



**BDO Seidman, LLP**  
Accountants and Consultants

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## Issue:

### German Tax Reform Proposal to Reduce Corporate Tax Rates

# International Tax Alert

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## Issue:

A German Government expert panel recently released its ideas for “The Tax Reform 2008” which is expected to enter into force on January 1, 2008. Since these ideas have yet to be incorporated into a bill, there could still be room for discussion. However, observers agree that the basic aspects of the proposals will eventually become law. The reform will likely combine a reduction in Germany’s corporate income tax and trade tax rates with the slashing of certain deductions and other benefits.

## Affecting:

All companies doing business in Germany

## Details:

### Corporate and Trade Tax Rates

The tax reform proposal provides for a reduction of the corporate tax rate from currently 25% to a lower rate of 15%. In addition, the trade tax base rate could be reduced from 5% to 3.5%, which should bring down the average trade tax rate from currently 20% to 14% (depending on local levy rates). The solidarity surcharge of 5.5% will not change. As a result, the average tax rate of a corporate taxpayer would change from approximately 39% to less than 30%. This proposed change, if adopted, may impact U.S. shareholders of German subsidiaries that are controlled foreign corporations (“CFC”) and who used to rely on the high-tax exception from subpart F. A German CFC in the future may no longer qualify for this exception since the German tax rate may be less than 90% of the maximum U.S. tax rate (currently 31.5%).

### Other Proposals include:

- (i) Trade tax could no longer be deductible for corporate and trade tax purposes.
- (ii) The declining-balance method of depreciation could be abolished.
- (iii) The existing thin capitalization rules could be replaced by a U.S. style earnings stripping regime for interest payments in excess of EUR 1 million.

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- (iv) The add-back for trade tax purposes of 50% of the interest paid on long term debt could be eliminated. Instead, 25% of all financing costs (including interest) would have to be added-back for trade tax purposes.

### **How BDO Member Firms Can Help:**

BDO Seidman, LLP and BDO Deutsche Warentreuhand AG, the German BDO Member Firm, can assist if you have any questions regarding the above.

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