

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.

If on the other hand an employee works in Germany but is employed by a foreign company without a legal entity in Germany, which therefore does not have a German tax number and is not registered with the German tax office, this process of tax deduction is not possible. In this case, employees will have to personally register with the German tax office and pay their income tax (payroll tax) themselves directly to the Finanzamt.

To do this, simply contact your local tax office (depending on your residential address rather than your place of work) and explain the situation. You will need proof of your salary (i.e. a pay slip). The tax office will then issue a document stating the amount of income tax to be paid on a quarterly basis (= Einkommensteuervorauszahlungsbescheid). Since you rather than your employer will have to pay this tax, make sure you put an appropriate amount aside and remember to pay it promptly on the due date.

If the Payment Service option is chosen, Paychex can help making the process a lot easier: The employees hand in their Einkommensteuervorauszahlungsbescheid to Paychex, and we will then calculate the correct amount to be deducted from the monthly income. 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 the 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 amount will be deducted from the next net pay together with the tax amount of that 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 in full. In this case, employees will have to make payments to the tax office themselves.

Note: Representative in Germany required for Social Insurance matters

As of 2021, employers without a legal entity in Germany who have employees in Germany for whom social insurance must be paid are required by law to appoint a legal representative. This representative will be responsible for keeping all payroll documents pertaining to social insurance. Paychex can act in this representative role for its international customers.