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Information on the introduction of e-invoicing, starting January 1st 2025

Dear Clients,

From **January 1st 2025**, the obligation to use electronic invoices (e-invoices) in business transactions between domestic (german) companies will come into effect in Germany. The legislator sets out precise specifications regarding the technical design, the scope of the obligation and the times at which companies must be able to receive their incoming invoices as e-invoices and issue outgoing invoices as e-invoices.

We would like to use this information to explain the most important details to you.

1. The e-invoice

The law defines an e-invoice as an invoice that is issued, transmitted and received in a specified **structured electronic format**. The invoice issuer must create its outgoing invoice in a specific electronic format and transmit it electronically, and the invoice recipient must be able to receive the invoice electronically. The e-invoice must enable electronic processing of the invoice details - both after creation and after transmission and receipt. For this purpose, it is necessary that the electronic data record can be read into the financial accounting system of both the invoice issuer and the invoice recipient. The e-invoice must then be archived in an audit-proof and German-GAAP-compliant electronic format by both the issuer and the recipient.

PDF files or other formats, such as Word (.docx), Excel (.xlsx) or image files (e.g. .tif or .jpeg), **do not** meet the requirements for an e-invoice. Although these files can also be generated, transmitted and received electronically, they are only digital, pictorial representations of invoices that cannot be processed electronically. From January 1st 2025 on forward, **only** invoices in which the required invoice data is available as a structured electronic data record in an **XML file** will be considered electronic invoices and be eligible for use in your tax returns. Classic pdf invoices or other unstructured formats - just like paper invoices - will be considered so called "other invoices" under german tax law in the future. They may only be issued until the end of the transitional periods (see point 4).

2. Permitted formats of the e-invoice

From January 1st 2025, the **content** of the structured electronic invoice format must comply with the European standard for electronic invoices (**standard EN 16931**). In Germany, two leading invoice formats in particular are based on this standard, the so-called "**XRechnung**" and "**ZUGFeRD**". Both formats are already in use.

XInvoice

The XRechnung (XML-based data) is an invoice format already commonly used in public procurement. It consists of an XML file. A visualization program is required to read the invoice. Otherwise, the format cannot be read by the human eye as it does not contain any visual components.

ZUGFeRD

The ZUGFeRD format (Central User Guide of the Forum for Electronic Invoicing in Germany), which is also already in use, is a so-called hybrid invoice format. This format enables the structured transmission of invoice data in a PDF file in which the XML data record is embedded. This format consists of a combination of a machine-readable XML file and a human-readable PDF file. From version 2.0.1, a ZUGFeRD invoice fulfills the requirements for an e-invoice. As a law firm, we will be sending our invoices to you in this ZUGFeRD format from the beginning of next year.

3. Scope of your e-invoicing obligation

Anyone who is considered an "Unternehmer" (business under the German VAT-tax-code) will be affected by the e-invoicing obligation. All VAT-businesses are generally obliged to issue an e-invoice if they provide goods or services to other **domestic** VAT-businesses. This **also** applies if you, if you run an agricultural or forestry business or are a **small** VAT-business (so called "Kleinunternehmer"). A domestic VAT-business within the meaning of the law is anyone who has their registered office, place of management or habitual residence in Germany. Permanent establishments of a foreign VAT-business located in Germany are also deemed to be resident in Germany. If your customer is a foreign VAT-business, you do not (yet) have to issue an e-invoice. However, it is advisable to document the status of all of those business partners.

The following cases are exempt from the obligation to issue e-invoices in the future:

- Invoices for services that are **tax-exempt** in accordance with § 4 numbers 8 to 29 of the German VAT-code (UStG) (this includes, for example, all medical or dental services, landlords, insurance agents, ...),
- Invoices for small amounts up to 250 euros,
- Tickets for public transportation
- Invoices to foreign entrepreneurs,
- Invoices to private end consumers.

4. Start of the e-invoicing obligation

In principle, the obligation to use **e-invoicing comes into force on January 1st 2025**. However, a distinction must be made between the obligation to be able to **receive** an e-invoice and the obligation to **issue** an e-invoice.

4.1. The obligation to receive e-invoices

The obligation to **receive** e-invoices **applies to all VAT-Business without exception** from January 1st 2025. That means, every entrepreneur (including the above-mentioned exceptions) will be affected by this requirement from this point in time. The previous priority of paper invoices will no longer apply, and the requirement for consent to receive e-invoices will also no longer apply. In other words: from January 1st 2025, your business partners will be able to send you e-invoices without you specifically agreeing to receive them. You must then claim your input tax deduction based on the e-invoice received. You are not entitled to receive any other invoice - such as a paper invoice. Important: This means that **landlords, doctors and operators of solar systems** must also be able to receive e-invoices from January 1st 2025. You should therefore acquire the necessary software in time so that you are able to receive and read e-invoices. Whether and to what extent you will receive e-invoices from January 1st 2025 is not up to you. The decisive factor is whether your business partners will start issuing e-invoices from 2025 on. You should therefore ensure that you are ready to receive e-invoices - at least by setting up a separate e-mail address (e.g. invoices@yourbusiness.de) - starting January 1st 2025.

If you do not yet have software by January 1st 2025 that enables you to read the received e-invoices, beginning 2025 we will offer you a tool (on our homepage for uploading at www.stb-neunzig-partner.de/Visulizer or by e-mail to: visulizer@stb-neunzig-partner.de) with which you can easily convert non-human-readable e-invoices (e.g. X-Rechnung) into a PDF invoice. You can then read, check and pay the invoice.

4.2. The obligation to issue e-invoices

The obligation to **issue** e-invoices for transactions between domestic companies will also begin on January 1st 2025. However, the law provides **certain transitional periods** for invoice issuers:

Until December 31 st 2026	Sales carried out until the end of 2026 may continue to be invoiced using paper invoices or pdf, Word or Excel invoices. But beware: the <u>consent</u> of the invoice recipient is still required for these non-structured invoices.
SME relief until December 31 st 2027	<p>Sales carried out by SMEs (small and medium-sized enterprises) until the end of 2027 may continue to be invoiced using paper invoices or non-structured electronic invoices (note: the <u>consent of the invoice recipient</u> is still required for non-structured invoices), provided that</p> <p>the turnover of your company <u>did not</u> exceed the limit of 800,000 euros in the previous calendar year.</p> <p>Companies with a turnover of more than 800,000 euros must issue e-invoices from 01.01.2027.</p>
From January 1 st 2028	From 2028, invoices that fall under the e-invoicing obligation (i.e. without the exceptions under 3.) must be issued and transmitted exclusively electronically.

5. Archiving of e-invoices

E-invoices must be archived for the duration of the statutory retention period, as was previously the case with paper invoices. The statutory retention period is currently **ten years**. It begins at the end of the year in which the last entry or change was made to the e-invoice.

When archiving e-invoices, care must be taken to ensure that they are stored in their original format and cannot be changed. These requirements are particularly relevant for the structured data part of an e-invoice. The XML file of an e-invoice must not be deleted by format conversion during the archiving process. This is because it must be possible for the tax authorities to process and evaluate the e-invoice automatically even during the retention period. Therefore, when archiving e-invoices, make absolutely sure that they are stored in the original file format and are unchanged.

6. Mandatory activities

The obligation to receive e-invoices from January 1st 2025 is imminent. We recommend that you deal with the changeover as early as possible.

6.1 Self-bookers

If you handle your financial accounting yourself, we strongly recommend that you use suitable software in time:

- The receipt of incoming e-invoices from January 1st 2025
- The electronic processing of these received e-invoices in your financial accounting from January 1st 2025
- Legally compliant archiving of received e-invoices from January 1st 2025
- Sending outgoing e-invoices from 2027 or 2028 at the latest
- The electronic processing of these sent e-invoices in your financial accounting from 2027/2028 at the latest
- The archiving of e-invoices sent from 2027 or 2028 at the latest

6.2 Accounting mandates

If we prepare the financial accounting for you as before and complete the legally required reports (VAT advance return, ZM report, OSS report, etc.), we urgently need to discuss how your e-invoices will reach us in the original file format in future. The usual process of forwarding in paper form or as a pdf file by email will no longer be permitted for e-invoices from January 1st 2025 on forward. In many cases, this process will have to be set up again. Our software partner Datev has technical solutions for this. To do this, we need to analyze your processes together and, if necessary, implement (software) solutions that suit you and are also compatible with our workflows. Please get in touch with us.

6.2.1 Suitable software solutions for e-invoice receipt

From January 1st 2025, you can continue to use the in-house software you already use to receive, visualize and forward the received e-invoices, provided that this software has a data **interface** to our Datev accounting program and the german GAAP-compliant **archiving** of the data is ensured.

If you need to purchase new software for receiving and writing e-invoices, there are a number of providers, e.g:

- Sage
- Lexware
- Easybill
- Lexoffice
- other software providers

Client information service of Neunzig and Partner

How high the monthly costs for the use of this software can be depends on the individual case. According to our software advisor, experience has shown that the software fees for these programs amount to approx. 15 to 25 € per month. If you wish to purchase or continue to use this software, please contact your IT advisor and clarify whether this software is compatible with "Datev Kanzlei Rechnungswesen" and how the data records are transferred to Datev and how the data can be provided and transferred.

Our software provider Datev also offers a client program that enables e-invoice receipt, archiving, automated data transfer to us (by email or upload) and e-invoicing. Its called "Datev Unternehmen Online". This program package currently costs around 25 € per month including the archiving fee and can be ordered from us. "Datev Unternehmen Online" guarantees 100 % security when transferring data to our accounting program. In addition, 100 % security is also guaranteed for the necessary archiving of your incoming and outgoing e-invoices. We therefore recommend the use of this software. We will be happy to order this software from Datev. If you require support for the necessary installation of this software in your company, we will also be happy to provide you with the contact details of a Datev system administrator whom you can commission for the installation and initial instruction. According to our information, one-off installation costs of around 250 € will be incurred.

6.2.2 Suitable software solutions for e-invoicing

If your in-house software can create and send your outgoing invoices as e-invoices, you can continue to use them as long as this software has a data **interface** to our accounting program "Datev Kanzlei Rechnungswesen" and the german GAAP-compliant **archiving** of the data is ensured.

Our software provider Datev also offers a client program for e-invoicing that enables e-invoicing, archiving and automated data transfer to us (by email or upload). Its called "Datev Unternehmen Online" in combination with "Datev Auftragswesen Next". This software package costs an additional €10 per month (a total of around 35 € per month) and can be installed together with "Datev Unternehmen Online" by a Datev system partner.

"Datev Auftragswesen Next" offers the necessary interfaces to our accounting software and ensures that all legal requirements for archiving are met.

We would ask you to timely think about your planned software solutions from January 1st 2025 on forward and get in touch with us about how you want to approach the topic of e-invoicing in the future. We will contact you in late fall of this year on this topic to ensure that you have a viable solution from the start of the coming year.

Yours sincerely

Stefan Neunzig, tax consultant

and your team at the law firm

Neunzig & Partner StBG PartmbB