



SETTING UP A BUSINESS
IN GERMANY

This guide has been prepared by Auren Germany and is aimed at providing a quick and understandable overview of the most important things you need to know when setting up a business in Germany.

We recommend that readers seek professional advice and council and should not consider the information contained in this guide to be a substitute for such advice and council.

While all reasonable attempts have been made to ensure that the information contained herein is accurate, Auren Germany accepts no responsibility for any errors or omissions, whether caused by negligence or otherwise, nor for any losses sustained by any person or organisation that has relied upon it.

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GERMANY AT A GLANCE



10 REASONS FOR DOING BUSINESS IN GERMANY

The Federal Republic of Germany is a parliamentary **democracy**, and situated **in the heart of Europe (1)**. Germany borders nine other countries: Denmark, Poland, the Czech Republic, Austria, Switzerland, France, Luxembourg, Belgium and the Netherlands. As it is part of the euro zone, its monetary unit is the Euro. With about 357,000 square kilometres, Germany is one of the largest European countries and considering a population of approximately **82 million people** it is the European Union's (EU) **most populous nation (2)**. The official language is German, and many people, especially in business, speak English as well.

Germany is a federation and consists of sixteen states: Baden-Württemberg, Bavaria, Berlin, Brandenburg, Bremen, Hamburg, Hesse, Lower Saxony, Mecklenburg-Western Pomerania, North Rhine-Westphalia, Rhineland-Palatinate, Saarland, Saxony, Saxony-Anhalt, Schleswig-Holstein and Thuringia.

The country's capital and seat of government is Berlin. Its constitutional bodies are the Bundestag (Lower House of German Parliament), the Bundesrat (Upper House of German Parliament), the Federal President, the Federal Government, and the Federal Constitutional Court. Currently, the Federal President of Germany, executing the role as head of state, is Joachim Gauck (2012 – present). Angela Merkel is the present Chancellor of Germany and has held this position since 2005. She is the head of government with executive power.

As the **strongest economy in Europe (3)** and the **world's fourth-largest economy** (after the USA, China, and Japan), Germany offers excellent opportunities for investments. Its extremely **innovative atmosphere (4)**, **vibrant labour market** with its **highly qualified work force (5)**, and an **advanced infrastructure (6)** help to contribute to the success of German companies and those investing in Germany. Germany has a **strong focus on exports (7)** which is led by industries such as: car-making, mechanical and plant engineering, chemical and also medical technology. The exports in these sectors account for more than half of the gross domestic product (GDP). Consumers worldwide regard the label **"Made in Germany" (8)** as a seal of quality and companies and brands such as Mercedes-Benz, Siemens, Adidas, Deutsche Bank, Bosch, BMW, ThyssenKrupp, and many others are well known all around the world. Germany is also very strong in **research and development (9)** with investments in this area totalling approximately 80 billion euros per year.

These developments have positioned Germany as one of the countries with the **lowest unemployment rate in the EU (10)**.

A lot of factors speak in favour of Germany as a country to set up a business. On the following pages you can get a deeper insight into the necessary and relevant information in order to do so.

LEGAL BUSINESS ENTITIES AND BUSINESS REGISTRATION



THE MOST APPROPRIATE LEGAL STRUCTURE FOR YOUR BUSINESS

Legal Business Entities

Anyone can set up a business in Germany; irrespective of nationality or place of residence. There are various business types and in the following you will find the most common types with a short description. Which one you choose depends very much on the individual circumstances of the investors or business and the intended goals of the investment. For further information please contact our consultants.

Corporations/Companies

The main feature of a corporation is the contribution of capital by shareholders. A corporation is a legal entity, meaning that the holder of rights and obligations is not the individual shareholder, but the company itself. The corporation itself concludes contracts, holds assets and is liable for taxation. Corporations are liable to corporate income tax, trade tax and a solidarity surcharge. Shareholders have limited personal liability. As such, a minimum share capital is required. A corporation can be established by one or more shareholders. The most common and important corporate forms in Germany are the private limited liability company (Gesellschaft mit beschränkter Haftung – GmbH) and the stock corporation (Aktiengesellschaft – AG).

GmbH

Foreign investors in Germany often opt for a German limited liability company (Gesellschaft mit beschränkter Haftung – GmbH). The main reason for its popularity is the combination of high flexibility and relatively few obligations. The GmbH has two executive organs: the shareholder(s) and the managing director(s). The nationality and residence of the shareholder(s) and the managing director(s) are irrelevant. However, the company must have a physical German business address and at very least a local representative. The GmbH requires a minimum share capital of EUR 25,000. The share contributions can be provided in cash or in the form of contributions in kind. Liability is limited to the corporation's business assets including share capital. For more information

about the formation process, please contact our consultants.

UG

The limited liability entrepreneurial company – (Unternehmergesellschaft UG, haftungsbeschränkt) is not a separate legal form of company, but a GmbH which has a minimum capital of less than EUR 25,000 and where cash subscription is required. This means that it is possible to set up a company with limited liability in Germany with a share capital of just EUR 1. In order to compensate the initial absence of capital, the UG has to retain a quarter of its annual profit until it has accumulated the minimum share capital of an ordinary GmbH (i.e. EUR 25,000). The accumulated capital can then be converted into share capital and the UG altered into a standard GmbH. The UG – by terms of law – is generally subject to the same duties and rights as the standard GmbH (except notwithstanding the specific provisions mentioned above).

AG

The German stock corporation (Aktiengesellschaft – AG) is a company form intended for larger companies with a larger number of shareholders. Eligibility for a stock exchange listing and the easy assignability of the shares make the AG ideal for attracting capital. An AG has a minimum share capital of EUR 50,000 divided into ordinary shares of equal nominal value of at least EUR 1. The AG has three mandatory bodies: the general meeting, the management board and the supervisory board. One special feature of the AG is the independence of the management board in not being bound by instructions in managing the company from the other two bodies. Fundamental corporate decisions are taken in the general meeting. An AG can be established by one or more shareholders (private individual or legal entity). As is the case with the GmbH, nationality and residence of the AG's shareholder(s), management and supervisory board members are of no relevance. However, the AG requires a German physical business address and a local representative. Liability is limited to the corporation's business assets including share capital.

Partnerships

Characteristic for a partnership is the personal commitment of the partners to their working efforts in the partnership. In partnerships, the individual partners are responsible for the liabilities of the company (including private assets). Limitations of liability for individual partners are only possible to a limited extent. Any partnership requires at least two partners. There are four major forms of partnerships: civil law partnership (GbR), general commercial partnership (OHG), limited partnership (KG), and a hybrid form which combines elements of the limited partnership (KG) and the limited liability company (GmbH). This is known as a limited commercial partnership with a limited liability company as a partner (GmbH & Co. KG). These forms differ primarily in terms of contingent liabilities of partners and the necessary registration obligations.

The partnership itself is not taxed (as with corporations), but the individual partners are. The taxable profit is determined at the level of the company and allocated to the partners according to their shares. The partnership itself is only subject to trade tax.

Establishing a partnership is easy and can be completed in just a few steps. A minimum share capital does not have to be raised. The management of the company can only be carried out by partners. Depending on the type of partnership, entry in the commercial register (Handelsregister) is required. The application is signed by all partners and must be filed by a German notary in certified and electronic form with the commercial register. If a business activity is carried out by the partnership, the trade office (Gewerbe-/Ordnungsamt) must be notified accordingly. Required permits and verifications of representatives must also be submitted.

OHG

A general commercial partnership (OHG) is a legal entity of its own. Liability attaches to the individual partners, either jointly or separately. A partnership's agreement sets the conditions for the partnership and usually all partners are entitled to represent and manage the business. The OHG needs to be registered in the commercial register.

KG

In contrast to the OHG, unlimited liability in a limited partnership (Kommanditgesellschaft, KG) may attach only to one general partner, while there are also limited partners with limited share liability. Limited partners usually do not participate in the management and cannot represent the KG. The purpose of a KG is aimed at the operation of a commercial trade under a joint corporate name.

GmbH & Co. KG

The GmbH & Co. KG in which one or more corporations act as general partner(s) combines the advantageous flexibility of the KG and the limited liability of the GmbH.

Branch/Branch Offices

Foreign companies can also be active in the German market by setting up a branch office. In legal and administrative terms, a branch office is part of the head office company and not a separate legal entity (i.e. subsidiary). It is therefore subject to the law governing the head office. The branch office carries out similar business activities to the head office company. In this context, the head office company is liable for the debts of the branch office under the conditions of its constitution. In Germany, there are two kinds of branch offices which primarily differ due to the degree of independence from the head office company. However, common to both branch office forms is the fact that one representative on-site in Germany is required and that there are no minimum capital specifications for opening a branch.

The Most Common Legal Business Entities

Branch	Dependent or independent; no minimal capital specifications; part of and fully dependent on HQ
GmbH	Independent legal entity with (essentially) two executive organs, managing director(s) and the shareholders; flexible internal structure and minimal formalities for incorporation
AG	Public company which has a minimum share capital of EUR 50,000 divided into ordinary shares of equal nominal value of at least EUR 1
KG	Partnership aimed at operation of a commercial trade under a joint corporate name, in which at least one partner is liable without limitations
GmbH & Co. KG	Sub-form of KG; provides the possibility of excluding the personal liabilities of all the natural entities involved in a partnership while essentially being treated and taxed as a partnership

Dependent Branch

A dependent branch office (unselbständige Zweigniederlassung) is a subordinate department of the head office company and does not have any autonomy from it. Therefore, it is not entered in the German register of commerce. It is only necessary for the business activity that is being practiced to be notified at the responsible trade office (Gewerbe-/Ordnungsamt). A dependent branch office is not able to independently participate in the general business transactions of the head office. Invoices have to be made out in the name of the head office company. An individual company name cannot be used. The dependent branch focuses on maintaining contacts and initiating business in Germany.

Independent Branch

Foreign (commercial) companies can set up an autonomous branch office (selbständige Zweigniederlassung) in Germany if they are entered in a foreign commercial register (or a comparable directory). The autonomous branch office is dependent upon the head office company at the internal level but engages in business activities independently. However, the foreign head office company is liable for

the business transactions concluded by the branch office and hence it is organisationally a part of the enterprise of the headquarters and, to this extent, subject to the law of the headquarters. The legal relationships of the branch establishments to its clients are subject to German law.

The branch office must be entered in the commercial register (Handelsregister) and provide notification of any business activity it is practicing at the responsible trade office (Gewerbe/Ordnungsamt). Required permits and verifications of representatives must also be submitted. The branch office can use its own name affix but the company name of the head office must also appear including its legal designation (for example: XY Ltd., Zweigniederlassung, Berlin). A branch is usually represented by a manager who is a permanent representative.

Others

There are other forms of legal entities that apply either only to very special cases or are of minor relevance to foreign investors and are therefore not named. Please contact us directly for further possibilities. We can help you find the right legal entity for your purpose.

Different Forms of Corporations

Legal Form	Minimum Number of Shareholders	Minimum Share Capital	Legal Liability
GmbH – limited liability company	One shareholder	EUR 25,000	Liability limited to share capital
UG – limited liability entrepreneurial company	One shareholder	EUR 1	Liability limited to share capital
AG – stock corporation	One shareholder	EUR 50,000	Liability limited to stock capital

Different Forms of Partnerships

Legal Form	Minimum Number of Partners	Minimum Share Capital	Legal Liability
GbR – civil partnership	Two partners	Not required	Personal unlimited liability
OHG – general commercial partnership	Two partners	Not required	Personal unlimited liability
KG – limited partnership	Two partners: general partner and limited partner	Not required	General partner: personal unlimited liability Limited partner: limited share liability
GmbH & Co. KG	Two partners: general partner (GmbH) and limited partner (the shareholders of the GmbH are typically the limited partners of the KG)	Not required for the GmbH & Co. KG, however the GmbH does require EUR 25,000.	General partner (GmbH): personal unlimited liability Limited partner: limited share liability

Business Registration

Germany has a unique system of public registers. The commercial register, which ensures legal certainty in the commercial law field, is of particular importance for entrepreneurs.

Commercial Register

Companies of all legal forms must be entered in the commercial register (Handelsregister). Exceptions to this are persons engaged in very small trade business (Kleinstgewerbetreibende), civil law partnerships (GbR), and freelance professionals (Freiberufler). The registration is individually determined by criteria such as the use of commercial accounting, annual turnover, capital resources and total number of employees. The application for registration is elec-

tronically filed in publicly certified form by a German notary. The costs largely depend on the number of shareholders, share capital, company form, and the specific activity to be registered.

The commercial register is administered in electronic form (www.handelsregister.de or www.unternehmensregister.de) and contains information such as:

- Company form and name
- Name of the shareholders/partners and/or personally liable partners
- Managing director or the executive of corporations
- Capital stock of companies
- Liability limitations of shareholders/partners
- Issuing and revoking of the power of attorney
- Opening of insolvency proceedings
- Dissolving and ending of a company

Trade Register Notification

Registration with the local trade office (Gewerbeamt), where the business operation is located, is required for all legal business forms. Exceptions to this are freelance professionals and so-called liberal professions that are not viewed as performing business activities and generally do not register with the trade office. These include e.g. lawyers, doctors, accountants, and architects. The registration normally costs between EUR 20 and EUR 50. Additional costs apply for companies that require a business licence. After the trade register notification (Gewerbeanmeldung) the trade office forwards the registration to the tax authorities, the regional association of professional trading associations, and the chamber of industry and commerce or skilled crafts. The trade office automatically sends a copy of the business registration to the responsible tax office (Finanzamt). The responsible tax office then sends a registration form to the company for tax registration purposes. It also sends the registration to other relevant institutions such as the respective employers' liability insurance association (Berufsgenossenschaft), the corresponding Chamber of Industry and Commerce (Industrie- und Handelskammer – IHK), and the Chamber of Crafts (Handwerkskammer).

Chamber of Industry and Commerce and Chamber of Crafts

In Germany, the Chambers of Industry and Commerce (Industrie- und Handelskammer – IHK) and the Chambers of Crafts (Handwerkskammer) function as the local interest groups of business operators in a specific region. The chambers realise more than just the general functions of professional associations for their members. They also:

- Carry out active lobbying work by representing the interests of the company towards municipalities, state, and federal government;
- Organise vocational training by defining the framework requirements and approving;
- Interim and final examinations;
- Draw up certificates concerning, for example, admissible company names.

In addition to this, they also provide information about the local economic framework conditions in a specific region and provide foreign companies with business contacts to possible regional partners. All members of the Chambers of Industry and Commerce are also able to draw on the comprehensive advice and services from the responsible chamber.

Bank Account

To open a bank account, individuals need a valid passport and a confirmation from the local community office (Bürgerbüro) stating that Germany is the current place of residence. Companies need an excerpt from the commercial register and the articles of association of the company.

TAXATION



Olympic Tower, Munich

TAXES IN GERMANY – EXTREMELY HIGH OR REASONABLE?

Generally, all resident companies and entrepreneurs with commercial activities in Germany are liable to pay taxes. They are usually taxed on two levels: On the first level, corporations such as the limited liability company (GmbH) and the stock corporation (AG) are subject to corporate income tax (Körperschaftsteuer), whereas the partners in a partnership or the entrepreneurs of a sole proprietorship are subject to personal income tax (Einkommensteuer). A branch (permanent establishment) is taxed as a corporation. Both taxes are levied by the federal government. On the second level, all business operations are subject to trade tax (Gewerbesteuer), which is imposed by the municipalities, where the company is located. In case of having more than one permanent establishment, each is taxed for trade tax purposes.

Corporate Taxation

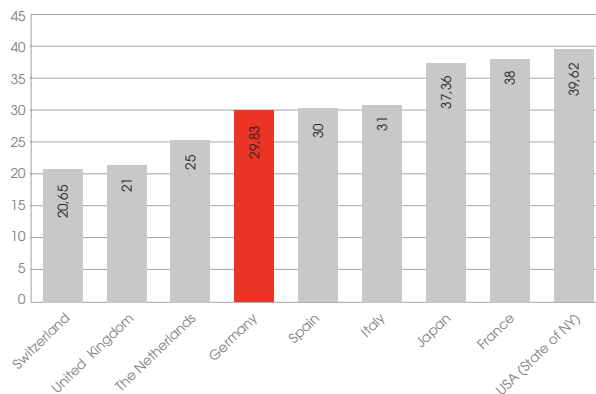
Corporate Income Tax

The standard corporate income tax rate is 15 % and is imposed at the level of the company that generated the profit. It applies to all taxable earnings, whether retained or distributed profits earned during tax year. The so-called solidarity surcharge (Solidaritätszuschlag) is added to the corporate or personal income tax. This is set at a rate of 5.5% of the corporate or income tax rate (and not 5.5% of income as such). However, once profits are distributed to the shareholders, they must pay personal income tax or compensation tax (Abgeltungssteuer).

Trade Tax

This tax is directed at businesses' real earning capacity. As a non-personal tax, it is charged on the earnings generated by a business, irrespective of the personal circumstances of any of the owners. Therefore, all commercial business operations, except those of freelance professionals, are subject to trade tax. Trade tax is levied by the local communities totaling 7% at minimum and usually ranging from 14% to 17% on average.

International Comparison of Corporate Taxation (in %)



Source: Federal Ministry of Finance (year 2014)

Indirect Taxes

Value Added Tax (VAT)

The normal VAT rate is 19%, a lower rate of 7% is charged for convenience goods and services needed on a day-to-day basis, such as food, books and newspapers, or public transport. Some services, including banking, healthcare, and non-profit work, are VAT-exempt. For certain services rendered by a foreign entrepreneur, the reverse-charged-system has to be applied. Each entrepreneur can apply for a VAT identification number that is particularly necessary for intra-EU supplies and services. Import turnover tax (Einfuhrumsatzsteuer) has to be paid for goods imported from non-EU states.

Real Estate Transfer Tax

When domestic real estate changes owner, a one-time real estate transfer tax of about 3.5% to 6.5% (depending on the federal state) of the purchase price has to be paid by the buyer.

Real Property Tax

Every property owner in Germany is liable to pay an annual real estate tax. The tax rate depends on the category of real estate, the assessed value of the property and the municipal collection rate (Hebesatz).

Individual Taxation

All resident individuals (natural persons) are taxed on their worldwide income. A resident is a person who has a home or habitual abode in Germany. Therefore, they need to be physically present in Germany for more than six months in a calendar year or for a consecutive period of six months over a year-end. Non-resident individuals are taxed (usually by withholding) on their German-source income only. Contrary provisions in double taxation treaties override German national law unless the latter is more favourable (from the German tax point of view only) to the taxpayer. However, German law contains a number of provisions to prevent what the authorities see as treaty-abuse.

If a person is a resident in two countries and the tax treaty determines that he or she is a resident or has closer ties to the country other than Germany, then it does not mean that they will lose their status as a German resident in respect to their German source income.

Thus they remain entitled to allowances and reliefs available to residents only (so-called taxpayer with unrestricted liability). Nationality is not of itself a criterion for determining residence or tax liability, although it may give an indication in (unusual) cases of doubt where a taxpayer has ties of equal strength to at least two countries.

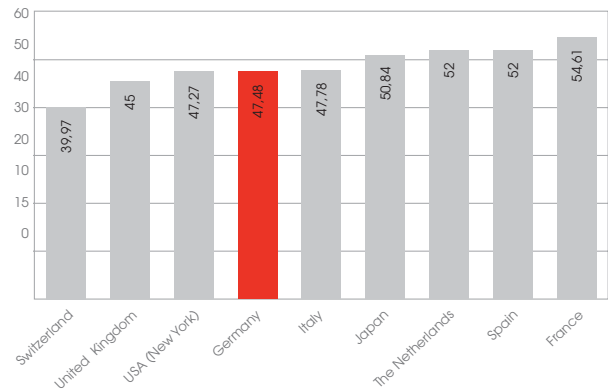
All resident taxpayers must file an annual income tax return, unless their only income is employment income from a single employer. The tax year is the calendar year and the return is due by the following May 31 or, if a tax consultant has been appointed, by December 31. For further information on the taxation of individuals and companies please contact our tax consultants.

Personal Income Tax

The rate of personal income tax starts at 14% for an annual income exceeding the tax-free allowance of EUR 8,652. It rises progressively to a maximum personal income tax rate of 42%, which is applicable to earnings of EUR 52,882 (EUR 105,762 if married) or more. An increased tax rate of 45% applies to every euro in excess of EUR 250,731 per year, except business profits. In case of having a partnership or a sole

proprietorship which is paying trade tax, the personal income tax can be reduced by 3.8 times of the trade tax base amount.

International Comparison of Top Income Tax Rates (in %)



Source: Federal Ministry of Finance (year 2014)

Compensation Tax

Since 2009 all dividends, capital investments and speculation gains are subject to the compensation tax with a tax rate of 25% (plus solidarity surcharge).

Solidarity Surcharge

The solidarity surcharge, introduced to finance the German reunification, is 5.5% of the assessed amount of both corporate and personal income tax. No solidarity surcharge is levied on trade tax payments.

Church Tax

Individuals who belong to a recognised church and who are subject to unlimited taxation in Germany must pay church tax. Depending on the federal state of residence, the church tax rate is 8 or 9% of the individual's income tax. The paid church tax is deductible for income tax purposes.

Non-resident Taxation

Non-resident individuals and companies in Germany receiving income generated in Germany are subject to German limited taxation with their German-



The Bremen Town Musicians, Bremen

sourced income. Double taxation of this income is avoided by double taxation agreements between Germany and other countries. In case of a non-resident company the tax treatment depends on its kind of income.

For individuals the deduction of expenses is only allowed if and to the extent these expenses are eco-

nomically related to the taxable revenues. These limitations put tax payers with a limited tax liability in Germany in a disadvantageous position compared with individuals who are subject to unlimited German taxation. However, individuals who are subject to limited taxation in Germany can apply for unlimited taxation if at least 90% of their worldwide income is subject to German taxation in one year.

EMPLOYMENT AND STAFF



BENEFITTING FROM A WELL-EDUCATED AND PRODUCTIVE LABOUR FORCE

The German labour market is characterised by high employment levels and a low unemployment rate which are an expression of the country's sound economic situation. Two examples as to how the Federal Government tries to ensure the success of the German labour market are the statutory minimum wage and the gender quota. Early in 2015, a statutory minimum wage of EUR 8.50 per hour was implemented, which initially benefitted 3.7 million people. Moreover, a gender quota for women was introduced, which is intended to ensure equal numbers of men and women in top management positions. The labour market is rather flexible, but a high standard of employee protection does set some limitations.

Coming to Germany

Germany distinguishes between different kinds of residence titles for specific purposes. They depend on the length of stay and the intended activity in Germany.

There are the following residence titles:

- Visa (Schengen visa and national visa)
- Residence permit
- Settlement permit

EU nationals and citizens of the states of Iceland, Norway, Liechtenstein and Switzerland and those of the European Economic Area (EEA) do not require any form of visa, residence or settlement permit in order to be able to settle or work in Germany. All they need is a valid passport or identity card. EU nationals only have to register at the local registration office in case they stay longer in Germany and thus have a permanent address.

Non-EU citizens generally require a visa in order to enter Germany. Individual rules apply for certain countries. For example, nationals from Argentina, Australia, Brazil, Canada, Israel, Japan, Mexico, New Zealand, the Republic of Korea, the United States and Hong Kong can stay in Germany for up to 90 days (in any 180-day period from the date of first entry) without a visa.

Stays that do not exceed 90 days within a 180-days period starting from the date of arrival are characterised as short-term stays and need a Schengen visa. A Schengen visa is generally sufficient for most steps required to establish a business in Germany.

If the stay exceeds 90 days within a 180-days period or if an occupation is taken up, all non-EU nationals must have a residence permit or settlement permit. For this purpose, the German embassies or consulates issue a national visa for entering the country which is later transferred into a residence or settlement permit.

Thanks to the **EU Blue Card**, graduates and skilled workers have easy access to the German labour market. Foreigners may apply for this special kind of residence permit if they hold a German university degree (or a proven comparable qualification) and provide documentary evidence of an employment contract with an annual gross salary of at least EUR 49,600 (2016). Federal Employment Agency (FEA) involvement prior to issuing the EU Blue Card is not necessary. The annual gross salary level is lowered to EUR 38,688 (2016) for professions with a particular skill shortage (e.g. medical doctors, science and engineering professionals as well as information and communications technology professionals). FEA approval is required for this type of EU Blue Card. However, the FEA does not carry out a priority check in such cases, but instead establishes whether the non-EU citizen is employed on terms less favourable than would otherwise apply to comparable German employees.

Finding Employees

Employers are basically free to define the recruiting process for potential employees. There are only a few guidelines that require consideration such as the obligation to advertise and fill vacancies in a non-discriminatory way (particularly in terms of ethnic origin, gender, religion, world view, disability, age, and sexual orientation). Companies are supported in various ways during their search for suitable employees. The **Federal Employment Agency** (Bundesagentur für Arbeit) offers professional recruitment services

free of charge. It is represented with job centres in the municipalities throughout Germany. There are also numerous **private recruitment services providers** (see also Auren HR Services for advice).

Employment Models and Contracts

Employment contracts are usually settled in written form and preferably in German since a binding German version is advisable because German courts require a German translation of any contract drawn up in another language in the event of any legal proceedings.

The contract needs to contain a job description, details on the duration of the contract, remuneration, paid vacation days and working conditions. Quite common is a probationary period of up to six months which allows either party to terminate the contract within a defined shorter notice of time.

In Germany, there exist legal regulations in order to protect employees. The regulations are laid down in various German laws.

Fixed-term contracts expire automatically on a specific date without formal dismissal requirement. The employer has the chance to decide whether to renew the contract or not. This kind of contract is limited to a maximum of two years and may be extended up to three times, provided the total duration of contract does not exceed the maximum of two years. **Temporary employment** means that a company leases employees from a temporary employment agency. This kind of contract must be of temporary character. The employee is legally employed by the temporary employment agency and usually receives the wage from the agency. **“Mini jobs”** (also known as “450 Euro jobs”) refer to employment contracts where the salary that is paid does not exceed a total monthly sum of EUR 450 (i.e. marginally remunerated employment) or those in which the employee only works a maximum of 70 days per year (i.e. short-term employment). With short-term employment, no social insurance contributions are due for health and pension insurance. It is only necessary to tax the income and to pay statutory accident insurance and some other minor allocations. **“Midi jobs”** (also known as “low-salary jobs”) are employee-employer relationships with an average monthly salary in the EUR 450.01 to EUR 850

range. Employees pay a reduced rate of social insurance for midi jobs. The employer pays the full contribution rate. However, this is below the contribution rate for mini jobs. The wage is normally subject to income tax.

Working Hours and Holidays

Working hours vary by industry sector and location, but are commonly between 35 and 40 hours per week. The legally permitted working time totals eight hours per day and 48 hours per week. Saturday is considered to be a normal working day. With a five-day week, the permitted weekly working time totals 40 hours. Sundays, in contrast, are generally considered to be days off. An extension of the working time to a maximum of ten hours per day is possible under certain conditions. Overtime often has to be either paid or compensated for with additional time off. However, the overtime bonus is not legally specified and there are legal restrictions on the maximum amounts of overtime that can be worked.

The legal minimum of paid holiday entitlement is 20 working days each year for employees on a five-day working week. Most actual holiday entitlements fall within a range of 25 to 30 days. The number of public holidays in Germany varies from state to state.

Termination of Employment

A contract of employment can be terminated by the employer or the employee at any time by giving four weeks notice to the 15th or the end of any month. However, contractual specifics have to be kept in mind as well as law regulations. According to these, employers must allow long-serving employees longer minimum notice periods. Dismissals must be provided in writing. Electronic termination (e.g. via email) is not possible. Certain persons, such as expectant mothers, the disabled, data protection officers and members of the works council are eligible for stronger protection against layoff.

Social Security in Germany

In contrast to some other industrialised countries, the core social security system in Germany is collectively financed by means of a process of redistribution. The current costs for pensioners, sick people, those in need of nursing care, and unemployed people are paid directly from contributions by employees and employers alike. The German social security system consists of four main components; retirement insurance, unemployment insurance, invalidity insurance and health care insurance.

Secondment of Staff

If staff employed at a company abroad is only temporarily transferred to a German branch or a related company in Germany, they may be exempt from social insurance contributions and German wage tax. If the secondment lasts longer, the host company in Germany will be assessed as the (new) employer. Therefore, wages and salaries paid to the seconded staff will most likely be subject to German wage tax as well as social security contributions. Generally, income tax and social security contributions are paid in the country where the employment is carried out, unless the individual is protected by a double taxation treaty.



Zeche Zollverein Coal Mine Industrial Complex, Essen

LEGAL FRAMEWORK



Skyline with Hauptwache, Frankfurt am Main

CONTRACTING IN GERMANY – WHICH LEGAL FRAMEWORK FITS YOU BEST?

There are several legal regulations laid out by the federal government that help to secure investors and companies in Germany.

Law of Contract

German law of contract offers investors a reliable framework for action. The principle of contractual freedom enables the conclusion of contracts with freely selectable contractual partners and the free determination of the subject matter of the contract as long as the current law is not infringed. The basic structures of the key types of contract are governed in the German Civil Code (BGB). Contractual conditions are standardised to a high degree. The general possibility to choose German law as applicable to a contract is safeguarded by European law.

Purchase Law

The purchase contract is the type of contract concluded most frequently. The concise legal regulation of purchase law considerably simplifies the conclusion of contracts on a day-to-day basis. The United Nations Convention on Contracts for the International Sale of Goods (CISG) can apply to international delivery of goods contracts in Germany.

Commercial Law

German commercial law corresponds with international standards and keeps up with the fast-paced nature of commerce. Global trading practices and standard trading contractual clauses such as “Incoterms” (International Commercial Terms) are recognised. Global financing mechanisms for international trade such as letters of credit and payment guarantees also apply in Germany.

Intellectual Property

In Germany, intellectual property enjoys a high level of protection. This is guaranteed by the registration of intellectual property rights. These rights can be

registered at the German Patent and Trademark Office (*Deutsches Patent- und Markenamt – DPMA*) for technical and commercial innovations in the form of patents, utility models, trademarks, and design patents.

On registering intellectual property rights, the same conditions apply for both foreign nationals and Germans. Applicants who do not have a place of residence or a branch in Germany have to nominate a patent attorney as the representative for the signing of the patent registration.

Licenses

Industrial rights of use can be granted to third parties through the issue of an exclusive or general license. Through the issuing of the license, the license holder gains corresponding rights. In return, the license holder makes a payment to the licensor. It is possible to distinguish between exclusive and general licenses. An exclusive license authorises just one licensee for use within a certain area. A general license authorises several licensees in the same place at the same time (depending on the configuration of the contract).

Real Estate

Suitable real estate for business premises or for accommodation in Germany can be found in regional daily newspapers, online markets and brokers. Commercial real estate is often owned by insurance companies, banks, investment companies, funds, and real estate holding companies.

Land Registers and Acquisition of Real Estate

Land registers (*Grundbuch*) contain a record of the entire German territory, providing information on ownership of land and real estate as well as any existing encumbrances. The German land register is indefeasible, meaning that a title insurance or report on a title is dispensable. Real estate purchase contracts in Germany require notarisation in order to be effective.



Old Town House, Dortmund



Rhine River Promenade, Düsseldorf

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CLOSE TO YOU FOR YOUR GLOBAL SUCCESS

Do you want to be active in Germany? You plan to start a business, want to open a permanent establishment or a subsidiary? Is it your ambition to develop a cooperation with business partners but you need support with tax and law issues? Auren is the right partner for you.

Many years of experience, in-depth knowledge of the German market and our interdisciplinary approach enable our consultants to help and support you and your colleagues competently and individually in all your projects concerning tax, legal and business issues.

Auren and its 240 employees is a leading consulting company offering services in the areas of audit & assurance, tax consultancy, legal, consulting and corporate finance. We specialise in advising medium-sized companies and know their specifics because we ourselves are an SME. We combine the advantages of a medium-sized structure with the performance of a large consulting company. We place special emphasis on the close contact with our customers because Auren is not just a consulting company. We are your partner. We want to work together with you and not only for you, to develop your business and help it grow. Take our word for it: together for your success.

Our assets

Experience: We know your industry and understand your challenges. Our advisors are not only using theory but also practical experience. They are entrepreneurs who are accustomed to take on corporate responsibility. This is why we understand your challenges and know what we are talking about and what matters to you.

Continuity: We strive for long-term cooperation with our customers and employees. Therefore, we attach great importance to the fact that you have permanently the same contact person who knows you and your company. This increases the quality and efficiency of our advice and thus saves time and money.

Quality: Quality is the basis for our cooperation. For us, quality means much more than only technical quality. Fast response, flexibility, availability, willingness to accept responsibility – that creates our sense of quality.

USEFUL ADDRESSES AND LINKS



USEFUL ADDRESSES FOR YOUR BUSINESS IN GERMANY

German Chambers of Commerce and Industry

www.dihk.de/en

German Federal Central Tax Office

<http://www.bzst.de>

Federal Ministry for Economic Affairs and Energy

<http://www.bmwi.de>

Federal Ministry of Finance

<http://www.bundesfinanzministerium.de>

Federal Foreign Office/ Federal Ministry of Foreign Affairs

<http://www.auswaertiges-amt.de>

Federal Government of Germany

<https://www.bundesregierung.de>

Trading and Investing in Germany

<http://www.gtai.de>

Information about Germany: Living and Working, Immigration, Visa, Culture

<http://www.research-in-germany.org>

<https://www.tatsachen-ueber-deutschland.de>

<https://www.deutschland.de>

<http://www.make-it-in-germany.com>

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