

Prime Advisory Network

YOUR WEEKLY REPORT ON BUSINESS OPPORTUNITIES ACROSS THE GLOBE

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What is Prime Advisory Network

Prime Advisory Network is an international and highly professional network, made up of expert accountants, auditors and lawyers qualified to provide a complete consultancy service to companies and groups operating in several fields.

Thanks to a completely innovative communication technology for the management of the client, Prime Advisory Network represents the first “digital” global network of the accountant offices in the world.

Professionals can cooperate worldwide with each other in an integrated way, by managing their clients all over the world and expanding their services and of course growing the number of their customers.

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Country Report



I. GENERAL DATA

Germany officially the Federal Republic of Germany is a federal parliamentary republic in central-western Europe. It includes 16 constituent states, covers an area of 357,021 square kilometres (137,847 sq mi). With about 82 million inhabitants, Germany is the most populous member state of the European Union.

After the US, is the second most popular immigration destination. Germany's capital and largest metropolis is Berlin, while its largest conurbation is the Ruhr (main centers: Dortmund & Essen).

Hamburg, Munich, Cologne, Frankfurt, Stuttgart, Düsseldorf and Leipzig are other major cities. Various Germanic tribes have inhabited the northern parts of modern Germany since classical antiquity.

A region named Germania was documented before 100 AD. During the Migration Period the Germanic tribes expanded southward. Beginning in the 10th century, German territories formed a central part of the Holy Roman Empire. During the 16th century, northern German regions became the centre of the Protestant Reformation.

In the 21st century, Germany is a great power and has the world's fourth-largest economy by nominal GDP, as well as the fifth-largest by PPP. As a global leader in several industrial and technological sectors, is both the world's third-largest exporter and importer of goods. Germany is a developed country with a very high standard of living sustained by a skilled and productive society. It upholds a social security and universal health care system, environmental protection and a tuition-free university education.

Germany was a founding member of the European Economic Community in 1957 and the European Union in 1993. It is part of the Schengen Area, and became a co-founder of the Eurozone in 1999. Germany is a member of the United Nations, NATO, the G8, the G20, and the OECD. The national military expenditure is the 9th highest in the world. Known for its rich cultural history, Germany has been continuously the home of influential and successful artists, philosophers, musicians, sportspeople, entrepreneurs, scientists, engineers, and inventors.

- Germany is a global leader in science and technology as its achievements in the fields of science and technology have been significant.

- Culture in German states has been shaped by major intellectual and popular currents in Europe, both religious and secular.

- Germany is the second largest music market in Europe, and fourth largest in the world.

- Munich, Hamburg, Cologne and Düsseldorf are also important design, production and trade hubs of the domestic fashion industry, among smaller towns.

Germany has a social market economy with a highly skilled labour force, a large capital stock, a low level of corruption, and a high level of innovation. It is the world's third largest exporter of goods, and has the largest national economy in Europe which is also the world's fourth largest by nominal GDP and the fifth one by PPP.

The service sector contributes approximately 71% of the total GDP (including information technology), industry 28%, and agriculture 1%. The unemployment rate published by Eurostat amounts to 4.7% in January 2015, which is the lowest rate of all 28 EU member states. With 7.1% Germany also has the lowest youth unemployment rate of all EU member states. According to the OECD Germany has one of the highest labour productivity levels in the world.

Germany is part of the European single market which represents more than 508 million consumers. Several domestic commercial policies are determined by agreements among European Union (EU) members and by EU legislation. Germany introduced the common European currency, the Euro in 2002. It is a member of the Eurozone which represents around 338 million citizens. Its monetary policy is set by the European Central Bank, which is headquartered in Frankfurt, the financial center of continental Europe.

Being home to the modern car, the automotive industry in Germany is regarded as one of the most competitive and innovative in the world, and is the fourth largest by production. The top 10 exports of Germany are vehicles, machinery, chemical goods, electronic products, electrical equipment, pharmaceuticals, transport equipment, basic metals, food products, and rubber and plastics. Germany is the world's third-largest arms exporter.

II. FOREIGN INVESTMENT

Germany has an open and welcoming attitude towards foreign direct investment (FDI). The 1956 U.S.-FRG Treaty of Friendship, Commerce and Navigation affords U.S. investors national treatment and provides for the free movement of capital between the United States and Germany. As an OECD member, Germany adheres to the OECD National Treatment Instrument and the OECD Codes of Liberalization of Capital Movements and of Invisible Operations. In 2013, the Capital Investment Code replaced the German Foreign Investment Act, and the Foreign Trade and Payments Act and the Foreign Trade and Payments Ordinance were amended. For many decades, Germany has experienced significant inbound investment. It is widely recognized that foreign investment has been a considerable contributor to Germany's growth and prosperity. The German government and industry actively encourage foreign investment. U.S. investment has been strong and continues to account for a significant share of foreign investment. The investment-related problems foreign companies face are generally the same as for domestic firms, for example, high marginal income tax rates and labor laws that impede hiring and dismissals.

Companies and entrepreneurs can count on a reliable legal system. The legal framework is solid, and enforcement is effective. The judiciary is independent, and judges are highly professional. German courts have a good record in upholding the sanctity of contracts.

Business Registration

Before engaging in commercial activities, companies and business operators have to register in public directories, the two most significant of which are the commercial register (Handelsregister) and the trade office register (Gewerberegister).

In the EU, MSMEs are defined as follows:

- Micro enterprises: less than 10 employees and less than €2 million annual turnover or less than €2 million in balance sheet total.
- Small enterprises: less than 50 employees and less than €10 million annual turnover or less than €10 million in balance sheet total.
- Medium-sized enterprises: less than 250 employees and less than €50 million annual turnover or less than €43 million in balance sheet total.

Limits on Foreign Control and Right to Private Ownership and Establishment

While Germany's Foreign Economic Law contains a provision permitting restrictions on private direct investment flows in either direction for reasons of foreign policy, foreign exchange, or national security, in practice, restrictions have only been imposed in the sectors of air transport, maritime transport, inland waterways, and rail transport. Additionally Germany limits the foreign provision of employee placement services, such as providing temporary office support, domestic help, or executive search services.

German law affords foreign investors national treatment: under German law, a foreign-owned company registered in the Federal Republic of Germany (FRG) as a GmbH (limited liability company) or an AG (joint stock company) is treated the same as a German-owned company. There are no special nationality requirements for directors or shareholders.

Privatization Program

There is no privatization program ongoing. As a matter of principle, Germany treats foreigners equally in privatizations.

Taxes in Germany

German taxation is often regarded as confusing and obscure. Indeed, the complex system of direct and indirect taxes in Germany, from inheritance tax and dog tax to excise duties and VAT, seems rather complicated to Germans and expats alike. Our InterNations guide is here to help!

Businesses are subject to various other taxes in Germany, such as corporate tax, trade tax, and turnover tax. The type and tax rate depend on the size of the company, its legal form, and the

classification of the tax-paying owner as an entrepreneur, small business owner, or self-employed professional (e.g. a doctor or lawyer).

Among the various sorts of taxes in Germany, income tax is the most important. However, tax law in Germany distinguishes between Einkommensteuer (income tax in general) and Lohnsteuer (pay-as-you-earn tax / withholding tax for employees).

PAY Tax for Employees

This subcategory of German income tax applies only to employed wage earners. The employer automatically deducts the contributions to social security in Germany and the actual PAYE tax (Lohnsteuer) from employees' monthly gross income. Tax rates for Lohnsteuer are the same as those for income tax in general.

In 2014, if singles have an annual salary lower than EUR 8,354 for or EUR 16,708 for a married couple, they will not be subject to PAY taxes in Germany. The starting rate for the lowest taxable income is 14%. The tax rate then rises progressively.

For annual gross incomes between EUR 8,355 and EUR 13,469, the rise is pretty steep, followed by a more gradual increase for incomes of up to EUR 52,882. People earning more than EUR 52,882 per year are subject to a tax rate of 42%. For top incomes of over EUR 250,731, the highest tax rate of 45% applies.

In addition to Lohnsteuer, you have to pay the so-called solidarity surcharge (5.5% of your income tax) as well as church tax (Kirchensteuer). However, the latter kind of tax in Germany only applies if you are a registered member of the Catholic or Lutheran-Protestant religion in Germany.

Tax-relevant information on employees, such as their number of children or their religious affiliation, is registered in their electronic tax card (elektronische Lohnsteuerkarte). You just need to provide your employer with your tax identification number and date of birth, and then they can access all your relevant tax information from the German central revenue service (Bundeszentralamt für Steuern) and add you to the company payroll.

Income Tax

As mentioned above, an employee's Lohnsteuer may merely be a part of their overall income tax. You also have to pay taxes in Germany on your personal income from the following sources:

- Income from agriculture and forestry (1)
- Income from business operations (2)
- Income from self-employed work (3)
- Income from employed work (4)
- Capital income (5)
- Income from letting property (6)

The tax on “income from employed work” (4) is identical with the Lohnsteuer we have just explained. Categories 2 and 3 (income from business and self-employment), on the other hand, are relevant for freelancers who run a small business or trade (Gewerbe) or who are self-employed artists, accountants, physicians, etc.

However, if you have additional income from any other category, like interest on your savings (5) or rental yields (6), it is also subject to income tax. Tax rates range from 14% to 45%, as described above.

Tax Deductions

The basic tax-free allowance (Steuerfreibetrag) is the same as that for PAYE tax, i.e. EUR 8,354 a year for singles and twice as much for a married couple.

In addition to a basic allowance for low-income earners, there are numerous deductibles that may apply to your taxes in Germany. You can get deductions for raising children, commuting to work, paying for work uniforms, being a single parent, joining a trade union, contributing to private pension funds, paying for selected insurance premiums, donating to charity, etc.

You have to list all these factors in your annual tax return. If you don't pay PAYE tax on any income from employed work, you have to submit income taxes in Germany each quarter. For this purpose, the taxable income is based on that in the previous year.

The right partners for you in Germany. Meet our members

Riera attends to small and medium-sized companies in tax and legal matters and is also active in business management consulting. They represent both Italian companies in Germany and German companies in Italy through our office in Munich.

Their goal is to offer your clients a comprehensive solution. In addition to traditional advising with regards to taxes and legal concerns, they also look after development plans, provide consulting in exceptional business transactions (M&A, MBO, MBI, etc.), care for the reorganization and revitalization of companies and prepare reporting and controlling systems.

Our Network keeps on growing.

Let us introduce you our latest members!



From USA

“Marco Q Rossi & Associati” with their offices in Miami, Los Angeles, New York & Scottsdale.

Prime Advisory Network coverage across the Globe.





We are here to help you. Don't hesitate to contact us if you have questions or wish to represent your country by writing an article. We will publish it on our blog and insert it in our weekly newsletter.

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