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*German Tax and Legal News*

## MOF publishes DAC 7 draft implementation bill into German domestic tax law

The proposed bill stays close to the provisions of the EU directive and in addition includes several provisions to modernize general procedural aspects of German tax law.

The German Ministry of Finance (MOF) on 12 July 2022 published a draft bill on the implementation of Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation, also referred to as "DAC 7." In addition to the implementation of the EU directive into German domestic legislation, the draft bill includes several provisions to modernize general procedural aspects of German tax law.

DAC 7 extends to digital platforms existing EU tax transparency rules governing the exchange of information and administrative cooperation between member states, and introduces an obligation for digital platform operators to collect and report information on income derived by sellers offering certain services through those platforms. The information collected will be shared with the tax authorities of the respective EU member states with the aim of addressing the lack of tax compliance, and the underreporting of income earned from commercial activities carried out via digital platforms. The DAC 7 reporting obligations apply to digital platforms located both inside and outside the EU. In addition, DAC 7 rules modify existing regulations with the goal of improving administrative cooperation with regard to joint audits, information requests, data breaches, and other areas. DAC 7 rules must be implemented in domestic tax law by EU member states with effect from 1 January 2023, and the first data reporting by platform operators is required by 31 January 2024.

The MOF's long-awaited draft stays close to the rules as described in the EU directive, and does not contain any significant surprises. Although the first reporting for platform operators is not due until 2024, affected taxpayers should take action early to make sure that the required data is readily available and the reporting process is properly implemented.

The draft bill also includes provisions to amend both the general tax code ("Abgabenordnung") and the introductory law to the general tax code ("Einfuehrungsgesetz zur Abgabenordnung"). Most noteworthy among the proposals are the reduction of the statute of limitations to five years in the case of a tax audit, starting from the announcement of the audit (subject to certain exceptions); from 2025, a reduction from 60 to 30 days in the deadline to submit transfer pricing documentation following a request by the tax authorities (that period would start automatically on the announcement of a tax audit); and the introduction of a penalty of up to EUR 100 per day (capped after 100 days) in the case of noncompliance with certain requests for information from a tax auditor.

The provisions to amend certain general procedural aspects of German tax law include a significant tightening of the current rules and likely would increase the transfer pricing compliance burden and compliance costs for taxpayers.

The proposed bill is awaiting approval by the government before being introduced into the legislative process.

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