

LOWERED GERMAN VAT RATES COMES TO AN END



THE PERIOD OF LOWERED GERMAN VAT RATES COMES TO AN END ON 31 DECEMBER 2020

The Corona pandemic still has the world firmly in its grip and economies worldwide are struggling with negative implications. Nonetheless, the period of temporarily reduced German VAT, which was meant to reduce the economic impact of the springtime shutdown and stimulate consumption, is coming to an end on 31 December 2020.

On 1 January 2021, the lowered tax rates of 16% (regular VAT rate) and 5% (reduced rate) will be raised back to their previous level, 19% for the regular VAT rate and 7% for the reduced rate respectively.

For companies engaged in the German market, this implies that supply of goods or services must take place on or before 31 December 2020 in order to apply the lowered VAT rates, even if the invoice dates in 2021. In the case of advance and down-payment invoices issued after 30 June 2020 and before 1 January 2021, the tax is to be calculated at the lowered VAT rate of 16 percent and 5 percent respectively, given that payment was also received in this period. However, if it is obvious that the respective supplies will not be rendered until after 31 December 2020, no objections will be raised if the then applicable VAT rate of 19 percent or 7 percent is applied. In order to provide assistance to deal with this and other matters of a complicated nature (i.e. continuous supplies or vouchers), the German Ministry of Finance issued two major administrative guidelines for the period of the lowered VAT rates.

For a smooth transition back to the regular VAT rates, it is highly recommended to update any ERP-systems in time to ensure that sales are correctly recorded and invoices issued free from error, since there is no grace period scheduled. BDO will gladly provide you with the assistance needed in this matter. Please do not hesitate to contact us with any questions or concerns you may have.

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