Germany

International Comparison of Insurance Taxation*

May 2009

Germany – General Insurance

Definition	Accounting	Taxation
Definition of 'property and casualty insurance company'	A company carrying on any kind of direct insurance business other than life insurance (including annuities), health insurance, legal expenses insurance and social security.	No separate definition.

Commercial Accounts/Tax and Regulatory Returns	Accounting	Taxation
Basis for the company's commercial accounts	Generally accepted accounting principles and special accounting principles for insurance companies, both embodied in the Commercial Code (HGB). Specific regulations on technical reserves and the valuation of investments must be observed.	Taxation is based on the commercial accounts, as adjusted according to tax legislation and fiscal court decisions.
Regulatory returns	Separate detailed returns must be filed with the German regulator (Bundesanstalt für Finanzdienstleistungsaufsicht or BaFin).	N/A.
Tax returns	N/A.	Annual returns are to be submitted as required by tax law, based on the (adjusted) commercial accounts.

Technical Reserves/ Equalisation Reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	The 1/360th or 1/24th method in principle as a discretionary regulatory minimum, generally net of 85% of commission (92.5% for reinsurance).	As per accounts.
Unpaid claims reported (Outstanding loss reserves)	Item-by-item valuation. The full amount of an estimated claim has to be added to the reserves, whereas certain claims due are to be deducted. Reasonability of the reserves will be disputed if the estimates exceed 10% (motor liability) or 20% (general liability) of the amounts later paid. The statistical method (group valuation) – especially in certain lines of insurance (i.e. transport) – is accepted for small claims.	Reserves for the same type of obligations have to be set up according to statistical experience (as defined by tax law and guidelines from the tax authorities) with respect to the probability of the reduced final obligations in total. In principle, liabilities with a remaining lifetime of at least 12 months must be discounted at a rate of 5.5% p.a.; blanket deductions are to be made for certain types of insurance (e.g. general liability and motor liability).
Claims incurred but not reported (IBNR)	Blanket valuation based on experience or statistical methods. The full estimated claims must be reserved.	As for unpaid claims reported.
Unexpired risks	Not separately shown in the balance sheet.	N/A.

Germany - General Insurance (continued)

Technical Reserves/ Equalisation Reserves [Continued]	Accounting [Continued]	Taxation [Continued]
General contingency/solvency reserves	To guarantee solvency, a minimum capital is required, depending on the scope of the (envisaged) business. A contingent loss reserve may be set up for insurance contracts taken out in that business year, valued as the collective risk for each type of insurance. The collective risk is calculated as the difference between the expected premiums received and expected benefits paid out for each type of insurance. No other contingency / solvency reserves (apart from below).	The contingent loss reserve is not recognised for tax purposes.
Equalisation/catastrophe reserves	An equalisation reserve must be established and calculated if significant fluctuations in the annual requirement may be expected and these fluctuations are neither offset by premiums nor covered by reinsurance. A formula is to be used reflecting the standard deviation of net losses for the past 15 years (30 years in some specified cases). Equalisation reserves must be increased by 3.5% per annum up to a maximum limit. Moreover, additional reserves for certain large risk insurance categories are deductible according to specific regulations. Catastrophe reserves are only allowable for pharmaceutical business liability insurance, nuclear plants insurance and insurance for large-scale terrorist acts.	As per accounts.

Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Direct and indirect costs arising from the conclusion of insurance contracts (e.g. commission, advertising costs, administrative expenses for processing applications) must be deducted immediately.	As per accounts.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Fully deductible for individual cases; flat-rate deduction under certain circumstances. Gross amount has to be reduced by the contractual reinsurance rate.	As per accounts.
Experience-rated refunds	Deductions for refund of excess premiums permitted.	As per accounts.

Germany - General Insurance (continued)

Investments	Accounting	Taxation
Gains and losses on investments	All realised gains and losses resulting from capital investments must be shown in the profit and loss account. Qualifying realised gains from real estate, however, may be set up as an untaxed reserve for up to six years.	For business years up to 2003 inclusive, capital gains from direct share investments are tax-exempt and corresponding losses are not deductible. For the business year 2004 onwards, capital gains from direct share investments are only 95% tax-exempt and corresponding losses are not deductible. For the business year 2008 onwards, corresponding losses include losses in conjunction with certain debts receivable under a loan in specific circumstances. For trade tax purposes 95% of capital gains from direct share investments has to be added. Capital gains realised on the disposal of fund units are generally taxable. Due to the transparency of fund investments, the proportional part of any tax-free equity income gained by the fund (dividends and capital gains from its direct share investments, see above) is deductible. Corresponding losses from the fund's direct share investments are not taken into account.
Investment reserves	See section assessment of investment below. No specific reserves possible.	See section assessment of investment below. No reserves possible.
Assessment of Investments	As a basic rule, investments (shares including own shares, other fixed-interest securities as well as non-fixed interest securities) are valued at acquisition costs, depreciated by any reduction in the market value. Long-term investments are valued at acquisition costs, which may be depreciated if any value decrease is likely to be temporary. If the value decrease is likely to be permanent, depreciation is mandatory.	Depreciation is restricted. The lower going concern market value may only be used if a decrease in value is likely to be permanent. Depreciations of shareholdings are not deductible.
Investment income	Interest and dividends must be included in the P&L account (with credit for taxes withheld).	As per accounts. For business years up to 2003 inclusive, dividend income is tax-exempt. For subsequent business years, dividend income is only 95% tax-exempt.

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums are deductible immediately. Reinsurance claims reduce reserves. Note: an actual transfer of risk is required. Amount of risk transfer still determined by industry practice.	As per accounts.

Mutual Companies	Accounting	Taxation
Mutual companies (all ‘profits’ - in principle - returned to members = policyholders)	Premium refunds to members are expenses. Profit distributions to members (rare) are appropriations and therefore not expenses.	Premium refunds are deductible to a certain extent.

Germany – General Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	Mandatory one-year carry-back up to EUR 511,500. Carry forward of loss remaining after carry-back: • For business years up to 2003 inclusive without limitation in respect of amount and duration and can be offset in full, • For the business year 2004 onwards, the amount of loss carried forward that can be offset in full in one business year is restricted to EUR 1 million. Any amount over and above this can be offset at 60% (i.e. minimum taxation of 40% for remaining income after EUR 1 million off-set). The remaining loss can be carried forward indefinitely.
Foreign branch income	Taxation depends on the double taxation treaty applicable: either fully taxable with credit for foreign tax or tax-exempt. According to the German tax authorities, a foreign insurance branch must be allocated income as if it were a fully operational insurance company. Therefore, the actual function of the branch is not taken into account. Capitalisation will generally be recognised if required by the host state's insurance regulations. This is contradiction to new OECD principles published in July 2008 (Report on the Attribution of Profits to Permanent Establishments, Part IV). It is yet to be seen whether these principles will be implemented into German tax law.
Domestic branch income	Calculated according to German tax rules (including transfer pricing rules). According to the German tax authorities, a domestic insurance branch must be capitalised and allocated income as if it were a fully operational insurance company. Therefore the actual function of the branch is not taken into account. This is contradiction to new OECD principles published in July 2008 (Report on the Attribution of Profits to Permanent Establishments, Part IV). It is yet to be seen whether these principles will be implemented into German tax law.
Corporate tax rate	Corporate tax: 1. For business years before 2003: 25% 2. For business year 2003: 26.5% 3. For business years 2004 - 2007: 25% 4. For business years 2008 onwards: 15%. Solidarity surcharge: 5.5% of corporate tax payable. Trade tax: Trade tax rate depends on the individual municipality in which the company is situated (average 18%). 1. For business years before 2008: Trade tax is a deductible expense for corporate tax purposes. 2. For business years 2008 onwards: Trade tax is a non-deductible expense for corporate tax purposes. Average effective tax rate: 1. For business years before 2008: Between 39% and 42%. 2. For business years 2008 onwards: Between 30% and 32%.

Other tax features	Taxation
Premium taxes	In general 19% (16% before 2007) insurance tax on all gross premiums for direct business. In certain specified cases a rate of 3% to 18% (2% to 15% before 2007) applies. No premium taxes on health insurance, statutory social security insurance and reinsurance. Fire brigade tax is also payable on the gross premium for fire insurance (8%), property insurance (effective rate 2%) and contents insurance (effective rate 1.6%). Generally, if fire brigade tax is payable, the premium tax rate is reduced. Premium taxes are owed by the policyholder, whereas fire brigade tax is owed by the insurer and may not be on-charged to the policyholder.
Capital taxes and taxes on securities VAT	No (general) capital taxes for the policyholder or insurer. Insurer may be liable for real estate (property) tax on the sale or transfer of domestic property (deductible). No VAT on insurance premiums; correspondingly no refund of input VAT.

Germany – General Insurance - Other Tax Features (continued)

Other tax features [Continued]	Taxation [Continued]
Captive insurance companies	The only German fiscal guidelines regarding captives were developed as case law from the 1930s and one specific circular issued in the 1970s. More guidance was provided on the CFC aspects of captives in a 2004 circular, but the status is still not fully clear. Companies only underwriting risks in the group are not allowed to set up technical reserves if the business is not carried out according to technical principles. In this case, premiums paid are not deductible for the policyholder. Captives may also be covered under German legislation concerning controlled foreign companies.
Latest changes according to German tax law	Some additional changes under German law have occurred with effect from 01.01.2008: 1. Relocation of functions into a foreign country might trigger different fiscal effects. 2. Impacts on tax loss carry-forward might arise where there are significant changes in the composition of the shareholders. For a company, the loss carry-forward relief is restricted where there is a direct or indirect change of shareholders. The restriction is based on the percentage of share capital acquired by a single shareholder. If this is 25% or less within a five year period there is no restriction; if it is more than 25% but less than 50%, the loss carry-forward is restricted by the same percentage; if it is more than 50%, the carry-forward is forfeited. These principles also apply to corporate reorganisations within a group without a change in ultimate ownership. 3. The thin capital rules that restrict the deduction of interest on shareholder loans are replaced with effect from 01.01.2008 by an interest deduction limitation rule. The allowable net interest expense is restricted to 30% of taxable income before interest taxes on income, depreciation and amortisation. There is no limitation on the deductibility of interest, inter alia, if the net interest expense is not more than EUR 1million or the company is not part of a group interest paid to any one shareholder of more than 25% does not exceed 10% of the net interest expense. 4. For 2008, the traditional rule disallowing one half of all long-term loan interest for trade tax has been replaced with a more general disallowance of one quarter of all interest expense over EUR 100,000. The new disallowance also extends to the financing element included in other forms of outlay. These interest substitutes are 20% of the rental and lease payments for moveable assets, 75% of the rental and lease payments for immovable's and 25% of royalties other than those paid to acquire rights for the sole purpose of sub-licensing.

Germany – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	A company that carries on any kind of direct life insurance. The licence for life insurance does not include any related insurance classification, but the general (limited) permission to do supplemental business.	No separate definition.
Commercial Accounts/Tax and Regulatory Returns	**Accounting**	**Taxation**
Basis for the company's commercial accounts	GAAP and special accounting principles for insurance companies, both embodied in the Commercial Code (HGB). Specific regulations on technical reserves and on the valuation of investments must be observed.	Taxation is based on the commercial accounts, as adjusted according to tax legislation and fiscal court decisions. In addition, special regulations regarding surplus payments to policyholders have to be observed.
Regulatory returns	Separate detailed returns must be filed with the German regulator (*Bundesanstalt für Finanzdienstleistungsaufsicht* or BaFin).	N/A.
Tax returns	N/A.	Annual returns are to be submitted as required by tax law, based on the (adjusted) commercial accounts.
General approach to calculation of income	**Accounting**	**Taxation**
Allocation of income between shareholders and policyholders	As a general principle, for profit participation life insurance at least 90% of an insurer's investment income must be allocated to a special reserve for premium refunds. In practice, this percentage is higher (on average between 95% and 98% of the insurance company's gross profits). These policyholder bonuses are expenses. For unit-linked life insurance, there is no reserve for premium refunds, rather, any fluctuations in the value of the funds in which the insurer has invested must be correspondingly reflected in the reserve for future claims.	The reserve for premium refunds is deductible to a certain extent; as a basic rule it is deductible as far as an insurer's overall annual profit is higher than the net investment income from its trading capital and other investments.
Calculation of investment return	**Accounting**	**Taxation**
Calculation of investment income and capital gains	Total income approach. Interest and dividends must be included in the P&L account, with credit for taxes withheld.	Capital gains realised on the disposal of fund units are generally taxable. Between 01.01.2002 and 31.12.2003, dividend income and capital gains from shareholdings were tax-exempt and corresponding losses were not deductible. Due to the transparency of fund investments, this is also applied to shares held indirectly via an investment fund (i.e. the proportional part of any tax-free equity income gained by the fund was deductible and corresponding proportional losses from the fund's direct investments were not taken into account). With effect from 01.01.2004, all dividend income and capital gains from holdings in corporate companies are fully taxable for life insurance companies, whereas write-offs on holdings in corporate companies and losses on the disposal of those assets are tax-deductible. *Continued on next page.*

Germany – Life Insurance (continued)

Calculation of investment return [Continued]	Accounting [Continued]	Taxation [Continued]
		The respective life insurance company could apply to use this rule, retrospectively, for all business years from 2001 onwards (deadline was 30.06.2004). However, such income, gains and losses can only be used at 80% (i.e. minimum 20% taxation for the years 2001 to 2003 inclusive). The new rule will apply to both directly-held investments and shared held indirectly via investment funds.

Calculation of underwriting profits or total income	Accounting	Taxation
Actuarial reserves	Actuarial reserves covering the company's obligations from the life policies must be established according to standard recognised actuarial methods (prospective method). If this is not possible, then figures from the last business year, with an interest mark-up, are to be used (retrospective method). When calculating the reserves, a maximum interest rate of 2.25% is to be used (2.75% between 01.01.2004 and 31.12.2006, 3.25% before 01.01.2004).	As actuarial reserves are interest-bearing, they are not to be discounted for tax purposes.
Acquisition expenses	Direct and indirect costs arising from the conclusion of insurance contracts (e.g. commission, advertising costs, administrative expenses for processing applications) must be deducted immediately. With regard to deferred acquisition costs (DAC) see commission expenses below.	As per accounts.
Commission expenses	Deductible immediately, as commission expenses cannot be capitalised under German tax law. On-charge to policyholders possible (*Zillerung* or "Zillmerisation"). The zillmerisation amount will be converted mathematically into an additional premium which as to be paid by the policyholder.	As per accounts.
Gains and losses on investments	All realised gains and losses resulting from capital investments must be shown in the P&L account. However, qualifying realised gains from real estate, may be set up as an untaxed reserve for up to six years under certain circumstances.	See calculation of investment income and capital gains above (Section 4).
Reserves against market losses on investments	Reserves against market losses on investments may not be established. As a basic rule, investments (shared including own shares & other fixed-interest securities) are valued at acquisition costs, depreciated by any reduction in the market value. Long-term investments are valued at acquisition costs, which may be depreciated if any value decrease is likely to be temporary. If the value decrease is likely to be permanent, depreciation is mandatory.	Reserves against market losses on investments may not be established. Per accounts.
Dividend income	To be included in the P&L account, with credit for taxes withheld.	See calculation of investment income and capital gains above (Section 4).

Germany – Life Insurance (continued)

Calculation of underwriting profits or total income [Continued]	Accounting [Continued]	Taxation [Continued]
Policyholder bonuses (Premium refunds to policyholders)	As a general principle for profit participation life insurance, at least 90% of an insurer's investment income must be allocated to a special reserve for premium refunds (policyholder bonus). These policyholder bonuses are expenses. With effect from 01.01.2008 onwards, at least 75% of profit from risk costs, at least 50% of profit from administration costs and at least 90% of the insurer's investment income must be allocated to the so-called premium refund reserves. Moreover, 50% of hidden reserves have to be allocated to the premium refund reserves. However, the aforementioned regulations are not applicable to EU insurers operating in Germany under freedom of services or other insurers are not subject to the financial supervision of the German regulator. In principle, there are no premium refunds for unit-linked life insurance, as long as no term is guaranteed. Any income from the fund is generally reinvested.	The reserve for premium refunds is deductible to a certain extent; as a basic rule it is deductible as far as an insurer's overall annual profit is higher than the net investment income from its business assets.
Assessment of investments	As a basic rule, investments are valued at acquisition costs, depreciated by any reduction in the market value. Long-term investments are valued at acquisition costs, which may be depreciated if any value decrease is likely to be temporary. If the value decrease is likely to be permanent, depreciation is mandatory. For capital investments made on behalf of holders of unit-linked policies, any fluctuations in the value of the funds must be reflected in the reserve for future claims.	Depreciation is restricted. The lower going concern market value may only be used, if the value reduction is likely to be permanent. Depreciation of shareholdings is deductible. As per accounts for capital investments made on behalf of holders of unit-linked policies.
Other special deductions	None.	N/A.

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums are deductible immediately. Reinsurance claims reduce reserves. Note: an actual transfer of risk is required. Amount of risk transfer still determined by industry practice.	As per accounts.

Mutual companies/Stock companies	Accounting	Taxation
Mutual Companies	Profit distributions to members (rare) are appropriations and not expenses.	As per accounts.

Germany – Life Insurance - Other Tax Features

Further corporate tax features	Taxation
Loss carry-overs	Mandatory one-year carry-back up to EUR 511,500. Carry forward of loss remaining after carry-back: • For business years up to 2003 inclusive without limitation in respect of amount and duration and can be offset in full. • For the business year 2004 onwards, the amount of loss carried forward that can be offset in full in one business year is restricted to EUR 1 million. Any amoung over and above this can be offset at 60% (i.e. minimum taxation of 40% for remaining income after EUR 1 million off-set). The remaining loss can be carried forward indefinitely.
Foreign branch income	Taxation depends on the double taxation treaty applicable: Income is either fully taxable with credit for foreign tax or tax-exempt. According to the German tax authorities, a foreign insurance branch must be allocated income as if it were fully operational insurance company. Therefore, the actual function of the branch is not taken into account. Capitalisation will generally be recognised if required by the host state's insurance regulations. This is a contradiction to the new OECD principles published in July 2008 (Report on the Attribution of Profits to Permanent Establishments, Part IV). It is yet to be seen whether these principles will be implemented into German tax law.
Domestic branch income	Calculated according to German tax rules (including transfer pricing rules). According to the German tax authorities, a domestic insurance branch must be capitalised and allocated income as if it were a fully operational insurance company. Therefore, the actual function of the branch is not taken into account. This is a contradiction to the new OECD principles published in July 2008 (Report on the Attribution of Profits to Permanent Establishments, Part IV). It is yet to be seen whether these principles will be implemented into German tax law.
Corporate tax rate	Corporate tax: 1. For business years before 2003: 25% 2. For business year 2003: 26.5% 3. For business years 2004 – 2007: 25% 4. For business years 2008 onwards: 15%. Solidarity surcharge: 5.5% of corporate tax payable. Trade Tax: Trade tax rate depends on the individual municipality in which the company is situated (average 18%). 1. For business years before 2008: Trade tax is a deductible expense for corporate tax purposes. 2. For business years 2008 onwards: Trade tax is a non-deductible expense for corporate tax purposes. Average effective tax rate: 1. For business years before 2008: Between 39% and 42% 2. For business years 2008 onwards: Between 30% and 32%.

Policyholder taxation	Taxation
Deductibility of premiums	For policies taken out before 01.01.2005: Subject to certain criteria, premiums into an endowment insurance or annuity insurance are tax-deductible up to specific amounts. Unit-linked policies are excluded. For policies taken out on or after 01.01.2005: Only premiums into certain annuity insurance policies are tax-deductible up to EUR 20,000 p.a. in principle. Strict criteria apply. In 2005, only 60% of the maximum deductible amount applies, and increases by 2% annually until 2025, when the full EUR 20,000 can be used. Premiums into endowment insurance policies are not tax-deductible.

Germany – Life Insurance - Other Tax Features (continued)

Policyholder taxation [Continued]	Taxation [Continued]
Profits generated	For policies taken out before 01.01.2005: • Profits paid out as “one-off” payments are taxable in principle. The profits are tax-free if certain criteria are fulfilled. • For regular annuity payments the deemed profit is taxable, which is calculated according to a statutory table. For policies taken out on 01.01.2005 or after: • Profits paid out as “one-off” payments are fully taxable in principle. Profits are only 50% taxable if certain criteria are fulfilled. For policies taken out after 31.03.2009, minimum life cover applies for 50% tax privilege. • For annuity insurance policies with tax-deductible premiums, the annuity payment is taxable in full in principle. A transition phase applies until 2040, during which the annuity payments are only partially taxable according to an increasing scale. • For all other annuity payments, the deemed profit is taxable, calculated according to a statutory table. Certain policy amendments will affect the taxation of “one-off” payments. With effect from 01.01.2009, a so-called settlement withholding tax applies (see interest build-up). Moreover, with effect from 01.01.2009, so-called investment management insurance contracts (life insurance wrappers) are now explicitly excluded from qualification as life insurance for German income tax purposes and will be treated as transparent investments. All profits from the wrapper contract will be taxable when they arise, rather than when the policy proceeds are paid out. Moreover, the 50% tax privilege will not apply to wrapper policies. If the profits are not paid to the policyholder, these are subject to gift tax in principle on the side of the beneficiary. However, certain tax-free allowances apply, depending on the proximity of the beneficiary’s relationship to the policyholder (e.g. spouse, child, grandchild, etc.). Moreover, under certain circumstances, the payment to a beneficiary will not be subject to inheritance tax if the beneficiary paid the premiums for the policy.
Interest build-up	Interest and profits are only taxable when paid out to the policyholder (exception wrapper policies). A new withholding tax has been introduced for income from capital assets (including income from life insurance) with effect from 01.01.2009. This withholding tax is a so-called settlement tax, i.e. it is deemed to settle the full tax burden for this income. If the taxpayer's personal tax rate is higher than 25%, no extra pay is due, if it is lower than 25%, a refund is only possible under certain circumstances. Any foreign tax paid on these profits will be credited, no income-related expenses are deductible. Any profits from a life insurance policy, which are taxable in full (either under the old pre-2005 rules or the new tax rules) will be subject to the 25% withholding tax. Profits from life insurance policies, which are only 50% taxable, will be taxed at the taxpayer’s personal rate and so must be declared in the taxpayer’s annual tax return. However, the full settlement tax will initially be deducted at source. Profits from foreign life insurance policies will be subject to the settlement tax if the foreign insurer has a branch in Germany, i.e. after 31.12.2008, the foreign insurer’s branch will have to withhold the 25% tax at source and forward this to the German tax authorities. If the foreign insurere does not have a German branch and the life insurance was concluded via a German insurance intermediary after 31.12.2008, the intermediary must provide the Federal Central Tax Office for Tax (BZST) with certain information regarding the policy and the policyholder.
Proceeds during lifetime	As per profits generated (see above).
Proceeds on death	Not subject to income taxes, but depending on the circumstances, the death benefit may be subject to inheritance tax on the side of the beneficiary. However, the aforementioned tax-free allowances apply, depending on the proximity of the beneficiary's relationship to the policyholder (e.g. spouse, child, grandchild, etc.). Moreover, under certain circumstances, the payment to a beneficiary will not be subject to inheritance tax if the beneficiary paid the premiums for the policy.

Germany – Life Insurance - Other Tax Features (continued)

Other tax features	Taxation
Premium taxes	No premium tax or sales tax.
Capital taxes and taxes on securities	No (general) capital taxes for the policyholder or insurer. Insurer may be liable for real estate (property) tax on the sale or transfer of domestic property (deductible).
Captive insurance companies	Concepts of transferring life risks into a captive have not occurred.
Latest changes according to German tax law	Some additional changes under German law have occurred with effect from 01.01.2008: 1. Relocation of functions into a foreign country might trigger different fiscal effects. 2. Impacts on tax loss carry-forward might arise where there are significant changes in the composition of the shareholders. For a company, the loss carry-forward relief is restricted where there is a direct or indirect change of shareholders. The restriction is based on the percentage of share capital acquired by a single shareholder. If this is 25% or less within a five year period there is no restriction; if it is more than 25% but less than 50%, the loss carry-forward is restricted by the same percentage; if it is more than 50% the carry-forward is forfeited. These principles also apply to corporate reorganisations within a group without a change in ultimate ownership. 3. The thin capital rules that restrict the deduction of interest in shareholder loans are replaced with effect from 01.01.2008, by an interest deduction limitation rule. The allowable net interest expense is restricted to 30% of taxable income before interest, taxes on income depreciation and amortisation. There is no limitation on the deductibility of interest, inter alia, if the net interest expense is not more than EUR 1 million or the company is not part of a group and interest paid to any one shareholder of more than 2%% does not exceed 10% of the net interest expense. 4. For 2008, the traditional rule disallowing one half of all long-term loan interest for trade tax has been replaced with a more general disallowance of one quarter of all interest expense over EUR 100,000. The disallowance also extends to the financing element included in other forms of outlay. These interest substitutes are 20% of the rental and lease payments for moveable assets, 75% of the rental and lease payments for immovable's and 25% of royalties other than those paid to acquire rights for the sole purpose of sublicensing.

Germany

International Comparison of Insurance Taxation*

May 2009

Contact information

Dr. Kai-Michael Goretzky

PricewaterhouseCoopers AG
Marie-Curie-Straße 24-28
D - 60439 Frankfurt am Main
Germany
Tel: (49) (69) 9585 6514
Fax: (49) (69) 9585 6450
E-mail: kai-michael.goretzky@de.pwc.com

Kerry Wallis

PricewaterhouseCoopers AG
Marie-Curie-Straße 24-28
D - 60439 Frankfurt am Main
Germany
Tel: (49) (69) 9585 6884
Fax: (49) (69) 9585 6450
E-mail: kerry.wallis@de.pwc.com