German-Israeli Chamber of Industry & Commerce

FAQ: Forming a holding structure

What is a *Holding*?
A *Holding* is the German term for a parent company with at least one subsidiary that it holds shares in. In many cases, the parent company owns 100% of its subsidiary.

If a business has more than one founder, it may be beneficial for each founder to set up his or her own holding company to be shareholders in the business.

What types of holding structures are there in Germany?
There are five different types of German *Holdings*:

1. **Operational Holding**
Large-scale businesses typically use this kind of structure. The holding company itself is an operating company, which maintains tight control over its subsidiaries that act as its branches.

2. **Management Holding**
Within a Management Holding, the parent company issues directives to its subsidiaries about business strategy, capital flow management, and recruitment for management positions. Management Holdings often choose countries with attractive tax regulations to base their operations.

3. **Finance Holding**
Finance Holdings focus only on investment management rather than business oversight. In some cases, the parent company sets financial targets for its subsidiaries and functions as a corporate bank by providing capital.

4. **Organizational or Structural Holding**
This kind of corporation uses the Holding legal form as an organizational structure. Each subsidiary is a different department of the parent company. This kind of organizational structure provides transparency and clearly demarcated divisions.

5. **Shareholder Holding**
As the name suggests, the Holding acts as a regular shareholder, leaving the subsidiaries to manage their respective business operations autonomously. This structure gives shareholders the tax benefits of a Holding without creating additional costs or increasing administrative burden.

How can you save taxes with a Holding?
The Holding company form offers many tax benefits. For instance, if you transfer a subsidiary's profits to the holding company, 95% are tax-exempt — provided that it holds a high enough share of the subsidiary (§ 9 Abs. 2a GewStG). The tax savings can then either be re-invested or paid out.

Tax benefits of the Holding also apply in the sale of subsidiaries. Such transactions only attract a 1.5 % sales tax.

Is a Holding liable for its subsidiaries?
No, a Holding is not liable for its subsidiaries. Profits can therefore be transferred to a parent company and safely "parked" there. Without a holding structure, the profits remain as company assets and are not protected in the event of liability. In this respect, a Holding can be used to secure your business assets.

What are the PR benefits of a Holding?
A Holding gives you greater control over your corporation's public image by allowing you to pursue different strategies through its subsidiaries. For example, by using trusteeships, your business can sell different products via different subsidiaries, and therefore brands, without customers being aware of the underlying company structure. This way you can avoid confusing consumers with regards to quality, pricing and brand image of your different product ranges.

Is it possible to set up a Holding by using an existing company?
Yes, it is possible to convert an existing company to a subsidiary of a Holding. However, if you want to sell the company and benefit from the tax advantage that holding structures afford, you have to wait seven years to do so.

If you sell the subsidiary before seven years have passed, the tax advantage is prorated. For example, if you sell a subsidiary after four years, the tax advantage applies to four-sevenths (57 %) of the selling price.

For total tax savings, the existing company must be integrated as a subsidiary in the Holding formation process.

What are the pros and cons of a Holding with split operations?
Unlike other corporate forms which are liable for damages with all company assets, a Holding's liability extends only to its subsidiaries — significantly reducing risk. In the case of a split operations (*Betriebsaufspaltung*) — i.e., when each subsidiary is responsible for one business area — only the respective subsidiary is liable. Shareholders enjoy further protection if the subsidiaries are limited liability companies (e.g., GmbH or UG).

Advantages:

- Distribution of operational risks among business units
- Asset protection
- Market entry with many companies and brands is possible

Disadvantages:

- Increased administrative costs from setting up multiple companies
- Greater operational complexity and thus costs
- Increased accountancy fees