



2016 Handbook: Doing business in Germany

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General information about Germany

Capital: Berlin

Area: 357,121 sqkm

Population: 80.6 million

Official language: German

Official currency: Euro

Investment incentives

- Excellent geographical position and infrastructure
- Stable economic growth
- Strong consumer market
- Corporate tax of 15% + surcharge
- Highly educated and skilled workforce (especially Engineers and IT-Specialists)
- Safe investment environment

Doing business in Germany

Contact us and find out how we can help you!



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Legal forms of business

Legal forms of business

The most frequent form of business is Limited Liability Company (GmbH), mostly because of these reasons:

- Public trustworthiness
- Smooth establishment and registration
- Limited liability of shareholders

The form of business		The minimum capital (in EUR)
English	German	
Self-employments	Einzelunternehmen	0
Unlimited Partnership	Gesellschaft bürgerlichen Rechts / GbR	0
Ordinary Partnership	Offene Handelsgesellschaft / OHG	0
Private Limited Partnership	Kommanditgesellschaft / KG	0
Limited Liability Company	Gesellschaft mit beschränkter Haftung / GmbH	25,000 (GmbH)
	<i>Special:</i> Unternehmergesellschaft (haftungsbeschränkt) / UG	1 (UG)
Joint-Stock Company	Aktiengesellschaft / AG	50,000

General rules for purchasing of real estate

- No general restrictions for purchasing of real estate
- Real estate tax of 3.5% up to 6.5% of purchase price (depending on federal states)
- Notarization of transaction required

Social security & Labor law aspects

General social and health security

Contribution	Employee	Employer
Social security (pension insurance)	9.35 %	9.35%
Social security (health insurance)	7.30 % + add. fee (depends on insurance)	7.30 %
Social security (care insurance)	1.175 % Saxony: 1.675	1.175 % Saxony: 0.675
Social security (unemployment insurance)	1.5 %	1.5 %
TOTAL	20.175 %	19.275 %

The maximum assessment bases are EUR 72.600 / 62.400 (pension insurance and unemployment insurance: West Germany / East Germany) EUR 49.500 (health insurance and care insurance) salary p.a.

Furthermore there are several additional contributions like insolvency allocation (0.15 %), maternity allocation (ca. 0.40%), sickness allocation (ca. 1.5 %) and the Employer's Liability Insurance Association which are paid by the employer.

General comments on labour law

Main features of employment relationship		Applicable law
Contract type	Can be concluded to definite and indefinite term.	German Civil Code Several specialized laws such as: <ul style="list-style-type: none"> ▪ protection against dismissal ▪ working time act ▪ minimum wage act ▪ continued remuneration
Essential parts of the contract	Written form, parties, type of contract, start date, date of contract conclusion, nature of work, place of work, remuneration corresponding to the type of work, working time	
Minimum wage	8.50 EUR / hour (few exceptions apply, special branches might have higher wages as per individual collective agreements)	
Working time	40 hours per week (can be individually agreed)	
Holiday entitlement per year	24 days per year (minimum) based on a 6-day week. 20 days per year based on a 5-day week	

Taxation system

Corporate income tax & Solidarity tax

Applicable law: Corporate Tax Law

Corporate income tax rate: 15 % + 5.5 % solidarity surcharge = 15.825 %

Advance payments: Quarterly (03/06/09/12), based on the amount of the last known tax liability or request to adjustment.

Construction withholding tax (see other taxes below).

Filing the corporate income tax return: Taxable period can be a calendar year, or a fiscal year (12 consecutive calendar months).

Generally, the time period for the submission of the CIT return is 5 months after the end of the taxable period (i.e. regularly 31st May). If the CIT return is filed by a tax advisor, the time limit for the submission of the CIT return is 12 months after the end of the taxable period (i.e. 31st December).

Losses: Losses can either be carried backward (one year) or forward and be charged against profits of past or future years.

Trade tax

Applicable law: Trade Tax Act

Tax rate: 3,5% base rate x municipal multiplier = trade tax rate (total between 7% - 20%).

Tax-exempt amount: EUR 24,500 only for partnership companies (Personengesellschaften) and self-employments (Einzelunternehmen).

Taxable period: The taxable period can be a calendar year, or a fiscal year (12 consecutive calendar months). Generally, the time period for the submission of the Trade Tax return is 5 months after the end of the taxable period. If the Trade Tax

return is filed by a tax advisor, the time limit for the submission of the CIT return is 12 months after the end of the taxable period.

Losses: Losses can be carried forward in the future (unlimited).

Personal income tax

Applicable law: Income Tax Law

Rate: Progressive tax rate starting at 14% up to 45%

Deductions: Income-related expenses and provisions are deductible.

Tax-exempt amount: EUR 8.472 (single); EUR 16.944 (married couple)

Advance payment: monthly income tax deduction from gross salary by the employer (payroll tax); additionally tax prepayment if set by fiscal authorities for other than employment income.

25% withholding tax + solidarity surcharge on capital gains deducted automatically by bank.

Construction withholding tax (see other taxes below).

Filing the personal income tax return: Generally, the time limit for the submission of the PIT return is 5 months after the end of the taxable period. The PIT taxable period is calendar year. If the PIT return is filed by a tax advisor, the time limit for the submission of the PIT return is 12 months after the end of the taxable period.

Value added tax

Applicable law: Value Added Tax Act

Rate: 19% (basic rate); 7% (reduced rate)

German VAT for international trade or services: If VAT liable revenues are generated in Germany / EU reverse charge might apply. There is a mandatory VAT registration if the delivery of goods is transnational.

Intracommunity sales are tax exempt, while intracommunity purchases are taxable, a separate declaration (Zusammenfassende Meldung "ZM") is required.

Threshold for declaration: Voluntary if turnover was above EUR 17,500 in the previous year and is presumably under EUR 50,000 in the present year.

Reverse charge rules: VAT will be paid by customer in following cases:

- EU reverse charge for services received from or provided to EU supplier / customer (B2B), verification using USt-ID No. is required
- Intracommunity purchases (B2B)
- Revenue for construction works between construction companies (B2B)
- Revenue for cleaning works between cleaning companies (B2B)
- Delivery of certain goods (scrap metals, scrap glass, gold, telecom equipment > 5 k EUR etc. / all B2B)

Inheritance and gift tax

Depending on the degree of relationship with the deceased or donor:

- Tax-exempt amounts between EUR 20,000 and EUR 500,000
- Tax rate between 7 and 50%

New tax-exempt amount every 10 years.

Real estate transfer tax

3.5 – 6.5% of purchase price depending on the state.

Real estate tax

- Imposed on plot of lands and buildings
- Tax rate depends on the value and location of the property

Road tax

Imposed on every motor vehicle.

Excise duties

Imposed on specific products (e.g. fuel, alcohol, tobacco).

Construction withholding tax

Part of CIT/PIT; "Bauabzugsteuer"

For construction works performed in Germany, **15% withholding tax** of invoice sum (+ VAT) need to be withheld by customer and paid to Tax Office on behalf of supplier (only B2B).

The construction withholding tax is part of the supplier's tax (CIT/PIT) prepayment. Foreign companies not CIT/PIT liable in Germany can reclaim the withholdings deducted after year-end.

Exemptions from withholding:

- Withholding only required if invoice amount is in excess 5 000 EUR p.a. / supplier
- If fiscal authority has provided supplier with a valid tax exempt certificate

Please note: The construction withholding tax does **also apply to foreign suppliers if construction site is in Germany**. Foreign companies need to request / register from fiscal authority in order to receive a tax exempt certificate.

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