

As a thriving European market, Germany is a great place to expand your business operations. Before you start to hire employees, it's important to familiarize yourself with [local labor laws](#) and payroll regulations to stay compliant, avoid costly fines, and reduce unnecessary downtime.

Taxation Rules in Germany

Germany has various local tax laws that can be confusing for those living outside the country. As you set up your Germany payroll, pay attention to individual income tax (IIT) for employees, social and health insurance costs, payroll tax, sales tax, withholding tax, and business tax.

The corporate income tax in Germany is 15% plus a 5.5% surcharge of that tax. The country operates under a progressive income tax scheme where the tax rate varies from 0% to 45% for those making 274,612 EUR or more (as of 2021).

You'll also need to contribute to the German Social Security System, which consists of five parts:

- Health insurance
- Nursing care insurance
- Unemployment insurance
- Pension insurance
- Accident insurance

You will split these contributions equally with your employees — except for accident insurance, which is entirely covered by the employer. Plan to contribute a total of around 20.7% to the social security system on top of an employee's salary.

Germany Payroll Options for Companies

Employers have several different Germany payroll options:

- You can find a Germany payroll outsourcing company to manage payroll on your registered business' behalf. Although the payroll provider can handle payroll calculations, payments, and other filings, you are still liable for all employment, tax, and payroll compliance.
- Larger companies may choose to run their own local payroll by [creating a subsidiary](#) and hiring additional staff dedicated to payroll and human resources. You will need extensive knowledge and background on German payroll laws to make sure you meet all withholding and tax requirements.
- You can also decide to work with a [global professional employer organization \(PEO\) such as Globalization Partners](#). We handle the payroll for your company and also act as the employer of record, putting the liability on our shoulders instead of yours.

How to Set Up a Payroll in Germany

Setting up a business in Germany is a complicated process, partly because you need to make many different financial filings. If you plan to hire and set up a subsidiary on your own, a tax advisor can guide you on different Germany payroll options.

You'll need extensive documentation from your employees to set up Germany payroll, including:

- ID/passport
- Residence permit/visa
- Tax ID number and bracket
- Social security number
- Bank details

Germany also outlines particular data protection regulations relating to payroll. You can collect personal data and information for employment reasons, but you must keep that data safe and should pay employees using Germany's File Transfer and Access Management (FTAM) protocol.

Entitlement/Termination Terms

Your employees also have certain entitlement and termination terms you must outline before

setting up payroll in Germany. For example, the nation prohibits employees from working on Sundays and public holidays apart from certain exceptions. Workers typically get either 24 or 20 days of vacation depending on if the employee is working a 5-day or 6-day work week, and the country has strict medical leave policies.

A best practice is to include clear termination terms in a written employment contract. You can only fire employees for specific reasons such as misconduct or redundancy, and you cannot fire disabled individuals, pregnant employees, or anyone on parental leave without government approval.

Payroll Processing Company in Germany

To learn more about a Germany payroll processing company, [contact Globalization Partners](#) today.