

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

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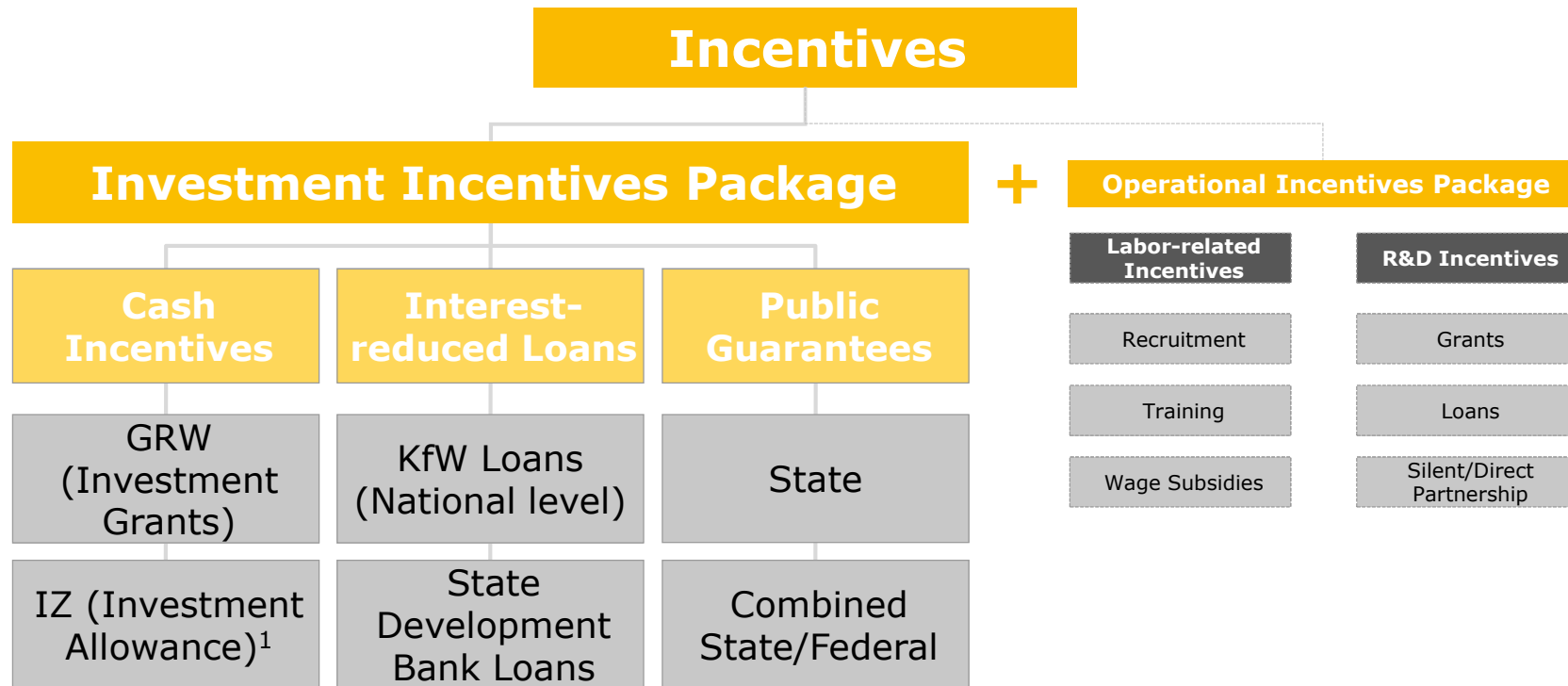
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Key element to support establishing new projects in Germany are investment incentives packages.

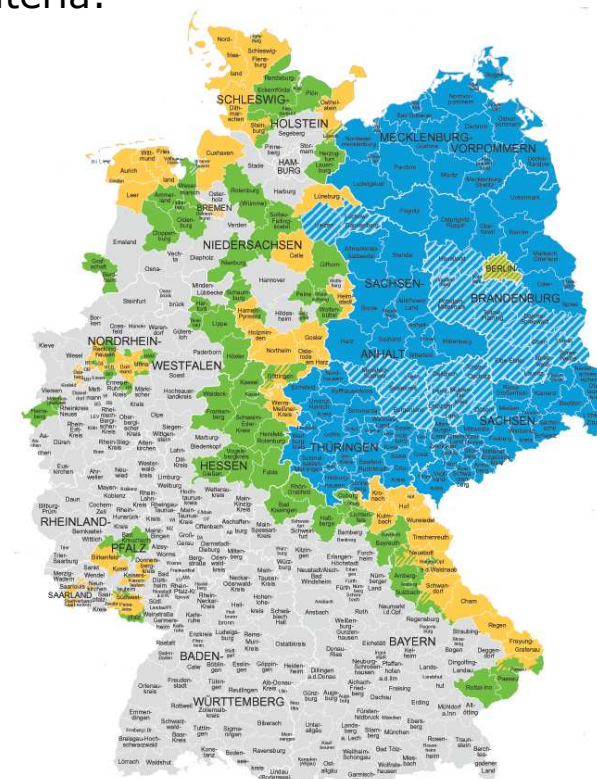


Note: ¹ Only in Eastern Germany

The main instrument to lower direct investment costs are GRW cash grants. Additionally, Eastern Germany offers the investment allowance.

Most important for determining the availability and amount of incentives is the size of the enterprise. Therefore the EU has introduced the following criteria:

| | Small companies ¹ | Medium-sized companies ² | Large companies |
|---|------------------------------|-------------------------------------|--|
|  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 |



Quelle: 36th GA Framework Plan "Improving the Regional Economic Structure"

Notes: ¹ Includes a bonus of 20%, ² Includes a bonus of 10%, ³ "Deminimis-rule"

The main instrument to lower direct investment costs is cash incentives in form of direct grants.

| | Investment Grant |
|--------------------------------------|---|
| Offered in | <ul style="list-style-type: none"> ▪ Specific regions throughout Germany |
| Offered as a | <ul style="list-style-type: none"> ▪ Cash payment calculated on the eligible investment costs |
| Eligible investment costs are | <ul style="list-style-type: none"> ▪ Purchase or production costs of buildings, machinery, and equipment and purchase cost of intangible assets <u>or</u> wage costs for two years |
| The target is | <ul style="list-style-type: none"> ▪ Job creation |
| Requirements are | <ul style="list-style-type: none"> ▪ The investment project must create long-term jobs. ▪ The equipment subsidized through the grant must remain at the location for at least five years. |

The **Investment Allowance** is based on a legal act and is offered for investment projects in Eastern Germany.

| | Investment Allowance |
|--------------------------------------|---|
| Offered in | <ul style="list-style-type: none">▪ Eastern Germany |
| Offered as a | <ul style="list-style-type: none">▪ Cash payment and/ or tax reduction calculated on the eligible investment costs |
| Eligible investment costs are | <ul style="list-style-type: none">▪ Purchase or production costs of buildings, machinery, and equipment |
| The target is | <ul style="list-style-type: none">▪ Boosting investments in Eastern Germany |
| Requirements are | <ul style="list-style-type: none">▪ The equipment subsidized through the allowance must remain at the location for at least five years. |

The **Investment Allowance** intensity level depends on the start year of the project, on the company size and the investment good.

| Company size | Investment good | Start in 2012 | Start in 2013 |
|----------------------------------|---|---------------|---------------|
| Small or medium-sized enterprise | Building ¹ | 5.0% | 2.5% |
| | Machinery, equipment ² | 10.0% | 5.0% |
| Large enterprise | Building ¹ , machinery, equipment ² | 5.0% | 2.5% |

Notes: ¹ Land and outside facilities are not eligible, ² Not vehicles and used assets

Interest-reduced loan programs are available on different levels.

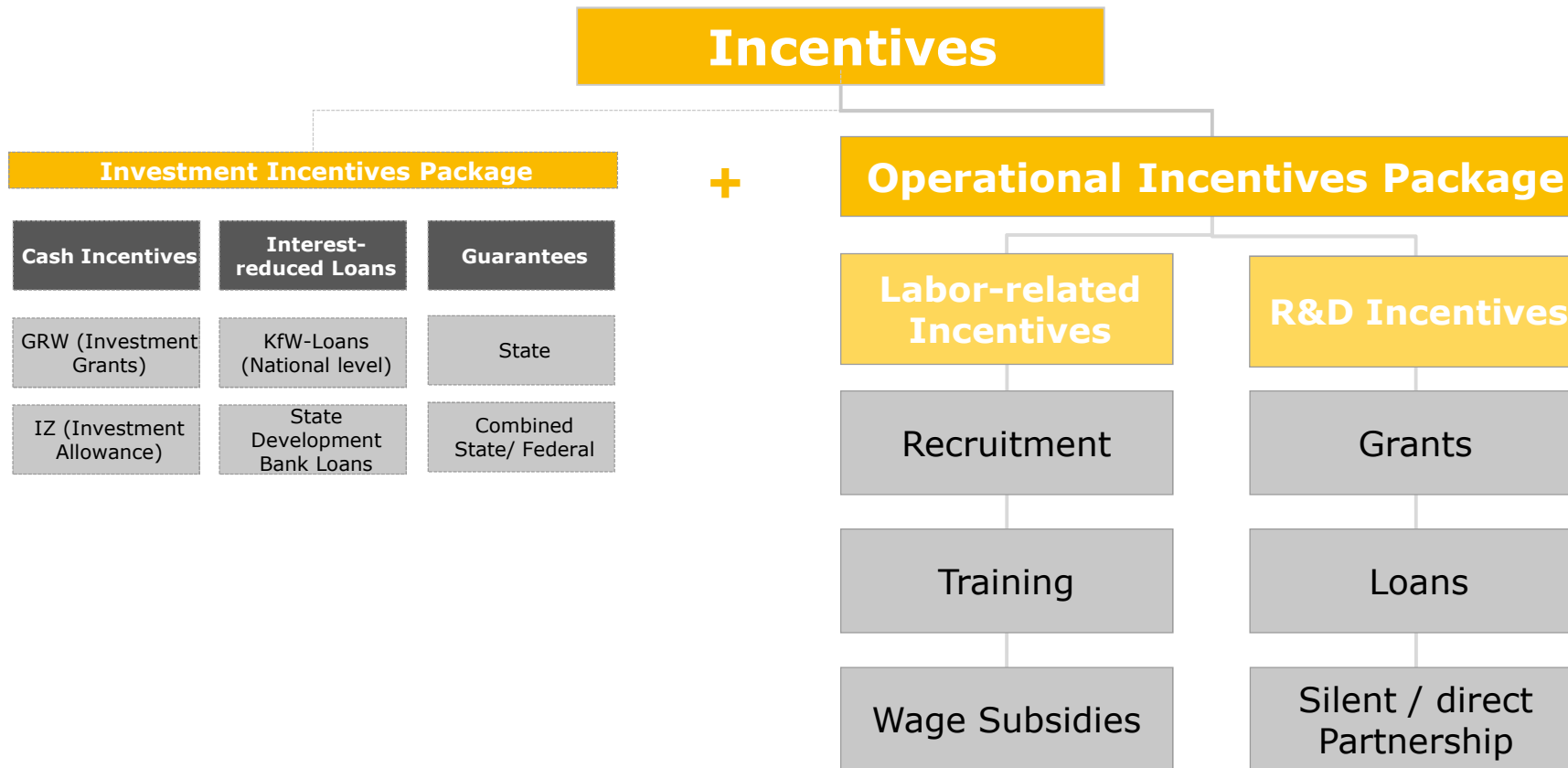
| | Small | Medium-sized | Large |
|--|--|--------------|---------------|
| <u>National level</u> (KfW Banking Group) | <p><u>Entrepreneur Loan:</u> Max. amount EUR 10 million Financing of:</p> <ul style="list-style-type: none"> • property and buildings, machines, plants and equipment • construction measures (investment variant) • procurement and enlargement of stocks of materials, supplies and spare parts (working capital variant) | | |
| <u>Regional level</u> (State Development Banks) | <p><u>State Development Bank Loans:</u> Amount EUR 50,000 – EUR 10 million Financing of:</p> <ul style="list-style-type: none"> • property and buildings • plants • machines and equipment • partial working capital variant | | Not available |

Guarantees are assumed for easing of investment loans lent by commercial banks.

| | State | Combined state / federal |
|----------------------------|---|--|
| General conditions | <ul style="list-style-type: none"> Available throughout Germany | <ul style="list-style-type: none"> Available in Eastern Germany and parts of Berlin |
| | Companies, which do not have the collateral demanded by the bank, can apply for public guarantees. | |
| Amount | <ul style="list-style-type: none"> For guarantee needs from EUR 1 million up to EUR 10 million | <ul style="list-style-type: none"> For guarantee needs over EUR 10 million |
| | Guarantee covers up to 80% of the loan amount | |
| Application process | <ul style="list-style-type: none"> Before starting investment, application has to be submitted to state's mandatory (normally the respective state development bank) via investor's commercial bank Finally, State's Minister of Finance decides about allocation | <ul style="list-style-type: none"> Before starting investment, application has to be submitted to PwC as federal mandatory via investor's commercial bank Concurrently notification by EU authorities is necessary |

Guarantees lower the cash incentives. For calculating the aid element of guarantees, the EU implemented a method based on parameter like default probabilities, recovery rate and guarantee fees.

There are several types of incentives to reduce operational expenditures.

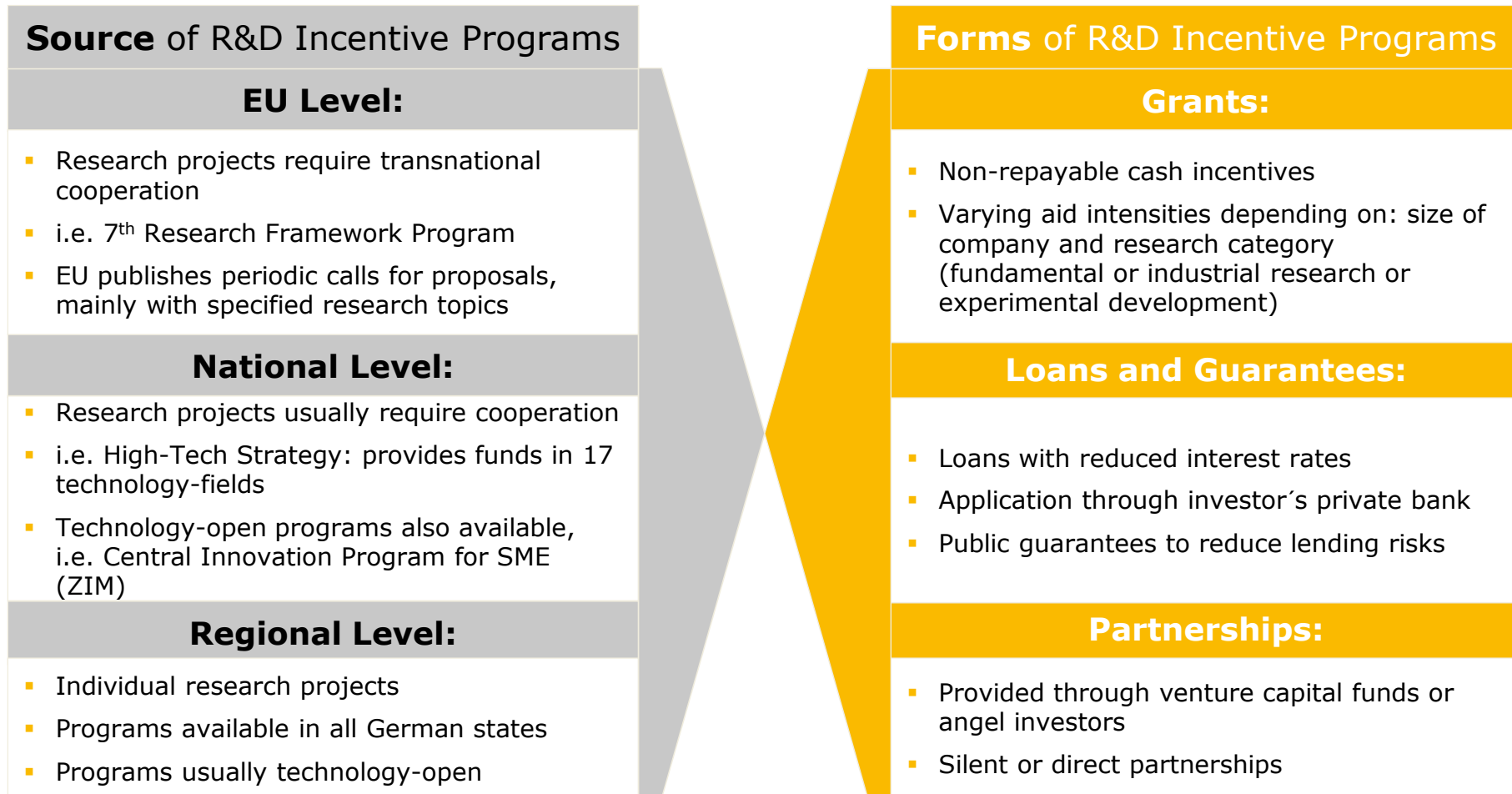


In addition to the investment incentives package, **labor-related incentives**, as a part of the **operational incentives package**, reduce effective operational costs.



- Labor-related incentives are provided as recruitment and/or training support as well as wage subsidies.
- Available throughout Germany independent of industry and location.
- Programs are administered by the Federal Employment Agency and the Federal States.
- Implementation of measures according to the needs of the investor.

Depending on the scope of the planned R&D project, incentive programs are available on EU, national or regional level, in various forms.



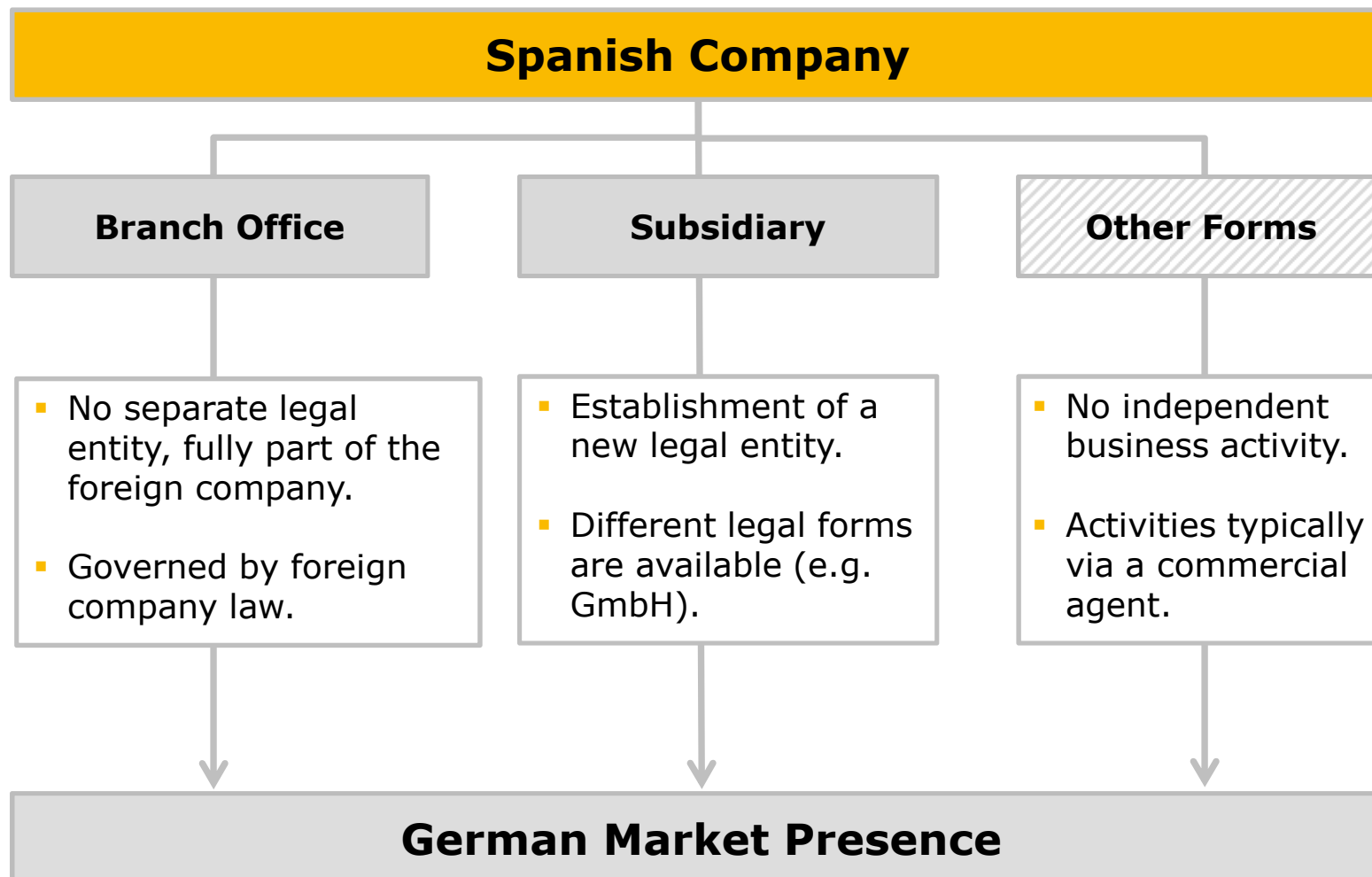
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There are several ways to take up commercial activities in Germany.



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

Autonomus Branch Office:

- Engages in business activities independently and has a certain own business discretion.
- Has to be registered with the German Commercial Register.
- No minimum capital required.
- Foreign head office company is liable with its assets for any claims creditors might assert against the branch office.
- Profits generated by a branch (permanent establishment) are taxed in Germany.

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



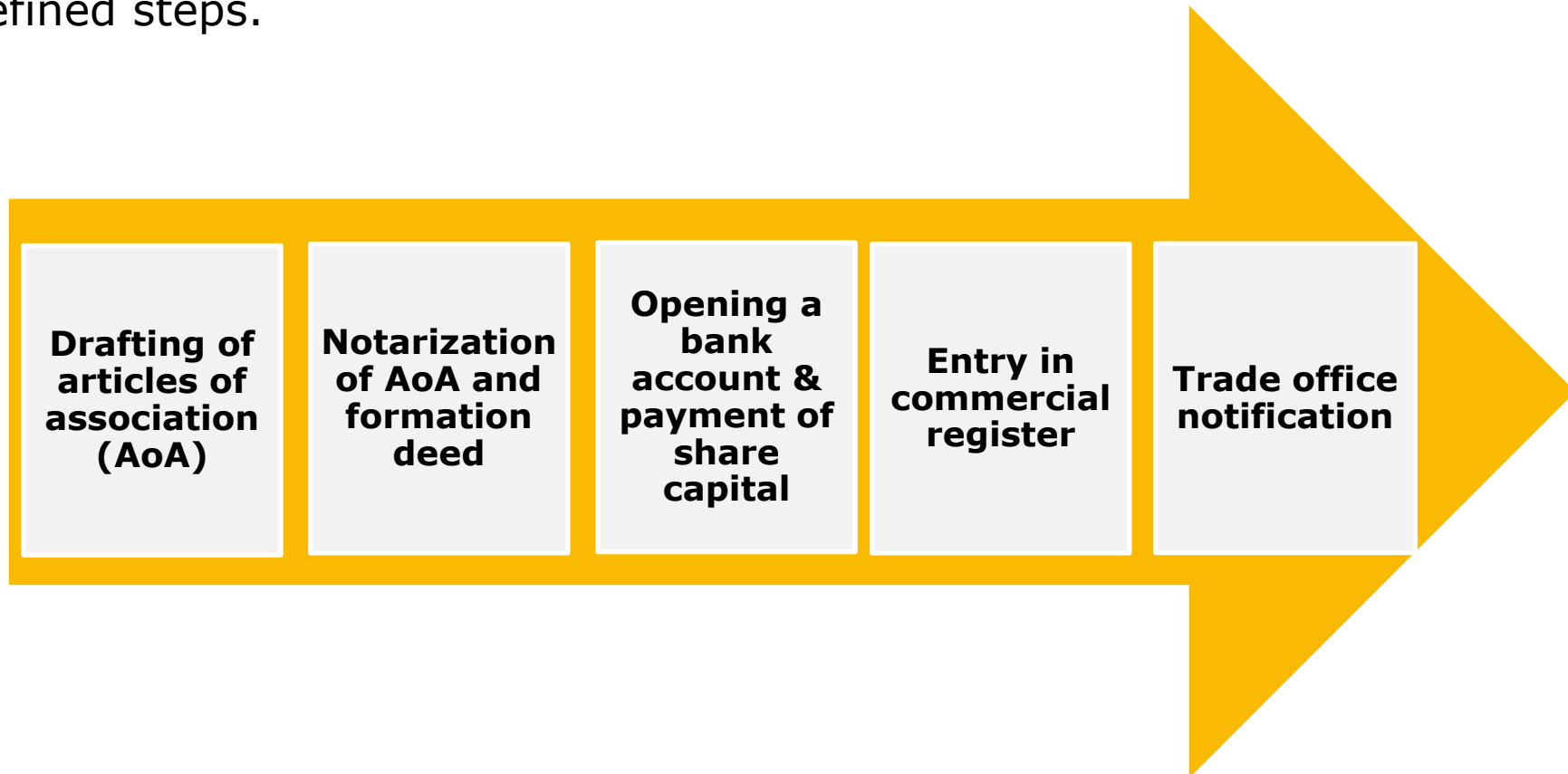
Establishment Costs: EUR 150-400

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).
- Profits are taxed in Germany.

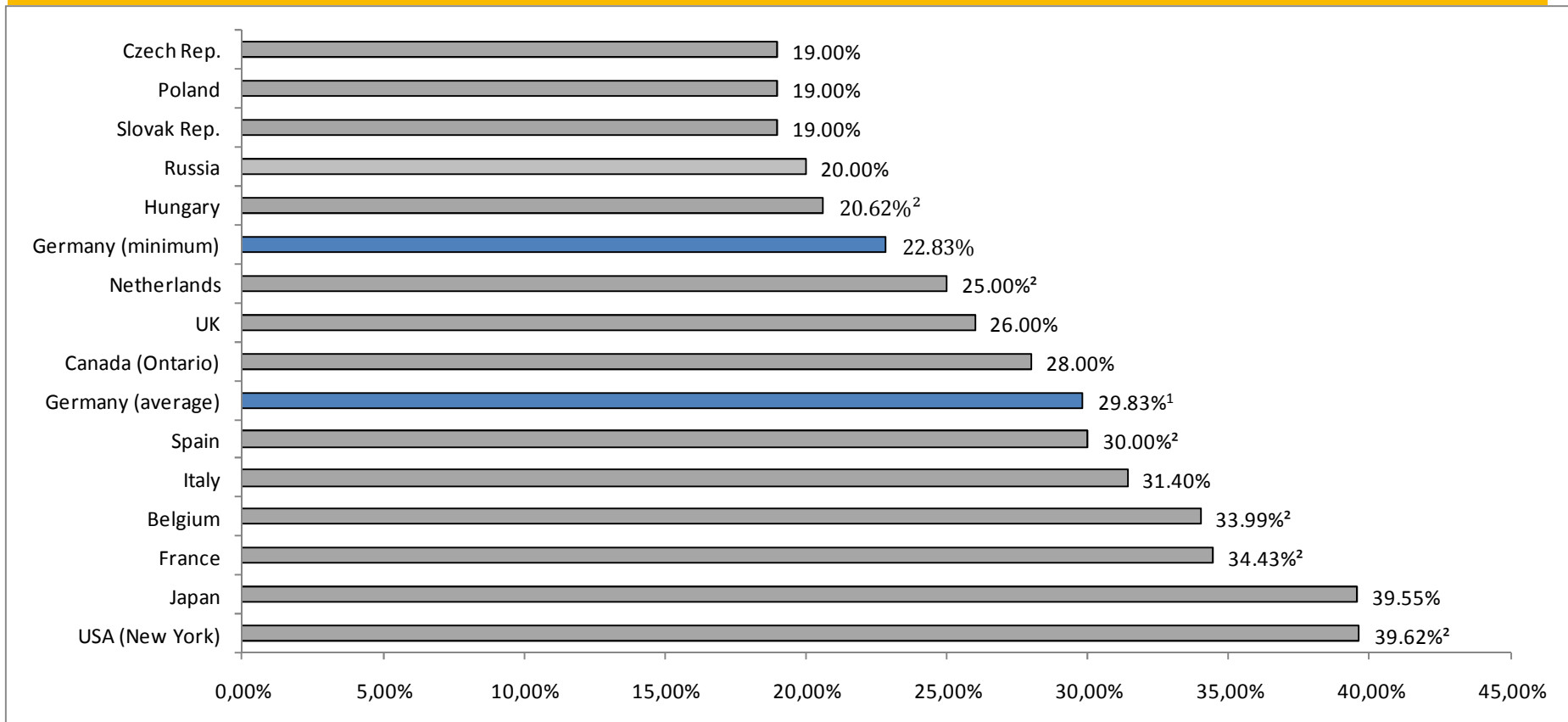
The establishment procedure of a GmbH is straightforward with well-defined steps.



- The timeframe for a GmbH establishment is ideally 10-14 days.
- The estimated total establishment costs for a standard GmbH are EUR 750 – EUR 900.

Germany offers one of the most competitive tax systems among the big industrialized countries.

Average Corporate Tax Burden (2012, in %)



¹National German average. Lower overall tax rates in certain areas are possible, e.g. only 22.83% in certain municipalities.

²Top corporate income taxation rate incl. local taxes; lower starting rates or other special tax rates available. Example USA: progressive rate for the federal corporate income tax from 15 % to 35 %.

Source: Federal Ministry of Finance (BMF), GTAI

Taxation of corporate companies consists of three taxation components.

| 1. Corporate Income Tax (<i>Körperschaftsteuer</i>) | 2. Solidarity Surcharge (<i>Solidaritätszuschlag</i>) |
|---|--|
| Flat: 15 percent of the taxable income (regardless of whether profits are distributed or not) | <ul style="list-style-type: none"> ▪ 0.825 percent all over Germany ▪ Solidarity surcharge consists of 5.5% <u>of the corporate income tax rate</u> of 15% |
| 15.825 percent | |

| 3. Trade Tax (<i>Gewerbesteuer</i>) |
|--|
| <ul style="list-style-type: none"> ▪ Trade tax rate are individually determined by each municipality individually. ▪ Trade tax rates ranges between 7.0 and 17.15 percent of the taxable income. |
| 7.0-17.15 percent |

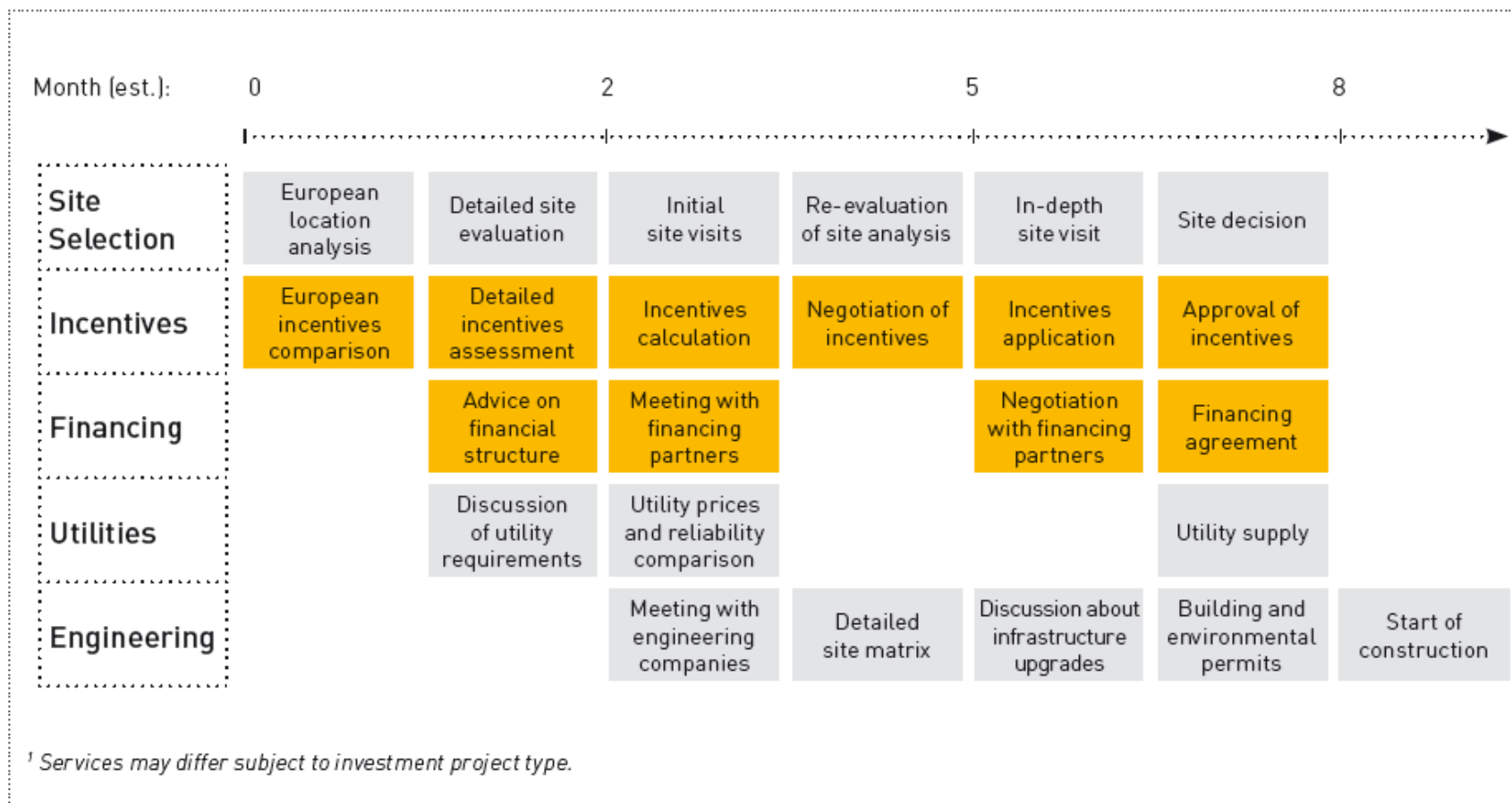
The overall tax burden of a corporation depends on the municipal trade tax rate.

| | Minimal Municipal Multiplier | Maximal Municipal Multiplier | German Average |
|---|--|---|---|
| Taxable Corporate Income (EUR) | 1,000,000 | 1,000,000 | 1,000,000 |
| Trade Tax (3.5% x municipal multiplier) | -70,000 (mun. multiplier: 200%) Trade Tax Rate 7% | -171,500 (mun. multiplier: 490%) Trade Tax Rate 17.15% | -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% | -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% | -8,250 Solidarity Surcharge 0.825% |
| Net Income (EUR) | 771,750 | 670,250 | 701,700 |
| Overall Tax Burden | 22.83 % | 32.98 % | 29.83% |

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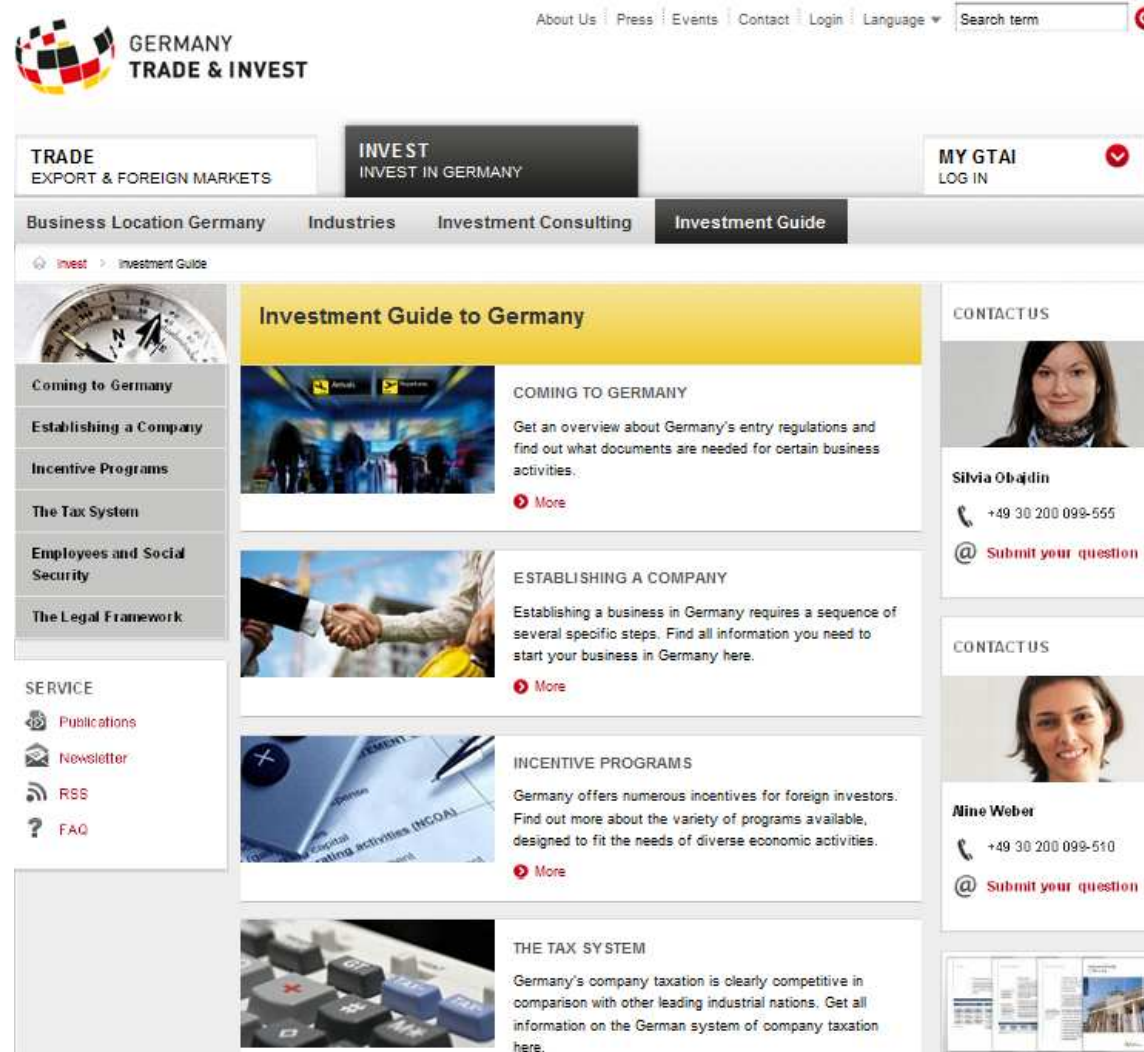
Germany Trade & Invest as the “one stop agency” supports the investor closely in every stage of the decision-making process.

This means from identifying business opportunities to selecting sites, providing advice and information on financing, tax and legal issues and helping in the search for the right local



Our Services and Products

www.gtai.com – our service for foreign companies



The screenshot displays the website's navigation and content structure. At the top, there is a search bar and a menu with links for 'About Us', 'Press', 'Events', 'Contact', 'Login', and 'Language'. The main navigation bar includes 'TRADE EXPORT & FOREIGN MARKETS', 'INVEST INVEST IN GERMANY', and 'MY GTAI LOG IN'. Below this, a secondary navigation bar highlights 'Business Location Germany', 'Industries', 'Investment Consulting', and 'Investment Guide'. The 'Investment Guide' section is active, showing a list of topics: 'Coming to Germany', 'Establishing a Company', 'Incentive Programs', 'The Tax System', 'Employees and Social Security', and 'The Legal Framework'. The main content area features a yellow header for 'Investment Guide to Germany' and four detailed articles, each with a 'More' link. The right sidebar contains two 'CONTACTUS' sections, each with a contact person's photo, name, phone number, and a 'Submit your question' button. A 'SERVICE' section on the left lists 'Publications', 'Newsletter', 'RSS', and 'FAQ'.

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Coming to Germany

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

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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

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

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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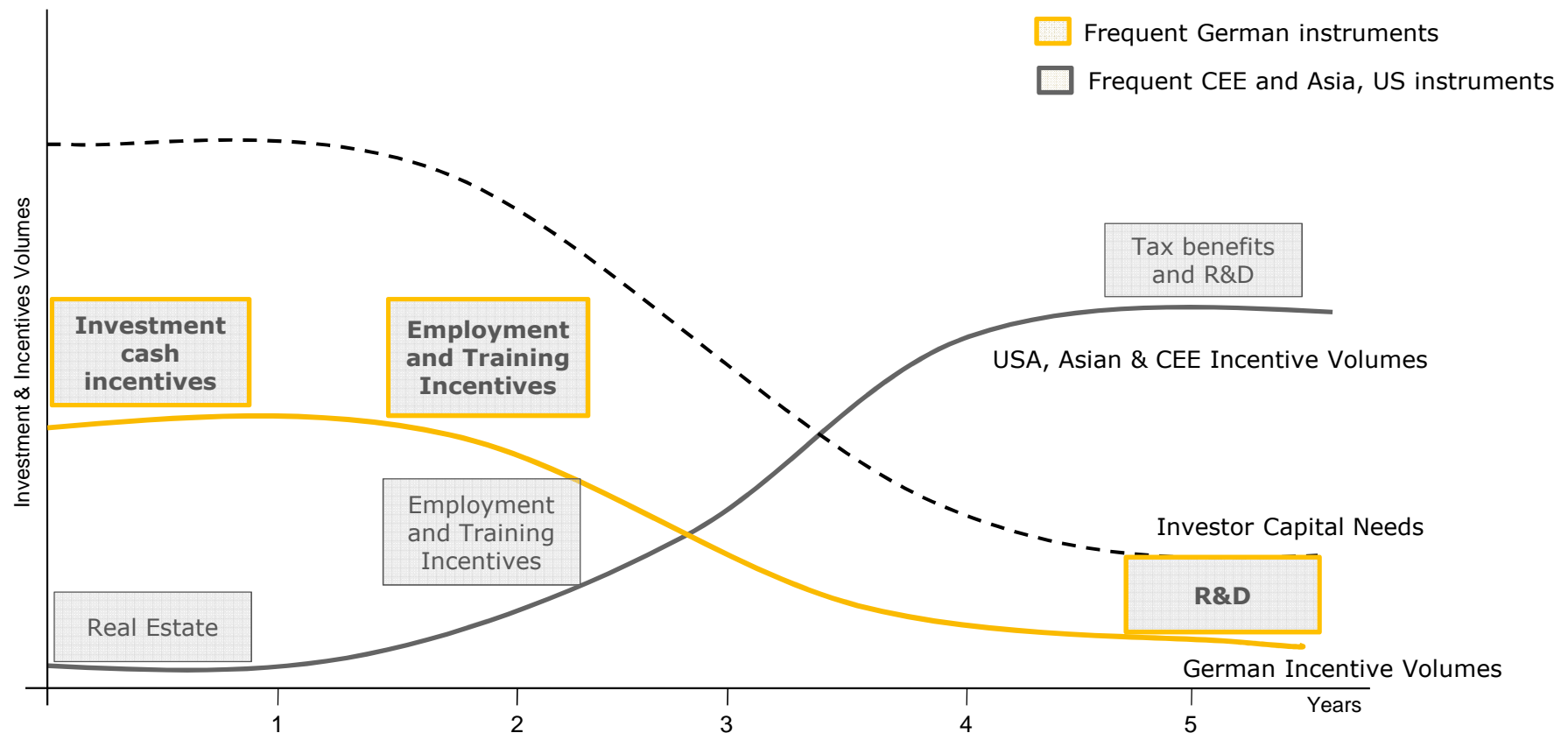
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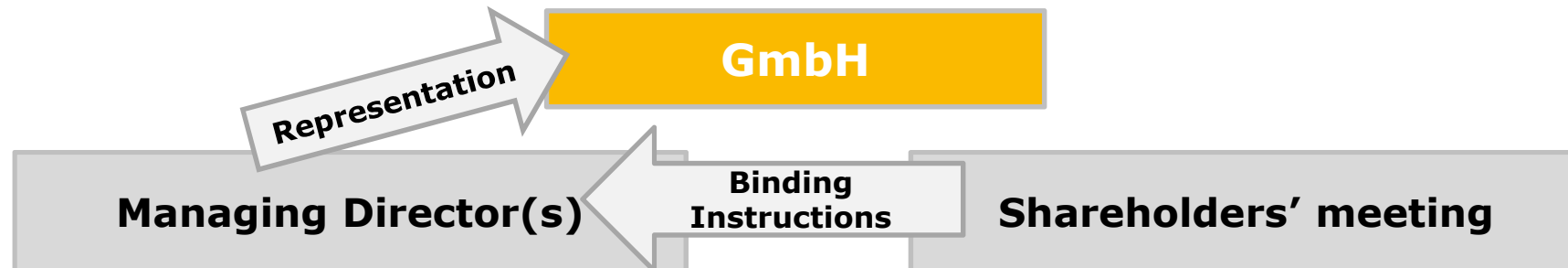
Back up

Germany incentives meet immediate capital needs of investors, while common incentives in CEE states, USA and Asia are only realized upon generating revenue.



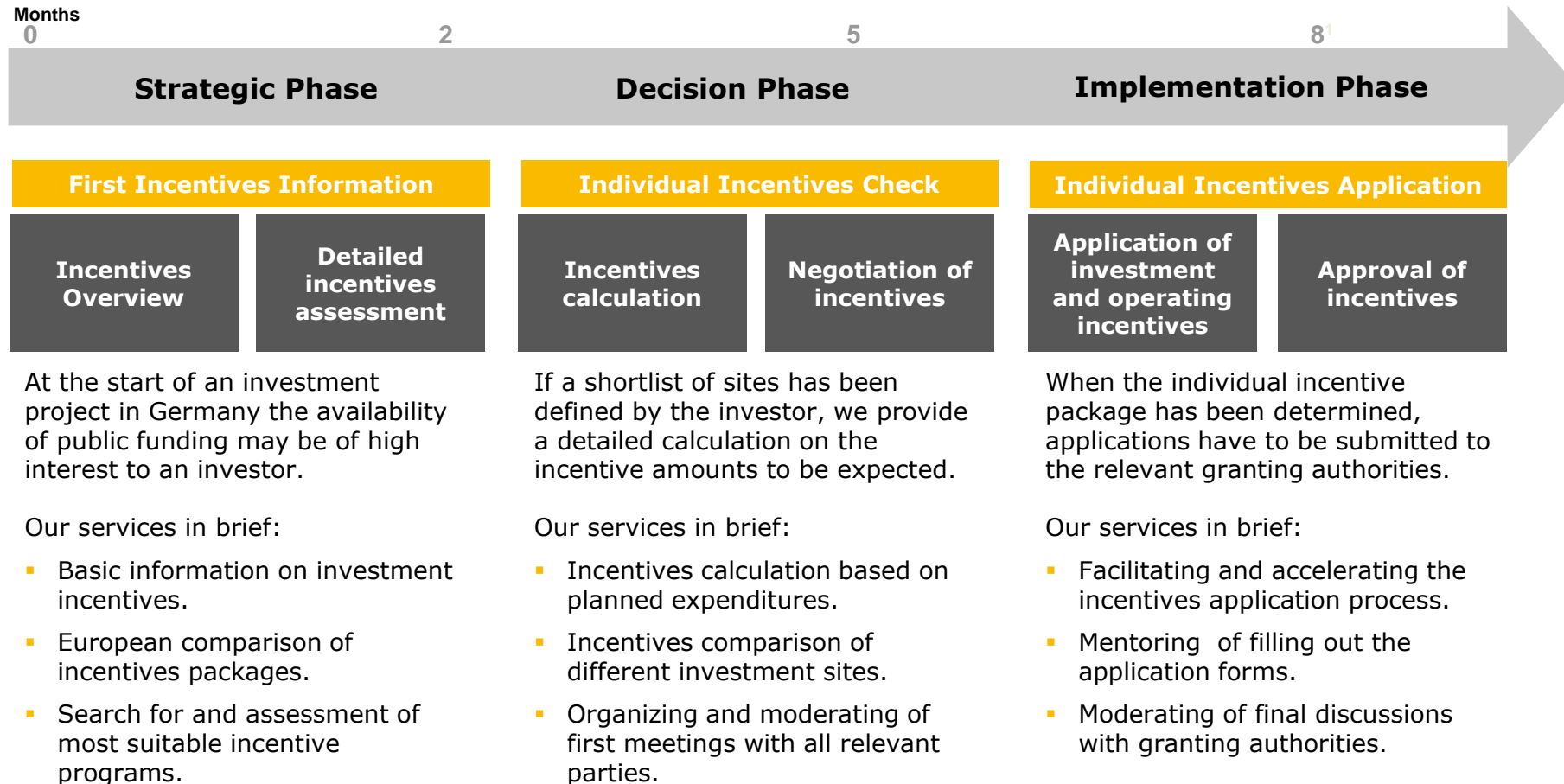
Source: Adapted from IFO (2007) and KPMG (2007)

The GmbH has two mandatory bodies: the managing director(s) and the shareholders' meeting



- The managing director(s) (*Geschäftsführer*) represent(s) and manage(s) the GmbH.
- The shareholders' general meeting (*Gesellschafterversammlung*) is sovereign and can issue directions binding the management.
- There are no requirements regarding nationality or domicile of the managing director.

Our Financing & Incentives team provides information and consulting services from the planning stage to the final implementation of the project.



Note: ¹ Please note that all time spans given are on average. If a European Commission approval is required, additional 6 months should be scheduled.