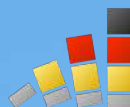


GO-TO-MARKET GUIDE

What Israeli Startups need to know to enter the German market successfully



GISEP
The German Israeli
Startup Exchange
Program



**German
Startups
Association**

Supported by:



Federal Ministry
for Economic Affairs
and Energy

on the basis of a decision
by the German Bundestag

Impressum:

Bundesverband Deutsche Startups e.V.
im Haus der Bundespressekonferenz

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SASCHA SCHUBERT

A word by the initiators

Israel and Germany share common values and interests and are bound together by historical, political, cultural and economic ties. After the first business contacts in 1965, today, Germany has become Israel's third most important trading partner. For us, that is fantastic news! The digital economy provides especially huge potential for mutually beneficial cooperation.

Israel's startups ecosystem is highly innovative and regularly produces fascinating technology, as demonstrated by examples such as Mobileye (driver assistance), Indigo (digital printing), Vocaltec (VoIP), Cortica (autonomous AI), Waze (GPS) and StoreDot (batteries). Accordingly, leading global corporations from different sectors have opened R&D and manufacturing centers in Israel. The combination of talent, infrastructure, excellent academic institutions, military entrepreneurship, an active venture capital scene, and government support foster an entrepreneurial culture that is absolutely exceptional, especially when looking at the size of the country with only close to 9 million inhabitants.

Having said that, we in the German Startups Association believe that not only the German ecosystem can profit from Israeli innovation, but the German industrial landscape also holds immense opportunities for Israeli founders in scaling their solution. Germany is an attractive site for trade investment, and a global economic player, being the home market for many well-known corporations. The German Mittelstand, the backbone of the German economy, also provides enormous potential, as it is selling its products across the world, while at the same time being deeply locally embedded. Expansion to the European market with Germany as an entry point is, thus, a fruitful strategy for Israelis looking to expand and grow their business.

The GISEP, initiated by the German Startups Association and financed by the Federal Ministry of Economics and Energy, is intended to exploit these synergies between Germany and Israel and thereby drive innovation to address today's pressing challenges, and secure prosperity, jobs and economic growth. Building on a great network of founders and other ecosystem experts, the GISEP provides information, establishes business connections and organizes pitching opportunities and sector-specific B2B events.

In this context, we are happy to present our Go-To-Market Guide, which aims to help Israeli founders plan internationalization to Germany. When entering a new market, there are many hurdles to be conquered by the founder. Not only is it necessary to familiarize oneself with the regulatory framework in the target country, but one also needs to understand ecosystem-specific conditions, which concern many topics from finding funding and business partners, and doing an exit, to cultural hurdles and diverging norms. Every contribution has been written by experts in the respective field.

Now let us get to business – and to many more years of friendship and cooperation.

Sincerely yours,

Sascha Schubert
Deputy Chairman of the German Startups Association



The German Startups Association is working for a competitive and sustainable startup ecosystem in Germany and Europe, being in constant dialogue with founders, startups, the established economy, and political institutions. Next to campaigns, events, and political interest representation, the Association runs several sector-specific networks and platforms and works with related institutions, associations, and corporations in realizing its goals.



The German Israeli Startup Exchange Program (GISEP) is an initiative by the German Startups Association (GSA) supported by the German Federal Ministry for Economic Affairs and Energy (BMWi) on the basis of a decision by the German Bundestag. As part of the Innovation Agenda of the BMWi, the GISEP seeks to promote the German-Israeli economic relations in the field of startups as an impartial first point of contact and neutral facilitator of business contacts and opportunities between both countries.

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1 **PLANNING YOUR EXPANSION:** Thoughts on the first strategic choices





GERMANY – GOOD REASONS WHY TO EXPAND TO GERMANY

Germany is one of the largest economies in Europe and home to more than 3.6 million companies.¹ It covers an area of 137,847 sq. miles. Approximately 8,000 startups are operating in Germany in total. With a GDP of 3,144 trillion, Germany is one of the most attractive European destination for entrepreneurs. Furthermore, its 82 million inhabitants make Germany the most populous member state of the European Union.

Young companies are a driving force for the German economy. They employ approx. 90,000 experts and are an important element of the German economy.

For companies from Israel, Germany offers tremendous business opportunities



Leading Economy



First-Class Infrastructure



Global Player



Inviting Incentives



High Productivity



Competitive Tax Conditions



Excellent Workforce



Secure Investment Environment



Power of Innovation



Quality Life

¹ <https://de.statista.com/statistik/daten/studie/246358/umfrage/anzahl-der-unternehmen-in-deutschland/>

1.1 - THE DIGITAL HUB INITIATIVE: WHERE TO SET UP YOUR BUSINESS IN GERMANY

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The Digital Hub Initiative is run by the Federal Ministry for Economic Affairs and Energy and aims to strengthen Germany's position as a world leading digital ecosystem and attractive business location.

Twelve Digital Hubs distributed over the whole of Germany form a strong network enabling the exchange of technological and business expertise, programs and ideas. Startups, established

businesses and academics join forces at each Digital Hub to find answers to the challenges of the digital age. Innovation programs develop new solutions in industry relevant fields, from artificial intelligence to new mobility to smart infrastructure.

With its international appeal, the German ecosystem is one of the most relevant locations for business founders and investors from all over the world.

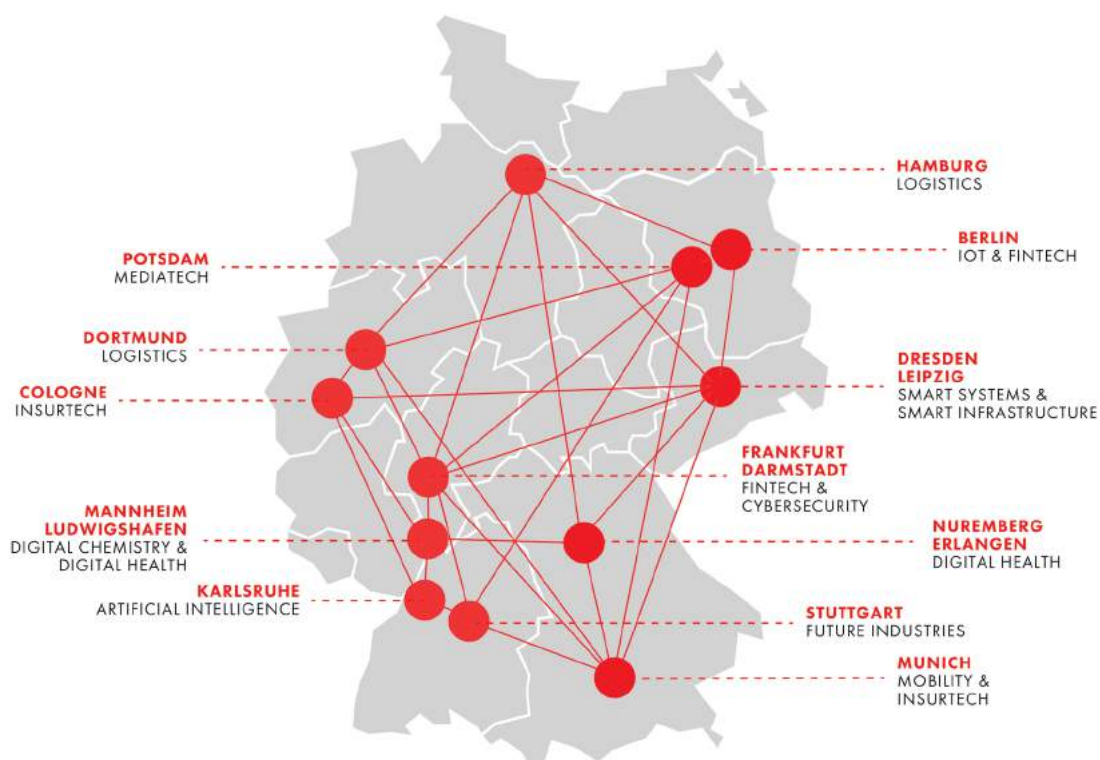
Unlike other centers of digitization such as the Silicon Valley, the focus in Germany is not on any one particular region, but on progress at multiple locations. German digital companies are among the world's most valuable, while traditional corporations and SMEs continue to lead the markets and are at the forefront of digital development in their industries too.

A national **Hub Agency** based in Berlin coordinates the way the Digital Hubs work together. In collaboration with **Germany Trade and Invest**, whose brief is to promote foreign trade and market locations, Digital Hubs are advertised abroad to raise the international profile of Germany as a forerunner on the digital scene.

Driven by technical excellence and proven market competence, the Digital Hub Initiative is about producing innovative solutions and strong economic growth. National and international talent and investors are invited to be part of this digital success story by contributing their business ideas and inspiration. So, get in touch to become part of this unique network. The next unicorn will be German!



<https://www.de-hub.de/>



1.2 - ACCESS VIA ACCELERATORS

Since the German startup ecosystem has grown dramatically in the recent years, the number of accelerator programs has increased to more than 80 programs in early 2018². For Israeli founders, some of those accelerators may offer a great landing platform to the German and European markets. However, finding and selecting a suitable program is not always easy.

First, it is important to consider how far the startup is in its development, because different accelerator programs target different types of startups or stages. Many accelerators require a running prototype (or at least a market-proven concept) and a more or less complete team. Other acceleration programs focus on even more mature startups.

It is, thus, important to carefully check the websites and portfolio companies of accelerators to see if one's own status matches the profile of the program. Joining an acceleration program too early can lead to contacts with investors, potential partners or customers being wasted, while the benefit would have been much higher later on. Israeli founders should also consider that developing the Minimum Viable Product (MVP) at home with an existing network might be easier in many cases.

In terms of financing, many acceleration programs provide small amounts of money in exchange for small equity shares. A typical deal in Germany is 25,000 € for 5% equity. This brings two main considerations. First, if the startup has raised money already, many accelerator deals may mean a down round on the previous valuation and so, founders have to decide how much value they expect from additional services, such as coaching and office space. For international startups, these services may have a greater value than for locals.

Second, founders should ask themselves critically if the additional money covers the additional costs for travel and accommodation and leaves enough space to really get the business started. Here, the location of the program has a great influence:

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while Munich or Hamburg are quite expensive, other cities like Berlin or Leipzig are comparably cheap.

Beyond the acceleration programs themselves, the German venture capital scene is quite conservative and underdeveloped compared to the Israeli one. **Despite the higher total volume of venture capital deals per capita, Israeli investors spend 6 times more venture capital on startups than their German counterparts³.** Especially for Israelis, it could be the better choice to raise money in Israel and do business in Germany, since language and cultural barriers as well as different legal environments may cause some reluctance for German investors during smaller financing rounds. When the financing rounds get bigger (B, C round or above), these additional transaction costs may be more justifiable for German venture capitalists.

Another important question is the sector focus of the acceleration program and the background of the organizer. Two typical questions that accelerators ask are about financing and market readiness. A founder should always try to identify what he/she needs most and how he/she can benefit from the accelerator. In case of a lack of clarity, founders should ask the accelerator managers and check the mentors of the program.

Many accelerators in Germany focus on special industries or technologies enabling them to offer highly specialized know-how and networks. However, they might lack cross-industry experience. Through the 'Digital Hub Initiative', the German government tries to increase the focus of selected regions on startups in special industries to boost their international competitiveness. Depending on their business model, Israeli founders should consider industry specializations during their selection process.

² <https://www.gruenderszene.de/allgemein/acceleratoren-uebersicht-2018>

³ <http://www.informilo.com/2014/09/israel-raises-six-time-vc-per-capita-germany/>

Usually, the industry focus is also connected with German corporates that host the accelerator program and try to observe and learn from startups. Today, most of the biggest German companies run their own accelerator program.

Typical examples of corporate accelerators include Axel-Springer Plug & Play, Mindbox by Deutsche Bahn, or Startup Autobahn by Daimler.

If the strong affiliation to a big corporate provides extra benefits for a startup and fits well, the founders should try to learn more about the conditions. It should, however, be considered that a strong link to one corporate may cause dependencies with a long-term impact. Especially if the acceleration program takes equity shares, an Israeli startup should ask itself if it wants to have a big German corporation on its shareholder list.

While this is highly beneficial in many cases, it can also have negative effects (especially if one wants to cooperate, sell to their competitors, or in the case of different exit scenarios).

For instance, some corporate accelerators use contractual clauses that are very critical for pure financial venture capitalists, because they limit exit opportunities to other companies e.g. through veto rights or other options to increase their own share.

Moreover, big corporates sometimes increase bureaucracy. Another potential downside is the intensive transfer of know-how to a bigger corporate acting in the same industry, potentially enabling a future competitor.

Additionally, a startup closely linked to one major corporate might get problems selling its product or service to other big competitors. Nevertheless, corporate accelerators can be a great chance for startups if the conditions fit well.

All in all, **accelerators may help an Israeli founder to gain quick and useful knowledge about the German business culture and to make contacts** within Germany where warm introductions are extremely helpful. They can also help to bridge language barriers. With a trustworthy partner in the background, Israeli startups can access German companies at a higher level.

Important Sources for Information:

www.f6s.com
www.angellist.com
www.seed-db.com
www.founderio.de
www.startupdates.de

The following provides a non-exhaustive overview of accelerators in Germany:

NAME	OPERATOR	LOCATION	SECTOR FOCUS	INVESTMENT	EQUITY
SpinLab-The HHL Accelerator	SpinLab Accelerator GmbH	Leipzig	HighTech	6.000,00 €	0%
seedcamp	Seedcamp	Berlin	Technology	75.000,00 €	10%
Techstars	Techstars, Metro, SAP	Berlin	Retail, IoT	up to 120,000€	10%
AtomLeap	AtomLeap GmbH	Berlin	Hardware	1000 Euro per month per teamleader	tbd
ProjectFlyingElephant	WestTech Ventures	Berlin	Tech, Media	50.000,00 €	5-10%
GTEC Lab	GTEC	Berlin	Technology	0,00 €	0%
blackprint PropTech Booster	blackprintpartners GmbH	Frankfurt Main	PropTech	50.000,00 €	10%
r24 Accelerator	rent24	Berlin	Technology	bis 2 Mio €	tbd
Lead Sport Accelerator	leAD International Sports Accelerator Ltd.	Berlin	Sports	25.000,00 €	8%
STARTPLATZ Accelerator	Familie Gräf Holding GmbH	Köln/Düsseldorf	Technology	0,00 €	0%
Arena42	bwcon	Stuttgart	AgTech	0,00 €	5-10%
VentureVilla	Hannover Impuls	Hannover	eCommerce, FinTec & Robotik	bis 100000€	0%
Techfounders	UnternehmerTUM	München	Technology	25.000,00 €	0%
DB StartupXpress	Deutsche Bahn	Berlin	railway, mobility	25.000,00 €	0%
grants4apps	Bayer	Berlin	eHealth	50.000,00 €	10%
Next Media Accelerator	DPA + Medienkonzerne	Hamburg	Media	50.000,00 €	10%
Wayra	Telefonica	München	IoT, Big Data, Security, AI	25.000,00 €	0%
E.ON:agile	E.ON	Düsseldorf	Energy	22.000,00 €	0
Veolia U-START	Veolia	Berlin	Energy, Recycling	up to 18.000 €	15-20%
Pro7Sat1 Accelerator	Pro7Sat1	München	B2C	media	Convertible
Merck Accelerator	Merck	Darmstadt	Life Science, Healthcare, Performance Materials, IT	25.000,00 €	tbd
Airbus BizLab	Airbus/EADS	Hamburg	Aviation, B2B Software	0,00 €	0%
Startup Autobahn	Daimler	Stuttgart	IoT, Logistics, Factory, Hardware	25.000,00 €	5%
Greenhouse Innovation Lab	Gruner+Jahr	Hamburg	Media, Publishing, E-Commerce	50.000,00 €	tbd
AXA Innovation Campus	AXA	Köln	Ehealth, Smart Home, Data, Mobility, IoT, AdTech	tbd	tbd
Next Commerce Accelerator	HASPA, HSH Nordbank	Hamburg	eCommerce, Services, SaaS, Technology	bis 50000€	3-10%
CyberLab	Cyberlab	Karlsruhe	HighTech, ICT	0,00 €	0%
Adlershof Accelerator A²	Wista-Management GmbH	Berlin	Energy	0,00 €	tbd
Future Mobility Incubator	Volkswagen	Dresden	Automotive	15.000,00 €	0%
RetailTech Hub	Media Saturn Holding	München	Retail, eCommerce	0,00 €	0%
B.Braun Accelerator	B. Braun	Melsungen, Berlin	Health, Medtech	20.000,00 €	0%
SmartHectar	SmartHectar Innovation GmbH	Berlin	AgTech, Water	tbd	tbd
Digital Health Accelerator	Berlin Institute of Health, Charite	Berlin	Health	0,00 €	tbd
health innovation port	Philips	Hamburg	ehealth, MedTech	0,00 €	0%
Startport	Hafen Duisburg	Duisburg	Logistik	tbd	tbd
Next Logistics Accelerator	Skillnet	Hamburg	Logistik	up to 50000€	3-10%
Climate-KIC Accelerator	Climate KIC	Berlin	Cleantech, Energy, Smart City, Mobility	95.000,00 €	0%

August 2018

1.3 - FINDING GERMAN BUSINESS PARTNERS: MITTELSTAND MEETS STARTUP

In comparison with other countries, SMEs have a special place in the German economy. The German Mittelstand is admired worldwide as a successful role-model. In total, more than 3.6 million SMEs are active in Germany. Yet, the Mittelstand is much more than just an important economic factor, demonstrated by three key characteristics.



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First, Mittelstand companies are often deeply embedded in their home region and it is not uncommon for them to be the most important employers in rural areas. Having said that, local roots and economic importance are only one side of the coin: Frequently, the regionally-rooted companies are at the same time world market leaders in their industries.

Second, Mittelstand companies are characterized by the so-called "unity of ownership and management". Apart from small businesses in the service sector, self-employed professionals, and tradespeople, the Mittelstand is comprised of many companies that have been owned and managed by the same family for several generations.

Third, the German Mittelstand is widely recognized as an important job creation machine which acts as a stabilizer in difficult times, such as the recent financial crisis. In Germany, more than half of all employees with social insurance, which is considered an indicator of "good jobs", work for SMEs.

Since many German SMEs occupy leading positions in their industries, startups can benefit from their broad customer base, their brand recognition, and the trust of their customers and partners, helping them to scale and grow. At the same time, the company owners are often well-connected and can help budding entrepreneurs to make useful contacts in their industry in Germany.

Nevertheless, differences in company cultures between startups and the Mittelstand may create difficulties. Especially the larger Mittelstand companies often have complex hierarchical management structures thus, entrepreneurs should take into account that decision-making may take longer than expected. Moreover, many SMEs are quite risk averse. Startups should, therefore, be able to show that their business model has reached a certain degree of maturity. This, in turn, limits, to some extent, the freedom of action and the range of possible experiments in a cooperation.

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Many of Germany's large and well-known companies are actively fostering cooperation with startups. They systematically use the whole range of possible cooperation approaches – from hackathons and other types of startup events, to co-working spaces and accelerator programs, all the way to all-out investment and acquisition.

Yet, the Mittelstand is largely absent from this growing market. These activities and programs typically go way beyond what a Mittelstand company is willing or able to commit to in terms of financial and other resources. Apart from that, German Mittelstand entrepreneurs value and prioritize personal acquaintance in comparison to other factors such as industry background and capitalization



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As far as goals of cooperation with startups are concerned, Mittelstand entrepreneurs typically do not look for investment opportunities but want to create projects to tap new technologies, develop product innovations and gain access to new markets. About a third of German SMEs have some experience with startup cooperation.

Further Reading:
Check out the study
"Mittelstand meets Startup", published by the
RKW Kompetenzzentrum. The results are based
on computer-assisted telephone interviews
with 250 SMEs conducted in March 2018.

The RKW Kompetenzzentrum's research shows that smaller SMEs are more likely to have cooperated with startups. One can distinguish four basic types of cooperation:

- **Development partnerships:** The main goal is to generate new ideas, especially with regard to digital products and platforms, as well as product-, service and process innovations.
- **Supplier relationships:** The startup supplies the SME with product components or services.
- **Sales partnerships:** The SME sells one or more products of the startup as part of its own portfolio.
- **Conventional customer relationship:** The SME is a customer of the startup and buys its product or service. Especially in software development, SMEs and startups frequently seal large contracts.

2

UNDERSTANDING GERMANY: Business Culture and Societal Norms

THE AIM OF THIS CHAPTER IS TO GIVE ISRAELI FOUNDERS AN IDEA OF GERMAN
BUSINESS CULTURE, AND MORE SPECIFICALLY THE DIFFERENCES IN NORMS AND
RULES THAT ISRAELIS DOING BUSINESS IN GERMANY SHOULD BE AWARE OF.





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2.1 - MINDSET

Whereas Israeli society is a **relationship-oriented culture (poly-chronic)**, societal norms in Germany are by all means **rule-oriented (mono-chronic)**: German business culture is systematically structured and conducted according to a set of rules, which needs to be respected in order to build trust. In line with this, careful planning, detailed working schedules and a systematic approach to problem-solving are mandatory and preferred over improvisation and flexible decision-making.

Whereas in Israel, business is often shaped by personal relationships, in Germany, personal matters are largely kept out of business.

Among the rules that Germans value, in accordance with all stereotypes, is punctuality. It is better to arrive five minutes early to a meeting than to keep business contacts waiting. Since German business etiquette does not allow much spontaneity, one should plan meetings ahead and arrange an appointment. Cancellations at a short notice can severely damage trust, especially in the early stages of a business relationship.

One of the major differences between Israelis and Germans is the willingness to take risks. While the Israeli chutzpah creates a certain risk-taking and can-do attitude, Germans prefer to feel secure.

When Israelis see an opportunity, they tend to take the plunge and put all financial and personal resources into it. In contrast, Germans like to keep a backdoor open in case of failure - an attitude which might help to minimize losses, but also leads to less out-of-the-box-thinking.

Furthermore, it is important to know that Germans value their private time. Whereas Israelis are willing to go out of their way to get things done, Germans tend to take their time off more seriously.

For Israelis doing business in Germany, this means that a more patient approach is recommended when it comes to phone calls or e-mails.

2.2 - HIERARCHY

In Israel, it is common to interact openly and communicate freely across organizational management levels. Thus, the CEO often has a direct line of communication with his/her employees.

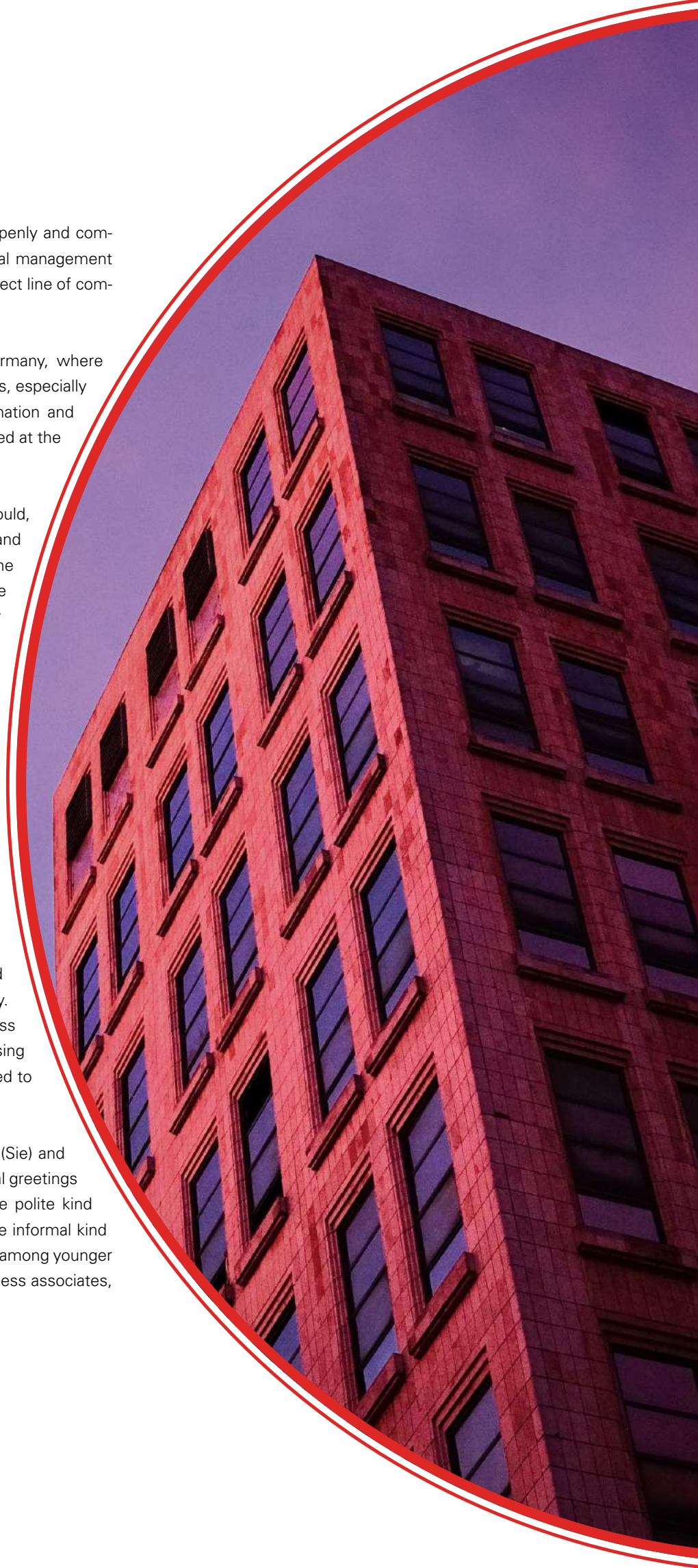
This is usually not the case in Germany, where there are clear hierarchical structures, especially in the established economy. Information and requests are required to be processed at the appropriate level.

In terms of B2B contacts, one should, therefore, be properly prepared and have done research on who is the appropriate person to call before reaching out. In addition, hierarchy plays a central role when it comes to decision-making.

Business negotiations, as well as any sort of contract, need to be approved by management. Israelis should be prepared that this may lead to long bureaucratic processes before final decisions are taken.

Lastly, interaction in the work context is quite formal in Germany. Titles, degrees, and certificates are taken seriously. Therefore, one should always address colleagues and business partners using their title and surname, unless invited to use first names.

The German language has a formal (Sie) and informal (Du) form of address. Formal greetings include a handshake, as well as the polite kind of address ("Sie" plus surname). The informal kind ("Du" plus first name) can be used among younger and/or well-known colleagues, business associates, and friends.





2.3 - NETWORKING AND MEDIA RELATIONS

While the majority of Israelis are happy to exchange contact details quickly and add newly-met business partners in all social channels including Facebook, Germans prefer to connect via business platforms, such as LinkedIn, Xing (the German equivalent to LinkedIn, which some Germans use more frequently) or Twitter. Facebook is considered more personal and, therefore, is usually not used for purely professional relationships.

Whether at a conference, in a meeting or at any given networking event, one should have business cards ready. Since Germans like to exchange business cards, one should make sure cards are up to date and well presented.

Networking and Media Relations

Most meetings take place during office hours. Otherwise, having business lunch at a restaurant is the most common practice. Meeting over breakfast, dinner or after-work drinks is slightly less usual unless one is already in a long-term partnership.

Business lunch normally takes place between noon and 3 pm, and the mood is more relaxed than during a typical meeting, which can be helpful to get to know the German contact.

Another important part of Germany's social culture is shaking hands. Germans shake hands with everyone in the room before and after a business meeting or conference. Physical contact like hugging and kissing is not common in a business context.

The above-mentioned etiquette also applies as far as media relations are concerned. Approaching German media should, by all means, be carried out in a professional way, no matter if one reaches out to press, online, TV or radio.

A well-written and brief email with a precise subject line including relevant facts is mandatory in order to get journalists' attention. Most of the time, a follow-up by phone and/or email is required before getting any feedback. One should stay away from sending out long press releases to a widely-spread recipient list and, instead, address media partners personally, having done a little research upfront.



2.4 - NEGOTIATING

Negotiating with Germans can be quite a formal process, too. They like to be convinced by logical figures, plenty of facts and research information as well as opinions sought from (international) experts and advisors. Being themselves well prepared with carefully thought-out strategies, technical expertise, calculated numbers and a plethora of graphs, tables, and pie-charts, they expect nothing less from their business partners.

Whereas Israelis prefer simplicity, Germans take analysis very seriously. Information needs to be reviewed and analyzed before coming to a decision. Therefore, one should come prepared when pitching a project, presenting all the facts as concisely as possible and highlighting the performance of the product rather than its look.

If Germans say they need to think about an offer, they mean exactly what they say. Israelis are used to quick decision-making processes, but also leave open the possibility of renegotiation and changes. In contrast, Germans take much longer to commit themselves, but once the decision is made, it is binding and cannot become subject to amendments.

"No means no" and "yes means yes", and efforts to try and change a 'no' to a 'yes' are usually wasted energy. In line with this, trying to make changes to a deal that was mutually agreed upon is not acceptable and might damage trust. It is also to be noted that written communication plays a central role: Contracts and agreements are presented in writing.

Overall, clear and honest, yet respectful communication is appreciated and confrontation is not a problem. However, emotions should be carefully dosed. Exchanging a few polite phrases rather than personal details is appreciated and will do the trick.



3 GETTING STARTED: Setting up your own company

ISRAELI COMPANIES LOOKING TO SET UP A BUSINESS IN GERMANY CAN CHOOSE BETWEEN DIFFERENT FORMS OF ESTABLISHMENT. THIS CHAPTER PROVIDES AN OVERVIEW OF DIFFERENT WAYS OF ESTABLISHING A LEGAL ENTITY FOR ISRAELI COMPANIES IN GERMANY AS WELL AS A SUMMARY OF THE NECESSARY STEPS WHEN IT COMES TO THE PROCESS OF INCORPORATION.



3.1 - FORMS AND TYPES OF BUSINESS ENTITIES

German law offers a variety of different legal structures suitable for every type of business. Decisive criteria for the choice of a legal form, broadly speaking, are the intended function of the shareholders, liability, and terms of taxation. The basic structure of all company forms is stipulated by law which provides for predictability and legal certainty. Israeli entrepreneurs will generally be subject to the same legal provisions as their German counterparts.

The main feature of a corporation is the contribution of capital by shareholders. A corporation is a legal entity, meaning that the holder of rights and obligations is not the individual shareholder, but the company itself. The corporation itself concludes contracts, holds assets and is liable for taxation. Shareholders have limited personal liability. As such, a minimum share capital is required. There are four major forms of corporations under German law:

- Limited Liability Company (GmbH)
- Limited Liability Entrepreneurial Company ("Mini GmbH", UG)
- Stock Corporation (AG)

- Partnership Limited by Shares (KGaA)

A characteristic of a partnership is the personal commitment of the partners. In partnerships, the individual partners responsible for the liabilities of the company (including private assets) act for the company. Limitations of liability for individual partners are only possible to a limited extent. The kinds of partnerships differ primarily in terms of the contingent liabilities of the partners and the necessary registration obligations. Major forms of partnerships in Germany include:

- Civil Law Partnership (GbR)
- General Commercial Partnership (oHG)
- Limited Partnership (KG)

Even mixed forms are possible, for instance, the GmbH & Co. KG. The GmbH & Co. KG is a limited partnership (KG) in which the general partner (Komplementär) is a limited liability company (GmbH). The GmbH is fully liable for the GmbH & Co. KG's debts and liabilities. The liability of the limited partners (Kommanditisten) is limited to their respective share of the partnership capital.



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www.gtai.de



3.2 - DIFFERENCE BETWEEN SUBSIDIARIES AND BRANCH OFFICES

Instead of setting up a new legal company according to German law, an Israeli corporation may also merely register a branch office in Germany. A branch office has no independent or separate legal personality distinct from the Israeli head office company itself. In legal and organizational terms, it is part of the Israeli head office business. In this context, the Israeli head office company is fully liable to the extent of its own assets for any claims creditors might assert against the branch office. This is often seen as one of the disadvantages of a branch office compared to e.g. a subsidiary in the form of a GmbH.

In Germany, there are two kinds of branch offices which primarily differ due to the degree of independence from the head office company: The **autonomous branch office** (selbständige Zweigniederlassung) is dependent upon the head office company at the internal level, but engages in business activities independently.

The Israeli head office company, however, is still liable for the business transactions concluded by the branch office.

At the organizational level, **autonomous branch offices** are independent from the head office company to a certain extent and usually have the following attributes:

- Management has the freedom to act according to their own judgment (i.e. with full power of attorney and the power to contract)
- Own capital resources, allocated by the head office, and bank account
- Separate accounting (on its own or via the head office company)
- The dependent branch office (unselbstständige Zweigniederlassung) focuses on maintaining contacts and initiating business in Germany. It performs support- and implementation-related tasks without having any individual business discretion and is entirely dependent on the head 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 is a term which does not exist in German commercial law. Once an office is used by a foreign company for commercial activities (thus forming part of the foreign company organization), it generally must be registered at least as a dependent branch office in Germany.

3.3 - FOUNDING AND REGISTRATION OF A BUSINESS ENTITY

The Limited Liability Company (Gesellschaft mit beschränkter Haftung – GmbH) is the most widely used legal form when it comes to the establishment of a subsidiary. The main reason for its overall popularity is the combination of high flexibility and relatively few obligations. At least one shareholder (e.g. an Israeli national or an Israeli corporation) is required in order to establish a GmbH. The GmbH has two mandatory corporate bodies. The **main body** is comprised of the shareholder(s) collectively in the shareholder meeting and the **executive body** of the managing director(s). In general, an Israeli national residing in Israel can also be managing director if the company has a physical German business address and at least a representative on-site in Germany.

The GmbH requires a minimum share capital of EUR 25,000. It can be contributed in cash or in-kind (e.g. real estate or patents). Liability is limited to the corporation's business assets including share capital. The main steps for setting up a GmbH by cash contribution are straightforward and can be described as follows:

- **Drafting of Articles of Association:** The articles of association shape the identity and constitution of the company. Thanks to the large scope for contractual design, the GmbH is a very flexible corporation. Mandatory content includes share capital, shareholders and respective shares held, business name, registered office, and company object.
- **Notarization of Articles of Association:** The drafting and notarization of the articles of association are normally performed in one session by a German notary. The founding shareholder(s) adopt(s) the articles of association and appoint(s) one or more managing directors in a notarial deed. The notary should be contacted at an early stage in order to get certainty on the documents of the Israeli parent company (if applicable) and the necessary form.

- **Payment of Share Capital (Cash Contribution):** Once the articles of association have been notarized, a company account should be opened, and the share capital deposited. A payment of EUR 12,500 in total is sufficient for standard EUR 25,000 GmbH registration in the commercial register.
- **Registration in the Commercial Register:** When the required share capital has been verifiably contributed to the GmbH, the managing director(s) apply(ies) for the registration of the GmbH in the commercial register (Handelsregister). The application is electronically filed by a notary. The GmbH comes into existence as a legal entity and its limitation of liability becomes effective upon registration in the commercial register.
- **Trade Office Registration:** Before business operations are started, the trade office (Gewerbe-/Ordnungsamt) must be notified of the business activity in question. Required permits and verification of representatives must also be submitted.

An autonomous branch office of an Israeli corporation must be registered with the commercial register via a German notary. Just as for the establishment of a subsidiary, the notary should be contacted at an early stage in order to get certainty of the documents of the Israeli head office company and the necessary form. Autonomous branch offices and dependent branch offices of Israeli companies generally have to notify the responsible trade office (Gewerbe-/Ordnungsamt) about any performed business activity. Required permits and verifications of representatives must also be submitted.

3.4 - LICENSES AND PERMITS

Only in certain cases, a business license or further registrations are necessary in addition to the registration with the commercial register and the trade office notification.

In the financial services and FinTech sector, for instance, an authorization by the German Federal Financial Supervisory Authority (BaFin) may be necessary amongst other things. Because the business models may be very diverse, BaFin has compiled initial information online on e.g. alternative payment methods, crowdfunding or virtual currencies and also offers a specific contact form for FinTech startups.



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For brokers, real-estate or insurance intermediaries, and advisors (or similar professions), specific licensing and registration requirements exist, too.

For the independent, non-industrial operation of certain trades (e.g. bakers, carpenters or hearing aid acousticians) entry in the Register of Craftsmen (Handwerksrolle) is required. The trades that are affected are listed in the Crafts and Trades Regulation Code (Handwerksordnung) which can be consulted in case of doubt.

A (non-exhaustive) list of professions requiring a permit can be found on the website of the Chamber of Commerce and Industry of Frankfurt/Main:
<http://www.frankfurt-main.ihk.de/english/business/authorization/index.html>

3.5 - INSURANCE FOR STARTUPS AND FOUNDERS

Anyone who starts a company runs a risk. These risks are normally shared among the entrepreneur and the investors, in return for which the profits are shared among them as well. In some areas, however, the entrepreneur does not have to bear the risks alone. Insurance companies are interested in taking over some risk, depending on the business model.

Types of Insurance:

First, one has to be clear about who will actually be protected by the insurance. Many products strongly focus on the protection of the entrepreneur. All types of insurance, from private liability insurance and household contents insurance to pension products and health insurance, are offered. In Germany, health insurance is obligatory for entrepreneurs. The issue is whether the entrepreneur has a choice between statutory or private health insurance as described later on in this brochure.

Next to the personal protection of the founder, the protection of the startup is crucial. This can be systematically divided into two areas. On one hand, there is third-party liability insurance and, on the other hand, there is insurance against first-party losses.

Finding the "Right" Insurance Company:

Definitive standard advice on the necessary insurance for an entrepreneur and a startup does not make sense. In contrast, expert advice is needed from a professional who understands not only the range of insurance products but also the risks of a startup. The entrepreneur or the startup must then decide what should happen on the basis of the advice they have received.

Particular caution must be exercised when mixing private and commercial insurance. This is highlighted by some providers as a particular advantage of certain products and is a common phenomenon with private liability insurance. However, a problem can quickly arise from using a mixture of private and commercial coverage.

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For one those problems are created, because one must always answer the question of whether there is a taxable financial advantage when the company is paying for an insurance policy that only or chiefly benefits one person. Mixing the insurance can be a more serious problem when damages are reported in the private sphere which suddenly drives up the premiums for the company insurance. This can quickly lead to tension.

There are numerous professional insurance agents in Germany. It is, however, important for startups to obtain advice from an agent who not only understands insurance but also startups. That narrows down the field significantly. The company Startsure in Munich (www.startsure.de) certainly belongs to this specialist class. Its customers are exclusively from the startup sector and it is also a member of The German Startup Association.

GLOSSARY

PRODUCT	RELEVANCE	FUNCTION	EXAMPLE OF DAMAGES
Commercial liability insurance – for offices	Very important	This insurance protects against damage to persons and property which could occur in an office.	A customer or business partner enters the office, trips over a computer cable and injures himself.
D&O (Directors’ and officers’ insurance)	Important	This insurance protects management board members and staff in management positions against personal liability in their corporate roles.	As managing director, one obtains the advice of an expert to draw up a complicated contract and as a result the company incurs damage.
Contents insurance	Less important	This insurance is designed to repair or replace damage to the office fixtures and fittings, such as office furniture, PCs, printers.	The seal of the kitchen tap is not watertight. Over the weekend water accumulates in the office and damages furniture, carpets and computers.
Financial loss liability insurance	Important	This insurance protects against damage to financial assets which results from professional oversight or mistakes due to calculation errors, forgetfulness, writing or typing errors, misreading and misspeaking.	An online sports equipment business accidentally uses images protected by copyright assuming that these are license-free images.
Cyber insurance	Important	This insurance protects against financial damages that can occur from Internet use, such as data theft or computer fraud.	In the course of a marketing campaign, a staff member sends out an internal document in error with all client contact information, including order data, addresses, and bank details.



3.6 - LEGAL BASICS FOR ESTABLISHING BUSINESS ACTIVITIES IN GERMANY

After successfully having set up a company, the operation of the newly founded entity will have to comply with further legal provisions. These include company internal matters, such as how the bodies within the company are structured and how the relationship between the shareholders is organized. Other startup-relevant legal issues concern the compliance of the operative activities of the company with the regulatory framework, particularly in the digital domain, as well as legal provisions around competition and consumer laws.

Company internal matters

The relationship between the shareholders - Shareholders' Agreement

A shareholders' agreement is a non-mandatory arrangement made as a contract among the company's shareholders and contains a set of regulations regarding how the company should be operated, as well as the shareholders' rights and obligations. The shareholders' agreement clarifies in much broader detail several points which are already known from the Articles of Association. However, it also adds further points which are not meant to be public. A shareholders' agreement remains an internal agreement between the shareholders of the company. It can also include further detailed information on the regulation of the shareholders' relationship, the management of the company, relevant rulings concerning how to deal with the shares, how to deal with dividend payments, voting rights, as well as further privileges and protections of the shareholders.

The Managing Director serves as the legal representative for external relations, as well as the manager of the day-to-day businesses. He is under the supervision of the shareholders. Appointments and removals of managing directors are usually made by an official resolution of the shareholders. They take effect only from the moment such resolutions are submitted to and accepted by the commercial register (and become public).

In principle, also foreigners may be appointed managing directors of a GmbH. If the company is managed from Germany, such persons must have the required residence and work permits for Germany. If a foreigner is to manage the company from abroad, that person may be appointed managing director only if he/she is able to enter Germany at any time without the need for a visa.

In their capacity as the representative of the GmbH, managing directors must comply with numerous legal and business duties. Certain provisions of the relevant law restrain the leeway of the directors and have to be properly taken into consideration, to make sure not to be found personally liable for not acting in compliance with the law (e.g. in cases of unlawful distribution of proceeds, undue and improper accounting, insolvency filing, etc.).

The legal standard for examining the conduct of the directors is "the due care of a prudent and professional businessman". The managing director is responsible for the organization of the GmbH in a way which ensures that all legal requirements are properly fulfilled. In addition, the organizational system has to be sufficient for the managing director to fulfill his legal and business duties properly.

The shareholder(s) or the shareholder's meeting is the main and the most important body of the GmbH. In contrast to the German Stock Corporation (Aktiengesellschaft, or AG), the GmbH shareholders have almost complete freedom to control and maneuver the existence and structure of the company through instructions they give to its managing directors.



The shareholders must comply with the Articles of Association and the obligations imposed on them by law, such as amendments of the Articles of Association in certain scenarios, nominating or removing the managing director, approvals of the financial statements, capital reserve measures, issuing new shares, dissolution of the company, etc. The shareholders' main and fundamental rights are the right of ownership and the right of participation in the proceeds of the company.

Thus, holding a share in the company entitles the shareholder to fiduciary rights as well as to participating rights that are related to the decision-making mechanisms. Decisions in the shareholders' meeting are taken by voting. Usually, one share equals one vote. The law stipulates special requirements in terms of the minimum voting majority required for resolutions concerning specific issues, such as the amendment of the Articles of Association or the dissolution of the company. Otherwise, resolutions are passed with a simple majority, unless otherwise agreed to by the shareholders, or in the Articles of Association. Generally, every natural or legal entity can be a shareholder in the GmbH. This also includes foreign entities or individuals with foreign nationality.

A one-man-GmbH foundation with a legal entity as the sole shareholder is also possible. Furthermore, a trustee can hold the shares in trust for the actual beneficial shareholder.

A supervisory board is not a mandatory requirement for a GmbH, besides a few exceptions, which are not relevant for startups and young companies. Nevertheless, the articles of association, as well as the shareholders' agreement, may voluntarily prescribe the establishment of a supervisory board to assist the shareholders and monitor the management as an internal corporate governance measure.



Compliance with legal provisions in the operation of the company

Regulatory Provisions for Companies in Digital:

Depending on the business field the German company is operating in, certain regulatory provisions can be relevant. As mentioned before, the offering of certain financial services requires a license issued by the German Federal Financial Supervisory Authority (BaFin).

Crucially, this concerns not only FinTech companies as such but also other company models which would not consider themselves providers of financial services. That is to say, companies may be obliged to apply for a BaFin license due to provisions in the German Banking Act (Kreditwesengesetz, KWG), Payment Services Supervision Act (Zahlungsdiensteaufsichtsgesetz, ZAG) or the Capital Investment Code (Kapitalanlagegesetzbuch, KAGB). Yet, the general rule is that companies are obliged to apply for the relevant license if they conduct banking business or provide financial services. FinTech ventures are highly likely to fall under one of those regulatory obligations.

Nevertheless, even if no financial regulation by BaFin is relevant, a company might still be obliged to apply for a license according to trade regulations (Gewerbeordnung). An online platform for food deliveries, for instance, is obliged to apply for a license, if its customers do not pay the delivery service directly but through the platform by using digital payment systems like PayPal.

Remember: Violation of regulatory provisions can have severe consequences for the company and its management. Operating without a required license may entail personal liability and be an obstacle with regards to future applications for a license. Moreover, competitors could sue for an injunction and creditors might seek damages and declaratory judgments against culprits. Ask your lawyer about the need for specific licenses and the implementation of regulatory provisions in the operating business of your company.

Consumer Laws in Germany:

Anyone who sets up a company in Germany and sells a product or provides a service to consumers has to follow certain rules. In Germany, the national law, as well as European consumer laws, must be complied with in all cases.

As a general rule, consumers enjoy extensive protection in Europe. Consumer laws are applicable to agreements and situations between a consumer and an entrepreneur.

A consumer is defined as any natural person who concludes a legal transaction for purposes that are predominantly not attributable to his commercial or self-employed professional activity, regardless of whether the goods sold are in fact consumer goods or not. An entrepreneur is any natural or legal person or a partnership with a legal capacity which, when offering or concluding a legal transaction, acts in the exercise of its commercial or self-employed professional activity. Some of the following points are not only relevant for business the German company may conduct with consumers, but may also be relevant in general. The following summary is not exhaustive but outlines the most important provisions.

Sale of goods and services: The main pillars of consumer protection in purchase agreements are revocation-, warranty- and guarantee-regulations. The relevant principles are set by strict statutory rules that are further detailed by specific jurisdiction. When it comes to contracts that are done via e-mail, via phone, via the internet or by any other means of distant communication, consumers usually have the right to revoke from the contract within 14 days without a specific reason.

In a glimpse, the period of 14 days starts only when the consumer has received the goods or if digital content was purchased, with the conclusion of the contract. If the contract is not a purchase agreement or not a purchase agreement for goods, but specific other services, the details around the right of revocation may change, but will still remain strict. Provisions like this may seem rather





irrelevant in the beginning. But given that there is clearly no way of going around these provisions, each case brought to court would not only oblige the company to give the consumer-customer his money back, but also bears the obvious risk that a competitor or

an association taking care of consumer rights in Germany will instigate a lawsuit for cease and desist and payment of damages. Thus, these provisions should not be ignored.

Moreover, if the company does not properly inform the consumer about his/her revocation rights, the consumer has the right to revoke from the contract even after the regular period of 14 days, sometimes even after years. Implementing those provisions into one's business model allows to factor the commercial outcome of it into one's business plan. Provisions like the right of revocation lead to a certain share of goods being sent back to the company, which may be higher than in other countries where no statutory rights of revocation exist.

One other major point in contracts with consumers are **warranties**. The seller has an obligation, even if it is not explicitly stated in the contract, to warrant that the product or service sold is free of material and legal defects. If the goods delivered to the consumer are defective, consumers have several options: they can demand reparation, delivery of a new item, price reduction or they can return the item and revoke/reverse the transaction under certain additional conditions. The rights of revocation and warranty are inalienable.

If your company is in FinTech and you provide consumer loans, substantial information obligations have to be adhered to before the loan agreement is closed. The company which lends the money has a pre-contractual duty to inform consumers about the main credit terms. This also includes information on the right to revoke the agreement, which remains for a certain time period, if it was closed by means of distant communication. For instance, even though a company has the right to demand different amounts of interest as part of the deal, it is not allowed to exploit inexperienced consumers or those who find themselves in a financial plight. Any such contracts are deemed void by statute. Furthermore, such behavior on the part of the company can lead to competitors or associations for consumer rights going after the company for cease and desist and closing down any such business model.

Guarantees, which are often used as a marketing tool, have legal implications as well. If a company voluntarily offers a guarantee for a product, it is bound by such a guarantee, even if the seller just mentioned the guarantee in the advertisement for the product and the consumer bought the product because of it.

Competition Law - Unfair business practices:

Whether consumers are purchasing goods or services on the internet or at a shop, EU regulations protect them against unfair business practices.

This is not only meant to protect consumers but also to ensure a measure for self-regulation in the market. If a company applies unfair business practices, each competitor of the company and associations protecting consumer rights is entitled to go after the company with e.g. warning letters. They may even file lawsuits in order to prevent the company from applying business practices that are deemed unfair and against the law.

Unfair business practices are defined in the German Act against Unfair Trade Practices (Gesetz gegen den Unlauteren Wettbewerb, UWG) as actions that do not comply with the entrepreneurial diligence and are likely to have a significant impact on the economic behavior of the consumer. A practice is considered unfair when specific measures are applied or specific situations are used by the company in order to gain an economic advantage, which the company would not have, would it behave properly and accept the rights and legal provisions of a functioning market.

Examples include misleading or aggressive practices, such as the manipulation of kids through specific advertisement, hidden advertisement, or even sending out newsletter e-mails to recipients after the recipient has communicated that he/she does not want to receive such e-mails. This is especially relevant for companies using online advertising, as this is not only an unfair trade practice but can also be considered an infringement of personal rights and a breach of data protection provisions, which may, in turn, imply huge fines for the company.

Moreover, consumers are protected against unfair and/or surprising terms in general business terms or terms and conditions. Terms and conditions of

German companies which limit their liability towards the customer always explicitly exclude liability for damages resulting from death or bodily harm. This is because, if any such exclusion is not made, the whole limitation of liability in the terms and conditions is deemed void, which in turn automatically leads to the unrestricted liability of the company.

Data Protection:

In the European Union, the collection and processing of personal data are only allowed under certain restrictions. Data can only be processed for specifically defined and legitimate purposes. As soon as the data is not needed anymore, it has to be deleted or anonymized. Notifications that are considered spam are only allowed to be sent if the consumer consented to them. Internet websites which use Cookies have to inform the users about it, ask for their consent, and allow the option for the user to deactivate the cookies. In addition, users have a right to know for which purposes the said Cookies are used. Data protection regulations come into play in every business that directly or indirectly deals with personal data, particularly in the fields of advertising, marketing, opinion research, personal profiles, personal data trading, data analysis and others. It is not only relevant for companies that are active in the B2C field and have direct contact to the persons whose data is involved but also applies to companies that pursue B2B relationships, for instance when they provide software for other companies that deal with personal data.

These firm data protection regulations are not only relevant in Germany, but all over the European Union, as they are based on EU directives and regulations. Nevertheless, some smaller or larger differences in the different EU Member States exist.

It is further interesting to note that legal provisions are not only written in the law books but are carried by a system which supports the market in regulating itself.

Consumer law enforcement can in parts be executed directly by the consumers, who have the right to claim their remedies. However, as mentioned

above, administrative and criminal proceedings, as well as actions of competitors and associations for consumer rights, may be implemented as well, in the case of certain violations by the entrepreneurs. Since Germany is a highly competitive and big market, it is wiser, less time- and money consuming to go according to the laws, rather than fighting with all of these potential market players and regulating entities that will certainly make sure that even a new company is playing by the rules.

All in all, this chapter can only describe basic principles, and provide a short overview of relevant legal provisions when starting a business in Germany. For further details, a lawyer should be consulted.



GDPR

The EU-GDPR modernizes data protection rules, responding to the rapid development of data processing technologies, while at the same time giving EU-citizens more control over their personal data. Personal data is information which can be assigned to a specific person, thus making that person identifiable, such as the name, date of birth, contact information and bank details of that person.

Additionally, data relating to the origin, political and religious views, belief, health or sexuality benefits from special protection. While granting rights to affected persons, the GDPR makes high

demands on enterprises in return for the purpose of balancing powers – regardless of the size of the company. It pushes enterprises to critically examine their processing operations and implement higher standards of data protection. Substantial fines in case of a violation of up to € 20 Million or 4 percent of the worldwide annual turnover of the previous fiscal year – depending on which figure is higher – could be the consequence for not complying with the laws.

Additionally, the individual and physical scope of the GDPR is very broad: not only “controllers” (enterprises) that use personal data e.g. for their daily business in regards of customer relationship are responsible to follow the regulatory regime of the GDPR, but also data “processors” who support controllers in that respect; among other, both controllers and processors have to guarantee that technical and organizational measures for data processing are taken in accordance with the GDPR. The physical scope (“data processing”) covers “collection”, “analysis”, “storage”, “archiving” and other use of personal data.

The majority of startups use personal data as a core element of their business value chain. This processing falls within the scope of the GDPR. Under the GDPR, affected persons can obtain information about their personal data which has been stored, can claim correction, if such personal data is incorrect and can demand deletion, release or transfer of their personal data. Because of those rights, it can be considered a violation of GDPR provisions, if personal data is not disposable in case of technical malfunctions or if access to information about the personal data of the individual is not provided in a speedy manner.

Additionally, startups as well as any other enterprise are generally obliged to document all processing activities in a specific records of processing activities. SMEs with less than 250 employees are only obliged to keep such records under certain circumstances, for example if their business model is mainly based on innovative processing of personal data or associated technologies.

The documentation should be easily understandable,

giving due consideration to the type, extent, circumstances and purpose of the specific data processing and should also consider the different degrees of probabilities of risks for the individual in processing their personal data.

The documentation may be part of a data protection management system (DPMS) which could serve as a basis for notification to the regulatory authority and to inform affected persons in case of a personal data breach. A DPMS may also serve to compile, manage and update evidence, because – in case of a (claimed) violation of GDPR rules – the burden of proof lies on the controllers and processors, which have to show that they implemented appropriate technical and organizational measures to meet the requirements of the GDPR.

In order to assess whether the processing of personal data is in compliance with GDPR rules, the key question – do I really need the data for business purposes? – has to be answered positively in particular, taking into account the principles of data processing:

- Lawfulness of the intended purpose of the processing of personal data
- Limitation of the processing of personal data as far as possible – data processing only in so far and as long as the specific purpose for the processing is determined, unambiguous and legitimate
- Consideration of the principle of data minimization – limit the scope of personal data to be processed to what is really required for the determined purposes
- Accuracy of the processed data
- Integrity and confidentiality of data processing, protecting personal data through appropriate technical and organizational measures

If an enterprise processes data regularly, systematically and comprehensively, it has to nominate or hire a data protection supervisor with the necessary expertise. The data protection supervisor has to be capable of consulting the enterprise in regard to data protection and to monitor the compliance with the GDPR (also in cooperation with the regulatory authority). **Enterprises may obtain a data protection seal or mark to demonstrate their compliance with the GDPR.**

4 ACCESS TO FUNDING

ISRAELI STARTUPS SEEKING TO EXPAND TO AND SET UP A BUSINESS ENTITY IN GERMANY CAN TURN TO A VARIETY OF SOURCES WHEN SEEKING INVESTMENTS. SELECTING THE RIGHT TYPE OF EXPANSION FINANCING IS LARGELY A MATTER OF MATCHING YOUR NEEDS TO THE RESTRICTIONS OF THE SOURCE. EACH TYPE OF FINANCING HAS ITS OWN STRENGTHS AND LIMITATIONS. THIS CHAPTER PROVIDES AN INTRODUCTION TO THE GERMAN FINANCING LANDSCAPE AND THE PARTICULARITIES IN COMPARISON TO THE FINANCING OPPORTUNITIES IN ISRAEL.



4.1 - VENTURE CAPITAL, BUSINESS ANGELS, CROWDFUNDING AND ICOS

Venture Capital

By the end of 2017, Europe saw a new high in Venture Capital investments reaching almost €17 bn investment and both, Germany and Israel, were among the top countries who raised the largest amount of venture capital. As a trend, growing deal sizes were notable while deal count trended downward. The larger deals were usually facilitated by the participation of foreign investors, such as US VCs, who participated in over 17% of European deals in 2017 (European Venture Report 2017). But US Investors led more rounds in Israel than in Germany. Nationally, Israeli VCs focused strongly on enterprise target markets. The leading categories in Israel herein were IT Security and Marketing. In contrast, German VCs made much more diversified investments and also covered consumer oriented markets, including categories like Finance. Moreover, more than 50% of the transactions take place in the first round. While the amount of money increases from phase to phase, the amount of transactions per phase decreases as only the minority of companies reach later stages.

Israeli VCs are clearly oriented towards internationalization as the domestic market is very small. Culturally, Israel's startup industry resembles more the US market than the German one. This is particularly reflected by the share of venture capital activity in the GDP of Israel. In comparison, German VCs often focus on internationalization at later stages. The main reason is that the German target market is already big enough to start with and expansion into the DACH (Germany, Austria, Switzerland) region can be done cost-efficiently. German VCs are very interested in understanding the company, the technology and the underlying business model thoroughly and completely. While, German VCs concentrate on hard facts and data: financials, team, technology, IP, strategy and execution, in Israel the vision of the founder, as well as his enthusiasm are of higher value. This may be an advantage for startups with complex and innovative products.

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Therefore, well-structured KPI data, comprehensible documents as well as clean financials are required.

Pitching in Germany: The basic structure of a pitch is the same for every VC. Topics that have to be addressed are the problem, solution, product or proof of concept (PoC), market, business model, USP, competition, team and financials. German VCs do prefer data, facts and figures over the great storytelling and presentation skills of the founder.

Timing and Due Diligence: The time required for fundraising depends very often on how prepared the company is for starting a due diligence process and the stage of the company. For follow-on investments startups should start fundraising at least 6-9 months before the planned financing round. With few complications and cooperative behavior of the founders, the due diligence can be finished much faster, or it can take much longer if problems occur, for instance if relevant data is not well available or unstructured. Good preparation on the entrepreneurs' side is, therefore, crucial for the duration of the project. Every VC is looking forward to a fast and smooth due diligence, which of course also saves the startup time and money.

Corporate Venture Capital (CVC)

2017 has shown a significant growth in CVC investments. This is understandable as many corporate investments go beyond immediate financial gain and are often more reflective of the need for corporations to innovate and expose themselves to disruptive startups in their industry. And this trend was also true for Israel where Corporate Venture Capital participation rose as a percent of overall VC deals.

Most active German CVCs include Bertelsmann Digital Media Investments, Siemens Venture Capital, Tengemann Ventures, Robert Bosch Venture Capital or Vorwerk Direct Selling Ventures. But also Boehringer Ingelheim Venture Fund or Merck Global Health Innovation Fund are worth to be mentioned.

Business Angels

After friends, family and fools, Business Angels represent a very important financing source in early stages. Over 30% of German startups report to have accepted Angel investments. Thus, Business Angels are a very important factor in the venture capital ecosystem. In general, business angels want to bring brain and experience to the table. In the early stages of the company, they like to contribute actively to the success of the startup or even take a board seat. Therefore, they prefer investments in geographic proximity to their residence or place of work, sometimes even inside of Germany.

Business angels prefer to invest in the pre-seed and seed-stage of startups as there is less investment necessary than in later rounds. Usually, business angels are not able to invest the same amount as a VC can and therefore, cannot participate in later financing rounds. Furthermore, business angels are most effective in early rounds as they can help setting up the basis of the company with their expertise and advisory work.

In the vast majority of cases, contacts are made through existing networks and contacts between the founder and the angel. In addition, there are business angel networks (e.g. BAND, the Business angel network Germany) which are being used

to connect both parties. Further possibilities to connect and find a suitable angel are all kinds of startup specific events like pitch days, business plan competitions and business incubators.

Crowdfunding

Crowdfunding is perceived as a legit alternative to traditional venture capital. Though, it is mainly used for reward based campaigns for pre-financing of production. In this space, the most prominent platforms are Seedmatch, Companisto, indiegogo and kickstarter.

ICO

In Germany, the first ICOs were limited to blockchain based projects and utility tokens which means tokens that were technically required for the product use. But the market has quickly widened from pure utility tokens to other forms such as security tokens. Nevertheless, in Germany there are no specific regulations for ICOs yet but authorities expect ICOs to adhere to existing regulations. Likewise, authorities in Israel are working on regulation models. However, in 2017, only 10 Israel-based companies raised funds via ICO. This is because tech startups get easy access to regular VC funding.





4.2 - PUBLIC FUNDING AND ASSISTANCE

Especially in the early stages, entrepreneurs need more than just encouragement and moral support. The German government, the 16 German Federal States and the EU provide support schemes for startups. At a first glance, opportunities for public support may seem vast and quite confusing. However, there are ways to tackle them and to successfully raise substantial public incentives for one's company. Generally, the different funding schemes are subject to constant changes and, thus, always need to be checked in terms of their topicality.

The funding schemes take the form of either

- direct grants,
- public loans,
- public guarantees or
- public equity capital

Most funding schemes work on a project basis. Thus, a company needs to apply for the public support before starting a certain planned project. In many cases, starting a project too early may cause an automatic rejection of the project application. Also, check the specific criteria set out in the respective guidelines, e.g. establishing a subsidiary in Germany, project implementation in Germany, etc.

In contrast to other countries, Germany does not offer tax-based incentives.

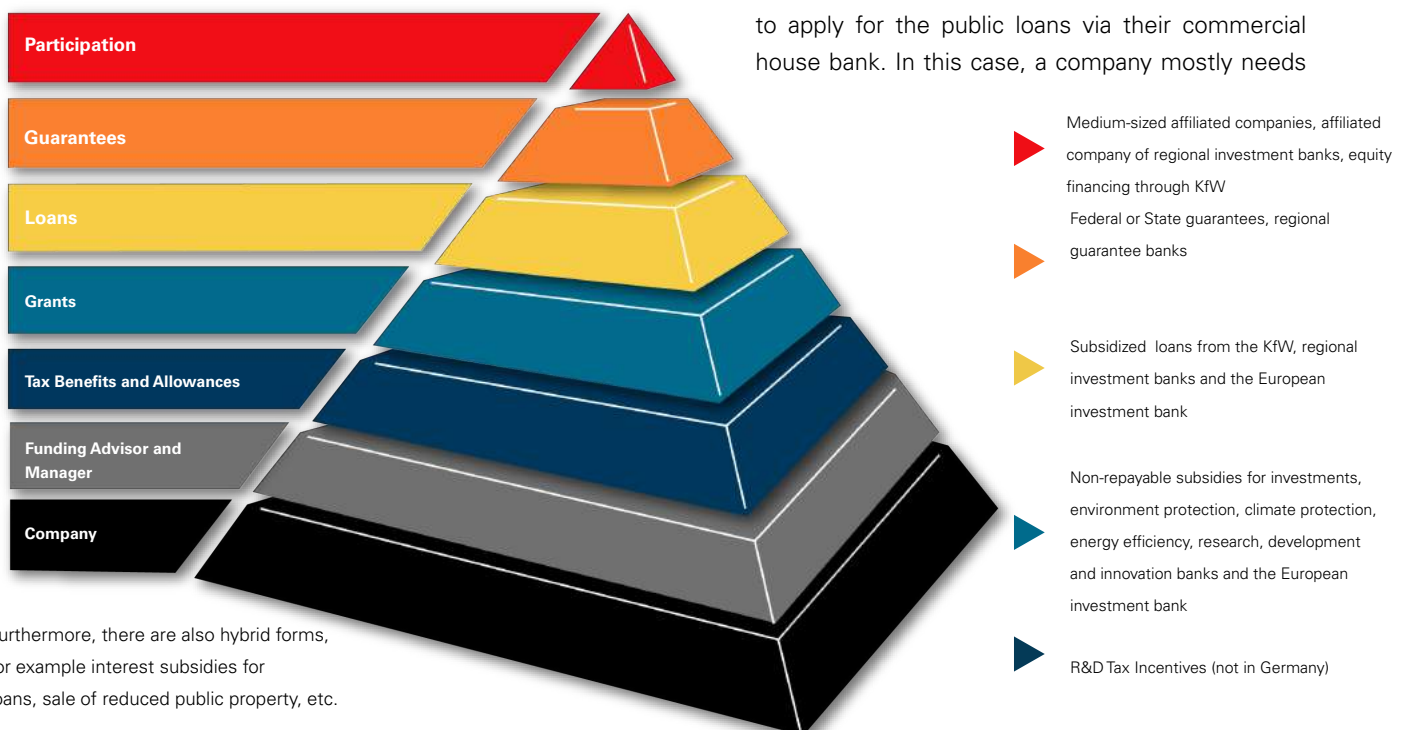
In the case of **direct grants**, a company typically applies for the incentive by submitting a project plan (amongst other documents) to the granting authority. Often, it is possible for companies to receive the permission to start with the project before a final decision on the application has been made. After receiving the written allowance, the company can start proving the project-related expenses to the granting authority which will pay out subsidies at a certain subsidy rate on the eligible expenses.

The most typical project categories for grant schemes are:

1. Investment projects (e.g. setup of a new establishment)
2. Research, development and innovation projects
3. Projects for energy efficiency, climate protection as well as
4. Projects regarding the qualification and education of employees etc.

In terms of **public loans**, these typically take the form of public development loans with favorable interest rates, long maturities and, in many cases, initial grace periods before the repayment obligations kick in. Despite the fact that most offerings come from public development banks, companies usually need to apply for the public loans via their commercial house bank. In this case, a company mostly needs

Principal types of funding in Germany



Furthermore, there are also hybrid forms, for example interest subsidies for loans, sale of reduced public property, etc.

to apply for the public loan before starting with the project by submitting a comprehensive business plan.

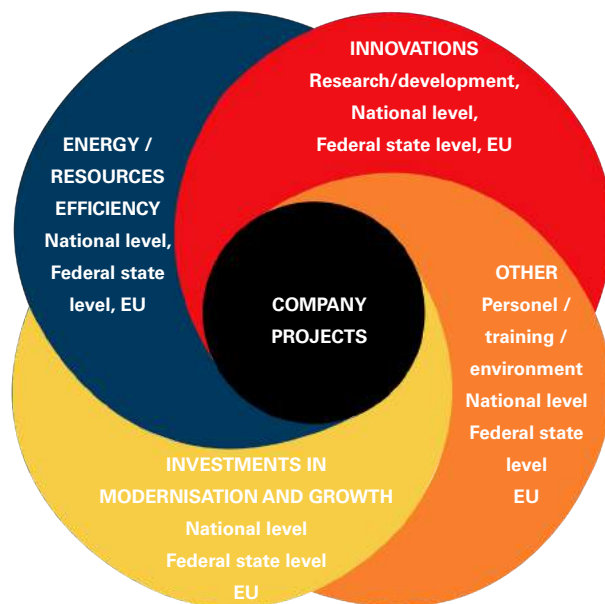
Public guarantees usually serve as a way to make financing for a project possible at all. This is because commercial banks typically do not offer loans to companies which lack securities. In these cases, guarantee banks can provide the securities needed. Generally, the underlying criteria are much stricter and limiting than for grant or loan schemes. Thus, applying for a public guarantee needs to be weighed up thoroughly. In most cases, the application is already fee-based.

Public equity capital can be an attractive option for startups which consider equity capital as a suitable instrument for their corporate financing. In some cases, the issuance of public equity capital requires the existence of a co- or lead investor. The advantage of a public equity capital investor lies, amongst others, in the transparency and reliability of the investor's strategy.

DIFFERENT PROVIDERS OF INCENTIVES

Company projects may be funded via different instruments

(Different requirements, granting authorities, application procedures, terms and conditions etc.)



Public support schemes are offered on the

- EU level
- The German national level
- The Federal State level and in some cases even on
- The municipal level within the specific Federal State.

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Grant schemes on the EU level mostly cover research & development projects and usually require a very high standard of technological innovation as well as international consortia. The European loan, guarantee or equity instruments are generally issued via the member state granting bodies and can, thus, in most cases, not be applied for directly.

On the **German national level**, the Federal ministries as well as the KfW, the Promotional Bank of the Federal Republic of Germany, are the most important providers of funding schemes.

When it comes to the **Federal State level**, the regional development banks often offer a wide range of funding schemes. They are usually equally interesting as the instruments existing on the German national level and should be checked upon when making plans to invest in Germany, even though the language barrier may partially be a problem for the regional development banks. For this aim, the regional business development agencies help incoming investors.

The existing funding instruments are all aligned with the EU legislation on state aids. All member states of the European Union need to adhere to this legal framework. Unfair competition of regions within the EU shall be avoided by all means. Under that premise, the EU has stated certain maximum subsidy rates for the different project types, for different regions and for different company sizes, e.g. SME.

EXAMPLES OF RELEVANT FUNDING SCHEMES

GRW funding scheme

A company considering the setup of an establishment in Germany should check on the availability of grants via the "Joint Task Improvement of Regional Economic Structures" scheme (Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" – GRW). The aim of this funding scheme is to foster economic development by subsidizing the setup or expansion

Please also bear in mind that Israel already participates in a number of EU programs, e.g. Horizon 2020, the European Union's biggest research and innovation program.

of the company site of certain eligible industries. The scheme mostly focuses on manufacturing companies but has widened its scope over time to include several other industries as well, such as digital or creative ones. The financial support is determined by the respective region and differs according to the company size, providing a bonus on top of the general subsidy rate (10 – 20% depending on the funding area) of 10% for medium-sized companies and of 20% for small companies. Eligible costs are either the investment-related capital expenditures for new buildings, equipment, machinery, etc. or the personnel costs during the project phase.

In order to meet entrance criteria for the funding scheme, a certain number of new jobs needs to be created and maintained by the respective establishment. Whilst funding for the GRW funding scheme is provided by both federal- and federal state level, each federal state can specify the general rulings for GRW funding scheme and declare its own rules, e.g. on eligible industries or subsidized costs. Thus, a close communication with the local granting authorities is recommended.

Research & Development & Innovation schemes

In the case of substantial investments in research, development, and innovation (R&D&I), a startup should consider checking opportunities for those activities. R&D&I subsidy schemes are either open to a large number of different industries or offer individual calls which set out specific industry-related research aims and come along with their own set of criteria.

An example of a funding scheme which does not target a specific industry is the “Central Innovation Programme for Medium Sized Enterprises” (ZIM) which is issued by the Federal Ministry for Economics Affairs and Energy. Within this funding scheme, Germany regularly issues calls together with Israel (ISERD) via the EUREKA research initiative.

“Check the grant you are looking at, before applying, as a lot of funding schemes offer only minor grants, and thus may not be worth the administrative effort!”



Wait for news on the EXIST Startup Germany Program! The two-year pilot program which connected technology-oriented entrepreneurs from Israeli universities and research institutes with Germany’s academic entrepreneurial landscape has ended in 2017 but might be relaunched.

Supported by the Federal Ministry of Economic Affairs and Energy (BMWi), the program offered funding of up to 150,000 EUR over a period of 12 months, as well as office space and professional support from coaches, experts, and mentors.

¹SME definition according to the European Commission, see Annex I of EU-Regulation 651/2014, (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0651&from=EN>)

²Subsidy rates are halved for eligible project costs above 50m EUR. Projects with a volume of more than 100m EUR need to be notified at the European Commission.

³The German Federal Ministry widened eligibility criteria to also include companies with up to 499 employees. For more information please visit <https://www.zim-bmw.de/zim-overview>.

5 GROWING YOUR BUSINESS

AMONGST OTHER FACTORS, THE SUCCESS OF STARTUPS CRUCIALLY DEPENDS ON A DEDICATED, ABLE, AND ENTHUSIASTIC TEAM. THEREFORE, IT IS CRITICAL FOR STARTUPS COMING TO GERMANY TO FIND EMPLOYEES WHO MATCH THEIR CORPORATE CULTURE. THIS CHAPTER PROVIDES AN OVERVIEW OF THE GERMAN LABOUR MARKET AND RELEVANT REGULATIONS AS WELL AS HELPFUL ADVICE ON HOW TO FIND THE BEST CANDIDATES.



5.1 - THE GERMAN LABOR MARKET

The German labor market is a recruitment market in which top candidates are a much sought-after and highly contested commodity. With a university degree or a vocational training certificate, some work experience and basic knowledge of the German language, chances are high for landing a job.

Germany's unemployment rate is the lowest in the EU with 5% (June 2018) and in some parts of the country, such as Bavaria, it's even lower than that. At the same time, Germany is suffering from a lack of skilled workers in many professions - for instance, engineers, IT specialists, developers and medical professionals. As a result, qualified applicants can more or less pick and choose the job they want in Germany. This also applies to startup relevant functions, such as tech, engineering, online marketing, etc. In these sectors, there is a shortage of qualified candidates, which can make the hunt for new employees difficult.

Therefore, to attract relevant candidates, it is advisable for startups to explicitly advertise their advantages in contrast to more established companies. Especially "Digital Natives" often find young and agile company cultures, broad development opportunities and an international setup more attractive than the supposed security of big corporations.

5.2 - FINDING CANDIDATES

Generally, startups should take recruitment aspects into consideration when deciding on a location. Wages, living conditions but also talent graduating from universities and research facilities play a significant role when deciding where to build your company.

Like many other countries, Germany has a variety of online platforms for job postings, many of which are specialized in select industries. It is important to note, that the largest ones, such as Stepstone and Monster, are relatively expensive and not necessarily useful for startups: as a small and rather unknown business, it is rather difficult to stick out

from the large pool of job postings there. Additionally, these platforms are mostly frequented by candidates that are actively seeking a new job. These are usually not the top candidates in the job market. For startups, it makes more sense to post on specialized posting platforms and use more direct approaches to recruitment – especially for junior to mid-level positions.



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Despite Berlin's transformation to a startup capital and tourist magnet, wages and costs of living are still lower here than in the Southern or Western parts of the country.



The following table provides an overview of the most useful platforms:

NAME	WEBSITE	FOCUS
Absolventa	https://www.absolventa.de/	Young Professionals
Adrockers	https://www.adrockers.com/	Marketing
Angel List	https://www.angel.co/jobs	Startups, Networking
Berlin Startup Jobs	https://www.berlinstartupjobs.com	Digital Industry, Startups, Berlin
Deutsche Startups	https://www.deutsche-startups.de/startups-jobs/stellenangebote/	Digital Industry, Startups
DNX Jobs	https://www.dnxjobs.com/	Digital Industry, Startups
Edition F Jobbörse	https://www.editionf.com/jobboard/all	Digital Industry, Marketing, Focus: Women
Glassdoor Job portal	https://www.glassdoor.de/Job/index.htm	Jobs in general, Network, International
Gründerluft	https://www.gruenderluft.de/	Startups, Internships, Entry-level Positions
Gründerszene Job portal	https://www.gruenderszene.de/jobboerse/	Digital Industry, Startups
Horizont Jobs	https://www.horizontjobs.de/	Marketing
iBusiness	https://www.ibusiness.de/jobs/	Digital Industry (agencies, service providers)
IT Treff	https://www.it-treff.de	Web Developers
Lead Digital / W&V	https://www.stellenmarkt.lead-digital.de/	Marketing
LinkedIn Job portal	https://www.linkedin.com/jobs/	Jobs in general, Network, International
Monster	https://www.monster.de	Jobs in general, Largest reach
Onlinemarketingjobs	https://onlinemarketingjobs.de/	Online Marketing
PHP Resource	https://www.php-resource.de/jobs/	Web Developers
Rockit Digital	https://www.rockitdigital.de/	Digital Industry, Startups
Start Up 4 Me	https://www.startup4me.com/de/	Digital Industry, Startups
Startup Berlin	https://www.startup-berlin.com/jobs	Digital Industry, Startups
Startup CVs	https://www.startupcvs.com/	Startups, Networking
Startup Hire	https://www.startuphire.com/	Digital Industry, Startups, International
Startup Jobs Germany	https://www.startup-jobs-germany.com/	Digital Industry, Startups

NAME	WEBSITE	FOCUS
t3n Jobs	https://www.t3n.de/jobs/	Digital Industry, Startups
Webbyjobs	https://www.webbyjobs.de	Web Developers
Webentwickler Jobs	https://www.webentwickler-jobs.de/	Web Developers
Work in Startups	https://www.workinstartups.com/	Digital Industry, Startups, International
XING Job portal	https://www.xing.com/jobs	Jobs in general, Networking

Find your next Hire via Social Networks.

Another possibility is active sourcing and recruiting via social networks. LinkedIn is fairly well-known in Germany, especially among digital professionals. However, Xing is the biggest German business-oriented social network that offers comprehensive search options.

The person in charge of recruitment should consider getting a premium account or the even more advanced Talent Manager account, which offers the broadest range of options for actively sourcing candidates. For startups that want to get a foot in the door in the German market, it is also essential to quickly build their own network and visit relevant events and hubs.

Co-working spaces are a good starting point, as they frequently host and organize such events. If founders regularly attend these, there is a good chance they may recruit their first employees there in person or by word of mouth.

According to German law, full-time internships that are not required by universities have to be paid internships based on minimum wages of 8.64 Euro which sums up to 1400 Euro/month.

5.3-INTERNSAND GRADUATES: RECRUITING AT UNIVERSITIES

When looking for juniors or interns, targeting universities is worth a try. Almost all German universities have so-called Career Centers or Career Services via which job postings can be spread. Sometimes, it also pays off to contact relevant departments directly with job openings. In that case, the technical fit is decisive – Online Business and IT departments can be relevant for startups in tech or e-commerce. Moreover, many students in Germany like to work part-time next to their studies, i.e. 10-20 hours a week. The maximum of 20 hours counts as minor employment (geringfügige Beschäftigung) and is free of social security contributions.

Employing a working student (Werkstudent) can thus provide startups with the opportunity to get specific tasks done at a relatively low cost, and help young people gain experience which is relevant to their studies and career plans. In many cases, part-time working student jobs develop into a longer-term professional relationship.



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5.4 - OUTSOURCING / SERVICE PROVIDERS

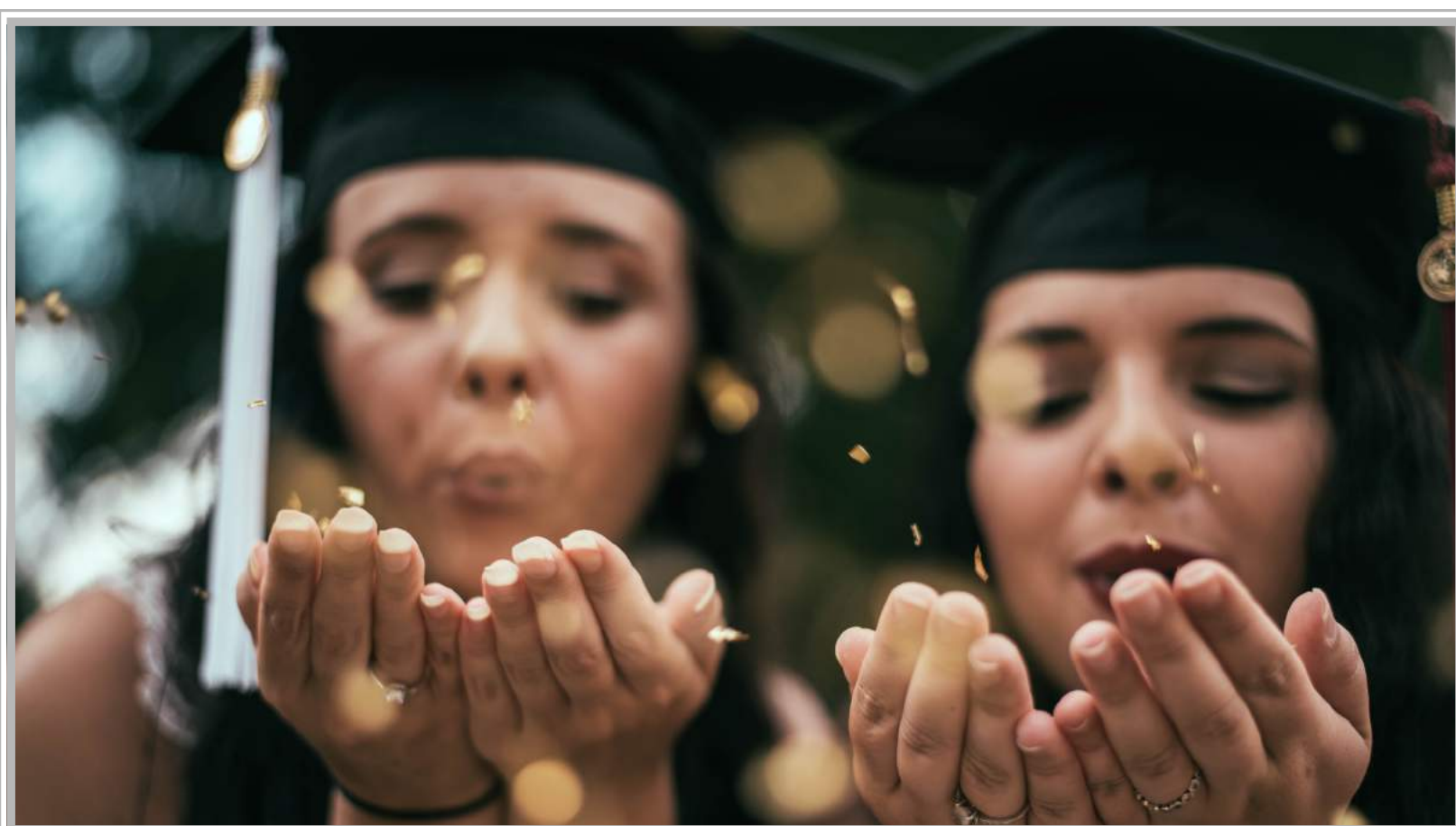
When it comes to hiring senior specialists, country leads, or generally more experienced leadership positions, recruitment becomes more difficult. Active sourcing via social networks may work here as well, but many high-level professionals do not react to those messages anymore, because they are contacted too frequently for jobs that are only of little or no relevance for them.

Therefore, for selected key positions, it may help to turn to a specialized recruitment service provider or consultant to take over the search for the best candidates.

The recruitment industry (matching services, consultants, and headhunters) is on the rise, which makes a targeted pre-selection essential.

The following indicators can help to find a good recruitment agency for specialist and leadership roles:

- The agency or consultancy has a clearly discernible industry specialization.
- The consultancy can provide client references and has placed similar positions in the past.
- A customer request is handled quickly, professionally and by a competent consultant.
- The search process used for placing a position is communicated clearly and transparently.
- The pricing model matches the placement model: matching (for instance via pool-/ database search) is generally compensated with a success-based fee, a professional executive search usually requires a pricing model that works with gradual retainer payments and is not (entirely) success-based.
- The briefing for the vacancy includes (at the very least) a telephone call and touches upon aspects beyond the points already mentioned in the job description (if available).



5.5 - HIRING REGULATIONS AND LABOR LAWS

Germany is well-known for its bureaucracy and detailed regulations – recruiting and hiring are no exception. The most important guideline for the recruitment and application process is the General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz, AGG). This law is meant to ensure that no one is discriminated against because of his or her race, origin, religion or other personal conditions.

Furthermore, employers have to abide by some statutory regulations in the application process in Germany. For instance, every application requires a reply – even if it is just a standard e-mail. Moreover, travel expenses for candidates have to be reimbursed, upon request.

Germany's reputation as a bureaucracy nation also extends to employment contracts. Generally, German labor law is very employee-friendly. There is comprehensive protection against unlawful dismissal, as well as special regulations for the trial period of an employee, a statutory right to a minimum of 24 days of paid leave per year and continued payment of wages in cases of illness.

Furthermore, the employer has to contribute to the social security of his/her employees. For more detailed insights into the rights of their employees, employers should familiarize themselves with the different forms of employment contracts in Germany. The main forms are:

1. regular employment contracts,
2. fixed-term contracts,
3. temporary employment contracts, as well as
4. mini and midi job contracts,

which all differ in regulatory conditions. In general, temporary and freelance employment models are often advisable if there is little planning security.

However, long-term retention of employees is easier with fixed contracts and some basic team benefits.

Whenever there is doubt about matters of work contracts, payroll accounting, etc, it is advisable to contact a specialized consultant or cooperate with a German service provider.

In companies with five or more people, employees can form a work council which represents the interests of the employees internally. The council members have informative and advisory rights relating to the company's internal policy and organization but cannot get involved in corporate governance.



6 TAX SYSTEM

GERMANY IS A VIBRANT BUSINESS DESTINATION. THE COMPARATIVELY COMPETITIVE TAX SYSTEM, APPLICABLE TO COMPANIES IN GERMANY, PLAYS AN IMPORTANT ROLE IN ATTRACTING YOUNG COMPANIES. THE FOLLOWING PARAGRAPHS PROVIDE AN OVERVIEW OF THE GERMAN TAX SYSTEM AND ITS MOST RELEVANT RULES CONCERNING STARTUPS AND THEIR EMPLOYEES.



6.1 - TAX REGISTRATION IN GERMANY

There is no need for an approval from the tax authorities for opening a business in Germany. Tax registration is required at the corporate income tax authority of the district in which the start-up is situated. The tax registration number is valid for corporate income tax and the preliminary and annual VAT filings.

Together with the tax registration, it is possible to apply for a VAT Identification Number which will be issued by the Federal Central Tax Office. On receipt of the tax registration number, is also possible to file a separate application for the VAT Identification Number directly with the Federal Central Tax Office. This number is used for EU intra-community transactions.

Moreover, local municipalities generally require a registration of commercial activities at the trade office of the respective municipal administration. The trade registration is typically connected to receiving a trade tax number.

As soon as the start-up begins to have salaried employees, an application with the social security authorities for a so-called Betriebsnummer is required, so that the startup can comply with the wage tax and social security filing obligations.

6.2 - TAXES ON CORPORATE INCOME AND GAINS

German right to taxation: Startups in Germany are mainly established as corporations in the legal form of a GmbH (similar to a UK or US private limited company). Corporations with a corporate seat or place of management in Germany are liable to corporate income tax as tax residents on their worldwide income unless otherwise provided in tax treaties. Non-resident corporations, having neither seat nor place of management in Germany, are liable to corporate income tax only on income generated inside Germany with a German income source (e.g. through a permanent establishment, such as a fixed place of business – often an office from which German operations are carried out).

Corporate and Trade Tax: The corporate income tax rate in Germany, which is applicable on the taxable income of the enterprise, is 15 %. A 5.5% solidarity surcharge thereon is imposed on corporate income tax, resulting in an effective tax rate of 15.825%. The taxable income of corporations is based on the annual financial statements prepared under the German generally accepted accounting principles (GAAP), subject to numerous adjustments for tax purposes, such as non-deductible treatment of specific business expenses or the application of tax exemption rules for certain types of income. Furthermore, municipalities impose a trade tax on income. For purposes of this tax, the taxable income for corporate income tax is subject to certain further adjustments, such as add-backs for financing costs. Consequently, the taxable income and trade tax income regularly differ from the annual business profit in the financial statements. The effective trade tax rate is freely set by each municipality and amounts to 14% on average. The law sets a trade tax floor at 7%. Therefore, the combined average tax rate for corporations (including corporate income tax, solidarity surcharge, and trade tax) is flat and ranges from approximately 23% to 33%. If a company operates in several municipalities, the trade tax base is allocated according to the payroll paid at each site, so that various municipality multipliers can be taken into account.

Typical income adjustments for tax purposes are the following:

- Acquired goodwill must be capitalized for tax purposes and may be amortized over 15 years. Intangibles acquired individually must also be capitalized for tax purposes and may be amortized over their useful lives (normally between 5 and 10 years).
- A company's own research and development as well as setup and formation expenses may not be capitalized for tax purposes, but must be expensed. Provisions for expected losses from pending contracts may not be recognized for tax purposes. Future benefits arising in connection with the fulfillment of an obligation must be offset against costs resulting from the obligation.
- Non-interest-bearing debt must be discounted

at an annual rate of 5.5% if the remaining term exceeds 12 months. Market rates do not apply.

After the income for tax purposes has been determined, certain adjustments need to be made to calculate taxable income. Major adjustments as non-deductible expenses include:

- Income taxes (corporate income tax, solidarity surcharge and trade tax) and any interest expense paid with respect to these taxes
- Penalties
- Thirty percent of business meal expenses
- Gifts to non-employees exceeding EUR 35 per person per year and input value-added tax (VAT) regarding such expenses

Administration and Tax Filings: From 2018, annual corporate income tax and trade tax returns must be filed by 31 July of the year following the tax year. The deadline is extended until 28/29 February of the second year following the tax year if a licensed tax advisor prepares the returns.

Prepayments of corporate income tax as well as trade tax with respect to the estimated tax liability are made in quarterly installments and are usually determined by the tax amount due for the previous year.

Tax accounting generally needs to be done by qualified personnel and within the German territory. Exceptions apply for auxiliary accounting tasks and for electronic accounting activities. A permit needs to be obtained from the tax authorities before shifting tax accounting activities into a foreign jurisdiction. Penalties may apply in case of non-compliance.

Dividends and capital gains :Dividends and capital gains (from sales of corporate shares) received by resident corporations and branches of non-resident corporations from their German and foreign corporate subsidiaries are generally exempt from tax. 5% of such dividends and capital gains will be treated as non-deductible business expenses (i.e. taxation of dividends received at an effective tax rate of 1.5%). Certain requirements have to be fulfilled to be eligible for the tax exemption. Capital losses from sales of shares or write-downs on shares are

not deductible.

Setup and Formation

Expenses: The possibility to use setup or formation expenses before the original business activity of the enterprise begins depends on the legal form of the enterprise.

As long as the startup is run by a single person or a partnership, initial expenses would be deductible from the initiator's personal income tax base. If the startup is established in the legal form of a corporation (for example a limited liability company), it is authorized to claim similar expenses incurred after the notarial certification of the statute. No transfer of earlier expenses (i.e. from a pre-incorporation phase) is possible.

Tax Losses: Tax losses incurred within the original business activity may generally be carried forward without time limitation. Once profits arise, only 60% of annual taxable profits in excess of EUR 1 million can be offset by loss carryforwards under the restrictions of the so-called minimum taxation. As a result, 40% of the portion of profit exceeding EUR 1 million is subject to tax at regular rates, as the rules apply for both corporate income tax purposes and trade tax purposes. For corporate income tax purposes, an optional loss carryback is permitted for one year up to the maximum amount of EUR 1 million.

Under the German loss-trafficking rule, tax loss carryforwards as well as current-year losses (for corporate income tax and trade tax) are forfeited proportionally if, within a five-year period, more than 25% of the shares of a loss-making entity are directly or indirectly transferred to a single new shareholder or a group of shareholders. If within a five-year period, more than 50% of the shares are transferred, the entire loss carryforward as well as the current-year loss is forfeited. Recent court decisions (as well as further cases pending for decision) have stated that major revisions of significant parts of the loss-trafficking rules have to take place; no draft law on such revisions is yet available. Exceptions to the loss-



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trafficking rule may apply under specific conditions for group restructurings and to the extent sufficient taxable built-in gains are available, as well as in case the business is continued in a similar manner after the transfer (subject to various conditions).

Loss carryforwards and current losses of a loss-making company are also forfeited in the course of a merger, change of legal form, and liquidation of the company.

Transfer Pricing: German tax law contains a set of rules that allows the adjustment of inter-company transfer prices. All of the rules are based on the application of the arms-length principle.

Germany has implemented the Authorized Organization for Economic Co-operation and Development (OECD) Approach (AOA). Specific documentation rules apply for transfer-pricing purposes.

Transfer pricing documentations need to be prepared if de-minimis thresholds are exceeded. On request of a tax auditor, the taxpayer is required to submit the transfer pricing documentation within 60 days (in the case of extraordinary business transactions, within 30 days). Non-compliance with these rules may result in a penalty.

VALUE-ADDED TAX (VAT)

The German VAT law as well as the VAT laws of all other EU Member States is based on the European Union value-added tax system. The VAT laws within the EU are therefore fairly harmonized and based on the same common rules.

A taxable person, for VAT purposes, is any business entity or individual that independently carries out any economic activity in any place in Germany.

VAT is payable on the following transactions:

- Generally, on all supplies of goods or services made in Germany by a taxable person
- On the intra-community acquisitions of goods from another EU Member State by a taxable

person in Germany

- On reverse-charge supplies, including supplies of services and supplies of goods with installation services (the recipient is the tax debtor)
- On self-supplies of goods and services by a taxable person
- On the importation of goods from outside the EU, regardless of the VAT status of the importer



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VAT Rates: The amount of tax payable will correspond to the rate applicable to the goods or services supplied. A standard rate of 19% generally applies to all supplies of goods or services, unless a specific provision allows a reduced rate or an exemption. A reduced rate of 7% applies, for example, to newspapers and books, cultural services or food. Additionally, special tax exemptions for certain transactions exist. Examples of supplies of goods and services which are exempt are financial transactions, insurance services, medical services or export supplies.

Input VAT Recovery: A taxable person (entrepreneur) may recover input tax, which describes VAT charged on goods and services purchased by him/her for taxable business purposes i.e. used for taxable (output) services or supplies. However, exceptions to this rule do exist. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made. Input VAT includes VAT charged on goods and services supplied in Germany, VAT paid on imports of goods, VAT self-assessed on the intra-community acquisition of goods (see the chapter on the EU), and VAT on purchases of goods and services taxed under the reverse-charge procedure.

Input VAT may only be recovered if the entrepreneur is in possession of either a valid invoice which fulfills the very formal invoicing requirements or a customs

document documenting any import VAT paid.. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use).

Input tax directly related to making exempt supplies is generally not recoverable, however, there are exceptions. If a German taxable person makes both exempt and taxable supplies, it may not recover input tax in full. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. The credit is generally refunded.

VAT Filing Obligations: In general, preliminary VAT returns are filed quarterly (electronically), but monthly returns must be filed if the VAT payable for the preceding year exceeded EUR 7,500. Also, newly established taxable persons must file monthly VAT returns for the first and second year of registration.

The preliminary VAT return must be submitted by the 10th day after the end of the filing period. The VAT authorities must receive payment in full by the same day. Because the regular filing deadline is relatively short, the VAT authorities allow a permanent one-month filing and payment extension on written applications. This filing extension by one month also requires a deposit payment equal to 1/11 of the preceding year's VAT liability by the regular due date.

In all cases (monthly, quarterly or no preliminary returns), an annual VAT return must be submitted by 31 May of the year following the end of the VAT year. If a German tax advisor is engaged to prepare the VAT returns, the filing deadline is 31 December of the following year.

Non-established businesses, which have no fixed establishment in Germany, are generally not required to register for German VAT if all of the business' supplies are covered by the reverse-charge procedure (under which the recipient of the supply must self-assess VAT). The reverse-charge procedure does not apply to supplies of goods located in Germany (except supplies of installed goods) or to supplies of goods or services made to private persons.

VAT invoicing and Credit Notes: A German taxable person must generally provide VAT invoices for supplies made to other taxable persons and to legal entities, including exports and intra-community

supplies. Invoices must be issued within six months.

This obligation, generally, does not exist for supplies that are VAT-exempt. Invoices are not automatically required for supplies made to private persons.

Invoices for intra-community supplies as well as services subject to reverse-charge and rendered by taxable individuals resident in the EU must be issued within 15 days following the month in which said supplies or services have been rendered. Taxable persons must retain invoices for 10 years. A VAT invoice is required to support a claim for input tax deduction or a refund under the EU refund schemes (see above and the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. It is also possible to cancel an incorrect invoice and issue a revised one. For intra-community supplies of goods and exports, the invoice must include the statement that the supply is VAT-free. In addition, the customer's valid VAT Identification Number (issued by another EU Member State) must be mentioned in the invoice for all intra-community supplies of goods. Electronic invoicing in line with EU Directive 2010/45/EU is permitted.

VAT and Digital Economy:

There are some specific rules relating to the taxation of the digital economy in Germany, for example, specific rules for the



place of the digital service and the Mini One-Stop Shop scheme (MOSS).

Under the EU-wide MOSS regime, special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. These services are taxed in the country where the consumer is established.

EU taxable persons that supply electronic services have to charge VAT to non-taxable persons established anywhere in the EU using the local VAT rate of the customers country.

EU suppliers are permitted to discharge their VAT obligations using a Mini One-Stop Shop scheme, which enables them to fulfill their VAT obligations (VAT registration, reporting, and payment) in their home country, including for services provided in other Member States where they are not established.

Accordingly, EU suppliers are able to apply a simplification measure similar to the one that is in place for non-EU providers of electronic services.

Furthermore, as of 2019 operators of online trading platforms may be held (secondarily) liable for any VAT amounts not paid by traders selling via their online platforms.



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6.3 - FINANCIAL REPORTING AND AUDITING

The majority of startups deem financial accounting annoying rather than beneficial for their business. Entrepreneurs are passionate about the purpose of their startup and concentrate on solutions that will grow their startup to the next level and into a sustainable business with more customers, more employees, and extended operations.

Despite these more exciting sides of building a business, there are obligations companies have to obey. Keep in mind that financial accounting and reporting may also produce benefits for young startups, spending on their business model, development stage, size, and investors.

Bookkeeping Requirements for Startups

If a startup has received all its licenses and permits and is filed as a company (GmbH) in the trade register in Germany, it must keep books. The same applies to the permanent establishments of a foreign company. The basic requirements how to keep the books are detailed in the German trade law (Handelsgesetzbuch, HGB).

However, bookkeeping is also required by tax laws. Bookkeeping in Germany is primarily based on trade law. Tax laws are mainly identical with trade law. However, specific tax rules must be applied for specific issues, e.g. for deductibility of travel and hospitality expenses, expenses for company events, depreciation and amortization expenses, expenses for accruals, and interest expenses, to just name a few.

Specific tax rules also apply for capitalization of self-generated intangible assets, allowances on



receivables, deferred taxes, tax losses, transfer prices, and transactions with related parties. Accordingly, the profits or losses shown in one's statutory financial statements are never the same as in one's financial statements for tax purposes.

Minimum Bookkeeping and Accounting

Requirements: For proper bookkeeping, all business transactions need to be completely entered into the bookkeeping system, in a timely and orderly manner.

The data needs to be maintained and accessible for 10 years, be written in German, be supported by original documents, and be accrual-based, with special requirements for fixed assets, accruals, and deferred items. As accounting data is also the basis for monthly or quarterly filings with the tax authorities, it should be prepared on a regular basis (e.g. monthly), although that is not legally required.

Bookkeeping also necessitates corporations to prepare statutory financial statements. The extent, however, is based on the size of the company. Startups are most likely considered "small-sized companies" and must prepare, at minimum, a balance sheet, a profit and loss statement, and notes to the accounts with limited content.

There is no governmental oversight or reminder and, thus, no penalty if the deadlines are not met. Nevertheless, one is not in compliance with German law in that case.

However, if the threshold to a "medium-sized company" is met, a full set of notes and a management report (Lagebericht) must be prepared. That threshold is defined by the following criteria, which must be exceeded in two consecutive years: assets of EUR 6,000,000, revenue of EUR 12,000,000, or 50 employees (on average).

SMEs must prepare statutory financial statements within 6 months after the end of the fiscal year. These accounts must be approved by the shareholders within 11 months after fiscal year-end at the latest. If the startup has already grown into a medium-sized company, the financial statements must be prepared within 3 months and be approved by the shareholders within 8 months.

However, there is no governmental oversight and, thus, no penalty if the deadlines are not met. Nevertheless,

one is not in compliance with German law in that case.

Rules for the Fiscal Year-end: For a majority of companies in Germany, the fiscal year ends on December 31st. However, a company is allowed to choose any other date for the fiscal year-end, which, then, must be included in corporate agreements and filed with the trade register. For tax reasons, however, one must prepare all tax filings based on December 31st, which requires additional work for the founder(s) and accountant(s) at year-end. It is, thus, more convenient to also choose December 31st as the end of the fiscal year. A fiscal year may never exceed 12 months.

Audited Statutory Financial Statements & Penalties:

Statutory audits are not required for small-sized companies by law. Nevertheless, there might be a contractual obligation in the enterprise's investment agreement even for small-sized companies, especially if it receives governmental funding. Audits are required for medium and bigger sized companies and, of course, for all public companies.

The audit must be performed by one of the 15,000 German certified public accountants (Wirtschaftsprüfer) before the companies' shareholders approve the financial statements. Audits are governed by the regulations of the Institute of German Certified Public Accountants (Institut der Wirtschaftsprüfer).

The auditor must prepare a special report about the results of the audit. The report may be prepared in English. The shareholder meeting must have accepted this report before approving the statutory financial statements. Each German corporation must file statutory financial statements with the filing authorities, the Bundesanzeiger, within 12 months after year-end. Small-sized companies only have to file their balance sheet and a short version of the notes.

The Bundesanzeiger reviews the financial statements filed. If they are not filed in time, a notice and an additional six weeks to file are given. If after these six weeks, the statutory financial statements are still not filed, penalties are imposed. These range from EUR 1,000 up to EUR 25,000, with further acceleration depending on the delay.

External Accounting Services versus Doing One's Own Accounting: In contrast to other countries, a German

certified public accountant is not necessarily a public tax accountant (Steuerberater). Almost all 85,000 German public tax accountants do offer tax and bookkeeping services, especially for small companies without an own accounting department.

The software applied by all German public accountants is DATEV, a widely-accepted accounting software with different applications, including cloud solutions. Hiring an external accountant is considered the best solution for international founders due to the complexity of the German tax system. Hiring an accountant will keep you on the safe side with respect to deadlines and all tax questions.

Important: In the early phases of a business, financial accounts usually do not play a role for investors when it comes to an investment decision as accounting always looks at the past. However, after the investment, one might have to provide monthly investor reports. If a startup is able to provide solid financial statements even in its early phase, that might have a positive effect on its credibility and the reliability of its management team.

Payroll: Payroll is an integral part of accounting. German labor and tax laws are complex. Therefore, a public tax accountant should be hired to do the payroll on a monthly basis. Employers are obliged to calculate and pay payroll taxes, church taxes and social security contributions on behalf of the employee.

These must be filed and paid 10 days after each end of the month. It is further required to sign-in new employees with their respective healthcare plans and social security as soon as they start working for the company.

As payroll data is very sensitive, it should be protected and stored with special care. Moreover, to avoid costly mistakes, one must adhere to specific tax regulations if employees request reimbursement for travel expenditures.

Other Relevant Rules for Bookkeeping: There are some ground rules that should be considered. One of the most important is to make sure there is no booking without proper documents.

Compliance in bookkeeping is the responsibility and liability of the management team (Geschäftsführer), which describes those individuals who are filed with

the trade register. That includes completeness, orderly manner, correct valuation, compliance with laws and regulations, correct storage and accessibility, and German language.

Furthermore, it is important to note that in general, all records of a German company must be kept in Germany. Accounting software and documents must also be hosted on servers located in Germany.

However, there are exemptions to the rule, for which companies have to apply with the tax authorities. Basically, the founder needs to convince the tax authorities that records are accessible and available for tax audits as if they were stored in Germany.

If you are working with freelancers, it is important to make sure that he/she is not working for one's enterprise for too long, because this might lead to obligations concerning social security and payroll taxes (Scheinselbständigkeit) on the part of the entrepreneur. Furthermore, special rules apply to interns, parents, etc.



6.4 - EXIT – AN OVERVIEW OF THE LEGAL FRAMEWORK

Governing Law and Formalities: Under German law, a sharp distinction is made between (a) the contractual rights and obligations on which the seller and purchaser of a company agree, including the obligation to sell the company, and (b) the actual transfer of title in shares. With regards to the contractual rights and obligations, the parties can freely agree on the law which should govern the rights and obligations of the purchaser and the seller. In principle, the parties are free to pick the law of any country; it is not necessary that the country of chosen law has a connection to the parties or to the shares sold.

In contrast, regarding the transfer of title in shares, the parties cannot choose the governing law but must comply with the strict provisions of German law. In particular, it is a mandatory requirement under German law that the transfer of shares in a GmbH is notarized. This cannot be circumvented by selecting a different law. German law is chosen in most cases when shares in a German company are sold, mainly for practical reasons.

The share purchase agreement typically includes not only the contractual rights and obligations but also provides for the actual transfer of the shares in the GmbH, which, as explained above, is necessarily governed by German law. The parties will, therefore, usually agree that the entire share purchase agreement is governed by German law.

In this case, the conclusion of the share purchase agreement requires notarization by a German notary, which entails that the entire agreement is read out to the parties by the notary in his/her capacity as a neutral advisor. The signing of the share purchase agreement is usually simply referred to as signing.

As said before, the share purchase agreement typically also includes an obligation to transfer the shares. However, this obligation is often contingent upon receipt of the purchase price by the sellers, antitrust clearance by the cartel authorities or other requirements.

In such case, the actual transfer of shares will only be effective days or weeks after signing. This point in time is referred to as closing.

The Purchase Price: German law contains no particular provisions on the determination of the purchase price or the purchase price structure and, thus, the parties will generally bargain over it. The purchase price is meant to be a consideration for the value of the company at the time the purchaser obtains control over it, i.e. at closing. Even though the purchase price will also depend on the subjective value of the company to the purchaser (e.g. for strategic reasons or possible synergy effects), the starting point for its determination is usually the balance sheet as the basis for the objective valuation of the company.

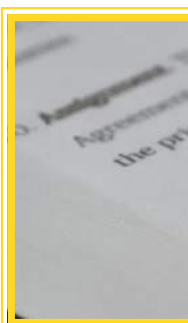
However, during negotiations, at signing and even at closing itself, the financial data of the company at closing is not yet known. Therefore, in order to determine a fair value of the company, the parties typically agree either (a) on a variable purchase price at signing that may be subject to certain adjustments after closing, or (b) to maintain a fixed purchase price (calculated on the basis of the latest balance sheet) and prepone the commercial effect of the transaction to the date of the latest balance sheet.

The agreement on a fixed purchase price is often called the “Locked-Box Principle”. In such a scenario, the purchase price is usually based on the most recent available financial statements (so-called locked-box accounts). This means that while the purchase price is calculated on the basis of the financial data of the locked-box accounts, the purchaser only obtains control over the company at closing, which might be considerably later.

Therefore, the share purchase agreement is drafted with a view to emulate a commercial effect of the sale as of the date of these locked-box accounts. In particular, this means that no cash may be distributed to the shareholders (sellers) of the company (so-called “leakage”) until the transaction is completed



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in order to protect the purchaser (the company is, so to speak, a “locked box”).

The seller would even have to indemnify the purchaser for any such leakage. In addition, the purchaser has to guarantee that the locked-box accounts are correct and that the company has operated its business in the ordinary course from the date of the locked-box accounts up to the closing.

In contrast, acquisitions with a variable purchase price address the issue of changes in the financial data between the latest financial statements and closing of the transaction, not by emulating an earlier commercial effect of the sale, but by providing for an adjustment of a preliminary purchase price.

The preliminary purchase price that has been agreed upon on signing of the transaction is paid upon its closing. After closing, the price is then adjusted according to a balance sheet for the closing date, which is drawn up afterwards. The standard adjustment factors are cash and debt (loans) positions (at the closing date) and working capital items.

According to the latest CMS European M&A Study 2017, both purchase price adjustments and locked-box mechanisms are common. The CMS Study shows that, in 2016, 43 % of the deals in German-speaking countries (“DACH”) provided for some kind of purchase price adjustment, which is a decrease from 48 % in 2015. Notably, locked-box deals also dropped from 59 % to 38 %, which, however, is still a high number compared to the US, where 86 % of the transactions include some kind of a purchase price adjustment.

Since in most cases the value of a startup company is difficult to determine and may depend on the future development of the company, the parties often agree that a certain part of the purchase price is to be paid as an earn-out. An earn-out is an additional variable purchase price which depends on the future performance of the company after closing. The technology, media, and communication sector has the highest percentage of deals with an earn-out component.

Usually, share purchase agreements contain specific provisions on warranties and indemnities. In this regard, warranties on title and capacity, which cover the ownership of the sold shares and freedom of such shares from any encumbrances or similar, must be distinguished from warranties on the business itself.

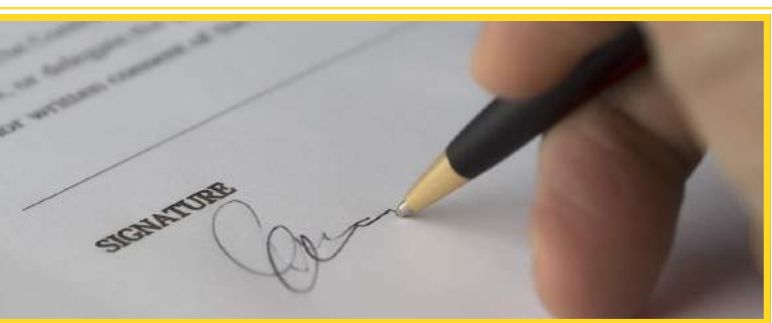
Purchasers usually expect not only warranties on title and capacity, but also certain business warranties in regard to the operational parameters of the company (such as ownership of all necessary intellectual property and other assets, financial statements, employment agreements, material agreements, pending litigation, permits and legal compliance).

The following restrictions and limitations on warranties are usually provided for in transactions governed by German law:

Qualification of Warranties by Disclosure: Under German law (§ 442 of the German Civil Code), a purchaser of goods cannot bring any claim against the seller if the purchaser was aware of the defect of the good, or unaware of it due to gross negligence (except if the seller fraudulently concealed the defect). This concept differs from rules in other jurisdictions and is often regarded as inadequate for share deals. Consequently, whether and to what extent warranties are limited by disclosure is often highly disputed between the seller and the purchaser. In principle, three approaches exist: the share purchase agreement may provide that the purchaser cannot bring any claims:

1. if he had actual knowledge of a breach of warranty
2. if the facts underlying the breach of the warranty had been disclosed in the share purchase agreement or its exhibits (in particular, as a disclosure against the warranties), or
3. if the facts had been disclosed in the data room, to which the purchaser had access for the purposes of the due diligence process.

In the last case, such disclosure is often further qualified in the share purchase agreement, for instance by providing that the disclosure must have been made in a fair manner, meaning that the purchaser would have been aware of the breach



of warranty, had he conducted a reasonable due diligence of the documents which were provided in the data room.

De Minimis Provision: If a de minimis provision is included in the share purchase agreement, the purchaser has a claim for a breach of warranty only if and to the extent that the claim exceeds a certain de minimis amount.

According to the CMS Study, such provisions have significantly increased in 2016 in Europe in general (rising up to 76 % from the previous five year average of 65 %). In the DACH region, 71 % of the transactions include a de minimis clause.

Baskets: A basket clause provides that a purchaser has a claim for a breach of warranty only if and to the extent that the aggregate of all individual claims which exceed the de minimis threshold also exceeds a basket threshold. If the threshold is exceeded, the agreement can either provide that the purchaser may be entitled to bring the entire claim ("first-dollar concept") or may only claim the amount of the claim exceeding the value of the basket ("excess-only concept").

Liability Caps: It would be clearly unfair if a seller had to take on a liability which is potentially higher than the purchase price received. Liability caps are, therefore, commonly accepted but differ with respect to the kind of warranty given. Concerning warranties on legal title and capacity, the liability cap usually amounts to the full purchase price.

When it comes to business warranties, the liability caps are still significantly higher in Europe (often 20 % to 30 % of the purchase price) than in the US. However, caps for 50 % or more of the purchase price appear to be rather the exception. In any case, an analysis by deal size demonstrates that the liability cap and the purchase price correlate with each other. In principle, buyers and sellers agree on proportionately lower liability caps in transactions with high purchase prices and vice versa.

Time Limits: It is common to agree on time limits for warranty claims in the share purchase agreement. For business warranties, a time limit of 12 to 18 months is most common in Europe, according to

the CMS Study. Exceptions apply for warranties on legal title and capacity, where the limitation period is longer.

Security for Warranty Claims: Purchasers often demand some kind of security for warranty claims. The type and value of such security depend on many factors, such as the probability of the occurrence of a warranty claim and the deal structure.

The escrow remains the most important type of security in European transactions. In case of an escrow, the share purchase agreement provides that a part of the purchase price must be paid into an escrow account which is held by an independent escrow agent.

The money held in the escrow account will only be released to the sellers if and no successful warranty claim has been brought by the buyers during a set period of time. Whereas such an escrow gives the seller the comfort of knowing the buyer has committed the money, it also protects the buyer from the difficult task of recovering funds from the seller. According to the CMS Study, escrow accounts are used in about 15 % of all transactions.

The CMS Study shows that such basket provisions are rather common (65 % of the deals in the DACH region, 72 % in Europe in general). In the DACH region, in 72 % of the cases, such indemnity clauses were drafted as first-dollar clauses. In the US, basket provisions are present in 98 % of the deals, however, the basket size is smaller and the excess-only concept appears to be the rule.

7 YOUR PERSONAL LEGAL STATUS IN GERMANY

THE FOLLOWING CHAPTER IS AIMED TO ADDRESS THE MOST PRESSING ISSUES AFTER ARRIVAL IN GERMANY, SO THAT ISRAELI FOUNDERS CAN START THEIR LIVES AND BUSINESSES AS QUICKLY AND COMFORTABLY AS POSSIBLE.



7.1 - VISA

For short stays, Israeli citizens do not need a visa to enter Germany (holidays or business trips of **up to 90 days**). Only an Israeli passport that is valid for at least three months beyond the intended length of stay is required. Even for **longer stays requiring a visa**, Israeli nationals may enter Germany without a visa and apply for one from within the country. For that purpose, they need to go to the foreigners' authority (Ausländerbehörde) after having entered Germany. Nevertheless, as the process can take a while, it is recommended to apply for a visa before entering the country, if possible. Appointments can be made at the German embassy in Tel Aviv at www.tel-aviv.diplo.de. For a **work visa**, a concrete job offer is needed, including job description and details of gross annual salary.

Furthermore, the **EU blue card** is an instrument to attract **qualified professionals**. Academics with a recognized university degree, or one which is comparable to a German university degree, are entitled to single residence and work permit to take up an employment which corresponds with their qualifications. An advantage of the Blue Card is that its holders are entitled to a permanent residence permit after working for 33 months. Furthermore, it is possible to take a short-cut, if one can prove that

the required language skills comply with level B1 of the Common European Reference Framework for Languages (CEFR). In that case, permanent residence can be obtained after just 21 months.

While work visas and Blue Cards are more relevant for employees of the startup in Germany, Israeli founders have to apply for a **visa for self-employment**. Being self-employed means being either the owner of a company (more than 50 percent of the shares) or working as a freelancer. Managing directors holding no shares are treated as employees. The most important question when it comes to self-employed visa issues is in what field the investor/freelancer would like to work.

Acting as an investor or an owner does not depend on the legal form of the company. Whether it is an AG, GmbH or UG is not important for the immigration office. The legal entity must not be established before applying.

A draft of the company constitution (Gesellschaftervertrag) and/or managing director employment contract will be requested. If plans for setting up a company in Germany are not mature yet, it might be better to apply for a freelance visa. This can create time and freedom to work on the final business plan. Especially for early stage startups, it is advisable to go for the freelance visa, even if a UG has been already been set up for tax reasons.

The following documents have to be prepared:

- application for a visa or residence permit
- CV and profile
- company/service profile
- profit and loss account
- copy of the first and last page of the passport
- evidence for liquidity or for private means (copy bank account, etc)
- copies of (potential) clients, partners etc.
- evidence of health insurance

Looking at past experiences, the whole process can take between fourteen days, which is the optimistic scenario, and three months, which is the realistic one. This depends first and foremost on the completeness and informative value of the applicant's documents.

Moreover, the answers to the questions why the founder would like to come to Germany, why to the specific city and what is its added value are scrutinized. Founders should also include a short paragraph ABOUTWHAT?? in their company profile. Sometimes, everything can be formulated in English. Yet, a short summary in German is appreciated.



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[More information here](#)

However, the application for this kind of visa is only reasonable if the applicants intend to relocate to Germany, which means staying for **more than 180 days per year** in Germany. If one only seeks the possibility to come to Germany regularly for business trips, a **short-stay Schengen visa** is sufficient.

7.2 - PERMANENT RESIDENCE AND REGISTRATION IN THE MUNICIPALITY

If somebody is already living in Germany with a temporary residence- and work permit, they can apply for an indefinite residence title, called a **"permanent permit"**. A permanent permit opens numerous prospects: unrestricted right to live in Germany with one's family, taking up employment and self-employment.

Nationals of non-EU and non-EEA states can apply for a permanent permit if they meet the following requirements:

- They have held a residence permit for 5 years. They have the means to support themselves without public funds.
- They have paid the compulsory or voluntary contributions to statutory pension insurance for at least 60 months.
- They are entitled to exercise gainful employment and have the permits to do so.
- They have a sufficient command of the German language, basic knowledge of the legal- and social system and way of life in Germany.
- They have sufficient living space for themselves and their family.

Anyone holding an EU Blue Card can apply for a permanent permit after just 33 months if they exercised skilled employment during that time (see the explanation of Blue Cards in 2.1). Self-employed persons have to show pension plans or savings and German language skills.

It is very important to note that any residence- and work permit is only valid as long as someone is registered in the respective city. Even though it is possible to travel and even to leave Germany for a longer period of time, one has to remain **registered**

in a municipality. Relocating within Germany (and registering accordingly) is not a problem.

To register, the following documents are required:

- Personal identification (e.g. personal identification document or passport)
- Registration form
- Confirmation of having moved in from the party providing the apartment (landlord)
- If necessary supplement for registration (in the case of several apartments)
- Civil status certificate if required, e.g. marriage certificate, birth certificate (for initial registration in Berlin)



[More information here](#)





7.3 - HEALTH INSURANCE

In Germany, health insurance is mandatory for all, but several different systems are in place. There is a government-regulated **public insurance scheme** (GKV) and **private insurance** (PKV). Most Germans are part of a public insurance scheme.

The contributions for employees depend on their income. With the beginning of an employment relationship, an employee receives **compulsory insurance** from the employer. In practice, this means that contributions to health-, nursing care-, social-, and unemployment insurance are automatically deducted from the employee's gross salary, whereby the employer pays 50% of the health insurance contribution. The net amount of the salary is then transferred to the employee on a monthly basis. Within the public scheme, there are many providers to choose from, including AOK, BARMER, TK, SBK, BEK, and DAK.

The basic health insurance protection of public providers includes the following benefits:

- Outpatient medical treatments
- Dental care
- Medication and medicinal aids
- Hospitalizations and treatments
- Medically necessary rehabilitation
- Services for pregnant women including delivery

If an employee already has a health insurance when starting a new employment, it is necessary to provide the employer with a confirmation of the health insurance. This confirmation can be obtained directly from the health insurance provider.

Furthermore, once employment is taken up in a German company, it is mandatory to contribute to **social insurance** (Sozialversicherung). The employer requires the employee's social insurance number for that purpose. This number is the same as the pension insurance number. In most cases, it is easy to find on the pay slips from previous employers. In case of uncertainty, one can contact the German Pension Insurance office or one's insurance provider and ask for assistance.

Those who do not have a social insurance number yet can apply for one with the German Pension Insurance or their health insurance provider. It takes one to four weeks to process an application. The applicant will then receive their social insurance number as well as their social insurance card by mail.

Self-employed persons or employees who earn more than 4,800€ **can opt out of the public scheme** in favor of the private one. Private providers generally offer a wider choice of covered treatments and services, and contributions are differentiated based on desired insurance package, age, and individual risk. A lot of doctors depend on patients who are privately insured and, therefore, welcome them. Similar to the public scheme, there are a plethora of providers to choose from for private health insurance.

In general, which kind of health insurance scheme and provider is best, depends on the age, family, and health conditions. An advantage of the public scheme is that **family members** without an own income are co-insured non-contributorily. If one has pre-existing medical conditions and knows that they will need medical services more frequently, a private insurance can be a good option.

7.4 - FINDING AN APARTMENT AND UTILITIES

The rental market in Germany, especially in the larger cities, can be quite tough. One should, therefore, not expect to find a place after one week of searching. A useful site for both renting and buying apartments is [immobilienscout24](https://www.immobilienscout24.de). To receive a rental contract, one usually has to provide references such as proof of income and freedom from debt. In contacting potential landlords, it is also recommended to give some information about oneself, one's family, and one's occupation in order to increase the chances of being invited for a viewing.

Immediately after moving into a new apartment or house in Germany, **subscription for electricity**, and if necessary gas, is required. In Berlin, for instance, many households are supplied with gas – both for heating and hot water. Normally, the rental agreement gives information in that regard. Usually, it is possible to choose one of the several electricity and gas suppliers. In Berlin, for instance, if someone has not yet chosen a provider, the household will first be supplied via the company “Vattenfall” (electricity) and “Gasag” (gas). This guarantees the supply of gas and electricity from move-in day.

There are several comparison portals on the Internet that can calculate and show electricity and gas prices for a specific household. The prices depend on the size of the home, the consumption and the exact place of residence. The price comparison portal Check24 can help to find the best energy supplier: <https://www.check24.net/stromanbieter-wechseln/> When signing a contract with a supplier, one should look for short one-month notice cancellation periods. It is further advisable to go for monthly installments. Contracts can be completed directly online. Moreover, it is crucial to take note of the exact electricity and/or gas meter reading when moving in.



7.5 - INTERNET AND PHONE

Pre-paid SIM cards (Prepaidkarte/Guthabenkarte) allow for immediate use and are available in nearly all supermarkets, drug stores, electronics stores, and gas stations. They can be registered either directly, using the cell phone, or online. Without a fixed residence, one can provide one's name and a c/o address, or the address of the hotel where one is staying.

Pre-paid cards have a limited balance which needs to be "recharged" regularly. In case one would like to get a mobile phone with a contract, including monthly bills, it is advisable to visit a phone shop or go directly to the provider's website. A German identification card, or alternatively a registration certificate is needed to sign a **mobile phone contract**.

There are three big mobile network operators in Germany: Telefonica/O2, Telekom, and Vodafone. However, the three big players are split into around 50 smaller providers, such as congstar, Othello, ALDI Talk, Blauworld, FONIC, and many others. Almost all operators offer both pre-paid cards and contracts with a base monthly fee. For those who call and use the internet relatively frequently, an all-inclusive tariff (Pauschaltarif) with a flat rate is recommended. Irregular users will probably be better off buying minutes or pre-paid cards.

Fast broadband internet connections are available in almost every city in Germany. Subscribing to a DSL flat rate is beneficial as it allows surfing around the clock for a fixed price and helps to avoid extra costs. Many providers offer a combined flat rate DSL and telephone subscription. Independent DSL portals are useful to compare different providers in advance. Moreover, many DSL and telephone providers offer information and registration forms in multiple languages.

Lastly, one should bear in mind that the registration process for both prepaid SIM cards and contracts is often carried out in German, including German documents. It could, thus, be a good idea to take a German friend or colleague to the shop, if available.

7.6 - SOCIAL SECURITY FOR NON-EU CITIZENS

In contrast to some other industrialized countries, the core **social security** in Germany is financed collectively by means of a redistribution process. It is intended as a net to help those who suffer hardship or are in need, acting on the principle of solidarity. The current costs are paid directly from contributions by employees and employers.

Social security contributions are made up of:

- Health insurance
- Nursing care insurance
- Pension insurance
- Unemployment insurance
- Accident insurance

Social security contributions are mandatory for all **employees** earning more than 450€, and, generally speaking, are shared by the employer



and employee. Only the costs for accident insurance are exclusively borne by the employer. In total, the employer's share of social insurance contributions amounts to about 21 percent of the employee's gross wage.

Self-Employed persons generally do not have to pay social security contributions. However, this also means that they are responsible to make their own provisions when it comes to pensions, unemployment or health issues.

In case an Israeli entrepreneur **temporarily transfers employees** from Israel to Germany, EU regulations allow the employee to remain within the Israeli scheme for a certain amount of time. This means that no contributions have to be paid in the German system.

7.7 - PERSONAL INCOME TAX

Individual persons, with a domicile or a customary place of abode in Germany, are generally subject to tax on their worldwide income in Germany.

In this context, the term "customary place of abode" means that an individual does not only stay temporarily (less than six months in the calendar year) at this place or in this area.

An individual person, who is not resident in Germany, is generally subject to tax only on income derived from German sources.

The German income tax law distinguishes between several categories of income, including income from employment, self-employment, investment, business and real estate. Income from each of the categories may be combined, and overall taxable income is then determined by subtracting

special deductions.

In general, annual tax returns must be filed by the 31st of May of the year following the tax year. However, extensions for filing are granted automatically until the 31st of December of the year following the tax year if the return is prepared with the assistance of a tax adviser.

Nonresidents may file an income tax return only if they have income that is not subject to withholding tax. For example, employers must withhold income tax (known as wage tax) for their employees.

Individual tax rates for 2018 gradually increased from an effective rate of 14% to a marginal rate of 42%. The top rate of 45% applies only if taxable income is EUR 254,447 (EUR 508,894 for married taxpayers filing jointly) or more. A basic tax-free allowance of EUR 9,000 is available for single individuals (EUR 18,000 for married couples filing a joint return). However, income from investment is generally taxed at source with a flat tax rate of 25 %.

To help finance the costs related to German unification, a 5.5% solidarity surcharge continues to be imposed on the income tax liability of all taxpayers. If a German tax resident is a member of a registered church in Germany entitled to impose church tax, church tax is assessed at a rate of 8% or 9% on income tax liability, depending on the location.

Expenditure incurred by an employee to create, protect or preserve income from employment is generally deductible. Income-related deductible expenses include, for example, the cost of travel between the home and the workplace or expenses connected with maintaining two households for business reasons (e.g. rent, home trips, per diems and moving costs, to a certain extent).

A standard deduction of EUR 1,000 per year for employment-related expenses is granted without any further proof. However, an employee can claim a larger deduction if he or she proves that the expenses actually paid exceed the standard deduction.

8 GERMANY AT A GLANCE



Basic Facts¹

Population: 82.8 million
GDP: 3677.44 billion US Dollar
GDP growth (net): 2.2%
Unemployment rate (as % of economically active persons): 3.3 %
Labor force: 45 million
Inflation rate compared to previous year (2016)²: 0.5%
Currency: Euro (€)
Number of university students³: 2.8 million (2018)
Number of self-employed business men/women⁴: 3.65 million (2018)
International students: 375.000
Diversity⁵: 19.3 million people with migrations background, 23.6%

Work week and National Holidays

A normal **working day** is not allowed to exceed 8 hours as averaged over 6 months and a normal working week is from Monday to Friday. In 2015, a full-time employee worked 41.4 hours a week on average⁶. Part-time employment had an average working week of only 19.0 hours.

Combining these numbers, Germany is among the countries with the lowest working hours in Europe. Sunday is the equivalent to the Israeli Shabbat, where most supermarkets and shops are closed. However, most restaurants are open on Sundays and are closed on Mondays instead.

There are **9 national holidays** guaranteed in all 16 federal states:

- New Year – January 1st
- Easter Friday – varies every year
- Easter Monday – varies every year
- Labour Day – May 1st
- Ascension Thursday – Easter Sunday + 39 days
- Pentecost Monday – Ascension Thursday + 10 days
- Day of German Unity – October 3rd
- First Christmas Day – December 25th
- Second Christmas Day – December 26th

In addition to the national holidays, each federal state is free to determine additional holidays.

Cost of Living

In terms of the **price indices** for private consumption, Germany is generally cheaper than Israel. While Israel is significantly above the OECD average, with only Switzerland, Iceland, Norway, Denmark, Australia and New Zealand being more expensive, the price index for private consumption in Germany is close to the OECD average⁷.

On average, the **living cost of a German private household** is EUR 2,480 per month. Across Germany, living expenses vary from one state to another where the eastern cities such as Berlin remain under the national average. Cities like Hamburg, Munich, and Frankfurt are among the most expensive to live. Housing costs, including maintenance and energy, amount to the highest proportion of living expenses with EUR 877 (2016) per month for an average household. Mean spending on food, beverages, and tobacco is EUR 342 per month (2016), while EUR 335 (2016) is spent on transportation⁸.

¹ Statistisches Bundesamt (2017). National Accounts.

<https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/NationalAccounts/DomesticProduct/Tables/ImportantEconomicIndicators.html>

² Statistisches Bundesamt (2017). Consumer Price Indices.

<https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/Prices/ConsumerPriceIndices/ConsumerPriceIndices.html>

³ Statistisches Bundesamt (2016). Students.

<https://www.destatis.de/EN/FactsFigures/SocietyState/EducationResearchCulture/InstitutionsHigherEducation/Tables/TotalTypeInstitutionHigherEducationWinterTerm.html>

⁴ Statistisches Bundesamt (2016). Arbeitsmarkt.

https://www.destatis.de/DE/Publikationen/StatistischesJahrbuch/Arbeitsmarkt.pdf?__blob=publicationFile

Transportation and Driver's License

When it comes to traveling between cities, the national railway company (Deutsche Bahn) offers train services all across the country, and "Saver fares" and group tickets offer opportunities to save money. For frequent travelers, different BahnCard offers provide additional discounts and benefits for a fixed annual price.

Another option for traveling between cities are line buses like Flixbus, which are less expensive, but also slower than the trains. Furthermore, car-pooling through the BlaBlaCar App has become very popular in Germany.

For traveling within cities, even medium-sized cities have a relatively well-developed public transportation system (e.g. BVG in Berlin) based on buses, subways, trams, urban trains and even car-sharing (e.g. Car2go, DriveNow).

However, for the car-sharing, a valid German (or EU) driver's license is needed. As long as they do not formally reside in Germany, Israelis can drive with their original Israeli driver's license infinitely. However, as soon as one becomes a registered resident in Germany, there is a time limit of six months to translate the Israeli license into a German one. This time period cannot be extended, and if it passes, one is no longer allowed to drive on German roads.

For Israeli nationals, the transcription procedure has been simplified and it is not necessary to take any tests. The application has to be filed with the authorities of the city where one is registered, and by means of a personal appointment.

The following documents are needed for the appointment:

- Passport
- A recent biometric photo
- Original license (not a copy), which needs to be valid at the time of transcription
- Translation of the license, if it is not in English or German language

Forms of Payment and Tips

Germany is generally considered a cash country. 52.4% of all retail sales were generated by cash money in 2016⁹. However, the role of cash in Germany has been constantly decreasing in recent years. In line with this, in most shops, one can pay with a debit- or credit card. However, different from Israel, many stores and gastronomies only accept cash, and some accept direct debit only with a minimum amount. Another recurrent form of payment is by invoice or bank transfer.

Most services and goods in Germany are charged with a 19 % value-added tax. Since the price of a product usually already includes the VAT rate, there is no need to worry when paying for services or goods beforehand. Although giving tips is not mandatory, if one is happy with the service, it is common to give a tip of 5-10% in restaurants, cafés, and bars. Furthermore, in more upscale hotels, tips for room service (2-5€) and the baggage handlers (2-5€ per piece) are appropriate. If one takes a taxi, a tip of 5-10%, depending on one's satisfaction with the service and the length of the ride, is common.

⁵ Statistisches Bundesamt (2015). Bevölkerung und Erwerbstätigkeit. Ausländische Bevölkerung Ergebnisse des Ausländerzentralregisters. https://www.destatis.de/DE/Publikationen/Thematisch/Bevoelkerung/MigrationIntegration/AuslaendBevoelkerung2010200157004.pdf?__blob=publicationFile

⁶ Statistisches Bundesamt (2016). Wöchentliche Arbeitszeit. https://www.destatis.de/DE/ZahlenFakten/Indikatoren/QualitaetArbeit/Dimension3/3_1_WoechentlicheArbeitszeit.html

⁷ Taub Center for Social Policy Studies in Israel (2017). State of the Nation Report. <http://taubcenter.org.il/state-of-the-nation-report-2017-pr/>

⁸ Statistisches Bundesamt (2015). Private Konsumausgaben (Lebenshaltungskosten) Deutschland. https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/EinkommenKonsumLebensbedingungen/Konsumausgaben/Tabellen/PrivateKonsumausgaben_D.html

⁹ Loca Fox POS (2016). Bar oder Karte? So zahlen die Deutschen im Einzelhandel. <https://www.locafox.de/blog/infografik-zahlungsmittel-im-einzelhandel/>

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