

Employment Tax

Inflation compensation bonus

Further relief: Inflation compensation bonus has been approved

In its session on 7 October 2022, the Federal Council has now also approved the granting of the inflation compensation bonus. The inflation compensation bonus is coming. It is regulated in § 3 No. 11 c EStG and reads as follows:

"Tax-free are, in addition to the salary owed anyway, benefits granted by the employer in the period from 1 October 2022 to 31 December 2024 in the form of grants and benefits in kind to mitigate the increased consumer prices up to an amount of 3,000 euros."

Key points of the inflation compensation bonus scheme

Employers can grant temporary benefits to mitigate inflation up to an amount of 3,000 euros to their employees free of tax and social security contributions.

This is a tax-free allowance. The inflation compensation bonus can be granted as a cash allowance or as a benefit in kind (e.g. vouchers). The employer can pay out the inflation compensation bonus once or in several instalments up to a total amount of 3,000 euros.

It can be granted for a limited period of time from the day after the promulgation of the law until 31 December 2024. The regulation comes into force retroactively as of 1 October 2022.

The inflation compensation bonus must be granted as an inflation compensation. It is sufficient for this if the employer shows the benefit, for example, with a corresponding note in the payroll.

It is up to the employer to decide whether or not to allow the special payment. This also applies to whether he wants to exhaust the maximum possible ceiling of 3,000 euros or make smaller one-off payments.

It is to be expected that in the current collective bargaining rounds, regulations on the inflation compensation bonus will also be agreed between employers' associations and trade unions in collective agreements.

The inflation compensation bonus must be granted in addition to the wages owed anyway. The additionality requirement of section 8 (4) EStG must be observed. Accordingly

- the inflation compensation bonus cannot be offset against the wage claim,
- the wage claim cannot be reduced in favour of the inflation compensation bonus,
- the inflation compensation bonus cannot be granted in lieu of a future increase in wages already agreed upon, and
- if the inflation compensation bonus is discontinued, the wage is not increased.

Therefore, employer payments that have not (yet) been granted in previous calendar years or that have been granted on a voluntary basis until now, are primarily taken into consideration in this sense, so that the tax and contribution exemption of the inflation compensation bonus can take effect.

Recommendation for action

Employers can check whether the tax- and contribution-free payment of the inflation compensation bonus can be considered instead of a tax- and contribution-liable salary adjustment or special payment.

Please do not hesitate to contact us if you have any questions about the conditions for the tax- and contribution-free payment of the inflation compensation bonus in your specific employer practice.

The contact persons of the PwC payroll tax team look forward to exchanging views with you.

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Editorial

If you have any questions, comments or remarks about the newsletter, please do not hesitate to contact our editorial team. We look forward to your feedback.

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