

VALUE-ADDED TAX (VAT) IN GERMANY



Inhalt

How does value-added tax work?

2

Who is liable for value-added tax?

3

Rate of value-added tax

3

Calculation of value-added tax

4

Difference between value-added tax
and sales tax?

5

The value-added tax (VAT) is a tax levied on the refinement of a product or the provision of a service. It is one of the most important sources of revenue for the government.

In the case of VAT, the business acts as a "helper" for the tax office, because, ultimately, the VAT is paid by the end consumers. The company adds the tax to the actual price (net price) on behalf of the tax office and then remits it to the tax authorities. This means that VAT never belongs to the business but is merely a passing entry in the company's accounting.

When conducting activities in other European countries, the VAT rates of those countries must be considered because VAT is paid by the recipient company in the country where it is based (known as the reverse charge mechanism). This also affects invoicing. The VAT identification number and the note "Tax paid by recipient" must be indicated on the invoices.

How does value-added tax work?

The easiest way to explain the principle of value-added tax (VAT) is through an example:

A dealer of office furniture sells a table for 100 euros plus 19% VAT. So, the dealer receives 119 euros from the buyer, and of that, 19 euros is withheld for the tax authorities. The dealer must report these 19 euros in their VAT return and then transfer the amount to the tax office.

Who is liable for value-added tax?

In principle, all businesses are liable for value-added tax (VAT). This means they must list the VAT on their respective invoices and remit it to the tax authorities. However, there are some exceptions to this rule, such as the small business regulation. According to this rule, businesses with a small size do not have to charge or remit VAT. This simplifies the tax process both for these businesses and for the tax authorities. Despite this exemption, small businesses are still required to submit a tax return and pay VAT.

The current VAT system involves three parties. The state, through the tax office, is the entity that receives and benefits from the VAT. Businesses are responsible for collecting the tax on behalf of the state and remitting it. The end consumers are the ones who ultimately pay the VAT. However, it would be impractical if every individual had to report each purchase to the tax office and pay the corresponding VAT. Therefore, the state has tasked businesses with this responsibility. They must collect the tax and hand it over to the tax authorities.

Rate of value-added tax

The standard value-added tax (VAT) rate in Germany is 19%. However, there are numerous exceptions regarding the applicable tax rate. For example, trips using public transportation for distances up to 50 km are only subject to a 7% VAT. Once the trip exceeds 50 km, the standard VAT rate of 19% applies. Similar exceptions are introduced in other industries as well, so it is important to always check and consider the current VAT rate applicable.

Calculation of value-added tax

For businesses, it's important to know which value-added tax (VAT) applies to their products. This allows them to calculate the resulting gross price from the targeted net price. The gross price is the net price plus VAT. But VAT is also an important factor for end consumers. It increases the price of the product or service they wish to purchase. Therefore, all parties involved need to know the VAT rate precisely in order to calculate VAT correctly.

The current VAT rates in Germany are 19% and 7%. 19% is the standard rate, which applies to most products and services. However, some goods and services are exempt from this standard rate and are taxed at a reduced rate of 7%. These include, among others: most food items, books and magazines, dental services, and overnight stays.

It can sometimes be complicated to determine which products and services should be taxed at which rate. Therefore, it is often beneficial for many businesses to seek the services of a tax consultant.



Difference between value-added tax and sales tax?

In Germany, the terms Mehrwertsteuer (value-added tax, VAT) and Umsatzsteuer (sales tax) are often used interchangeably. However, without reference to input tax and the possibility for businesses to have this refunded by the tax authorities, this usage can be misleading. To clarify, it helps to be aware of the different perspectives each term represents. Umsatzsteuer is the broader term, while Mehrwertsteuer reflects the perspective of the consumer, and Vorsteuer represents the perspective of businesses.

sales tax	VAT
official term	commonly accepted term
companies pay	end consumers pay
amount corresponds to value of VAT	amount corresponds to value of sales tax
is derived from the generated revenues	is derived from the value added
umbrella term for this type of tax	type of tax from the consumer's perspective
regardless of the actual profit	regardless of the actual profit
transit item	actual revenue of the state



CONTACT

HEUSER - RECHT UND STEUERN Am Kiekenbusch 15 • 47269 Duisburg

Tel.: +49 203 479992-0

Fax: +49 203 479992-11

EDITORIAL

HEUSER - RECHT UND STEUERN Magazine

(Person responsible under German press law): Achim Heuser

IMPRINT

PUBLISHER

Achim Heuser

Am Kiekenbusch 15 • 47269 Duisburg GERMANY

(Person responsible for content under § 6 MDStV)

VAT ID No.: DE161602762

LAYOUT & DESIGN

HEUSER Media UG

Image Sources: canva.com

The contents of this magazine have been created with the utmost care. However, we cannot guarantee the accuracy, completeness, or timeliness of the information. The content and works on these pages are subject to German copyright law. Contributions from third parties are marked as such. Reproduction, editing, distribution, or any form of utilization beyond the scope of copyright law requires the prior written consent of the respective author or creator.

