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Supporting Foreign Investment Projects – Incentives, Tax and Legal Framework in Germany

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**GERMANY
TRADE & INVEST**

I. German Incentives Overview

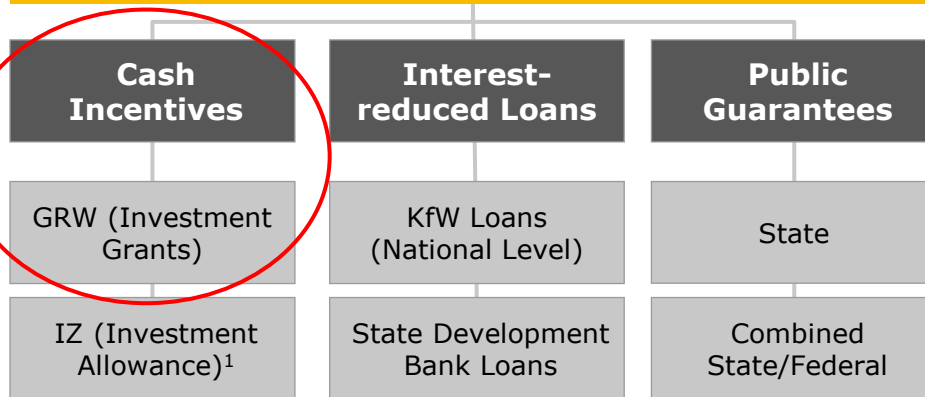
II. Tax and Legal Framework

III. Our Services

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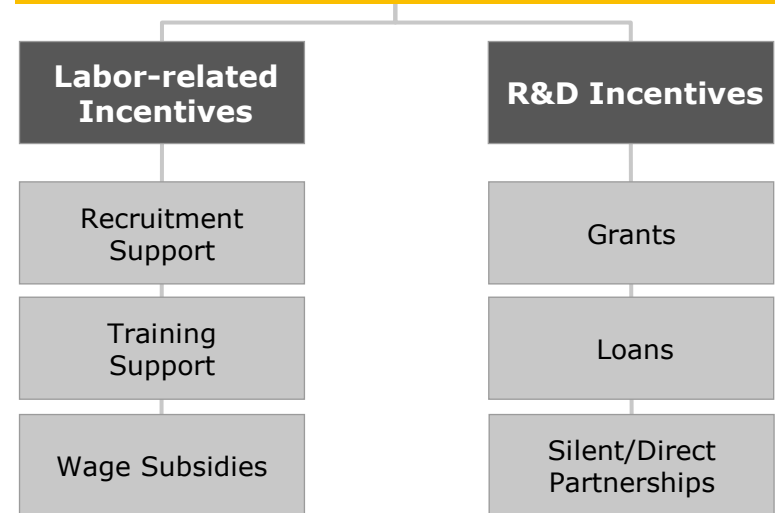
Funding programs in Germany can be categorized into **investment** and **operational incentives**.

Investment Incentives








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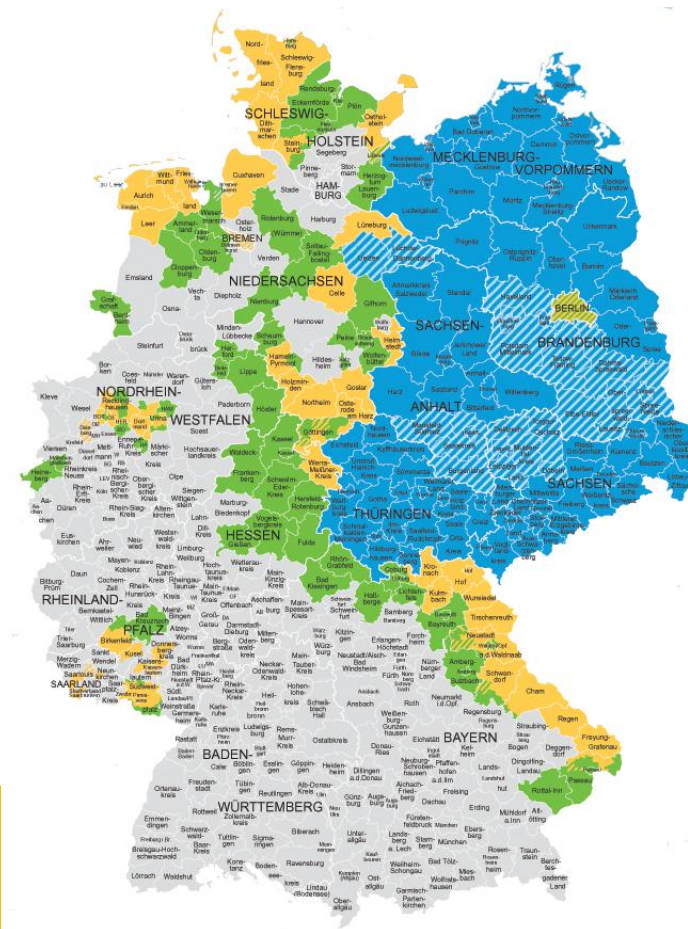
Operational Incentives



Note: ¹ only in Eastern Germany

To reduce cap-ex, Germany offers **Investment Grants** of up to 50%, depending on the region, the company size, and the investment volume.

	Small enterprises ¹	Medium-sized enterprises ²	Large enterprises
 A Region	50%	40%	30%
 A Region "in transition"	40%	30%	20%
 C Region	35%	25%	15%
 D Region	20%	10%	max. EUR 200,000 ³
 C/D Region	35% / 20%	25% / 10%	15% / max. EUR 200,000 ³



The bonus of 20% for a small enterprise and of 10% for a medium-sized enterprise is not granted to large investment projects with eligible investment costs > EUR 50 million. An additional aid intensity reduction would apply in these cases.

Source: Joint Task Framework Plan "Improving the Regional Economic Structure" from 2009

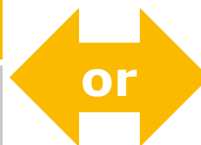
Notes: ¹ Includes a bonus of 20%; ² Includes a bonus of 10%; ³ "De-minimis-rule"

The **Investment Grant** application must be submitted to the respective state development bank before any investment¹ is made.

Eligible costs:

Cap-ex-based

- Purchase or production costs of new tangible assets² (e.g. buildings, machinery) and intangible assets (e.g. software, licenses)
- Leased assets
- Maximum eligible costs are EUR 500,000³ per job created (but not more than total cap-ex)



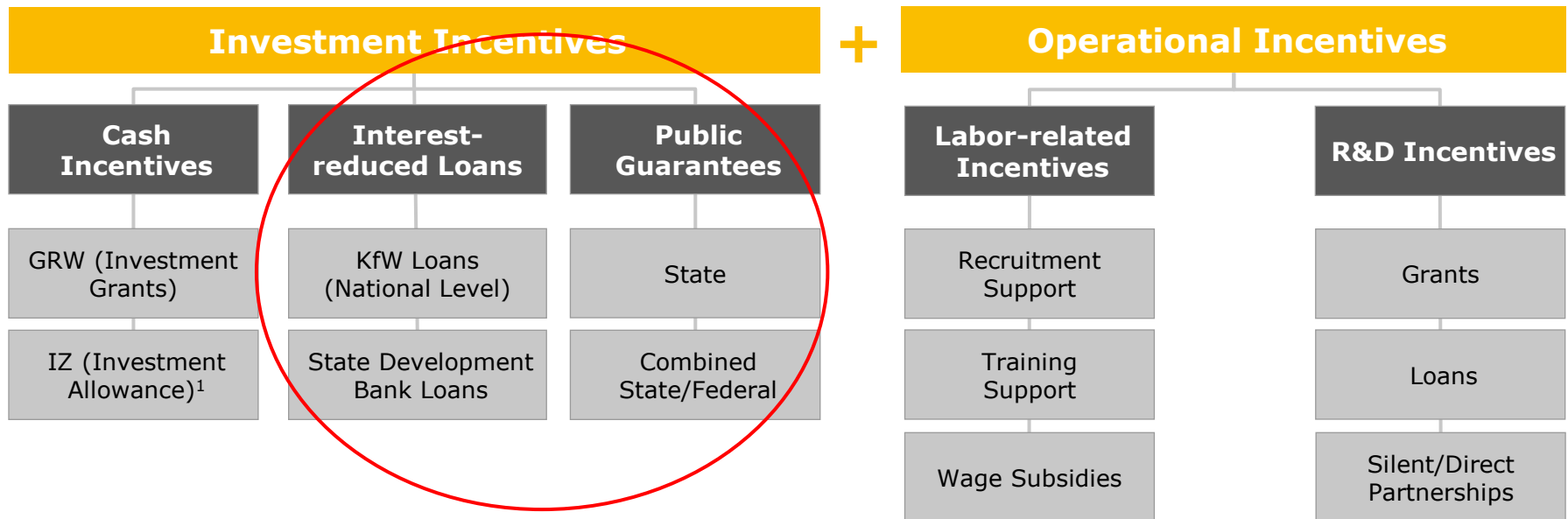
Payroll-based

- Total wage and non-wage costs for a two-year period
- The majority of the newly created jobs must exceed a minimum criterion (e.g. wage amount, qualification)
- Eligible wage costs usually bound to minimum and maximum thresholds

General conditions:

- Eligible industries: manufacturing and certain services
- Creation of long-term jobs (min. 5 years)
- Subsidized investment goods have to remain at the location (min. 5 years)
- > 50% of expected turnover to be generated outside a 50km radius

Notes: ¹ That means also orders and contracts for investment goods; ² Vehicles, and used assets are not subsidizable; ³ Could be reduced by state regulations



Note: ¹ only in Eastern Germany

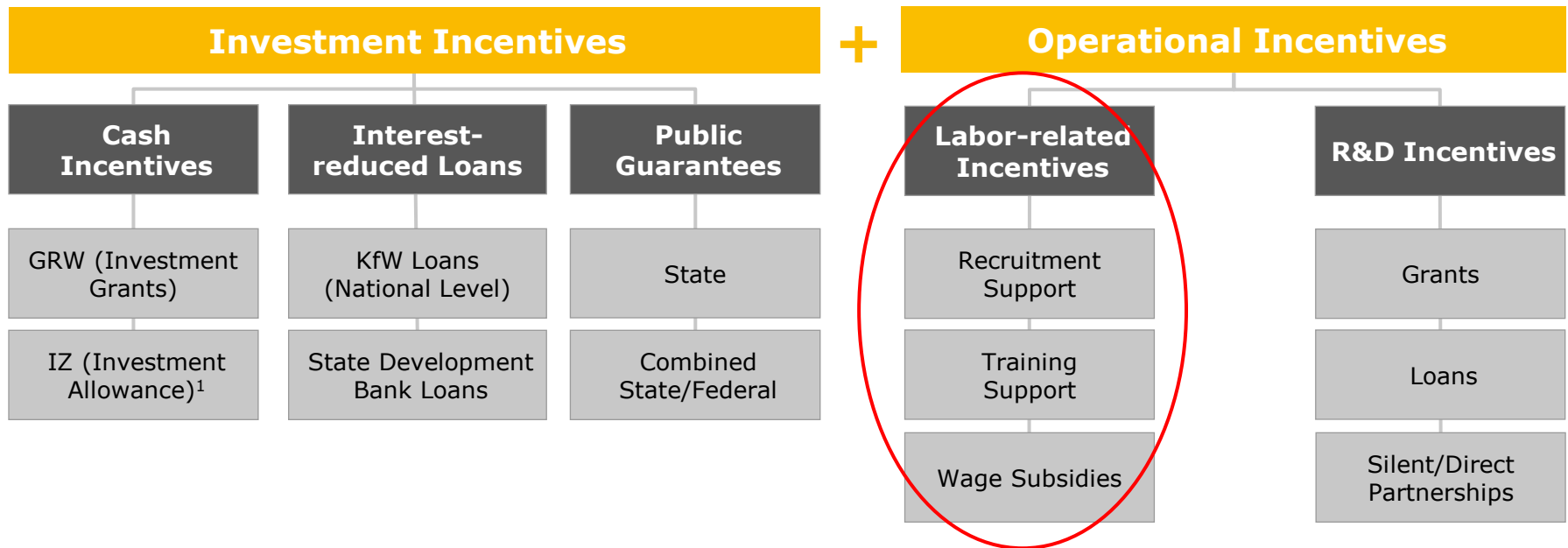
Interest-reduced loans and **guarantees** are other options for the financial package of an investment project.

Interest-reduced loans are available at different levels:

National level	<u>KfW Bankengruppe:</u> <ul style="list-style-type: none">▪ Max. amount EUR 25 million (depending on program)▪ For financing of investment costs and working capital
Regional level	<u>State development banks:</u> <ul style="list-style-type: none">▪ Max. amount EUR 10 million (depending on program)▪ For financing of investment costs and working capital

Public guarantees are used for easing of investment loans lent by commercial banks:

Regional level	<ul style="list-style-type: none">▪ Available throughout Germany▪ For guarantee amounts of up to EUR 10 million▪ Guarantee covers up to 80% of the loan amount
Combined national-regional level	<ul style="list-style-type: none">▪ Available in Eastern Germany and parts of Berlin▪ For guarantee amounts exceeding EUR 10 million▪ Guarantee covers up to 80% of the loan amount

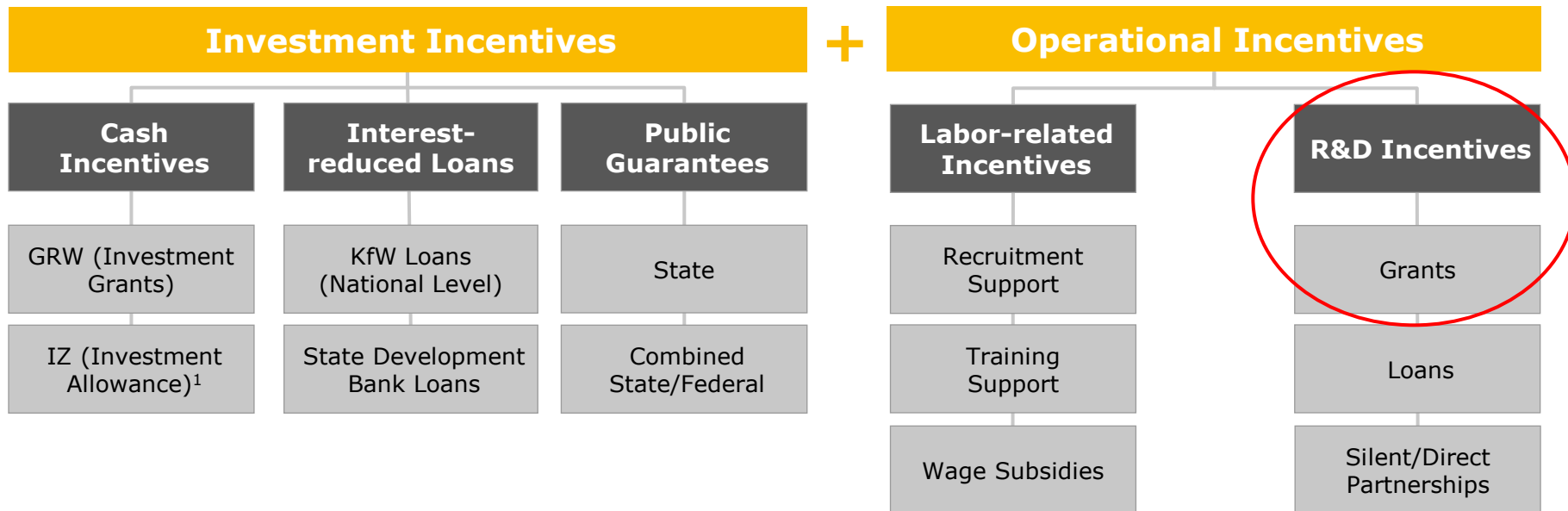


Note: ¹ only in Eastern Germany

Labor-related incentives are offered for varying enterprise needs concerning human resources.



- **Recruitment support** (funding rate: up to 100%): i.e. job ads, pre-selection of candidates
- **Training support** (funding rate: up to 100%): qualification courses for unemployed candidates
- **Wage subsidies** (funding rate: usually up to 50%): for hiring unemployed candidates
- **On-the-job-training** (funding rate: usually up to 70%, depending on type of training): for all employees on the payroll



Note: ¹ only in Eastern Germany

From all R&D funding schemes on the national level programs with technological focus play the most important role.

- Research funding programs with technological focus within the scope of the National High-Tech Strategy 2020 (→ slide 12)
- Annual grant volume approx. EUR 4 billion
- Application procedures: Thematic calls for proposals followed by competition of best project ideas
- Grant rates: generally up to 50% of eligible project costs (higher rates for SME or for cooperative projects possible)

The German government's High-Tech Strategy 2020 offers generous grants for R&D projects in different sectors.

Funding concentrated on lead markets and priorities, and key technologies:

Lead markets and priorities

- Climate/Energy
- Health/Nutrition
- Mobility
- Security
- Communication

Key technologies

- Information and communication technologies
- Optical technologies
- Production technologies
- Materials technologies
- Biotechnology
- Nanotechnology
- Microsystems technology
- Innovative services

6th Energy Research Programme of the Federal Government

Main topics (different ministries responsible: BMWi, BMU, BMVBS, BMBF):

- Energy saving and energy efficiency
- Renewable energies
- Bioenergy

Interministerial initiatives:

- "*Energy storage systems*": call for proposals April 2011 (budget EUR 200 million)
- "*Power grids*": call for proposals January 2013 (budget EUR 150 million), topics:
 - Transmission and distribution technologies
 - Grid expansion
 - Grid operation
- "*Solar-powered buildings – energy efficient cities*": call to be announced

Programs on national level without technological focus are also available in the form of grants.

The most important R&D grant program without technological focus is the **Central Innovation Program SMEs (ZIM)**:

- Eligible enterprises: SME's, large enterprises which do not engage more than 500 employees (the latter is limited in time until 31 December 2013)
- Max. eligible costs per project and partner: EUR 350,000
- Grant rates: 25-50% (depending on company size, cooperation degree and location)
- Application procedure: application at any time (no calls for proposals)



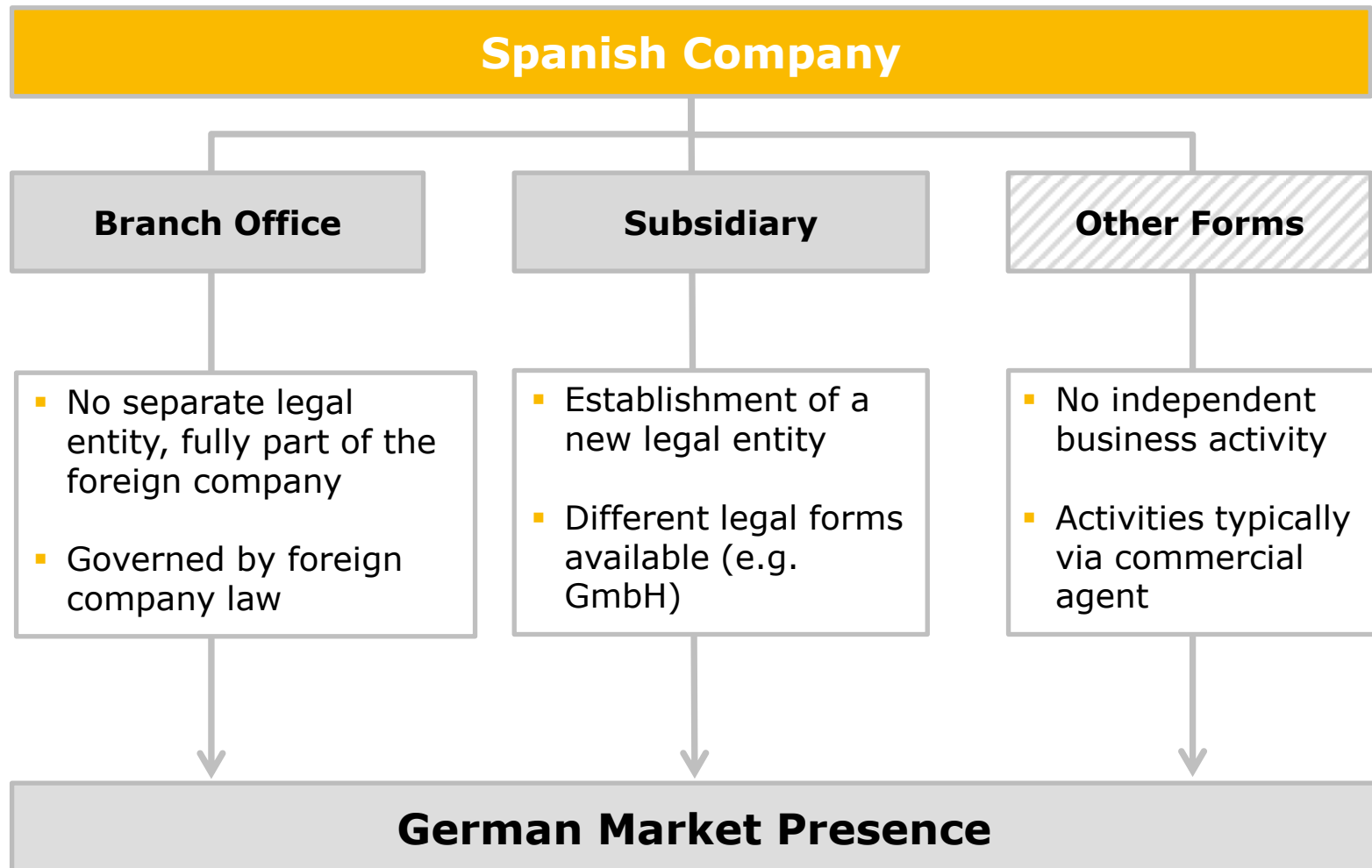
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There are several ways to take up commercial activities in Germany.



A German branch office could be a suitable alternative for foreign companies looking for an initial presence in Germany.

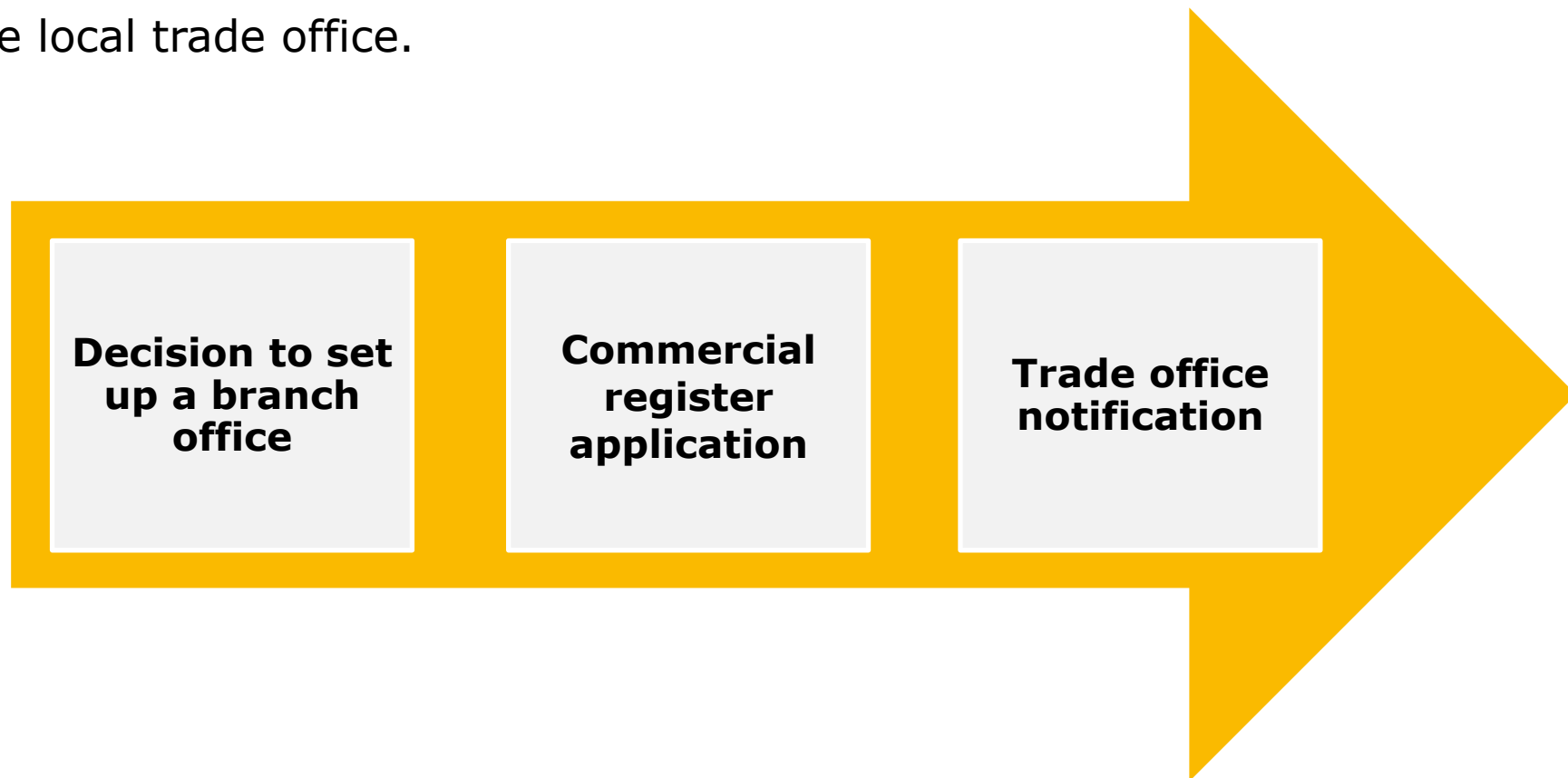
Autonomous Branch Office:

- Engages in business activities independently (own management with executive powers, a separate bank account and accounting).
- Can use a name affix (i.e. ABC Company Zweigniederlassung Berlin).
- A statutory share capital as such is not required, still capital resources are required.
- Foreign head office company is liable with its assets for any claims creditors might assert against the branch office.

Dependent Branch Office:

- Fulfills implementation and support tasks.
- Focuses on maintaining contacts and initiation business.
- A statutory share capital as such is not required, still capital resources are required.

An **autonomous branch office** must be registered with the commercial register and the local trade office. The dependent branch office only with the local trade office.



- Registration Costs: around EUR 400

The German limited liability company (GmbH) is the most widely used legal form for corporations in Germany.

GmbH:

- Is suitable for every business object except listing on the stock exchange.
- Combines high flexibility with relatively few obligations.
- Well-known company form with good reputation not only within Germany.
- Requires a minimum share capital of EUR 25,000 (cash or kind).
- The liability of the shareholders is limited to their respective contribution.

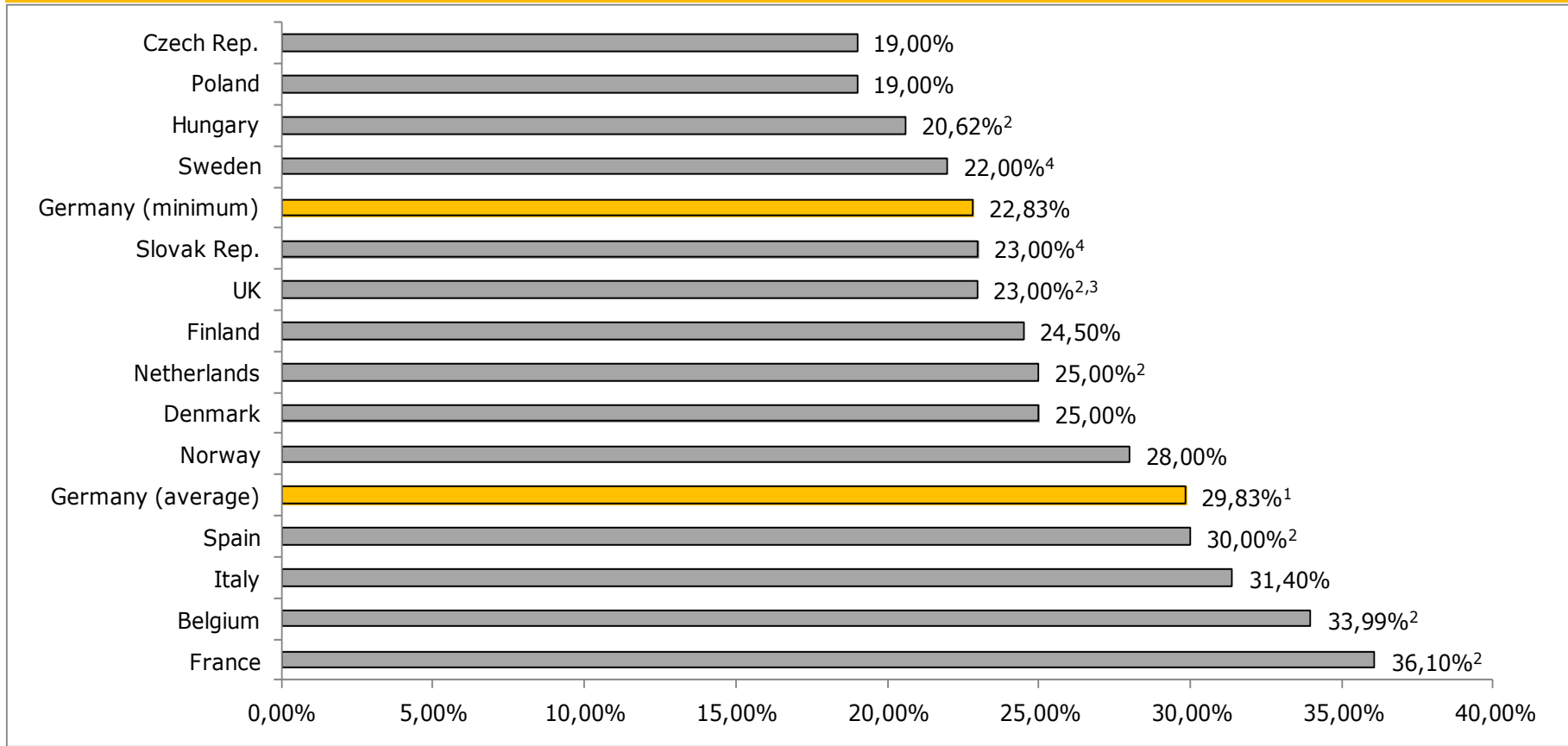
The establishment procedure of a GmbH is straightforward with well-defined steps.



- Timeframe for a GmbH establishment: ideally 1-2 weeks.
- Estimated total establishment costs for a standard GmbH: EUR 400-800.

Germany offers one of the most competitive tax systems among the European States.

Average Corporate Tax Burden (2012, in %)



Notes: ¹ National German average. Lower overall tax rates in certain areas are possible, e.g. only 22.83% in certain municipalities; ² Top corporate income taxation rate incl. local taxes; lower starting rates or other special tax rates available; ³ As of April 2013 (according to OECD); ⁴ As of January 2013 (according to OECD)

Source: Federal Ministry of Finance 2013 (data as of December 2012)(BMF), GTAI, OECD

Taxation of corporate companies consists of three taxation components.

1. Corporate Income Tax (Körperschaftsteuer)	2. Solidarity Surcharge (Solidaritätszuschlag)
15% of the taxable income	0.825% all over Germany (= 5.5% of the corporate income tax rate of 15%)
15.825%	

3. Trade Tax (Gewerbesteuer)
<ul style="list-style-type: none">Trade tax rates are individually determined by each municipality.Trade tax rates range starts at 7.0% and the average trade tax rate is around 14% of the taxable income.
Starts at 7%

The overall tax burden of a corporation depends on the municipal trade tax rate.

	Minimal Municipal Multiplier	German Average
Taxable Corporate Income (EUR)	1,000,000	1,000,000
Trade Tax (3.5% x municipal multiplier)	-70,000 (mun. multiplier: 200%) Trade Tax Rate 7%	-140,000 (mun. multiplier: 400 %) Trade Tax Rate 14%
Corporate Income Tax (Tax Rate 15%)	-150,000 Corporate Income Tax 15%	-150,000 Corporate Income Tax 15%
Solidarity Surcharge (5.5% of the Corporate Income Tax)	-8,250 Solidarity Surcharge 0.825%	-8,250 Solidarity Surcharge 0.825%
Net Income (EUR)	771,750	701,700
Overall Tax Burden	22.83%	29.83%

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Complete your project management needs from our range of investment and one-stop project consultancy services.

Strategy

Evaluation

Decision & Investment

Project Management Assistance

Business opportunity analysis and market research

Market entry strategy support

Project partner identification and contact

Joint project management with regional development agency

Coordination and support of negotiations with local authorities

Location Consulting/Site Evaluation

Identification of project-specific location factors

Cost factor analysis

Site preselection

Site visit organization

Final site decision support

Support Services

Identification of relevant tax and legal issues

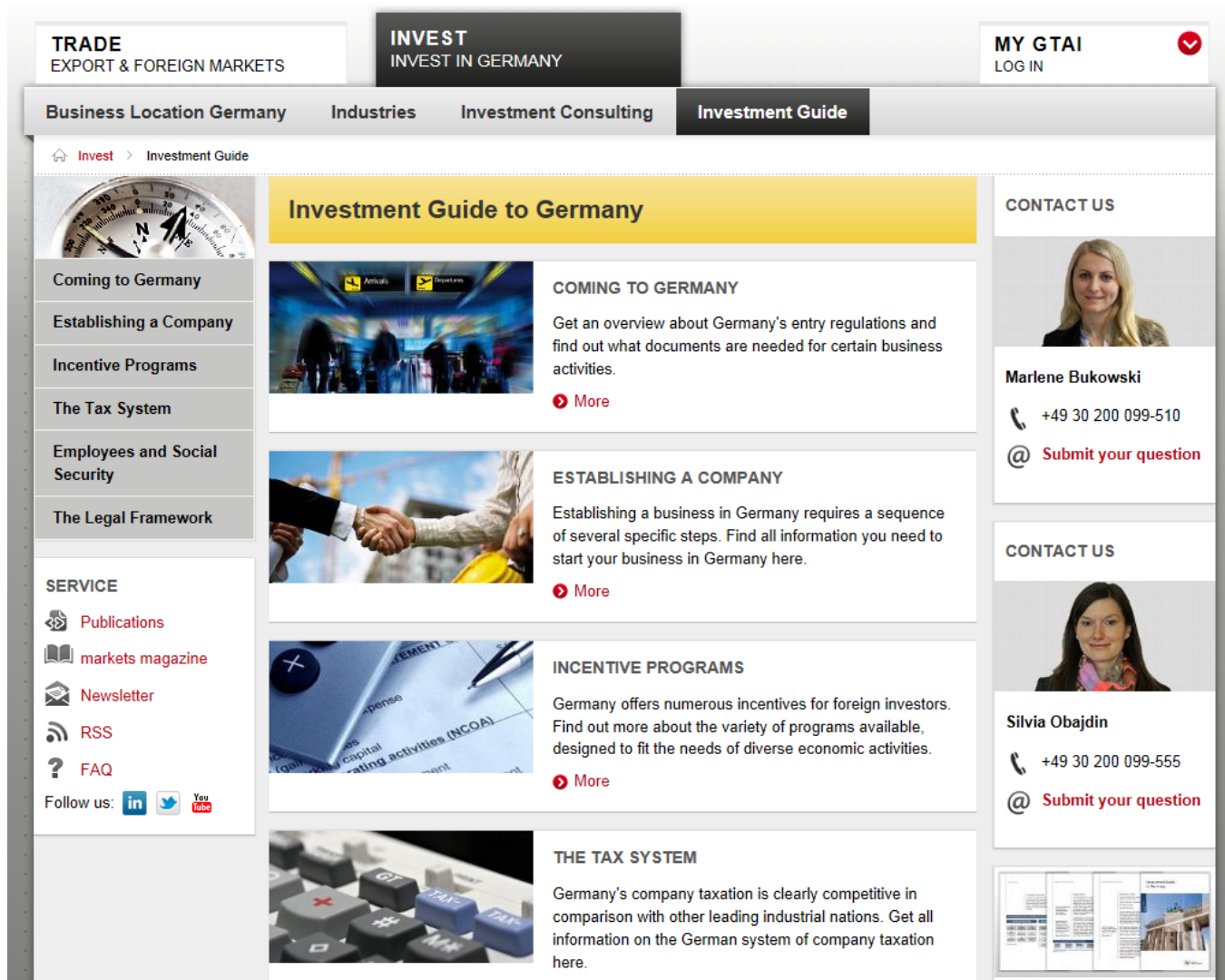
Project-related financing and incentives consultancy

Organization of meetings with legal advisors and financial partners

Administrative affairs support

Accompanying incentives application and establishment formalities

www.gtai.com – our service for foreign companies



The screenshot displays the GTAI website interface. At the top, there are navigation tabs for 'TRADE EXPORT & FOREIGN MARKETS', 'INVEST INVEST IN GERMANY', and 'MY GTAI LOG IN'. Below this is a secondary navigation bar with 'Business Location Germany', 'Industries', 'Investment Consulting', and 'Investment Guide'. The main content area is titled 'Investment Guide to Germany' and features a sidebar on the left with categories like 'Coming to Germany', 'Establishing a Company', 'Incentive Programs', 'The Tax System', 'Employees and Social Security', and 'The Legal Framework'. The main content is organized into four sections: 'COMING TO GERMANY', 'ESTABLISHING A COMPANY', 'INCENTIVE PROGRAMS', and 'THE TAX SYSTEM'. Each section includes a brief description and a 'More' link. On the right side, there are two 'CONTACT US' sections, each featuring a profile picture, name, phone number, and a 'Submit your question' button. The bottom right corner shows a preview of a document or report.

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EXPORT & FOREIGN MARKETS

INVEST
INVEST IN GERMANY

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Business Location Germany Industries Investment Consulting **Investment Guide**

Invest > Investment Guide

Investment Guide to Germany

Coming to Germany

COMING TO GERMANY

Get an overview about Germany's entry regulations and find out what documents are needed for certain business activities.

[More](#)

Establishing a Company

ESTABLISHING A COMPANY

Establishing a business in Germany requires a sequence of several specific steps. Find all information you need to start your business in Germany here.

[More](#)

Incentive Programs

INCENTIVE PROGRAMS

Germany offers numerous incentives for foreign investors. Find out more about the variety of programs available, designed to fit the needs of diverse economic activities.

[More](#)

The Tax System

THE TAX SYSTEM

Germany's company taxation is clearly competitive in comparison with other leading industrial nations. Get all information on the German system of company taxation here.

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[Submit your question](#)

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[Submit your question](#)

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