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Undergraduate Certificate in German HGB Taxation

## International Taxation in Germany

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International Taxation in Germany is a complex and ever-evolving field that concerns the taxation of cross-border transactions and the tax obligations of foreign companies and individuals operating within Germany. This explanation will cover key terms and vocabulary related to this topic, providing a comprehensive and detailed understanding of the subject.

**Double Taxation Treaties (DTTs):** DTTs are agreements between two countries that aim to prevent double taxation of income, where the same income is taxed in both countries. These treaties typically cover income from employment, self-employment, pensions, and capital gains, among others. Germany has DTTs with over 90 countries, each with its own unique provisions and rules.

**Controlled Foreign Companies (CFCs):** CFC rules apply when a German tax resident owns a significant stake (usually 50% or more) in a foreign company located in a low-tax or no-tax jurisdiction. The profits of the foreign company may be attributed to the German taxpayer and taxed in Germany, even if they are not distributed.

**Permanent Establishment (PE):** A PE is a fixed place of business through which a foreign company carries out its business activities in Germany. A PE may exist through a branch, office, or factory, and it triggers a tax liability for the foreign company in Germany.

**Transfer Pricing:** Transfer pricing refers to the pricing of cross-border transactions between related parties, such as subsidiaries or parent companies. The goal is to ensure that these transactions are priced at arm's length, i.e., as if they were between unrelated parties. Germany follows the OECD Transfer Pricing Guidelines and has specific transfer pricing rules in the Abgabenordnung (AO) and the Körperschaftsteuergesetz (KStG).

**Withholding Tax:** Withholding tax is a tax withheld at source on certain types of income, such as dividends, interest, and royalties. In Germany, withholding tax rates range from 0% to 35% and depend on the type of income and the residence of the recipient. Germany has DTTs that may reduce or eliminate withholding taxes for foreign recipients.

**Limited Tax Liability (Beschränkte Steuerpflicht):** A foreign company or individual may have limited tax liability in Germany, meaning they are only taxed on their German-sourced income. This is in contrast to unlimited tax liability, where a taxpayer is taxed on their worldwide income.

**Value Added Tax (VAT):** VAT is a consumption tax charged on the supply of goods and services. In Germany, the standard VAT rate is 19%, but reduced rates of 7% and 0% apply to certain goods and services. Foreign businesses may be required to register for VAT in Germany if they exceed certain thresholds.

**Trade Tax (Gewerbesteuer):** Trade tax is a tax on the profits of a business operating in Germany. It is based on the business's taxable income and is levied by the municipality in which the business is located. Foreign

businesses with a PE in Germany may be subject to trade tax.

**Mutual Agreement Procedure (MAP):** MAP is a dispute resolution mechanism provided in DTTs. If a taxpayer believes that their income has been incorrectly taxed in Germany or their home country, they can file a MAP request to seek a resolution.

**Advance Pricing Agreement (APA):** An APA is a binding agreement between a taxpayer and a tax authority that sets the transfer pricing methodology for cross-border transactions. APAs can provide certainty and reduce the risk of transfer pricing disputes. In Germany, the competent authority for APAs is the Bundeszentralamt für Steuern (BZSt).

**Country-by-Country Reporting (CbCR):** CbCR is a reporting requirement for multinational enterprises (MNEs) with a total consolidated group revenue of EUR 750 million or more. MNEs are required to report certain information about their global operations to the tax authorities of each country in which they operate. This information includes the amount of revenue, profit, taxes paid, and number of employees in each country.

**General Anti-Abuse Rule (GAAR):** GAAR is a legal provision that allows a tax authority to deny tax benefits if a taxpayer enters into a transaction or series of transactions with the sole or main purpose of avoiding tax. GAAR is used to prevent tax evasion and aggressive tax planning.

In conclusion, this explanation has covered the key terms and vocabulary related to International Taxation in Germany in the context of the Undergraduate Certificate in German HGB Taxation. These concepts are crucial for understanding the taxation of cross-border transactions and the tax obligations of foreign companies and individuals operating within Germany. By mastering these terms and concepts, learners will be able to navigate the complex world of international taxation with confidence and accuracy.