



Factsheet Personnel in Germany

Insight into your employer's costs and obligations in Germany

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[Which legislation applies?](#)

In several countries, it is possible to offer your products or services through a local employee without the need to have your own registered office there for this purpose. This can, however, often be subject to certain restrictions as to the nature of your activities as a foreign company without a registered office in the country in question. Please also note that, in principle, German social security will apply to your employees residing in Germany, whether they work there exclusively or partially. In addition, German tax regulations will apply to the income they earn in Germany and you will be obliged to observe German employment law. One of the first questions you could have before taking on an employee in Germany is what the annual employer's expenses are in Germany?

In this factsheet, you will therefore find an overview of the employee benefits package that is customary in Germany and the costs associated with it, calculated on an annual basis.

[How to use this factsheet](#)

By means of the costs overview you will gain an insight into the terms and conditions of employment that are customary in Germany, based on which you can decide whether an employee in Germany fits the budget. As soon as this decision has been made, we will be happy to help you make a suitable offer for your employee, so you will be well prepared for entering into negotiations with your employee.

In view of the complexity and, possibly, your insufficient knowledge of German legislation, we recommend that you do not limit yourself to looking at the financial side! In the appendix you will find a detailed explanation of the sections that make up the cost overview. We also give an overall picture of employment law, social security, taxes, employee benefits, and health & well-being in Germany.

Statement of annual expenses¹

"The total costs to the employer is between 18% and 25%. If your employee's salary is much higher than the maximum premium ceiling, such costs will of course decrease"

A Starting points		
1	Employee is 45 years of age and married, with 2 children	
2	Gross annual salary (12 x € 4,000)	€ 48,000
3	40-hour work week	
4	Gross representative's commission (12 x € 500)	€ 6,000
5	8% holiday allowance over gross salary & commission (not custom in Germany)	
6	Company car, tax-related value: € 31,000 with private use, 1% addition)	€ 3,720
7	GSM costs	

B Gross/net route		
1	Gross annual salary incl. commission	€ 54,000
2	-/- Employee contribution for social security	€ 11,445
3	-/- Withholding tax, including church tax and union contribution	€ 11,397
4	Net salary to be paid out (after taxes) (66% of the gross salary)	€ 31,158

C Calculation of employer's national insurance contributions		
1	Premium Krankenversicherung – sickness insurance (7.30%)	€ 4,214
2	Supplementary premium Krankenversicherung – sickness insurance (0.9%)	€ 260
3	Premium Pflegeversicherung – healthcare insurance (1.525%)	€ 881
4	Premium Rentenversicherung - statutory pension (9.30%)	€ 5,368
6	Premium Arbeitslosenversicherung – unemployment insurance (1.25%)	€ 693
7	Umlage 1 – Contribution small employers concerning allowance for continued payment of wages during occupational disability – 60% refund	€ 1,443
8	Umlage 2 – Contribution maternity leave	€ 312
9	Umlage 3 – Contribution bankruptcy – 0,12%	€ 70
10	Total national insurance contributions by employer for gross salary (24% of the gross salary)	€ 13,241

D Absenteeism support & insurances		
1	Berufsgenossenschaft – statutory occupational accident insurance (3%)	€ 1,732
2	Total costs of absenteeism support and insurance (3% of the gross salary)	€ 1,732

E Total employer's costs		
1	Gross annual salary	€ 54,000
2	Total employer's national insurance contributions	€ 13,241
3	Total costs of absenteeism support and insurance	€ 1,732
4	Total employer's costs (28% of the gross salary)	€ 68,973

¹ No rights may be derived from this table of sample annual amounts.

Look beyond the financial side of things!

German employment law (category A)

Although, in theory, one has, in an international context, freedom of choice as to applicable employment law, all employees residing and working in Germany are entitled to invoke certain mandatory provisions of German employment law.

Here are a few examples:

- In the event of an employee's illness, the employer must continue to pay 100% of the employee's salary for six weeks, provided their incapacity is attributable to one and the same illness. Thereafter, German social security (*Krankenkasse*) takes over this payment from the employer.
- In Germany, the trial period may not exceed six months. As a result contracts with trial periods of six months are common.
- In the case of companies with fewer than 10 employees, no special dismissal protection applies and regular terms of notice apply. The term of notice for employees is always four weeks. The term of notice for employers is a minimum of four weeks and increases in proportion to how long the employment relationship in question has been. Concerning employment law queries which our consultants are unable to answer, we can, if so desired, refer you to the legal department of our German tax consultant.
- While there are firms in Germany that pay out holiday pay and Christmas bonuses, these are neither obligatory nor usual. Thus, it is sufficient to distribute the agreed yearly salary over twelve monthly instalments.
- The employment contract with your German employee must be in German. Should you entrust us with your German payroll accounting, we can provide you with a model employment contract for an unlimited period, with a six-month trial period, in two languages, with German in the left left-hand column and English in the right-hand column (no other languages available). In the event of a language-related dispute, the German version shall prevail. Naturally, you are free yourself to approach the legal department of our German tax consultant to have a contract drawn up. We should be happy to bring you into contact with that service; any services they may render shall however not be invoiced by us.
- In Germany, an employer must pay their former employee financial compensation if they wish to bind the employee to a competition clause. This can be a reason to exclude such a clause. In addition a competition clause is also very unusual in Germany.
- The number of days' holiday for a full-time employee is set by law at 20 days in a 5-day working week, i.e. 4 weeks of holiday, but 25 or even 30 days of holiday are customary.
- A full-time employee's weekly working hours are set by law at 40 hours for a 5-day working week.
- A fixed-term contract must be signed by both parties before the commencement date of the contract. If this is not done the contract is automatically converted into a contract for an indefinite period.
- If the employer does not have a business location in Germany, the public holidays of the federal state in which the employee resides are applicable, so if you have more than one employee it may be that different public holidays apply.

"Although, in theory, one has, in an international context, freedom of choice as to applicable employment law, all employees residing and working in Germany are entitled to invoke certain mandatory provisions of German employment law"

“The German social insurances are arranged for each employee individually by the health insurance fund to which they belong. Furthermore, it is of equal relevance in which state the employee resides, as there are differences between them”

An employment agreement can be agreed verbally, but many provisions must still be confirmed to the employee in writing. A contract for a limited period or a limited number of tasks must still be in writing. From a legal point of view, we therefore advise you to ALWAYS to conclude any written employment agreement in accordance with German law.

German social security (category C)

German social security is comprised of the following four components:

- statutory pension (*Rentenversicherung*)
- unemployment contribution (*Arbeitslosenversicherung*)
- health insurance (*Krankenversicherung*)
- healthcare insurance (*Pflegeversicherung*)

In addition, industrial accident insurance (*Berufsgenossenschaft*) is obligatory, as are a number of surcharges (*Umlagen*).

The above-mentioned four components are arranged for each employee individually by the health insurance fund (*Krankenkasse*) to which they belong. Furthermore, it is of equal relevance in which state (*Bundesland*) the employee resides, as there are differences between them. Premiums must be paid to the employee's health insurance fund. Should you have several employees in different German states, it is possible that this will be affiliated with different health insurance funds, and that, as a result, several returns and payments must be submitted and made, respectively.

Moreover, in the field of pensions and unemployment there is a difference in the premium ceiling for the old federal states (Berlin-West, Hamburg, Schleswig-Holstein, Niedersachsen, Nordrhein-Westfalen, Rheinland-Pfalz, Saarland, Hessen, Baden-Württemberg and Bayern) and the new federal states (Berlin-Ost, Brandenburg, Mecklenburg-Vorpommern, Sachsen-Anhalt, Sachsen and Thüringen).

The four insurance components feature a maximum premium ceiling, and the employee's contribution is approximately 50%. Expressed in percentage terms, the total costs to the employer is between 18% and 25%. If your employee's salary is much higher than the maximum premium ceiling, such costs will of course decrease. At the start of Interfisc's German payroll services, a test calculation is carried out to make both the gross/net trajectory and your costs as an employer clear, before the contract in question is drawn up and signed.

a. Statutory pension

The general old-age pension is arranged for by the state and may take effect as soon as the employee has reached the age of 67, provided that he also has paid old-age pension premiums in the preceding 5 years.

The premium amounts to 18.60% of a maximum of € 7,100 (for 2021) per month for the old federal states and € 6,700 (for 2021) for the new federal states, of which approximately 50% is borne by the employer and 50% by the employee.

b. Unemployment contributions

The premium is 2.50% of a maximum of € 7,100 (for 2021) per month for the old federal states and € 6,700 (for 2021) for the new federal states, of which approximately 50% is borne by the employer and 50% by the employee.

c. Health insurance

If the employee earns more during a given calendar year than the maximum monthly salary for health insurance, € 4,837.50 (for all federal states, for 2021), they must either voluntarily remain affiliated with their statutory health insurance fund from the start of the following calendar year, or take out private health insurance.

If an employee is privately insured, you shall be required also to pay an employer's contribution equal to your contribution for statutory health insurance. Your employee must submit their yearly premium overview to you for the purpose of calculating your contribution. If you do not receive this overview, you can opt to stop paying your employer's contribution. The responsibility for the submission of the overview to the employer and the payment of premiums to the health insurance fund rests with the employee.

The premium for statutory health insurance is 14.60% of the monthly maximum of € 4,837.50 (for 2021), of which approximately 50% is borne by the employer and 50% by the employee. The maximum monthly employer's portion (for 2021) is € 384.58. There are no differences between German states in this regard. It is possible that a health insurance fund will charge an additional employer's average premium of 1.10%, the so-called additional contribution (*Zusatzbeitrag*). This is, however, different from *Krankenkasse* to *Krankenkasse*.

d. Healthcare insurance

The premium amounts to 3.05% of the maximum of € 4,837.50 (for 2021) per month, of which approximately 50% is borne by the employer and 50% by the employee. The maximum employer's contribution (for 2021) for voluntarily or privately insured individuals is € 73.77.

Only the state of Saxony deviates from this: here, the employer's portion is 1.025% of the above-mentioned maximum and the employee's portion is 2.025%.

In addition, there is also a supplementary contribution in this insurance, applicable for employees older than 23 years without children. That contribution is 0.25% and comes on top of the above-mentioned percentage and is only payable by the employee.

e. Surcharges

There are three surcharges in addition to the above-mentioned employer's social security costs:

1. Surcharge for insolvency (*Insolvenzumlage* - U3). This surcharge has been adjusted to 0.12% as from 2021.
2. Surcharge 1 (*Umlage* 1). This surcharge is payable only in the case of companies with less than 30 employees around the globe. This surcharge is a support measure for small businesses and covers part of the cost of sick leave, which means that the *Krankenkasse* (Sickness Benefits office) will reimburse part of the continued salary payments to the employer as long as the employer continues payment of wages to the employee. The percentage of the surcharge differs from *Krankenkasse* to *Krankenkasse* and also depends on the percentage you choose for continued payment of wages (50%, 60%, 70% or 80%).
3. Surcharge 2 (*Umlage* 2): this is a compulsory contribution for maternity leave which applies to all employers. The percentage differs from *Krankenkasse* to *Krankenkasse*.

f. Industrial accident insurance

It is obligatory to take out an industrial accident insurance policy. The amount of the contribution depends on the activities of your parent company, even if it has its registered office in a country other than Germany. To take out this insurance, it is necessary to apply to an industrial accident insurer known as 'employers' liability insurance association (or *Berufsgenossenschaft*). Each work type has its own *Berufsgenossenschaft*. *Berufsgenossenschaft* contributions vary from insurer to insurer, but amount to ca. 3% of the gross yearly salary. Contributions are borne solely by the employer.

The four regular forms of insurance and the possible surcharges must be submitted on a monthly basis via the payroll office and must be paid each month.

The contributions of the industrial accident insurance vary for each sector and insurer.

Advance amounts are charged on a regular basis, with a final settlement afterwards. This means that a retrospective settlement is always possible, even after your last German employee has left the employment!

Strict payment terms & fines in Germany!

From the moment of taking on an employee in Germany, it is essential, promptly to commence payroll accounting with us and to arrange, through us, for a company registration number (*Betriebsnummer*), wage-tax number (*Lohnsteuernummer*) and affiliation with the industrial accident insurer appropriate for your company.

At the same time, your employee must confirm to us with which health insurance fund (*Krankenkasse*) they are affiliated, preferably by submitting their proof of registration (*Mitgliedsbescheinigung* from the *Krankenkasse*).

As regards income tax deducted at source: in Germany, employees have, in addition to their income tax number, a separate wage-tax number as well (*Lohnsteuernummer*). The employee must provide us with this wage-tax number. Our German provider can then, by electronic means, request the most current tax data on a monthly basis from the relevant tax authorities (*Finanzamt*) and in turn process these via the pay slip. These data cannot be manually adjusted or changed by our provider. On a monthly basis, we receive the correct personal wage-tax data, as well as any exempted amounts, the number of children charged for and the income tax category that applies to the employee.

Payment terms in the course of one month:

- By the 25th of the present month at the latest, payment must be credited to the account of the employee's health insurance fund (*Krankenkasse*) for the four social insurance components and any surcharges for that month. This means that we must execute payment to the social security authority on the 20th of the month at the latest.
- Payment of the employee's net salary must be credited to the account of the employee on the 3rd of the following month at the latest
- Payment of the income tax deducted at source must be credited to the account of the appropriate tax authority (*Finanzamt*) on the 10th of the following month at the latest. This means that we must execute payment of the income tax deducted at source around the 3rd of the following month.

It should be borne in mind that in the event of late payment of social security payments and income tax deducted at source, the German authorities will immediately charge a default surcharge.

Church tax (category B3)

If the employee is registered with a church institution, the church tax due in this connection must be withheld via their payslip. The employer must pay this withheld church tax to the tax authority (*Finanzamt*) via the payroll office, together with the monthly income tax deducted at source. The payroll office can also verify these data on a monthly basis electronically via the tax authority.

Solidarity contribution (Solidaritätszuschlag; category B3)

All employees must pay a solidarity contribution each month. This withholding is paid to the tax authority (*Finanzamt*) together with the income tax deducted at source.

Continued payment of the salary in the event of illness

The employer must continue to pay 100% of the salary for six weeks. Then, the employee will receive sick pay directly from the health insurance fund (*Krankenkasse*) for up to 78 weeks within a period of three years, provided their incapacity is attributable to one and the same illness. The benefit amounts to approximately 60% of their (premium) income, up to a maximum of 90% of the net salary. The statutory social insurance payments are also withheld from the sick pay benefit. When the 78 weeks of pay-out during the three years have ended, the employee will normally receive incapacity benefit from the authorities.

The supplementary pension schemes, “VWL” and “Direktversicherung”

In addition to the state old-age pension, into which employers' and employees' pay their statutory contributions, there are also supplementary pension insurance schemes in Germany. It is however no longer customary for an employer to take out supplementary pension insurance for their employees featuring both an employer's and employee's contribution. There is however a desire for supplementary savings among some employees. This is however only possible via separate pension insurance policies.

The following two pension insurance policies are the most widespread of these:

Vermögensbildende Leistungen (VWL)

Some German employees take out a kind of private pension savings scheme, *Vermögensbildende Leistungen* (VWL) or capital accumulation benefit. If requested by your employee, you are obliged to deduct the employee's portion for this scheme from their net salary via their payslip and to forward this amount to the insurer. No costs to the employer are associated with this.

Direktversicherung/Betriebsalterliche Vorsorge (DV/BAV)

Some German employees have opted for the private pension savings scheme, *Direktversicherung/Betriebsalterliche Vorsorge* (= direct life insurance). Such employees pay the premium for this insurance entirely themselves by swapping a portion of their gross salary for these extra premiums. This thus involves a portion of the employee's gross salary being withheld. For the employee, this results in an advantage with regard to income tax deducted at source, and for both employee and employer it yields a social-security related advantage, unless the gross salary exceeds the social insurance ceiling for salaries (see the above-mentioned amounts). If the employee requests you to credit this on via their salary, you are in principle obliged to do so.

Although this is a matter of the employee's own choice, a *Direktversicherung/Betriebsalterliche Vorsorge* insurance policy must be under employers name, something which you are obliged to

accept. When changing employers to you, the employee can thus ask you to place their policy under your name. The relevant transfer forms are available at the employee's request from their insurance company.

Although the employee in principle is required to inform you whether they have this *Direktversicherung/Betriebsalterliche Vorsorge* type of pension insurance, our Interfisc employee form already contains a question as to whether they have such a policy, in order to prevent any misunderstandings. We can also assist you with filling in the transfer form.

Company car in Germany (category A6)

If the employee makes company-related journeys with their own car, you may reimburse € 0.30 per company-related km driven; see, below, the point concerning travel reimbursement.

If you provide a company car to, e.g., a field staff member who drives directly from their home to the customer, but also uses the car for private purposes, a monthly wage in kind must be paid amounting to 1% of the German gross consumer price (*Brutto Listenpreis*) incl. 19% VAT. If the employee is stationed in a regular place of work (other than a home office) for more than 25% of the time, the employee also pays wage in kind for commuting mileage.

Since 2013, it has been a requirement that a separate turnover tax return also be filed annually in connection with a company car, to the appropriate tax authority (*Finanzamt*). Under German legislation, providing an employee with a company car is regarded as a long-term rental, making it subject to VAT. For a supplementary charge, our partner can help you avoid additional costs in connection with the return for this turnover tax. This charge involves a one-time charge for requesting the requisite VAT number, plus a charge for each return.

Costs of home-to-work travel in Germany

Under the German income tax regime, it is possible for employees to include their travel from home to work (i.e., if they journey to work using their own transport and do not have a company car) as a deductible item in their personal income tax return. They can deduct € 0.30 net per individual trip distance (not round trips) per working day. They may either calculate and list the actual days worked or base their calculation on a fixed standard quantity of 220 days for a full-time employee. Their taxable wages are reduced by this amount in their income tax.

Because an income-tax deductible item is involved, an employer in Germany is not required to pay a travel-expenses reimbursement for home-to-work travel. If an employer however wishes to pay such a reimbursement, it is possible, but it will then be subject to taxation:

An employer can pay out a net reimbursement to an employee using the same calculation as that used by the employee as a tax-deductible item in their income tax return. The employer may however not use 220 days as a starting point but, rather, 15 days per month, or 180 days per year.

The employer may pay out the relevant net sum to the employee (180 days for a full-time employee x € 0.30 x individual travel distance), but must pay a 15% fixed wage-tax percentage on this sum (in other words, an employers' tax). No social security contributions are payable by the employer in this connection.

Total costs to the employer are 115% x the travel expenses sum paid out.

If the employer pays out the travel expenses reimbursement to their employee, and thus also pays the 15% employers' tax, this will also be included in the wages settlement in the annual income statement; the employee can no longer deduct the sum received from the employer in their income tax return.

Net fixed sum for company-related travel

Since 2016, it has been possible to give the following fixed net sums (without receipts) for company-related travel in Germany. This is referred to as *Pauschalen für Verpflegungsmehraufwand*. The table indicates the travel durations:

Duration of company trip	Net fixed sum
Fewer than 8 hours	€ 0
8–24 hours	€ 14
Company-related trip of several days: full day	€ 28
Company-related trip of several days: day of departure and day of return	€ 14
Fixed amount for nights slept in Germany	€ 20

Please note: (further details are also available from such German websites as www.reisekostenabrechnung.com):

- The employer need not reimburse or, respectively, pay any expenses or fixed sums to the employee
- The employer is also not obliged to pay the *Pauschalen für den Verpflegungsmehraufwand* for company-related travel for business trips exceeding eight hours. If the employer does not do so, the employee can list such *Pauschalen für den Verpflegungsmehraufwand* in their income tax return as deductible items.
- The employer is not required to pay an *Übernachtungspauschale* amounting to € 20 for business trips within Germany (which is indeed very low but unfortunately has remained unchanged in recent years). However, the employer may also opt to bear the actual costs for nights stayed in a hotel, or to employ the following phasing in Germany:
 - low phase: the employer is not required to pay anything;
 - intermediate phase: the employer may reimburse a fixed sum of € 20.00, without a receipt from the hotel;
 - high phase: actual costs for hotel stays can be paid, provided the hotel receipts are saved.

The employer may only pay the fixed sums listed for meals taken during business trips. The employer may thus unfortunately not pay the actual travel expenses if the fixed sum (for which no receipts have to be saved) is too low.

What can Interfisc do for you?

“Having all of your queries and updates handled by one single office, means no needless loss of time switching between different parties or countries”

If you are involved in negotiations with an employee in Germany, we can, at your request, have a pro forma salary calculation or employment agreement under German law drawn up for you. We can also have your own employment agreement ‘translated’ in accordance with German law.

Should you hire an employee in Germany, we can register your company with the German authorities, and provide you with the requisite personnel and payroll administration, including communications with the authorities, returns and national insurance contributions and the payment of net salaries to your personnel. You will receive monthly invoices from us for the net salaries paid out, including employer’s and administrative costs. We will take care of the rest. Naturally, we will keep you abreast of relevant changes in Germany.

Further, Interfisc will provide you with practical solutions for all the other German employers’ obligations listed in this factsheet. We provide the same services in Belgium, France, the Netherlands and the UK. Interfisc makes life simpler for international employers by combining all their personnel and payroll administration for multiple countries in one office.

For you, this means no needless loss of time switching between different parties/countries, and having all of your queries and updates handled by one single office. Result? Contented employees both at home and abroad, who in turn can direct all their energies toward attaining your commercial objectives.

How you can reach us

For further information as well as a personalised advice, please contact our advisers Anke Stevens, Myriam Van Asbroeck & Sven Fabré.

You can also contact us using the contact details below:

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