



Independent legal & accounting firms

Doing Business in Germany

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Doing business in Germany



MSI's guide on Doing Business in Germany provides current information about the financial, regulatory and legal considerations that could affect business dealings within Germany. For further assistance please contact one of our MSI member firms in Germany.

Country overview

Population

Germany has a total population of 82.7 million inhabitants (June 2017).

Government

Germany is a Democracy. The head of state is the Federal President, who performs mainly representative tasks. The Government consists of the chancellor and the federal ministers. The members of parliament are the representatives of the people.

Germany has 16 federal states, each with its own local government.

Languages

The national language is German. However, most younger people speak English as well.

Currency

The national currency is the Euro.

Economic summary

GDP: €3,263 billion
Income per capita: €43,660 (2016)
Inflation: 1.8 % (2017)

Main sectors of the economy

Germany is an export nation. For decades, the export of goods has been higher than the import of goods. In 2016 the value of exported goods was approximately 69 % of the Gross Domestic Product (GDP). The most important export goods are automobiles, machines, chemical products and data processing tools or electronic devices. The biggest foreign trade partners in 2017 were the United States, France, China, The Netherlands and the United Kingdom.

EU country/ Non-EU and its impact on businesses and investors

Germany is a member state of the European Union. It is an attractive base for doing business and for investment. Its open and international outlook, well-educated work force and strategic location are contributors.

The attractive fiscal climate and technological infrastructure create favourable propositions for international business.

Setting up a business

Under German law, a foreign individual or company may operate in Germany through an incorporated or unincorporated entity or branch. German corporate law provides a flexible and liberal framework for the organization of subsidiaries or branches. There are no special restrictions for a foreign entrepreneur to do business in Germany.

The business operations can be set up in Germany with or without a legal personality. If a legal entity has legal personality, the entrepreneur cannot be held liable for more than the sum it contributed to the company's capital.

Legal types of business entities

1. Sole proprietorship
2. Limited liability companies (GmbH, UG haftungsbeschränkt, AG)
3. Partnerships (KG, GmbH & Co. KG, GbR)
4. Branch

In international business, the Private limited liability company (GmbH) and the branch are most commonly used. The GmbH is incorporated by one or

more incorporators pursuant to the execution of a notarial deed of incorporation before a civil law notary. The minimum share capital is €1 (UG haftungsbeschränkt) respectively €25,000 (GmbH). It is not possible to choose for another currency than the Euro.

Many foreign companies make use of a subsidiary rather than a branch. The main legal reason to set up a subsidiary, instead of a branch, is limitation of liability. As a shareholder of a subsidiary, the foreign company's liability is basically limited to the extent of its capital contribution; whereas, if the foreign company makes use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

Process of how to set up a business

A limited liability company or a partnership without a non-legal person as fully liable shareholder, are obliged to register at the respective magistrates' court and to enter the firm and its legal form into the Register of Companies. A limited liability company can only be incorporated by a notarial deed. In addition, a tax registration is necessary and after handing in a fiscal questionnaire, tax authorities will allocate a tax number.

A branch needs to be entered into the Register of Companies and to be allocated a tax number, too.

Financial year of taxes and financial accounts

The financial year is equal to the calendar year. However, legal entities may choose for a different financial year if they wish. The limited liability company is subject to corporation

income tax. The branch is taxed with corporation income tax as well, but the parent company is liable to pay.

Accounting and auditing

When is a statutory audit required?

A statutory audit is required when 2 out of the following 3 criteria are met in two consecutive years:

1. Annual turnover > €12 million;
2. Total assets > €6 million;
3. Number of employees > 50

Taxation

The tax system in any given country is invariably an extremely important criterion when it comes to companies finding a country of incorporation. The view taken by the German government is that the tax system may under no circumstances form an impediment for companies wishing to incorporate in Germany.

In that framework, it is possible to obtain advance certainty regarding the fiscal qualification of international corporate structures in the form of so-called Advance Tax Rulings. In addition, Germany has also signed tax treaties with many other countries to prevent the occurrence of double taxation.

At the same time, its vast network of tax treaties offers instruments for international tax planning.

The German tax system can be divided into taxes based on income, profit and assets.

VAT

The general VAT rate is 19 %. The reduced VAT rate of 7 % applies mainly to food.

Income tax

Income from work in Germany is subject to the employee's personal tax rate, which increases depending on income up to 42 %; partially 45 % (plus solidarity surcharge of 5.5 % and church tax of about 9 % as percentage of the amount of income tax). Besides income from work as employee, the following income is subject to taxation:

- Self-employed income
- Business income
- Income from agriculture and forest economy
- Income from rent and lease
- Income from capital
- Other income, such as pension.

Corporate income tax and trade tax

Profits generated by limited liability companies in Germany are subject to corporate income tax. Corporate income tax is 15 % of the taxable income (plus solidarity surcharge of 5.5 % as percentage of the amount of corporate income tax).

Furthermore, each business is subject to trade tax. It is raised by the municipality in which the business is located and varies with respect to height. Approximately, it is another 15 % of the trading profit.

Registration procedures

Both private persons and companies are given a tax number by the tax authorities. Tax statements and financial statements are submitted electronically to the tax authorities. The other way around, for example tax assessments are sent by the authorities both in electronic and paper form.

Wage tax

Wage tax is a withholding tax and as such it is an advance payment on income tax. The tax rate depends on income. Higher income comes with increasing tax rates.

In addition to wage tax, employees and employers have to pay contribution to the German social security system.

Withholding taxes

The most common withholding tax is tax on capital income, meaning interest. Received interest above the tax-free amount of €801 per natural person is taxed with 25 % (plus solidarity surcharge of 5.5 % and church tax of about 9 % as percentage of the amount of withholding tax).

HR/ Labour Law

Employment law

An employment agreement may be agreed for an indefinite or fixed period of time. Fixed-term contracts cannot be renewed unlimited times.

Social security

All employees are obliged to pay contribution to the German social security system. They are insured in the statutory health insurance and pension fund; furthermore, in the unemployment and long-term care insurance.

The contributions are equally paid by the employee and employer. The employer directly transfers them to the insurances (deductions from the gross wage).

Pension

For every employee (exemption: those with incomes over €78,000.00) insurance in the statutory (national) pension fund is obligatory.

In 2012 the age the pension starts was gradually raised from 65 to 67. In 2031 the regular pension age will be 67.

Payroll

When starting a business and employing staff, the company must register with the tax authorities. Wage tax and social security is paid monthly to the tax authorities and insurances. The process of registration takes several weeks.

Visa and work permits

All EU inhabitants can work freely anywhere in the EU without a special working permit or visa. If an EU national from outside Germany is employed in Germany, he/she must register with the tax office and a personal tax identification number is allocated.

People from outside the EU must apply for a work permit before taking employment in Germany.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Germany seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Germany to discuss your requirements:

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