Employment and Labor in Germany

Prof. Dr. K. Schwantag ·
Dr. P. Kraushaar GmbH
Wirtschaftsprüfungsgesellschaft
Tax Consulting, Accounting, Auditing Services

Prof. Dr. K. Schwantag ·
Dr. P. Kraushaar
Steuerberatungs GbR
Tax Consulting, Accounting

Zeilweg 42
60439 Frankfurt am Main
Germany
T +49 69 971 231-0
F +49 69 971 231-70
www.sk-berater.com

Introduction

More than 40,000 companies in Germany are under foreign control and together employ approximately 4.7 million people (Federal Statistical Office, reporting year 2023, published in Dec. 2025).

The labor market in Germany is comparatively flexible, but the high standard of employee protection sets limitations. While Germany's highly qualified labor force offers foreign employers good conditions for recruitment and employment, this high standard is also expensive. Generous remuneration and the additional social security contributions amount to relatively high employment costs.

The *S·K· Guide to Employment and Labor in Germany* gives a useful overview on the labor law and on what needs to be considered when starting a employment relation in Germany, also with regard to the employment regulations in Germany, the labor costs and payroll procedure. By providing general background information, this booklet will serve as reference guide.

For further advice, please find our contact details on the pages 16 and 17 of this booklet or on our homepage: www.sk-berater.com

We are looking forward to assisting you.

Frankfurt am Main, August 2026

Lothar Boelsen	Jana Seifert	Anne Rinkenberger
-Managing Partner-	*-Managing Partner-*	*-Managing Partner-*

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Employment Law - High Standards of Protection

Extensive legal regulations set the framework for employer-employee relationships. There is no labor code in Germany. The majority of these regulations is established by the *below mentioned special laws* and set high standards of protection for employees.

The following laws settle some of the basic rights and duties of employers and employees as follows:

- *German Civil Code (Bürgerliches Gesetzbuch*: Sections 611 to 630 of the German Civil Code (BGB) in particular govern service contracts. These include employment contracts, but also freelance employment relationships such as managing director contracts.

- *Employment Conditions* Act (*Nachweisgesetz*): The Employment Conditions Act requires employers to set out the key terms of an employment contract in writing, sign it and provide a copy to the employee. The most important details include salary, working hours and notice periods. The aim is to ensure greater fairness and clarity in the workplace. .

- *Working Time Act* (*Arbeitszeitgesetz*): The general German workweek is between 37 to 40 hours and varies according to industry sector and location. In Germany, the Working Time Act stipulates a maximum daily working time of 8 hours per working day. Since Saturday is also considered a working day, the maximum working time per week is therefore 48 hours. Exceptionally, employees may work ten hours a day if there is compensation within six months. If employees work more than six hours per day, they are required to take a break of at least 30 minutes. If employees work more than nine hours per day, they must take a 45-minute break.

- *Minimum Wage Act (Mindestlohngesetz):* Since 1 January 2026, the statutory minimum wage in Germany has been **13.90 euros** gross per hour. On 1 January 2027, the next step will be to 14.60 EUR. Exceptions are very few, for example for certain trainees.

- *Holiday Benefits Act* (*Bundesurlaubsgesetz*): The annual statutory minimum of paid vacation is set at 20 working days based on a five-day workweek. In practice, employees are granted 20 statutory days' holiday and approximately 7 to 10 days' voluntary holiday, making a total of 27 to 30 days' holiday.

- *General Equal Treatment Act* (*Allgemeines Gleichbehandlungsgesetz*): Employees and applicants may not be discriminated against on the basis of gender, race or ethnic origin, religion, disability, age or sexual orientation.

- *Pay Transparancy Act, based on the binding EU Pay Transparency Directive* (*Entgelttransparenzgesetz*): The Pay Transparancy Act enforces the principle of 'equal pay for women and men for the same or equivalent work'. It guarantees the individual's right to information, requires companies to carry out pay reviews, and is significantly strengthened by EU requirements.

- *Occupational Safety and Health Act* (*Arbeitsschutzgesetz*): Employers must observe health and safety regulations that vary according to industry sector and location.

- *Continued Remuneration Law (Entgeltfortzahlungsgesetz*): Employees are entitled to continued remuneration during the first six weeks of absence from work due to illness as well as for public holidays.

- *Maternity Protection and Parental Leave* Act (*Mutterschutzgesetz*): Expectant mothers are prohibited from working during the last six weeks of pregnancy and the first eight weeks after giving birth. They are entitled to continued payment of wages during maternity leave. Termination is not permitted against a woman during her pregnancy and until the end of the protection period, but at least until the expiration of 4 months after delivery. Furthermore, parents of a newborn child may opt for a parental leave of up to three years during which the employment contract is suspended. The employee is entitled to resume his or her former job or a similar position after parental leave on equal payment.

- *Employment Protection Act* (*Kündigungsschutzgesetz*): Employers' right to terminate an employment contract is restricted by this law in relation to the notice periods, social costs for employees and reasons for termination.

- *Works Council Constitution Act* (*Betriebsverfassungsgesetz*): Businesses employing five or more people must give their employees the opportunity to form a workers council, which has information-, consultation- and positive co-determination rights over a range of social issues in the interest of the employees. The size of this council depends on the number of employees.

Employment Agreements

I. Content and form

Employment contracts are usually settled in written form, but this is not mandatory. In accordance with the German Employment Conditions Act (Nachweisgesetz), the employment contract must contain, amongst other things (but not limited to), the following information:

- name and address of employee and employer,
- Date on which the employment relationship commences
- In the case of fixed-term employment contracts, the duration of the employment relationship or the end date
- Where agreed, the duration of the probationary period
- Place of work; where applicable, the employee's freedom to choose their place of work
- type of work (brief description),
- remuneration: amount, composition (including supplements, bonuses, premiums, special payments) and due date, as well as other components of remuneration, each of which must be stated separately, together with their due dates and the method of payment
- Working hours
- Duration of annual leave per year
- Notice periods
- possible references to regulations under collective law (collective agreements, service or company agreements).
- Agreed working hours, agreed breaks and rest periods, and, in the case of agreed shift work, the shift system, the shift pattern and the conditions for changing shifts
- In the case of on-call work, in addition to the agreement that work is to be performed in accordance with the workload, the number of minimum hours to be remunerated, the relevant timeframe and the deadline for the employer to notify the employee in advance of the working hours
- Where agreed, the possibility of overtime being required and the conditions for this
- Any entitlement to further training provided by the employer
- If the employer promises the employee a company pension scheme through a pension provider, the name and address of that provider; the obligation to provide evidence does not apply if the pension provider is required to disclose this information.
- The procedure to be followed by the employer and the employee upon termination of the employment relationship, including at least the requirement for written notice and the notice periods for terminating the employment relationship, as well as the time limit for bringing an action for unfair dismissal; Section 7 of the Unfair Dismissal Protection Act shall also apply even if the time limit for bringing such an action has not been duly evidenced

The employee must

- on their first day of work be provided with a written document containing information on the names and addresses of the contracting parties, the remuneration and its composition, and the working hours (including breaks, etc.)
- within seven calendar days, details of the start date of the employment relationship, the fixed term (if applicable), the place of work, a job description and the duration of the probationary period must be provided

- within one month, all remaining information must be provided.

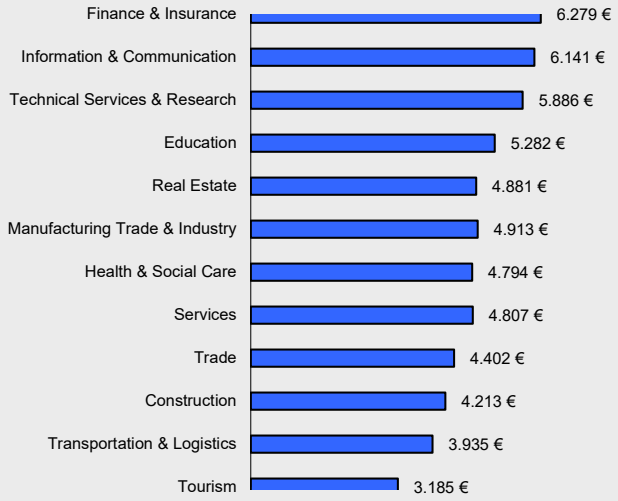
In practice, all these points are usually set out in a written contract, which is signed before the employee's first day of work.

A probationary period of up to six months is common, during which either party may terminate the contract with a period of notice of 2 weeks.

II. Remuneration

Since 2015, a general mandatory minimum wage exists, applicable in all industries in Germany. In specific industry sectors there are minimum wages based on collective agreements, but they may not be less than the statutory minimum wage.

Average Monthly Gross Earnings in Germany (2025)



Source: Statista 2025: The above figure shows the average monthly gross earnings for employees in Germany according to branches (survey period 01/01/25 – 12/31/25). Monthly gross earnings refer to the total earnings prior to tax and social security deduction.

In 2025, the average monthly gross earnings for employees in Germany were EUR 4,784. This figure, however, is merely a rough indication, as wage levels vary widely depending on various factors like company size and location, business branch and sector or the experience, skills and age of the employee. Fringe benefits in Germany usually include work amenities like canteen meals, fuel vouchers as well as company cars, which are common among senior employees and business travelers. Furthermore, larger German companies often offer their employees relief funds or voluntary pension plans that supplement the state retirement-pension scheme.

III. Termination of Employment Relationship

The employment relationship may be terminated with notice or for cause. The notice period may result from the employment contract, an applicable collective bargaining agreement or from the law (Section 622 German Civil Code (BGB)). The legal standard is: The employment contract can be terminated with a notice period of four weeks to the 15th or to the end of the calendar month. This period cannot be shortened by the employment contract, but it can be extended. The notice period that the employer must observe also depends on the duration of the employee's employment. In order to be effective, the notice of termination must be in writing. Fixed-term contracts terminate automatically at the end of their agreed term.

In companies with more than ten employees, employers need a specific reason for a dismissal according to the Employment Protection Act. In companies with a workers council, the opinion of the workers council

must be heard before the termination of the contract. Usually, smaller companies with ten or less employees are not obligated to justify the normal termination of an employment contract.

In case of extraordinary severe cause, such as criminal behavior of the employee, non-payment of salary or discrimination by the employer, the employment contract can be terminated with immediate effect.

Employment of foreign workers

EU citizens can migrate freely within the EU and do not require work visa or work permits. Whilst an employee is working in these countries, they may also live there if they comply with the country-specific requirements of each country.

Non-EU nationals, who want to settle and work in Germany, are required to obtain a residence title issued by the immigration office (i. e. a visa, a residence permit or a permission of settlement) and a work permit, which is documented in the residence title. Citizens of certain countries may apply for a residence/ work permit from within Germany.

The work permit can be applied for together with the residence permit at the Aliens Authority (*Ausländerbehörde*). The approval of the Federal Employment Agency for the work permit is required. As a rule, approval is granted if the following conditions are met:

1. a concrete job offer exists.

2. the working conditions are comparable to those of domestic employees.

3. the professional qualification of the foreign specialist must enable him or her to perform the job; in the case of the EU Blue Card, the job must be appropriate in relation to the qualification.

Labor Cost

I. Overview

Wages and salaries only constitute a part of the total labor costs. However, mandatory contributions for social security and health care increase labor costs considerably. Unlike in other countries, these contributions are not treated as taxes in Germany.

II. Wages and Salaries

All income that an employee receives from an employment relationship is subject to wage tax given the employer is based in Germany. Wage tax is a generic term for the taxes income tax, church tax and solidarity surcharge.

The wage tax, church tax and the solidarity surcharge withholding depends on the martial status of the employee (single, married, (no) children), the religious affiliation and the monthly gross salary. Even though the employee is the tax debtor, the employer withholds the wage tax via the payroll and makes sure it is paid in the correct amount to the tax office.

Since 2021, no solidarity surcharge will be levied if the wage tax payable is below a certain threshold. These thresholds increase slightly each year. In 2026, the limit is EUR 20,350 for singles and EUR 40,700 for married couples. Above this threshold, a so-called mitigation zone kicks in, in which the solidarity surcharge is not applied in full, but is gradually brought up to the full rate of 5.5 percent. If the taxable income exceeds EUR 74,569 (single taxpayer) or EUR 149,138 (married taxpayer), the full solidarity surcharge of 5.5 percent is applicable.

Church tax will only be levied if the employee has a religious affiliation that is subject to church tax and generally varies between 8% to 9% of the wage tax or income tax.

III. Social Security Contributions

Social security coverage is generally mandatory for all employees working in Germany, regardless of their citizenship or the residence of the employer. In Germany, the applicability of German social security law depends on the place of residence or habitual place of abode of the person concerned.

Employer and employee split these costs nearly equally, combining to an average of approximately 40% of the gross income. The employer is liable to remit all contributions and generally deducts the employee's portion from wages.

Social Security Contributions (2026)

Pension Fund	18.6 %
Health Insurance*	~ 15 %
Unemployment Insurance	2.6 %
Nursing Insurance**	3.6 %
Accident Insurance***	~ 1,3 %

* Differing rates for employer (7.3%) and employee (7.3%)
** Employees without children pay an additional 0.6%; bears employee alone
*** Rate depending on the risk of work; bears employer

The social security contributions include payments to the statutory pension insurance and unemployment insurance, as well as health and long-term homecare insurance.

There is an obligation for the employee to be health insured in Germany. Employees are generally covered by the statutory health insurance as compulsorily insured. If they, however, exceed a certain income limit (for 2026 contractually agreed annual remuneration exceeding EUR 77,400), the employee

can choose to be covered by the private health insurance or to be voluntarily insured in the statutory health insurance. This has to be considered when running the payroll. If the employee is privately insured, he has to transfer the health insurance contributions as this will not be done by the employer.

The contributions are capped at so-called contribution ceiling. Social security contributions can only be paid in Germany up to this limit:

Contribution Ceiling 2026 (nationwide)		
	Health Insurance/Nursing Insurance	Pension Fund/ Unemployment Insurance
Monthly Gross Pay	5.812,50 €	8.450,00 €
Yearly Gross Pay	69.750,00 €	101.400,00 €

In addition to these contributions, the employer generally has to pay further contributions for wage continuation, which are the so-called Umlage 1 (for sickness) and Umlage 2 (for maternity protection), as well as the employers' insolvency pay contribution. The employer contributions to Umlage 1 amount to approximately 1,3% to 4%, to Umlage 2 to 0.44% and to the insolvency pay contribution to 0.15%.

IV. Total Personnel Costs (Example Calculation)

Based on the above, the personnel costs for an employee are calculated as follows assuming the employee is single (tax class I), Roman-Catholic, resides in Frankfurt (Hessen), contributes to the statutory health insurance and the average rate of the health insurance is applicable:

Monthly Gross Salary	EUR 3,000 (under contribution ceiling)	
Allocation	**Employee Part**	**Employer Part**
Wage Tax	293,08 €	
Church Tax	26,37 €	
Solidarity Surcharge		
Health Insurance	262,50 €	262,50 €
Nursing Insurance	72,00 €	54,00 €
Pension Fund	279,00 €	279,00 €
Unemployment Insurance	39,00 €	39,00 €
Total	**971,95 €**	**634,50 €**
Net salary	**2.028,05 €**	

Monthly Gross Salary	EUR 9,000 (over contribution ceiling)	
Allocation	**Employee Part**	**Employer Part**
Wage Tax	2.212,75 €	
Church Tax	199,14 €	
Solidarity Surcharge	61,51 €	
Health Insurance	508,59 €	508,59 €
Nursing Insurance	139,50 €	104,63 €
Pension Fund	785,85 €	785,85 €
Unemployment Insurance	109,85 €	109,85 €
Total	**4.017,19 €**	**1.508,92 €**
Net salary	**4.982,81 €**	

Payroll Procedure

I. Employer based in Germany

The employer based in Germany, either as a German legal entity, a subsidiary, a branch office or a permanent establishment, is generally obligated to run a payroll for the employees on a monthly basis. Within the monthly payroll run, wage taxes and social security contributions for the employees being employed with the German employer have to be withheld and pay these to the tax office and the social security authority.

The employer is obliged to register the employee with the competent health insurance fund, to submit notifications and contribution statements and to pay the total social security contribution.

The statutory social security contributions will be withheld via the German payroll.

II. Employer based outside of Germany

a. German Labor Law

The employment contract is usually set-up between the foreign employer and the individual living and working in Germany. The foreign employer is considered the employer of the individual by civil law.

The employment contract can generally be concluded based on foreign or German law, however, it is required that the contract is in compliance with German labor law, meaning it has to include certain sections with regard to, e. g. leave days paid, working hours, remuneration. The employment contract under foreign law may not disadvantage the individual or make the employee worse off than if it had been concluded under German law.

b. Wage Tax Perspective

The foreign employer is not obligated to run a payroll and to withhold wage taxes for the employee in Germany from a wage tax perspective. A registration of the foreign employer for wage tax purposes is not required.

Furthermore, in general, no other tax consequences arise for the foreign employer in Germany solely by employing individuals in Germany, for example with regard to filing tax returns or preparing financial accounts as long as no permanent establishment is created (please see section Payroll Procedure II. d. for more details).

The employee is obliged to pay taxes on this income and is thus required to file a German income tax return.

The foreign employer has to advise the employee that they are required to make quarterly installments to the tax office, each due on March 10, June 10, September 10 and December 10. The tax office will assess the installments after being informed about the employees' situation in writing via a covering letter. In order to estimate the income taxes that will be due by the employee, a projection can be made.

c. Social Security Perspective

In general, employees working in Germany have the obligation to contribute to the German social security system. The employee may be, however, subject to an exemption agreement due to the work pattern and travel activity, which is agreed between the social insurance institutions of the respective countries. Social security agreements coordinate social security law. From the perspective of the employee, it serves to ensure that the same or similar benefits of the home social security system can also be claimed in the territory of the other state. In the member states of the EU and the EEA as well as in Switzerland, European law applies with further significance.

If the German legislation is applicable, the foreign employer must fulfill his obligations as if the company was domiciled in Germany, meaning the foreign employer is subject to the same obligations as a German employer for social security purposes.

d. Permanent Establishment Issue

The employee may create a permanent establishment (PE) through the work in Germany for the foreign employer.

It specifically has to be reviewed if the employee has authorization to sign and conclude contracts or to bind the foreign company in any way. If the employee is simply carrying out employment duties, generally no permanent establishment will be created.

According to current legislation, a home office can generally not be categorized as a permanent establishment as it does not fulfill the criteria “power of disposition” due to the fact that it is not (easily) accessible for the employer. However, current discussions reveal that a home office might be considered as a permanent establishment under certain circumstances, because, at the OECD level, an increasing alienation from the required criteria “power of disposition” can be observed.

III. Assignment of employees

If staff employed at a company abroad is only temporarily transferred to a German branch or a related company in Germany, they may be exempt from wage tax and German social security contributions.

In case of a long-term assignment, however, the host company resident in Germany will be assumed as the (new) employer of the assignee. Consequently, wages and salaries paid to the assignee will most likely be subject to German wage tax as well as social security contributions. As a general rule, income tax and social security contributions are paid in the country where the employment is carried out, unless the individual is protected by a double tax treaty. Other exemptions are possible.

This is also the case if the sending company does not have a *statutory place of business* in Germany and assigns *executive staff* to Germany. The German tax authorities will then assume that an *effective place of management* is being established in Germany. This may also trigger further tax liabilities for the sending company.

IV. A1 Certificate

Since enacting the regulation (EG) 883/2004 on May 1, 2010, German employers are required to inform the responsible insurance institution about every single foreign assignment and to consider social-security-related specifics. This means that any professional cross-border activity within the EU, European Economic Area (EEA), to Switzerland and the United Kingdom requires an individual electronic application for an assignment certificate (A1-certificate) according to the legal framework.

When assigning employees abroad, the A1-certificate is an official document proving that the employee belongs to only one social security system and determines that only one legislation is applicable (generally the one of the home country). The A1-certificate intends to avoid the obligation to pay double contributions or short-term and possibly repeated changes between the social security systems of different countries as well as time-consuming (de)registration processes.

Filing Requirements

Individuals are generally obliged to file a German income tax return depending on their tax situation and the source of income. Exceptions are possible and have to be reviewed on a case-by-case basis as various factors play a role (wage tax withholding, tax class combination, source of income etc.).

A unique tax identification number serves as a permanent identifier in all tax respects for individuals.

The income tax return has to be filed for the period January 1 until December 31. In case of an unlimited tax liability, the total worldwide income has to be reported. Otherwise, if an individual is subject to limited tax liability, only the German-sourced income is subject to taxation in Germany.

Double tax treaties (DTT) ensure tax relief for internationally active taxpayers with foreign-sourced income, allowing the income to be to be basically taxed only once, either at its source or where the recipient is resident. This also has to be reviewed carefully when preparing the income tax return.

The income tax returns must generally be filed annually by July 31 following the period of assessment. Taxpayer, who prepare their tax return with the help of a certified tax consultant, are usually granted an automatic extension of the filing deadline, generally until the last day of February of the year after the next year of the assessment (e.g. filing deadline for 2026 tax return is generally February 29, 2028). In order to reduce bureaucracy, the tax returns have to be submitted electronically.

The tax authorities will review the filed tax return and issue an income tax assessment notice afterwards. This normally takes between three and six months. Based on the income tax assessment notice, the taxpayer will be informed if additional taxes or a tax refund are due.

An appeal against the assessment is possible from the taxpayer’s side as well as from the side of the tax administration.

About S·K· Frankfurt

S·K· assists you in organizing your strategy for doing business in Germany and fulfilling the legal and economic requirements of your investment. By mapping out the details of your plans and assessing the resources required, we can help you to increase your business in Germany smoothly and with lasting success.

Reliability for your Decisions over 30 years

Cooperating with our professional colleagues of the Leading Edge Alliance (LEA), we are well equipped to keep up to requirements resulting from the internationalization of the economic and legal systems. Within these networks, we keep track of any legal changes and their repercussions and share international economic know-how and contacts with companies and chambers throughout the world.

Our experienced auditors and tax consultants, lawyers and M&A specialists are looking forward to accompanying your enterprise in Germany, whether regarding a business start-up, expansion or relocation plans. Please get in touch with us directly or visit our website www.sk-berater.com

Our Experts

Lothar Boelsen
Managing Partner, Auditor, Tax Consultant, Legal Advisor
E-mail: lb@sk-berater.com

Area of expertise:
- Assisting family-owned enterprises
- Auditing and advising not-for-profit organizations of all legal forms
- International tax law
- Restructuring consulting
- Business management and tax-related advice (for all legal forms and industries)

Mona-Larissa Staud
Lawyer, Tax Consultant
E-mail: ms@sk-berater.com

Area of expertise:
- Tax advice on inheritance and gift tax
- Advice in the area of criminal tax law, preparation of voluntary declarations
- Out-of-court legal remedies and financial litigation (all types of tax)
- Support in the choice of legal form when founding a company

Disclaimer

The S·K· Guide to Employment and Labor in Germany is issued by S·K· GmbH in Frankfurt in August 2026. The information contained in this present guide has been assembled in 2026 and is based on present law and current available information.

Please allow us the short notice that the guide is containing information of general nature only and does not substitute any professional financial, legal, tax or other advice. Whilst S·K· has taken every care in assembling the most relevant information, we cannot guarantee accuracy or completeness of the guide. Hence, S·K· cannot assume liability for any acting upon the information contained in the guide.

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Prof. Dr. K. Schwantag · Dr. P. Kraushaar GmbH
Wirtschaftsprüfungsgesellschaft
Tax Consulting, Accounting, Auditing Services

Prof. Dr. K. Schwantag · Dr. P. Kraushaar
Steuerberatungs GbR
Tax Consulting Company

Wiener Straße 146
01219 Dresden
Telefon +49 351 254 77-0
Telefax +49 351 254 77-90
dresden@sk-berater.com

Zeilweg 42
60439 Frankfurt/Main
Telefon +49 69 971 231-0
Telefax +49 69 971 231-70
frankfurt@sk-berater.com