

# 3 ways to start business in Germany

## Foreign entity + local payroll

Easiest option when starting business in Germany; best way to grow steadily and maintaining full control over workforce

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No set-up costs as entity exists; common approach and accepted by candidates.	Local German Labour law applies; local employment contract is necessary.
Registering for German payroll registration is simple and hassle-free. Social security contributions are deducted automatically, and administrative costs—both upfront and ongoing—are minimal.	Only recommendable for start-up scenario and if no significant number on employees is on the ground. Risk of permanent establishment ("PE") and permanent representative ("PR") needs to be checked.
Global footprint visible.	

## Local German entity (German GmbH)

Right approach if significant business in Germany takes place from the beginning

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Most common long-term approach ideal for long-term growth and permanent substantial business, in Germany. Mitigates PE/PR risk from tax perspective and limits liability of foreign entity.	One-time costs for setting up the GmbH: EUR 3–5k and yearly "maintenance" costs (i.e. corporate house keeping): EUR 500–1k.
Customers/partners expect a "German GmbH" if business reaches certain size (soft fact).	Requirement to install Managing Directors (Geschäftsführer).
Transfer of employees from foreign entity to German GmbH with brief Tripartite Agreement possible.	Rather over engineered when only few employees on the ground and PE/PR risk can be mitigated otherwise.

## PEO/EOR

Only option to think about if very quick and short-term market assessment is required

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Quick set-up in order to explore market (i.e. no time to set-up contract, payroll, entity etc.).	Such models are always considered highly regulated employee leasing under German law. Provider needs to hold a licence to lend employees. Employees can only be leased for a maximum of 18 months. Possible fines for being non compliant.
Reduces liabilities (i.e. no employer obligations); no risk re. termination of employees as PEO is employer. Simply end the service contract with the PEO.	No direct employment relationship with individual (no concept of dual employment); triangular relationship! → No direct way to manage employees, e.g. performance management.
Individuals can build up know-how and could be leased to a direct competitor without competitive restrictions; esp. trade secrets and IP are hard to protect.	

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