

Scaling into Germany

How to open a German entity, in association with the nhs* group tax and accounting consultants



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Foreword

**Hristo Borisov**

Co-founder & CEO
payhawk

We've had an exciting few years at Payhawk since launching in 2018. Our growth journey has seen us build bigger teams and set up new locations to solve payment and expense headaches for businesses big and small, wherever they're based. But expanding to new geographies can often be a scary and unknown process.

In the past several years of growing Payhawk into a global company with businesses across Europe, I've experienced the uncomfortable feeling of asking my team to establish new businesses and operations in countries without providing them with a great deal of guidance. I wish there had been a guide available to serve as a checklist and a framework for every country to which we expanded. This wishful thinking is how the idea of building a set of guides on scaling into countries around Europe was born. It's our way to pay it forward to other entrepreneurs and business leaders who wish to break new grounds, reach new horizons, and create genuinely multinational organisations.

Employment laws and taxes may differ from place to place, but no matter the location, when a fellow startup CEO asks for our advice on scaling into a new country, the first piece of advice is: Work with the best partners. Even as organisations embrace new remote working standards and digital transformation, certain things just can't be done without feet on the ground. Here, you need the expert guidance and help of partners in the location to ensure everything you do is both legal and optimal for your business.

We couldn't have set up our Germany entity without the support of our accounting partners the nhs* group. They were instrumental in successfully opening our Berlin office and have provided consistent and invaluable advice. We're delighted to have worked with the nhs* group to create this guide for businesses embarking on the same journey as we did, and we're delighted to recommend them to other companies setting up in Germany.

Introduction

Why we created this guide

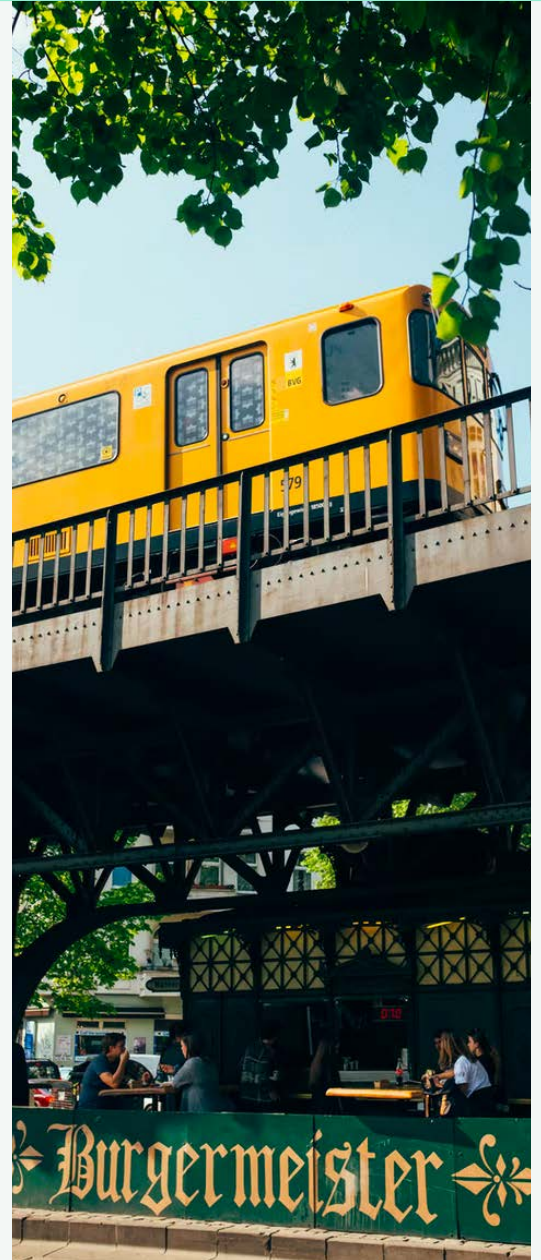
At Payhawk, we're constantly fielding questions from fellow scale-ups regarding managing growth and opening new entities in Europe. Our co-founders, CEO Hristo Borisov and CFO Konstantin Dzhen-gozov, had the idea of creating this guide to help our peers navigate this challenging process. This guide covers the who, what, and why of opening up new locations and is part of a growing series, so stay tuned for more.

Structure of the guide

Please note that this guide is by no means exhaustive. Instead, this guide covers how you can get started, what you should know ahead of time, who you should work with, and where you should go. In chapter one, we look at what you need to consider before starting the process of opening an entity. The second chapter explores establishing the entity in Germany, including the information we found most relevant. Finally, the last chapter goes through the minimum financial stack required to begin your operations in Germany.

Contributors

We couldn't have opened our entity in Germany without the help of our partners. It's an honour to have worked with the [nhs* group](#), based in Dusseldorf, Germany, to create this guide. You can find their contributions in chapters one and two in the highlighted boxes, as well as the whole Tax section (2.4).



"We decided to open an entity in Germany because we wanted to hire the best team in the biggest market in Europe. Germany is a crucial market for Payhawk, and our experience has shown that many German clients prefer to operate with companies based in Germany. We selected Berlin as this is the hub for startups in Germany. Our partners, the nhs group, were fundamental to opening our entity in Germany successfully."*

Petya Dimitrova
Finance Manager at Payhawk



Chapter 1

What to consider before you start

Based on our experience, these are the five most important things to consider before starting the process of opening an entity in Germany.

Choose your location wisely

Germany is a bit different from the UK or France when it comes to international business. Most international trade is centralised in the capital cities in the UK and France, whereas in Germany, you'll need to research which city is best for your business needs. For example, if you're a startup, Berlin is the place for you. Whereas, if your company is in finance, or you want to be close to the big banks, then Frankfurt is your city. Stuttgart is the hub for engineering and automotive companies, while Munich is the center for IT. And Dusseldorf is the hub for Japanese companies — one of the biggest in Europe.

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At Payhawk, we decided to open an entity in Berlin as we wanted to attract the best talent from the startup world.

In-person VS remote set up

German authorities require a lot of paperwork and multiple signatures from business owners. If you're planning to open your entity remotely, you'll need a power of attorney to carry out relevant procedures. You might even need to travel to Germany to complete some necessary actions.

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We tried to do nearly everything remotely — with the support of our accountancy partners the nhs* group, when opening our German entity.

Solo VS partners

Once you decide to scale to Germany, we highly recommend asking for support within your network. Whether through your investors, your accounting firm, your legal department, or other connections. In general, many of these professionals are members of alliances or groups who could put you in touch with relevant experts in Germany.

In Germany, you, as a business owner, can't register the company like in other countries. You'll need the support of a German notary who will do it.

“

We partnered with the nhs* group, an accounting firm recommended by our Sofia-based accounting partners. We then found a notary who would help us, and we used our in-house compliance experts to support the legal paperwork.

Timeline *and* expectations

Remember, establishing an entity takes time — more than you think. If you have a deadline, plan ahead. Also, check which of the different processes you can run simultaneously. For example, in Germany, the authorities require all company documents to be officially translated and legalised. It's worth looking for an official translator and a notary or government institution to help as one of your first steps. Also, look into opening the business bank account early on, as this can take a while.

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We thought we would have completed the process within a couple of months. But, as we needed an intermediary and professional document translation, we lost a bit of time. We also had some complications with the business address, as we did not have an office by the time we started the process. Opening a business bank account was challenging, too, as it required one of the business owners to be present. We were finally able to open an account at Deutsche Bank remotely, but it took us more than three months.

Costs

The costs of incorporating aren't high in Germany. However, you need to consider the potential costs of working with translators, notaries, accountants, law firms, and tax specialists. You're even more likely to need specialist support if your company has a complicated structure, so be aware that some of these services can be pretty expensive.

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We hired a notary and translator local to our office in Sofia. A German-based accounting firm, a notary to cover the registration, and lawyers to draft contracts under German employment laws. In all, we paid around 5,000 Euros for these services.

Be prepared to fill in many forms and translate and certify all your company documents. You should start the process of opening a bank account early on, as this is sometimes even more complicated than registering the company itself.

Mathias Niehaus
Partner at the nhs* group



Chapter 2

Setting up an entity in Germany

1 Selecting company details

The information in this section is important to know before any registration and acts as a good checklist before you meet with your German notary for the first time. We believe the following are the main points to consider.

Type of company

This guide will focus on Gesellschaft mit beschränkter Haftung (GmbH) or limited liability companies, as this structure is the most common in Germany. As a limited liability company, only the company's assets are liable to creditors.

You must do two things, which are unique to Germany, before forming a GmbH. Number one, ensure a share capital of EUR 25,000. Number two, have the following notarized: the appointment of the managing directors, the change of the seat in Germany, the memorandum of association, and each transfer of shares.

If you're establishing your startup from zero in Germany, you should look into a new form of GmbH. The new form is called the entrepreneurial company at limited liability 'Unternehmensgesellschaft (UG) haftungsbeschränkt' or mini-GmbH. And it's a simple version of a GmbH that's easier and cheaper to incorporate.

Another structure worth mentioning is the limited partnership (KG). In a KG, at least two partners are necessary. One of which must have unlimited liability (General Partner or Komplementär). And one of which must have liability not exceeding the value of their shares in the company (Limited Partner or Kommanditist). The amount of liability isn't fixed by law.

Please see information on other company structures in Germany [here](#).

Bank account

As mentioned previously, you need to deposit the GmbH share capital in the business bank account before registration. This deposit is why we suggested that opening a bank account is a top priority. You'll also need the account to pay your company's taxes.

Setting up your company bank account (Geschäftskonto) in Germany may take more time than registering the business itself. There are so many forms to fill in, especially because of money laundry laws and regulations. Banks in Germany are often traditional setups, and most only allow you to open a business account once you have a business registered in Germany.

We suggest you look into a bank that already has foreign customers. Some of the notarised documents the bank will require include the company's shareholding structure, Articles of Association and Certificate of Registration, among others.

Share capital

To incorporate a GmbH, you need to pay the share capital of EUR 25,000 into your company bank account and prove this at the time of registration. Make sure you save the deposit slip and the account balance. This money will be useful down the line, as you can use it to pay salaries or buy office materials. You must pay at least half of the amount (EUR 12,500) at the time of registration.

Name of company

In general, you're free to choose your company's name, as long as it isn't offensive, isn't registered already, and isn't similar to an existing trademark. The name shouldn't include false information that can mislead consumers. You can check at the [commercial register](#) (Handelsregister) or with the local chamber of commerce (IHK) if a name has already been taken or to call them directly.

How to register a company

In Germany, it's mandatory to use a German notary to register the company in the German commercial register and make any changes to its information. You can find the German notary database [here](#) (in German). Remember, you can't register the company on your own.

Company representatives and shareholders

There are no specific requirements regarding nationality or residence of shareholders or directors to register a GmbH. But you must have at least one shareholder; this can be an individual or a legal entity. It's also mandatory to appoint one or more managing directors (Geschäftsführer) and to have a business address in Germany.

Office address

You must have a physical address in Germany when you register your company. You must also include company information such as name, registration number, office address, and place of registration on the company's website, emails, and letterhead.

Many foreign companies appoint a sales manager to be the local representative or managing director of the GmbH. This appointment means that the company must share all the legal and financial information with this person. The selected person could legally be responsible for the business and, under certain conditions, even liable, so choose wisely. The office address is critical as it'll be where you receive information from your commercial registry, tax office, etc. If you miss this information, you could face penalties.

— nhs*



2 Information required by the German notary

Every document you provide must be officially translated and legalised, either with an Apostille, if your company is based in a country member of the Hague Convention, or by the Foreign Affairs minister and/or embassy.

Registration documents

Our notary requested the following documents to register the company:

- Deed of formation: A legal statement signed by all initial shareholders or guarantors agreeing to form the company
- Power of attorney: The legal power to represent the company (Power of attorney)
- Articles of association: Written rules about running the company, agreed to by the shareholders or guarantors, directors, and the company secretary. GmbH is a very flexible form; mandatory sections include share capital, shareholders and respective shares held, business name, registered office, and company objective
- Deposit payslip from a German Bank Account
- Paperwork to show the appointment of the managing director. This appointment is easier if the person is present. Otherwise, you need a little more evidence in the form of criminal record paperwork and so on.

Once completed, the notary sends the application, and the company receives the registration at the address provided.

First, get in touch with your German notary to understand which documents they require. Then, request an appointment to draft the Articles of Association, as these have to be in a specific format. Also, don't forget that business operations can only start once the company is registered as there's an unlimited liability until this point in time. And, don't forget to open your bank account early on in the process!

— nhs*



3 Register at the local Trade Office

Once your company is in the commercial register, you'll also need to register at the local trade office explaining your business operations. There is a trade office in every German city. You can find the application for the trade office in Berlin in English [here](#).

Checklist:

What you need to register your company

- Find a German notary for registration
- Select company type
- Select company name, shareholders, and address
- Open bank account
- Deposit share capital
- Contact German notary and ask for required documents
- Translate and legalise company documents
- Register at the local trade office



4 Tax and annual reporting

Section written by **nhs***

Corporation tax and solidarity charge, trade tax, and VAT are the main taxes for businesses in Germany. Other taxes worth mentioning are property tax and real estate acquisition tax. Furthermore, wage tax and church tax are significant for individuals, too. See the section below by the nhs* group for more details.

Corporate income tax (Körperschaftsteuer)

Corporate income tax is applicable to corporations (GmbH, AG) and cooperatives. Foreign corporations (Limited, PLC, etc.) with business premises (e.g. permanent establishment, branch office) in Germany are also subject to corporate income tax.

Corporate income tax is levied on the profits made by legal entities in a financial year, which implies corporate income tax exemption for companies with an annual deficit. All profits are taxed at 15% (2022). And taxation is independent of whether the profits remain in the company (accumulation) or are distributed. Losses do not generally forfeit but can be carried forward with unlimited time.

Value-added tax (Umsatzsteuer)

The levied VAT is only paid by the end-user of a product or service. This amount is shown on the customer's invoice and passed to each consumer, with the standard German VAT rate at 19% (2022). There's also a reduced rate of 7%, which applies to certain consumer goods and services, such as food, local public transport, books, newspapers, and other items.

Generally, VAT must be reported and paid quarterly to the tax office. If the annual VAT liability is over 7,500 Euros, the pre-reporting must be done monthly, and if it's less than 1,000 Euros, once a year is sufficient.

Church tax (Kirchensteuer)

In addition, Germany levies church tax of 8% (in Bavaria and Baden-Wuerttemberg) or 9% (in the rest of the country) of the income tax if a taxpayer (employee) registers with a German church.

Withholding taxes (Quellensteuer)

In Germany, source taxes are withheld as part of profit taxation from the income of resident and non-resident taxpayers. The withholding of source tax is intended to simplify the taxation process and reduce administration costs. Especially in cases of limited tax obligation, i.e. for persons and companies not resident in Germany. Source taxes ensure the state's tax income because the tax has already been applied to the (liquid) liable person's income who's now responsible for payment to the tax office.

Source tax deduction is applied to the following types of income:

- Salary tax on income from salary (Lohnsteuer) at the level of that person's tax rate
- Capital gains tax on capital gains (Abgeltungssteuer / Kapitalertragsteuer) at a level of 25%.

Trade tax (Gewerbesteuer)

Taxation is based on the profit from each company's income statement, which is corrected based on income tax and corporate tax law. Additionally, extra calculations, additions, and reductions in the profit apply only to local business tax (for example, expenses for interest and rent, share income, and loss from shares in corporations and partnerships). Sole proprietorships and partnerships are also allowed up to EUR 24,500 (as of 2022) as an exempt income. Furthermore, there's an exemption for freelancers (e.g. tax consultants, architects, or doctors) and forestry and agricultural businesses.

The tax rate combines a 3.5% (base rate) (as of 2022) and the municipal tax rate can be different in every city.

Capital gains tax (Kapitalertragsteuer)

Capital gains tax is a special form of collection for income tax and corporate tax. To ensure the tax claim, capital gains tax is withheld as a source tax at the point which is paying out the capital gains (for example, a bank, insurance company, or corporation). It's held for the creditor's calculation of capital gains (shareholder, partner, investor) and paid to the tax office.

Tax is applied to gross profit from capital investments such as interests, dividends from share corporations, and open and hidden distributions of profit for GmbHs. Please note that this 'capital gains tax' in Germany defines not only the tax on the difference between net realisable value and acquisition cost but also investment incomes such as interests and dividends, which are widely called "income gains". Generally, capital gains tax is always 25% (as of 2022). The solidarity surcharge is applied in addition to the capital gains tax.

Solidarity surcharge (Solidarit tszuschlag)

The solidarity surcharge of 5.5% is levied as an additional tax to income and corporation tax. From 1995 onwards, the solidarity surcharge was introduced to finance the costs of German unification and exists to date. It's only payable if a tax burden arises that exceeds a tax exemption limit for income tax. Germany plans to abolish the solidarity surcharge gradually in the future. Therefore, from January 2021 onwards, the tax exemption limit was increased, and a mitigation zone was implemented.

Companies that aren't familiar with the VAT regime in Europe will need support to comply with the tax rules to avoid the risk of high financial penalties in later tax audits. Furthermore, businesses from outside Germany shouldn't underestimate the complexity of the German wage tax and social security laws. Together with a capable consultant, even entrepreneurs, who are inexperienced in opening new entities, will manage this with little trouble.

— nhs*

Checklist: Corporate taxes in Germany

- Corporate income tax
- Trade tax
- Value-added tax
- Withholding taxes
- Capital gains tax
- Solidarity surcharge
- Church tax

5 Employment

At Payhawk, our main goal in establishing a German entity was to hire personnel in one of the most relevant markets for our product.

Labour law

German employment law isn't consolidated into a single labour code, and it's essential to understand this before you start to hire employees. You'll find all the relevant information in the federal legislation, case law, collective bargaining agreements, works council agreements, and individual employment contracts.

The national minimum wage per hour is 9.82€ from 01/01/2022, and it will increase to 10.45€/h after 01/07/2022.

You can see updated information [here](#).

Type of employee contracts

Full-time permanent employment, limited to 48 hours a week, is the most common in Germany and has an annual salary or is paid per hour. Part-time contracts are generally the same as full time but with set working hours per week. Other types of contracts include fixed-term contracts, agency staffers, freelancers, consultants, specialist contractors, and zero-hours contracts.

Employee benefits

Employees will receive a monthly salary, paid holiday days (minimum of 20 days), social security, and pension benefits, parental leave allowances, and sick leave. The German Federal Leave Act mandates time off, such as vacation days. Maternity, parental, and sick leave are also required.

Social Security and health insurance contributions are taken from both the employee's salary and the employer. The contribution is calculated as a percentage of the wage, which means higher earners pay more.

In Germany, there are four significant benefits programs which are:

- Health insurance (Krankenversicherung), shared 50:50 between employers and employees

- Long-term care (Pflegeversicherung), which is a separate system that applies to long-term nursing care for the sick or elderly. This programme is also split equally between employer and employee
- Unemployment (Arbeitslosenversicherung) Retirement (Rentenversicherung) which funds pensions for older Germans
- And finally, the accident insurance (Berufsgenossenschaft) which is paid solely by employers.

A quick calculation estimates that programmes one to four, as mentioned above, add an extra 20% to the cost of the gross salary for the employer.

Employing without a company

If you want to employ people before you set up your entity, you can do so via Professional Employer Organisations such as [Oyster](#), [Papaya](#) or [Velocity Global](#). You can hire staff remotely without registering a company for a monthly fee per employee.

Checklist: Employing people in Germany

- Review labour law
- Select employee contracts
- Employee benefits
- Employing without a company

Chapter 3

Your finance stack

We know what you're thinking. Opening an entity in Germany is complicated. It may seem that way, but it's manageable, providing you have the right partners. Also, once you've done it, you can focus on what really matters, which is getting big in the German market. Here's a quick checklist to help you get your finance stack ready:

● Bookkeeping

You have to forget Excel reports and manual data entry if you want to scale. Look into [DATEV](#) instead.

● HR software

As you read, Germany has many employee and employer fees. You'll need to gather all of your employees' master data, like working hours, vacations, sick leave, extra hours, etc., so working with a HR SaaS is essential. [Personio](#), [Bamboo HR](#) and [HR Works](#) are the most popular.

● Payroll

In Germany, you can't run your own payroll unless you have a tax accountant in your team. If that's not the case, you'll need help from a payroll provider like a local tax advisor or a payroll providing company. We're happy to recommend the [nhs* group](#); we've had a great experience working with them.

● Paying bills

Some bookkeeping software, ERPs and company cards, including [Payhawk](#), offer the option of paying bills and invoices. Your account will have a dedicated IBAN and BIC, so you can quickly pay your vendors directly via the web portal. At Payhawk, we also support both Faster Payments and SEPA Instant.

● Company cards and reimbursements

Company cards and easy reimbursements can help your team access company funds everywhere your business scales. At [Payhawk](#), we offer the most efficient physical and virtual company cards. With our support, you can grow into new locations without adding extra complications to your company's spending. By using our cards and software, you have the opportunity to take your business cashless with zero currency fees on GBP and Euros, great spend control and visibility, and a positive user experience. See how becoming a cashless business simplified spend at [Luxembourg airline, Luxair](#).

● ERP systems

The most commonly used ERPs are [Workday](#), [Business One](#), [Sage](#) and [Microsoft Dynamics Navision](#).

Checklist:

Your finance stack

- Bookkeeping
- HR Software
- Payroll
- ERP system
- Company cards and reimbursements
- Paying bills

Legal disclaimer

Payhawk legal disclaimer

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Level up with Payhawk

Take financial control and manage your company cards, business spend, and expenses, all from the same place. That's the power of all-in-one finance.

[Schedule a demo](#)[Open account →](#)

About the nhs* group

The nhs* group has an international team of expert consultants specialising in accounting, payroll, tax, audit and business consulting services in Germany for our clients from more than 20 countries. With 30+ employees in our offices in Duesseldorf and Cologne we unite professional competence with methodical expertise and extensive practical experience as consultants and line-organisation managers. As a member of the independent [winglobally](#) network, we can offer our services to clients around the globe via our network of partners with the relevant local expertise in more than 35 countries.

Find out more about nhs* group [here](#)

About Payhawk

Payhawk is the financial system of tomorrow that combines credit cards, payments, expenses, cash management, and pre-accounting automation into one integrated experience. Payhawk was founded in 2018 and currently serves customers across 18 countries in Europe from its offices in London, Berlin, Barcelona, and Sofia. Payhawk disrupts the expense management market by combining financial and software products into a single platform.

The product is available for any registered business in Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

Find out more about Payhawk [here](#)