

Land tax reform proposed

At the end of July 2016, the German states of Hesse and Lower Saxony submitted a legislative proposal on behalf of the upper house of the German parliament that would result in a fundamental restructuring of the taxation of real estate in Germany. Reform of the land tax is needed because the tax is based on an outmoded basis of assessment (i.e. the monetary situation as of January 1, 1964), which does not take into account any changes in property values that have taken place over the past 50 years.

The land tax is imposed annually by the municipalities on real estate located in Germany, with the taxable base being the standard tax value as assessed by the tax authorities. The tax rate currently is determined as a federal rate of between 0.26% and 0.6% (depending on the intended use of the property) and a multiplier established by each municipality. The effective tax rate ranges from 1.5% to 3.5% of the standard tax value of the real estate.

Under the proposal submitted by Hesse and Lower Saxony, the tax base would comprise both land and existing buildings (as is currently the case), but a fiscal cost approach would be the only method used for determining the value of the real estate. The new special tax value would be based on the standardized manufacturing cost that would be incurred to construct a similar property.

The first step of the reform will be the complete revaluation of all 35 million properties located in Germany, which is expected to be completed by January 2022. It can be assumed that the new special tax values will be higher than the current standard tax values. To keep the land tax reform tax neutral, however, it will be necessary to reduce the federal rates of between 0.26% and 0.6%. It is expected that the new land tax will come into effect about 5 years after the new land tax values were assessed (January 1, 2022).

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