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Digitalization of the Tax Environment

VAT Breakfast
2 November 2016



Agenda

1. VAT gap in the European Union
2. Actions to close the VAT gap
3. OECD Standard Audit File for Tax
4. SAF-T structure - Polish example
5. Challenges of the changing landscape
6. Get prepared!

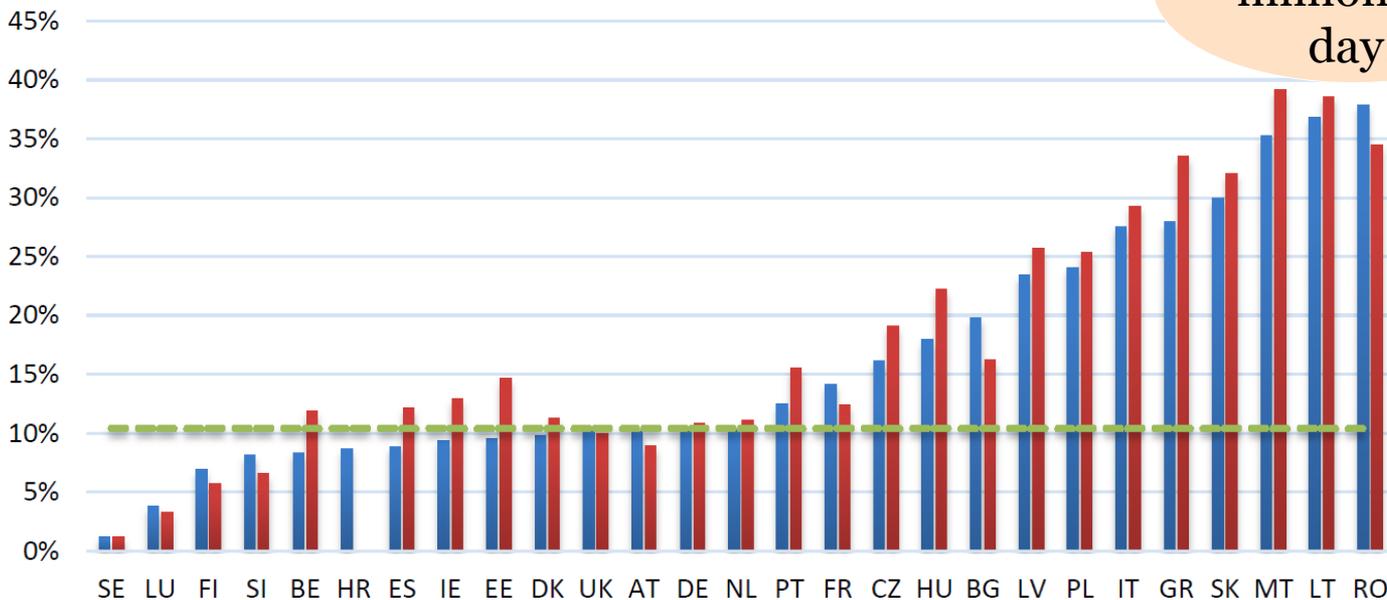
VAT gap in European Countries

Survey 2016

VAT collected in 2014: **almost EUR 1 trillion = 7% of total EU's GDP**

VAT gap between expected revenue and actually collected: **EUR 160 billion**

Target time to collect it: **3 years**



It's 146 million per day!



Source: EC report

2014 2013 median

Actions to close the VAT gap

What should be expected

Collect and share more information cross borders (enhancing **cooperation** between MS and third countries)

Improving tax compliance by cooperating with business (**voluntary compliance**)

Action plan on
VAT
→
Measures to tackle
VAT gap

Focus on **tax collection**
(compliance, errors and abuse)

Improve performance and operational efficiency by **utilizing technology** - modernisation of tax administrations and digital audit controls

E-commerce and digital economy reshaping the VAT rules → **Destination principle and extended OSS**

Actions to close the VAT gap

What should be expected

Collect and share more information cross borders

Exchanges and collaboration

Common agenda for **tax and customs** administrations, evaluation of the MS administrations against “best in class”, monitor performance, exchange knowledge

EUROFISC

Increased **impact of EUROFISC** (electronic transaction network analysis and ranking tool - TNA, mechanism provided for MS to enhance their cooperation in combating organised VAT fraud)

EU and non-EU collaboration

EC is working towards an **increased use of joint VAT audits on an EU level** and increased VAT administrative cooperation agreements with **non-EU countries** (Canada, China, Turkey and USA as a next step)

Cross-border VAT rulings

Pilot project set up to allow taxpayers to obtain advance **rulings on the VAT treatment of complex cross-border** transactions (18 countries are part of the pilot project)

Actions to close the VAT gap

What should be expected

Improve tax compliance by co-operating with business

Digital contact

Together with the business

Controls

E-administrations

Accessibility of tax authorities

- Initiatives **bridging the gap** between SMEs and authorities
- Education on awareness of the importance of paying taxes
- Guide on administrative cooperation -March 2016 - tax administrations shall:
 - set up contact points on an international level (e.g. Eurofisc chair) and on a national level (in tax administrations in the MS) for businesses
 - establish an early warning process to business ("awareness" and "warning" letters)

Business control in the effective management of VAT tracking the flow of goods

Actions to close the VAT gap

What should be expected

Improve performance and operational efficiency by utilizing technology

modernisation of tax administrations and digital audit controls

Joint audits

Enhanced **tax-customs audits** thanks to the electronic filings the data of VAT returns, EC Sales List and Intrastat is quickly cross checked

SAF-T

E-files & SAF-T model: allowing cross-border auditing and efficient domestic audits

Real time automation

- **Automated mechanism** allowing **cross-matching** between data reported by each party of every single transaction
- Verifying the transactions/invoices **in real time**
- Still some time to get there, but authorities are **no longer only reactive:**

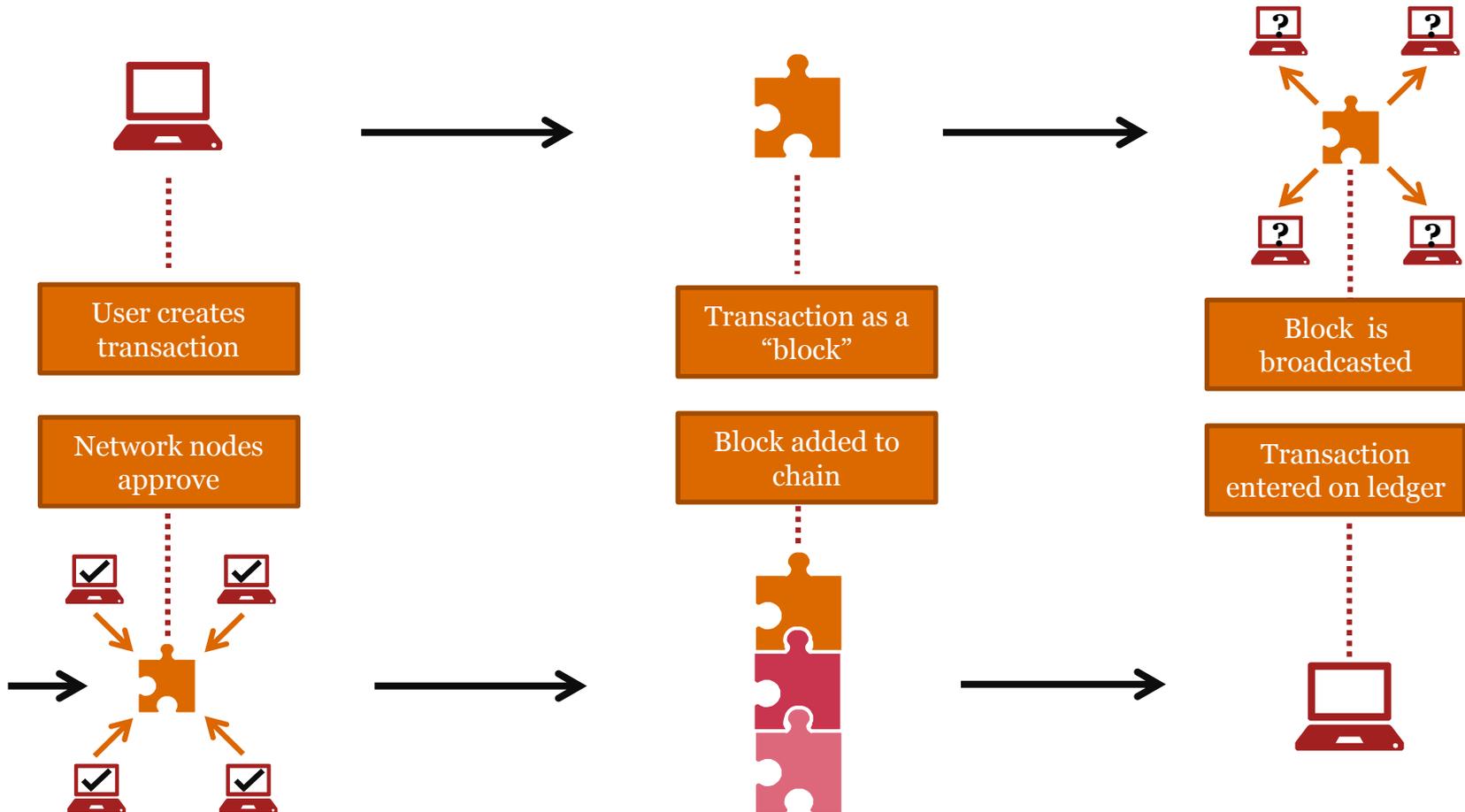
What's next ?

...
Blockchain

- Portugal's transport documentation upload prior movement
- Hungary's certified invoicing system with new download features
- Brazil's billing system and cross-state reporting

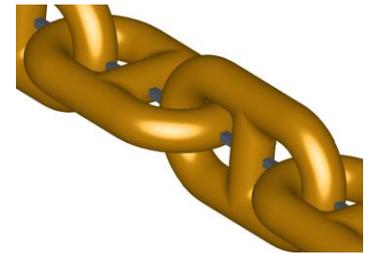
Blockchain technology

How does it work?



Blockchain technology

In VAT transactions?



Each product would have its **own distinct ledger** (showing original and current owners, as well as each intermediary along the way)



Each verified transactions of that supply would constitute a **new block** added to the ledger. It would be tied to all previous blocks to create a blockchain



Verification history of **VAT ownership** with validated transaction all along the chain. If a transaction is not verified, a valid invoice could not be issued (e.g. no VAT collected / no VAT recoverable)



Will not eliminate the first instance of fraud in a fraud chain but it should **detect** in real time any **efforts to continue the fraud**



AI would be **performing calculations and associating** data points as directed by programming prompts of trained VAT auditors



Tax fraud can be detected by sharing data among tax jurisdiction

OECD's concept

Standard Audit File for Tax (SAF-T)

The objective of the implementation of SAF-T is :

- To allow **efficient and accurate** data interchange – **easy electronic access, unified readable format**;
- To help **exchange** of transaction data from organization to tax authorities;
- To improve substantive testing **at invoice line-level** for tax authorities;
- To be able to conduct audit of **few taxes at once** (e.g. CIT-VAT comparison);
- To reduce the **costs and duration** of audit (ability to conduct audit remotely).

A growing number of tax administrations around the world are implementing e-audits of a business financial records and systems or SAF-T reporting as a route for the **tax offices to gain complete records of tax transactions**, and produce their own assessments of tax liabilities.

SAF-T and e-files

Key questions

Who ?

Duty of generating SAF-T /e-files differs between the countries :



≥ X employees

or



> X mln EUR

or

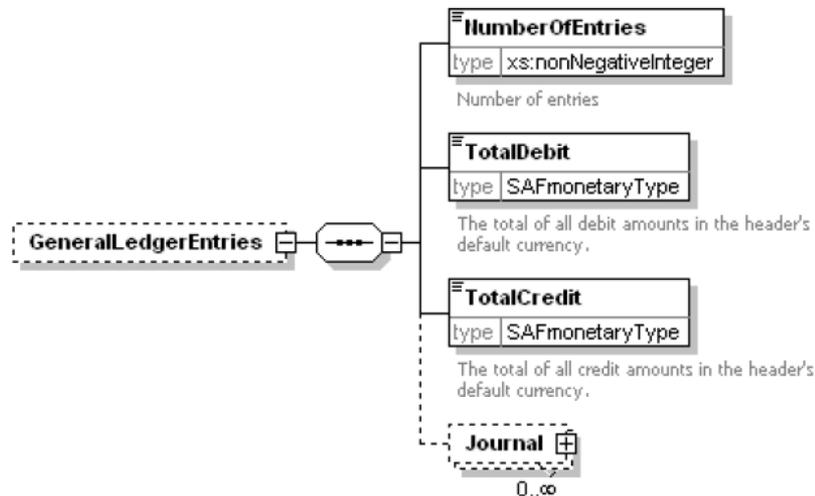


Including companies not having a branch or fixed establishment in the country

Example :

- France: French companies, branches, permanent establishment of foreign companies and even only VAT registration (simplified FEC);
- Poland: companies with a total of employees exceeding 250 or a turnover higher than EUR 43 m (requirement will come into force for medium and small enterprises respectively as from 2017 and 2018)

What ?



The format requested by tax authorities might vary between the countries :



SAF-T and e-files

Key questions

How ?

SAF-T works worldwide in two compulsory models:

- **on demand** (e.g. France: 1st day of audit)
- **compulsory periodic data handling** to the tax authorities (e.g. monthly basis for VAT Ledger structure in Poland or Control Statement in Czech Republic, etc.).

Penalties ?

Penalties for not remitting a compliant e-file at due date vary between the countries but are in general substantial penalties.

Example :

- France : 10% fine on additional tax liability reassessed (min. EUR 5'000 per fiscal year) and possibility of self assessment by tax authority (a potential 100% penalty on additional liability if lack of FEC treated as «obstruction» to audit)
- Czech Republic : CZK 30'000 (CHF 1'200) each time an error is identified by the tax authority and not explained within 5 days
- Poland : Max approx. EUR 750'000 penalty for not submitting the SAF-T file
- Reputation risk for companies (i.e. Lithuanian Tax authority publishes on their website various lists of tax payers that fail to fulfil their obligations)

SAF-T and e-files

Country coverage overview

- SAF-T based on OECD's format (full or partial content)
- Other e-files or additional reporting (some of SAF-T content covered - usually GL or billing, but not same data aggregation/ specific formats)
- Discussion about implementing SAF-T/e-files
- No e-file /no information



Coming up soon:

- SAF-T implementation in Norway foreseen for 1 January 2017
- Control statement foreseen in Italy as from Q1 2017

Comment: SAF-MOSS is excluded from this overview

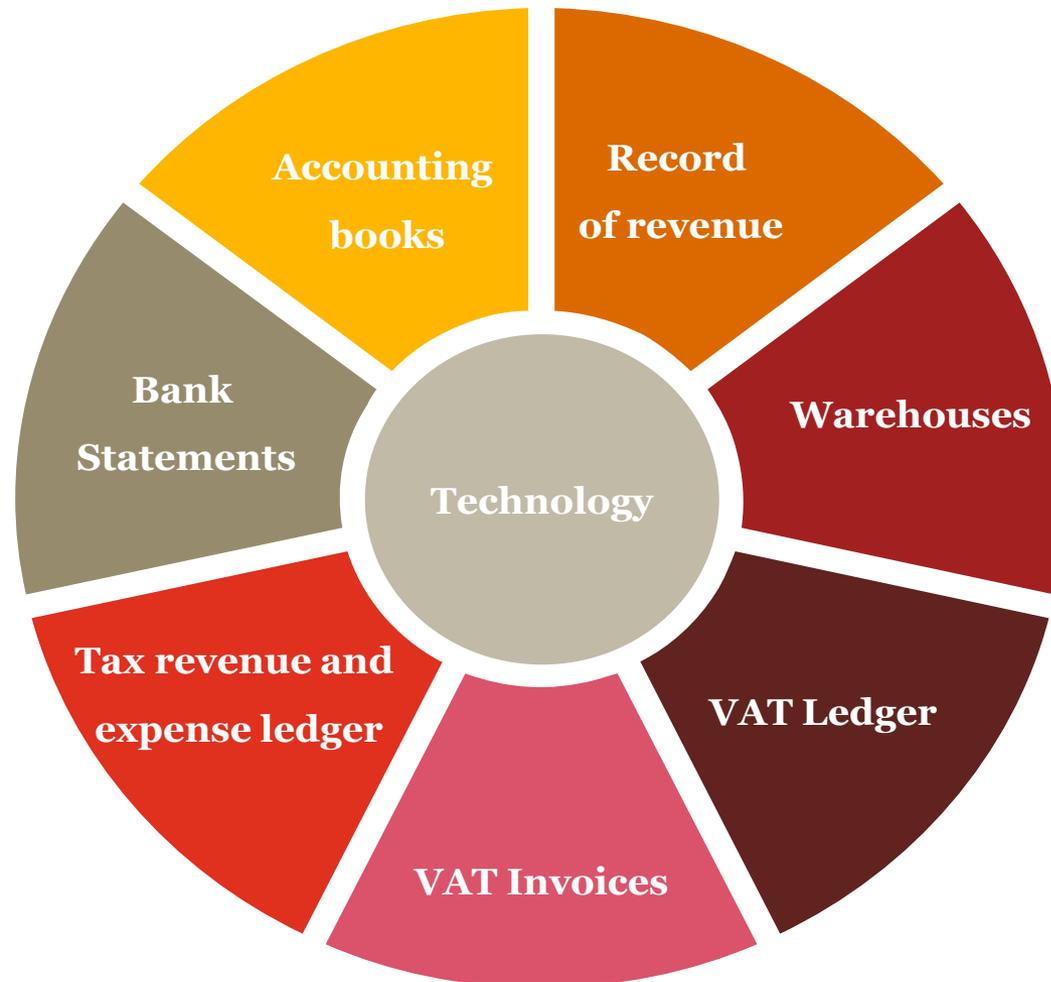
SAF-T and e-files

Content coverage comparison

Content	SAF-T OECD	SAF-T PT	FAIA LU	FEC FR	SAF-T AT	Audit file NL	SAF-T LT	SAF-T PL
Master data	Green	Green	Green	Red	Green	Red	Green	Green
General ledger	Green	Green	Green	Green	Green	Green	Green	Green
Sales invoices	Green	Green	Green	Red	Green	Green	Green	Green
Purchase invoices	Green	Red	Green	Red	Green	Green	Green	Green
Payments	Green	Green	Green	Red	Green	Red	Red	Green
Movement of goods	Green	Green	Green	Red	Green	Red	Red	Green
Asset transactions	Green	Red	Green	Red	Green	Red	Red	Red

Standard Audit File for Tax (SAF-T)

Details of typical structure – the Polish example



SAF-T structure for VAT Invoices

Details of typical structure – the Polish example

As if you were going through the Polish VAT Act → sections for all cases

VAT Invoices

Header: code of the form, version, purpose of submission, date generated, period from-to, currency, tax office code

Entity: tax ID number, full legal name, address, REGON (statistical code)

Invoices: date of issue, unique invoice number, name and address of customer and supplier, (EU) VAT number of customer and supplier, date of supply, turnover per VAT rate, VAT amounts per rate, special marking for: "self-billing", "reverse charge", triangulation, margin schemes, exemptions and supporting it articles, fiscal rep's details, type of invoice: Invoice, correction (reasons of corrections), advance payment

SAF-T structure for VAT Ledger

Details of typical structure – the Polish example

As if you were going through the Polish VAT return → e-file format of analogic information

VAT Ledger

Header: code of the form, version, purpose of submission, date generated, period from-to, currency, tax office code

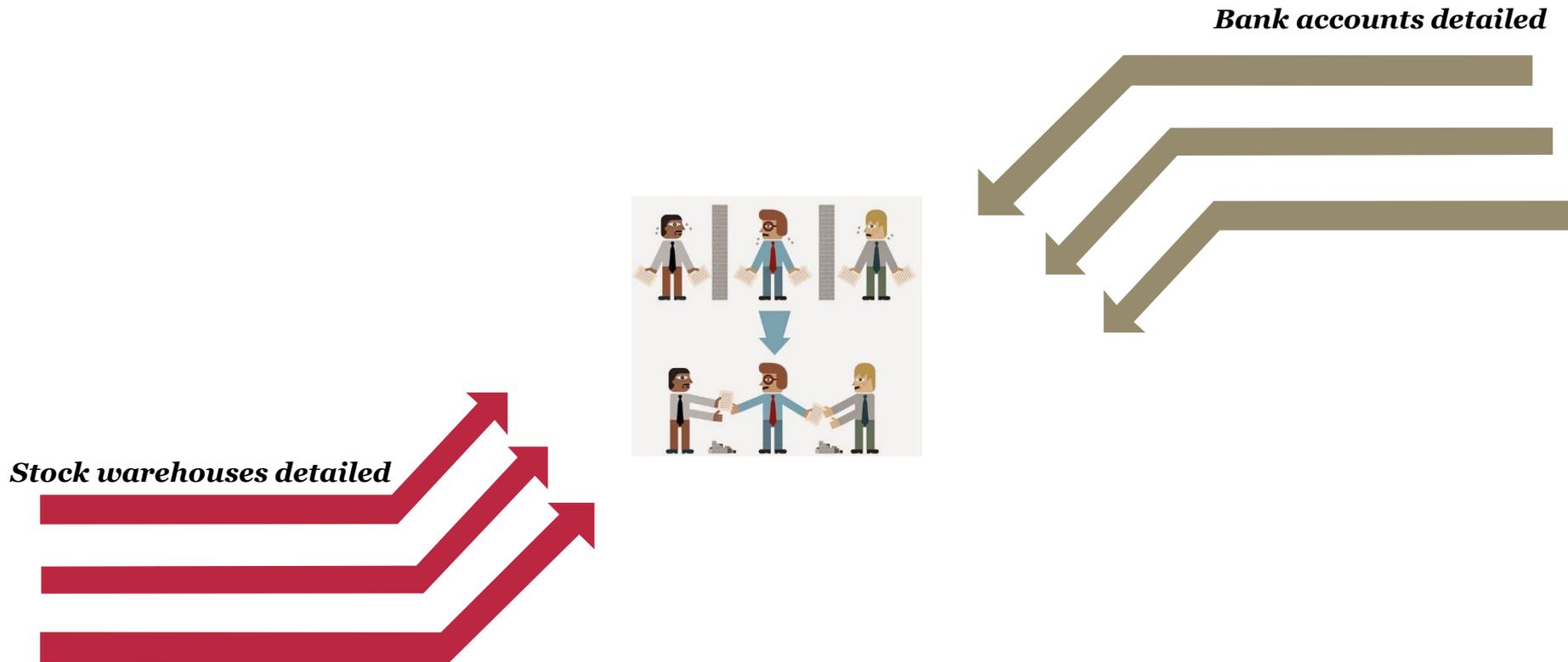
Entity: tax ID number, full legal name, address, REGON (statistical code)

Sales line: Line in VAT ledger, date of sale, date of issue, document number, name and address of customer, net amount per type of transaction (goods, services, reverse charged purchases) and VAT rate, VAT amounts per rate,

Purchase line: Line in VAT ledger, name and address of invoice issuer, tax ID of issuer, invoice number, date of invoice reception, net amounts and VAT amounts per type of transactions and VAT rates

SAF-T structure for... lots of other data

Not only VAT structures are in the focus



SAF-T structure for Warehouses

Details of typical structure – the Polish example

As if you were reporting all inbound and outbound movements within your warehouses (with details of all justifying documents)

Warehouses

Header: code of the form, version, purpose of submission, date generated, period from-to, currency, tax office code

Entity: tax ID number, full legal name, address, REGON (statistical code)

Warehouse: reception from outside, Disposal to outside, Disposal to inside, Intra-warehouse movements, Date of document, number, amount, date of goods movement, supporting invoice number; product's code, name, measure, price, destination of goods

SAF-T structure for Bank Statements

Details of typical structure – the Polish example

As if you were reviewing detailed bank statement for each account

Bank Statements

Header: code of the form, version, purpose of submission, date generated, period from-to, currency, tax office code

Entity: tax ID number, full legal name, address, REGON (statistical code)

IBAN bank account

Balance: opening and closing balance

Bank account lines: details line by line of the bank accounts, date of transaction, counterparty, transaction description, amount

What can we learn from cross-checking information?

Knowledge gained from SAF-T structures

**P&L – VAT sales = ...
Can we explain the rest?
Reconcile profits
with all worldwide ledgers ?**

**New inventory locations
not matching
VAT registrations
(non-trade also matters)**



**Which controls to implement /
which are actually missing**

**“Difficult” flows revealed in
Warehouse, GL or Bank Statements
(e.g. returns, replacements)**

Mismatches in the ERP systems

Your system stop being a black box



- **Mismatches** between ERP content and current reporting
- “We don’t print this one, we send the invoice from excel”
- “Shadow invoices forced by system automations”
- “Is this a disclosed or undisclosed agent ? (invoice, P&L payment, VAT declared – matching ?”



- **Data housed in multiple locations** (ERP, billing systems, commerce platforms)



- **Manual** reviews, reconciliation and manipulation
- Wasted **time**



- Mapping ERPs to standard structures (**bridges**)
- Adjusting the system **in line with structures**
- Non integrated data, **conversions** needed

Imagine having detailed transaction level data at your fingertips, already aligned to legal entity and tax sensitized. Imagine also having the ability to easily identify (and then correct) an upstream data entry problem (e.g. calculation the incorrect tax on an invoice or at the point of sale), avoid the unexpected significant over/underpayments of taxes and reduce the cost of filings

Get prepared!

How to be ready for digital tax environment?

It is strongly recommended to anticipate and set up a process of production of the e-file before the implementation takes place. The objective is to identify the right data to be included, and to audit the e-file to secure that it is tax compliant and comprehensive.



1 Identification of IT systems used for tax calculation.

If you are using aggregated data, identify the systems from which original transactional data come from.

2 Verification of accountancy policies.

Find the systems which create your legal accounting books – constitute general ledger or subsidiary ledgers

3 Scope determination of your accounting documents.

Define which of them are stored in paper version and which in the electronic one.



4 Mapping to structure.

Prepare a mapping of data required in SAF-T to your IT systems. Identify gaps in the prepared model of data and analyse, what can be done to eliminate the gaps.

5 Identify reports or data extracts from these systems or data warehouses, from which you can obtain the required data.

6 Complementary solution to adjust your system and make it in line with SAF-T requirements.

If your system provider is not able to adjust your system or if scope of data sources comes a number of different IT systems, use a converter (IT software), which will enable you to modify data from your source systems into required XML file format.

7 Finally, you will get a self-control tool which can be used to identify gaps which can be detected in the course of the tax control.

CbCR and exchange of tax rulings

Have a cross check !



Country-by-country reporting (CbCR) represents a significant development for today's multinational companies as they will have to provide information on their global allocation **profit, taxes** paid and certain indicators of **economic activity among the countries in which they operate**



Tax transparency package introduced the **automatic exchange information on tax rulings**. National tax authorities will have to send every 3 months a short report listing all tax rulings and advance transfer pricing arrangements issued



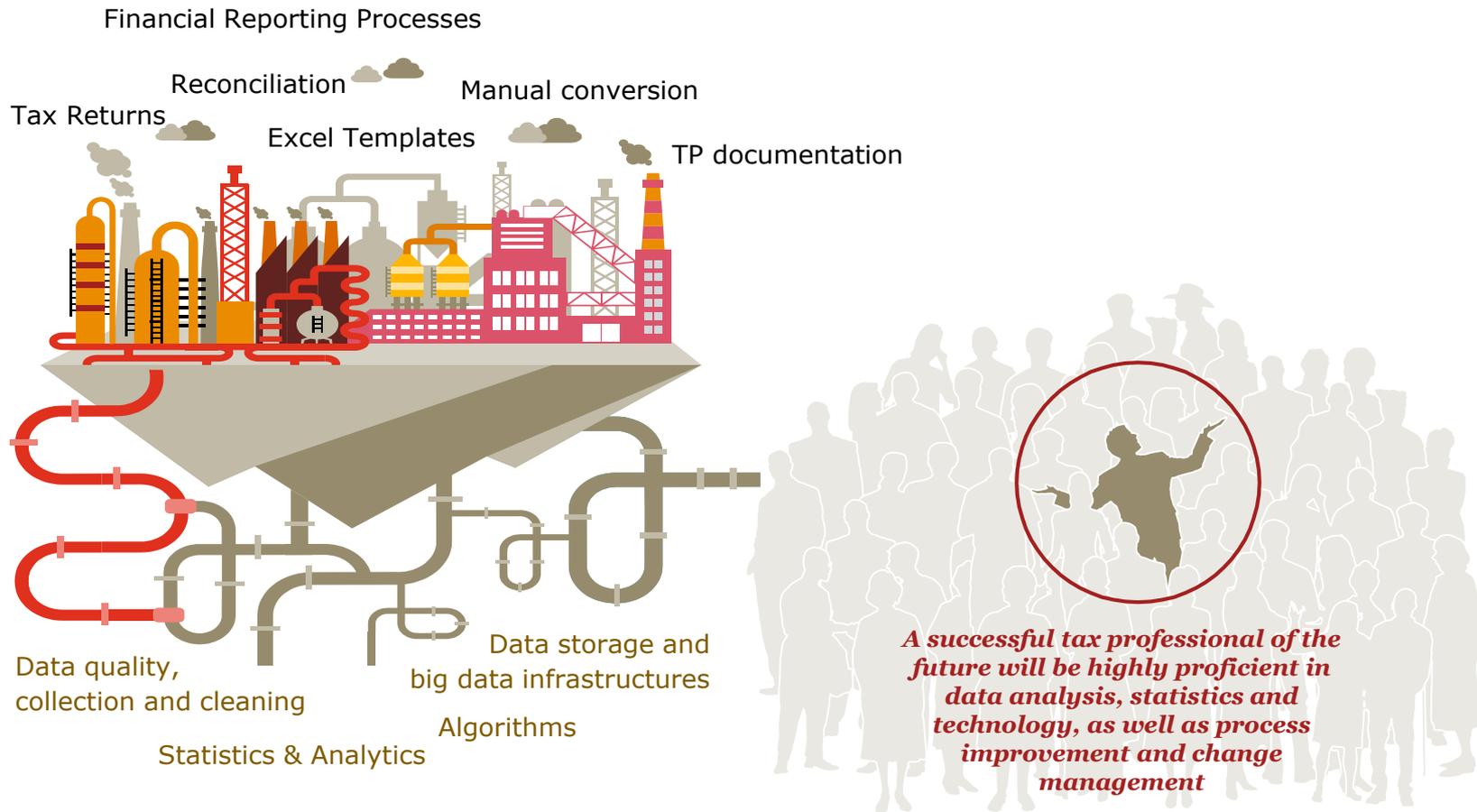
In parallel, e-files / SAF-T are requested with details of **accounting, invoicing and VAT reporting** data by tax authorities

Questions :

- 1) Have you crossed check if CbCR is consistent with SAF-T or e-files information ?**
- 2) Does VAT manager read TP documentation in your organization?**
- 3) Tax authorities will have an overall understanding of your business. Do you ?**

A world involving technology

It's inevitable



Your future with technology

Don't be scared, work will be more interesting

Take the advantage of digitalized world:

- Save money and automatize processes (less time spend on manual adjustments and compliance preparatory work)
- Increase capacity to perform more analytics, discover a passionate world of big data management
- Spend more time (40% – 60%) on strategic planning
- Let the machine perform repetitive workload and yourself to be left with the most interesting and challenging tasks



What do we see in tax authorities' practice

In focus of the authorities recently

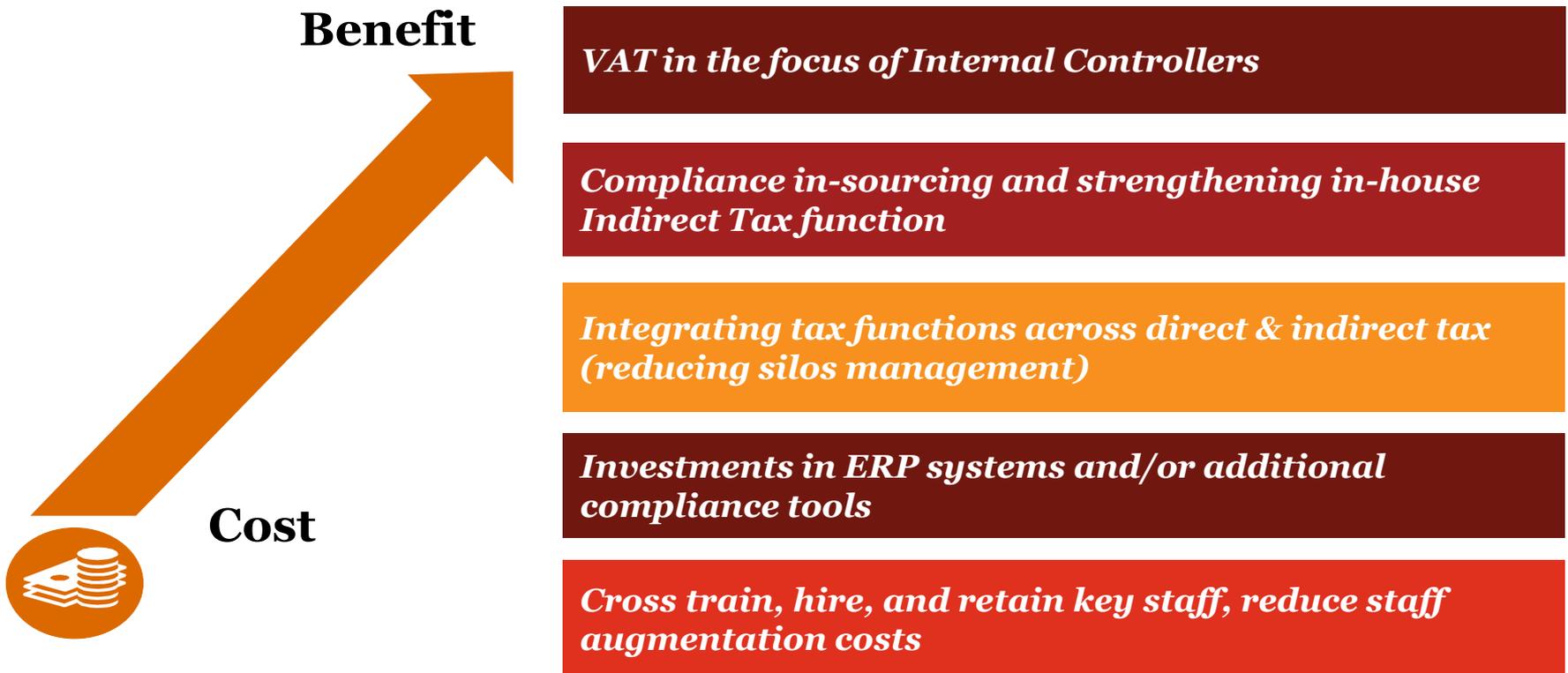
Intensified focus on following topics:

- Input VAT deduction - **recovery rights** for holding companies (Luxembourg, Germany, etc.);
- Every closer collaboration between **tax and customs** authorities - Intrastat audits expanded to VAT audits (MTIC frauds, VAT numbers validity, reporting alignment);
- **Procedure 42** (under scrutiny and in focus especially in Germany and France as popular entry points);
- **Royalties and licence fees** (customs valuation, TP, mismatches / impact in VAT);
- **Interactions** between areas that used to be perceived / audited very much independently in the past (e.g. from social contributions audit into recognition of PE due to significant human presence).



What do we see in businesses' practice

In focus of the businesses



Your contact persons



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