

## Efficiency and Transparency with E-Tax Balance Sheets!

### Overview of electronic tax balance sheet requirements and XBRL in Germany

Companies in Germany soon will be required to file an electronic tax balance sheet and an electronic profit-and-loss-account ("E-Tax Balance Sheet") as an appendix to their annual electronic company tax returns.

This brochure overviews the E-Tax Balance Sheet and the technical format for data transmission (XBRL), and outlines changes that may need to be made to companies' software and accounting systems.

#### Why do all German companies need to take action with regard to the E-Tax Balance Sheet requirement?

All German companies with book/tax differences that determine their profits using double-entry accounting will need to submit – most likely for fiscal years starting after 31 December 2011 – an E-Tax Balance Sheet as an appendix to their electronic income tax returns. In a circular dated 19 January 2010, the German Federal Ministry of Finance (MOF) defined the eXtensible Business Reporting Language (XBRL) as the mandatory technical format for all data transmissions by companies to the tax authorities related to E-Tax Balance Sheets.

On 30 August 2010, the MOF released a first draft of the general taxonomy that will apply for most companies. The MOF subsequently held a hearing on 11 October 2010 with interested parties on the draft general taxonomy; Deloitte Germany participated in the hearing, representing, inter alia, the American Chamber of Commerce in Germany.

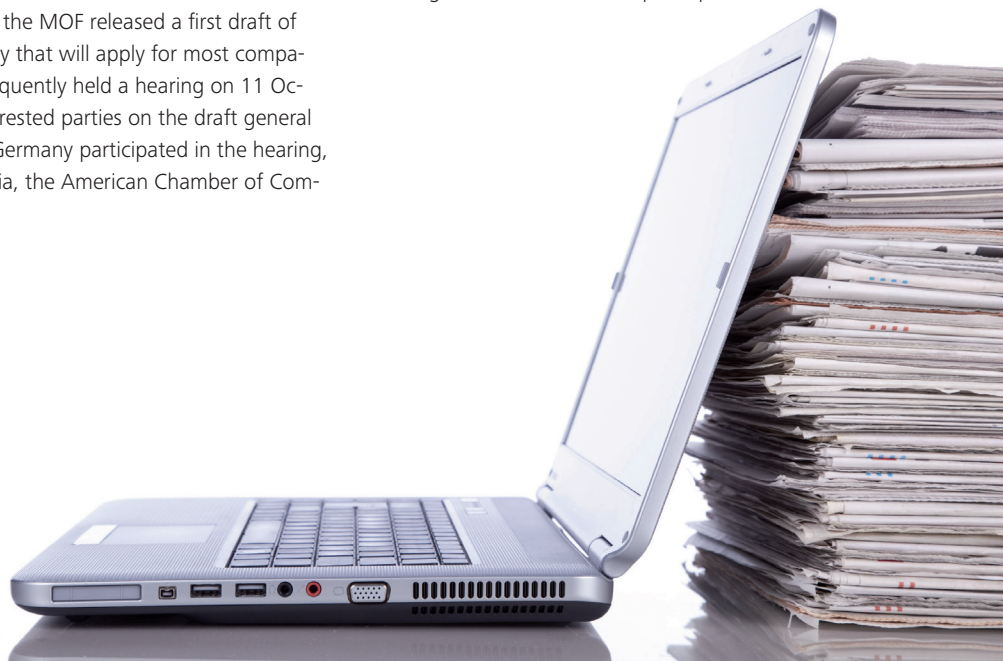
Since 1 February 2011, the MOF has been holding a voluntary three-month E-Tax Balance Sheet trial period for which a number of Deloitte clients have signed up.

The MOF reportedly is planning to publish first drafts of special taxonomies for banks by the end of February 2011 and for insurances by the end of March 2011; first drafts of the other special and complementary taxonomies (applicable to certain industries subject to special accounting rules and regulations) shall be published by the end of April 2011.

As from fiscal year 2011, all company income tax returns also will have to be submitted electronically, although XBRL will not have to be used for these purposes. No changes are planned for tax assessments (Steuerbescheide), which will still be issued only in hard copy.

#### What is eXtensible Business Reporting Language?

XBRL is a global and open technical standard for the exchange of company information. XBRL has been developed over the last 10 years by XBRL International, a consortium (<http://www.xbrl.org>) in which approximately 600 organizations worldwide participate.



XBRL is already widely used by various institutions, such as the U.S. Securities and Exchange Commission and the German Federal Gazette for public disclosure of German GAAP financial statements.

XBRL is represented in Germany by the association XBRL Deutschland e.V. (<http://www.xbrl.de>), of which Deloitte Germany is a member.

### **What is the purpose of the XBRL taxonomy?**

The XBRL taxonomy is a hierarchically structured data scheme, comparable to a model chart of accounts, which is comprised of balance sheet and profit-and-loss account positions. Each value in an XBRL document is clearly attributed to an element from the XBRL taxonomy so that the document is fully machine-readable.

The taxonomy can be understood as a rule of grammar, which technically allows semantic denotations to be given to the content of XBRL documents. The German general taxonomy for tax balance sheets is available electronically (<http://www.eststeuer.de/schnittstellen.php>); details also can be viewed electronically (<http://www.abra-search.com>).

### **Do companies need new accounting software for XBRL?**

All companies should discuss the E-Tax Balance Sheet with their software providers as soon as possible to determine whether currently used accounting software has interfaces allowing the use of external XBRL software tools.

It is expected that all major providers of accounting software (e.g. ERP or other software providers) will offer either partial or comprehensive software solutions for XBRL.

Companies whose accounting software has no XBRL interfaces (e.g. old software) or where the software provider will not offer an XBRL update should consider obtaining new software in 2011.

### **Does the E-Tax Balance Sheet require new charts of accounts?**

The draft general taxonomy released by the MOF requires detailed tax information, which generally is not available in standard charts of accounts used by most companies for financial accounting purposes.

It is likely that the German tax authorities will want to see, at least mid-term, all mandatory tax information for

the E-Tax Balance Sheet on individual accounts directly in all companies' charts of accounts.

Special E-Tax Balance Sheet issues arise for all companies that do not maintain German GAAP accounting books (and do not control their chart of accounts) but conduct all their financial accounting in accordance with US GAAP or IFRS, with a one-time annual adjustment to German GAAP.

### **Which critical E-Tax Balance Sheet issues should be addressed by all companies?<sup>1</sup>**

Even though the MOF taxonomy drafts and implementation dates have not yet been finalized, all companies in Germany should address the following issues that can arise in the context of the E-Tax Balance Sheet:

- Is the company subject to the general taxonomy or will one of the special or complementary taxonomies apply? Depending on the applicable taxonomy, when is the taxonomy likely to be applicable?
- Is the accounting software XBRL compliant, and if not, can an XBRL update be expected from the software provider?
- Does the company prepare a tax balance sheet? If so, how is this process structured and does preparation of the balance sheet need to be adjusted for purposes of the E-Tax Balance Sheet? What costs and benefits could arise from changes to the preparation process?
- On which accounts does the company book tax-relevant information? What are the potential implications for the E-Tax Balance Sheet?
- How can the company extract the detailed compulsory tax information for its E-Tax Balance Sheet (e.g. data flagging or sorting)?
- Which employees are currently supporting the tax balance sheet preparation? Is there a need for training and/or information?
- Does the company plan to use its E-Tax Balance Sheet for tax compliance purposes only or as a basis for a tax management system?

### **Practical solutions**

Deloitte Germany can advise on all E-Tax Balance Sheet questions and can offer solutions for all E-Tax Balance Sheet issues.

Please contact us so that we can present Deloitte Germany's E-Tax Balance Sheet offerings for your company!

<sup>1</sup> This brochure summarizes information on the German E-Tax Balance Sheet as per 15 February 2011.

## Deloitte contacts

If you have questions on the E-Tax Balance Sheet, please contact your regular Deloitte Germany contact or one of the following specialists:

### Andreas Maywald

Director

Tel: +1 212 436 7487

anmywald@deloitte.com

### Dr. Andreas Kowallik

Partner

Tel: +49 (0)89 29036 8684

akowallik@deloitte.de

### Dr. Alexander Oldenburg

Director

Tel: +49 (0)30 25468 162

aoldenburg@deloitte.de

### Angela Strigl

Director

Tel: +49 (0)89 29036 8830

astrigl@deloitte.de

**For more information please visit our website at [www.deloitte.com/de](http://www.deloitte.com/de)**

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