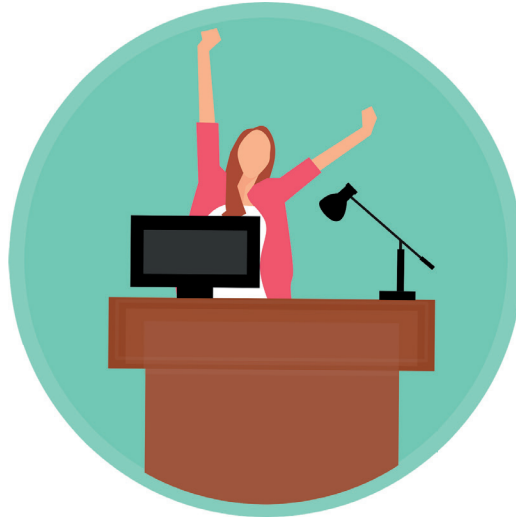


Wages and Incidental Costs



Wages

Needless to say that wages are one of the most important topics in business. No matter if they are calculated on an hourly, daily, weekly or monthly basis, it is of utmost importance to pay careful attention to payroll accounting. Employees can receive a fixed salary or a combination of fixed and performance-based salary components. There is no upper limit for wages but in Germany, there are mandatory minima.



Minimum Wage Law

Since the minimum wage law was introduced in 2014, its amount has been growing at different rates. 2020, workers and employees are entitled to earn at least €9.35 per hour. 2021, this amount will prospectively increase to €9.85 per hour.

Collective Bargaining Agreements

In sectors which are subject to a collective bargaining agreement it is mandatory that the wages comply with it. This applies to regional and sectoral agreements as well as to company agreements, which has been negotiated between employer representatives and the responsible trade union.

Please find more information on Collective Bargaining Agreements in our E-Journal "Trade Unions and Representatives"





Posted Employees

On 8 March 2016, the European Commission proposed a revision of the rules on posting of workers within the EU to ensure they remain fit for purpose. The Commission proposal was adopted on 28 June 2018.

One of the main changes introduced by the revised Directive is that posted workers should now receive “all the mandatory elements of remuneration instead of the minimum rates of pay”. The Directive

must be transposed to national laws by 30 July 2020 and cannot be applied before that date.

Employers who violate these rates can be charged with fines of up to €30,000 and may be subject to prosecution because of unethically low wages.



Heuser Recht und Steuern is a competent partner to assist you if you have any further questions.

Incidental Wage Costs

In comparison to the rest of Europe, in Germany, the ancillary costs paid by employers are slightly below average. The burden for employees, however, is comparatively high.



It is the employers' obligation to withhold incidental costs as taxes and social security contributions and pay them to the respective authorities and insurance companies.

Individual Income Tax

The Germany individual income tax is staggered dependent on the amount of income. It ranges between 4 and 45%.

€9,408 per year are tax-free. Only income that exceeds this limit is taxable – beginning at a rate of 4%. The marginal tax rate of 42% is reached at an annual taxable income of €57,052. A supplementary rate of 3% is added to annual incomes over €270,501 – so that, including this wealth tax, the tax rate amounts to 45%.



Electronical Wage Tax Card

Since some years, every resident in Germany receives a Tax Identification Number (Steueridentifikationsnummer). German-born people get this ID by letter already short after birth, whereas foreigners are assigned with this identification number as soon as they register their residence in Germany. The Tax Identification Number gives access to the electronic wage tax card, which contains all relevant data to evaluate the exact amount the employer has to deduct from the employee's income to pay the income tax. It includes: tax class, marital status and the number of children.

Annex Taxes

So-called annex taxes are tax rates which are calculated based on another tax rate. In Germany, the solidarity surcharge and the church tax base on the income tax rate.

Currently, the solidarity surcharge amounts to 5,5% of the payable income tax – it is, however, not levied if the income tax is lower than €81 per month (€162/month for jointly filed couples). 2021, this threshold will be increased massively so that most employees will no more be obliged to pay this tax.

Church tax is also an annex tax and is to be paid only by members of officially recognized religious communities. It amounts to 8–9%. Both annex taxes have to be deducted from the employee's income and forwarded by the employer.





Tax Return

At the end of a year, every employee has to file a tax return. In addition to the automatically tax-free amount, it is possible to claim for further deductions and allowances. There are several deductible expenses that can be reported. After some weeks, the revenue office will send back a tax assessment notice and, in most cases, refund some of the tax which has already been paid.

Family Tax Relief

Besides child allowance, which is normally shared between both parents, there is a special regulation for married couples. Particularly if there is a considerable salary difference, it is recommended for married couples to file their tax return jointly. In this case, their taxable incomes will be summed up and divided by two before taxation. This leads to a lower tax load as the actual taxed incomes don't fall within high tax levels. Married couples can, furthermore, choose if both partners want to be classed in tax class IV or split it to classes III and V. Depending on the difference of income, one or the other way can be favourable. For married sole earners, tax class III is, however, the most favourable.

Social Security

The German Social Security System consists of five insurances:

- Pension Insurance
- Unemployment Insurance
- Health Insurance
- (Nursing) Care Insurance
- Accident Insurance

All of them are compulsory insurances. Only employees who earn more than €4.537,50 monthly are exempt of compulsory health and care insurance and allowed to join a private insurance. There is no such exemption for the other insurances.

Contributions

The social security contributions are dependent on the amount of gross income. In contrast to the income tax, the rates are, however, not staggered but fixed percentages.

Class of Insurance	Total Contribution	Employee's Share	Employer's Share	Assessment Ceiling
Pension Insurance (Rentenversicherung)	18.6 %	9.3 %	9.3 %	West: € 6,700 per month East: € 6,150 per month
Unemployment Insurance (Arbeitslosenversicherung)	2.4 %	1.2 %	1.2 %	West: € 6,700 per month East: € 6,150 per month
Health Insurance (Krankenversicherung)	Different rates Average: 14.6 %	Different rates Average: 7.3 %	Different rates Average: 7.3 %	€ 4,537.50 per month
Care Insurance (Pflegeversicherung)	3.05 % plus 0.25 % for childless people	1.525 % (Saxony: 2.025 %) plus 0.25 % for childless people	1.525 % (Saxony: 1.025 %)	€ 4,537.50 per month
Work Accident Insurance (Unfallversicherung)	Different rates Average: 1.31 %	none	Different rates Average: 1.31 %	Different
Total	approximately 39.96 % – 40.21 %	approximately 19.33 % – 20.08 %	approximately 20.14 % - 20,64 %	



Please find more information in our E-Journal Social Security in Germany

CONTACT



Am Kiekenbusch 15
47269 Duisburg

Tel.: +49 203 479992-0

Fax: +49 203 479992-11

Redaktion

Verantwortlicher
Redakteur Heuser-Recht und Steuern
Magazin (v.i.S.d.P.): Achim Heuser

Anzeigenkontakt: kontakt.heuser@heuser-collegen.de

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