Trade Tax

Companies Liable to Trade Tax

All commercial business operations in Germany are liable to pay trade tax (Gewerbesteuer) irrespective of their legal form.

The trade tax is set by local authorities which means it can vary from one municipality to the next. However, trade tax is generally the same rate for all businesses within one municipality. Trade tax in Germany is currently set at between 7 and 20 percent.

Determining the Trade Tax Rate

The corresponding rate of trade tax depends on two components:

- The tax base rate (3.5 percent throughout Germany)
- The multiplier (Hebesatz) stipulated individually by every municipality

The taxable income of the company is multiplied with the tax base rate (3.5 percent) which results in the so-called tax base amount. The tax base amount is then multiplied with the corresponding municipal multiplier; which results in the sum total of trade tax which is due.

The multiplier is set by each municipality. On average, it is around 400 percent but may not total less than 200 percent. There is no upper limit for the municipal multiplier. It is generally higher in urban areas than it is in rural areas, although it does currently not total more than 490 percent in any of the large cities.

Example:

- Company A with annual taxable earnings of EUR 1,000,000 is based in city B.
- City B has stipulated a municipal multiplier of 400 percent.
- The tax base amount for company A is 3.5 percent of its annual taxable earnings or EUR 35,000.
- The EUR 35,000 is multiplied by the municipal multiplier of 400 percent, resulting in a total trade tax for company A of EUR 140,000.

Partnerships have an annual tax free allowance for trade tax of EUR 24,500.

The solidarity surcharge is NOT levied on trade tax.
Offsetting Trade Tax against Personal Income Tax

Partnerships can offset some of the trade tax they pay against personal income tax - to the total of 3.8 times the trade tax base amount.

This means that there is in effect no trade tax burden for partnerships in municipalities with a multiplier of under 380 percent. Trade tax still has to be paid to the municipality. However, it can be offset against the personal income tax.

Example:

- Partnership A has a tax base amount of EUR 35,000 (3.5 percent of its annual taxable earnings).
- This tax base amount can be offset against personal income tax payments with a weighting factor of 3.8; amounting to EUR 133,000 (35,000 x 3.8).
- Accordingly, partnership A can offset EUR 133,000 against personal income tax payments.

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