Lohnsteuer") is retained by being deducted at source from compensa-

tion. Income from other sources (e. g. self-employment, fees for services, rent collections, investments and the like) are covered by the income tax (referred to as “Einkommensteuer”).

What is the difference between the wage tax and income tax? They are collected in different ways: Whereas the income tax has to be paid by the individual himself, the wage tax must be paid directly to the revenue office (“Finanzamt”) by the employer.

The German tax year ends on December 31st. After the end of the tax year a German income tax return (“Einkommensteuererklärung”) must be filed with the local tax authorities by May 31st. This deadline is automatically extended to December 31st if the tax return is prepared by a tax consultant. If you file the return late you may pay penalties and interest. Reviewing the tax return by the tax authorities might last 3 to 6 months. Not every tax payer is obliged to file a German annual income tax return. In general, taxpayers who receive income from employed work only which has been subject to German wage tax withholding are not obliged but they can do this if they want to claim for a refund.

However, depending on the kind and amount of income, a filing obligation exists for certain taxpayers: freelancers and self-employed business, taxpayers with outside income received in the year of relocation to/from Germany, married couples that have tax classes 3 and 5, employees that filed a wage tax relief application.

On our website you can use a tax calculator that can give you an idea of what your Einkommensteuer or Lohnsteuer might be.

[Click here for the calculator](#). This should take you to the Wage Tax Calculator. Click on the top right for the income tax calculator.

Other types of taxes

There are about 30 different types of taxes in Germany. Below you will find a description of some of them you could become a subject to.

Value Added Tax (VAT)

“Mehrwertsteuer” is the tax added to the price of goods and services and known as VAT (Value Added Tax) in the UK and as Sales Tax in the US. The “Mehrwertsteuer” is already included in the posted prices and stores. While the standard current rate is 19 %, a reduced rate is 7 % and applies only to certain products, e. g. printed material. Medical and insurance services are not taxable, as well as export deliveries and services rendered abroad.

Church Tax

“Kirchensteuer” (church tax) must be paid if you belong to one of the main religions and are officially affiliated with one of Germany’s established churches (catholic or protestant). The tax rate is 8 % to 9 % of the income tax/wage tax.

Due to the complexity of the German tax system and its interaction with tax systems of other countries, we would like to recommend you to contact a tax consultant or CPA (“Steuerberater/Wirtschaftsprüfer”) to help you with your tax issues. Moreover you can contact the revenue office (“Finanzamt”) and get advice at no charge. More information about taxation in Germany you can find on the Finanzamt website at www.bundesfinanzministerium.de, provided you speak and understand German.