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Inheritance Tax in Germany — Allowances, Tax Rates and Tips

How Erbschaftsteuer works, what Freibeträge apply, and how to legally reduce your tax burden.

Deutsche Begriffe: Erbschaftsteuer | Freibetrag | Erbschaft | Schenkung | Steuerklasse | Erbengemeinschaft

What is Erbschaftsteuer?

Erbschaftsteuer is a tax levied on **assets** you receive through inheritance or gift. In Germany, it is regulated by the **Inheritance and Gift Tax Act (ErbStG)**.

Important: Erbschaftsteuer is **not automatic** — whether you must pay taxes depends on the **value of the inheritance** and the **Freibetrag** (tax allowance) you are entitled to.

Freibeträge — How Much is Tax-Free?

Freibeträge depend on your **degree of relationship** to the deceased:

Heir	Tax Class	Freibetrag	
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Spouse / registered life partner	I	€500,000	
Children, stepchildren	I	€400,000	

Grandchildren (parents alive)	I	€200,000	
Grandchildren (parents deceased)	I	€400,000	
Parents and grandparents (on inheritance)	I	€100,000	
Siblings	II	€20,000	
Nieces, nephews	II	€20,000	
All others (friends, life partner)	III	€20,000	

Additional Freibeträge

- **Versorgungsfreibetrag** for spouse: **€256,000** (in addition to personal Freibetrag, minus pension claims)
- **Versorgungsfreibetrag** for children: **€10,300-52,000** (depending on age)
- **Household items: €41,000** (Tax Class I) or **€12,000** (Tax Classes II/III)
- **Family home:** Owner-occupied family home is **completely tax-free** for spouses and children (up to 200 m²) if you continue to live there for 10 years

Tax Rates

Tax rates depend on the **value above the Freibetrag** and **tax class**:

Value Above Freibetrag	Class I	Class II	Class III	
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Up to €75,000	7%	15%	30%	
Up to €300,000	11%	20%	30%	
Up to €600,000	15%	25%	30%	
Up to €6,000,000	19%	30%	30%	
Up to €13,000,000	23%	35%	50%	
Up to €26,000,000	27%	40%	50%	
Over €26,000,000	30%	43%	50%	

Calculation Example

Child inherits €600,000 from a parent:

1. Freibetrag: **€400,000**
2. Taxable amount: €600,000 - €400,000 = **€200,000**
3. Tax rate (Class I, up to €300,000): **11%**
4. Erbschaftsteuer: €200,000 × 0.11 = **€22,000**

Friend inherits €100,000 from a friend:

1. Freibetrag: **€20,000**
2. Taxable amount: €100,000 - €20,000 = **€80,000**
3. Tax rate (Class III, up to €300,000): **30%**
4. Erbschaftsteuer: €80,000 × 0.30 = **€24,000**

Reporting Obligations

What Must I Do?

1. **Report Erbschaft/Schenkung to the tax office** — within **3 months** of becoming aware of it
2. **Inheritance tax return** — only if the tax office requests it (not automatic)
3. **Tax payment** — deadline: usually 1 month after tax assessment

When is the Tax Waived?

- Inheritance is **below the Freibetrag** — no tax, but reporting obligation still applies
- **Family home** — tax-free under certain conditions
- **Business assets** — 85-100% tax-free if business continues

Schenkungsteuer — Gifts During Lifetime

Schenkungsteuer has the **same Freibeträge and tax rates** as Erbschaftsteuer. The advantage: Freibeträge can be used again every **10 years**.

Strategy: Gift Instead of Inheritance

- Parents gift child: €400,000 tax-free
- **After 10 years** another €400,000 tax-free

- In 30 years: **€1,200,000 transferred tax-free!**

Erbschaftsteuer and Foreigners

Unlimited Tax Liability

German Erbschaftsteuer applies if:

- The **deceased** had their place of residence in Germany, OR
- The **heir** has their place of residence in Germany, OR
- **Domestic assets** are inherited (e.g., property in Germany)

Double Taxation Treaties (DBA)

Germany has a DBA for Erbschaftsteuer with only a few countries:

- **USA, France, Denmark, Greece, Sweden, Switzerland**

In all other cases: **Credit** of inheritance tax paid abroad against German tax (§ 21 ErbStG) — to avoid double taxation.

Inheritance from Abroad

If you live in Germany and inherit from your home country:

- **Reporting obligation** in Germany
- **Freibeträge** apply the same way
- Possibly **foreign inheritance tax** will be credited
- **Valuation** of foreign assets according to German rules

Tips

- 1. Know your Freibeträge** — inheritance often falls below the threshold
 - 2. Plan ahead** — save taxes through gifts during lifetime (10-year cycle)
 - 3. Use family home benefit** — owner-occupied house is tax-free for spouses and children
 - 4. Consult a tax advisor** — for larger inheritances, professional advice pays off
 - 5. Report foreign inheritance** — even if already taxed in your home country
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