

From the Low-Tax Gulf to German Tax Liability: What Returning Residents Need to Know



The military escalation in the Gulf region since late February 2026 has prompted many German nationals resident in the UAE to consider returning to Germany – whether temporarily or permanently. What is frequently underestimated is that a return to Germany is not a fiscally neutral act. Depending on individual circumstances, it can trigger substantial tax liabilities across income tax, capital gains, inheritance and gift tax, and exit tax. Critically, many of these consequences can be significantly reduced or avoided entirely through timely planning – ideally before the actual return. This briefing provides a structured overview of the key tax considerations.

1. When Does German Tax Residency Resume?

German unlimited income tax liability under Section 1(1) of the Income Tax Act (“**ESTG**”) attaches to any person who maintains a domicile or habitual residence in Germany. A domicile arises where a person has access to a dwelling under circumstances indicating an intention to retain and use it – regardless of formal registration with the local authorities. A person returning to their own property, or even moving into a parent’s home, may establish German tax residency from the first day of occupancy.

Where no fixed domicile is established, a habitual residence under Section 9 of the General Tax Code (“**AO**”) may arise independently. A continuous stay of more than six months constitutes a habitual residence in all cases – particularly relevant for those staying with family or friends without formally establishing a domicile. The practical

consequence is that German tax liability may arise earlier than expected, and often without a conscious decision to that effect.

2. Income Tax: The Risk of Retrospective Taxation on Foreign Gains

One of the most significant tax risks upon return concerns capital gains and asset appreciation that accrued during the period of UAE residence. Under German law, gains from the disposal of shares in corporations – including portfolio shareholdings below the 1% threshold – are subject to German taxation if the seller is tax-resident in Germany at the time of disposal. Crucially, the acquisition cost for tax purposes is the original historic cost, not the market value at the time of return. Appreciation that accrued entirely during UAE residence may therefore be subject to German taxation upon disposal after the return. For holdings of at least 1% under Section 17 EStG, a step-up of acquisition costs on return may

be available and should be assessed. Holders of accumulating investment funds and ETFs face analogous issues under the German Investment Tax Act (“**InvStG**”), which provides for a deemed disposal at market value at the time of entry into German tax residency in certain circumstances.

Restructuring measures, including a disposal and reacquisition, or other recognised tax planning instruments implemented prior to re-establishing tax residence in Germany may allow for a step-up in the tax basis.

3. Exit Tax, Inheritance and Gift Tax, and the Absence of a Double Taxation Agreement (DTA)

Individuals who left Germany holding a stake of at least 1% in a corporation were likely subject to German exit taxation under Section 6 of the Foreign Tax Act (“**AStG**”) at the time of their departure. A return to Germany within seven years can result in the exit tax assessment to be cancelled entirely, provided the holding has not been disposed of or otherwise realised in the interim. This reversal must be actively applied for and is not automatic. Where structural changes to the holding occurred during the period abroad, unexpected tax consequences may arise and should be carefully reviewed before returning.

Upon establishing a domicile in Germany, unlimited inheritance and gift tax liability under Section 2(1) No. 1 of the Inheritance Tax Act (“**ErbStG**”) arises, extending to worldwide assets regardless of where they are located or

where a transfer takes place. Planned transfers to children or other beneficiaries are significantly more tax-efficient if executed before the return, at a point when neither transferor nor transferee is German-resident. The standard exemption of EUR 400,000 per child per parent, renewable every ten years, provides some relief but is quickly exhausted where significant assets are involved.

A further consideration of particular relevance for returns from the UAE is the absence of a double taxation agreement (DTA): the Germany-UAE DTA lapsed on 31 December 2021 and has not been renewed. Ongoing income from UAE sources – rental income, dividends, distributions – is therefore subject to German taxation in full upon return, with no treaty-based exemption available. Relief under Section 34c EStG is available only where a foreign tax has actually been paid, which is rarely the case for individual-level income in the UAE.

4. Trailing Tax Liability and the Danger of Using Germany as a Transit Stop

A risk that is systematically underappreciated concerns individuals who view Germany as a temporary base until the regional situation stabilises. Even a brief period of German tax residency can have lasting consequences. Under Section 2(1) No. 1 sentence 2 lit. b ErbStG, German nationals who were unlimited tax residents in Germany remain subject to unlimited inheritance and gift tax liability for five years after departing – ten years in the

case of departure to the United States. A short stay in Germany followed by onward relocation resets this clock entirely, triggering a new five-year trailing period and materially restricting future planning options.

Employees with local UAE employment contracts – rather than a continued German employment relationship – face a specific additional exposure: the end-of-service gratuity payable under UAE law upon termination is subject to German income tax if received after the individual has re-established German tax residency, even where the entire economic entitlement arose during the UAE posting. The timing of such payments relative to the date of return is therefore a material planning consideration. For income tax purposes, the extended limited tax liability under Section 2 AStG may apply to German nationals who relocate to a low-tax jurisdiction and retain material economic interests in Germany, though this requires individual assessment in each case.

5. Outlook and Conclusion

The central message is straightforward: a return to Germany should not take place without prior tax planning. For individuals with significant assets, corporate holdings, investment portfolios or real estate in the UAE, timely action before the actual return can make

the difference between a substantial and a materially reduced tax burden – both on current income and in the context of wealth succession.

Several priorities stand out. The acquisition cost base for shareholdings and investment positions should be reviewed; restructuring measures before the establishment of German tax residency may reduce taxation. Planned asset transfers to family members should be executed while the transferor remains UAE-resident. The status of any outstanding exit tax assessment should be reviewed, and a cancellation application prepared where the conditions are met. The tax treatment of any outstanding gratuity or deferred compensation payments should be planned around the anticipated return date.

Those treating Germany as a temporary transit stop should be particularly alert to the trailing liability rules, which can restrict future planning options for years even after a brief period of residency. The absence of a DTA between Germany and the UAE adds a further layer of complexity that makes proactive advice essential. Those who act before establishing German tax residency retain, in most cases, considerably more flexibility than they may expect.

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