



IN THE BUSINESS OF YOUR SUCCESSSM

Payroll in Germany

The complexities of a flexible and comprehensive social protection system



ADP STREAMLINESM

MULTI-COUNTRY PAYROLL & HR ADMINISTRATION

HR. Payroll. Benefits.

Payroll in Germany: handling taxes and social contributions

In each country, payroll processing is driven by local labor laws, different layers of legislation and specific rules. This makes it a challenge for multinational companies and companies expanding internationally.

Using a local payslip as a reference point, this brochure explores the main features of payroll in Germany and the complexities tied to the country's flexible and comprehensive social system. In particular, payroll in Germany includes the collection of different taxes and mandatory contributions to social insurance schemes.

Sample German payslip

POSTEN- STELLE	POSTEN- TRÄGER	LOHN- ART	BESCHREIBUNG	STUNDEN/ EINHEIT	LOHNRAUS- SÄTZE	BUCHSLAGS- SÄTZE	BETRAG EUR	GR/ST/IV/GFB	ENTGELT- BESCHREIB.																																																																																																																																																																																																																																						
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JAHRSWERTE:										-----------------	---------	-----------------	---------	-----------------	---------	----------------	---------		ST-Brutto lfd:	2890,00	ST-Brutto EBZ:	1000,00	ST-Brutto ges:	3890,00	StFr.Bezüger:	2890,00		KV-Brutto lfd:	2890,00	KV-Brutto lfd:	2890,00	AV-Brutto lfd:	2890,00	FV-Brutto lfd:	2890,00		KV-Brutto EGA:	1000,00	KV-Brutto EGA:	1000,00	AV-Brutto EGA:	1000,00	FV-Brutto EGA:	1000,00		KV-Brutto ges:	3890,00	KV-Brutto ges:	3890,00	AV-Brutto ges:	3890,00	FV-Brutto ges:	3890,00		Gesamtbrutto:	3540,00	Lohnsteuer:	419,33	Solid.Zuschlag:	11,66	Richtenswert:	16,96		KV-Beitrag AN:	318,98	KV-Beitrag AN:	367,61	AV-Beitrag AN:	58,35	FV-Beitrag AN:	39,87		KV-Beitrag AG:	283,97	KV-Beitrag AG:	367,61	AV-Beitrag AG:	58,35	FV-Beitrag AG:	39,87		KV-Brutto ungl:	3890,00	Tatschlässe.akt															
Entgeltbescheinigung nach § 108 Absatz 3 Satz 1 der Gewerbeordnung (GewO)																																																																																																			

PERSONAL INFORMATION

EARNINGS

TAXES, SOCIAL CONTRIBUTIONS

OTHER

BACKGROUND INFORMATION

TRANSLATION OF A GERMAN PAYS LIP

German payroll highlights

- Determined by federal labor laws and collective or company agreements
- Based on a monthly salary; allowances and bonuses determined by collective/company agreements
- Withholding of three different taxes at source
- Mandatory employee contributions to four social insurance schemes with choice of model and fund (*Krankenkasse*)
- Significant reporting, archiving and interfacing with third parties

EARNINGS

- Salary
- Employer contribution to savings plan
- Deduction for tax and/or social security
- Bonus
- Non-cash benefits
- Benefits in kind subject to V.A.T

GROSS TOTAL

PERSONAL INFORMATION

- Date of hire | Length of service | Date of birth | Employee number
- Cost center | Department | Function | Pay group | Payscale & level
- Tax class | Child tax exemption | Religion | Annual tax-free amount | Monthly tax-free amount | Retiree tax rule 1 | Retiree tax rule 2 | Tax days
- Insurance fund number | Social security code | Social security code (retiree) | Pension special fund | Child allowance | Private insurance | Pension contribution exemption | Multiple jobs | Social insurance days

TAXES, SOCIAL CONTRIBUTIONS

- Income tax
- Solidarity surcharge tax
- Church tax
- Health insurance contribution
- Long-term care insurance contribution
- Pension insurance contribution
- Unemployment contribution
- Total of statutory deductions

NET INCOME

OTHER

- Credit to savings plan
- Other deductions/adjustments
- Non-cash benefits
- Employer contribution to private pension scheme
- Employee contribution to private pension scheme

AMOUNT PAID

BACKGROUND INFORMATION

SOCIAL INSURANCE FUND/RATES

Health insurance Pension insurance
Long-term care insurance Unemployment insurance

MONTHLY VALUES (Tax/contributions bases and amounts)

Health ins. | Pension ins. | Unemployment ins. | Care ins.

ANNUAL VALUES (Tax/contributions bases and amounts)

Health ins. | Pension ins. | Unemployment ins. | Care ins.

BEHIND A GERMAN PAYSPLIT

In-depth descriptions of the most unique categories on a German payslip offer additional keys to understand the country's payroll system.

German payslip sample for an employee insured by statute

TPO Muster-Firma 12345 Musterstadt		99.2601.9 6600 Musterstr. 1	
		D44.423	
Herrn Doe, John Musterstr. 3 98765 Musterstadt		1002 1000	

Eintrittsdatum	Ber. Zugehörigkeit	Geburtsdatum	Arbeitsnehmer-Nr.
01.08.05		16.03.90	1002
Kostenstelle	Abteilung	Funktion	AbtGr
1000		3	
Steuerklasse	ZHF	Konfession AN/Eheg.	Jahressteu- betrag lt. LSt-Karte
3	2,0	ev/--	
Kassen- nummer	SV-Schl. K R A P V V V V	Kasse- Vers - Bez	RV-Sonder- Kasse/Schl
30	1111		
Private Vers.	Versicht- RV- Freiheit	MFB	SV- Tage
ja			30

KOSTEN- STELLE	KOSTEN- TRÄGER	LOHN- ART	BEZEICHNUNG	STUNDEN/ EINHEIT	LOHNSATZ	ZUSCHLAGS- SATZ	BETRAG EUR	GB/ST/SV/GFB	ENTGELT- BESCHEIN.	
		100	Gehalt	165,00			2.500,00	* L L *		
		530	VL AG-Anteil				40,00	* L L *		
		610	Gehaltsumw.				-100,00	L L		
		630	Bonus				1.000,00	* E E *		
		751	Geldw.Vorteil				450,00	L L *		
		760	Erlös Sachb.				450,00			
GESAMTBRUTTO Abrechnung							3.540,00			
GESAMTBRUTTO nach § 108 GewO									3.990,00	
			Lohnsteuer		LFD (L)	EBZ/EGA (E)			419,33	
			Solid.Zuschlag						11,66	
			Kirchensteuer						16,96	
			KV-Beitrag AN		236,98	82,00			318,98	
			PV-Beitrag AN		29,62	10,25			39,87	
			RV-Beitrag AN		273,11	94,50			367,61	
			AV-Beitrag AN		43,35	15,00			58,35	
			Summe gesetzliche Abzüge				1.232,76			
NETTOVERDIENST							2.307,24		2.757,24	
			VL-Sparbetrag				-40,00			
			Summe sonstige Abzüge/ Geldw. Vorteil		Zuzahlungen		-40,00		-40,00	
			D-Vers-AG (01)		10,00					
			D-Vers-AN (01)				-100,00		-100,00	
ZAHLBETRAG (Volksbank Rems							60290110	0000004589) 9)	2.167,24	2.167,24

SOZIALVERSICHERUNGSSETZE:			
030	IKK Düsseldorf	KV-Satz/EUR	15,50
030	IKK Düsseldorf	PV-Prozentsatz	2,05
030	IKK Düsseldorf	RV-Prozentsatz	18,90
030	IKK Düsseldorf	AV-Prozentsatz	3,00

MONATSWERTE:			
ST-Brutto lfd:	2890,00	ST-Brutto EBZ:	1000,00
KV-Brutto lfd:	2890,00	RV-Brutto lfd:	2890,00
KV-Brutto EGA:	1000,00	RV-Brutto EGA:	1000,00
KV-Brutto ges:	3890,00	RV-Brutto ges:	3890,00
KV-Beitrag AG:	283,97	RV-Beitrag AG:	367,61
JST-Brutto:	35680,00	SV-Brutto ungl:	3890,00
Steuer-ID:		RV-Nr:	631603905413
ST-Brutto ges:	3890,00	Stfr.BezDge:	
AV-Brutto lfd:	2890,00	PV-Brutto lfd:	2890,00
AV-Brutto EGA:	1000,00	PV-Brutto EGA:	1000,00
AV-Brutto ges:	3890,00	PV-Brutto ges:	3890,00
AV-Beitrag AG:	58,35	PV-Beitrag AG:	39,87
Zeit/Gehalt:	2500,00	Akkord-Entgelt:	
FGS:	101	SV-Schl. Int:	1111

JAHRESWERTE:			
ST-Brutto lfd:	2890,00	ST-Brutto EBZ:	1000,00
KV-Brutto lfd:	2890,00	RV-Brutto lfd:	2890,00
KV-Brutto EGA:	1000,00	RV-Brutto EGA:	1000,00
KV-Brutto ges:	3890,00	RV-Brutto ges:	3890,00
Gesamtbrutto:	3540,00	Lohnsteuer:	419,33
KV-Beitrag AN:	318,98	RV-Beitrag AN:	367,61
KV-Beitrag AG:	283,97	RV-Beitrag AG:	367,61
SV-Brutto ungl:	3890,00	Tätchlüss.akt	
ST-Brutto ges:	3890,00	Stfr.BezDge:	
AV-Brutto lfd:	2890,00	PV-Brutto lfd:	2890,00
AV-Brutto EGA:	1000,00	PV-Brutto EGA:	1000,00
AV-Brutto ges:	3890,00	PV-Brutto ges:	3890,00
Solid.Zuschlag:	11,66	Kirchensteuer:	16,96
AV-Beitrag AN:	58,35	PV-Beitrag AN:	39,87
AV-Beitrag AG:	58,35	PV-Beitrag AG:	39,87

Entgeltbescheinigung nach § 108 Absatz 3 Satz 1 der Gewerbeordnung (GewO)

BEHIND A GERMAN PAYSLIP (CONT.)

1 Personal information

Contains parameters about the employee's situation that are used for the numerous tax and social contribution calculations.

The most noteworthy are:

- **Steuerklasse:** tax class, determines income tax rates.
- **ZKF (Zahl der Kinderfreibeträge):** tax exemptions for children.
- **Konfession:** religion. Can be Roman Catholic (rk), Protestant (ev) or none (--). Determines if employee is subject to church tax.
- **SV-Schlüssel. KV/RV/AV/PV:** social insurance codes. Indicates contribution level for the four major social insurance schemes according to employee status. Here 1 = full contribution.

3 Social insurance contributions

Employee contributions to social insurance funds. (See rates below).

- **KV-Betrag- AN:** health insurance contribution.
- **PV-Betrag- AN:** long-term care insurance contribution.
- **RV-Betrag- AN:** pension insurance contribution.
- **AV-Betrag- AN:** unemployment insurance contribution.

These four employee contributions are complemented by an employer contribution. In addition, employers contribute to maternity leave and accident insurance funds for their employees.

5 Miscellaneous

- **VL-Sparbetrag:** employee savings on company "sponsored" plan.
- **D-Vers-AG, D-Vers-AN:** employer and employee contribution to a private pension scheme. Private company pension plans are a complement – second pillar – to the government-run retirement insurance system.

7 Monthly/annual values

- **Monatswerte/Jahreswerte:** summary of monthly and annual bases, rules and exemptions for social insurance contributions and taxes.

The employer's social contributions can be seen here. For instance **KV-Beitrag-AG** is the employer's contribution for health insurance.

2 Wages

- **Gehalt:** monthly base salary.
- **VL: AG-Anteil:** voluntary employer contribution to savings plan: employees who save money get an extra contribution from their employer.
- **Gehaltsumwandlung:** deduction for tax and/or social benefits.
- **Bonus:** granted according to company-specific agreements.
- **Geldw Vorteil:** non-cash benefits – subject to tax and/or social contributions.
- **Erlös Sachbezug:** benefits in kind subject to V.A.T.

4 Taxes

Calculated, withdrawn from salary and paid to tax authorities by the company.

- **Lohnsteuer:** income taxes. Calculated at progressive rates, taking into account the employee's individual situation.
- **Solid. Zuschlag:** solidarity surcharge. Tax created in 1991 to fund the country's reunification efforts. A progressive rate (capped at 5.5 % in 2013) applies above the salary exemption ceiling.
- **Church tax:** paid by employees who report they are Catholic or Protestant. In 2013, the rate was 9% of the income tax in most of the country (8% in Bavaria and Baden-Württemberg).

6 Social insurance rates

- **Sozialversicherungssätze:** rates of the four social insurance schemes to which employee contribute.
 - **KV-Satz:** health insurance rate
 - **PV-Prozentsatz:** long-term care insurance rate
 - **RV-Prozentsatz:** pension insurance rate
 - **AV-Prozentsatz:** unemployment insurance rate

Characteristics of a socially protective economy

With four mandatory social contributions paid by employees, a German payslip reflects a comprehensive social system. It also shows the different federal taxes that are collected by companies. Some of these taxes are a legacy of the country's history.

Wages

German employees' salary is established on a monthly basis. Overtime hours are charged at different rates depending on company agreements; some overtime earnings are tax-free. Employees may also receive bonuses, commissions and allowances based on company agreements.

German employees can be granted additional benefits, like a company car or a savings plan to which both employer and employee contribute.

Four social insurance schemes, three models, 150 funds

In Germany, employers and employees must contribute to different social protection schemes. Employees' contributions are deducted from their salary. This social protection system is comprehensive, covering six different risks: health, pension, unemployment, long-term care, maternity and injury. Rates for each social contribution are fixed by law. There are three different social protection models that grant different rights, depending on the employee's gross salary. Employees earning less than the social security income ceiling are insured by law (in which case they are insured "by statute"). The social security ceiling was €50,850 of annual gross salary in 2013.

Above that threshold, employees have the option of remaining in the statutory plan (in which case they



are "voluntarily" insured) or of taking out a private health insurance policy (in which case they are "privately" insured). 90% of German employees are insured by statute or voluntarily.

Employees can also choose their social security fund/government scheme insurer (Krankenkasse) amongst 150 different providers. Statutory contribution rates are the same for all social security funds. Within the same company employees can have different funds – meaning payroll administrators may have to interface with many third parties.

Multiple taxes

Companies withdraw income tax at the source. This requires information on the employee's family/children and tax exemptions. There are six tax classes with progressive rates.

Companies file annual tax statements with the tax authorities. Employees manage their individual annual income tax declarations.

German employees pay a solidarity surcharge, which is an additional percentage of the income tax levied on salaries. The solidarity surcharge was established in 1991 to fund

German reunification. Salaries lower than €972 per month (2013 figure) are exempted.

German employees who declare a religious affiliation pay a church tax, which is a surcharge on their income tax (rates vary by state). This practice is rooted in the country's history: at the beginning of the 19th century, German states started to collect taxes to fund church activities (education, charity, healthcare, etc.).



Many levels of obligations and specific processes

The rules that govern labor in Germany are issued at multiple levels. This generates differences in payroll production within companies. Legislation also requires companies to comply with specific processes and to interact with many third parties.

Different levels of rule-making

Payroll is mainly driven by federal labor laws, but is also affected by collective and company agreements. The 16 *Länder* or states only influence bank holidays and tax rates, but this can lead to differences across locations within companies.

At the federal level, major changes, such as tax rates, taxable income, social contribution assessment ceiling and rates, are updated once a year on January 1.

There are more than 100 different collective and company agreements and they have a big impact. Minimum wage, allowances, overtime rates, bonuses and commissions vary according to industry and collective agreements.

Intensive reporting & interfacing

In the context of payroll production, German companies interact with many third parties: tax authorities and as many as 150 social security funds.

All year long they must handle different interfaces to exchange with these third parties, e.g. to claim back-payment from social security for a sick employee (in Germany, the company pays a sick employee their full salary for 42 days, after which the social security fund pays a percentage of their income).

Year-end activities include annual declarations to government schemes for all social contributions, as well as annual declarations of employee income and taxes



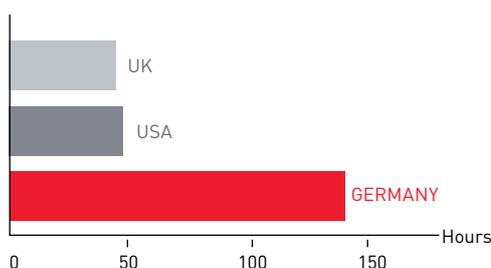
paid to the tax authorities. On top of that, payroll teams have to implement annual changes in tax and social security rates.

Back calculations

When a correction is required (because of an error or change in rate), the correct payslip for the affected month must be re-issued with a specific mention of all differences. Corrections are to be made this way in regular cases for payslips issued up to 24 months earlier. This is very specific to Germany; most countries make the corrections on the payslip for the current month.

The average time that companies devote to labor tax compliance gives an indication of the importance of the overall compliance efforts in a given country. This figure amounts to 139 hours in Germany versus 45 in the UK and 55 in the US.

TIME TO COMPLY WITH LABOR TAX



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