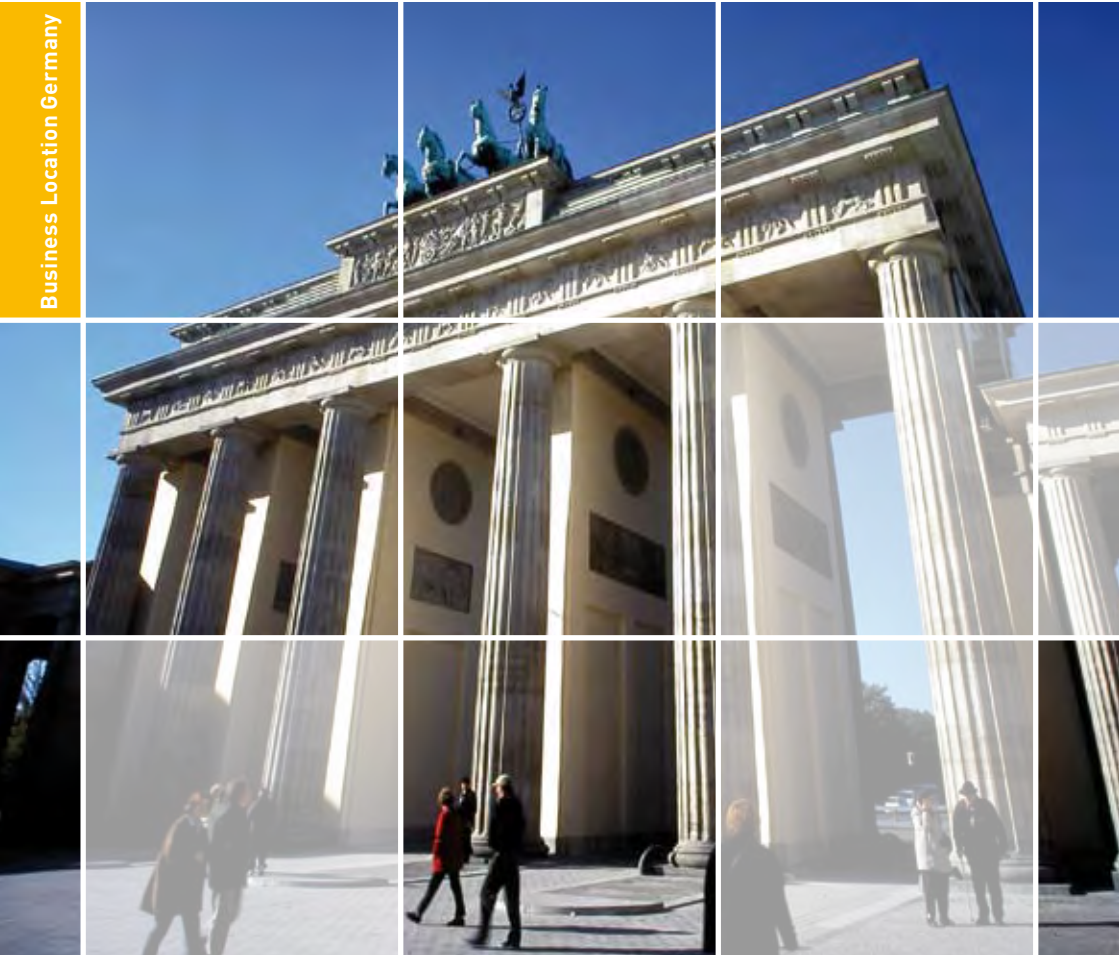


Investment Guide to Germany

How to access and set up business
in Europe's biggest market

Business Location Germany



GERMANY
TRADE & INVEST

Investment Guide to Germany

How to access and set up business
in Europe's biggest market

February 2009



GERMANY
TRADE & INVEST



design: greiner@typo.de

Germany – Key Figures

Demographics

- Population: 82 million inhabitants, 230 inhabitants per km²
- Religion: Catholic (31.0%), Protestant (30.8%), Muslim (3.9%), Other (1.8%), Undenominational (32.5%)

Government

- Form of Government: Federal Republic, 16 States
- Head of State: President Prof. Dr. Horst Köhler
- Head of Government: Chancellor Dr. Angela Merkel
- Capital: Berlin
- Language: German
- National Holiday: October 3rd (German Unification Day)
- Currency: 1 Euro (EUR)

Economy

- GDP: EUR 2,423 billion (2007)
- GDP per capita: EUR 29,464 (2007)
- GDP per sector: Services 51.3%, Industry & Construction 30.1%, Trade 17.7%, Agriculture 0.9%
- Exports: EUR 969.0 billion (2007)
- Imports: EUR 772.5 billion (2007)

Geography

- Area: 357,114 km²
- Coastline: 2,389 km
- Highest Mountain: Zugspitze (2,962 m)
- Longest Rivers: Rhine 865 km, Elbe 700 km, Danube 647 km
- Largest Lakes: Lake Constance 536 km², Müritz 109 km², Chiemsee 80 km²
- Biggest Cities: Berlin (3.4 million), Hamburg (1.8 million), Munich (1.3 million)

Infrastructure

- 19 International Passenger Airports, 34 Seaports, 250 Inland Ports
- Railways: 41,300 km
- Waterways: 7,500 km

Preface



Dear Reader,

I am delighted to present this year's "Investment Guide to Germany." This annual publication provides an informative and easily understandable tour of Germany's business landscape, helping make it easier than ever to access the German market.

Germany is the world's fourth largest economy behind the USA, Japan, and China and continues to be the best-performing in Europe. Accounting for almost one fifth of EU gross domestic product, it is the engine driving Europe's economy. One of the most highly developed industrial nations in the world, Germany has been the world's export champion for years.

A raft of federal government reforms and funding programs have been implemented to create a truly business friendly environment; chief among these are improved credit and loan provision, major public investment project expansion measures, and increased investment grant funding. The current economic climate requires that we multiply our efforts through such measures in order to jump-start the economy as we rise to meet both today and tomorrow's economic challenges.

Germany Trade & Invest is the federal foreign trade and inward investment promotion agency of Germany. We assist and advise potential investors interested in this vital marketplace. Foreign companies looking to establish business operations in Germany can obtain free information and consultancy services in areas including the corporate investment framework, tax regulations, and incentives. Our expert teams provide comprehensive project management and support services from site selection to the final realization of the investment.

Our "Investment Guide to Germany" provides you with all the background information required for setting up a business in one of Europe's most dynamic markets. I look forward to welcoming you to Germany.



Michael Pfeiffer
Chief Executive

Entrepreneurs from all over the world are welcome in Germany. The German market is open for investments in practically all business and industry sectors. No restrictions are placed upon foreign companies, nor are there any business sectors exclusively monopolized by the state.

Market Opportunities in the Center of Europe

With a population of over 82 million, Germany is the largest country in the European Union (EU). Home to a labor force of almost 40 million – including four million entrepreneurs – Germany is the continent's largest economy with a gross domestic product of around EUR 2.4 trillion in 2007.

Germany's central position at the heart of the enlarged Europe provides access to the EU as the largest economic area in the world with currently 27 member states, a population of around 500 million and a gross domestic product of around EUR 12.9 trillion.

Moreover, it also allows Germany to enjoy the traditional advantages of Western Europe's long-established and robust markets, as well as those of the burgeoning markets of Central and Eastern Europe. Many businesses are already taking advantage of the new opportunities afforded by EU expansion.

Furthermore, the use of the shared euro currency in 16 member states (Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain) promotes trade across transnational borders by effectively eliminating currency exchange problems.

Germany in Europe



Source: Eurostat

Made in Germany

Standing for high quality and innovation, the “Made in Germany” brand has been a seal of quality for over a century. German companies’ innovative force has remained intact since that time. Companies from Germany are leaders in the development of new technologies for the environmentally friendly production of electricity and pioneering nanotechnologies. Moreover, Germany continues to hold on to its world export leader crown – year in, year out.

Trailblazing research is being conducted at more than 400 German universities and 600 research institutes. Close ties traditionally exist between industry and public research organizations (particularly with state-funded research institutes including the Max Planck Society, Fraunhofer Gesellschaft, Leibniz Association, and Helmholtz Association).

German universities train experts who transfer their leading edge scientific know-how to the commercial sector; turning sophisticated ideas into products for the global market.

The German R&D landscape is supported by excellent conditions. The government makes every effort to maintain and support innovation by promoting the creation of industry “clusters” and by fostering close cooperation and ties between the worlds of science and industry.

This commitment to outstanding quality in scientific research was most recently exemplified by the Nobel Prizes awarded in 2008 to Harald zur Hausen from the German Cancer Research Centre Heidelberg and in 2007 awarded to Berlin chemist Gerhart Ertl and physicist Peter Grünberg of the Forschungszentrum Jülich.

As well as a dynamic scientific environment, Germany is also home to a competitive, flexible, and robust economy. By quickly implementing the very latest innovations, companies are able to swiftly secure their leading roles in their respective fields. Germany is ready for the future.

Doing Business in Europe’s Prime Investment Location

The German economy is traditionally strong in the areas of mechanical engineering, the automotive industry, aerospace, logistics, and the pharmaceutical and chemical industries.

But there is still much more to German industry. For instance, Germany is the world leader in the sustainable industry revolution and German companies also lead the field in new technologies being developed in ICT sectors, nanotechnology, optoelectronics, medical technology, and biotechnology.

According to Fortune magazine, German multinationals are famous throughout the world: Daimler, Volkswagen, Allianz, Deutsche Bank, and Siemens belonged to the world’s 50 largest companies in 2008.

As well as world-leading corporations, Germany also has an extremely healthy and vibrant small and medium-sized enterprise market. These are very often highly specialized companies who have established strong footholds in world markets. 70 percent of all employees in Germany work in small to medium-sized enterprises.

Foreign companies and their investments play a vital role for the economic development of Germany. Around 45,000 foreign businesses are already located in the country, with some of the world’s largest enterprises headquartered in Germany. In 2008, foreign companies currently employed more than 3 million people in Germany.

The Investment Guide to Germany provides all the information needed to access and set up business in Europe’s prime investment location – making it easier for international companies to invest in Germany.

1 Coming to Germany

Visa for Entrepreneurs	13
Visa for Employees	15
Visa for Partner and Children	17
Visa Application Process	18
Visa Requirements for Foreign Nationals	20

2 Establishing a Company

The Legal Form: Corporations	24
The Legal Form: Partnerships	29
The Establishment Form: Branch Offices	32
Formation Procedures: Registering the Business	34
Transferring Assets	37
Business Premises	39

3 Financing a Business

Equity Financing	44
Debt Financing	48
Mezzanine Financing	54
Off-Balance Financing	57

4 Incentives Programs

Framework Conditions of Public Funding	62
Cash Incentives for Investments	66
Public Loans	69
Labor-Related Incentives	72
R&D Incentives	74

5 Employees and Social Security

Finding Suitable Staff	81
Flexible Models of Employment	82
Terms of Employment	84
Termination of Employment	92
Employee Representation	95
The German Social Security System	96

6 The Tax System

Company Taxation	103
Taxation of Property	108
Value Added Tax	110
Options for Tax Deductions	113
How Does a Tax Return Work?	114
Customs	115

7 The Legal Framework

Foreign Trade and Payments	122
Patents, Licensing, Trademarks	123
Planning and Building	125
Legal Proceedings	127

8 Living in Germany

Finding the Right Place to Live	132
Assistance for Families	134
German Education System	136
Health System	139
Ensuring Quality of Life	140

Annex of Addresses	144
--------------------------	-----

1 Coming to Germany

- Visa for Entrepreneurs
- Visa for Employees
- Visa for Partner and Children
- Visa Application Process
- Visa Requirements for Foreign Nationals

Photo: Andreas Wiese





At some point within the process of setting up a new company in Germany, investors usually have to come to Germany in person. The following chapter outlines visa options and explains general procedures for investors intending to set up and run their business in Germany.

Generally, EU nationals do not require a visa to enter, stay, and work in Germany. They only have to register at the local registration office (*Einwohnermeldeamt*), which issues a declaratory residence permit if their stay in Germany exceeds 90 days.

Most non-EU nationals require a visa prior to entering Germany. However, there are exceptions for several countries outlined in the following chapters and in the “Visa Requirements for Foreign Nationals in Germany” table at the end of this chapter.

Generally, visas are obtained in the investor’s home country at a German embassy or consulate.

Decisive for the appropriate type of visa are length and purpose of the stay in Germany. For short-term stays in Germany or transit through Germany, Schengen Visas such as the **Schengen Transit Visa** and the **Schengen Travel Visa** are relevant.

For long-term stays (meaning stays exceeding 90 days) **national visas** are usually required. There are a number of different national visas available, depending on the **purpose** of your stay in Germany. Investors require a **residence permit for the purpose of self-employment or employment** (*Aufenthaltserlaubnis für selbstständige Tätigkeit oder abhängige Beschäftigung*) or a **settlement permit** (*Niederlassungserlaubnis*).

Setting Up and Running a Business: Visa for Entrepreneurs



Depending on the intended business activities in Germany, different types of visas are relevant to entrepreneurs: visas sufficient for the setting up of a business (Schengen Visas normally apply in this case) and visas required for running the business on-site (usually national visas).

Setting Up a Business

Setting up a business requires several steps, depending on purpose, function, and the intended legal form of the company. (For detailed information on how to set up a business in Germany, please refer to chapter two, Establishing a Company.)

For most of the activities in the formation phase of your business, a **Schengen Travel Visa** (in this context often termed a **business visa**) is sufficient. It enables its holder to stay in Germany for up to three months per half year, during which time business activities can be performed. In principle, a Schengen Travel Visa (business visa) is required by all nationals outside the European Union (EU), European Economic Area (EEA), and Switzerland. Exemptions exist for certain nationals from a number of different countries. Detailed information on “Visa Requirements for Foreign Nationals in Germany” is provided at the end of this chapter.

What is needed when applying for a Schengen Travel Visa?

Schengen Travel Visa applicants (business visa applicants) will usually be asked to present certain documentation such as:

- a letter of invitation by the German business partner
- documentation of employment and salary certificate
- a letter from the applicant’s employer confirming the business purpose of the trip
- proof of travel health insurance

Where the entrepreneur personally applies for a Schengen Travel Visa (business visa), documents such as a copy of the foreign company’s entry in the foreign commercial register, articles of association, and bank statements from the last three months may also be required.



If business proceedings for setting up a company exceed a period of three months per half year, a national visa, namely a **residence permit for the purpose of self-employment** (*Aufenthaltserlaubnis für selbstständige Tätigkeit*) is required. This visa also allows individuals to perform all of the steps necessary to establishing a business in Germany as well as running the business on-site.

Please be aware that setting up a business in Germany using a Schengen Travel Visa (business visa) does not alone warrant later issue of a residence permit. It is recommendable to apply for a residence permit for the purpose of self-employment in your home country before coming to Germany.

Running the Business On-Site

A **residence permit** (*Aufenthaltserlaubnis*) is required by all foreign nationals from outside the European Union, the European Economic Area (EEA), or Switzerland who intend to stay in Germany for more than 90 days. The residence permit is limited in time and issued for a specific purpose (such as taking up work).

Anyone intending to run a business on-site in Germany is considered self-employed and has to apply for a **residence permit for the purpose of self-employment** (*Aufenthaltserlaubnis für selbstständige Tätigkeit*). The permit includes both the right of residence in Germany and the permit to work in a self-employed capacity and is issued as a single document by the responsible visa-issuing authority (generally the German Embassy or German Consulate General of the respective home country).

Foreign entrepreneurs are considered self-employed if they intend to hold positions such as:

- entrepreneurs (including freelance activities)
- managing partners or employed managing directors (*Geschäftsführer*) and representatives of a company's German branch office (depending on the individual contract)
- executive board members of stock corporations (*AG*)
- authorized signatories (*Prokurist*)
- senior executives with powers of representation
- majority shareholders of a GmbH



A **residence permit for the purpose of self-employment** will usually be granted if at least EUR 250,000 is invested and at least five new jobs are created. Where these standard requirements are not met, a residence permit for the purpose of self-employment may nevertheless be granted. In such cases, the responsible local foreigners' registration office (*Ausländerbehörde*) – together with local Chambers of Commerce and Industry (*Industrie- und Handelskammer, IHK*) – will assess the underlying business idea.

A **(permanent) settlement permit** (*Niederlassungserlaubnis*) is issued if a foreigner has been in possession of a residence permit for five years. A settlement permit is unrestricted in time and place and automatically includes the right to take up gainful employment. Self-employed foreigners may be granted a settlement permit after only three years if the foreigner has successfully realized the business idea and his or her livelihood is secured.

Being Employed in Germany: Visa for Employees

Citizens of the European Union, the EEA, or Switzerland can work in Germany without any visa¹.

Nationals from all other countries have to apply for a residence permit for the purpose of taking up employment (*Aufenthaltserlaubnis für abhängige Beschäftigung*) which contains both: the permit to stay and the permit to work in Germany. Foreign nationals no longer have to apply separately for a work permit at the employment office. The residence permit for the purpose of taking up employment contains a statement as to whether and to what extent work will be permitted.

Generally, a residence permit for the purpose of taking up employment is only awarded where a concrete job offer can be demonstrated and the Federal Employment Agency (*Bundesagentur für Arbeit*) has granted approval. However, there are some exceptions from this general rule as explained overleaf.

¹ EU citizens from the new Eastern European EU member states Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia (until 2011 at the latest); and Bulgaria and Romania (until 2014 at the latest) still require a work permit for non-self-employed work in Germany. However, since 2009 the labor market has been opened up to university graduates from the new EU states.



Employment of Highly Qualified Foreigners

A residence title which permits a foreigner to take up employment may only be granted with the approval of the Federal Employment Agency.

Highly qualified persons may however be granted a permanent settlement permit immediately upon coming to Germany without approval of the Federal Employment Agency.

Highly qualified persons are defined as scientists with special technical knowledge active in teaching, scientific personnel in prominent positions, and specialists and executive personnel with extensive professional experience and an annual salary of at least EUR 64,800 (EUR 54,600 in the new federal states) in 2009.

Unskilled and low-skilled foreign workers from non-EU member states may generally not work in Germany – this is referred to as the Recruitment Ban (*Anwerbestopp*).

For a number of jobs requiring at least three years of professional training, the Federal Employment Agency can however grant approval for foreign employees. This includes, for example, IT specialists, academics, executive staff, and internal company specialists.

Temporarily Posting Employees to Germany

There are different regulations allowing non-EU-based companies to temporarily send employees to Germany without having to receive the approval of the Federal Employment Agency.

For example, the approval requirement is not needed for certain occupational groups posted for **up to** a total of three months within a twelve month period (the three month period does not have to be consecutive).

An overview of different types of visas for Germany and when they are needed:

Types of Visa	Needed for	Visa Required	Required for
Schengen Visa	stays in Germany for up to three months per half year	Schengen Travel Visa (for business persons in the form of a "business visa")	Entrepreneurs setting up business
National Visa	stays in Germany exceeding three months , with the intention of taking up gainful occupation	Residence permit for the purpose of self-employment	Entrepreneurs running the business in Germany
		Residence permit for the purpose of taking up employment	Employees working in Germany

Source: Germany Trade & Invest

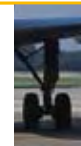
Visa for Partner and Children

Family members of foreign nationals may be granted permission to live in Germany if the foreigner possesses a settlement permit or a residence permit and if sufficient living space is available.

Spouses of foreign nationals can for instance claim a residence permit if the foreigner possesses a settlement permit or a residence permit for the purpose of self-employment. Additionally, the marriage must have already existed at the time the foreigner was granted the permit and the duration of the foreigner's stay is expected to exceed one year. If the foreigner possesses a residence permit for the purpose of economic activity (employed or self-employed), the spouse may take up work as well.¹

If these requirements are not met, it is still possible for a residence permit to be granted on a discretionary basis. Children (under 18 years of age) of a foreigner can claim a residence permit if both parents hold a residence permit or settlement permit, and if the children relocate to Germany with their parents.

¹ Likewise, these regulations apply to all partners under the German Civil Partnership Act (*Lebenspartnerschaftsgesetz*).





Visa Application Process

What prerequisites need to be met for a visa?

When applying for a visa, foreign nationals are obligated to prove that they have:

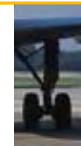
- a passport valid for another three months after leaving Germany
- documents verifying the intended purpose of the stay in Germany
- a health insurance policy valid for all Schengen states providing medical coverage equivalent to the value of at least EUR 30,000 (including return transportation)
- sufficient financial means to cover all costs of the trip to and stay in Germany

Where to apply for a visa?

For most foreign nationals, visas have to be obtained prior to entering Germany in their respective home country. The German missions abroad (German Embassy or German Consulate General) are responsible for receiving applications and issuing the visa. They provide visa application forms in various languages free of charge.

To facilitate the application process, Germany's **Federal Foreign Office** (*Auswärtiges Amt*) also provides **online application forms** in a number of languages. Applications for short-term visas (Schengen visas) for up to three months may also be submitted online via the application service of the Federal Foreign Office.

www.auswaertiges-amt.de



Who will issue the visa?

Visas are issued by the German mission abroad in the country where the visa application has been made. Foreign nationals applying for a residence permit to take up self-employment or employment receive the permission to enter Germany and to take up work from the German mission abroad.

However, upon entering Germany, foreign nationals with a national visa of this type (residence permit for the purpose of taking up self-employment or employment) have to contact the responsible local **Foreigners' Registration Office** (*Ausländerbehörde*) in Germany which issues the residence permit for gainful occupation.

Some foreign nationals may enter Germany without any visa (These exceptions are outlined in the table "Visa Requirements for Foreign Nationals in Germany" at the end of this chapter). Any required visa permitting work (self-employed or employed) can be applied for and issued by the local Foreigners' Registration Office in Germany.

How long does it take to issue a visa?

A visa for a short-term stay (Schengen Travel or Schengen Transit Visa) will usually be issued within around two to ten working days.

For visas permitting the holder to work (self-employed or employed) in Germany, a processing time of a few months should be expected. Embassies and Consulates General charge a handling fee of EUR 60 for Schengen Visas, national visas, and hybrid visas (Schengen and national visas) respectively.

1 Visa Requirements for Foreign Nationals in Germany

1 Visa requirements – Who needs what?

States	Citizens of	Who stay in Germany	To set up a business	To run the business on-site	Who will be employed in Germany
EU member states	Austria, Belgium, Cyprus, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Sweden, Spain, United Kingdom	< 90 days	No	No	No
		> 90 days	No	No	No
	Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia	< 90 days	No	No	A work permit is still required. ²
		> 90 days	No	No	A work permit is still required. ²
Non-EU member states but members of the EEA	Iceland, Liechtenstein, Norway, Switzerland ¹	< 90 days	No	No	No
		> 90 days	No	No	No
Non-EU member states	Argentina, Australia, Brazil, Canada, Israel, Japan, Mexico, New Zealand, South Korea, United States, and 19 other states	< 90 days	No	Residence permit for the purpose of self-employment ³	Residence permit for the purpose of taking up work ⁴
		> 90 days	Residence permit for the purpose of self-employment	Residence permit for the purpose of self-employment ³	Residence permit for the purpose of taking up work ⁴
	All other states	< 90 days	Schengen Travel Visa (business visa)	Residence permit for the purpose of self-employment ³	Residence permit for the purpose of taking up work ⁴
		> 90 days	Residence permit for the purpose of self-employment	Residence permit for the purpose of self-employment ³	Residence permit for the purpose of taking up work ⁴

Source: Germany Trade & Invest

For more information on entry requirements please contact the Federal Foreign Office (*Auswärtiges Amt*) which provides a detailed list of Germany entry requirements for nationals from all countries.

www.auswaertiges-amt.de

¹ Although Switzerland is not a member of the EEA, these visa regulations also apply to citizens of Switzerland.

² These transitional rules will cease by 2011 at the latest (Bulgaria and Romania: 2014). However, since 2009 the labor market has been opened up to university graduates from the new EU states.

³ Here, a special regulation for entrepreneurs from outside the EU or EEA (European Economic Area) applies. A residence permit for the purpose of self-employment can be converted to a permanent settlement permit after three years.

⁴ Simplified option for highly qualified persons: special approval allows a settlement permit to be granted immediately, which means that they can stay and work in Germany unlimited without having to apply for any other kind of visa or residence title.

2 Establishing a Company

- The Legal Form: Corporations
- The Legal Form: Partnerships
- The Establishment Form: Branch Offices
- Formation Procedures: Registering the Business
- Transferring Assets
- Business Premises

Photo: Getty Images

Anyone can establish a business in Germany – irrespective of national-ity or place of residence. There is no specific investment legislation in Germany, nor is there a minimum percentage of German sharehold-ings required for foreign investments within Germany.¹

Formation procedures are swift and efficient, with only a few steps needed to establish a company in Germany.

Foreign investors can choose between several types of corporations and partnerships for conducting business in Germany. Existing foreign companies can also conduct business via a German branch office.

In the following sections some of the different legal forms of compa-nies and ways of establishing the business in Germany are discussed.

¹ There are restrictions for the defense and cryptology sectors. Further extensions are currently under discussion. For more information please refer to the section on Foreign Trade and Payments Act (Außenwirtschaftsgesetz) in chapter seven (The Legal Framework).

The Legal Form: Corporations

When choosing the legal form of the company, a corporation is usually the best option for larger, established companies.

There are three major forms of corporations under German law:

- Limited Liability Company
(Gesellschaft mit beschränkter Haftung, GmbH)
- Limited Liability Entrepreneurial Company
(Unternehmergesellschaft (UG), haftungsbeschränkt/ “Mini GmbH”)
- Stock Corporation
(Aktiengesellschaft, AG)
- Partnership Limited by Shares
(Kommanditgesellschaft auf Aktien, KGaA)

A corporation is a legal person, meaning that the holder of rights and obligations is not the individual shareholder, but the company itself. The company itself concludes contracts, possesses assets and must pay taxes.

Liability is limited to the corporation’s business assets, including share capital. A minimum share capital is required, and the account-ing obligations are more extensive than those for other business legal forms (such as partnerships).

Private Limited Liability Company (GmbH)

The German private limited liability company (*GmbH*) is the most widely used legal form for corporations. It combines high flexibility with relatively few obligations. Since November 1, 2008, a reform of the GmbH Act (facilitating the establishment and running of a GmbH) has become effective. The reform’s main achievement is the establishment of **a new category of limited liability company**, the limited liability entrepreneurial company (*Unternehmergesellschaft, (haftungsbeschränkt)*), or “**Mini- GmbH**”.

The minimum share capital required to establish a GmbH is EUR 25,000 (this can also be made up of contributions in kind). The formation procedure of a GmbH is fairly uncomplicated, as it is established by the founding shareholder(s) executing a deed of formation and articles of association in the presence of a notary.

For uncomplicated standardized formations of a GmbH, the modern-ized GmbH Act provides model articles of association (for set-ups by cash subscription with a maximum of three shareholders and one managing director). These articles must still be notarized, but for a reduced fee. Furthermore the chambers of industry and commerce (Industrie- und Handelskammer, IHK) provide model articles.

At the time of registration, at least half of the minimum capital (i.e. EUR 12,500) must be actually and verifiably contributed on a bank account.

In order to be valid, the GmbH must be entered into the commercial register (*Handelsregister*). Please continue for a detailed description on how to register with the commercial register.

All managing directors (*Geschäftsführer*) must sign the commercial register application in person in the presence of a notary.

Once registered in the commercial register, the GmbH becomes a legal entity. The GmbH must then be registered at the local trade office (*Gewerbeamt*, please see table overleaf).

Steps Needed to Set Up a GmbH in Sequence

Step 1: **Procurement of capital and partners**

Step 2: **Notarization of the Articles of Association**

Step 3: **Opening a bank account and payment of share capital**

Step 4: **Commercial register application (notary required)**

Step 5: **Commercial register entry
(limitation of liability comes into effect)**

Step 6: **Trade office registration
(if necessary application for permits etc.)**

A GmbH is managed and legally represented by its managing directors. There must be at least one managing director who does not have to be a shareholder or a German resident. By issuing binding instructions or directions to the managing directors, the shareholders may exercise direct influence on the management of the GmbH.

The estimated total costs for the formation of a standard GmbH are approximately EUR 750 to EUR 1,000 plus fees for legal counsel if a lawyer is employed to draw up the articles of association. Ideally, the time period required for the formation of a GmbH is two to three weeks.

Limited Liability Entrepreneurial Company ("Mini GmbH")

As a result of the reform of the GmbH a new category of limited liability company, the limited liability entrepreneurial company (*Unternehmergesellschaft, (haftungsbeschränkt), UG*) or colloquial "Mini-GmbH" was established.

The Mini-GmbH is not a new 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 capital of only one euro.

In order to compensate the initial absence of capital the company has to retain a quarter of its annual profit until it has accumulated the minimum shareholder capital of an ordinary GmbH (EUR 25,000). The accumulated capital can then be converted into share capital and the Mini-GmbH changed into a standard GmbH.

Except for the above-mentioned specific provisions the Mini-GmbH, by terms of law, is generally subject to the same duties and rights as the standard GmbH.

Stock Corporation (AG)

An AG generally enjoys a high market reputation among business partners. However, the founding formalities and costs of an AG are relatively high, and the AG is subject to extensive organizational obligations in day-to-day business.

In principle, an AG can be established by any individual. Generally speaking, there are only two founding obligations to be observed. First, an AG must have a minimum share capital of EUR 50,000 (which must be fully subscribed by the founding shareholders) and articles of association need to be certified by a notary.

The AG comes into existence upon registration in the commercial register. The application must be signed by the founding shareholders, the members of the supervisory board, and the management board before a notary. In addition, an AG must be registered with the local trade office as is also the case with GmbHs.

The founding shareholders appoint the first auditor (*Abschlussprüfer*) and supervisory board (*Aufsichtsrat*), which in turn appoints the first management board (*Vorstand*). The appointment of the first auditor and supervisory board must be notarized. The founding shareholders must also prepare a formation report with the relevant details of the establishment of the AG. This report has to be scrutinized by the boards.

The AG is managed by its management board. Neither supervisory board nor shareholders can exercise direct influence on the management board.

Partnership Limited by Shares (*KGaA*)

The partnership limited by shares (*KGaA*) combines the structures of a stock corporation (*AG*) and a limited partnership (*KG*). It connects the entrepreneurial commitment and personal standing of the individually liable shareholders (general partners) with the function of the AG as a public company and source of capital. The *KGaA* can be described as a stock corporation having individually liable shareholders (general partners) instead of a management board.

The *KGaA* can have an unlimited number of capital investors (limited shareholders), whose liability is limited once they have paid their subscribed capital contribution. They have more or less the same legal rights as shareholders in an AG. At least one partner, the general partner, has to be liable for debts and liabilities of the *KGaA* without limitation. The *KGaA* must be entered into the commercial register and registered with the local trade office. The *KGaA* is not a frequently used legal form in Germany.

The Legal Form: Partnerships

The main feature of a partnership is the personal commitment of the partners to their working efforts to the partnership. Any partnership requires at least two partners.

The liability of the partners for the partnership's debts and liabilities is generally unlimited and personal. No minimum share capital is required, and the accounting obligations and publication requirements are less extensive than those for corporations.

There are five different forms of partnerships. Their main differences lie in the liability of their partners and required registration obligations.

- Civil Law Partnership
(*Gesellschaft bürgerlichen Rechts, GbR*)
- General Commercial Partnership
(*Offene Handelsgesellschaft, oHG*)
- Limited Partnership
(*Kommanditgesellschaft, KG*)
- Corporate Partnership
(*GmbH & Co. KG*)
- Partnership Company
(*Partnergesellschaft, PartG*)¹

¹ This company form has been specifically designed for the joint exercising of professional freelance activities. It is not further explained in this publication.



Civil Law Partnership (*GbR*)

A civil law partnership (*GbR*) is defined as an association of individuals or enterprises united in the achievement of a joint contractual purpose. It is suitable for start-ups launching a business idea in cooperation with others.

Formation of a *GbR* is fairly uncomplicated. At least two partners must agree on the establishment of the *GbR* and conclude a partnership agreement. A written partnership agreement is recommended, but is not compulsory. The partners are jointly liable with their private assets for debts incurred by the company. If the *GbR* conducts trade in the form of a small trade business, it has to register with the local trade office. It must not be entered into the commercial register.

A *GbR* is only allowed to conduct "small trade business." As soon as it achieves an annual turnover of over EUR 250,000 and a profit over EUR 25,000 it is deemed to be a commercial business and must be entered in the commercial register upon which it automatically becomes a general commercial partnership (*Offene Handelsgesellschaft, oHG*).

General Commercial Partnership (*oHG*)

The general commercial partnership (*oHG*) is the classic partnership form for small and medium-sized businesses. Its structure corresponds to the civil law partnership (*GbR*). Every *GbR* that runs a commercial enterprise (a business enterprise of a type or size requiring business operations to be set up in a commercial manner) automatically qualifies as an *oHG*. Accounting regulations for an *oHG* are stricter than those for a *GbR*.

In order to establish an *oHG*, two or more partners must conclude a partnership agreement. It is advisable for the partnership agreement to be made in writing. All partners are jointly and severally liable for the *oHG*'s debts and liabilities.

The *oHG* must be entered in the commercial register and registered with the local trade office. The application to the commercial register must be made by all partners and be certified and filed by a notary. The total expenses for registration vary, but generally a cost of approximately EUR 400 can be expected.

Limited Partnership (*KG*)

The limited partnership (*KG*) is a legal form related to the *oHG*, but with the option of limiting the liability of some of the partners. This legal form is suitable for medium-sized companies seeking additional start-up capital but wishing to limit individual responsibility.

At least one partner, the general partner (*Komplementär*), is personally liable without limitation. The liability of the limited partners (*Kommanditisten*) is limited to their respective share of the partnership capital. A *KG* offers greater flexibility compared to other forms of partnerships as the capital base can be increased by including additional limited partners.

A *KG* is established when a partnership agreement between two or more partners (including at least one limited and one unlimited partner) is concluded. It is advisable for the partnership agreement to be made in writing. The liability of the limited partner will only become limited once the registration of the *KG* and the subscribed partnership contribution has been entered in the commercial register (which is obligatory).

The application to the commercial register must be made by all partners and be certified and filed by a notary. The total costs for registration vary, but EUR 400 can be used as a general guideline. A *KG* must then be registered with the local trade office.

Corporate Partnership (*GmbH & Co. KG*)

The *GmbH & Co. KG* is a limited partnership (*KG*) in which the general partner (*Komplementär*) is a limited liability company (*GmbH*). The *GmbH* is fully liable for the *GmbH & Co. KG*'s debts and liabilities. The liability of the limited partners (*Kommanditisten*) is limited to their respective share of the partnership capital.

This hybrid form is suitable for entrepreneurs wishing to limit their liability while enjoying the flexibility of a non-incorporated business. Because of its flexibility, the legal form *GmbH & Co. KG* is especially appropriate for medium-sized businesses and family companies.





The GmbH & Co.KG is established through conclusion of a partnership agreement between the general partner and the limited partners (advisably in writing). Typically, the shareholders of the general partner (*GmbH*) are identical to the limited partners of the KG.

In line with the registration formalities of the KG, the GmbH & Co KG must be entered in the commercial register and registered with the local trade office. The liability of the limited partner will become limited once the KG and the subscribed partnership contribution are registered in the commercial register.

The application to the commercial register must be made by all partners and be certified and submitted by a notary. The total costs for registration vary, but EUR 400 can be used as a guideline value.

The Establishment Form: Branch Offices

Any foreign company with headquarters and 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.

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 thus subject to the law governing the head office. A business branch forms part of the foreign company's organization. The legal liability of the branch office depends on the liability of the legal entity of the head office.

Autonomous Branch Office (*selbstständige Zweigniederlassung*)

An autonomous branch office (*selbstständige Zweigniederlassung*) has to display some degree of autonomy vis-à-vis the head office by having its own management with its own executive powers, separate bank accounts, separate balance sheet, and independent business assets. Only foreign commercial business persons, who are registered with a commercial register, can establish an autonomous branch office.

The decision to establish a branch office must be made by the managing directors of the head office. The autonomous branch office must be entered in the commercial register and registered with the local trade office.

The application for registration with the commercial register must include detailed information on the foreign company. The documentation required can change subject to the legal form and origin of the foreign company. Generally, it must be accompanied by a notarized copy of an excerpt of the commercial register showing the existence of the foreign company and the power of representation of the managing director(s) and the management board. The memorandum of association and the articles of association should also be enclosed. All documents should be in German certified translation and the notary's certificate must be authenticated.

Due to the harmonized EC (European Community) Law, the documentation effort for European companies is fairly modest. For non-European companies it can be extensive, the exact details depending on the foreign company's residence. The application must be certified and submitted by a notary.

Dependent Branch Office (*unselbstständige Zweigstelle*)

A dependent branch office (*unselbstständige Zweigstelle*) displays no autonomy vis-à-vis the head office of the company and is not entered in the commercial register. The only formal requirement for a dependent branch office is registration with the local trade office for which certain documentation on the foreign company is also necessary.

Representative Office

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. A representative office must usually be registered as a branch office in Germany. Only an office managed by a self-employed external business person (e.g. a commercial agent authorized by the company) can be considered a case in which no independent business activity is conducted on behalf of the foreign company. In this specific instance, registration with the local trade office is not required.





Formation Procedures: Registering the Business

Generally speaking, your business in Germany must be registered with the commercial register (*Handelsregister*) and the local trade office (*Gewerbeamt*).

With the exception of civil law partnerships, freelance professionals, and dependent branch offices, all other previously mentioned establishment forms have to register with the commercial register.

Any business must then be registered with the local trade office (*Gewerbeamt*) of the municipality in which the business is located. This applies to every company regardless of its company form (except freelance professionals).

Entry in the Commercial Register

The commercial register is administered by the local courts (*Amtsgericht*) and ensures legal certainty in trade by providing a record of all current and legal business relationships. The register can be inspected free of charge at the local court. Since 2007, the commercial register has been converted into electronic form.

The commercial register provides information on all legally relevant facts that might be important for a business partner of a business person or company. This includes, for example:

- Company name
- Name of the owner and/or of the personally liable partners of a partnership
- Liability of the limited partners
- Share capital of the GmbH
- Granting and withdrawal of general powers of attorney (Prokura)
- Institution of bankruptcy proceedings
- De-registration of the company

Any application for entry into the commercial register must be submitted by a German notary in certified and electronic form. If a company is legally required to be registered, but takes up business operations before being entered in the commercial register, the partners are personally liable for any losses up to the point of registration. This also applies to both GmbH and AG company forms.

The cost for registration and publication in the commercial register for a partnership is currently EUR 250 minimum. For a GmbH, this amount is at least EUR 400, and for an AG at least EUR 500. Additional costs are incurred through the use of a notary.

The Federal Chamber of German Civil Law Notaries (*Bundesnotarkammer*) provides a register of German notaries.

www.deutsche-notaruskunft.de

In 2007 an electronic company register (*Unternehmensregister*) was introduced. Certain data from the commercial register are compiled centrally in this register. This information can be retrieved online at the company register website.

www.unternehmensregister.de

The electronic company register is for informational purposes only. It does not release the companies from their continued obligation to file notarized registrations with the commercial register.

Entry in the Trade Register

Every company – regardless of its company form¹ – is obliged to register with the local trade office (*Gewerbeamt*) of the municipality in which the business is located.

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 might be required (e.g. insurance companies and manufacture of medicaments).

¹ Except for freelance professionals.



The fee for entry into the trade register for business activities not requiring a license is between EUR 20 and EUR 40. The fee for businesses requiring a license depends on the sector the business is operating in.

Some business activities might require a craftsmen's card (*Handwerkskarte*). The German Trade and Crafts Code (*Handwerksordnung*) classifies business activities which require a craftsmen's card.

Business activities and occupations which need a craftsmen's card are, for example, bakers, carpenters, and precision engineers. A craftsmen's card is issued by the local chamber of skilled craft (*Handwerkskammer*).

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 skilled crafts. Chamber membership is automatic and mandatory.

Tasks performed by the chambers in Germany:

- representing the interests of their member companies in dealings with the government
- taking on interim and final examinations for employee training
- drawing up reports for courts and authorities regarding for instance company names

The costs for chamber membership are based on the company's turnover.

Transferring Assets

It is advisable that anyone who runs a business in Germany also has a bank in Germany to quickly organize day-to-day business activities. Almost all large international banks have offices in Germany and it is also easy to have foreign currency accounts.

To open a private bank account you generally must have a valid passport and written confirmation that Germany is your current place of residence from the local registration office (*Einwohnermeldeamt*). For a company bank account, the requirements depend on the legal form of the company. In addition to a valid passport you will generally need an excerpt from the Commercial Register and the articles of association of the company.

Capital

Capital can be moved in and out of Germany without any restrictions. However, amounts over EUR 12,500, or equivalent payments with valuables, must be reported to the German Central Bank (*Bundesbank*). These reports are for statistical purposes only. Forms can be obtained from the Bundesbank.

Reporting obligations for money transfers from abroad depend on the place of residence of the recipient/addresser: nationality is irrelevant. A person or company with a place of residence or business in Germany must report incoming and outgoing payments from abroad for all transactions over EUR 12,500. Alternately, an investor with a place of residence abroad does not have to register a capital transfer to an account in Germany (even if the investor is the account holder).

Payments for the import or export of goods and details in connection with the granting, taking out, or repayment of loans with an originally agreed term of less than twelve months do not have to be reported. For statistical purposes, every person living in Germany and every company located there must also inform the Bundesbank of the ownership of securities or deposit accounts abroad.



Receivables or liabilities from companies (for example, banks) or private individuals abroad must be reported to the Bundesbank if they amount to more than EUR 5 million or equivalent.

For bank account deposits of more than EUR 15,000 cash, banks are required to check the identity of the depositor in order to prevent money laundering.

Goods and Machinery

Goods and machinery can circulate freely within the EU. Customs, import turnover tax (*Einfuhrumsatzsteuer*), and in some cases, special excise taxes are charged for imports to Germany from non-EU states. The customs payable can be determined online using the TARIC (Integrated Tariff of the European Communities) database. Customs are not charged on investment goods if business operations have been transferred in full to Germany. For more information, please refer to the section on customs in chapter six (The Tax System).

http://ec.europa.eu/taxation_customs

Household objects can also be imported into Germany freely if the owner moves place of residence from abroad to Germany. A customs exemption of this kind must be applied for in writing beforehand.

Business Premises

Publicly owned industrial real estate for sale is administered by the state development agencies of the German states (*Wirtschaftsförderungsgesellschaften der Länder*). A list of all 16 agencies is provided in the annex of addresses.

The Federal Property Administration (*Bundesanstalt für Immobilienaufgaben*) also administers publicly owned properties for sale.

www.bundesimmobilien.de

In addition, suitable business premises (for rental or for purchase) can be easily found via ads in daily regional newspapers, online markets, or from brokers.

There is often room for negotiation when purchasing real estate in Germany. As with elsewhere in the world, decisive price factors include location, equipment, building condition, financing costs, and any additional costs one might reasonably expect to incur. There are certain fees incurred when renting, purchasing or building real estate. Please see the table overleaf for an overview of additional costs occurring when purchasing real estate.

When purchasing real estate, expert advice of a real estate specialist should be sought prior to conclusion of the purchase agreement. This is because the purchaser's rights regarding defects of the sale object are typically restricted when purchasing second hand real estate. Accordingly, the buyer can, when the purchase agreement already has been concluded, only in exceptional cases assert a claim – for example, in cases where the seller has failed to disclose essential defects.

www.ivd.net

Exemplary Additional Costs Overview when Purchasing Real Estate

Fee	Rent / Purchase/ New Building	Paid by	Amount to be Paid	EUR 100,000 Property (Example)
Real Estate Agent's Commission Fee	Renting	Tenant	One to two month's rent	
	Buying	Varies – increasingly common for the seller to pay part of the commission	5 – 6 percent of the purchase price (generally negotiable)	EUR 5,000 – 6,000
Appraisal Fees (<i>Bewertungsgebühr</i>)	Buying	Buyer	Governed by the federal fee regulation for architects and engineers (<i>Honorarordnung für Architekten und Ingenieure, HOAI</i>)	EUR 1,000 – 1,400
Notary Fees (<i>Notargebühren</i>)	Purchase or New Building	Buyer/Builder	One percent of the purchase price, based on national cost regulation for notaries	EUR 1,000
Fees for Court and Land Registry	Purchase or New Building	Buyer/Builder	0.3 percent of the property value plus value added tax (VAT)	EUR 300
Surveyor's Office Fees (<i>Gebühr für Landvermessung</i>)	New Building	Builder	Depending on building costs, regulated by the federal fee regulation for architects and engineers	EUR 3,000 – 5,300 (only if buildings have not yet been constructed)
Real Estate Transfer Tax (<i>Grunderwerbsteuer</i>)	Purchase or New Building	Buyer/Builder	3.5 percent of the purchase price (not reimbursed upon selling) ¹	EUR 3,500

Source: Germany Trade & Invest

¹ Exempt for the cities of Berlin and Hamburg where the tax rate amounts to 4.5%.

3 Financing a Business

- Equity Financing
- Debt Financing
- Mezzanine Financing
- Off-Balance Financing

Photo: Wojtek Kryczka - istockphoto.com

There are a number of different models for financing investment projects. All include different instruments and sources of funding.

An overview of financial instruments for financing investment projects:

Financing Instrument		Form	Share of Total Capital Expenditure
Equity Financing	Real equity	Own funds, private equity	25 – 30%
	Incentives	Cash grants	25 – 30%
Debt Financing	Loans	Long-term loan, working capital facility	30 – 50%
Mezzanine Financing	Equity oriented Loan oriented	Silent partnership, subordinate loan	
Off-Balance Financing	Alternative forms of financing	Leasing, factoring, Asset-Backed-Securities	5 – 10%

Source: Germany Trade & Invest

Most financial partners usually require a combination of equity and debt instruments.

Equity Financing

When financing investment projects, possible financial partners usually require a share of equity of at least 20 to 30 percent. In most cases, start-ups have to rely solely on financing through equity.

Equity can result from a company's own business activities or is acquired by finding new shareholders. Most commonly capital is then raised through:

- business angels
- venture capital
- private equity
- an Initial Public Offering (IPO) which is the first public sale of shares on the stock exchange by a private company

With the provision of money, shareholders usually acquire certain company rights which can range from controlling and participating rights to a share of profits.

Apart from these equity forms, money resulting from public funding to promote investment projects in Germany (usually in the form of cash incentives) is also considered equity by financial partners.

Business Angels

Business angels are wealthy individuals, often self-made and with considerable business background and industry expertise, who allocate some of their resources to invest knowledge and seed money in new ventures.

During a company's seed phase, business angels are often the only source of external financing for a project. For first-time entrepreneurs and young companies, it is almost always easier to raise money through angels than it is through traditional venture capital firms.

This start-up support provides the entrepreneur with enough capital to fund initial product development and sales so that the company can later raise additional capital through other sources.

Business angels also often act as mentors by tapping into an extensive, worldwide network to help finding customers and other business partners for an investment project.

Venture Capital

Venture capital (VC) is often required for the financing of high-tech, high-risk projects. VC is provided by VC companies who manage funds from private, institutional, and public investors.

Generally, VC fund investors accept a higher risk of failure than is normally the case for other more conservative investments. This is because young companies rarely have significant assets or revenue history. In return for taking on this risk, VC companies expect to recoup their investment as a result of increased market potential resulting from a perceived unique selling proposition.

VC participation is limited to a specified period of time, at the end of which the VCs “cash out” by selling their shares and realizing profit at a margin of between twenty to thirty percent. These shares are usually sold as part of an “initial public offering” (IPO) – the first sale of stock by a company to the public. Where an IPO is unrealistic or holds little promise, VC companies can realize their shares through a so-called “trade sale”: the selling of shares to another company.

Companies can approach VCs directly to apply for VC money. In Germany, the appropriate financial partner can be found through the German Private Equity and Venture Capital Association (*Bundesverband Deutscher Kapitalbeteiligungsgesellschaften e.V., BVK*). Special conferences and events like the German Equity Forum (*Deutsches Eigenkapitalforum*) provide an opportunity for young enterprises to come into direct contact with VC companies.

www.bvk-ev.de

www.eigenkapitalforum.com

Private Equity

Private equity is privately traded capital provided by private equity companies financed by institutional funds (e.g. pension funds) and private investors. As a broader term it also comprises venture capital.

Private equity, in the literal sense, is an appropriate instrument for established and growing companies. Private equity firms usually concentrate on companies with a sales threshold in excess of EUR 20 million. For deals above EUR 50 million, the market proves highly competitive.

Like venture capital companies, private equity companies provide funding to a company for a fixed period (usually three to seven years). The participation of a private equity firm is often concluded by a trade sale (i.e. the selling of shares to another company).

The German Private Equity and Venture Capital Association (*Bundesverband Deutscher Kapitalbeteiligungsgesellschaften e.V., BVK*) and the German Equity Forum (*Deutsches Eigenkapitalforum*) are good starting points for identifying the appropriate private equity partner.

Initial Public Offering (IPO)

The IPO is the first time a company approaches the public capital market to finance its business by selling shares at the stock exchange. IPO provides the right option for companies wishing to avoid dependency on a select few private investors.

There are two ways to gain access to capital markets in Germany:

- The Regulated Unofficial Market or Open Market (*Freiverkehr*), offers an appropriate first entry point for small or recently founded companies.
- The Regulated Market (*Amtlicher Markt*), governed by EU regulations, requires higher entry, reporting, and transparency standards.

German Stock Exchanges

Germany’s most established stock exchange is the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse – FWB*), which is the third largest in the world. In addition, there are regional exchanges which concentrate on local or sector-specific markets:

- Berlin & Bremen Stock Exchange (*Börse Berlin-Bremen*)
- Stuttgart Stock Exchange (*Börse Stuttgart*)
- Hamburg & Hanover Stock Exchange (*Hamburger Börse*)
- Munich Stock Exchange (*Börse München*)
- Düsseldorf Stock Exchange (*Börse Düsseldorf*)
- Commodity Exchange Hanover (*Warenterminbörse Hannover*)
- European Energy Exchange Leipzig

Cash Incentives

Investors can call upon a wide range of public funding in Germany. There is a large selection of programs available which are designed to support business activities at all stages of the investment process.

One of the main instruments are cash incentives usually provided in the form of grants. Promotion rates can account for up to 50 percent of investment costs. They are usually regarded as equity by financial partners.

Other public funding instruments, such as interest reduced loans, are usually debt oriented.

For further information on how to profit from incentives in Germany, please refer to chapter four (Incentives).

Debt Financing

Debt financing is a central financing resource and the classic supplement to equity financing in Germany. It is available for day-to-day business (working capital loans), can help bridge temporary financial gaps (bridge loans) or finance long-term investments (investment loans).

The main differences in comparison to equity financing are:

- Time limit
- Payment of interests and amortization unlinked to the earnings trend
- No transfer of shares to the creditor
- No liability of the creditor
- Preferred repayment in case of insolvency

Debt is mainly provided by banks. In Germany, universal banks offer the whole range of financial services. In addition, there are also special banks focusing on specific products or clientele.

Investment Loans

The main debt financing instrument for a project is the investment loan. The preferred loan duration is seven years with a one year repayment holiday (1+6); the usual maximum period is ten years with a two year repayment holiday (2+8). Interests are charged on an annual or semi-annual basis.

Creditors, mainly banks, always require securities against a risk of default of payment. Fixed assets will usually serve as the first source of security. Inventory and receivables can be used as collateral – primarily for working capital facilities. As well as the above-mentioned sources of collateral, shareholder guarantees (recourse) are often required as a means of reducing the bank's credit risk.

Bridge Loans

Bridge loan financing becomes necessary when a company has to bridge a deferred financial inflow, which usually results in a financial gap. Generally, such gaps follow from having to pre-finance orders, or from time-shifted payments of incentives.

Interest rates for bridge loans are favorable because the company assigns the claim to the bank.

Working Capital Loans

Working capital loans, including overdraft facilities, provide liquidity for day-to-day business activities. They finance the stock of goods and reserve stock, payment deadlines, and the exploitation of supplier discounts.

Working capital loans are adapted per annum. The interest rates depend on the level of loan utilization and the period of usage. The level of the overdraft amounts to a certain percentage of the net working capital.

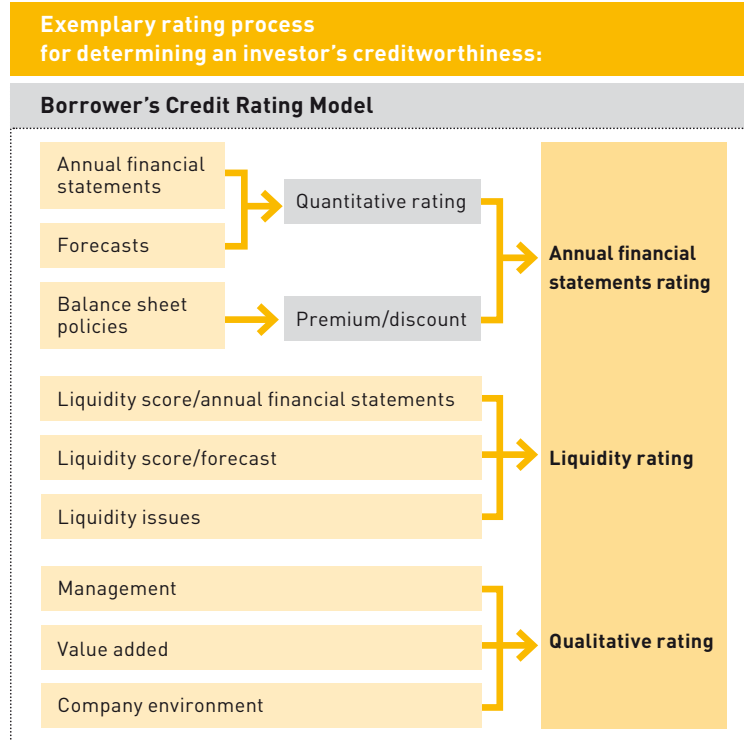
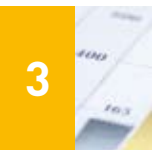
Credit Rating

The availability of debt depends on the default risk of a company or an investment project. This is usually determined through a credit rating of the debtor. Banks conduct these ratings themselves or require external ratings from private rating agencies.

The creditor “grades” the debtor according to a set of certain criteria. The procedure results in an investment grade describing the risk associated with the company or project and determining the margin associated with that risk. Accordingly, pricing is determined risk adequate. For companies receiving a so called non-investment grade credit rating, debt financing is usually not available.

Although rating criteria are more or less the same, each bank has its own rating process, where all financial data (e.g. annual financial statements, liquidity, financial structure) and qualitative factors (e.g. balance sheet policy, market potential, management, economic framework) are analyzed.

A company applying for debt has to be aware that this financial instrument deteriorates its equity ratio which may worsen the credit rating for subsequent financing.



Source: IKB AG



The German “Hausbank” Concept

The *Hausbank* (literally “house bank”) concept is unique in Germany and refers to a company’s primary banking institution. This term is derived from the longstanding tradition of companies in Germany having a strong financial relationship with one particular bank.

In addition to lending and corporate financing, the *Hausbank* supports the day-to-day business activities of a company through electronic and international banking services, receivable management, and treasury activities. Special services include rating, advisory, and application support for public funding.

Today the importance of having one specific *Hausbank* has begun to diminish in Germany; particularly for larger companies who often prefer a relationship with several banks or to secure financial support through a consortium.

Nevertheless, the *Hausbank* still plays an important role with regard to the procurement of public funding. During the application procedure, authorities require a signed bank statement stipulating total project financing. From this point onward, the bank is responsible for administering incentive payments and reporting requirements. Should the company require a public guarantee, the bank acts as the applicant.

The *Hausbank* does not need to be a German bank. For financing purposes, and for practical reasons, a subsidiary of a foreign bank in Germany is sufficient. For all incentive-related tasks and services the bank must be German or have at least a German subsidiary and has to be accredited by the German government (as is generally the case for most banks).

Financing by a Consortium

Financing by a consortium refers to the participation of several banks in structuring a financing package. Usually one of the banks acts as the lead arranger and serves as the primary negotiation partner of the company. The other banks, known as underwriters, are invited by the lead arranger to participate in financing.

Financing by a consortium, also known as syndication, entails combining loans with different terms and conditions from multiple banks (known as a syndicated loan). The result is structured financing with fixed terms and conditions. The portfolio can consist of:

- typical amortizable loans
- loans being repaid at the end of maturity
- mezzanine capital
- working capital facility

Financing by consortium has the advantage of stability and flexibility over single bank financing, but can also result in potentially higher margins, complexity, and a longer approval waiting time.

Corporate Financing vs. Project Financing

When a company applies for a loan at a bank, the bank first of all has to determine who is liable for paying interest, amortization and providing securities. Based on this, the bank generally makes a distinction between corporate financing and project financing.

Corporate financing requires the payment of interest and amortization by the company itself. The credit rating focuses only on the company, its repayment history, and its ability to earn profit.

Project financing is based upon a more complex financial structure. Generally, a special purpose entity is created for each project, which shields other assets owned by a project sponsor in case of failure – particularly if the project company is considered to have no assets other than the project.

Hence, project financing is preferred if project sponsors wish to significantly reduce their liability or if a young company is not able to produce a sufficient repayment and profit earning history.

Risk identification and allocation is an essential element of project financing. The possibilities for minimizing risks and thus increasing the chances of securing financing are greater when:

- dealing with established technologies;
- a large or growing or sufficient market for the products or services can be identified;
- contracts with customers and suppliers exist;
- robust projected cash flows from the investment can be expected, determined through massive stress testing;
- an experienced management team with the relevant technological and commercial skills is in place.

Mezzanine Financing

Mezzanine capital represents an intermediary between equity and debt in a company's balance sheet. It is a broad financial term that refers to unsecured, high-yield, subordinate debt or preferred stocks. Different forms of mezzanine capital are classified as equity or debt according to three factors:

- duration of the capital commitment
- loss-sharing
- conditions of compensation

The table overleaf illustrates several forms of mezzanine capital and their respective categorization as either debt or equity. Variations may occur due to different accounting rules such as International Financial Reporting Standards (IFRS) and German Accounting Rules (*Handelsgesetzbuch, HGB*).

Forms of mezzanine capital and their categorization as equity or debt:

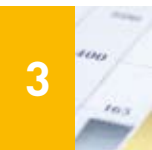
Mezzanine forms	Duration in Years	Loss Sharing	Compensation	Recognition on the Balance Sheet	Taxable Debt
Subordinate Loan	3-10	No, but subordination	Fix	Debt	Yes
Silent Partnership (typical)	5-10	No, but subordination	Fix and variable (dependent on profit)	Debt or equity, depending on the contract	Yes
Participation Right (Genussschein)	5-10	No, but subordination	Fix or variable	Generally debt, equity in case of subordination and loss sharing	Yes, if no liquidation gain sharing
Convertible Bonds	5-10	Before conversion: subordination After conversion: yes	Fix and conversion rights	Equity after conversion	Before conversion
Silent Partnership (atypical)	5-10	Yes	Fix and variable (dependent on profit)	Equity	No

Source: Germany Trade & Invest

Due to increased credit risk, mezzanine capital is a relatively expensive source of company financing. For this reason, it is most appropriate for financing growing companies with high profitability.

One reason a company might prefer mezzanine capital is to maintain its equity-ratio, as even loan-oriented mezzanine instruments are often valued as commercial equity.

Mezzanine capital is mainly offered by banks, especially when it comes to debt-related products. In return, private equity firms focus on equity-related instruments.



Example: Silent Partnership

In Germany, one of the classical forms of mezzanine financing is the silent partnership. The silent partner contributes a share of the capital and obtains a share of the profit in return. The participation in losses is typically limited to the capital contribution.

There are two main types of silent partnership, the **typical silent partnership** and the **atypical silent partnership**:

- The **typical silent partner** does not influence the management of the company and expects a minimum rate of return on a regular basis (usually yearly).
- By comparison, participation in management and risk is an inherent part of the **atypical silent partnership**, and for this reason, the atypical silent partner demands an extraordinary return.

The typical silent partnership is widely used in public funding. In Germany, public venture capital companies (*Innovations- und Technologiebeteiligungsgesellschaften*) or public-private equity enterprises (*Mittelständische Beteiligungsgesellschaften*) take minority shares in technological ventures or growing small or medium-sized enterprises (*SMEs*).

Example: Subordinate Loan

The subordinate loan, also known as a junior tranche, is a debt instrument that takes a lower repayment priority than the normal debt provided by lenders. In the event of payment default, the repayment is subordinated and all other lenders are repaid in the first instance.

Subordination also refers to the payment of amortization and the provision of securities. With regards to securities, subordination means that banks do not require collateral for these loans. However, the advantages over normal debt for the creditor are combined with a higher risk for the bank. These risk factors must be covered with a higher margin, which means higher interest rates for the borrower.

Off-Balance Financing

Off-balance financing (also referred to as **alternative financing**) comprises financial instruments that affect only the profit and loss account of a company and not the balance sheet.

A company chooses off-balance financing in order to reduce strains on liquidity and capital lockup. This enables the company to maintain the equity ratio, avoiding a degradation of its credit rating. In return, it has to accept higher total costs in comparison to financing on-balance.

Leasing

Leasing, especially **operating lease**, is the most widespread form of off-balance financing in Germany. Leasing is provided by general leasing companies or companies who specialize in financing particular goods.

Various interpretations of the term “leasing” exist in different sets of accounting rules, for example, in the International Financial Reporting Standards (IFRS) and in the German Accounting Rules (*Handelsgesetzbuch, HGB*).

To qualify as off-balance financing, the financing measure must be an **operating lease**. An operating lease is usually a short-term financing instrument in which the ownership and risk stay with the lessor. The lessee pays an expense fee comprised of interest and remuneration for depreciation. Other forms of leasing and their activation in the balance sheet are shown in the following illustration.

Different Forms of Leasing Contracts

Finance Lease

- Lessor provides lessee with the right of use for a certain good
- Usually mid-term duration
- Agreement risks and warranties are borne by the lessee
- Activation in lessor's or lessee's balance sheet depends on contract details

Operating Lease

- Ownership of the equipment stays with the lessor
- Agreement risks and warranties are borne by the lessor
- Usually short to mid-term duration
- The lessee classifies the payments as an operating expense
- Activation in lessor's balance sheet

Manufacturer's Lease

- Leasing of goods on behalf of the manufacturer
- Available as finance or operating leases

Special Lease

- The leased good is tailor-made for the lessee's needs
- Thus the leased object is usually activated in the lessee's balance sheet

Sale and Leaseback

- A business sells already purchased equipment to a lessor
- The lessor, who then takes ownership of the equipment, leases it back to the business
- Activation in lessor's balance sheet

www.bdl-leasing-verband.de

Factoring

Factoring is a process in which a company sells its receivables in order to immediately obtain cash for liquidity. Special financial institutions called factors provide this advanced financing at a discount. The factor secures the payment and offers protection against default by the creditor.

Over the past decade, factoring has gained importance as an internal source of financing in Germany. Banks in particular insist that companies sell receivables from goods or services as soon as possible. Since factoring is an optimization of cash management, it cannot be used to finance larger projects.

www.factoring.de

4 Incentives Programs

- Framework Conditions of Public Funding
- Cash Incentives for Investments
- Public Loans
- Labor-Related Incentives
- R&D Incentives

Photo: Maria Critcai - istockphoto.com

Germany offers numerous incentives to all investors – regardless of whether they are from Germany or otherwise. Incentives can be grouped into two packages: (1) the investment incentives package with different measures to reimburse investment costs; and (2) the operational incentives package to subsidize expenditures after the investment has been settled.

Each package consists of a different number of programs, ranging from cash incentives for the reimbursement of capital expenditures to incentives for research and development (R&D).

Germany's different incentives packages and respective programs:



Source: Germany Trade & Invest

Framework Conditions of Public Funding

The legal and financial framework of public funding throughout Europe is provided by the European Union (EU) – meaning that public funding has to follow certain criteria applicable to all EU member states.

The objectives of public funding are the overall advancement and maintenance of economic growth and development in all different economic regions within the EU in the long term.

This is to be achieved by strengthening competitiveness and employment, improving qualification, and boosting research and development activities to reduce inequalities between regions of differing economic development.

Providing Funds

The federal government funds investment projects and supports employment in Germany in cooperation with the German states. A significant part of the funding comes from the EU which supports regional economic development in its member states.

Germany will receive EUR 25.5 billion until 2013 from the EU's two main financial instruments – the European Social Fund (ESF) and the European Regional Development Fund (ERDF) – which have to be co-financed from German national and federal state budgets.

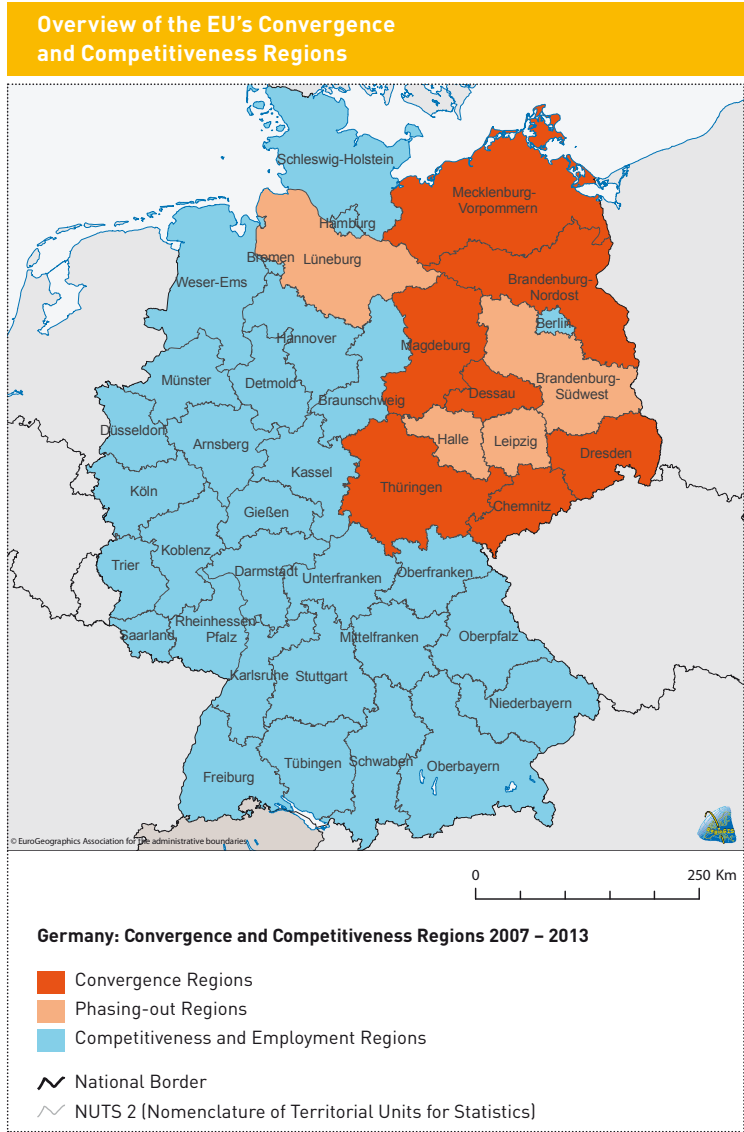


Setting Areas

The EU has defined two key target areas, which receive diverse levels of support:

- “Convergence Regions” that require comprehensive support in order to bridge the gap with well-developed regions in Europe.
- “Regional Competitiveness and Employment Regions” that receive assistance to maintain and expand their economic competitiveness levels.

Germany comprises both target regions. Western Germany has largely been defined as a “Regional Competitiveness and Employment Region”, whereas Eastern Germany is classified as a “Convergence Region.” Both areas are eligible for a broad variety of public financial support programs.



Determining Incentives Levels

Each incentive program defines industries as well as forms of investments (e.g. greenfield projects or expansions) eligible for funding. Foreign investors are subject to exactly the same conditions available to German investors.

Each program has a set of criteria (such as company size, planned investment project location, etc.) which determine individual investment project incentive levels.

Company size is generally determined according to an EU-wide classification system in which companies are categorized as being small, medium-sized or large according to their staff headcount, annual turnover or annual balance sheet total.

Criteria Determining Company Size According to EU Classification

Enterprise Category	Staff Headcount	Annual Turnover	or	Annual Balance Sheet Total
Small Enterprises (SE)	< 50	≤ EUR 10 million	or	≤ EUR 10 million
Medium-Sized Enterprises (ME)	< 250	≤ EUR 50 million	or	≤ EUR 43 million
Large Enterprises (LE)	≥ 250	> EUR 50 million	or	> EUR 43 million

Source: European Commission

Please note:
The criterion concerning the headcount is compulsory. In addition, either of the annual turnover or the balance sheet criteria must also apply.

Most incentives programs offer the highest incentives rates to small and medium-sized enterprises (SMEs). Some programs may even specifically target SMEs (this is very often the case with R&D programs).

Other criteria determining project eligibility may be defined subject to individual incentives programs and federal state regulations.



Cash Incentives for Investments

Investor production facility set-up costs can be significantly reduced using a number of different measures from Germany's investment incentives package. Cash incentives provided in the form of non-repayable grants make up the main components of this package.

There are two major programs directing the allocation of these cash incentives:

- The "Joint Task for the Promotion of Industry and Trade" or "Joint Task" (*Gemeinschaftsaufgabe, GRW*).
- A special cash incentives program to promote investment activities in Eastern Germany called the "Investment Allowance" (*Investitionszulage, IZ*).

Cash incentives are usually administered by the German states.

The Joint Task Program

The Joint Task program is issued by the Ministry of Economics and Technology. It regulates the distribution of non-repayable grants for investment costs throughout Germany. Money available through this program is usually distributed in the form of cash payments which are based on either investment costs or assumed wage costs.

The actual incentives amount granted varies from region to region subject to economic development level. Regions with the highest incentives rates offer grants of up to 30 percent of eligible expenditures for large enterprises, up to 40 percent for medium-sized enterprises, and up to 50 percent for small enterprises respectively. These higher incentive rate regions are mainly situated in Eastern Germany.

Several regions within the western parts of Germany and Berlin are also designated incentives regions, but at a lower incentive rate level than their eastern counterparts. In these regions, large enterprises can receive subsidy rates of up to 15 percent, medium-sized enterprises up to 25 percent, and small enterprises up to 35 percent of eligible project costs respectively.

Incentives Regions with Highest Levels of Support According to the Joint Task



Source: Federal Ministry for Economics and Technology, Germany Trade & Invest

Regions	Small enterprise	Medium-sized enterprise	Large enterprise
A Region	50%	40%	30%
A Region in transition	50% (until end 2010) 40% (from 2011 on)	40% (until end 2010) 30% (from 2011 on)	30% (until end 2010) 20% (from 2011 on)
C Region	35 %	25%	15%
D Region	20%	10%	max. EUR 200,000 ²
C/D Region	35% / 20%	25%/10%	15%/max. EUR 200,000 ²

¹ The areas of south-west Brandenburg, Halle, Leipzig, Lüchow-Dannenberg and Uelzen will be reviewed by the EU Commission in 2010 and could be reduced to the lower level from 2011 on.

² Currently under discussion; could be extended by end of 2009

Investment Allowance (*Investitionszulage, IZ*)

The Investment Allowance (*Investitionszulage, IZ*) is a special incentive program created to promote investment activities in Eastern Germany. As such, the program is only open to investment projects settling in states formed after German reunification in 1990.

Eligible states include:

- Berlin
- Brandenburg
- Mecklenburg-Vorpommern
- Saxony
- Saxony-Anhalt
- Thuringia

The Investment Allowance usually takes the form of a tax-free cash payment but can also be allotted in the form of a tax credit.

The program is based on the "Investment Allowance Act 2010" which came into effect in December 2008. Investors automatically receive Investment Allowance funding (subject to all eligibility criteria being satisfied) when investing in Eastern Germany – without having to go through general incentive program application procedures.

The Investment Allowance can be combined with investment grants received under the auspices of the Joint Task program. However, the overall sum received from the two programs combined may not exceed the maximum possible incentives rate of the respective region.

Public Loans

Investors can access publicly subsidized loan programs in Germany. These programs usually offer loans at below current market value interest rates in combination with attractive grace periods. These loans are provided by so-called development banks: publicly owned and organized banks which exist at the national and state level.

Each financial tool or program offered by such banks is accessible to foreign investors and subject to the same conditions available to investors from Germany.

Investors profit from interest-reduced loans as they are a means of acquiring capital in a cost effective way during the investment phase, thus easing financial long-term planning. Small and medium-sized enterprises (SMEs) in particular can profit from interest-reduced loans.

European Investment Bank (EIB) Loan Programs

At the European level, the European Investment Bank (EIB) finances investment projects in cooperation with private banks. The EIB provides loans below general market conditions, offers long-term repayment periods, and is a host of other favorable conditions. It specializes in large investment projects.

To receive support, projects must be viable in four areas:

- Economics
- Technology
- Environment
- Finance

The EIB only finances projects contributing to the EU's general economic policy objectives – enhancing the development and integration of economically weaker regions and building up the general structure of the EU as a business location. The EIB acts as a financial partner until the investment project is completed. Loans are granted to projects in both the public and private sectors. EIB loan programs are open to large enterprises as well as SMEs. As a rule, the EIB lends up to 50 percent of investment project costs.

The main financing tools are intermediated loans. Credit lines to banks and financial institutions help them to provide financial means to SMEs with eligible investment programs or for projects costing less than EUR 25 million.

www.eib.org

German KfW Banking Group Loan Programs

The KfW Banking Group (*Kreditanstalt für Wiederaufbau, KfW*) is the nationally operating development bank of the Federal Republic of Germany. It makes available a number of different financing tools such as promotional loan programs, mezzanine financing, and private equity.

The KfW is organized into different departments – each specialized according to different target groups and available financing tools. A general overview of the KfW organizational structure is provided online at the KfW website.

www.kfw.de

The most important institution for investment project financing is the KfW Mittelstandsbank which offers a number of loan programs for investment projects including the Entrepreneur Loan (*Unternehmerkredit*) and Entrepreneur Capital (*ERP Unternehmerkapital*).

The KfW is usually contacted via the applicant's private bank which normally complements its own financial package using the range of KfW financing tools available. Investors should have a German bank or a subsidiary of their domestic bank in Germany to ease the KfW loan application process. Most international banks have subsidiaries and partner banks in Germany.

State Development Bank Loan Programs

In addition to the KfW, each German state has its own development bank financing projects within the respective state. A list of all state development banks and their websites can be found at Invest in Germany's website via the Info-Service.

www.gtai.com

In addition to the KfW, each German state has its own development bank financing projects within the respective state. They offer own loan programs, especially targeted at start-ups and growing companies.

Compared to KfW programs, state development bank loans are generally tailored to meet the requirements of small and medium-sized enterprises (according to the EU Commission's SME definition).

Loans are collateralized with the usual securities. Applications are made through the investor's private bank to the respective state development bank. Interest reduced loans constitute a subsidy and can usually be combined with other public funding. Please be aware, that the total amount of cash incentives available may be reduced when combined with other programs.

Labor-Related Incentives

Labor-related incentives play a significant role in reducing the operational costs incurred by new businesses. Germany's Federal Employment Agency (*Bundesagentur für Arbeit*) and the German states offer a range of labor-related incentives programs designed to fit the different company needs when building a workforce. The range of programs offered can be classified into four main groups: programs focusing on recruitment support, training support, wage subsidies, and on-the-job training.

Labor-related incentives are available throughout Germany; independent of factors such as company size, industry sector, or investment project location. Programs can be carried out and adjusted by local authorities according to investor needs – usually in close cooperation with the investor.

Time Frame for Labor-Related Incentives

Stages of Building a Workforce	→	Available Incentives
Stage 1: Finding Suitable Staff	→	Recruitment Support
Stage 2: Testing Candidates	→	Pre-Hiring Training
Stage 3: Hiring Employees	→	Wage Subsidies
Stage 4: Further Education	→	On-the-Job Training

Source: Germany Trade & Invest

Matching Personnel: Recruitment Support

With over 800 local job centers located throughout Germany, the Federal Employment Agency assists companies in finding new employees. Regardless of the qualification or experience level required, the job centers offer highly competent and professional services as well as market expertise to help identify prospective employees in all sectors.

Assistance provided covers everything from job vacancy advertising and preselection of candidates (i.e. assessment centers) to the provision of facilities for holding job interviews. Because the job centers are governmental institutions, all services are provided entirely free of charge.

Enhancing Qualification Measures: Training Support

Prospective employees often need to participate in appropriate training measures before operating machinery and technical equipment. Such measures can be organized and administered by external specialist institutions. In general, the costs for training programs of this nature can be covered by up to 100 percent by regional program managing authorities.

Supporting Integration: Wage Subsidies

Wage subsidies aim at helping job seekers experiencing difficulties securing work (e.g. as a result of long-term unemployment). Employers can be granted a direct cash payment paid as a proportion of the employee's wage. Grants can account for up to 50 percent of wage costs including social benefits. They may be granted for a period of up to twelve months.

When hiring long-term unemployed people who have disabilities or who are older, wage subsidies can be raised to a maximum 70 percent of wage costs paid for a period of up to 96 months.

Wage subsidies are generally allocated if investors provide long-term employment contracts. Note that wage subsidy applications should be made in advance of the work contract being signed.

Advancing Professional Development: On-the-Job Training

The German states and the European Social Fund (ESF) offer a variety of on-the-job training programs. Companies can be supported with subsidies covering up to 50 percent of all training costs. Authorization by the European Union (EU) is required if the amount awarded to a single company exceeds EUR two million.

R&D Incentives

Research and development (R&D) is considered to be amongst the most important areas for the development of the German economy. Industry and the public sector have made a commitment to spend around three percent of national GDP per year on R&D activities. This amounts to approximately EUR 70 billion R&D spending each year.

Accordingly, R&D projects can count on numerous forms of financial support. There are many programs allocating R&D grants, interest-reduced loans, and special partnership programs. Financing is provided by the European Union (EU), the German government, and the individual German states.

R&D incentives programs generally provide money for R&D project personnel expenditure. Other costs for instruments and equipment may also be eligible if they can be clearly assigned to the relevant R&D project.

How to Profit from Public R&D Spending

To participate in R&D funding programs, companies must define an R&D project with clear objectives and a fixed time line. The project application should highlight the innovative character of the project and the technological risks involved.

An application for R&D funding also has to set out a commercialization plan, detailing how research results will be transformed into products, processes or services which generate additional turnover and/or employment in the region where the R&D project is located.

The total amount of incentives a project may receive depends on the size of the company (small, medium-sized, or large), whether the project is conducted in cooperation with other companies or research institutes, and the research category of the project. The research category expresses the scope of the intended project.

There are three main categories:

- fundamental research (experimental or theoretical work aimed at gaining new knowledge)
- industrial research (research with a specific practical objective aimed at improving existing products, processes, or services)
- experimental development (research aimed at producing drafts, plans, and prototypes)

R&D Grants on European Level

The EU's 7th Research Framework Program (FP7) offers financial support to R&D projects at the European level. Support is allocated in the form of grants covering up to 75 percent of project expenditures for SMEs. FP7 will run until the end of 2013.

FP7 is the world's largest research funding program with a total budget of more than EUR 50 billion. FP7 support is usually provided to R&D projects operating on a transnational level with different project partners.

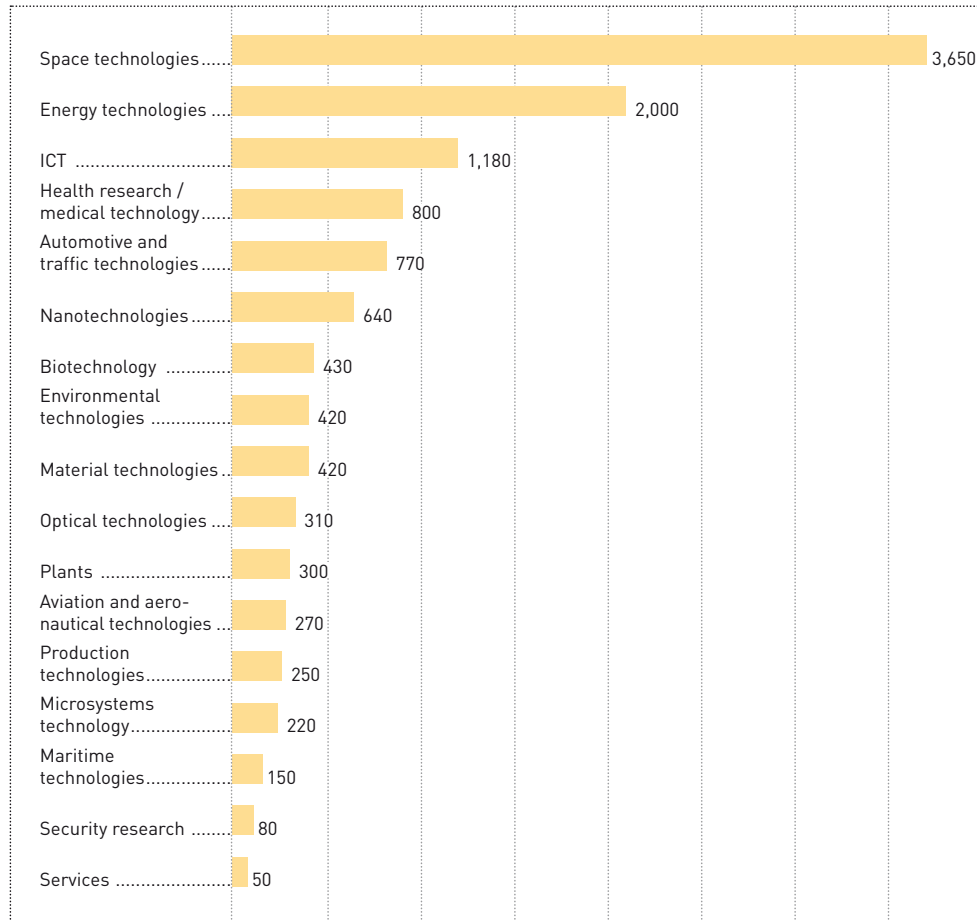
Applications are submitted in the form of a proposal by all transnational project partners (so-called "consortium"). The EU usually issues a call for proposals announcing the research area, eligibility guidelines, and the available budget.

<http://cordis.europa.eu/fp7>

German Federal Government R&D Grants

All research programs financed by the German federal government are concentrated within the federal High-Tech Strategy. The High-Tech Strategy defines specific industry sectors with a high dependency on constant high-tech research and development. Each defined industry sector consists of a number of different R&D programs.

Germany's High-Tech Strategy Sectors with Respective Budgets 2006 – 2009 in EUR million



Source: Federal Ministry of Education and Research

Approximately EUR twelve billion in total is reserved for R&D projects in the form of non-repayable project grants until 2009. Grant rates can reach up to 50 percent of eligible project costs. Higher rates may be possible for SMEs or projects settling in eastern Germany. Cooperation between project partners, especially between enterprises and research institutions, is usually required.

The federal government periodically calls for R&D project proposals followed by a competition of best project ideas.

In addition, a number of national programs without a specific technological focus also exist. Application for incentives available under these programs is always possible, without any prior calls for proposals or application deadlines. For these programs a total budget of EUR 2.6 billion is reserved. These programs are usually targeted at SMEs.

www.hightech-strategie.de

German Federal State Funding

In addition to programs run by the federal government, each German state has R&D grant programs – generally reserved for SMEs – in place. Some states put particular focus on specific industry clusters but programs without specific technological focus also exist. Cooperation between project partners is not always necessary.

Further R&D Project Subsidy Options

R&D loans can be an alternative to R&D grants and entail several specific advantages: they are not usually attached to a specific technology field, application is possible at all times (no deadlines), and they can cover higher project costs. R&D loans are provided by different governmental programs. For instance, the ERP Innovation Program offers 100 percent financing of eligible R&D project costs up to EUR five million.

Public (silent) partnerships are offered by both, the KfW Banking Group and state-owned venture capital companies to technically oriented companies. Direct shareholding by a public investment company is also possible. Conditions are negotiated on a case-by-case basis.



5 Employees and Social Security

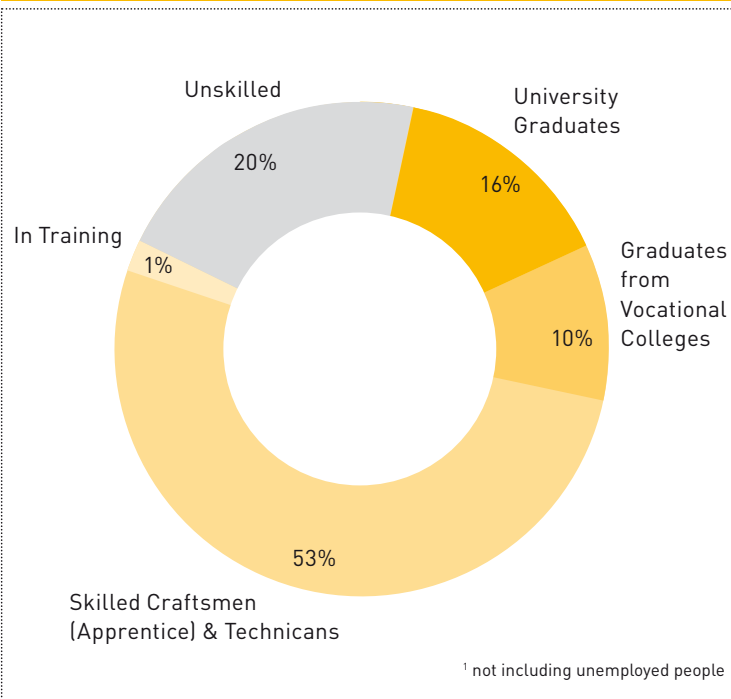
- Finding Suitable Staff
- Flexible Models of Employment
- Terms of Employment
- Termination of Employment
- Employee Representation
- The German Social Security System

Photo: Monkey Business - fotolia.com

A company's success very much depends on its employees. Germany has highly qualified, motivated, and conscientious specialists. The high level of knowledge and skills among the German workforce is internationally renowned. The German education and training system ensures that personnel meet companies' needs.

Germany has more than 400 universities and universities of applied sciences (UAS) with over 285,000 graduates in 2007. Through a combination of on- and off-the-job training in Germany's so-called **dual education system** (please see chapter eight, Living in Germany for detailed information), hiring and training costs are reduced (especially for skilled craftsmen and technicians) and recruitment risks minimized. Vocational colleges closely cooperate with approximately 500,000 companies in Germany, ensuring that education always meets specific industry needs.

Workforce in Germany by Level of Education¹ in 2007 (in percent)



Sources: Federal Statistical Office; Universities' Principals Symposium; Federal Employment Office

Finding Suitable Staff

Recruitment services are offered by the Federal Employment Agency (*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. Please refer to our chapter on incentives for more information.

www.bundesagentur fuer arbeit.de

Alternatively, private employment companies can help in finding the appropriate specialist. Companies usually charge 1.5 – 2 monthly gross salaries from the employer or a fee from the job applicant (usually not exceeding EUR 2,000).

www.bza.de

In addition, companies seeking new personnel usually advertise open positions in newspapers, journals, company websites, or on internet job market websites. Ads for specialists and highly qualified staff are usually placed in national newspapers and professional journals, whereas ads for skilled workers or low-qualification jobs normally appear in local papers. Reflux is usually high.

Employers are free to define the recruiting process based on individual requirements. There are only a few guidelines to be observed, such as the need for jobs to be offered 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, ideology (*Weltanschauung*), disability, age, or sexual orientation.



Flexible Models of Employment

Germany has different models of employment, providing investors with flexible employment solutions – especially in the starting phase of the business. Temporary employment agencies provide appropriate personnel at short notice.

Fixed-Term Contracts

Standard employment contracts are not generally time restricted. They usually include a probation period of up to six months.

Companies are nonetheless free to offer **fixed-term contracts**. Such fixed-term contracts automatically expire on a specific date. A dismissal is not required to terminate this type of contract (unless the contract needs to be terminated before expiring). It is for the employer to decide whether to renew the contract or not.

Fixed-term contracts are limited to a maximum of two years. A fixed-term contract may be extended up to three times provided the total duration of contract does not exceed the maximum of two years.

Example:

A limited six months contract can be extended three times for a further six months (for a total duration of 24 months).

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 can hire staff without concluding an employment contract. Instead, the company hires staff from a temporary employment agency by concluding a service contract which regulates the conditions under which the employees are sent to the hiring company.

The employee is legally employed by the temporary employment agency, which means that the employee receives financial remuneration only from the temporary employment agency, as no contractual relationship exists between the hiring company and the employee. The hiring company pays a certain fee to the temporary employment agency as set out in the service contract.

The duration and the terms of termination of the service of the employee in the hiring company are not subject to labor regulations, but only set out in the service contract between the hiring company and temporary employment agency.

The general working conditions such as weekly working hours and wages are usually determined in collective agreements between unions and the respective employers' associations of the temporary employment industry. These collective agreements provide flexible working hour models by using working hour accounts to adjust the demand of the hiring company and working time regulations.

Mini and Midi Jobs

"Mini" jobs are jobs with salaries below EUR 400 per month (also known as "400 Euro Jobs" or short-term jobs) and an employment period in which the employee works 50 days per year or less for the company.

Employers pay 30.1 percent of the gross wage as social security contributions and flat taxes (composed of 13 percent health insurance, 15 percent pension insurance, two percent flat tax, and 0.1 percent sick pay contribution allocation), while employees are fully exempt from social security contributions (even if they hold another fully taxable employment position).

"Midi" jobs (or "low wage jobs") are jobs that pay between EUR 400.01 and EUR 800 per month. They are subject to reduced employee social security contributions.

Employers are subject to the normal social security contributions of around 21 percent of the gross wage, which represents a lower rate than the general tax for 400 Euro jobs.



Terms of Employment

A contract of employment setting out the terms and conditions of the employer-employee relationship is usually drawn up in writing (verbal agreement is also possible). In principle, the contract can be formulated in any language. However, a binding German version is advisable as German courts require a German translation of any contract drawn up in another language in the event of any legal proceedings being instigated.

There is no legally fixed form for a contract of employment. Nonetheless, it is highly advisable to define certain points, such as:

- Area of activity and general description of tasks
- Date of contract inception and, in the case of fixed-term contracts, duration of the agreement
- Daily and/or weekly working hours
- Probationary period
- Remuneration
- Holiday allowance
- Declaration of the notice period
- Declaration of confidentiality
- If applicable, a ban on the employee working for a competitor for a two-year period after leaving the company
- Possible secondary occupations
- Annual holidays
- Penalty for breach of contract

Payment

Employee pay can be negotiated freely unless a minimum wage applies. German law does not prescribe a statutory minimum wage for most professions. Minimum wage agreements have only been established in the following industries¹:

- General construction trade
- Roofing/tiling
- Painting and varnishing
- Demolition work
- Building cleaners
- Electricians
- Postal delivery services

¹ The federal government is currently discussing the extension of minimum wage agreements to further industries. A decision is not to be expected before the end of 2009.

Adjustable Working Hours

Working hours are very flexible in Germany. Under German labor law (*Arbeitsrecht*) employees are allowed to work 48 hours per week. Saturday is considered to be a normal working day, whereas Sunday is widely considered a day off. Most business is conducted from Monday till Friday, but especially retailers and manufacturing industries operate on Saturday as well. A total of 60 hours per week (or ten hours a day over six days) is possible under certain circumstances.

Extra hours worked must be compensated through the allocation of additional time off. An overtime bonus is possible, but not mandatory. Bonuses have to be paid only when required by individual or collective labor agreements.



Flexible Working Hours

	Working hours per day	Working hours per week	Overtime	Comments
Regular Employment Contract	8 hours	40 hours / 5 working days 48 hours / 6 working days	2 hours per day – but within 6 months / 24 weeks average must not exceed 8 hours per day	<ul style="list-style-type: none"> – No restrictions for senior managers. – Collective agreements can state differing rules for certain sectors. – No mandatory financial bonus for overtime.
Night Work (work of more than 2 hours between 11 pm and 6 am)	8 hours	40 hours / 5 working days 48 hours / 6 working days	2 hours per day – but within 1 month / 4 weeks average must not exceed 8 hours per day	<ul style="list-style-type: none"> – All night work must be compensated by respective time off or extra bonus. – The rules for regular employment contracts apply to overtime.
Work on Sunday or Public Holiday	8 hours	According to the number of Sundays per month – at least 15 Sundays per year must be off	2 hours per day – work on Sundays / public holidays may not exceed the total daily average of 8 hours within 6(1) ¹ months / 24 (4) ¹ weeks	<ul style="list-style-type: none"> – Possible in certain industries (e.g. restaurants, hotels and production sites.) – Compensation of an additional day off must be granted within 2 weeks for Sundays / 8 weeks for public holidays.
Temporary Employment	8 hours	Average 40 hours	Maximum 2 hours per day – working hour accounts in collective agreements provide flexibility models to meet the requirement not to exceed an average of 8 hours within 6 months / 24 weeks	<ul style="list-style-type: none"> – No permanent employment contract. – High flexibility concerning length of daily working hours and duration of employment itself.

Source: Germany Trade & Invest

¹ In case of night work

The statutory amount of **work breaks** depends on the total number of hours worked per day. Employees are entitled to a break of 30 minutes when working between six and nine working hours per day. Employees are entitled to a 45 minute break where more than nine hours a day are worked. Breaks may be split up throughout the day, but divisions may not be shorter than 15 minutes. Statutory breaks of at least eleven hours exist between shifts.





Vacation and Public Holidays

The number of public holidays varies from state to state in Germany.

Number of Public Holidays in Germany by Federal State

Federal States	New Year's Day, Jan. 01	Epiphany, Jan. 06	Good Friday	Easter Monday	Labor Day, May 01	Ascension Day			Pentecost Monday	Feast of Corpus Christi	Assumption Day, Aug. 15	Unification Day, Oct. 03	Reformation Day, Oct. 31	All Saints, Nov. 01	Day of Repentance	Christmas, Dec. 25	Christmas, Dec. 26	Total
Baden-Württemberg																		12
Bavaria										C								13
Berlin																		9
Brandenburg																		10
Bremen																		9
Hamburg																		9
Hessen																		10
Lower Saxony																		9
Mecklenburg-Vorpommern																		10
North Rhine-Westphalia																		11
Rheinland-Pfalz																		11
Saarland																		12
Saxony										C								11-12
Saxony-Anhalt																		11
Schleswig-Holstein																		9
Thuringia										C								10-11

Source: Public Holiday Acts of the Federal States (Feiertagsgesetze der jeweiligen Bundesländer)

-  Holidays in German states
-  Holidays in areas with a majority Catholic population



Full-time employees (meaning employees working more than six months within one calendar year) working six days per week are entitled to a minimum of 24 paid vacation days (the equivalent of four weeks) per year. Accordingly, full-time employees working five days per week are entitled to a minimum of 20 days per year.

The employee is entitled to a pro-rated period of paid vacation when working for less than six months within one calendar year. During the typical six-month probationary period at the beginning of any new employment contract, employees are not normally entitled to take any vacation days.

Sick Leave

Employees are obliged to inform their employer about any sickness requiring an absence from work and the expected duration of this absence as soon as possible (generally on the first day of the sick leave).

Where the period of sick leave exceeds three days, employees are obliged to have a general practitioner provide proof of their incapacity to work. Notwithstanding this, employers may also request medical certification of an employee's incapacity to work beginning on the first day of sick leave.

Employees are entitled to sick pay amounting to 100 percent of the normal salary until the time of recovery, though limited to a maximum of six weeks.

Maternity Leave

Employees should inform the employer of any pregnancy and the expected delivery date as early as possible.

A maternity protection period starts six weeks before the expected birth date and ends eight weeks after delivery. Pregnant employees are only allowed to work during this time if a doctor certifies that the work will not be harmful to the health of the mother and child.¹

During the maternity protection period, pregnant employees are entitled to the average sum of their wages for the three months (or 13 weeks) period prior to the pregnancy paid by the employee's public health insurance (or the state in the case of privately health insured employees) and the employer.

¹ In cases of premature or multiple births, the employee is not obliged to return to work for a period of up to twelve weeks after delivery (without having to provide proof of medical necessity for this extended absence).

Anti-Discrimination

The General Equal Treatment Act of 2006 (*Allgemeines Gleichbehandlungsgesetz, AGG*), often referred to as the **anti-discrimination act**, implements EU regulations on anti-discrimination.

The anti-discrimination act mandates a general prohibition of discrimination against any person for reasons of:

- Race
- Ethnicity
- Gender
- Religion or ideology
- Disability
- Age
- Sexual orientation

Termination of Employment

A contract of employment can be terminated by the employer or the employee. Dismissals require written form and both parties have to observe the statutory notification periods.

The German Employment Protection Act (*Kündigungsschutzgesetz*) establishes certain rules for dismissals, drawing distinctions between:

- dismissal for personal reasons
- dismissal for conduct-related reasons
- dismissal for business reasons

The Employment Protection Act only applies to companies with a staff of more than ten employees and with respect to continuous employment relationships of more than six months in the same company.

If these conditions do not apply, employers generally have an unfettered right to terminate employment contracts within statutory notice periods.

Dismissal for Personal Reasons

If employees are not physically or mentally suited to their job in the long term, termination is possible if the burden on the company is unreasonable. Justifiable reasons include long-term illness with a negative prognosis, or an alcohol or drug addiction with no reasonable prospect of successful treatment. However, employers must first implement reasonable stop-gap measures such as staff reorganization or the hiring of temporary staff.

Dismissal for Conduct-Related Reasons

Employee misconduct can justify dismissal. However, a dismissal must always remain an option of last resort. Less severe options, such as redeployment of the employee, have to be considered prior to dismissal. Dismissal for conduct-related reasons generally also requires a prior written warning.

A conduct-related dismissal may be based on significant inappropriate conduct such as:

- Repeated lateness for work
- Refusal to perform certain work
- Repeated unapproved private use of the internet despite prior prohibition
- Unapproved vacation
- Penal offenses in the course of work
- "Whistle-blowing"

Dismissal for Business Reasons

Termination for business-related reasons may be permitted if the employee's job is rendered dispensable due to changes in the business organization such as:

- Plant closure
- Restructuring
- Insufficient work due to a shortage of orders

The business decision to cut back jobs under these circumstances is only limited reviewable by labor courts.

Extraordinary (Immediate) Termination

Immediate termination of employment may be considered in cases of serious misconduct rendering it unacceptable for either party to continue the employment relationship. It is not sufficient for the termination to be regarded as necessary – it must be **immediately** imperative. Accordingly, the legal period of notice does not apply in these cases.

Reasons for the **employer** to immediately terminate employment include:

- Continued non-performance of agreed work
- Disturbance of the general working environment
- Theft
- Disclosure of sensitive information
- Non-authorized competitive engagement

Reasons for the **employee** to immediately terminate employment include:

- Non-payment of wages
- Unlawful working

Immediate termination is only effective if the terminating party dissolves the employment within two weeks of the reason(s) for termination becoming known.

Notification Periods

When terminating permanent contracts of employment, certain notice periods are required by law. The determination of the minimum statutory period depends on whether the employee or employer is seeking to terminate the contract.

An **employee** must submit a notice with a minimum notice period of four weeks, effective either on the 15th or end of the month.

For the **employer**, the minimum notice period depends on the duration of employment. After the probationary period of a new employment contract has ended, the initial notice period is one month. This increases to seven months after 20 years of job tenure in the same company. Individual notice periods can be agreed upon, but these must comply with minimum statutory notice period requirements.

Every notice of termination must always be issued in writing – notice of termination in electronic form is insufficient.

Employee Representation

Works Councils

A works council may be established in companies with five or more employees.

Works councils are in-house committees representing the interests of the employees within a company. Their activities range from information and non-binding consultation rights to exercising co-determination rights in organizational and social affairs. **However, the works council is generally prohibited from becoming involved in corporate governance.**

Rights regarding the formation of works councils are governed by the German Works Council Constitution Act (*Betriebsverfassungsgesetz*). Accordingly, works councils can be formed by the employees through election (no quorum required). Works council members are elected for four years by the employees in direct and secret elections. Candidates do not have to be union members.

Works councils have informative and advisory rights relating to company internal policy and organization. Specifically, they can negotiate rules pertaining to organizational and social issues, and must be consulted regarding specific personnel decisions. The employer and works council can negotiate rules on matters such as:

- end and beginning of daily working hours (not the duration as such)
- vacation schedules
- internal behavioral rules
- safety issues (accident prevention)
- surveillance installations
- internal social facilities (e.g. canteens)
- general company wage structures (but not individual salaries)



Representation on the Supervisory Board

Stock corporations (*Aktiengesellschaft*) must always install a supervisory board. For Limited Liability Companies (*GmbH*) the installation of a supervisory board is mandatory only if the company has more than 500 employees. Whereas in smaller corporations the supervisory board can in principle be made up of representatives from the shareholder side only, large corporations with more than 500 employees must have representatives from both employers/shareholders and employees on their supervisory board (at least 1/3 of representatives must be employees).

The German Social Security System

In contrast to some other industrialized countries, the core social security in Germany is financed collectively by means of a process of redistribution. The current costs (for pensioners, sick people or those in need of nursing care, and unemployed people) are paid directly from contributions by employees and employers.

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. Only the costs for accident insurance are exclusively borne by the employer.

www.deutsche-sozialversicherung.de

All employees can choose their own health insurance provider. A common fund exists for all other social security components.

Employees earning a gross wage of less than EUR 4,050.00 (2009) per month are compulsorily insured by one of the public health insurance providers (*Gesetzliche Krankenversicherung, GKV*).

Employees whose earnings are above this income threshold can choose from both public and private insurance companies (*Private Krankenversicherung, PKV*). Employee and employer also share the premiums for private health insurance plans.

The basic flat health insurance contribution rate amounts to 14.6% of the employee's gross income. Employer and employee each pay half of this premium. As of July 1 2009, the basic flat health insurance contribution rate will be reduced to 14%. In addition to the basic flat contribution rates shared equally between employer and employee, an additional 0.9% are paid by the employee only.

Apportionment of Social Security Contributions (Status: January 2009)

German Social Security Insurance Components (% of gross salary)	Employer's / Employee's Share of Contribution (% of gross salary)
19.9% Pension Insurance	9.95% Employer
	9.95% Employee
14.6% ¹ Health Insurance ²	7.3% Employer
	8.2% Employee
2.8% Unemployment Insurance	1.4% Employer
	1.4% Employee
1.95% Nursing Care Insurance	0.975% Employer
	0.975% Employee ³
1.28% Accident Insurance ⁴	1.28% Employer ⁴

Source: Germany Trade & Invest

¹ 14% from July 1, 2009 on.

² Employee pays an extra 0.9% on health insurance (§ 241a SGB V).

³ Childless employees pay an extra 0.25% on top of their nursing care contributions.

⁴ Apportionment quota levied for 2007 according to HVBG (the Association of Workers' Compensation Boards).

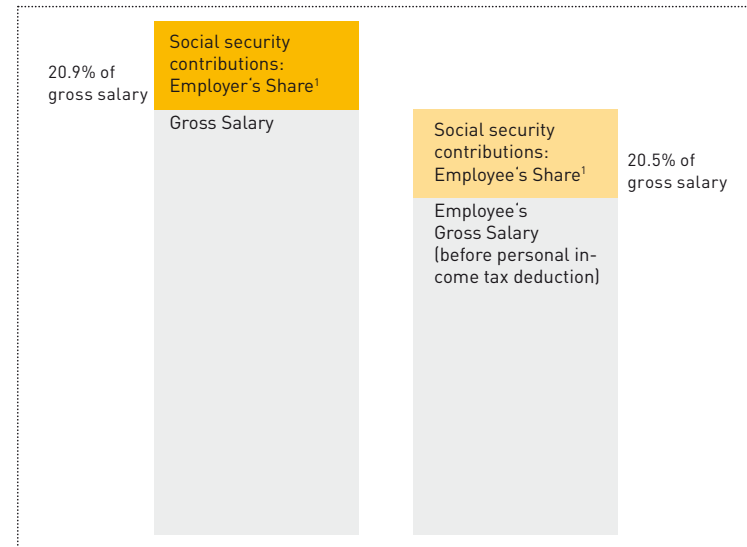
Payroll Accounting and Social Security Contributions

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

The employer withholds the tax that the employee is required to pay and transfers the money directly to the tax authority (*Finanzamt*). Therefore, all employees must be registered with the local tax authority. Social security contributions are also withheld by the employer after calculation of the gross wage and transferred to the employee's health insurance company (which then distributes all of the contributions excluding accident insurance to all relevant parties).

The employer separately has to pay the contributions for the accident insurance to the Employers' Liability Insurance Association (*Berufsgenossenschaften*).

Payroll Accounting Pattern



Source: Germany Trade & Invest

¹ For the components of employer and employee share of social contributions refer to the previous table.



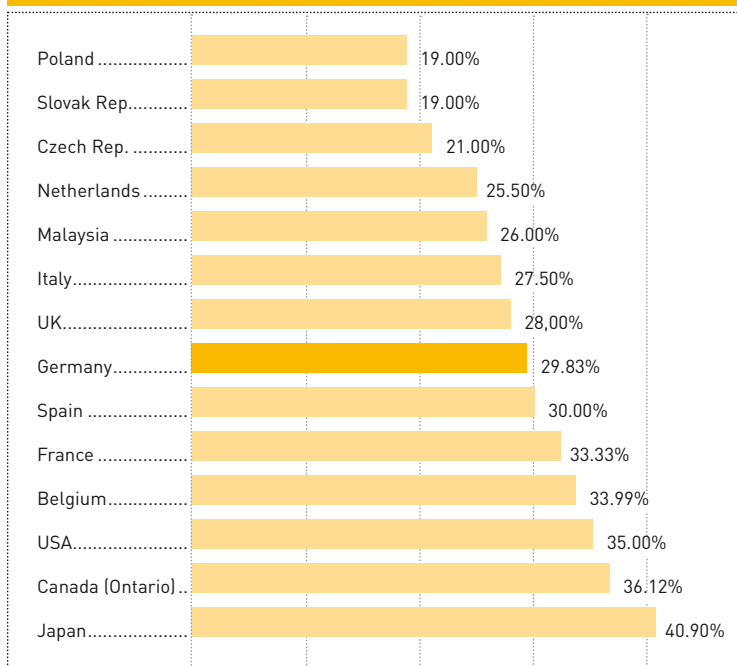
6 The Tax System

- Company Taxation
- Taxation of Property
- Value Added Tax
- Options for Tax Deductions
- How Does a Tax Return Work?
- Customs

Photo: Sascha Burkard – fotolia.com

Germany offers a highly competitive tax system for companies, combining flexibility and simplicity with moderate tax rates. For corporate companies, the average overall tax burden is just below 30%, with certain local municipalities offering even significantly lower rates.

International Comparison of the Average Corporate Tax Burden (2008)



Source: German Federal Ministry of Finance, *Germany Trade & Invest*

Information on tax rates and procedures is provided by the Tax Information Centre (*Steuerliches Info Center, SIC*).

www.steuerliches-info-center.de

Company Taxation

Companies in Germany are usually taxed on two levels. On the first level, corporations – such as the stock corporation (*AG*) and limited liability company (*GmbH*) – are subject to **corporate income tax** (*Körperschaftsteuer*), whereas partnerships are subject to **personal income tax** (*Einkommensteuer*). Both taxes are levied by the federal government.

On the second level, all business operations – corporations and partnerships alike – are subject to the **trade tax** (*Gewerbesteuer*), which is imposed by local municipalities (i.e. the town or city where the company is based).

Corporate Income Tax for Corporations (*Körperschaftsteuer*)

The standard corporate income tax (*Körperschaftsteuer*) rate amounts to a flat 15% rate on all corporation taxable earnings.

Corporate income tax applies to **both** retained and distributed profits. However, once profits are distributed to shareholders, the shareholders must, in turn, pay **final withholding tax** (*Abgeltungssteuer*) at a rate of 25 percent (as of 2009) on these profits (i.e. dividends).

If a German subsidiary pays out dividends to a foreign parent corporation, generally a withholding tax (*Kapitalertragsteuer*) of 25 percent¹ is due. In case there is a double taxation agreement between Germany and a foreign state, this withholding tax can be refunded to a certain extent, according to the rules set out in the double taxation agreement.²

¹ As of 2009, a refunding of $\frac{2}{3}$ of the deducted withholding tax will be possible irrespective of any existing double taxation agreement.

² There usually is a reduction concerning the tax rate (e.g. tax rate of only 5, 10 or 15 percent).

In addition to corporate income tax, the **solidarity surcharge** (*Solidaritätszuschlag*) is also added. This was introduced in 1995 to finance German reunification. The surcharge is 5.5 percent of the assessed amount of corporate and personal income tax. Accordingly, the solidarity surcharge is 5.5 percent of the 15 percent corporate income tax, adding up to a combined corporate income tax + solidarity surcharge burden of 15.825 percent.

Personal Income Tax for Partnerships (*Einkommensteuer*)

Partnerships (e.g. oHG, KG, GbR, PartG) are not separate legal entities but associations of partners, with the partners themselves generally being subject to all rights and obligations (see also chapter two, Establishing a Company).

Accordingly, partnerships are not subject to corporate income tax (*Körperschaftsteuer*) but to personal income tax (*Einkommensteuer*), with the individual tax rate applicable to each shareholder.

The personal income tax rate starts at:¹

- 15 percent for an annual income exceeding the tax-free allowance of EUR 7,664.
- It rises progressively to a maximum personal income tax rate of 42 percent which is applicable to annual income of EUR 52,152 or more.
- An increased tax rate of 45 percent applies to every euro in excess of earnings of EUR 250,000 per year.

The federal government is currently planning to reduce the marginal tax rate and increase the tax-free allowance by mid of 2009.

As with corporate income tax, the **solidarity surcharge** is also added to personal income tax. Accordingly, the solidarity surcharge is 5.5 percent of the individual personal income tax rate of every partner. If a partner has an individual income tax rate of 30 percent, the combined personal income tax + solidarity surcharge burden on the partner's share in the profits would add up to 31.65 percent.

¹ These tax rates also apply for personal income tax for employees.

Harmonizing Corporation and Partnership Tax Rates – Income Tax

Generally, distributed and retained earnings of partnerships are subject to personal income tax with progressively rising tax rates. In order to reduce the tax burden for partnerships (making it similar to the tax burden of corporations), the reform of company taxation introduced two options:

- Trade tax payments for both distributed and retained earnings can now be offset against personal income tax **on a larger scale** (see Example “Offsetting Trade Tax against Personal Income Tax”).
- To avoid a progressively rising personal income tax rate, partnerships can apply for a **flat taxation rate** of 28.25 percent plus solidarity surcharge on **retained earnings** – leading to a flat taxation rate of 29.8 percent equaling the tax burden for corporations.¹

¹ If retained earnings (taxed according to flat taxation) are distributed to partners at a later date, the distributed earnings are, under certain conditions, subject to a subsequent taxation rate of 25 percent.

Trade Tax (*Gewerbesteuer*)

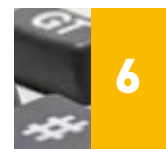
All commercial business operations in Germany (regardless of legal company form) are subject to trade tax (*Gewerbesteuer*) with respect to their taxable earnings.

The applicable trade tax burden depends on two factors:

- The tax **assessment rate** (= the standard trade tax base rate according to German trade tax code)
- The trade tax collection rate stipulated individually by every municipality (called the **municipal collection rate** – *Hebesatz*).

The tax assessment rate has been lowered from its previous five percent level to 3.5 percent for corporations, partnerships, and all other business operations.

The resulting trade tax base amount is then multiplied by the applicable municipal collection rate (*Hebesatz*).



By law, the municipal collection rate must be at least 200 percent (resulting in a minimum total trade tax burden of seven percent). There is no statutory ceiling; therefore the collection rate in conurbations can be as high as 490 percent. The average municipal collection rate is somewhere between 350 percent and 400 percent, and collection rates tend, as a rule, to be higher in urban areas than in rural areas.

Example: Determining the Trade Tax Burden

- Company A with annual taxable earnings of EUR 1,000,000 is based in city B.
- City B has stipulated a municipal collection rate of 400 percent.
- The trade tax base amount for company A is 3.5 percent of its annual taxable earnings or EUR 35,000.
- The EUR 35,000 is multiplied by the municipal collection rate of 400 percent, resulting in a total trade tax burden for company A of EUR 140,000.

Annual taxable earnings of up to EUR 24,500 are trade-tax-exempt for partnerships. **No solidarity surcharge** is levied on trade tax payments!

Harmonizing Corporation and Partnership Tax Rates – Trade Tax

Germany's reform of company taxation has improved the option to offset trade tax payments against personal income tax. Previously, partnerships and sole proprietorships could offset trade tax payments against their personal income tax burden with a weighting factor of 1.8. of the trade tax base amount.

Under the company taxation reform, **this weighting factor has been more than doubled to 3.8**. Accordingly, the personal income tax of a partnership or sole proprietorship can be reduced by 3.8 times the trade tax base amount.

Example: Offsetting Trade Tax against Personal Income Tax

- Partnership A has a trade tax base amount of EUR 35,000 (3.5 percent of its annual taxable earnings).
- This trade tax base amount can be offset against personal income tax payments with a weighting factor of 3.8; amounting to EUR 133,000 (35,000 x 3.8).
- Accordingly, partnership A can offset EUR 133,000 against personal income tax payments.

Overall Tax Burden

According to the company taxation rules outlined in the chapters above, the overall tax burden is to be calculated as follows:

Overall Tax Burden for Corporations and Partnerships: Model Calculation

Taxation	Corporation	Partnership ¹
Taxable Income	EUR 1,000,000	EUR 1,000,000
Trade Tax (average rate: 400)	EUR - 140,000	EUR - 140,000
Income Tax	EUR - 150,000	EUR - 282,500
Trade Tax Payments to Be Set off Against Personal Income Tax	-	EUR + 133,000
Solidarity Surcharge	EUR - 8,250	EUR - 8,250
Net Income	EUR 701,750	EUR 702,250
Overall Tax Burden (Income Tax + Trade Tax + Solidarity Surcharge)	~ 29.83 %	~ 29.77 %

¹ Assumption: 100% of profits retained

Source: Germany Trade & Invest

Final Withholding Tax (*Abgeltungsteuer*)

Final withholding tax is a flat tax of 25 percent on current income from capital such as dividends from stock corporations and interests as well as income from transactions (e.g. shares of corporate companies accruing from December 31st, 2008).

Only private individuals are liable to this tax. The **solidarity surcharge** is also levied on final withholding tax – resulting in a total tax burden of approximately 26.4 percent.

If a bank or other financial institution pays out such income from capital, the bank or financial institution simply withholds the tax and transfers it to the responsible tax authorities.

Taxation of Property

Every property owner in Germany is liable to pay **real property tax (*Grundsteuer*)**. The tax rate depends on the type of real property. This is sorted into two distinct categories:

- Real property tax “A”. Real property used for agriculture and forestry.
- Real property tax “B”. Constructible real property or real property with buildings.

Real Property Tax Rate

The real property tax burden is calculated by multiplying:

- the assessed value of the real property
- the real property tax rate
- the municipal collection rate

The assessed real property value is determined by the tax authorities according to the German Assessment Code (*Bewertungsgesetz*). The German Assessment Code refers to historical property values that are usually significantly lower than current market value.

The real property tax rate depends on the type of real property. The tax rate is e.g. 2.6‰ (0.26 percent) for property used for (semi-) detached houses with a value of up to EUR 60,000 and **3.5‰ (0.35 percent)** for all remaining types of real property (including **commercially used real property**).

Similar to the municipal collection rate applied in the trade tax case, the municipal collection rate applied to real property tax is stipulated by each municipality. Municipalities determine a municipal collection rate for both real property tax “A” and real property tax “B”, with the rate for “B” usually being higher.

Example: Determining the Real Property Tax Burden

Real property tax burden for a commercial building in a municipality with an average real property tax “B” collection rate of 350 percent:

Assessed value	EUR 1,000,000 (e.g.)
x Basic real property tax rate	x 0.35 percent
x Municipal collection rate “B”	x 350 percent
= Real property tax burden	= EUR 12,250 (~1.23 percent of the assessed value)

Real Property Transfer Tax (*Grunderwerbsteuer*)

When domestic real estate is sold or changes owner, a one-time real property transfer tax (*Grunderwerbsteuer*) of 3.5 percent of the purchase price is levied if the purchase price or consideration exceeds EUR 2,500. Real property transfer tax is usually paid by the buyer. In Hamburg and Berlin, the rate is 4.5%.

Real property transfer tax also applies to a real property-owning partnership if 95 percent of the shareholders change within five years.

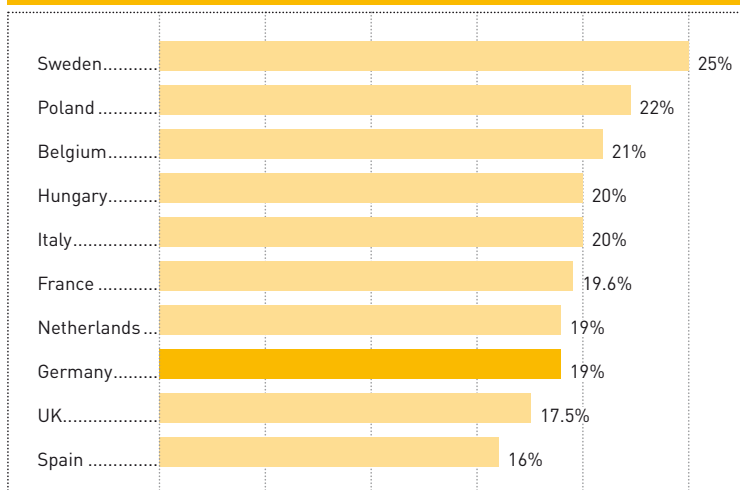
Value Added Tax

Companies must add value added tax (VAT) to their prices. Thus, VAT is only paid by the end user of a product or service. Companies transfer the VAT received to the tax authorities on a monthly, quarterly, or annual basis. The frequency generally depends on the level of company turnover.

The normal VAT rate of 19 percent is just below the European average. A lower rate of seven percent is charged for convenience goods and services needed on a day-to-day basis (such as food, newspapers or public transport). Some services (including banking, healthcare, and non-profit work) are VAT exempt.

The official German term for VAT is *Umsatzsteuer*, but it was originally called *Mehrwertsteuer* and is often still referred to by this name.

Comparison of European VAT Rates (2008)



Source: European Commission

Input VAT (*Vorsteuerabzug*)

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 (*Vorsteuerabzug*).

Example: How Input VAT is Balanced

A car dealer has sold ten vehicles in one month, each at a gross price of EUR 17,850 (net cost EUR 15,000). For each sale, the dealer receives EUR 2,850 in VAT from the customer. At the end of the month, the dealer therefore owes the tax authorities EUR 28,500.

However, in the same period, the car dealer also bought ten cars from the car manufacturer. The net cost of each car was EUR 10,000. The car manufacturer added 19 percent VAT to this amount. The dealer therefore transferred EUR 119,000 (including EUR 19,000 in VAT) to the manufacturer.

Thus, the car dealer has received EUR 28,500 in VAT and paid out EUR 19,000 in VAT. These totals are communicated to the tax authority (Finanzamt), and only the difference of EUR 9,500 must be transferred by the car dealer to the tax authorities.

Trade within the European Single Market

Trade within the EU is free from customs and other restrictions. However, goods traded between different EU member states are subject to so-called **acquisition tax** (*Erwerbsteuer*).

Acquisition tax is payable by the recipient of the goods. If an EU company exports goods to a company located in another EU member state, the delivering company therefore neither has to pay customs or charge VAT. The company in the other EU member state receiving the goods has accordingly to pay acquisition tax.

Acquisition tax rates correspond with the VAT tax rates of the country where the recipient of the goods is located. Companies can however reclaim acquisition tax like regular VAT.

Trade within the European Single Market: Example I - Commercial Customers

EU Trading Transaction	Tax Applicable	Who is Liable?
German (based) company sells to business partner in EU member state	NO German VAT, but VAT in the form of Acquisition Tax in the purchasers home country ¹	Business partner in EU
Business partner in EU member state sells to German (based) company	NO foreign VAT, but VAT in the form of Acquisition Tax in the purchasers home country (Germany) ¹	German company

Trade within the European Single Market: Example II - Private Customers

EU Trading Transaction	Tax Applicable	Who is Liable?
German (based) company sells to private customer in EU member state	German VAT	Foreign private consumer pays VAT to the German seller, who transfers the VAT to the German tax authority
German customer buys from company based in foreign EU member state	Foreign EU member state VAT	The German consumer pays (foreign) VAT to the foreign importer, who transfers the VAT to tax authorities in the foreign EU country.

Source: *Germany Trade & Invest*

¹ Like all other input VAT, the liable entrepreneur can directly deduct the acquisition tax in the advance input VAT return.

Trade with Non-EU Member States

Goods imported from non-EU states are liable to import VAT called **import turnover tax** (*Einfuhrumsatzsteuer*). The import turnover tax rate equals the VAT rates of 19 percent or 7 percent and is paid to the customs authority.

However, the import turnover tax on goods imported from non-EU states can be deducted as input tax (*Vorsteuer*). As a prerequisite, the company must have the necessary import documents with customs proof of payment (import declaration).

Exports are exempt from VAT.

Options for Tax Deductions

The significant difference between nominal and effective tax rates in Germany is based on a series of options for tax deductions.

Loss Carry-Back and Loss Carry-Forward

Losses for corporate income tax purposes can be carried back for one year, limited to a total loss amount of EUR 511,500.

Losses can be carried forward with no time restriction. Up to an amount of EUR one million loss carry-forward is possible – free from any restrictions. For sums in excess of EUR one million, at least 40 percent of the taxable income must remain subject to taxation. In other words, a maximum 60 percent of taxable earnings exceeding EUR one million can be offset against incurred losses.

Deductibility of Interest Payments

Generally, interest payments are fully deductible as operating expenditure. However, some special rules apply for corporate groups. If the amount of interest payments exceeds the amount of interest earnings for more than EUR 1 million, these exceeding interest payments are only deductible up to an amount of 30% of the EBITDA (earnings before interest, taxes, depreciation and amortization).

Straight Line Depreciation

Straight line depreciation for assets is a deductible expense for tax purposes. The annual depreciation is calculated by dividing the purchase price by the estimated useful life of the asset.

All depreciations have to apply the straight line method.



Fiscal Unit Concept

The German fiscal unit concept allows profit and loss pooling to determine the profit for taxation purposes at the level of the controlling parent. Profits and losses from German subsidiaries are consolidated and subject to taxation at the level of the German parent company. Fiscal unit preconditions are:

- The controlling parent is resident in Germany.
- The parent holds more than 50 percent of voting rights of corporate subsidiary entity.
- A profit and loss pooling agreement between parent and subsidiary entity exists with a duration of five years.
- This agreement is registered with the commercial register.

How Does a Tax Return Work?

Every taxpayer must submit a tax return to the tax authority (*Finanzamt*) once a year. The tax authorities are organized locally. The authority in the place of the commercial domicile of the company is responsible.

The return for the previous calendar year must be submitted by May 31 of the subsequent year, but this deadline can be extended on request. Depending on the expected amount of taxes to be paid, the tax authorities can determine the period when tax payments are due.

The tax authorities provide information on tax issues. However, companies in particular should seek the services of a tax consultant to ensure the tax return is completed as favorably as possible.

The tax return itself consists of individual forms for each type of income. Where applicable, documents for expenses must be included or provided at a later date at the request of the tax authority.

Employees pay wage tax – the term used for personal income tax when levied from employed jobholders. Employers are required to deduct wage tax from the employee's wages and transfer it to the tax authorities.

Declarations on wage tax and VAT can easily be sent to the tax authority online. Detailed information on tax return procedures for investors is provided by the Tax Information Centre (*Steuerliches Info-Center, SIC*).

www.steuerliches-info-center.de

Customs

Since the establishment of the European Customs Union, the customs regime in Germany is governed first and foremost by EU law as is the case in all other EU member states. However, customs are administered by the German Customs Administration (*Bundeszollamt*) with offices throughout Germany.

The European Customs Union

The European Customs Union forms a single trading area based on the EU-wide **community customs code** (*Zollkodex der Gemeinschaften*). The European Customs Union has:

- eliminated customs duties between EU member states
- eliminated import VAT between EU member states
- created uniform customs regime – including (external) **common customs tariff (CCT)** rates for goods imported from non-member countries into the Customs Union area

The community customs code, including the common customs tariff, is applied by all 27 EU member states as well as by Andorra, San Marino, and Turkey; the latter countries having entered a customs union with the European Community.

CCT rates vary depending on the type and origins of the imported goods. The applicable tariff rates for goods, depending on product category and country of origin, can be researched using the EU "TARIC" online tariff database accessible via the European Commission website.

<http://ec.europa.eu>

The European Customs Union in Practice

A German product may be shipped to Hungary without paying any duty and without any customs control.

Alternately, a Japanese product imported into the European Customs Union is subject to customs duties only when and where it first enters the EU, for example, Germany.

Subsequent to entry and initial customs clearance, no more customs procedures and duties are necessary. The product can circulate freely within the European Single Market.

EU Trade Agreements

The EU sets its import tariffs and other customs rules on the basis of international agreements. In principle, these apply to all imports, but the EU has trade agreements offering cut-rate entry and often duty-free access for goods from neighboring, developing, and emerging economies.

These include:

- Free trade agreements with the other countries of the European Economic Area (Iceland, Liechtenstein, Norway) and Switzerland
- Customs unions with Andorra, San Marino, and Turkey
- Trade agreements with former British, French, and Portuguese colonies in Africa, the Caribbean, and the Pacific (the ACP countries)
- Trade agreements with countries around the Mediterranean, including those of southeastern Europe

Customs Procedures

All movable and tangible assets that can be controlled by a person can be considered “goods” for customs purposes. As an exception, electric current – though not a tangible asset in the normal sense – also falls under the category of goods for customs purposes because it is merchandised. Gases and liquids are considered goods for customs purposes only once they have been filled into vessels or discharged into a pipeline for transportation.

The import of such “goods” may have different purposes: goods may be meant, for example, for direct sale, assembly, or temporary use. Depending on the reason for import, different customs procedures apply.

The three most common customs procedures in short:

1. Release for Free Circulation (*Überführung in den freien Verkehr*)

- The imported goods are subject to normal customs duties and import taxation.
- The importer pays the duties and may dispose of the goods freely.

2. Inward Processing (*Aktive Veredelung*)

- Third country goods are imported into the Customs Union for processing within a period of time defined by the customs administration, and subsequently re-exported.
- The imported goods are usually exempt from customs duties or taxes.

3. Outward Processing (*Passive Veredelung*)

- Counterpart of inward processing
- An entrepreneur temporarily exports community goods to third party countries for the purpose of processing, repairing, or working abroad.
- The processed goods are re-imported into the Customs Union area within a granted time period.
- Duties and taxes are calculated based on the differential or the clearance of the added value at the time of re-importation.

For information on other existing customs procedure such as customs warehousing (*Zollagerverfahren*), temporary importation (*Vorübergehende Verwendung*) and processing under customs surveillance (*Umwandlungsverfahren*), please contact the Customs Info Center (*Zoll Info Center*).

Customs Declaration

Effective processing of the customs declaration can only commence once the goods are on EU/Customs Union territory and have been presented at the customs office. Products imported into the European Customs Union are subject to customs duties only when and where the product first enters the EU (for example Germany).

The German Customs Administration (*Bundeszollamt*) is responsible for the administration of the joint customs procedures in Germany. All information and documentation material relevant to the chosen customs procedure have to be submitted along with the customs declaration.

The Customs Info Center provides certain standard customs declaration forms in English on its website.

www.zoll.de

7 The Legal Framework

- Foreign Trade and Payments
- Patents, Licensing, Trademarks
- Planning and Building
- Legal Proceedings

In principle, business activities in Germany are free from regulations restricting day-to-day business. German law generally makes no distinction between Germans and foreign nationals regarding investments or the establishment of companies.

Intellectual property is well protected by patent laws which extend the same conditions enjoyed by Germans to foreign entrepreneurs. Where necessary, investor rights can be enforced by Germany's efficient judicial system.

Reliable laws enable companies to plan their investments effectively and licenses granted by the authorities provide a secure base for breaking ground on a construction project or operating a plant.

Foreign Trade and Payments

Germany has an open and welcoming attitude towards foreign direct investment (FDI). The legal framework for FDI in Germany favors the principle of freedom of foreign trade and payment transaction as laid down in the Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*).

The Foreign Trade and Payments Act allows the imposition of restrictions on inward and outward FDI for reasons of foreign policy, foreign exchange, or national security. However, in practice, such restrictions are seldom imposed. There is no broad authority to review foreign direct investment (except for the defense and cryptology sectors), although a further extension of the Foreign Trade and Payments Act to more sectors is currently under discussion.

Imports

The import of goods into Germany has almost been completely liberalized (especially in the case of industrial products), meaning that the importer requires neither an import permit nor an import declaration. This applies to residents (meaning natural persons residing in Germany) as well as legal entities or partnerships with a registered office or management headquarters in the territory of the Federal Republic of Germany.

The Federal Office of Economics and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle, BAFA*) grants import licenses and surveillance documents for certain trade and industry goods subject to quantitative restriction (quotas) or supervision by European regulations.

Patents, Licensing, Trademarks

Trademarks and patents are well protected in Germany. When establishing a company you should remember to protect your company's intellectual property by means of registration. Conversely, you should ensure that your company and products do not infringe on existing intellectual property rights that have already been established in the German market.

Patents

Patents are granted for technical inventions which are new, involve an inventive step, and are industrially applicable. The duration of a patent is 20 years, beginning on the day following the invention patent application.

Under German patent law, patents are granted by the German Patent and Trade Mark Office (*Deutsches Patent und Markenamt, DPMA*) ruling. In order to apply for registration, the applicant must submit an application providing specific information and pay a fee. For details, as well as an overview of the patent fees, please refer to the DPMA's "Information for Patent Applicants" fact sheet available at the DPMA website.

www.dpma.de

Foreigners may register patents subject to exactly the same terms as German nationals (this is also the case with trademarks). However, applicants having neither a domicile nor an establishment in Germany must appoint a patent attorney in Germany as a representative filing the patent application. For an overview of patent fees, please refer to the DPMA website.

European patents are granted under the European Patent Convention (EPC). The European and the national patent-granting procedure exist in parallel. When seeking patent protection in one or more EPC contracting states, the applicant can choose between following the national procedure of the respective individual states or adopt the European route which confers protection in the contracting states designated as part of the single procedure.

European patents, once granted, become a bundle of nationally enforceable patents in the designated states. For a step-by-step guide on the European patent granting procedure, please refer to the European Patent Organization website.

www.epo.org/patents

Trademarks

A trademark is a personal name, a company name, a term, a logo, or a combination of these, which identifies a company, its goods, or its services. Marks of this kind that are associated with a specific manufacturer or supplier may for instance take the form of symbols, words, illustrations, audio signatures, color designs, or packaging.

Additionally, a company or a product name that has acquired a secondary meaning as a trademark due to its independent value can also be eligible for trademark protection.

A mark can be protected as a trademark by recording it in the register kept at the German Patent and Trade Mark Office (DPMA). As with patents, an application must be filed at the DPMA. For more information, please refer to the "Information for Trade Mark Applicants" fact sheet available at the DPMA website. For an overview of trademark fees, please refer to the DPMA website.

Once trademark protection has been obtained, the owner of a trademark has an exclusive right to use the respective trademark. If the trademark has been registered, the owner can indicate this by placing © (registered trademark) after the trademark. Protection is valid for a period of ten years and can then be extended for another ten years.

Licenses

The right to use a patent or a trademark may be subject to either an exclusive or a general license. By granting a third party a license, the owner of a patent or trademark entitles a third party to use or exploit the right in question without ceding ownership.

An exclusive license entitles only the licensee (i.e. the person that has been granted the right of usage) to exploit the right, usually within a certain territory. General licensing or non-exclusive licensing enables various licensees to use a right in the same territory at the same time.

Planning and Building

The responsibility for public construction law in Germany is divided between federal and state governments.

Zoning law (*Bauplanungsrecht*) is federal law. It determines the purpose for which a property may be used and whether a building project fits into its surroundings.

The federal states are responsible for **building regulations law** (*Bauordnungsrecht*), which determines how buildings may be designed and constructed in order to meet planning law requirements. Each state issues its own building regulation. However, most of the states have adopted a specimen building regulation issued by the state ministries which also makes provision for certain standardization within this field.

Building Permits

A building permit (*Baugenehmigung*) is required for the construction, alteration, demolition, or change in use of a building. The building permit is granted if the project complies with the planning and building regulation law as well as with all other applicable laws (such as environmental laws).

An application for a building permit must be submitted to the local building authority or the building supervisory authority (*Bauamt*).

The application must include a detailed plan of the project, accompanied by necessary supporting documentation such as site plan, construction drawings, building specifications, and, where applicable, documentation regarding heating, noise prevention, and fire protection plans. The documentation required for the application must also be presented to adjacent property owners.

German law recognizes the principle of procedural merger. In order to simplify and coordinate the permit procedure, the immission control permit application procedure also includes the building permit process. Repeat procedures are therefore avoided and there is only one contact partner for the applicant.

Immission Control Permits

Environmental protection is declared as a general state goal in the German constitution (*Grundgesetz*). In general, all buildings may not contravene these protection goals. There are a number of different laws and regulations protecting the environment.

Most important for large industrial facilities is the immission control permit, which is required prior to construction in order to prove that facilities and projects comply with the requirements of environmental law and other regulations aimed at protecting the common good. Facilities and projects subject to this approval procedure are:

- Emitting industrial plants
- Waste management plants
- Nuclear (power) plants
- Highways and railroad tracks
- Airports
- Navigable waterways
- Plants subject to the law on genetic engineering

The approval procedure is governed by the Federal Immission Control Act (*Bundesimmissionsschutzgesetz, BImSchG*) and related ordinances. The environmental agency of the respective federal state (*Landesumweltamt*) is responsible for the immission control permit procedure.

The BImSchG aims at protecting population and environment from detrimental effects due to air pollution, noise, vibration, light, radiation, and similar immissions. Construction, modification, and operation of emitting facilities require a formal approval procedure.

The permission procedure is limited to seven months, after which time a decision needs to be made: starting from the submission of the completed application documents. The approval procedure can be shortened for facilities or projects which, though still capable of generating detrimental effects, are expected to result in a less harmful or negligible impact on the population or environment.

Facilities likely to be subject to the simplified approval procedure may include facilities for the storage of inflammable gases or mineral oils and small paint or varnish shops. The time limit for the decision is three months starting from the submission of the completed application documents.

Some facilities are permit exempt under the terms of the BImSchG. Although construction, modification, and operation of such facilities are possible without direct authorization, the operator of the facility must nevertheless prevent detrimental effects to the environment and population.

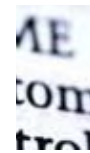
Legal Proceedings

According to an international comparison study, Germany occupies top slot in the "Efficiency of Legal Framework" and "Judicial Independence" categories.¹ Hence, companies and entrepreneurs can count on a reliable legal system. Numerous international law firms are represented in Germany.

All attorneys at law are members of the bar council (*Rechtsanwaltskammer*) of the region. The Federal Bar Council (*Bundesrechtsanwaltskammer*) is the professional umbrella association of the different bar councils.

The largest private association is the *Deutscher Anwaltverein*, in which around half of all attorneys at law are organized on a voluntary basis.

¹ Global Competitiveness Report 2007-2008, World Economic Forum



The Courts

In Germany, ordinary courts which hear civil and criminal disputes are organized at different levels. There are:

- local courts (*Amtsgericht*)
- regional courts (*Landgericht*)
- higher regional courts (*Oberlandesgericht*)
- and the Federal Court of Justice (*Bundesgerichtshof*) at the highest level

A right of appeal is usually permitted against initial decisions. Under these circumstances, higher courts up to the level of the Federal Court of Justice settle the case.

In principle, local courts have jurisdiction in civil disputes if the monetary value of the dispute does not exceed EUR 5,000 and if the regional court does not have exclusive jurisdiction. There is normally no requirement to retain the services of an attorney in civil cases brought before the district courts.

However, representation by an attorney at law is necessary for all proceedings before the regional courts, the higher regional courts, the Federal Court of Justice (*Bundesgerichtshof*), and for a range of family matters in the district courts.

Besides the ordinary courts there are also specific courts for administrative, social, labor and fiscal matters. The **labor courts** (*Arbeitsgericht*) are responsible for disputes arising from industrial relations; especially those relating to collective agreements or the termination of contracts of employment. The **fiscal courts** (*Finanzgericht*) rule on disputes relating to taxes and charges subject to federal legislation.

The Order for Payment Procedure (*Mahnverfahren*)

In principle, the order for payment procedure is applicable to all claims relating to the payment of a specific sum of money. A small fee is charged for this procedure, and a lawyer doesn't need to be involved.

A written reminder is followed by an application to the local court for an order for payment procedure (*Mahnbescheid*). A standardized application form must be used. The competent court for the purposes of the order for payment procedure is the district court at which the applicant has his general jurisdiction.

The court issues the order for payment to the defaulting payer. The defendant can file an objection within two weeks. If no objection is filed, the court issues an enforcement order on application which is provisionally enforceable.

Notice of appeal can be filed against the enforcement order within two weeks. If the defendant disputes the claim within this period, it is no longer possible to issue an enforcement order for the compulsory enforcement of the claim asserted under the order for payment.

However, the procedure is not automatically transferred to normal (i.e. "adversary") proceedings. This requires a specific application for the contested procedure to be implemented – this can be submitted by either the order for payment procedure applicant or defendant. The applicant may also submit an application as soon as he becomes aware of the objection, or can link the application to the order for payment as a precaution.

Alternative Dispute Resolution (*Alternative Streitbeilegung*)

Arbitration agreements are often a means of settling disputes – particularly in the trade and industry sectors. The chambers of industry and commerce can act as arbitrators in these cases. The procedure is non-bureaucratic. The chambers of industry and commerce have created a number of different arbitration institutions for consumer complaints such as arbitration boards or courts of arbitration (*Schiedsgericht*).

8 Living in Germany

- Finding the Right Place to Live
- Assistance for Families
- German Education System
- Health System
- Ensuring Quality of Life

Photo: Lise Gagne - istockphoto.com

Besides Germany's optimal conditions for foreign investors, the country is also a great place to live with excellent healthcare and education systems, fantastic leisure opportunities, and a generally high quality of life. The government ensures a sound living environment for all: families enjoy far-reaching support, are bolstered by an excellent education system, and can count upon a German health system that is held up as an example across the world.

Finding the Right Place to Live

Germans attach a lot of value to their neighborhoods and make sure that services, stores, and a wide array of recreational, religious, and other establishments are always close at hand. A recent quality-of-life poll listed three German cities (Düsseldorf, Frankfurt, and Munich) in the world's top ten cities to live.¹

German living standards are high, even though living expenses are moderate. Renting or purchasing a home is considerably less expensive than in many other industrialized countries. Were that not enough, utilities are reliable and competitively priced.

¹ Mercer, Quality of Living Global City Rankings 2008

Finding Accommodation

Like anywhere else in the world, prices depend on the accommodation location and the facilities provided. The price level for rented and purchased real estate in German cities is lower than in many other western European cities. Quality accommodation is in high demand in industrial areas.

Extensive information on the property market can be found in the local papers, which usually publish a large number of accommodation small ads in their weekend editions.

Brokers typically charge a commission of approximately two months rent (before expenses) for rented accommodation, and around six percent (depending on the federal state) plus value added tax (VAT) if the accommodation is purchased.

The individual municipality websites are always a good source of information about the living conditions in a particular town or city. The websites run by the individual states provide information on the surrounding area. Most cities have websites to facilitate completion of the paperwork required for the authorities from the comfort of your home.

Registration of Residence

Moving to a German town requires registration at the local registration office (*Einwohnermeldeamt*). Registration must be performed within one week upon moving into a house or apartment. This applies to all changes of addresses throughout the period of residency in Germany. Registration is free of charge and only requires a short visit to the local registration office.

To register an ID card or passport, proof of the new residence (in the form of a rental or purchase agreement) is necessary. The different municipalities usually have websites that provide information on which office is responsible. The web address is usually listed as www.name-of-municipality.de (for example www.berlin.de).

Assistance for Families

In Germany, families are given special consideration in the German constitution or "Basic Law" (*Grundgesetz*). Families benefit from numerous family-oriented regulations, such as tax benefits for married couples and child support.

The government pays an allowance of EUR 164 per month for each of the first two children, EUR 170 per month for the third child, and EUR 195 per month for every additional child.

Foreigners can apply for child allowance as soon as they possess a valid settlement permit. The allowance can be applied for at the family benefits offices of the local job centers (*Familienkasse der Bundesagentur für Arbeit*). Applications have to be filed in writing upon presentation of the child's birth certificate. The necessary forms can be downloaded from the website of the Federal Employment Agency (*Bundesagentur für Arbeit*).

www.bundesagentur fuer arbeit.de

Parental Leave

Since 2007, parents have been able to file for parental leave and receive 67 percent of their net income (up to a maximum of EUR 1,800 per month) as a parental allowance from the government for a duration of up to 14 months. For information on special regulations for pregnant employees, please refer to Maternity Leave in the Employment in Germany chapter. Foreigners can apply for parental leave as soon as they possess a valid settlement permit.

The Kindergarten

In Germany, every child between the age of three and six has a legal right to a kindergarten place. Many kindergartens also offer care for babies.

Kindergartens, childcare centers, and crèches are mainly run by the municipalities, churches, and charitable organizations as well as by companies and associations. The Youth Welfare Offices (*Jugendamt*) of the communities can provide information on communal kindergartens. Kindergarten place costs vary from community to community and depend on the household income. In addition, parents receive tax benefits for childcare costs.

Germany is home to numerous bilingual child care centers and kindergartens. Their number is steadily increasing, particularly in larger urban centers. The Association for Multilingual Childcare Institutions and Schools (*Verein für Mehrsprachigkeit an Kindertageseinrichtungen und Schulen e.V.*) provides an overview of bilingual kindergartens in Germany.

www.fmks-online.de



German Education System

Educational opportunities in Germany are diverse, easily accessible, and excellent. Public schools are free, teachers highly qualified, and student qualifications internationally recognized. At the secondary level, different types of schools are available to meet a child's individual abilities and interests (such as music, natural sciences, languages, and sports).

More than 400 universities and colleges help make Germany a global leader in research. To learn German, universities, night schools, and adult education centers offer convenient and affordable alternatives to private language schools as well as a wide range of continuing education and special interest courses.

German School System

Attending a state-run school is free of charge, and it is compulsory for children from the age of six onwards. State school standards are very high. For the first four to six years (according to the federal state), children usually attend a local primary school (*Grundschule*).

At the end of primary school, parents can choose between various types of secondary schools, ranging from lower secondary school (*Hauptschule*, *Realschule*) to higher secondary school (*Gymnasium*) depending on their child's interests and abilities.

Students who gain a qualification from a *Gymnasium* can attend university. Students who gain a qualification from a technical or specialized secondary school can attend a university of applied science where the courses are more practically oriented.

Many schools have developed their own profiles focusing on specific areas. There are, for example, schools focusing on natural sciences, languages, music, and sports.

There are also an increasing number of private schools in most metropolitan areas in Germany. Over 70 international schools teach courses in Asian and European languages. The German Education Server provides lists for private, state, European, and international schools in Germany. Most national and international schools offer officially recognized diplomas that qualify for university programs worldwide.

www.eduserver.de

Dual Education System

Around 60 percent of all young people learn a profession within the dual system of vocational education and training. The system is called "dual" because vocational training takes place both in the company and in part-time vocational school. In the company, the apprentice receives practical training which is supplemented by theoretical instruction in the vocational school.

There are around 350 state recognized training occupations. The period of training is usually two to three years and is concluded by a state examination. During this time, the apprentice is financially remunerated.

Access to this training is not formally linked to a specific school certificate. However, most employers expect secondary school graduation at least. The level of the degree depends on the requirements of the specific occupation. The system is based on statutory training regulations and administered by the Chambers of Industry and Commerce (*IHK*).



Higher Education

Germany is home to a number of different types of higher education institutions catering different programs of study. University education traditionally has a very high standing in Germany. The characteristic feature of German universities lies in their pronounced focus on academic teaching and research.

The majority of German universities are state-run. The government provides the main funds for universities. However, since 2007, many universities have introduced minimal tuition fees of up to EUR 500 per semester.

Universities of applied sciences (*Fachhochschulen*) are responsible for providing practice-oriented training to prepare students for occupations which require the application of academic knowledge and methods or practical artistic creativity.

Colleges of art and music (academies, schools, conservatories, etc.) and the corresponding departments at some universities provide training in the fine arts, design, performing arts, and music.

University Degrees

Traditional German university degrees are the *Diplom* in the natural sciences, engineering, and social sciences; and the *Magister* in languages and cultural studies. These degrees are equivalent to an international Master's degree, as they require around four to five years of study.

In 1999, the members of the European Union agreed to standardize and harmonize university degrees. Since then, German universities have been in the process of restructuring their degree programs, and have introduced a number of new Bachelor's and Master's programs. The online *Studienwahl* information service provides a list of universities and degrees available.

www.studienwahl.de

Foreign University Students

Foreign students can benefit from a multitude of partnership agreements between German and foreign universities. For courses of study that only permit a limited number of students (*numerus clausus*), foreign students have a privileged university place quota.

Information on universities in Germany and the acceptance conditions for non-German students is available from the German Academic Exchange Service (*DAAD*).

www.daad.de

Health System

Social justice and wellbeing are pillars of German life. Around 30 percent of Germany's GDP goes to public welfare spending on unemployment, pension, accident, nursing care, and health insurance. As a result, this makes Germany a country which guarantees first-class health care for all of its citizens – regardless of the patient's income.

German cities have close-knit networks of general practitioners, specialists, and dentists. Top medical experts treat patients in both university clinics and specialized clinics. This comprehensive care is made possible by a separate insurance system. Almost every resident in Germany is a member of a public or private healthcare scheme.

The Public Healthcare Scheme

Employees below the income threshold for compulsory insurance – which is currently set at EUR 4,050 (2009) per month – must be insured with one of the public health insurance companies (*Gesetzliche Krankenversicherung, GKV*). Foreign employees and students may also be obliged to take out this insurance subject to their status and the requirements of the host organization.



The basic flat health insurance contribution rate amounts to 14.6% of the employee's gross income. Employer and employee each pay half of this premium. As of July 1 2009, the basic flat health insurance contribution rate will be reduced to 14%. In addition to the basic flat contribution rates shared equally between employer and employee, an additional 0.9% are paid by the employee only. The advantage of public health insurance for employees is that family members without their own income, such as spouses and children, are also insured free of charge.

For more information, please also refer to our section on the German social security system within chapter five (Employment in Germany).

Private Health Insurance

Anyone who earns more than EUR 4,050 (2009) per month or is self-employed can choose private health insurance (*Private Krankenversicherung – PKV*). The premiums for private health insurance are based on the personal risk profile of the policy holder, and are therefore lower for younger people and increase as the policy holder gets older.

Ensuring Quality of Life

Germany is a modern, tolerant, and cosmopolitan society with an excellent standard of living. Endless opportunities for sports and recreation, areas of spectacular natural beauty, and a vibrant cultural scene are just some of the reasons why more than seven million foreigners have made their homes in Germany.

Leisure Opportunities

Germans treasure their free time and make sure that leisure activities are accessible, affordable and fun. Whether by air, sea, rail, or road, getting to vacation or tourism destinations within and outside of Germany is simple and stress-free. Sports facilities and health clubs exist everywhere and cater to all needs. Outdoor recreational opportunities are located in beautiful settings close to major cities.

Over 12,000 festivals are held annually, spas and getaways dot the landscape, and farmers' markets and second-hand exchanges welcome both the culinary and the curious. World-class cinematic, theatrical, and musical offerings are available to match any taste, schedule or budget. 6,155 world-class museums and 33 UNESCO World Heritage sites are at hand to educate and delight visitors.

Foreign Driving Licenses in Germany

Germany has different categories of licenses for operating heavy trucks, cars, and motorcycles. Foreign driver's licenses are usually recognized by the German authorities. However, a national driver's license must first be translated if it was not issued by one of the European member states or a country belonging to the European Economic Area (EEA).

German translations can be performed by the German automobile clubs (most common is the ADAC) or internationally recognized automobile clubs of the issuing state. A translation is not required for international driver's licenses. The Federal Republic of Germany waives the need for a translation for some countries (Andorra, Hong Kong, Monaco, New Zealand, San Marino, Switzerland, and Senegal). Foreign driver's licenses not issued in a country belonging to the EU or EEA only retain their validity for six months after the driver has taken up residence in Germany. After this period, permission to drive expires, and a German driver's license must be obtained.

Motor Liability Insurance (*Autohaftpflichtversicherung*)

A prerequisite for the registration of a motor vehicle in Germany is a motor vehicle third party liability insurance policy (*Kraftfahrzeug-Haftpflichtversicherung*), which is mandatory. The use of a motor vehicle is not covered by general private liability insurance, which, unlike the motor vehicle third party liability insurance policy, is optional.

However, private liability insurance is also recommended as it insures the policy holder and his or her family against claims for damages. As the liability of private persons is not limited under German law, the importance of private liability insurance should not be underestimated and is generally advisable.

Annex of Addresses

1. Federal Ministries

Federal Ministry of Economics and Technology

Bundesministerium für Wirtschaft und Technologie (BMWi)
Scharnhorststr. 34-37, 10115 Berlin
Tel.: +49 30 2014 9
www.bmw.de/en

Federal Ministry of Transport, Building and Urban Affairs

Bundesministerium für Verkehr, Bau und Stadtentwicklung (BMVBS)
Invalidenstr. 44, 10115 Berlin
Tel.: +49 30 18 300 0
www.bmvbs.de/en

Federal Foreign Office

Auswärtiges Amt
Werderscher Markt 1, 10117 Berlin
Tel.: +49 30 18 17 0
www.auswaertiges-amt.de

Federal Ministry of the Interior

Bundesministerium des Inneren (BMI)
Alt-Moabit 101 D, 10559 Berlin
Tel.: +49 30 18 681 0
www.bmi.bund.de

Federal Ministry of Justice

Bundesministerium der Justiz (BMJ)
Mohrenstr. 37, 10117 Berlin
Tel.: +49 30 18 580 0
www.bmj.bund.de

Federal Ministry of Finance

Bundesministerium der Finanzen (BMF)
Wilhelmstr. 97, 10117 Berlin
Tel.: +49 30 18 682 0
www.bundesfinanzministerium.de

Federal Ministry of Labour and Social Affairs

Bundesministerium für Arbeit und Soziales (BMAS)
Wilhelmstr. 49, 10117 Berlin
Tel.: +49 30 18 527 0
www.bmas.bund.de

Federal Ministry of Food, Agriculture and Consumer Protection

*Bundesministerium für Ernährung, Landwirtschaft
und Verbraucherschutz (BMELV)*
Wilhelmstr. 54, 10117 Berlin
Tel.: +49 30 18 529 0
www.bmelv.de

Federal Ministry of Defence

Bundesministerium der Verteidigung (BMVg)
Stauffenbergstr. 18, 10785 Berlin
Tel.: +49 30 1824 2424
www.bmvg.de

Federal Ministry for Family Affairs, Senior Citizens, Women and Youth

Bundesministerium für Familie, Senioren, Frauen und Jugend (BMFSFJ)
Alexanderstr. 3, 10178 Berlin
Tel.: +49 30 18 555 0
www.bmfsfj.de

Federal Ministry of Health

Bundesministerium für Gesundheit (BMG)
Friedrichstr. 108, 10117 Berlin
Tel.: +49 30 18 441 0
www.bmg.bund.de

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit (BMU)
Alexanderstr. 3, 10178 Berlin
Tel.: +49 30 18 305 0
www.bmu.de

Federal Ministry of Education and Research

Bundesministerium für Bildung und Forschung (BMBF)
Hannoversche Str. 28-30, 10115 Berlin
Tel.: +49 30 18 57 0
www.bmbf.de

Federal Ministry for Economic Cooperation and Development

Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ)
Stresemannstr. 94, 10963 Berlin
Tel.: +49 30 18 535 0
www.bmz.de

2. Partner Organizations

German Chambers of Commerce Abroad

Deutsche Auslandshandelskammern (AHKs)
Breite Str. 29, 10178 Berlin
Tel.: +49 30 20308 0
www.ahk.de

3. German State Bodies

Baden-Württemberg

State Development Agency

*Baden-Württemberg International
Agency for International Economic and Scientific Cooperation*
Willi-Bleicher-Str. 19, 70174 Stuttgart
Tel.: +49 711 22 78 70
www.bw-invest.de

State Development Bank

L-Bank Baden-Württemberg
Schlossplatz 10, 76131 Karlsruhe
Tel.: +49 721 150 0
www.l-bank.de

Ministry of Economic Affairs

Wirtschaftsministerium Baden-Württemberg
Theodor-Heuss-Str. 4, 70174 Stuttgart
Tel.: +49 711 123 0
www.wm.baden-wuerttemberg.de

Chamber of Industry and Commerce

Baden-Württembergischer Industrie- und Handelskammertag
Jägerstr. 40, 70174 Stuttgart
Tel.: +49 711 22 55 00 60
www.bw.ihk.de

Bavaria

State Development Agency

Invest in Bavaria
Prinzregentenstr. 28, 80538 München
Tel.: +49 89 21 62 26 42
www.invest-in-bavaria.de

State Development Bank

LfA Förderbank Bayern
Königinstr. 17, 80539 München
Tel.: +49 89 21 24 0
www.lfa.de

Bavarian Ministry of Economic Affairs, Infrastructure, Transport and Technology

Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie
Prinzregentenstr. 28, 80538 München
Tel.: +49 89 21 62 0
www.stmwivt.bayern.de

Chamber of Industry and Commerce

Bayerischer Industrie- und Handelskammertag
Max-Joseph-Str. 2, 80333 München
Tel.: +49 89 51 16 0
www.bihk.de

Berlin

State Development Agency

Berlin Partner GmbH
Fasanenstr. 85, 10623 Berlin
Tel.: +49 30 39980 0
www.berlin-partner.de

State Development Bank

Investitionsbank Berlin (IBB)
Bundesallee 210, 10719 Berlin
Tel.: +49 30 21 25 0
www.ibb.de

Senate Department for Economics, Technology & Women's Affairs

Senatsverwaltung für Wirtschaft, Technologie und Frauen
Martin-Luther-Str. 105, 10825 Berlin
Tel.: +49 30 90 13 0
www.berlin.de/sen/wtf

Chamber of Industry and Commerce

Industrie- und Handelskammer zu Berlin
Fasanenstr. 85, 10623 Berlin
Tel.: +49 30 315 10 0
www.ihk-berlin24.de

Brandenburg

State Development Agency

*ZAB ZukunftsAgentur Brandenburg –
Brandenburg Economic Development Board GmbH*
Steinstr. 104 – 106, 14480 Potsdam
Tel.: +49 331 660 38 30
www.zab-brandenburg.de

State Development Bank

Investitionsbank des Landes Brandenburg (ILB)
Steinstr. 104 – 106, 14480 Potsdam
Tel.: +49 331 660 0
www.ilb.de

Ministry of Economic Affairs

Ministerium für Wirtschaft des Landes Brandenburg
Heinrich-Mann-Allee 107, 14473 Potsdam
Tel.: +49 331 866 0
www.wirtschaft.brandenburg.de

Chamber of Industry and Commerce

Industrie- und Handelskammer Potsdam
Breite Str. 2 a–c, 14467 Potsdam
Tel.: +49 331 2786 0
www.potsdam.ihk24.de

Bremen

State Development Agency

BIG Bremen

Langenstr. 2-4, 28195 Bremen

Tel.: +49 421 96 00 10

www.big-bremen.de

State Development Bank

Bremer Aufbau-Bank GmbH

Langenstr. 2-4, 28195 Bremen

Tel.: +49 421 96 00 40

www.big-bremen.de

Senate for Economics and Harbors

Der Senator für Wirtschaft und Häfen

Zweite Schlachtpforte 3, 28195 Bremen

Tel.: +49 421 36 18 808

www.wirtschaft.bremen.de

Chamber of Industry and Commerce

Handelskammer Bremen

Haus Schütting – Am Markt 13, 28195 Bremen

Tel.: +49 421 36 37 0

www.handelskammer-bremen.ihk24.de

Hamburg

State Development Agency

HWF Hamburgische Gesellschaft für Wirtschaftsförderung mbH –

Hamburg Business Development Corporation

Habichtstr. 41, 22305 Hamburg

Tel.: +49 40 22 70 19 0

www.hamburg-economy.de

State Development Bank

Wohnungsbaukreditanstalt (WK)

Besenbinderhof 31, 20097 Hamburg

Tel.: +49 40 24 84 6 0

www.wk-hamburg.de

Agency for Economy and Labor

Behörde für Wirtschaft und Arbeit

Alter Steinweg 4 / Wexstr. 7, 20459 Hamburg

Tel.: +49 40 4 28 28 0

www.hamburg.de/bwa

Chamber of Commerce

Handelskammer Hamburg

Adolphsplatz 1, 20457 Hamburg

Tel.: +49 40361 38 0

www.hk24.de

Hessen

State Development Agency

Hessen Agentur GmbH

Abraham-Lincoln-Str. 38 – 42, 65189 Wiesbaden

Tel.: +49 611 774 81

www.hessen-agentur.de

State Development Bank

Investitionsbank Hessen (IBH)

Schumannstr. 4 – 6, 60325 Frankfurt a.M.

Tel.: +49 69 13 38 50 0

www.ibh-hessen.de

Ministry for Economy, Transport and State Development

Hessisches Ministerium für Wirtschaft, Verkehr und Landesentwicklung

Kaiser-Friedrich-Ring 75, 65185 Wiesbaden

Tel.: +49 611 815 0

www.wirtschaft.hessen.de

Chamber of Industry and Commerce

Arbeitsgemeinschaft hessischer Industrie- und Handelskammern

Börsenplatz 4, 60313 Frankfurt am Main

Tel.: +49 69 21 97 13 84

www.ihk-hessen.de

Mecklenburg-Vorpommern

State Development Agency

Invest in Mecklenburg-Vorpommern GmbH

Schlossgartenallee 15, 19061 Schwerin

Tel.: +49 385 59 2 25 0

www.invest-in-mv.de

State Development Bank

Landesförderinstitut Mecklenburg-Vorpommern (LFI)

Werkstr. 213, 19061 Schwerin

Tel.: +49 385 63 63 0

www.lfi-mv.de

Ministry of Economics, Labor and Tourism

Ministerium für Wirtschaft, Arbeit und Tourismus Mecklenburg-Vorpommern

Johannes-Stelling-Str. 14, 19053 Schwerin

Tel.: +49 385 588 50 07

www.wm.mv-regierung.de

Chamber of Industry and Commerce

Industrie- und Handelskammer zu Schwerin¹

Schloßstr. 17, 19053 Schwerin

Tel.: +49 385 51 03 0

www.ihkzuschwerin.de

Niedersachsen

State Development Agency

*Investment Promotion Agency (IPA)-
Economic Development Corporation of Niedersachsen*
Schiffgraben 30, 30175 Hannover
Tel.: +49 511 34 34 66
www.ipa-niedersachsen.de

State Development Bank

Investitions- und Förderbank Niedersachsen – NBank
Günther-Wagner-Allee 12–16 , 30177 Hannover
Tel.: +49 511 30 031 0
www.nbank.de

Ministry of Economics, Labor and Transportation

Niedersächsisches Ministerium für Wirtschaft, Arbeit und Verkehr
Friedrichswall 1, 30159 Hannover
Tel.: +49 511 120 54 28
www.mw.niedersachsen.de

Chamber of Industry and Commerce

Niedersächsischer Industrie- und Handelskammertag
Hinüberstr. 16–18, 30175 Hannover
Tel.: +49 511 33 708 75
www.n-ihk.de

North Rhine-Westphalia

State Development Agency

NRW Invest GmbH
Völklinger Str. 4, 40219 Düsseldorf
Tel.: +49 211 13 000 0
www.nrwinvest.com

State Development Bank

NRW.BANK North Rhine-Westphalia
Kavalleriestr. 22 , 40213 Düsseldorf
Tel.: +49 211 91 741 0
www.nrw-bank.de

Ministry for Economic Affairs and Energy of the State of North Rhine-Westphalia

Ministerium für Wirtschaft, Mittelstand und Energie des Landes Nordrhein-Westfalen
Haroldstr. 4, 40213 Düsseldorf
Tel.: +49 211 837 02
www.economy.nrw.de

Chamber of Industry and Commerce

Vereinigung der Industrie- und Handelskammern in Nordrhein-Westfalen e.V.
Goltsteinstr. 31, 40211 Düsseldorf
Tel.: +49 211 36 702 0
www.ihk-nrw.de

Rheinland-Pfalz

State Development Agency and Bank

ISB Investitions- und Strukturbank Rheinland-Pfalz
Holzhofstr. 4, 55116 Mainz
Tel.: +49 6131 985 0
www.isb.rlp.de

Ministry for Economy, Transportation and Viniculture

Ministerium für Wirtschaft, Verkehr, Landwirtschaft und Weinbau Rheinland-Pfalz
Stiftsstr. 9, 55116 Mainz
Tel.: +49 6131 16 0
www.mwvlw.rlp.de

Chamber of Industry and Commerce

IHK-Arbeitsgemeinschaft Rheinland-Pfalz
Herzogenbuscher Str. 12, 54292 Trier
Tel.: +49 651 97 77 0
www.ihk-arbeitsgemeinschaft-rlp.de

Saarland

State Development Agency

gwSaar Saarland Economic Promotion Corporation
Franz-Josef-Röder-Str. 17, 66119 Saarbrücken
Tel.: +49 681 99 65 400
www.gwsaar.com

State Development Bank

Saarländische Investitionskreditbank AG (SIKB)
Franz-Josef-Röder-Str. 17, 66119 Saarbrücken
Tel.: +49 681 30 33 0
www.sikb.de

Ministry of Economics and Labor

Ministerium für Wirtschaft und Wissenschaft, Saarland
Franz-Josef-Röder-Str. 17, 66119 Saarbrücken
Tel.: +49 681 501 00
www.wirtschaft.saarland.de

Chamber of Industry and Commerce

Industrie- und Handelskammer Saarland
Franz-Josef-Röder-Str. 9, 66119 Saarbrücken
Tel.: + 49 681 95 20 0
www.ihksaarland.de

Saxony

State Development Agency

Saxony Economic Development Corporation
Bertolt-Brecht-Allee 22, 01309 Dresden
Tel.: +49 351 21 38 0
www.sachsen.de/de/wu/wirtschaftsfoerderung

State Development Bank

Sächsische Aufbaubank – Förderbank
Pirnaische Str. 9, 01069 Dresden
Tel.: +49 351 49 10 0
www.sab.sachsen.de

Saxon State Ministry for Economic Affairs and Labor

Sächsisches Staatsministerium für Wirtschaft und Arbeit
Wilhelm-Buck-Str. 2, 01097 Dresden
Tel.: +49 351 564 8065
www.smwa.saxony.de/en/wu/smwa

Chamber of Industry and Commerce

Industrie- und Handelskammer Dresden¹
Langer Weg 4, 01239 Dresden
Tel.: +49 351 280 20
www.dresden.ihk.de

Saxony-Anhalt

State Development Agency

IMG Investment and Marketing Corporation Saxony-Anhalt
Kantstr. 4, 39104 Magdeburg
Tel.: +49 391 568 99 0
www.img-sachsen-anhalt.de

State Development Bank

Investitionsbank Sachsen-Anhalt
Domplatz 12, 39104 Magdeburg
Tel.: +49 391 589 1745
www.ib-sachsen-anhalt.de

Ministry of Employment and Economic Affairs

Ministerium für Wirtschaft und Arbeit
Hasselbachstraße 4, 39104 Magdeburg
Tel.: +49 391 567 01
www.mw.sachsen-anhalt.de

Chamber of Industry and Commerce

Industrie- und Handelskammer Magdeburg¹
Alter Markt 8, 39104 Magdeburg
Tel.: +49 391 56 93 0
www.magdeburg.ihk24.de

Schleswig-Holstein

State Development Agency

Business Development and Technology Transfer Corporation of Schleswig-Holstein
Lorentzendam 24, 24103 Kiel
Tel.: +49 431 66 66 6 0
www.wtsh.de

State Development Bank

Investitionsbank Schleswig-Holstein
Fleethörn 29-31, 24103 Kiel
Tel.: +49 431 99 05 0
www.ib-sh.de

Ministry for Science, Economics and Transport

Ministerium für Wissenschaft, Wirtschaft und Verkehr
Düsternbrooker Weg 94, 24105 Kiel
Tel.: +49 431 988 4760
www.schleswig-holstein.de/MWV

Chamber of Industry and Commerce

Arbeitsgemeinschaft der Industrie- und Handelskammern
zu Flensburg, zu Kiel und zu Lübeck
Bergstr. 2, 24103 Kiel
Tel.: +49 431 51 94 0
www.ihk-schleswig-holstein.de

Thuringia

State Development Agency

Invest in Thuringia
Mainzerhofstr. 12, 99084 Erfurt
Tel.: +49 361 56 03 0
www.leg-thueringen.de

State Development Bank

Thüringer Aufbaubank
Gorkistr. 9, 99084 Erfurt
Tel.: +49 361 74 47 0
www.aufbaubank.de

Ministry for Economics, Technology and Labor

Thüringer Ministerium für Wirtschaft, Technologie und Arbeit
Max-Reger-Str. 4-8, 99096 Erfurt
Tel.: +49 361 37 97 999
www.thueringen.de/de/tmwta

Chamber of Industry and Commerce

Industrie- und Handelskammer Erfurt¹
Arnstädter Str. 34, 99096 Erfurt
Tel.: +49 361 34 84 0
www.erfurt.ihk.de

¹ Further chambers of industry and commerce in the respective state can be accessed via the website of the *Deutsche Industrie- und Handelskammertag (DIHK)* e.V. www.dihk.de.

4. Public Institutions

Customs-Info-Center

Zoll-Infocenter

Carusufer 3 – 5, 01099 Dresden

Tel.: +49 351 44 834 530

www.zoll.de/infocenter/index.html

Federal Institute for Real Estate

Bundesanstalt für Immobilienaufgaben

Ellerstr. 56, 53119 Bonn

Tel.: +49 228 37 787 0

www.bundesimmobilien.de

Federal Central Tax Office: Tax Information Centre

Bundeszentralamt für Steuern: Steuerliches Info-Center (SIC)

An der Kuppe 1, 53225 Bonn

Tel.: +49 228 406 0

www.steuertliches-info-center.de

German Patent and Trade Mark Office

Deutsches Patent und Markenamt

Zweibrückenstr. 12, 80331 München

Tel.: +49 89 21 95 0

www.dpma.de

KfW Banking Group

Kreditanstalt für Wiederaufbau Bankengruppe (KfW)

Palmengartenstraße 5 – 9, 60325 Frankfurt am Main

Tel.: +49 69 74 31 0

www.kfw.de

EIB European Investment Bank

Europäische Investitionsbank

100, Boulevard Konrad Adenauer

L-2950 Luxembourg

Tel.: +352 43 79 22 000

www.eib.org

5. Associations

Federation of German Industries

Bundesverband der Deutschen Industrie e.V. (BDI)

Breite Str. 29, 10178 Berlin

Tel.: +49 30 2028 0

www.bdi.eu

Federation of German Wholesale and Foreign Trade

Bundesverband des Deutschen Groß- und Außenhandels e. V. (BGA)

Am Weidendamm 1 A, 10117 Berlin

Tel.: +49 30 59 00 99 5 0

www.bga.de

German Association of Chambers of Industry and Commerce

Deutscher Industrie- und Handelskammertag (DIHK) e.V.

Breite Str. 29, 10178 Berlin

Tel.: +49 30 20308 0

www.dihk.de

Federal Chamber of German Civil Law Notaries

Bundesnotarkammer

Mohrenstr. 34, 10117 Berlin

Tel.: +49 30 3 83 86 60

www.bnotk.de

Association German Leasing Industry

Bundesverband Deutscher Leasingunternehmen e.V.

Kommandantenstr. 80, 10117 Berlin

Tel.: +49 30 20 63 37 0

www.bdl-leasing-verband.de

German Private Equity and Venture Capital Association e.V.

Bundesverband Deutscher Kapitalbeteiligungsgesellschaften (BVK)

Reinhardtstr. 27c, 10117 Berlin

Tel.: +49 30 30 69 82 0

www.bvk-ev.de

German Association of Factoring

Deutscher Factoring Verband e.V.

Behrenstr. 73, 10117 Berlin

Tel.: +49 30 20 654 654

www.factoring.de

German Savings Banks Association

Deutscher Sparkassen- und Giroverband e.V. (DSGV)

Simrockstr. 4, 53113 Bonn

Tel.: +49 228 2 04 0

www.dsgv.de

Association of German Banks

Bundesverband Deutscher Banken e.V.

Burgstr. 28, 10178 Berlin

Tel.: +49 30 16 63 0

www.germanbanks.org

Legal/Establishment Form	Legal Liability	Minimum Capital	Number of Persons Required	Establishing Formalities
Private Limited Liability Company <i>(GmbH)</i>	Limited to share capital	EUR 25,000	Minimum one person	Moderate
Limited Liability Entrepreneurial Company <i>(UG (Haftungsbeschränkt)/"Mini GmbH")</i>	Limited to share capital	EUR 1.00	Minimum one person	Low-Moderate
Stock Corporation <i>(AG)</i>	Limited to share capital	EUR 50,000	Minimum one person	Moderate-High
Partnership Limited by Shares <i>(KGaA)</i>	Limited partner(s): liability limited to shares General partner: personal unlimited liability (could be a corporation)	EUR 50,000	Minimum one partner (shareholder of the general partner (GmbH) is identical to the limited partners of the KGaA)	Moderate-High
Civil Law Partnership <i>(GbR)</i>	Personal unlimited liability	None required	Minimum two partners	Very low
General Commercial Partnership <i>(oHG)</i>	Personal unlimited liability	None required	Minimum two partners	Low-Moderate
Limited Partnership <i>(KG)</i>	Limited partner: liability limited to shares General partner: personal unlimited liability	None required	Minimum two partners	Low-Moderate
Corporate Partnership <i>(GmbH & Co. KG)</i>	Limited partner(s): liability limited to shares. General partner: GmbH, limited to own limited share capital	None required	Minimum one partner (shareholder of the general partner (GmbH) is identical to the limited partners of the KG)	Moderate-High
Dependent Branch Office <i>(Unselbstständige Zweigniederlassung)</i>	Subject to the head office legal company form	None required	Minimum one person	Very low
Autonomous Branch Office <i>(Selbstständige Zweigniederlassung)</i>	Subject to the head office legal company form	None required	Minimum one person	Moderate

Source: Germany Trade & Invest

	Branch Offices
	Partnerships
	Corporations

Publisher & Editor

Germany Trade and Invest – Gesellschaft für
Außenwirtschaft und Standortmarketing mbH

Friedrichstraße 60
10117 Berlin, Germany
Tel.: +49 (0)30 200 099-0
Fax: +49 (0)30 200 099-111
office@gtai.com
www.gtai.com

Chief Executive

Michael Pfeiffer

**Research, Legal & Finance
Department Contact**

request@gtai.com

Conception, Text, Translations

Germany Trade & Invest

Layout & Design

www.typoly.de, Berlin

Supported by

Federal Ministry of Economics
and Technology

Note

© Germany Trade & Invest
February 2009

All information provided by
Germany Trade & Invest has been
put together with the utmost care.
However, we assume no liability
for the accuracy of the information
provided.

Order Number 13669

Germany Trade & Invest

T. +49 30 200 099-0
F. +49 30 200 099-111

Friedrichstraße 60
10117 Berlin
Germany

request@gtai.com
www.gtai.com

