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Agreement with Luxembourg on redundancy payments

The finance ministry has agreed with Luxembourg that redundancy payments and unemployment benefit shall be taxed in the country of the (former) employment.

Germany and Luxembourg have agreed under the double tax treaty to follow the principle of taxing subsistence payments in the country of residence and remuneration payments in the country of employment. Redundancy and other payments on termination of employment – including those made under a "social plan" agreed with trade union and employee representative participation, compensation for loss of office and unemployment benefit – are to be seen as late remuneration for the former employment and thus as taxable in the state of employment. If the former employee taxed part of his earnings in the state of residence – because his work was deemed to have been partially performed there – redundancy and similar payments are to be split between the two states in the same proportion as the "active" income of the previous year.

The agreement was signed on September 7, 2011, entered into force on the following day, and is to be applied to all cases still open.

Keywords

Luxembourg, Tax Treaties, redundancy