

LET'S GET STARTED GUIDE

Germany



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INTRODUCTION

BACKGROUND OF THIS DOCUMENT

Managing HR services in Germany requires a solid understanding of local employment laws and employee rights. This guide helps you navigate the key HR processes and highlights the most important topics to consider when hiring in Germany.

Think of it as a **practical checklist** to ensure you meet all essential legal and HR requirements, while laying the groundwork for a fair, attractive, and well-structured workplace.

At Parakar, we're here to support you every step of the way. If you have questions or need tailored advice, don't hesitate to reach out to our HR experts, Kayleigh and Kim. With the help of the German HR operations team, they'll help you navigate German employment regulations and set up a smooth, compliant operation tailored to your business needs.



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1. EMPLOYMENT LAW & CONTRACTS

Hiring in Germany starts with a solid understanding of local employment law. When drafting employment contracts, they must comply with German labor regulations and clearly specify key terms and conditions. Familiarity with German employment law is essential not only for contract drafting but also for later stages such as termination (see Section 4: Termination).

KEY EMPLOYMENT TERMS AND CONDITIONS

Key elements to include when drafting employment contracts are:

- **Working Hours:** Usually 40 hours/week; max 48 hours averaged over 6 months.
- **Probation Period:** Usually between 0-6 months. For fixed-term contracts it cannot be more than $\frac{1}{3}$ of the employment duration; 2-week notice during this time.
- **Notice Periods:** Starts at 4 weeks; increases with tenure (up to 7 months).
- **Minimum Wage:** As of march 2025, it is €12.81/hour.

LEAVE

German law offers various mandatory (statutory) and personal leave options that must be carefully considered for compliance, including them in employment contracts or company policies and handbooks.

- **Sick Leave:** Employees are entitled to up to 6 weeks of continued pay (100%) from the employer per illness episode, provided a medical certificate is submitted. After that, statutory health insurance covers a sickness benefit (Krankengeld) of ~70% of gross wages (up to a legal maximum).
- **Annual Leave:** Employees working a 5-day week are entitled to a statutory minimum of 20 vacation days per year. Most employers offer 28-32 days as part of industry standard or collective agreements.
- **Maternity Leave (Mutterschutz):** Mothers are protected from dismissal and entitled to 14 weeks of paid maternity leave—6 weeks before and 8 weeks after birth. Payment is covered jointly by health insurance and the employer (up to full salary).
- **Parental Leave (Elternzeit):** Up to 3 years per parent per child, which can be taken anytime before the child turns 8. During this time, job protection applies, though the leave is unpaid unless parental allowance (Elterngeld) is claimed.

- **Parental Allowance (Elterngeld):** Provides income support during parental leave, typically 65%–67% of the previous net salary for up to 12–14 months (can be shared between both parents).
- **Paternity/Partner Leave:** There is no separate short-term paid paternity leave, though parental leave and Elterngeld can be claimed by fathers.

Employees may be entitled to other types of leave which are context-dependent. For tailored guidance based on your company setup or sector, reach out to our Parakar Germany experts.

2. INSURANCES

When employing staff in Germany, it's crucial to comply with statutory social security obligations and consider optional insurances for added protection. Insurance requirements may vary depending on industry, contract type, and risk factors.

Mandatory (statutory) insurances:

- **Health Insurance (Krankenversicherung):** All employees must be enrolled in a public (or approved private) health insurance scheme. Contributions are split between employer and employee.
- **Pension Insurance (Rentenversicherung):** Mandatory retirement insurance with shared contributions. Provides future pension entitlements.
- **Unemployment Insurance (Arbeitslosenversicherung):** Covers support in case of job loss. Mandatory for most employees.
- **Long-term Care Insurance (Pflegeversicherung):** Provides for care in case of illness or disability. Also jointly funded.
- **Work Accident Insurance (Unfallversicherung):** Covers accidents at work and occupational illnesses. Paid entirely by the employer and managed by Berufsgenossenschaften (employer liability insurance associations).
- **Insolvency Insurance (Insolvenzgeldumlage):** Ensures employees receive compensation if the employer becomes insolvent. Employer-paid.

Optional (supplementary) insurances:

- **Supplementary Health or Pension Insurance:** Enhances statutory coverage; can be part of a competitive benefits package.
- **Business Liability Insurance:** Protects the company against damages caused to third parties by business activities.
- **Legal Expense Insurance:** Covers legal costs in case of disputes, useful for both employer and employees.

The exact insurance setup depends on factors like industry, employee status (e.g., freelancers vs. full-time), and company risk exposure. It's advisable to assess requirements case-by-case with expert guidance from our German Parakar experts.

3. REGISTRATION AND PAYROLL ADMINISTRATION

To legally employ staff in Germany, you must complete a few essential steps to set up payroll correctly:

Step 1: Register as an Employer

- Register your business with the Finanzamt (German tax office) and obtain a tax number for payroll purposes.
- You'll also need to request a Betriebsnummer (company registration number) from the Federal Employment Agency.
- Register your business with the responsible accident insurance organisation depending on the activities of the company

Step 2: Employee Social Security Registration

- Before employment begins, each employee must have a social security number. You must register them with the appropriate health insurance fund, which manages the reporting to all relevant social insurance schemes. Parakar as your payroll provider can do this as well.

Step 3: Set Up Payroll Administration

Familiarize with German payroll law and ensure proper handling of:

- Gross salary calculations
- Income tax (Lohnsteuer) deductions
- Solidarity surcharge and church tax (if applicable)
- Social security contributions (health, pension, unemployment, care, accident)

Step 4: Salary Payment

- Pay employees monthly, usually before the last working day of the month.
- Timely payment is crucial for compliance and employee trust.

Step 5: Monthly Reporting Duties

- Submit monthly payroll declarations to the tax office and social security institutions.
- Provide employees with detailed payslips, showing earnings, deductions, and contributions.
- Ensure accurate withholding and remittance of all taxes and contributions.
- Payroll providers like Parakar usually take care of this step.

4. TERMINATION

Employment termination in Germany is strictly regulated, particularly under the **Kündigungsschutzgesetz** (Dismissal Protection Act), which generally applies to employees with over six months' tenure in companies with more than 10 employees.

There are three main grounds for dismissal:

1. Personal reasons (e.g., health issues)
2. Conduct-related reasons (e.g., misconduct)
3. Business/operational reasons (betriebsbedingt, e.g., restructuring)



Upon termination, employees have the right to receive a written employment reference (Arbeitszeugnis). The reference must be “benevolently worded,” meaning it should be positively phrased—even if the employee’s performance was poor—ensuring the letter supports their future job prospects.

5. COLLECTIVE LABOUR AGREEMENT (TARIFVERTRÄGE)

- Determine if your sector or employees fall under a collective labour agreement, which can regulate pay scales, working hours, holiday entitlements, and other employment conditions.
- German collective agreements (Tarifverträge) are often sector-wide and become binding when a company joins an employers’ association.
- In some cases, agreements apply automatically through the “Allgemeinverbindlicherklärung” (general binding declaration), meaning companies must comply even without membership.

6. PENSION

- Participation in the statutory pension system is compulsory for all employees in Germany.
- Employers can offer an additional company pension scheme (Betriebliche Altersvorsorge) as a valuable employee benefit.
- Upon employee request, employers are legally required to provide a supplementary pension option through deferred compensation, allowing employees to save part of their salary for retirement on a tax-advantaged basis.

7. EMPLOYEE HANDBOOK & COMPANY POLICIES

For companies with more than 10 employees, it's recommended to create an employee handbook to ensure clarity and consistency in the workplace. Include essential policies such as: **Sick Leave Policy, Expenses Policy, Remote Work Policy, Whistleblower Policy** and **Code of Conduct**

These policies help manage expectations, foster fairness, and ensure compliance with German labor law, contributing to a more transparent and supportive workplace.



8. VACATION & HOLIDAY ALLOWANCE

In Germany:

- Employees are legally entitled to at least 20 vacation days per year (based on a 5-day workweek).
- Many employers offer more, commonly between 28 and 32 days.
- Holiday pay (Urlaubsgeld) may be mandatory if stipulated by a collective labour agreement.

Be sure to track accruals and expiration of vacation days accurately.

9. OBLIGATIONS REGARDING EMPLOYEES WITH DISABILITIES (SCHWERBEHINDERTE)

German law requires employers to adhere to the following:

- Companies with 20 or more employees must reserve 5% of jobs for people with recognized disabilities.
- If the quota is unmet, employers must pay a compensatory levy (Ausgleichsabgabe).
- The levy serves as a financial incentive to encourage companies to hire and retain employees with disabilities.
- Employers are also encouraged to provide reasonable accommodations and workplace adaptations to support disabled employees.
- In addition, companies may receive support or subsidies from the government to help integrate and retain employees with disabilities.

10. OCCUPATIONAL HEALTH & ABSENCE MANAGEMENT

- Employers must provide a safe working environment and cooperate with occupational health services.
- Sick leave: Employers pay full salary for up to 6 weeks; after that, health insurance covers sick pay.
- Early involvement in managing employee absences is recommended to support recovery.

If an employee is sick for more than 6 weeks within 12 months, the employer must initiate a **BEM procedure** (Betriebliches Eingliederungsmanagement).

- This mandatory process aims to discuss reintegration options and find solutions to help the employee return to work.
- Completing the BEM procedure can also influence the outcome of any future dismissal decisions.

11. RISK ASSESSMENT (GEFÄHRDUNGSBEURTEILUNG)

- Employers must conduct and document a workplace risk assessment under the Occupational Health and Safety Act.
- This includes identifying physical risks (e.g., machinery, ergonomics) and psychological risks (e.g., stress, bullying).
- The assessment should be updated regularly and shared with employees to implement safety measures.

12. DATA PROTECTION & GDPR (DSGVO)

- Employers must comply with GDPR (DSGVO in Germany) when handling employee data.
- Personal data should be collected and processed only for clear, legitimate purposes and stored securely.
- Employees must be informed via privacy notices about data use and their rights.
- Access to data should be limited to authorized staff, with prompt action on any breaches.
- Regular policy reviews and staff training on data protection are recommended.

13. WORKING WITH FREELANCERS & CONTRACTORS

- Germany closely monitors false self-employment (Scheinselbstständigkeit), which can lead to fines and retroactive social security payments.
- To reduce risk, ensure contracts clearly reflect independent contractor status and avoid employee-like terms.
- Consider requesting a status determination from the Deutsche Rentenversicherung for legal certainty.

14. WORKS COUNCIL (BETRIEBSRAT)

In companies with at least five permanent employees, workers have the right to elect a works council. This body represents employee interests and has consultation, co-determination, and information rights on matters like working hours, policies, layoffs, and hiring. Employers are legally required to involve the works council in these processes—failing to do so can invalidate key employment decisions.

15. CO-DETERMINATION AT GROUP LEVEL (AUFSICHTSRAT)

Under the Mitbestimmungsgesetz, companies with 500 or more employees must allocate 50% of supervisory board seats to employee representatives, ensuring worker involvement in major corporate decisions.



16. WORK PERMITS & IMMIGRATION

EU/EEA and Swiss nationals can work in Germany without a visa or work permit. However, non-EU nationals must obtain appropriate residence and work authorization before starting employment. The most common route is the EU Blue Card, available to highly skilled professionals with a university degree and a job offer meeting a certain salary threshold. Other options include the Skilled Workers Immigration Act, which facilitates entry for vocationally trained professionals. Employers must ensure timely and compliant onboarding by verifying right-to-work status and assisting with visa processes where needed.

17. COMPETITIVE EMPLOYMENT PACKAGE

- Offer benefits in line with market standards: 30+ vacation days, meal vouchers, flexible or remote work options, and learning & development budgets.
- Further training (Weiterbildung) may be required by collective agreements or recommended by law to support employee development.
- Emphasize work-life balance through initiatives such as mental health support, flexible hours, and family-friendly policies.

18. CONFIDENTIAL ADVISOR (VERTRAUENSPERSON)

- While not legally required, appointing a confidential advisor is becoming standard practice, especially in larger organizations.
- Supports employees in cases of workplace misconduct, harassment, or discrimination.
- Can be an internal staff member or external party (e.g., ombudsman).

19. ONBOARDING & OFFBOARDING

- **Onboarding:** Provide clear orientation, role clarity, and access to essential tools and systems.
- **Offboarding:** Ensure a structured process including exit interviews, return of equipment, and account closures.
- Employees are entitled to a formal reference letter (Arbeitszeugnis) upon departure—often mandatory when requested.

20. RECRUITMENT

- Recruitment processes must be fair, transparent, and non-discriminatory.
- Strictly avoid bias based on gender, age, origin, religion, or disability (See 21. Diversity, Inclusion & Equity).
- Document selection criteria and maintain equal opportunity principles throughout.



21. DIVERSITY, INCLUSION & EQUITY

Fostering a diverse and inclusive workplace is vital for employee well-being, innovation, and long-term success. While not legally mandatory for all companies, prioritizing diversity, inclusion, and equity is key to building a fair and resilient work environment. It forms an essential part of responsible HR management and is increasingly expected by employees and stakeholders alike.

- **Comply with the General Equal Treatment Act (AGG - Allgemeines Gleichbehandlungsgesetz):** Implement clear policies to prevent discrimination based on gender, age, ethnicity, disability, or other protected characteristics in hiring and daily operations.
- **Inclusive Hiring:** Use unbiased language in job postings, apply structured interviews, and ensure equal opportunity throughout the recruitment process.
- **Flexible Work Options:** Offer remote work, flexible hours, or job-sharing to accommodate diverse employee needs and promote work-life balance.
- **Bias Awareness:** Provide unconscious bias training to encourage fair decision-making and foster inclusive leadership.

Taking these steps helps create a welcoming and equitable workplace that reflects your company's values and social responsibility commitments.



DISCLAIMER

This document is for informational purposes only and should not be used as solid legal advice. We advise that with respect to any issue or problem the advice of a knowledgeable attorney is taken. Parakar can facilitate such consultation at a cost. The opinions expressed in or through this document are the opinions of the individual author and may not reflect the opinions of the firm or any individual attorney.

OUR GERMAN EXPERT TEAM

While Kayleigh and Kim are your primary points of contact and will guide you through your HR matters, they are supported by a dedicated team of German HR operations experts. Meet the team:



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