

WTS VAT Update for the Digital Economy in Germany

Reduced VAT rates in Germany until December 31,
2020



November 2020

Circulars from Federal Ministry of Finance dated June 30, 2020 and November 4, 2020

To face economic consequences of Covid-19 pandemic Germany has introduced different measures with the so called economic and crisis management package. The measures implicate a reduction of standard VAT rate from 19 % to 16 % and the reduced VAT rate from 7 % to 5 % for the period July 1, 2020 until December 31, 2020.

Due to various issues with practical implementation, German Federal Ministry of Finance on June 30, 2020 issued a circular providing guidance, how to handle the transition to the reduced VAT rate in a practically manner. With regard to the end of reduced VAT rate on January 1, 2021 German Federal Ministry of Finance issued a second circular providing guidance, how to handle the return to the VAT rates of 19% and 7%.

Please find a summary of selected guidance made by the circulars dated June 30, 2020 and November 4, 2020:

1. General

In general the application of the different VAT rates depends on when the supplies and services are provided (date of supply) – therefore, it is irrelevant when the respective transaction is contractually agreed, when the invoice is issued or when the invoice is paid.

2. Supplies of services

Supplies of services are provided at the date of completion.

Example: A service is completed in December 2020, but the invoice will only be issued in January 2021 = the reduced VAT rate is applicable, since the date of supply of the service is before 1 January 2021.

Thus, for services provided/completed in the period July 1, 2020 until December 31, 2020 the reduced VAT rates (16% and 5%) are applicable. For services provided/completed before July 1, 2020 and after December 31, 2020 the general VAT rates (19% and 7%) are applicable.

3. Supply of goods

For the supply of goods the date of supply depends on the right of disposal. In case of supplies of goods including transport, the starting date of the transport is deemed to be the date of supply.

Example: Regarding a supply of goods the transport starts in December 2020, but the invoice will be issued in January 2021 = the reduced VAT rate is applicable, since the date of supply is before January 1, 2021.

Therefore, supplies of goods for which the transport starts in the period July 1, 2020 until December 31, 2020 have to be invoiced with the reduced VAT rates (16% and 5%). Supplies of goods for which the transport starts before July 1, 2020 and after December 31, 2020 have to be invoiced with the general VAT rates (19% and 7%).

4. Supplies of goods including installation

Supplies of goods including installation are deemed to have been made at the time when the acceptance takes place (after completion of the installation).

Thus, all supplies of goods including installation for which the acceptance takes place in the period July 1, 2020 until December 31, 2020 have to be invoiced with the reduced VAT rates (16% and 5%). All supplies of goods including installation for which the acceptance takes place before July 1, 2020 and after December 31, 2020 have to be invoiced with the general VAT rates (19% and 7%).

5. Advance and down payments

Advance and down payment invoices received after June 30, 2020 and before January 1, 2021 and for which the remuneration has been made during this period, VAT must be calculated using the VAT rate of 16 percent or 5 percent. If the supply is performed after December 31, 2020, a correction to 19 percent or 7 percent at the time the supply is performed must be made. Insofar as it is certain the respective service will only be provided after December 31, 2020, the applicable tax rate of 19 percent or 7 percent can already be applied regarding such advance or down payment. The recipient of an respective invoice can claim the stated VAT amount as input VAT under the general conditions.

6. Issuing a voucher for a bindingly ordered item

The transfer of a single-purpose voucher shall be regarded as a supply of the goods or services to which the voucher relates. By issuing a single-purpose voucher in the period from July 1, 2020 to December 31, 2020 one could apply the reduced rate on supplies actually provided after December 31, 2020. This handling was for example applied on supplies of cars to profit from the reduced VAT rate even if the supply will actually be performed in 2021. The German Federal Ministry of Finance has denied this handling in specific cases. The Ministry pointed out that a so called voucher issued for a bindingly ordered item, for which a later exchange, repayment or transfer of the voucher to another seller or buyer is excluded and the issuance of which is associated with an acceptance obligation is not a single-purpose voucher but a prepayment.

7. Partial supplies

For partial supplies provided in the period of July 1, 2020 to December 31, 2020 the reduced VAT rates (16% and 5%) are applicable. For partial supplies provided before July 1, 2020 and after December 31, 2020 the general VAT rates (19% and 7%) are applicable.

8. Permanent and recurrent services

Regarding permanent and recurrent services, e.g. rental, leasing or maintenance contracts, for which partial supplies of services are regularly agreed, the contracts are often the invoice document. As the invoice needs to show the VAT rate applicable an amendment needs to be issued to assure the input VAT deduction.

9. Other guidance topics

The circulars provide guidance to several further topics, inter alia:

- » Annual bonuses
- » Telecommunications services
- » Membership fees, subscriptions etc.
- » Taxation of Electricity/gas/heat supplies
- » Taxation of passenger transport
- » Taxation of commercial agents
- » Taxation of commercial brokers
- » Taxation of hotels and restaurants
- » Exchange of goods

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