Certificate in German Taxation Laws

Tax Planning Strategies

Tax planning strategies are essential for individuals and businesses to minimize their tax liability and ensure compliance with German tax laws. This explanation will cover key terms and vocabulary related to tax planning strategies in the Certificate in German Taxation Laws course.

1. Income Tax (Einkommensteuer)

Income tax is a direct tax imposed on the income of individuals and businesses. In Germany, income tax is calculated based on the taxpayer's total income, which includes employment income, self-employment income, rental income, and investment income. The tax rate ranges from 14% to 45%, depending on the taxable income.

2. Corporate Tax (Körperschaftsteuer)

Corporate tax is a direct tax imposed on the profits of corporations and legal entities. In Germany, the corporate tax rate is 15%, plus a solidarity surcharge of 5.5% of the tax liability.

3. Trade Tax (Gewerbesteuer)

Trade tax is a local tax imposed on the profits of businesses engaged in commercial activities. The tax rate ranges from 7% to 18%, depending on the municipality.

4. Value Added Tax (Umsatzsteuer)

Value Added Tax (VAT) is an indirect tax imposed on the supply of goods and services. In Germany, the standard VAT rate is 19%, and a reduced rate of 7% applies to specific goods and services, such as food, books, and hotel accommodations.

5. Inheritance and Gift Tax (Erbschaftsteuer und Schenkungsteuer)

Inheritance and gift tax is a tax imposed on the transfer of assets from one person to another, either through inheritance or gift. The tax rate depends on the relationship between the donor and the recipient and the value of the assets.

6. Double Taxation Treaties (Doppelbesteuerungsabkommen)

Double taxation treaties are agreements between countries to avoid double taxation of income or capital. Germany has concluded double taxation treaties with more than 100 countries.

7. Tax-Exempt Allowances (Freibeträge)

Tax-exempt allowances are amounts that reduce the taxable income of individuals. In Germany, the basic tax-exempt allowance is €9,744 for singles and €19,488 for married couples.

8. Tax Deductions (Sonderausgaben)

Tax deductions are expenses that individuals can deduct from their taxable income. In Germany, tax deductions include contributions to pension plans, health insurance, and charitable donations.

9. Tax Credits (Steuerermäßigungen)

Tax credits are reductions in the tax liability of individuals or businesses. In Germany, tax credits include the child tax credit, the homeowner tax credit, and the small business tax credit.

10. Tax Deferral (Steuerstundung)

Tax deferral is the postponement of tax liability to a later period. In Germany, tax deferral is possible for specific investment income, such as life insurance policies and real estate.

11. Tax Avoidance (Steuervermeidung)

Tax avoidance is the use of legal methods to reduce tax liability. Tax avoidance is legal and different from tax evasion, which is illegal.

12. Tax Evasion (Steuerhinterziehung)

Tax evasion is the illegal non-payment or underpayment of taxes. Tax evasion includes activities such as not declaring income, falsifying invoices, and using offshore companies to hide assets.

13. Fiscal Year (Bilanzierungszeitraum)

The fiscal year is the period used by businesses to calculate their profits and pay taxes. In Germany, the fiscal year is the calendar year, but businesses can choose a different fiscal year.

14. Advance Payments (Vorauszahlungen)

Advance payments are payments made by taxpayers in installments throughout the year to cover their expected tax liability. In Germany, advance payments are mandatory for individuals and businesses with a high tax liability.

15. Tax Assessment (Steuerbescheid)

A tax assessment is the official document issued by the tax authorities that confirms the tax liability of a taxpayer. The tax assessment includes the tax liability, the tax rate, and the payment due date.

16. Tax Audit (Betriebsprüfung)

A tax audit is an examination of the tax records and accounts of a taxpayer by the tax authorities. In Germany, tax audits are mandatory for businesses with a high