

The local council has approved the asset for special depreciation based on section 7H ESTG. The buyer can therefore deduct annually 9% of the cost attributable to refurbishment value for his flat for the first 8 years and thereafter 7% for 4 years. In addition the buyer can deduct 2% annually of the cost attributable to building value and 10% annually for cost attributable to furnitures. BELOW WE'VE MADE AN EXAMPLE CALCULATION FOR A 26,53 SQM FLAT:

Example Flat Size	26,53	SQM
Purchase Price	171.700 €	
Purchase Costs Total	198.870 €	

possible breakdown:

118.872 € Refurbishment Value	= deductible of	10.698 €	per year (9% up to Year 8, thereafter 7%)
34.999 € Land Value		0 €	
34.999 € Building Value	= deductible of	700 €	per year (2%)
10.000 € Furniture	= deductible of	1.000 €	per year (10%)
198.870 € Total Sale Price			

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Sum
Income	9.551 €	9.551 €	9.551 €	9.551 €	9.551 €	9.551 €	9.551 €	9.551 €	9.551 €	9.551 €	95.508 €
Tax Deductible Amount	12.398 €	12.398 €	12.398 €	12.398 €	12.398 €	12.398 €	12.398 €	12.398 €	10.021 €	10.021 €	119.230 €

Result: Throughout the 10 yrs the rental income is not taxed and after the 10 yrs also the capital gains from sale are not taxed. This makes this project completely tax free. Furthermore the buyer can use the excess deductible amounts on other investments in Germany (i.e. buying second unit etc...)

Terms explained:

Building value = value of the building (in this case a unit in the building) in its current, unrefurbished form

Refurbishment value = added value created to the above unit through the refurbishment