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By PwC Deutschland | 11 November 2022

Bundestag passes Inflation Compensation Act

On 10 November 2022, the Bundestag passed the bill introduced by the ruling Coalition "to compensate for inflation through a fair income tax rate and to adjust other tax regulations" (Inflation Compensation Act.)

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The coalition parties want to reduce the burden of inflation through various tax measures such as raising the basic tax-free allowance and the child tax-free allowance as well as through a higher child benefit.

The Bundestag has passed the bill in the version of the Finance Committee's recommendation The following amendments, among others, are now provided for in this version:

Based on the reports, the following changes to the Inflation Compensation Act have become necessary:

- The income tax rates for 2023 and 2024 will be adjusted and the effects of cold progression will be compensated for through adjustment of the income tax tariff bands.
- The basic tax-free allowance is to be increased by 561 EUR to **10,908 EUR** from **2023** and by a further 696 EUR to **11,604 EUR** from **2024.**
- Child benefit will be increased from 1 January 2023 by **250 EUR per child.**
- The child allowance (including the allowance for care, education and training needs) will be increased by 202 EUR to **8,750 EUR** from **2023** and by a further 180 EUR to **8,930 EUR** from **2024.**
- The top tax rate band is to be raised from the current annual income of 58,597 EUR to 62,810 EUR in **2023**, and for **2024** it is to be levied from an annual income of **66,761 EUR.**
- For the first time since the partial abolition of the solidarity surcharge, the tax-free amount will be raised from the previous 16,956 EUR to **18,130 EUR** or to **36,260 EUR** (previously 33,912 EUR) in the case of joint assessment.

Keywords

Income Tax Act, Inflation, income tax exemption