



PART 1: VAT DETERMINATION

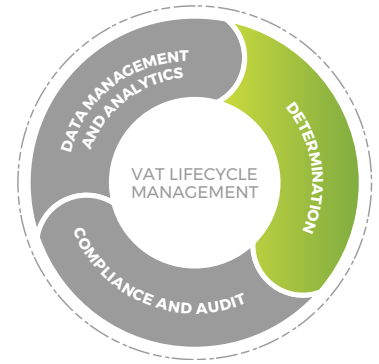
The Biggest VAT Challenges
for Multinationals

Every day, global companies are met with challenging questions about VAT;

Does it apply to all transactions?

How, when and where does it need to be reported?

What data needs to be available to support it?



Introduction

Every day businesses are faced with challenging questions about VAT; Does it apply to all transactions? How, when and where does it need to be reported? What data is required to support it? As businesses and trade models become increasingly more global and complex than ever before, these questions become increasingly difficult to answer.

Complexity Comes In Many Forms

For each and every transaction, determining whether or not VAT applies to that transaction is one challenge. However it doesn't end there. If VAT does apply, then businesses need to determine which country/jurisdiction this applies within, which party is liable and the correct rate.

There are many more challenges layered on top of simple determination and calculation. This eBook provides insight into the top five VAT determination challenges facing global businesses today.



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CHALLENGE ONE

VAT Determination is More Than a Yes or No Answer

A single order placed by a customer or with a vendor can result in many sales and purchase transactions that require a series of complex, interdependent calculations fuelled by a large dataset.

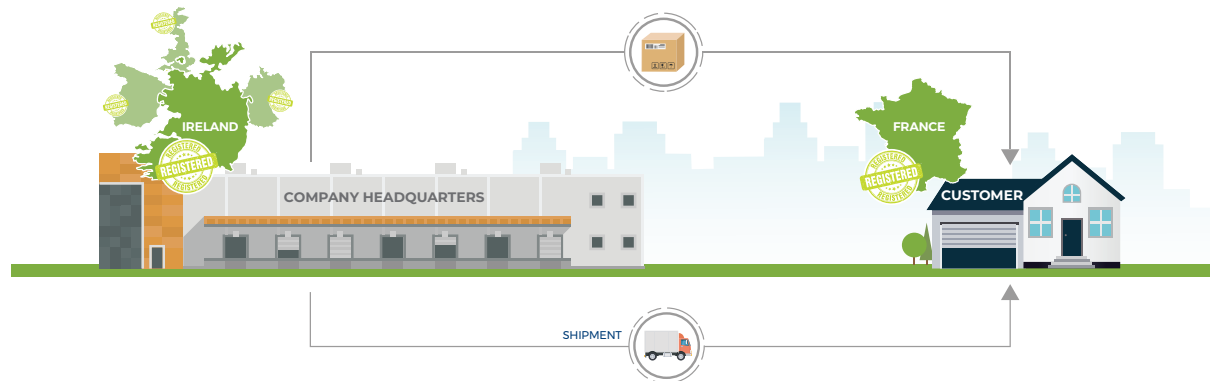


Transport of Goods in Chain Transactions

Whenever goods are being sold in a chain with multiple entities, it is important to determine in which relationship the transport takes place, as this will have an impact on the taxation in the various parts of the chain. Indeed, the transport of goods if uninterrupted, can only be allocated to one supply in the chain, which means that the other transactions are by nature supplies without transportation, impacting the tax treatment.

Determining the Right VAT Registrations for Each Transaction

When a company is VAT registered in multiple countries, it must determine, on a per-transaction basis, which registration number it will need to use to perform the transaction correctly. By the same token, if a customer is registered in multiple countries, as a seller, the company will need to determine which customer VAT registration to use for the billing.

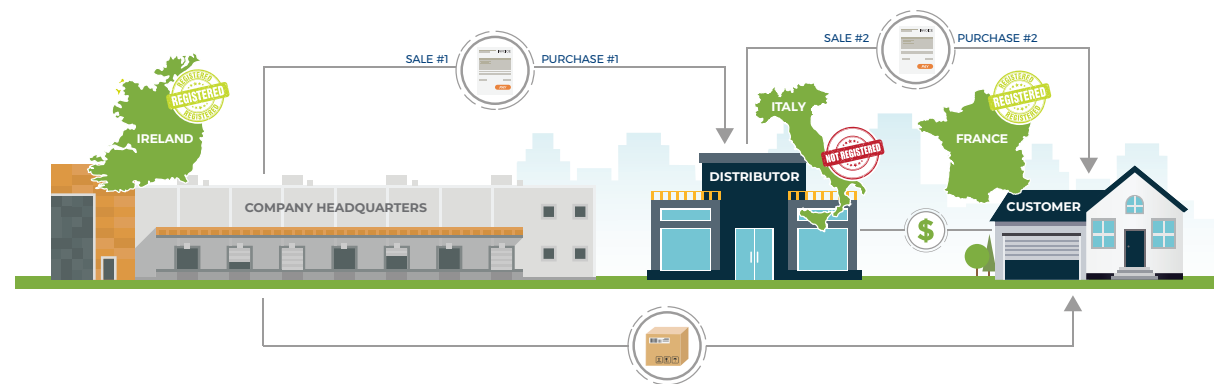


Simplified Triangulation

Don't let the terminology fool you. Simplified triangulation is far from simple. When a company in one EU member state sells their goods to a company in a second EU member state, who in turn sells the goods to a third party in yet a third member state, and the goods are drop shipped from the first member state directly to the third, simplified triangulation may apply. If indeed it does apply, the second company, would be able to complete the transaction without having to register for VAT in the third member state.

The transport of goods also plays a large role in the application of simplified triangulation, and is absolutely critical to the understanding of how to tax the transaction chain. For instance, transport needs to be organized within the relationship of company one and two as a condition to apply the simplified triangulation, but it is not always simple and straightforward to determine whether that is the case. At the end, it can only be established by investigating the commercial agreement between the parties, i.e. a factual matter. For example, if the seller quotes a price inclusive of transport then you know the seller is taking charge of the transport.

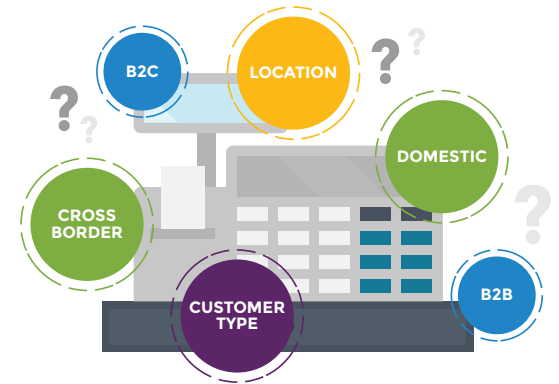
And while this data can be found in transaction documentation like contracts, purchase orders, or sales orders, etc, in many cases transport is allocated based on assumption as parties either are unsure, or simply do not have the data available in their systems — leading to potentially big problems.



Supply of Services

There are different rules driving VAT treatment that depend on whether you're supplying services to consumers (B2C) or business (B2B), and whether or not the transaction is domestic or cross-border. Also, if a seller or purchaser has multiple establishments, it is very important to determine from which establishment the service was rendered, or to which establishment the service is being rendered.

A missing or incorrect transaction location or customer type can cause the transaction to be accounted for incorrectly or reported to the wrong tax authority — leading the company to pay the incorrect amount of VAT or even pay this in the wrong country.



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CHALLENGE TWO

When it Comes to VAT Requirements, No Two are the Same

Different countries and jurisdictions can have vastly different requirements to manage. Returns can differ significantly from country to country, and it's often difficult even for tax professionals to ascertain which requirements apply to which transactions.

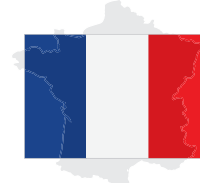
A perfect example of this complexity is the cash accounting scheme, which is a mandatory in some countries, optional in others, and non-existent in others. Under the cash accounting scheme, companies have to (or can opt to) account for their VAT output and VAT input not based on the invoices they issue or post, but on either the account of VAT their customers actually pay to them or that they pay to their vendors in a certain period.



MEXICO
cash accounting



UNITED KINGDOM
date of invoice



FRANCE
optional

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CHALLENGE THREE

VAT-Free Transactions Are Not Free of VAT Challenges

VAT-free transactions, whether exempt, zero-rated, or out of scope, come with their own challenges. Depending on the type, there may be different legal requirements needing to be met in order for the exemption to be applied. While not charging VAT is the exception to the general rule of taxation, it is up to the taxpayer claiming the exemption to prove that all legal conditions are fulfilled.

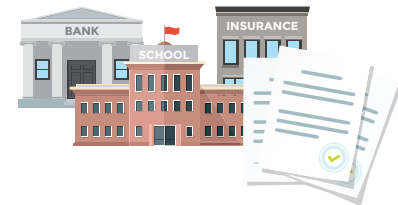
For example, when a VAT-free determination is made, you must be able to show or explain why the determination was made — many times being required to provide additional documentation.



EXPORTS
proof the goods left the country,
customs documentation



ACROSS EU BORDER TRANSACTION
corresponding set of trade documentation



TRANSACTION-BASED EXEMPTIONS
insurance companies, banks, educational institutions



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CHALLENGE FOUR

ERP Logic and the Complex Nature of VAT Reporting

Often, ERP systems do not have the infrastructure or tools required to properly set up complex tax calculations required to properly manage VAT determination. Many simply do not have a sufficient number of available tax drivers needed to guarantee the correct tax is calculated on each transaction, in each jurisdiction, or lack other critical tax functionalities when out of the box.

For example, companies may:

- Run out of tax codes or tax drivers
- Have incomplete or incorrect data fields
- Need to maintain complex calculations with time-consuming hard coding

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A/P outsourcing, especially to low-cost locations, has been a well-trodden path for many companies and comes with many benefits. However, as every VAT leader knows, those outsourcers seldomly employ VAT specialists and are paid by reference to the volume of invoices processed, not the quality of the tax coding.

CHALLENGE FIVE

The Inherent Challenges Around Accounts Payable

The risk of A/P VAT errors can be very high if your company relies on the vendor to charge the correct tax, hard-coded logic and/or clerks to manually select tax codes from long, ever-changing ERP drop down lists.

Manual Processes Equal Risk

It is therefore critical for companies to review and validate all incoming A/P invoices against local VAT regulations, as even the most skilled accounts payable professionals may find it challenging to understand the vast complexities of VAT determination on purchases, especially when doing so across multiple jurisdictions.

Outsourcing Equals Risk

By definition, businesses have much less control over their A/P process than their A/R process. When vendors charge the wrong VAT rate or amount, or fail to issue invoices satisfying all requirements, the receiving company assumes that risk.

This risk is significantly increased for businesses with outsourced accounts payable operations, as outsourced accounting and finance professionals often lack the deeper tax expertise that is required to manage VAT complexity - increasing the exposure to risk.

Global Tax Technology Can Tackle VAT Determination Challenges

With the complexities of VAT determination - including the time, costs and resources associated with keeping up with global rates, rules, and logic, companies are turning to tax technology to automate their VAT determination processes.

Vertex provides an advanced solution for determining taxes and calculating, collecting, and reporting on VAT while maintaining the global tax content to reduce the burden of keeping rates and rules up-to-date.

Using technology to automate tax processes reduces administration time and costs of manual VAT calculations and creates the necessary audit trail and governance structures throughout the VAT lifecycle.

To find out more about how tax technology can

- Centralize and automate your VAT processes
- Simplify, and reduce the cost of VAT, GST, and other international tax maintenance
- Ensure accurate VAT calculation, payment, and reporting
- Drive business performance through more effective global VAT and GST management
- Reduce risk and costs, and enhance compliance and audit readiness to better support your business

Contact a Vertex representative on **+44 (0)20 3906 7630** or visit **vertexinc.com/global-tax-solutions**.

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Latin America
São Paulo, BR

Europe
London, UK

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*To learn more about how automation can help global businesses simplify VAT determination and overcome many other VAT challenges, contact a Vertex representative at **+44 (0)20 3906 7630** or visit **vertexinc.com/global-tax-solutions**.*