Doing business in Germany 2013
Introduction

The Moore Stephens Europe Doing Business in series of guides have been prepared by Moore Stephens member firms in the relevant country in order to provide general information for persons contemplating doing business with or in the country concerned and/or individuals intending to live and work in that country temporarily or permanently.

Doing Business in Germany 2013 has been written for Moore Stephens Europe Ltd by Moore Stephens RBS AG. In addition to background facts about Germany, it includes relevant information on business operations and taxation matters. This Guide is intended to assist organisations that are considering establishing a business in Germany either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to Germany to work and live there either on secondment or as a permanent life choice.

Unless otherwise noted, the information contained in this Guide is believed to be accurate as of 1 April 2013. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader’s particular circumstances.

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Our member firms’ objective is simple: to be viewed as the first point of contact for all our clients’ financial, advisory and compliance needs. They achieve this by providing sensible advice and tailored solutions to help their clients’ commercial and personal goals. Moore Stephens member firms across the globe share common values: integrity, personal service, quality, knowledge and a global view.

Brussels, April 2013
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1. Germany at a glance

Geographical location and population
Germany is the most populous country within Europe. It borders nine other European countries: Denmark, the Netherlands, Belgium, Luxembourg, France, Switzerland, Austria, the Czech Republic and Poland. As at 31 December 2011, the population of Germany was estimated at 81,858 million inhabitants, living in an area of 357,000 km² (a population density of 229 inhabitants per square kilometre). The population is currently increasing by 0.07% p.a. About 7.2 million foreigners live in Germany, which is about 9% of the population. Most of them have migrated from Turkey, former Yugoslavia, Italy, Poland or Greece.

Germany is a federation of 16 states (Bundesländer). Its capital is Berlin; other main cities are Hamburg, Munich, Cologne and Frankfurt.

Language and climate
The official language in Germany is German.

The climate in Germany is moderate, being influenced by the Gulf Stream and thus resulting in fairly moderate temperatures in relation to the latitude.

Politics and government
Germany is a democratic republic with a federal system of government. Certain powers lie with the 16 federal states, others are reserved to the federal government. The separation of powers into executive, judicial and legislative is one of the cornerstones of the German constitutional system.

The Head of State is the Federal President (Bundespräsident), the current incumbent being Joachim Gauck, elected for a five-year term by the Federal Convention (Bundesversammlung, an electoral body composed of members of parliament and representatives of the federal states). The president's function is largely ceremonial. The Head of the German Government is the Federal Chancellor (Bundeskanzler), and the current holder of that office is Angela Merkel, who has been Chancellor since 2005. Since 2009, she heads a coalition government of her own centre-right Christian Democratic/Christian Social Union party (CDU/CSU) and the smaller centre-right liberal Free Democratic Party (FDP).

The German Parliament consists of two houses with distinctive rôles: the federal assembly (Bundestag) and the assembly of the representatives of the 16 federal states (Bundesrat). The Bundesrat consists of members of the governments of the 16 German states, delegated by the state governments. Members of the Bundestag are elected directly for four-year terms by a mixed single-member and proportional system. Whereas Chancellor Merkel's coalition government has a majority in the Bundestag, it no longer has a majority in the Bundesrat, where opposition parties are in the majority. The next federal elections are scheduled for September 2013.

Currency, time zone, weights and measures
The Euro (ISO designation: EUR) is the unit of currency. One Euro is equal to 100 cents. The European Central Bank is the central banking system that manages the European currency. As at 25 March 2013, the Euro was quoted against the US dollar at EUR 1 = USD 1.2959.

In Germany, there is a single time zone, Central European Time (CET), being GMT (Greenwich Mean Time) +1. In summer, Germany follows the daylight-saving time system (DST), starting on the last Sunday in March and ending on the last Sunday in October, during which clocks are advanced by one hour.

Germany uses the metric system of weights and measures (the MKS system). Temperature is measured in degrees Celsius.
General economic outlook
In 2008, Germany, together with most other economies, was hit by the global financial crisis. However, unemployment rates did not significantly change and were 7.8% in 2008, 7.1% in 2009 and 7.7% in 2010.

Inflation rates in Germany are very moderate; 1.1% was recorded in 2010, 2.3% in 2011 and 2.0% in 2012.
2. Doing business

Main forms of business organisation

Introduction
The most important forms of business organisations in Germany are:

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Abbreviation</th>
<th>English translation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aktiengesellschaft</td>
<td>AG</td>
<td>Joint-Stock company</td>
</tr>
<tr>
<td>Gesellschaft mit beschränkter Haftung</td>
<td>GmbH</td>
<td>Limited-Liability company</td>
</tr>
<tr>
<td>Kommanditgesellschaft auf Aktien</td>
<td>KGaA</td>
<td>Partnership limited by shares</td>
</tr>
<tr>
<td>Offene Handelsgesellschaft</td>
<td>oHG</td>
<td>General partnership</td>
</tr>
<tr>
<td>Kommanditgesellschaft</td>
<td>KG</td>
<td>Limited partnership</td>
</tr>
<tr>
<td>GmbH &amp; Co. KG</td>
<td>Limited partnership with a GmbH as general partner</td>
<td></td>
</tr>
<tr>
<td>Gesellschaft bürgerlichen Rechts</td>
<td>GbR</td>
<td>Civil-Law partnership</td>
</tr>
<tr>
<td>Niederlassung</td>
<td>Branch (registered)</td>
<td></td>
</tr>
<tr>
<td>Einzelunternehmer</td>
<td>Sole Proprietor</td>
<td></td>
</tr>
</tbody>
</table>

Investors are free to choose the form of entity with which to operate in Germany. Foreign investors mainly operate through a branch, a GmbH or a partnership (mostly in form of a GmbH & Co KG (see explanation below)).

Joint-Stock company (Aktiengesellschaft – AG)
To form a joint-stock company, the Articles of Incorporation or Association need to be officially notarised by a public notary. The minimum subscribed capital is EUR 50 000, the minimum amount of members is one. Members may be individuals or companies. Liability for a member is restricted to the equity capital subscribed by that member.

An AG is characterised by a dual system of corporate governance: an executive board (Vorstand), appointed by a supervisory board (Aufsichtsrat), the main rôle of which is to control the executive board. There are no restrictions as to the nationality or residence of an executive-board member, but he or she should be able to carry out his or her tasks physically in Germany. Having an executive-board member in a foreign country may result in a dual-residence status for the company if e.g. the day-to-day decisions are taken outside Germany. This could result in double taxation and should therefore be avoided. The supervisory board is generally elected by the shareholders’ meeting, sometimes also by employees due to co-determination rights.

The costs for incorporating a joint-stock company include professional fees for drafting the articles of association (if not standard), translation fees, notarial fees (based on the amount of subscribed capital) as well a registration fee for publishing obligatory information in the Commercial Register.

Limited-Liability company (Gesellschaft mit beschränkter Haftung – GmbH)
A GmbH is a private company. It cannot seek a listing on the stock exchange, and its procedures and governance are less formal than those of an AG.

As with an AG, its incorporation needs to be notarised by a public notary. The minimum share capital of a GmbH is EUR 25 000 and the minimum number of shareholders is one. The liability of the company is restricted to its corporate property whereas the liability of the shareholders for the company's liabilities is restricted to their subscribed share capital. A GmbH generally has no supervisory board (but may constitute one if it chooses, and must do so if it employs above a certain number of employees), so the shareholders have direct control over
the directors of a GmbH. The shareholders appoint the managing director(s). As for an AG, there is no restriction as to the nationality or residence of managing directors, but they should be able to carry out their tasks while physically present in Germany. Actual management of the company from abroad could lead to dual residence and adverse tax consequences.

The costs of incorporating a GmbH include professional fees for drafting the articles of association (if not standard), translation fees, notarial fees (based on the amount of share capital) as well a registration fee for publishing obligatory information in the Commercial Register.

If a GmbH starts trading before it is officially registered in the Commercial Register, persons acting on behalf of the company are personally liable (without limitation) for debts incurred before registration.

**Partnerships**

Partnerships are hybrid entities, in the sense that whereas they are separate legal entities, they are treated as transparent for some but not all tax purposes. For the purposes of trade tax, for example (see Chapter 6), they are a separate taxable person in their own right, but for the purposes of income tax, they are transparent and it is the partners that are taxed directly on their share of the partnership income.

Since partnerships do not distribute income in the form of dividends (which are subject to withholding tax), foreign investors who are individuals facing an unattractive withholding-tax rate under a double tax treaty or companies not entitled to an exemption from German withholding tax for various reasons may prefer a partnership for structuring investments into Germany.

**General Partnerships**

A civil-law partnership (Gesellschaft bürgerlichen Rechts – GbR) and a general commercial partnership (offene Handelsgesellschaft – oHG) are partnerships without any limitation of liability. The partners are liable jointly and severally for the liabilities of the partnership.

Forming a partnership requires two or more persons. The partnership agreement in general needs to be neither in writing nor notarised. However, where shares in companies or immovable property are involved, notarisation may be necessary.

A GbR does not need to be entered in the Commercial Register, so it will come into existence immediately after the partnership agreement has been signed. An oHG must be registered in the commercial register and will be regarded as coming into existence after registration.

A GbR may be managed by all of the partners together, if not stipulated otherwise. The same applies to the oHG. The partners of an oHG may appoint a managing director.

Due to unlimited personal liability, these forms of partnership are not used very often for inbound investment.

**Limited partnership (Kommanditgesellschaft – KG)**

A limited partnership (Kommanditgesellschaft) consists of at least two partners, one being the general partner (Komplementär) and the other the limited partner (Kommanditist). The general partner has unlimited personal liability, whereas the limited partner is only liable up to his contribution to the partnership capital as registered in the commercial register. Where a GmbH is the general partner, its liability is restricted to its assets. Therefore, a GmbH & Co KG is a common form for businesses in Germany and could be attractive for investors as well.

Regarding formation, there is no need to notarise the partnership agreement, which might be in writing or agreed upon orally (which is not advisable for reasons of clarity). However, a Kommanditgesellschaft must be registered in the Commercial Register, and its entry must state the amount of capital for which the limited partner is liable.
Branch of a foreign company
Instead of establishing a company or forming a partnership, a foreign investor may simply start business with a German branch. As in all other cases, the business must first be registered with the local trading office before being allowed to start business.

The branch itself may be a registered branch (registered in the Commercial Register) or a branch with no official registration. Being registered often simplifies business relations since a registered branch is more acceptable to a business partner. This is due to the fact that general information concerning the foreign company whose branch this is as well as changes at the foreign-company level have to be filed at the Commercial Register. The information to be provided in case of a corporate foreign headquarters is e.g. the (translated) articles of association of the foreign company, its foreign registration (in the Commercial or other official register), the legal form of the company, persons having power of attorney for the company etc.

There generally is no minimum capital required for a branch (except e.g. in the case of financial institutions or insurance companies). However, at least for tax purposes, an endowed capital is required, enabling the branch to carry out its business.

The branch generally can be managed by foreign managing directors. However, a branch manager may be appointed for the German branch.

European Company (Societas Europaea)
Since 2004, it has been possible to form an SE in the European Union. An SE is incorporated in one Member State and operates under a single set of regulations in other Member States via branches. The minimum capital of an SE is EUR 120 000.

As at 1 January 2013, 1601 SEs had been established, of which 1055 are in the Czech Republic and 243 in Germany.

Labour relations and working conditions
Throughout the economic crisis, the employment market in Germany has remained relatively stable. Whereas in March 2012, the average unemployment rate in the euro area as a whole was 10.9%, Germany registered a rate of around 7%. Germany, together with the Netherlands and Austria, also registered the lowest unemployment rate for young people in the European Union (April 2012).

Working hours
A couple of years ago, the weekly working hours for special-tariff areas were agreed at 35 hours. Since then, working hours have officially been increased to 37.5 and – for e.g. civil servants – to 42.5, which even exceeds the collectively agreed normal weekly working hours for employees with no tariff. The actual working hours including overtime for full-time employees in the third quarter of 2011 was 41.2 on average. The statutory maximum working day in Germany is 10 hours (under certain conditions).

There are also regulations about rest periods during a day.

Notice periods
There are statutory notice periods in Germany, which increase the longer the employee has worked for the employer. Where there is a collective employment agreement, it is the notice periods under that agreement that apply (they may be longer or even shorter than the statutory periods). Where no collective employment agreement exists, employer and employee may agree on longer notice periods in a written employment contract.

During a qualifying period of at least six months, the notice period may by agreement be as little as two weeks.

Special protection is granted to employees on maternity leave or parental leave, apprentices after the qualifying period and severely handicapped employees.
**Wages, fringe benefits and other payments**

The average gross wage in Germany in industry and services for a full-time worker is nearly EUR 42,000.

In case of illness, the employer has to continue paying full pay for a further period of six weeks. After this period, the employer is no longer obliged to pay salary and health insurance will cover the insured amounts.

Some entities pay their employees an additional amount as a kind of extra holiday pay.

Some employers pay bonuses to their employees. Also, it is quite common to have employees participating in some form of profit sharing with the employer (or the group). Large companies also grant shares to employees as compensation or bonus.

**Holidays**

Based on statutory regulations, Germany grants a minimum of 20 days per year. In addition to this, up to 9 public holidays exist in Germany (plus additional regional public holidays). German employers generally grant up to 30 days of holiday during a calendar year (depending on the age of the employee and the working period with the employer so far). Employees receive normal pay during holiday leave.

**Social security system**

The German social security system provides benefits for employees facing unemployment, sickness, accident or disability. In addition, pension payments are provided to retired employees. State retirement age has recently been raised to 67 (with a current transitional period).

In return, employers and employees have to pay social security contributions. In the past, the amounts to be paid were split equally between employer and employee, but this has changed and the employee now has to bear a slightly higher percentage of social security costs than the employer. The employee's contributions are withheld by the employer and paid together with the employer's contributions to the different institutions.

For more information, please refer to Chapter 9.

**Trade Unions**

Trade unions have a long tradition in Germany. They are established in many areas of the industrial and service sector.

Wherever there are five or more permanent full-time employees in a workplace, the employees have a right to elect a works council, which has certain co-determination rights.
Working Conditions
Germany has established regulations about occupational safety and health. The general protection includes avoidance of occupational accidents, elimination of accident risks etc.

Work permits, visas etc.
Germany differentiates between visas, residence permits and work permits.

Depending on their country of origin, foreign nationals may require a visa when visiting Germany.

As regards working in Germany, there are different permits necessary:
A (limited) residence permit is needed and granted under certain conditions e.g. in case of an apprenticeship, an employment, due to humanitarian, political or international law reasons or for family reasons. The residence permit is generally limited to a certain period of time. If the holder of the permit is also allowed to work in Germany, the permit (or an extra accompanying document) includes information as to the extent of the holder’s right to gainful employment.

Before an indefinite residence permit (Niederlassungserlaubnis), which has a format similar to a credit card, is granted, there are strict conditions to be met. They include the need to have made statutory pension contributions for at least 60 months, to have held a limited residence permit for at least five years, normally a clean criminal record, the need to be self-supporting and German-language skills.

EU and Swiss nationals (except for Romanian and Bulgarian nationals) do not need to obtain this permit. However, they have to have a certificate of indefinite residence (Daueraufenthaltsbescheinigung) if they are to work in Germany.

Nationals of certain countries, e.g. the United States, Japan, Canada, Israel and Australia may first enter Germany and apply for the permit afterwards. All other nationals have to apply for the permit before entering Germany.

Special regulations apply to self-employed individuals, managing directors of a GmbH, members of the executive board of a joint-stock company and managers of a branch, special regulations apply.

Since 2011, the European Union has been operating a Blue Card, granting entry and stay for highly qualified employees from third countries. The Blue Card is restricted to a period of between one and four years. The Blue Card system does not overrule national regulations. Germany began to implement the Blue Card on 1 August 2012. To qualify for a Blue Card, physicists and engineers have to have a minimum salary of EUR 34,944 and all other highly qualified persons a salary of at least EUR 44,800.
3. Finance and investment

**Business regulation**
Generally, there are no restrictions on foreigners wishing to do business in Germany or any ownership restrictions for foreigners. Foreign investors may use whichever German legal form they find appropriate for doing business in Germany.

General information on how to start business in Germany can be obtained from lawyers and tax advisers and also from the local Chamber of Commerce.

Businesses in the form of a company, a commercial partnership or a registered branch need to register with the local commercial register. Certain information has to be filed (see Chapter 1). The statutory annual accounts have to be disclosed in the Federal Gazette, which is now published in electronic form only.

In order to start a business in Germany, a trading certificate (Gewerbeschein) is needed, which can be obtained from the local Trade Supervision Department. In the case of a GmbH, the managing director has to obtain this in person at the trade supervision department and has to bring his or her personal identity card. After having issued the trade certificate, the Trade Supervision Department will inform the local tax office, which will send a questionnaire to the business in order to register it for tax purposes.

Competition, as well as mergers and takeovers, is regulated.

Germany provides for rules e.g. on fair trade, general terms and conditions for trade, competition law, merger control as well as standard matters such as the content of business letters and faxes. Infringement of the rules regarding business letters and faxes may incur a fine of up to EUR 5000 if the required information is not included. Special requirements also apply to e-mail.

German regulations allow protection of intellectual property, e.g. by copyright (generally limited to a period of 70 years after the death of the person), patent law (limited to 20 years after the application) and trademark law (national, European or international).

Due to strict regulations in almost every area, foreigners would be wise to seek advice on nearly everything before starting business.

**Banking & finance**

**Banking system**
The German banking system includes retail banks (of which one, Deutsche Bank, is the largest bank by turnover in the European Union), cooperative banks, public-sector institutions such as the savings banks (Sparkassen) and the regional, largely publicly owned Landesbanken. Banking services are offered by all of them to private persons and businesses. One of the public-sector institutions is the KfW-Mittelstandsbank, which has the statutory duty to assist the formation of new businesses and grant investment loans to small and medium-sized businesses.

**Capital Markets**
In Germany, the Frankfurt stock exchange is the largest and best known. However, there are nine stock exchanges altogether in Germany. Businesses may seek to finance investments through the capital market if they have shares open to public trading. Depending on conditions such as size, transparency and governance criteria, trading would be on the regulated or the unregulated market. General or prime-standard trading requires a minimum equity capital of EUR 1.25 million. The Entry Standard could be used where equity capital is EUR 250 000 or more. Generally, when financing through a stock exchange, the assistance of a merchant bank would be needed.

**Exchange Controls**
In Germany, no exchange control exists, so capital can be repatriated without restrictions or approval. However, for statistical purposes, certain forms have to be completed when transferring money outside the European Union.
Also, there are strict regulations concerning money laundering.

**Incentives for investment**
When investing in Germany, it may be worth checking for local investment incentives. These may be granted for special businesses, when investing and creating jobs in certain areas or e.g. for research & development activities. Incentives may differ and are not allowed to constitute a state aid in contravention of EU law.

Current examples are:
- Long-term loans of up to EUR 10 million (max. 20 years) to finance the acquisition of long-term assets or businesses
- Support for launching innovative products
- Regional incentives (in the newer German states and other special areas) in the form of loans with favourable interest rates
- Finance for research & development of up to EUR 5 million; or EUR 25 million for energy projects
- Different programmes for energy efficiency
- Framework programmes for research, currently the 7th Framework Programme covering the period 2007-2013: [www.forschungsrahmenprogramm.de](http://www.forschungsrahmenprogramm.de)
- Support for cooperation between small and medium-sized companies and private or public research institutions for new technologies
- Other local incentives
4. The accounting and audit environment

Accounting regulations & the audit requirement
Every business is obliged to keep accounting records and prepare financial statements (balance sheets and income statements) for a period not exceeding 12 months. Small sole proprietors with a turnover not exceeding EUR 500 000 and net profits not exceeding EUR 50 000 are exempt from keeping accounting records and preparing financial statements. This exemption is not granted to companies or partnerships.

As regards an annual audit of the financial statements and the disclosure of certain information to the Federal Gazette, the size of the business entity is relevant.

Company sizes are defined by the following criteria: turnover, balance-sheet total and average number of employees, at least two of which must not be exceeded to fall within the relevant category.

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<tr>
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<th>Small</th>
<th>Medium</th>
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<tbody>
<tr>
<td>Balance-Sheet Total</td>
<td>EUR 4 840 000</td>
<td>EUR 19 250 000</td>
</tr>
<tr>
<td>Turnover</td>
<td>EUR 9 680 000</td>
<td>EUR 38 500 000</td>
</tr>
<tr>
<td>Average Number of Employees</td>
<td>50</td>
<td>250</td>
</tr>
</tbody>
</table>

A large company is one that is neither medium-sized nor small according to the above criteria. Obligations as to the preparation of financial statements within a certain time frame, audit and disclosure also depend on the size of the company, as follows:

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation of financial statements</td>
<td>6 months after the year-end</td>
<td>3 months after the year-end</td>
<td>3 months after the year-end</td>
</tr>
<tr>
<td>Audit requirement</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Disclosure of financial statements</td>
<td>Balance sheet (no income statement) within 12 months of the fiscal year-end</td>
<td>within 12 months of the fiscal year-end</td>
<td>within 12 months of the fiscal year-end</td>
</tr>
<tr>
<td>Disclosure of notes to the financial statements</td>
<td>Yes, simplified</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Disclosure of directors’ report</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Bookkeeping needs to follow German Generally Accepted Accounting Principles (German GAAP) as stated in the German Commercial Code (Handelsgesetzbuch – HGB). General rules apply to all businesses, special rules exist for companies. Bookkeeping has to be prepared in such a manner that a competent outsider is able to get an overview of the business activities and access the situation of the business within a reasonable period of time. The bookkeeping has to be true and accurate.

For a group of companies, consolidated financial statements need to be prepared and published where the group exceeds certain thresholds. Parent companies that are themselves subsidiaries of a parent resident in an EU Member State or a member of the European Economic Area (EEA) may be exempt from the requirement to prepare consolidated financial statements under certain conditions. For a German listed company, the consolidated financial statements have to be prepared on the basis of International Financial Reporting Standards (IFRS).
So-called ‘micro-entities’ may use simplified rules which have been implemented for accounting periods ending after 30 December 2012. Thus, the new rules might be first applied for the annual financial statements as at 31 December 2012. They include simplified balance-sheet and income-statement classifications, and notes to the annual financial statements need no longer be prepared provided certain information is mentioned below the balance sheet. In addition, micro-entities need no longer publish their annual financial statements (however, they still need to be filed electronically). Third parties may apply for a copy of the annual financial statements on payment of a fee.

Micro-entities are defined as companies that – on two consecutive balance-sheet dates – exceed no more than one of the following three criteria:

- Turnover EUR 700 000
- Balance-sheet total EUR 350 000
- Average number of employees: 10.
5. Overview of the tax system

Main taxes
The overall amount of tax collected in Germany in 2009 was EUR 524 001 million. The main taxes are:

- Corporate income tax (Körperschaftsteuer)
- Personal income tax (Einkommensteuer)
- Trade tax (Gewerbesteuer)
- Value added tax (Umsatzsteuer)
- Inheritance and gift tax (Erbschaft – und Schenkungsteuer)
- Property tax (Grundsteuer) and property transfer tax (Grunderwerbsteuer)
- Excise duties

Tax authorities
Depending on the type of tax, different tax authorities are responsible for assessing and collecting taxes. With regard to income taxes, there is no self-assessment scheme in place. The taxpayer has to file tax returns and the tax authorities will review them and assess afterwards. The tax year is the calendar year.

The tax authorities are allowed to carry out tax field audits. Generally, these are carried out on businesses. However, individuals may be inspected as well under certain circumstances. For those businesses subject to legal requirements for keeping books of account, data access has to be provided to the tax auditor in XML-Format.
6. Taxes on business

**Corporate Income Tax**

**Scope and Extent**
Companies that are resident in Germany are subject to unlimited German corporate income tax on their worldwide income. Double tax treaties may restrict these taxation rights. A non resident company is subject to German taxation on its German-source income only.

This may e.g. apply to German branches of foreign companies.

Where a company is a partner in a partnership, its share of the partnership income is subject to corporate income tax.

**Residence**
Companies that are incorporated in Germany (and therefore have their registered office, that is their ‘legal seat’ (Sitz, in Germany) or have their place of actual management in Germany are regarded as resident in Germany for tax purposes.

**Taxable entities**
All types of company (AGs and GmbHs) are subject to corporate income tax as are the branches of foreign companies.

Partnerships are treated as transparent, i.e. each partner is taxed in Germany on that partner’s share of the partnership income.

**Income calculation**
Income is based on the net profit or loss derived for accounting purposes and then adjusted as required for tax purposes. Adjustments are necessary for e.g. the following:

- differences between local GAAP and tax accounting (e.g. for different depreciation regulations or different calculations of accruals including discounting)
- corporate income tax and trade tax are non-deductible expenses and must be added back
- other non-deductible expenses are to be considered
- tax-exempt income must be deducted (e.g. capital gains from fully or partly exempt participations in other companies, subject to an add-back of deemed non-deductible expenses of 5%)
- dividends received are largely tax-exempt
- losses from the sale of shares in a company or extraordinary impairment losses on shares must be added back
- related-party debt written off where a third party would not have granted the loan under same or similar conditions must be added back (a related party here is one in which there is a direct or indirect holding of more than 25%)
- unrealised foreign-exchange profits or losses (losses may be recognised under certain circumstances)

**Capital gains**
Capital gains are generally treated as income subject to normal taxation. An exception exists for capital gains from the sale of shares, which are treated similarly to dividends, i.e. 95% of the gain is tax-exempt but 5% is taxable.

For certain types of capital gain, it is possible to defer tax by capitalising a reserve or ‘rolling over’ the gain, i.e. deducting it from the allowable acquisition cost of a replacement asset.
Deductions
Expenditure incurred for the purposes of the business is generally deductible. The deduction for entertainment expenses is restricted to 70% of the amount considered to be reasonable. Gifts to business partners are only deductible where they do not exceed EUR 35 in value. Cross-border management fees are generally deductible provided that they are arm’s length and proper transfer pricing documentation exists in respect of them.

Depreciation
In general, fixed assets with a lifetime of more than one year are depreciable over their useful life. One exemption is land, which is not depreciable (but may be subject to a revaluation). Other exemptions are intangible assets, which in general are limited in time but for which consecutive extensions are granted, e.g. concessions for transport.

Depreciation is calculated on a straight-line basis. In the past, a declining-balance method was allowed but was abolished for acquisitions after 31 December 2010.

The Federal Ministry of Finance publishes depreciation rates for tax purposes for the most common assets of certain types of businesses (last revised in 2000). Some examples are shown in Table 4.

Table 4
<table>
<thead>
<tr>
<th>Asset</th>
<th>Useful life (years)</th>
<th>Depreciation rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Buildings</td>
<td>33,33</td>
<td>3.00</td>
</tr>
<tr>
<td>Buildings used for residential purposes</td>
<td>50</td>
<td>2.00</td>
</tr>
<tr>
<td>Building in lightweight construction</td>
<td>14</td>
<td>7.14</td>
</tr>
<tr>
<td>Car parks</td>
<td>19</td>
<td>5.26</td>
</tr>
<tr>
<td>Outdoor lighting/street lighting</td>
<td>19</td>
<td>5.26</td>
</tr>
<tr>
<td>Green Area</td>
<td>15</td>
<td>6.67</td>
</tr>
<tr>
<td>Wind Power Plant</td>
<td>16</td>
<td>6.25</td>
</tr>
<tr>
<td>Solar Energy Plant</td>
<td>10</td>
<td>10.00</td>
</tr>
<tr>
<td>Water Treatment Plant</td>
<td>12</td>
<td>8.33</td>
</tr>
<tr>
<td>High-Bay Racking</td>
<td>15</td>
<td>6.67</td>
</tr>
<tr>
<td>Showcase</td>
<td>9</td>
<td>11.11</td>
</tr>
<tr>
<td>Alarm System</td>
<td>11</td>
<td>9.09</td>
</tr>
<tr>
<td>Mobile End-Devices</td>
<td>5</td>
<td>20.00</td>
</tr>
</tbody>
</table>

Dividends, interest and royalties
As from 1 March 2013, dividends received from a company (whether German or foreign) in which the recipient has a direct shareholding of less than 10% must be included in taxable income for corporate income tax purposes. Where a direct participation is 10% or more, dividends are generally tax-exempt, but 5% of the dividend is deemed to be a non-deductible expense and is added back to taxable income. Before 1 March 2013, all dividends were exempt subject to the 5% add-back.

For trade-tax purposes, the same rules apply but a minimum participation of 15% is required and the shares need to be held since the beginning of the taxable period of the recipient company.
Regardless of whether they are largely exempt or not, dividends from other German companies are generally received after deduction of withholding tax (Kapitalertragsteuer) of 26.375% (25% + 5.5% solidarity surcharge). This withholding tax is creditable against the company’s corporate income tax liability, even though the dividend itself may be largely exempt. In some instances, companies may apply to have the foreign withholding tax treated as a deduction (expense) in computing taxable profits. There is no deduction or credit for foreign withholding tax on tax-exempt dividends, however.

In the case of German dividends received by non-resident companies, a refund of withholding tax is possible under the relevant double tax treaty or the Parent-Subsidiary Directive, if certain conditions are fulfilled. In the event that these regulations are not applicable, a new refund rule is included in the German Income Tax Act for dividends received from 2013 onward.

Interest received from German banks is generally also subject to deduction of 26.375% withholding tax, which is fully creditable.

There is no withholding tax on royalties received from other German persons. Foreign royalties are also taxable and any foreign withholding tax on those royalties may be credited against German tax.

Royalties payable to non-residents are paid subject to German withholding tax, unless exempt under a double tax treaty or the EU Parent-Subsidiary Directive.

**Group Taxation**

German companies sharing the necessary characteristics may form a group for both accounting and tax purposes. In such a group (Organschaft), the profits and losses of subsidiaries are transferred to or refunded by the parent entity (Organschaften). The necessary conditions include the following:

- the subsidiary has been financially integrated with the parent entity since at least the beginning of the accounting period for which the Organschaft is to apply
- the parent entity must have held the majority of the voting rights in the subsidiary since at least the beginning of that accounting period
- the subsidiary must enter into a profit-and-loss transfer agreement,
- the agreement has to include certain references to the Joint-Stock Companies Act (Aktiengesetz),
- the agreement must be published in the subsidiary’s entry in the Commercial Register
- the relevant shareholder resolutions by the subsidiary must be notarised before a German notary
- the agreement must be for a period of at least five calendar years and
- profits and losses have actually to be transferred, i.e. in general be paid by transfer of cash by the subsidiary or the parent, as the case may be.
For the purposes of corporate income tax and trade tax, the profits and losses of the subsidiaries *(Organgesellschaften)* within the *Organschaft* for the same year may be offset against each other at the level of the parent entity. However, a subsidiary's losses may neither be carried back nor carried forward at the level of the parent entity.

Despite the existence of the transfer agreement, all group members (including the subsidiaries) must nevertheless file separate returns for both corporate income tax and trade tax, even though no tax will be due at the level of the subsidiary. The income and adjustments as well as all other add-backs are to be calculated at the level of each company. The taxable amount (positive or negative) will be considered at the level of the parent and taxed there.

**Tax losses**

Tax losses incurred in any one year may be carried back (by election) to the preceding year up to an amount of EUR 1 million (EUR 511 500 before 2013). The remainder may be carried forward against future taxable income. However, only the first EUR 1 million may be carried forward without restriction. The amount in excess of EUR 1 million may be set off against no more than 60% of the relevant year’s taxable income. This calculation also applies for trade tax, but there is no loss carry-back for trade tax purposes.

**Sample calculation**

**Table 5**

<table>
<thead>
<tr>
<th></th>
<th>1 587 898</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year before</td>
<td></td>
</tr>
<tr>
<td>Loss brought forward</td>
<td>1 800 000</td>
</tr>
<tr>
<td>Fully deductible</td>
<td>1 000 000</td>
</tr>
<tr>
<td>Remainder</td>
<td>800 000</td>
</tr>
<tr>
<td>60% of remaining taxable income</td>
<td>352 739</td>
</tr>
<tr>
<td>Taxable income for the year</td>
<td>235 159</td>
</tr>
<tr>
<td>Corporate income tax @ 15%</td>
<td>35 274</td>
</tr>
<tr>
<td>Solidarity surcharge @ 5.5%</td>
<td>1 940</td>
</tr>
<tr>
<td>Trade tax (Hamburg 16.45%)</td>
<td>38 684</td>
</tr>
<tr>
<td>Loss carried forward</td>
<td>447 261</td>
</tr>
<tr>
<td>Profit for the year after tax</td>
<td>1 511 820</td>
</tr>
</tbody>
</table>

Thus, even though the loss brought forward exceeds the pre-tax profit for the year, the restriction leaves 40% of the excess over EUR 1 million in charge, resulting in total tax of EUR 76 078.

There is no time limitation on the loss carry-forward. However, restrictions apply where a shareholding of more than 25% (but less than 50%) in the company is transferred within a period of five years. In such a case, the loss brought forward will no longer be deductible to the extent of the transfer (so that if 40% of the shares are transferred, only 60% of the loss brought forward remains available). Where more than 50% of the shares are transferred, unused losses brought forward are forfeited entirely.

**Thin capitalisation/Interest restriction**

Although Germany has no thin-capitalisation rules as such, there is a general restriction of deductible interest in force since 2008. The deduction applies to all interest no matter whether payable to related parties or third parties.

Pursuant to the rules, net interest expense (interest expense minus interest income) is tax deductible only to the extent that it does not exceed 30% of tax EBITDA (earnings before interest, tax, depreciation and amortisation). For companies, tax EBITDA (as opposed to accounting EBITDA) excludes e.g. dividends received, since dividends are exempt from corporate income tax.
There are a number of exemptions from the regulations:

- where the annual net interest is less than EUR 3 million
- the business is a stand-alone entity that is not a member of a consolidated group, or
- the debt-equity ratio of the financed business at the end of the preceding fiscal year is no more than the debt-equity ratio of the consolidated group.

To the extent that interest expense is non-deductible under these rules, the excess may be carried forward and set off in future years under certain conditions.

Transfer pricing
Transfer-pricing documentation rules have been implemented and are of application since 2003. This is now one of the most important topics in multinational companies with cross-border group transactions. In general, the German rules follow the OECD guidelines. However, the German rules require more detailed documentation and are more specific.

Inadequate documentation will result in adjustments by the tax authorities at the most disadvantageous end of a range of correct prices. A penalty of 5% to 10% of the adjustment amount (not the tax) may also be levied. In the event of late filing of acceptable documentation, the penalty is EUR 100 per day.

Special regulations with regard to a transfer of functions were implemented in 2008.

Controlled Foreign Company (CFC) Rules
German CFC rules are included in the German Foreign Tax Act (Aussensteuergesetz). In general, the rules apply where persons subject to unlimited German taxation hold shares of more than 50% in a foreign company that is regarded as an intermediary company and subject to a low rate of taxation. A low rate of taxation is defined as one where income is taxed at an effective rate lower than 25%. In this case, the profits of the intermediary company are treated as if they had been distributed to the German shareholder(s). Special CFC rules apply to these deemed dividends, e.g. the participation exemption does not apply.

Withholding taxes on outbound payments
The incidence of withholding tax on outbound payments depends both on the nature of the recipient (natural person or legal person) and on the residence status of the recipient. Withholding taxes (WHT) in Germany are applied on certain types of income such as dividends, interest, royalties and supervisory-board (Aufsichtsrat) director’s remuneration.

**Dividends**
Dividends from a German company are subject to deduction of 25% withholding tax plus 5.5% solidarity surcharge, making for a combined rate of 26.375%. The tax is imposed in principle regardless of the nature or residence status of the recipient.

Where the EU Parent-Subsidiary Directive applies to exempt the dividend from tax, the recipient company may apply to the German tax authorities to have the dividend paid gross. Applications are subject to special anti-abuse restrictions. Corporate shareholders entitled to lower or zero rates under a double tax treaty may also file applications. Otherwise, the dividend is paid subject to the full withholding tax, and recipients may then apply for a refund to the Federal Central Tax Office (Bundeszentralamt für Steuern).

**Interest**
German companies (other than financial institutions) are not generally required to deduct withholding tax on interest, whoever is the beneficial owner.
Royalties
No withholding tax is imposed on royalties payable to resident persons. In the case of non-residents, withholding tax is deducted at a special rate of 15%, plus solidarity surcharge, making for a combined rate of 15.825%. Applications for exemption of royalties from withholding tax may be filed by the recipient. If the application is approved, the royalties will be paid gross.

Director’s remuneration
Remuneration paid to a non-resident natural person in respect of service as a member of the supervisory board of a German company is subject to a final withholding tax of 30%.

Entertainers, artistes and sports people
Payments made directly or indirectly to performers, athletes etc for appearances in Germany or for the exploitation in Germany of performances are subject to withholding tax. This is generally a final tax of 15% on gross receipts. However, performers etc who are residents of other EU or EEA states may instead apply to deduct expenses, in which case the tax is 30% of the net amount if the payee is an individual or 15% if the payment is made to a company.

Rate of corporate income tax
A single rate of 15%, plus solidarity surcharge, making for a combined rate of 15.825%, applies.

Assessment procedure
Tax is charged by assessment on the basis of the annual tax return filed by the company.

Returns and payments
Tax returns must be filed no later than 31 May of the following calendar year. However, extensions may be granted upon application. Taxpayers using the services of tax advisers are allowed to file tax returns no later than 31 December of the following year, unless the tax authorities have requested an earlier filing date. There are penalties for late filing.

Tax instalments for corporate income tax and trade tax are payable on a quarterly basis, of an amount equal to one-quarter of the final liability of the previous year. Instalments of corporate income tax are due on 10 March, 10 June, 10 September and 10 December; instalments of trade tax are due on 15 February, 15 May, 15 August and 15 November. Companies may apply to adjust their payments on a more accurate estimate of the current year’s liability, but applications for reduced payments must be adequately evidenced.

Final payments are generally due one month after receipt of the tax assessment. In the event of late payment, penalties of 1% of the tax outstanding for each new month of late payment are charged.

Where a refund of tax is due, interest of 0.5% for each full month, starting from the 16th month after the end of the tax year (e.g. for 2013 tax, interest will run from 1 April 2015) will be credited.
Appeals

Appeals against an assessment must in the first place be made to the local tax office. In the event that the tax authorities officially reject the appeal, the taxpayer may lodge an appeal with the Lower Tax Court (Finanzgericht). If the appeal is refused, the taxpayer may apply to the court for permission to appeal to the Federal Financial Court (Bundesfinanzhof), which is the supreme court in tax matters. Leave to appeal will be granted if the subject matter is of sufficient importance. Questions relating to a point of European law may be referred to the Court of Justice by any judicial instance.

Trade tax

Basis of calculation

Trade tax (Gewerbesteuer) is a local tax levied on specially adjusted taxable income. In order to arrive at the taxable income for trade tax, a number of adjustments are made. This involves, for example, adding together the:

- interest expense
- the profit participation of silent partners
- 20% of hire and lease rentals in respect of movable assets
- 50% of rents and lease rentals in respect of immovable property
- 25% of royalty expense

reducing the total by EUR 100,000 and adding back 25% of the remainder.

Foreign income and foreign losses are largely disregarded.

Deductibility

Trade tax is not a deductible expense for the purposes of the corporate income tax nor is that tax deductible for the purposes of trade tax.

Tax rates

The rate of trade tax is the composite of the federally set base rate (Steuermesszahl) of 3.5% multiplied by a locally set coefficient (Hebesatz), of a minimum value of 2. Most local authorities charge a coefficient of between 3.0 and 5.2, which is currently the maximum. By way of example, Berlin charges a coefficient of 4.1, so that the trade tax rate in that city is 4.1 x 3.5% = 14.35%. In many cases, due to the add-backs, the rate of trade tax is approximately the same as or even exceeds the rate of corporate income tax. Trade tax is not subject to the solidarity surcharge.

For a tax computation involving trade tax, see Table 5 on page 16.

Value added tax

Value Added Tax (VAT) as regulated by the European Union is generally charged on the supply of goods or services where the place of supply is in Germany, no matter whether the customer is a private person or a business. It is thus a multi-stage tax charged at each stage of the product cycle but is ultimately borne by the end-user (final consumer). It is also levied on imports of goods from outside the European Union. The overall framework of the tax is the competence of the European Union, as legislated in the VAT Directive (2006/112/EC) and associated Directives and Regulations. These allow Member States several options in application of the tax, not the least of which is the power to set rates (within certain broad parameters).

As elsewhere in the European Union, supplies may be taxable, exempt (with or without the right to deduct) or outside the scope. Exempt supplies with the right to deduct are sometimes referred to as ‘zero-rated’. Businesses making exclusively taxable or zero-rated supplies generally qualify for full deduction of input VAT (the VAT they have incurred making supplies). Businesses making exclusively exempt supplies
without the right to deduct do not qualify for deduction of input VAT. Businesses making a mixture of exempt supplies without the right to deduct and taxable or zero-rated supplies may fully deduct only the input VAT directly incurred on making the taxable or zero-rated supplies. Partial deduction will be available for overheads and other indirect costs.

**Taxable entities**

All businesses are subject to VAT in Germany, i.e. they have to charge VAT on their supplies where the supply takes place in Germany.

**Taxable activities**

The place of supply of goods is generally where the ownership of the goods is transferred. In case of a dispatch involving physical transportation of the goods, the place of supply is where the dispatch begins. Special rules apply for chain transactions and cross-border supplies.

The place of supply of services to private persons is generally the place where the supplier is located. Exceptions have to be considered for special services where the private person is located outside the European Union.

The place of supply of services to taxable persons (other businesses) is generally where the customer is located. Special exceptions exist for e.g. supplies in connection with immovable property.

**Exempt supplies**

Examples of exempt supplies (without the right to deduct) are the letting of property, financial and insurance services and medical services.

**Standard, reduced and zero rates**

The non-zero VAT rates currently in force in Germany are:

- Standard rate: 19%
- Reduced rate: 7%

The reduced rate of 7% is applied to the supply of:

- food, with certain exceptions (restaurant services are standard-rated)
- newspapers and books
- entrance tickets to theatrical, musical and other artistic performances as well as to museums
- transport within a municipality or if not exceeding 50 km
- overnight hotel accommodation (excluding breakfast)

Cross-border supplies of goods within the European Union and exports to third countries are generally zero-rated.

**Registration**

Where the gross taxable turnover of a business does not exceed EUR 17 500 in the current year and did not exceed EUR 50 000 in the prior year, the business, while it must still register for VAT, is not obliged to charge VAT or file VAT returns. Nor may it, therefore, deduct input VAT. This exemption scheme is voluntary, but is not available if the business has previously issued tax invoices showing a separate charge to VAT.

The registration threshold for distance sales (mail-order and other supplies to German end-consumers from outside Germany) is EUR 100 000. The registration threshold for intra-Community acquisitions (the value of goods any non-taxable person may acquire in any one year from suppliers in other Member States without being obliged to register for VAT) is EUR 12 500.

There is a zero threshold for non-established businesses, so a business from outside Germany making a supply taxable in Germany) is obliged to register for German VAT immediately, no matter what the value of the supply.
Returns and payment

Preliminary VAT returns need to be filed on a monthly basis where the business’s VAT liability in the preceding year was over EUR 7500. Where this is not the case, returns are filed quarterly, with certain exceptions.

These returns must be filed electronically, no later than the 10th of the month following the end of the return period. An extension may be granted upon application and prepayment of one-eleventh of the prior year’s VAT liability.

An annual recapitulative return must also be filed electronically, generally by 31 May of the following year.

Payment on the basis of the periodic returns is due by the filing date (i.e. the 10th of the following month). Where payment needs additionally to be made on the basis of the annual return, it is due one month after filing the annual return. Where input VAT exceeds output VAT, the tax authorities will refund the excess. However, where a significant refund is claimed, a VAT tax inspection may be carried out before refunding the amount.
Income tax (including capital gains taxes)

Territoriality and residence

Individuals are resident in Germany where they either maintain a home in Germany to which they have access at any time or their habitual abode (gewöhnliche Aufenthalt) is in Germany. A habitual place of abode in Germany is deemed to exist where an individual has been present in Germany for a continuous period of 183 days or more (ignoring brief interruptions). Resident taxpayers are subject to unlimited taxation, which is to say they are taxable on their worldwide income.

Non-resident individuals are subject to limited taxation (i.e. on their German-source income only). German-source income includes income from a German branch, income from employment under certain conditions and income from immovable property located in Germany.

Persons liable

All physical persons are liable to income tax.

Partners of a partnership, if individuals, are subject to income tax on their share of the partnership’s profits.

The family unit

It is the norm for married couples to file joint returns. This is normally advantageous as:

• The income of both is added together and divided by two
• Tax is calculated on the resulting 50% of joint income
• The tax so calculated is multiplied by two

It is nevertheless possible to apply for filing separately.

Minor children (those aged under 18) with own income exceeding the exempt amount of EUR 8004 need to file separate returns.

Categories of income

Taxable income is classified under the following headings:

• income from agriculture and forestry
• business income
• income from self-employment
• income from employment
• income from investment (e.g. dividends, interest, royalties)
• rental income
• other (including annuities and private long-term and short-term capital gains)

Taxation of employment income

Employment income includes vacation pay, Christmas pay (additional salary generally paid in November or December), bonuses etc. The taxable amount also includes taxable fringe benefits such as a company car with private use.
Treatment of benefits-in-kind
Most benefits-in-kind are valued for tax purposes at their market value, less any contribution to their cost made by the employee.

However, there are special rules for employer-provided accommodation and free meals.

The taxpayer may deduct costs directly connected with the employment, such as costs for travelling to work, employment-related magazines, subscriptions to professional organisations, business-travel expenses where the employer has not covered the lump-sum amounts allowed for tax purposes, and the additional expenses of a double household.

Salary withholding tax
Income tax on earnings from employment is primarily collected by withholding of salary tax (Lohnsteuer) operated by the employer, who calculates the deduction by applying salary-tax tables, which take account of the standard deductions and allowances. The tables and tax amounts vary, depending on the salary-tax classification of the employee (tax class 3 and 5 for married couples where one earns significantly more than the other; tax class 4 for married couples earning broadly similar amounts; tax class 1 for singles etc).

Employers account for these deductions, together with employee and employer social security contributions monthly.

Taxation of personal business income & income from self-employment
The law distinguishes between income from a trade or business and income from independent personal services (i.e. self-employment), the latter category, broadly speaking, comprising self-employed architects, doctors, lawyers, accountants and members of other professions.

The distinction is important for two main reasons. First, taxable income from a trade or business is computed (as for companies) under the ‘net-worth comparison method’, which takes as its starting point the difference between the net worth recorded on the balance sheet at the end of the taxable period and that at the end of the previous taxable period (and therefore requires books and records compliant with generally accepted accounting principles and under the accruals basis to be kept), whereas taxable income from professional self-employment is computed under the net-income method, which takes as its starting point gross turnover and adjusts for allowable expenses and non-recognised income etc, using a cash payments and receipts basis.

Second, income from a trade or business is subject to trade tax as well as income tax, whereas income from professional self-employment is generally exempt from trade tax.

As stated, taxable income from a trade or business is computed similarly to the taxable income of a company, including tax depreciation of assets etc. However, the proprietor’s drawings are not tax-deductible. Moreover, a partial tax credit for trade tax is available against income tax, which is not the case in respect of corporate income tax (see under ‘Trade tax’ below).

In the case of partnerships, the partnership itself is the entity subject to trade tax. However, each individual partner may claim his or her share of the partnership’s trade-tax liability against income tax on the partner’s share of the profits.

Taxation of investment income
Income from rents, net of related expenses, is taxed at progressive income tax rates. There is no deemed rental income from owner occupation.

Income in the form of interest and privately held dividends is generally subject to a flat-rate tax (Kapitalertragsteuer) of 25% plus solidarity surcharge (the effective rate thus being 26.375%), levied by withholding. Each individual taxpayer has a tax-free allowance of EUR 801 per year, so jointly assessed spouses have a total allowance of EUR 1602.
Foreign interest and dividends are also subject to the Kapitalertragsteuer of 25%, but have to be declared in the individual's tax return, as there is no domestic withholding on this income. Any foreign withholding tax may be credited up to the limit of the German tax due. Where the individual's overall progressive rate is under 25%, he or she may opt to have the interest and dividends taxed at the progressive rate(s) instead.

Where dividends are held as a business asset, 40% of the income is tax-free and the remainder is taxable as business income.

Income from royalties is taxed at progressive rates. Royalties received in the course of a business or profession are taxable under the appropriate head of income. Royalties received as a pure investment are assimilated to rental income. Foreign withholding tax on royalties – where not subject to a refund – can be credited to a limited extent against German income tax on the royalties.

**Private capital gains and losses**

Gains from the disposal of immovable property within 10 years of acquisition are subject to income tax. However, the gain is exempt if it arises from the disposal of a property that the individual has used as his or her private residence in the year of disposal and the two preceding years.

Gains from the disposal of movable property are taxable where they have been held for less than one year. If the asset concerned has generated income in that year, however, the period during which gains are taxable is extended to 10 years.

Total gains not exceeding EUR 600 in any one calendar year are exempt. Losses are offset against gains of the same year. Any losses remaining may be carried back to the preceding year or carried forward to subsequent years, but they are not available for set-off against gains from business assets or against income.

**Capital gains on shares**

Capital gains on shares by individuals are generally subject to income tax regardless of the period between acquisition and sale. Where the holding does not exceed 1% of the relevant company's share capital, the gain is subject to the 25% + 5.5% tax on investment income. The gain is calculated as the difference between the disposal proceeds and the acquisition costs and related expenses.

Where the total shareholding exceeds 1% (or has done so at any time during the five preceding years), the capital gain is deemed to be business income. Sixty percent of the capital gain is subject to income tax at standard rates (no flat withholding tax rate applicable). Sixty percent of expenses in connection with the sale are deductible as well. The same applies in the case of losses from the sale, which are deductible as well.
Allowances and deductions

The tax system provides for a large number of allowances and deductions, of which the following are some of the most significant.

- Mandatory social security contributions: these are not currently fully deductible against taxable income. Thus, primarily, in 2013, only 76% of a maximum EUR 20,000 of the mandatory old-age pension contribution (and certain contributions to approved private pension funds) is deductible. The deductible percentage increases by two percentage points each year, reaching 100% in 2025, in step with the percentage of old-age pension that is taxable. The maximum deductible in this way (including tax-deductible employer contributions) is thus EUR 15,200 in 2013.
- Contributions in respect of basic health and long-term care insurance are fully deductible.
- Further contributions to health insurance and long-term care as well as unemployment insurance, accident insurance and certain contributions to approved private funds providing similar benefits are limited to EUR 2,800 per year for e.g. the self-employed (or to EUR 1,900 for e.g. employees, civil servants, retired persons).
- Medical expenses not reimbursed by health insurance: expenses exceeding a fixed percentage regarded as a reasonable burden – depending on the taxpayer's income and personal circumstances – are deductible.
- Donations to German or EU/EEA charities fulfilling certain criteria: deductible up to 20% of total income (before deduction of expenses or allowances etc) or 0.4% of the sum of salaries and turnover for the year.
- Church tax (see below) at the amount paid during the calendar year.
- Two-thirds of childcare costs for children no older than 14 (25 in the case of disabled children), up to a maximum of EUR 4,000 per child per year.
- Child allowance (Kinderfreibetrag) per parent of EUR 2,184 (subsistence level) per child plus a childcare allowance of EUR 1,320 per parent per child; this is not available if the child tax credit (see below) is of greater benefit.
- Professional or vocational training expenses incurred by the taxpayer of up to EUR 6,000 per calendar year.
- Maintenance payments to a divorced or separated spouse, up to a maximum of EUR 13,805 per year. The maintained spouse must give his or her consent to the deduction, be resident in Germany (or in certain circumstances elsewhere in the European Union or European Economic Area) and must be subject to tax on the income.
- Support to dependent relatives up to certain maximum amounts.
- A child tax credit (Kindergeld) of EUR 184 per month (equivalent to EUR 2,208 per year) is available for the first and second child, rising to EUR 2,280 per year for the third child and EUR 2,580 for the fourth and each subsequent child. The child must be maintained by the taxpayer and be under 18 (or under 25 if in full-time education or in military or community service) and resident in Germany or another EEA country. Jointly assessed couples only qualify once for the credit. The child tax credit cannot be combined with the child allowance. Whichever is the more beneficial prevails.

Tax rates

In Germany, the rates of income tax are not charged per band of income but according to a smoothly progressive scale. Broadly speaking, in 2013 and 2012, for a single taxpayer, the effect is as shown in Table 6.

<table>
<thead>
<tr>
<th>Band of income (EUR)</th>
<th>Marginal rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 8004</td>
<td>0 (1)</td>
</tr>
<tr>
<td>Next 5465</td>
<td>14 (14.77)</td>
</tr>
<tr>
<td>Next 39,412</td>
<td>23.97 (2) (25.29)</td>
</tr>
<tr>
<td>Next 197,849</td>
<td>42 (44.31)</td>
</tr>
<tr>
<td>Balance over 250,730</td>
<td>45 (47.48%)</td>
</tr>
</tbody>
</table>

(1) The effect of the personal allowance (see above).
(2) Effective marginal rate.
The income from investment of capital (e.g. dividends, interest etc) is taxable at the flat rate of 25%, it will be recalled.

Returns and payments
Until 2013, there is no general requirement to file income tax returns. Taxpayers with only one source of employment income need not file returns unless they have other income not subject to withholding tax and in excess of EUR 410. Employees with more than one source of employment income and all other taxpayers must file returns.

From 2013 onwards, filing returns is mandatory for all taxpayers.

Where a return is due, it must generally be filed by 31 May of the following year. If a tax adviser is involved, extensions will automatically be granted up to 31 December. Income tax returns for the calendar year 2011 onward generally need to be filed electronically. Certain exceptions exist for taxpayers with employment income.

In the event of late filing, the tax authorities may levy a penalty of up to 10% of the outstanding tax, subject to a maximum of EUR 25 000. The precise rate depends on the frequency of late filing, the amount of tax outstanding and other factors.

Final payments of income tax are subject to interest of 0.5% for each full month, starting 15 months after the end of the tax year (e.g. for 2013, interest will begin to run from 1 April 2015). Repayment interest at the same rate and same starting point is payable to taxpayers.

In the event that final payments remain due for a prior year, the tax authorities may raise estimated assessments, the tax on which is payable in quarterly instalments, beginning on 10 March.

Late payment of tax due on assessment incurs an interest charge of 1% of the outstanding tax per month or incomplete month.

Appeals
See Chapter 6.

Trade tax
Individuals carrying on a trade or business are also liable to trade tax. For the general rules relating to trade tax, see Chapter 6.

Although trade tax is not a deductible expense for the purposes of income tax, a tax credit is available for set-off against an individual taxpayer’s liability to income tax on business income. The amount of the credit is 3.8 times an amount equal to 3.5% of the income liable to trade tax, but no more than the trade tax actually paid. The credit is further capped in proportion to the relative weight of business income as part of total income. This procedure is illustrated in Table 7.

Table 7
A is an individual employed part-time by an engineering company who also works for himself in his spare time. In 2013, 65% of his total income is employment income and 30% self-employment income. His total liability to income tax, before computing the trade-tax credit, is EUR 60 000. His adjusted income liable to trade tax is EUR 58 000. His trade-tax credit is calculated as follows.

<table>
<thead>
<tr>
<th>Income liable to trade tax</th>
<th>58 000</th>
<th>58 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic element of trade tax:</td>
<td>58 000 x 3.5% = 2030</td>
<td></td>
</tr>
<tr>
<td>Trade-tax credit</td>
<td>2030 x 3.8</td>
<td>7714</td>
</tr>
<tr>
<td>Maximum trade-tax credit</td>
<td>60 000 x 30%</td>
<td>18 000</td>
</tr>
</tbody>
</table>
Since the trade-tax credit may be set off against income tax on business income only, the maximum credit is further limited to the income tax on that business income. The credit cannot give rise to a repayment of tax nor may the excess be carried forward.

For partners in a partnership, their share of the partnership's liability to trade tax may similarly be used to calculate the credit against the income tax on their share of the partnership income.

**Inheritance and gift taxes**

Germany levies a tax on inheritances and lifetime gifts. The tax is the liability of the transferee in the case of a transfer mortis causa; the joint liability of transferor and transferee in the case of a lifetime gift and the liability of the transferor (or the transferor's estate) in the case of a gift or bequest for a specific (e.g. charitable) purpose.

Where either the transferor or the transferee is resident in Germany at the time of the transfer, it is the worldwide property involved that is subject to tax. Where neither the transferor nor the transferee is resident, only (any) German-situs property is taxable. For this purpose, a German citizen who has ceased to be resident in Germany continues to be deemed resident for the first five years following emigration.

Assets are valued as required by the Valuation Act (Bewertungsgesetz), mostly at their market value. Liabilities may be deducted.

**Reliefs and allowances**

A number of reliefs exist, the most important of which are for business property and residential property. Business-property relief amounts to 85% by value of the business assets, but is subject to several conditions, including continuation of the business (with its assets) for at least five years, retention of the majority of jobs (measured by the size of the payroll – the total payroll for the five following years must not be less than 400% of the payroll in the year of transfer), and a limitation on passive assets, which must not exceed 50%. The relief is increased to 100% if the business (with its assets) continues for seven years, the total payroll for the seven following years is not less than 700%, and the percentage of passive assets is no greater than 10%.

The transferor's residence may be transferred tax-free on death to his or her spouse or civil partner, provided that the transferee uses the property as his or her residence for at least the following 10 years. Exemption also applies on the same conditions to children of the deceased transferor, but is limited to properties of a living area of no more than 200 m².

The main allowances are shown in Table 8.

<table>
<thead>
<tr>
<th>Transferee</th>
<th>Allowance (EUR)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lifetime gift</td>
<td>Transfer mortis causa</td>
</tr>
<tr>
<td>Spouse or civil partner</td>
<td>500 000</td>
<td>756 000</td>
</tr>
<tr>
<td>Child aged under 5</td>
<td>400 000</td>
<td>452 000</td>
</tr>
<tr>
<td>Child aged 5 to 9</td>
<td>400 000</td>
<td>441 000</td>
</tr>
<tr>
<td>Child aged 10 to 14</td>
<td>400 000</td>
<td>430 700</td>
</tr>
<tr>
<td>Child aged 15 to 19</td>
<td>400 000</td>
<td>420 500</td>
</tr>
<tr>
<td>Child aged 20 to 26</td>
<td>400 000</td>
<td>410 300</td>
</tr>
<tr>
<td>Grandchild</td>
<td>200 000</td>
<td>200 000</td>
</tr>
<tr>
<td>Other Class I</td>
<td>100 000</td>
<td>100 000</td>
</tr>
<tr>
<td>Class II and Class III</td>
<td>20 000</td>
<td>20 000</td>
</tr>
</tbody>
</table>

(1) Reduced by the capitalised value of (any) survivor's pensions or similar recurrent payments to which the transferee becomes entitled.
Transferees are divided into three classes, as follows:

Class I: spouses; civil partners; children; stepchildren; grandchildren and remoter direct ancestors (for transfers mortis causa, also parents and grandparents)

Class II: siblings; nephews; nieces; stepparents; sons-in-law; daughters-in-law; parents-in-law; divorced spouses; former civil partners and (for lifetime gifts, also parents and grandparents)

Class III: all other transferees, including legal persons

These allowances are available to resident taxpayers only. Where German-situated property is transferred between non-residents, there is a token allowance of EUR 2000 only. However, non-residents have the option to elect for taxation as residents. In that event, the allowances in Table 8 will become available, but any non-German property involved in the transfer will thereby also become taxable.

Rates
The rate of tax depends on the value of the assets transferred but also on the degree of consanguinity of the transferor and transferee, by reference to the three Classes enumerated above.

<table>
<thead>
<tr>
<th>Taxable value (EUR)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Class I</td>
</tr>
<tr>
<td>1 to 75 000</td>
<td>7</td>
</tr>
<tr>
<td>75 001 to 300 000</td>
<td>11</td>
</tr>
<tr>
<td>300 001 to 600 000</td>
<td>15</td>
</tr>
<tr>
<td>600 001 to 6 000 000</td>
<td>19</td>
</tr>
<tr>
<td>6 000 001 to 13 000 000</td>
<td>23</td>
</tr>
<tr>
<td>13 000 001 to 26 000 000</td>
<td>27</td>
</tr>
<tr>
<td>Over 26 000 000</td>
<td>30</td>
</tr>
</tbody>
</table>

These bands are discrete, so that, for example, the whole of a transfer of EUR 300 001 to a Class I transferee is taxed at 15% (= tax of EUR 45 000.15) whereas a transfer of EUR 300 000 is taxed at 11% (= tax of EUR 33 000.00). Marginal relief is available, whereby the excess tax caused by crossing the threshold (in this case, EUR 12 000.15) is not to exceed 50% (or where the tax rate exceeds 30%, 75%) of the amount by which the taxable amount exceeds the threshold. Here, therefore, the tax payable would be limited to EUR 33 000.50 (EUR 33 000.00 + 0.5 (300 001 – 300 000)).

Wealth tax
There is no wealth tax in Germany.
8. Other taxes

Property and property transfer taxes

Property tax

Local authorities impose an annual property tax (Grundsteuer) on immovable property located in their area. The property is valued for this purpose at a special ‘assessed value’ (Einheitswert), which is usually lower than market value.

Where the owner lets the property to a third party, the owner is entitled to transfer the liability for the tax in full to the tenants. This requires a corresponding provision in the lease agreement.

As with trade tax, the tax rate is composed of two distinct elements. The basic federal tax, computed at 0.35% of the assessed value, is multiplied by a local coefficient, which ranges from 2.8 to 8.1, giving rise to an effective rate of between 0.98% and 2.84%.

Immovable property transfer tax (IPTT)

An immovable property transfer tax (Grunderwerbsteuer — from now on referred to as IPTT) is imposed on the acquisition of immovable property in Germany. Where German immovable property is included in the assets of a company, a direct or indirect transfer of 95% or more of the shares in the hands of a single acquirer or of controlled or controlling companies, is also subject to IPTT. Special rules apply to the direct or indirect transfer of at least 95% of the interest in a partnership over a period of five years, which will also be subject to IPTT.

Transactions exempt from IPTT include in particular the acquisition of immovable property as a result of the death of the owner, an inter vivos gift of immovable property, a transfer between spouses and a company reorganisation (under certain conditions). However, such transfers may be subject to gift or inheritance tax.

The charge to IPTT is based on the value of the consideration given and thus essentially on the purchase price. The tax rate varies from one federal state (Bundesland) to another and ranges from 3.5% to 5.0%. Most federal states now apply the 5% rate.

Due to its relatively high tax rates, IPTT used often to be an obstacle to restructuring a group. New regulations for transferring shares within a group of companies have been implemented. Exemption is now available, but only where the property is exchanged between a parent company and one or more 95% subsidiaries and several other conditions are satisfied. This requires close attention before a reorganisation or restructuring is effected.
9. Social security contributions

Employers and employees
Mandatory social security contributions are paid into four distinct insurance funds:

- Unemployment fund (Arbeitslosenversicherung)
- Old-age pension fund (Rentenversicherung)
- Health fund (Krankenversicherung)
- Long-term care fund (Pflegeversicherung)

The liability is shared more or less equally between employers and employees. The employee’s contribution is withheld from earnings together with salary tax and the employer is responsible for accounting for the amounts withheld and his own contributions.

There is a ceiling on contributions, earnings in excess of which are not subject to further contributions. A different ceiling applies in respect of unemployment and old-age pension insurance on the one hand and health insurance and long-term care insurance on the other, and also as between the former West and East Germany in respect of the former pair of funds. The values of these various ceilings in 2013 are set out in Table 10.

Table 10

<table>
<thead>
<tr>
<th>Contribution fund</th>
<th>Annual earnings ceiling (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>West Germany</td>
</tr>
<tr>
<td>Unemployment fund</td>
<td>69 600</td>
</tr>
<tr>
<td>Old-age pension fund</td>
<td>69 600</td>
</tr>
<tr>
<td>Health fund</td>
<td>47 250</td>
</tr>
<tr>
<td>Long-term care fund</td>
<td>47 250</td>
</tr>
</tbody>
</table>

(1) Reduced by the capitalised value of (any) survivor’s pensions or similar recurrent payments to which the transferee becomes entitled.

The rates payable in 2013 are set out in Table 11.

Table 11

<table>
<thead>
<tr>
<th>Contribution fund</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employer</td>
</tr>
<tr>
<td>Unemployment fund</td>
<td>1.5</td>
</tr>
<tr>
<td>Old-age pension fund</td>
<td>9.45</td>
</tr>
<tr>
<td>Health fund</td>
<td>7.3</td>
</tr>
<tr>
<td>Long-term care fund</td>
<td>1.025 (1)</td>
</tr>
<tr>
<td></td>
<td>19.275 (3)</td>
</tr>
</tbody>
</table>

(1) In Saxony, the employer pays 0.525% and the employee 1.525%
(2) The employee pays an extra 0.25% if he or she has no children.
(3) In Saxony, the total will be 18.775%. See note 1.

The self-employed
The self-employed are not contributors to the social security system, but must take out private insurance.
10. Moore Stephens in Germany

Moore Stephens is represented in Germany by an alliance of 20 firms, with offices in 43 German towns and cities. The alliance is presided over by Moore Stephens Deutschland AG, with its headquarters in Berlin, and managed from Düsseldorf. The Alliance Management is located at:

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40213 Düsseldorf  
T +49 (0)211 30 125 253  
F +49 (0)211 30 125 134  
info@moorestephens.de

www.moorestephens.de
## Appendix 1: Double tax treaties

Germany has comprehensive double tax treaties with the following countries:

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Ireland</td>
<td>Philippines</td>
</tr>
<tr>
<td>Algeria</td>
<td>Israel</td>
<td>Poland</td>
</tr>
<tr>
<td>Argentina</td>
<td>Italy</td>
<td>Portugal</td>
</tr>
<tr>
<td>Armenia</td>
<td>Ivory Coast</td>
<td>Romania</td>
</tr>
<tr>
<td>Australia</td>
<td>Jamaica</td>
<td>Russia</td>
</tr>
<tr>
<td>Austria</td>
<td>Japan</td>
<td>Serbia</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Jersey</td>
<td>Singapore</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Kazakhstan</td>
<td>Slovakia</td>
</tr>
<tr>
<td>Belarus</td>
<td>Kenya</td>
<td>Slovenia</td>
</tr>
<tr>
<td>Belgium</td>
<td>Korea</td>
<td>South Africa</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Kosovo</td>
<td>Spain</td>
</tr>
<tr>
<td>Bosnia Herzegovina</td>
<td>Kuwait</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Kyrgyzstan</td>
<td>Sweden</td>
</tr>
<tr>
<td>Canada</td>
<td>Latvia</td>
<td>Switzerland</td>
</tr>
<tr>
<td>China</td>
<td>Liberia</td>
<td>Syria</td>
</tr>
<tr>
<td>Croatia</td>
<td>Liechtenstein</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Lithuania</td>
<td>Tajikistan</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Luxembourg</td>
<td>Thailand</td>
</tr>
<tr>
<td>Denmark</td>
<td>Macedonia</td>
<td>Trinidad and Tobago</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Malaysia</td>
<td>Tunisia</td>
</tr>
<tr>
<td>Egypt</td>
<td>Malta</td>
<td>Turkey</td>
</tr>
<tr>
<td>Estonia</td>
<td>Mauritius</td>
<td>Turkmenistan</td>
</tr>
<tr>
<td>Finland</td>
<td>Mexico</td>
<td>Ukraine</td>
</tr>
<tr>
<td>France</td>
<td>Moldova</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>Georgia</td>
<td>Mongolia</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Ghana</td>
<td>Montenegro</td>
<td>United States</td>
</tr>
<tr>
<td>Greece</td>
<td>Morocco</td>
<td>Uruguay</td>
</tr>
<tr>
<td>Hungary</td>
<td>Namibia</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>Iceland</td>
<td>Netherlands</td>
<td>Venezuela</td>
</tr>
<tr>
<td>India</td>
<td>New Zealand</td>
<td>Vietnam</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Norway</td>
<td>Zambia</td>
</tr>
<tr>
<td>Iran</td>
<td>Pakistan</td>
<td>Zimbabwe</td>
</tr>
</tbody>
</table>

(1) The treaty concluded with the former USSR applies.
(2) The treaty concluded with the former Socialist Federal Republic of Yugoslavia applies.
(3) The treaty concluded with the former Czechoslovakia applies.
Double tax treaties: air transport and shipping

Germany has double tax treaties with the following jurisdictions covering profits from air transport, or from shipping and air transport, only.

<table>
<thead>
<tr>
<th>Bosnia Herzegovina</th>
<th>Hong Kong</th>
<th>Saudi Arabia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Isle of Man</td>
<td>Serbia</td>
</tr>
<tr>
<td>Chile</td>
<td>Macedonia</td>
<td>Venezuela</td>
</tr>
<tr>
<td>China</td>
<td>Montenegro</td>
<td>Yemen</td>
</tr>
<tr>
<td>Colombia</td>
<td>Paraguay</td>
<td></td>
</tr>
</tbody>
</table>

(1) The treaty concluded with the former Socialist Federal Republic of Yugoslavia applies.
(2) Air only.
(3) Sea only.

Double taxation treaties: estates, gifts and inheritances

Germany has agreements covering taxes on estates, gifts and inheritances with the following countries.

<table>
<thead>
<tr>
<th>Denmark</th>
<th>Greece (1)</th>
<th>Switzerland (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Sweden</td>
<td>United States of America</td>
</tr>
</tbody>
</table>

(1) These treaties cover inheritances only.

Agreements on mutual administrative assistance

Germany has separate agreements on mutual administrative assistance in tax matters with the jurisdictions outside the European Union shown in the following table. Within the European Union, administrative assistance is guaranteed under EU Directive 2010/24/EU. Several of Germany’s double tax treaties also contain provisions for mutual administrative assistance.

<table>
<thead>
<tr>
<th>Andorra</th>
<th>Gibraltar</th>
<th>Monaco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>Guernsey</td>
<td>San Marino</td>
</tr>
<tr>
<td>Bahamas</td>
<td>Isle of Man</td>
<td>St Vincent and the Grenadines</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>Jersey</td>
<td>Turks and Caicos Islands</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>Liechtenstein</td>
<td></td>
</tr>
</tbody>
</table>

Social security agreements

The interaction of national social security systems within the European Economic Area is governed by EU Regulations which also extend, by agreement (and with some differences), to Switzerland. Germany has pre-existing bilateral agreements with some of these states. These have largely been superseded by the EU Regulations, but may be applied where, occasionally, they give a more beneficial result. The following non-EEA countries have social security agreements with Germany, the terms of which differ from case to case.

<table>
<thead>
<tr>
<th>Australia</th>
<th>India</th>
<th>Morocco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bosnia Herzegovina</td>
<td>Israel</td>
<td>Québec</td>
</tr>
<tr>
<td>Canada</td>
<td>Japan</td>
<td>Serbia (1)</td>
</tr>
<tr>
<td>Chile</td>
<td>Korea</td>
<td>Tunisia</td>
</tr>
<tr>
<td>China</td>
<td>Macedonia</td>
<td>Turkey</td>
</tr>
<tr>
<td>Croatia (2)</td>
<td>Montenegro (1)</td>
<td>United States</td>
</tr>
</tbody>
</table>

(1) The agreement concluded with the former Socialist Federal Republic of Yugoslavia applies.
(2) Croatia is expected to accede to the European Union on 1 July 2013.
## Appendix 2: Moore Stephens around the world

Moore Stephens member firms may be found in 103 countries and territories around the world, with correspondent firms in another three.

<table>
<thead>
<tr>
<th>Albania</th>
<th>Czech Republic</th>
<th>Kuwait</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>Denmark</td>
<td>Latvia</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>Argentina</td>
<td>Dominican Republic</td>
<td>Lebanon</td>
<td>Serbia</td>
</tr>
<tr>
<td>Australia</td>
<td>Ecuador</td>
<td>Liechtenstein*</td>
<td>Seychelles</td>
</tr>
<tr>
<td>Austria</td>
<td>Egypt</td>
<td>Lithuania</td>
<td>Singapore</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Estonia*</td>
<td>Luxembourg</td>
<td>Slovakia</td>
</tr>
<tr>
<td>Bahamas</td>
<td>Finland</td>
<td>Macedonia</td>
<td>South Africa</td>
</tr>
<tr>
<td>Bahrain</td>
<td>France</td>
<td>Malta</td>
<td>South Korea</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Germany</td>
<td>Mauritius</td>
<td>Spain</td>
</tr>
<tr>
<td>Belgium</td>
<td>Gibraltar</td>
<td>Mexico</td>
<td>Sri Lanka*</td>
</tr>
<tr>
<td>Belize</td>
<td>Greece</td>
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*denotes a correspondent firm only

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