Hey&Heimüller.

Hey & Heimüller
Wirtschaftsprüfer Steuerberater
Partnerschaft mbB

Hemmerichstraße 1
D-97688 Bad Kissingen
Telefon: (0971) 7129-0
Telefax: (0971) 7129-71
info@hhpartner.de
www.hhpartner.de

Jochen Hey | Dipl.-Kfm. WP StB
Thorsten Heimüller | WP StB
Judith Hey | Dipl.-Kffr. WP StB
Karl-Georg Hey | vBP StB
Stefan Kelz | Dipl.-Kfm. StB

German Directive on Electronic Bookkeeping and Accounting (GoBD)

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I. Definition of GoBD

The German acronym GoBD stands for “principles for the proper management and storage of books, records and documents in electronic form, as well as data access”. The GoBD principles apply to all areas in which operational processes are recorded by means of digital processing techniques. This includes, for example, financial accounting systems, asset and payroll accounting, inventory control and payment systems. They apply to all tax-relevant documents that are digitally recorded, used or archived. Each German taxpayer is responsible for the compliance.

GoBD compliance is a prerequisite for any accounting system of a German company to be acceptable from a tax perspective. The GoBD regime also applies to non-German companies with taxable activities in Germany, including branch offices. In order to avoid difficulties and discussions with the German tax administration, we therefore recommend to ensure GoBD compliance even without having a separate GmbH in Germany. Non-compliance with the GoBD regime can result in the assessment of fines between 2,500 Euro and 250,000 Euro.

Note: There are several revisions of GoBD. The latest version of GoBD was issued by the German Federal Ministry of Finance on November 28, 2019.

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II. General requirements of GoBD

Every business transaction needs to be documented with a receipt. According to the GoBD, the documents and bookings need to fulfil the following core requirements:

1. Traceability:
- Every booking must be documented.
- Business transactions need to be documented progressively and in retrograde: from the receipt to the tax declaration and the other way round.
- The accounting must be comprehensible to a knowledgeable third party within a reasonable period of time, such that this party can obtain an overview of the business transactions and bookkeeping systems.
- In order to understand books and records, it is necessary to create informative and complete process documentation; the same applies to work instructions and their implementation.

2. Completeness:
- Full and gap-free documentation of individual business transactions.
- Secure storage, protection against loss.
- Technical and organizational controls (e.g. recoding and plausibility checks, analyses for gaps or repeat items).

3. Accuracy:
- Business transactions must be substantiated by supporting documents.
- Presentation based on accounting standards-
- It must be possible to track business transactions from origin to processing – authentically and seamlessly.

4. Timely bookings and recording:
- Business transactions must be recorded promptly after they occur.
- Recording of non-cash bookings within ten days.
- Daily recording of cash receipts and cash expenditures.
- Recording of periodic bookings by the end of the following month.

5. Order:
- All bookings must be clear, distinct, orderly and comprehensible.
- They must be immediately legible and presented individually and objectively ordered according to the proper accounts.

6. Immutability:
- A booking must not be modified in such a way that the original content is no longer detectable.
- Changes and deletions from and to electronic bookings must be recorded.

III. Accounting implications

Under the German Commercial Code as well as applicable German tax laws each business needs to have a bookkeeping in place to record all business transactions. A comprehensive set of rules must be followed for accounting purposes to ensure legal and tax compliance. In order to accomplish all these individual objectives, German companies typically tend to follow a standard chart of accounts for recording their transactions on a day-to-day basis. This helps to ensure that all relevant data that is necessary for statutory and tax reporting purposes is properly incorporated in the bookkeeping. The most common German standard chart of accounts is called "SKR 04”.

The bookkeeping generally serves as the basis for the mandatory VAT applications every month, hence it frequently includes a number of specific accounts that are relevant for VAT and the person who records the transactions needs a solid understanding of the German VAT code to ensure tax compliance. Given the general German VAT rate of 19 % (on sales), non-compliance can be very expensive. The VAT applications must be submitted to the tax authorities in an electronic format (through a special software interface named ELSTER).

As a result of the bookkeeping records, every business needs to compile statutory financial statements under German GAAP once a year and publish them in the German Electronic Federal Gazette. These statutory financial statements also serve as the basis for German taxation, although numerous adjustments need to be considered to reconcile the German GAAP profit/loss to the tax base for Corporate Income Taxes and Trade Taxes. Anyhow, most German companies try to produce one set of financial statements for both, commercial and tax purposes.

Along with the electronic tax returns, German tax laws require businesses to submit electronic bookkeeping details to the tax authorities in an XML format, classified by a prescribed “Taxonomy”. This is often referred to as “E-Balance Sheet”. The taxonomy deviates from the presentation standards under the German Commercial Code, thus requires a separate mapping of the bookkeeping accounts for purposes of the E-Balance Sheet.

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German tax laws further require that all (electronic and paper-based) accounting records are stored in Germany, all bookkeeping entries are performed in Germany and the associated IT systems are located in Germany. All original receipts must be retained on German territory for 10 years.

Only upon written request, the German tax authorities may allow that the bookkeeping entries of a German company are performed on systems that are located outside of Germany. One of the prerequisites is that the accounting system is in full compliance with German law.

The German Federal Ministry of Finance has allowed the storage of electronic invoices with digitally qualified signature in the EU, if an electronic access by the fiscal authorities on this data, which is located in the EU, can be ensured. However, this applies only to the sales/ purchase tax. With regard to income tax, the data still has to be stored in Germany.

IV. Usage of accounting software

Tax audits occur quite frequently in Germany. As a routine starting point during almost every tax audit in Germany, the tax auditors request a copy of the taxpayer's electronic bookkeeping data (down to the level of each individual journal entry) in a prescribed German audit format. Foreign accounting software is often unable to produce this German audit format and is thus considered non-compliant.

Common software and file formats (such as Microsoft Excel, Adobe Acrobat PDF, etc.) are also deemed non-compliant with GoBD rules and may thus not be used to record and store bookkeeping entries. These formats typically have no change history and thus allow modifications, additions and deletions at a later point in time without proper evidence. All saved information must be traceable, such as through historiography, logging and process documentation, as specified by GoBD.

We see more and more requests from tax auditors to not only access the financial bookkeeping and payroll data electronically, but also upstream or downstream systems such as cash register systems and inventory management systems. The tax auditors import the data into their tax auditing software, which provides them with comprehensive possibilities for data analysis and benchmarking.

Note: A particular area of focus for future tax audits seems to be electronic cash registers.

V. Scope of document retention

The following documents need to be stored and provided upon request to the German tax authorities:

- Accounts and records, inventory ledgers, financial statements, management reports, opening balance sheet
- instructions required for their comprehension and other organizational documents
- received commercial or business letters
- reproduction of the sent commercial or business letters
- accounting records
- documents, which have to be attached to a customs declaration, which has been submitted with data
- processing media in accordance with the Customs Code,
- other documents if they are significant for taxation.

The general document retention period in Germany is up to 10 years. Special rules apply if documents are to be retained only electronically.

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