



## Special Information | Tax

### COVID 19 - Economic stimulus package: Temporary reduction of VAT rates from 1 July 2020

On 3 June 2020, the German government published its plans for a comprehensive economic stimulus package to combat the economic consequences of the COVID 19 crisis (see our special information of 5 June 2020).

These measures include a reduction in the VAT rates for the regular rate from 19 % to 16 % and for the reduced rate from 7 % to 5 % for a limited period from 1 July to 31 December 2020. In addition, the due date for import turnover tax is to be extended by 10 days from the 16th to the 26th of the following month.

Further details are not yet known. However, it is expected that legal implementation will take place in the short term.

For companies there is therefore a need for action in the very short term to change the settings in ERP, accounting and POS systems, implement new tax codes and adapt invoicing to the new tax rates. In addition, it must be taken into account that the changes will probably have to be reversed on 1 January 2021.

With regard to the reduction of the tax rate, the following points in particular need to be considered at this stage:

#### Application of the reduced rates:

- The reduced tax rates are to apply only to **services** carried out in the **period from 1 July to 31 December 2020**. However, the time of invoicing, conclusion of contract or payment is irrelevant.
- **Advance payments** made before 1 July 2020 for services rendered after 30 June 2020 are therefore generally subject to the reduced tax rate. An adjustment of advance payments already made can be made here, if necessary, by way of the final invoice.
- For **partial performances**, the reduced tax rate applies for the period from 1 July to 31 December 2020.
- In the case of **permanent services** (rental and leasing contracts), the contract or the permanent invoice must be adjusted accordingly for the period in question.
- **Annual services** (liability remunerations, licenses, maintenance contracts, etc.) are generally considered to have been provided upon expiry of the agreed performance period (31 December 2020). It should be noted that these are fully subject to the reduced tax rate.
- For subsequent **price adjustments** such as rebates, bonuses and discounts, the tax rate of the



original service is to be applied.

- Special features also apply to **vouchers**. Insofar as a voucher can be redeemed both in the period of the reduced tax rate and in the period of the tax rate applicable thereafter, it is a so-called "multi-purpose voucher", which is only taxable at the time of redemption. However, it remains to be seen how the legislator will deal with "single-purpose vouchers" that have already been issued and taxed and are redeemed in the period of the reduced tax rate.
- For **long-term contracts**, it should be examined whether a contract adjustment is necessary. In particular, compensation obligations may arise under § 29 UStG (German Value Added Tax Act).
- Finally, it should be noted above all that input tax can only be deducted at the tax rate applicable at the time of supply. An excessively high tax statement represents an incorrect tax statement in accordance with § 14c (1) UStG, which excludes the right to deduct input tax at the amount of the excessively high tax rate. Attention must be paid to this in particular when checking incoming invoices.
- Further adjustments must be taken into account, in particular with regard to the taxation of vehicle transfers, adjustments in accordance with § 15a UStG and annual settlements of bonuses or commissions.

#### **Import turnover tax:**

The reduction also applies to the import turnover tax. At the same time, it is planned to extend the due date for import turnover tax from the 16th to the 26th of the following month.

#### **System conversions:**

- On the system side, ERP and accounting systems must be adapted to the new tax rates. New **tax codes** and accounts must be implemented for outgoing and incoming transactions with German tax rates of 16% and 5%, also for intra-Community acquisitions and incoming transactions subject to the reverse charge procedure.
- It should also be ensured that **invoicing** is adjusted accordingly from 1 July 2020.
- **POS systems** must be converted to the new tax rates. In this context, it should be noted that a reduced tax rate (1 July to 31 December 2020: 5% and 1 January to 30 June 2021: 7%) will apply to restaurant and catering services, with the exception of beverages, from 1 July until 30 June 2021.

It remains to be seen to what extent the legislator or the tax authorities will provide further clarifications and transitional arrangements. It can be assumed, however, that the transitional regulation for the last adjustment of the VAT rate on 1 January 2007 will be followed.

#### **Conclusion**

Even if these are so far only plans of the grand coalition, which still have to be implemented within the framework of a legislative procedure, companies should already start preparations now in order to enable a changeover in time for July 1, 2020 due to the tight time frame until July 1, 2020.

Are you unsure how these changes will affect you and what preparations need to be made in your company? Please feel free to contact us.



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**Concluding remarks**

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