Primary Documentation in Germany

Alexander Knuth, Ilona Kaiser

German Advisory Group Ukraine

Berlin/Kyiv, June 2011

© German Advisory Group

Structure

1. Motivation
2. Role of primary documentation in Germany
3. Principles of primary documentation in Germany
4. Conclusions
5. Appendix
6. Contact

© German Advisory Group

1. Motivation

- Administrative burden of tax regulation for companies in Ukraine is very high by international standards
- One of the key reasons: Excessive, complex and out-dated requirements regarding primary documentation
- Thus: Reform of requirements on primary documentation as a key measure to reduce the administrative burden
- Situation in Germany (topic of this policy briefing):
  - Modern and efficient system regarding primary documents
  - However: This is the result of a reform process over many years
  - Besides: Fresh experience in transforming an out-dated into a modern system in a short span of time in East Germany
  - Thus: German experience of high relevance for Ukraine

© German Advisory Group

2. Role of primary documentation in Germany

The relevance of primary documentation and the focus of tax inspections have changed during the last decades in Germany. That is particularly the case for the taxation system and tax authorities in East Germany.

	Past	Present
Role of tax inspections	Checks of accounting process	Checks of plausibility of accounting results
Focus of tax inspections regarding primary documentation	Focus on formal details	Focus on content
Typical task of a tax inspector	Visits to companies and checks of documents	Cross-checks of company‘s reports with industry key data
Typical question of a tax inspector	„Are all primary accounting documents available?“	„Is the ratio between turnover and profit reasonable in comparison with similar companies?“

© German Advisory Group

3. Principles of primary documentation in Germany

Form and content of primary documentation in Germany is under the responsibility of the entrepreneur/company; it must meet the following requirements:

- **Self-explanatory:** A third competent person should be able to easily get an overview about all transactions and the situation of the company
- **Self-evident:** The history and current status of each transaction is easy to understand (business contact -> order -> invoice -> settlement etc.)
- **Fraud resistant:** Any changes in documents must be transparent
- **Evidence for taxation:**
Contains all information necessary to calculate tax liabilities

© German Advisory Group

3. Principles of primary documentation in Germany

- All types of natural and legal persons, who have income from entrepreneurial activity / self-employment, must keep primary accounting documents
  - Companies
  - Individual entrepreneurs (incl. freelancers), part-time entrepreneurs
  - Liberal professionals: advocate, notary, medical practitioner, artist etc.

- The more complex the company, the more complex is primary documentation
  But: The company decides what is necessary!

  <u>Example:</u> Individual entrepreneur with 50 invoices per years needs no register at all; Tax inspector will not ask for any register, because plausibility of tax declaration can easily be checked without it
  Big enterprise with 5.000 invoices per year needs to have some kind of invoice register, because tax inspector cannot check all the 5.000 invoices manually one by one

© German Advisory Group

3. Principles of primary documentation in Germany

- No mandatory forms for primary accounting documents
- Mandatory details only for those primary accounting documents who are exposed to fraud
  - Invoice (for VAT reasons)
  - Inventory, warehouse inflows/outflows (effect on reported profit)
  - Travel expenses, company car expenses
  - Business dinners/presents etc.

- Notice: For all other kind of primary documents, there are no formal requirements!

© German Advisory Group

3. Principles of primary documentation in Germany

- Record keeping obligations
  - 10 years for invoices, receipts, journals, balance sheets, accounting records
  - 6 years for all business letters
  - 6 years for all other documents that provide further evidence of tax declaration
- Record keeping periods are the same for all types of entrepreneurs and companies.

© German Advisory Group

3. Principles of primary documentation in Germany

Example: Mandatory details for invoice

- Name and address of entrepreneur resp. company
- Tax number of entrepreneur resp. company (each business entity has a unique tax identification number)
- Name and address of receiver
- Invoice date
- Invoice number (all invoices must be numbered serially and unique)
- Description of products and/or services delivered
- Quantity of products and/or services delivered
- Delivery date
- Net invoice amount
- VAT rate, VAT amount, Gross invoice amount (net + VAT)

Remarks:

- **No signature and no stamp** for invoices in Germany. The invoice number in combination with the *tax identification number* serves as unique identifier for tax inspections
- Layout of invoice is not mandatory
- If invoice contains all the requested information, **no** other primary accounting documents necessary: no waybill, no order-sheet, no VAT-special-document (“nalogavaya nakladnaya”), no act (“akt”) etc.

© German Advisory Group

4. Conclusions

- Main features of the German system of primary documentation:
  - Low administrative burden and low accounting costs for companies
  - Low costs for state tax authorities (for tax inspections)
  - No facilitation of tax evasion
  - Focus on content: “substance over form”
    (instead of “form over substance” as it is in Ukraine)
- Experience in Germany
  - Simpler primary documentation contributes to the development of the private sector, especially to the development of SME
  - At the same time: No increase in tax fraud
  - Therefore: Practically no losses in public revenues (fiscal neutrality)
  - Fast and efficient transformation of tax authorities in East Germany
    (from Soviet system to modern system)
- Result: Appropriate system with relevance for Ukraine

© German Advisory Group

5. Appendix

List of German legal norms that contain regulations regarding primary accounting documents

Abbre-viation	**Full German name**	**Translation**
AO	Abgabenordnung	Fiscal Code of Germany
EStG	Einkommenssteuergesetz	Personal Income Tax Code of Germany
HGB	Handelsgesetzbuch	Commercial Code of Germany
UStG	Umsatzsteuergesetz	Value Added Tax Code of Germany

© German Advisory Group

6. Contact

Dr. Alexander Knuth
knuth@berlin-economics.com

German Advisory Group
c/o BE Berlin Economics GmbH
Schillerstr. 59, D-10627 Berlin
Tel: +49 30 / 20 61 34 64 0
Fax: +49 30 / 20 61 34 64 9
E-mail: info@beratergruppe-ukraine.de
www.beratergruppe-ukraine.de



© German Advisory Group