

Proper Invoicing Procedure

Checking details – Ensuring deduction of input tax



Who is required to issue invoices?

Contractors who provide goods or services in their home country against payment as part of their business are required by tax law to issue an invoice if:

- this is a taxable work supply or other service in connection with a plot of land (even if provided to private individuals), or
- the turnover is for another contractor acting for their company or a legal person who is not a contractor.

From the perspective of tax law and in all other cases, issuing an invoice is voluntary for turnover generated in the home country. It is possible that special regulations are in place for foreign transactions.

Required content of invoices

A proper invoice must include the following information:

- The name and address of the supplier (invoicing party) **(1)** and the beneficiary (invoice recipient) **(2)**,
- a sequential invoice number, which is used only once by the invoicing party as a form of unique identification for the invoice **(3)**,
- the individual tax number or VAT identification number **(4)**,
- the date of issue **(5)**,
- the date of delivery or performance or, in the case of an advance payment or installment, the date of collection for the payment or partial fee so long as this date is fixed and does not coincide with the issue date of the invoice; if the performance period has not yet been agreed, this must be clearly indicated **(6)**,
- the quantity and type (commercial name) of supplied goods or the scope and nature of other services **(7)**,
- the respective net amounts (payments) broken down by individual tax rates and tax exemptions as well as any agreed reductions of the payment (discounts) agreed in advance if it is not already reflected in the payment **(8)**,
- each of the applicable tax rates and the amount of tax applicable to each payment **(9)**,

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- a corresponding note in the case of any tax exemption, whereby an indication in layman's terms is sufficient (e.g. "export"; intra-Community supply),
- in the case of invoices for construction work, repairs, service, and other similar work in connection with a plot of land or a building, a note regarding the obligation of the beneficiary to retain the documentation for two years. (A requirement is that the beneficiary is not a contractor or a contractor who is using the service for non-commercial purposes.)
- If the beneficiary settles the invoice for services with input tax credit (e.g. commissions), the accounting document must include the indication "credit." (Note: Tax credit should not be mistaken with commercial credit, for instance due to short deliveries, defects, and so on; commercial credit may still be referred to in this way because it is not based on the exchange of own services).
- The following additional wording should be included on invoices in special cases:
 - In the case of tax liability of the beneficiary: "tax liability of the beneficiary." (e.g. construction services according to Section 13b UStG)
 - In the case of travel services: "special scheme for travel agents."
 - In the case of any other margin schemes: "secondhand goods/special scheme," "works of art/special scheme," or "antiques/special scheme."

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Example

Contractor Name – Contracting Street 1 – 54321 Contracting City (1)					
Invoice					
Client Name, Client Street 2, 12345 Client City (2)					
Invoice No.: 1-2020 (3)		VAT ID No.: DE 123456789 (4)		Invoice date: 8 July 2020 (5)	
Date of delivery: 6 July 2020 (6)					
Item	Description	Quantity	Unit price (€)	Amount (€)	Tax
1	Input tax reference book	3	55.00	165.00	E (7) (
2	Income tax reference book	1	49.00	49.00	E 7)
3	Photocopy paper 500 sheets	5	4.50	22.50	V
	Subtotal			236.50	
Tax		%	Total amount (€)	Tax (€)	(8/9)
E	Supplies subject to a tax rate of	5	214.00	10.70	
V	Supplies subject to a tax rate of	16	22.50	3.60	
	Totals		236.50	14.30	
	Total invoice amount			250.80	

It is not compulsory to indicate the tax rate code (here: E or V).

For final invoices, for example in the construction industry an additional indication must be provided for any payments received to date and for the corresponding tax amounts, all of which are to be deducted from the total amount due for services provided.

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This can be done as follows:

... as above to the subtotal ... (assuming a consistent tax rate of 16 %)				
	Subtotal			60,000.00
	Minus received installments:	Gross (€)	VAT (€)	
6 July 2020	Partial invoice 1001	11,600.00	1,600.00	10,000.00
3 August 2020	Partial invoice 1015	17,400.00	2,400.00	15,000.00
	Subtotal	29,000.00	4,000.00	25,000.00
	Remaining fee			35,000.00
	VAT for remaining fee	16 %		5,600.00
	Amount payable			40,600.00

Deadlines for issuing an invoice

- In the case of work supply or other services in connection with a plot of land, irrespective of the nature of the client, invoices must be issued no later than six months after the service has been performed.
- If a service is carried out by another contractor, the invoice must always be issued no later than six months after the service has been performed.
- For the intra-Community supply of goods or other services performed in another EU member state where the recipient of the service is liable to pay tax, invoices must be issued no later than on day 15 of the month following the month in which the service was performed.

Exception – invoices for small amounts

Invoices with a total amount of fewer than 250 euros (including VAT) are required to contain only the following information:

- the full name and full address of the contractor who performed the service (invoicing party),
- the date of issue,
- the quantity and type of goods supplied; or the scope and nature of other services,
- the gross amount together with the applicable tax rate or, in the case of a tax exemption, an indication that a tax exemption applies to the supply or any other service.

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Special notes

- If the necessary content is not presented in an invoice, including the date of delivery or performance in the case of a partial invoice, the conditions are not met for the deduction of input tax. Therefore, a corrected invoice must be requested.
- Small-businesses defined in Section 19 of the German VAT Act (UStG) are not allowed to include VAT in their invoices. Moreover, they have to point out their characteristic as a small-business in the invoice.
- If an invoice contains a higher amount of tax than is due or VAT without justification, this must nevertheless be paid to the tax office.
- Additional rules apply in the case of foreign dealings, travel services, margin schemes, and so on. You should always consult your tax adviser in such matters.
- If a contractor based in Germany provides goods or services in another member state of the EU and the foreign contracting party or client is liable to pay VAT for the generated turnover, German accounting rules are still applicable except in the case of credit notes.

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