Taxation of Property

Real Property Tax

Every property owner in Germany is liable to pay real property tax (Grundsteuer). The tax rate depends on the type of real property. This is sorted into two distinct categories:

- Real property tax "A": Real property used for agriculture and forestry.
- Real property tax "B": Constructible real property or real property with buildings.

Due to a fundamental real property tax reform, a real property tax type „C“ will be introduced from 2025 on. Municipalities can impose it for undeveloped areas which are ready for development.

Real Property Tax Rate

The real property tax burden is calculated by multiplying:

- the assessed value of the real property
- the real property tax rate
- the municipal multiplier

The assessed real property value is determined by the tax authorities according to the German Assessment Code (Be­wertungsgesetz). The German Assessment Code refers to historical property values that are usually significantly lower than current market value.

The tax rate varies between 0.26 percent and 1 percent depending on the Federal State (the real property is located at) and the use of the property.

Similar to the municipal multiplier applied in the trade tax case, the municipal multiplier applied to real property tax is stipulated by each municipality. Municipalities determine a municipal multiplier for both real property tax "A" and real property tax "B", with the rate for "B" usually being higher.

The Real Property Tax Reform

The reform of real property tax maintains the three-step system for calculating the real property tax rate but makes provision for a new assessment of real property values as of January 1, 2022. The reform also simplifies the calculation from 2025 onward, because it largely relies on average and statistical data to calculate the assessed value of the real property.

The German federal states are free to introduce their own deviating provisions in order to impose and calculate real property tax.

Determining the Real Property Tax Burden

Real property tax burden for a commercial building in a municipality in a Western German Federal State with an average real property tax "B" collection rate of 464 percent:
TAXATION OF PROPERTY

<table>
<thead>
<tr>
<th>Assessed Value</th>
<th>EUR 1,000,000 (e.g.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>x Basic real property tax rate</td>
<td>x 0.35 percent</td>
</tr>
<tr>
<td>x Muncipial multiplier &quot;B&quot;</td>
<td>x 464 percent</td>
</tr>
<tr>
<td>= Real property tax burden</td>
<td>= EUR 16,240 (or approx. 1.62%)</td>
</tr>
</tbody>
</table>

Due to a reform of real property tax, the basic real property tax rate „B“ will be lowered to 0.034 percent from 2025 on.

Real Property Transfer Tax

When domestic real estate is sold or changes owner, a one-time real property transfer tax (Grunderwerbssteuer) of the purchase price is levied if the purchase price or consideration exceeds EUR 2,500. Real property transfer tax is usually paid by the buyer. The tax rate varies from federal state to federal state. Please see the table below for more information.

**Real Property Transfer Tax Rates in the Respective Federal States 2020**

<table>
<thead>
<tr>
<th>Rate</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5%</td>
<td>Bavaria, Saxony</td>
</tr>
<tr>
<td>4.5%</td>
<td>Hamburg</td>
</tr>
<tr>
<td>5.0%</td>
<td>Baden-Württemberg, Bremen, Mecklenburg-Vorpommern, Niedersachsen, Rheinland-Pfalz, Saxony-Anhalt</td>
</tr>
<tr>
<td>6.0%</td>
<td>Berlin, Hessen</td>
</tr>
<tr>
<td>6.5%</td>
<td>Brandenburg, North Rhine-Westphalia, Saarland, Schleswig-Holstein, Thuringia</td>
</tr>
</tbody>
</table>

Real property transfer tax also applies to a real property-owning partnership if 95 percent of the shareholders change within five years.

Contact Us

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Promoted by Federal Ministry for Economic Affairs and Energy in accordance with a German Parliament resolution.