

Paying income tax in Germany when being employed by a non-German company

Income tax is a personal tax which is borne by the employee alone. German companies withhold the tax from their employees and the employer pays it to the tax office ("Finanzamt") on behalf of each employee on a monthly basis. For this process to work, the company needs to be registered in Germany and have a tax number.

Whereas when an employee works in Germany but is employed by a foreign company without a legal entity and therefore not tax number company not registered in Germany and therefore does not have a German tax number and is not registered with the German tax office, this is not possible. For this reason, the employee will have to personally register with the German tax office and pay income tax directly.

To do this, simply contact your local tax office (depending on your residential address), explain the situation and take along proof of your salary (i.e. pay slip). The tax office will then issue a document stating the amount of income tax to be paid on a quarterly basis (= Einkommensteuervorauszahlungsbescheid). As your employer will not withhold this tax, make sure you put an appropriate amount aside and remember to pay it on the due date.

This is what Paychex can do to make the process easier, if the Payment Service option is chosen: The employee has to hand in the Einkommensteuervorauszahlungsbescheid to Paychex who will then calculate the amount which is deducted from the monthly net amount. At the quarterly due date, Paychex will include the quarterly sum in the Payment Service report and forward the amount to the tax office on behalf of the employee.

As the document usually will not have been issued at the time of the first payroll run, the employee will not have a tax deduction showing in the beginning and will be paid out the amount. If the employee chooses for Paychex to take care of the quarterly payment and the tax amount is to be withheld, the already paid out amount will be deducted from the next net pay, in addition to the tax amount of the current month.

If Paychex does not receive a copy of the document issued by the tax office, the tax amount will be continued to be paid out to the employee and the employee will have to make payments to the tax office himself.