

## German-Israeli Chamber of Industry & Commerce

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### FAQ: Forming an UG

**Is the UG (haftungsbeschränkt) the right form of company for me?**

Forming an UG (haftungsbeschränkt) or “Mini-GmbH” is favorable for your business if you have little capital and want to keep your liability as low as possible.

As with any limited liability company, UG shareholders' liability is limited to company assets. Claims cannot extend to the private assets of shareholders.

The UG has the lowest financial risk and the least bureaucratic hassle relative to the other German limited liability companies.

**What is a "1-Euro-GmbH"?**

The Unternehmergeellschaft (haftungsbeschränkt) — also colloquially referred to as the Mini-GmbH or 1-Euro-GmbH — is a limited liability structure that caters to the needs of startups that are bootstrapped (the minimum share capital is only one euro per shareholder) but still want to benefit from limited liability.

The UG is not a corporate form of its own, as frequently assumed, but is a variation of the regular Gesellschaft mit beschränkter Haftung (GmbH), which was created by the legislation to Modernise the Law on Limited Liability Companies and to Combat Abuse (Modernisierung des GmbH-Rechts und zur Bekämpfung von Missbräuchen, MoMiG) in 2008.

**What is the difference between the UG (haftungsbeschränkt) and the GmbH?**

The UG was created to remove the financial barriers facing entrepreneurs pursuing smaller ventures. Thus, the key difference between the UG and the GmbH is the minimum share capital. While founders of a GmbH need €25,000 to incorporate their company, UG shareholders only have to contribute one euro each to form a limited liability company.

Although the UG's required share capital is negligible, it must, however, reserve at least 25% of its annual profit to safeguard its liability.

A further difference between the Mini-GmbH and the GmbH lies in the former's suffix requirements. If you form an UG you must use "haftungsbeschränkt" in the company name, for example Mustermann UG (haftungsbeschränkt).

**What is the UG's (haftungsbeschränkt) Rücklagenpflicht (reserve obligation)?**

Although the UG's minimum share capital is very low, it must reserve at least 25% of its annual profit to safeguard its liability. This obligation to reserve its profits exists only from the time of the formation of the UG until the time when the share capital reaches €25,000.

As soon as the reserves and the share capital together exceed €25,000, the shareholders can decide to convert the company into a fully-fledged GmbH. However, converting the legal form is optional.

**What role does a shareholder play in an UG (haftungsbeschränkt)**

UG shareholders are not only the owners of the company but also the decision makers. Shareholders are expected to make significant business decisions during the general shareholders' meeting. Important points such as the distribution of profits are regulated by shareholder resolution.

It is possible to form the UG with only one shareholder, but generally the number of shareholders is unlimited. However, if you want to use the UG's template articles of association (known as the Musterprotokoll), you are limited to a total of three partners. If you want to include more than three shareholders in your UG, you must use customized statutes instead.

**Does an UG (haftungsbeschränkt) need a managing director?**

Yes, an entrepreneurial company with limited liability always needs a managing director (MD) who is appointed by the partners and is responsible for managing the day-to-day business.

It is the MD's task is to represent the company externally. Either he or she is employed by the UG as an employee and is bound by the so-called managing director contract or is a partner him- or herself. The MD can nevertheless be regarded as an independent partner-managing director, especially if he also holds a majority interest.

However, the Musterprotokoll only provides for one managing director. If you wish to appoint more than one MD for your UG, a customized UG statute is required.

**Does an UG (haftungsbeschränkt) need a supervisory board (Aufsichtsrat)?**

**No, an UG does not have to have a supervisory board unless the company employs more than 500 employees, or you state in the articles of association (Gesellschaftsvertrag) that a supervisory board is required.**

**What do I need to do before incorporation?**

**In the lead up to the incorporation process, the share capital has to be raised and the Gesellschaftsvertrag (the articles of association/company's statutes) must be finalized, including the company's purpose.**

**Since 2008, the articles of association have been integrated into a Musterprotokoll (model protocol/standardized template), which was intended to make the formation of an UG as simple and efficient as possible. If you opt to use the Musterprotokoll it can significantly speed up the company formation process.**

**As the UG is nothing more than a founder-friendly GmbH, they both have very similar incorporation processes.**

**How significant is the name of my UG (haftungsbeschränkt)?**

**To form an UG, your company needs an official corporate name. You can choose a name inspired by actual person, your corporate purpose or you can get creative and make something up (i.e. a fantasy name). In every case, the suffix 'UG (haftungsbeschränkt)' is mandatory so your chosen corporate form is transparent to the public.**

**The four options are explored in greater detail below:**

**Name your company after a person: It is common to use the names of one or more co-founders as a company name, e.g., "Franklin Smith UG (haftungsbeschränkt)".**

**Create a fantasy name for your company: You may invent a word to serve as your company name, e.g., "Bripotaz UG (haftungsbeschränkt)".**

**Describe what your company does: Use a description of the purpose or the activity of your company, e.g., "Steve Baker's Online Children's Book UG (haftungsbeschränkt)" if you are selling children's books online.**

**Use a combination of the above options: You can combine two or more options, e.g., "Bripotaz Frank Smith's Online Book Store UG (haftungsbeschränkt)".**

**Before you incorporate an UG, you should choose your company name carefully. Something to consider is the fact that many founders use fantasy terms that are not only unique - and thereby avoid copyright issues - but also pronounceable in as many languages as possible.**

**Most importantly, it's crucial that your company name has only positive connotations. Always consider your future customers before you make a final decision.**

**What do I have to consider after I have come up with a name I want?**

**If you have chosen a name for your company, be sure to follow these steps:**

**Make sure it complies with statutory regulations: A company name must make your UG easily identifiable as well as distinctive.**

**In addition, the name must not contain any information that is misleading. When in doubt, the registry court (Registergericht) will decide whether a company name is misleading or not.**

**Research the name on the Internet: Check whether the name is already being used by another company, organization or the like.**

**Search for the name in the business register (Unternehmensregister): It is possible that the name has already been registered with the Handelsregister (commercial register). You should check this before you submit your registration application.**

**Do a name search at the German Patent and Trade Mark Office (Deutsches Patent- und Markenamt, DPMA): Check whether the name has been trademarked and, if necessary, file an application with the DPMA to register your company name as a trademark.**

**Formulate the business objective correctly: The object of your company should be clearly and unambiguously formulated so that it is clear what activities the company is carrying out.**

**What is the minimum share capital (Stammkapital) of an UG?**

**After the notary appointment, the founders must then open a business bank account and pay the UG's share capital into it. This is the total of the shareholder's capital contributions, as stipulated in the articles of association.**

**The share capital of an entrepreneurial company must be at least one euro and may not exceed €24,999. In practice, the share capital is usually between EUR 300,- and EUR 1,000. The full amount**

must be paid into the business account as a cash contribution. Contributions in kind may not be made.

**Can I still set up an UG if my planned share capital exceeds €24,999?**

**No, if you wish to contribute more than €24,999 in share capital, you can no longer establish an UG, but must choose the GmbH as your legal form.**

**What are the prerequisites for the Musterprotokoll?**

**Your UG has three or fewer shareholders.**

**Your UG has just one managing director.**

**You do not have any statute special requirements that are different from the standardized template.**

**Since the capital contribution of an UG can be very small, the Musterprotokoll stipulates that the shareholder(s) must bear the formation costs themselves if these exceed €300 or the company's share capital. But the good news is, by opting to use the Musterprotokoll the notarial fees are considerably lower than otherwise.**