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German Tax and Legal News

Tax reform requires all German real estate to be revalued for property tax purposes

All real estate will be valued as at 1 January 2022, based on information reported by taxpayers in property tax returns.

As part of the reform of Germany's property tax system, the value of all German real estate (including both residential and nonresidential property) will be recalculated as at 1 January 2022, based on information reported by taxpayers in property tax returns that currently are scheduled to be due by 31 October 2022. The information needed to populate the tax returns may not be readily available and the new valuation models may vary depending on the federal state where the property is located, so owners of German real estate should consider taking action as soon as possible to gather the necessary information and become familiar with the new rules.

Background

Property tax is assessed on an annual basis at the level of the German municipality in which the real estate is located.

In April 2018, the Federal Constitutional Court declared the property tax assessment system to be incompatible with the German constitution and required the German legislature to establish new property tax rules by 31 December 2019. The legislature passed the new legislation on 8 November 2019, and the new rules will enter into effect as from 1 January 2025.

Filing of tax return by 31 October 2022

Due to the property tax reform, all real estate must be valued for property tax purposes as at the valuation date of 1 January 2022. The new rules base the valuation of real estate on a property tax value (Grundsteuerwert), replacing the formerly used unit value (Einheitswert).

To calculate the new real estate value, a tax return as of 1 January 2022 must be filed. The tax return will serve as the basis for the assessment of the property tax as from fiscal year 2025. Until then, the existing rules continue to apply.

The responsible tax authorities are expected to request the submission of the tax return through an official announcement in March 2022. The tax returns may be filed electronically via the ELSTER online tax platform as from 1 July 2022. Currently, the submission deadline for the tax returns is 31 October 2022.

The property tax is calculated as follows: real estate value x tax rate x assessment rate = property tax. The assessment rate varies depending on the municipality in which the property is located, while the basic tax rate is set at the federal level.

A federal valuation model has been introduced for the new calculation of the real estate value, which generally is followed by most federal states in Germany. However, Baden-Württemberg, Bavaria, Hamburg, Hesse, and Lower Saxony apply their own valuation models, which deviate in certain aspects from the federal valuation model.

The information required to be reported in the property tax return as of 1 January 2022 depends on the use of the property. For residential properties, for example, the following information is required to be declared in the tax return based on the federal valuation model:

- Location of the real estate;
- Size of the real estate;
- Standard land value;
- Type of building;
- Size of the living space; and
- Year of construction of the building.

For other types of property use, other data needs to be provided in the tax return.

Assessment proceedings

Based on the information provided in the property tax return, the tax office calculates the real estate value and the property tax assessment base and issues the relevant assessment notes that form the basis for the assessment of the property tax by the city or municipality where the property is located.

The city or municipality then issues the property tax assessment notes, and payment of property tax becomes due and is payable on a quarterly or annual basis, depending on the total amount of property tax due per year.

Additional comments

The new valuation models can lead to a high level of complexity in the process for calculating the real estate value. In addition, the data required for the valuation often is not directly available: it may need to be obtained from existing real estate management systems or other electronic sources, or perhaps even from paper-based notes. In addition, the new valuation models may vary from state to state due to a clause in the new rules that provides some discretion to the states, and there also may be variations based on the characteristics of the real estate. This situation raises a challenge for many companies in implementing the new rules and preparing tax returns in a cost- and time-efficient manner. Accordingly, immediate action by real estate owners is recommended.

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