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SHORT NEWS

Coronavirus Tax Relief Act Postponement of the first-time application of section 2b of the German VAT Act (UStG) and reduction of VAT for commercial canteen businesses

Just a few days after the German Parliament, the Bundestag, approved the Act on the Implementation of Tax Relief Measures to Overcome the Coronavirus Crisis (**Coronavirus Tax Relief Act** for short), also the Federal Council, the Bundesrat, approved it last Friday (5 June 2020). For the public sector, this means in particular that the extension of the deadline for the application of section 2b of the German Tax Act (UStG), which has been discussed for some time, is now official.

Extension of the transitional period to section 2b UStG

In our Short News dated 2 April 2020, we explained the discussed postponement of the application of section 2b UStG. In view of the difficulties which local authorities had already reported in converting their administrations to the new regulation on the entrepreneur status of public authorities, on top of that they now have to deal with the COVID-19 pandemic which ties up further human resources.

The previous transitional provision to section 2b UStG in section 27 (22) UStG is therefore now extended in time by section 27 (22) a UStG as amended by the Coronavirus Tax Relief Act. This means that a legal entity under public law that has submitted an effective so-called option declaration (*Optionserklärung*) to the tax office may apply section 2 (3) UStG (former version) no longer only for sales until 31 December 2020 but beyond that for sales until 31 December 2022.

It is now certain that legal entities under public law will have more time to convert to section 2b UStG. However, the time gained should not be allowed to pass by unused, but should

be seen as an opportunity to continue already initiated analysis processes with less time pressure and to finally tackle processes that have not yet been initiated and complete them in a reasonable time. A second extension of the deadline or a special leniency by the tax authorities for subsequent corrections of untaxed issues is not to be expected, considering such a long transitional period.

Reduction of the VAT rate for restaurant and catering services

Restaurant and catering services provided between 1 July 2020 and 30 June 2021 - which are generally subject to the standard tax rate of 19 percent - are now, for a limited period, subject to the reduced tax rate of 7 percent. Drinks are excluded from the tax reduction.

The tax reduction is intended to cushion the economic impact of the Covid-19 pandemic on the catering and food industry. Other sectors, such as catering companies, food retailers, bakeries and butchers, should also benefit, insofar as they would previously have generated turnover at the normal VAT rate by selling ready-to-eat meals. The regulation thus has an effect on restaurant and catering services, regardless of who provides them. It therefore also covers restaurant and catering services provided by legal entities under public law which they provide in the course of their commercial activities.

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