Germany Tax Knowledgebase

Employee personal income tax

Tax residence

An individual is a German resident for tax purposes if:

- They have a dwelling in Germany (owned, rented, or even a permanently accessible room at a friend's house).
- They have a habitual abode in Germany, meaning:
- Physical presence for more than six months in a calendar year, or a continuous six-month stay spanning two calendar years.

Residents are taxed on their global income, while non-residents are taxed only on German-source income. In addition, nationality alone does not determine tax residency, but tax treaties may consider it in cases of dual residency.

Non-residents may elect to be treated as residents if:
- 90% or more of their income is subject to German tax, or
- Their non-German taxable income does not exceed €12,084 (2025).

This allows them to claim tax deductions and allowances available to residents.

Conditions for the obligation to file the PIT

Filing requirements

- **Married couples:** File jointly unless legally separated or one spouse opts out.
- **Annual tax return deadlines:** 31 July of the following year, 28/29 February of the second year if prepared by a certified tax adviser, 2023 tax return deadlines, 2 September 2024 (self-prepared), 2 June 2025 (if filed by a tax adviser).
- **Tax assessment:** No self-assessment; the tax office reviews and issues a final assessment notice.

Non-resident tax filing

Required only if income is not subject to German wage tax withholding. Normally, wage tax withholding settles tax liability, except for:
- Multi-year income payments (e.g., long-term incentives).

- Severance payments taxed under the 'one-fifth' rule.

Tax report in question (Form name)

The main German income tax return form is called "Einkommensteuererklärung" (Income Tax Return).

For individuals, the relevant forms include:

- Main Form (Mantelbogen – ESt 1 A): General personal and tax information.
- Annex N (Anlage N): Employment income.
- Annex S (Anlage S): Self-employment income.
- Annex G (Anlage G) / Annex L (Anlage L): Business income and agriculture/forestry income.
- Annex KAP (Anlage KAP): Investment income.
- Annex V (Anlage V): Rental and leasing income.
- Annex AUS (Anlage AUS): Foreign income.

Tax year

Calendar Year

Tax rates

Rates (excluding solidarity surcharge & church tax)

Taxable income (EUR)	**Tax rate**
0 - 12,096	0%
12,097 - 17,443	14% - 24% (progressive)
17,444 - 68,480	25% - 41% (progressive)
68,481 - 277,825	42%
Over 277,825	45%

Tax returns and payment of tax

Taxes are payable within one month of the final assessment date. Wage and salary taxes are withheld at source, as is capital investment income with domestic banks. These withholdings count as payments toward the final income tax liability. Additional income not subject to withholding requires quarterly instalments: March 10, June 10, September 10, and December 10. Self-employed individuals must prepay income tax based on the prior year's return or, for new businesses, based on estimates. Advance payments are due on the same dates.

Tax returns are due by 31 July of the following year, with extensions available (e.g., 2 June 2025 for 2023 returns if a tax advisor is involved). The final tax is assessed after filing. Penalties for late filing can be up to 0.25% of the tax due, with a minimum of €25 per month, up to €25,000. Late payment penalties are 1% per month or part thereof. Taxes from audits accrue interest of 0.15% per month, starting 15 months after the tax year.

Taxpayers may apply for an advance ruling on the tax consequences of a proposed transaction (administrative fees may apply).

Personal deductions (salary)

For employees, common tax deductions include:

- Costs of travelling to and from work
- Business literature
- Professional dues
- Work equipment.

Employees who have switched to remote work are entitled to deduct EUR 6 for each calendar day worked from home, up to a maximum of EUR 1,260 per calendar year. Therefore, the deduction can be claimed for up to 210 days per year.

Tax allowances

- **Lump sum special expense deduction:** EUR 36 for single, EUR 72 for married couples.
- **Subsistence for parents/children with low income:** EUR 12,096. Documentation as proof is required.
- **Deductions for children over 18 living outside their parents' household:** EUR 1,200 per year (reduced for children abroad).
- Additional deductions for handicapped family members, household help.

Other allowances

- **Employee's allowance:** EUR 1,230.
- **Investor's allowance (interest, dividends, capital gains):** EUR 1,000.
- **Social security allowance:** variable.
- **Child allowance (per child in Germany):** EUR 4,800.

Additional tax reliefs (not mentioned above)

- **Alimony payments:** Deduction up to EUR 13,805 for alimony paid to a divorced partner.
- **Charitable contributions:** Deductible up to 20% of adjusted gross income for German and certain international charities.
- **Childcare expenses:** Deduction up to EUR 4,000 (EUR 4,800 in 2025) per child under 14 or for handicapped children.
- **Education expenses:** 30% of tuition fees for EU/EEA or German school children, up to EUR 5,000 per child.
- **Social security contributions:** Deductions for health, long-term care, unemployment, and pension insurance contributions with specified limits.
- **Mortgage deduction:** Interest deductible only for income-generating property, not for privately used property.

How to submit the tax return

Who must file a tax return

- **Employees:** If you have other incomes (e.g., parental allowance or unemployment benefits) exceeding EUR 410 per year in addition to your wages, you are obliged to file a tax return.
- **Business owners, agricultural workers, and self-employed:** Must submit a tax return electronically via the Elster portal.

Methods of filing

- **Online via the Elster portal:** Register and authenticate with your Tax ID and email address. Use Elster (free) or paid software like Smartsteuer (easier to use) for submission.
- **Paper submission:** You can fill out the tax return as a paper form and submit it by hand or post to your local Tax Office. Forms are available online at formulare-bfinv.de or directly from your Tax Office.
- **Filing deadline:** Tax returns are due by 31 July of the year following the tax year.
- **Extended deadline:** If you use a tax consultant or Wage Tax Assistance Association ("Lohnsteuerhilfeverein"), the deadline is extended to 28/29 February of the second year following the tax year.
- **Special exceptions:** For the 2021 tax return, the deadline was extended until 31 October 2022 (extended to 31 August 2023 with a tax consultant). For 2022, the tax return deadline is 2 October 2023 (extended to 31 July 2024 with a tax consultant).

- **Voluntary returns:** If you file voluntarily, you have four years to submit your tax return.
- **Late submissions:** Missing the deadline may result in late payments, fines, tax estimates, and interest. In exceptional cases, you can request an extension by writing to the Tax Office, justifying your request with a new proposed deadline. The Tax Office may approve or deny the extension.

Important notes

- **Elster portal:** The best method for online filing, but registration should be done early due to the authentication process.
- **Tax consultant:** Hiring a consultant or the Wage Tax Assistance Association provides extra time for filing.
- **Penalties for late filing:** Timely filing is important to avoid penalties and interest charges.

Others

Germany's tax system assigns employees to one of six tax classes (Steuerklassen) based on their marital status, income, and family situation. These classifications affect income tax (Lohnsteuer), solidarity surcharge (Solidaritätszuschlag), and church tax (Kirchensteuer), if applicable.

Overview of tax classes

Tax class I – Single individuals

- For single, divorced, widowed, or permanently separated employees.
- Includes pensioners without a spouse and married individuals whose spouse does not live in Germany.
- Standard tax rate with no extra benefits for dependents or a spouse.

Tax class II – Single parents

- Applies to single parents raising at least one child for whom they receive child benefits (Kindergeld).
- Offers tax relief (Entlastungsbetrag für Alleinerziehende) to reduce the financial burden of parenting alone.

Tax class III – Higher-earning spouse in a marriage

- For married couples where one partner earns significantly more.
- The higher earner is in tax class III, while the lower earner is in tax class V.
- Results in lower tax deductions for the higher earner, maximising household income.

Tax class IV – Married couples with similar incomes

- Designed for spouses/partners with roughly equal earnings.

- Taxes both partners individually but fairly, unlike the III/V split.

Tax class V – Lower-earning spouse in a marriage
- The lower-earning partner in a III/V combination.
- Faces higher tax deductions, but the combined household tax burden is reduced.
- Works best when there is a large income gap between spouses.

Tax class VI – Employees with multiple jobs
- Applied to second or additional jobs.
- No basic tax-free allowance (Grundfreibetrag), leading to higher tax deductions.

Changing tax classes in Germany

Employees can switch tax classes in certain situations, particularly married couples and registered partners, who may apply for a tax class change once per calendar year unless they experience a major life event.

When can you change tax classes?
- **Marriage:** Automatically assigned IV/IV but can switch to III/V for tax benefits.
- **Divorce/separation:** Couples must move to tax class I (or II if a single parent).
- **Death of a spouse:** The survivor remains in III for the year of death, then moves to I.
- **Income changes:** Switching between III/V and IV/IV can help optimise tax deductions.
- **Parental leave/unemployment:** Moving to III/V can reduce household tax liability.

Employees in tax class VI (multiple jobs) cannot switch unless they drop additional employment.

Why change tax classes?

- **Higher income:** Moving to III/V can increase the higher-earning spouse's net salary.
- **Job loss or leave:** Helps minimise deductions for the working spouse.
- **Balancing tax burden:** IV/IV avoids over-taxation for dual-income couples.
- **Maximising tax refunds:** IV/IV with the factor method (Faktorverfahren) adjusts deductions more accurately.

How to apply for a tax class change

1. Submit an application to the local Finanzamt (tax office).
2. Fill out the form "Antrag auf Steuerklassenwechsel bei Ehegatten/Lebenspartnern".
3. Provide supporting documents (e.g., proof of marriage, residency, and income).
4. Apply in person, by mail, or via ELSTER (Germany's online tax portal).

Approval takes effect the following month.

Final tips

- Choosing the right tax class affects your monthly take-home pay and potential tax refunds.
- Consider consulting a tax advisor (Steuerberater) for the best tax strategy.
- Regularly review your income and personal circumstances to ensure you are in the most beneficial tax class.

Employee taxation of income (int, div, royalties)

Dividend income: Tax rates

Dividend income is subject to a flat tax rate of 25% plus a 5.5% solidarity surcharge (in total 26.375%, plus church tax if applicable), which is basically withheld at source. Related expenses cannot be deducted. Dividend income qualifies for the annual investor's allowance of EUR 1,000 (previously EUR 801) per taxpayer for the total of all financial investment income. This amount is doubled in the case of married taxpayers filing jointly.

Special partial tax exemptions apply to distributions of mutual funds, depending on the nature of the fund.

Mutual funds retaining their profits can trigger deemed income to be taxed at the investor level, even if no actual distributions are made.

Note that the investor's allowance is only provided once for the total of interest and dividend income, and capital gains.

Interest income: Tax rates

Interest income is subject to a flat tax rate of 25% plus a 5.5% solidarity surcharge (in total 26.375%, plus church tax if applicable), which is basically withheld at source. Related expenses cannot be deducted. Interest income qualifies for the annual investor's allowance of EUR 1,000 per taxpayer for the total of all financial investment income. This amount is doubled in the case of married taxpayers filing jointly.

Note that the investor's allowance is only provided once for the total of interest and dividend income, and capital gains.

Capital gains: Tax rates

Capital gains from financial investments (e.g., sale of shares) are taxed at a flat rate of 26.375% (25% plus 5.5% solidarity surcharge, plus church tax if applicable). The tax is withheld at source. No deductions for related expenses are allowed. The 'investor's allowance' provides a tax-free amount of €1,000 per year (€2,000 for married couples filing jointly). Special rules apply to gains from the sale of significant interests (1%+), mutual fund sales, and private property. Capital gains on assets held for over one year (movable) or ten years (real property) are taxable only if the annual profit exceeds €1,000 (up from €600 previously).

Note that the investor's allowance is only provided once for the total of interest and dividend income, and capital gains.

Special partial tax exemptions apply to capital gains from the sale of mutual fund units, depending on the nature of the fund.

Other capital gains are taxable in Germany at individual progressive rates only if the sale is within one year (for movable assets) or ten years (for real property) after the purchase date. Since 2024, these capital gains are only taxable if the profit exceeds EUR 1,000 per year in total. Further tax relief may be applicable under specific conditions if the property was used for private purposes.

Royalty income: Tax rates

Royalties are subject to tax at the level of an individual resident taxpayer at individual progressive rates.

Withholding

Withholding tax on dividends: Rates

A statutory rate of 25% (26.375%, including the solidarity surcharge) applies to dividends paid to residents; the withholding tax is typically creditable or refundable for residents.

Withholding tax on interest: Rates

Withholding tax generally is not imposed on interest paid to residents and nonresidents, except for interest on publicly traded debt, interest received through a German payment agent (usually a bank), convertible bonds, and certain profit participating loans. The statutory rate is 25% (26.375%, including the solidarity surcharge). Where interest is paid to nonresidents, the rate may be reduced under an applicable tax treaty

Withholding tax on capital gains: Rates

A statutory rate of 25% (26.375%, including the solidarity surcharge) applies to capital gains realised by residents; the withholding tax is typically creditable or refundable for residents.

Withholding tax on royalties: Rates

Withholding tax is not imposed on royalties paid to residents. The withholding tax on royalties paid to nonresidents is 15% (15.825%, including the solidarity surcharge)

Fees for technical services

There is no withholding tax on fees for technical services

Employee tax - special regimes to apply

Double taxation agreements (link website)

https://www.bundesfinanzministerium.de/Web/DE/Themen/Steuern/Internationales_Steuerrecht/Staatenbezogene_Informationen/staatenbezogene_info.html