

Electronic filing of accounts (e-accounts) - Update

The German finance ministry has now commented on the implementation of e-accounts in a draft letter concerning the application of the taxonomy dated 1 July, 2011, and a further letter to industries and trade organizations dated 8 August, 2011.

Additionally, the finance ministry published a report on the evaluation of the pilot phase, during which the taxonomy was transmitted electronically. In a consultation meeting held by the ministry, the outcome of the pilot phase, as well as comments from representatives from industries and trade organizations on the finance ministry's draft letter, were presented and discussed. On the basis of experiences gained during the pilot phase, the regulations in connection with e-accounts will be revised.

I. Transitional periods

1.1 Effective postponement of the implementation of e-accounts for one more year

The German regulation postponing the effective date for the electronic filing of accounts (AnwZpvV) came into force on 23 December, 2010. As a result of this postponement, the requirement for electronic submission of balance sheet and income statement data to the tax authorities applied only to data for financial years that begin after 31 December, 2011. This is a deviation from the original stipulations in section 52 (15 a) German Income Tax Act (EStG).

What has changed is that the tax authorities will not object to paper balance sheets and income statements submitted for 2012, and that paper form submission for 2012 data do not require an application.

This means that balance sheets and income statements, as well as all annexes required by the tax taxonomy, must be submitted electronically for the financial years that begin after 31 December, 2012, at the latest. Consequently, this regulation, referred to as "regulation of non-objection", represents a postponement of the implementation of e-accounts for a further year.

1.2 Further transitional periods

Partnerships and joint enterprises must complete the mandatory fields (i.e. fields that must be completed and submitted) in the electronic statement of changes in capital accounts for financial years that begin after 31 December, 2013. If no data is entered in these mandatory fields during the transitional period, the minimum requirement will be to enter the changes in capital accounts in an e-balance sheet, sorted by the type of shareholder.

Furthermore, it was defined that special purpose and supplementary balance sheets (i.e. additional tax balance sheets which can be relevant for partnerships and joint enterprises) must be submitted as individual e-balance sheets. For financial years that end before 31 December, 2013, the

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The purpose of this newsletter is to provide readers with general information; it is not intended to replace advice based on individual circumstances. If you have any questions or would like further advice, please do not hesitate to call or mail your usual contact at PVW or:



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tax authorities will accept their submission within the electronic filing of the partnership's accounts.

Further simplifications are planned for German companies with branches abroad and for foreign companies with branches in Germany. Namely, the German finance ministry has provided for a transitional rule in order to avoid undue hardship. Pursuant to this rule, the companies in question have to transmit e-accounts for the first time for financial years that begin after 31 December, 2014. Until then, the balance sheets of branches may be submitted in paper form. This transitional period also applies to commercial business conducted by tax-privileged corporations or legal persons under public law.

II. Data submission format and scope of documents to be provided in electronic form

The tax taxonomy comprises a master data module (Global Common Document (GCD) module) and an annual financial statement module (Generally Accepted Accounting Principles (GAAP) module). The master data module allows the tax authorities to request transmission of document data and information on the entity's report and its business.

Transmission of the following elements of the annual financial statement module is mandatory:

- Balance sheet,
- Income statement,
- Appropriation of result,
- Changes in capital accounts (applies only to partnerships/joint enterprises),
- Determination of taxable profit (sole traders/ partnerships),
- Tax modifications (in particular, reclassifications/ reconciliation).

2.1 Changes and clarifications within the taxonomy

Compared with the situation to date, the tax authorities are therefore demanding significantly more information coupled with a greater degree of detail. The number of mandatory fields for balance sheet data for large and medium-sized limited companies is some three times greater than the equivalent number in the HGB taxonomy; as far as small limited companies are concerned, the number of mandatory fields has been increased eightfold. The corresponding increases in the number of mandatory fields for the income statement are as much as sevenfold and ninefold respectively.

As a result of experience reports about the pilot phase, the finance ministry intends to make modifications to the taxonomy.

The most important change is that 30 "general" fields will be added for simplification. These general positions can be used if values for mandatory fields cannot be derived from the accounting.

The background reason for this is that the taxonomy is not supposed to interfere in present bookkeeping habits of taxpayers for a transitional period of five to six years. In case it is not possible to derive required data from the existing bookkeeping, the use of these "general" fields is allowed for the time being. Moreover, selected mandatory fields are even to be withdrawn.

With respect to fields referred to as "mandatory field, breakdown of accounts desired", the exact definition of a "breakdown of accounts" was clarified. The following information about individual accounts must be included: account number, account title, balance as of end of financial year (i.e. excerpt from the trial balance).

Furthermore, drafts of sector-specific and supplementary taxonomies especially created for certain industries were published. Banks, insurance companies and pension funds are obliged to use sector-specific taxonomies. Supplementary taxonomies may be used, for example in the housing industry, as long as the balance sheets of these special industries are structured according to the respective forms published by the Federal Ministry of Justice (as laid down in section 330 German Commercial Code (HGB)).

III. Outlook and further steps in the implementation of e-accounts

The final taxonomies (i.e. main and sector-specific taxonomies), as well as the final, revised guidance letter from the German finance ministry, are expected to be published by the end of September 2011. Not until after the publication of the taxonomy's format and positions will software providers be able to make their systems market-ready.

In the consultation meeting on 16 August, 2011, the finance ministry promised the representatives from industries and trade organizations to discuss further simplifications particularly for:

- Domestic and foreign branches,
- Taxable traders without German branches but with rental income in Germany, as well as
- Special purpose, supplementary, insolvency and merger balance sheets.

It remains to be seen if the final guidance letter will include further simplifications that were discussed with the representatives.

With regard to future changes in taxation, the taxonomy is expected to be adjusted once a year, if necessary.

The taxonomy will continue to be modified in the future. For instance, the financial administration intends to gradually reduce the number of "general" fields over a period of five to six years.

The problem of data security still has not been conclusively solved. The proposed provision of such a comprehensive range of sensitive data brings with it the risk that third parties could – for a wide variety of motives – attempt to access the data for their own purposes.

For further details on e-accounts, please refer to our newsletter of January 2011, available for download under www.pvw.de/Newsletter.asp.

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