



VAT NEWSLETTER

Corona: reduction of VAT rates and postponement of payment of import VAT

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1 Background

On 3 June 2020, the Grand Coalition agreed on an economic stimulus package of EUR 130 billion to cushion the economic consequences of the Corona crisis. A key issues paper published as a result of this decision contains two points concerning VAT. We now provide you with a brief initial overview of these points and will subsequently continue to keep you informed about the further course of the legislative process.

2 Reduction of VAT rates

According to the key issues paper, VAT rates are to be reduced from 19% to 16% and from 7% to 5% for a limited period from 1.7.2020 to 31.12.2020. This move is designed to strengthen domestic demand in Germany. The average rates for agriculture and forestry regulated in sec. 24 of the German VAT Act were not mentioned. Nor was anything said about the insurance tax rates pursuant to sec. 6 of the German Insurance Tax Act, which are usually changed in parallel with the VAT rates. These are likely to remain unchanged.

Unfortunately, there is currently not even a draft bill on the horizon. However, since there are less than four weeks to prepare, companies should immediately start dealing with the necessary adjustments. The following points, among others, should be considered:

- The new VAT rates are to apply to supplies made between 01.07.2020 and 31.12.2020. What is important is the date the supplies are rendered. This is what sec. 27 (1) sentence 1 of the German VAT Act stipulates. Thus, neither the date of invoicing nor the date of payment is decisive. The same applies to partial supplies.



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- If the remuneration for supplies carried out after July 1, 2020 is received prior to this date, e.g. in the case of advance payments, the “old” VAT rate would initially be applicable to these and would only later be adjusted to the reduced VAT rate when the supply is provided or when the final invoice is issued, if the supply is provided within the six months period.
- If there is a subsequent change in the tax base, the applicable VAT rate depends on when the underlying supply was performed and not when the change occurred. Annual bonuses, for example, would therefore have to be split.
- In the case of vouchers, care must be taken to determine whether these are single-purpose or multipurpose vouchers. In the case of single-purpose vouchers, the time of issue of the voucher is decisive for the VAT rate. In the case of multi-purpose vouchers, it depends on when the supply, for which the voucher is redeemed, is performed.
- Whether the reduction in VAT rates affects the level of prices depends on many different factors. This should be examined on a case-by-case basis. For example, it should be taken into account whether net or gross price agreements have been made, whether specific VAT rates or VAT amounts have been agreed, etc. In the case of long-term contracts, sec. 29 of the German VAT Act, which standardises a civil law compensation claim, must be observed.
- In the case of purchase invoices, care must be taken to ensure that the “old” VAT rate is not charged for supplies carried out between 01.07.2020 and 31.12.2020. In the amount of the difference, there would be an unduly charged VAT amount in accordance with sec. 14c para. 1 of the German VAT Act and input VAT deduction would be excluded.
- Contracts that serve as VAT invoices and therefore show a specific VAT rate and VAT amount must be changed. Otherwise, a VAT liability arises for the supplier in the amount of the VAT rate difference according to sec. 14c para. 1 of the German VAT Act and the customer insofar as it is therefore not entitled to deduct input VAT. In this case, an adjustment according to sec. 31 para. 5 of the German VAT Implementing Regulation would be possible.
- ERP systems and POS systems must be prepared for the changes. For example, companies that work with automatic SAP tax determination must create new tax codes and new condition records, the latter with a corresponding restriction on the validity period. In other systems, it may be necessary to create new sales accounts with automatic tax determination.

3 Due date for import VAT

According to the key issues paper, the due date for payment of import VAT is to be postponed from the 16th to the 26th day of the following month. It is not yet clear how this is to be implemented in practice. On the positive side, however, the regulation is not to be limited in time.