

SMC NEWSLETTER

TEMPORARY REDUCTION OF THE VAT RATE Economic stimulus and crisis management package

Dear Sir or Madam,

On 3rd June the coalition committee approved a reduction in tax rates from 19% to 16% and from 7% to 5% respectively, which will have an impact on business sectors and processes.

With regard to the planned reduction of VAT rates from currently 19% to 16% (or 7% to 5%) in the period from 1 July 2020 to 31 December 2020 as part of the "economic stimulus package", the tax authorities have not yet issued any official publications. However, we expect that the necessary change in the law will be passed quite quickly and would like to inform you in advance and in brief about the following changes that are relevant to you:

- The changed tax rates are effective from the entry into force of the above-mentioned change in law for all
 - Deliveries
 - Other services
 - Intra-Community acquisitions
 - services and deliveries subject to reverse chargeto be applied. The decisive factor for the application of the tax rate is the time at which the respective transaction is carried out, not the time of invoicing or payment.
- The reduced tax rate also applies to import VAT and is applicable to imports made after the entry into force of the amendment.
- If partial services are rendered instead of a total service, the tax rate applicable at the time the individual partial service is rendered is applied.
- Work services and work deliveries are subject to the reduced tax rate in total if they are carried out after the entry into force of the amendment to the law, unless the work deliveries and work services can economically be separated and were provided in partial services. In this case, the tax rate to be applied is that which is applicable to the execution of the respective partial performance.
- Ongoing services which are provided after the change in the law has come into force will be subject to the changed tax rate. Contracts for ongoing services that are to be regarded as invoices must be adjusted accordingly.
- Invoices for ongoing services for e.g. rental and leasing must be adjusted to the new tax rates and changed accordingly.

In our opinion, the following processes and system settings in particular should be analysed from a VAT perspective:

- Effects of the tax rate change on VAT-relevant software and ERP configuration, e.g. tax codes, tax automation, master data management, invoice layout
- Differentiation between old (19%/7%) and temporarily reduced (16%/5%) tax rate
- Staff training
- Effects on the VAT tax reporting system

If any administrative instructions for introduction or implementation are announced, we will of course inform you accordingly.

If you have any questions regarding the necessary conversion of your accounting and invoicing, please do not hesitate to contact us.

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