PREAMBLE

Germany is a highly developed industrial nation and has, for many years, been very attractive for investors. The country offers a variety of opportunities to start business all over Europe. With the dynamic environment of a powerful economy, Germany is an ideal location from which to access the European market.

Despite the harmonization in the European Union, there still remain economic, social, legal, and cultural differences amongst its countries that foreign investors should be aware of. Germany has a central geographical location in Europe and is an important hub for companies doing business there. The country offers excellent infrastructure, economic and political stability, a highly developed legal system, and skilled workers. The aim of this brochure is to assist foreign investors in understanding the specific characteristics of Germany in order to contribute to the success of their investments.

This guide summarizes topics relating to the set up of businesses in Germany, how to employ staff, taxation of individuals, taxation of companies, and understanding German accountancy. However, this brochure is not exhaustive and does not preclude further assistance from experts.

Should you require any additional information on the topics covered in this guide or if you need any support in relation to your business, please do not hesitate to contact Roever Broenner Susat Mazars.

Dr. Christian Birkholz and Erekle Solomnishi
February 2017, Germany
We are uniquely structured in that we are owned and managed collectively by our international partners, which enables Mazars to think, decide and act as one firm, everywhere in the world. Based on its international reach, Mazars has established itself as a credible alternative, with the ability to offer seamless and custom-made solutions to large corporations, regardless of their country of origin. Thanks to its full, flexible and adaptable range of services, Mazars is also a partner of choice for high-growth SMEs and high net-worth individuals.

All Mazars team members share the same passion for technical excellence and a common determination to go beyond existing technical and ethical standards. We are bound by high quality standards. Our passion for accountancy, the systematic way we perform our job on a daily basis and open-mindedness are the keys to success.
1. KNOWING GERMANY

A EUROPEAN ECONOMIC FORCE

Germany has the largest population of any European Union Member States. The German market consists of approx. 82 million consumers, whose purchasing power is highly rated. Germany is a stable economic force and one of the most powerful industrial nations in Europe. There is an unusually large number of innovative and high performing small and medium-sized enterprises (SMEs). The strength of Germany lies in its variety and its renowned industrial fabric. With its well-developed service sector (“tertiary sector”) Germany is a first-class financial and banking country with an educated workforce. The quality of infrastructure is a major asset for commercial relationships. Because of its location in the heart of Europe, Germany is the bridge between the East and the West. Taken as a whole, Germany is the hub to the European market.

2. HOW TO SET UP A BUSINESS IN GERMANY

VARIOUS ASPECTS TO TAKE INTO CONSIDERATION WHEN SETTING-UP A COMPANY

Purchase of shares or purchase of assets of an existing German company (e.g. shell or shelf companies). In this case, it is necessary to understand the financial, tax and legal characteristics of the company in question.

Founding of a subsidiary wholly regulated by German law. Necessary to understand the impacts of the different legal forms.

Founding of a branch. This offers the advantage of being able to set-up on a fairly large scale without having to create a company in the legal sense.

Other, more flexible, forms of setting-up: information or liaison bureau, or delivery depot.

THE TABLE BELOW SUMMARISES THE POSSIBILITIES

<table>
<thead>
<tr>
<th></th>
<th>Subsidiary</th>
<th>Branch</th>
<th>Delivery Depot</th>
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<tbody>
<tr>
<td>Registration with the Commercial Register</td>
<td>Compulsory</td>
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<td>Not applicable</td>
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<td>Authorized representative</td>
<td>Head-office</td>
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<td>Company name</td>
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<td>That of the branch</td>
<td>That of head-office</td>
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<td>Compulsory for all taxes</td>
<td>Potentially compulsory for VAT and payroll taxes</td>
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<tr>
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<td>Yes</td>
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<td>Posting entries to the book ledger</td>
<td>Compulsory locally</td>
<td>Non-compulsory, but recommended</td>
<td>Proof required for VAT refund</td>
</tr>
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</table>
3. HOW TO EMPLOY STAFF

DECIDING WHAT STAFF TO EMPLOY AND AT WHAT COST?

The quality of labor, productivity, and the cost incurred in this respect are determining factors to be considered when setting up a business abroad. German employees are generally highly qualified and productivity is one of the highest in the world. However, there are important disparities to be considered. Some federal states (e.g., Bavaria) and some cities (e.g., Frankfurt, Munich or Stuttgart) have a high level of qualification, a relatively low rate of unemployment and consequently higher than average salaries. On the other hand, salaries in the eastern regions tend to be lower compared to most western regions.

The German Federal Parliament introduced a minimum wage of €8.50 per hour in 2014, which came into force as of 1 January 2015. Effective 1 January 2017, the minimum wage per hour in Germany was increased to €8.84. For some groups of workers, the law provides exemptions. Furthermore, the minimum holiday entitlement is 20 days per year. In practice, collective labor contracts or individual working contracts largely extend this leave: on average German salaried employees are entitled to 5 to 6 weeks of annual leave. Please note there are various regulations concerning codetermination, German social law, temporary work and dismissal protection.

4. TAXATION OF INDIVIDUALS

DETERMINING INCOME FOR TAX PURPOSES

INCOME TAX LIABILITY

Individuals who are permanently resident - independent of citizenship - in Germany and individuals who have their customary place of abode in Germany are liable to unlimited taxation for German income tax purposes. Permanent residence means that the person is present in Germany generally for an uninterrupted period of at least six months (this period can bridge two calendar years). The tax liability relates to the worldwide income unless restrictions according to Double Taxation Agreements are applicable. Individuals who are neither resident nor have their customary place of abode in Germany are subject to limited tax liability in Germany for income they derive from German sources, unless restrictions from Double Taxation Treaties apply.

TAXABLE INCOME OF INDIVIDUALS CAN STEM FROM THE FOLLOWING CATEGORIES

- Income from trade or business,
- Income from self-employment,
- Income from dependent employment,
- Income from capital investments,
- Income from agricultural and forestry,
- Income from letting and leasing,
- Other income.
PARTICULAR TERMS OF LIABILITY

The rate for income tax varies according to progressive taxation brackets. There is a tax-free base allowance, in accordance with the minimum subsistence level, in the amount of € 8,821 for single individuals in 2017. The minimum tax rate has been 14 % and the maximum 45 % since 2009.

Losses can be carried back for one assessment period up to € 1 million without restriction (married couples € 2 million) and be carried forward indefinitely. However, minimum taxation is applicable i.e. loss carry-forward can be utilized up to € 1 million without restriction, and the exceeding income can only be offset by 60 %.

Some expenses, e.g. special expenses or exceptional expenses might be deductible from the tax base.

There is a second tax regime for investment income, mainly referring to dividends, interest, etc., which is subject to 25 % withholding tax.

Individuals living in Germany are liable to church tax. The rate varies between 8 % and 9 % of the income tax paid and is not due if the taxpayer declares that he is not member of a church.

Furthermore, solidarity surcharge is due in an amount of 5.5 % of the payable income tax. This tax was introduced to finance the German reunification.

5. TAXATION OF COMPANIES
DETERMINING THE TAXABLE INCOME

The tax law in Germany distinguishes between partnerships and corporations. Corporations are subject to German taxation if they have either their registered seat or their effective place of management in Germany. In this case the worldwide income is subject to German taxation.

Furthermore, companies with a branch or permanent establishment in Germany are taxed based on the income realized in Germany.

As a general rule, a corporation will be liable to corporate income tax and solidarity surcharge. The corporate income tax rate amounts to 15 % plus solidarity surcharge in an amount of 5.5 % of the corporate income tax assessed. Therefore, the resulting tax burden is 15.825 %. Corporations are also liable to trade tax.

The result of a partnership will be liable on the level of the partner, to personal income tax, if the partners are individuals, or to corporate income tax, if the partners are corporations. The partnership itself neither pays income nor corporate income tax. However, a partnership is generally liable to trade tax.

The local municipalities impose trade tax. The trade tax rate varies between 7 % and 17 %, with an average tax rate being approximately 14 %.

The VAT rate is in general 19 %. A reduced rate of 7 % applies for certain social and cultural activities.
CALCULATING THE TAXABLE INCOME
In Germany the determination of the taxable income is generally based on the result of the commercial profit and loss statement. However, the taxable income (which generally represents the reference base of the main taxes) tends to differ from the profit and loss disclosed in the commercial financial statements. This figure is adjusted for personal income tax, corporate income tax, and trade tax purposes.

CAPITAL GAINS AND CAPITAL LOSSES
Capital gains on tangible assets are fully liable to corporate income tax and to trade tax. Capital losses are fully tax deductible.

NON-TAXABLE INCOME
Some income must not be taken into account in determining the taxable income, e.g. under certain conditions dividends (received by corporations from corporations in Germany or abroad) are tax exempt but 5% of the dividend is considered a non-deductible expense, if the participation in capital amounts to at least 10%. The same principle is applicable for capital gains from the sale of shares. In this case of capital gains the 10% participation rule does not apply.

NON-DEDUCTIBLE COSTS
Some expenses, which are taken into account for the calculation of the accounting income, are not tax deductible, e.g. expenses associated with tax-exempt income.

OFFSET OF TAX LOSSES
The carry-back system allows for tax losses recorded in a financial period to be offset against earlier tax profits. Losses reduced by carry-back may be carried forward indefinitely. However, their offset in one year is limited to €1 million plus 60% of the income exceeding €1 million.

The principle of prudence prevails in Germany.
This principle has several different aspects:
- Recognition of losses and potential risks occurring before the closure of the accounts;
- And the set-up of the financial statements (i.e., events after the balance sheet date);
- Recognition of revenues only if they are realised before the closing date (i.e., risk and reward or ownership must be fully transferred);
- Prohibition to capitalise research costs and brands, mastheads, publishing titles, customer lists and items similar in substance that are internally generated and not recognized as assets.
# LOCATIONS

<table>
<thead>
<tr>
<th>Location</th>
<th>Address</th>
<th>Phone</th>
</tr>
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<tbody>
<tr>
<td>Berlin</td>
<td>Alt-Moabit 2, 10557 Berlin</td>
<td>+49 30 208 88-0</td>
</tr>
<tr>
<td>Dresden</td>
<td>Kleine Brüdergasse 3, 01067 Dresden</td>
<td>+49 351 45 15-0</td>
</tr>
<tr>
<td>Düsseldorf</td>
<td>Bennigsen-Platz 1, 40474 Düsseldorf</td>
<td>+49 211 83 99-0</td>
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<tr>
<td>Frankfurt am Main</td>
<td>Theodor-Stern-Kai 1, 60596 Frankfurt am Main</td>
<td>+49 69 967 65-0</td>
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<tr>
<td>Greifswald</td>
<td>Steinbeckerstrasse 10, 17489 Greifswald</td>
<td>+49 3834 885 33-40</td>
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<tr>
<td>Hamburg</td>
<td>Domstraße 15, 20095 Hamburg</td>
<td>+49 40 288 01-0</td>
</tr>
<tr>
<td>Leipzig</td>
<td>Petersstrasse 1–13, 04109 Leipzig</td>
<td>+49 341 60 03-0</td>
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<tr>
<td>Munich</td>
<td>Herzog-Heinrich-Strasse 22, 80336 München</td>
<td>+49 89 350 00-0</td>
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<tr>
<td>Nuremberg</td>
<td>Längenstrasse 14, 90471 Nürnberg</td>
<td>+49 911 60 07-0</td>
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<tr>
<td>Stuttgart</td>
<td>Friedrichstrasse 10, 70174 Stuttgart</td>
<td>+49 711 60 17 87-0</td>
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<tr>
<td>Cologne</td>
<td>(new address as of 7.7.2017) Gustav-Heinemann-Ufer 72, 50968 Köln</td>
<td>+49 221 28 20-0</td>
</tr>
<tr>
<td>Potsdam</td>
<td>Hebbelstrasse 27, 14449 Potsdam</td>
<td>+49 331 73 04 07-70</td>
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