

Taxation of German source income for individuals

1. Income tax rates:

Clients EU-based: 15% - 42% + solidarity surcharge of 5.5% on the tax
Clients from other countries: 25% - 42% + solidarity surcharge of 5.5% on the tax

For EU residents there is a special exemption given by a court decision to avoid the minimum tax rate of 25% for small profits. To that effect EU residents will be taxed with the usual tax rates (15% up to 42%).

The tax rate is progressive, so every additional profit is taxed with a higher tax rate. The maximum rate of 42% will only be used for the part of the profit exceeding 52,152 €.

Examples:

Profit	EU-based		Other Countries	
	Income tax incl. surcharge	Average Tax rate	Income tax incl. surcharge	Average Tax rate
1,000.00 €	158 €	15.8%	250 €	25.0%
10,000.00 €	2,347 €	23.5%	2,637 €	26.4%
25,000.00 €	6,593 €	26.4%	6,593 €	26.4%
50,000.00 €	13,816 €	27.6%	13,816 €	27.6%
100,000.00 €	35,960 €	36.0%	35,960 €	36.0%

The income tax return for a year must be filed by May 31st of the following year. This time limit extends to December 31st for taxpayers represented by a tax advisor.

Furthermore the tax authorities will estimate the tax for the current year based on the tax for the previous year and require quarterly advance payments to be paid on Mar 10th, Jun 10th, Sep 10th and Dec 10th. These advance payments will be of course considered in the yearly tax statement.

2. Preparation of the tax return

For the preparation of the yearly income tax return the following documents are required:

- contract of purchase
- purchase tax statement
- notary charges
- other expenses related to the purchase

- rental income paid during the year (separated into rental and advance for the operating expenses)
- income related expenses paid during the year, e.g.
 - o Operating costs
 - o Reduction and allocation to the maintenance reserve (Instandhaltungsrücklage)
 - o Land tax (Grundsteuer)
 - o Certificate of the interest paid provided by the bank
 - o Travelling expenses related to the purchase

Receivables and liabilities will not be considered for taxation purposes.

3. Taxation of the profits from selling of the property

Currently the profit will only be taxed if the period between the purchase and the selling is less than 10 years. The government plans to tax every profit irrespective of the period of ownership as from 2008.

4. Real estate tax / Land tax

This tax is raised for every year in quarterly rates. The tax is based on the so called "Einheitswert" (rateable value). This value can differ by reason of a lot of aspects and is determined by the tax authorities. Furthermore the tax is determined by a municipal rate fixed by the municipality. For Berlin this rate is 660% currently.

For an apartment of 50 m² the tax would approximately range between 200 and 500 € per year.