VAT taxation of small businesses as of the 1st of January 2025

As of the 1st of January 2025, some changes have been made on defining what a small business is. This definition has now been expanded to include entrepreneurs from other EU member states.

Small business classification domestically as of the 1st of January 2025
The basic requirement for a small business to be taxed with VAT is the existence of entrepreneurial activities as defined in § 2 (1) of the Value Added Tax Act.

A small business is based on the following revenue thresholds:

- Total net revenue of ≤ EUR 25,000 generated in the prior calendar year
  (Until 2024: prior year total net revenue of ≤ EUR 22,000)

and

- Total net revenue ≤ EUR 100,000 generated in the current calendar year
  (Until 2024: prior year total net revenue properly valued at ≤ EUR 50,000).

The difference to the prior regulation is that the revenue of the calendar year may not be appropriately estimated and extrapolated for an annual revenue if the entrepreneurial status had not existed for an entire calendar year. Instead the business is classified as being a small business up to a total net revenue of EUR 100,000.

As soon as the net revenue threshold of EUR 100,000 is exceeded, the classification of being a small business drops away, and standard taxation is applied. It is possible to switch from being deemed a small business and being subject to standard taxation during the course of a calendar year. In accordance with the new regulation, all entrepreneurs are at first classified as being small business owners.

In this context an ongoing monitoring of the revenue threshold is required unless the small business taxation exemption is waived.

Opting out of being classified and taxed as a small business is binding for five years and can only be applied for full calendar years. Opting out can be applied not only in the future but also retroactively (until the last day of February in the second calendar year following the period being taxed.)

Legal Consequences
The following legal consequences, familiar from the old regulation, arise for small businesses:

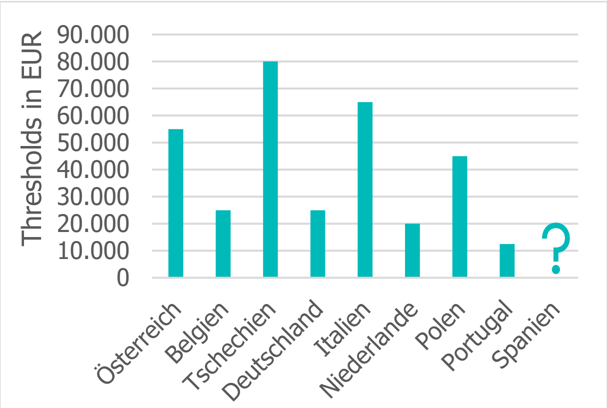
- VAT-free revenue
- No input VAT deductions
- No taxation of EU intra-community acquisitions
- No VAT may be shown on invoices.

Possible to tax small business owners in other EU member states as of 2025
As of 2025, German entrepreneurs can also make use of the small business taxation regulations in other EU member states. For countries outside of the EU, this new regulation is expressly not valid.

In order to be able to be taxed under the classification of a small business, the following requirements must be met:

- To meet the requirements valid for a small business as applied in another EU member state
  - The thresholds are not identical in all EU member states; there is a maximum threshold of EUR 85,000 for prior year revenues.

    Revenue thresholds in selected EU member states:



- Annual revenue ≤ EUR 100,000 generated in an EU community area in the prior calendar year
- Annual revenue ≤ EUR 100,000 generated in an EU community area so far in the current calendar year
  - Electronic transmission to the Federal Central Tax Office when annual revenues exceed EUR 100,000 in an EU community area.
- An entrepreneur is to participate in the value added tax reporting procedure and is to receive a small business identification number (in Germany from the Federal Central Tax Office)
- An entrepreneur is to submit a quarterly report of revenues under the small business identification number to the Federal Central Tax Office.

Each individual EU member state has the right to tax businesses.

In case small business taxation is no longer to be claimed in another EU member state, The Federal Central Tax Office is to be notified electronically.

Small business taxation for foreigner entrepreneurs in Germany
Conversely, entrepreneurs from other EU members states may also take advantage of the small business tax scheme in Germany from 2025 on, providing the following prerequisites are met:

- Fulfilling the German requirements for qualifying to be taxed as a small business
- Prior year revenues and those generated in the current calendar year in an EU community area are ≤ EUR 100,000
- Participating in the value added tax reporting procedure in another EU member state by using the small business identification number issued in that country.

A foreign entrepreneur can voluntarily opt to be taxed as a small business in his or her home country, which is binding for five calendar years.

Beneficiaries of services need to be attentive
Beneficiaries of products or services must be attentive in the future about whether a (foreign) provider of products or services is possibly a small business owner. In such cases the reverse-charge procedure is no longer to be applied. For example, if new vehicles are sent across the border in accordance with § 2a of the Value Added Tax Act, small businesses are to continue to be treated as private individuals so that income tax is to be considered when purchasing a vehicle from a small business.

E-invoice: Special regulations for small business owners
Small businesses are still not allowed to show value added tax separately on their invoices. However, they are now required to include a note on the invoice stating that the VAT exemption for small businesses is being exercised.

From 2025 on, e-invoices are not mandatory for small business owners, but they must be able to receive e-invoices.

Do you have any questions on this topic?

Do you need support with e-invoicing topics? Please contact our specialist, Tobias Barkschat. He will be happy to explain our services to you.

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