

Hiring in **Germany**

An Early-Stage Employer's Guide

Introduction

We understand that you are currently considering hiring one or more individuals in Germany. This note briefly outlines the key practical steps and employment law considerations that companies should be aware of when hiring staff in Germany.

While not all of the entitlements and obligations described below will necessarily apply to you, we have included information that will be relevant in the event that you decide to grow your workforce in Germany.

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European, especially German, employment law is often seen as complex and restrictive, and not entirely without good reason. For more than 20 years, our team has been advising companies with great commitment on how to successfully navigate these waters.



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Employment Status

When a person is considered an employee, specific employer obligations apply regarding labor, social insurance, and tax law. When determining whether a person works as freelancer/independent contractor or as an employee, all circumstances of the specific case need to be taken into account.

According to statutory law, a person is deemed to qualify as an employee if hired to perform work in the service of another, such work being tied to instructions and determined by others, and to do so in a relationship of personal dependency.

The right to issue instructions may concern the substance, implementation, time, and place at which the work activities are pursued. Anyone who is not able to essentially determine their work activities freely and determine the times at which they work is deemed obligated to follow instructions (see sec. 611a German Civil Code). The wording of a contract does not define the legal status of the person.

Employment Status (cont.)

Employees

German labor law regulations apply, and employees are subject to German social insurances, which will trigger an obligation to pay and withhold social insurance contributions. ([See section “Basic Entitlements for Employees” for more detailed information.](#))

Employees can be employed for an indefinite term or for a fixed period of time.

- Fixed-term employment relationships are subject to strict formal requirements, including an original wet-ink signature by both parties before the commencement date. Further, they are only permissible if they are either (1) based on objective reasons or (2) with persons who have not been employed before by the relevant employer and are concluded for a maximum of two years.

Employees can be temporarily leased to other companies, but this is regulated under German/EU law. The company leasing employees to other companies needs a license and, there must be a written contract between employee/leasing agency and leasing agency/employer. Further, the maximum duration for the leasing of an employee to another company is 18 months.

Independent Contractor

An independent contractor (i) bears an entrepreneurial risk, (ii) has more than one customer, (iii) is not bound by instructions of the company that he/she works for, and (iv) can choose his/her working hours and place of work freely. In contrast, an employee in the legal sense may receive specific instructions with respect to the content, the execution, the time, and the place of work.

Even if the independent contractor is not an employee, and is economically independent and does not advertise and promote his/her services publicly, the independent contractor may be subject to social insurance law, and the company may have to pay contributions to his/her insurance.

To avoid the risk of incorrect status assessment, the social insurance carrier can be asked to make a binding determination of the legal qualification as a freelancer instead of an employee (*Statusfeststellungsverfahren*).

Setting up as an Employer

When hiring employees for the first time, a company must register itself and the employees with the authorities. The following steps need to be taken:

- Application for company number (*Betriebsnummer*). The company number is provided by the Federal Employment Agency (*Agentur für Arbeit*). The company number is required to register and deregister employees for their statutory social insurances. The [application is made online](#) (in German only).
- Registration with the mandatory German Social Accident Insurance (*Deutsche Gesetzliche Unfallversicherung – DGUV*). This [registration can be made online](#) via the service portal of the German statutory accident insurance (in German only).
- Registration with the social insurance carrier (once employees are hired).
- Registration with tax authorities (once employees are hired).

Employment Contract

See our blog post article *New Requirements for Employment Agreements in Europe*. Click on the link or scan the code below.



This guide provides first insights to navigate the complexities of German employment laws and workforce regulations, helping you overcome barriers and avoid common HR pitfalls, ensuring a smooth hiring process and a strong foothold when building your business in Germany.



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Basic Entitlements for Employees

Minimum Entitlement

Benefit	Minimum Entitlement
Pay	All employees in Germany are entitled to be paid at least the national minimum wage, which is currently set at EUR 12.41 per hour (as of January 1, 2025: EUR 12.82 per hour).
Itemized Pay Slips	Employers must give their employees itemized pay statements specifying gross and net salary and the amount and purpose of any deductions.
Hours of Work	Employees should not work more than eight hours per day. They can work up to 10 hours per day, if they do not work more than eight hours per day on average during a six-month time period.
Holidays	<p>German employees are entitled to a minimum of 20 days (based on a five-day work week) paid annual leave each year plus public holidays. Usually, employers grant additional holidays. Employers are not allowed to pay employees in lieu of their annual leave entitlement, other than on termination of employment.</p> <p><i>Note: The right to annual leave is separate from, and additional to, any leave taken by the employee for other reasons (e.g., sickness or family leave).</i></p>

Benefit	Minimum Entitlement
Statutory Sick Pay	Employees in Germany are entitled to receive sick pay. Under statutory law, employees who are unable to work due to sickness are entitled to continued payment of their salary up to a maximum of six weeks. Note that this six-week period is calculated per sickness. If an employee gets sick for a different reason, the six-week period of continued payment restarts. If the employee is sick for more than six weeks based on the same reason for sickness, the employee is entitled to receive sick pay by the statutory health insurance.
Notice	There is no “at-will” employment in Germany. Employees working for more than six months for a business with more than 10 full-time employees (FTEs) enjoy protection against dismissal, which means employers must have a fair reason for dismissing those employees. Every termination requires a written termination notice with a wet-ink signature. The termination notice must be honored (within the first two years of employment, an employee is entitled to be provided with a statutory minimum notice period of at least four weeks, and the notice period gradually increases depending on the employee’s length of service). It is common practice in Germany for employers to agree to longer notice periods, particularly for more skilled employees.

Basic Entitlements for Employees (cont.)

Additional Rights

Part-Time

- If a company has more than 15 employees, an employees can request to work part-time if he/she has been with the company for more than six months.
- The request can only be rejected due to conflicting operational reasons, which need to be assessed in each individual case.
- If the company has more than 45 employees, employees can request to reduce their working hours temporarily for a time period between one and five years.

Maternity/Parental Leave

- Maternity leave can be taken by employees six weeks before the due date of and eight weeks after the day of the child's birth.
- During maternity leave, employees receive continued payment of their full salary. Employers are entitled to claim a reimbursement of these payments from the statutory health insurance.
- Employees can request parental leave for a period of up to three years.
- During parental leave, employees can apply for and receive parental benefits for up to 14 months (if both parents take parental leave), paid by the state.
- Employees can request to work part-time during parental leave.
- During pregnancy, maternity leave, and parental leave, employees enjoy special protections against dismissal.

Termination of Employment

Protection Against Dismissal

Employees that are employed by companies with more than 10 FTEs are protected against dismissal under the Protection Against Dismissal Act (*Kündigungsschutzgesetz – KSchG*).

- Employers need a legitimate reason to terminate an employee. This can either be for operational reasons, for severe misconduct, or for personal reasons (like long-term sickness).
- A termination for operational reasons requires that the employer must compare employees and terminate the ones who require the least social protection, based on age, length of service, number of children, and disability (so-called social selection procedure – *Sozialauswahl*).
- A termination for misconduct by default requires a written warning (*Abmahnung*).

Further, some groups of employees enjoy special protections against dismissal (regardless of the applicability of the KSchG), which means that special permission from the relevant authority is required to terminate these employees, including pregnant employees and employees on maternity/parental leave, severely disabled employees, and members of the works council.

Notice Period

In case of an ordinary termination, the contractual or statutory notice periods must always be observed (even if the employees are not entitled to dismissal protection).

- The statutory notice period increases slowly for the employer, depending on the length of service. Initially, the minimum mandatory notice period is four weeks (for the first two years), which slowly increases to seven months (after 20 years of employment).

Payment in lieu of notice of termination is not permitted under German law, unless the employee explicitly agrees to such payment.

Termination Notice

The termination notice must be signed in wet ink by an authorized person, and the original must be delivered to the employee in order for the termination to be valid.

Severance Payment

By default, employees are not entitled to severance payments. However, to avoid or to settle a legal dispute on the lawfulness of a termination, employers and employees often agree on the payment of such severance payment.

The severance payment is then usually calculated by multiplying the years of service by the gross monthly salary and a factor between 0.5 and 1.5. The factor is negotiable and depends mainly on the evaluation of the validity of the termination.

Social Insurance Law

Germany has a mandatory social insurance system. The contributions are paid equally by employees and employers (each 50%), including:

- Health insurance: about 14.6% of the monthly gross salary;
- Pension fund: about 18.6% of the monthly gross salary;
- Unemployment insurance: about 2.6% of the monthly gross salary;
- Long-term care insurance: about 3.4% of the monthly gross salary;
- With a total of about 39% of the monthly gross salary, equally paid by the employer and employee.

All contributions are calculated based on the employee's monthly compensation up to an income ceiling (e.g., EUR 7,550 for contributions to the mandatory pension insurance in 2024).

Due to the statutory social insurance system, employers often do not grant additional healthcare or other applicable benefits. Furthermore, there is no statutory obligation for employers to establish and fund a company pension scheme.

It should be noted that employees are entitled to convert a part of their salary into a pension plan (deferred compensation – *Entgeltumwandlung*). However, this is only done at the employee's request.

Collective Labor Law

Under the law, employees can establish a works council (*Betriebsrat*) in companies with at least five employees.

The establishment must be organized by the employees. There is no obligation for the employer to initiate the establishment of a works council.

A works council has information and co-determination rights, in particular in personnel matters (hiring of employees and terminating employment contracts), social issues (like distribution of working hours, implementation of IT tools, etc.), and organizational changes. The employer and the works council can agree on shop agreements (*Betriebsvereinbarung*) to govern certain issues.

In addition to the works council, unions and employers' associations can agree on collective bargaining agreements (*Tarifverträge*).

Get in Touch!

Some of your questions not answered yet? We are here to help!



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Grasping the essential elements of German employment law is crucial for any business in Germany. The law's strong emphasis on robust co-determination rights and significant protections against dismissals will often have an impact on a company's strategies.



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