**VERTEX**®

A Tax Professional's Playbook for European Cross-Border Expansion

In today's global economy, expanding outside of your country is a crucial step for businesses seeking long-term growth and success. Each new country your business enters has untapped potential and a larger customer base, which in turn can lead to increased market share and revenue. However, it's crucial to understand that with European expansion also comes a heightened level of complexity and associated risks, primarily related to cross-border tax compliance. To help your tax and finance departments feel confident you can tackle your new global tax compliance requirements, we suggest you take four steps including:

1. **Become familiar with the VAT aspects of European cross-border commerce.**

2. **Define your offerings and channel growth goals.**

3. **Consolidate VAT across your technology stack.**

4. **Optimise your tax team's structure.**

Keep reading to learn more about these steps as well as how tax automation can support your expansion initiatives.
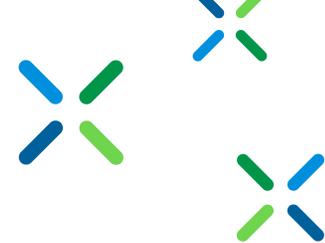
Step 1: Become familiar with the VAT aspects of cross-border commerce

The VAT complexity and risk associated with buying and selling across borders introduces a new level of tax complexity that your team will need to manage in order to remain compliant. With constantly evolving rules, rates, and requirements for periodic and real-time reporting, the challenge of accurately managing VAT on every transaction across your business has never been bigger. Consider these aspects of VAT and evaluate the complexity when applied to cross-border transactions:

- **Cross-border VAT complexity:** VAT is levied on imports by all European Union (EU) countries on goods arriving from outside the EU. But there are multiple exceptions and every country has its own rules about when VAT applies and what the rates should be. In addition, within the EU, there are both EU-wide regulations and individual member state rules. On top of this, many VAT rules are subject to local interpretation, with different tax advisers giving different opinions based on the journey and destination of the goods and place of delivery/consumption of services imported into the EU.

- **Reverse charge rules:** Most businesses today must be able to handle reverse charge rules on both purchase and sales to other businesses (B2B) for both cross-border and domestic reverse-charge scenarios. With individual countries potentially applying reverse charge rules differently (even within the EU), this is a complex area to deal with correctly.

- **Multi-party transactions:** While VAT determination solutions were primarily designed to cater to transactions involving only two parties - the buyer, and the seller – today, it's common to see a transaction chain, with one or more resellers sitting between the original seller and the end buyer. To complicate matters further, each party in the chain may be based in a different VAT jurisdiction. EU triangulation rules for chains of three member states add a further level of complexity. Though designed to simplify VAT, the rules are often very complex and are not interpreted consistently throughout the EU.

- **Digital invoicing for e-commerce:** The move to online selling has brought with it the need to issue jurisdiction-compliant invoices instantly in a specified layout with accurate currency conversion, which, in turn, requires tax treatment to be determined accurately at the point of sale. This is not something an e-commerce or marketplace platform can handle alone.

- **Real-time VAT reporting (e-invoicing):** Until recently, all VAT reporting was periodic. This gave finance teams time to go through system reports to collate and check data before sending to the relevant tax authorities. Increasingly, however, tax authorities are expecting data to be extracted from the organisation's ERP for real-time reporting. Additionally, some countries mandate the use of electronic invoicing to enhance the granularity and speed of reporting of transactions that support those summary VAT returns.

- **Supply and install rules:** The VAT treatment applicable to situations where you both supply goods cross-border and install them are particularly complex. Take the supply and installation of a large item of machinery, for example. VAT considerations include which components of the machinery are counted as moveable and which are counted as immoveable, as well as how the costs split between equipment and labour.

- **VAT groups:** VAT grouping is a mechanism available to businesses to help consolidate their VAT reporting in some countries. Two or more entities can be treated as a single taxable unit for VAT purposes – a key benefit being that VAT no longer needs to be applied to transactions between those entities.

To confidently expand into new countries, look for automated VAT solutions to not only automate and centralise complex VAT determination, but also to keep up with the latest regulations for invoicing (digital and electronic), data transmissions, and filings.

Step 2: Define your offerings and channel growth goals

The next step is to understand how your organisation plans to expand its offerings and selling channels to meet the needs of new consumers. Knowing the unique expansion goals and vision can better prepare your team to manage the associated VAT-related complexities. Some goals may include:

- Expanding your product line or adding services and experiences to your current mix.

- Launching your own marketplace or selling on additional third-party marketplaces.

- Seeking to increase e-commerce enabled and direct-to-consumer sales volumes.

- Adding more — and perhaps smaller-footprint — brick-and-mortar stores.

- Using your stores to offer omnichannel fulfillment services like buy-online, pickup in-store, or buy in-store and ship elsewhere.

- Expanding into emerging channels such as Internet of Things (IoT) devices or in-game purchases.

Remember, new and different product categories will require you to maintain additional VAT rates, entering new countries could introduce new invoicing and filing requirements, and growing e-commerce volumes may mean your periodic and real-time reporting volumes also increase exponentially. Also, creating an online marketplace means you will need to understand marketplace facilitator laws that split the tax burdens between retailers and marketplace sellers.

To help you achieve your organisation's growth goals, consider adding an end-to-end VAT automation solution that can enable you to easily adapt to the changes in your business such as new products and sales channels (BOPIS: buy online, pick-up instore, BORIS: buy online, return in-store, and curbside pickup). It should offer robust VAT content, integrations to your source financial systems, be capable of handling high-volume VAT calculations efficiently and quickly, and support the latest invoicing and filing requirements for each country.

Step 3: Consolidate and automate VAT processes across your technology stack

Tax workflows exist across multiple parts of your brand's technology stack. VAT data, content, calculations, and compliance could live within any or all of the systems below, depending on your size and structure:

- ERP systems, some of which feature built-in VAT calculation.

- POS systems, which calculate VAT at physical checkouts in brick-and-mortar stores.

- E-commerce platforms, which may store VAT rates and auto-collect taxes at online checkouts.

- Marketplace platforms, which may or may not include VAT collection and calculation capabilities for both the marketplace operator and the deemed seller.

- Procurement systems, which streamline purchasing but often require integration with other systems for VAT determination.

The problem is that this fragmented approach can create major VAT compliance headaches and may even result in penalties. To keep your growth strategies on track, you must find ways to apply VAT uniformly across all transaction systems, and streamline data consolidation and filings. The ideal approach is centralisation automation. Establish a centralised and consistent VAT process across your technology stack.

Look for a cloud-based VAT determination engine that can fully integrate with your POS, ERP, e-commerce platform, and other mission-critical software. Also, look for an integrated, end-to-end solutions to automate VAT determination, invoicing, and reporting.
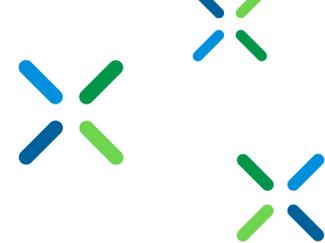
Step 4: Optimise your tax team structure

Assessing your in-house resources and departmental structure across all functional areas of your business is essential, especially when it comes to VAT compliance. At retail companies, in-house tax teams typically take several forms.

- Earlier-stage mid-market retailers may have a small team, with one or two resources dedicated to updating transaction systems, and filing returns.

- Larger mid-market and enterprise retailers may split up tax responsibilities across multiple departments. They may, for example, have one set of tax experts embedded in their e-commerce business, another set dedicated to their brick-and-mortar locations, and even a third set focused on marketplaces or split by line of business or legal entity.

To optimise your tax team structure, ensure your tax department covers all your sales channels, then pair your in-house team with a tax engine that gives you a single source of VAT truth with a centralised control framework. This type of structure will empower your tax team to track VAT charged, streamline workflows, and respond to audits efficiently. Another smart move is to develop tight connections between your tax team and the rest of the business. When your tax professionals understand the company's overall direction, its growth strategies, process changes and future vision, they gain the insights they need to maintain compliance across all products, channels, and customer experiences.

Conclusion

It's time for VAT automation

Manual processes to manage VAT divert resources from more strategic tasks and increase the risk of human error as the volume and pace of changes to regulations and rates increase. Rapidly evolving tax regulations mean changes will be constant which puts a strain on resources and increases risk. Developing a custom solution for your technology stack is increasingly impractical, unreliable, and expensive.

How Vertex can automate VAT for your cross-border expansion

Vertex global tax solutions can help you centralise and automate VAT management for both the sales and purchasing side of your retail business. This empowers your team to:

- Expand confidently into new countries across Europe by utilising integrated scalable VAT compliance solutions.

- Improve VAT accuracy and reduce audit risk.

- Help future-proof your VAT operations by keeping you up to date with ever-changing VAT rules and requirements.

- Build agile tax processes that can respond to market expansion without adding risk.

Why Vertex?

- Market leadership with over four decades of indirect tax technology experience.

- End-to-end VAT automation solution – from determination to invoicing and filing.

- Integrations to all major ERP and financial source systems.

- Best in class VAT content.

- Award-winning product support.

- A range of expert services to keep tax systems operating at peak performance with minimal Tax and IT team involvement.

To learn more visit vertexinc.com/solutions/ecommerce-tax-software
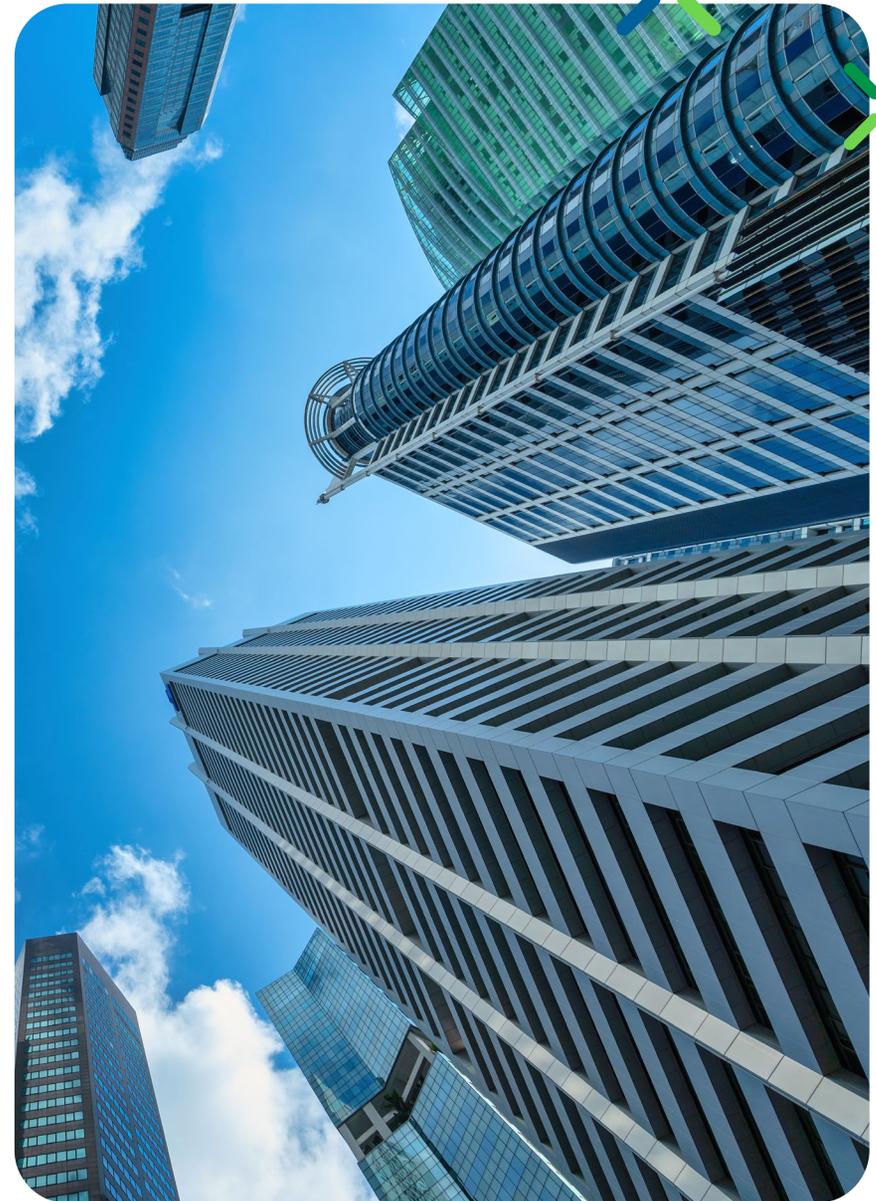
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