



There are many reasons why a global expansion into Germany can be a smart move. Germany accounts for [one-fifth of the European Union's total GDP](#), and it's home to the largest consumer market in the EU. If you're interested in staffing a new German branch or subsidiary, or even if you're just interested in taking on a few remote German employees, you'll want to take some time to learn about employment practices and legal requirements in Germany. We have some tips for hiring in Germany to assist you.



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WHAT TO KNOW BEFORE HIRING IN GERMANY

- Culture and Language Difference
- Compensation Laws
- Working Hours and Required Leave
- PAYE and Social Security
- AUG Licensing Requirements



What to Know Before Hiring in Germany

Before you begin recruiting German employees, you should research employment laws in Germany. Here are some key considerations to take into account.

1. Compensation Laws

In the past, Germany allowed private groups and trade unions to dictate minimum wages, but in 2014, the German government set its first ever minimum wage under Mindestlohngesetz, which translates to the Minimum Wage Act. The federal [minimum wage is currently €9.35 per hour](#), and that amount is set to increase in small increments up to €10.45 per hour in July 2022.

Though there is a law that limits the amount of overtime a German employee can work each week, there is no law that specifies overtime pay. This means employers must determine how much they will pay employees for overtime and include that in their employment contract. Another thing left up to employers is bonuses. There is no legally required 13th-month bonus, but some employers choose to give their employees an annual bonus.

2. Working Hours and Required Leave

Specific legal requirements influence the workweek in Germany. The workweek [cannot exceed 48 hours a week \(6 working days/week\)](#), and individual workdays cannot exceed eight hours. Overtime pay is [capped at 12 hours per week](#). Most Germans work 40 hours per week or fewer. Germans are entitled to nine public holidays that occur across the calendar year. Individual states in Germany may have additional holidays of their own.

Employees are also entitled to paid vacation and sick leave. Bundesurlaubsgesetz — the Federal Holiday Act — dictates that employees get [20 days of leave or 24 days](#) if they work six days a week instead of five. Most employers offer more than the required amount of leave. Employees must use their leave within the calendar year and cannot carry over unused leave, with some exceptions. Carryover is only allowed due to operational reasons, and only with the employer's permission. When employees experience an illness, they are

legally entitled to six weeks of paid leave per year as long as they can provide a doctor's note. After this time period, employees can receive compensation through their health insurance.

3. PAYE and Social Security

Germany uses a pay as you earn (PAYE) model that requires employers to calculate and deduct the necessary withholdings for their employees' paychecks. This includes income taxes, the rate of which will differ from employee to employee, along with four types of insurance that are a part of the German Social Security System. These insurance contributions follow certain percentages, up to a specified cap.

Pension insurance and health insurance are the two main types of insurance employees pay into. Employers match the contributions employees pay. The same is true for unemployment insurance and nursing care insurance, which make up a much smaller percentage of social security contributions. Employers have a fifth type of insurance to contribute to, which employees do not pay into: accident insurance. In the end, employers contribute an [amount equal to roughly 20.7%](#) of an employee's salary to go to social security.

4. AUG Licensing Requirements

Employers who want to partner with a professional employment organization (PEO) should also be aware of [Arbeitnehmerüberlassungsgesetz \(AUG\) licensing requirements](#), specified under the Act on Temporary Agency. Updated regulations from 2017 dictate that seconded employees will become the end-company's employees by default after 18 months of working on their projects. To avoid this scenario, the company of record must have an AUG license and must comply with requirements to keep the employee on their payroll.

This means it is critical that companies looking for a global [Employer of Record \(EOR\)](#) to partner with in Germany limit their search to companies that are fully compliant with AUG licensing requirements. Globalization Partners has the licensing and expertise to ensure employees don't inadvertently shift from our employment to your company's, suddenly

requiring you to have a legal business presence in Germany.



The Cost of Hiring an Employee in Germany

Whenever you're hiring new employees, it's important to take hiring costs into account. When you're hiring in a new country, this process typically entails more costs than hiring in your home country. One study found that the average hiring cost for [skilled workers in Germany is €4,700](#), or more than eight weeks of pay. That number could easily be higher for a company that is expanding into Germany for the first time — unless you work with an EOR. Some costs to budget for include:

- **Tax and legal services:** Germany is an excellent country to expand to because of the economic opportunities there, but not because of the ease of doing business. Germany enforces strict laws that make setting up your business and handling taxes and payroll a complicated, drawn-out process. Therefore, you need to hire local experts on tax and employment law who can ensure you are legally compliant in your hiring and employment process.
- **Company registration:** To have a legal business presence in Germany, you'll have to pay the necessary registration fees to establish your business.
- **Job advertisement:** Advertising your job opening can also add to your costs, whether you're publishing an ad in a newspaper or posting online. The good news here is that

there are some online job portals in Germany that will allow you to post a job ad for free.

- **Hiring agency:** Working with a local hiring agency in Germany can help you identify the best candidates more quickly and simply than if you handled the process on your own. Of course, going through a hiring agency will add to your hiring costs.
- **Hiring committee:** If you opt to create an internal hiring committee instead of partnering with an agency, you'll have some costs here, as well. The hiring committee's working hours spent to produce and publish job ads, conduct interviews, and more all add to your total hiring costs.
- **Travel costs:** Expanding your business and hiring new employees in Germany can also involve some travel costs, especially if you want to conduct interviews in person or if you plan to set up an official branch or subsidiary of your business.
- **Translation services:** You may also have to hire a translator to help you fill out legal documents or communicate with job candidates.
- **Legal screenings:** It is up to employers to ensure they only hire people who have a legal right to work in Germany. This means you should check a candidate's citizenship or work visa. You may also need to pay third parties to conduct background checks. Keep in mind, however, that German law limits background checks and personal inquiries to information that is directly relevant to the job.

What Does a Company Need to Hire Employees in Germany?

Before you can start hiring someone in Germany, you need some foundational things in place. The exception is if you work with an EOR since they will already have a business entity that is legally recognized in the country and can serve as the Employer of Record for your German employees. Without an EOR, you will need:

- **Legal business entity:** Before you can hire employees, you need a legal business entity in Germany. For most foreign companies, the two primary options are to set up a subsidiary or a branch. A subsidiary is more independent while a branch is more closely connected to the parent company.
- **Tax and social security registrations:** Establishing yourself as a company will also involve getting an employer number so you can register with the country's social security and tax authorities. This process can take a number of weeks, so make sure you begin early so you're ready to set up payroll for your new employees.
- **German bank account:** Establishing a bank account in Germany is not technically a

requirement, but it is a smart move since it simplifies things and gives the government a place to send any reimbursements you may be entitled to.

- Licenses or permits: Depending on the industry you're in, you may also need to obtain specialized licenses or permits that allow you to hire employees and operate your business legally.



STEPS TO HIRING
IN GERMANY

- Advertise Job Vacancies
- Find the Most Qualified Candidates
- Conduct Interviews
- Send Contracts to Your Top Candidates
- Onboard Your New Hire

Steps to Hiring in Germany

As we've seen, you need to complete several tasks before you begin the hiring process. Once you're ready to start hiring, you'll move through some steps to find new employees and invite them onto your team. Here are the key steps for how to hire in Germany.

1. Advertise Job Vacancies

Create a job ad for every open position you have. Make sure you let candidates know what sort of qualities and qualifications you're looking for and provide as much information as you can about job duties without getting overly detailed.

You should also let job seekers know whether you are hiring remote employees in Germany or whether they would be working in an office. If you're interested in hiring German speakers

who may not be proficient in your company's native language, then be sure to post your ad in German. This may mean procuring translation services to ensure you successfully translate your ad into German before publishing it.

2. Find the Most Qualified Candidates

Once job seekers have submitted their applications, you can begin to evaluate their credentials and determine which applicants are most likely to be a good fit. Narrowing down the list of candidates before you begin interviews will help you home in on the ideal candidates more efficiently.

Here, too, you may need help from a translator if applications are in German. If you're used to seeing succinct resumes, be prepared for German applicants to submit more detailed curriculum vitae (CVs) that leave out very little if any of their education and employment history.

3. Conduct Interviews

Now you should reach out to your top candidates to schedule interviews. If you're hiring remote employees, you may want to conduct these interviews online or over the phone. Keep in mind the time difference if applicable. Germany [is in Central European Time](#), so if your office is located in Eastern Standard Time in the United States, for example, you'll need to schedule interviews for the morning, which will be late afternoon for candidates in Germany.

For all interviews, whether virtual or in-person, be careful not to violate candidates' right to privacy or ask questions that could be deemed discriminatory since the German government takes these issues very seriously. This includes questions about family planning, political affiliation, religious beliefs, and other personal topics that are not directly related to work.

4. Send Contracts to Your Top Candidates

Once you've determined who you want to join your team, extend a formal job offer and draft

a contract for the candidate to look over. This is a key step in hiring practices in Germany since employment contracts are mandatory.

Your contract should focus on aspects of employment that are not already legally dictated. For example, what are your policies for working overtime, and do you offer paid time off or other benefits beyond the minimum requirements? You should also state clearly what an employee is expected to do in their role and how employment termination would work.

5. Onboard Your New Hire

Now you can onboard your new hires, having them fill out all the necessary paperwork to establish their PAYE withholdings. This will also involve any internal paperwork you have for new hires and any training they need to complete before starting at their new job.

If you work with an EOR like Globalization Partners, then you can hand over the reins once you recruit your new hires and allow the professional employment organization to take care of onboarding and all other payroll, HR, and compliance matters.