



Temporary reduction of German VAT rates planned

The governing coalition agreed on an economic stimulus package, which provides for a reduction of the VAT rates from 19 to 16 percent and from 7 to 5 percent from 1 July to 31 December 2020.

Roadmap and implementation

On 3 June 2020, the governing coalition in Germany agreed on an economic stimulus package comprising 57 different measures at a total volume of around EUR 130 billion.

The respective draft law for the economic stimulus package which has been published this week provides for a reduction of the VAT rates from 19 to 16 percent for the standard rate and from 7 to 5 percent for the reduced rate from 1 July to 31 December 2020.

The reading in the respective parliament chambers (Bundestag, Bundesrat) will be held within the next two weeks. As the governing coalition has the majority of seats in the German parliament, it is likely that a respective law will be passed.

Impact on business relationships

As the law did not pass the parliament so far and as there is uncertainty with respect to potential administrative simplifications (see below) the specific transitional arrangements for 1 July 2020 and 1 January 2021 cannot yet be finally determined.

However, the following should be taken into consideration:

The general decisive factor for the application of the tax rate remains the date of supply / date when the service has been performed.

However, various aspects of business relationships should be reviewed critically. Examples are

- advance payments
- partial supplies
- continuous supplies
- long-term contracts.
- vouchers and
- correction of the assessment base (e.g. annual rebates)

Tax Invoice will have to be updated as well (reflecting the new rates of tax). This also applies to contracts that serve as permanent invoices (e. g. rental agreements).

In case the cost structure changes by way of the amended VAT rates, compensation may be claimable between business partners according to para. 29 German VAT Act.

The VAT return forms have, of course, not yet been updated. Both forms for the preliminary and the annual VAT return already contain separate boxes that might be used in the case of a change of the VAT rate. Company should monitor potential changes of the VAT return forms.

Impact on internal business processes

The requirements are manifold. Besides the issues discussed above, the following requirements for your internal business processes arise from our point of view:

- Setting up new tax codes in the ERP system(s) of the company, including cash register systems.
- Update of the invoice template as of 1 July 2020 and 1 January 2021.
- Increased need to check incoming invoices in order to avoid incorrect input VAT deduction; if the invoice verification is automated, the verification logic would also have to be updated accordingly.

However, German businesses and economic organizations have requested a reduction in the administrative efforts required due to the temporary changes. Therefore, the Ministry of Finance is currently discussing several suggestions. No final decision has been made whether administrative simplifications will be granted.

How we can help

Grant Thornton's international indirect tax team and digital advisory team can assist you during your update of your systems, e. g. cash register systems and ERP software. Please contact us if you would like to discuss.

Contact us



Ulrike Slotty-Harms
Partner, Head of Indirect Tax
Grant Thornton Germany
T +49 (0) 211 9524 8228
E Ulrike.SlottyHarms@wkg.com



Stefanie Nattkämper-Scholz
Partner, Member of the tax board
Grant Thornton Germany
T +49 (0) 30 890 482 592
E stefanie.nattkaemper@wkg.com



Christoph Beutler
Senior Manager
Grant Thornton Germany
M +49 (0) 30 890 482 245
E christoph.beutler@wkg.com