



BANSBACH INFORMS

Property tax reform | June 2022

AT A GLANCE

- Reasons for the reform
- Valuation models
 - Federal models
 - Federal state models
- What to do?
- Schedule

PROPERTY TAX REFORM

REASONS FOR THE REFORM

The parameters for calculating the property tax are property value, tax rate and assessment rate. Until now, decades-old basic values have been used as the basis of assessment for property values (values West Germany from 1964, values East Germany from 1935).

As a result, different property taxes were determined for similar properties, which violated the requirement of equal treatment embedded in the Constitutional Law.

Therefore in 2018, the provisions on the valuation procedures for the assessment of property tax were declared unconstitutional by the Federal Constitutional Court. Now the new property tax value will apply. In addition, the tax rates have been changed and the assessment rates will most likely be adjusted by the municipalities, as well.

The procedure for calculating property tax, consisting of 3 stages, remains unchanged:

- Stage 1: Determination of the property tax value
- Stage 2: Application of the tax rate and calculation of the property tax measurement amount
- Stage 3: Application of the assessment rate and determination of property tax

The calculation formula is as follows:

Property tax value x tax measure x assessment rate = property tax

Property tax value x tax measure
Property tax measurement amount

The main goal of the reform is to reorganize the property tax in accordance with the Constitutional Law. In addition to that, the property tax reform should be "of neutral impact". For this purpose, all properties in Germany will be revaluated. The first main assessment under the new law will take place on January 1st, 2022. Subsequently, the main assessments will be made every 7 years. However, property tax under the new law will be levied from January 1st, 2025 onwards.

VALUATION MODELS

For calculating the new property tax values, the so-called federal model was developed. Most federal states have adopted the federal model. However, Saarland and Saxony, with modified tax rates. Some federal states have developed their own valuation models. Including: Baden-Württemberg, Bavaria, Hamburg, Hesse and Lower Saxony.

For agricultural and forestry land, all federal states will essentially adopt the federal model. It is designed as a so-called "standardized income approach".

Federal Model - Real Estate

There are two valuation procedures for the property tax value in the Federal Model, depending on the type of property:

- **Income approach:** Single- and two-family houses, residential properties for letting and residential property.
- **Asset value approach:** Commercial properties, properties for mixed use land, other developed land and partial ownership.

The **undeveloped sites** are assessed on the basis of the plot size and the standard land value.

Basic parameters for income approach: Plot size, standard land value, type of property, age of the building, living space, rent level, monthly net cold rent in euros/sqm.

Basic parameters for asset value approach: Production costs building, gross floor area of the building, age of the building, plot size, standard land value.

The tax rate is then applied to the property tax value, which in the Federal Model is 0.31‰ for single- and two-family houses, apartments and multi-family houses and 0.34‰ for all other types of property. This results in the property tax measurement amount.

As before, the property tax assessment notice will be issued by the municipality. The final amount of the property tax depends on the assessment rates, which are still to be determined by the municipalities.

Federal States Models

Baden-Württemberg: Modified land value model

For the calculation of the property tax according to the modified land value model, three factors are important: plot size, standard land value and its use.

The land value determined by the plot size and the standard land value results in the property tax value. This is multiplied by the tax rate of 1.3‰ (if applicable deduction depending on the use) (= property tax measurement amount). Applying the assessment rate, the property tax is calculated.

A qualified appraisal can be used as a basis for a different property tax value if the depreciation is more than 30%.

Bavaria: Equivalence model (so-called Surface model)

For the calculation of property tax according to the equivalence model, three factors are important: the area of the land and the building and the use of property.

The respective equivalence numbers are applied to the areas. The equivalence numbers for property are 0.04 Euro/sqm (if applicable deduction depending on use, development, size) and for buildings 0.50 Euro/sqm. The tax rates are then applied to the respective equivalence amounts (= property tax measurement amount). Applying the assessment rate, the property tax is calculated.

In general, the tax rate is 100%. For buildings, certain deductions have to be taken into account depending on their use.

Lower Saxony: Area-location-model

For the calculation of the property tax according to the area-location model, five factors are important: the area of the land and the building, the use of property, the standard land value of the land and the average standard land value of the municipality.

It corresponds to the Bavarian model except for the additional consideration of a location factor:

Location factor = (standard land value of the land / average standard land value of the municipality)^{0.3} This is used as a further multiplier.

Hesse: Area-factor-model

For the calculation of the property tax according to the area-factor-model, the same factors are important as the model of Lower Saxony.

It also corresponds to the Bavarian model. The location factor is also used to determine the property tax measurement amount. However, in contrast to the model of Lower Saxony, it is applied after the area amounts have been multiplied with the respective tax rates and not on determination of the equivalence numbers for the land and buildings.

Hamburg: Residential area model

For the calculation of the property tax according to the residential area model, four factors are important: the area of the land and the building, the use of the property and the residential area. The calculation is done according to the Bavarian model. For the reduction of the tax rate for residential buildings, further distinctions are made depending on the quality of living.

Federal Model: Agricultural and forestry enterprises – standardized income approach

The standardized income approach applies only to agricultural and forestry land and to farm sites (new type of use). The economic unit "agricultural and forestry enterprises" no longer extends to residential areas. They are viewed as real estate.

A distinction between self-cultivated land, leasing and piece of land as before is no longer necessary. The tax rate is 0.55%.

First, a classification is made according to use (agricultural, forestry, viticultural, horticultural (further subdivisions)) or by type of use (mining land, so-called least land, wasteland, farm sites, secondary farm).

According to the annexes of the Valuation Act these classifications result in certain valuation factors, which

will be applied to the respective plot sizes. This results in the plot size values. The sum of all lot size values result in the net yield per use/type of use. Taking into account possible surcharges, the sum of all net yield is capitalized (factor 18.6). The result is the property tax value.

The tax rate of 0.55‰ is applied to the property tax value and then multiplied by the assessment rate. This results in the property tax.

WHAT TO DO?

Information for property owners

In order to carry out the revaluation, a declaration for the determination of the property tax value is required for each property, which must be submitted electronically via ELSTER. This declaration must be submitted by all property owners in the period from **July 1st, 2022 to October 31st, 2022**.

The formal notice to submit the declaration of determination will normally be made by **public announcement**. This means that you, as a taxpayer, are unlikely to receive a letter from the tax office in this regard.

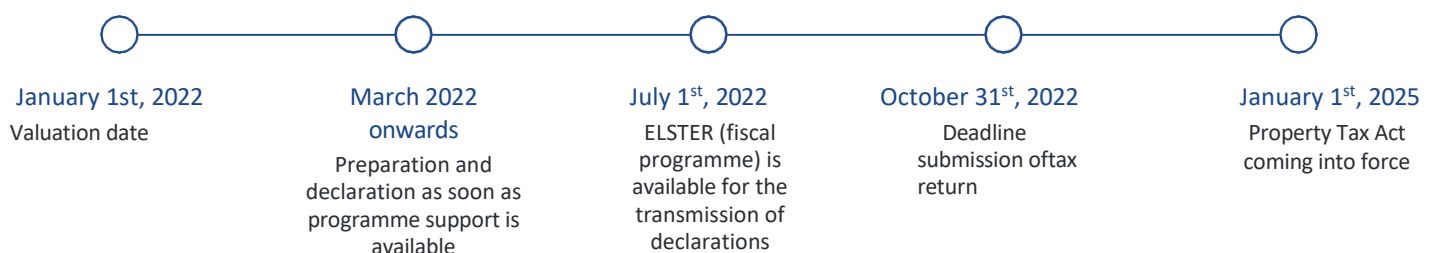
Documents required for the declaration

For each object, the following information is required for preparing the declaration of determination of the property tax value:

- Location of the property or agriculture and forestry enterprise
- Municipal area/district, land parcel and of real estate plot
- Ownership structure
- Type of land (undeveloped, residential land, other buildings)
- Plot size of the property, if applicable floor area of the building
- Use or type of use
- If applicable, demolition obligation
- For agricultural and forestry areas yield measurement rate and if necessary further detailed information

This information can be found amongst others in the purchase contract, in the land map, cadastral extract, in the land register sheet, in the basic value assessment notice, in the property tax assessment notice or in the declaration of division.

SCHEDULE



We will be happy to support you in the preparation and the submission of the declarative statement of the property values.