IPTI Xtracts

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WHAT PROPERTY TAX CHANGES ARE BEING CONSIDERED IN GERMANY?

A decrease in real estate transfer taxes as well as lowering the threshold for investors are among possible adjustments

With the change of leadership in Germany in December, several changes to the ways properties are taxed are on the table, according to Roland Bomhard, a partner at the law firm Hogan Lovells International, who is based in Düsseldorf. These initiatives were outlined in the new government's coalition agreement last month, and are expected to be rolled out over the next four years.

For starters, government officials are looking to change how real estate transfer taxes (RETT) are charged. Currently RETTs vary from about 3.5% to 6.5% around the country, Mr. Bomhard said, and there are plans to create a reduced rate to make home buying more affordable for young families.

"Germany is a country of renters—about 60% of all properties are not owned but rented, and in the big cities the rate is even higher, in Berlin for example it is 82%," he explained. "It's very, very difficult to get into the property market…so what the government is saying is, 'let's reduce the real estate transfer tax rate for young families, or first-time buyers…[to] increase the pool of house owners because that's good for the economy."

The new rate is still under consideration, and some want to eliminate the tax altogether, Mr. Bomhard said. In order to fund a more affordable rate, the government is also looking to adjust how the transactions of institutional real estate investors are taxed.

Currently, an investor can sell up to 89.9% in a property holding company without triggering real estate transfer tax, the attorney explained.

"Only if you sell 90% or more do you trigger a real estate transfer tax," he continued.

The government wants to make real estate investing in property holding companies less attractive and increase tax collection on real estate transactions. Therefore, officials are looking to lower the percentage of shares an investor can sell in a real estate holding company without paying taxes from 89.9% to 75%, according to Mr. Bomhard.

German property owners can also expect a country-wide reassessment of property values in 2022. That includes 36 million properties, the lawyer said.

“What the tax offices want is to redefine the land tax every owner is paying,” he explained. “It shouldn’t be any increase in overall tax income. It should be just a change to the structure…and again, every state has the right to implement its own structure.”

Still, property values in Germany have risen over the last two years, so many people will see a rise in their assessments, particularly in the big cities. Multi-family buildings dating to the 1920s, 1930s and 1950s may be at a particular disadvantage, Mr. Bomhard said. Those properties currently have a relatively low tax value, and that’s likely to rise.

Owners will be required to submit a form outlining the type of property they have and its amenities by October 2022, and some follow-up visits may be required. The reassessment process is set to take two years after the forms are submitted, and the new tax structure will be effective in 2025.