

Germany post Covid-19 Stimulus Plan: Temporary VAT rate cuts

Introduction

Germany has unveiled a €130bn package of tax and spending measures designed to boost the country's economic recovery from the coronavirus crisis

The package includes a plan to temporarily reduce German VAT rates. The standard VAT rate will be reduced from 19% to 16% and the reduced VAT rate from 7% to 5% for the period from 1 July 2020 to 31 December 2020.

The move is designed to strengthen purchasing power and in particular benefit citizens with lower incomes who spend a larger part of their income.

There is currently no draft bill, but the relevant legislation is expected to be passed prior to the planned start date.

Given the tight timescales involved it is essential for businesses to make plans now to ensure they can effect the necessary changes to billing and ERP systems for the new VAT rates with effect from 1 July 2020.

In an earlier move Germany had also decided to apply the reduced VAT rate (reduced from the standard rate) to supplies of food in restaurants and bars from 1 July 2020. The application of the reduced VAT to these supplies is initially planned for one year until 30 June 2021. However, it should be noted that the reduced VAT rate will only apply to food and not cover the supply of beverages.

Businesses affected by these changes should bear in mind that they are temporary and also plan for their return to the higher rates at the relevant dates.

What businesses need to be doing now

Businesses should now take the following actions:

- Identify all products and services which are subject to German VAT.
- Plan for the implementation of the changes needed to accounting, billing and check-out systems to enable the charging and reporting of the new 16% standard VAT rate and 5% reduced VAT with effect rate from 1 July 2020.
- Retailers that advertise gross prices will need to change the standard rated VAT fraction from 19/119 to 16/116 and the reduced rate VAT fraction from 7/107 to 5/105.
- Businesses that issue tax invoices should ensure the invoice format is updated to reflect the new rates from 1 July 2020.
- Restaurants and bars should ensure the new reduced rate is only applied to food and not beverages.
- Businesses should also remember to plan for the return to current VAT rates from 1 January 2021.