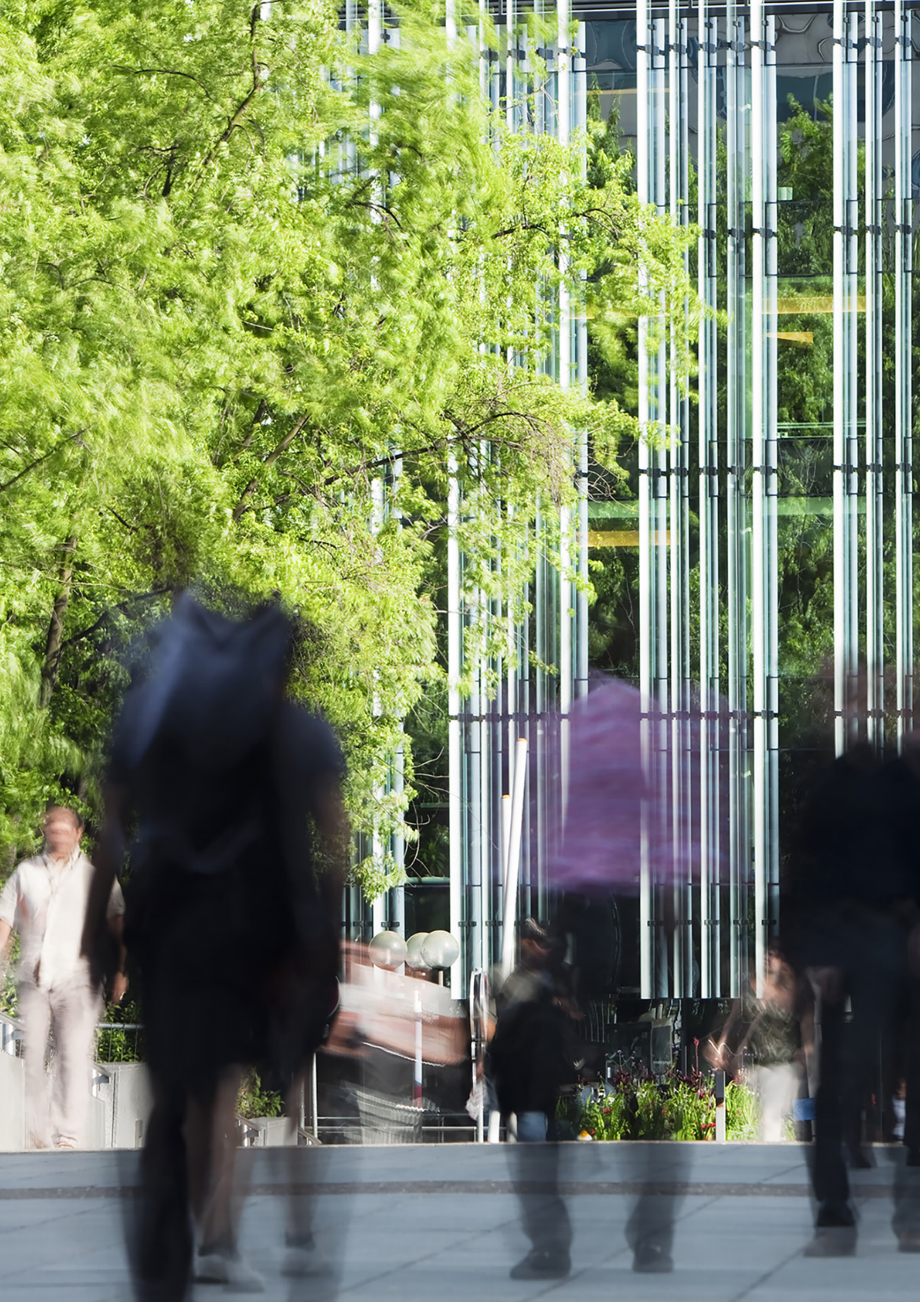
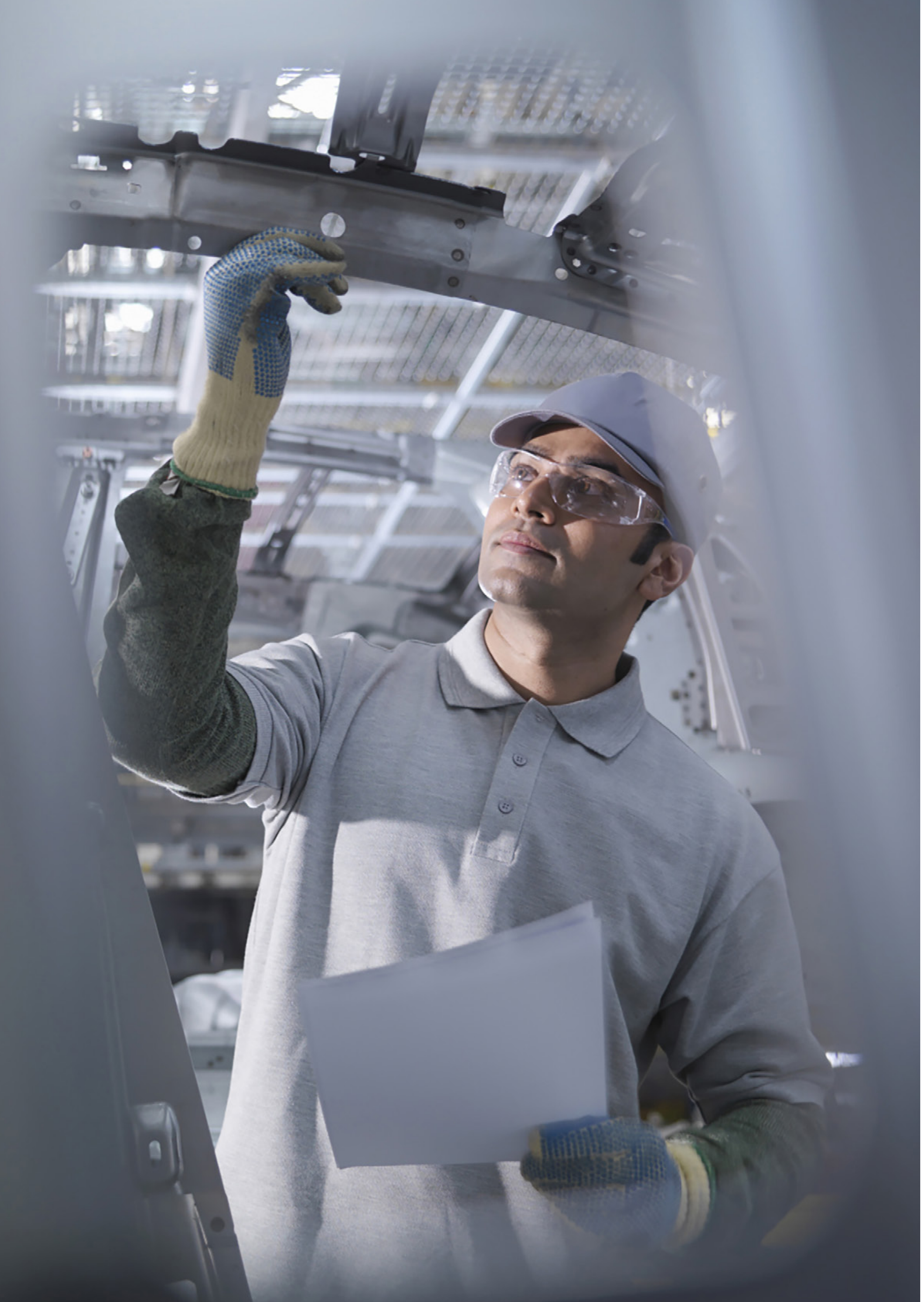
Doing business in Germany 2026

Trends and opportunities

forvis mazars



Content

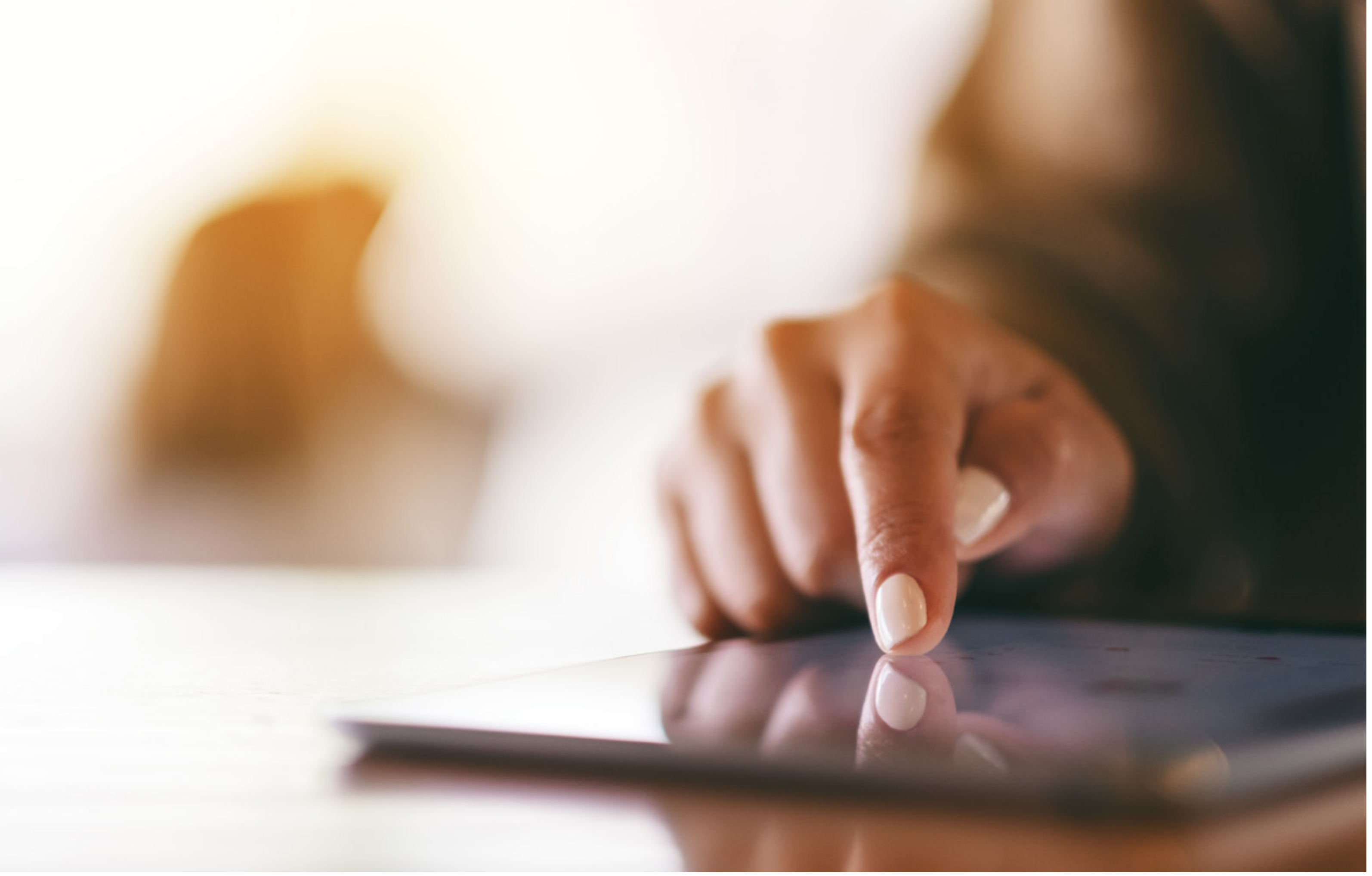


Preamble

Germany, as one of the most highly-developed industrial countries, has been very attractive for investors for many years. The country offers numerous opportunities to do business throughout Europe, making it an ideal location for accessing the European market.

Despite the harmonisation in the European Union, there still remain economic, social, legal and cultural differences amongst its countries that foreign investors should be aware of. Located in the heart of Europe, Germany is an important hub for companies operating within the Union. The country offers excellent infrastructure, economic and political stability, a highly developed legal system and skilled workers. This brochure assists foreign investors in understanding the specific regulations in Germany in order to contribute to the success of their investments: It provides answers to questions such as how to employ staff and how individuals and companies are taxed, and gives an outline on accounting aspects.

However, the information in this document is not exhaustive. Further discussions and detailed analyses are required before strategic business decisions are made. For this purpose, we have attached the contact details of our locations in Germany at the end of this brochure. Please feel free to contact us if you have any questions or uncertainties.



Services

Audit & assurance, tax, advisory & consulting services

5 Billion US$

Combined revenue[2]

Top 5

PIE Auditors in Europe[1]

100+

Countries and territories

400+

Combined offices

40,000+

Combined professionals

1,800+

Combined partners

[1] based on the number of PIE audit engagements, as of January 2026

[2] Forvis Mazars Group $3bn + Forvis Mazars, LLP $2bn at 31/8/2025

About Forvis Mazars

A uniquely integrated firm

We operate around the world as a united team, with aligned interests, consistent delivery models and a shared commitment to the highest standards of service and ethics and taking a collaborative, integrated approach that allows us to deliver consistent and personalised services to clients of all shapes and sizes, across all sectors and geographies.
Our multidisciplinary approach is key to supporting our clients' changing needs and helping them achieve sustainable growth. Audit has long been at the heart of our business, and we have developed robust tax, advisory, compliance and sustainability practices.

Forvis Mazars is a leading global professional services network. Uniquely formed of just two members, it is designed to be agile and to deliver consistency, with the global scale to meet clients' needs.

Two members operating under a single brand - Forvis Mazars Group SC, an internationally integrated partnership operating in over 100 countries and territories, and Forvis Mazars LLP in the United States.

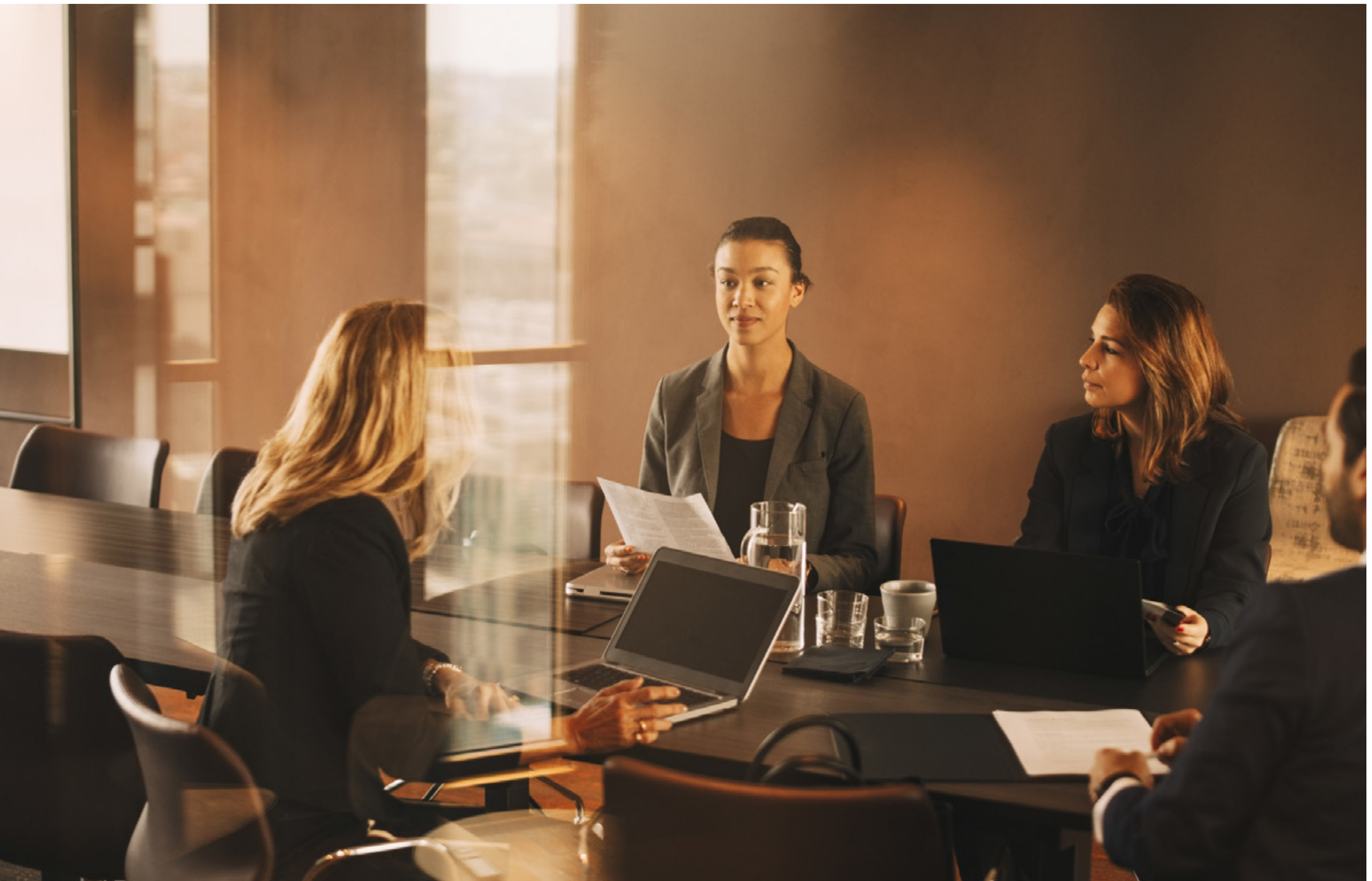
Committed to providing an unmatched client experience, delivering audit & assurance, tax, advisory & consulting services around the world.

Our strategic mission is to move our clients, people, industry and communities forward.

A European economic force

Germany is a stable economic force and one of the most powerful industrial nations in Europe. There is an unusually large number of innovative and high performing small and medium-sized enterprises (SMEs).

Germany's strength resides in its diversity and its esteemed industrial framework. With its well-developed service sector ("tertiary sector") Germany is a first-class financial and banking country with an educated workforce. The quality of infrastructure is a major asset for commercial relationships. Because of its location in the heart of Europe, Germany is the bridge between the East and the West. Taken as a whole, Germany is the hub of the European market.



Various aspects to take into account when setting up a company

Purchase of shares or purchase of assets of an existing German company (e. g. shell or shelf companies). In this case, it is necessary to understand the financial, tax and legal characteristics of the company in question.

Establishment of a subsidiary is fully regulated by German law. Knowing the differences between the various legal forms is necessary.

Founding of a branch. This offers the advantage of settling on a larger scale without having to establish a company in a legal sense.

Other, more flexible, forms of setting up: **information or liaison bureau, or delivery depot.**

Outline of possibilities

	Subsidiary	Branch	Delivery Depot
Registration with the Commercial Register	Compulsory	Compulsory	No
Company agreement	Compulsory	Not applicable	Not applicable
Representation	Managing director of subsidiary	Authorized representative	Head office
Company name	Can be chosen individually	Name of the company. Additions to the name (e.g. Niederlassung Berlin) are permitted.	Name of the head office
Tax declaration	Compulsory for all taxes	Compulsory for all taxes	Potentially compulsory for VAT and payroll taxes
Posting entries to the book ledger	Compulsory locally	Non-compulsory, but recommended	Proof required for VAT refund

How to employ staff

Deciding what staff to employ and at what costs

The quality of labor, productivity and associated costs are key factors in setting up a business abroad.

German employees are generally highly qualified and productivity is among the highest in the world. However, there are important disparities to be considered. Some federal states (e.g. Bavaria) and some cities (e.g. Frankfurt, Munich or Stuttgart) have a high level of qualification, a relatively low rate of unemployment and consequently above-average salaries. In contrast, salaries tend to be lower in eastern regions compared to most western regions. In 2015, the so-called statutory minimum wage was introduced in Germany with an hourly rate of € 8.50 and has been increased several times since then. Currently, the minimum wage for the entire year 2026 is € 13.90 per hour. For some groups of workers the law provides exemptions.

The minimum vacation entitlement is 24 working days per year. In practice, the minimum leave entitlement is often exceeded due to collective labor agreements or individual employment contracts: On average, German employees are entitled to 5 to 6 weeks of annual leave. Please note there are various regulations regarding co-determination, German social law, temporary employment and dismissal protection.

Income from employment falls within the scope of the German social security system. This system is divided into unemployment, pension, health, nursing and accident insurance. Social security contributions are usually paid half by the employer and half by the employee. The contributions are levied by the employer and paid directly by deduction from the salary.

Taxation of individuals

Determining income for tax purposes

Income tax liability

Individuals are subject to unlimited income tax liability if they have their residence or habitual abode in Germany. Nationality is irrelevant for German income tax liability. Permanent residence means that the person is present in Germany generally for an uninterrupted period of at least six months (this period can bridge two calendar years). The tax liability relates to the worldwide income unless restrictions according to a Double Tax Agreement are applicable. Individuals who are not subject to unlimited income tax liability in Germany, but who receive income from German sources, are subject to limited income tax liability on these sources, unless restrictions according to a Double Tax Agreement are applicable.

Taxable income of individuals can stem from the following categories

- Income from trade or business
- Income from self-employment
- Income from dependent employment
- Income from capital investments
- Income from agriculture and forestry
- Income from letting and leasing
- Other income

Particular terms of liability

Individuals are subject to a progressive income tax rate of 14 % to 45 %. A solidarity surcharge of 5.5 % is levied additionally on income tax. A basic allowance of € 12,348 (2026) to secure the minimum subsistence level is exempt from German income tax. In principle, taxable income is calculated as the surplus of income over income-related expenses, or of operating income over operating expenses. Personal expenses can also be deducted under certain conditions. Investment income, e.g. interest and dividends, is generally subject to a separate tax rate of 25 %, plus a 5.5 % solidarity surcharge.

Losses can be carried back for one assessment period up to € 1 million without restriction (up to € 2 million for married couples) and be carried forward indefinitely. However, minimum taxation is applicable (i.e. loss carry-forward can be utilized up to € 1 million without restriction, and the exceeding income can only be offset by 70 %).

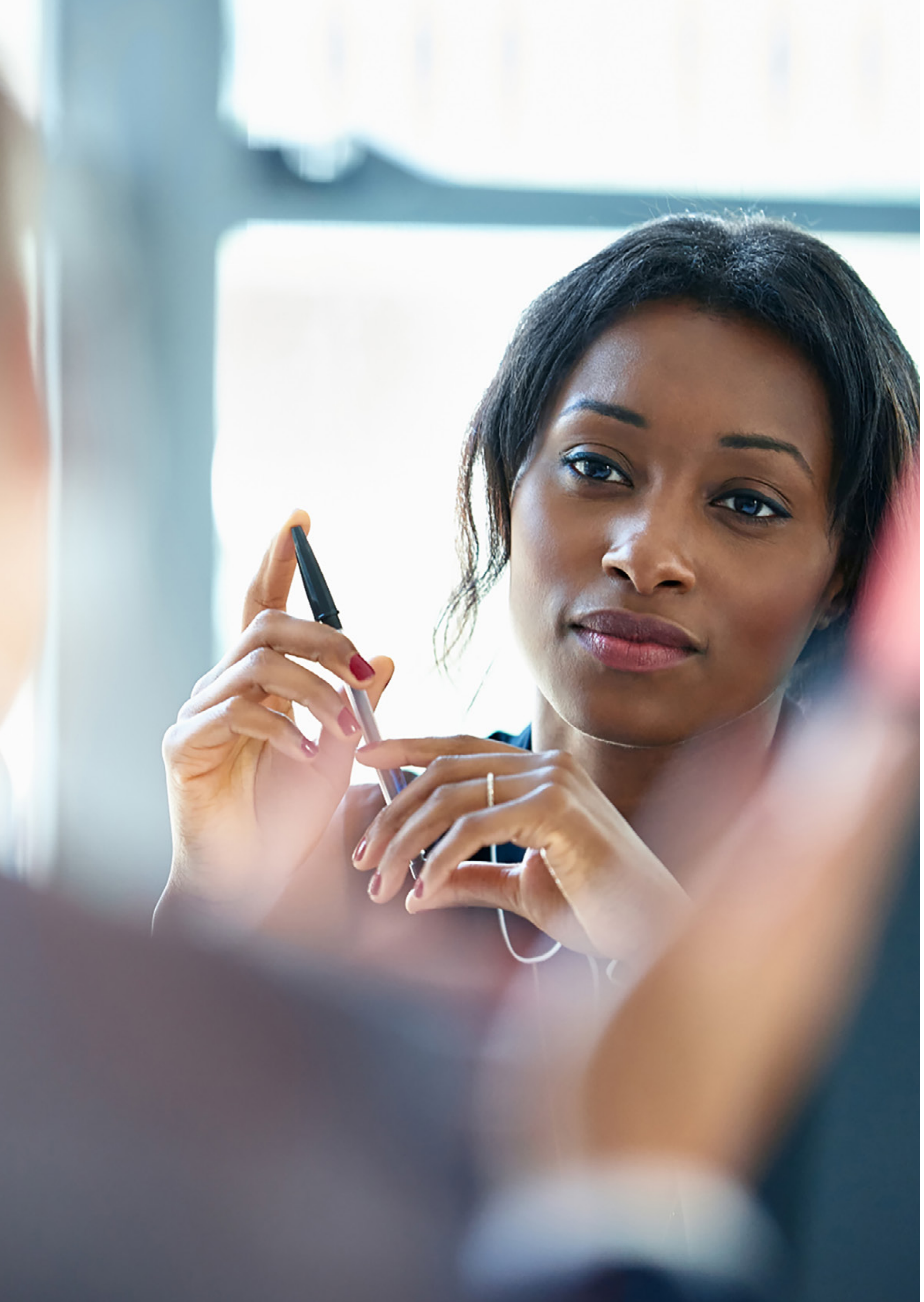
Income-related expenses (expenses incurred to acquire, secure and maintain income) may reduce the tax base.

Investment income, i. e. income received from dividends, interest, etc., is generally subject to a withholding tax of 25 %.

Individuals who are members of a recognized religious community entitled to tax with a permanent residence or habitual abode in Germany are subject to church tax. The rate varies between 8 % and 9 % of the income tax paid.

Furthermore a solidarity surcharge is due in an amount of 5.5 % of the payable income tax. This tax was introduced to finance the German reunification.

Since 2021, the solidarity surcharge is only payble if the annual exemption limit (Freigrenze) of € 20,350 (2026) is exceeded. In case of joint assessment, the exemption limit is doubled.



Tax and legal treatment of assigned employees

International staff assignments are a daily practice for global companies. Depending on the purpose of the assignment, the duration for employees can last from a few days to several years.

With employees assigned to foreign host countries or impatriating from another country to Germany, people commuting between home and host country for project work and non-domestic employers hiring German-based personnel, consequences for the employer and employee can vary. These situations can impact immigration, social security, payroll and income tax matters, both statutory requirements and monthly salary payments. Furthermore there is a permanent establishment risk when employees work in a different country.

Depending on the individual circumstances, employers can have an obligation to withhold wage and annex tax from the monthly salary and/or deduct social security contributions and transfer them to the relevant authorities. Moreover different applications can be required or useful in order to process the payroll correctly and as advantageously as possible with regard to the German tax class system. For individuals who are not subject to unlimited taxation in Germany, applying the German wage tax regime via the employer might fulfill the tax liability, while others have the obligation of filing an annual income tax return.

If employees with an A1 certificate are posted to another EU/EEA country or Switzerland and they can prove to the host country that the social insurance provisions in their home country continue to apply, they can protect themselves against double payment of contributions.

Germany has also concluded bilateral social security agreements with several countries outside of the European Union (e.g. USA, Brazil, India, Japan etc.) in order to ease processes. However, these social security agreements only apply to the specific branches of social security covered by the respective agreement.

For employees working abroad in a non-EU/EEA country or a country without a bilateral social security agreement with Germany, German law might be applicable under certain conditions, while local obligations need to be checked thoroughly. A double payment of contributions may occur. This also applies for branches of social security which are not covered by a bilateral social security agreement.

In order to avoid any risks or refusal of entry into a country and/or severe fines or penalties, the Employer must ensure the following:

- Social Security Application submitted in good time before the start of activities
- Employee carries the necessary documents whilst posted abroad

In addition to the obligation to apply for and carry an A1 certificate under the EU Directive on the posting of workers, additional reporting obligations exist for foreign postings and vary greatly from country to country. Reporting obligations for Switzerland must be examined separately. Failure to comply with these obligations risks severe fines.

The professional activity of an employee could also be temporarily carried out abroad at an employee's request (e.g. following a holiday or other private reasons). This always needs to be agreed upfront with the employer and should be closely monitored as it may trigger consequences in all involved countries, for example a change in taxation rights and obligations for both employer and employee. Required applications need to be submitted in a timely manner before starting such activity.

Taxation of companies

Determining the taxable income

The tax law in Germany distinguishes between partnerships and corporations. Corporations are subject to unlimited corporate income tax liability if they have either their registered seat or their effective place of management in Germany.

In this case the **worldwide income** is subject to German taxation.

Corporations that are not subject to unlimited corporate income tax liability in Germany, but which receive income from German sources, are subject to limited corporate income tax liability on these sources. The corporate income tax rate is 15 %. The solidarity surcharge is up to 5.5 % and is levied additionally on corporate income tax. The total corporate income tax burden amounts to a maximum of 15.825 %.

In addition, German municipalities levy trade tax if the company has a domestic permanent establishment. The trade tax rate varied between 7 % (Hebesatz of 200 %) and 31,5 % (Hebesatz of 900 %) in 2023.

Partnerships are not subject to either income or **corporate income tax** at the company level, but may be subject to **trade tax.** The profit of a partnership is subject to either income tax or corporate income tax at the level of the partners.

The **VAT** rate in Germany is 19 %. A reduced rate of 7 % applies for certain products, social and cultural activities such as basic food, books, newspapers, antiques, livestock, hotel accommodation, railway transport services and some other items.

Calculating the taxable income

The determination of taxable income is generally based on the result of the income statement under commercial law. However, taxable income often differs from the profit and loss reported in the commercial balance sheet.

Capital gains and capital losses

Capital gains on tangible assets are fully liable to corporate income tax and to trade tax. Capital losses are fully tax deductible.

Non-taxable income

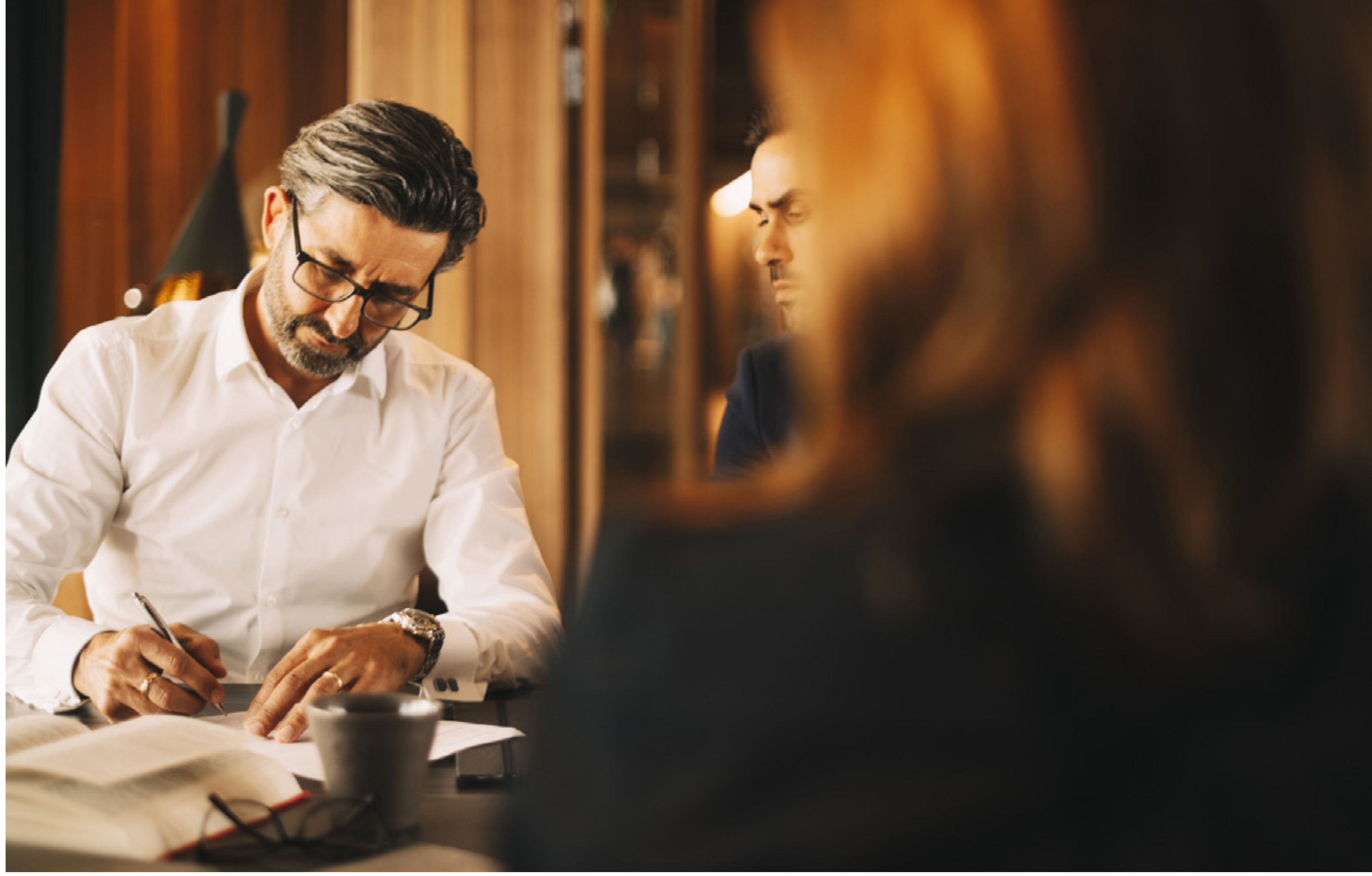
Some income must not be taken into account in determining the taxable income, e.g. under certain conditions dividends (received by corporations from corporations in Germany or abroad) are tax exempt but 5 % of the dividend is considered a nondeductible expense, if the participation in capital amounts to at least 10 %. The same principle is applicable for capital gains from the sale of shares. In the case of capital gains the 10 % participation rule does not apply.

Non-deductible costs

Some expenses, which are taken into account for the calculation of the accounting income, are not tax deductible, e.g. expenses associated with tax exempt income.

Offset of tax losses

The carry-back system allows for tax losses recorded in a financial period to be offset against earlier tax profits. Losses reduced by carry-back may be carried forward indefinitely; however, their offset in one year is limited to € 1 million plus 70 % of the income exceeding € 1 million.



Understanding German accountancy

Points to be considered

Accounting in Germany is characterised by the so-called principle of prudence. According to this principle, assets and liabilities should be valued prudently.

This principle has several different aspects:

- Profits may only be taken into account in the annual financial statements if they have been realised on the closing date;
- income must be recognised in the financial year in which the corresponding income was received;
- unrealised profits may not be recognised in the balance sheet;
- all foreseeable and unrealised losses and risks must be taken into account.

Accountancy

Accounting is regulated by the German Commercial Code (Handelsgesetzbuch, abbreviated HGB). The accounting standards are based on various principles from which individual rules are derived.

Accounting-related obligation

- HGB requires all limited companies and business partnerships to regularly book and annually prepare a financial statement according to its regulations.
- Limited companies and limited business partnerships (mainly GmbH & Co. KG) are classified by business scale (micro, small, medium-sized and large) for the purposes of audit and financial statement. For the classification, two of the three criteria below must be met in two consecutive financial years.
- The annual financial statement of limited companies and limited business partnerships in the class of medium size and large has to be audited.
- Limited companies and limited business partnerships are obligated to electronically publish the annual financial statement in the currency of EURO in German Federal Gazette. The form and scope of the documents to publish depends on the class defined by business scale.
- Certain provisions additionally apply to limited companies that are listed or issue bonds to the public in Germany.
- A limited company or limited business company that is consolidated to the financial statement of its parent company can be exempted from an obligation-related annual financial statement under certain provisions.
- For German tax purpose, the German Tax Code additionally requires the taxable person to comply with principles of orderly accounting and storage of books, records and documents in electronic form and of data access ("Grundsätze zur ordnungsmäßigen Führung und Aufbewahrung von Büchern, Aufzeichnungen und Unterlagen in elektronischer Form sowie zum Datenzugriff", abbr. GOBD).

Particularities in German accounting regulation

The principle of prudence can lead to different valuation approaches:

- A fundamental valuation approach is the acquisition cost principle. According to this, assets are to be valued at the most at the acquisition or production costs, reduced by depreciation. The market value is only of secondary importance (except for financial instruments).
- Intangible assets internally generated may be capitalised under restricted conditions and are basically subject to annual scheduled amortisation. Research activities may not be capitalised. However, costs occurred in the development stage can be optionally capitalised.
- Goodwill capitalised in the course of business combination is basically subject to annual amortisation.
- Revenue may only be recognised before realisation if it is certain.
- Provisions must be made for anticipated losses.
- Posting obligation of deferred income tax for:
    - Deferred tax liabilities relating to temporary differences.
    - Deferred tax asset relating to tax loss.
    - Deferred tax asset related to temporary difference can optionally be recognised.

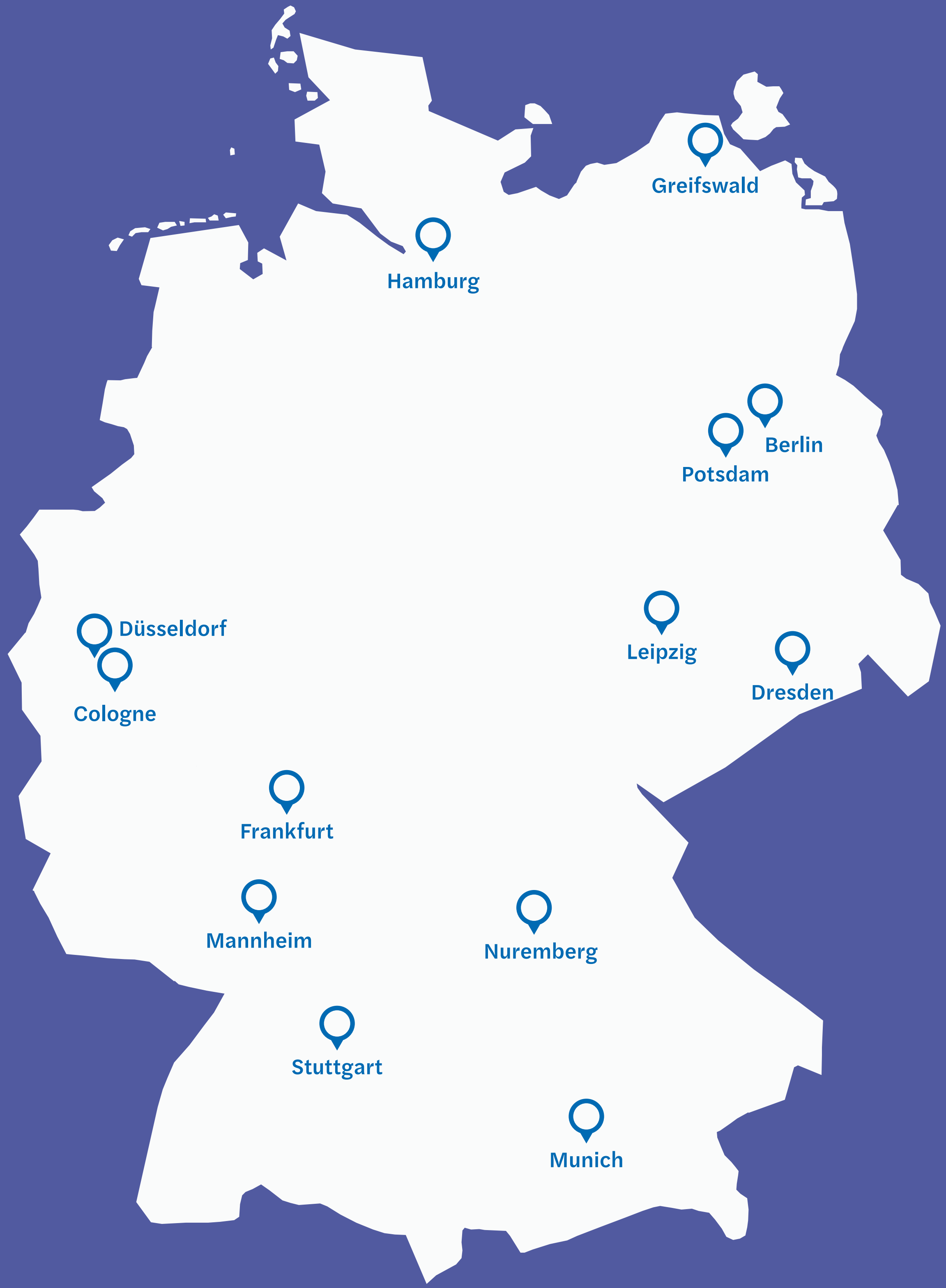
Further aspects

- Income determined by German GAAP is the calculation base for distributable profit under certain restrictions of dividend payout.
- Tax accounting generally has to follow statutory accounting, with reservation of certain tax options of varying from statutory accounting.

Classification threshold

	Micro	Small	Medium-sized	Large*
Balance sheet total (in k€)	≤ 450	≤ 7,500	≤ 25,000	> 25,000
Annual sales (in k€)	≤ 900	≤ 15,000	≤ 50,000	> 50,000
Employees in annual average	≤ 10	≤ 50	≤ 250	> 250

* Limited companies that are listed or issue bonds to the public in Germany are classified as large companies regardless of the financial data.



Locations

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40474 Düsseldorf
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