

HOW TO START FREELANCING IN GERMANY



1. WHO IS ALLOWED TO FREELANCE IN GERMANY?

Note: *There is a legal distinction between freelancers (Freiberufler*innen) and tradespeople (Gewerbetreibenden) in Germany, resulting in different ways of registering your business and paying taxes.*

Common so called „liberal professions“ (freie Berufe) include:

- Artists, photographers, musicians, designers, actors
- Engineers, architects
- Lawyers, tax consultants, accountants
- Journalists, interpreters, translators, writers, teachers
- Doctors, dentists, vets, therapists, psychologists

Other professions need to register their business with the trade office and are considered as tradesperson who have to pay trade tax. A freelancer in Germany does not have to pay trade tax. There is a list of all freelance professions. This list can be found online, for example, at www.freiberufe.de. If your profession or job is not on the list, then ask the Tax Office. The Tax Office will check whether you are a freelancer or tradesperson.

2. HOW DO YOU REGISTER AS A FREELANCER?

Note: *Citizens of Germany, the EU, EEA and Switzerland are not restricted in taking up freelance work in Germany. Residents of other countries have to have the proper residence permit, and need to prove that they already have clients set up in Germany. A letter of intent from a company wishing to work with you, or an invoice from an earlier job does count as proof in this case.*

If you want to register as a freelancer, after getting your visa, you have to fill in the document „Fragebogen zur steuerlichen Erfassung“ (German tax registration form).

Link: <https://www.elster.de/eportal/formulare-leistungen/alleformulare/fseeun>

It can be filled in (in German language) physically or online via the ELSTER portal. You will have to provide the tax office with the following details:

- Tax ID (Steuernummer)
- Estimated profit
- Estimated business revenue and expenses
- Details of your German bank accounts (both personal and business, if you have one)
- Description of your freelance activity
- Whether you wish to charge VAT (see below)

The tax office will then decide if you qualify as a freelancer. If your application is accepted the office will provide you with a tax number, which will be used for all your invoices and communication with the tax office. Be aware that the tax number is not your tax ID!

If you choose to make VAT payments, the tax office will also provide you with a VAT number.

After that process you are allowed to take up work as a freelancer.

3. WHAT TYPE OF TAX DO YOU NEED TO PAY AND HOW IS IT DONE?

Note: For your annual tax report it is recommended that you seek the help of a tax consultant.

Depending on what you applied for, you will have to pay income tax only or income tax and VAT (value added tax in German „Umsatzsteuer“).

Small Business Regulation (Kleinunternehmerregelung)

If you have chosen not to pay VAT in your „Fragebogen zur steuerlichen Erfassung“ your business will be listed as a „small business“.

This does not mean that you are registered as a tradesperson, you can be registered as a freelancer or a tradesperson and still make use of the small business regulation exception for VAT payment.

As long as your total annual revenue does not exceed 22.000€ (as of 2022) you may (but do not have to) register as a „small business“.

Important: Keep in mind that you are not allowed to charge VAT in your invoices if you chose to register this way, and that you are also not entitled to input tax reduction! If you want to be reimbursed for the VAT you payed for work related purchases, you should not register as a „small business“!

Income Tax

Income tax has to be payed in advance every quarter of the year by the 10th of March, June, September and December. These payments in advance are estimated payments depending on your earlier income. If you payed too much or too less, you will compensate the difference after your annual tax report has been processed by the tax office, this can take up to six months. The annual income tax return has to be filed until July 31st of the following year. If you earn less than 9.744€ you do not have to pay income tax.

In the first year of your freelancing work, the tax office will estimate your income based on your own estimation upon your registration. You will receive a schedule from the tax office about when your payments are due and how much you will have to pay.

VAT (Value Added Tax)

You will have to pay your VAT either monthly, or, if your VAT does not exceed 7.500€, every three months, until the 10th of the upcoming month. You will have to fill in your advance VAT report (Umsatzsteuervoranmeldung) using the ELSTER Portal of the tax office.

After you have been registered as a freelancer, the tax office will provide you with an account for the online ELSTER Portal.

You will have to charge VAT on all your services, usually 19%, there are however exceptions eg.:

- Tickets for cultural events such as theatre, museums or music concerts
- Certain foods items
- Livestock and plant rearing
- Overnight stays in hotels etc.
- Film distribution and screenings
- Community services

Do your research on how much VAT you have to charge, and state it clearly in your invoices.

Input Tax Deduction

As a freelancer you collect the VAT from your customers and then pay the VAT to your local tax office.

Since only your actual generated value is taxed, the amount of taxes you payed can be offset against the VAT that you payed on your work related purchases.

This process is known as input tax deduction. We recommend to collect all invoices you receive and hand them over to your tax advisor for your annual tax report, your advisor can give you feedback about what type of purchase is allowed to be offset and over what period of time (there are goods that have to be offset over several years, such as laptops or cameras).

4. WHAT HAS TO BE INCLUDED IN YOUR INVOICES?

Your invoice has to include the following information:

- Name and address of the recipient
- Your name and address
- Your tax number and your VAT number (if you got one)
- An invoice number. This number is assigned by yourself. Invoice numbers should be in numerical order!
- The date of the invoice
- A brief description of the work or service you provided
- The amount you are charging
- The added VAT and its percentage (e.g.: 19%) if you are charging VAT
- If you are not charging VAT, you have to state that your business is a small business

You can use our invoice template, [click here](#).

5. WHAT TYPES OF CONTRACTS ARE COMMON FOR FREELANCERS?

Work Contract (Werkvertrag)

The so called „Werkvertrag“ is used when there is a certain outcome to be achieved. The freelancer will be payed when he or she has done the work settled in the contract. For example the creation of a website.

Service Contract (Dienstvertrag)

The so called „Dienstvertrag“ is used when the freelancer is booked to work for a certain amount of time. The contract does not state that there is a certain outcome to be achieved, but that the freelancer has to do a certain workload. For example working for two weeks on a certain project. This contract is more common when the freelancer is booked on a regular basis for different projects.

6. WHAT TO CONSIDER WHEN CALCULATING YOUR PAYMENT?

What do you need to subtract from the amount you are payed?

- Income tax
- Insurances (especially social insurance if this is your only job!)
- Hardware
- Software
- Subscriptions
- Time
- Pension savings
- Assets you need to buy for a specific job (e.g.: typefaces)

A common mistake of fresh freelancers is to charge too less in fear they might be too expensive. Consider how much will be left of your payment after you subtracted everything above! When calculating the payment for a day it might seem to be quite much, and you might feel greedy for making such an offer to your client, but be assured that your client is well aware of all the costs you have to subtract from your salary.

A proper payment is seldom considered as greedy, quite the opposite is the case: A freelancer charging too less is considered as unprofessional, inexperienced or incompetent in his or her profession.

