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Differences between UG (Mini-GmbH) and GmbH

Founding a corporation in Germany, or shifting a sole proprietorship to a corporation, is now simpler and less expensive, thanks to a law reform enacted in 2008. An Unternehmergesellschaft (UG), commonly known as a "mini-GmbH", can be established with capital of only one euro, or any other sum up to the €25,000 required for a regular corporation (Gesellschaft mit beschränkter Haftung, GmbH). International investors are finding the low investment an advantage in their strategy to develop and grow business in Germany and Greater Europe.

One quarter of a mini-GmbH's annual profit has to be contributed to its capital reserves until they reach €25,000, at which point the UG can become a regular GmbH. As a legal entity the mini-GmbH is much the same as a corporation. It has a management board, is subject to corporate taxes, can acquire property, own assets, sue and be sued. The company's name must contain either the word Unternehmergesellschaft (Business Corporation) or the abbreviation UG.

An advantage of the mini-GmbH is that the founding of it is relatively unbureaucratic and inexpensive. Rather than a complicated protocol, drawn up by a lawyer, the law provides a standard protocol, requiring little information except the purpose of the company, the names of the management board members and a list of shareholders.

Companies formed under this standard protocol may only have one managing director and no more than three shareholders. A UG differs from a GmbH in several other respects also. It may not accumulate capital in anything but cash. A GmbH may also have in kind investments of goods or services.

Even with a simplified set-up procedure, there are still many issues from a legal and tax perspective that have to be considered when starting a new business in a new and possibly unknown market.

For example, a company name has to comply with German business law. The name will be entered in the Commercial Register. If there is a question about the company name, the Industrie- und Handelskammer (IHK) can offer the courts an opinion on the admissibility of the company name.

On tax side there is no difference between a mini-GmbH and a GmbH. Both have to be registered at the local tax office. A tax number is assigned that must be used when required on tax returns and other tax forms.

Working with experts who know the law and tax regulations is recommended. Professional advisors can help an investor learn all that is needed about the process of incorporation and will most likely be able to minimize the financial and personal risk.

Businesses can also be operated as sole proprietorships, but in some ways a corporation, whether a UG or a GmbH, has an advantage. A big one is that the founder's liability is limited to the company assets. His personal assets can't be touched except in case of fraud.

A disadvantage of the mini-GmbH may be the requirement that a fourth of the profits be contributed to the capital reserve. Shareholders may be unhappy that so much of the profit they depend on for living expenses is not available to them. This is a good reason for converting to a GmbH as soon as possible. Please be aware, that you have to spend extra fees to the Notary, for the accounting transaction.

Also the requirement that the terms Unternehmergesellschaft or UG be added to the company name may make it look as though the managers don't have enough money for a genuine GmbH. This might affect creditworthiness.

If there should be more questions, please check:

https://www.stuttgart.ihk24.de/english/fairplay/Company_Law/GmbH_and_UG_haftungsbeschränkt_Information_on_their_Foundation/679026#titleInText0

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