

Temporary change in VAT rates for the period from July 1 to December 31, 2020

The German Federal Parliament has now passed the second Corona-Tax-Assistance Act on June 29, 2020. This act consists various measures to combat the effects of the Corona Pandemic on the economy including the temporary reduction of the VAT rates. The regular tax rate will be decreased from 19 to 16 percent and the reduced tax rate will be lowered from 7 to 5 percent in the period from July 1, 2020 to December 31, 2020.

From today's perspective, these temporary reductions in VAT rates will, among others, result in the following changes:

- All supplies of goods and supplies of services carried out in the period from July 1 to December 31, 2020 are to be invoiced at the lower tax rates – irrespective of taxation according to agreed or collected fees. This applies accordingly to partial services.
- The correctness of **incoming invoices** should be ensured; correspondingly; this applies to invoices for small amounts. An incorrect tax amount in the invoice would result in a difference to the legally owed tax, which is non-deductible.
- For reasons of **simplification**, in the **period of July 2020**, the tax authority will not object if the supplier prepares an invoice for a service performed during this period at the non-reduced tax rates (i.e. 19% and 7%), under the condition that the supplier pays the shown tax. The recipient of services is entitled to deduct the total input tax.
- **Contracts** which serve as invoices (e.g. for permanent services) should be adjusted for the period between July 1 and December 31, 2020.
- Deduction of input tax from **tickets** without reference to the tax rate is limited to the lower tax rate (i.e. 5% for services in the above-mentioned period).
- **Supplies and services** which are performed over a longer period of time and are not provided as a partial service are deemed to have been provided at the end of the service period (possibly applies to annual tickets, subscriptions, membership fees, licenses). Corresponding services for the year 2020 are therefore to be invoiced at the lower tax rates. Whether the payment has already been made in advance is irrelevant. An adjustment of the invoice may be necessary.
- **Advance payments** as well as the invoicing of final invoices regularly lead to challenges when tax rates change. If advance payments for taxable services are received before July 1, 2020, but the services are not performed until after this date, the lower tax rate must be applied. This can de facto be realised in the form of a final invoice. The higher tax rate (7% or 19%) is to be applied to advance payments for taxable services after December 31, 2020.
- With regard to the VAT classification of **vouchers** as single-purpose or multi-purpose vouchers, vouchers that cannot only be redeemed in the period from July 1 to December 31, 2020 are likely to be multi-purpose vouchers, as single-purpose vouchers can only be issued if the applicable tax rate has been determined.

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- The tax rate to be applied to early **payment discounts** is the tax rate applicable at the time the service is performed.
- If an **invoice** is issued for services which are subject to the different tax rates, the payment must be broken down according in order to illustrate the different tax rates.
- The amended tax rates must also be applied to **intra-community acquisitions** and to input services subject to the **reverse charge procedure**.
- If there is a change to the assessment basis, the tax rate applicable at the time the service is performed shall be applied. **Annual refund** or an annual bonus may require a division of the benefits received up to June 30, and benefits from July 1 onwards.
- When **exchanging** an item, it should be noted that this leads to a reversal of the original supply as well as a new supply to which the current tax rate is to be applied.
- The question may arise as to whether the reduction in tax rates has an **impact on the price**, especially for contracts already concluded. This question can be influenced by various factors (e.g. a net or gross price agreement, VAT rules or the time of conclusion of the contract). For certain cases of long-term contracts, the German VAT Law stipulates a compensation claim.
- **Cash registers and ERP systems** are to be adapted as far as necessary (e.g. new tax keys, accounts with tax automation).
- In the case of **recurring postings** (e.g. rental expenses) it must be checked if adjustments are necessary. The taxation of non-cash remuneration, for example for company cars, must be adjusted.
- In the case of **automatic document processing**, ongoing checks should be implemented.
- Company personnel (personnel department, purchasing and sales) should be notified of the changes.

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