



sorted

Going

self-employed

E-Book Guide: Going self-employed

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Before you become self-employed

For some people, taking the step into long-awaited independence is big, for others it is the path to freedom. Finally, being able to do what you have dreamed of, being the master of all your decisions and shaping the day the way you want it.

However, it is not quite that simple. To start your own business or become self-employed as a freelancer, you need a great deal of courage, self-discipline, creativity, networking, and organisational skills. We will tell you in this guidebook how to successfully prepare for your self-employment.



Our expert

Udo Bork has had more than 20 years of professional experience in the field of tax consultancy. He is the managing director of Dornbach Nexxt. The tax office mainly serves self-employed entrepreneurs and freelancers. Dornbach Nexxt is the digital service unit of the Dornbacher tax consultancy group with offices in Berlin, Cologne, Koblenz, Mainz and Saarbrücken. Dornbach Nexxt combines high-quality tax advice with passion for advanced technology solutions.

5 good reasons to become self-employed

Everyone who sets up their own business has their own reasons for taking the step towards independence. Perhaps regular employment is not as challenging and there is little room for growth. Or maybe you have had an idea for years that you would finally like to put into reality.

Maybe you dream of more flexibility, freedom, and the opportunity to work independently of location. Or you would like to start your own business out of unemployment and want to take a new step in life? Here are 5 reasons why self-employment can be worthwhile.



5

Realise your own dream

Steady growth

Freedom of choice

Financial independence

Time Flexibility



Business idea

Before you can set off on your own you need a business idea. You should validate your idea as carefully as possible to see if there is a market for it. A good way to do this is to carry out a market analysis and an overview of the competition. Not every idea is a business model. Because some ideas sound more exciting than they are. An idea can only be successful if there is an interest in it from customers.

The more demand there is for certain services or products, the easier it is to market them. You do not always have to reinvent the wheel. Sometimes minimal improvements to existing offers can help your business to be successful. In this case, time, price and the specificity of the service or product play a role.

To position yourself clearly and to sharpen the vision of your company, it is important to define what you are offering, to whom and at what price. So, find out what makes you stand out from the competition to define your niche. By analysing your competitors, you can find out how you want to position yourself. The clearer the definition of your offer, the easier it will be to find the right customers and to convince them of your offer. You can, for example, ask yourself:

“What do I offer to who, and what makes me special?”

The better you know your niche, the easier it will be for you to conquer the market and to use the right advertising strategy! For example, if you say that you offer woolly hats for children, that is not as clearly defined as if you say that you offer modern, handmade woolly hats with designs by local street artists for kids to snowboard in.

A well formulated business idea helps convince your customers to buy your products or services.





Business plan

Even if you do not take out a loan and start your own business without funding from the employment office, a business plan is important. In the business plan, you determine your business location, who your target group is, how you can reach them, how much income and cost you expect from your business (Internet, office, earnings, advertising costs, travel costs, etc.) and how much time you will need before you turn profitable.

The more detailed your vision of your self-employment the easier it will be to avoid unpleasant surprises later. Try as much as possible to illuminate all aspects of the business plan so that you know

how much work, time, and resources you will need for your business.

There are many helpful online tools to help you create a business plan. If you want to apply for a loan or bring investors on board, then a business plan is essential. But even without a loan, start-up grant or investor financing, your business plan is important because it gives you a guideline and summarises the cornerstones of your business.



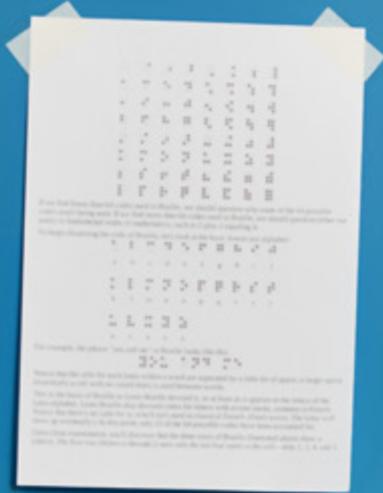
Registration and registering the business

You can go self-employed both part- and full time. There are different forms of business. Depending on the economic sector you are in as well as on what you offer and what earning you achieve per year, you can set yourself up as a trader, a small entrepreneur (Kleinunternehmer), a freelancer, an entrepreneurial company “Unternehmersgesellschaft” (UG), a private company (GbR), an open trading company „Offene Handelsgesellschaft“ (OHG) or as a limited liability company (GmbH).

The registration of self-employment as a small entrepreneur, freelancer or trader is done by submitting the questionnaire for tax registration to your respective tax

office. You will then receive your tax number by post within three to six weeks. The UG, OHG and GmbH must be entered in the commercial register. For this you need a notary who will notarise the formation of the company.

The legal form of your self-employment also determines what kind of taxes you must pay during the year.



What our expert says

What taxes do I have to pay as a self-employed person?

Self-employed persons must pay income tax. Depending on the amount of income, the solidarity surcharge is added. Traders must pay a trade tax if the tax-free amount of income of 24,500 euros is exceeded. The trade tax is credited on the income tax, so that (if at all) there is only a minimised double burden of tax. In contrast to traders, freelancers only pay income tax on their income from self-employment. The distinction between a trader and a freelancer is not always easy. In principle, academically trained professions are „liberal professions“. Details on this are regulated in § 18 EStG.

Form of business and tax registration with the tax office

Freelancer, small entrepreneur, or self-employed trader?

Whether you work as a freelancer, i.e., as a member of the liberal professions, or as a trader, depends on how the tax office classifies your activity. In the case of a business that sells products or offers services, that do not belong to liberal professions, you can choose to set up a small business, a GbR, a GmbH or a UG.

Business forms of self-employment

1. freelancer
2. (small) trader
3. GbR
4. limited liability company GmbH
5. entrepreneurial company UG

Liberal professions and small entrepreneur

The catalogue of the liberal professions includes, for example, the medical professions (physicians, practitioners, physiotherapists), business professions, law, or taxation professions (lawyers, notaries, business economists), scientific and technical professions (surveyors, architects, pilots), language and information professions (interpreters, journalists, photojournalists).

In addition, there are midwives, psychologists, masseurs, and experts. These professions enjoy a special status and do not have to be registered as a trade.

In addition to the catalogue professions, there are also professions which are close to the above-mentioned but must be first recognised by the tax office as liberal professions. This is decided on a case-by-case basis. Among these are all scientific, literary, teaching, and educational activities, such as those carried out by teachers, occupational therapists, authors, visual artists, or educators.

Small entrepreneurs (Kleinunternehmer) are sole businesses whose turnover is below 22,000 euros per year (since 1. January 2020, previously 17,500 euros in the year 2019). However, turnover is not the same as profit, as expenses are deducted from it. As a small business, you are exempt from VAT under § 19 UStG and do not have to charge it on your invoices. Instead, you add a sentence to each invoice stating that you do not charge sales tax.

Up to the mentioned turnover limit, simple bookkeeping is sufficient to determine your profits. For the tax return, you must submit a simple surplus income statement in which you document your income and expenses.

You can apply for exemption from VAT with the questionnaire for tax registration. Self-employed persons must fill in this questionnaire before they start their business or freelance activity.

Traders receive the tax registration questionnaire from the tax office after registering their business. Freelancers must register themselves with the tax authorities and the questionnaire is then sent to them.



Sole traders

If you start a business or sole proprietorship that must be entered in the commercial register, you first register with the Chamber of Commerce. There you can register your business as a small business, GbR, GmbH or UG.

The choice of legal form depends on whether you are liable with your possessions and goods (GbR) or only with the assets of your company (GmbH or UG). If you bring investors on board and they finance their own shares in your company, you can only register as a UG or GmbH.

The difference between the UG and the GmbH is that the UG is the simplified form of the GmbH and can be founded with as little as one euro in start-up capital. For a GmbH you need 25,000 euros in the start-up capital. In the event of

insolvency, you are only liable for the company's assets.

A GbR can also be founded with capital, but only if you do not sell any shares of your company to investors or financiers. In the event of insolvency, you are liable for the GbR with everything you have.



What our expert says

Which taxes do I have to calculate in respect of services, and which in respect of products?

The question is aimed at the uniform Europe-wide VAT system. First, the statutory VAT must be paid on all services - regardless of whether they are services or not - which are rendered in Germany, the statutory VAT must be added.

Services provided to an entrepreneur abroad, on the other hand, are not subject to VAT in Germany. If the receiving entrepreneur is resident in the EU, he will declare the service in his home country („**reverse charge**“).

Supplies of goods to other traders abroad are tax-exempt in Germany. If the recipient is resident in the EU, the procedure is like the one for the supply of services. The recipient declares a so-called intra-Community acquisition.

If the foreign recipient is not an entrepreneur, German VAT must be added, if the so-called delivery thresholds per country of destination are not exceeded. These thresholds vary from country to country and amount to approximately 25,000 euros. If the supply thresholds are exceeded, the supplier is obliged to register in the country of destination of the delivery.

Employed and Self Employed at the same time

If you still have a permanent job in addition to your new self-employment, the same conditions apply regardless of the legal form you choose. Pay attention to what health insurance contributions you will have to pay, as these differ for self-employed and employed persons.

Account Opening

If you are self-employed, a business account is not obligatory. As a freelancer or a small entrepreneur, you are free to separate your business and private income from each other. However, it is advisable to keep your business income and expenses strictly separate from your private income, so that you have a clear overview of your business income and expenses.

When founding a company as a UG, GbR or GmbH, a business account is obligatory. This account is in the name of the company and records all income and expenses of the company. You can set up an online account or a business account at a common bank. The registration with an online account, such as Holvi, is often easier and quicker than at a bank with a branch, but it may have disadvantages in terms of customer service.

If you register your business as a UG, GbR or GmbH, the account must have a minimum amount of initial capital. For a GmbH, this is 25,000, for a GbR or UG one euro is sufficient.





Drawing up contracts

Every company also has contracts. When you work with clients, you protect yourself through contracts. They specify what you offer and what your and your customers' rights are in relation to your products and services.

If you have employees, you need contracts with them as well. The same is applicable to business partners or investors.

To draw up contracts in a legally sound manner you should consult a lawyer. He or she will also help you to draw up the privacy policy for your website and protect you from possible pitfalls in the legal jungle.



Office vs Remote

Depending on the size of your company or the type of work you do, there is the possibility of working remotely. If your company offers services over the Internet, for example, so that all operations can take place online, you can save costs and resources by not having an office. This reduces your company's expenses for employees and premises.

Another advantage is that you become location-independent and have the possibility to work from different places.

Online collaboration with freelancers from other countries offers a further advantage, as they often offer lower prices for the same service than, for example, experts in Germany.

However, if your company is permanently bound to one place, such as through contact with customers, local product sales or in-person services, then you need an office. Also, if you are working with a local team with whom arrangements need to be made it is important to have a common location.



Insurance and financial provision

To protect yourself and your business, you need an insurance. Now that you are your own boss, do a thorough research which insurances are important for your self-employment.

You should also set aside money to cover your business financially.

What kind of insurance do I need?

The insurance you need for your business depends on its legal form and whether you are still employed in a permanent job. However, you always need a health insurance. If it is still paid by your employer, you only need to pay attention to how much you earn from self-employment, because after a certain amount of income, your status and your health insurance contributions change. Daily sickness allowance insurance is also recommended, as it covers the days you cannot work if you are ill as a self-employed person. Occupational disability insurance is necessary if you want to protect yourself

against the possibility that you will no longer be able to practice your profession. As a self-employed person, you must also pay into your pension scheme yourself. For your own business, a legal protection insurance is advisable, next to a business and professional liability insurance.

These insurances are suitable for the self-employed persons:

1. business and professional liability insurance
2. financial loss liability insurance
3. business interruption insurance
4. business insurance
5. company legal protection insurance
6. health insurance
7. personal liability insurance
8. occupational disability insurance
9. life insurance
10. private pension insurance

What do I have to put back?

To start your business, you need a start-up capital. Especially if you have initial expenses, rent, taxes, insurance, or production costs, 15 percent of your own capital is a good basis. The rest can be accessed from a bank in the form of a loan, a start-up grant or from investors. Family and friends can also support your business financially in the beginning. Keep in mind to set aside something for the monthly or quarterly VAT reports each month. So, include the following in your business plan: how much start-up capital you will need and how much you will need to set aside if holidays or economic changes affect your business.

To keep track of your taxes, expenses, and income, you can consult a tax advisor. However, this can lead to considerable costs, which can be up to 3000 euros a year. If you want to avoid these costs, there are alternatives to handling your taxes online.

What our expert says

Should I engage a tax advisor as a self-employed person?

This depends on the complexity of the business transactions. Normally tax obligations can be taken care of without a tax advisor. However, certain decisions should not be made without the advice of a tax advisor, e.g.

- Company car yes/no
- Taking on a partner in the business
- Longer professional stays abroad



Sorted: Tax return for self-employed made easy

- Create your tax return online in the easy-to-use tool.
- Keep track of your income and expenses.
- Send your tax returns directly to the tax office.
- Ask our tax advisors questions about tax via chat or telephone.
- Get help and correction for your tax returns.
- Order a certified profit and loss statement.



Marketing and Sales

To successfully start your own business, marketing and selling your own products and services is extremely important. Only with the right marketing can you reach the right customers. The exact placement of the offer helps to define one's own niche.

Marketing means making your own company visible on the market. Sales means selling one's own services and products to the right customers. After all, no company can survive without customers.

Marketing and sales also include personal branding or corporate identity and corporate design. These help to give your brand a recognition value. This includes, among other things, business cards, flyers, website, and banners for social media.

Corporate Identity and Corporate Design.

The corporate identity (CI) is the identity of a company, the personal brand is your brand as an individual entrepreneur. Part of the identity, whether as a freelancer or as a company, are brand tone (the voice and expression of the company in writing), a coherent design (corporate design) and the logo.

The CI should be the same in all the company's materials, so that your customers recognise your brand immediately without having to think about it.

Website

The website is the virtual business card of the company. The colours, expressions and the logo are shown here and should convey the same feeling as the content. It should be easy to see on the website what the company, the service and the products are about. This includes the home page, an „About us“ page as well as sub-pages, such as for products, offers and contact.

Some websites run a blog, which on the one hand helps to inform about the company's products and services and its niche. On the other hand, it also helps the website to be found more quickly in Google through targeted SEO (Search Engine Optimisation). For this purpose, keywords are used in the texts that are entered frequently on Google to search for similar offers.

The linking within the page and to other pages on the web also helps the website to rank higher on Google. Links from external websites can bring more visitors to your website and are an important indicator for Google of the importance of your website in the web.

Customer Acquisition

Once the website and advertising materials are up and running, it is time for customer acquisition! How and where you address and win your customers should be derived from your business model.

Depending on the company, this can be done by distributing flyers, networking at meetups, advertising on social media such as Facebook and Instagram, classic advertising in print magazines or on billboards, advertising on Google or a successful SEO through the website.

If you sell products, they can also be advertised at markets or trade fairs, or through partners in shops. Online services and products from online shops sell best through online marketing, which is aimed at the users and targets them where they spend most time digitally.

CRM

CRM is a Customer Relationship Management, which describes your relationship with your customers and ensures that you build and maintain a constant relationship with them. There are various means to do this, such as email newsletters, sales calls, promotions for your customers or even a marketing strategy that helps you to improve customer loyalty to your services and products in the long term.

It is cheaper to keep an existing customer than to win a new one.



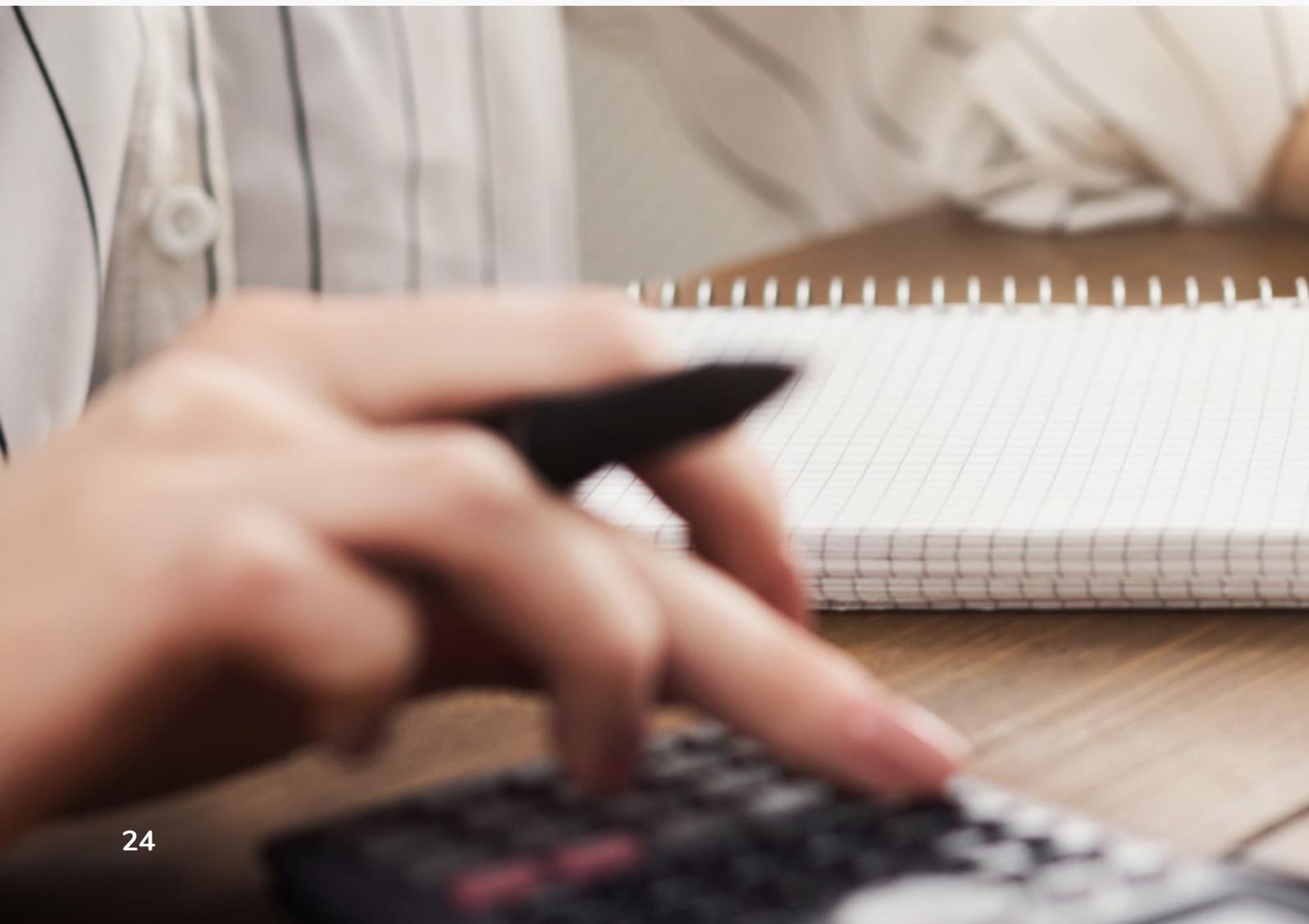
Taxes

The taxes you pay in your business or as a self-employed person, depend entirely on your legal form. As already mentioned above, there are special regulations for small entrepreneurs and freelancers, but also products and services differ from one another in terms of taxation.

It is important to know in advance how much you will have to pay in taxes. You should include your taxes in the costs of your services and products.

To save you the time-consuming paperwork, it is worth working with a tax advisor or using providers such as Sorted to do the paperwork quickly and easily online. This puts you in a better

position and provides with an overview.



What our expert says

Which online programmes can I use for tax returns?

Here are some providers (list is not exhaustive):

- ELSTER: The official programme of the tax offices
- Smartsteuer: A solution for advanced users from Haufe Verlag
- Wundertax: For simple cases
- SteuerGo: For simple cases
- Sorted: Intuitive and all in one with on-demand tax advice



Income tax, trade tax and VAT

Income tax is levied on income and depends on the amount of your income. From an annual income of 9,408 euros, the entry tax rate is 14 per cent. The highest taxes are paid by employed persons with an income of more than 57,052, where the income tax rate is as high as 42 per cent.

VAT is levied on the services provided by your company, i.e. products or services and charged to the customer. This means that the tax is calculated for the exchange of services between two persons. By way of illustration, sales tax is also referred to as a value-added tax. However, you do not pay it to the tax office.

Small entrepreneurs are exempt from VAT and are not allowed to charge it on their services. They also do not have to pay input tax.

What our expert says

What is an input tax?

Input tax is another word for VAT on incoming invoices. If the recipient is an entrepreneur (not a small entrepreneur), the input tax can be reclaimed from the tax office.

Trade tax is calculated based on the total income from your business per year and is 3.5 percent plus the trade tax rate of the municipality in which your company is located. The trade tax factor can be between 200 and 400 percent. The trade tax payable is therefore at least seven per cent and is deducted from the total income of the business minus an allowance of 24,500 euros per year. You can find tools online, for example at selbstaendig.de, with which you can calculate your exact percentage.



What can be deducted from the tax

Since your income is not equal to your profit, you can deduct many of your business expenses from your income and thus reduce the amount that is subject to tax.

What our expert says

What do I have to pay attention to when filing my tax return?

In addition to the business income, certain private expenses can also be deducted as „special expenses“. This applies to expenses on insurance against illness and contributions to pension insurance. In addition, donations and expenses for childcare can be deducted, to name just a few important examples. If you prepare your tax return on your own, you should use a checklist for such „special expenses“. Sick and/or disabled people and anyone who has suffered a special hardship (e.g. floods) can also claim extraordinary expenses.



Business expenses include, for example, advertising costs (flyers, advertisements), an office room, travel costs to and from the workplace, business trips, expenses, purchases for the company (electronics, software), post, office supplies, donations and professional training and coaching.

What our expert says

What can I deduct from my taxes as a self-employed person?

Basically, all „**business expenses**“ can be deducted. Business expenses are expenses that are related to the professional activity. Investments exceeding 800 euros are deducted over the useful life of the asset (depreciation). Certain expenses are deducted at a flat rate, in particular **travel expenses** with a car (0.30 Euro per kilometre travelled). Expenses for the **entertainment of business partners** are recognised as business expenses at 70 per cent. If expenses concern both the private sphere and the professional sphere, they are recognised as business expenses on a pro rata basis. This applies, for example, to a home office, for which the expenses (rent, electricity, etc.) are calculated according to a square metre key.

Helpful tools

To move yourself and your business forward, it is important to create helpful tools. These support you in your everyday work, simplify your marketing and your organisation and help you to keep an overview of the various areas of responsibility.

We have put together a small selection of helpful tools for you:

1. accounting and tax software at [Sorted](#)
2. online scheduler at [Calendly](#)
3. project manager at [Asana](#)
4. design templates at [Canva](#)
5. business plan template at [For Founders](#)
6. Customer Journey at [Lean Canvas](#) – the consumer's journey until he finds you and your products/services

The better you organise yourself, the easier it is to keep track of things and find what you need at the right moment. Since self-employment requires a lot of personal responsibility and discipline, these tools are a great help in keeping your business running smoothly.

Have fun with your start-up and with your first customers!





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