

Under German tax law each heir and each beneficiary is taxed individually (German inheritance tax). There is no estate tax in Germany. Inheritance tax rates in Germany vary depending on the degree of kinship and the amount or value received. Each heir or beneficiary is responsible for filing an individual inheritance tax return in Germany.

German inheritance tax liability is assessed for each heir or beneficiary individually based on the value of his share or bequest, regardless of the value of the estate. For most assets this will be the fair market value. Debts, money claims, and insurance policies are assessed with their face value, if possible. The assessment of real property and encumbrances for inheritance tax purposes in Germany is more complicated. Business assets are subject to special rules which may allow heirs, who continue a business, to reduce or even avoid inheritance tax liability.

German inheritance law divides heirs and beneficiaries into three classes. The general rule is that more remote relatives have lower exemptions and pay higher taxes.

Spouses, children, grandchildren, great grandchildren, parents, and grandparents are in class one. Tax rates in class one vary from 7% (up to 75.000 Euros), 11% (up to 300.000 Euros) to 15% (up to 600.000 Euros). Brothers and sister, nieces and nephews, parents-in-law are in class two. Tax rates in class one vary from 15% (up to 75.000 Euros), 20% (up to 300.000 Euros) to 25% (up to 600.000 Euros). Most other heirs and beneficiaries are in class three with a 30% inheritance tax rate.

More than nominal exemptions are only available for spouses (500.000 Euros), children (400.000 Euros), grandchildren and great grandchildren (200.000 Euros), and parents (100.000 Euros). Spouses and children until age 27 may claim additional exemptions. The exemption available to other beneficiaries is only 20.000 Euros. Consequently, almost the entire estate may be subject to inheritance tax if decedent has no surviving spouse and descendants.

The same classifications, tax brackets and tax rates apply to German gift tax. Nonetheless, lifetime gifts may reduce inheritance tax liability in Germany. Gifts made more than ten years before the date of death are not taxable, and after ten years the gift tax exemption can be used for another gift, which will not be subject to gift tax (but may be subject to inheritance tax if death occurs within 10 years).

The United States and the Federal Republic of Germany have signed a Convention for the Avoidance of Double Taxation with respect to taxes on estates, inheritances and gifts, which applies to more complicated cases when taxation in both countries may become an issue.