



INDIA LAW OFFICES LLP | JULY 2021

GERMANY

Market Entry Strategy Report

INTRODUCTION

Germany is in the heart of Europe and is the most populous nation in Euro zone and second most populous in Europe after Russia. It enjoys a strategic location advantage as it has borders with Denmark at the top, Poland and Czech Republic eastwards, Austria and Switzerland southwards, and France, Luxembourg, Netherlands and Belgium to the west side.



ECONOMIC ACTIVITY (2017)

GDP	EUR 3.26 trillion
GDP per capita	EUR 38,183
GDP per sector	Services 68% Manufacturing 26% Construction 5% Agriculture >1%
GDP Growth	2.2%
Inflation Rate	1.8%
Export of Goods	EUR 1,279 bn
Import of Goods	EUR 1,035 bn

Source: Germany Trade & Invest, 2017

GEOGRAPHY

Population and land area (2017)

Area	357,340 sq. km
Population	82 mn
Working Population	44.3 mn
Largest Cities	Berlin (3.5 mn), Hamburg (1.8 mn), Munich (1.5 mn)

INFRASTRUCTURE

Coastline	2,389
International Passenger Airports	22
Seaports	24
Inland Ports	250
Waterways	7,350
Roadways	230,000 km (13,000 km highway)
Railways	38,000 km

ECONOMIC STRUCTURE

No of companies	3.5 mn
Percentage of which are SMEs	99.6%
Total Turnover of all companies	EUR 6.33 trillion
Total SME Turnover	35%
Total Employees	29 mn
Total SME Employees	58.5%

Source: Germany Trade & Invest, 2017

POLITICAL PROFILE

Germany is a part of European Union that allows its citizens the freedom of movement and it forms the friendly relations with other nations through many alliances and partnerships. As per its constitution, ‘Basic law’ – Germany is defined as :

- a. Constitutional State
- b. Federal state
- c. A welfare state

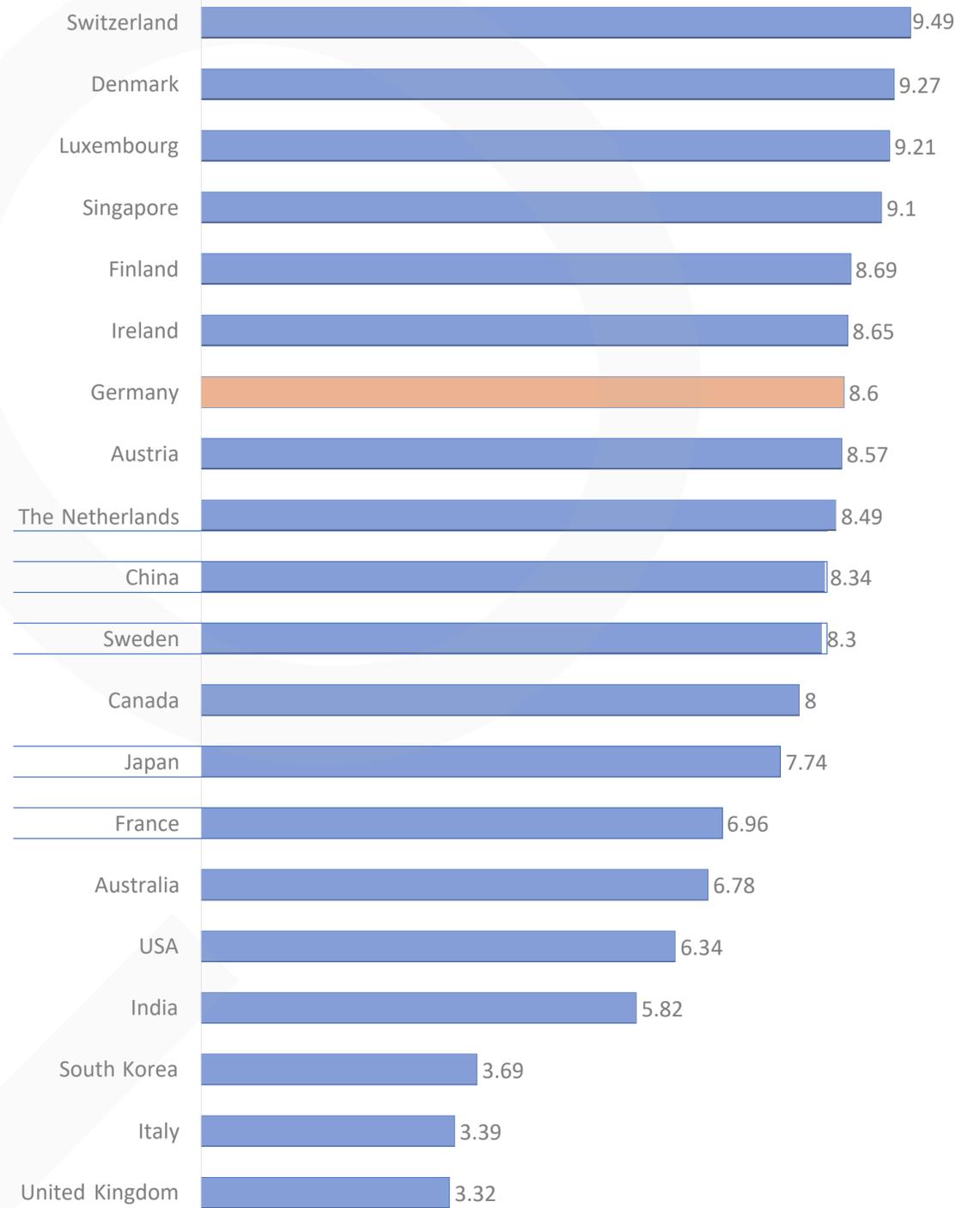
CONSTITUTIONAL ORDER

Form of Government	Parliamentary Federal republic
Head of State	Federal President
Head of Government	Federal Chancellor
Legislative Body	Bundestag (Parliament) and Bundesrat (Council of Constituent States)
Administration	16 state parliaments

Federal States

Each state in Germany has its own strength and weakness. Germany has a history and after the fall of Berlin Wall, the economies of the western and Eastern Germany have been merged and are close together. Now, these federal states offer many advantages to the investors who would like to open their businesses in Germany. There are in total 16 federal states in Germany with many unique offerings.

POLITICAL STABILITY, 2019



Source: IMD World Competitiveness Centre 2019

State	Key Features	Key Industries
Baden Wurttemberg	<ul style="list-style-type: none"> • Third largest state • Engine of manufacturing & export • Home to Daimler, Bosch, Porsche & SMEs • World class universities & more patent registrations 	<ul style="list-style-type: none"> • Automobile manufacturing • Mechanical Engineering • Electronic Engineering • Healthcare & Medical Technology
Bavaria	<ul style="list-style-type: none"> • State of the art transportation, telecommunication & energy infrastructure. • World class manufacturing and service industries. • Europe's strongest centres of economic growth 	<ul style="list-style-type: none"> • Manufacturing • Exporting • Banking institutions • Insurance companies
Berlin	<ul style="list-style-type: none"> • Gateway between East & West • Attractive quality of life • Home to large firms like Daimler, Siemens, Sony etc, 	<ul style="list-style-type: none"> • Fashion & Media • IT & Services • Healthcare • Bio-optical & medical technology
Brandenburg	<ul style="list-style-type: none"> • WFBB is point of contact for investors. • Central position helps getting access to markets in Europe • Trade taxes are favorable & offers best financial supporting structure in Europe • Attractive investment location 	Sector specific innovation clusters
Bremen	<ul style="list-style-type: none"> • Research & High tech landscape • Offers export quota over 50% • One of the 4 largest ports in Europe • Forefront in digital technologies • Mercedes-Benz- largest production facility 	<ul style="list-style-type: none"> • Maritime & Logistics • Automotive • Aerospace • Food & Beverage • Wind Energy
Hamburg	<ul style="list-style-type: none"> • Major international commercial hub • Major gateway to the world & international city • World's third largest civil aviation center • Heart of Germany's logistical infrastructure 	<ul style="list-style-type: none"> • Media • Marketing • IT • Life Sciences
Hessen	<ul style="list-style-type: none"> • 95% of foreign companies to opt for this state • Direct access to German & European markets • Innovation through Interaction : Theme of state • World's largest data exchange point • Home to almost 12500 companies 	<ul style="list-style-type: none"> • SMEs • International local companies
Mecklenburg-Vorpommern	<ul style="list-style-type: none"> • More than EUR 500mn already invested in • Shipyard & harbor infra. • Prime location between Scandinavia & Eastern Europe 	<ul style="list-style-type: none"> • Tourism • Lumber & Food processing • Logistics & Agriculture

ECONOMIC PROFILE

Germany is considered the largest market in Europe. As per Statistics 2018, Germany consists of 16% of the total European Union population and it contributes 21% to the total GDP of the Euro zone. Germany has a mixed economy which is diversified with focus on services and production. The economy injects the power of stability in the whole Eurozone. GDP of EU-28 grew almost 1% between 2010 and 2017, whereas the GDP of Germany grew at a rate of 2% even higher than France and Italy.

Global Player

The German exporting industry is stronger than its counterparts which is an important pillar of the whole economy. Germany is named as the world's third largest exporting country after China and USA. In 2017, the export figures recorded EUR 1.3 trillion as compared to the total imports amounted to EUR 1 trillion. The key industries that play an important role in the overall export scenario – chemical, Automotive, Machinery & Equipment. The main trading partners are France, UK, Italy, Netherlands and some international markets such as China, United States, Russia and Japan. In 2016, Asia was ranked number 2 for German exports gaining a share of 16% of all the goods from Germany.

COUNTRY	GDP (EUR bn)	SHARE OF TOTAL GDP (EU 28)	POP. (mn)	SHARE OF TOTAL POP. (EU 28)
Germany	3,263	21%	82.5	16%
UK	2,324	15%	65.8	13%
France	2,288	15%	67.0	13%
Italy	1,716	11%	60.6	12%
Spain	1,163	8%	46.5	9%

GERMAN ECONOMIC PERFORMANCE

	2017	2016	2015
GDP	2.2%	1.9%	1.7%
IMPORTS	8.3%	0.6%	4.3%
EXPORTS	6.3%	0.9%	6.2%

Source: Germany Trade & Invest.

COVID 19 IMPACT

Like any other country, Germany has been affected by pandemic, but the aftereffects will be less severe than expected. According to the updated data from the Federal Ministry for Economic Affairs and Energy, Germany's GDP fell by 4.9% in 2020 but the growth is expected to be 3.5% this year and 4.15% the next year getting Germany to reach the pre-crisis levels in 2022.

Germany was considered the safest investment destinations before the coronavirus hit the economy. The strong and stable economy in-fact helped Germany to deal with the crisis and now with the help of the government fiscal measures and financial aid package it is expected that will recover fast and maintain its position in the future.

Even, the outlook for FDI is positive. As per the survey among 550 decision makers conducted by EY European Attractive Index, 2021, Western Europe is seen as the most attractive region in the world once this crisis is over. In addition to that, Germany was ranked at the top place in terms of having the most credible and investment friendly COVID-19 recovery plans out of all the European countries.

Expected GDP in Euro zone countries				
Country	2019	2020	2021	2022
Germany	0.6	-4.9	3.4	4.1
France	1.5	-8.1	5.7	4.2
Italy	0.3	-8.9	4.2	4.4
Spain	2.0	-10.8	5.9	6.8
Poland	4.7	-2.7	4.0	5.4
Netherlands	1.7	-3.7	2.3	3.6
Belgium	1.8	-6.3	4.5	3.7
Hungary	4.6	-5.0	5.0	5.5
Austria	1.4	-6.6	3.4	4.3
Ireland	5.6	3.4	4.6	5.0

Source: European Commission

BUSINESS CLIMATE

First Choice among EU countries

As per Ernst & Young's European Attractiveness Survey 2019, Germany has its reputation as one of the most attractive business locations in the world. It has been ranked as number one among the EU nations by the international investors. According to the survey results, 69% of more than 500 international managers named Germany as one of the most attractive country making it the Europe's top FDI attracting region. Germany is home to the top five most attractive European cities – Berlin, Frankfurt and Munich. Another survey named AT Kearney's FDI Confidence Index showed the similar results in which Germany came out as the most attractive business location in Europe and second worldwide.

In addition to that, the survey multiple business location factors for Germany including infrastructure, workforce qualification, political and legal stability and domestic market accountable for the overall attractiveness of the region. Furthermore, 43% of the respondents already predicted Germany's attractiveness to grow in the future.

Free and Open markets

The market is open to various businesses and industries, and it also offers a regulatory free environment for the businesses to thrive. There is no difference between a German and foreign people with regards to the establishment of the business in the country. The overall framework provides the equal freedom of foreign trade and payment. There are literally no restrictions or so-called barriers to currency transfers, transactions etc.

Global FDI Magnet

Germany ranks among the leading countries worldwide in terms of attracting the Foreign Investment according to the United Nations Conference on Trade and Development (UNCTAD). As per figures, the country got EUR 820 bn in inward FDI stock in 2018. Investments from outside EU region have seen a tremendous growth with North America's contribution in overall FDI stock accounts to be 19% and Asia stands at 11% (German Central Bank, 2017).

AmCham Business Barometer, 2019

The American Executives highlighted the five factors that differentiate Germany from its competitors.



Source: American Chamber of Commerce. Germany, 2019

World's Top Ranked Infrastructure & Logistics Hub

Germany's infrastructure is one of the top key factors for its attractiveness to the foreign investors. The country provides an easy access to the domestic and international markets through its wide transportation network. Germany has dense network of airports including 21 international airports, more than 250 inland ports and its highway system has one of the highest kilometer density levels in Europe. According to the research conducted by the Centre for Applied Research on Supply chain services, Germany has also a big share of the overall Euro logistics market as there are maximum number of goods pass-through Germany than any other European nation.

Considering its geographical location, Germany has its seaports in the north which are an important gateway for trade with UK, Scandinavia and Baltic states. In the west, the country has an extensive network of roads and railway links and inland waterways that connects with France and the Benelux countries. Europe's second largest port is in Hamburg, the world's second largest port in terms of transfer of vehicles is in Bremerhaven and Duisburg has the Europe's largest inland port.

To the South, the country has string ties with Switzerland and Austria and rail and roads connects Germany to the other Balkan states. Turning Eastwards, the countries such as Poland, Czech Republic, Slovenia and Slovak Republic and Hungary are within reach.

Germany's logistics infrastructure is world class and global leaders operate in Germany such as Deutsche Post which is known as the world's largest logistic provider in Germany. The other company, Lufthansa Cargo is one of the world's leading global air freight companies.

First Class Infrastructure

EU's new geographic center is in Germany, providing rapid and easy access to the European markets



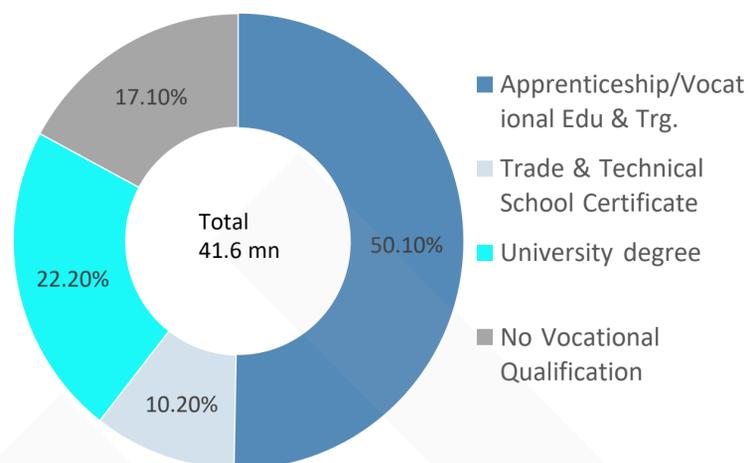
Quality of Infrastructure 2018

Rank	Country
1	Germany
2	Sweden
3	Belgium
4	Austria
5	Japan
6	Netherlands
7	Singapore
8	Denmark
9	United Kingdom
10	Finland

Highly Skilled Workforce

The German workforce makes the largest labor pool in EU with more than 41 million people. The workforce is highly skilled in terms of vocational training received with more than 80% of the population possesses technical degree or certificate which benefits the companies operating in Germany. According to the OECD statistics, Germany has the highest rate of graduates with the doctoral degree in the natural sciences and in engineering.

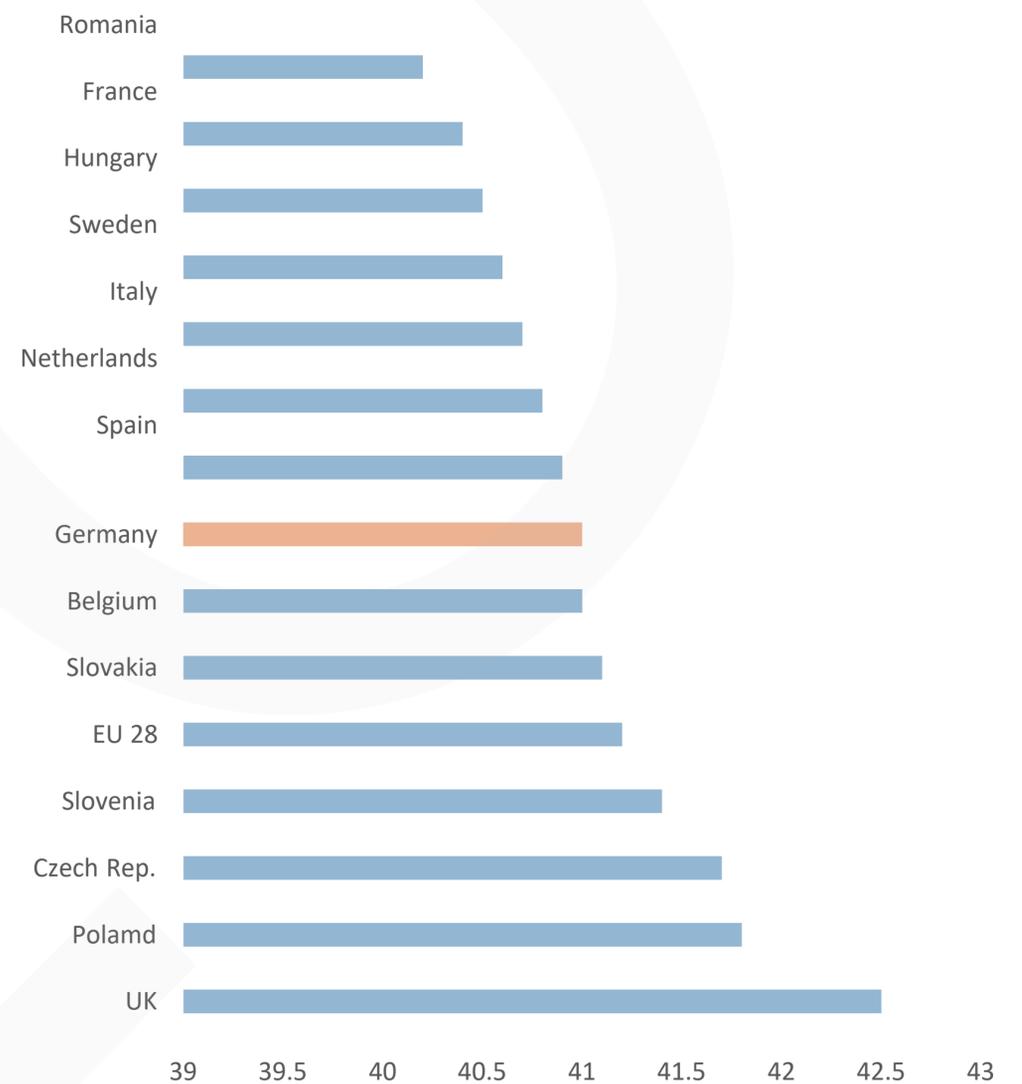
Labour Force in Germany by Vocational Qualification Attained (2017)



Motivated Employees

The German employees are considered having higher than average employee motivation levels. According to the IMD World Competitiveness Yearbook, German motivation levels are higher than those recorded in US, China, Russia, France and UK. Germans work for more than 41 hours as full-time employees.

Average no of weekly working hours for Full time employees (2018)



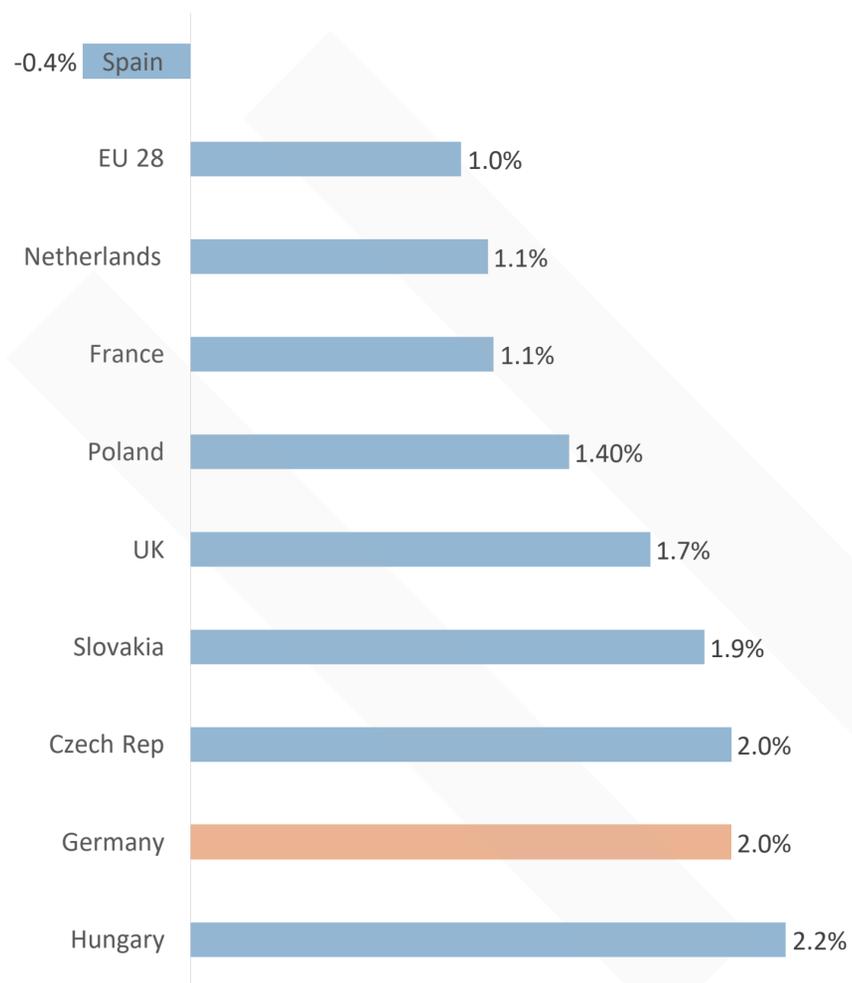
Source: Eurostat 2020

Source: American Chamber of Commerce. Germany, 2019

Sound Labor Costs & Production standards

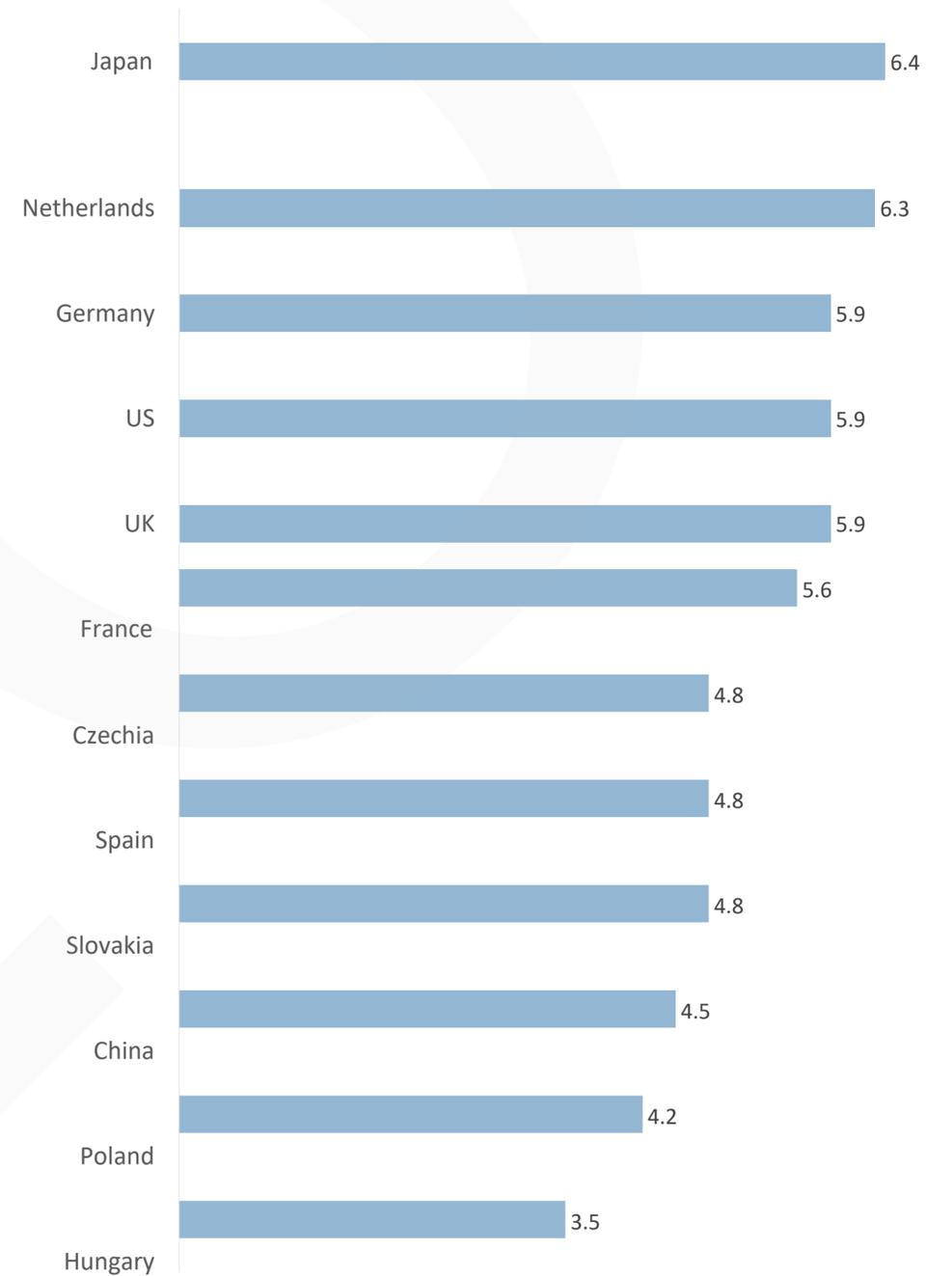
The labor costs have risen in the most European countries with an annual average growth rate being 2.3% between 2016 and 2019. In comparison, Germany experienced a lower labor cost rise with just 2.8% whereas some countries especially in eastern Europe experienced an increase of about 6.6%. This whole environment created a genuine competitive cost advantage for Germany particularly in the manufacturing sector. As per the studies, Germany is known to have the most efficient technology applied leading to the highest productivity due to efficient production standards.

Average Annual Change of Nominal Unit Labor Cost based on persons (2009-2018)



Source: Eurostat 2020

Assessment of sophistication of Production Process 2017



Source: Eurostat 2019

MARKET TRENDS

Industrie 4.0

Industrie 4.0 means intelligent networking of machines and the industry processes using information technology. Germany is no doubt the world's leading Industrie 4.0 nation and has positioned itself as a strong international brand. The Internet of Things can change the way industries work and this concept promises to increase the manufacturing productivity by more than 50% and decreases the number of resources required by almost half.

Germany's market for the Industrie 4.0 solutions increased from EUR 4 bn in 2015 to EUR 6 bn in 2017 as per the figures. Hardware, software and IT services all recorded a double-digit growth in 2016-17, a cumulative growth of more than 20%. The higher levels of growth are expected in the immediate future in this segment. The extra value added potential of up to EUR 425 bn is forecasted in Germany for the duration up to 2025.

SOLUTION SEGMENTS

The growth is stronger in software sector.

IT Services is the biggest market

Hardware is the smallest market

MAJOR APPLICATION INDUSTRIES

Machinery & Equipment

Microelectronics

Automotive & Lightweight
Technology

ICT & Software

DIGITAL LEADER

It has been recorded that more than half of the German companies use or planning to use Industrie 4.0 applications in the future. As per the Stufen German Industrie 4.0 Index 2017, two thirds of the companies have already deployed the applications, whereas in manufacturing sector, three in four companies use smart services like cloud computing solutions. The long-term success of Industrie 4.0 lies in the technological leadership in the fields of manufacturing, automation and a strong industrial network in Germany.

Automotive & Lightweight Technology sectors

As per McKinsey report, there is a need to increase the lightweight components levels on the part of the automobile manufacturers from 30% to 70% by 2030 in order to have the more efficient engine technology. The Industrie 4.0 has the potential to transform the Germany's automotive sector and as per estimates, the domestic market in Germany for Industrie 4.0 solutions grew by more than 20% to over EUR 1.2 bn in 2016-17.

The Staufen Greman Industrie 4.0 Index, 2017 explained that all the auto companies have an intent to use the smart solutions in the future. The factors leading to open acceptance of the solutions are internal efficiency (97% respondents), cost reductions (89%) & transparent process (86%). The role of the predictive maintenance is going to be huge in the automotive production in the next 2-5 years.

Machinery & Equipment sector

There is a huge growth opportunity for the M&E sector in Germany. As per Bitcom digital association, the gross value added is estimated to be around EUR 77bn in 2013 which is forecasted to be rise to around EUR 100bn by 2025 due to the impact of the Internet of Things entering the scenario. The robotics & automation industry is one of the most

Innovative in the total M&E sector with the R&A technology in the space.

Microelectronics sector

The electronic and microelectronic components provide essential toolkit for the Industrie 4.0 objectives – Flexibility, Increased Productivity & Reduced Costs. 20% of the companies in the domestic sector already are using self controlling production facilities. The increased levels of automation have created a huge demand in this segment. As per the ZVEI electrical industry trade association, automotive semiconductor segment recorded a rise in growth from 7.7% to 11.6% between 2011-2016. From the international perspective, the demand for the semiconductors and electronics rose to USD 35 bn by 2014 and is forecasted to further grow by 5% annually in the future.

ICT & Software sector

There is a significant market potential for the ICT providers to support new businesses and service models. It has been observed that around 90% of the industrial production processes are supported by the ICT. As per the study conducted by the IDC for European Commission, EU data economy value is forecasted to grow to EUR 430 bn in 2020 with Germany accounting for more than one quarter of the market volume. The opportunities exist for the businesses which are into security and compliance fields and would like to tap into the data protection for their clients.

OTHER BUSINESS OPPORTUNITIES

Mobility

1. Aerospace Industry

This sector is by far the most innovative and best performing industries of Germany. The revenue has more than quadrupled in the past decade to over EUR 40 bn in 2019. Germany is the home to the leading companies in this industry both in the civil and defense market segments. The factors contributing to this powerful industry are its manufacturing base, availability of the talented workforce and unique cost advantage for the investors. The two major passenger airlines and one of the world's biggest freight and logistics carriers can be found in Germany.

Key Facts:

Turnover – EUR 40 bn in 2018

More than 7% average annual growth since mid 1990s

Total employees - 111,000; > 50% are engineers

220 companies and related institutions

One of Germany's most innovative industry sectors

10% (EUR 4bn) of annual revenue spent in R&D.

Market Trends & Opportunities:

The revenues of this industry in the beginning of the decade were just EUR 5 bn which then increased to EUR 40 bn in 2017, remained stable in 2018 and then increased to EUR 41 bn in 2019. But pandemic had a drastic impact on the overall industry. With this pandemic's severe impact, aerospace industry is expected to decrease between 25% and 35% in 2020 resulting into the annual revenues of USD 30.38 bn(EUR- USD – 1.14).

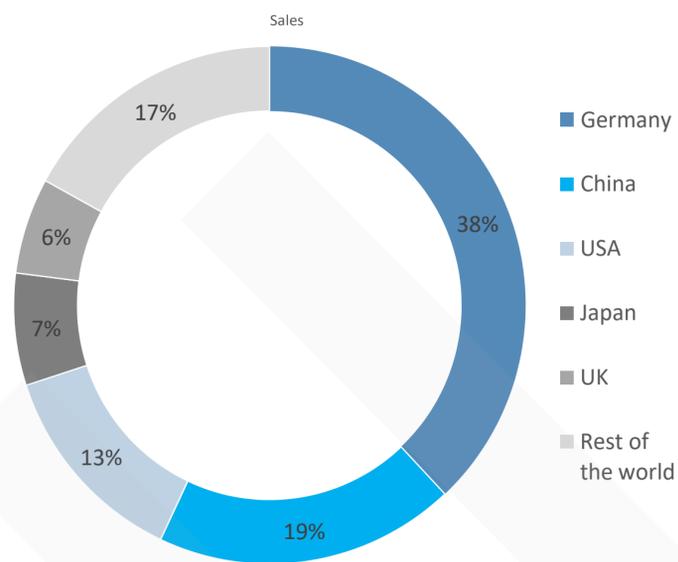
The current demand for US aerospace technology in Germany is dominated by the order intake from Airbus and from Boeing but by a smaller degree with 70-80 suppliers in Germany. The market entry into this industry can be made through the suppliers of Airbus & Boeing. With 80% of the production activity of Airbus being outsourced, the company works with almost more 25K suppliers worldwide.

The German aerospace manufacturers have been trying hard to mitigate the impact of the COVID-19. For instance, Airbus reduced its workforce in Germany by 5100 and 1700 in UK only. Also, the company reported 49 deliveries in 2020 as compared to the previous year. All the German companies have been impacted and need some adjustments accordingly. Even when the economy recovers, it would be hard getting access to the German suppliers and will depend on multiple factors. Which are quite uncertain at this time.

2. Automotive Industry

The German automotive industry is an important part of the global automotive industry. According to the study conducted by Oliver Wyman and German Automotive Industry Association, OEM share of global R&D value creation will decline from 60% to 47% in 2025. The government has started the initiative to shift to the electric mobility which will prove to be the major innovation driver for the overall industry. Germany is expected to take over China in EV category.

Premium Car Production by Country 2019



Source: GTAI Research, 2019

To boost e-mobility, an additional EUR 2. bn will be allocated to existing infrastructure programs to build charging stations and support battery cell production. The ever-changing consumer behavior and the initiatives will prove beneficial for the automotive industry in the future. This will also help attracting the investors across the world especially new investors in this sector.

Key Facts:

Largest industry sector in Germany with turnover EUR 379.3 bn in 2020 accounting for 20% of total industry revenue.

No. 1 automotive market with 25% of all passenger cars manufactured in Germany & 20% new car registrations (2.9 mn)

One in five cars have the German brand.

Home to 42 automobile assembly and engine production plants with capacity of over one third of total automobile production in Europe.

Automotive R&D expenditure accounted for 35% of total R&D expenditure in Germany in 2018.

Eighteen of the world's top 100 automotive suppliers are German companies.

75% of cars produced in Germany in 2020 were destined for international markets

More than 40% of patent registrations in Germany originate from automotive industry.

R&D personnel within this industry reached around 120K.

Source: VDA and ACEA 2020

Healthcare and Life Sciences Industry

Healthcare market growth is at the rate of 4.1% over the past decade.

Healthcare spending exceeds EUR 400bn (2019) excluding the wellness and fitness expenditure.

Healthcare market exports exceeds EUR 126 bn making it one of the largest economic sectors.

The global market for the digital health is expected to grow to > USD 200bn through 2020

The German market for the heart failure solutions to grow by 16% through 2022

It is the third largest manufacturing nation with 9.9% share of the medical technology production.

Digital Economy

There are 75% of the German companies that have incorporated the digitalization into their business models which has put the country among the leading international developers in the digital economy. Using the digital technology, these companies have been doing well extending the exciting opportunities for the international ones.

a. Advertising

The revenues of this industry in the beginning of the decade were just EUR 5 bn which then increased to EUR 40 bn in 2017, remained stable in 2018 and then increased to EUR 41 bn in 2019. But pandemic had a drastic on multiple factors. Which are quite uncertain at this time. Germany is Europe's second biggest market in this category.

b. E-commerce

According to the Federal Statistical Office, around 50 mn people prefer to buy goods online which is almost three quarters of the total internet users. The sales of e-commerce goods grew annually by 11.4% in 2018 amounted to EUR 65.1 bn. This ranks Germany at the fifth place after US, Japan, China & UK. Germany is the leader in this area as more than one in eight euros of pure e-commerce sales is in retail sector. Current trends in the market are in food, furniture, personal care and nichemarket space.

c. Fintech

Germany is the fourth fintech market in the world and important market in Europe. This place is becoming attractive to many international fintech players and are starting to establish their operations in Germany in order to serve the large domestic market. The biggest advantage is that the services can be provided to other countries as well based on EU passporting system. The Covid-19 crisis has accelerated the use of cashless payments and it has been reported that almost half of the Germans have adopted this trend which will provide a bigger opportunity for the players in fintech space.

FDI PICTURE

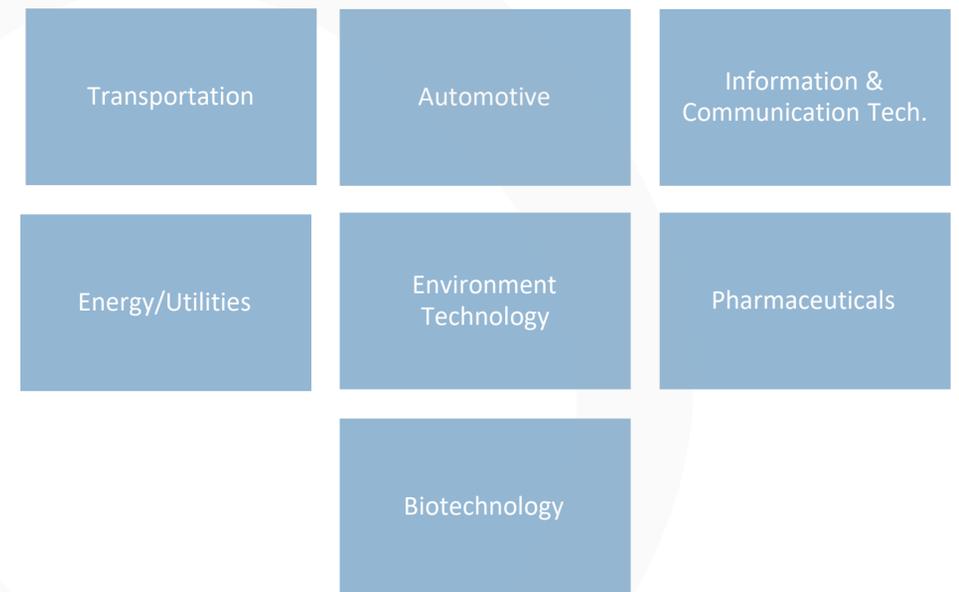
As per 2018 numbers, more than 2000 companies opened their businesses in Germany. The survey conducted by the American Chamber of Commerce states that there has been a positive responses recorded by the US businesses operating in Europe. In terms of how attractive the German Investment environment is, 81% of the American companies replied with either good or very good. 97% want to expand or maintain their operations in Germany in the next 4-5 years.

The other famous index, AT Kearney's "FDI Confidence Index" confirms that the Germany is the most attractive business locations in Europe.

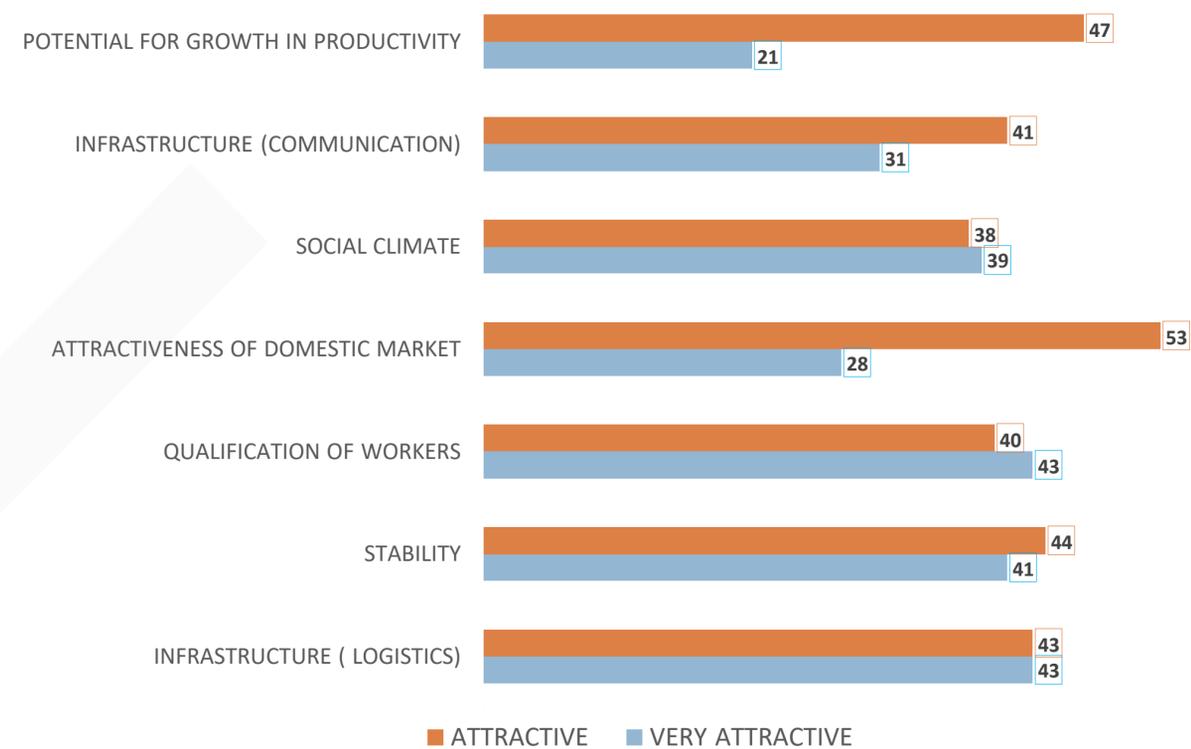
COMPETITIVENESS STUDY	GERMANY'S RANK IN EUROPE	GERMANY'S RANK WORLDWIDE
Ernst & Young European Attractiveness Survey, 2017	1	N/A
AT Kearney FDI Confidence Index, 2017	1	2

The factors that helped Germany receive the excellent remarks as the business location are infrastructure, workforce qualification and the attractiveness of domestic market. 43% respondents in Ernst & Young study stated that the attractiveness is going to grow in the coming future. Almost two thirds of the companies are satisfied that Germany's friendly policies will attract more international investors in the future.

GROWTH SECTORS



STRENGTH OF BUSINESS GERMAN LOCATION (2019)



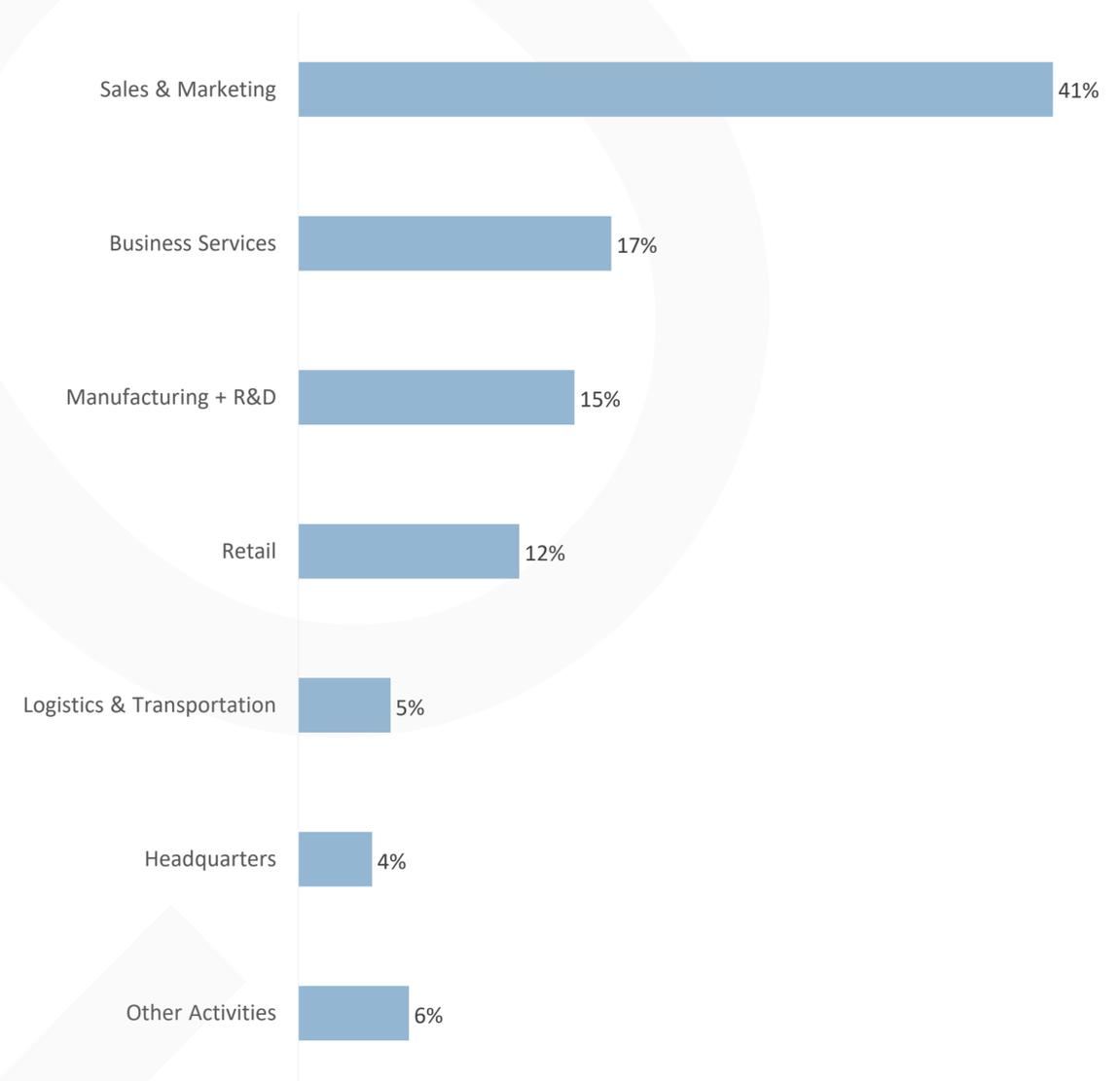
SOURCE: Ernst & Young, 2019

Germany is among top ten nations as a recipient of FDI as stated by UNCATD. As per German Central Bank statistics 2017, 60% (EUR 315 bn) of all FDI comes from EU and 9% from non-EU countries. Investments from the outside EU region have been growing in the past with North America's share being 19% while Asia holds 11% share. It has been observed that Asian countries have been seen investing in Germany more recently. Furthermore, Germany is the world's largest recipient of Chinese FDI projects.

Interest in Green field Investments

As per data collected by FDI Market database, Germany recorded FDI from almost 7100 foreign nations with 9000 investment projects between 2010 and 2018. Germany is ranked fourth in terms of attracting FDI projects in the world. These results are based in greenfield project announcements (expansion & JVs). USA share stands at 20% out of all the projects received, UK stands at 9% and China at 7%. The leading sectors are ICT & Software industry, business and financial services. The most attractive foreign investment sectors are machinery & equipment, textiles, consumer goods and chemical industries.

FDI Projects in Germany by Business Activity (2010 – 2018)



SOURCE: FDI Markets 2019



SOURCE: GTAI, Nov 2020

SETTING UP A BUSINESS IN GERMANY

Anyone can establish a business in Germany irrespective of their nationality. There are no barriers for the foreign investors to establish a business in Germany. But the local trade office registration requires that the local representative of the business should be in Germany.

Company Forms for setting up business activities in Germany

Subsidiary

- Establishment of a new legal entity
- Different legal form available e.g GmbH, AG

Branch Office

- No establishment of a new legal entity
- Registration of a German physical business presence

SUBSIDIARY

A Subsidiary is an autonomous company established and held by a parent company. In subsidiary system, the corporation is holder of the rights and obligations instead of any individuals. The corporations are in fact liable to corporate income tax and the trade tax. The corporation can be established by one or more shareholders.

GmbH:

The most common corporate form is the private limited liability company (Gesellschaft mit beschränkter Haftung – GmbH) which means high flexibility with a few obligations. The other feature of GmbH is that the liability of the business activities is limited to the assets of the GmbH.

AG:

This form is for the larger companies with many shareholders. If the company qualifies for the stock listing, then it will be easier to attract the capital. The company enjoys the highest reputation.

BRANCH OFFICE

Any foreign company that has its head office and registered business outside of Germany can establish its branch office in Germany. The main role of establishing a branch office is to establish a presence in Germany and maintain contacts with closed business partners.

Legally, the branch office is the part of the head office and is subject to the law governing the head office. If there are any obligations incurred by the branch office, it will be the legal responsibility of the foreign head office. There are two forms of branch establishments which require at least one representative be in Germany.

1. Autonomous Branch Office:

It has its own management with executive powers, a separate bank account and independent business assets. It is responsible for the tasks that exceed administration support.

2. Dependent Branch Office:

It focuses on maintaining the business contacts and business development activities in Germany. It is responsible for support and implementation related tasks and as the name suggests that it is entirely dependent on the head office.

The branch office is subject to taxation in Germany and double taxation agreement is applicable as it is considered as the permanent establishment especially the autonomous branch office.

CORPORATE TAXATION

Germany offers a competitive tax rate as all the corporations including GmbH, AG and permanent establishments are subject to the corporate tax. The income tax meant for the corporations has three elements:

- a. Corporate Income Tax
- b. Solidarity Surcharge
- c. Trade tax

CORPORATE INCOME TAX

It is a flat nationwide tax applied at the rate of 15% of the taxable income of the companies. Taxable income forms the base for the tax to be levied.

Solidarity Surcharge:

It is a fixed and flat component of a company taxation. This tax is added to the corporate income tax at a rate of 5.5% of the corporate income tax rate, not the income. When added together, the total taxable rate is calculated to be 15.83%.

Trade Tax

Trade is regulated by Federal law, but it is actually a municipal tax. One can find that the trade tax is same for every business within one municipality. But each municipality determines its individual tax rate. This individual trade tax rate of every single municipality does impact the overall tax burden. As per 2019 figures, the German average trade tax rate is 14.07%. The trade tax rate is higher in urban areas than in rural areas. And, the solidarity surcharge is not added into the trade tax.

Calculating Trade Tax Rate:

The multiplier stipulated individually by every municipality

The tax base rate of 3.5% across Germany.

The taxable income is multiplied with the tax base rate resulting into the tax base amount which is then further multiplied by the applicable municipal multiplier. This multiplier is set by each municipality and on an average, it is slightly above 400% but not less than 200%.

Model Calculation – Trade Tax Rate

A GmbH with an annual taxable income of EUR 1,000 is based in city A

City A has a multiplier of 400%

The tax base rate amount for GmbH is 3.5% of its annual taxable earnings or EUR 35,000.

EUR 35,000 is multiplied by the municipal multiplier of 400% resulting into total trade tax amount of GmbH of EUR 140,000.

ENTRY AND RESIDENCE

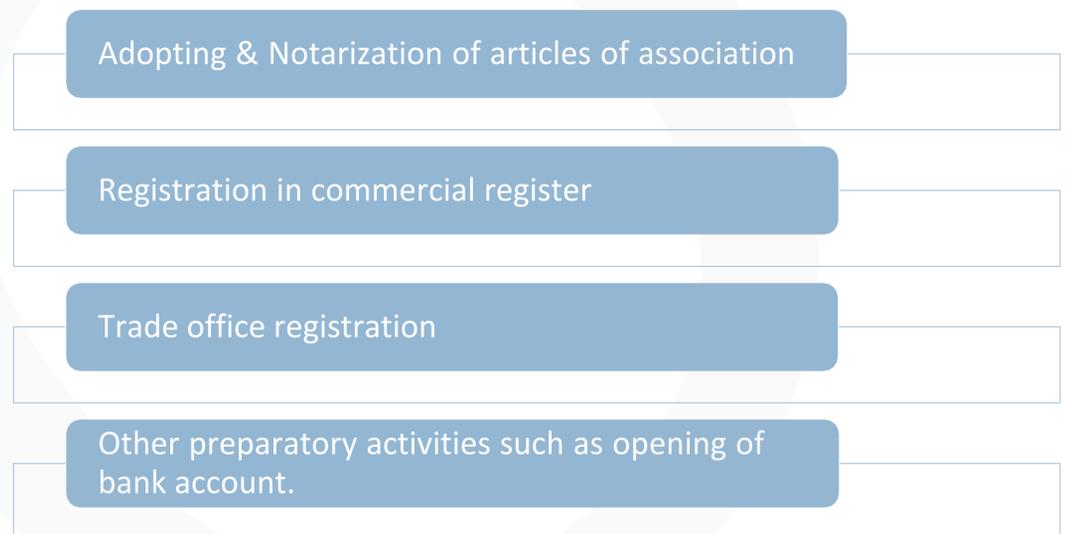
There are generally three kinds of residence titles subject to the length of stay and the business activity in Germany.

- a. Visa (Schengen visa & national visa)
- b. Residence Permit
- c. Settlement Permit

The visa allows the holder to stay for a short-term period of up to 90 days in Germany. A residence or settlement visa is for the longer stays which includes more than 90 days or to work for an employee or on self employed basis. Residence visa is not required for setting up of a business entity in Germany. However, it will be required in case the foreign nationals run the business on-site.

Visa for Incorporation

During the formation phase, only the Schengen business visa would be sufficient to carry out the business activities which will enable the person to stay for up to 90 days. If the phase exceeds 90 days, then the residence permit must be applied. The incorporation activities include:



<u>Residence Title</u>	<u>Entitlement</u>	<u>Foreign nationals who require Residence Title</u>
Visa (Schengen & National Visa)	Entry into Germany followed by a short Term stay upto 90 days	Non EU citizens excluding nationals from Argentina, Austria, Brazil, Japan, UK, USA etc.
	Entry into Germany followed by a long term stay for which additional settlement permit is required.	Non EU citizens excluding nationals from Australia, Canada, Israel, Japan, UK & USA
Residence/Settlement	Long term stay with intention to take an employment	Non EU citizens excluding nationals from Iceland, Norway, Liechtenstein & Switzerland

Residence Permit for Self-Employment

The foreign national who would like to manage a company on-site based on self employment is required to have a residence permit. This is granted if the business has secured financing and will have a positive impact on the overall economy. The residence permit is limited for upto three years and after that settlement permit can be granted if the investment project has been able to successfully generate profitable cash flows.

Assessment factors on which the visa is granted:

- a. Feasibility of the business idea
- b. Entrepreneur's total experience
- c. Level of capital investment
- d. Economic interest or regional need

Definition of Self employed

- Entrepreneurs including freelance professions
- Partners in a partnership
- Majority shareholders of a GmbH who are also managing directors of GmbH

Residence Permit for Employment

Residence permits for the qualified professionals are issued when applicants have a job offer in hand and a qualification degree approved by the Federal Employment Agency. The residence permit can be granted for up to four years and permanent settlement is granted after four years. The new Skilled Immigration Act that came in March 2020 opened the German market to skilled professionals outside the EU market.

EU Blue Card:

It allows the qualified professionals with a university degree to be fast tracked into the employment in Germany. Non EU citizens must have the job contract with salary of at least EUR 56,800. The permanent settlement can be granted after 21 months if the foreign national attains the German language proficiency level.

ICT Card:

It means the Intra Corporate Transfer from the entity outside the Europe to Germany. Employees are eligible if they are non EU managers and have been employed for minimum six months.

INCENTIVES

Grants for investment/personnel

Germany offers Investment Grants (GRW program) of up to 20% to support new production or service facilities.

- **Border area to Poland: max. 20%** for large enterprises
- **C Region: max. 10%** for large enterprises
- **D Region: max. €200k** for large enterprises

Eligible costs are either project-related capital expenditures or wage costs over two years.

Eligible projects for large enterprises

New facility	Greenfield project
Acquisition of closed facility	Eligible costs = (market prices of assets) – (acquisition costs of assets that have been funded before)
Diversification	New products (new NACE code)
Process innovation	New or substantially improved production methods
Environmental investment	Surpassing national and E.U. environmental standards

Loans/grants for energy efficiency measures

KfW loans in combination with attractive repayment grants.

Buildings
 Waste heat
 Production tech

→

KfW loans:

max. €25m

interest rates starting at 1.0%

all company sizes

+

Repayment grants

→

max. 5–45%

SOURCE: German Trade and Invest, March 2020

Got any Questions?

Thank you for reading the report! In case you have questions or need assistance in Germany, please click the below link and fill the form. Our team will review the information and get in touch with you shortly.

[Contact Us](#)

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