

Going International:

Your **Global** **Payrolling** **Guide** for **Germany**

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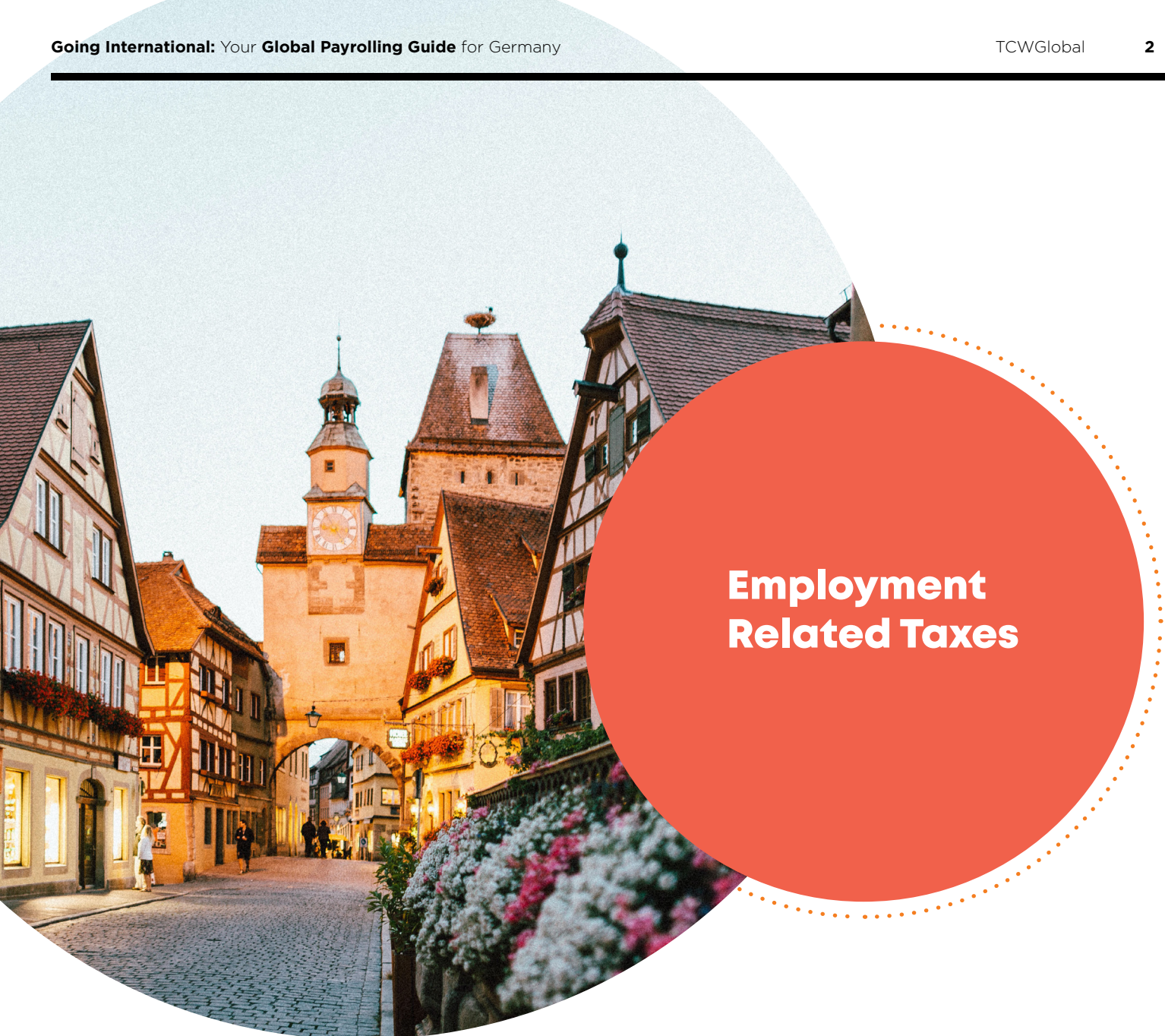
Introduction: Payrolling in Germany

German employment tax includes an obligatory employer contribution matching the employee contributions on various social taxes. There is a mandatory 5.5% withholding rate called a 'solidarity surcharge'. Employers must have their businesses registered at the local tax office within the first calendar month of doing business where they will be issued with an employer tax identification number. Employees are issued wage-tax statements which list their allowances and exemptions. Employers must remit payroll taxes withheld from employees to the tax office on a monthly basis. Reporting and payment obligations for employers

are determined first by whether they are German or Foreign companies and then by their employee's residency status. Tax filings are due on the 10th day of each month ongoing. Employer and employee monthly tax filings must be completed electronically through the ElsterOnline system, which also handles annual income tax forms.

Some businesses might be allowed to file quarterly or annually depending on the value of the wage tax due, which is variable based on industry and region. Employers are advised to discuss this with the tax office if they prefer non-monthly filing.





Employment Related Taxes

Basic Employment Related Taxes in Germany Include:

- Solidarity Surcharge - 5.5%, levied on the tax liability rather than the income and is withheld by employer. The purpose of this surcharge is financing economic revitalization in certain regions.
- Church taxes are levied monthly and withheld by the employer, remitted to the tax office, and then distributed to the church. This tax can be between 8-9% and is calculated against both non-traditional income and total wages, which would include capital gains. The residence of the employee will be used to decide the church tax rate, as it can be regional. Employees are only required to pay this tax when they are official members of a religious entity.
- Income gained from capital assets are taxed at 25% and withheld by the employer.

Employee Income Tax

Income tax is paid under a pay-as-you-go method, based on the single taxpayer range or the married taxpayer range.

Single Taxpayer

Over	Not Over	Tax Rate
0	\$8,652	0%
\$8,653	\$53,665	14-45% progressive rate
\$53,666	\$254,446	42%
\$254,447	And above	45%

Married Taxpayer

Over	Not Over	Tax Rate
0	\$17,304	0%
\$17,305	\$107,330	14-45% progressive rate
\$107,331	\$508,892	42%
\$508,893	And above	45%

Resident employers must have a habitual abode, residence, place of management, permanent establishment, headquarters, or permanent representative in Germany, and are subject to unlimited worldwide income based tax liability.





Entitlements, Social Security & Government Pensions

There are 4 general payments that employees must make payments to which are employer withheld and remitted: health insurance, pensions, long-range nursing care, and unemployment. After working at least 12 months, the employee is entitled to unemployment benefits of 60-70% of the previous average income from the federal employment agency for 6 months. In total, these payments represent around 40% of gross income, with the employee's portion of 20% being withheld at source. The German Social Insurance system is jointly financed by the employers and employees. In Germany, it is uncommon for employers to offer private health insurance, as it would become a taxable benefit.

Social security falls under workers' compensation insurance, an employer tax in Germany. Each federal state in Germany determines the maximum incomes on which social security can be charged, with lower amounts in the former German Democratic Republic (other than Berlin), than the Western regions.

**The German economy
[is the] fifth largest
economy in the world
in PPP terms.**

CENTRAL INTELLIGENCE AGENCY



Approximate Wage based Employer Insurance Related Tax Liability can be seen below:

Social Security Benefits	Employer Wage Tax Rate
Sickness & Maternity	7.3%
Work Injury/Workers' Compensation	1.32%
Old Age, Disability, Survivors	9.35%
Long Term Care	1.175% except in Saxony where it is 1.475%
Unemployment	1.5%
Approximate Employer Total Tax Liability	20.895%

Allowance

Employers can choose to pay income tax on account for services such as transportation, retirement fund payments, or canteen food, on each employee at a flat rate which varies based on the service provided. The range is between 15-25% and are not taxable if the value is not over €44 per month.

Employee leave Legislation

All employees, male and female, are entitled to up to three years unpaid parental leave per child, during which they can work up to 30 hours a week (part-time) but after which the employer must offer the employee a full-time role. Pregnant women are not allowed to work in the last 6 weeks of their pregnancy and at least for 8 weeks after giving birth. These periods might be longer with multiple or premature births. During this time, the employee continues to receive the full net salary which is partly paid by the employer and the health insurance. The health insurance pays 13 EUR per day during this period and the employer will contribute the difference. Additionally, the employee will receive financial support from the government for the first 12 months of parental leave.

Bereavement leave is generous in Germany as compared to other countries, with up to 20 days off at 100% paid leave for an employee who loses a loved one, and 2 days paid leave for the loss of a pet.

Sick Leave

In Germany, if an employee is ill and unable to work, the employer must continue to pay their salary. The employee is required to provide a sick note from the doctor. After the 6th week of absence over a period of 6 months (for the same illness), the employer no longer has to pay the salary. The employee will receive financial support from the health insurance.



In the 2019 Best Countries global survey of more than 20,000 people, more people said they prefer automobiles made in Germany than from any other country.

US NEWS²

PTO and Holidays



- It is important to remember that working on Sunday is generally prohibited, although there are several exceptions, some of which require prior Government approval.
- There is a statutory claim to 20 working days of paid time off per year for employees working 5 days per week minimum. 25-30 holiday days per year is common. Untaken leave is typically void by the end of the calendar year (Dec 31st); however, if the employee is unable to take annual leave due to business related reasons, this deadline can be postponed to March 31st of the following year.
- Maternity leave is required to be fully paid and start no later than six weeks prior to the due date, lasting until 8 weeks after childbirth.

Employment Types

An employee in Germany will fall into one of the following categories:

1. **Permanent contract.** This will be for an ongoing and indefinite time period and normally include a six month probationary period. After six months employers must have specific legal grounds to dismiss employees.
2. **Fixed-term contract.** This will be for a set period and can be renewed up to three times as long as the employment is not for more than two consecutive years.
3. **Recruitment agency contract.** Employees are employed by the recruiter rather than the employer and temporary contracts can run for a maximum of 18 months.

4. **Mini-job contract.** This is work where no more than €450 per month is earned or where the work is less than 70 days a year or three months.

5. **Freelance contracts,** which are either contract for services or a contract for specific work.

A leased employee can only be employed by a for a maximum of 18 consecutive months. If an employee has reached their 18-month limit, they must either be hired full-time through a German entity or replaced by another leased employee for the same position. However, if an employee takes a break from the company for a minimum of three months, the person can return to the same position as a leased employee for another 18-month period. Prior to this update, there was no strict limit in place regarding temporary employment practices in Germany.

Recent Employment News

In January 2020, the minimum wage for adults increased to €9.35 per hour, with a statutory minimum wage for apprentices rising to €515 in their first year. There was also an amendment to the Working Time Act which now requires employers to determine the daily and weekly work time of employees through reliable, accessible, and objective recording systems, with Section 16(2) of the act.



Termination of Employment Contract

Termination notices must be in writing and signed by either the HR or the Managing Director. Under German law, the employment relationship can be terminated by mutual consent, by expiry of a fixed-term contract or by notice given by one of the two parties. As to the general protection, the freedom of the employer to dismiss an employee is substantially restricted by the Dismissal Protection Act (“DPA”), which applies if: 1) a business establishment has generally more than ten employees; and 2) the employee has worked in the same company or business establishment for six months without interruption.

A termination is typically only legally effective if it is “socially justified”. A termination is justified only if it is based on reasons related to: 1) the person; 2) the conduct of the employee; or 3) urgent operational requirements which preclude the continued employment of the employee in the undertaking. Termination due to poor performance is generally not provided for by law. In particular, individual occasional misconduct does not entitle the employer to a regular termination of the employment contract. However, the situation changes if an employee repeatedly violates explicit work instructions (e.g. writing a weekly report). After a formal warning, employment

may also be terminated due to misconduct under German law. Employers seeking to dismiss employees for performance reasons must present a dossier documenting their expected level of performance, the poor performance, the time given for the worker to improve, etc. Termination does not require pre-approval by the labour courts; however, it can be easily challenged by the worker. Typically, a mutual termination agreement (MTA) is recommended. Severance is not required but assists with the MTA process, and is typically calculated via multiplication of monthly gross salary by half of the number of years the worker has been employed.

Notice must be given in writing (wet ink signature) and signed by a duly authorised representative of the employer in order to be legally effective. All other forms of notice (i.e., those given orally or by e-mail or fax) are void. Terminations without information/hearing of the works council (if in place) or the representative body for severely disabled persons (if in place and in case of a termination of a severely disabled person) are also void.




If the employer and the employee have mutually agreed upon a longer contractual notice period than the law requires, the longer contractual notice period will prevail. Any agreement on a notice period that is shorter than the applicable statutory notice period will be invalid. Generally, termination of employment can only be effected as of the end of any calendar month. The employer must therefore keep the effective date of employment termination in mind when calculating when to deliver the notice of termination. Notice periods are as follows (by statute):

- 2 weeks' notice for dismissal during the first six months (probationary period).
- 4 weeks is the basic notice period from the 15th of the month or the end of the calendar month.
- 2 years of service requires a one month notice from the end of a calendar month.
- 5 years of service requires a two month notice from the end of a calendar month.
- 8 years of service requires a three month notice from the end of a calendar month.
- 12 years requires five months' notice, 15 years requires six months' notice, and 20 years requires seven months' notice, all to the end of a calendar month.

Special termination protection against unlawful dismissal applies to an employee that is officially acknowledged as disabled, an employee on parental leave or a pregnant employee. If a company engages in a mass layoff, prior approval by the employment office is required.



Payroll Cycles & Considerations



While not government regulated, wages are often paid on the 25th of each month across all sectors in Germany.

Working Hours and Minimum Wage

Minimum wage in Germany is set to gradually climb from its current rate of €9.35 per hour to €10.45 by July 2022, a growth of nearly 12%. Full-time employees in Germany can work 8 hours a day for 6 days per week. Employees must be given at least 11 hours of resting time between two working days. When working more than 6 hours but less than 9 hours, the employee must take at least a 30-minute break (45 minutes when working more than 9 hours).

Visa Sponsorship

The EU Blue Card (Blaue Karte) is applicable to highly-skilled employees with a university/college degree, a local job offer and a salary at least two-thirds of the German pension fund contribution ceiling, which changes slightly every year.

The Blue Card regulation also applies to skilled employees in shortage occupations ('Mangelberufe' – scientists, mathematicians, engineers, doctors in human medicine, academic specialists in IT and communication) with an annual salary of at least 52% of the German pension fund contribution ceiling. For shortage occupations, the labour authorities must check that the employment conditions match the local standards, and the employer must submit an official format job description.

Regular Blue Card holders in Germany must be paid at least EUR 55,200 per year; holders in shortage occupations must be paid at least EUR 43,056 per year.

The blue card is issued for a maximum term of four years. The job contract term is leading for the initial term of the blue card. The Blue card will indicate an additional three months in the end date. The blue card may be renewed multiple times. Immigration service approves and issues the blue card within days to weeks, depending on the backlog of applications. Maximum processing time is three months.



Interested in learning more about our global payrolling capabilities?

Check out our [interactive map](#) for more information on all of the countries we can help with payrolling in.

Questions? [Contact us](#) for any answers you may have.

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tcwglobal.com/en-de • +49 303-119-7811

Edisonstraße 63/House A, 1st floor
12459 Berlin, Germany