Downloaded from Blogs on 12.10.2026 11:51h

By PwC Deutschland | 10. Juli 2012

Inventor's premium to ex-employee taxable as royalty

The finance ministry has accepted as a precedent a Supreme Tax Court ruling that a premium paid to a former employee for an invention during his employment should be taxed as a royalty, rather than as employment remuneration, but insists that employers may only apply the principle if they hold an exemption certificate from their local tax office.

Downloaded from Blogs on 12.10.2026 11:51h

In October 2009 the Supreme Tax Court held that an inventor’s premium paid to a former employee for a discovery made in the course of his employment was not additional employment remuneration, but rather a royalty. Since the employee concerned had moved to the USA in the meantime where he was now resident, the income was taxable there, rather than in Germany, under the double tax treaty. The finance ministry has now issued a decree accepting this ruling as a precedent for other cases, but insisting on the employer’s holding an exemption certificate before applying the US double tax treaty to the payment. The exemption certificate is to be issued by the employer’s local tax office; if the employer does not hold one, he must deduct withholding tax as on employment income paid after the termination of the employment. The ex-employee may claim a refund from the Central Tax Office.

Schlagwörter

ex-employee, former employee, inventor's premium