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COUNTRY

Doing Business in
Germany

Preface

This guide has been prepared by Baker Tilly Deutschland GmbH, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Germany.

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Doing business in Germany has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on German matters can be obtained from Baker Tilly Deutschland GmbH; contact details can be found at the end of this guide.

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1 Fact Sheet

Geography

Location	Central Europe
Area	357,000km ²
Land boundaries	Poland, Czech Republic, Austria, Switzerland, France, Luxembourg, Belgium, the Netherlands, Denmark
Coastline	The North Sea and the Baltic Sea
Climate	Temperate, oceanic climate in the north; continental climate in the south
Terrain	Lowlands in north, uplands in centre, Bavarian Alps in south
Time zone	GMT +1

People


Population	82.2 million (2007)
Ethnic groups	German (91.5%), Turks (2.4%), others (Serbo-Croats, Italians, Russians, Greeks, Poles, Spaniards) (6.1%)
Religion	Protestant 34%, Roman Catholic 34%, Muslim 3.7%, unaffiliated or other 28.3%
Language	German (official). The majority of Germans also speak English

Government

Country name	Germany
Government type	Democratic federal republic consisting of 16 federal states
Capital	Berlin
Administrative divisions	<p>The Federal President's (<i>Bundespräsident</i>) role is to represent Germany and the German Government at important events.</p> <p>The Federal Government (<i>Bundesregierung</i>) consists of the Chancellor (<i>Bundestkanzler</i>) and their Cabinet. It is responsible for executing the laws that have been decided by the Federal Parliament (<i>Bundestag</i>) and the Council of States (<i>Bundesrat</i>). The Federal Parliament and the Council of States have legislative power</p>

Economy

GDP – per capita	US\$35,400 (2008 est.)
GDP – real growth rate	1.3% (2008)
Labour force	40 million (2008)
Unemployment	3.26 million (7.8%) (2008)
Currency (code)	Euro (€)



2 Business Entities and Accounting

There are a number of legal forms an investor can choose from when conducting business in Germany. These can be divided into two main groups:

- Corporations, which are independent legal entities
- Partnerships, which are treated as transparent entities without an independent legal personality.

To establish a German company the company must enrol with and submit certain documents to the German commercial registry.

A number of aspects should be considered when choosing the most suitable legal form – administrative costs, protection, taxation and the benefits of tax treaties.

2.1 Corporations

The common types of corporation are:

- The limited liability company (*Gesellschaft mit beschränkter Haftung – GmbH*)
- The public limited liability company (*Aktiengesellschaft – AG*).

Shareholders are only liable for a company's debt to the amount of their capital share. Both types of corporation can be founded by one or more persons, either individuals or companies, domestic or foreign.

A foreign company which establishes a German corporation must prove its existence in the foreign country through a certificate of incorporation and certified extracts from the commercial register of the home country.

2.1.1 Private limited liability company

The GmbH is the most common form of corporation in Germany since it offers flexibility to its shareholders. The shareholders can exert their influence in the shareholders' meeting.

- Minimum share capital: €25,000.
- No possibility of an IPO.
- The articles of association (*Gesellschaftsvertrag*) must be certified by a public notary.
- Registration with the commercial registry is required.
- Election of managing directors (*Geschäftsführer*) by the shareholders.
- Minimum original contribution (*Stammeinlage*) of a shareholder is €100.
- Transfer of shares is permitted only by assignment or upon inheritance.

2.1.2 Business company (with limited liability)

Since October 2008 it has been possible to form a limited liability company (a mini-GmbH) at a low cost with a share capital as low as €1. However, restrictions apply to this form of GmbH.

2.1.3 Public limited liability company

The AG is the form of corporation which is widely adopted by large companies.

- Minimum share of capital: €50,000.
- Possibility to be listed on a stock exchange.
- The articles of incorporation (*Satzung*) must be certified by a public notary.
- Appointment of a supervisory board (*Aufsichtsrat*) by the founders.
- Appointment of the board of management (*Vorstand*) by the supervisory board.
- Individuals are not permitted to be members of both boards.
- Appointment of an auditor required.
- Registration at the German commercial registry + statutory report (*Gründungsbericht*).
- Easy transfer of shares.

Shareholders' decisions are made by the way of shareholders' resolutions taken at a general meeting of the AG.

2.2 Partnerships

There are several kinds of partnerships in Germany, of which the most important are:

- General partnership (*offene Handelsgesellschaft – OHG*) – joint liability of all partners for all partnership debts without restrictions
- Limited partnership (*Kommanditgesellschaft – KG*) – full liability of the general partner(s) (*Komplementär*) and limited liability of limited partners (*Kommanditisten*) to the amount of their subscribed capital contribution.

Both partnerships can be established with a minimum of two partners who may be German or foreign, individuals, corporations, or partnerships. There is no prescribed format for a partnership agreement. However, all partners are obliged to apply for registration at the German commercial registry.

A partnership is managed and represented by the general partners; the rights and duties of limited partners are restricted.

A special type of limited partnership is the GmbH & Co. KG, in which a corporation is the general partner of a KG. This form combines a partnership with the advantages of the liability limitations of a corporation to a certain degree.

A silent partnership is the participation in the trade or business of another person (natural or juridical) constituting an association which is not outwardly apparent to the public).

2.3 Sole Proprietorship

In a sole proprietorship the owner is engaged in commercial business. The owner must register the business at the commercial registry and is liable for their professional actions without limit. They must be a German resident or be of European nationality. Individuals from a country outside Europe require a residence permit.

2.4 Branches

A non-German company can set up a place of business in Germany without forming a German subsidiary company. Even though a branch may conclude contracts in its name, it does not represent a separate independent legal entity but is considered an extension of the foreign company in Germany. Thus, all responsibilities for liabilities of a German branch lie with the foreign company.

There are only a few formalities to establish a branch in Germany, including registration at the commercial registry and notification to the local municipality on commencement. Thus, a branch is the easiest way for a foreign company to execute its activities in Germany.

2.5 Audit and Accounting Requirements

Provisions concerning accounting requirements are contained in the German Commercial Code accompanied by the German General Tax Code.

For incorporated companies and partnerships where no individual is a personally liable partner, there are three sets of criteria that determine the entity's size.

	Small (€'000)	Medium-sized (€'000)	Large (€'000)
Total amount of the balance sheet	≤4,840	>4,840 ≤19,250	>19,250
Turnover	≤9,680	>9,680 ≤38,500	>38,500
Average number of employees per year	≤50	>50 ≤250	>250

A company must satisfy two of the above criteria in two successive financial years to be allocated to one of the three classes. Publicly quoted companies are always treated as large companies.

The German Commercial Code requires the annual financial statements of medium-sized and large companies to be audited. The audit must be carried out by a certified public accountant.

All companies must prepare proper books and accounting records that comply with German regulations. At each financial year-end a company must prepare financial statements consisting of a balance sheet and a profit and loss statement.

2.6 Filing Requirements

The scope of disclosures required by the German Commercial Code varies depending on a company's size.

Large companies must file financial statements comprising a balance sheet, a profit and loss statement, notes and a management report, and an audit certificate at the German commercial registry. Financial statements must also be published in the German Federal Gazette.

Medium-sized companies are only obliged to file their financial statements at the German commercial registry and to announce that the documents have been filed in the German Federal Gazette.

Small companies need file only the balance sheet and notes at the German commercial registry. They also have to announce the filing of their documents in the German Federal Gazette.

3 Finance and Investment

3.1 Exchange Control

Import and export of capital is free with only a few reporting requirements to be fulfilled. The euro is freely convertible into other currencies.

The introduction of a free European capital market abolished all restrictions on the transfer of capital between EU member states. There are, therefore, no foreign exchange controls in Germany.

3.2 Sources of Finance

3.2.1 Banking

The German Central Bank is:

- The bank of circulation
- The bank of other banks and of the government
- The administrator of the monetary reserve
- Involved in the supervision of banking
- A participant in the euro system.

German commercial banks are engaged in the full range of banking activities.

3.2.2 Stock exchange and trading facilities

There are stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart. The most important exchange is the Frankfurt Stock Exchange which:

- Provides access to the equity and derivatives markets for companies/investors
- Is the second largest fully electronic cash stock market worldwide through the electronic trading platform Xetra
- Is the most important securities and derivatives market after the London Stock Exchange.

3.2.3 Venture capital companies

Companies which are too small to be quoted on a stock exchange can rely on venture capital to finance their growth. The remuneration of the venture capital company depends on the success, the growth and the profitability of the business.

Venture capital companies may also be a source of finance for companies which do not have sufficient security for a bank loan. However, they may require a higher return than a traditional bank.

3.3 Investment Incentives

Several regional, federal and EU schemes exist to attract and support investment in Germany.

In particular, investment is encouraged in East German States. Typically, an investment subsidy is paid towards the acquisition of new depreciable assets or for the purchase or construction of buildings.

EU investments schemes are available, in particular for small and medium-sized companies, in the form of grants, loans, or guarantees and non-financial assistance including business support services.

In addition, there are several federal and regional investment grants such as subsidies, loans at concessionary interest rates, capital resource aids and guarantees.

3.4 Acquisition of German Real Estate

In general, foreign nationals are subject to no restrictions on investments in Germany. Anyone can buy real property in Germany. However, there are certain obligations in relation to the purchase of premises in the country.

The owners of German premises are registered at the land registry. When German premises are sold, the seller and the purchaser conclude an agreement which must be notarised to become effective. After concluding the contract, the notary arranges the registration of a priority notice of conveyance at the land registry. As soon as the purchase price and the real estate transfer tax are paid, the notary arranges the registration of the real estate's transfer of ownership at the land register.

A lawyer dealing with property matters will be able to provide advice on the necessary steps to transfer and officially register the title to the property.

4 Employment Regulations and Social Security Contributions

4.1 Work Permits

- Nationals of EU member states, Norway, Iceland and Liechtenstein and non-European nationals married to EU citizens: no work permit required. (Note: certain regulations apply to new member states).
- Citizens from Switzerland: relieved conditions according to the foreign workers agreement.
- Others: residency permit and work permit required.

Work permits are issued by the local employment office for the area where the job is located. A foreign person who intends to work in Germany must:

- Apply for a visa at a German embassy or consulate
- Provide evidence at the time of application for the visa that the local employment office has assured that a work permit will be granted.

If a foreign company sends an employee to Germany to work in a branch for less than three months the employee does not need a work permit. Members of the management board of corporations are exempt from the requirement of a work permit regardless of their nationality.

4.2 Engagement and Dismissal

Detailed employment regulations exist in Germany. The engagement contract of an employee must include, as a minimum:

- Provisions concerning the gross salary
- Working hours
- Paid holiday and paid sick leave entitlement
- Minimum notice period for termination of the employment.

German regulations guarantee a minimum of 24 days of paid holidays a year if an employee works six days a week, in addition to public holidays. Normal working hours are between 35 and 40 hours or 5 days per week (the minimum number of paid holidays per year is 20 days). Statutory limits on working hours exist as does a law for protection against unfair dismissal of employees.

4.3 Trade Unions and Worker Councils

The Federation of German Trade Unions (*Deutscher Gewerkschaftsbund – DGB*) acts as an umbrella organisation for German trade unions, of which there are eight. Membership of a trade union is voluntary.

Companies with more than five permanent employees must establish a workers' council on the employees' request. The employees elect the workers' council. Its main function is to monitor all employee-related laws, regulations, collective bargaining agreements and plant agreements. Workers' councils are not authorised to conduct wage negotiations, however they must be informed of any intended employee dismissal since they may have the right to oppose the proposal.

4.4 Social Security Contributions

Social security costs in Germany are rather high. All employers and employees are liable for social security contributions regardless of their citizenship or residence. Contributions are paid by the employer and the employee, 50% each. There are no compulsory social security contributions for self-employed persons although access to benefits may be arranged through private insurance.

Social security contributions are set out in Appendix 3.

5 Taxation

5.1 Business Taxation

The tax status of a German business depends on whether or not it is incorporated.

Corporations are independent legal entities and are, therefore, taxable entities and liable for corporation tax, solidarity surcharge and trade tax. Partnerships are not independent legal entities and are not taxable entities. Partners are liable for income tax on their share of the partnership profit. The partnership itself is liable only for trade tax.

5.1.1 Corporation tax

The corporate income tax rate is 15% and is charged on the results per the annual financial statements. Solidarity surcharge is also due. This is charged at 5.5% of corporation tax.

A corporation is considered resident in Germany if its registered office or its central place of management is situated in Germany.

Resident corporations are taxed on worldwide income.

Non-resident corporations are taxed only on income deriving from German sources.

Resident corporations are treated as generating only trading income irrespective of the actual source. Non-resident corporations are taxed according to the sources of their income and may fall within a withholding tax regime. However, corporations not resident in Germany but resident in an EU member state have the right to file an annual tax return in order to prevent discrimination.

If a tax treaty has been concluded it provides a systematic exemption for foreign income if this income is already subject to taxation in its source country.

Losses

A corporation's losses which cannot be offset in the current year may be carried-back for one year or carried-forward indefinitely. However, the loss carry-back is restricted to €511,500. Losses which exceed this amount must be carried-forward. Restrictions exist on the carry-forward of losses when they exceed €1m. The excess can only be offset up to a maximum of 60% of income unrelieved. These provisions should secure the so-called "minimum-taxation" principle.

The carry-forward of losses for corporations may be restricted if there is a change of ownership. On the transfer of between 25% and 50% of voting rights there is a pro rata restriction on losses available to carry forward. If greater than 50% of voting rights are transferred losses are forfeited entirely.

Deduction ceiling rule

Interest expenses may be deducted completely if they do not exceed interest income in the same financial year. The deduction of a net interest expense, however, is only allowed up to 30% of EBITDA (earnings before interest, taxes, depreciation and amortisation). The interest deduction ceiling does not apply if the net interest expense is less than €1m.

Transfer pricing

Any domestic or cross border transactions between related companies must be in accordance with the arm's length principle. Corporate transfer prices must be comparable to market prices otherwise they are classified as constructive dividends or constructive contributions.

5.1.2 Trade tax

Every company and partnership is deemed to earn trading income and is, therefore, subject to trade tax. The basis for trade tax is the taxable income calculated for income or corporation tax purposes modified by several additions and deductions.

Trade tax is charged at 5% of modified taxable income. To arrive at the base amount this figure is subject to a multiplier depending on location. See Appendix 4.

Losses

It is not possible to carry back losses for trade tax purposes. Carry-forward is permitted and is subject to the same restriction as for corporation tax for losses exceeding €1m.

5.1.3 Distribution of dividends

The amount of the dividend chargeable to tax depends on the status of the shareholder as follows:

	Shareholders Status			Partnership taxation on the level of the partners
	Individual as a private investor	Individual as a commercial investor	Corporation	
Taxable income	whole dividend	60% of the dividend	5% of the dividend (95% tax free)	60% of the dividend
Tax type payable by recipient	withholding tax = 25%	income tax, (trade tax)	corporate tax, (trade tax)	income tax, (trade tax)
Expenses deductible by recipient	lump sum of €801	60% of the expenses	all expenses	60% of the expenses

Deductible expenses include bank charges, asset management fees, foreign taxes, exchange losses etc.

If a corporation distributes dividends to its shareholders it must retain withholding tax of 25% and remit it to the tax authorities. The withholding tax can be offset by the shareholders against their ultimate corporation tax liability or income tax liability.

5.1.4 Withholding taxes

Corporations which are subject to taxation in Germany are obliged to withhold taxes at the source for the following types of payments:

Wage tax

Wage tax is withheld by the employer and is paid to the tax authorities. It can be offset against the employee's income tax liability in the German income tax return.

Dividends, other profit distributions and income from silent partnership

- Withholding tax rate is 25% plus 5.5% solidarity surcharge.
- Can be offset against the German income or corporation tax in the recipient's tax return.
- The existence of double tax treaties may give rise to a reduction in withholding taxes for foreign recipients.

The withholding tax rate is reduced to zero for dividends paid from a German company to a parent company in another EU state.

Royalties paid by German companies to non-residents are subject to 25% withholding tax plus 5.5% solidarity surcharge. This may be mitigated by a double tax treaty.

5.1.5 Solidarity surcharge

The solidarity surcharge is calculated with 5.5% of the German income tax or the German corporation tax. Solidarity surcharge is withheld together with withholding tax unless the withholding tax is reduced by a tax treaty, in which case solidarity surcharge cannot be levied upon the lower withholding tax.

5.2 Personal Taxation

5.2.1 German residents

Individuals who are resident in Germany are subject to German tax on their worldwide income if the income falls under one or more of the following categories:

- Agriculture and forestry
- Trade and business
- Self-employment
- Employment
- Capital investment
- Real estate and certain other tangible properties and royalties
- Certain other income, eg old age pension, certain capital gains.

Income from outside these categories is not taxable in Germany.

The taxable income from each of the seven categories is computed separately and then summed to give total taxable income. This amount, less personal deductions such as contributions to health insurance or extraordinary expenses, is the base figure for German income tax.

Since each country has different regulations concerning the determination of residency, a taxpayer can be resident in more than one country. Double tax treaties serve to decide where an individual is treated as resident to avoid double taxation.

5.2.2 Foreign individuals

Individuals who are not resident in Germany but who receive income deriving from German sources are subject to taxation on their German sourced income.

Depending on the category of income, the German sourced revenues may be subject to tax either via withholding tax or by direct assessment upon filing an income tax return.

Foreign individuals can apply for unlimited taxation if certain requirements are met, for example 90% of their worldwide income is subject to German taxation or if the income not subject to German taxation does not exceed €6,136 in one year. This application can be recommendable in order to benefit from tax reliefs.

5.3 Other Taxes

5.3.1 Value added tax (VAT)

Entities and individuals who are engaged in a trade or rendering a supply of services within Germany with the aim of generating income are liable to German VAT.

VAT is charged on all goods and services for consumption in Germany and is levied in accordance with the harmonised EU system. The standard rate is 19%. Some goods, such as food or cultural products, eg books, are subject to a reduced rate of 7%.

Additionally, there are several tax- exemptions, eg for the services of a doctor, for the grant of loans and for rental income.

Preliminary VAT returns must be submitted monthly or quarterly based on the VAT paid in the last year. A final annual return is required at the end of the year.

VAT is paid over based on the preliminary returns and an annual adjustment is made of the final return. Credit is given for VAT paid on inputs used to generate VATable sales.

5.3.2 Real estate transfer tax

Real estate transfer tax is applied to the transfer of real estate in Germany. The owner and/or the purchaser may be foreigners. The tax rate of the real estate transfer tax is 3.5% and is levied on the purchase price.

5.3.2 Inheritance and gift tax

Inheritance and gift tax is levied on transfers of property via death and lifetime gifts. The tax is charged on the transferee. The transfer of German property is taxable for

inheritance and gift tax purposes regardless of whether the transferor or the transferee is resident in Germany. The transfer of foreign property is subject to German inheritance and gift tax if either the transferor or the transferee is resident in Germany. If the transferor or the transferee is a German citizen and they emigrated within a five-year period preceding the transfer of the property, the transfer is chargeable to tax.

Individuals are entitled to exemptions depending on their relationship with the other party. The rate of tax also varies according to the relationship – see Appendix 5.

There are special provisions to calculate the base for inheritance and gift tax depending on the kind of property which is transferred. In most cases, particularly as far as premises are concerned, the inheritance and gift tax value is lower than the fair market value of the assets. On the transfer of business assets 85% of the value is relieved from taxation. The remaining 15% is subject to taxation, if the amount is higher than €150,000.

For transfers of business assets between close relatives (see Appendix 5 – Tax class I) reduced tax rates apply provided certain conditions are met. For example, the transferee must continue to be involved in the business for at least seven years. Certain assets are exempt from inheritance and gift tax, eg furniture and inter-spouse transfers of the family residence.

5.3.3 Real estate tax

Real estate tax is levied annually by the municipalities on real estate. The owner of the real property must pay real estate tax regardless of whether they are an individual or a company and irrespective of their residency status. The tax is imposed on the assessed value of the property using the federal tax rate of 0.35%. The final tax burden is calculated by multiplying the resulting base amount with a multiplier, which is determined by the municipalities. Typical multipliers for industrial property range from 150% to 600%. Real estate tax is deductible for corporate income tax and trade tax purposes.

5.3.4 Church tax

Individuals who belong to a recognised church and who are residents or elected to be treated as such must pay church tax. Depending on the federal state, the church tax amount to 8% or 9% of the individual's income tax. Church tax is deductible for income tax purposes.

Appendix 1

Income Tax Rates

Single taxpayer

Annual Taxable Income 2009	2010	Income Tax Rate
Up to €7,834	Up to €8,004	0%
From €7,835 up to €52,551	From €8,005 up to €52,881	15% – 42%
From €52,552 up to €250,400	From €52,882 up to €250,730	42%
Over €250,400	Over €250,730	45%

Jointly assessed spouses

Spouses can chose between a joint assessment and a separate assessment. In some cases joint assessments are advantageous, ie reduce the tax burden.

Annual Taxable Income 2009	2010	Income Tax Rate
Up to €15,668	Up to €16,008	0%
From €15,669 up to €105,102	From €16,009 up to €105,762	15% – 42%
From €105,103 up to €500,800	From €105,763 up to €501,460	42%
Over €500,800	Over €501,460	45%

Appendix 2

Dividend and interest payments, as well as royalty payments, are normally subject to a withholding tax of 25%. The following table shows countries with reduced tax rates according to tax treaties concluded with Germany. Before the reduced rates can be applied, prior authorisation from the German Federal Tax Office must be obtained.

The rates in the column “qualifying companies” apply only if the holding is 25% or more of the German company’s capital or voting power. For Austria, Canada, Croatia, Poland, Russia, the holding must be 10% or more; for Switzerland it must be 20% or more.

Country	Dividends Individuals, Companies (%)	Qualifying Companies (%)	Interest (%)	Royalties (%)
Argentina	15	15	10/15	15
Australia	15	15	10	10
Austria	15	5	0	0
Belgium	15	15	0/15	0
Brazil	15	15	10/15	5
Canada	15	5	0/10	0/10
China	10	10	10	7/10
Croatia	15	5	0	0
Czech Republic	15	5	0	5
Denmark	15	5	0	0
Estonia	15	5	0/10	5/10
Finland	15	10	0	0/5
France	15	5	0	0
Greece	25	25	10	0
Hungary	15	5	0	0
Iceland	15	5	0	0
Ireland	10	10	0	0
Israel	25	25	15	0/5
Italy	15	15	0/10	5
Japan	15	15	10	10
Latvia	15	5	10	5/10
Lithuania	15	5	10	5/10
Luxembourg	15	10	0	5
Macedonia	15	15	0	10
Mexico	15	5	0/10/15	10
Netherlands	15	10	0/15	0
New Zealand	15	15	10	10
Norway	15	0/5/10	0	0
Poland	15	5	5	5
Portugal	15	15	10/15	10
Russia	15	5	0	0
Slovak Republic	15	5	0	5
Slovenia	15	5	5	5
South Africa	15	7,5	10	0
Spain	15	10	10	5
Sweden	15	0	0	0
Switzerland	15	0	0	0
Turkey	20	15	15	10
United Kingdom	15	15	0	0
USA	15	5	0	0

Upon request, dividend payments to a parent company resident in an EU member state are exempt from withholding tax.

Appendix 3

In Germany the social security contributors consist of:

- Pension insurance (19.9%)
- Health insurance (14.6%, from July 2009: 14.0%)
- Nursing care insurance (2.2% – with children 1.95%)
- Unemployment insurance (2.8%).

As far as the health insurance is concerned there is a compulsory special contribution of 0.9%. These special contributions must be paid by the employee exclusively.

The compulsory social security contributions to health and nursing care insurance will not apply if the gross salary of an employee exceeds the yearly amount of €48,600 in 2009 and the previous three years. The maximum yearly amount for the health insurance of which the contributions are calculated amounts to €44,100 for 2009. As far as the pension insurance and the unemployment insurance are concerned, the maximum yearly amount of which the contributions are calculated amounts to €64,800 for 2009. For the newly-formed German States the maximum yearly amount of which the contributions are calculated amounts to €54,600 for 2009. There will be no calculation of the contributions on revenues exceeding this amount. Additionally there is an exemption from all social security contributions for directors of a limited company that hold more than 50% of the shares of the company.

Overall the total social security contributions for the employer amount to about 20% of the gross salary.

Rates of social security contributions (applicable from 1 January 2009)

Social security costs to be borne by the employer

RV	Pensions insurance	9.95%	} Ceiling of €64,800 (€54,600) gross salary per year
AV	Unemployment insurance	1.4%	
KV	Health insurance:		
	General contribution		
	until June 2009	7.30%	} Ceiling of €44,100 gross salary per year
	from July 2009	7%	
	Special contribution	0%	
PV	Nursing care insurance:		
	– Persons without children	0.975%	}
	– Persons with children	0.975%	

Social security costs to be borne by the employee

RV	Pensions insurance	9.95%	} Ceiling of €64,800 (€54,600) gross salary per year
AV	Unemployment insurance	1.4%	
KV	Health insurance:		
	General contribution		
	until June 2009	7.30%	} Ceiling of €44,100 gross salary per year
	from July 2009	7%	
	Special contribution	0.9%	
PV	Nursing care insurance:		
	– Persons without children	1.225%	}
	– Persons with children	0.975%	

In addition, the employer has to pay special contributions called “Umlage 1” and “Umlage 2”. The average rate for “Umlage 1” is 2% in most cases and will apply for employers with less than 30 employees. The average rate for “Umlage 2” is 0.1% in most cases and applies for every employer.

Appendix 4

Examples of Trade Tax Multiplier

The minimum multiplier must be 200% to avoid so-called trade tax havens.

Municipalities with 50,000 – 100,000 inhabitants	Multiplier	Municipalities with 50,000 – 100,000 inhabitants	Multiplier
Aalen	350%	Aachen	445%
Aschaffenburg	385%	Erfurt	400%
Bamberg	390%	Erlangen	410%
Bayreuth	370%	Freiburg	400%
Brandenburg	350%	Kassel	440%
Flensburg	375%	Kiel	430%
Kaiserslautern	405%	Lübeck	430%
Landshut	400%	Mainz	440%
Lüneburg	360%	Potsdam	450%
Rosenheim	400%	Regensburg	425%
Rüsselsheim	340%	Rostock	420%
Schwerin	390%	Saarbrücken	428%
Stralsund	400%	Ulm	360%
Wilhelmshaven	395%	Wolfsburg	360%
Worms	400%	Würzburg	420%

Municipalities with 250,000 until 500,000 inhabitants	Multiplier	Municipalities with more than 500,000 inhabitants	Multiplier
Augsburg	470%	Berlin	410%
Bielefeld	435%	Bremen	420%
Bochum	450%	Dortmund	450%
Bonn	450%	Düsseldorf	455%
Chemnitz	450%	Duisburg	470%
Dresden	450%	Essen	470%
Gelsenkirchen	480%	Frankfurt am Main	490%
Karlsruhe	410%	Hamburg	470%
Leipzig	460%	Hannover	460%
Mannheim	415%	Köln	450%
Mönchengladbach	450%	München	490%
Münster	440%	Stuttgart	420%
Nürnberg	447%		
Wiesbaden	445%		
Wuppertal	440%		

Appendix 5

Classification of Individuals for Inheritance and Gift Tax Purposes

Tax class I:

1. Spouse
2. Children and step children
3. Descendants of children and step children
4. Parents and grandparents for transfers on death.

Tax class II:

1. Parents and grandparents not belonging to tax class I
2. Brothers and sisters
3. Descendants of brothers and sisters
4. Stepparents
5. Daughters-in-law, sons-in-law
6. Parents-in-law
7. Divorced spouse.

Tax class III:

1. All remaining transferees.

Personal Tax Exemptions

Person	Tax Exemption
Spouse and life partner	€500,000
Children of tax class I	€400,000
Children of deceased children of tax class I	€200,000
Remaining persons of tax class I	€100,000
Persons of tax class II	€20,000
Persons of tax class III	€20,000

Tax Rates

Taxable transfer of assets up to (€)	% for tax class		
	I	II	III
€75,000	7	30	30
€300,000	11	30	30
€600,000	15	30	30
€6,000,000	19	30	30
€13,000,000	23	50	50
€26,000,000	27	50	50
More than €26,000,000	30	50	50

Member Firm Contact Details

Baker Tilly Deutschland GmbH

Mies-van-der-Rohe-Straße 6

80807 München

Germany

T. +49 89 62 408 0

F. +49 89 62 408 444

www.bakertillydeutschland.com

Contacts:

Dr. Claus-Michael Allmendinger (audit), E. Claus-Michael.Allmendinger@roelfspartner.de

Peter Fabry (tax), E. Peter.Fabry@roelfspartner.de



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WorldHeadquarters

2 Bloomsbury Street
London WC1B 3ST
United Kingdom

T. +44 (0)20 7314 6875

F. +44 (0)20 7314 6876

E. info@bakertillyinternational.com

www.bakertillyinternational.com