

Calculating employment costs in Germany

The stumbling block of total cost

At the starting point

Hello! Nice to meet you again. Today we will have a look at the calculation of total costs within the German payroll system. Be careful not to get trapped!



The principle of solidarity



Employer's and Employee's
part of social security
payments

The principle of solidarity in German social system

All payments are divided into two parts



- ▶ Health insurance
- ▶ Care insurance
- ▶ Pension insurance
- ▶ Unemployment insurance

Employer's part of social security payments

- ▶ Health insurance
- ▶ Care insurance
- ▶ Pension insurance
- ▶ Unemployment insurance

Employee's part of social security payment

The principle of solidarity in German social system

In general, the payments get split 50% – 50%



- ▶ Health insurance 50%
- ▶ Care insurance 50%
- ▶ Pension insurance 50%
- ▶ Unemployment insurance 50%

Employer's part of social security payments

- ▶ Health insurance 50%
- ▶ Care insurance 50%
- ▶ Pension insurance 50%
- ▶ Unemployment insurance 50%

Employee's part of social security payment

The principle of solidarity in German social security

In general, the payments get split

And now be careful: The employer's part of social security payments **IS NOT** part of the salary by contract !

- ▶ Health insurance 50%
- ▶ Care insurance 50%
- ▶ Pension insurance 50%
- ▶ Unemployment insurance 50%



Employer's part of social security payments

Employee's part of social security payment

Gross income and total costs

»» The trap of top down calculation

Gross income minus
Wage tax and
Employee's part of social
contribution
=
Net pay

Starting point of calculation:

Gross income
or
Net Pay



Gross income = salary by contract

././ Wage tax

././ Employee's part of social contribution

Net Pay

Gross income plus
Employer's part of social
contribution
=
Total costs



Starting point of calculation: Gross income

Total costs

+ Employer's part of social contribution

Gross income = salary by contract

... you can calculate top-down or bottom up in the range of gross income and Net Pay ...

Starting point of calculation: Gross income
or
Net Pay



Gross income = salary by contract

./. Wage tax

./. Employee's part of social contribution

Net Pay



... but ONLY bottom up in the range between gross income and total costs!



Starting point of calculation: Gross income

Total costs

+ Employer's part of social contribution

Gross income = salary by contract

This is the calculation
system ...



Total costs

+ Employer's part of social contribution

Gross income = salary by contract

./. Wage tax

./. Employee's part of social contribution

Net Pay

NEVER try to calculate top down like this!

Always remember: It is not possible to fix the amount of total costs.



Total costs

+ Employer's part of social contribution

Gross income = salary by contract

./. Wage tax

./. Employee's part of social contribution

Net Pay



Driving Wrong way on payroll road leads you right into danger zone on the highway to insolvency



~~Total costs~~

~~+ Employer's social contribution~~

NO

~~Gross income = salary by contract~~

~~./. Wage tax~~

~~./. Employee's part of social contribution~~

~~Net Pay~~



Gross income

» Intercultural misunderstanding

Salary by contract =

Gross income

(in the German sense of the meaning)



German
meaning

Gross income = salary by contract
Is never identical with total costs

... if your home country
system is working in a kind
like this ...



Gross income = total costs
= salary amount by contract

./. Wage tax

./. social contribution

Net Pay



... Salary by contract

may mean

Gross income = total costs



Possible
meaning in
your home
country

Gross income = salary by contract
Is identical with total costs

Can you see the issues
ready at hand?



German
meaning

Gross income = salary by contract
Is never identical with total costs

Possible
meaning in
your home
country

Gross income = salary by contract
Is identical with total costs

... please consider, that you
have to deal with two
different meanings of the
word „gross income“ ...



Home country
system:

German system:

Gross income = salary by contract

= total costs

Is not total costs

... in other words: Take care to put the right amount into your labour contract. Your law office can help you to add a clarification clause.



Home country
system:

German system:

Gross income = salary by contract

= total costs

Is not total costs

Clarification clause

Thank you for visiting our PDF- info-file!

That's all for today. If you need more information,
please don't hesitate to contact us.

In the next file, you will find some important facts
about figures and deadlines.

Join us at
Fit for German payroll system

See you soon!



At your service!

