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German Tax and Legal News

COVID-19: Government approves economic stimulus bill

Draft stimulus bill includes measures previously announced by governing coalition

On 12 June 2020, the German government approved the draft economic stimulus bill proposed by the governing grand coalition on 3 June 2020 (see GTLN dated 5 June 2020) to combat the economic effects of the coronavirus (COVID-19) and to stimulate and reinvigorate the economy. The "Second bill on tax relief measures relating to the COVID-19 crisis" mainly includes measures described in the 3 June government proposal. The most important measures for businesses are likely to be the following:

- The general VAT rate of 19% would be temporarily reduced to 16%, and the reduced VAT rate of 7% would be temporarily reduced to 5%. Both measures would apply for the period from 1 July 2020 to 31 December 2020. The due date for paying import VAT would be extended from the 16th day of the following month to the 26th day of the second subsequent month (e.g., from 16 August to 26 September).
- The amount of the one-year loss carryback that is permitted for income tax purposes would be increased from EUR 1 million (for individual filers and corporations) and EUR 2 million (for joint filers) to EUR 5 million and EUR 10 million, respectively. The increase would be applicable for losses incurred in 2020 and 2021. It also would 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 (subject to the EUR 5 million and EUR 10 million limits mentioned above). It should be noted that for corporations, the one-year loss carryback is available for corporate income tax purposes only; for local trade tax purposes, a loss carryback is not available.
- For moveable business assets that are acquired in 2020 and 2021, an accelerated depreciation method would be introduced. This depreciation method would be a declining-balance method and the applicable depreciation percentages would be 2.5 times the regular straight-line depreciation percentages currently available, capped at a 25% annual percentage.
- The maximum amount of annual qualifying expenses for the newly introduced R&D tax credit would be increased from EUR 2 million to EUR 4 million, with retroactive effect as from 1 January 2020. This measure, therefore, would increase the maximum annual cash benefit (calculated as 25% of qualifying expenses) from EUR 500,000 to EUR 1 million.
- The existing allowance of EUR 100,000 for add-back amounts for local trade tax purposes would be increased to EUR 200,000, without a time limitation (i.e., the increase would not be available only for 2020 and 2021).
- The credit that can be taken by individuals for income from business activities would be increased starting from 2020. The credit currently is calculated by applying a 3.8 multiplier to the applicable trade tax base amount ("Steuermessbetrag"), which would be increased to a multiplier of 4. This mechanism is in place to reduce/avoid double taxation for individuals that are subject to both income tax and local trade tax.

In addition to the measures proposed by the governing grand coalition, the draft bill provides that the reinvestment period that allows for tax-neutral treatment of capital gains from the sale of certain business assets (as provided in section 6b of the Income Tax Code (ITC)) would be extended by one year if the related tax-free reserve otherwise would be eliminated in 2020 (generally, a four-year reinvestment period applies). A one-year extension also would apply for another provision that allows for a deduction of future investment expenses for certain small and medium-sized businesses (as provided in section 7g of the ITC; ordinarily, a general three-year reinvestment period applies).

The draft bill does not include any provisions regarding the proposed modernization of the current corporate income tax system and, in particular, the proposed introduction of an option for partnerships to elect to be subject to taxation in a manner similar to corporations.

The draft bill still must go through the legislative process and be approved by the upper and lower houses of the German parliament. However, as the governing grand coalition has the majority in both chambers, it can be expected that the package will receive final passage in a relatively short time period (likely during June 2020).
