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Taxes for Self-Employed — Einkommensteuer, Umsatzsteuer and Tips

Which taxes self-employed individuals must pay in Germany, how the Kleinunternehmerregelung works, and how to save money.

Deutsche Begriffe: Selbstständig | Einkommensteuer | Umsatzsteuer | Gewerbesteuer | Kleinunternehmerregelung | Vorauszahlung

Which Taxes Do Self-Employed Pay?

As a self-employed person in Germany, you typically need to understand **three types of taxes**:

1. Einkommensteuer (income tax) — on your profit

2. Umsatzsteuer (VAT) — on your invoices

3. Gewerbesteuer (trade tax) — only for business owners (not for freelancers)

Freelancers vs. Business Owners

	Freelancer	Business Owner
Examples	Doctor, lawyer, translator, designer, journalist	Craftsperson, merchant, restaurateur, IT service provider
Gewerbesteuer	No	Yes (from €24,500 profit)
Chamber of Commerce membership	No	Yes
Business registration	No (registration with tax office sufficient)	Yes (business registration office)

	Freelancer	Business Owner
Accounting	Simple (EÜR)	EÜR or double-entry bookkeeping (from €80,000 profit or €800,000 revenue)

1. Einkommensteuer (Income Tax)

Einkommensteuer is the **most important tax** for self-employed individuals. It is levied on your **profit** (income minus business expenses).

Tax Rate 2026

Taxable Income	Tax Rate
Up to €11,784	**0 %** (basic allowance)
€11,785–€17,005	**14–24 %** (progressive)
€17,006–€66,760	**24–42 %** (progressive)
€66,761–€277,825	**42 %**
From €277,826	**45 %** (top rate)

Advance Tax Payments (Steuervorauszahlungen)

The tax office requires **quarterly advance payments** of your income tax:

- **March 10, June 10, September 10, December 10**
- Based on your **previous year's earnings** (or your estimate in the first year)
- **Too high?** You can request a **reduction**

Business Expenses — How to Reduce Your Profit

Everything you spend on your business can be deducted as a **business expense**:

- **Office/Workspace** — rent, electricity, internet (proportional for home office)
- **Work materials** — computer, software, office supplies
- **Travel costs** — €0.30/km (from km 21: €0.38/km) or actual costs
- **Professional development** — courses, specialist literature, conferences
- **Insurance** — professional liability, health insurance (special deductions)
- **Phone and internet** — business portion only

• **Depreciation** — laptop over 3 years, furniture over 13 years

Home Office Allowance

• **€1,260/year** (€6/day, max. 210 days)

• Or actual costs of your home office (proportional rent, utilities, etc.)

• The office must be used **exclusively for business** (for full deductibility)

2. Umsatzsteuer (VAT)

As a self-employed person, you must add **VAT** to your invoices:

• **19 %** — standard rate (most goods and services)

• **7 %** — reduced rate (food, books, magazines, public transport)

How It Works

1. You issue an invoice: €1,000 net + €190 VAT = **€1,190 gross**

2. The €190 VAT is **not yours** — it must be paid to the tax office

3. Input tax deduction: The VAT you pay yourself (e.g., for materials) can be **deducted**

VAT Return Filing

• In the **year of establishment and following year:** monthly returns (due by the 10th of the following month)

• After that: **quarterly** (if annual VAT liability under €7,500)

• **Electronically** via ELSTER (elster.de)

3. Kleinunternehmerregelung (Small Business Exemption)

The **Kleinunternehmerregelung** exempts you from VAT if:

• Your revenue in the **previous year** was below **€22,000** AND

• Your expected revenue in the **current year** is below **€50,000**

Advantages

• **No VAT** on your invoices — simpler, especially with private clients

• **No VAT returns** — less bureaucracy

• Your prices are **cheaper for end customers** (no 19 % added)

Disadvantages

• **No input tax deduction** — you cannot deduct VAT from your purchases

• With **large investments** (machinery, IT equipment), the input tax deduction could be more valuable

• **Business clients** often prefer invoices with VAT (because they can deduct it)

Recommendation

• **Consumer-focused business, low expenses:** Use Kleinunternehmerregelung

• **Business clients, high investments:** Opt out of Kleinunternehmerregelung

4. Gewerbesteuer (Trade Tax)

Only for **business owners** (not for freelancers):

• **Exemption:** €24,500 profit — below this, no trade tax is due

• **Calculation:** Profit × 3.5 % (assessment rate) × municipality rate

• **Municipality rate:** varies (200–900 %), typically: 400–500 %

• **Offset:** Trade tax is partially credited against income tax (factor 4.0)

Example Calculation

• Profit: €60,000

• Exemption: €24,500

• Assessment base: (€60,000 – €24,500) × 3.5 % = €1,242.50

• Municipality rate (e.g., Hamburg 470 %): €1,242.50 × 470 % = **€5,839.75**

• Credit against income tax: €1,242.50 × 4.0 = **€4,970** tax reduction

• **Effective trade tax:** €5,839.75 – €4,970 = **approx. €870**

Obligations as a Self-Employed Person

With the Tax Office

1. Questionnaire for tax registration — within 4 weeks of establishment (online via ELSTER)

2. Receive tax number (not the same as VAT ID)

3. Request VAT ID — if you work with EU business clients (from the Federal Central Tax Office)

4. Tax return — annually by **July 31** of the following year (with tax advisor: by **end of February** of the year after)

5. Advance payments — quarterly income tax, possibly monthly VAT

Accounting

• **Income and Expense Statement (EÜR)** — sufficient for most self-employed

• **Keep all receipts** — **10-year** retention requirement!

• **Business account recommended** — not mandatory, but separates private and business

• **Accounting software** — e.g., sevDesk, lexoffice, FastBill, Debitoor (from approx. €10/month)

Social Insurance for Self-Employed

Insurance	Mandatory?	Cost (approx.)
Health Insurance	Yes	Public: 14.6 % + additional contribution; Private: from €300/month
Long-term Care Insurance	Yes	3.4–4.0 % of income
Pension Insurance	Only for certain professions (e.g., craftspeople, artists)	18.6 %
Unemployment Insurance	Voluntary (application within first 3 months)	approx. €90/month
Accident Insurance	Voluntary (recommended)	Depends on industry

Artists' Social Insurance Fund (KSK): For artists and publishers — covers the "employer's share" of social insurance (approx. 50 % of contributions).

Tips for Foreign Self-Employed

1. Check residence permit — it must allow self-employment

2. Hire a tax advisor — especially in the first year (cost: €100–200/month, deductible!)

3. Use Kleinunternehmerregelung — simplifies the start

4. Build reserves — set aside 30 % of profit for taxes

5. Set up ELSTER — all tax filings are electronic

6. Use startup advice — Chamber of Commerce, Chamber of Crafts, and startup centers offer free consultations

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