

**Chandrawat
& Partners**



Doing Business In Germany

An Exhaustive Guide

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Introduction

The idea behind doing business is that clear and consistent regulations benefit economic activity. These rules should establish property rights, make dispute resolution easier, and protect contractual partners from abuse and arbitrariness. When such regulations are effective, transparent, and accessible to the public, they promote economic growth and development.

Germany is one of the world's leading economies and offers a favorable environment for doing business. Its strong industrial base, technological know-how, skilled workforce and strategic location in the heart of Europe, Germany offers many opportunities for entrepreneurs and companies that want to start or expand their operations. Moreover, Germany's geographic location in the middle of Europe allows easy access to neighboring countries and markets. This strategic position allows companies to effectively reach customers across Europe and take advantage of the continent's integrated market.





Economic Overview

Germany is the third largest economy in the world after the United States. It is the third largest export nation globally with 70% the service sector contributes the largest part to the country's GDP. It is expected that the gross domestic product will grow by 0.4 percent in 2023. Economic indicators such as industrial production, new orders and business climate point to an economic recovery later in the year. In addition, the support and stabilization measures of the German government to mitigate the rise in business costs and the decline in domestic purchasing power would have prevented a sharper slowdown in the winter months.

Exports reached 129.7 billion euros in March, which was 5.2% less than in February this year, but 5.0% more than in March 2022. The decrease in exports was particularly strong in the two most important single markets from Made in Germany. to the United States (-10.9%) and China (-9.3%).

Foreign Direct Investment Policy

German Foreign Direct Investment ("FDI") rules require two types of screening competencies for acquisitions in German companies: a sector-specific screening for acquisitions of companies active in the military sector or Information Technology ("IT") security technology, and a cross-sector screening for all other types of companies.

Sector-specific investment control

Sector-specific FDI controls apply to companies that manufacture weapons, military equipment, and IT security products, for example, if a foreign investor acquires 10% or more of the voting rights of a target company operating in these sectors, the investment may be subject to government scrutiny.



Cross-sector investment sector: In terms of cross-sector control, the FDI rules establish three thresholds at which a foreign investor from a non-European Union/ European Economic Area jurisdiction may be subject to governmental screening:

- Acquisition of 10% or more of a target company's voting rights in at least one of the sectors listed in the first column below;
- Acquisition of 20% or more of a target company's voting rights in at least one of the sectors listed in the second or third columns below; or
- Acquisition of 25% or more of a target company's voting rights in any sector

Key sectors

Germany has a diverse economy with several key sectors that contribute significantly to its economic growth and global competitiveness. Here are some of the key sectors of business in Germany:

Automotive industry: Germany is renowned for its automotive industry, which includes major global brands such as Volkswagen, BMW, Mercedes-Benz, and Audi. The sector encompasses automobile manufacturing, research and development, and supply chain activities. Germany is known for producing high-quality vehicles and advanced automotive technologies.

Machinery and technology: Germany is a world leader in machinery and engineering, producing a wide range of industrial machinery, precision tools and equipment. The industry includes mechanical engineering, electrical engineering, automation technology and robotics. German machines are valued for their innovation, reliability and technological development.

Chemicals and pharmaceuticals: Germany has a strong chemical and pharmaceutical industry. This includes the production of specialty chemicals, medicines and innovative health products. German companies such as Bayer, BASF and Merck have a global presence and are known for their cutting-edge research and development in the life sciences.

Financial services: Germany has a well-developed financial sector, including banking, insurance and wealth management. Frankfurt, the financial centre of Germany, is home to the European Central Bank and several major financial institutions. The industry offers a wide range of financial products and services to companies and individuals.





Information technology and software: Germany has a thriving IT and software industry, known for innovation in areas such as software, cyber security, cloud computing and data analytics. Berlin has become a hub for tech startups, attracting entrepreneurs and investors from around the world.

Renewable energy and environmental technologies: Germany is a pioneer in renewable energy and environmental technologies. The country has made significant investments in wind, solar and biomass energy and implemented policies to transition to a low-carbon economy. German companies are known for their expertise in renewable energy solutions, energy efficiency and sustainable practices.

Aerospace and defence: Germany has a well-established aerospace and defence industry, including aircraft production, defence technology and space research. Companies such as Airbus and MTU Aero Engines have a strong presence in the industry, driving technological development and global aviation projects.

Logistics and transport: Germany's central location in Europe and a well-developed transport infrastructure make Germany an important logistics and transport centre. The industry includes logistics services, freight transportation, warehousing and supply chain management. Germany's ports and airports play a key role in facilitating international trade.

Healthcare and medical technology: Germany has a highly developed healthcare system and successful medical technology. The country is known for its quality healthcare services, pharmaceutical research, medical devices and innovative healthcare solutions.

Creative industries: Germany has a vibrant creative industry sector that includes media, film and television production, advertising, design, fashion and games. Cities like Berlin and Munich are known for their creative scenes and attract talent from various creative fields.

Advantages

Germany is one of the largest and most stable trade economies in the world, with a strong, well-developed political and economic structure. Investors can rapidly defend their rights and protect their industrial and intellectual property due to the country's strong legal protections.

Germany is also likely to maintain its considerable influence and serve as an anchor of regional stability. There are many benefits of doing business in Germany, which are as follows:

Deep commitment to innovation: Germany is one of the world's top ten most innovative countries, with a strong focus on leveraging science for economic gain. Germany's government exhibits its strong commitment to applied research by sponsoring research institutes, encouraging the formation of start-up enterprises, and licensing intellectual property to enable academics to transition from academia to other fields.

Global trade power: Germany is known for its export-oriented economy and is one of the world's largest exporters. It has a strong manufacturing sector producing high quality machinery, automobiles, chemicals and electrical equipment. The country's membership in the European Union ("EU") offers companies access to a large market with more than 500 million consumers.

Significant consumer market: With a population of 82.4 million people, Germany is the largest consumer market in the EU. It is the world's second-largest importer and third-largest exporter of consumer-oriented agricultural products, and for foreign producers, it is by far the most important European market.



Infrastructure: Germany has a well-developed infrastructure, including an extensive transport network, modern logistics facilities and state of the art communication systems. The country's good airports, seaports and rail networks facilitate domestic and international trade.

Business-friendly environment: Germany offers a favourable business environment with open regulation, strong legal protection and efficient bureaucratic processes. The country consistently ranks high in global indices measuring the ease of doing business, indicating a favourable environment for business and investment.

Government support: The German government supports companies through various initiatives, subsidies and incentives. These include financial support for research and development, access to financial programs, tax incentives and support for start-ups and small and medium-sized enterprises (“SMEs”).





Types of Business

The most common businesses types in Germany are:

Small business: In Germany, a small business is defined as a business operation that, due to its nature and scope, does not necessitate the formation of a commercial organisation. Sales and turnover, business assets, the number of transactions, the number of employees, the variety of business activities, and other factors all contribute to this.

Registered commercial business: A commercial business must be registered in the Commercial Register of the local court at the corporate seat of the business under its commercial name. The application must be witnessed and signed by a notary public. A commercial business can be run as a sole proprietorship, a general partnership, or a limited partnership.

Sole proprietorship: As the name suggests, this form always has a single, sole proprietor. The proprietor's liability is not limited. On all business correspondence and letterheads, the name of the firm, the legal form of the business, the location of the business office, the court of registration, and the number under which the firm is listed in the Commercial Register must be stated.

General partnership: A general partnership ("OHG") requires at least two partners. There is no limit on each partner's liability. Legal entities, whether incorporated under German or foreign law, may also be members of an OHG. All business correspondence and letterhead must include the firm's name, legal form and location, the court of registry, and the registration number.

Limited liability company: The limited liability partnership (GmbH) is a separate legal entity. Due to liability reasons, the required capital of a GmbH must be a minimum of 25,000 euro at the time of the company's establishment. Each partner's initial capital contribution must be at least one euro.

Entrepreneurial Company at limited liability: The entrepreneurial company with limited liability (Unternehmergeellschaft (UG) haftungsbeschränkt) is a simplified version of a GmbH that can be established with a minimum capital of one euro. The incorporation process is simpler and less expensive than that of a GmbH.

Joint stock company: A joint-stock company (AG) is a separate legal entity. The 50,000 euro minimum capital is made up of either par value shares with a minimum value of 1 euro per share or no-par value shares.

Branch offices: Registered commercial businesses, both German and foreign, may establish independent branch offices that qualify for Commercial Register registration (conditions: own possession, separate bookkeeping, plus the manager has certain freedom in managing the branch office; decisions will be made based on the circumstances of each case).

Dependent branch office: In contrast to a registered commercial branch office, a dependent branch office has few if any commercial operations of its own, such as purchasing, sales, or service offices, or delivery depots, etc. Such offices are not eligible for Commercial Register registration but must be reported to the local Department of Business (Gewerbeamt). An official certificate stating that the head office is listed in the native country's Commercial Register or Partnership Register must be submitted in person or through a proxy.



How to Set Up a Business?

Business plan: Begin by developing a comprehensive business plan that outlines your business structure, goals, target market, products or services, marketing strategy, financial projections, and other relevant information. It acts as the company's road map and is important for attracting investors or securing funding.

Choose a legal structure: Choose the most suitable legal structure for your company, such as sole proprietorship, company, GmbH, AG or UG. It is important to consider factors such as liability, ownership structure, tax implications and capital requirements.

Name and address: Choose a unique name for the business that is not already in use. It is important to check the availability of the desired name in the German trade register. It is important to indicate the registered place of business in Germany, which can be residential address or the address of the registered representative.

Share capital: It is important to have the required share capital in the legal form such as GmbH or AG.



Articles of Association: Corporate articles of association that describe the company's structure, purpose, share capital, shareholder rights, and other important provisions.

Notary: Some legal forms, such as GmbH and AG, require the statutes to be notarized. This requires the presence of a notary to certify the signing of documents.

Registration of company: It is necessary to register the company in the local commercial register at the local district court within the territorial jurisdiction of the company. All the required documents are to be submitted, including association, registration forms and identity documents of the founders or directors.

Obtain a tax number: Once the business is registered with the local tax office it is necessary to obtain a tax number. This is necessary for tax purposes, including income tax, VAT (Value Added Tax), and other relevant taxes.

Register for social security: If the business plans to hire employees, it is necessary to register the business with the responsible social security institution and obtain an employer's identification number.

Fulfill legal and regulatory requirements: Depending on the business type, it is necessary to obtain specific permits, licenses, or certifications. This can include trade licenses, health and safety permits, environmental permits, or industry-specific certifications.





Taxation

Foreigners living in Germany may be subject to German taxes, especially if they have income from German sources. The German tax system is similar to other western countries.

Taxation in Germany is governed by federal, state, and local tax laws. Here are the key aspects of taxation in Germany:

Income tax: Individuals in Germany are subject to progressive income tax rates ranging from 0% to 45%. The income tax is levied on various types of income, including employment income, self-employment income, capital gains, rental income, and investment income.

Corporate tax: Companies in Germany are subject to corporate income tax at a flat rate of 15%. Additionally, there is a solidarity surcharge of 5.5% on corporate income tax, resulting in an effective tax rate of 15.825%.

Value Added Tax ("VAT"): The standard VAT rate in Germany is 19%. Certain goods and services may qualify for reduced VAT rates of 7% or exemptions. Businesses are required to charge VAT on their sales and can deduct VAT paid on their purchases.

Accounting Standards

The German Commercial Code ("HGB") remains the leading accounting standard for all German business entities' financial statements and the consolidated financial statements of many medium-sized groups of companies. The HGB is constantly being amended in light of the economy's internationalisation.



Employment and labour Laws

Minimum wages

Germany has a statutory minimum wage that employers must pay to their employees on a national level. The minimum wage is 1744 euros per month, or 9.41 euros per hour, as of 2022.



Working hours limits.

The number of hours that German employees can legally work in a week is limited. Although the average full-time employee works 36-40 hours per week, it is possible to work up to 48 hours per week.

Holidays and vacations.

The Federal Act on Holidays guarantees full-time employees at least 20 days of vacation per year. If an employee normally works a six-day work week, this can be increased to 25 days. This entitlement is supplemented by public holidays.

Termination of an employee

There are strict laws that provide strong protections against dismissal. Employers are required to give employees a notice period. This can begin with four weeks' notice and can increase depending on how long the employee has been with the company.

Sick leave

The right to sick leave can last up to 6 weeks every 12 months, but it can be extended in certain circumstances. Employees must have worked for the employer for a minimum of four weeks to be eligible for this sick leave. Employees in Germany can also take up to ten days off to care for sick family members.



Parental and maternity leave

Pregnant women are not required to work for six weeks before giving birth, or 12 weeks for premature births. Mothers are entitled to 8 weeks of maternity leave following the birth of their child. After this period ends, both parents have the option of taking up to three years of unpaid parental leave.

How We Can Help?

Chandrawat & Partners can provide valuable assistance for doing business in Germany in several ways:

Our team seeks to promote economic growth, encourage entrepreneurship, and establish a vibrant business climate in Germany through strategic alliances, industry information exchange, technological advancements, support for market expansion and CSR efforts.

Our team looks forward to cooperating with companies in Germany and striving for success and prosperity for all. We can offer market research, analysis and insights to help Germany-based companies to expand beyond the local market.

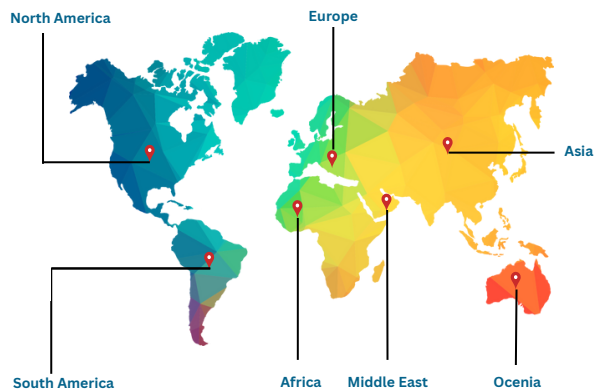
Our team provides insightful advice on market entry tactics, target audience identification and expansion planning thanks to our wide network and global presence.

Our team can provide advice and Consultation on Germany's judicial and regulatory system. They can assist you with comprehending the regional rules, laws and prerequisites for establishing and running a business in Germany.

Our team can help you with the procedure of business incorporation. if a person trying to create a presence for the company in Germany. Our team can assist in taking the appropriate actions, such as registering the business, acquiring the required licences and permits and adhering to local laws.



SERVING CLIENTS WORLDWIDE



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