

**Establishing a Company
in Rheinland-Pfalz, Germany
Additional Guidelines for Executives**



Investitions- und Strukturbank
Rheinland-Pfalz (ISB) GmbH

Economic Development

Establishing a business in Rheinland-Pfalz – a briefing for executives

All cited costs represent averages and are intended only as guidelines, not as binding offers.

1. Launching a company

1.1 After the decision to set up a company, please follow these steps:

- Procure capital / partner(s)
- Prepare articles of incorporation / partnership agreement (specify name, address, authorized capital)
- Lease space and specify company's new address
- Sign articles of incorporation / partnership agreement before a German notary or at a German embassy / consulate general
- Register firm at local municipal court and in the commercial register
- Open a bank account
- Depending on the corporate form chosen pay a certain minimum amount into the newly-opened account as authorized capital
- Hire bookkeeping services and a tax advisor

Business can proceed as soon as the articles of incorporation are signed before a notary. The application and registration process can take place during the start-up phase. The notary or the municipal court at the company's headquarters location is responsible for its founding.

1.2 Projected costs in brief:

Items	Estimated Costs in €	Comments
Notary	300 – 1,000	depending on the corporate form chosen among most common forms
Opening bank account	0	
Commercial register entry	50 – 100	depending on the corporate form chosen among most common forms

1.3 Types of most common corporate forms in Germany

Foreign investors may establish a business in Germany in whatever corporate form is best suited for their purpose, be it an independent subsidiary, a joint venture or just a branch office.

The GmbH (Gesellschaft mit beschränkter Haftung) is the most common form of limited liability company in Germany. For investors doing business in Germany it is also the legal corporate structure preferred.

Currently at least Euro 25,000 worth of capital is required to found a GmbH. A GmbH is managed and legally represented by its managing directors. There must be at least one managing director (who does not have to be a shareholder or a German resident). The company may have several partners who share in the profits and losses in accordance with their shareholding. By issuing binding instructions or directions to the managing directors, the shareholders may exercise direct influence on the management of the GmbH.

The estimated total costs for the formation of a standard GmbH are approximately Euro 750 to Euro 1,000 plus fees for legal counsel if a lawyer is employed to draw up the articles of association. Ideally, the time period for the formation of a GmbH is two to three weeks. After the registration in the commercial register (Handelsregister) which establishes the liability limits, the company may start its operation.

The recently (Nov. 2008) reformed GmbH Act permits an investor to establish a company with limited liability and begin operations with just one Euro as start-up capital. This new category of the GmbH is officially called a limited liability entrepreneurial company ("UG" in German), popularly known as the "Mini-GmbH". The UG must put aside one quarter of annual profits to allow its share capital to grow to the GmbH level. Once this level has been reached, the accumulated capital can be converted into share capital and the UG can then change its name into a GmbH.

The establishment of a Mini-GmbH will involve costs of around Euro 300 due to the low share capital and the model articles of association.

The foundation of a UG may be applicable mainly in the service industry, because mostly in the beginning, there is less demand for credit, whereas for industry the foundation of a conventional GmbH will be recommended.

By terms of law the Mini-GmbH is generally subject to the same duties and rights as the standard GmbH.

The new Act aims to strengthen the position of the GmbH in relation to other European company forms, such as the British Limited, by reducing the cost and paperwork required to found a GmbH.

Despite the creation of the UG, some banks and German business partners may still be more comfortable doing business with a traditional GmbH. Therefore the traditional GmbH remains the most attractive option.

2. Bookkeeping and preparation of financial statement

Tax consultant about € 100 per month
plus € 1,000 for preparation of annual financial
statements

3. Visa regulations for CEO

3.1 Residence requirements for CEO

The president or managing director may be a national of any country. If not a citizen of the EU, he/she must have a valid residence and work permit in Germany and may also apply for permanent residence status and a work permit.

3.2 Recruiting employees in Rheinland-Pfalz

Foreign (non-EU) nationals can be delegated to work in Germany for short periods of time. There is no restriction on the number of such delegates if they have valid visas.

Longer-term work in Germany requires foreign (non-EU) employees to apply for a work permit.

Approval for necessary residence and work visas is currently not contingent on the investment amount or the number of jobs created.

Employees in Germany have to contribute to the German Social Security System.

4. Office rents in Rheinland-Pfalz

Office rents in various cities

City	Avg. rent per m ² /month	Total ancillary costs/month	Comment
Mainz	11.10 €/m ² +/- 1.10 €	About € 200 for an office of about 100 m ²	includes: elec., water, heat, other levies and fees, such as water, effluent, refuse removal, etc.
Ludwigshafen	9.60 €/m ² +/- 0.90 €		
Koblenz	7.20 €/m ² +/- 1.00 €		
Kaiserslautern	8.50 €/m ² +/- 1.00 €		
Trier	7.50 €/m ² +/- 0.85 €		

Office rents in suburban areas

Metro Mainz	9.00 €/m ² +/- 0.75 €	Total ancillary costs/month	Comments
Eastern Palatinate	7.00 €/m ² +/- 0.60 €	About € 180 for an office of about 100 m ²	includes: elec., water, heat other levies, fees, such as water, effluent, refuse removal, etc.
Simmern/Hahn Airport	6.10 €/m ² +/- 0.53 €		
Landau (at French border)	6.30 €/m ² +/- 1.20 €		
Neuwied	6.80 €/m ² +/- 0.85 €		

5. CEO's and employees' housing costs

Rent in different cities:

City	Avg. rent per m ²	Ancillary costs for water, electricity and heat
Mainz	5.70 €/m ² +/- 2.30 €	180 -200 €/month for a residence of about 100 m ²
Ludwigshafen	5.11 €/m ² +/- 0.70 €	
Koblenz	4.86 €/m ² +/- 1.10 €	
Kaiserslautern	4.90 €/m ² +/- 1.10 €	
Trier	5.45 €/m ² +/- 1.45 €	

Rent in suburban areas:

Region	Avg. rent per m ²	Ancillary costs for water, electricity and heat
Metro Mainz	5.10 €/m ² +/- 0.90 €	170 -190 €/month for a residence of about 100 m ²
Eastern Palatinate	4.70 €/m ² +/- 0.75 €	
Simmern/Hahn Airport	4.65 €/m ² +/- 0.72 €	
Landau (on French border)	4.60 €/m ² +/- 0.70 €	
Neuwied	4.20 €/m ² +/- 0.70 €	

6. Taxes

6..1 Tax liabilities of a limited liability company (GmbH) in Germany

Companies in Germany pay trade and corporate taxes as well as the so-called "solidarity surcharge". Taxes are based on the pre-tax profit of a company.

Corporate taxation on a GmbH (Limited Liability Company)					
Type of tax	Tax rate		Example		
Trade tax	Trade tax is a local tax payable to the community in which the company is headquartered. These local taxes differ from one town to the next and are calculated on the basis of municipal assessment rates set by the community. The normal trade tax amounts to 3.5%, multiplied by the relevant municipal assessment rate set by the town in which the company is headquartered.		Earnings on commercial activity	€ 100,000.00	
			3.5% trade tax		€ 3,500.00
			Multiplied by the municipal assessment rate, in Ludwigshafen, 360 (€ 3,500 x 360%=)		€ 12,600.00
		Trade tax rate	Trade tax due	€ 12,600.00	
	Mainz	440			
	Ludwigshafen	360			
	Koblenz	395			
Kaiserslautern	395				
	Trier	390			
Corporation tax	Corporation tax rate: 15%		Pre-tax earnings	€ 100,000.00	
			Minus trade tax		€ 12,600.00
			Tax rate for corporation tax		€ 87,400.00
			15% of taxable amount		€ 13,110.00
			Corporation tax due		€ 13,110.00
"Solidarity surcharge"	The 5.5% "solidarity surcharge" is charged on the basis of the corporation tax due		Of which 5.5%	€ 721.05	
			"Solidarity surcharge" payment due	€ 721.05	

6.2 Employees' tax liability

Employees pay income tax on their gross earnings.

Type of tax	Tax rate	Example	
Income tax	The income tax is based on the annual taxable income. The first € 7,664.00 is tax-exempt. The entry-level bracket tax rate is 15%, 42% for the top bracket. Annual incomes in excess of € 52,151 are subject to the top rate. The highest tax rate of 45% applies to annual incomes of € 250,001 and more.	Employee income	€ 60,000.00
		Tax exemption	€ 7,664.00
		Taxable income	€ 52,336.00
		Taxable income is higher than € 52,151 therefore top rate (42%) applies	€ 21,981.12
		Income tax due	€ 21,981.12
"Solidarity surcharge"	The 5.5% "solidarity surcharge" is charged on the income tax due	Income tax due	€ 21,981.12
		of which 5.5%	€ 1,208.96
		"Solidarity surcharge" due	€ 1,208.96

In addition everyone pays a sales tax (value-added tax), an indirect tax on all goods and services.

Value-added tax (VAT) (For companies VAT is a transit entry)	Currently 19%	Purchase price of product	€ 100.00
		19% VAT	€ 19.00
		Total due on purchase	€ 119.00

7. Typical wage rates

Industrial monthly gross wages for hourly workers (men + women) in EUR

Industry sector	Average	Unskilled	Skilled	Higher qualification
Manufacturing	2,616	2,052	2,542	2,857
Machinery	2,743	2,299	2,678	2,865
Electrical	2,342	1,926	2,252	2,612

Industrial monthly gross wages for salaried workers (men + women) in EUR

Industry sector	Average	Unskilled	Skilled	Qualified	Highly-qualified
Manufacturing	3,880	2,040	2,577	3,475	5,038
Machinery	3,803	2,170	2,783	3,355	4,718
Electrical	3,508	1,592	2,356	3,142	4,546

8. Number of university students in the 2007/08 winter semester by major course of study

Major course of study	Number of students	German students	Non-German students
Total	103,156	91,254	11,902
Law, Economics and Social Science	33,585	29,832	3,753
Languages und Cultural Studies	26,965	23,543	3,422
Mathematics, Natural Sciences	19,390	17,372	2,018
Engineering	12,924	11,192	1,732
Medicine	5,218	4,746	472
Other majors	5,074	4,569	505

9. Social security benefits (withheld directly from gross wages)

Type of insurance	Premium rates 2010		Calculation	Employer pays: (based on € 1,000 gross income subject to social security payments)
	Employees	Employers/ Institutions		
Health insurance	8.2%	7.3%	Premium rate is based on gross income subject to social security payments up to no more than assessment threshold (currently € 3,712.50)	€ 1,000 x 7.3% = € 70.30
Pension insurance	9.95%	9.95%		€ 1,000 x 9.95% = € 99.50
Nursing care insurance	0.975%	0.975%		€ 1,000 x 0.975% = € 9.75
Unemployment insurance	1.5%	1.5%	Assessment threshold: € 5,500	€ 1,000 x 1.5% = € 15.00
On average employer pays about 23% social security costs (listed social security costs + possibly accident insurance)				€ 1,000 x 23% = € 230

10. Recommended insurance coverage

- Automobile
- Disability
- Home and household effects
- Liability
- Personal liability
- Private health

11. Other costs

- Interpreters
- Translation
- Travel expense
- etc.

Establishing a Company in Rheinland-Pfalz

Additional Information for Indian Companies

Germany, Rheinland-Pfalz and India

The Federal Republic of Germany is one of the most economically and technology advanced Industrial nations in Europe. Being a member of the EU and its central location helps Germany to be a Gateway for the European Economy. Germany and India share a long-lasting economic and political partnership, as do India and the European Union. Countless Indian companies are successfully doing business in Germany, and all major German companies, including Siemens, Daimler, Deutsche Bank, Bayer, Bosch, Lufthansa, maintain strong interest in Indian markets.

As Germany, even the State of Rheinland-Pfalz is a strategically outstanding investment location providing a good and solid investment climate and has an economic policy which welcomes foreign investment. Rheinland-Pfalz is one of the largest exporters among the German States. Its business community mostly consists of mid-sized companies but it is also home of some real global players and hidden champions. It has outstandingly adapted to globalization and fast changing world-markets. High-quality products pace the demand for the State's exports worldwide. Being internationally oriented, the State generates considerable interest as an attractive site for doing business. There are also various investment grants and credit programmes financed by the State as well as by European Union bodies.

Doing Business in Rheinland-Pfalz

The following points help understand the differences which one can come across when doing business in Rheinland-Pfalz as compared to that in India.

Visa and permits

In general all foreigners from non-European Union (EU) countries require a visa to visit or stay in the Federal Republic of Germany. Visa and first time residence permits must be applied prior to entering the country at a foreign representation of Germany viz. Consulate or Embassy. The processing of visitors' visas usually takes between two and ten working days (for tourist or business visa). Applications of visas entitling the holder to longer stays (Residence Permit) or to take up gainful employment may take several

months to process. For more details please refer to website (<http://www.mumbai.diplo.de/Vertretung/mumbai/en/Startseite.html>)

Types of business organisations

The most popular form of business organisation is the Limited Liability Company (Gesellschaft mit beschränkter Haftung or GmbH). A special form of the GmbH, the so-called Mini GmbH has been established newly. Besides these, businesses can be operated through a Public Limited Company (Aktiengesellschaft or AG), a Limited Commercial Partnership (Kommanditgesellschaft or KG) and a special form of it known as the GmbH & Co. KG, and also a Civil Law Association (Gesellschaft bürgerlichen Rechts), General Partnership (Offene Handelsgesellschaft or OHG) and a Silent Partnership (Stille Gesellschaft)

Foreign enterprises may also operate in Germany through a Branch or Representative Office.

Please note:

There are differences between Branch Office and Representative Office in India and Germany:

Branch office

Any foreign company with headquarters and business operations outside of Germany can establish a German branch office. A branch office is a suitable business form for a foreign company wanting to establish a presence in Germany for the purpose of initiating business and maintaining contacts with business partners. A branch office has no independent or separate legal personality distinct from the head office itself. **In legal and organizational terms, it is part of the head office business and is thus subject to the law governing the head office.**

Representative office

Offices that purely serve to observe the market and pave the way for initial customer contacts are often described as “representative offices.” However, **this term does not exist in German commercial law. A representative office must usually be registered as a branch office in Germany.** Only an office managed by a self-employed external business person (e.g. a commercial agent authorized by the company) can be considered a case in which no independent business activity is conducted on behalf of the foreign company. In this specific instance, registration with the local trade office is not required.

Accountancy

Financial year for all German Companies is from January-December.

In Germany, all business enterprises are obliged to draw up financial statements, consisting of a balance sheet, a profit and loss statement, notes to the financial statements, and a management report. As German Authorities may audit the company as a whole or only parts of it at irregular intervals it may be recommended to seek help of a German Chartered Accountant to maintain the books of accounts.

All the German Companies insist on strict rules and regulations and all the legal compliances need to be followed strictly. A great emphasis is given even on internal correspondence also which needs to be maintained properly.

Purchasing Real Estate

Publicly owned industrial real estate for sale is administered by the state development agencies of the German states which include local Chambers of Commerce, Economic Development banks and agencies for the state and the Ministry of the respective states.

In addition, suitable business premises (for rental or for purchase) can be easily found via ads in daily regional newspapers, online markets, or from brokers. Prior to purchase, it is advisable to seek the advice of a real estate

appraiser who can assess the value and condition of the property. The expert can also help ensure that if there are any complaints regarding possible faults in the building are filed before the Warranty period expires. Without an appraiser of this kind, the buyer of the property can only claim damages or withdraw from the purchase in the event of any serious building faults.

German labour law

German labour law is also largely influenced by European Union law. Employers and employees can agree on a probationary period generally not longer than six months. During this probationary period the employment contract may be terminated by either of the contracting parties, with a notice period of two weeks. Working hours are governed by the terms of the employment contract. In principle, a guideline of an eight-hour day applies, which can be extended to ten hours, provided that the average working day over a period of six months, or 24 weeks, does not exceed eight hours. Working is, on the whole, not allowed on Sundays or on public holidays. However there are exceptions these rules. An employee's remuneration is dependent on the employment contract and collective bargaining agreement.

Employees unable to work because of no fault of their own as a result of illness have the right to continued payment of wages or salary for up to six weeks. In principle, employees have the right to at least 26 to 30 days holiday per calendar year, based upon a five day working week. The right to holiday comes into force six months after the commencement of the employment relationship. The age of retirement is currently 65 years.

Customs

Since the establishment of the European Customs Union, the customs regime in Germany is governed first and foremost by EU law as is the case in all other EU member states. However, customs are administered by the German Customs Administration with offices throughout Germany. For more details refer to (<http://www.zoll.de/index.html>)

The European Customs Union forms a single trading area based on the EU-wide community customs code. The European Customs Union has:

- A. Eliminated customs duties between EU member states
- B. Eliminated import VAT between EU member states
- C. Created uniform customs regime including (external) common customs tariff (CCT) rates for goods imported from non-member countries into the Customs Union area

All the HS codes for the products are available with the local Chambers of Commerce in Germany.

Goods and machinery

Goods and machinery can circulate freely within the EU. Customs, import turnover tax and in some cases, special excise taxes are charged for imports to Germany from non-EU states. The customs payable can be determined online using the TARIC (Integrated Tariff of the European Communities) database.

Incentives

In Rheinland-Pfalz a wide range of incentives is offered to investors regardless of whether they are from Germany or otherwise.

The Investitions- und Strukturbank Rheinland-Pfalz (ISB) GmbH, which is Rheinland-Pfalz's central economic development agency, provides an entire palette of business support services to investors in the State like i.e. Subsidies for mid-sized companies or support for technology firms, guarantees, venture capital, participations or location services for companies seeking sites in the State.

Dual education system

The education system in Germany is not the same as in India. Germany follows a Dual Education system wherein equal emphasis is given to Theory and Practical training.

INTERCULTURAL DIFFERENCES

1. Germans are very particular about punctuality and time conscious.
2. Germans are direct to the point and have orientation for minute details. They focus on quality work and Perfection.
3. While negotiating with Germans try to be precise, objective and factual. Hence prepare well for the meetings. If you are trying to win over German partners, colleagues or customers, you should present your case in an objective manner and directly address all the issues including negative issues or problems.
4. Germans don't hesitate to say 'No', if they are unable to do something. Germans are straight forward people and accept 'NO' on the face value. Therefore if you have any Business related problems (for e.g.: in terms of quality or quantity of goods or execution of the project), then be honest and discuss these problems upfront with the German Business Partner. If Germans are informed about the problems well in advance then they also try to find out some solutions.
5. Feedback and Criticism are delivered directly. Don't take them personally. They don't mean to offend you or hurt you.
6. Business life and personal life are often kept separate in Germany. Avoid asking Germans personal or family related questions.
7. Germans are formal. Don't address people by first name, unless explicitly offered by them. Always make use of Herr (Mr) or Frau (Mrs) to address the German counterpart.
8. Not all the Germans can understand English language with a very advanced vocabulary. Hence try not being very fast while conversing with them. Also let your language show them that you are an objective and task oriented person.