

PART 2: VAT COMPLIANCE & AUDIT

The Biggest VAT Challenges for
Multinationals

As businesses become more global and regulations around reporting increasingly stringent, manual processing of VAT returns is becoming more and more difficult. Furthermore, it is labour-intensive - straining the resources of any tax department and error-prone, increasing the risk of non-compliance.

Introduction

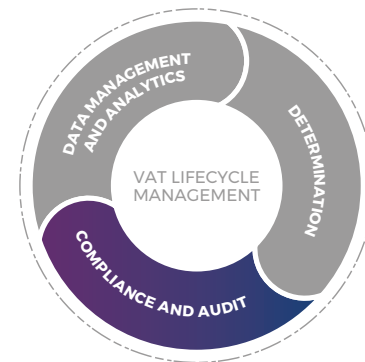
Having determined whether VAT applies to specific transactions and the correct rate to charge, the next challenge is ensuring transactions are reported accurately and on time, in the right VAT returns.

Complexity Adds to the Compliance Burden

With the changing tax landscape and government regulations becoming more stringent, remaining compliant during the VAT returns process is becoming all the more difficult. Depending on the specifics of each transaction, businesses are having to take into consideration the different variations in regulations within each of the countries they operate in.

Not only does this require an understanding of how returns differ by country/jurisdiction, but also on and how reported data is interpreted in different regions.

This eBook looks at the top five VAT compliance challenges facing global companies today.



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CHALLENGE ONE

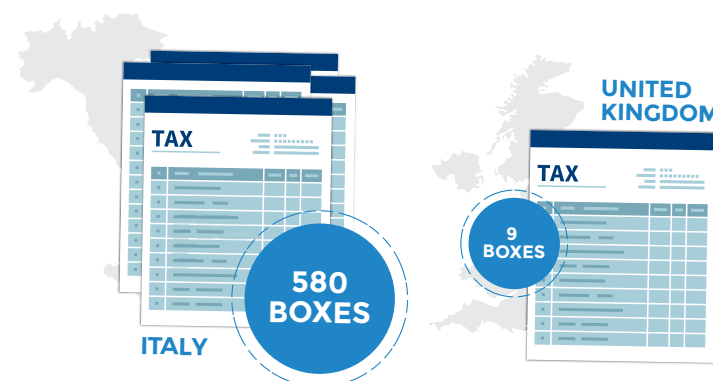
VAT Returns Are Not Globally Standardized

For multinational companies, VAT compliance is complex and challenging. For example, for a transaction that touches multiple countries, compliance requirements may arise in multiple countries. Even for the same transaction, the returns are not standardized across countries.

A return in one country might require very little data to be compliant. While for an identical transaction, however, the return in another country might be very detail-heavy. For example, the UK's current VAT return requires taxpayers to fill nine boxes of information while a taxpayer in Italy is confronted with a return with over 500 different boxes to fill.

The different requirements from country to country make VAT compliance exceptionally difficult to master. Even the most seasoned tax professionals can have trouble determining which information will be required for any given country's returns. Those returns commonly require a great deal of detail to be split out in reference to every transaction. For example, when filing a VAT return you may need to identify:

- Transaction type
- Debits vs. credits
- Capital goods, misc. goods, or primary materials
- Proof of VAT-free determination



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CHALLENGE TWO

Return Language Is Often Left Up to Interpretation

Same Name, Different Data

In many cases, boxes on the returns will be similarly labeled across different countries, but require different data.

For example, some countries require credit notes to be deducted from base amounts, and in other countries those deductions aren't allowed at all.

Compliance Can be Lost in Translation

Often, detailed rules are available only in the local language, and translations can miss subtle, yet very important, details. It can be a drain on corporate resources, a time impediment and a compliance risk to manually manage VAT returns in dozens of languages.





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CHALLENGE THREE

ESL and Intrastat Returns Require Additional Data

Many countries require accompanying returns or submissions to be filed. The EU demands monthly or quarterly EC Sales Lists (ESLs) to provide details of sales to other EU companies. In addition, in the EU a taxpayer may be required to file so-called Intrastat returns, a statistical filing required both on input and output side if a certain threshold of intra-EU shipment of goods takes place.

Intrastat forms require weights, commodity codes, and modes of transport information, among other transaction details. This data is not commonly housed in a company's ERP system, meaning it needs to be sourced elsewhere and then combined with the financial data to complete the filing. This extra step takes precious man-hours and leaves more room for error. Where typically companies struggle to keep their data clean and up to date in general, it is quite common to find even bigger challenges in the data needed for Intrastat.

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CHALLENGE FOUR

Additional Returns are Required by Different Jurisdictions

Spain's SII initiative requires companies to submit detailed data electronically within a four-day window. Other countries may have intra-EU purchase listings, VAT SAF-T filings or yearly listings of sales to local tax payers. So on top of the challenge of understanding and obtaining the data, taxpayers face the risk of omitting certain filings as they may not know that these additional filings exist.

A company with filing requirements in just five countries, can find itself in a position where it needs to file 60 VAT returns, 60 ESL's, 120 Intrastat returns and possibly an additional set of VAT SAF-T's and other filings. That's 240-plus returns to be filed on time, at different frequencies, and either on paper, online, e-File upload, or as XML.





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CHALLENGE FIVE

Manually Managing the Compliance Process can be Risky Business

Despite the complexity of VAT compliance (or perhaps because of it) many companies operate highly manual, spreadsheet-driven VAT compliance processes. Or alternatively, they simply outsource their VAT compliance processes to third parties, which may be a costly option that offers sometimes only a partial solution.

Gaps in Accountability

For companies that run their own VAT compliance process, returns are often completed locally by finance and accounting professionals – employees who have other responsibilities and may not possess intricate tax knowledge. So many people from possibly different departments and different skill sets handling and interpreting the data, makes this an error-prone process from the start. With so many people, sometimes from different departments, possessing different skill sets and interpreting the data, this makes the processes increasingly error-prone from the start.

Unclear responsibilities and hand-off points make fact checking and quality control a time consuming and cumbersome process that can lead to unsatisfactory outcomes, becoming a drain on both time and money.

Barriers to Centralization

Centralizing the compliance process without the proper infrastructure proves difficult due to all of the reasons quoted in this e-book. Without the proper infrastructure, it would require VAT skills and fluent language skills for all of the countries covered, to ensure all requirements are properly understood, legislative changes are followed up accurately and implemented timely, and data is interpreted correctly.

So many people interpreting and handling the data leaves gaps in the spreadsheet, fact checking and quality control becomes a drain on time and money.

Tax Technology Can Help You Tackle Global VAT Compliance Challenges

Given the changing tax landscape and the complexities across jurisdictions outlined in this eBook, many businesses are turning to tax technology to help automate their compliance process.

Tax Technology reduces the preparation time required to file returns and also alleviates the risk of errors inherent within manual processes. This allows for greater quality control and creates the necessary audit trail and governance structures throughout the VAT lifecycle.

Within a centralized structure, tax technology provides an advanced means of calculating, collecting and reporting on VAT. As the global tax content within, is updated constantly and automatically this significantly reduce the burden of keeping rates and rules up-to-date and ensures that the right forms are filled with the latest tax data for that specific country/jurisdiction.

Automation allows businesses to:

- Centralize and automate VAT processes by pulling data from ERP systems to generate signature-ready returns
- Simplify, and reduce the cost of VAT, GST, and other international tax maintenance to enhance business performance
- Reduce risk and costs, and enhance compliance and audit readiness to better support your business
- Ensure accurate VAT calculation, payment, and reporting
- Focus on higher value strategic work rather than manual data entry

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