



NEWS INTERNATIONAL

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Foreign Employees Face a Tax Crunch

Dear Sir or Madam,

An increasing number of German companies hire employees residing abroad who perform their duties remotely from home offices and spend only a few days per week at the company's premises in Germany. In cases where no cross-border commuter provision applies, the salaries of such employees are generally subject to German wage tax, to the extent that their work is performed in Germany. Salary allocations are based on precise day- or hour-specific tracking.

Key Point: Employers must verify national compliance obligations in the employee's country of residence and are often required to withhold and remit wage taxes and social security contributions there as well.

In the past, the monthly wage tax table was applied, which included days when no work was performed in Germany. However, since 2023, the German wage tax guidelines ("Lohnsteuerrichtlinien") require the application of the daily wage tax table, which considers only the days worked in Germany. While the German tax authorities did not object to the use of the monthly table for 2023 and 2024, the daily table will become mandatory starting in 2025. This change could result in significant additional tax burdens for employees – potentially reaching up to several hundred euros per month. This particularly affects employees subject to limited tax liability, whose higher wage tax deductions could previously be offset by the annual wage tax adjustment ("Lohnsteuerjahresausgleich"), often resulting in a refund.

However, with the enactment of the Annual Tax Act 2024 ("Jahressteuergesetz 2024"), the annual wage tax adjustment will be retroactively eliminated as of 1 January 2024, for employees subject to limited tax liability, earning foreign sourced income from which no German wage tax was withheld. This amendment, aimed at closing a „legal loophole,“ will make the increased tax burden final in most cases.

Starting in 2025, the daily wage tax table must be applied in payroll accounting without exception. Please ensure that your HR department or payroll provider is informed well in advance.

If you have any questions regarding domestic or international wage tax matters, we are happy to assist you.

Please feel free to contact us for further assistance.

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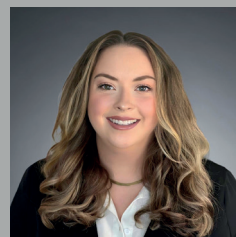


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