



Overcoming the Complexity of European Union VAT: Automating Determination and Compliance for N. American-based Companies

EU VAT Rates

Lowest

2.1%

France

Average

21.5%

Highest

27%

Hungary

Navigating taxation in the EU

Businesses expanding into the EU often encounter an unpleasant surprise when it comes time to account for VAT. Although 19 of the 27 member states share a common currency, value-added tax (VAT) rules remain highly localized and specific. The stakes are significant as VAT constituted 19% of the average EU country's tax collections in 2019, according to the [Tax Foundation](#).

A second shock can arise with the realization that the enterprise resource planning (ERP) system a company uses isn't always equipped to manage the complexities out of the box. ERP market leader SAP, for example, "designed its VAT solution a few decades ago and the feedback we have been receiving from our customers highlights that a lot of customization is required to handle complex tax scenarios," says Roger Lindelauf, Director of the SAP Center of Excellence at Vertex.

"SAP's native VAT determination functionality works well for domestic and simple cross-border transactions," Lindelauf says. But complexities like distributed stock-keeping and intercompany invoicing, in which one entity of a company charges another for goods or services, can easily increase the number of parties, up to sometimes seven parties.

There are also significant differences between countries in VAT exemptions and how VAT applies to categories such as books, vitamins, food, clothing, and medical devices. Many ERP's do not provide up-to-date changes on tax legislation and leave that role to either the customers or third-party solution providers.

VAT rates and terms vary by country. While the EU average standard VAT rate (2022) is 21.5%, country-specific figures, including super-reduced rates, range from a low of 2.1% in France to 27% in Hungary. Some EU countries also apply special VAT rates or exemptions on certain supplies that were in place before that specific country joined the union.

Frequently changing country-by-country reporting rules have added to the complexity. For example, some EU tax authorities now require or are planning to require real-time reporting or e-invoicing, in which transaction taxes are reported at the time an invoice is sent or even before an invoice is sent to the customer (invoice clearing). This requirement places additional pressure on businesses to ensure that data is correct before it is transmitted to tax authorities.

Before the introduction of real-time reporting requirements, "you had a chance to look at the data and correct it before sending it to the tax authorities, but you don't have that time anymore," Lindelauf says. "If authorities determine that your calculations are incorrect, it can lead to audits and fines."

"There is a clear shift going on from 'after the event' audits to tax administrations auditing and collecting in real-time, based on granular electronic transactional data," says Peter Boerhof, VAT Director at Vertex. "This also results in less reliance on manually created tax reports by the business."

The case for a specialized approach

Coping with this complexity through manual solutions is no longer sustainable for most companies. Building an automated solution in-house doesn't diminish the challenge of keeping global rates and rules up to date. And when businesses use multiple financial systems for ERP, procurement, and e-commerce, each system must be maintained and updated separately for VAT purposes. Companies doing business in the EU would be well-advised to implement a specialized tax technology solution that operates as a single source for VAT rates and rules across multiple applications.

Migrating mission-critical systems to the cloud allows organizations to significantly streamline their VAT compliance processes by relying on specialty providers to adjust quickly to changes in tax legislation. The burden and costs of keeping VAT rules updated within the tax engine are spread across their customer base. Calculations are always accurate, and compliance is baked in.

A specialized system, such as the Vertex tax solution, also provides data virtualization functionality that is not available in a core ERP system. The Vertex Indirect Tax Chain Flow Accelerator enables VAT managers to create a graphical representation of a complex business transaction and specify the responsibilities of each party. This visualization can then establish a correct configuration by the VAT manager of specific business scenarios from a VAT perspective.

The Vertex tax engine also reduces the need to rely on correct customer and material master data, Lindelauf says. "For example, it removes the need to classify each customer and each material number in SAP for VAT purposes."

For SAP customers, in particular, a specialized technology solution has other benefits. As it migrates customers to the cloud, SAP has also provided encouragement and incentives for them to adopt complementary solutions like Ariba for procurement, Concur for travel expense management, and Commerce Cloud for e-commerce management. All of these functions have indirect tax components. A specialized solution that is fully compatible with the SAP ERP suite also integrates fully with other components in the SAP ecosystem.

To learn more about streamlining VAT processes, [click here](#)

About Vertex

Vertex Inc., is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,300 professionals and serves companies across the globe.

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