Client information at the end of 2025

Dear Client,

With the planned **Tax Amendment Act 2025** and the already passed **immediate tax investment program**, the new federal government has introduced a number of tax breaks. The so-called **investment booster** grants generous, albeit temporary, **declining balance depreciation** on movable fixed assets and **special depreciation allowances for electric vehicles**. From 2028, corporate income tax and the tax on retained earnings for partnerships will be reduced.

While restaurateurs will benefit from the permanent reduction in the **VAT rate on food**, employees can look forward to an increase in the **mileage allowance** to a uniform € 0.38 from the first kilometer. Another welcome development is that the federal government intends to increase the prevalence of occupational pensions with the planned **Second Occupational Pension Strengthening Act**. Among other things, the maximum tax-free subsidy for occupational pension schemes will increase to € 360. Another new development is the draft law on **active pensions**, which will allow retirees to earn up to € 2,000 per month tax-free, if they wish to do so.

Important for entrepreneurs is the now **mandatory reporting requirement for electronic cash register systems**. This must be taken to heart in order to avoid providing a gateway for a cash register inspection or a tax audit at this point. In addition, the tax authorities are also looking at new business models: Profits from **crypto transactions** and **influencers'** income are increasingly coming under scrutiny from the authorities. Unfortunately, as is always the case, ignorance of tax matters does not protect you in this regard.

Last but not least, we have been monitoring the decisions of the financial courts and have compiled some interesting information for you from this source.

Best regards
Your ATC team

Please note: This client information cannot replace individual consultation! Therefore, please contact us in good time before the end of the year if you have any questions, particularly on the topics presented here, or if you see a need for action. We will then be happy to clarify with you whether and to what extent you are affected by the changes and show you possible alternatives.

Legal status: November 4, 2025

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Entrepreneurs and managing directors

1 New temporary declining balance depreciation

With the **law for a tax investment immediate program to strengthen Germany as a business location**, which was passed by the Bundestag on June 26, 2025, and by the Bundesrat on July 11, 2025, the German government has launched a **package of tax incentives.** This has set important foundations for a positive development and created investment incentives for companies. The law has been in force since July 19, 2025. At the heart of **the** so-called **investment booster** are new options for declining balance depreciation. These are intended to bring about a faster tax reduction for investments.

Usually, **movable fixed assets**, i.e. goods with a useful life of more than one year, are depreciated using the straight-line method. The annual depreciation amount is calculated by dividing the acquisition or production costs by the number of years of normal useful life.

The **temporary geometric declining balance depreciation method,** that has now been introduced, applies to movable fixed assets that were or will be acquired or manufactured **after June 30, 2025**, **and before January 1, 2028**. **Three times the normal straight-line depreciation rate** can be claimed, but the depreciation rate may not exceed 30 %. The basis for calculating depreciation is always the residual book value from the previous year. This means that the depreciation amounts are quite high at the beginning, which allows tax reduction potential to be realized more quickly.

Example: On January 2, 2026, an entrepreneur purchases a new machine for € 600,000. The normal useful life of the machine according to the official depreciation tables of the tax authorities is 15 years. The depreciation for this machine in 2026 is calculated using the straight-line method and, in comparison, using the declining balance method as follows:

Straight-line depreciation:
Depreciation amount: € 600,000 ÷ 15 years = € 40,000
Depreciation rate: $ 40,000 ÷ $ 600,000 = 6.67 %; constant in all years of use

Declining balance depreciation:
Declining balance depreciation rate = straight-line depreciation rate × 3 = 20.00 %. This means that the declining balance depreciation rate is below the permissible maximum of 30 %. This results in the following depreciation amount:
€ 600,000 × 0.2 = € 120,000

In the first year, the machine can therefore be depreciated by a total of € 80,000 more under the declining balance method than under the straight-line method. This means that tax savings can be realized much earlier.

In subsequent years, it is possible to switch from declining balance to straight-line depreciation, as declining balance depreciation by its nature never results in complete depreciation to zero.

When exactly does the acquisition or production of an asset take place?

The new declining balance depreciation method only applies to economic goods that are purchased or manufactured within the above-mentioned period. Therefore, the exact timing can be of crucial importance. The purchase is deemed to have taken place when **economic ownership** has been **transferred**. This usually occurs at the time of delivery or handover and transfer of risk. The asset must also be ready for use. Whether the asset has already been paid for in full is irrelevant.

Note: In the case of so-called digital assets, full depreciation is possible in the year of acquisition, regardless of the acquisition cost. This includes hardware and software (computers, monitors, printers, accessories), but also manufacturing costs for expensive ERP systems in the company. In addition, the following applies to goods of all kinds: So-called low-value assets (LVA) with acquisition or manufacturing costs of no more than € 800 excluding sales tax (LVA limit) can be depreciated immediately to reduce profits. These must be independently usable movable assets.

2 Declining balance depreciation for electric vehicles

With a new **arithmetic declining balance depreciation method**, **purely electric vehicles** can be depreciated more quickly in the first few years. Here, a fixed percentage of the acquisition costs is claimed as a tax-deductible expense each year. This means that **75 % of the acquisition costs** can be claimed for tax purposes in the year of purchase, regardless of when exactly in that year the purchase was made.

The regulation applies to all purely electric vehicles purchased **after June 30, 2025**. It is limited to purchases made until December 31, 2027. This includes the purchase of both new and used vehicles. In addition to purely electric passenger cars, the purchase of electric trucks and fuel cell vehicles is also eligible for tax relief.

The depreciation is staggered over a total useful life of six years as follows:

Year	Depreciation rate
Year of purchase	75 %
Second year	10 %
Third year	5 %
fourth year	5 %
Fifth year	3 %
Sixth year	2 %

3 Increase gross list price limit for electric cars as company cars

Under the current tax regulations, the taxable **private use of company electric cars** is already heavily favored over combustion engines. This applies both to use by the entrepreneur themselves and to the transfer of the vehicle to employees: In the case of combustion engine cars, **1 % of the gross list price** is added to the monthly salary as a monetary benefit under the flat-rate value method. In addition, 0.03 % of the gross list price for each kilometer driven between home and the primary place of work is also used to calculate income tax. This means that private use is then covered for tax purposes. The gross list price is the price of the vehicle with the respective equipment, including sales tax.

For **purely electric cars,** however, the taxable benefit is calculated at only **0.25 % of the gross list price**. The taxable monetary benefit is therefore reduced to a quarter of that for combustion engine cars. This also applies to the calculation of taxable private use according to the alternative **logbook method**. Under this method, private and business trips are recorded in a logbook that must meet certain formal requirements, and the total costs of the vehicle are then allocated proportionally to private trips as a taxable benefit. Previously, however, the 0.25% rule only applied if the gross list price of the electric car did not exceed €70,000. Under the new regulations, this limit has now been raised to a **gross list price of € 100,000**. This applies to electric cars purchased after June 30, 2025. This means that users of higher-value electric cars can now also benefit from the 0.25% rule.

Note: For a gross list price of over € 100,000, the tax rate for private use is reduced by 50 % compared to a combustion engine car.

4 Reduction in the corporate income tax rate

Corporations such as limited liability companies or stock corporations as well as associations and foundations, are subject to corporate income tax on their income. In order to relieve these legal forms, the corporate income tax rate will be gradually **reduced** from the current 15% **to 10 %** between 2028 and 2032. In detail, the reduction will take place in the following steps:

Year	Tax rate
2028	14 %
2029	13 %
2030	12 %
2031	11 %
2032	10 %

However, companies will still have to pay the **solidarity surcharge**. Although this remains at 5.5 % of the amount of corporation tax, it will also decrease as corporation tax falls. For corporations, **trade tax** will also remain in place unless an exemption or special reduction applies (e.g., for pure real estate management companies). After the final reduction in 2032, the combined tax burden on a corporation will be around 25 % instead of the current level of around 30% (depending on the trade tax rate).

Larger companies that are required to calculate **deferred taxes** (i.e., future tax burdens or -reliefs in their accounting), must already take the gradual reductions into account when valuing deferred tax items. These items are usually determined automatically using special software, which often only works with a fixed tax rate. This may require appropriate technical adjustments and/or manual reworking.

Note: The reduction in tax rates will make corporations a more attractive legal form alternative to sole proprietorships in the future. However, a certain level of profit must still be achieved in order for the move to a corporation to be worthwhile.

5 Improvement in the profit retention for partnerships

In order to partially equalize partnerships with corporations in terms of taxation, there are regulations for **preferential taxation of undistributed profits** (so-called retention). These are taxed at a uniform rate of currently 28.25 %, which may be lower than the shareholder's personal tax rate. This tax rate will now be gradually reduced to 25 % between 2028 and 2032, in line with the reduction in the corporate income tax rate.

Year	Tax rate
2028	27 %
2029	27 %
2030	26 %
2031	26 %
2032	25 %

Since shareholders of partnerships can largely offset trade tax against income tax, the tax rate for retained earnings will approach the reduced rate for corporate income tax from 2032 onwards. If the retained profits are then withdrawn, a subsequent tax of 25% is levied – this rate remains the same. However, in order to achieve complete tax equality between corporations and partnerships, the rules on profit retention for partnerships would have to be fundamentally reformed. According to current information, this is not planned.

6 Improvements to the research allowance

The research allowance serves to support companies in their research projects, regardless of their legal form. The allowance applies to **basic research, industrial research, and experimental development**. The funding covers the labor costs of research and development personnel, the costs of contract research by external companies, and, in the case of sole proprietorships, the entrepreneur's own contributions within certain limits.

The allowance paid to a company is calculated as a percentage of eligible expenses. This is generally 25 %, or 35% for small and medium-sized enterprises (especially start-ups). The maximum assessment basis for eligible expenses is currently € 10 million. For expenses incurred after December 31, 2025, this limit will **be raised to € 12 million**. In addition, additional common and other operating costs will now also be included in the assessment basis for funding if they were incurred after December 31, 2025, and within the scope of eligible projects.

The amount for eligible expenses for the own contributions of sole proprietors and co-entrepreneurs has been **raised** from the previous € 70 **to € 100 per verified working hour**. As before, a maximum limit of 40 working hours per week applies.

Note: The precise allocation of common and other operating costs to eligible projects is likely to pose a certain challenge in practice. In this case, cost centers and qualified estimates should be used.

7 Current status of implementation of e-invoicing

The Growth Opportunities Act introduced the mandatory issuance of new electronic invoices (e-invoices). Entrepreneurs must already be able to **receive e-invoices** (2025) – from a technical point of view, having an email inbox is sufficient for this. There are various transitional regulations for issuing e-invoices, but these are not generally intended for recipients.

An e-invoice is a document that is issued, transmitted, and received **in a structured electronic format** and can be processed electronically. The structured electronic format must comply with the European standard for electronic invoicing (EN 16931).

There are various formats, such as ZUGFeRD or X-Rechnung. E-invoices should not be confused with invoice documents that are simply sent electronically (e.g., as a PDF via email). The difference here is that e-invoices contain additional, evaluable data structures in the background.

Note: The obligation to use e-invoicing generally only applies to domestic businesses in their deliveries and services to each other (business-to-business, B2B). Invoices to private individuals can still be issued in paper form or in a simple electronic format (e.g., PDF).

Small businesses subject to sales tax **are exempt from the obligation to issue e-invoices**. However, they should also be able to receive and archive e-invoices from other businesses. The following timetable applies to e-invoicing:

- **Until the end of 2026**, paper invoices may continue to be exchanged between businesses. Electronic formats that do not comply with the e-invoice format may also still be used, but the invoice recipient must agree to this procedure.
- **Until the end of 2027**, companies may continue to exchange paper invoices or use electronic formats that do not comply with the e-invoice format if the invoice issuer has a maximum turnover of €800,000 in the previous year (2026).
- **From January 1, 2028,** all invoice issuers (except small businesses) must comply with the new e-invoicing requirements.

8 Reporting requirement for electronic cash register systems

Since January 1, 2025, it has been technically possible to report electronic cash register systems directly to the tax authorities. The **reporting requirement** serves in particular to enable the tax authorities to obtain an overview of the systems used, including with regard to technical security measures against cash register manipulation.

The reporting requirement applies not only to electronic cash register systems but also to other **accounting-related recording systems** such as taximeters, odometers, and vending machines. With transition periods, the first notification for all cash register systems purchased before July 1, 2025, had to be made by July 31, 2025.

> **Note:** For systems purchased on or after July 1, 2025, the notification must now be made within one month. If a cash register is taken out of service, the notification must also be made within one month of the cash register being taken out of service.

The necessary data can be transmitted to the tax authorities in the following ways:

- by direct entry in the ELSTER form "Notification of electronic recording systems (section 146a (4) German Fiscal Code)" at www.elster.de
- by uploading an XML file to www.elster.de in "Mein ELSTER"
- by transferring data from software with an ERiC interface

9 Open cash registers in the focus of tax authorities

A so-called open cash register does not require **electronic recording systems**. It can be a simple cash drawer with compartments or a manual cash register. This type of cash register is still permitted and is not subject to the strict regulations that apply to electronic cash registers, such as those relating to technical security devices (TSD) or reporting requirements. Nevertheless, the tax authorities can check the correctness of cash management as part of a **cash register inspection**. This involves unannounced visits by a cash register auditor from the tax office during normal business hours.

In 2025, the Federal Audit Office also called on tax offices to make greater use of cash register inspections. Therefore, an increase in the frequency of these measures is to be expected in the future.

How can open cash registers be made audit-proof?

Business owners can minimize the risks associated with open cash registers by taking the following measures in particular:

- Keep a **cash book** as a closed document. Changes must be traceable. This also applies if software is used for the cash book.
- **Performing** daily **cash counts** and keeping a **cash report**. The cash reports for each day should be numbered consecutively.
- Record cash transactions separately from electronic transactions (e.g., EC payments).
- Cash books must be kept for ten years.

The coalition agreement also stipulates the introduction of **mandatory use of electronic cash register systems for certain companies**. This obligation is to apply from January 1, 2027, and will affect companies with an annual turnover of more than € 100,000. It is still unclear whether this figure refers to annual turnover in general or only to that of specific points of sale.

10 Reduction of the sales tax on restaurant sales

As part of the coronavirus crisis, a **temporary reduced sales tax rate** of 7 % was introduced for meals consumed on the premises in order to support the restaurant industry. From 2024, the tax rate for meals consumed on the premises will be increased back to 19%. Takeaway meals or meals without the option of consumption on the premises will continue to be taxed at only 7%.

With the planned **Tax Amendment Act 2025**, the sales tax rate on food consumed on the premises is to be **permanently reduced from 19 % to 7 %** as of January 1, 2026. This will make differentiation difficulties (e.g., in the case of catering or hospital meals) a thing of the past. These difficulties have arisen because the **delivery of food with service elements** has been subject to the regular sales tax rate.

11 Allocation of sales tax for economy menus

In modern **chain restaurants**, there are often **combo deals** that include food and drinks at a discounted price compared to the individual prices, for a fixed total price. From a sales tax perspective, this can lead to certain difficulties, as the Federal Fiscal Court noted in a ruling in January 2025. This is because a beverage has a sales tax rate of 19 %, while takeaway food is only subject to 7 % sales tax.

In the case under discussion, the restaurant divided the total price among the components of the menu using the so-called **food-and-paper method**. In this method, the proportionate sales tax is determined by dividing the total sales price based on the ratio of the cost of goods for the individual components. However, during an external audit, the tax office divided the price according to the ratio of the individual sales prices, which led to additional sales tax payments.

The Federal Fiscal Court was critical of the food-and-paper method used by the restaurateur. In individual cases, this can lead to inappropriate results, e.g., because a component is weighted higher in terms of its price share than corresponds to the individual sales price. In such cases, it is preferable to allocate the costs in proportion to the individual sales prices. However, if the food-and-paper method leads to appropriate results, it can be used.

Note: Restaurateurs offering corresponding savings deals should check the allocation of goods to different tax rates very carefully. If the application of the food and paper method does not lead to accurate results, VAT corrections may need to be made and a different allocation system chosen for the future.

12 Changes to the small business regulation

On January 1, 2025, the small business regulation for sales tax purposes was reformed. The regulation allows entrepreneurs to be **exempted from their sales tax obligations** (e.g., from submitting advance sales tax returns and from showing sales tax on invoices). The prerequisite is that certain thresholds for taxable sales are not exceeded.

The new small business regulation **from 2025** will apply, if the total taxable turnover in the previous year does not exceed **€ 25,000** (until December 31, 2024: € 22,000) and the turnover for the current year does not exceed **€ 100,000** (until December 31, 2024: € 50,000). The tax authorities have also already commented on the new regulation in a Federal Ministry of Finance letter.

A new feature of the system is that, if the turnover threshold of € 100,000 is exceeded**,** VAT liability arises **in the current year** (i.e., **during the year**). This means that entrepreneurs must keep a constant eye on their turnover figures.

Example: Entrepreneur U is an IT-consultant and applies the small business regulation in 2025. By June 29, 2025, his sales already amount to € 95,000. On July 5, 2025, he completes another project and receives € 5,500. This means he has exceeded the € 100,000 threshold.
Consequence: Even the turnover with which U exceeds the threshold, i.e., the € 5,500, is subject to standard taxation. An invoice with sales tax must therefore be issued for this amount.

Small business threshold in the year of establishment

If the exemption limit of € 25,000 is exceeded in a given year, standard taxation usually applies from the following year. However, there is a special feature in the year of establishment: here, the change to standard taxation takes effect during the year if the € 25,000 limit is exceeded in the course of the first year. Here, too, the turnover that exceeds the threshold is taxable and an invoice with sales tax must be issued.

Note: Only domestically taxable sales are to be included in the respective small business thresholds. This means that sales that are exempt from tax do not play a role in determining the small business threshold. In theory, therefore, they can be generated in any amount without incurring sales tax liability.

13 Reduction in social security contributions for artists

The artists' social security fund offers self-employed artists and publicists' **access to statutory health, nursing care, and pension insurance**. The term "artist" can also include, for example, copywriters and graphic designers. Entrepreneurs who employ freelance artists must pay a certain percentage of the fee to the artists' social security fund. The contribution is levied on all remuneration paid to self-employed artists in the calendar year. From January 1, 2026, the rate will be **reduced** from the current 5.0 % **to 4.9** %.

Employers and Employees

14 Private health insurance contributions for income tax deduction

Contributions for **health and long-term care insurance** affect the amount of income tax to be withheld in the income tax deduction procedure. For those with statutory insurance, the effect of the contributions is determined by the employer or their representative (tax advisor) as part of the payroll accounting. Employees who have **private health insurance** have previously had to provide their employers with proof of their health and long-term care insurance contributions in the form of a paper certificate. From 2026, this proof will be replaced by **electronic data exchange**. The Federal Ministry of Finance commented on this in a letter dated June 2025.

The planned procedure is as follows: The respective insurance company reports the contributions of the insured persons to the Federal Central Tax Office. The Federal Central Tax Office then makes the contributions available to employers for retrieval via the ELStAM procedure, together with the other wage tax deduction characteristics (tax class, child allowances). In this process, data is first provided on the basis of the assessed contributions, after which corrections can still be made.

Revocation of data transmission

In theory, employees have the option **of objecting to electronic data exchange**. In this case, however, employers will still not be allowed to use paper certificates to take contributions into account from 2026 onwards. Pension expenses can then only be taken into account by submitting a tax return.

Abolition of the minimum pension allowance

The previous minimum pension allowance of 12 % of wages – up to a maximum of € 3,000 in tax class III and € 1,900 in the other tax classes – **will be abolished as of January 1, 2026**. For pension expenses to be taken into account in excess of the pension allowance, all contributions (including contributions for other co-insured persons) will be allocated to the policyholder in the main employment relationship stored in each case. The wage tax deduction may then increase for these persons.

Example: Employee A is in tax bracket III and has private health and long-term care insurance. He is the policyholder. His wife B is in tax bracket V and is also insured. To calculate the flat-rate allowance, A is credited with the total health and long-term care insurance contributions for himself and B. Since there will no longer be a minimum flat-rate allowance from 2026 onwards, B's income tax burden will increase in 2026 compared to 2025. In this case, a correction should then be made via the income tax return.

Advance payment of contributions as a tax planning model

The letter of the Federal Ministry of Finance also **confirmed** the **feasibility of a tax planning model**. It can therefore be used in practice to reduce taxes without any problems. If the contributions paid by the taxpayer for private basic health insurance and long-term care insurance exceed the maximum amount of € 2,800 (or € 1,900 for those eligible for subsidies), there is a tax problem: Other pension expenses, such as liability insurance, supplementary health insurance, or private unemployment and accident insurance, are no longer deductible.

However, taxpayers have the option of paying their contributions to private health and long-term care insurance up to three years in advance. Due to **sectional taxation**, this then creates scope for claiming further deductions for other pension expenses in subsequent years.

15 Tax-free employer benefits 2025/2026

Income tax law offers employers a number of instruments with which they can grant employees **salary components that** are exempt from income tax and social security contributions, **primarily in the form of benefits in kind**. In today's tense situation on the labor market, such "benefits" are a clear advantage for every company and help to attract employees. Below, we explain a selection of possible benefits from an employer's perspective.

Provision of cell phones, notebooks, and similar devices

The provision of telecommunications and data processing equipment for business use is possible without incurring tax or social security contributions. This includes, for example, cell phones, laptops, and PCs, as well as corresponding accessories such as printers — for use in a home office, for example. However, the exemption from tax and social security contributions even applies if the devices are used **exclusively for private purposes**. However, ownership must remain with the company, otherwise it would be considered taxable income subject to social security contributions.

Benefits in kind and vouchers

Benefits in kind for employees are tax- and social security-free **up to an amount of € 50 per month**. It does not matter what exactly the employee receives – goods and fuel vouchers are very popular. **Goods vouchers** that can be redeemed with the employer i.e. relating to the employer's own product range, always constitute a benefit in kind. The same applies to vouchers that entitle the employee to make purchases from third parties. The prerequisite is that the maximum amount is not exceeded. Prepaid credit cards are also considered a favorable benefit in kind if the payment or transfer of money to the employee is excluded.

Employee participation

The granting of employee participation in the company or option rights (e.g., for company shares) is possible **up to an amount of € 2,000 per year**, free of tax and social security contributions. In this case, the benefit must be available to all employees who have been employed by the company for one year or more without interruption at the time the offer is announced.

Job ticket and BahnCard

Employer benefits for travel between home and the primary place of work using public transport are tax-free if they are granted **in addition to the salary already owed**. The tax exemption also applies to employer subsidies for the costs of local public transport in general, regardless of the commute to work. For example, the **Deutschlandticket** can be granted to employees free of tax and social security contributions. Similarly, the employer can reimburse the costs of a **BahnCard used for business trips** tax-free if this results in cost savings compared to individual trips for business purposes. This must be demonstrated on the basis of a forecast.

Business lunches

If the business lunch is **primarily** in the employer's **own interest** and serves to improve the work process, it can be granted free of tax and social security contributions. However, the value of the meal per person, including drinks, must not exceed € 60. This is to be distinguished from a "reward meal," for example after a special work assignment. This is generally considered taxable income. However, the employer can apply a flat rate of 30 % income tax, in which case no social security contributions are payable. One way to make the reward meal tax- and social security-free is to use the monthly € 50 exemption limit for benefits in kind described above.

Company parties

For company parties of a social nature, an **allowance of € 110 per person, including VAT**, applies to benefits in kind. Gifts up to a total value of € 60 are included in the € 110 allowance. If this amount is exceeded, the additional expenditure constitutes wages. In this case, a flat-rate income tax deduction is possible—no social security contributions are payable - no social security contributions are payable.

The allowance can be used for **two company parties** per year. In principle, every company party must be open to all employees of the company in order for the tax benefit to apply. However, restriction to certain organizational units (e.g., a branch or a business division) is permissible if all employees working there can participate.

16 Draft law to strengthen occupational pensions

In September 2025, the Federal Cabinet approved a government draft for the **Second Company Pension Strengthening Act**. Company pensions are popular. 18.1 million employees subject to social insurance contributions have an active entitlement to a company pension from their current employer. This corresponds to just under 52 % of all employees.

In order to increase the incentive to set up employer-financed occupational pension schemes, the occupational pension subsidy is to be **raised** from the current maximum of € 288 **to € 360** from 2027. The limit for **additional employer contributions** will be raised from the current € 960 to a maximum of €1,200.

Currently, employees with a gross income of less than € 2,575 per month are eligible for additional **state subsidies for occupational pensions**. This income threshold is to be increased by 3 % annually from 2027 onwards. This is to ensure that employees do not lose their eligibility for subsidies when their income increases. The severance pay limit under Section 3 of the German Act to Improve Occupational Pensions is to be increased if the severance pay is paid into the statutory pension insurance scheme with the employee's consent.

17 Active pension: Continuing to work in old age should become more attractive

Employees who have reached the **statutory retirement age** and wish to continue working will be able to receive **up to € 2,000 per month tax-free** from January 1, 2026. It is irrelevant whether this is an existing job or a new one.

Contrary to what was initially planned, the wages from the tax-free **active pension** will not be subject to the progression clause. The tax exemption, which is limited to € 2,000 per month, will apply to both the wage tax deduction and income tax assessment procedures.

This means that a maximum of € 24,000 per year will be tax-exempt. If tax class VI is applied in the wage tax deduction procedure, the employee must confirm to the employer that the tax exemption has not already been taken into account in his or her first employment relationship (tax classes I to V). The employer must add this confirmation to the employee's wage account.

The actual receipt of a standard old-age pension or pension payments due to reaching retirement age shall not be relevant. This means that there is no need to check whether retirement income is being received. The tax exemption is limited to income from **employment** and, contrary to what was originally planned, shall not apply to profits from self-employed activities.

Note: Although the active pension is exempt from income tax, it is not net pay, as social security contributions are currently required to be paid. The active pension must be recorded in the payroll account and stated in the income tax certificate. The transitional arrangement applicable to those born before 1963 upon reaching the standard retirement age is taken into account in the regulations on active pensions.

18 Pension expenses for cross-border activities

When a German taxpayer works abroad, **social security contributions** may be payable in the country of employment, such as health insurance or pension insurance contributions. In addition, contributions may continue to be paid into the German pension insurance system during the period of employment abroad.

Since not all tax systems are the same, it may happen that the corresponding (possibly proportional) costs cannot be deducted from tax in the foreign country. In many cases, wages earned from working abroad are exempt from taxation in Germany under a double taxation agreement. The principle that pension expenses associated with tax-free income cannot be claimed as special expenses in Germany has applied up to now.

Triggered by various decisions of the Federal Finance Court, the Federal Ministry of Finance has now established new regulations in a letter dated April 3, 2025. According to these regulations, **pension expenses in connection with any income** from EU/EEA countries or Switzerland can be **deducted as special expenses**. The prerequisite is that the country of employment does not allow the expenses to be deducted for tax purposes. In addition, from 2024 onwards, pension expenses in connection with other types of income from EU/EEA countries abroad can also be claimed. This applies, for example, to income from self-employment abroad.

19 Increase in the commuting allowance

Good news for commuters. With the planned Tax Amendment Act 2025, a **uniform mileage allowance of € 0.38** will be introduced from January 1, 2026, starting from the first kilometer. Currently, only 20 kilometers. The allowance applies to journeys to the primary place of work or business premises and in the context of a work-related double household. In addition, the **mobility allowance** will be made permanent, so that taxpayers on low incomes will continue to benefit from the allowance after 2026.

20 Increase in the tax exemption for trainers

Many working people not only have a paid job, but also do voluntary work. The legislator wants to strengthen this commitment with the 2025 Tax Amendment Act: the **tax allowance for trainers** will be increased from € 3,000 to **€ 3,300** and the **flat rate for voluntary work** from € 840 to **€ 960**. This means that part-time activities carried out in the context of **promoting charitable, benevolent**, **or church purposes** will also receive additional tax benefits.

While the trainer allowance is limited to certain activities, e.g., in education or care, the volunteer allowance also benefits people who perform other activities in the non-profit sector. The income is also **exempt from social security contributions** in the amount of the allowance granted.

21 Tougher measures to combat illegal employment

In August 2025, the Federal Cabinet presented the government's draft bill for a **law to modernize and digitize the fight against undeclared work**. The law is intended to provide the legal basis for further optimizing the fight against undeclared work. For example, the list of industries particularly susceptible to undeclared work will be expanded to include hairdressing and cosmetics.

In addition, the powers of investigators are to be expanded, for example with regard to questioning individuals and examining business documents, including in the context of digital evaluations. Furthermore, the draft contains provisions for cooperation with police authorities and the "Financial Control of Illegal Employment" agency. The powers of the customs administration to conduct its own investigations are to be expanded. In serious cases, the production and distribution of false documents is also to be **reclassified from an administrative offense to a criminal offense**, which in future will be punishable by imprisonment of up to five years or a fine.

Capital investors

22 Ministry comments on cryptocurrencies

Although they were originally intended as a means of payment, cryptocurrencies are now more of an **investment vehicle** for many people. The possibilities for investing in these instruments have become correspondingly diverse. The German Federal Ministry of Finance revised its letter on the tax treatment of cryptocurrencies in March 2025 and adapted it to new developments.

In principle, cryptocurrencies are considered **tangible, non-depreciable assets**. This means that they cannot be depreciated evenly over a specific useful life. In the case of sales from private assets, the profit is tax-free after one year. However, if profits from the sale of crypto assets are generated from business assets, these are always taxable, without specific holding periods.

The revised BMF letter also places greater emphasis on the taxpayer's documentation and cooperation obligations. In general, providing the tax office with the public key, which allows the information documented in the blockchain to be viewed, does not exempt the taxpayer from providing additional information on transactions. However, simple structured lists or tables are generally sufficient for this purpose. However, in the area of automated trading, it is hardly possible anymore to present transactions in a truly complete manner.

The tax authorities therefore regard **automated tax reports** as a key means of documentation. The reports evaluate data from the stock exchanges—based on transaction overviews—for tax purposes. Caution is advised with foreign and decentralized platforms.

Due to the possibility of data loss, which has occurred frequently in the past, transaction overviews must be retrieved regularly and in full and **stored locally**. If the platform does not provide overviews on its own initiative, analysis software should be used to create a transaction overview via the public key, from which the tax report is then generated with the aid of reporting software.

Note: Anyone who deals with cryptocurrencies in a business context is also subject to general accounting and record-keeping obligations. Transactions must therefore be recorded individually, completely, correctly, in a timely manner, and in an orderly fashion. Changes to entries (e.g., cancellations) must be documented.

23 Reporting requirements for crypto transactions

A draft law to **implement the** EU's **DAC 8 Directive** is currently under consideration. This directive will impose reporting obligations on providers of crypto assets within the EU (i.e., crypto exchanges and custodians). Providers will be required to report their customers' data to central authorities within the EU**. The first reporting period is scheduled to be 2026.**

This increased transparency in the crypto sector is definitely an incentive to include previously undeclared items in tax returns. Otherwise, serious problems with the tax authorities could arise, including allegations of tax evasion.

24 Interest on capital gains tax for foreign investors

When foreign companies or investors receive dividends from a domestic corporation, the latter must pay **capital gains tax of 25 % plus solidarity surcharge** directly to the tax office as withholding tax. However, the withholding tax can be reduced to € 0 or to a reduced rate in accordance with the rules of a double taxation agreement by way of exemption in advance or by way of reimbursement.

The Federal Fiscal Court has now ruled that **interest** is payable **on** such a **refund claim** if it is based on an incorrect application of EU law. In addition, according to the BFH, refunds should not take longer than three months in simple cases.

However, the reality is different: the Federal Central Tax Office, which is responsible for refund applications, often takes more than a year, even in simple cases. In some cases, interest claims may be possible, especially in the business sector. For current cases, the annual interest rate would then be 1.8 %. Whether such a claim actually exists must be carefully examined; the procedure for asserting it is currently still unclear.

25 Real estate companies can slip into commercial status

The extended trade tax reduction allows real estate companies in the form of a GmbH (limited liability company) to ultimately pay **no trade tax on rental income**. Instead, all profits are taxed at a rate of only 15 % corporate income tax and solidarity surcharge. In this respect, it is a popular **model for real estate investments**, including in the context of private assets.

However, certain rules must be followed: The company may **not** engage in **any commercial activity**. Only a few, very narrowly defined exceptions are permitted, such as certain services to tenants. If, on the other hand, the company sells too many properties in too short a period of time, this may be considered commercial real estate trading, which can then lead to the retroactive assessment of trade tax.

In a case decided by the Federal Fiscal Court in March 2025, a real estate company had sold a total of 15 properties within a period of six to eight years after their respective acquisition. Shareholder C, who held his shares through a holding company, died shortly before the first sales.

Note: Selling more than three properties within five years of acquisition is considered an indication of commercial real estate trading. For sales within a period of more than five to ten years, it depends on the individual case whether an intention to sell can be proven from the outset. Various other indicators play a role here, such as whether the seller's main activity is in the construction industry or whether the transactions are organized in the same way as for a property developer. After a holding period of ten years until sale, commercial real estate trading is generally no longer assumed.

In the case discussed by the Federal Fiscal Court, the tax auditor assumed that the large number of properties involved constituted commercial real estate trading and wanted to retroactively assess trade tax for the rental period. However, there was no evidence in the case that a sale was already being prepared within the five-year period. In addition, the BFH also considered the death of C as an event that argued against a longer-planned sale of the properties.

As a result, in the opinion of the Federal Fiscal Court, there was **no commercial real estate trading**. Accordingly, even if the five-year period is exceeded, special circumstances must still be present in order for commercial activity to be assumed.

The mere sale of a large number of properties after the expiry of the period does not justify the assumption of commercial activity.

26 Condominium: Payments into the maintenance reserve fund

In practice, **condominium owners' associations** form a maintenance reserve as part of the individual parties' maintenance fees, which is then used to pay for necessary repairs. A ruling by the Federal Fiscal Court in January 2025 dealt with the question of whether the owner of a rented apartment can claim his share of the allocation to the reserve as **income-related expenses** in the year of payment.

Previously, this was not legally possible; there had to be a **connection with specific expenses**. Accordingly, only the proportionate withdrawals from the maintenance reserve (possibly only in later years) were tax-deductible expenses; the allocation itself was irrelevant. However, the plaintiff in the case argued that a change in the Condominium Act in 2020 ultimately granted condominium owners' associations full legal capacity. He therefore considered the payment to be a final transfer to another person.

However, the Federal Fiscal Court did not follow this view. For tax purposes, it is still important that there is a specific expense (e.g., for repairs). Only then does the maintenance reserve become tax-deductible in the amount of the proportional withdrawal.

27 Intention to generate income when renting out a vacation apartment

Income from renting and leasing is also subject to tax recognition based on the intention to generate income (or profit). If this intention does not exist, losses (e.g., from renting apartments) may not be recognized.

The Rhineland-Palatinate Finance Court addressed the specific issue of **the partial potential personal use of rented vacation properties** by the owner in a ruling. In this case, the vacation properties had predominantly "incurred" considerable losses over the years. In the Finance Court 's view, an intention to generate income can only be assumed in this case if, in the case of a vacation apartment rented exclusively to vacation guests and kept available for this purpose during the rest of the time, the rental period does not fall significantly (i.e., by at least 25%) below the local rental period for vacation apartments.

When determining the customary local rental periods, it may not only depend on the municipality in which the property is located; individual municipal areas (e.g., designated vacation resorts) may also be relevant. The 25 % limit is not rigid in this case; rather, the more the limit is exceeded, the more other reasons for the vacancy (e.g., renovations) must be taken into account in the assessment.

In the case under discussion, the FG denied the intention to generate income. In the course of the appeal, however, the Federal Finance Court clarified the criteria for assessing the intention to generate income and referred the case back to the Federal Finance Court.

According to the Federal Fiscal Court, the 25 % limit should **not be based on a single year**. Rather, a period of three years must be taken into account, or even five years in cases of uncertainty. This is necessary because in individual years – whether due to renovation, bad weather, or other reasons – the occupancy rate of the vacation home may occasionally fall below the 75 % threshold. The tax office must therefore compare all actual rental days with the local average within this extended review period and calculate whether the actual rental comprised less than 75 % of the local average rental days.

Note: In the case of a long-term rental, it can generally be assumed that the intention is to generate income. In this case, no further evidence needs to be provided. Only in the case of regular vacancies, as in the case of vacation rentals, is further evidence necessary.

28 Instead of real estate donation: purchase price loan as a structuring tool

Rented properties can also be **transferred to the next generation by way of gift**. Each parent has a gift tax **allowance of € 400,000** per child. In addition, residential properties only have to be valued at 90 % of their value. However, it can be problematic if the child generates relatively high income if the property has already been completely depreciated or if the depreciation is relatively low because it is still based on older acquisition or production costs.

An **alternative to a gift** may be for the successors (i.e., the children) **to purchase** the rented property. If the parents have owned the property for ten years, the sale is exempt from income tax, and there is **no real estate transfer tax**, at least when selling to direct relatives. The purchase price can then be set as a loan with arm's length terms, and partial payments are also possible.

The advantage for the purchasers is that new volume is generated for higher depreciation, which has a tax-reducing effect. The debt from the loan can then be waived tax-free at a later date, possibly in ten-year increments. At the time of inheritance, the remaining debt counts toward the taxable acquisition, and inheritance tax allowances can also be used again.

Note: It is important that both the purchase price and the loan are agreed upon at arm's length terms. This arrangement should definitely be accompanied by professional tax advice.

29 Property tax: Is the federal model unconstitutional?

There is no let-up in the controversy surrounding the new property tax rates set to come into effect in 2025. Various cases are pending before the tax courts, and there are also appeals pending before the Federal Fiscal Court. One example is a case before the Düsseldorf Finance Court, which handed down its ruling in February 2025. In this case, the lawsuit was directed **against the valuation rules** for property tax. In particular, the plaintiff considered the orientation towards standard land values to be too imprecise, as these did not take all special circumstances into account. He considered this to be a violation of the principle of equality and therefore unconstitutional. The Finance Court did not share this view, but allowed the appeal before the Federal Fiscal Court.

Note: In general, if there are doubts about constitutionality, the property tax assessment can be kept open with reference to pending Federal Fiscal Court proceedings. This means that a change can be made if the property tax assessment is later found to be unconstitutional.

All taxpayers

30 Loss compensation restrictions on capital income

The Annual Tax Act 2024 **abolished** the restriction on **losses from forward transactions and private bad debts** (e.g., from loans), retroactively for all outstanding cases. The introduction of the regulations began in 2020/2021. Previously, the deduction of such losses was only possible up to € 20,000 per year and only for profits from the same type of investment (i.e., forward transactions or receivables). Both the monetary and material restrictions have been lifted. Corresponding losses can now also be **offset against other positive income from capital assets**.

Losses from the sale of shares can only be offset against corresponding gains from the sale of shares. Losses that are not deductible in a given year must be carried forward. Proceedings against this restriction have been pending before the Federal Fiscal Court since 2020 and have not yet been decided. Corresponding notices are issued with a provisional note; in case of doubt, **an appeal** should be lodged.

31 Influencers targeted by tax investigators

Can you become a business owner more or less unnoticed as a school pupil, student, or even a pensioner? In the digital age, this is quicker than you might think: by working as a so-called influencer. This term can be used to describe certain **owners of social media channels**—for example, those that are entertaining, feature artistic content, or provide information on specific topics. The tax investigation departments of the tax authorities are now increasingly targeting influencers.

Anyone who generates **advertising revenue** as part of their work as an influencer, receives valuable **benefits in kind** from corporate partners, or offers **paid channel memberships** is engaged in a commercial activity. This must be reported to the tax office. And this is where the problem lies: influencer activities often start out as a hobby, and the often-young channel operators are unaware that they have tax obligations. Another problem area is corporate partnerships in which influencers receive gifts in kind in order to advertise the companies giving them. These goods are generally considered **income** and must be valued accordingly. Exceptions may apply if the goods are consumed during testing or advertising (e.g., face cream) or if the goods are damaged or worthless.

Some well-known influencers have now moved to low-tax countries or founded companies there. However, in practice, it is not so easy to escape German tax liability. If you still have premises at your disposal in Germany (e.g., an apartment in your parents' house), you may be subject to unlimited tax liability. In this case, you would once again be liable for tax in Germany. In addition, intangible assets in particular could be subject to tax when you move away (e.g., trademark rights or your customer base).

Note: In summary, influencers should keep an eye on their tax obligations. If in doubt, it is essential to seek tax advice, as a possible accusation of tax evasion can have far-reaching consequences.

32 Gifts to heirs – with a catch

Through targeted gifts, it is possible to transfer assets tax-free every ten years up to the respective **gift tax allowances**. For example, the **allowance for your own children** is € 400,000 per **child every ten years**. This simple arrangement allows € 800,000 to be transferred to each child tax-free within 20 years.
€ 400,000 per child every ten years. Within 20 years, this simple arrangement allows € 800,000 to be transferred to each child tax-free. **Inheritance tax** can also be **avoided** by the testator transferring parts of their assets to their future heirs during their lifetime.

In a case decided by the Federal Fiscal Court in December 2024, a father had made use of this option and transferred 2/5 co-ownership of a rental property to a child. The problem was that the father still had an outstanding loan liability in connection with the property.

However, the child had not assumed this debt. The tax office assumed that only 3/5 of the interest on this debt was deductible, i.e., the amount corresponding to the father's share in the new "father-son property community."

The Federal Fiscal Court confirmed the tax office's view. The gift had severed the original connection between the debt and the proportionate share of the property that had been gifted. In concrete terms, this meant that 2/5 of the debt interest was effectively **lost for tax deduction purposes**. If the son had agreed to take over the debt, he would have been able to continue deducting the debt interest.

33 Maintaining two households in a single-person household

In short, dual residence is characterized by a taxpayer moving from their center of life to an **apartment at their place of employment**, while retaining the apartment at their center of life (i.e., the place of personal ties, such as family, club activities, etc.). The costs for the apartment at the place of employment can be claimed for tax purposes, as can additional meal expenses and one trip home to visit family per week.

Time and again, disputes arise with the tax authorities when the (main) residence at the center of one's life is located in **the home of relatives**, as was the case in a ruling by the Federal Fiscal Court in April 2025. The prerequisite for claiming the costs of maintaining two households is that the taxpayer maintains **his or her own household** at the center of his or her life and is not (still) integrated into the parents' household.

In the case in question, the plaintiff had an apartment on the upper floor of his parents' house, which indisputably enabled him to be self-sufficient. His parents lived separately on the ground floor. The plaintiff had concluded a gratuitous usage agreement with his parents. This granted him a secure legal position with power of disposal. The tax office and the tax court did not want to recognize this agreement. However, the Federal Fiscal Court took a different view, ruling that a **rental agreement for consideration** was **not a prerequisite** for the necessary power of disposal over the rooms.

In the opinion of the Federal Fiscal Court, a usage agreement is generally sufficient for the recognition of a separate household and thus also of the maintenance of two households. If a separate household already exists at the place of residence, it is no longer relevant whether the taxpayer contributes to the overall living expenses of the household. The tax office is then not even required to request corresponding evidence.

Note: Only if the taxpayer does not have his or her own household must he or she prove that he or she contributes to the costs of living in the joint household with his or her parents. In other words, there must be some kind of shared living arrangement with the parents. The corresponding expenses and their payment should be documented. Then the double household can be recognized.

The agreement with parents to use their home free of charge is likely to be an interesting option, especially for many young taxpayers. However, the premises at the center of their life must also actually allow them to run their own household (for example, by having their own kitchen and bathroom). The agreement must also be entered into in good faith. This means that the parents must no longer actually use the rooms for their own purposes.

own kitchen and bathroom). The agreement must also be entered into in good faith. This means that the parents must no longer use the rooms for their own purposes.

34 Child benefit: Minimum duration of initial vocational training

After completing initial vocational training or a first degree, a child of legal age will only continue to be eligible for child benefit if they are **not** in **gainful employment**. However, gainful employment with a weekly working time of up to 20 hours, a training contract, or marginal employment are not detrimental.

A case before the Nuremberg Finance Court dealt with the question of whether a four-month training course as a paramedic could be considered initial training. The family benefits office took this view and refused to continue paying child benefit to the plaintiff when she later took up a course of study.

The Finance Court ruled in favor of the plaintiff. It assumed that a training course lasting only four months could not yet be regarded as initial training within the meaning of child benefit law. According to tax regulations, initial training only exists if it lasts **at least twelve months**. Child benefit must therefore continue to be granted. An appeal against the ruling is pending before the Federal Finance Court.

Note: In practice, the ruling is interesting for young people who first obtain qualifications through training courses lasting less than twelve months in order to be able to better finance their subsequent studies. It remains to be seen whether the Federal Fiscal Court shares this view regarding the duration of initial training.

35 Anticipated expenses for one's own funeral

Can expenses for one's own funeral be claimed for tax purposes during one's lifetime? Can one's own death—which undoubtedly awaits each and every one of us—be used as **a tax-saving model**? The Münster Finance Court had to deal with this question in June 2025. The plaintiff in the case had already concluded a contract with a funeral home during his lifetime for his future funeral and had also already paid amounts. In this way, he wanted to spare his surviving dependents from having to cover the costs.

Since funeral costs can normally be claimed as **extraordinary expenses**, the plaintiff was of the opinion that this also applied to his own

However, the Finance Court rejected this view: as a rule, costs are only deductible as extraordinary expenses if there is a **legal, factual, or moral obligation** to bear them. However, in this case, the assumption of the anticipated costs of one's own funeral was voluntary. The mere desire to relieve one's descendants is not sufficient justification for the deduction.

Furthermore, deduction as an extraordinary expense is only possible if the funeral costs cannot be covered by the estate. In this case, they then reduce the taxable value for inheritance tax purposes. Conclusion: Even if covering the costs of your own funeral is well-intentioned in order to relieve the burden on your relatives, it makes little sense, at least **from a tax perspective**.

36 Are the late payment penalties and suspension interest rates lawful?

Late payment penalties are imposed by the tax office if a tax liability is not paid on time. Deferral interest accrues if the enforcement of a tax assessment is suspended at the taxpayer's request, for example in the context of an appeal or legal action. Currently, **late payment penalties** amount to **1 %** per month and **deferral interest** to **0.5 %** per month, i.e**. 12 % and 6% per annum respectively**. As the general interest rate has been low for many years, one may question whether the level of late payment penalties and deferral interest is still legally acceptable.

In March 2025, the Federal Fiscal Court ruled that the amount of late payment penalties was not objectionable. With regard to suspension interest, the Cologne Fiscal Court also ruled in spring 2025 that 0.5 % per month was too high. The reason given for this was that interest on tax arrears will only amount to 0.15 % from 2019 onwards. The court considered this to be unjustified unequal treatment. The ruling is legally binding and can be applied in similar cases.

37 Increase in the minimum wage

The statutory minimum wage in Germany was last increased on January 1, 2025, from € 12.41 to €12.82 per hour. On January 1, 2026, there will be a further **increase to € 13.90** based on the Fifth Minimum Wage Adjustment Ordinance passed by the Federal Cabinet at the end of October. From January 1, 2027, the minimum wage will then be raised to €14.60.

The limits for **mini-jobs and midi-jobs** for reduced taxation or social security contributions are linked to the increase in the minimum wage and will increase accordingly. For mini-jobs, the limit will rise from the current € 556 per month **to € 603 from 2026**, with a further increase **to € 633 from 2027**. For midi jobs, the so-called sliding scale will shift: from 2026**,** the **transition range** will start **at € 603.01** and rise **to € 633.01 from 2027**. The upper monthly income limit of € 2,000 for the application of the regulation will remain unchanged.

38 Increase in allowances 2026

Due to new regulations that have already been decided, the **basic** tax **allowance** will be increased from €12,096 in 2025 to **€ 12,348 from 2026**. This means that no income tax will be levied on annual income up to this amount. In the case of joint assessment, the basic allowance is doubled. In addition, the **child allowance** will be increased from the current € 3,336 to **€ 3,414 per child from 2026**. However, the allowance for childcare, education, and training will remain at € 1,464 per child. **Child benefit** will also increase from the current € 255 to **€ 259 per child** from 2026.

39 Deadlines for filing tax returns

For the last time, the extended deadlines for tax returns (income tax, corporation tax, trade tax, annual sales tax return) due to the coronavirus crisis applied for the year 2024. For the **2024 assessment period**, the deadline for submission, if the tax return is prepared for you by us as your tax advisor, is **April 30, 2026**.

From the 2025 tax year onwards, everything will return to how it was before the coronavirus crisis: tax returns must be submitted by the end of February of the year after next at the latest. This means that if you have us prepare your **2025 tax returns**, they must be submitted by **March 1, 2027** at the latest.

Kind regards
Your ATC team

Client information at the end of 2025

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