



German
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TECHNICAL NOTE
ALL

VAT thresholds for businesses – German and international experience

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Motivation

- » VAT as an important source of **government revenue**, accounting for approximately one-fifth of total tax revenues in EU countries (in Kosovo: 48.8% of tax revenues in 2022)
- » However: essential to carefully design VAT system to ensure **efficiency of VAT collection**
- » Important in this regard: **how high should the threshold be?**
 - Too high – loss of potential tax revenue
 - Too low – impediment to growth of companies because of bureaucracy burden (as well on tax administration side)
- » Other important design features of VAT systems next to the threshold:
 - Base of VAT obligations
 - Accounting procedures incl. simplified accounting

VAT threshold in Germany - overview

Criteria	VAT register	VAT base
Sole proprietor Turnover < 22.000 EUR p.a.	Voluntary	--
Sole proprietor Turnover > 22.000 EUR p.a., < 600.000 EUR p.a. profit < 60.000 EUR p.a.	Mandatory	Invoices paid Optional: accounts receivable
Sole proprietor Turnover > 22.000 EUR p.a., < 600.000 EUR p.a. profit > 60.000 EUR p.a.	Mandatory	Invoices paid Optional: accounts receivable
Sole proprietor Turnover > 600.000 EUR p.a.	Mandatory	Accounts receivable (regular)
Liberal profession (e.g. lawyer) Turnover < 22.000 EUR p.a.	Voluntary	--
Liberal profession (e.g. lawyer) Turnover > 22.000 EUR p.a.	Mandatory	Invoices paid
Corporation (e.g. GmbH) Turnover < 22.000 EUR p.a.	Voluntary	--
Corporation (e.g. GmbH) Turnover > 22.000 EUR p.a. < 600.000 EUR p.a.	Mandatory	Invoices paid optional: accounts receivable
Corporation (e.g. GmbH) Turnover > 600.000 EUR p.a.	Mandatory	Accounts receivable (regular)

Source: own representation

Annual turnover < 22.000 EUR

- » VAT threshold in Germany: **22.000 Euros**
- » As long as the annual turnover of a legal entity, private entrepreneur or liberal professional (hereinafter “a company”) does not exceed 22.000 EUR, this company is not obliged to invoice VAT
- » Threshold applies **to all legal forms:**
 - Even legal entities in form of a joint-stock company (AG) or an LLC (GmbH) are not obliged to invoice VAT as long as the threshold of 22.000 EUR has not been reached

Voluntary registration

- » **Possibility of voluntary VAT registration:** any company can opt for invoicing VAT and register as a VAT payer in case an annual turnover of 22.000 EUR has not been reached yet or even no turnover was so far generated at all
- » Rationale: Voluntary VAT registration might be reasonable, since only registered VAT payers are entitled to accumulate VAT on incoming invoices as **VAT credit**
- » VAT credit
 - can either be applied for reimbursement, or
 - can be brought forward to reduce future VAT obligations
- » In case a company opts for VAT registration, decision is **binding for a minimum of 5 years**
- » Minimum term has been implemented to avoid companies opting for VAT registration in one year and applying for significant VAT reimbursements and then canceling their VAT registration in the subsequent year to avoid VAT obligations

Annual turnover > 22.000 EUR

- » As soon as the annual turnover of a company has exceeded 22.000 EUR, this company will have to invoice VAT starting in the subsequent year
- » At the year of establishment of the company, the threshold is **reduced**:
 - Formula: $1/12 * \text{number of months until the end of the year} * 22.000 \text{ EUR}$
 - The month of registration always counts as a full month

Example calculation:

The VAT threshold for a company that is established on July 20th would be calculated as follows:

$$\text{VAT threshold: } 1/12 * 6 * 22.000 \text{ EUR} = 11.000 \text{ EUR}$$

Marginal cases

Reaching the threshold:

- » In case the annual turnover of the previous year was below 22.000 EUR, but the annual turnover of current year is **expected to reach 50.000 EUR**:
 - VAT has to be invoiced already in the current year
- » In case the annual turnover of the previous year was below 22.000 EUR and the annual turnover **was not expected, but nevertheless reached 50.000 EUR**:
 - No impact for the current year, VAT to be invoiced starting with subsequent year

Falling below the threshold:

- » In case the annual turnover **decreases below 22.000 EUR**, companies can cancel their VAT registration starting in the subsequent year
 - However, this only applies to companies who did not voluntarily opt for VAT registration in the last five years
 - VAT credit on fixed assets purchased over the last five years needs to be corrected proportionally in case the initial VAT credit exceeded 1.000 EUR

Overview VAT thresholds in Europe

Country	VAT registration threshold	GDP per capita 2021*
Austria	€35000	€44970
Belgium	€25000	€43680
Bulgaria	Nil	€9850
Croatia	HRK 300,000	€14710
Cyprus	€15600	€26030
Czech Republic	CZK 1 million	€22270
Denmark	DKK 50,000	€57520
Estonia	€40000	€23060
Finland	€15000	€45370
France	Goods €85,800; Services €34,400	€36660
Germany	€22000	€43290
Greece	€10000	€17140
Hungary	HUF 12 million	€15870
Ireland	Goods €75,000; Services €37,500	€84940
Italy	€65000	€30040
Kosovo	€30000	5.130 USD**
Latvia	€40000	€17450
Lithuania	€55000	€19760
Luxembourg	€35000	€114370
Malta	€35,000, €24,000 or €14,000	€28220
Netherlands	€20000	€48840
Norway (non-EU)	NOK 50,000	€75360
Poland	PLN 200,000	€15050
Portugal	€12500	€20530
Romania	ROL 330,000	€12510
Slovakia	€49790	€17820
Slovenia	€50000	€24680
Spain	Nil	€25460
Sweden	€30000	€51630
Switzerland	CHF 100,000	€78910
United Kingdom	£85000	€37830
* Source: Eurostat ** IMF		

Source: own representation, based on Eurostat and IMF 2021

VAT base

- » Next to the VAT threshold, the VAT base is an essential design feature of a VAT system
- » In Germany: all companies with an annual turnover < 600.000 EUR can apply for base of VAT obligation with **invoices paid**
- » This applies for both legal entities and for partnerships (KG, OHG) even though they are obliged to do balance sheet accounting
- » Liberal professionals can keep invoices paid as the base of VAT obligations even in case their annual turnover exceeds 600.000 EUR, provided that they do not voluntarily do balance sheet accounting
- » As soon as an annual turnover of 600.000 EUR has been reached:
 - Base of VAT obligation is **accounts receivable**, i.e. the date of invoice issuing
 - Exception: Liberal professionals who do not do balance sheet accounting

Invoices paid vs. accounts receivable

- » Distinction between two VAT bases:
 - **Accounts receivable:** as soon as an invoice has been issued - which implies an entry in the balance of a company – the corresponding VAT obligation becomes due by the end of a given VAT reporting month, independently of whether the invoice has been paid or not
 - **Invoices paid:** VAT outlined in an outgoing invoice becomes due only at the moment when the invoice has been paid

- » Pros and Cons invoices paid vs. accounts receivable:
 - Invoices paid as base of VAT obligation does not impede upon the liquidity of a company
 - Invoices paid as base of VAT obligation ensures money inflow into the VAT system
 - Invoices paid as base of accounting entry is commonly used in simplified accounting and as well as the corresponding base for the cash-flow-surplus method for corporate or personal income taxation
 - In case invoices paid and accounts receivable are used within one system: **potential for VAT fraud** (solution: VAT-reimbursement only on VAT credit occurred where invoice was paid)

Discussion

- » Implementation of VAT obligation on invoices paid as alternative to accounts receivable **up to a certain to be determined threshold** (threshold in Germany: 600.000 EUR annual turnover)
- » In case invoices paid is being implemented: limitation of VAT reimbursement only for VAT on invoices paid in order to avoid potential VAT fraud (international example: Ukrainian system)

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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