

Germany – June 2020

German government announces comprehensive €130 billion stimulus package to reverse economic damage from COVID-19 pandemic

In brief

On 3 June 2020, the committee of the German coalition government agreed a €130 billion fiscal stimulus package to mitigate the economic damage created by the coronavirus pandemic. With almost 60 cross-sector measures announced, these latest measures represent the largest economic stimulus package in the history of the Federal Republic of Germany.

While the measures remain subject to the legislative process, it is expected that these will be implemented as soon as possible.

Wide-ranging fiscal stimulus measures to restore the German economy

The committee of the German coalition government has announced a recovery and crisis management package to mitigate the economic damage in Germany caused by the coronavirus pandemic. The measures introduced as part of the package are set to include the following:

- The standard VAT rate will be reduced from 19% to 16% and the lower band cut from 7% to 5% from 1 July to 31 December 2020 to stimulate and strengthen consumer demand.
- The ability to carry-back of tax losses will be expanded to a maximum of €5 million (or €10 million in the case of joint assessment) for the years 2020 and 2021. A mechanism will be introduced to enable this to be utilised with immediate financial effect within tax returns for 2019, e.g. through the creation of a coronavirus tax reserve.
- To provide a tax incentive for investment, enhanced depreciation rates will be made available in fiscal years 2020 and 2021. This will increase existing depreciation rates by 2.5 with a maximum rate of 25% per annum for moveable assets.
- A modernisation of the corporate income tax regime is intended, including a system for partnerships to opt to corporate income tax, and an increase in the relief available from German trade tax.
- With regard to trade tax, a tax-free allowance for existing add-backs is increased to €200,000.
- In order to prevent an increase in non-wage labour costs due to increasing social security expenditure as a result of the coronavirus pandemic, social security contributions will be stabilised at a maximum of 40% as part of a "Social Guarantee 2021" with any additional financial requirements financed as part of the federal budget until at least 2021.
- Introduction of new regulations in September 2020 governing the granting of compensation for working reduced hours (*Kurzarbeitergeld*) to apply from 1 January 2021.
- Energy costs are to be reduced by a reduction to amounts payable as part of the Renewable Energy Act (*EEG*) levy (6.5 cent/kwh in 2021 and 6.0 cent/kwh in 2022).
- The due date for import VAT is postponed to the 26th of the following month in order to provide companies in Germany with additional liquidity.
- In order to secure the existence of small and medium-sized enterprises, bridging financing will be provided in the months June to August 2020 to businesses suffering a loss of revenue as a result of the coronavirus pandemic, with total financing amounting to €25 billion. While this bridging financing will be available across sectors, those particularly affected by the coronavirus pandemic, such as hospitality, will be given particular consideration.

Further details are as follows:

- Companies whose revenue were reduced by at least 60% in April and May 2020 in comparison to April and May 2019 as a result of the pandemic and whose decrease in revenue continues to be at least 50% in the months June to August 2020 will be eligible for the financing
 - Up to 50% of fixed operating costs will be reimbursed in the event of a 50% drop in revenue compared to the same month of the previous year. Up to 80% of the fixed operating costs can be reimbursed in the event of a decline in sales of more than 70%.
 - The maximum reimbursement amount is €150,000 for three months. For companies with up to five employees, the reimbursement amount should not exceed €9,000, or €15,000 for companies with more than ten employees, other than in exceptional circumstances.
 - Any reductions in turnover and fixed operating costs should be appropriately audited and confirmed by a tax advisor or auditor.
 - The application deadlines end on 31 August 2020 with payments to be made by 30 November 2020.
- In case of possible insolvency due to the pandemic despite all support to avoid insolvency, a quick restart after insolvency should be facilitated with the debt relief procedure for individuals to be shortened to three years with sufficient measures to prevent abuse, and a pre-insolvency restructuring procedure to be introduced for corporate insolvencies.
 - In addition to other measures which are intended to support digitisation, climate protection and other future technologies as well as the expansion of renewable energies and infrastructure, the CO₂ building renovation programme for 2020 and 2021 will be financed with an additional €1 billion increasing financing to €2.5 billion. The government's funding programmes for the energy-efficient renovation of municipal buildings will also be increased and a programme to promote climate adaptation measures in social institutions launched.
 - In addition to extensive investments in the field of research and development (by increasing the assessment basis for the taxable research allowance under the Research Allowance Act (*Forschungszulagengesetz*) with retroactive effect from 1 January 2020 and limited until 31 December 2025 to up to €4 million per company), mobile communications technology and networks and other mobility-related sectors, the "Smart City" programme will be continued and increased by €500 million, so that projects in cities and municipalities that have not been considered so far can also receive funding.
 - The measures also include generous financial help to hard-pressed municipalities; as well as
 - investments in a sustainable forest management, including the promotion of digitisation in forestry and support for investment in modern farm machinery and equipment, and the promotion of a modern timber industry including the increased use of wood as a building material;
 - a national climate protection initiative which envisages support programmes of €300 million per year, to be co-financed by a municipal contribution whereby financially weak municipalities are to be relieved;
 - expanded incentives for buying electric cars;
 - a stronger orientation of the motor vehicle tax for passenger cars to CO₂ emissions (the tax base for new registrations as of 1 January 2021 is to be based mainly on CO₂ emissions per kilometre and raised in stages above 95g CO₂/km; the ten-year motor vehicle tax exemption already in force for purely electric vehicles is to be granted until 31 December 2025 and extended to 31 December 2030);
 - attractive opportunities of employee participation, also with special consideration of start-up companies;
 - immediate implementation of planned contracts and investments by the federal government, in particular digitisation projects in administration and security projects which can still begin in 2020 and 2021;

- temporary simplification of public procurement law, e.g. by shortening the deadlines for EU procurement procedures and adjusting the thresholds for restricted invitations to tender and freehand procurements (*freihändige Vergaben*) in Germany.
- In 2020, the federal government will support the federal states in financing local public transport (*ÖPNV*), as the corona pandemic has sharply reduced ticket revenues.
- For the years 2020 and 2021, additional €150 million will be made available for sports facilities by increasing the investment plan for sports facilities from €110 million to €260 million.
- To enable municipal enterprises to make even better use of the KfW (*Kreditanstalt für Wiederaufbau*) loan programme "*IKU - Investitionskredit Kommunale und Soziale Unternehmen*", which has already been supplemented by the option of working capital financing, the previous cap of €50 million on the respective loan amount will be cancelled.
- Further measures, e.g. to better support young people and families, animal welfare (through an investment support programme for barn conversion) as well as health care and protection against pandemics, have also been integrated into the financial package.

Our view

The announcement of Germany's largest ever economic stimulus package will be welcome news to real estate investors and tenants. The planned tax and non-tax measures are far-reaching, setting out an ambitious plan to drive wider economic recovery and committing additional funding to investment in future technologies.

The measures now need to be enacted as part of the legislative process. However, it is expected that the measures will be implemented imminently.

Once enacted, real estate businesses should consider in detail how they and portfolio companies could seek to directly benefit from the measures introduced as part of the package.

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