

Tax News

Focus on Germany – Temporary reduction of VAT rates

Last week, Germany decided at short notice on a general reduction of the applicable VAT rates for a limited period of six months. The VAT rates will be reduced as of 1 July 2020 from 19% to 16% and from 7% to 5% respectively. Swiss companies which operate in Germany will also be affected by these changes.

The most important facts in brief:

- The applicable VAT rate depends on the date of the actual supply and not on the date of invoice or payment.
- The date of supply must therefore be indicated in the invoice in order to determine the applicable VAT rate correctly.
- If down payment invoices have been or will be issued or prepayments are received during the month of June for supplies that will take place between July and December 2020, the currently applicable VAT rate (i.e. 19% or 7%) must be used.
- If down payment invoices for supplies taking place after 31 December 2020 have been or will be issued or prepayments received during the second half of 2020, they will be subject to the VAT rate of 19% and 7% respectively.
- At the time the final invoice is issued, VAT is to be settled at the VAT rate applicable at the time of supply. An adjustment of the applicable VAT rate on down payment invoices issued or prepayment received shall be made when the final invoice is issued.
- In case of price reductions, the VAT rate depends on the time of supply.
- The above statements apply analogously to accounts receivable invoices. If the wrong VAT rate is applied by the supplier (e.g. 19% instead of 16%), the input VAT can only be claimed for at a rate of 16%.

Swiss companies that are registered for VAT purposes in Germany must therefore change their accounting systems at short notice and not only focus on the issuance of correct invoices, but also critically examine incoming invoices containing German VAT. Finally, the bad news: these changes need to be reversed in six months and the VAT rates adjusted back to 19% and 7% respectively.

It cannot be excluded that other EU countries will adopt similar packages of measures at short notice. Companies that are registered for VAT in several EU countries are recommended to closely follow the respective developments in those countries.

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Tax Partner AG, Taxand Schweiz

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