Current tax information for our clients

11 November 2024

Tax policy consequences from the end of the German governing coalition

1. Current developments at a glance

On the evening of 6 November 2024, the German **government coalition broke** up. Federal Chancellor Scholz dismissed Federal Finance Minister Lindner. Two other federal ministers of the Liberals (FDP) had then asked for dismissal.

In an initial statement, Federal Chancellor Scholz has announced that he will ask for a **vote of confidence** in the Bundestag on 15 January 2024. If the vote of confidence fails, which is to be expected, **new elections** are to be held in March 2025. However, depending on further negotiations, these dates could also be brought forward.

Until the vote of confidence, Chancellor Scholz plans to govern with a **minority government**. In the remaining weeks before Christmas, the Bundestag is to vote on all bills that "do not tolerate any delay", Chancellor Scholz said.

In terms of **tax policy** issues, he explicitly mentioned the compensation of “cold progression” from 1 January 2025 and immediate measures for industry. This probably also refers to the draft for a Tax Development Act, which contains measures from both subject areas. In addition, there are other tax bills in the draft stage that have not yet been adopted by the Bundestag. In this respect, there may be delays in the legislative procedures or even a cancellation.

Votes from the **opposition** are required to approve the bills. Whether it will be possible to organize majorities is not foreseeable at present. Opposition leader Merz of the Conservatives (CDU) has made it a condition for talks on the bills that Chancellor Scholz asks for a vote of confidence promptly and not only in January 2025.

The **Annual Tax Act 2024** was already passed by the Bundestag on 18 October 2024 and is therefore not directly affected by the end of the governing coalition. However, the Bundesrat's approval is still pending and could take place at the next meeting on 22 November 2024.

Content

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2. Tax Development Act

The Bundestag resolution on the Tax Development Act, originally planned for mid-October, was delayed due to disagreements in the coalition. The draft law is still in committee deliberations.

In particular, the Tax Development Act is intended to implement investment incentives and the tax exemption of the subsistence minimum of citizens for the years 2025 and 2026. The most important measures are:

- **Reform of collective depreciation**: In particular, raising the lower value limit for preferential assets, which can be combined in a collective item, to EUR 800 and the upper value limit to EUR 5,000, as well as shortening the depreciation period of the collective item to three years
- Continuation of **declining balance depreciation** for movable fixed assets acquired or manufactured in the period from 2025 to 2028 and increase to 2.5 times the linear depreciation, up to a maximum of 25%
- **Introduction of a special depreciation for fully electric and zero-emission vehicles:** Special depreciation over a period of six years starting at a rate of 40%
- **Research allowance**: Increase of the maximum assessment basis to EUR 12 million.

It remains to be seen to what extent the planned measures will be included in the law, if a majority is achieved at all and the law is passed by the Bundestag.

3. Other ongoing legislative projects

The principle of discontinuity applies to the Bundestag. In the case of new elections, this means, that all bills that have not yet been passed by the “old” Bundestag must be reintroduced in the “new” Bundestag and negotiated. Directly affected are legislative projects that have already been introduced into the parliamentary procedure. Other legislative projects, for example, for which only a draft bill of the Federal Ministry of Finance has yet been submitted, are not directly affected by this. However, as a result of the collapse of the government, there may be delays in the further proceedings or even termination.

In addition to the Tax Development Act, the following important tax bills, among others, have not yet been passed by the Bundestag:

- **Act on modernisation and bureaucracy reduction in electricity and energy tax law:** The law was already put to the vote in the Bundestag on 18 October 2024. However, the Bundestag did not have a quorum.

  The law is intended to implement modernisation and bureaucracy reduction in the area of electricity and energy tax law. It is also planned to make the electricity tax relief permanent for companies in the manufacturing industry, which is intended to relieve hundreds of thousands of companies.
- **Act on the Amendment of the Minimum Tax Act:** So far, only a discussion draft of the Federal Ministry of Finance dated 8 August 2024 has been submitted. The draft law is therefore not yet in the parliamentary procedure and would not be directly affected. Whether and how the legislative project will now be continued is open. It would be conceivable that the Federal Ministry of Finance would at least publish a draft bill and hold an association hearing on it.

  Among other things, the law is intended to implement the OECD's new administrative guidelines on the global minimum tax, which contain important concretizations and simplifications.
- **Second Act on the Financing of Future-Securing Investments:** A draft bill of the Federal Ministry of Finance dated 27 August 2024 has been published for this law. This law is therefore not yet in the parliamentary procedure either. It can be assumed that the decision on a government draft will only be made after a new election, if at all.

  The law is intended to further strengthen the competitiveness and attractiveness of Germany as a financial centre and, in particular, to improve financing options for young, dynamic companies. Tax measures include an improvement in the transfer of hidden reserves from the sale of shares in corporations and a strengthening of the fund location and promotion of investments by funds in renewable energies, infrastructure and venture capital through changes in investment tax law.
- **Act on the tax treatment of motor vehicles that can only be operated with e-fuels:** So far, there is also only a draft bill for this law from 20 September 2024, so that the decision on a government draft is not expected until after a new election, if at all.

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The draft law provides for tax incentives for e-fuels-only motor vehicles through preferential treatment in income, trade and motor vehicle tax.

- **Act on the implementation of the so-called DAC 8 Directive:** The same applies to this draft law. A recently published draft bill dated 25 October 2024 is available. Due to delays in the legislative process, the implementation deadline of 31 December 2025 set by the EU may not be met.

  The core of the draft law is a new, EU-wide reporting standard and information exchange for transactions with crypto assets. In addition, the Common Reporting Standard (CRS) is to be expanded to include new digital financial products.

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