

# What's Going on in Germany?!

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## Legal

**Draft of a law regarding REITs** - Following long discussions, the Federal Government has finally drawn up a draft law regarding tax-privileged real estate investment trusts (REITs). According to press information, the Federal Department of Finance's bill specifies that REITs should be corporations with tax reliefs. Currently, organized enterprises which possess and operate real estate investments must pay corporate tax as well as trade tax and shareholders must pay income tax on any dividends received. Under the draft law, taxation at the enterprise level would be dropped for REITs, which are defined as companies holding at least 75% of their assets in real estate, which earn at least 75% of their income from real estate and which distribute at least 90 per cent of their profits. Shareholders would still be subject to tax on distributions received.

Objections to the proposed law have come particularly from the SPD party in the Bundestag which fears that REITs could have a price-enhancing effect on the housing market and lead to high shortfalls in tax revenue. On the other hand, the financial industry fears that Germany could fall behind other countries such as France or Great Britain in terms of financial competitiveness and are therefore demanding tax exemptions for real estate companies.

The bill is to be adopted by the Federal Cabinet on 20 September and could be passed by the Upper House of Parliament on 15 December. Experts expect that the first German REITs will be founded in the first half-year 2007.

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