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Bendis Saage

# **LLC Formation: German GmbH and Limited Company Guide**

## **A Practical Guide to Establishing and Managing Business Entities in Germany - From Legal Requirements to International Operations**

23 Sources

57 Diagrams

48 Images

8 Illustrations

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**Dear readers,**

We sincerely thank you for choosing this book. With your choice, you have not only given us your trust but also a part of your valuable time. We truly appreciate that.

The establishment of a GmbH is an important strategic step for entrepreneurs - but the path to it presents many challenges. This practical specialist book guides you through the entire process of founding a GmbH: from choosing the optimal legal form to the legally secure design of the articles of association, and on to efficient management and tax-optimized holding structures. Benefit from well-founded insights into corporate law, accounting, and tax planning. The book imparts the necessary know-how for important entrepreneurial decisions - from determining the share capital to international expansion. With this guide, you will master the complex requirements of GmbH formation and management safely and professionally. Start your entrepreneurial future well-prepared - with concentrated expert knowledge for your successful GmbH establishment.

This guide provides you with easy-to-understand and practical information on a complex topic. Thanks to self-developed digital tools that also use neural networks, we were able to conduct extensive research. The content has been optimally structured and developed up to the final version to provide you with a well-founded and easily accessible overview. The result: You get a comprehensive insight and benefit from clear explanations and illustrative examples. The visual design has also been optimized through this advanced method so that you can quickly grasp and use the information.

We strive for the highest accuracy but are grateful for any indication of possible errors. Visit our website to find the latest corrections and additions to this book. These will also be incorporated in future editions.

We hope you enjoy reading and discover new things! If you have any suggestions, criticism or questions, we look forward to your feedback. Only through active exchange with you, the readers, can future editions and works become even better. Stay curious!

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## Quick access to knowledge

To ensure an optimal reading experience, we would like to familiarize you with the key features of this book:

- **Modular Structure:** Each chapter is self-contained and can be read independently of the others.
- **Thorough Research:** All chapters are based on thorough research and are supported by scientific references. The data shown in the diagrams serves for better visualization and is based on assumptions, not on the data provided in the sources. A comprehensive list of sources and image credits can be found in the appendix.
- **Clear Terminology:** Underlined technical terms are explained in the glossary.
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- **Concrete Recommendations:** Each subchapter concludes with a list of specific advice to help you put what you've learned into practice.

## Additional bonus materials on our website

We plan to provide the following exclusive materials on our website:

- Bonus content and additional chapters
- A compact overall summary
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# 1. Legal Basis of the GmbH



Why do many GmbH formations fail due to legal hurdles, even though the business idea is promising? The legal framework of a GmbH forms the foundation for long-term business success and protects both shareholders and business partners. From the formation to daily management, numerous legal requirements must be observed. The correct design of the corporate structure and adherence to liability rules often determine the success or failure of the company. In this chapter, you will learn which legal decisions you need to make correctly from the very beginning.



## 1.1 Company Law and Legislation



Corporate law and legislation form the foundation of every GmbH. This section highlights the relevant legal provisions that affect your GmbH from its establishment to potential dissolution. You will learn about the rights and obligations you have as a shareholder and the requirements you must adhere to in order to avoid liability risks. The GmbH Act (GmbHG) regulates the central aspects of your GmbH, from capital structure to corporate bodies and accounting. Knowledge of these regulations is essential for the legally secure operation of your business. Here, you will become familiar with the most important points and understand the details that matter. Deepen your knowledge of the legal foundations and thus create a solid basis for your GmbH formation.

*A well-formulated partnership agreement that takes into account the individual needs and goals of the shareholders is the foundation for successful and harmonious collaboration.*

## German Limited Liability Company (GmbH) Overview



The German Limited Liability Company (GmbH) is a popular legal form for businesses. A significant advantage is the limitation of liability to the company's assets. This means that the personal assets of the shareholders are generally protected in the event of the GmbH's insolvency. A minimum share capital of 25,000 euros is required to establish a GmbH. This capital is divided into shares owned by the shareholders. At least half of the share capital, i.e., 12,500 euros, must be paid in at the time of incorporation. The share contribution can be made in cash or as a non-cash contribution. When considering non-cash contributions, think of real estate, machinery, or patents, the value of which must be assessed by an expert. The articles of association, the foundation of the GmbH, must be notarized. It regulates essential points such as the company name, registered office, business purpose, and the amount of share contributions. After the notarization of the articles of association and the payment of the share capital, the GmbH is registered in the commercial register. Only with the registration does the GmbH acquire its legal capacity. The management of the GmbH is entrusted to one or more managing directors. They represent the company in court and out of court. They are bound by the instructions of the shareholders' meeting. The shareholders' meeting is the highest decision-making body of the GmbH. It decides on important matters, such as amendments to the articles of association, the appointment and dismissal of managing directors, or the distribution of profits. The GmbH is required to maintain accounts and prepare an annual financial statement. The annual financial statement must be audited by a auditor if certain size criteria are exceeded. These criteria relate to total assets, sales revenue, and number of employees. A GmbH that exceeds two of the following three criteria in two consecutive financial years must have its annual financial statement audited: total assets of more than 6 million euros, sales revenue of more than 12 million euros, or more than 50 employees on average per year. The GmbH is subject to corporate tax

as well as trade tax. An important aspect of the GmbH is the flexibility in structuring the shareholder relationships. The articles of association can be tailored to the needs of the shareholders. For example, provisions regarding profit distribution, voting rights, or the exit of shareholders can be established. A shareholder wishing to sell their shares requires the consent of the other shareholders unless the articles of association provide for a different arrangement. To avoid potential conflicts, it is advisable to establish clear regulations for such cases in the articles of association. For instance, a right of first



refusal for the remaining shareholders could be agreed upon, or specific criteria for admitting new shareholders could be established. Such a regulation could stipulate that new shareholders must possess certain qualifications or experience. The GmbH offers a

good compromise between liability limitation and flexibility. It is suitable for both small and medium-sized enterprises as well as larger corporations. The clear structure and legal regulations provide security and transparency. The establishment and operation of a GmbH incur costs that depend on the complexity of the business and individual needs. In addition to the formation costs, such as notary and court fees, ongoing costs for accounting, the annual financial statement, and possibly the audit arise. To keep costs manageable, you should compare offers from various service providers and carefully review their services. A tax advisor can assist you in choosing the optimal structure for the GmbH and in ongoing tax consulting. The GmbH is a proven legal form that provides businesses with a solid framework for their economic activities. Due to the limitation of liability and the flexible design options, it is an attractive option for entrepreneurs who wish to minimize their personal risk and achieve their business goals. The GmbH thus offers robust protection of personal assets but simultaneously requires careful planning and compliance with legal regulations. Therefore, thorough advice prior to incorporation is essential. This ensures that the GmbH is optimally tailored to your needs and contributes to the long-term success of your business. A