



VAT Digitalization Global Perspective



Embracing **technology** and
methodology to create
efficiencies

Presenter

Jim Khan – UK Indirect Tax Lead - Taxback International



A Strategic direct and indirect tax technology lead with extensive experience within the big 4 and industry. Assisting large corporations with managing and implementing automated tax solutions to improve risk control and transparency. A deep understanding of the tax technology market and a unique insight into clients thinking and culture.

Now the UK Indirect tax lead for compliance and consulting at Taxback International, who are world leaders in International VAT compliance and recovery, and helping clients with their global VAT compliance challenges.

Taxback International combines innovative technology, deep industry expertise and value-added partnerships to deliver comprehensive VAT solutions that maximise your VAT reclaim and minimize your risks, so you can focus on growing your business.

We work with companies of all sizes managing their VAT compliance in over 60 tax jurisdictions. Taxback International has an unparalleled reputation for delivering exceptional client care, continuously enhancing the client's VAT experience.

VAT REGISTRATION : VAT RETURN FILING : VAT CONSULTING : INTERNET SELLERS/GLOBAL DIGITAL SALES : GLOBAL VAT RECOVERY

Global Changes



- SPAIN - Invoice Reporting 4 days



- HUNGARY - Invoice Reporting in Real Time



- UK - Make All Tax Compliance Digital



- ITALY - Gov't Clearance at time of Invoice



- Greece - Gov't Clearance at time of Invoice

Tax Authority push - The need to provide more vat information using digital technology



Global Landscape is changing

Norway

SAF-T, upon
request from
1 Jan 2020



Poland

JPK-VDEK monthly file
replaces VAT return &
SAF-T from 1 July 2019



Italy

Quarterly Returns
E-invoicing



United Arab Emirates

FTA Audit File

VAT and Excise Tax audit file

Simplified SAF-T, upon request

Effective 1st Jan 2018

Brazil

SPED

E-Invoicing: Full invoice disclosure,
Validation required from authority
before invoice no. Issued

Additional tax & accounting e-
bookkeeping

Non-audit or SAF-T equivalent



Spain

Immediate Information
Sharing(SII)

Invoices received & issued
Daily filing



India

GSTN Reporting



Making Tax Digital United kingdom



Dive into what we need to know

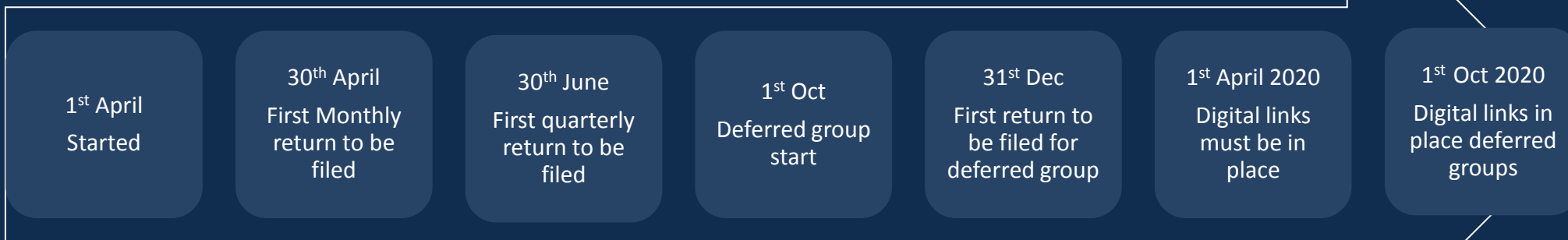
- Introduction
- Who's does it apply to
- Commencement date defined
- Deferral & Exempt organisation
- Functional compatible software
- Digital record keeping & Digital Links defined
- New VAT Penalty Regime
- My take away from today



MTD – Introduction

From April 2019 for most businesses your VAT records must be maintained digitally using 'Functional Compactable Software' and for your VAT return filing you can use one or more software applications which must be linked to HMRC's new API platform.

Time line



MTD – Who does it apply to

Making Tax Digital will apply to VAT registered businesses and organisations with turnover above the VAT threshold of £85,000

- Corporations
- Unincorporated businesses
- Partnerships
- LLPs
- Trusts
- Charities
- non-UK businesses registered for UK VAT

MTD – Commencement

Maintain accounting records digitally in a software product or spreadsheet.
Maintaining paper records will cease to meet the legal requirements in tax legislation.

File VAT returns to HMRC using a functional compatible software product that can access HMRC's API (Application Program Interfaces) platform

FIRST MANDATORY MTD FOR VAT RETURN PERIOD	DIGITAL ACCOUNTING RECORDS MUST BE KEPT FROM:	FILING DEADLINE FOR FIRST MTD VAT RETURN
1 April 2019 - 30 June 2019	01-Apr-19	07-Aug-19
1 May 2019 – 31 July 2019	01-May-19	07-Sep-19
1 June 2019 – 31 August 2019	01-Jun-19	07-Oct-19

MTD – Six Month Deferral

A six-month deferral is available for some organisations. Here is some of them:

- VAT Groups
- VAT Divisions
- Trusts
- Not for profit organisations that are not companies
- Public sector
- Local authorities and public corporations
- These businesses will be mandated to apply MTD from 1st Oct

MTD – Exempt Organisations

Businesses do not have to comply with MTD if:

- Below the threshold
- The business is subject to an insolvency procedure
- It's not reasonably practicable for them to use digital tools to keep business records or submit VAT Returns because of age, disability, remoteness of location or for any other reason
- The business is run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records

Functional Compatible Software

Functional compatible software is a software program, or set of software programs, products or applications, that must be able to:

- VAT Notice 700/22 – Section 4.2
- Record and preserve digital records
- Provide HMRC information and returns using the API platform
- Receive information from HMRC via the API platform including:
 - Messages about a requirement to file
 - confirmation of successful filing
 - HMRC to send ‘nudge’ messages to the business/agent.

MTD – Digital Record Keeping

Digital record keeping under MTD is the requirement to maintain financial information digitally so that summary figures can be reported to HMRC monthly/quarterly.

- VAT Notice 700/22 – Section 4.3
- What is a digital record and what must be included
- What about reverse charge transactions
- Digital record of Summary VAT return data
- Adjustments at transaction and summary level
- Partial Exemption
- Errors and corrections

MTD – Digital Links

A digital link is an electronic or digital transfer or exchange of data between software applications. To comply with MTD, you will need to have digital links between the software applications you use during the process of calculating your VAT liability and filing your VAT return.

These links create what HMRC want in place which is a complete MTD digital journey.

VAT Notice 700/22 – Section 4.2.1

Let have a look at what will not constitute a digital link:

- Transferring data manually within or between different sets of software programs
- Copying and pasting
- Handwritten information

MTD – Digital Links

- Digital records should be maintained using compatible technology and can be achieved by using more than one application
- Spreadsheets are permitted as long as they comply with the MTD and are API enabled so data can be sent and received from HMRC systems
- When using more application there must be digital links between each of the software products:
 - emailing a spreadsheet containing digital records
 - transferring data on a portable device – memory stick or portable hard drive
 - XML, CSV import and export, and download and upload of files;
 - API & SFTP transfer
- Where consolidated VAT numbers are calculated using a spreadsheet from each company then that spreadsheet must be digitally linked to each of the group company accounting source data.

MTD – Digital Links – Soft Landing

- HMRC has implemented ‘**soft landing**’ in relation to digital links for the first year of MTD
- Although MTD comes into force from 1 April 2019 (or 1 October 2019 depending on your business) HMRC will be forgive business who do not have digital links in place during the first year.
- Businesses should not be penalised if they have not managed to put all their digital links and processes in place by the time they start filing under MTD.

MTD – New Penalty Regime

HMRC current penalty regime will continue apply during the first year of MTD but will move to a new points based system from 2020.

Current HMRC VAT penalty system:

- Penalty surcharge of 2% - 15% depending of number of defaults and turnover
- Subject to number of defaults in a 12 month rolling period

The current penalty system will remain in place during the MTD 'soft landing' period which will run from 1st April 2019.

Make sure you keep every piece of information relating to any MTD submissions. These will prove to be invaluable if technical problems are experienced in submissions through the API.

MTD – New Penalty Regime

From April 2020 HMRC plans to implement a new points based system for:

- VAT return filed late
- Late Payment of VAT

This is how the new system will work:

VAT PERIOD	PENALTY THRESHOLD	POINTS LIFETIME
Annual	2 points	24 months
Quarterly	4 points	24 months
Monthly	5 points	24 months

When a business reaches the threshold then every subsequent late/missed filing will incur a penalty.

To have a clean bill of health you must have submitted all returns for the previous 24 months and 6 successive timely submissions.

Where a person or organisation has more than one business, HMRC will allow them to have a points threshold for each business when it comes to MTD submissions.

More guidance can be found at
[GOV.UK](https://www.gov.uk)

VAT Notice 700/22: Making Tax Digital for VAT

Foreign VAT Recovery Made Simple

- Foreign VAT recovery – the legislation
- Deductibility of foreign expenses (8th/13th Directive)
- Invoice requirements
- Incompliant invoices - examples
- Simplified invoices

Foreign VAT Recovery – the legislation

Two refund directives – Foreign VAT recovery

8th Directive refund mechanism for EU companies

13th Directive refund mechanism for non-EU companies

8th Directive refund mechanism for EU companies

“VAT shall be refunded to taxable persons who are not established in the Member State in which they purchase goods and services or import goods subject to VAT but who are established in another Member State”

Foreign VAT Recovery – the legislation

13th Directive refund mechanism for non-EU companies

- “ VAT shall be refunded to taxable persons who are not established within the territory of the Community in accordance with the detailed implementing rules laid out in Directive 86/560/EEC”

Reciprocity should be considered – Any EU country may:

- refuse to refund VAT if the claimant’s country/territory does not grant reciprocal refund rights for VAT or similar to businesses based in that EU country.

VAT on expenses

General rule:

- VAT is deductible on business related expenditure.

Exceptions:

- Entertainment
- Personal Expenses
- Some EU member states: restriction on purchase/hiring of cars, hotel rooms etc.
- Businesses who engage in VAT exempt activities
- Check reciprocity rules in each Member State

Foreign VAT Recovery

- In 2010, a new Directive was introduced which allows EU businesses to submit their refund claims through the internet site of their country of establishment.
- Businesses not established or VAT registered in an EU Member State can still recover VAT incurred in Member States according to the procedures set by the 13th Directive but must submit applications in paper format.
- VAT recovery rules vary from country to country but ultimately expenses submitted for recovery should only have been incurred for business purposes.
- The deadline to file the refund claims by EU companies has been generally set at September 30th of the following year. (8th Directive)
- The deadline for non-EU companies has been generally set at 30th June of the following year (13th Directive) - UK exception – deadline 31st Dec

Country	Hotel Accommodation	Business meals	Car hire	Diesel	Public transport	Taxis
UK	Yes	Yes, for employees	Yes, for business use only	Yes, for business use only	n/a	Yes
France	Yes, for non employees only	Yes	No	Yes, 80% for cars	No	No
Germany	Yes	Yes	Yes	Yes, for EU Members	Yes	Yes
Ireland	Yes, but only if it relates to a qualifying conference	No	Yes, but with a lot of restrictions	Yes	n/a	n/a

EU Invoicing Requirements

- Compulsory elements
 - Date of issue
 - Unique, sequential invoice number
 - Supplier's information: full name & address, VAT identification number
 - Customer's full name and address
 - Customer's VAT identification number (if liable to account for VAT on the supply)
 - Description of the quantity and nature of the goods supplied or services rendered
 - Date of the supply or payment (if different from the date of supply)
 - VAT rate applied and VAT amount payable (and break-down of the VAT amount payable per VAT rate or exemption)
 - Unit price of the goods or services exclusive of tax, discounts or rebates

EU Invoicing Requirements

- Additional elements in certain cases
 - Exempt Supply – reference should be made to the applicable provision of the VAT directive or the national provision
 - Reverse Charge (customer liable to account for the VAT) – “Reverse charge” to be mentioned.
 - Margin Scheme
 - Reference to appropriate legislation
 - Tax representative → his VAT identification number, full name and address.
 - Foreign currency allowed
 - VAT amount in local currency

Examples of non-compliances

- Invoices issued to the employee instead of the company – big pitfall for hotel expenses in Germany and Austria.
- Invoices issued with incomplete customer details e.g. incomplete company name and/or address,
- Invoices missing the supplier's VAT registration number,
- Invoices missing a VAT rate or VAT breakdown,
- Pro-forma invoices.
- **Exceptions** – In the UK & Sweden, for example, invoices that are issued to the employee rather than the company are acceptable for reclaim. This rule generally applies only to hotel invoices.

Simplified Invoicing

Some Member States allow VAT recovery on “simplified” VAT invoices or small receipts. The invoices/receipts should still contain the following information:

- The date of issue;
- Identification of the taxable person supplying the goods or services;
- Identification of the type of goods or services supplied;
- The VAT amount payable or the information needed to calculate it.
- Specific and unambiguous reference to the original invoice, if applicable.

Countries that do/do not except small receipts VAT recovery

Country	Small receipts	Country	Small receipts	Country	Small receipts
Austria	Yes	Germany	Yes	Netherlands	Yes
Belgium	No	Greece	No	Poland	No
Bulgaria	No	Hungary	No	Portugal	Yes
Croatia	No	Ireland	Yes*	Romania	Yes
Czech Rep.	Yes	Italy	No	Slovakia	Yes
Denmark	Yes	Latvia	No	Slovenia	No
Estonia	Yes**	Lithuania	Yes*	Spain	No
Finland	Yes	Luxembourg	Yes	Sweden	Yes
France	Yes, with restrictions	Malta	No	UK	Yes

Thank You

Taxback International combines innovative technology, deep industry expertise and value-added partnerships to deliver comprehensive VAT solutions that maximise your VAT reclaim and minimize your risks, so you can focus on growing your business.

We offload your VAT burden completely while providing real-time visibility every step of the way, making compliance and recovery effortless for our clients. We work with companies of all sizes to maximise their VAT reclaim opportunities in both local and foreign tax jurisdictions. Taxback International has an unparalleled reputation for delivering exceptional client care, continuously enhancing the client's VAT experience. Taxback International have built highly sophisticated data integration, data capture and automated workflow solutions and packaged them into a secure industry leading client interface. For more information: www.taxbackinternational.com