INTERNATIONAL TAX REVIEW

How Spanish SII is impacting companies: Duracell case study

03 August 2017

Joe Stanley-Smith

Spain has introduced groundbreaking requirements for companies to file transactional data in near real-time. ITR examines the case study of global battery company Duracell to explore how companies are dealing with the extra workload from the Suministro Inmediato de Información (SII) legislation, one month on from its implementation on July 1 2017.

While the SII regulations are probably the most stringent in the world, similar regimes are set to become more common. Hungary was due to bring in similar regulations on July 1, but delayed implementation for a year, and other countries will soon begin to follow suit.

As a result, even companies which are not affected by the Spanish regulations should follow their progress with an eye on the future.

Who is affected by the regulations?

The SII regulations are compulsory for all businesses which file monthly VAT returns in Spain, whether they are resident in the country or not.

Providing invoice data information is mandatory for:

- Businesses considered 'large entrepreneurs' for Spanish VAT purposes, ie. those with a Spanish turnover of €6 million ($7 million) or greater;
- Businesses applying the REDEME monthly VAT refund scheme; and
- Companies that belong to VAT groups in Spain.

Affected taxpayers must submit transactional invoice data every four days for sales and purchases in a specific XML format as per the requirements of the tax authorities.

"Traditionally compliance work was done every month or every quarter depending on the country," says Irmante Stazyte, global VAT manager and international tax manager at Duracell. "Now, this still remains but, in addition to that, there's the electronic data transmission requirement which means that practically every four days – at least – you have to submit the data to the authorities."

Penalties for non-compliance range from a minimum of €300 to a maximum of €6,000 per quarter.

Practicalities of compliance – how much more work is it for companies?

Of huge assistance to Duracell has been the advice of tax technology provider Vertex, which has provided systems complementary to Duracell's own technology. Many other tax technology companies are also offering solutions.

"You can probably guess from our relations with Vertex that the things that they're dealing with in general are very technologically advanced," says Stazyte. "We're relying as much as we can on the technologies that we own. Where we really have to go with Vertex is kind of just built on that. You know, from that perspective we don't really have to change the way we operate our business at all."

Despite relying "heavily" on the technology provided by Vertex, Stazyte says that the assistance means the only major change Duracell has had to make is to its processes.

"This is a piece of our end-to-end VAT strategy and VAT suite of products around compliance," says Danny Vermeiren, director of VAT at Vertex. "Really what we're doing is not just looking that the back-end compliance, and it's exactly what we're doing with Duracell."

"If you're at that last piece – getting that data into those returns whether it be Spain or another one – it's fairly technical, right? There's setup to it, but once you get the setup it's fine," he continued. "This is what Irmante was saying as well, what we're doing with Duracell and with other clients is not just purely looking at the mechanics of getting the data from A to B. We're actually helping to clean it up, close data gaps, control the quality of the data, and put some organisation to it, and then pass it on to compliance."

Is daily data better?

As a transitional measure, the Spanish government is only requiring companies to make the submission every eight days, until January 1 2018. Saturdays, Sundays and national holidays do not count. However, as Stazyte explains, many companies are keen to get to grip with the regulations early on and are submitting more regularly than they are obliged to.

"[The] reality is that most companies, from what I have experienced from our peers and ourselves, is that we don't wait for every four days, we actually do this exercise every day," says Stazyte. "So every day we have a new compliance obligation which is transmitting the data electronically to the authorities which was not in place before."

"We made a decision in our organisation we don't want to wait every eight days or every four days. We want to do it every day so we're aware if there are any gaps."

This thorough approach is helpful for reducing risk – not just of missing a four- or eight-day deadline, but of accidentally sending inappropriate information in the rush to comply on time.

"We're not only transmitting the data, we're doing data quality checks before we transmit the data to authorities," says Stazyte. "Of course, the less volume we have the more efficient you are in doing so. If we identify any issues, we also have more time to address those if we don't wait for the last minute."

"From the first month we're doing every day. Going forward we'll see; it depends on how comfortable we'll be that the data is absolutely clean."

Aside from penalties, what risks do the new regulations pose?

Inadvertently sending the wrong data, flawed data or even incriminating data directly to the tax authorities because of a lack of understanding or time pressure could have disastrous consequences.

"For starters you may not be able to submit it, right? If your data isn't perfect – with those electronic filings, you're simply not going to be able to file or your lines are going to be rejected," says Vermeiren. "On the other hand, if there's data in there that's wrong but it's still in the format that you'd expect so you're able to submit – you're submitting the wrong data."

"Clearly, the big question is what are authorities doing with the data? They're going to analyse the data... They're going to be looking at that data and if you've got errors in there – you've just given them everything – they're going to find them and they're going to come back to you and tell them what the errors are and assess it."

"Before we submit we want to make sure we clean up the data but also validate the correctness of it before we actually submit it," he concludes.

A lot of the checks and balances that companies can do manually for monthly or quarterly compliance are no longer feasible under near real-time reporting under the SII.

"Typically you have half of the month to prepare your return," says Stazyte. "When you have to transmit information instantaneously to the authorities, you can't do that manually any longer. So you either blindly send the data or you use the technology to do the same data analytics that you used to perform manually."

In the days before monthly compliance is eventually phased out – as the Spanish government has hinted its wants to do – tax departments must also ensure that their electronic returns match their monthly returns.

"I think it's in the interest of the companies to not just prepare the return, but also reduce the data that you're presenting to the authorities," says Stazyte. "I'm sure one or the other ways you'll still have to do that so I don't think the intention [of the tax authorities] is actually to reduce the workload, I think it's just to make it more efficient and more data-driven. [The authorities want to] leverage all of the data that the companies have, versus very old-fashioned return completion. So I think it's a shift in leveraging technology."

Where will the regulations strike next?

Quite apart from the considerations of data quality and ease of compliance with the regulation, Stazyte did not want Duracell to take advantage of any early leniency by the tax authorities for other reasons.

"We're not considering that at all because Spain is not the only country that has an e-filing related requirement or e-data transmission requirement, right?"

"Hungary had a similar requirement as well and they moved it to one year later, right? They're very close to the implementation of that," she said.

Hungary, a fellow EU member state of Spain, had planned to implement similar regulations at the same time as Spain. However, the Hungarian Ministry for National Economy issued a press release on April 29 2017 saying that the launch date would be postponed for one year, until July 1 2018.

The release said that the Ministry wanted to create a system that "generates the least possible administrative burden, is very easily operated, and provides sufficient testing time for businesses". It is for this last reason that the go-live date was postponed, although a test platform has been introduced.

It is expected that all Hungarian business invoices, issued by domestic businesses, on which more than HUF 100,000 ($390) of VAT is charged will have to go through the system. The penalty for non-compliance can be as much as HUF 500,000.

Hungary has often been at the forefront of tax technology, unsuccessfully attempting to introduce a controversial 'internet tax' in 2014.

Next on the list, though, are regions of Spain where the SII legislation is not yet in place. Companies in the Canary Islands, Ceuta, Melilla, the Basque Country and Navarra have until January 1 2018 to prepare.

"We're expecting many more 'Spains' to crop up over the months and years to come because it's clearly a trend in the market to go to a more digital relationship between taxpayer and government," adds Vermeiren.

"The essence is all about transmitting the data to the authorities in certain formats and also working on the data," says Stazyte. "So having it all in one solution, one platform, it gains us a lot of efficiency because every country you do next is much easier. We just expect that – as Danny said – this will grow."