

Potential future coalition parties issue guiding principles for government tax policy

Preliminary agreement between potential coalition parties indicates intent to forgo tax hikes and introduction of new taxes.

As a result of the German federal elections on 26 September 2021, Angela Merkel's Christian Democratic Union (CDU) lost its position as the country's leading political party, to the Social Democratic Party (SPD), the CDU's current partner in the governing grand coalition. Angela Merkel, after a 16-year tenure as chancellor, did not seek reelection. The SPD, the Free Democratic Party, and the Green Party formally agreed on 15 October 2021 to enter into coalition negotiations to form a new German government. On the same date, the three parties issued a 12-page paper outlining the basic principles agreed upon for a new German government, including tax principles that reflect a general intent not to increase taxes or introduce new taxes.

Even though the principles agreed upon in the paper have no binding character and the negotiations between the parties could result in different positions, the paper offers a first glimpse of what to expect from the negotiations and how future government policies for the next four years might look.

From a tax perspective, the most noteworthy points are the following:

- The parties do not intend to introduce any new taxes on assets or to increase income taxes, corporate taxes, or VAT.
- The fight against tax fraud, money laundering, and tax avoidance should be intensified, and the country's support of the introduction of a global minimum tax should continue.
- To boost the economy, a super deduction should be introduced for investments in climate protection and in digitization.
- Tax bureaucracy should be reduced by introducing, e.g., certain higher thresholds and digitized filing procedures.
- The federal budget should be reviewed and measures and subsidies that are unnecessary, ineffective, or damaging to the climate and the environment should be eliminated.
- Illegal financing of real estate assets should be combatted, e.g., by requiring proof of taxation for foreign commercial property buyers and prohibiting cash purchases of real estate assets.
- With regard to the real estate transfer tax (RETT), the federal states should be granted more flexibility to introduce measures to facilitate the acquisition of owner-occupied residential property. To finance this measure, RETT loopholes for corporate investors should be closed (the paper refers to "share deals" without providing any additional explanation).
- Equity investments of employees in start-up companies should be supported by increasing the threshold for tax-free treatment.
- The general threshold for tax-free treatment of income from investments for individuals should be increased to EUR 1,000.

The paper and the decision to proceed with formal negotiations have received formal approval from the relevant bodies of all three parties. Formal coalition talks are expected to take place over the next couple of weeks.

If the parties are able to successfully agree on a government coalition, the current minister of finance, Olaf Scholz (SPD) is expected to become the next German chancellor to succeed Angela Merkel.

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