

Value-added Tax (VAT)

Value-added Tax in Germany

Companies must add value-added tax (VAT) to their prices. Thus, VAT is only paid by the end user of a product or service. Companies transfer the VAT received to the tax authorities on a monthly, quarterly, or annual basis. The frequency generally depends on the level of company turnover.

The normal VAT rate of 19 percent is just below the European average. A reduced rate of 7 percent applies to certain consumer goods and everyday services (such as food, newspapers, local public transport, and hotel stays). Some services (such as bank and health services or community work) are completely VAT exempt.

Value-added tax which is collected has to be paid to the responsible tax office on a monthly, quarterly or annual basis. The exact time frame depends on the company's level of turnover.

The official German term for VAT is *Umsatzsteuer (USt)*, but it was originally called *Mehrwertsteuer (MwSt)* and is often still referred to by this name.

Input VAT (Vorsteuerabzug)

On purchasing goods or making use of services, companies regularly have to pay value-added tax themselves. The taxes collected and paid can be balanced out in the input VAT deduction (*Vorsteuerabzug*). For companies, value-added tax represents a transitory item only.



Example: How Input VAT is Balanced

A car dealer has sold ten vehicles in one month, each at a gross price of EUR 17,850 (net cost EUR 15,000). For each sale, the dealer receives EUR 2,850 in VAT from the customer. At the end of the month, the dealer therefore owes the tax authorities EUR 28,500.

However, in the same period, the car dealer also bought ten cars from the car manufacturer. The net cost of each car was EUR 10,000. The car manufacturer added 19 percent VAT to this amount. The dealer therefore transferred EUR 119,000 (including EUR 19,000 in VAT) to the manufacturer.

Thus, the car dealer has received EUR 28,500 in VAT and paid out EUR 19,000 in VAT. These totals are communicated to the tax office (*Finanzamt*), and only the difference of EUR 9,500 must be transferred by the car dealer to the tax authorities.

Trade Within the European Single Market

Trade within the EU is free from customs and other restrictions. However, goods traded between different EU member states are subject to so-called acquisition tax (*Erwerbssteuer*).

VALUE-ADDED TAX (VAT)

Acquisition tax is payable by the recipient of the goods. If an EU company exports goods to a company located in another EU member state, the delivering company therefore neither has to pay customs or charge VAT. The company in the other EU member state receiving the goods has accordingly to pay acquisition tax.

Acquisition tax rates correspond with the VAT tax rates of the country where the recipient of the goods is located. Companies can however reclaim acquisition tax like regular VAT.

Trade with Non-EU Member States

Goods imported from non-EU states are liable to import VAT called import turnover tax (*Einfuhrumsatzsteuer*). The import turnover tax rate equals the VAT rates of 19 percent or 7 percent and is paid to the customs authority.

However, the import turnover tax on goods imported from non-EU states can be deducted as input tax (*Vorsteuer*). As a prerequisite, the company must have the necessary import documents with customs proof of payment (import declaration).

Exports are exempt from VAT.

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