

Mobility-relevant Tax Issues in Germany

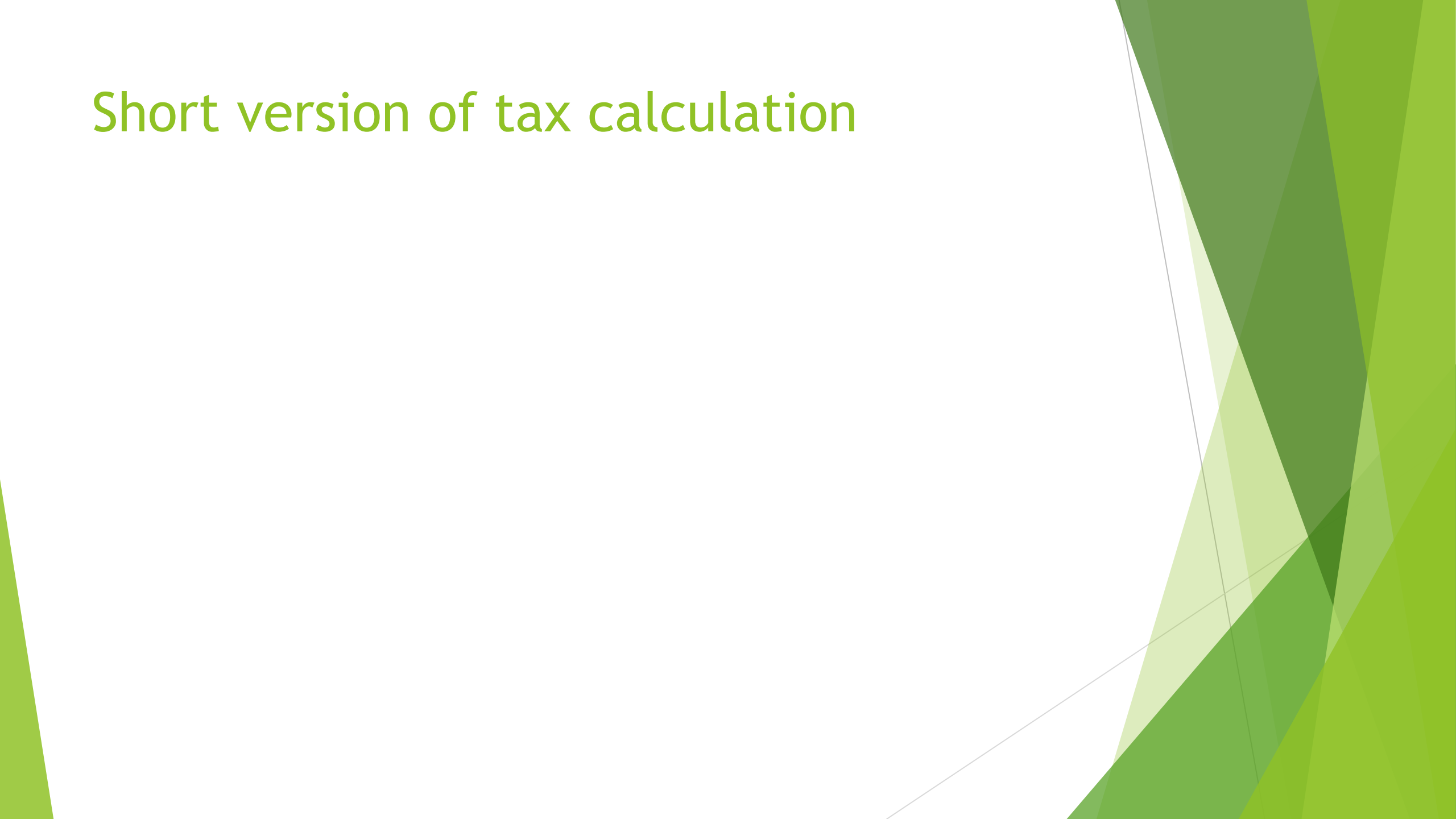
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To understand, how the system works

The myth of the complicated German tax system

Short version of tax calculation



► Gross salary minus expenses



income from employment



► Rental earnings minus expenses



rental income



Total of income



special and extraordinary expenses and
child allowances



Taxable income

► Taxable income \times individual tax rate

Income Tax

\times 5,5 %

Solidarity Surcharge
(Solidaritätszuschlag)

But...



If you had any income not subject to tax,
it can happen, that it will be added to your taxable income
only to calculate the actual tax rate (sort of virtual taxable
income)...being applied to your taxable income

Subject or not subject to income tax

7 different sources of income

from

1. Agriculture
2. Business income from trade
3. Business income from freelancing
4. Income from employment
5. Income from capital
6. Rental income
7. Retirement benefits

Examples of Earnings not subject to tax, but with an impact on your tax rate

- ▶ Unemployment benefit
- ▶ Parental allowance
- ▶ Income earned outside of Germany during the calendar year of the move from/to another country, but in the months before you moved to /from Germany
- ▶ ...

About tax rates...

- ▶ Basic tax free allowance:
 - ▶ 2013: € 8,130
 - ▶ 2014: € 8,354
 - ▶ 2015: € 8,472
- ▶ Graduated tax in 5 steps (basic tariff - Grundtarif)
 - ▶ - € 8,354
 - ▶ - € 13,469
 - ▶ - € 52,881
 - ▶ - € 250,730 (42%)
 - ▶ More than € 250,731 (45%)

Who benefits from the splitting tariff
and how does it work?

Partner 1
Total of income



Partner 2
Total of income



Special and extraordinary expenses and
child allowances



Joint taxable income



2



Basic tax tariff



2



Splitting tariff

And how is income tax normally collected?

- ▶ Income from employment: Taxed at source, tax return optional
- ▶ Income from capital: Usually taxed at source 25% flat rate
- ▶ Other sources of income: Annual tax return plus prepayments

Can I or do I have to declare my taxes?

Tax return is voluntary, if...

- ▶ Your only income is from employment and
- ▶ You are single or married with tax class combination 4/4 or 3/5 and only one partner is earning income

You should submit a tax return, if...

- ▶ Your work related expenses are higher than € 1,000 or/and
- ▶ You paid relevant amounts for special or extraordinary expenses
 - ▶ E.g.: school fees, costs for child care, private insurances, donations, tuition costs, maintenance payments to parents or adult children, medical expenses, costs of fertilization treatments...

A matter of form:

- ▶ The annual tax return should be submitted electronically via ELSTER formular or ELSTER online (internet) by 31.5. of the following calendar year.
- ▶ If it is done by a tax advisor the deadline is 31.12.

Documents for the tax return:

e.g.

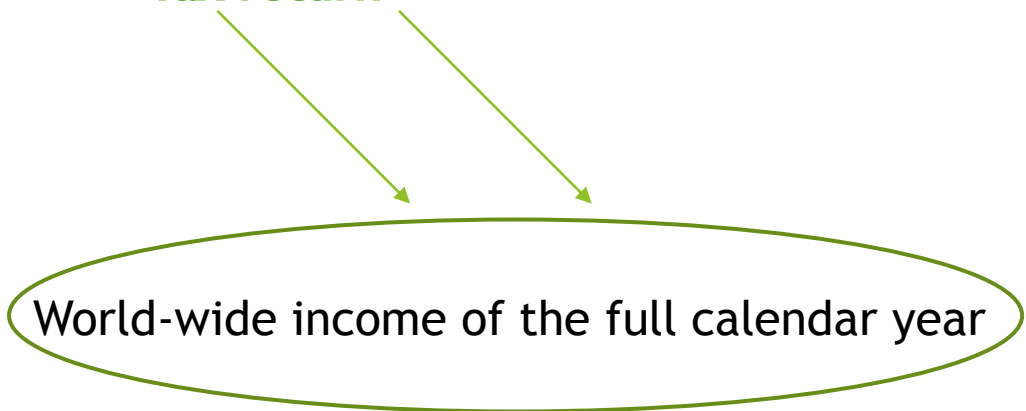
- ▶ Your wage tax certification
- ▶ Receipts to prove expenses
- ▶ Receipts for donations
- ▶ Annual certification from health insurance
- ▶ Invoices from kindergarten...

Which details need to be in my tax return?

1.Unlimited taxation

- ▶ Flat without time limits in your own name or
- ▶ Perpetual physical presence in Germany of more than 6 months

Tax return



World-wide income of the full calendar year

2.Limited taxation

- ▶ Limited taxation means, you have no residence in Germany, but you have some sort of income (e.g. rental income), which needs to be declared.



Your tax rate would be higher, than it would be, if you would be living here.

Married couples/civil partnerships

- ▶ Can choose single or joint taxation.
- ▶ Joint taxation: recommended, if one partner is earning much more than the other. They benefit from the „splitting tariff“
- ▶ With one partner living outside of Germany but in the EU: $<10\%$ of the couple's income/2 x basic tax free allowance earned outside of Germany



Partners can choose unlimited taxation and splitting tariff

Having children...

- ▶ Claim to child allowance (tax return) or Kindergeld (application)
- ▶ Tax deduction of costs for child care
- ▶ Tax deduction of costs for school fees
- ▶ ...

What are deductible moving costs?

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- ▶ Costs for shipping your furniture and belongings to your new home
- ▶ Double rent
- ▶ Renting/Real Estate Agents
- ▶ Travel expenses
- ▶ Flat rate amount for single persons (€ 695) or couples (€ 1,390) and for each child (€ 306)

What does it mean to have costs for a double house-hold?

What does it mean to have costs for a double house-hold?

The requirements are:

1. You had costs for your own or rented home at your main place of residence (normally: where you come from) and for a
2. Second home (or only room) close to the the place you are earning your income (in Germany)

What kind of costs are deductible?

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- ▶ Travel costs for weekly trips back home
- ▶ For the first three months: flat rate for daily subsistence (day of arrival/departure € 12, full days at second home € 24)
- ▶ Costs for rental payments (max. € 1,000/month) and necessary furniture of the second flat
- ▶ Moving expenses

How do I treat my income outside of Germany?

How do I treat my income outside of Germany?

- ▶ Part of your German tax return
- ▶ DBAs or
- ▶ Taxation in Germany and taxes paid in other countries being balanced or offset in the German tax return

SHIT HAPPENS!



Many thanks for your kind attention.
If you have any questions, please
get in touch with me.

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