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VAT'S UP

VAT NEWSLETTER

New coalition agreement: "Responsibility for Germany" – including VAT?

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1 "Responsibility for Germany"

After just over four weeks, the German political parties, CDU, CSU and SPD, have agreed on a new coalition agreement: the agreement comprises 146 pages and 4,588 lines. Tax law covers 132 of these lines - 15 lines more than in the last coalition agreement of 2021. Tax policy was certainly not the main focus of Germany's general election in February. Migration, high energy prices, the recession in the German economy and global political uncertainties dominated the debates. It is therefore not surprising that tax policy has not been the centre of attention in recent weeks. Nevertheless, the expectations of trade associations are high. They will be keeping a close eye on whether the conservative CDU/CSU and center-left SPD coalition intends to keep its promise, specifically: "*We will be renewing ... the social market economy - opportunities and "prosperity for all". To this end, we are creating the conditions for a competitive and growing economy. We will improve the structural framework conditions for both businesses and employees, promote innovation, comprehensively reduce bureaucracy and make performance-related justice a guiding principle.*"

2 Focus on income tax

In order to get the economy back on track, an investment booster in the form of a depreciation on equipment investments of 30% is to be introduced in 2025, 2026 and 2027. In addition, corporation tax is to be reduced by one percentage point in five stages from 2028. The tax on small and medium incomes is to be reduced in the middle of the legislative period. The decision to retain the solidarity surcharge was probably also fuelled by the recent decision of the German Federal Constitutional Court. Also worth mentioning are the permanent increase in the commuter allowance as of 1 January 2026 to EUR 0.38 from the first kilometre travelled and tax incentives for overtime and longer working hours: for example, overtime

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bonuses in excess of the collectively agreed full-time working hours should be exempt from VAT. We are curious to see how the exact limits will be drawn here. Tax restructuring is inevitable. Just as interesting will be the promise that pensioners, who wish to continue working voluntarily, will be able to collect up to EUR 2,000 a month tax-free. Truly rosy prospects for retirement.

3 VAT: little to nothing

Anyone hoping for a VAT booster will be disappointed: only the VAT rate for food in the catering industry is to be reduced to 7% again as of 2026. This never-ending story is finally coming to an end. After all, during the coronavirus pandemic, visiting a restaurant was already subsidised at 7%. This benefit expired in 2023 and will now be introduced again. The restaurants will be pleased. Nothing will change for restaurant guests. This is because the reduction of the VAT rate will probably not be passed on to them. However, at least the candidates in exams will be pleased. In future, they will no longer have to explain why "eat in and take away" makes a difference under VAT law and where this can be found in the VAT Act. By the way, the explanation can be found below (*).

Unfortunately, the new federal government has, once again, failed to initiate the VAT group reform. An application and determination procedure is overdue. This would provide significantly more legal certainty for businesses, but also for tax authorities. It is also urgently necessary to initiate a reform of VAT procedural law. In order to also guarantee the substantive principle of VAT neutrality in procedural law, provisions are needed to ensure that VAT is assessed in a corresponding and therefore neutral manner for all parties involved in a transaction.

It is conciliatory that at least the introduction of an offsetting model for the importation of goods is being sought. The offsetting model would eliminate the liquidity disadvantage for taxable persons resulting from the time lag between the payment of import VAT on the one hand and the claiming of the input VAT deduction on the other. At the same time, German ports, airports and customs service providers would no longer be at a competitive disadvantage compared to their competitors in other Member States. The vast majority of Member States have had an offsetting model for years. Germany is now finally following suit.

Moreover, the Distance Learning Protection Act will be amended (line 2402 et seq.). It is yet to be known whether this will have an impact on the VAT exemption under Sec. 4 No. 21 German VAT Act (see KMLZ VAT Newsletter 07 | 2025).

4 Conclusion

If, four years after the end of the 21st legislative period that is now beginning, we can say that the conservative CDU/CSU and center-left SPD coalition worked together in a stable and trusting manner, overcame the major challenges of migration, defended our liberal democracy and revitalised our economy, then we will gladly accept the fact that our passion, VAT, was not at the forefront of this legislative period. We are confident that Germany will manage this.

*This is because the 7% rate only applies to supplies of goods, not to supplies of services.

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