Germany Insight: German Government Approves Comprehensive EUR 130 Billion Stimulus Package to Reverse Economic Damage from COVID-19 (Coronavirus) Pandemic

The German government approved the draft economic stimulus bill on 12 June 2020 to mitigate the economic effects of the COVID-19 pandemic and to strengthen domestic demand (*Zweites Gesetz zur Umsetzung steuerlicher Hilfsmaßnahmen zur Bewältigung der Corona-Krise (Zweites Corona-Steuerhilfegesetz)*) (the "Second Coronavirus Tax Assistance Act").

Important tax measures of this bill are:

- The standard VAT rate will be reduced, for a limited time, from 19% to 16% and the reduced VAT rate of 7% will be reduced, for a limited time, to 5%, both from 1 July 2020 to 31 December 2020.

- The ability to carry back tax losses will be expanded to a maximum of EUR 5 million (or EUR 10 million in the case of joint assessment) per year for the years 2020 and 2021. It will be possible to utilize such a loss carryback in the income tax return for 2019, even before the tax return for 2020 has been filed (this would be made possible via a flat 30% reduction of the taxable income for 2019). With regard to corporate taxpayers, it should be noted that the ability to carry back tax losses is available only for Corporate Income Tax and not for Trade Tax.

- As a tax incentive for investment, for movable assets (acquisition after 31 December 2019 and before 1 January 2022) enhanced depreciation rates will be made available in fiscal years 2020 and 2021. This will increase existing regular straight-line depreciation rates by 2.5% with a maximum rate of 25% per annum.

- For the lump-sum taxation of the private use of purely electric company cars, the purchase price limit for the reduced factor of 0.25% (regular lump-sum factor 1%) is to be raised from EUR 40,000 to EUR 60,000 (gross list price) with retroactive effect as of 1 January 2020.

- The periods for the transfer of hidden reserves (i.e., tax-neutral treatment of capital gains from the sale of certain business assets according to Section 6b of the German Income Tax Act) will be extended by one year. This measure should prevent the forced release of a reinvestment reserve without reinvestment during the crisis. Moreover, a one-year extension will also apply for a deduction of future investment expenses for certain small- and medium-sized businesses (according to Section 7g of the German Income Tax Act; generally, a three-year reinvestment period applies).

- For trade tax purposes, the existing allowance for add-back amounts of EUR 100,000 will be increased permanently to EUR 200,000.

The approval of the German Parliament (*Bundestag*) and the upper house of the German Parliament (*Bundesrat*) is expected to take place on 29 June 2020. This is the latest possible date in order for the temporary reduction in the VAT rate to come into force on 1 July 2020.

For more information about Curtis, please visit www.curtis.com.

Attorney advertising. The material contained in this Client Alert is only a general review of the subjects covered and does not constitute legal advice. No legal or business decision should be based on its contents.

Please feel free to contact either of the persons listed below if you have any questions on these important developments:

Christian Fingerhut
Partner
cfingerhut@curtis.com
Frankfurt: +49 69 247576 400

Martin Wolff
Associate
mwolff@curtis.com
Frankfurt: +49 69 247576 000