

TEMPORARY REDUCTION OF GERMAN VAT RATES FROM 1 JULY 2020 TO 31 DECEMBER 2020



In an unexpected statement, German chancellor Angela Merkel and several high ranking cabinet members have announced late Wednesday evening (3 June 2020) to introduce a temporary reduction of the German VAT rates from 19% to 16% (regular VAT rate) and from 7% to 5% (reduced rate), respectively. The reduced VAT rates are scheduled to come into effect on 1 July 2020 and remain in force until 31 December 2020. The measure is part of a huge stimulus package aimed to reduce the economic impact of the Corona pandemic and boost domestic demand.

While the legislative change has not yet been finally adopted but was so far only proposed by the coalition committee, the legislative process is expected to move quickly given that the VAT rate reduction shall already come into effect shortly. Furthermore, the German Ministry of Finance will likely issue administrative guidelines for the transition period resulting from these VAT rate reductions which will presumably be similar to that for changes in VAT rates in the past. These guidelines should provide assistance to companies, especially how to deal with continuous supplies and installments.

In view of the short deadline of 1 July 2020, there is an immediate need for action to ensure that sales are correctly recorded and especially that ERP-systems are up to date.

BDO will gladly provide you with the support needed in this respect.

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