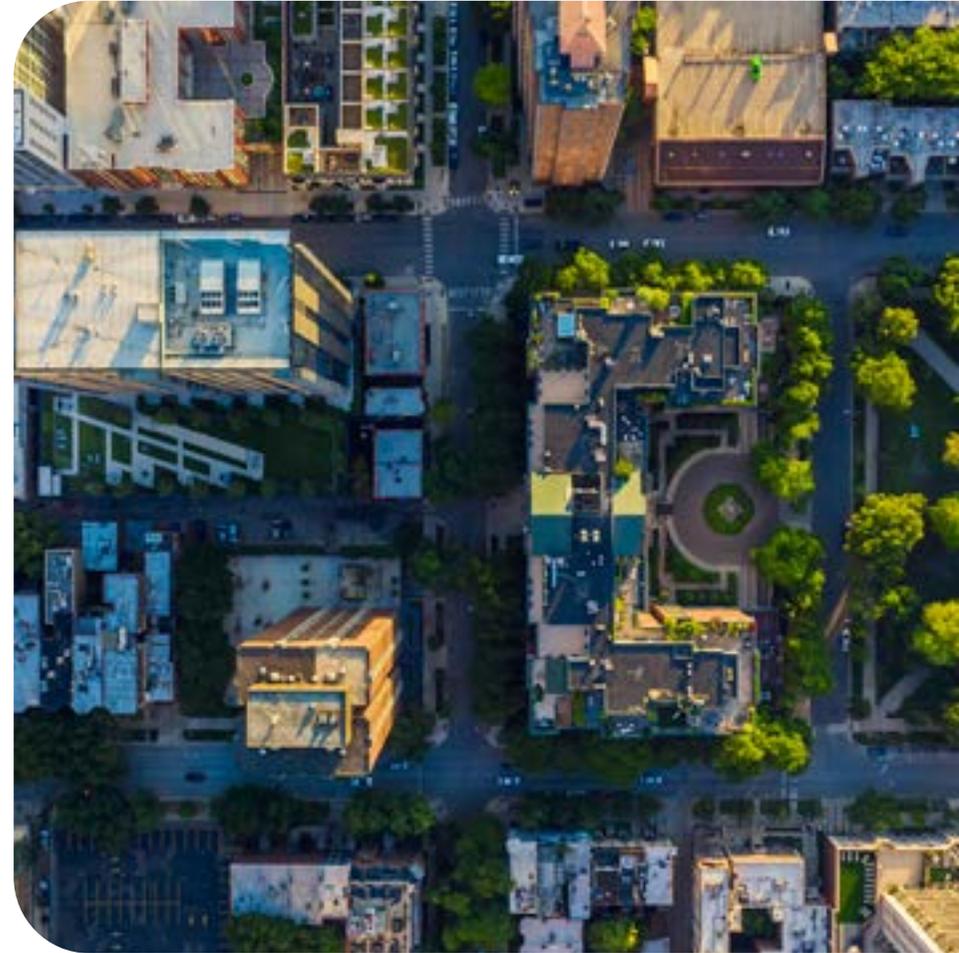




Challenges of registering, filing, and remitting tax globally



Practical considerations when registering, filing, and remitting tax globally

Registering for, and managing Value Added Tax (VAT), Goods and Services Tax (GST) or Sales and Use Tax (SUT) in your own country is normally a relatively straightforward process. The language is known and so are the processes and administrative burdens involved in dealing with your local tax authorities. But what happens when you need to start working with an overseas authority to remit the tax on your sales or other taxable transactions in that country?

From the moment you register in a tax jurisdiction, you enter their compliance regime. Yet the accessibility, quality and quantity of guidance you receive both before and after you register differs widely – and you certainly can't rely on simply finding the information you need online.

On registering, you might get a comprehensive manual running to hundreds of pages – do you have the resources to read, digest and act on the information for every country concerned? On the other hand, you might get very little information, and be expected to figure things out for yourself or consult with a local tax advisor.

This guide will help you navigate the practical considerations for registering, filing and remitting indirect tax in tax jurisdictions globally.



Step 1 - Registering for VAT, GST or SUT in each relevant country

As a first step, you need to establish what tax jurisdictions you are making sales in and whether you have a tax registration liability in those jurisdictions. If you do, you need to find out quickly what the tax rules are in each, at what point you need to register, how to register (online or offline?) and who to contact.

It's no surprise that many businesses resort to tax advisors, despite the substantial costs involved.

Tax thresholds

Your liability for paying indirect tax on sales in each country will depend on the threshold set by that jurisdiction.

Examples of the varying thresholds currently in operation around the world include:

- **No threshold for any supplier** - Chile and Columbia currently have no threshold. This means that you must register and file from the first sale you make in these regions.
- **Threshold only for distant sellers** - The EU introduced a €10,000 threshold for distant sellers.
- **No threshold for a foreign supplier** - sometimes there is only a threshold for domestic businesses, with no threshold for foreign suppliers, e.g. Bahrain, Saudi Arabia, UAE, India.
- **Threshold issued on global sales** – e.g. Switzerland, which uses a global sales figure of CHF 100,000, i.e. if you have global sales over this figure you are liable for tax in Switzerland from your very first sale on Swiss territory.
- **Thresholds that depend on both the value of sales and the number of transactions** – e.g. in the United States, a trend of a threshold of \$100,000 in sales and/or 200 transactions at state level is emerging but is not consistent across every state.

Step 1 continued

Other registration challenges include:

- **Language barriers** - although many tax jurisdictions offer information regarding registering in English, there are often requirements to fill out forms and/or provide certain company documentation/information in the local language.
- **Tax agents** - in some jurisdictions it is mandatory to use a tax agent. The agent is jointly liable for the tax obligations. This can be difficult and expensive to manage.
- **Countries adopting place of supply rules at short notice** - it's not unusual for countries to give little notice that they are adopting place of supply rules for non-resident businesses, leaving insufficient time for affected businesses to prepare and register.
- **United States registrations** - though some states still tax according to the physical presence of a company's location, this has changed following the 2018 United States Supreme Court 'Wayfair' ruling. The 'Wayfair' ruling states that SUT obligations can now be triggered by economic nexus, i.e. volume of sales and/or transactions based on the customer's location.

Key considerations

1. Every country has its own rules about when you need to register but so does every US state – and rules change constantly, so ongoing monitoring is essential.
2. Information and communication may be required in the country's local language(s).
3. You may need a tax agent.



Step 2 - Reporting and filing

When it comes to reporting and filing, there are three main points to consider:

- **Filing frequency**
Each tax jurisdiction chooses its own filing dates and filing frequencies. The frequencies can vary from monthly to bi-monthly to quarterly. This means businesses must be able to keep on top of the multiple dates and frequencies as well as the varying submission requirements.
- **Data required and calculation accuracy**
Separating out the correct data required for each individual filing and submission from the huge volume of transaction information you hold is by no means a simple task. Fluctuating foreign exchange (FX) rates add an extra challenge: the total tax shown as owing on your ledger may come from the amounts calculated based on the rates applicable at the point of invoicing – which are unlikely to be the same as the rates applicable at the point of filing. This means a recalculation may be required for filing purposes. In practice, in order to simplify things, some tax authorities allow you to use the fx rate at the end of the tax period if you are not updating your currency on a daily basis.
- **Filing process**
In some tax jurisdictions, there may be an online filing portal. It is important to understand the process in each jurisdiction in order to allow for any filing processing timelines, i.e. managing different portals, filing formats and increasing frequency and granularity of data that are all time-consuming requirements.



Key considerations

1. It's essential to plan for multiple filing deadlines.
2. You need systems that can extract the correct data for each individual filing and submission.

Step 3 – Remitting your tax bill

You might assume the hard work is done once the filing is complete, and all that's left is a simple bank transfer to make the payment. But no, with multiple rules and a host of varied logistical considerations, even the remittance stage can be full of complications.

Key considerations include:

- **Short remittance timeframes** - in some countries, tax filing and remittance must happen on the same day. This is not a problem for businesses within the country, who can file and remit on the same day. However, for businesses who have to arrange payment from outside the country, this can present a real challenge. Also, in some cases, filing made through online portals may require you to complete payments during the opening hours of the day in the tax jurisdiction e.g. South Korea.
- **The need to transfer money via a treasury partner where a country has a closed banking system** - an unexpected complication is that some countries have closed banking systems. This means that many of your domestic banks may have restrictions to transfer money directly into overseas accounts for tax remittance purposes.
- **Payment rejection problems** - in some jurisdictions, it's not unusual for payments to be rejected - and for you not to be notified. The funds will leave your bank account but go into suspension. You may think you have paid, but the tax authority doesn't have the money and you will only realise this when the monies are eventually refunded. In other jurisdictions you may only find out when the authorities contact you about the missing funds.
- **FX exposure** - when your tax liability is in a different currency to the currency you trade in, you are exposed to FX risks. The biggest area of risk is caused by currency fluctuations between the time the rate is issued and the time you perform the treasury operation.

Key considerations

1. Tight remittance timeframes can pose real practical difficulties: forward planning is vital.
2. You may require a treasury partner in countries that operate a closed banking system.
3. Active management of FX exposure across multiple currencies is critical in order to avoid potential losses.

Where do you go from here?

As your business grows and develops, you don't want to be restricted by tax compliance requirements. Your focus should be on growing your sales. To make the most of global opportunities, you want to be able to sell to anyone, anywhere, anytime – and to do so in a way that is compliant and hassle-free.

It's critical to consider the best way to achieve this without sinking internal resources into ever-increasing tax-related tasks, paying for expensive advice that's only as up-to-date as the day it was given, or putting obstacles in the way of customers completing purchases.

Given the scale and complexity of the task, it's essential to think ahead and plan rather than try to put ad hoc measures in place as you go along:

Identify your current situation

- What countries are you selling to or expect to be selling to in the immediate future and what rules do they have in place?
- Consider your business ambitions.
- How many more countries do you expect to be selling to over the medium-long term, and what further requirements will you need to meet?
- Think about your customer-facing technology and internal processes.
- How will you integrate compliance rules; are your own resources and technologies up to the task?

Managing global indirect tax compliance is not a 'one-size-fits-all' process. Every business is different, with its own unique requirements. Vertex partners with you to understand your needs and objectives. We then work closely with your team to design a practical, global indirect tax compliance solution to meet your strategic goals.



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