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German Tax and Legal News

Draft bill reducing interest rate for late tax payments approved by Government

Draft bill providing for a reduced interest rate on late tax payments and refunds of 0.15% per year approved by German Government.

On 30 March 2022, the German government approved a draft bill providing for a reduced interest rate on late tax payments and refunds, which was published by the Ministry of Finance (MoF) on 22 February 2022.

The draft bill proposes a reduced interest rate of 0.15% per month (i.e., 1.8% per year) on late tax payments and refunds with retroactive effect as from 1 January 2019. The draft bill also proposes that the interest rate should be evaluated every three years, with the first evaluation occurring in 2026. The draft bill notes that changes are not anticipated in any other cases (e.g., interest on deferrals, interest applied to pension accruals discounting, etc.)

The draft bill is a response to the Federal Constitutional Court's decision in 2021 where the court ruled that the current interest rate of 0.5% per month on late tax payments and refunds for 2014 and onward is unrealistic and violates constitutional principles. The court requested the legislator to amend the rules by 31 July 2022, with retroactive effect as from 1 January 2019.

The draft bill still must go through the legislative process and approved by the upper and lower house of parliament.

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