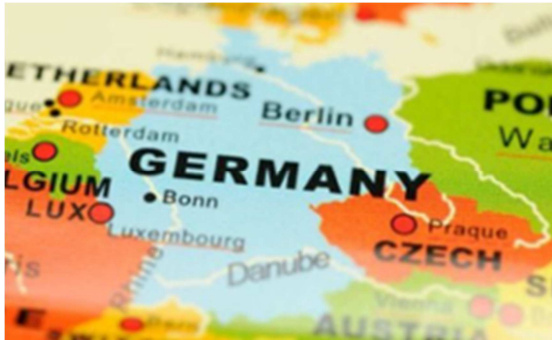


Tax Warrior Chronicles

Selling or Expanding to Europe? Pay Attention to German Sales Tax Rules

Posted on Mon, Jan 12, 2015



As US companies seek to increase their business, it is only natural they look to Europe for additional customers. But, all markets in Europe are not the same.

[The Tax Warriors](#)[®] at [Drucker & Scaccetti](#) understand the complexities of international taxation. Through our independent membership in [Geneva Group International](#), a leading international accounting, consulting and law firm alliance, we engage clients all over the world, including US businesses looking to expand to Europe and beyond.

One of our fellow members, [Oliver Biernat](#), managing partner of [Benefitax](#), a Germany-based tax accounting firm, has written this post as a guide for US businesses looking to expand to Germany. Here, Oliver discusses a specific tax and how it works in Germany.

Fast and easy-to-handle supply of goods to a customer is crucial for a long-lasting business relationship between vendors and customers. Especially if you sell large quantities of goods, having a warehouse at the premises of the customer can be a solution to make sure that the customer has the supplies he needs available at all times. The goods remain in the possession of the supplier if they remain in storage. Such a warehouse is called “consignment storage.”

Consignment storage does not mean the supplier has a permanent establishment in Germany; thus any profits made from the delivery of goods to the consignment storage are not taxable in Germany.

All sales, however, are subject to the German Value Added Tax (VAT). VAT is a sales tax that is paid by all end customers. The normal VAT rate is 19%. Vendors must add VAT on their sales, except where the sales are exempt from VAT. The customer pays the gross amount (including VAT) to the vendor, who in turn has to declare and pay the VAT to the German tax authorities.

The vendor may deduct VAT he paid on purchases in Germany from the VAT on sales. When the goods are imported to Germany the supplier must pay 19% import VAT on the value of the imported goods. The import VAT is treated as VAT on purchases and can be deducted from the VAT payable.

As a result, the VAT amount payable can be calculated as follows:

- VAT received on sales, minus
- VAT paid on purchases, minus
- Import VAT, equals
- VAT amount to be paid to the tax authorities

Only when the customer takes goods out of the storage, which is the moment of transferring ownership, is the sale of the goods generated. As the goods are stored within the German borders, it is a domestic sale subject to German VAT.

The invoicing can be done either by the supplier issuing an invoice to the customers regarding the sale or by the customer in the form of a self-billing invoice. Self-billing invoice means that a customer will write a credit note to their vendor; the buyer issues an invoice to himself. Such a credit note is treated like a normal outgoing invoice by the vendor, the VAT disclosed on the credit note is payable by the supplier. Issuing self-billing invoices is often done when operating consignment storages as the supplier may not have its own staff present at the consignment storage to record any movements in stock.

German VAT on purchases of goods or services necessary to operate the consignment warehouse (e.g., travel expenses of one's own staff to the customer or consultancy expenses), are deductible from the VAT payable.

VAT, import VAT and VAT on purchases must be declared to the tax office regularly depending on the volume of the sales. Normally, declarations must be handed in monthly in

electronic form. To submit the VAT declarations, the vendor must apply for a German tax ID number.

Tip #1: Get the tax number before any sales are generated because input VAT or import VAT is deductible even before sales commence. Especially in cases of large amounts of paid import VAT, the refund can be important to ensure liquidity.

Tip #2: Tax forms are only available in German. All communication with the tax authorities must be in German as the only official language and most staff in German tax offices do not speak fluent English. It is therefore recommended to entrust a German tax consultant with preparing the VAT declarations, submitting them to the tax office and handling all communication with the tax office.

Hopefully, this post has cleared up one of the many tax issues that exist in deciding how to (or whether to) expand your business overseas. Complexities abound and this endeavour should not be entered into lightly. Nor should it be entered into without the guidance from an expert on foreign business taxes.

If you are considering expanding your business outside of the US, consider all the tax ramifications. You can start by contacting us for a consultation. On matters concerning entry into the German market, we will consult with Benefitax. Simply click the "Ask A Tax Warrior" button below, and one of our knowledgeable advisors will be in touch with you. We are always prepared to help you with this or any other tax-related matter.

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