

Investor's Basics: Setting Up Business in Germany

Facts & Figures



GERMANY
TRADE & INVEST

Legal Issues Important to Foreign Investors

This brochure explains how the business establishment process in Germany works. It focuses on the questions most often posed by foreign investors. These can be grouped into four key categories: entry and residence requirements, business establishment, corporate taxation, and employees and social security. You will find essential information on these matters and many useful tips on how to establish a new business in Germany – both quickly and easily.

Entry and Residence

At some point within the process of establishing a business in Germany, investors usually have to come to Germany in person. Depending on the country of origin, investors may require a visa to enter Germany. Long-term stays require a residence permit. Different types of residence titles are available subject to the intended business activities.

Our legal experts help you in preparing your business trip to Germany by checking:

- whether a visa is needed before entering Germany or not.
- what type of visa or residence permit might be required for the planned business activity.
- granting requirements for different kinds of residence permits.
- how the application procedure works.

Business Establishment

German company law offers a variety of different legal structures suitable for every type of business. Formation procedures are swift and efficient, with only a few steps needed to establish a company in Germany.

Our legal experts help you in preparing business establishment in Germany. We inform about:

- general ways to take up commercial activities in Germany.
- different company forms.
- the establishment procedure in detail.
- registration with the commercial register and trade office.

Corporate Taxation

Tax implications must be taken into account when choosing a legal company form, since company taxation details mainly depend on the company form. Germany has a comprehensive regime of double taxation agreements with foreign countries which, for instance, prevent double taxation of distributed profits.

Our taxation experts help you in optimizing your business. We inform about:

- the German tax environment.
- tax implications of certain company forms.
- how to avoid double taxation.
- how to register with tax authorities.

Employees and Social Security

Attention should already be paid to the question of how to recruit required specialists and employees at the company formation stage. Moreover, knowledge of the different employment models and the terms and conditions of employment help successfully complete the hiring process.

Our legal experts help you optimize the hiring process in advance by giving advise on:

- flexible models of employment.
- different terms of employment.
- the social security system and payroll accounting.
- registering employees for the social security system.

Company Forms for Foreign Investor Expansion

Anyone can establish a business in Germany – irrespective of nationality or place of residence. There is no specific investment legislation in Germany, nor is a minimum percentage of German shareholdings required for foreign entrepreneurs setting up business in Germany.

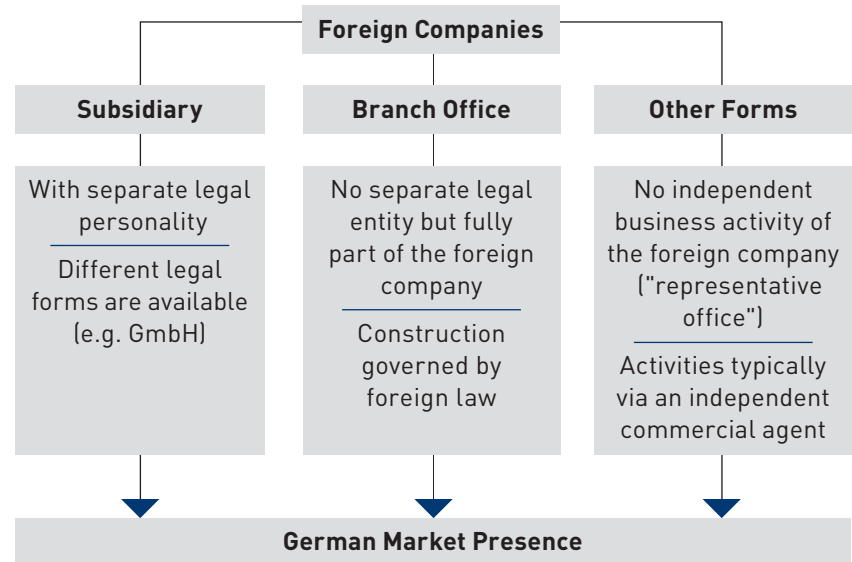
Foreign investors can choose between a variety of legal forms for conducting business in Germany. Existing companies can also conduct business via a German branch office. Decisive criteria for the choice of legal form are generally the intended function of the shareholders, liability and terms of taxation. The basic structure of all company forms is stipulated by law which provides for predictability and legal certainty. The same legal conditions apply for foreign and local entrepreneurs.

Legal Structures for Your Business in Germany

There are a number of different ways to enter the German market. Expanding foreign companies often choose to establish a local subsidiary or to register a local branch office. The subsidiary's degree of independence is a major argument for this option. Either way, the establishment procedure is straightforward with well-defined steps.

There are no restrictions placed upon foreigners who wish to establish a company or register a branch office in Germany.

There are several ways of taking up commercial activities in Germany.



Subsidiary

A subsidiary is an autonomous company established and predominantly held by another company (parent company). For subsidiary formation, foreign companies can choose the most suitable legal company form as a corporation or partnership.

Corporations

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 the 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 important corporate forms in Germany are the private limited liability company (*Gesellschaft mit beschränkter Haftung – GmbH*) and the stock corporation (*Aktiengesellschaft – AG*). Please find further information about the GmbH in the Business Establishment fact sheet.

Partnerships

Characteristic for a partnership is the personal commitment of the partners to their working efforts to the partnership. Partners have unlimited personal liability - a minimum share capital is not required. 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 Corporate Partnership (GmbH & Co. KG).

Branch Office

Any foreign company with a head office and registered business operations outside of Germany can establish a German branch office. A branch office is a suitable business form for a foreign company wanting to establish a presence in Germany for the purpose of initiating business and maintaining contacts with business partners.

Main Characteristics

A branch office has no independent or separate legal personality distinct from the head office itself. In legal and organizational terms, it is part of the head office business and is therefore subject to the law governing the head office. In this context, the foreign head office company is fully liable to the extent of its own assets for any claims creditors might assert against the branch office. Any obligations or debts incurred by the branch office are also legal responsibility of the foreign company.

In Germany, there are two kinds of branch establishment which primarily differ due to the degree of the independence from the head office company.

Autonomous Branch Office

The autonomous branch office (*selbständige Zweigniederlassung*) fulfills tasks that exceed mere implementation and support-related tasks. It has its own business discretion that is limited by the scope of the business objective of the head office.

The autonomous branch also has its own management with executive powers, a separate bank account, and accounting as well as independent business assets.

Dependent Branch Office

The dependent branch office (*unselbständige Zweigniederlassung*) focuses on maintaining contacts and initiating business in Germany. It performs support and implementation-related tasks without having any individual business discretion and is entirely dependent on the head office.

Please find more information about the registration procedure of the two different branch office categories in the Business Establishment fact sheet.

Branch Office Taxation

A branch office is subject to taxation in Germany if it is considered as a permanent establishment according to the applicable double taxation agreement. An autonomous branch office is generally regarded as a permanent establishment, whereas a dependant branch office is only ever considered a permanent establishment under certain conditions.

A German permanent establishment of a foreign corporation is taxed in Germany according to German taxation rules for corporations (corporate income tax, solidarity surcharge and municipal trade tax). Please find further information in the Corporate Taxation fact sheet.

Other Forms

Offices that purely serve to observe the market and pave the way for initial customer contacts are often described as "representative offices." However, this term does not exist in German commercial law.

Once an office is used by a foreign company for commercial activities (thus forming part of the foreign company organization), it generally must be registered at least as a dependent branch office in Germany. This is typically the case if the foreign company has a permanent representative who conducts the commercial activities of the company in a sustained manner and, in doing so, is subject to its instruction.

An office managed by a self-employed third party (e.g. a commercial agent authorized by the company) might be considered a case in which no independent business activity is conducted on behalf of the foreign company. In this case, registration of the foreign company with the local trade office is generally not required. Decisive here is the actual level of independence of the agent and their freedom to act without instruction from the company.

Residence Titles

Germany distinguishes between different kinds of residence titles for specific purposes subject to the length of stay and intended (business) activity in Germany. These include:

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

A visa enables the holder to **entry and short-term stays** (up to 90 days per half year from the date of first entry) in Germany. A residence or settlement permit is required for the purpose of employment and self-employment and for long-term stays (more than 90 days per half year from the date of entry).

Who Needs a Residence Title?

EU citizens do not require any residence title to be able to settle or work in Germany. Citizens of the new EU states Bulgaria and Romania still require a work permit if they are employed in Germany. These transitional rules will cease by the end of 2014. However, the labor market has been opened up to university graduates from the new EU states since 2009.

Non-EU Citizens: Entry and Short-term Stays

Non-EU citizens generally require a Schengen visa for entry and short-term stays in Germany. However, individual rules apply for certain countries. For example, nationals from Argentina, Australia, Brazil, Canada, Israel, Japan, Mexico, New Zealand, South Korea, the United States, and Hong Kong can stay in Germany for up to 90 days (per half year from the date of first entry) without a visa.

Residence title	Enables the holder to	Which foreign nationals require a residence title?
Visa (Schengen visa and national visa)	Entry into Germany followed by a short-term stay (up to 90 days).	Non-EU citizens excluding nationals from Argentina, Australia, Brazil, Canada, Israel, Japan, Mexico, New Zealand, South Korea, the United States, Hong Kong, and some other countries.
	Entry into Germany followed by a long-term stay (for which an additional residence or settlement permit is required).	Non-EU citizens excluding nationals from Australia, Canada, Israel, Japan, New Zealand, South Korea, and the United States.
Residence permit or settlement permit	Long-term stays and stays with the intention to take up gainful occupation.	Non-EU citizens

Non-EU Citizens: Long-term Stays

For long-term stays, non-EU citizens require a residence or settlement permit. The respective local German mission initially issues a national visa for entry into Germany. The national visa is subsequently converted into a residence permit by the competent local Immigration Office (*Ausländerbehörde*). Non-EU citizens from those countries exempt from the short-term stay visa requirements also require a national visa when entering Germany for long-term stay purposes.

Exceptions apply for nationals from Australia, Canada, Israel, Japan, New Zealand, South Korea, and the United States who may enter Germany for long-term stay purposes without a national visa. These foreign nationals can directly apply for the necessary residence or settlement permit at the Immigration Office in Germany.

Application Procedure

The residence title generally has to be applied for at the competent German embassy or consulate general prior to entering Germany. The respective visa is then issued in the applicant's home country within a period of a few weeks. The application fee is EUR 60.

Residence Titles for Differing Business Activities

The relevant residence title required depends on the investor's nationality, and particularly on the specific area of business activity intended in Germany. A residence permit is not normally required for the setting up of a business. However, a residence permit is required in those cases where the foreign national intends to run the business on-site.

Establishing a Company

For most of the activities in the formation phase of a company, a **Schengen travel visa** (often referred to as a **business visa**) is sufficient. It enables its holder to stay in Germany for up to 90 days, during which time all fundamental establishment activities can be performed.

Establishment Activities with a Schengen Visa

- Signing and notarization of articles of association
- Application for registration in the commercial register (submitted by a German notary)
- Trade office registration
- Other preparatory activities in the company set-up phase (e.g. the opening of a bank account or the conclusion of lease contracts)
- Negotiation and conclusion of contracts with business partners

Setting up a company in Germany using a Schengen visa does not alone warrant residence permit issue at a later date. If necessary, a residence permit for self-employment or employment should be applied for in due time. A residence permit must also be applied for if the proceedings for setting up a company exceed 90 days.

Company Management On-Site (self-employed)

Entrepreneurs from non-EU countries managing a company on-site in Germany in a self-employed capacity require a residence permit for the purpose of self-employment. This permit may be granted if the planned business is expected to have a positive economic effect and has secure financing in place. An individual assessment of the intended business project is then made, taking into account, e.g.: the viability of the

underlying business idea, the foreigner's entrepreneurial experience, the level of capital investment, and whether an economic interest or regional need regarding the intended business activity exists. A residence permit for the purpose of self-employment is limited in time for up to three years. A settlement permit (permanent) can be granted after three years if the investment project has been successfully realized and has stable income prospects.

Who is considered self-employed (e.g.)?

- Entrepreneurs (including freelance professions)
- Partners in a partnership
- Managing partners
- Managing director or managerial employees with proxy or full power of attorney who personally carry a business risk

Employment in Germany

Non-EU citizens employed in Germany require a residence permit for the purpose of taking up employment. As with the residence permit for self-employment, the residence permit for the purpose of taking up employment is limited for a period of up to three years. This can however be extended. A permanent settlement permit can be issued after five years. As a rule, a residence permit for the purpose of taking up employment is only awarded to certain occupational groups (e.g. academics, IT specialists, managerial staff and employees with specialist knowledge) if a concrete job offer can be demonstrated and the Federal Employment Agency FEA (*Bundesagentur für Arbeit*) has granted approval.

The FEA approves if no suitable German or EU employees are available for the job (priority check) and the non-EU citizen is hired at the same terms and conditions of employment as comparable German employees (especially in terms of wages and working hours). Certain occupational groups are however entirely exempt from the FEA approval requirement.

Occupational Groups Exempted from FEA Approval

- Employed managing directors
- Managerial employees
- Scientific research personnel
- Specialists holding a German university degree
- The granting of a EU Blue Card
- FEA approval without priority check for internal company specialists

EU Blue Card - Residence Permit for Highly Qualified Employees

The EU Blue Card Scheme is an EU initiative designed to make Europe a more attractive destination for skilled workers from outside the European Union. In Germany an EU Blue Card can be granted to a non-EU citizen holding a university degree or a proven comparable qualification and demonstrating a job contract with an annual gross salary of at least EUR 46,400 (2013). The annual gross salary level is lower (EUR 36,192, 2013) in professions with a particular skill shortage (e.g. engineers, IT-specialists). A permanent settlement permit can be granted after 33 months - or after 21 months if the foreign citizen has attained a certain German language skill level.

Efficient Company Formation Procedures

There are a number of different ways to enter the German market. Expanding foreign companies normally opt to establish a local subsidiary or register a local branch office. In both cases the establishment procedures are swift and efficient, requiring only a few clearly defined steps.

A subsidiary is an autonomous company established and completely held by another company (parent company). The establishment procedure starts with the formation of a company and is completed upon registration. Foreign companies typically choose the private limited liability company option (*Gesellschaft mit beschränkter Haftung – GmbH*) for local subsidiary formation.

A **branch office** forms part of the foreign head office company's organization. A formation procedure is therefore not applicable – only the registration of the branch is required.

Setting Up a GmbH: Formation Procedure

The GmbH is the most widely used legal form for corporations. It combines high flexibility with relatively few obligations.

A GmbH can be set up by an optional number of shareholders. At least one shareholder is required (private individual or legal entity). The nationality and residence of the shareholder(s) and the managing director(s) of a GmbH are irrelevant. However, the company must have a German business address.

Chronological Steps Needed to Set Up a GmbH	
Step 1	Drafting of articles of association
Step 2	Notarization of articles of association
Step 3	Payment of share capital
Step 4	Registration in the commercial register
Step 5	Trade office registration
Application for entry in the commercial register is usually prepared by the authorized notary when articles of association are notarized.	

Compensating the limited personal liability of the shareholder(s), the GmbH requires a minimum share capital of EUR 25,000. It can be contributed in cash or in kind (e.g. real estate or patents). The formation procedure can be divided into the following steps:

1: Drafting of Articles of Association

The articles of association shape the identity and constitution of the company. Thanks to the large scope for contractual design, the GmbH is a very flexible corporation. Mandatory content includes share capital, shareholders and respective shares held, business name, registered office, and company object.

2: Notarization of Articles of Association

The drafting and notarization of the articles of association are normally performed in one session by a German notary. The founding shareholder(s) adopt(s) its articles of association and appoint(s) one or more managing directors in a notarial deed. The articles of association must also be signed by all founding shareholders and notarized.

3: Payment of Share Capital

Once the articles of association have been notarized, a company account should be opened and the share capital deposited. A payment of EUR 12,500 in total is sufficient for registration with the commercial register of a standard EUR 25,000 GmbH.

German Notaries

Civil law notaries are appointed lawyers sworn to impartiality and entrusted with public functions. Depending on in which part of Germany the notary is appointed, he or she practices either as a "single profession notary" or as an "attorney-notary." The number of notaries in each federal state is limited in order to ensure independence and impartiality. In Germany notarization is required, amongst other things, for establishment of corporations and applications for entry in the commercial register (*Handelsregister*). Notary fees are stipulated by law and subject to the value of the transaction. The notary fees for a GmbH establishment depend among other things on the share capital. The estimated total costs for a standard GmbH are approximately EUR 750 to EUR 900.

Setting Up a GmbH: Registration Procedure

Before taking up commercial activities, a new business in Germany has to be registered with the public commercial register and the local trade office.

4: Registration in the Commercial Register

When the required share capital has been verifiable contributed to the GmbH, the managing director(s) apply for the registration of the GmbH in the commercial register. The application is electronically filed by a notary. This must be personally signed by all managing directors of the GmbH (power of attorney not possible) and accompanied by documentation pertaining to the applying GmbH. Moreover, the commercial register requires documentation verifying the existence of any parent company as well as the power of representation for persons acting on behalf of it.¹ The commercial register checks if all formation requirements for a GmbH have been met. If so, the GmbH is registered and comes into existence as a separate legal entity.

5: Trade Office Registration

Before business operations are started, the trade office must be notified about the planned activity. Trade office registration must be submitted at the latest on commencement of business. A business license or permit is not necessary for registering the business in the majority of cases. For some business sectors, a permit or authorization may be required. Specific documents from the commercial register or equivalent abroad must be submitted in officially recognized translation excerpt form. Required permits and verification of representatives must also be submitted.

Setting Up a Branch Office

Any foreign company with a head office and registered business operations abroad can establish a German branch office. There are two different categories of branch offices: the autonomous branch office (*selbständige Zweigniederlassung*) and the dependent branch office (*unselbständige Zweigniederlassung*).

Registering in the Commercial Register

Registration in the commercial register is only required by the autonomous branch office. The application must include detailed information pertaining to the foreign company and the branch office. This includes, for example, documentation verifying the existence of the foreign company as well as the power of representation for persons acting on its behalf.¹

Trade Office Registration

Both the autonomous and dependent branch must register in the trade office before business operations are started. As with the registration of a GmbH, a business license or permit is generally not necessary for registering the business. A permit or authorization may be required in a few business sectors. Trade office registration must be submitted on commencement of business at the latest.

¹Generally the following documents are required: excerpt of the foreign commercial register or certificate of incorporation and certificate of good standing as well as articles of association of the foreign parent company. The documentation must be notarized and either legalized or issued with an apostille. It should also be accompanied by a certified translation into German language. Please notice that the documentation required can differ depending on the legal form and origin of the foreign company. Please contact Germany Trade & Invest for further information: invest@gtai.com

Commercial Register

The commercial register (*Handelsregister*) is administered by the local courts (*Amtsgericht*) and ensures legal certainty in the area of commercial law by providing important information about registered companies. For instance, it is fairly quick and easy to check the existence and power of representation of any given company. All corporations have to be registered in the commercial register as well as many other enterprises requiring business operations to be set up in a commercial manner (generally assumed if annual turnover exceeds EUR 250,000 and/or a profit of EUR 25,000). Any application for inclusion in the commercial register must be submitted by a German notary in certified and electronic form. Commercial register excerpts can be ordered online. (www.unternehmensregister.de)

Trade Office

Each company is obliged to register in the local trade office (*Gewerbeamt*) of the municipality in which the business is located. The trade office generally forwards the registration to the tax authority, the regional association of professional trading associations, and the chambers of industry and commerce (*Industrie- und Handelskammer – IHK*) or the chambers of crafts (*Handwerkskammer*). Chamber membership is automatic and mandatory.

Competitive Tax Conditions

Germany offers one of the most competitive tax systems of the big industrialized countries. For corporations, the average overall tax burden is just below 30 percent, with certain local municipalities offering significantly lower rates still. Germany does not have a consistent nationwide tax rate for corporate income taxation. Instead, taxation of corporate companies consists of two major components:

- Corporate income tax + solidarity surcharge
- Trade tax

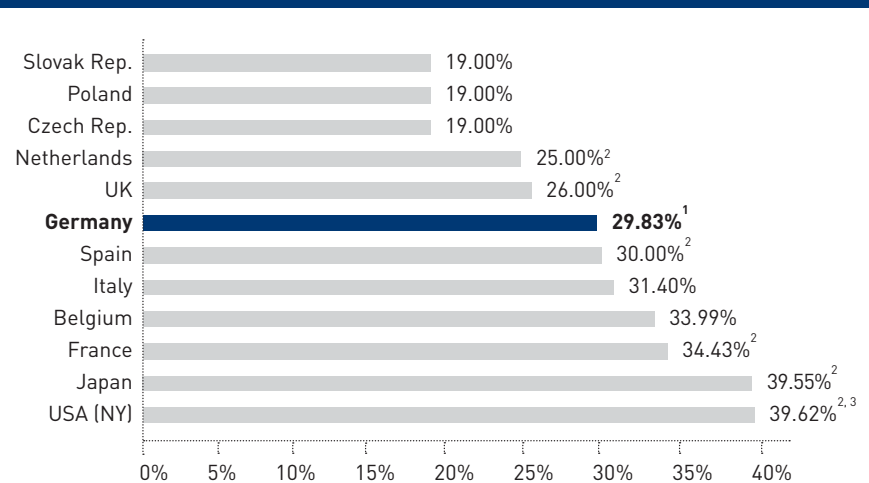
Corporate income tax and the solidarity surcharge are components with a fixed rate, whereas the trade tax rate varies locally. The total amount of these two taxation components forms the overall tax burden. As a result of the fixed and variable components, the overall tax burden can differ by up to 10 percent between locations. *Germany Trade & Invest* can support you in identifying attractive locations in Germany.

Corporate Income Tax

Corporate income tax is levied as a flat nationwide tax at a rate of 15 percent of the taxable corporate income. Corporate income tax is payable by all German corporations such as the GmbH and AG, as well as by all branches of foreign corporations in Germany.

The solidarity surcharge (*Solidaritätszuschlag*) is a fixed and flat nationwide component of company taxation. It was introduced in 1995 to finance German reunification. The surcharge is 5.5 percent of the assessed amount of corporate income tax.

Average Corporate Tax Burden of Selected Countries 2011 (in percent)



Note: ¹ National German average; lower overall tax rates in certain areas are possible, e.g. 22.83% in certain municipalities.

² Top corporate income taxation rate; lower starting rates or other special tax rates available. Example USA: progressive central state rate from 15% to 35%.

³ Local corporate income tax added.

Source: German Federal Ministry of Finance 2012

Thus, the solidarity surcharge is 5.5 percent of the 15 percent corporate income tax; creating a total of 0.825 percent of the taxable income.

Trade Tax

Trade tax is a municipal tax. As such, tax rates are individually determined by each municipality. The individual trade tax rate of a specific site is therefore the decisive factor for the overall tax burden. The trade tax rate ranges between 7 and 17.15 percent. The individual trade tax burden depends on two factors:

- The tax **base rate** (= standard trade tax base rate according to German trade tax code) of **3.5 percent**.
- The **multiplier** (*Hebesatz*) stipulated individually by every municipality.

The taxable income is multiplied with the tax base rate resulting in the so-called tax base amount. This tax base amount is then multiplied by the applicable municipal multiplier.

The individual percentage of the local trade tax rate is calculated by multiplying the trade tax base rate of 3.5 percent with the local municipal multiplier.

$$\begin{aligned} & \mathbf{3.5\% \text{ base rate}} \\ & \mathbf{X} \\ & \mathbf{\text{municipal multiplier}} \\ & \mathbf{=} \\ & \mathbf{\text{trade tax rate}} \end{aligned}$$

By law, the trade tax rate must be at least seven percent. There is no statutory ceiling. As a result, the overall tax burden including trade tax rate in metropolitan areas can currently be as high as 32.98 percent. Significantly lower tax rates are available in certain German municipalities – up to eight percent less. The overall tax burden can therefore be as low as 22.83 percent. The trade tax rate tends, as a rule, to be higher in urban areas than it is in rural areas.

Taxation of Dividends

Germany provides an extensive network of double taxation agreements to ensure that double taxation in international business relations is ruled out. If a German subsidiary pays out dividends to a foreign parent corporation, generally a withholding tax (*Kapitalertragssteuer*) of 25 percent is due. In the case of an existing double taxation agreement with a foreign country, the withholding tax is usually levied at a significantly lower rate, e.g. 15, 10 or 5 percent.

Withholding tax still paid in Germany can be credited against existing foreign tax obligations or the parent company has been exempted from dividend-payable tax abroad. The double taxation agreement with the USA for example even allows a reduction of dividend taxation to

zero percent if certain requirements are fulfilled. Moreover, EU law, under certain conditions, allows tax free transfer of dividends between all 27 EU member states.

Value-added Tax (VAT)

Value-added tax (VAT) is a tax on the exchange of goods and services. Companies are obliged to add value-added tax to the prices of their goods or services and to invoice their customers accordingly.

The 19 percent VAT rate in Germany is below the European average. A reduced rate of seven percent applies to certain consumer goods and everyday services (such as food, newspapers, local public transport, and hotel stays). Some services (such as bank and health services or community work) are completely VAT exempt.

Value-added tax which is collected has to be paid to the responsible tax office on a monthly, quarterly or annual basis. The exact time frame depends on the company's level of turnover. Companies themselves also pay VAT when they purchase goods or services. The taxes collected and paid can be balanced out in the VAT return as input VAT deduction (*Vorsteuerabzug*).

The overall tax burden for corporations is calculated as below:

	Minimal Municipal Multiplier	Maximal Municipal Multiplier	German Average
Taxable Corporate Income (EUR)	1,000,000	1,000,000	1,000,000
Trade Tax (3.5% x Municipal Multiplier)	-70,000 (Municipal Multiplier: 200%) Trade Tax Rate 7%	-171,500 (Municipal Multiplier: 490%) Trade Tax Rate 17.15%	-140,000 (Municipal Multiplier: 400%) Trade Tax Rate 14%
Corporate Income Tax (Tax Rate 15%)	-150,000 Corporate Income Tax 15%	-150,000 Corporate Income Tax 15%	-150,000 Corporate Income Tax 15%
Solidarity Surcharge (5.5% of Corporate Income Tax)	-8,250 Solidarity Surcharge	-8,250 Solidarity Surcharge	-8,250 Solidarity Surcharge
Overall Tax Burden	22.825%	32.975%	29.83%
Net Income (EUR)	771,750	670,250	701,700

The overall tax burden of a corporation depends on the municipal multiplier within the trade tax.

Labor Market

Hiring a Workforce

Germany is internationally known for its highly qualified, motivated, and conscientious workforce. Employers are free to tailor the recruiting process to their individual needs. Only a few guidelines need to be observed; such as offering jobs in a non-discriminatory manner (meaning that employers are required to hire on an equal opportunity basis without discrimination in terms of race, ethnicity, gender, religion, conviction, disability, age, or sexual orientation). Recruitment services are offered by the Federal Employment Agency FEA (*Bundesagentur für Arbeit*), which provides its services free of charge and operates job centers in all large towns and cities in Germany. There are several programs offering extensive public support for hiring employees.

Employment Models

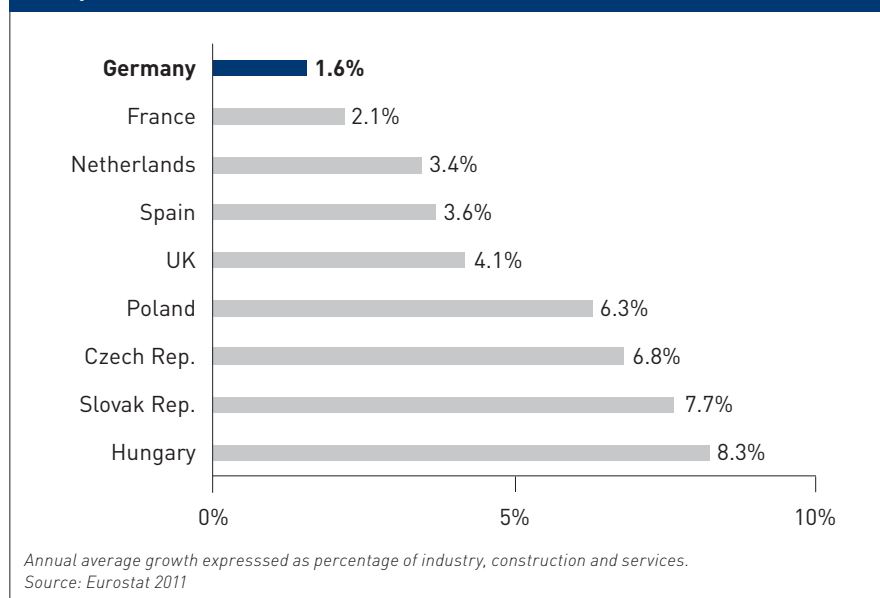
Regular Employment

Regular employment contracts are unrestricted and can be terminated by a written letter of termination, provided a mandatory notice period has been observed. Regular employment contracts include a six-month probationary period during which the contract may be terminated at any time with two weeks notice.

Fixed-term Contracts

Fixed-term contracts expire automatically on a specified date without a formal dismissal requirement. It is for the employer to decide whether to renew the contract or not. Fixed-term contracts are generally limited to a maximum of two years and may be extended up to three times provided the total duration of contract

European Labor Cost Growth 2001-2010



does not exceed the maximum of two years. During the first four years of a company's existence in Germany, employment contracts may be limited or extended several times up to a total duration of four years.

Temporary Employment

Temporary employment means that a company leases employees from a temporary employment agency. The employee is legally employed by the temporary employment agency and receives the salary from them – as no formal contractual relationship exists between the leasing company and the employee. The employment conditions are usually regulated by collective agreements. The temporary employment sector, as of January 1 2012, is also subject to statutory hourly minimum wage rates. The duration and the terms of termination of the service of the employee in the hiring company are subject solely to the service contract between the hiring company and temporary employment agency – not to labor regulations.

In recent years there has been a significant increase in the number of temporary employment agencies providing appropriate personnel at short notice.

Wage Level Development

Germany is known for very stable labor costs. Wages have risen in most European countries since 2001, some countries – particularly those in Eastern Europe – experienced a rise of more than seven percent. In marked contrast, Germany recorded the lowest labor cost growth within the EU at just 1.6 percent. In Germany, wages are generally negotiated freely; there is no overall statutory minimum wage. Minimum wage regulations exist only in certain industries.

Social Security

In contrast to some other industrialized countries, the core social security 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.

Components of Social Security Insurance

Social security contributions are made up of:

- Health insurance*
- Nursing care insurance
- Pension insurance
- Unemployment insurance
- Accident insurance

Generally speaking, social security contributions are roughly shared equally by employer and employee with the exception of accident insurance costs which are solely borne by the employer.

Payroll Accounting

Employees in Germany receive a net wage - meaning a salary from which tax and social security contributions have already been deducted.

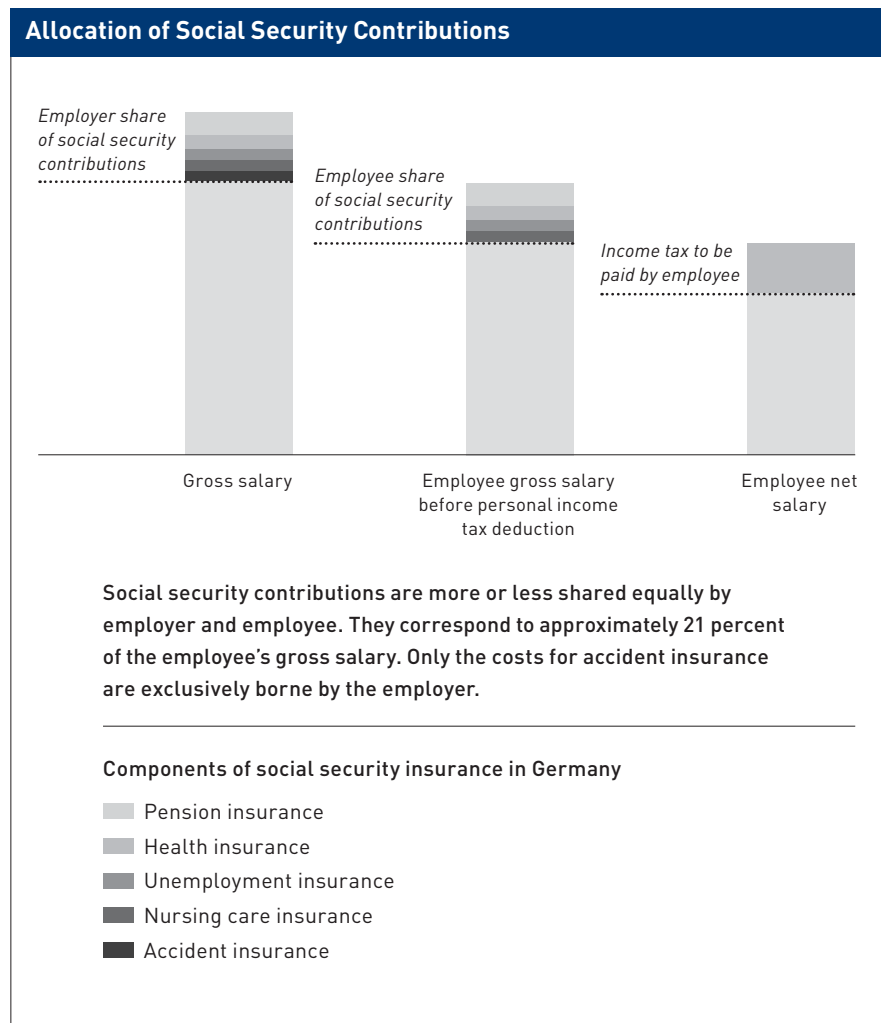
All social security contributions are withheld by the employer after calculation of the gross wage. These are transferred to the employee's health insurance company. From here, all contributions are distributed to the relevant funds - with the exception of accident insurance.

*From a certain level of monthly gross wage salary on, employees have the possibility to join a private health insurance company instead of the statutory health insurance obligatory for all employed people.

Accident insurance contributions have to be transferred by the employer to the Employers' Liability Insurance Association (*Berufsgenossenschaft*). The salary tax of the employee is also withheld by the employer and transferred to the tax authorities (*Finanzamt*).

In order to facilitate the international transfer of employees, Germany has signed social insurance agreements with countries including Canada, China, India, Israel, Japan, Morocco, South Korea, Tunisia, Turkey, and the USA (Brazil expected in 2013).

Within the EU, the posting of employees is facilitated by EU regulations. This allows transferred employees to remain within the national social insurance system of their home country, if they are relocated to Germany for a certain time. In this case, the employer does not have to pay social security contributions for the employees temporarily located in Germany.



Germany Trade & Invest Helps You

Germany Trade & Invest's teams of industry experts will assist you in setting up your operations in Germany. We support your project management activities from the earliest stages of your expansion strategy.

We provide you with all of the industry information you need – covering everything from key markets and related supply and application sectors to the R&D landscape. Foreign companies profit from our rich experience in identifying the business

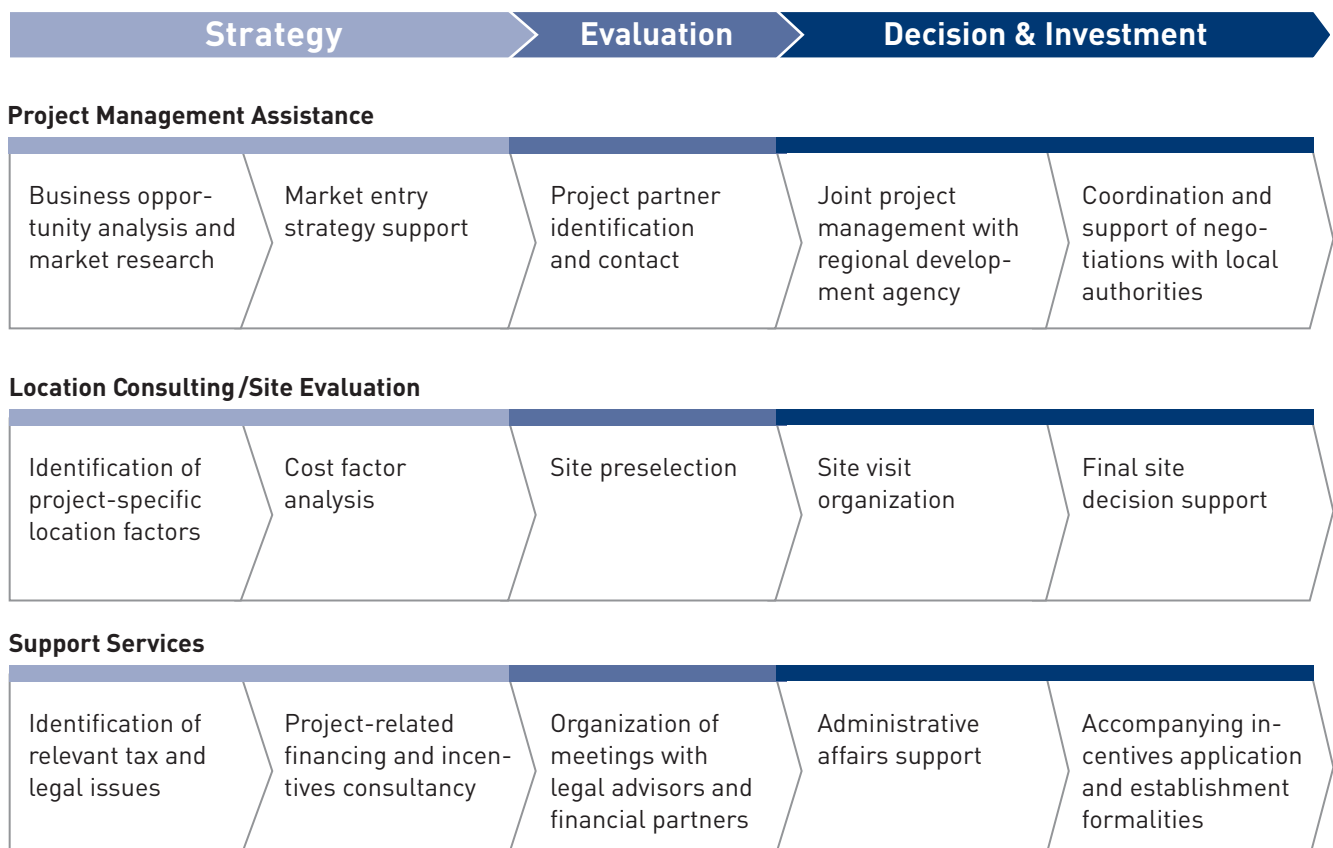
locations which best meet their specific investment criteria. We help turn your requirements into concrete investment site proposals; providing consulting services to ensure you make the right location decision. We coordinate site visits, meetings with potential partners, universities, and other institutes active in the industry.

Our team of consultants is at hand to provide you with the relevant background information on Germany's tax and legal system, industry regulations, and the domestic labor market.

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All of our investor-related services are treated with the utmost confidentiality and provided free of charge.

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About Us

Germany Trade & Invest is the foreign trade and inward investment agency of the Federal Republic of Germany. The organization advises and supports foreign companies seeking to expand into the German market, and assists companies established in Germany looking to enter foreign markets.

All inquiries relating to Germany as a business location are treated confidentially. All investment services and related publications are free of charge.

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