



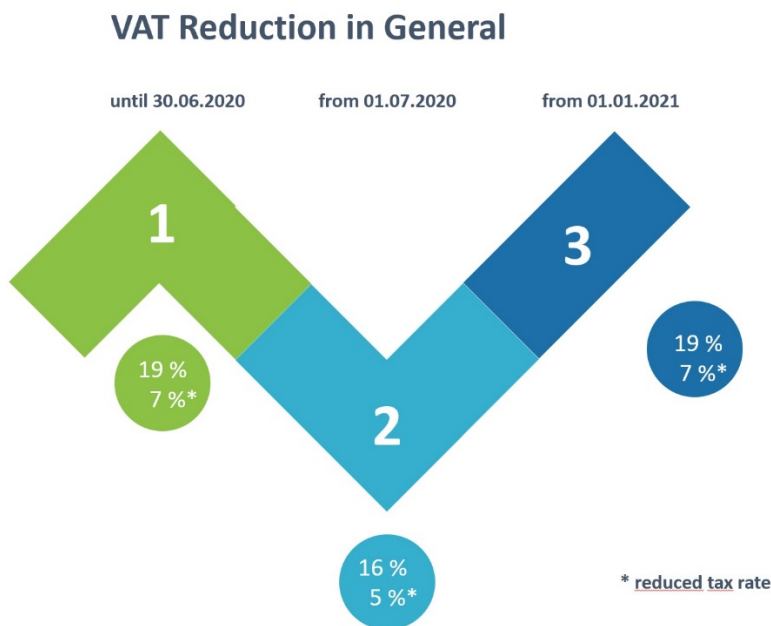
VAT reduction on 1 July - initial information and checklist

As part of its economic stimulus and crisis management package, the governing coalition has reduced the VAT rate from 19 % to 16 % and from 7 % to 5 % respectively from 1 July 2020 to 31 December 2020. At first glance, this is pleasing for the economy. As with taxes as a whole, but especially with VAT, it is the details of implementation that will not make it all that easy. And by 1 January 2021 you will have to go the reverse route back to the "old" VAT.

So here is the first overview - in the coming weeks there will certainly be more and more new information and hopefully clarifications.

1. the fundamental changes:

1.1 The changes for all



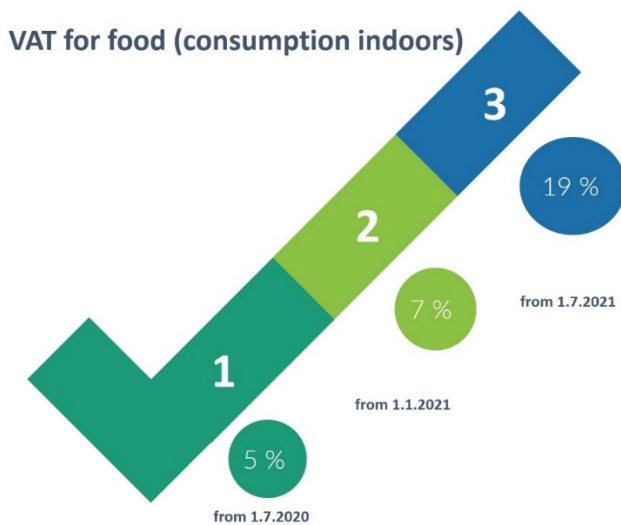
1.2 Specificity for the restaurant and gastronomy sector:

The above application of the tax rates applies in the gastronomy trade only to beverages.

For **food**, the tax rate was already reduced from 19 % to 7 % in the last government package of measures from 1.7.2020 to 30.06.2021.



For food the following picture now emerges:



2. the time of performance and the beneficiary are decisive

To ensure that you write your invoices with the correct VAT rate, the following question must always be answered: When did you provide the service according to VAT law?

The recipient of the service also plays an important role in the current tax reduction.

2.1 The time of performance

For the accrual of the sales tax and the correct application of the tax rate, it depends **on when the service was performed**. And that is the important key fact. First of all, a distinction must be made between two types of service:

- **Deliveries** concern "objects" - in the broadest sense, things you can touch.

Examples: Car, desk, machine, vehicles

A supply shall be deemed to have been made when the recipient has acquired the right to dispose of the goods and, where the goods are transported or dispatched, the supply shall be deemed to have been made when the transport or dispatch begins.

Case study: you supply a milling machine. You hand this over to the forwarding agent on 26.06.2020. On 02.07.2020 the machine is "delivered" to your customer. The VAT rate on the invoice must be 19 %, since according to the VAT law, the delivery is considered to have been carried out as soon as it is handed over to the forwarding agent.

Important: If you show only 16 % on your invoice, the tax office will later make additional demands. In most cases, you will not be able to invoice your customer for this amount afterwards, so the additional costs remain with you.



Attention: The receipt of down payments or advance payments is also irrelevant for the final tax rate. However, so-called partial payments are an exception (see point 3).

- **Other services:** These are essentially services.

Examples: Repairs, consulting services, leasing, rent

Other services are generally performed at the time of their completion.

In the case of continuous services of limited duration, the service is performed at the end of the respective service section. A typical example here is leasing.

2.2 Beneficiaries - especially important now

It is of decisive importance who receives the delivery or other service. If the recipient of the service is an entrepreneur entitled to deduct input tax (B2B) or if the entrepreneur is not entitled to deduct input tax (e.g. small business or doctor) or a private individual (B2C).

- For B2B deliveries and services, make sure you use the correct tax rate for the reasons mentioned above. At the recipient's end, the sales tax remains a transitory item, as it is refunded by the tax office.

- For customers in the B2C sector, the VAT they declare represents a cost to be borne by themselves.

tip: If possible, you should postpone deliveries and services here until after 30 June so that your customer can benefit from the lower VAT rate. At the end of the year, the deliveries and services should then be brought forward accordingly.

Please note that these measures cannot be achieved by an appropriate invoice date alone. The tax office will examine any misuse of the VAT reduction at this point and, in case of doubt, will punish it criminally.

This tip is of course more worthwhile for larger purchases (new car, new roof, new heating, e-bike, ...).

Practical tip: You are not obliged to disclose the tax rate and the tax amount to recipients from the B2C sector. If it turns out later that the VAT was too low, it will be calculated from the gross amount, which the customer has paid in full. So you do not have to pay any additional costs.

3. down payments and partial payments - tradesmen, building contractors and dealers watch out

You receive down payments for your services or have already received down payments for current orders? Then invoicing requires special attention.

3.1 Difference between down payments and partial services

The decisive factor for the tax rate for the entire delivery or other service remains the time of performance in the case of down payments and advance payments.

Partial services are a special feature, which occur in particular in the construction industry or in plant construction. However, the partial services must always be agreed in the contract and must also be accepted in between. In this case, the current tax rate will then apply definitively. Within the scope of the final invoice, there is no longer any adjustment of the sales tax.

tip: In this context, partial services can now become exciting for recipients from the B2C sector, which also includes, for example, doctors and landlords of private homes. Here you can pass on the lower VAT rate to your customers.

However, we strongly recommend that you clarify this with us beforehand in a separate consultation.



The following table shows the different options for settling down payments:

Provision of Services	Down Payment	Tax Treatment	Remark
Performance rendered by 30.6.2020	It is irrelevant whether advance payments were made.	The service is subject to the old tax rates.	
Performance rendered from 1.7.2020 to 31.12.2020	No advance payments were made before 1.7.2020.	The service is subject to the new tax rates.	
Services rendered from 1.7.2020 to 31.12.2020	Advance payments were made in full or in part before 1.7.2020.	Advance payments made before 1.7.2020 were taxed at the old tax rates; if the service is performed in the period from 1.7. to 31.12.2020, the services are to be taxed at 3% or 2% (see example).	However, the entrepreneur providing the service could also state the standard tax rate of 16 % or 5 % in the down-payment invoice for services carried out in the period from 1.7. to 31.12.2020 - if this is certain -; in this case, VAT is also incurred at the corresponding tax rate when payment is received.
Services rendered after 31.12.2020	Advance payments were not made before 01.01.2021.	The service is then again subject to 19 % or 7 %.	
Services rendered after 31.12.2020	Advance payments were made in full or in part after 1.7. and 31.12.2020.	The advance payments can be taxed at 16 % or 5 %; for services rendered after 2021, the services are taxed at 3 % or 2 % additional tax (see example).	However, the entrepreneur providing the services can also state the standard tax rate of 19 % or 7 % in the down-payment invoice for services to be carried out in 2021; in this case, the VAT is also incurred at 19 % or 7 % when the payment is received in 2020.



Example:

Order volume	40,000.00	Ex. 1	Down payment	Ex. 2	Down payment
		Completion 2020		Completion 2021	
1. down payment	10.000,00	25.06.2020	11.900,00	18.12.2020	11.600,00
2. down payment	25.000,00	05.08.2020	29.000,00	15.01.2021	29.750,00
Final invoice	5.000,00	05.09.2020		23.02.2021	
Final invoice	16%	40,000.00 6.400,00	19%	40,000.00 7.600,00	
Total		46.400,00		47.600,00	
Less 1 st down payment		11.900,00		11.600,00	
Less 2 nd down payment		29.000,00		29.750,00	
Still to be paid		5.500,00		6.250,00	

The crediting or subsequent taxation of down payments is carried out in the preregistration of the preregistration period in which the service or partial service to which the down payment refers is carried out. If the entrepreneur taxes his or her business transactions according to the remuneration received (actual taxation), the credit or subsequent taxation takes place in the period of advance notification in which the remaining remuneration is received.

tip: You can also issue invoices for services even before the occurrence of the respective tax rate change at the tax rate applicable at the time the service is performed. However, you should be sure when the service is actually "completed".

We will also be happy to support you here if you have any questions in principle or in individual cases.

Conclusion and outlook

The times remain turbulent - it will certainly take quite a while before we can all fully return to our "normal" lives. Some things we might change in the long run, based on the experiences made during the crisis.

Together we will certainly find the right way to deal with the crisis and to shape the time afterwards.

Stay healthy



Checklist for immediate measures to reduce turnover tax

We have put together the most important points that you should tackle immediately so that you are ready to start on 1 July.

- ⇒ cash register: for necessary changes please get in touch with your business partner. We assume that the service phones here are running hot - first come first served
- ⇒ invoicing systems: Here too, your software provider must convert your billing programs. If the invoices for deliveries after July 1 still show 19% or 7%, the higher amount must be paid to the tax office!
- ⇒ Your rental and leasing contracts with sales tax must be changed accordingly. Telephone, gas, electricity etc. are also subject to the new tax rates for 6 months. Make sure that your contractual partners implement the changes. Talk to your contractual partners actively, especially for larger amounts. In most cases you have a so-called "net price agreement" with your contractual partners, so that the payment is reduced from July onwards.
- ⇒ If you are on the performing side (e.g. landlord), you must change the contracts. The best way to do this is to make a short addition.
- ⇒ Refunds for returns/deposits are not automatically subject to the reduced tax rate from July 1. The date of the original delivery is decisive.
- ⇒ Vouchers: This is where things become particularly confusing. Basically the following applies:

If you issue vouchers, you must distinguish between single-purpose and multi-purpose vouchers.

The difference: With a single-purpose voucher, the place of performance and also the VAT rate is fixed. Here the tax rate applies when the voucher is issued. This is not the case with multi-purpose vouchers. Therefore the VAT rate applies when the voucher is redeemed

Example: You issue a voucher and only have goods that are subject to the 19% or 16% VAT rate.

The single-purpose voucher will therefore be charged at the correct tax rate immediately upon issue.

Tip: We recommend that you avoid vouchers in the period from 1.7. to 31.12.2020 as far as possible. Alternatively, from now on you can only issue vouchers that can only be redeemed from 1 July onwards. Please contact us directly for further advice.