

# Information on payroll accounting

## Tax and contribution-exempt inflation compensation premium of up to 3,000 euros

October 2022

After the coronavirus premium comes the inflation compensation premium, which once again offers employers the opportunity to pay a tax- and social security-exempt benefit to employees. But what regulations must be observed and which persons can benefit from the payment?

The tense situation on the energy markets has been drastically exacerbated once again by the attack on Ukraine in violation of international law. The increased gas prices have become a major burden for many citizens and have caused inflation in Germany to rise sharply. In response, the German federal government has adopted the [inflation compensation premium](#) in the Act on Temporary Reduction of the VAT rate on Gas Supplies via the Natural Gas Grid.

This premium provides employers with the option of granting unbureaucratic benefits to employees to mitigate inflation up to an amount of 3,000 euros free of tax and [social security contributions](#). The premium is a tax allowance that makes it possible to provide benefits both in the form of grants and non-cash benefits. The premium is tax-exempt until 31 December 2024.

In principle, there is no obligation on the part of the employer to grant benefits and with respect to the amount of benefits unless the payments are based on collective agreements or other binding regulations. However, if these payments are made, it is important to note that the benefit must be granted in addition to the wages already owed. The conversion of, for example, an annually payable Christmas bonus or other special benefits already agreed in advance into the inflation compensation premium is therefore excluded.

Furthermore, it is pointed out that the employer must make it clear when paying the benefit that it is related to the inflation-related price increase. This can be done in the form of a separate payroll type on the salary statement or also as additional text in the bank transfer. In addition, the payments must be recorded in the payroll account of the respective employee. However, the law does not specify when, how much or in what instalments the payment is to be made, and it can be concluded that the arrangement can be made flexibly. Overall, the following applies: If the employer grants the employee several benefits in the beneficiary period, the tax exemption only applies up to a total amount of 3,000 euros and only until 31 December 2024.

As a rule, the tax exemption of up to 3,000 euros can be granted separately for each employment contract with different employers. Therefore, there are no transfer or information requirements imposed on the employer or the employee when joining or leaving the company.



### Summary of the inflation compensation premium

- Tax- and social security-exempt payment of up to 3,000 euros
- Payment must be made in addition to wages already owed
- Reference to inflation-related price increase when payment is made
- Payment can be granted in several instalments
- Tax allowance can be granted for each employment contract with different employers
- No obligation to pay the inflation compensation premium by law
- Tax allowance for the entire period until 31 December 2024 and not per year

Please do not hesitate to contact us if you have any question about the tax- and social security-exempt payment of the inflation compensation premium.

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