No taxation of former forced labourers or those receiving pensions as victims of National Socialist persecution

In response to current reports alleging tax is being charged to individuals living outside of Germany who were forced labourers during the National Socialist tyranny, Germany’s Federal Ministry of Finance announces the following:

Payments to former forced labourers made under the Act on the Creation of a Foundation for Remembrance, Responsibility and the Future (Gesetz zur Errichtung einer Stiftung „Erinnerung, Verantwortung und Zukunft“) of 2 August 2000 have always been exempt from income tax. Furthermore, pensions paid to victims of National Socialist persecution within the meaning of section 1 of the Federal Compensation Act (Bundesentschädigungsgesetz) are exempt from taxation in Germany. This is set out in an amendment to the relevant legislation, which is about to take effect.

The one-off payments made under the Act on the Creation of a Foundation for Remembrance, Responsibility and the Future of 2 August 2000 constitute compensation to individuals who were forced labourers during the National Socialist tyranny in Germany. It was possible to submit applications until 31 December 2001 and the corresponding compensation payments were disbursed by 31 December 2006 at the latest. In accordance with section 3 number 8 of the Income Tax Act (Einkommensteuergesetz), these one-off payments have always been, and will remain, exempt from tax.

A separate form of compensation consists of pensions paid to victims of National Socialist persecution within the meaning of section 1 of the Federal Compensation Act. A new provision of law (section 3 number 8a of the Income Tax Act), which is due to be introduced shortly, exempts the affected individuals’ social-security pensions from tax, with retroactive effect. The law that includes this provision, namely the Act Implementing the Recovery Directive, (Beitreibungsrichtlinie-Umsetzungsgesetz), is expected to be approved by the Bundesrat, the second chamber of parliament, on 25 November 2011. The first chamber, the Bundestag, adopted the Act on 27 October.
The new tax exemption applies to victims of National Socialist violence who were persecuted due to their political opposition to National Socialism or for reasons of race, religion or ideology and, as a result, suffered damage to life, limb or health, property or assets, or deprivation of freedom, or suffered in their business or professional careers. Forced labourers who are recognised as victims of persecution according to this definition will therefore be covered by the provision on tax exemption.

Unless eligible for these exemptions, recipients of pensions from the statutory German pension fund (Deutsche Rentenversicherung) have been liable to German tax on their German pensions since 2005. This also applies to people resident abroad insofar as the relevant double taxation agreement gives Germany, rather than the other party to the agreement, the right to impose tax (this is the case, for example, under the Double Taxation Agreement with Belgium). This imposition of tax arises from a reorganisation of Germany’s system of taxing retirement income which was implemented by the Retirement Income Act (Altersinkünftegesetz) of 5 July 2004.

To ensure that as few as possible of those covered by the exemption are asked by the tax office to submit a tax return, Germany’s Federal Government began to work on implementing the planned tax exemption at the start of the legislative procedure that is now nearing an end. Accordingly, the 25,000 pensioners affected should no longer receive any request for a tax return.

For approximately the last half-year, Neubrandenburg Tax Office, which is responsible for recipients of German pensions who are not resident in Germany, has been sending out a letter (issued in several languages) expressly informing pensioners abroad about the tax exemption for victims of National Socialist persecution. In the unlikely event that, despite all of the precautions taken, any tax office requests a tax return from an individual entitled to the exemption, that person can contest this, citing his or her status as a recognised victim of National Socialist persecution, and apply for the tax exemption at any time.