

German Payroll & Tax Overview

A GUIDE TO DOING BUSINESS IN GERMANY 2019



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1.0 Key Country Facts and Public Holidays

1.1 Official Language

The official Language is Standard German

1.2 Currency

Euro (EUR)

1.3 Country Dial code

The country dial code is +49

1.4 Country abbreviation

The country abbreviation is DE

1.5 Statutory Filing Payment Methods

Payment via Bank Transfer

1.6 National Minimum wage

9.19 € gross per hour, however there are many differing minimum rates above this, which are usually found in industry specific Collective Bargaining Agreements.

1.7 Filing Deadlines

Monthly filing deadline:

- Social security returns: due latest to the third-last bank working day of the current salary month which in most cases involves a pre-calculation on non-recurring salary elements.
- Reimbursement claims (U1 or U2)
- Social security registration (starters) and de-registration (leavers)
- Income tax returns: due latest 10th of the following month. Relatively high penalties are levied for late filing

Annual filing Deadline:

- As soon as the December payroll has been processed, all returns filed and all payments made
- Annual employee tax certificates
- Annual social security certificates
- Annual state accident insurance return
- Annual return under the handicapped persons law

1.8 Fiscal year

January to December

1.9 Time Zone

CET (UTC +1) CEST (UTC +2)

2019	Holiday	Holiday Type
1 st January	New Year's Day	National holiday
19 th April	Good Friday	National holiday
22 nd April	Easter Monday	National holiday
1 st May	May Day	National holiday
30 th May	Ascension Day	National holiday
10 th June	Whit Monday	National holiday
3 rd October	Day of German Unity	National holiday
25 th December	Christmas Day	National Holiday
26 th December	Boxing/St Stephens Day	National Holiday

New Year's Day, May Day, Unification Day, Christmas and Boxing Day are fixed dates. All other public holidays are moveable and depend on the date of Easter each year.

Some of the federal states have additional holidays such as 6th January/8th March/20th June/15th August/ 31st October/ 1st November/ 20th November which are mainly of a religious nature.

2.0 Business and Culture in Germany

2.1 Establishing as an Employer

Registering a company in Germany can be done electronically through the commercial register and is filed and publicly certified by a notary, who is responsible for commercial registrations. Payroll registrations in Germany can take up to a month. The company must obtain a Tax Identification Number or TIN, which is used to file company financial information.

2.2 Employment

Before a payroll can go live in Germany, there are certain requirements that must be completed. The company must register the new business with the local authorities.

Registration is required at several organisations in the local municipality where the company's registered office is based:

- Local Trade Office (Gewerbeamt)
- Trade Register (Handelsregister)
- Local Tax Office (Finanzamt)
- Relevant Professional Chamber
- Employer's Liability Insurance Association (Berufsgenossenschaft)

Once the company is registered with the Trade Office (Gewerbeamt), they will automatically inform the Tax Office, Trade Register and Employer's Liability Insurance Association of the newly registered company. It is recommended that the employer make direct contact with the relevant authorities to ensure the registrations have been completed.

A tax number (Steuernummer) will be issued to the company automatically once registered with the local Tax Office. Information on the relevant local Tax Office can be found at the Federal Central Tax Office (Bundeszentralamt für Steuern).

3.0 Visas and Work Permits

Taking up residency in Germany can be a tricky topic that involves a fair amount of paperwork!

Just like obtaining a German visa, acquiring a German residence permit is strongly tied to nationality and reasons for coming to Germany.

Nationals of EU or EEA member states do not need a residence permit at all. As long as they move to Germany for work or study, or have some way to financially support themselves, they enjoy full mobility within the EU. Upon arrival, they need to register with the local authorities.

For an expat from outside the EU, a residence permit is usually issued for employment or education in Germany. It is also possible to get a permit for joining a spouse or parent living in Germany, however, in this case, this does not necessarily include permission to work in Germany.

The duration of the residence permit usually reflects the personal situation, i.e. the living and working conditions. Getting an extension is usually not a problem if the situation doesn't change. For example, if the individual keeps working for the same company year after year, the residence permit should be renewed as a matter of course.

The following information solely focuses on the available types of residence permits. Furthermore, it explains how to register with the local authorities after the move to Germany.

Types of Residence Permits

All foreign residents from non-EU member states need a residence permit for planned stays exceeding than 90 days, regardless of their country of origin. A short-term visa for visitors can only be extended under special circumstances, e.g. if you fall seriously ill before your intended date of departure.

Usually, you must apply for a visa plus a residence permit (and work permit, if necessary) at an embassy or consulate. Nationals from a few selected countries can also obtain these after arriving in Germany. There are limited exceptions to this rule, such as asylum seekers and political refugees, who don't have to go through the regular application process via a diplomatic mission.

For a typical expat moving to Germany, the following kinds of residence permits might be of interest: the temporary residence permit, the Blue Card, the EC long-term residence permit, and the permanent settlement permit.

The most common type of permit is a *temporary residence permit (Aufenthaltserlaubnis)*. It's usually valid for a year. How often it must be renewed strongly depends on employment status, occupation, and nationality. For example, a US expatriate who has an unlimited job contract with a company based in Germany may receive a permit that needs to be renewed after three years. However, if the same person only has a limited employment contract for the next two years, their residence permit will run out after around two years as well.

As long as the personal situation doesn't change, the renewal of the residence permit is mostly a formality. However, if there is a change in employers, loss of job, separate from the spouse, etc., all this can impact the residence status. In such cases, it's best to contact the local *Ausländerbehörde* (Aliens Registration Office) immediately. An immigration lawyer can also give further advice.

The *EU Blue Card* is a temporary residence permit plus work permit for highly-qualified employees. It's easier to apply for than a regular employment visa. Currently, a university degree and a confirmed job offer with an annual salary of EUR 47,600 or more is a requirement. Expats working in engineering, IT, medical care, or the natural sciences may also qualify for a Blue Card if they earn at least EUR 37,128 per year. An EU Blue Card is normally valid for up to four years. The spouses of Blue Card holders can live and work in Germany, too. Moreover, it's easier for expatriates with Blue Cards to obtain a permanent settlement permit.

Settlement Permits

Most foreign residents can apply for a *permanent residence permit* – a “settlement permit” (*Niederlassungserlaubnis*) – after five years. Some may get it sooner, for example, a non-EU national married to a German citizen, the application for a settlement permit may be filed after three years. If the individual has graduated from a German university and holds a temporary residence permit for paid employment, the application may be submitted after two years. Various conditions need to be fulfilled: some basic knowledge of the German language, Germany’s political system, and German society needs to be proved. Moreover, proof is needed to show that the individual can earn a living; and contributions to Germany’s national pension plan have been made for five consecutive years. Proof of accommodation is also required.

In a few rare cases, a permanent residence permit is granted at once. For instance, if an investment of at least EUR 250,000 is made in a German company, the individual, the spouse and the dependent children will get the settlement permit immediately. The so-called “EU long-term residency permit” is almost identical to the German settlement permit. It was mostly introduced to comply with a new EU directive. However, if the EU long-term residence permit in Germany is obtained, this allows freedom of movement to other EU member states. Unlike people with a regular residence permit or settlement permit, full access to the labour market and social security schemes in the European Union is granted.

Registering with the Local Authorities

Once in Germany, the individual needs to register with the local authorities (*polizeiliche Anmeldung*). The local registration procedure is mandatory if the application for a German visa was made from abroad.

All residents whether German citizens, EU nationals, or third-country nationals, have to register themselves with the local authorities (*Einwohnermeldeamt*). Every change of address must be reported within one week of moving. In many cities, the registration can be made at a special municipal office (*KVR, Bürgerbüro, Stadtbüro, Bürgerservice, Meldestelle*, etc.). There a registration confirmation containing the relevant personal details and registered address will be issued. This is *not* a substitute for a residence permit. It is an official document that shows the current address and is useful for many things that require a proof of address, such as opening a bank account or getting a phone line.

For the local registration, the following documents are required:

- a simple registration form, which can be obtained at the town hall or download from their official website
- a valid passport
- a copy of rental contract or a written statement from whoever is providing your accommodation.

There can be a small fee for registering with the local authorities, usually less than EUR 10. In many cities, it’s free of charge.

The Foreigners’ Registration Office

Regardless of whether a visa has already obtained before arrival in Germany, registration with the local Foreigners’ Registration Office (*Ausländerbehörde*) is necessary. The person’s status as an EU national or possession of a valid visa will be confirmed. Visas are converted into regular residence and/or work permits, if applicable. If a [visa to enter Germany](#) is not required, then there is three months grace in which to apply for a residence permit at the Foreigners’ Registration Office.

To confirm the residency in Germany as a foreign national, the following documents may be required:

- registration card from the municipal authorities (*Einwohnermeldeamt*)
- a valid passport
- recent biometrical passport photographs
- for employees / job-seekers: employment contract
- evidence of financial support, e.g. letter from employer, payslip, recent bank statement...
- proof of [health insurance](#) plan
- birth certificate
- marriage certificate

These requirements may vary depending on country of origin and the reason for the stay in Germany.

4.0 Tax and Social Security

4.1 Tax

2019 Income tax table – resident in EUR

Taxable income range for single taxpayers (EUR)		Taxable income range for married taxpayers (EUR)		Tax Rate (%)
Over	Not over	Over	Not over	
0	9,168	0	18,336	0
9,169	55,960	18,338	111,920	14* up to 42
55,961	265,326	111,922	530,652	42
265,327	And above	530,654	And above	45

* Geometrically progressive rates start at 14% and rise to 42%.

Employees must apply to their local tax office and have their personal tax data documented and filed. Based on the information for the individual, a tax classification is allocated and is binding for all payroll tax matters. Any changes must be notified directly to the tax office by the employee.

Surcharges on income tax

In order to improve the economy and infrastructure in the five 'new' eastern states of Germany, there is a 5.5% solidarity surcharge tax for an indefinite period. This is imposed as a percentage on all individual income taxes.

Church tax is paid by members of officially recognised churches, as a tax surcharge on their income tax. The rates are either 8% or 9%, depending on the federal state where the individual resides.

Trade income tax

Trade income tax is levied on business income, whereas for individuals and partnerships a tax-free amount of EUR 24,500 is considered (i.e. not for corporations).

The respective municipality is responsible for the final tax assessment. The tax rate fixed by the municipality is between 200% and approximately 450% of the basic amount, which is 3.5% of the business income.

Local and state income taxes

There are currently no local or state income taxes levied in Germany.

4.2 Social Security

As of 1 January 2019, the income ceiling for mandatory pension insurance has increased from EUR 78,000 (EUR 69,600 in the new federal states) to EUR 80,400 (EUR 73,800 in the new federal states). The increase of the contribution ceiling is also applicable to unemployment insurance. The contribution rates 2019 are 18.6% (pension insurance) and 2.5% (unemployment insurance). Both jointly shared between employee and employer.

Additionally, the income ceiling for mandatory health and long-term care insurance increased from EUR 53,100 to EUR 54,450. The contribution rate for health insurance is 14.6% plus additional contribution which each health insurance company individually may impose on employer and employee (equal shares). For long-term care insurance 3.05% , equal shared between employee and employer (childless employees aged above 23 years pay an extra 0.25% nursing care insurance. Specific regulations apply in the federal state of Saxony.)

Assessment ceiling

	Monthly	Annual
Health and Nursing Insurance	4,537.50	54,450
Pensions and unemployment (west)	6,700	80,400
Pensions and unemployment (east)	6,150	73,800

5.0 Compliance

5.1 Employer Registration

An employer must apply for a company registration number (Betriebsnummer) from the Labour Office; officially named 'Federal Employment Agency (Bundesanstalt für Arbeit)'. Further details on how to apply for the company registration number (Betriebsnummer) can be found on the Labour Office website: (Federal Employment Agency - Betriebsnummer).

Employers must have a company registration number (Betriebsnummer) for reporting, registration and for social insurance purposes. The reporting of employee and employer contributions for health insurance, long-term/nursing care insurance and unemployment insurance require the inclusion of the Betriebsnummer or contributions cannot be correctly assigned. Employers are legally obliged to register their employees for social insurance however these registrations take place as and when a new employee is taken on-board. There is no initial social insurance registration that the customer must do when registering their new company.

Employers must register immediately for Employer's Liability Insurance with the relevant institution relating to employer's industrial sector. Once registered with the Employer's Liability Insurance Association, the employer will receive a registration number and details of the risk groups (Gefahrtarifstellen) within the company. A risk group is a category based on the type of work carried out by the employees. These will be assessed at different levels of risk and assigned to the appropriate risk group.

Risk groups influence the insurance premium calculated by the Employer's Liability Insurance Association. Employers can find further information about risk groups from their own insurance association. Further guidance on how to register with the relevant Employer's Liability Insurance Association can be found online: (Registering with German Social Accident Insurance)

5.2 Starters/Registration

By law, German employees must have a written employment contract that reflects the key aspects of the employment relationship (parties bound by the contract, work to be performed by the employee, gross salary and benefits, annual leave entitlement, start date of employment, working location and notice periods). There will also be detailed terms and conditions found in Collective Bargaining Agreements.

It is the employer's responsibility to register all new employees for social insurance. The registration of the new employee with a health insurance company must be done within 6 weeks of hiring the new employee.

If the new employee has private health insurance, he/she must provide copies of their membership documentation from the private health insurer, confirming his/her monthly private health and nursing care insurance contribution amounts for the current calendar year. The documents which the employee must provide are:

- 1) 'Bescheinigung für Vorsorgeaufwendung'
- 2) 'Bescheinigung zur Erlangung des Arbeitgeberzuschusses für die private Krankenversicherung nach § 257 Abs. 2s Satz 1 SGB V' / 'Bescheinigung zur Erlangung des Arbeitgeberzuschusses für die private Pflegeversicherung nach § 61 SGB XI'

Employers are responsible for collecting a capital bond or 'capital formation savings payment' (Vermögenswirksame Leistungen) on behalf of the employee, via the payroll. This is referred to as 'VWL'. Employees can set these up with an insurer of their choice. Some employers offer a monthly contribution to such saving schemes and others do not. Nevertheless, the employer is obliged to deduct the employee's monthly saving amount from his/her salary and submit the contributions to the insurer on behalf of the employee. A copy of the employee's VWL contract must be provided when the employee joins the organisation.

New employees must be registered with ELStAM prior to the employee's first live pay run. Employees must provide their personal tax identification number and date of birth as these items of data are required for the reporting of employee tax to the tax office as per the ELStAM process.

5.3 Leavers/De-registration

There are strict guidelines in German legislation when it comes to the termination of an employment contract and employers should seek legal advice to ensure legal guidelines are followed. Dismissals must be communicated in writing; email is not permitted. Employers who wish to dismiss an employee must comply with the German Employment Protection Act which outlines distinctions between different types of dismissal and attaches requirements under each type of dismissal. Employers with 10 employees or more must adhere to the requirements under the Employment Protection Act for any employees continuously employed for 6 months.

Both employees and employers are legally obliged to observe the relevant statutory notice period when terminating a permanent contract of employment. The determination of the minimum statutory notice period depends on whether the employee or the employer is seeking to terminate the contract.

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An employee must serve a notice period of at least one month. Employer notice periods are dependent on the duration of the employment. After the probationary period has finished, the notice period is 4 weeks. If a period of employment has lasted 20 years or more then the employer notice period is 7 months. Individual notice periods can be agreed between the employee and employer however these must comply with the relevant minimum statutory notice periods.

There are no statutory requirements in Germany for severance pay for terminated employee contracts, regardless of the circumstances of the termination. German courts will either rule that a termination of employment was administered correctly and that the employment ends or that the termination was carried out incorrectly, making it void, resulting in the continuance of the employment contract.

Although there are no statutory requirements for employers to pay severance pay; there are common instances where employers will agree to pay severance to its employees and certain rules are typically observed when calculating the amount of severance pay to issue to the employee. Further details can be found online: (OECD - German Regulations). The employer is responsible for deregistering the employee with the Health Insurance Company when he/she ends employment with the company or moves from statutory to private health insurance.

6.0 Statutory Absence/Payments

6.1 Annual Leave

The statutory minimum entitlement to leave is 24 working days per year (*Bundesurlaubsgesetz* - the Federal Holidays Act). Special rules apply to certain groups of people, including young people under the age of 18 and disabled people. Collective agreements stipulate leave of 30 working days for most employees. A person's salary continues to be paid in full during this period. Anyone who consistently performs heavy or harmful work will normally receive additional leave. Some collective wage agreements include arrangements for fortunate and unfortunate events in one's private life. For instance, some employers grant single and additional days of special leave for marriage, death of a close relative or for moving house if you are transferred to a different location. Full entitlement to leave is acquired only after the employment relationship has been in existence for six months. Make sure you come to an agreement on holidays with your employer and colleagues in good time.

6.2 Maternity leave

The standard is 6 weeks' maternity leave before the expected date of birth and 8 weeks after the birth. The employee is paid a statutory maternity pay based on the average net salary of the three months preceding the start date of the maternity leave. Following the maternity leave the employee may opt to take a statutory parental leave of maximum 3 years after the birth of the child. During this period the employee may not be terminated.

6.3 Paternal leave

Both parents can claim parental benefits - if they are on leave during the first 12 months after the child's birth, along with two extra "partner months" of benefit if the couple claims jointly rather than separately.

The benefit is calculated at 65 percent of the parent's previous monthly salary, though it gets boosted slightly if they were earning €1,000 or less. Those with more young children also get a 10-percent (or a minimum of €75 a month) "sibling bonus". The total benefits are ring-fenced at a minimum of €300 and maximum €1,800 per month, while parents who were unemployed can also claim at least the minimum €300 a month.

Those receiving parental benefit are still allowed to work part-time up to 30 hours a week. And if their existing job is at a company with more than 15 employees, they are entitled to 15 to 30 hours' part time work per week, unless the firm has specific reasons for not offering it.

6.4 Sickness

Every country has different policy regarding paid sick leave. In Germany, employers are legally obliged to pay workers on sick leave full wages for up to six weeks. But, employees must have been employed for a period of four weeks prior to their illness in order to be eligible to claim salary for the period of six weeks. If the incapacity for work continues for more than 3 days, the employee must submit proof of incapacity for work with its duration.

Working parents are also entitled to receive sickness benefits in order to take care of a sick child under the age of 12. Employees may receive the benefits for 10 working days for each sick child up to a maximum of 25 days per year; single parents have 20 working days, up to a maximum of 50 days per year.

6.5 Educational Leave

Employees can take educational leave for the purpose of their further training. The FederalLänder have their own laws on educational leave, which govern paid leave from work. You can use this for your own political education, language courses (for example, 'German as a foreign language') or for your further vocational training. As for annual leave, you should agree arrangements for educational leave with your employer at an early stage.

6.6 Family Care Time

Germany's recent adoption of the Law on Family Care Time (Pflegezeitgesetz) came into effect on July 1, 2008, allowing employees to take up to ten days of unpaid leave to care for a close relative in urgent situations. The ten days can also be used to organise care for relatives.

6.7. Benefits /Payments

Church Tax (Kirchensteuer)

In addition to wage tax (Lohnsteuer), church tax may also be deducted via the payroll. Details required for the calculation and deduction of church tax liability are retrieved from the ELStAM information. Employees are not required to pay this tax unless they wish to be officially affiliated with one of Germany's established churches.

Solidarity surcharge (Solidaritätszuschlag)

Solidarity surcharge is a surcharge on wage tax (Lohnsteuer). It was introduced to finance the costs of German reunification. The revenue from the surcharge is solely allocated to the federal government. The current rate is 5.5% of the employee's Lohnsteuer amount.

Pension Insurance (Rentenversicherung)

Statutory pension insurance (Gesetzliche Rentenversicherung) is operated by the Federal Institution for German Pension Insurance (Deutsche Rentenversicherung Bund) and it aims to ensure that employees can maintain an appropriate standard of living when they retire. It incorporates widow/widower and disability benefits and contributions are mandatory for employees. Each employee is assessed for contributions based on their annual gross earnings. Further information about statutory pension insurance can be found online: (www.deutsche-rentenversicherung.de).

Unemployment insurance (Arbeitslosenversicherung)

Statutory unemployment insurance (Gesetzliche Arbeitslosenversicherung) is operated by the Federal Employment Agency (Bundesagentur für Arbeit). Contributions are mandatory and the insurance is designed to pay employees a portion of their salary each month in the event of unemployment but only if the employee qualifies based on his/her circumstances. Working parents are also entitled to receive sickness benefits in order to take care of a sick child under the age of 12. Employees may receive the benefits for 10 working days for each sick child up to a maximum of 25 days per year; single parents have 20 working days, up to a maximum of 50 days per year.

8.0 About This Payroll and Tax Overview

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8.2 Disclaimer

Every effort has been made to ensure that all information in this booklet is correct at the time of publication. This information should be used as reference only and not as a sole source of decision making.

8.3 The Global Payroll Association

Global Payroll Association is the first international payroll association of its kind. We are a central hub for 'all-things payroll'. A one-stop-shop supplying comprehensive directories, interactive training and in-depth country resources. We are here to help you with your global payroll needs, no matter how complex, connecting you with the world's leading experts and offering a forum to network with other like-minded global professionals.

Global Payroll Association welcomes international payroll, HR and financial professionals of all levels.

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