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By PwC Deutschland | 17 March 2025

Tax treatment of awards for scientific publications

In a most recently published decision, the Supreme Tax Court held that a financial science award can only be regarded as taxable income from employment if it is awarded to the employee for services rendered to his employer.

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Background

Between 2006 and 2016, the plaintiff published a total of eight scientific papers in his field of research in professional journals (some of them multiple times and as late as 2016) as part of a post-doctoral habilitation project. Based on these publications and a sample lecture the University of A granted him habilitation in 2016. He had already been appointed professor at S University of Applied Sciences in 2014. In the year of dispute (2018), the plaintiff received a research prize endowed with a sum of money from the Y Institute for his habilitation.

In the income tax assessment for 2018, the tax office took the prize money as the plaintiff's income from employment. The tax court of first instance had dismissed the action brought by the plaintiff. However, the Supreme Tax Court had a different opinion.

Decision

In particular, the prize money is not part of the plaintiff's income from employment. Although the tax court initially correctly stated that a prize that is not awarded to the employee by his employer but by a third party (in this case Y-Institute) can also constitute taxable wages if the prize is awarded “for” (his) employment or the work performed.

However, the tax court wrongly regarded the prize money as income from the plaintiff's university teaching activities at S University. The science prize was not connected in any way with this employment relationship. The plaintiff had written the majority of his habilitation dissertations prior to his appointment as a professor. The award-winning habilitation is based on a scientific research achievement. However, this is not due to the plaintiff's research activities as a university lecturer in accordance with Section 35 para. 3 sentence 1 of the Law on Universities of the State of North Rhine-Westphalia. Therefore, and contrary to the opinion of the tax court, the science prize and prize money do not constitute “income from” this activity. Rather, Y-Institute used the science prize to recognize and reward the plaintiff's previous scientific work.

Neither is the prize money to be recognized as business income from freelance work. In the case of dispute, there is no actual and economic connection between the prize and the plaintiff's freelance activity as lecturer and consultant. He did not receive the prize money for business-related reasons. Rather, according to the Y-Institute's promotional guidelines, the prize was intended to encourage and to further science and thus had no connection to the plaintiff's business activities.

Finally, the prize money is also not subject to tax as income from other services (insofar as they do not belong to the other main types of income as defined in Section 22 No. 3 Income Tax Act, namely agriculture and forestry, trade or business, independent professions, employment, capital investment, and rents and royalties). Based on the findings of the tax court of first instance, it is not apparent that the plaintiff wrote the habilitation papers “for the sake of the science prize”. Rather, the prize was awarded to him for reasons of social policy (promotion of science).

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Supreme Tax Court judgment of 21 November 2024 (VI R 12/22) – published on 13 March 2025.

Keywords

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