

Incentives For More Trade

The German VAT law changed as of 2010 regarding the taxation of services rendered to companies outside Germany. This amendment has benefits for both the German entrepreneur and the Israeli company as recipient of the German services.

By Michel Gerics

Good news for the Israeli-German trade: German VAT (Value Added Tax) law has been changed partially – benefitting both German companies and their international business partners. Services rendered by a German entrepreneur to companies outside Germany are usually not subject to German VAT. Following this basic rule, in the invoices for the supply of services rendered to Israeli companies no German VAT (normal tax rate 19%) is generally shown. Therefore, the Israeli companies do not need to apply for a refund from the German tax authorities anymore.

Benefits for both

Even for the German entrepreneur as invoicing party, no negative effects arise regarding the deduction of German input VAT by the supply of services which are not subject to German VAT. According to German VAT law, the recoverability of German input VAT is not restricted, as long as the aforementioned services would be VAT-taxable if the services were rendered in Germany.

To sum up, this amendment of the German VAT law generally has benefits for both the German entrepreneur and the Israeli company as recipient of the German services.

However, should an Israeli company have paid German input VAT, it can generally claim a refund of the paid German input VAT from the German tax authorities. In case the Israeli company has not made any sales subject to German VAT, the refund of German input VAT must be applied for at the Federal German tax authorities ("Bundeszentralamt für Steuern"). The Israeli company should use the standard form for the refund – and meet some other conditions to get the input VAT back:

- The applicant must be an entrepreneur who does not have a domicile, a corporate seat or a branch in Germany or the European Union.
- He has to select the refund period, which must comprise at least three consecutive months in one calendar year. An exception is made for the remaining period of a calendar year. In this case, the refund period can consist

of the month of December alone.

- The application for refund must be received by the tax authorities at the latest by the 30th of June of the following year after that for which the claim is made. The deadline is final and cannot be extended.
- The applicant cannot apply for a refund unless the refund amounts to at least 1,000 Euros. If the application is made for a full calendar year or for the last period of a calendar year, the refund must be at least 500 Euros.
- The application must be accompanied by the original of a certificate about the registration as taxpayer issued by the country in which

the entrepreneur is established. The certificate must be issued in the official language of a Member State of the European Union.

- The refund application must be accompanied by the originals of the invoices and signed personally by the entrepreneur.

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