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MoF: Simplification and exemption from VAT for small enterprises

In a most recent circular, the Federal Ministry of Finance (MoF) has commented on the input VAT deduction from services obtained by an entrepreneur prior to the switch from the standard taxation to taxation under the small business regime in Section 19 of the German Value Added Tax Act.

Section 19 Value Added Tax Act - Taxation of small enterprises

Under the taxation privilege for small enterprises according to Section 19 of the German Value Added Tax Act (VAT Act) - so called small business scheme - entrepreneurs are exempt from VAT if the total turnover (as defined in Section 19 paragraph 2) did not exceed EUR 25,000 in the previous calendar year and does not exceed EUR 100,000 in the current calendar year.

The MoF circular

The small business provisions pursuant to Section 19 VAT Act represent a comprehensive simplification for entrepreneurs and tax administration. If an entrepreneur who has switched from tax exemption pursuant to Section 19 (1) or (4) VAT Act to standard taxation has already received services prior to the transition which he intends to use thereafter to carry out transactions entitling to full or partial input VAT deduction, input VAT deduction is nevertheless excluded for periods prior to the switchover according to Section 15 (2) sentence 1 no. 1 or 3 VAT Act. This also applies if the switchover is likely – e.g., because the thresholds in Section 19(1) VAT Act were exceeded – but has not yet taken place. It then also affects the input tax deduction from invoices for prepayment or down payment pursuant to Section 15 (1) sentence 1 no. 1 sentence 3 VAT Act which provides for input VAT deduction insofar as the separately stated tax amount relates to a payment made prior to the execution of these transactions, it is already deductible once the invoice has been received and the payment has been made.

The actual switch to standard taxation constitutes a change in circumstances and an input VAT adjustment in favor of the entrepreneur is only possible for the corresponding input tax amounts under the conditions of Section 15a VAT Act and in compliance with the de minimis rule of Section 44 of the German Value Added Tax Implementation Regulation.

Conversely, the change from standard taxation to VAT regulation for small enterprises also constitutes a change of circumstances, and any input VAT deduction made prior to the change must therefore be corrected at the entrepreneur's expense in accordance with the provisions of Section 15a VAT Act and by observing the de minimis limits specified in Section 44 VAT Implementation Regulation.

Application

The principles set out in the circular are to be applied to all open cases. However, it will not be objected if an entrepreneur relies to Section 15.3, paragraph 2 of the VAT Act Application Ordinance in the version valid until 10 November 2025 by submitting a VAT return by 10 November 2025. In these cases, the input VAT must be taken into account accordingly in a VAT return for a subsequent calendar year, where applicable.

Source:

Federal Ministry of Finance, circular of 10 November 2025.

Keywords

Small and Medium Enterprises (SME), input tax deduction