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International Assignment Services
Taxation of International Assignees
Country – Germany

Human Resources Services

International Assignment Taxation Folio

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Introduction – International assignees working in Germany

This folio was prepared by PricewaterhouseCoopers to provide international assignees, planning to work in Germany, with a general background of the German tax law and other relevant issues. It reflects tax law and practice as of January 2012.

This folio traces a German assignment through seven steps. These steps address the specifics necessary prior to arriving in Germany, during the German assignment, and subsequent to the assignment. Familiarity with these issues should help to make any German assignment easier and more enjoyable.

This folio is not intended to be a comprehensive and exhaustive study of German tax law, but should be used as a guide to prepare for an assignment in Germany. Any decisions regarding an assignment should be made only after obtaining professional advice.

This folio should provide the preliminary information necessary to define the issues relevant for each situation.

PricewaterhouseCoopers is one of the world's leading providers of professional services including accounting, auditing, tax and HR services. The organization comprises national and international practice entities that are members of a limited liability association incorporated in Switzerland, and which serve clients on a globally integrated basis in more than 120 countries.

The growing need for companies to expand globally has greatly increased the necessity to transfer personnel between countries. As both the cost of such transfers and the need to encourage the mobility of executives increase, timely global tax and social security planning become even more important.

PricewaterhouseCoopers has assembled a team of Human Resource Services (HRS) specialists from the network of offices worldwide to ensure the ability to provide comprehensive service to executives as they move throughout the world.

Further information is available from any of the PricewaterhouseCoopers offices, which are listed in Appendix I.

Last Updated: January 2012

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Step 1 – Understanding basic principles

The scope of taxation in Germany

1. Anyone taking up residence in Germany or having his/her customary place of abode there will become subject to “unlimited tax liability” on his/her worldwide income. Any person not residing in Germany or staying for less than six months is subject to “limited income tax liability”, restricted to income from German sources. The source of employment income is considered to be where the employment is carried out and not from where the salary is paid. Non-residents may apply to be treated as residents under certain conditions (mainly that at least 90% of their total income is taxed in Germany).

The tax year

2. The tax year is the same as the calendar year. Salary income is taxed in the year in which the payment or benefit is actually received.

Methods of calculating tax

3. A resident with unlimited income tax liability will receive an income tax assessment based on his/her return filed. There is no self-assessment. A non-resident taxpayer will have to file a return and receive an assessment only if his/her German income is not subject to withholding tax. Where income is subject to withholding tax, the income tax liability is normally settled through the withholding system and no returns or assessments are required (EU-nationals have the possibility to file a return upon application, see paragraph 74 below).

Husband and wife

4. Married taxpayers may choose between filing jointly (splitting tariff) or separately. Generally, it is more advantageous to file jointly. The splitting tariff for married couples is, however, granted only if both husband and wife are resident in Germany (an exception is available for EU-nationals under certain conditions). Income earned by dependent children is not included in the joint tax return. They are liable to file their own tax return if their income exceeds certain amounts.

Residence and customary place of abode

5. To be resident means to have a dwelling and to retain and use it as a dwelling. Customary place of abode means a continuous presence of more than six months (e.g. from October 1st to April 15th, even with three weeks of Christmas holidays in the home country). A person can be resident in more than one country. A summary of regulations covering residence permits and work authorizations is given below in paragraphs 40 - 45 respectively.

Step 2 – Understanding the German tax system

General remarks

6. Taxable income covers income from:

   – Agriculture and forestry;
   – Trade or business;
   – Independent professions;
   – Employment;
   – Capital investment;
   – Rents and royalties and
   – Other income (as defined by tax law).

   Any income not falling within these categories is not taxable (e.g. lottery gains).

7. Net income is based on all gross earnings received during a calendar year and reduced by income related expenses during the same period for each of the above categories. Losses from one of the seven basic income categories - except capital investment - can fully be offset against positive income from another income category (exceptions for "other income" may apply).

8. The total income after deductions in each category represents the adjusted gross income, which may be further reduced by lump sum deductions or, within limits, by actual payments for special expenses, such as insurance payments or extraordinary burdens, to arrive at the taxable income (further details see Step 5).

   Losses not offset in the year in which they occur can either be carried back to the previous year up to € 511,500 (single)/€ 1,023,000 (married) or carried forward to future years up to € 1,000,000 (single)/€ 2,000,000 (married). A loss carry-forward exceeding this amount is subject to further detailed limitations.

9. Germany has progressive tax rates ranging as follows (2012 tax year):

Taxable income range (single)		Taxable income range (married)		Tax rate(s) %
From (EUR)	To (EUR)	From (EUR)	To (EUR)	
0	8,004	0	16,009	0%
8,005	52,881	16,010	105,762	14% - 42%
52,882	250,730	105,763	501,460	42%
250,731	and above	501,461	and above	45%

In addition, a solidarity surcharge of 5.5% is levied on the actual income tax amount.

Taxation of employment income

10. Employment income is subject to wage withholding tax, as explained in paragraph 58 - 59. Special regulations may apply if there is no domestic employer.

Taxation of self-employment income

11. Tax on net income from professional activities or from carrying on a trade or business is collected by assessment. Quarterly installments might be assessed on an estimated basis and credited against the final income tax burden.

Taxation of investment income

12. On investment income a withholding tax with compensation effect is applicable. The flat tax rate amounts to 25% income tax and 5.5% solidarity surcharge on income tax. There is, however, a tax free amount for investment income of € 801 for single filers and € 1,602 for married couples filing a joint return. There is no possibility of deducting expenses in connection with the investment income. Foreign tax on investment income may be credited against the withholding tax when filing an income tax return.

    Investment income will be subject to the individual tax rate if this income is subject to another income category (e.g. trade or business).

Taxation of rental income

13. Rents received less allowable expenses form part of taxable income. Under tax treaty provisions rental income from sources abroad is mostly exempt. Tax exemption with progression (income is taken into account in assessing the personal tax rate) will be applicable if sources are not located within the EU/EEA.

Capital gains tax

14. The withholding tax with compensation effect on investment income also applies for capital gains deriving from the sale of shares, warrants, bonds etc. bought after December 31, 2008, irrespective of the holding period.

15. Special rules apply where a taxpayer has an interest of 1% or more in a corporation.

16. As a rule, any other capital gains are taxable in Germany at individual progressive rates only if the sale is within one year (for movable assets) or ten years (for real property) after the purchase date. These capital gains are only taxable if the profit exceeds € 600 per annum. Further tax relief may be applicable if the property was used for private purposes.

Double taxation agreements

17. German national income tax law has been modified and superseded by various tax treaties with foreign countries to ensure that income is not taxed by more than one country. The existing treaties with Germany are shown in Appendix C.

18. Obviously, the tax conventions do not apply if both residence and source of income are located in the same country. This is the case if the employee gives up his/her former residence, moves (together with his/her family) to Germany and establishes residence in Germany. Generally, he/she is taxed abroad only until departure, and taxed in Germany from the date of arrival in Germany. Therefore tax treaties are only relevant if the employee is resident in country A but exercises activities or receives income from sources in country B, or if he/she maintains residences in more than one country.

19. In general, the salary of an employee is taxed in the country in which he/she physically performs his/her duties. As a general rule, a person residing in Germany and working in another country is taxed in that country and Germany will exempt the salary from tax. However, based on domestic tax law, the tax exemption does only apply if the salary is actually taxed in the other country or if it can be proven that the other country waives the right to tax the salary. The German tax authorities will ask for an appropriate proof. Germany will take exempted income into account when calculating progressive tax rates for taxable income (exemption with progression).

20. In spite of the above principles, the right to tax the salary of an employee remains with country A if the person keeps his/her residence in A and:

- Is present in country B for less than 183 days (not only working days) within country B's fiscal year (or with respect to some countries: within a period of twelve months), and
- The salary is paid (borne) by or on behalf of an employer not resident in country B, and
- The salary is not borne by a permanent establishment which the employer has in country B.

21. If the stay or the total of several stays in country B amount to more than 183 days, the salary for that period is taxable in country B. A bonus for the whole year may have to be prorated.

22. Where an international assignee has a residence in two or more countries (for instance when his/her family has remained in the home country), the employee is deemed, for application of the treaty, to be a resident of the contracting state in which he/she has his/her centre of vital (personal and economical) interests.

Special tax relief

23. Employment income connected to special construction, engineering or consulting work outside Germany, lasting at least three months might be exempt if:

- The employee works abroad for a German employer, and
- There is no tax treaty with the foreign country in place (see Appendix C).

Social security contributions

24. In principle, all employees working in Germany are subject to the German Social Security System, which covers statutory pension funds, unemployment insurance, contributions to the statutory care scheme (nursing at home), health insurance and work accident insurance.

25. Current rates are shown in Appendix F.

26. Employee contributions are tax deductible within certain limits.

Employees on secondment

27. German social security does not apply to individuals:

- Seconded to Germany for a limited period (6 to 8 years);
- Who work on behalf of a foreign (non-German) employer;
- On his/her payroll and account;
- If the costs of the assignment are charged to the host company. This is only possible with a cost-plus agreement to avoid German social security.

28. The decision as to whether the provisions for a secondment are met is made on application by the local health insurance authority.

European Economic Area (EEA)/Switzerland

29. EEA rules apply to an employee assigned to Germany by a home country employer located within an EEA member state.

30. Where the assignment to Germany is for less than 24 months and the employee is not replacing an employee whose assignment in Germany has come to an end, the employee may remain in the home country social security scheme. In this case a certificate by the relevant foreign authority has to be obtained confirming that the employee is covered by the home country scheme.

31. If this rule is not applicable, he/she may still apply to pay his/her home country's social security tax instead of German social security contributions during his/her employment in Germany. A request must be filed with the competent authority in his/her home country.

Social security treaties

32. Treaties have been concluded with a number of countries (see Appendix G).

33. If the employee is assigned to work in Germany for an employer located in one of these countries, he/she may - on application - be exempted from German social security, in total or in part, subject to the treaty rules. A certificate of coverage is required from the home country authorities.

Refund of old age pension contributions

34. Employees are entitled to file an application for a refund of their contributions (employee's part of contribution) to the German State pension scheme if the following conditions are met:

- The employee is no longer obliged to be insured in the German pension scheme;
- The employee in not eligible for voluntary insurance in the German pension scheme;
- A period of two years has elapsed since the employee left Germany.

35. Generally, a reimbursement will not be possible if the employee resides in an EEA-Country or in one of the following countries: Bosnia and Herzegovina, Croatia, Israel, Macedonia, Montenegro, Kosovo and Serbia.

If the employee is a citizen of one of the following countries, the possibility of being reimbursed may be limited as outlined below:

- US, Australia, Canada/Quebec, and Korea: Citizens of these countries who have paid contributions for more than 60 months are not eligible for a reimbursement;
- Japan: Japanese citizens are not eligible for a reimbursement if they usually reside in Japan and have paid contributions for more than 60 months;
- Bosnia and Herzegovina, Israel, Serbia, Montenegro, Kosovo, Macedonia: Citizens of these countries are not eligible for a reimbursement if they reside in their "home-countries";
- Croatia: If Croatian citizens reside in Croatia, they are generally not eligible for a reimbursement. Croatian citizens who usually reside outside of Croatia and have paid contributions into the German pension scheme for more than 60 months are not eligible;
- European Economic Area (EEA)/Switzerland: Citizens of the European Economic Region are not eligible for a reimbursement if they usually reside within this region. If their usual place of residence is

outside of the EEA, they may be eligible for a reimbursement as long as they have paid contributions into the German pension scheme for less than 60 months.

Child benefits

36. Generally, an international assignee assigned by a foreign employer to work temporarily in Germany could be entitled to child benefit payments (Kindergeld) if several conditions are fulfilled. If there is a German employer and the employee is subject to unlimited taxation in Germany or contributes to the German social security system, upon a formal request a monthly tax-free payment may be granted for dependent children aged up to 18 (and up to 25 for children in full-time education).

37. Amounts are as follows:

- The monthly child benefit for the first and second child amounts to € 184 each;
- For the third child € 190; and
- For any additional child it amounts to € 215 for each child.

38. In general, a payment is only made for a child who is resident in Germany. EU/EEA citizens may apply for German child benefit, if their children are living within the EU/EEA.

39. If the individual is not entitled to child benefit, or if the tax saving is more favorable, child allowances (Kinderfreibetrag) should be applied for on the tax return. The deductible amount is € 292 (single)/€ 584 (married) per month per child (see paragraph 69). Child allowances are only granted for children aged up to 18 (and up to 25 for children in fulltime education).

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Step 3 – What to do before you arrive in Germany

EU Nationals (including EEA and Switzerland)

40. EU/EEA and Swiss nationals coming to work in Germany benefit from the privilege of free movement of workers within the EU member states. However, some formal requirements need to be complied with the registration of the local address with the local registration office (Einwohnermeldeamt) and the application of a certificate of residence (“Freizügigkeitsbescheinigung").

In the course of this process the employee is normally required to present a number of standard documents such as copies of the lease agreement and a confirmation of the employment, proof of sufficient medical coverage, etc. Spouses and dependant family members of EU citizens who are non-EU nationals can also obtain a residence permit.

41. Citizens of the EU/EEA member states do not need a work authorization from the labor authorities but have to register their place of residence and obtain a certificate of free movement ("Freizügigkeitsbescheinigung"). Swiss nationals have to obtain a residence card ("Aufenthaltserlaubnis") for a stay of more than 3 months.

EU citizens from Bulgaria and Romania also have to register their place of residence but enjoy the right to freedom of movement solely with restrictions. For an interim period until the end of 2013 those citizens still need work authorizations unless they have a university degree or any other similar qualification for a qualified job in Germany (requirements have to be checked in the individual case). Exemptions exist for providing services which are subject to the EU directive of freedom of service.

Non-EU Nationals

42. In principle, non-EU/EEA nationals need to obtain a visa from the German consulate before entering Germany for professional activities. The visa is valid for a maximum period of 90 days. For a longer stay in Germany, a residence permit needs to be applied for at the local immigration office after entering Germany before the visa expires.

Some nationals are eligible for a waiver of the visa requirement (see Appendix H).

A residence permit is normally valid for a limited period of time and is granted for specific purposes of residence. The length of stay depends on the respective purpose. Under certain conditions a residence permit can be granted as a settlement permit, which is not limited in time and includes the right to work. This settlement permit (“Niederlassungserlaubnis”) is granted in exceptional cases for highly qualified foreigners (i.e. scientists) or other senior executives earning a minimum salary based on the contribution ceiling of the statutory pension scheme (2012: € 67,200 gross for West Germany and € 57,600 for Eastern Germany), or for employees who have worked and resided at least 5 years in Germany.

43. To be entitled to work in Germany, the work authorization has to be expressly stated on the visa/residence permit. Exceptions are granted for business trips or training purposes under certain conditions for a stay up to 3 months. Generally, a business trip status covers the following professional activities: Meetings with business partners, negotiations with business partners, closing of transactions and purchase of goods. All other activities require the issuing of a work authorization.

The work authorization needs to be obtained before starting to work on German territory and is only issued for a specific position, considering the needs of the local employment market. In the majority of cases, the labor office will only grant its approval if privileged employees, i.e. Germans, EU and EEA citizens, are not available. Furthermore, the labor authorities first check whether the employment of foreigners will have a negative effect on the labor market. Another precondition for approval is that the foreign employee will not be employed under less favorable conditions than a comparable German employee.

There are various work authorization categories (i.e. IT-Specialists, international staff exchange ,executives/senior level individuals, managing directors, board members and senior executives who are important for the business development, etc.).

Consequently, intense communication with the immigration office and in specific cases with the labor authorities is required which can result in a lengthy procedure. Regarding the timing, the officials usually estimate the duration of the process at approx. 3 months. With the involvement of lawyers this processing time can often be reduced to 4 - 8 weeks depending on the circumstances of the case.

44. The new Immigration Law which came into force in January 1, 2005 has expressly set out the aim of promoting the integration of foreigners into German society by offering language and orientation courses. In certain cases foreign employees and their spouse can be obliged to take part in an integration course of 630 hours and to learn the German language. Since July 2007 spouses are obliged to acquire a basic knowledge of the German language before they are entitled to apply for a visa to enter Germany, exemptions exist for privileged nationalities, spouses of EU nationals, and in case of international assignments, etc. Germany has not yet implemented the rules of the EU Blue Card Directive which will support specialists in obtaining work authorizations in Germany. We expect the implementation in the course of 2012.

45. Intentional or negligent non-compliance with German immigration regulations can result in stiff fines being imposed on both the employer and employee, the employee being expelled from Germany, future applications being declined and loss of corporate reputation.

Employment contracts

46. It is necessary that all terms and conditions of the assignment are confirmed in writing before arrival in Germany.

The agreement should include:

- Period of the assignment;
- Name and address of the parties to the contract;
- Job description;
- Annual gross salary and benefits during the assignment as well as housing allowance, costs for relocation/removal, travel costs;
- Confirmation that health coverage in Germany will be provided;
- Period of notice of the assignment agreement;
- Annual vacation;
- Agreed work schedule;
- Place of work;
- An index of an applicable collective labor agreement/operating agreements if any.

Remuneration packages

47. When structuring an assignment the tax effectiveness of the remuneration package should be carefully reviewed. Apart from base salary, the following items may influence the tax burden of the package:

- Benefits in kind (e.g., private use of company car);
- A bonus and/or premium (e.g., foreign service premium);
- Allowances (e.g., cost of living, housing);
- Reimbursements (e.g., personal income tax, school fees, home leave).

48. Other provisions may include:

- Payments to a foreign bank account or by a foreign employer;
- Salary paid in a foreign currency;
- Salary paid before or after the stay in Germany if and in so far as it relates to services rendered during the stay in Germany. For example: A bonus received in 2012 in Germany for work performed in 2011 in country A is not subject to German tax; on the other hand a bonus, granted in country A in 2012 for work performed in Germany in 2011 is taxable in Germany in 2012;
- Salary on the basis of a second contract of employment with a foreign employer (split contract).

If a net salary contract has been agreed, net payments plus tax paid by the employer will form part of the taxable salary.

Other issues

49. The timing of payments and the timing of arrival should be carefully considered because these issues may have tax saving consequences.

50. In general, money transfers from and to Germany are unrestricted (no authorization is required, but amounts exceeding € 12,500 have to be declared at the Federal Reserve Bank for statistical purposes).

Step 4 – What to do when you arrive in Germany

Registration

51. As an international assignee intending to reside and work in Germany one must register with the local registration office as soon as accommodation is rented or purchased. A written confirmation of registration will be issued.

52. Registration with the social security authorities will be undertaken by the employer. If one remains covered under the home country social security system a certificate of coverage must be presented to the German employer.

Church tax

53. An obligatory church tax is levied by the following religious communities: Roman Catholic Church, Reformed Church (Calvinist), Lutheran Church, Unified Church, Old Catholic Church, and the Jewish Community.

54. Those who register at the local registration office should check carefully whether they are members of such a religious community. If they register as a member of such a community they become automatically subject to church tax.

55. The rate is 9% or in some states 8% of the amount of income tax. The church tax is a deductible item for the determination of the taxable income.

56. A payment to foreign churches/communities may be deductible as a donation.

57. The church tax is collected with the income tax/wage tax withholding by the tax office.

Wage withholding tax

58. The local tax authorities issue the wage tax certificate (Ersatzbescheinigung für den Lohnsteuerabzug), which forms the basis on which wage tax withholding is calculated. Salaries paid under German payroll are subject to wage tax, which is withheld by the employer and credited against the final annual income tax charge. Account is taken of the personal situation by the application of certain tax classes indicated on the wage tax certificate and certain standard deductions are applied (see Appendix B). The employee has to submit the wage tax certificate to the employer's payroll department.

59. Salaries, which are paid by a foreign employer and recharged to the German company, are as well subject to withholding tax. The German company is deemed to be the "economic employer" and thus obliged to calculate and transfer the appropriate wage tax to the tax office on a monthly basis.

Salaries which are paid by a foreign employer but not recharged to the German company are generally not subject to withholding tax. As with other income, tax for these employees is levied by assessment generally following the first annual return. Assessed quarterly installments are due on March 10, June 10, September 10 and December 10. They are credited against the final annual income tax due. Employees not subject to German wage tax withholdings should enclose a salary certificate completed by their foreign employer with their income tax return.

Step 5 – What to do at the end of the year

Annual income tax return and assessment

60. Registration with the tax office is not required but the individual must register at the local registration office. After the end of the first calendar year in Germany a tax return must be filed with the local tax office. The normal deadline is May 31st, which is automatically extended to December 31st if the return is prepared by a tax professional. Further extensions may be granted. Each tax return filer will receive an assessment from the local tax office.

In the year of arrival the worldwide non-German source income must be disclosed for tax rate progression purposes.

Claiming relief and allowances

61. The following expenses are deductible in the year in which they are actually incurred.

Expenses connected with employment income

62. Income-connected expenses (Werbungskosten) are deductible if they are: effectively connected with the employment, documented, not reimbursed on a tax-free basis by the employer, and incurred during the period of German tax liability. In any event, a standard deduction of € 1,000 per annum is granted.

63. Examples include contributions to employee associations, tuition for advanced training or language lessons, personal business equipment, business telephone fees, daily commuting, and business trips (see Appendixes D and E). Other allowable expenses include bank account fees up to a specified limit, moving expenses to Germany not reimbursed by the employer, and certain expenses connected with a temporary need to maintain two households. The above deductions are all subject to certain conditions and restrictions.

Special expenses

64. The following expenses are deductible without limitation:

- Church taxes;
- Annuities due to legal obligations not connected with income;
- Contributions to health insurance as far as these contributions refer to primary healthcare; and
- Contributions to long-term care insurance.

65. Within limits, the following items are deductible:

- 30% of tuition fees (except for housing, care and food) of a private school located in the EU/EEA countries or of German schools if special tax relief for children is granted (see paragraph 69) and if graduation is approved by the government. The special expenses which can be claimed are limited to € 5,000 per child;
- Charitable donations for approved institutions located in Germany or the EU (if certain conditions are fulfilled);

– Support for spouse living in Germany or another EU-member state (if certain conditions are fulfilled) after divorce or separation, up to € 13,805 per annum, if taxed by spouse;

– Employee's Social Security payments (except health and long-term care insurance) in Germany and abroad; and

– Contributions to certain other insurances (e.g. life, accident, liability insurance) if maximum amount is not already attained by contributions to health and nursery insurance.

66. In any event a standard deduction of € 36 for a single person and € 72 for a married couple filing jointly is allowed without providing documentary evidence.

Extraordinary burdens

67. Extraordinary burdens, such as medical expenses, are deductible within limits.

68. Standard deductions are allowed for extraordinary burdens such as:

– Subsistence for parents and children with low income (documentary evidence of low income is required) if entitled by law. The maximum deduction is € 8,004 and may be reduced by the standard of living of the country and the personal income situation of the beneficiaries;

– Deductions for children in education in Germany or abroad (within limitations) who are older than 18 and living outside the parents' household amounting to € 924 per annum. If the child lives abroad, the amount may be reduced by the standard of living of the appropriate country. A child's own income of more than € 1,848 will also reduce the deduction;

– Further deductions may be granted, for example, for handicapped family members and expenses for a household help.

Special tax relief for children

69. A standard deduction (child allowance) of € 292 (single)/€ 584 (married) per month per child is granted for each child up to 18 years old, or even up to 25 years old if the child is still in education (no age limit is applicable if the child is handicapped). Otherwise a monthly tax-free payment (Kindergeld) of € 184 for the first and second, of € 190 for the third and of € 215 for the fourth child and further children is granted under certain conditions (see paragraph 36 - 39). The tax authorities will automatically assess the standard deductions if they are more beneficial than the tax-free payments.

70. The standard deduction and child care lump-sum allowance are only available for such months in which the taxpayer is a German tax resident. The deduction may be reduced if the child lives abroad.

71. If certain requirements are fulfilled, actual expenses for child care can be deducted up to a maximum of € 4,000 per year/child for children younger than 14 years or for handicapped children.

Unlimited tax liability procedure

72. After the end of each calendar year an income tax return can or must be filed with the tax office if tax refunds or a certain tax situation is given.

73. A tax refund could result if the employee is entitled for instance:

– To claim itemized deductions exceeding the standard deductions; and/or

– To balance the difference between the higher preliminary monthly wage tax withholdings and the final annual income tax.

The individual is usually assessed within two to six months after filing the return.

Limited tax liability procedure

74. If the employee has only a limited tax liability, he/she is not issued with a wage tax certificate.

Instead, he/she must present a special certificate issued by the tax authority upon application to his/her employer for wage tax purposes. On application, this certificate will also cover the personal deductible items. Tax withholdings usually settle the tax obligations. No return is normally filed and an assessment does not arise. However, an EU/EEA national with residence within the EU/EEA is entitled to file a return and to receive an assessment if this proves to be more beneficial.

75. Furthermore, non-residents can apply to be treated like a resident if his/her income from German sources is either at least 90% of his/her worldwide income or his/her non-German source income does not exceed € 8,004 (€ 16,009 for married couples). In this case most, but not all, deductible items available for residents can be claimed. Under certain conditions, the splitting tariff for married non-resident couples can also be claimed for EU/EEA nationals.

Step 6 – What to do when you leave Germany

Reporting departure

76. When German residence is given up and services are no longer performed in Germany, the tax office must be informed and a tax return for the entire calendar year must be filed after year end, subject to the deadlines mentioned in paragraph 60. The worldwide non-German source income must be disclosed for tax rate progression purposes. A copy of the de-registration certificate (issued by the local registration office) should be attached to the tax return. A fiscal representative resident in Germany should be appointed to receive the assessment.

77. Non-recurring payments such as a bonus for German activities should be shifted into the year after departure because the tax burden might be lower.

78. There are no restrictions with respect to the export of personal belongings. VAT and/or Customs rules of the country of destination must, however, be observed. For details please contact a PricewaterhouseCoopers office.

Step 7 – Other matters requiring consideration

Inheritance tax

79. Inheritance tax is a tax on lifetime gifts and on transfers of value passing on death. Basically a person is exposed to this tax if he/she is resident in Germany. Otherwise a person who is not resident in Germany is liable to this tax only in relation to his/her assets situated in Germany.

80. Progressive tax rates of 7% up to 50% and tax-free amounts between € 20,000 and € 500,000 apply, depending on the value and the degree of the relationship between donor and beneficiary. For the surviving spouse an additional tax-free allowance of € 256,000 is granted. This allowance is reduced by the discounted value of any pension entitlements, which are not subject to inheritance tax.

Property tax

81. Germany does not levy any property tax.

Stock options/Share Schemes

82. Stock options are basically taxable when exercised. Taxable income is computed at the time of exercising the option, normally as the difference between the market price of the shares and the exercise price. Tax exemption may be granted if during the period between grant and vesting the employment was not performed in Germany and thus the employment income was not taxable in Germany. In this case the stock option benefit is sourced based on workdays between grant and vesting.

83. Shares provided free of charge or at a low-price may be tax-free up to an amount of € 360 a year.

84. This relief is granted for shares of the employing company and of the parent company controlling and consolidating its subsidiary.

85. A favorable tax rate may apply if the period between grant and exercise exceeds 12 months and if the employee is employed with the granting company during this period.

Company cars

86. Employees are usually subject to a taxable benefit on the private use of a company car. However, in some cases there is a tax advantage in giving an employee a car as opposed to a higher salary.

87. The taxable benefit is 1% per month of the list price of the car when new, together with the cost of any extras and VAT. To this is added 0.03% of the list price per month for each kilometer between home and work, on the assumption that the employee regularly travels to work by car. It is possible to limit the taxable benefit to the actual cost of private use, provided detailed records of the actual costs of the car are kept (by the company) and of the distance driven (by the employee).

Driver's license

88. For a temporary stay such as a business trip, a foreign driver's license is valid. A foreign license is valid only for six months if the employee becomes resident in Germany or has his/her customary place of abode in

Germany. If the stay in Germany is limited for up to 12 months, it is possible to apply for an extension of the six months' period to 12 months.

89. With a few exceptions, a driver's license granted within the EU/EEA is recognized in Germany without limitation. The same also applies for driver's licenses of certain other countries with which Germany has mutual agreements (Andorra, Guernsey, Isle of Man, Japan, Jersey, Croatia, Monaco, Korea, San Marino, Switzerland, Taiwan). Concerning the USA and Canada different rules apply influenced by the originating state of the driver's license requiring either theoretical or practical tests or even no test.

90. If no theoretical or practical test is required, an application for a conversion to a German license should be made within six months after moving to Germany. Otherwise, the employee is not allowed to drive a car in Germany. Although an application can be made up to three years after arrival in Germany, one cannot drive a car until the conversion to a German license has been made. Applications made later than three years after moving to Germany will not be accepted.

91. A special theoretical and practical examination is required for holders of driving licenses of non-EU countries.

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Appendix A – Typical tax computation

Sample tax calculation for the year 2012

Facts and assumptions

Married couple, two dependent children under 18 years

Income

Employment: gross salary of husband of € 100,000, no employment related expenses exceeding the lump-sum allowance of € 1,000, rental income from German sources of husband: loss of € 5,000

Expenses

Church tax: € 2,033 (wage church tax) and donations of € 250

Tax computation	€	€
Earned income		
Gross salary	100,000	
Lump-sum deduction employment related expenses	(1,000)	
Income from employment		99,000
Rental loss	(5,000)	
Net income		94,000
Deductions:		
Church tax	(2,016)	
Donations	(250)	
Insurance premiums (lump-sum deduction)	(7,224)	
Child allowance (€ 7,008 per child)	(14,016)	
Taxable income		**70,494**
Income tax	14,712	
Child benefit for two children	4,416	
Solidarity surcharge	809	
Church tax	1,176	
Total tax due		21,113
Less prepayments:		
Wage tax	(22,406)	
Solidarity surcharge on wages	(1,232)	

Tax computation	€	€
Church tax on wages	(2,016)	
Total tax paid		(25,654)
Total tax refund after tax assessment		***(4,541)***

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Appendix B – German tax structure and rates

This reflects the wage tax on gross salary after standard deductions including solidarity surcharge for the year 2012. German church tax is not applicable.

	Single	Married (no children)	Married (two children)
Gross Salary €	**Tax €**	**Tax €**	**Tax €**
25,000.00	2,994.00	626.00	626.00
35,000.00	5,644.00	2,747.00	2,770.00
45,000.00	8,654.00	5,061.00	5,093.00
60,000.00	14,400.00	9,269.00	9,305,00
75,000.00	20,894.00	14,122.00	14,162.00
100,000.00	31,971.00	23,591.00	23,638.00

Tax classes for wage withholdings tax purposes

Status	Tax class
Single or divorced/separated	I
Single or divorced/separated with at least one single child living in the same household (if under certain conditions an allowance for single parents of €1,308 is granted)	II/1
Married (only one spouse is working), no children	III/0
Married (both parents are working), two children	IV/2* both or III/2 and V/0
Second or more employments or requirements to present an wage tax certificate (Ersatzbescheinigung für die Lohnsteuerkarte) to employer are not met	VI

* If both spouses have wage tax class IV a further coefficient (<1) may on application be applicable to benefit from the splitting tariff already during the wage tax withholdings.

'Married' applies if both spouses live in Germany and are not separated or are entitled to EU privileges.

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Appendix C – Double-taxation agreements

Countries with which Germany currently has double-taxation agreements:

Algeria	France	Macedonia	Spain
Argentina	Georgia	Malaysia	Sri Lanka
Armenia	Ghana	Malta	Sweden
Australia	Greece	Mauritius	Switzerland
Austria	Hungary	Mexico	Syria
Azerbaijan	Iceland	Moldova	Tadzhikistan
Bangladesh	India	Mongolia	Thailand
Belarus	Indonesia	Morocco	Trinidad and Tobago
Belgium	Iran	Namibia	Tunisia
Bolivia	Ireland, Rep. of	Netherlands	Turkey
Bosnia and Herzegovina	Israel	New Zealand	Turkmenistan
Bulgaria	Italy	Norway	Ukraine
Canada	Jamaica	Pakistan	United Arab Emirates
China, P.R.*	Japan	Philippines	United Kingdom
Cote d'lvoire	Kazakhstan	Poland	United States
Croatia	Kenya	Portugal	Uruguay
Cyprus	Korea, Rep. of	Romania	Uzbekistan
Czech Republic	Kuwait	Russia	Venezuela
Denmark	Kyrgyzstan	Serbia	Vietnam
Ecuador	Latvia	Singapore	Zambia
Egypt	Liberia	Slovak Republic	Zimbabwe
Estonia	Lithuania	Slovenia	
Finland	Luxembourg	South Africa	

* Without Hong Kong and Macau

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Appendix D – Domestic business trip reimbursements

Domestic business trip reimbursements 2012

Allowances

The following per diem allowances can be paid tax-free by the employer or, alternatively, deducted as business expenses on the personal income tax return.

Lump sum per diem allowance

Time spent on business trip	€ per day
24 hours	24.00
Less than 24 hours but at least 14 hours	12.00
Less than 14 hours but at least 8 hours	6.00

There is no possibility of getting a deduction or receiving a tax-free reimbursement for higher actual expenses instead of the standard amounts.

Employer payments exceeding the per diem amounts, by not more than 100%, can be taxed at a flat rate of 25%, as long as the amount is paid by the employer, not by the employee. Payments of more than 100% of the per diem allowances are taxed at individual progressive tax rates.

Expenses for accommodation

A standard allowance of € 20/night can be paid tax-free by the employer.

Upon provision of receipts, the higher actual costs can be reimbursed tax free.

Expenses connected with the use of the employee's private car

€ 0.30 per km (or higher if evidence is provided) can be reimbursed tax-free or applied for deduction instead on the personal tax return.

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Appendix E – Deductions for business trips abroad

*Deductions for business trips abroad during the calendar year 2012**

The following per diem allowances (sample) can be paid tax-free by the employer or, alternatively, deducted as business expenses on the personal income tax return. Accommodation costs can only be deducted in the personal income tax return if proven by receipt.

If breakfast is included in the accommodation charge, the standard per diem allowances are reduced by 20%.

Country	Per diem allowance for absence per calendar day of			Accommodation
	At least 24 hours	Less than 24 hours but at least 14 hours	Less than 14 hours but at least 8 hours	
	€	€	€	€
Austria	36	24	12	70
Australia	42	28	14	100
Belgium	42	28	14	100
Brazil	54	36	18	110
Canada	36	24	12	100
China, P.R.	33	22	11	80
Denmark	60	40	20	150
Finland	45	30	15	150
France	39	26	13	100
Greece	36	24	12	120
India	30	20	10	120
Ireland, Rep. of	42	28	14	90
Israel	59	40	20	175

Italy	36	24	12	100
Japan	51	34	17	90
Luxembourg	39	26	13	87
Malaysia	36	24	12	100
Netherlands	60	40	20	115
Norway	72	48	24	170
Poland	24	16	8	70
Portugal	33	22	11	95
Russian Federation	36	24	12	80
Saudi Arabia	47	32	16	80
Singapore	48	32	16	120
South Africa	30	20	10	80
Spain	36	24	12	105
Sweden	72	48	24	165
Switzerland	42	28	14	110
Turkey	42	28	14	70
United Arab Emirates	42	28	14	145
United Kingdom	42	28	14	110
United States	36	24	12	110

* Allowances may differ for bigger cities (e.g. New York, Paris)

Appendix F – Contributions to the social security system

Contributions to social security system 2012 for employed individuals

The rates from 1 January [2012] are:

- Statutory pension fund: 19.6 % of gross salary up to a ceiling of € 67,200 p.a. (€ 57,600 p.a. for new eastern states of Germany); Employer and employee share the contributions one half each.
- Unemployment insurance: 3.0 % of gross salary up to a ceiling of € 67,200 p.a. (€ 57,600 p.a. for new eastern states); Employer and employee share the contributions one half each.
- Health insurance: 15.5 % of gross salary up to a ceiling of € 45,900 p.a.; (Allocation: Employer 7.3 %/employee 8.2 %)
- Statutory scheme of care 1.95 % of gross salary up to a ceiling of € 45,900 p.a.; Employer and employee share the contributions one half each. In addition to that employees without children pay 0.25 % of gross salary.
- Work accident scheme depends on the industrial sector and the accident risk; these contributions are borne by the employer.

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Appendix G – Social security agreements

Germany has concluded social security treaties with the following countries

Australia	Korea
Bosnia and Herzegovina	Macedonia
Brazil (currently not applicable yet)	Morocco
Canada	Montenegro
Chile	Quebec
China	Serbia
Croatia	Tunisia
India	Turkey
Israel	United States
Japan	

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Appendix H – Visa issues

Countries whose citizens require/do not require visas to enter Germany

Citizens of the following non-EU countries do not require a visa to enter Germany. Nonetheless, they usually have to obtain a residence permit and/or work authorization during the three months period after their entry before they start working:

- Australia;
- Canada;
- Israel;
- Japan;
- New Zealand;
- United States of America.

Citizens of the following countries do regularly not require a visa for entering Germany for tourist or business trip purposes. However, if they intent to work in Germany they are obliged to apply for a visa to enter Germany and to obtain a residence permit with work authorization before they start to work. Please note that the list of countries below change regularly and therefore it is recommendable to check the visa requirements in the individual case.

Andorra	El Salvador	Nicaragua
Antigua and Barbuda	Guatemala	Panama
Argentina	Honduras	Paraguay
Australia	Israel	San Marino
Bahamas	Japan	Serbia*
Barbados	Macedonia*	Seychelles
Brazil	Malaysia	Singapore
Brunei Darussalam	Mauritius	South Korea
Canada	Mexico	Uruguay
Chile	Monaco	Vatican City
Costa Rica	Montenegro*	Venezuela
Croatia	New Zealand	United States

* Only with biometric passports

Citizens of the following countries do regularly not require a visa to enter Germany. They can apply for a residence permit after their entry only if they do not intend to take up professional activities:

- Andorra;
- Honduras;
- Monaco;
- San Marino.

Citizens of all other countries regularly require a visa to enter Germany irrespective of the residence purposes (for tourist, business trip or employment purposes).

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Appendix I – Germany contacts and offices

Local contacts	
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Competence centers

Competence Center Individual Crossborder Taxation Frankfurt am Main Tel: [49] (69) 9585 6586 Fax: [49] (69) 9585 6723 Contact: Petra Peitz-Ziemann Email: petra.peitz-ziemann@de.pwc.com	Competence Center Wage Tax Advice Berlin Tel: [49] (30) 2636 5363 Fax: [49] (30) 2636 5592 Contact: Sabine Ziesecke Email: sabine.ziesecke@de.pwc.com
Competence Center Mobility Consulting, HRM and Reward Hannover Tel: [49] (511) 5357 5823 Fax: [49] (30) 2636 5592 Contact: Nicole Fischer Email: nicole.fischer@de.pwc.com	Visa and Employment Law Service Duesseldorf Tel: [49] (211) 981 4196 Fax: [49] (211) 981 1074 Contact: Dr. Nicole Elert Email: nicole.elert@de.pwc.com
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