



Selected New Taxes and Rate Increases Ahead

As in many other countries, Germany's federal and state administrations are looking to increase their internal revenues to recover the shortfall resulting from the financial crisis. In the real world, this typically translates into an increase of tax rates and/or tax base.

Wisely, the federal and *Laender* administrations are shying away from increasing income taxes or VAT in order to avoid smothering the present economic upswing, which is projected to reach up to 3.6 percent for 2010 – the highest since German unification more than 20 years ago.

With this background, the administrations have set their sights on transaction and excise taxes such as an aviation (up to €45 per ticket) and atomic energy tax – most notable, however, for the *Laender* level is the real estate transfer tax (RETT). RETT is triggered by the sale of real property and shares in companies holding real property – directly or indirectly – and is typically paid by the purchaser.

The general tax rate has been 3.5 percent since 1998. From 1 September 2006, the *Laender* have been free to determine the RETT tax rate individually. Berlin was the first to grasp the opportunity by raising its rate to 4.5 percent from 1 January 2007, with Hamburg following suit on 1 January 2009.

Recently, we have begun to see a wave of new RETT increases announced for the future in additional areas

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of Germany:

- Saxony-Anhalt, 4.5 percent from 1 March 2010
- Brandenburg, 5 percent from 2011
- Lower Saxony, 4.5 percent from 2011
- Bremen, 4.5 percent from 2011
- Saarland, 4 percent from 2011
- Schleswig-Holstein, 5 percent from 2013

The immediate strategy for responding is quite obvious:

Potential real estate investors in German property or property holding entities located in the above areas are advised to consider the upcoming rate increases in their investment budget or structure the investment to become effective before the rate increase. Likewise, property sellers are advised to consider the cost increase for the purchaser and act before the pie gets smaller.

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