

International Business Guides Germany



Together we thrive

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Welcome to Germany

At the heart of Europe and an intrinsic part of the European Union, Germany is an economic powerhouse. Famed for its industry, manufacturing and engineering, it is Europe's greatest exporter. Its people are highly educated, skilled and motivated, making it a core market for growing businesses.

Founded in Germany in 1785, HSBC Germany offers in-depth local knowledge and financial expertise from its base in Düsseldorf and 11 other locations across the country. With almost 3,000 employees in Germany, backed by a global network of around 3,800 offices in 66 countries and territories, HSBC is well positioned to help you take advantage of the many opportunities Germany can offer.

Germany is one of Europe's leading financial and economic centres with international reach that can support growing businesses. With its "AA- (stable)" rating, the bank has the highest Fitch rating of all private commercial banks in Germany and offers a comprehensive range of financial services for corporates, institutional clients, investors and private wealth clients.



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Essentials



Capital city
Berlin

Other major cities
Düsseldorf, Hamburg, Munich, Cologne, Frankfurt

Population
82.4 million¹

Size
357,104 sq km

GDP
USD46,747.19 per capita²

Main languages
German

Unemployment rate
3%²

Top exports
Machinery, vehicles, chemicals, and household equipment³

Top imports
Machinery, data processing equipment, vehicles, chemicals, oil and gas, metals, electric equipment, pharmaceuticals, foodstuffs, agricultural products³

Time zone
UTC +1, but from March to October the country observes UTC +2

Currency
Euro

Typical office hours
9.00am – 6.00pm, Monday to Friday

Corporation tax
15% (standard rate) and 30-33% (trade tax and solidarity surcharge)⁴

Dialling code
+49

Emergency numbers
110 (police), 112 (pan-European emergency services including fire and medical)

Germany: The engine of Europe

Economic powerhouse

Europe's largest economy, Germany is positioned as the fourth biggest in the world. A population of almost 83 million make it Europe's largest market.

Well connected

Germany's transport infrastructure connects to every region in the world, with Frankfurt airport alone offering over 300 destinations, making it the fourth busiest for passengers in Europe.

Logistics leader

Germany tops the World Bank's 2018 Logistics Performance Index comprising 160 countries. The sector is projected to make up 21% of national growth between now and 2025.

Innovation hub

Ranked third for innovation, Germany is recognised for the strength of its research & development (R&D). No other country in Europe invests greater R&D amounts and that figure continues to rise.

Global outlook

Germany is the third largest exporter in the world, after China and the US. Foreign Direct Investment (FDI) continues to grow, as the country proves stable and attractive for foreign investors.

Sources:

¹World Bank Group, 2019 ²Trading Economics, 2019

³Central Intelligence Agency (CIA), 2018 ⁴Deloitte, 2019

*Map shows cities of economic significance according to the CIA, 2018

Country profile

Germany is a significant economic power right in the heart of Europe. It's also one of the world's major industrial nations with dense communications and transport networks.

With the largest population and economy in the European Union, Germany's strength is built not only on the major corporations that call it home, but on its renowned Mittelstand – a legion of small and medium-sized enterprises that power its economy.

Germany's workforce is highly skilled, and the country's culture of innovation and its commitment to R&D are key economic drivers. Low levels of unemployment and an emphasis on work-life balance also make Germany an attractive destination for international businesses.

Germany shares borders with nine other countries – Denmark, Poland, the Czech Republic, Austria, Switzerland, France, Belgium, Luxembourg and the Netherlands.

Rated as the second most popular expat destination in the world by the OECD and Migration Policy Institute, Germany is a cosmopolitan and multicultural country, embracing many ethnicities and religions.

Read on to discover more about the dos and don'ts of doing business in Germany. Also find out how trading in or with the country could help boost the future growth of your business.

5 reasons to do business in Germany¹

01 **An economic force**

With the world's fourth largest economy, Germany is regarded as Europe's economic engine.

02 **Sound infrastructure**

Germany is rated Europe's number one logistics market, supported by a strong infrastructure.

03 **Qualified workforce**

Germany's world class education system ensures the highest standards, with 81% of the population trained to university entrance level or possessing a recognised vocational qualification.

04 **Global innovation**

A world-leader in innovation, Germany tops Europe's league for R&D investment.

05 **Competitive tax**

A reduction in the level of corporate tax makes Germany a competitive location for businesses.

5 key challenges²

01 **Starting a business**

Germany has a bureaucratic approach to starting a business, with a number of procedures that have to be adhered to and several different offices that need to be contacted.

02 **Registering a property**

Registering a property can take around 40 days, with many processes to adhere to. Companies must obtain an extract from the Land Registry and notarise the transfer agreement.

03 **Paying taxes**

Paying taxes in Germany can be onerous. Nine tax payments a year and 14 different taxes, which may be payable by businesses operating in Germany, make this quite time-consuming.

04 **Energy costs**

High energy costs following the introduction of surcharges to encourage the use of renewable energy are a challenge for many businesses, particularly those that are high users.

05 **Employment laws**

Germany has some of the strictest employment laws in the world, so understanding the regulations and your responsibilities as an employer is essential.

Sources:

¹Germany Trade & Invest, 2018

²TMF Group, 2018

Society & culture

In this section

- Language
- Food
- Religion
- Values
- Customs & celebrations
- Useful phrases



Language

German is the official language of Germany. Spoken by over 120 million people worldwide, it's the most common first language in the European Union. German is also spoken in neighbouring Austria and Switzerland.

In written form, German is reasonably uniform, merely differing in the way that UK English differs from US English. However, in its spoken form, there are several dialects, categorised into either High or Low German. The key difference between High German and Low German is in the way that consonants sound. High German is the official language used in written form, in business, administration and the media.

German is an official language of the European Union and one of three working languages of the European Commission.

Food

German cuisine is as diverse as its population, although it has earned a reputation for quality bread (with around 300 varieties) and beer (with over 7,500 types of beer produced by 1,300 breweries).

There are over 280 Michelin-starred restaurants in Germany and numerous others providing a choice of eating options. Table manners, as one might expect, are especially important.

Religion

Freedom of religion is particularly important in Germany and is enshrined in the country's basic laws. Although the main religion is Christianity, with around 50 million followers, the presence of other religions reflects the rise of immigration to Germany, with Islam now the country's third largest religion.

Values

Germans are renowned for their emphasis on order and organisation. They place great importance on good manners and punctuality. There is a definite separation between private and business life and high levels of formality exist.

Customs & celebrations

Oktoberfest, which actually starts in September, is perhaps Germany's most famous festival. Held in Munich for two weeks, it is over 200 years old and attracts five to six million visitors.

Having given the world the Christmas tree and Silent Night, Christmas is celebrated across the country. Other holiday dates include New Year's Day, the Epiphany on 6th January, German Unity Day on 3rd October, which celebrates the reunification of Germany in 1990, and the National Day of Mourning in November.

Useful phrases

English

German

Good morning

Guten Morgen

Good afternoon

Guten Tag

Good evening

Guten Abend

Good night

Gute Nacht

Welcome

Willkommen

Goodbye

Auf Wiedersehen

My name is...

Mein Name ist...

Pleased to meet you

Schön, Sie kennen zu lernen

How are you?

Wie geht es Ihnen?

Can I help you?

Kann ich Ihnen helfen?

Thank you for agreeing to meet with me

Danke, dass Sie sich die Zeit nehmen, sich mit mir zu treffen

Thank you

Danke

Have a safe trip!

Gute Reise!

Working practices & values

Generally speaking, the Germans value order, reliability and good manners and these are reflected in their disciplined approach to business. German companies follow a strict hierarchy with numerous rules, regulations, policies and procedures that are closely adhered to.

Their laser focus means that communication is direct and they like to get to the point quickly. The masters of planning, Germans are rarely spontaneous and are not keen on surprise changes in direction.

Punctuality is highly prized and schedules are rigorously enforced. Being late by even a few minutes may be considered offensive and, if unavoidable, calling ahead to explain is advisable. Planning to arrive five to 10 minutes early for an appointment is courteous.

Germany has more public holidays than any other European country. Banks and most shops, including supermarkets, are closed on public holidays.

The Germans divide work from their personal lives rigorously and there is increasing emphasis on work-life balance and flexibility. Most employees are entitled to around six weeks paid leave each year.

Opening and closing hours are strictly governed by Federal law, as well as local laws in individual states. Supermarkets close at 10.00pm at the latest and open before 9.00am or 10.00am. On Sundays almost everything is closed except bakeries and petrol stations. Many restaurants remain open and public transportation and other services are also available.

Working hours are regulated by the German Working Time Regulations as well as collective agreements within certain industries. Working more than an average of 48 hours per week over a six month period must not be exceeded, and Sundays are generally considered as non-working days.

Rank is important in Germany, as are professional qualifications. The advent of a minimum wage is a fairly recent phenomenon and pay inequality remains common.

Business etiquette

In this section

- Greetings
- Dress code
- Negotiations
- Business cards
- Sealing the deal
- Entertaining
- Golden rules



Greetings

First impressions really do count in Germany. These tend to be formal and using the correct title is important. Addressing someone as Herr or Frau is the norm, with first names reserved for family or close friends. It may take a while to move to first name terms with business acquaintances, if ever. A standard business greeting when meeting face-to-face is a handshake, sometimes with a slight bow and always with eye contact. Germans tend to be reserved and avoid public displays of affection, with personal space important.

If speaking German, use the formal version of you (Sie), unless invited to use the informal 'Du' form.

Dress code

Appearance is very important, particularly in a business context, with an emphasis on conservatism rather than ostentation. Men typically wear dark-coloured suits, white shirts and a conservative, solid tie, and women, dark suits and white blouses or a conservative dress. Only remove your jacket or tie if your German colleague does so.

Negotiations

Germans tend to drive a hard bargain and their word or handshake is their bond, so verbal agreements are rarely reneged upon. Respect will be given to a factual, well-considered presentation that includes statistics, graphs and analysis. Strict hierarchy means that decisions are taken at the top level and attempts to bypass this are frowned upon. Germans are methodical and decisions can take a while, so be sure to show patience.

Business cards

When meeting for the first time, business cards are usually exchanged. There is no need for these to be printed in German, but any qualification above that of a Bachelor's degree should be included, as Germans prize expertise.

Sealing the deal

It may take a while to reach a deal, but once agreed, it will usually be formulated as a series of actionable steps with a clear timetable.

Contracts are strictly followed in Germany. Under German law, if an agreement is reached by telephone and one party confirms their understanding of the contents of the call in a letter, the other party has to object without undue delay or the contents of the confirmation letter will form the basis of the agreement.

Many German businesses put their general business conditions, in German, on the back of orders, invoices and so on. Those business conditions can form part of the agreement if not properly objected to. To protect against this, it is advisable to always object to the other side's general business conditions.

Meetings will be followed up in a timely manner with detailed minutes and all actions will be followed through.

Entertaining

Business entertaining will usually take place in a restaurant, rather than a private home, as Germans like to keep work and family life separate.

A business meal is about building a relationship with your German business associate and actual business is rarely conducted during either lunch or dinner.

Good manners are particularly important when dining. You should wait until your host arrives before beginning a meal, never place elbows on the table and keep hands visible at all times.

Golden rules

01 **Make an appointment**

Germans schedule meetings well in advance and making an appointment is mandatory. If you are sending an appointment letter through the mail, this should be written in German and must ensure that the person you are addressing does not outrank you. When scheduling a meeting, try to avoid the holiday months of July and August.

02 **Arrive on time**

Punctuality is a national trait and a sign of respect. Try to arrive five to 10 minutes before any appointment and, if you are unexpectedly delayed, telephone ahead with an explanation immediately. Calling off a meeting at the last minute could threaten your entire business relationship.

03 **Demonstrate logic**

Showing a clear, well-thought-out and analytical process will be respected. Germans deal in hard facts so jokes and anecdotes are best avoided.

04 **Respect personal space**

Germans value their personal space, so a handshake rather than an air kiss or back-slapping is the best type of business greeting.

05 **Observe formality**

Business meetings are a formal occasion in Germany so act accordingly. Over-familiarity, casual dress and a laid back manner may be considered offensive.

06 **Be sure to follow through**

Telephone messages, emails and other correspondence should be answered promptly. If a German agrees to do something, they will commit body and soul to seeing this through – and they expect the same level of commitment from their business dealings.

Economy

In this section

Highlights
Regional economies
Innovation
Exports & imports



Highlights

- ◆ Employment levels in Germany are high, although productivity in services has shown signs of weakening.
- ◆ Exports are consistently strong, boosted by the depreciation of the Euro and a solid manufacturing sector and industrial heritage.
- ◆ The German economy remains robust, with a current account surplus of about 8%.

GDP (Current USD)	GDP Per Capita
\$3,677 billion¹	\$46,747²
Real GDP Growth	Inflation Rate
1.9%¹	1.5%²

Economic Structure

Services (% of GDP)	69%¹
Industry (% of GDP)	30%¹
Agriculture (% of GDP)	1%¹

As part of the EU, Germany has an open economy. It is the world’s third largest exporter and the top in Europe. Economic growth remains modest according to the Organisation for Economic Co-operation and Development (OECD), with solid growth projected in the near term, driven increasingly by domestic consumption.

Germany’s economic growth has been based on the strength of its industry and exports, but this will increasingly shift to an economy fuelled by investment and private consumption in the years ahead. Strengthening real wage growth from a tighter labour market and the introduction of a national minimum wage is increasing household consumption.

However, an ageing population, an influx of immigrants and poor childcare which excludes many women from full-time employment, is lowering the available workforce. If not addressed, this could cause longer-term structural issues for the German economy.

Boosting domestic demand and encouraging investment through regulatory reform could lower the current account surplus and underpin economic growth, helping Germany manage its external imbalance.

	Exports	Imports
Global Ranking	3³	3³
Value	\$1.3 trillion¹	\$1.1 trillion¹
Global Share	8.4%⁴	6.5%⁴
% of GDP	46%¹	38%¹

Sources:
¹World Bank Group, 2019
²Trading Economics, 2019
³World Trade Organization, 2018
⁴Organisation for Economic Co-operation and Development, 2019

Regional economies

Following reunification in 1990, Germany is made up of 16 Federal states, including three city states – Berlin, Bremen and Hamburg. Each has its own economic identity.

Baden-Württemberg is a particularly industrious state, home to several large corporations including Bosch and Daimler. Contributing about 15% of GDP, the state accounts for around 16% of German exports.

Bayern (Bavaria) is the largest state in Germany, accounting for around 18% of GDP. Home to household names such as Siemens, Audi and BMW, the state has left behind its traditional agriculture-based economy to become one of Europe's most competitive industrial regions.

Berlin is the capital of Germany and one of three city states. Its economy has struggled to recover from the division of the city between West and East, which came to an end in 1990 with reunification, and it accounts for just 4% of GDP. Growth in the services sector and public administration have gone hand in hand with a decline in the more traditional industrial and construction sectors.

Brandenburg combines industry with agriculture and is the second least populous state in Germany. It contributes just 2% of GDP and has above average unemployment levels.

Bremen is the smallest Federal state, contributing just over 1% of GDP. A thriving services sector and an industrial centre focused on its container port provide the basis for its economic growth.

Hamburg boasts the second largest port in Europe and the 15th in the world and is the most important hub for foreign trade in Germany. Providing around 3% of GDP, its per capita GDP is the highest in Germany. Key sectors are: aviation, health, trade and transportation.

Hesse contains the key European financial centre of Frankfurt, home of both the European and German central bank. Strong industrial and service sectors characterise the state, which contributes around 8% of GDP.

Mecklenburg-West Pomerania's low population density and traditional industries of agriculture and fishing characterise this state. Unemployment is higher than the German average and the state contributes just over 1% of GDP.

Lower Saxony is the second largest state by area but sparsely populated. Economically, the state contributes around 8% of GDP but its economic make-up is diverse with significant industrial areas and widespread agriculture.

North Rhine-Westphalia is home to Germany's largest metropolitan area, the former industrial heartland of Rhine-Ruhr and the most populous state. With around 10 million inhabitants, it is one of the 30 biggest metropolitan regions in the world, contributing around 21% of German GDP. The services sector dominates here.

Regional economies

Rhineland-Palatinate contributes around 4% of GDP and is Germany's leading wine producer. The services sector too plays a major part in the state's economy and it is home to many major industrial corporates.

Saarland is the smallest state by population and area. With an economy originally based on heavy industry, the state has embraced the services sector and employment in new technologies and the automotive industry is significant.

Saxony has a large number of small and micro-businesses and is particularly active in microelectronics, biotechnology, automotive, mechanical engineering and microsystems sectors, earning it the nickname 'silicon Saxony'. The state contributes around 3% of GDP.

Saxony-Anhalt is home to Germany's 'chemical triangle' and the economy remains focused on the chemical and plastics industries, plant engineering and construction, the food industry, automotive supply, renewable energies and logistics. Exports account for around 27% of the state's GDP.

Schleswig-Holstein is Germany's most northerly state with just two major urban centres. Agriculture continues to play a part in the state's economy, although there has been growth in the services sector. The armed forces are a significant employer in the region and Lübeck remains the largest German port on the Baltic Sea, leading to a proliferation of shipping companies based here.

Thuringia is known for its industrial tradition in automotive, optics, mechanical engineering and medical technology. Poor productivity means that the state contributes just 1% of GDP. The economy is being transformed into more high-tech industries.

Innovation

Germany is an innovation leader. According to the 2018 Bloomberg Innovation Index, Germany is the third most innovative economy in the world. The European Innovation Scoreboard also ranks the country sixth overall. High-value manufacturing and a number of micro-enterprises mean that R&D is a top priority for the country.

Exports & imports

Germany is Europe's top trading economy and ranks third globally, behind the US and China. Its key trading partners are within Europe (accounting for around 65% of exports by value), with around 18% to Asia. Germany's top export (and growing) is cars followed by automotive parts and accessories, therapeutic or prophylactic drugs and medicines. Recent years have also seen growth in exports of powered aircraft including planes, helicopters, spacecraft and satellites.

In terms of imports, almost three-quarters are sourced from other European countries, and 16% from Asia. Cars, automotive parts and crude oil account for the country's top imports.

The country's rich industrial heritage and high productivity earn it an 8% global share of exports and provide a favourable balance of trade.

Though demand for German exports has slowed somewhat over the last year, Germany still sent about US\$271.7 billion worth of machinery and US\$263.7 billion worth of vehicles abroad in 2018.

In 2017, China overtook the US as Germany's biggest trading partner, largely driven by the amount of imports from China, but also an increasing number of exports from Germany to China.

In 2016, Germany's top export markets were:

- 01 United States
- 02 France
- 03 United Kingdom
- 04 Netherlands
- 05 China

Its main import partners were:

- 01 China
- 02 Netherlands
- 03 France
- 04 United States
- 05 Italy

In 2018, Germany had a positive trade balance and trade growth was 2.27%, compared with world growth of only 1.5%.

China is Germany's top trading partner. The two countries exchange roughly EUR 188 billion in goods on a yearly basis.

Labour & business

In this section

Highlights

Workforce

Productivity

Bankruptcy

Audit & accounts



Highlights

- ◆ Unemployment in Germany is at a record low level and significantly below the OECD average.
- ◆ In terms of employment, 66% of the working age population are employed, above the OECD employment average of 61%.
- ◆ Productivity growth remains strong, youth unemployment is low and competitiveness is at an all-time high.

Population
82.4 million¹

Hours Worked (Per Year)
1,363²

Workforce
43 million²

Unemployment Rate (as % of Labour Force)
3.3%⁴

Human Capital Report (Rank)
6³

Minimum Wage (Per Hour)
€9.19⁵

Maternity Leave (Weeks)
14²

Sources:

¹World Bank Group, 2019

²Organisation for Economic Co-operation and Development, 2018

³World Economic Forum, 2019

⁴Trading Economics, 2019

⁵European Commission, 2018

The German labour market performs well on measures of relative performance. As well as low unemployment, earnings quality is high and job insecurity is low. The introduction of the Federal minimum wage in 2015 has not affected employment rates, which have continued on an upwards trajectory.

Wage growth in Germany remains low, as immigrant and secondary workers pull the average down, although it increased by around 1.5% in September 2018 over the same month in the previous year.

Wages

The first Federal minimum wage came into effect in Germany on 1st January 2015. Prior to this, wages were negotiated by trade unions or business groups. The minimum wage is applied to all workers over the age of 18 years, apart from those who are self-employed or freelance. It also doesn't apply to internships that last less than three months or are part of university courses, volunteer work or apprenticeships. Similarly, those classed as long-term unemployed can be paid below the German minimum wage for a six-month period when they first return to work.

The German minimum wage was increased in January 2019 to EUR9.19 per hour.

Getting a work visa in Germany isn't always easy. If you aren't from an EU/EEA country or Swiss, you will need a residence permit with work authorisation and, unless you're joining a relative with permission to work in Germany, you can only work in Germany if the position cannot be filled by an EU worker, or if you have skills or qualifications that place you in a preferential category.

Permits for general employment are available to non-EU/EEA/Swiss citizens if they can produce evidence of having a vocational qualification and a firm offer of a job in Germany. This is granted for a year and is extendable. After five years, you may apply for a settlement permit or EU right of residence.

University graduates from overseas may apply for a jobseeker's visa which entitles them to travel to Germany for six months to look for work, provided they have sufficient funds to support themselves. Once they find employment, they may apply for a work permit. You may apply for an EU Blue Card if you hold a university degree from a German university or the equivalent from a foreign university and have a guaranteed job in Germany with an income of EUR50,800. Permits are also available for highly skilled workers in key sectors.

Only around a fifth of employees in Germany are members of a trade union, and numbers have declined since reunification in 1990 and the economic changes in Eastern Germany. However, companies with a regular workforce of at least five employees (with voting rights) must agree to the establishment of a Workers' Council ('Betriebsrat').

Workforce

German workers tend to be highly-skilled, with great emphasis placed on higher education and professional qualifications. Renowned for their focus and attention to detail, they tend to be highly-prized problem-solvers. Ranked sixth in the World Economic Forum's Global Human Capital Report 2017, Germany performs strongly on the Know-how sub index, with a balanced performance across the development and deployment themes.

Work-life balance is good in Germany, with workers averaging around 1,371 hours per year, or 26.3 hours per week. Workers enjoy a minimum of 20 days paid holiday per year (the average is 30) and up to 13 public holidays. This all helps to create positive working conditions, placing Germany 11th for workforce satisfaction globally.

Productivity

Productivity growth has weakened with Germany's global ranking falling from sixth to 11th place in 2017. This has been particularly marked in the services sector. Concerns around the ageing population and lack of participation by women in the labour market make these areas key challenges for Germany in the years ahead.

To boost productivity in the longer-term, the OECD has made a number of recommendations. These include boosting government investment, particularly in childcare, which would enable a broader spectrum of the population to participate in the labour market. There are also calls for regulation to be loosened to boost competition. Tax changes to support secondary earners and energy-efficiency are also suggested.

In response to the challenge caused by the ageing population, further integration of Germany's high migrant population, opening up the labour market to more women and raising the retirement age, should be considered according to the OECD.

Bankruptcy

There are two stages of insolvency proceedings in Germany: a preliminary and a final insolvency stage, both supervised by the local German Insolvency Court. Management, shareholders or creditors may file for bankruptcy. The Insolvency Court will appoint a creditors' committee and an administrator, and bankruptcy will be declared if the administrator can demonstrate that grounds for insolvency are met.

Alternatively, if a company can be restructured and achieve economic value, an insolvency plan may be ordered, subject to the approval of creditors and shareholders.

Germany's Insolvency Law was enacted in 1999. Before that, proceedings were based on the Bankruptcy Act, 1877. Further changes to the Insolvency Law were made in 2012.

Audit & accounts

Financial statements (balance sheet and profit and loss account) must be prepared once a year by all types of business entities with sales exceeding EUR500,000 or net profit exceeding EUR50,000. These must be prepared to the German accounting standards, following Generally Accepted Accounting Principles (GAAP). Smaller businesses are permitted to record income and expenses on a cash basis accounting.

Financial statements must be prepared in German and in Euros. IFRS financial statements may be used for public filing, but do not provide an exemption for the company from the compilation of a German GAAP financial statement. Although the business year generally follows the calendar year, other business years may be chosen and registered with the consent of the fiscal authorities.

The financial statements and management report prepared by large and medium-sized incorporated companies, KapCo and large partnerships must be audited by an independent auditor or independent audit firm.



Taxes & wages

In this section

- Highlights
- Corporate taxes
- Individual tax
- Withholding taxes
- Wage taxes
- Indirect tax
- Tax incentives

Highlights

- ◆ In addition to personal income tax, Germans must also pay a solidarity surcharge, which is the equivalent of 5.5% of income tax and, if affiliated to a religious community, a church tax, which may be up to 9% of income tax.
- ◆ Personal income tax is scaled and deductions made for the number of children in a family.
- ◆ Basic corporate income tax at 15% is below the European average of 18.88%.

Ease of doing business –
Paying Taxes (Rank)
43¹

Personal Income Tax (Rate)
0-45%³

Corporate Income Tax
(Rate)
15%²

Value Added Tax (Rate)
19%²

Germany has high levels of personal taxation, the second highest tax wedge among the 35 OECD member countries, with the average single worker in Germany liable for a tax wedge of 49.4% compared with the OECD average of 36.0%.

With one in 11 Germans paying the 42% personal income tax rate, which is applied to income above EUR54,058, there have been calls for a reform of the tax system. This has, so far, been met with opposition from the ruling party.

Corporate taxes

Corporate tax must be paid by corporations domiciled or managed in Germany, which means that their domestic and foreign earnings are all taxable in Germany.

Non-resident companies are subject to tax on German-sourced income. Business enterprises operating in Germany are also subject to a trade tax on business income, as assessed by each municipality.

The corporation tax rate is 15%. In addition, a solidarity surcharge is levied at 5.5% of corporation tax. Businesses are also liable to pay the trade tax. This is a combination of a uniform tax rate of 3.5% (base rate) and a municipal tax rate (Hebesatz). Depending on where the business has a permanent establishment (PE) this can be as much as 19%.

Sources:

¹World Bank Group, 2019

²Confédération Fiscale Européenne (CFE), 2018

³European Commission, 2018

Individual tax

Regardless of nationality, all German residents are taxed on their worldwide income. Non-residents are only required to pay tax on German-sourced income. Individuals are deemed resident if they have a residence in, or their customary place of abode (for more than 180 consecutive days) is in, Germany. Germany does not have a special tax regime for incoming expats, which means they can also be liable for taxes in their home country.

Personal income tax is charged on a sliding scale and the rates are usually identical for resident and non-resident taxpayers. For income in 2018 those rates are:

Taxable income range for single taxpayers (EUR)		Taxable income range for married taxpayers (EUR)		Rate (%)
Over	Not over			
0	9,000	0	18,000	0
9,001	54,949	18,000	109,898	14-42
54,950	260,532	109,899	521,064	42
260,533	and above	521,065	and above	45

Following re-unification and with the aim of improving the infrastructure and economic situation in the new eastern states of Germany, a ‘solidarity surcharge’ is levied as a percentage of personal income tax. The current rate is 5.5%.

Withholding taxes

All dividends, whether paid to a resident or a non-resident, are subject to a 25% withholding tax plus a solidarity surcharge of 5.5% of the tax due. Where the shareholder satisfies the conditions of the EU Parent Subsidiary Directive (in other words, is an EU resident company with a 10% or more interest in the company paying the dividend), this reduces to nil.

Interest is subject to 25% withholding tax plus a solidarity surcharge of 5.5% of the tax due if it is paid to a resident. Interest paid to a non-resident is not subject to withholding tax. Royalties paid to a non-resident are subject to 15% withholding tax plus a solidarity surcharge of 5.5% of the tax due.

Exemptions or rate reductions are due where German tax treaties apply.

Wage taxes

Employees subject to the wage tax withholding system are not required to file an annual income tax return, unless they accrue income from more than one employment or from sources other than employment amounting to more than EUR410. In all other cases, a German income tax return must be filed with the local tax authorities after the end of the tax year.

Employees are also subject to the compulsory social security system. The employer withholds the employee's share from wage and salary payments. The following rates currently apply:

Type of insurance	Paid by employer	Paid by employee	Total	Annual EUR (Ceiling)	Monthly EUR (Ceiling)
Pension	9.8%	9.8%	19.6%	67,200	5,600
Unemployment	1.5%	1.5%	3%	67,200	5,600
Health	7.3%	8.2%	15.5%	45,900	3,825
Nursing	0.975%	0.975%	1.95%	45,900	3,825
Total %	19.575%	20.475%	40.05%	-	-

The ceiling for pension and unemployment insurance applicable in the Eastern Bundeslaender (former German Democratic Republic) is EUR57,600 per year and EUR4,800 per month.

Indirect tax

In Germany, VAT is levied on the provision of the majority of goods and services. The standard VAT rate is 19%, with a reduced rate of 7% applied to food, books, magazines, newspapers, entertainment, local public transport and hotel accommodation. Some supplies are either zero-rated or tax exempt. Zero-rated supplies are mainly those from within the EU, exports to non-EU countries and cross-border transport of goods to and from non-EU countries. Exempt activities include most financial, insurance and postal services, transfers and letting of immovable property, services associated with health and social welfare and some educational and cultural services.

Small businesses, whose turnover in the previous year did not exceed EUR17,500 and is not expected to exceed EUR50,000 in the current year, are exempt from VAT. VAT is assessed according to the calendar year, with most returns requiring to be filed on a monthly basis.

Non-residents must register for VAT purposes and file VAT returns if they make supplies in Germany which do not fall under the reverse charge scheme.

Germany does not levy capital tax, but other indirect taxes include the Municipal Real Estate Tax, which is an annual tax levied by municipal authorities on all immovable property (whether private or business). The rate is generally around 0.35% of the assessed value of the property, multiplied by a municipal co-efficient. In major cities this can lead to an effective rate of 1.5-2.3%.

A Real Estate Transfer Tax is imposed on the transfer of real estate located in Germany and on transactions deemed to relate to a transfer, such as the transfer of shares in a company holding real estate in Germany. Rates levied depend on the location of the real estate.

Customs duties are applicable on goods imported from outside the EU based on the customs duties applicable to all EU member states. Germany also levies excise duties on goods including tobacco, alcohol (not wine), beer, coffee, mineral oil, gas, coal, nuclear fuel and electricity.

Tax incentives

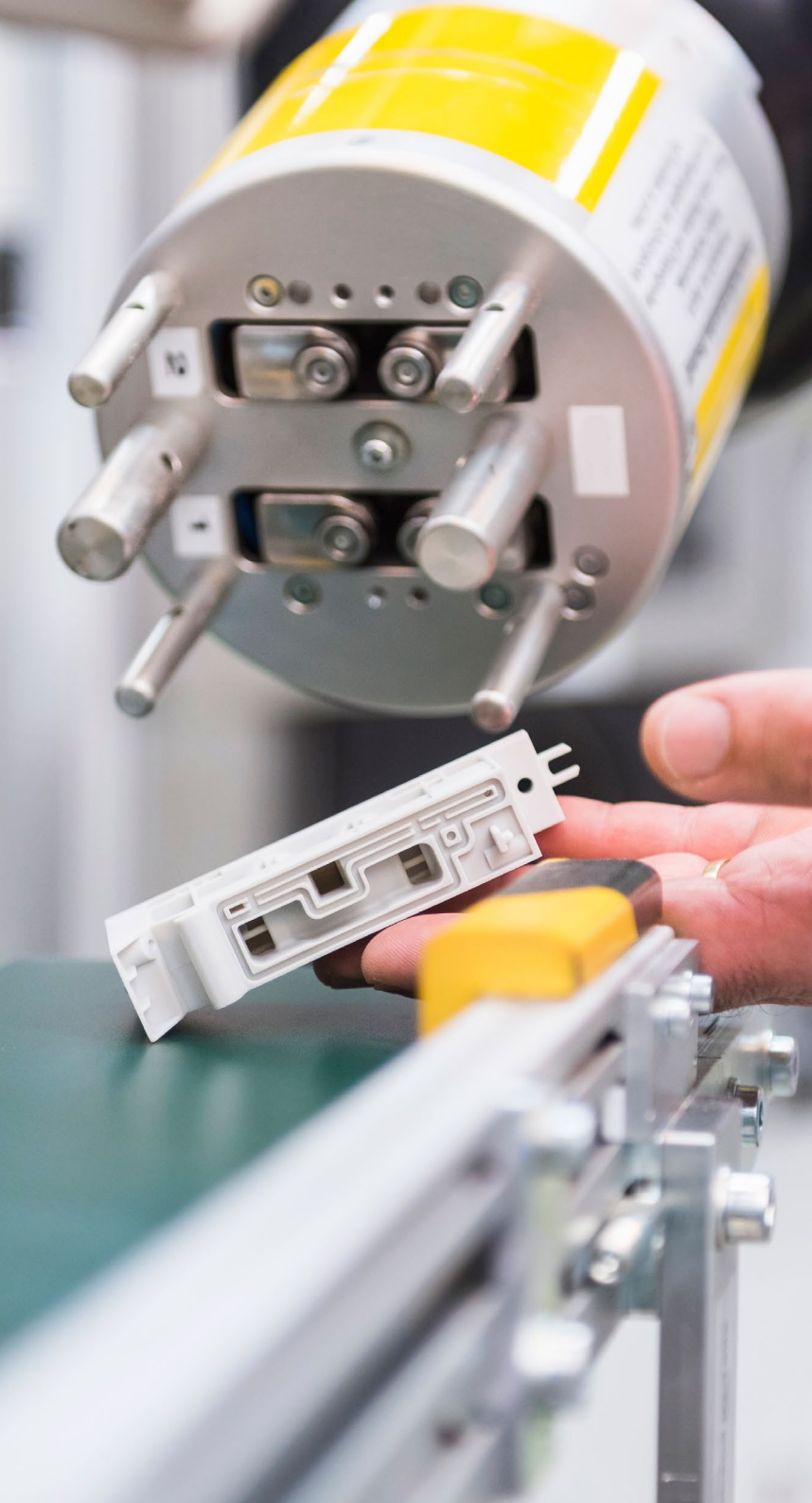
Following its custom of playing by the rules and a constitutional requirement that all taxpayers receive equal treatment, Germany does not offer tax incentives except in very limited circumstances. However, some local authorities may offer facilities on favourable terms, to boost investment.

Foreign-sourced income which is not exempt from German taxation, may receive a credit in respect of foreign tax paid and not otherwise recoverable. This is limited to the corporation tax (including the solidarity surcharge) on the net income after deducting the related expense (a per-country limitation applies).

Investment & trade

In this section

- Highlights
- Ease of doing business
- Foreign investment
- Competitiveness
- Government incentives
- Capital markets & banking
- Intellectual property rights



Highlights

- ◆ Innovative SMEs make up the majority of German companies.
- ◆ The US is the largest source of foreign investment in Germany, accounting for 11% of investment since 2010.
- ◆ The ICT & software industry, and business & financial services are leading sectors in attracting FDI. Other attractive sectors include industrial machinery & equipment, textiles, consumer goods, and chemical industry.

FDI Net Inflows
(Current USD)
\$52.4 billion¹

Ease of doing business -
Starting a business (Rank)
114¹

Ease of doing business
- Trading across borders
(Rank)
40¹

Enabling Trade Index
(Rank)
9²

Germany is Europe's powerhouse. GDP of over \$3 trillion make it Europe's largest economy and a significant global force.

At the heart of Europe, Germany offers access to the enlarged EU and is Europe's number one logistics market, supported by a sophisticated energy and communications infrastructure and first-class transportation networks.

Almost 10% of Europe's manufacturing companies are German. The German economy is driven by highly innovative small and medium-sized enterprises (SMEs), which make up 99.6% of German companies, employing almost 60% of all employees in Germany.

Ease of doing business

Germany ranks 24th in the World Bank's Ease of Doing Business Report but 114th in terms of starting a business. It takes nine days and around nine start-up procedures to get a business up and running in Germany, together with 32% income per capita – significantly higher than the OECD average, according to the World Bank.

Registering property and paying taxes also take longer than average, with the latter featuring as a key barrier to doing business in Germany, alongside tax rates, labour regulations and bureaucracy, according to the World Economic Forum.

Sources:

¹World Bank Group, 2019

²World Economic Forum, 2018

Foreign investment

Germany is the top European country for FDI, with the number of projects tripling in the past 10 years. This is due in no small part to its robust economy, political stability and pro-European outlook. According to EY's 2017 Attractiveness Survey, Germany is the second most attractive European country from the perspective of foreign investors.

A key challenge will be how Germany responds to digitisation and whether it can transform its economy from one based heavily on core, traditional industry to a new digital world. Despite its emphasis on the so-called Old economy, with key investment sectors including transport and energy, indications are that Germany will remain an attractive investment location.

Competitiveness

Despite high tax rates, regulations and bureaucracy, Germany remains a highly competitive country, ranking fifth out of 138 countries featured in the World Economic Forum's Global Competitiveness Report 2017. Germany scores highly in a number of areas, including:

- ◆ Innovation
- ◆ Infrastructure
- ◆ Business sophistication
- ◆ Technological readiness
- ◆ Efficient use of talent

Government incentives

The German government is keen to attract foreign investment, granting foreign investors the same rights as German nationals and allowing investment in key infrastructure, such as mail and telecommunication. Germany provides a first-year tax subsidy to foreign investors who acquire new movable property and buildings. The subsidy is available to SMEs employing 250 or more employees and is offered at a rate of 25% to 27.5%.

There are also government grants available to foreign investors conducting Research and Development in the form of low interest loans, as well as grants available for up to 50% of costs for foreign investment in key sectors.

Capital markets & banking

Germany has a well-developed financial infrastructure and is home to the European Central Bank. With SMEs and the country's famed Mittelstand making up the majority of businesses in the country (over 99%), bank loans are the predominant source of business funding. This, the traditional German system of cross-shareholding among banks and industry, and a high rate of bank borrowing relative to equity financing, allowed German banks to exert substantial influence on industry in the past.

Considered by many as 'over-banked', the country's financial institutions suffer from low profit margins and consolidation appears overdue.

There are no restrictions or barriers on the movement of capital, foreign exchange earnings or dividends. Foreign exchange and domestic currency (EUR) accounts can be held by residents both domestically and abroad. Resident domestic currency accounts are convertible into foreign currency. Non-resident bank accounts can be held in both foreign and domestic currency. Non-resident domestic currency accounts can be held abroad and are convertible into foreign currency.

All transactions between residents and non-residents exceeding EUR12,500 must be reported to the Bundesbank (the German central bank) monthly. Mandatory reporting does not apply to payments received for exported goods or payments made for imported goods.

Credit transfers are common in Germany and used for both high-value corporate and low-value retail payment transactions. Cheque use is in terminal decline, while the use of payment cards, in particular debit cards, is increasing.

With characteristic efficiency, the German foreign late payment rate is among the lowest in Western Europe. Days Sales Outstanding (DSO) posted by German respondents, averages 30 days, markedly below the 48-day average for Western Europe.

Intellectual property rights

Germany is a stringent enforcer of intellectual property rights, both through EU regulation and through its civil code. Under the German Copyright Act only natural persons have the right to protection for their intellectual work, which is enforced immediately without the need for the work to be registered. Copyright protection is available during the author's life, for 70 years after death and is heritable. Design copyright follows similar procedures but protection is only valid for 25 years.

Patent applications must be submitted to the German Patent and Trademark Office (DPMA). Examination and registration takes around three years, with protection lasting 20 years. Trademarks should also be registered with the Patent and Trademark Office in Germany as well as with the Office for Harmonization of the International Market (OHIM) at European level. Subject to renewal fees being paid, trademark protection is provided for an indefinite amount of time.

Infrastructure

In this section

Highlights

Transport infrastructure

Digital infrastructure

Infrastructure investment



Highlights

- ◆ Germany’s transport infrastructure rates highly overall, although under-investment in roads in recent years has seen lack of maintenance creating problems for road users. Its road network still remains above the EU average.
- ◆ The timeliness of shipments has improved and Germany now ranks second amongst EU countries on this measure. Its port facilities are impressive. Hamburg is Europe’s third largest container port, Bremerhaven is one of the world’s largest car ports for vehicle traffic, and Duisburg is Europe’s largest inland port.
- ◆ 25 of the country’s airports offer international services, with Frankfurt ranked as one of the top cargo airports in Europe and the fourth largest for passenger numbers.

Railway Network 43,468 km ¹	Quality of Overall Infrastructure (Rank) 12 ²	Quality of Port Infrastructure (Rank) 18 ²
Inland Waterways 7,467 km ¹	Quality of Roads (Rank) 15 ²	Quality of Air Transport Infrastructure (Rank) 16 ²
Motorway Network 12,800 km ¹	Quality of Railroad Infrastructure (Rank) 9 ²	ICT Infrastructure – Network Readiness Index (Rank) 8 ²

Renowned for its efficiency, Germany’s infrastructure reflects this strength, with its air and port infrastructure especially well-respected. A lack of investment in its ageing road infrastructure in recent years has seen its ranking slip in the World Economic Forum’s Global Competitiveness report (GCR), dropping to 15th overall.

Despite this, Germany remains one of Europe’s leading logistics hubs, worth in excess of EUR200 billion. More goods pass through Germany than any other European country, testimony to its location at the heart of Europe but also to the efficiency of its infrastructure.

The country’s digital infrastructure is improving. Germany is now ranked 10th in the world in terms of technological readiness, according to the World Economic Forum.

Sources:
¹Central Intelligence Agency, 2018
²World Economic Forum, 2018

Transport infrastructure

Germany's port infrastructure is booming, with the country boasting some of Europe's largest and most efficient ports – Hamburg, Bremerhaven and Duisburg. In addition, there are a further 250 inland ports and its inland waterways act as trade arteries connecting the major sea ports.

Germany is a hub for international air transport, with connections available to every region in the world. Frankfurt is the country's busiest airport and the fourth busiest for passengers in Europe. With over 300 destinations served, it is also the airport with the most destinations in the world. Cologne/Bonn Airport is a major cargo hub for the country and also hosts several space agencies' training facilities.

At over 43,000 km, Germany's rail network is the longest in Europe. Once renowned for its efficiency, years of under-investment have taken their toll. Train delays have risen by over a third in recent years, with passenger and goods trains losing an estimated 174,630,000 minutes every day. Current investment in maintenance is creating further delays as trains are slowed and lines are closed to undertake repair.

Germany's road infrastructure is also suffering from decades of under-investment, with several arterial routes closed to goods vehicles. Despite this, Germany's autobahn system remains impressive, providing 12,000 km of high speed travel with some sections having no speed restrictions and toll-free for cars.

Digital infrastructure

Despite being one of the world's leading economies, Germany's digital infrastructure has a number of weaknesses. Areas of the country have poor access to the internet and even more have issues accessing high-speed internet.

In March 2017, seven EU countries, including Germany committed to the European High Performance Computing declaration, designed to build the next generation of computing and data infrastructure and a step towards creating a Digital Single Market across Europe.

Infrastructure investment

Germany has the lowest level of infrastructure investment of any large, well-off economy. The average annual public spending on infrastructure among OECD countries is 3.3% of GDP. Germany's is only 2.0%.

With the country's infrastructure creaking under this lack of investment, the German government increased infrastructure spend to EUR14 billion in 2017, up 10% on the previous year. However, decades of under-investment means that local governments estimate that over EUR135 billion is required to tackle the backlog of projects. The structure of government also means that the Federal Government has no direct authority over infrastructure spend, which is instead at the discretion of the municipalities. Lack of funds as well as lack of expertise are considered responsible for the poor investment.

With increasing pressure from within the country and from the European Commission to halt the under-investment, the German government announced plans to invest EUR264 billion on the construction and modernisation of roads, bridges, railways and waterways by 2030 through the Federal Transport Infrastructure Plan, a 50% increase on the amount previously committed.

In 2014, the Federal Government also unveiled its Digital Agenda, which aims to roll out high-performance networks providing universal coverage, which will boost the economy. A year later, the Federal Cabinet voted to provide financial assistance to support broadband roll-out across the country, with an objective to deliver high-speed Internet throughout Germany by the end of 2018.

The German government has allocated EUR4 billion to the project. In addition, a Special Programme for Business Areas was launched in January 2017, which will provide funds exclusively for the coverage of business areas with fibre optics. The Federal Ministry of Transport and Digital Infrastructure has reserved EUR350 million euros to this end.

Cost of living

In this section

- Highlights
- Accommodation
- Utilities/household expenses
- Quality of life
- Relocation
- Commercial real estate



Highlights

- ◆ Berlin is among the cheapest Western European capitals to live in, although Frankfurt is more expensive.
- ◆ Germany ranks above the OECD average on the Better Life Index, with life satisfaction, education, housing and environmental quality scoring highly.
- ◆ Housing costs are relatively high (dependent on location) and the highest rental costs tend to be in the larger cities.

Cost of Living Country Index (Rank)

22¹

Quality of Living City Index - Berlin (Rank)

13²

International Property Rights Index (Rank)

16³

Sources:

¹Numbeo, 2019

²Mercer, 2019

³Property Rights Alliance, 2018

The cost of living in Germany is fairly reasonable in comparison to other Western European cities, with Berlin a particularly affordable capital. Rental costs in Germany's other big cities, such as Munich, Frankfurt, Düsseldorf and Hamburg, tend to be higher.

According to the Federal Statistics Office, average household expenditure in Germany is EUR859 per month, with approximately 36% of average household budget allocated to housing, energy and maintenance.

Average property prices in Germany's major cities:

- ◆ Frankfurt – EUR525,000
- ◆ Hamburg – EUR465,000
- ◆ Berlin – EUR340,000
- ◆ Düsseldorf – EUR490,000
- ◆ Munich – EUR775,000

Cost of renting again depends on location, with the majority of apartments unfurnished. Understanding exactly what is being advertised is important. If an apartment is advertised as four rooms, it will feature two bedrooms, a living room and a dining room. Kitchens, halls and bathrooms are not classed as rooms. Rent is usually charged monthly and other services, such as utility costs, TV, broadband and waste disposal are usually charged separately.

The total cost of living in Berlin is estimated to be:

- ◆ 6% more expensive than Madrid
- ◆ 8% less expensive than Munich
- ◆ 20% less expensive than Paris
- ◆ 24% less expensive than London
- ◆ 34% less expensive than New York

Accommodation

(average monthly rent in Berlin)

Furnished two-bedroom house	€1,500-€2,500
Unfurnished two-bedroom house	€1,200-€1,500
Furnished two-bedroom apartment	€1,200-€1,600
Unfurnished two-bedroom apartment	€800-€1,200

While there are no restrictions on owning property in Germany, if staying for less than three or four years, the majority of expats choose to rent in Germany, with an estate agent typically handling the arrangement. Unfurnished can mean literally that – no appliances, curtains or light fittings. Minimum tenancies tend to be at least two years and a tenant has significant rights.

Utilities/household expenses

(average monthly rate in Berlin)

Mobile call rate (mobile to mobile per minute)	€0.15
Internet (uncapped ADSL or cable)	€40
Basic utilities (for small household)	€180

Utility costs are not typically included in the rent, with a property either described as Kaltmiete, 'cold rent' (without heating or utilities), or Warmmiete which includes heating and possibly other utilities. The cost of groceries, transport and eating out in Germany is broadly similar to other European countries, but prices are naturally higher in the major cities.

Quality of life

Germans typically enjoy high standards of living. There are many factors that contribute to this, including a good work-life balance, high incomes and excellent public transport and education systems.

Generally speaking, Germans are more satisfied with their lives than the OECD average (6.5 out of 10), rating their satisfaction at 7.9 out of 10. The country ranked fourth in HSBC's 2017 Expat Explorer Survey, scoring highly for school and childcare quality and general lifestyle factors.

Munich, Düsseldorf and Frankfurt all ranked in the top 10 cities in Mercer's Quality of Living Survey 2018.

Relocation

When relocating to Germany, there are a few essential steps to take:

- 01 Register with the authorities.** Anyone living in Germany is required to register their address on the population register within seven days of moving into a permanent address, or immediately if living in Rheinland-Pfalz. Anyone working and paying tax must also obtain an income tax card from the local registration office, which will contain a tax number and classification.
- 02 Get healthcare insurance.** You cannot enter Germany without some health insurance, but for longer stays, it is necessary to register for either state health insurance or arrange private health insurance.
- 03 Open a bank account.** Anyone relocating to Germany will need a local bank account which their salary can be paid into, and from which they can pay their rent.

Commercial real estate

Home to over three million people and the German Federal Government, Berlin's commercial real estate sector is booming, with take-up growing by over 10% in the past year and costs increasing. Office rents in Berlin cost EUR29.50 per sq m per month in prime locations and around EUR17.70 per sq m per month on average.

In Frankfurt, prime rents are around EUR41 per sq m per month, while Munich commands around EUR35.50 per sq m per month, and Düsseldorf, EUR26.50.

HSBC in Germany

In this section

Highlights

Profile

Key products & solutions

Next steps



Highlights

With its "AA- (stable)" rating, HSBC has the highest Fitch rating of all private commercial banks in Germany.

Profile

Established in 1785, HSBC Germany has almost 3,000 employees in 12 locations, including our headquarters in Düsseldorf.

We offer a wide range of financial services for corporates, institutional clients, investors and private wealth clients.

Our special strength is our personal and comprehensive customer service, in connection with access to the worldwide network of the HSBC Group. Our relationship managers connect customers to experts in markets all over the world, based on their individual needs. Clients can profit from our knowledge of global markets and make use of the opportunities arising from the internationalisation.

Key clients include corporates, institutional clients, the public sector and high net worth private clients.

Key products & solutions

- ◆ Investment Banking: Financing Solutions; Capital Markets; M&A Advisory
- ◆ Global Markets
- ◆ Transactional Banking: Global Liquidity and Cash Management (GLCM); Global Trade and Receivables Finance (GTRF); Securities

Next steps

If you have any questions relating to our services or would like any further information:

- ◆ Please feel free to contact our switchboard for general questions by calling +49 211 9100 or e-mail us at info@hsbc.de
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