INTRODUCTION

Change is coming to VAT.

VAT’s fast approaching future is almost certainly going to require businesses to have to manage several significant structural changes to the management of the tax over a very short period of time. Those impacted and having to transition from the existing regimes and processes will have to deploy or acquire a myriad of new skills.

Technical expertise and understanding of the law will, as always, have to underpin and be the bedrock of any adaptations made by businesses. But new abilities and competencies - such as being able to link digitally to each different tax authority’s portal, understanding the new and different ways that data will have to be provided to tax authorities, and the production of reports in line with that understanding will also be critical. And perennial pressures around time and resource will, at least while the transition to the new framework is taking place, only intensify.

Rob Janering
Associate Director
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## ABOUT ACCORDANCE

Born in Brighton in 2006, we have grown into a company of more than 100 VAT experts working out of offices in Brighton and Amsterdam.

Our internal culture of open-minded diversity, a distinctive Consultant-led approach and a fundamentally pro-European stance, enables us to act uniquely, in accordance with the ever-changing complexity of European VAT.

We bring clarity to the deep complexity of cross-border VAT, enabling businesses to trade confidently across Europe.
THE FUTURE OF VAT

Foreword by
Nicholas Hallam
Chairman

In the EU, overarching VAT legislation exists in the form of the European VAT Directive (EVD). However, flexibility on some areas of its implementation and interpretation, coupled with Member States’ lack of appetite for more than piecemeal reforms mean that the EU’s VAT system is only semi-harmonised.

But the European Commission, always pursuing ‘ever closer union’, has full harmonisation in its sights. It intends to introduce a data-driven MOSS for distance sales by 2021, and following this, to introduce a One-Stop Shop for intra-EU B2B supplies of goods in July 2022. The Commission points to an annual EU ‘VAT Gap’ (the gap between VAT due and VAT collected) of €150 Billion. It argues that only increased VAT harmonisation can prevent fraud from worsening this position. But the course of true VAT harmonisation never did run smooth.

There are serious obstacles to the Commission’s plans. Member States, staunchly protecting their individual tax sovereignty, have overruled previous attempts to consolidate the system. They also dispute whether centralisation is the best way to tackle fraud. Even as the proposed dates for the deepening coordination of VAT processes draw nearer, individual nations are implementing their own, varied electronic systems for VAT reporting. Far from unifying processes, these systems are intensifying the differences between them. From RTR in the UK to Polish SAF/T to Spanish SII, nations are implementing their own approaches, regulations, and rules for companies to follow. On the one hand, technology is vital to the future of VAT. On the other, without a coordinated approach, these systems threaten to undermine the EU’s plans.

While potentially problematic, Member States feel they need these systems in place. And of course, digitisation is key to the EU’s future. As the pace of technological development increases, tax collection becomes increasingly difficult. Money is moving, faster and easier than ever before. And as all the while collection challenges increase, calls for public spending grow louder. Technological progress is also revolutionising our demographics, as life expectancy rises around the world. But with population changes come strains on public services.

Meeting the challenge

Western liberal democracies have in the most part grown used to a comprehensive level of public infrastructure and state support. The European social project has consistently offered partially or fully funded health services and state supported welfare. At the heart of the functioning for this collective social project is VAT.

This is unlikely to change. Sales and consumption taxes, chief among these VAT, are key areas of revenue growth for OECD nations. European politics is currently fraught with conflict between nationalist populists and globalist technocrats, and there is a markedly antagonistic approach to taxation, with income and corporate taxation policies becoming frontlines in broader ‘culture wars’. Nevertheless, as many levies find themselves in the firing line, VAT, less conspicuously controversial, remains protected and the preferred choice of governments across the world.

The future is digital

With VAT likely to stay as a key player on the tax stage, the future of tax collection and enforcement is digital. Technology offers an unprecedented opportunity to simplify and structure VAT reporting and collection. For nations and supranational structures, it offers the chance to dam the significant annual leakage of VAT. For companies, it offers an unparalleled opportunity. Digitisation of processes is a key moment for the analysis and improvement of structuring. It removes some of the human burden and, if done properly, can remove a significant chunk of risk. But digitisation isn’t just about removing risk.

It should make compliance easier, thus simplifying VAT responsibilities. With VAT so crucial to the future of the services we rely on (and will need even more from as demographics shift), being a good tax citizen means contributing to a shared future. It means upholding the European social project, and helping build the resources we need to meet the challenges we face in our societies. Businesses paying VAT are playing their part in this future.
THE FUTURE OF VAT
Survey Results

We had responses from 78 financial decision makers

Responses were collected from 12 EU countries

A total of 50% of participants are based in Mainland Europe, 37% in the UK and 13% in a Non-EU country

A sum of 35% of surveyed businesses are based in the retail industry and 65% in non-retail sectors

Around 70% of respondents work in businesses with less than 1,000 employees

We asked questions on:

• What does tax digitisation mean to them?
• What are the benefits of real time reporting?
• Have they encountered challenges with real time reporting?
• How prepared is their business for real time reporting?
• Are they aware of the EC’s four VAT Quick Fixes?

Our Key Takeaways

Are filing tax declarations through at least one real time reporting system in Europe

56%

Filing through SII in Spain or real time invoice reporting in Hungary do so in-house

53%

Have an e-invoicing solution - 59% in Mainland Europe have a solution compared to 42% of UK businesses. If required to raise e-invoices due to tax authority mandates, 81% would implement an e-invoicing solution

46%

The most commonly used solutions are:

SAP sage easy bill
Microsoft Dynamics AX

Consider data transparency as a benefit of real time reporting and 57% consider overall better compliance

61%

Find complex systems the biggest challenge with real time reporting systems – 41% of retail businesses find this the biggest challenge compared to 26% in non-retail

63%

See the provision of inaccurate data to the tax authorities and having less time to correct mistakes the biggest risks in the context of tax digitisation

21%

Of retail businesses believe inaccurate data and less time to correct mistakes are the biggest risks

41%

Of non-retail businesses believe the lack of internal resources to implement changes is the biggest risk

17%

Will you be affected by real time reporting in the next 2 to 3 years?

Yes
Unsure
No

If you will be affected by real time reporting in the next 2 to 3 years, how will the reporting be carried out?

Don’t know
In-House
Outsourced

How prepared is your business for the adoption of real time reporting in the EU?

Ready for some changes
Not ready
Ready for any changes
What does the future of VAT look like?

There are two main strands of development that will influence what the future of VAT looks like...

Legislative change

The next two to three years should see, if all the agreed and proposed legislation is implemented, a great deal of substantial change. It was originally intended that the definitive VAT system should be origin based – VAT would be charged by the supplier based on the rate in their country. However, it has proved impossible to implement this in practice for a number of reasons and it is now accepted that the definitive VAT system should be a destination based system – VAT will be charged in the Member State of consumption at the relevant rate in that country.

The EU made changes to the place of supply rules for services in 2010 with the implementation of the VAT package. As a result, the majority of B2B services are now taxed at the place of consumption via the reverse change mechanism. The latest reforms relate to the treatment of cross border supplies of goods. The core proposed reforms are:

January 2020 – 4 Quick Fixes

These are a precursor to the ultimate July 2022 changes and aimed at helping to simplify some situations that currently are difficult to manage. The changes will aim to:

1. Simplify call off stock rules – the supplier will no longer be required to register in any Member State where call off stock is held.
2. Simplify chain transaction rules – certainty on which transaction is to be treated as the exempt intra-EU supply will be provided.
3. Increase use of VAT numbers – to apply the exemption to intra-EU supplies of goods, the supplier will have to obtain the recipient’s VAT number and verify it in the EU’s VIES system.
4. Require evidence to show that goods have moved from one Member State to another - hence the exemption that can be applied will be standardised.

January 2021 – B2C Mini One Stop Shop (MOSS)

Currently goods delivered cross border on a B2C basis are taxed at the place of dispatch until thresholds of varying value are exceeded in the country of arrival. This often means that suppliers need to have multiple registrations across the EU. Instead, from January 2021 once a supplier exceeds €10,000 of cross border supplies they will be subject to VAT in the country of arrival. But instead of multiple registrations, all the VAT will declared via the MOSS which involves the submission of a single VAT return and the payment of all of the VAT due to a single tax authority.

July 2022 – B2B One Stop Shop (OSS)/Definitive VAT System

Cross border supplies of goods made on a B2B basis will be taxed only in the country of arrival (there will be no more dispatches and acquisitions as under the current system). The supplier will charge VAT at the relevant rate in the country of delivery and account for the VAT via the OSS portal. As with the MOSS, this will involve the submission of a single VAT return and a single payment.
UK companies to appoint fiscal representatives when registered for VAT – this will result in new cost and administrative burdens. Goods moving between the EU and UK become imports and exports, which implies import VAT charges to consider (alongside customs duty) and new supply chains to manage. The EU reforms outlined above may, therefore, not be relevant for goods moved between the UK and the EU or only apply for a short time, depending on the time scales and type of Brexit. However, regardless of what happens with Brexit, the above changes will impact UK companies that continue to trade intra-EU.

**Technological and Local Change**

The changes mentioned above all relate, as mentioned, to EU legislative reforms. However, Member States have some scope in what rules they apply and how they are applied in order to meet their objectives. This can be seen in the uneven application of call off stock rules (which the relevant quick fix attempts to remedy) and in domestic reverse charges being applied to fight fraud.

Over the past few years Member States have started to take the fight against fraud and the increasingly large EU VAT gap - the difference between expected and actual annual VAT revenue (which currently stands at approximately €150 billion) - into their own hands. Technology is being utilised to achieve this but unfortunately, because the EU cannot mandate the form of technology being introduced, this is happening in an uneven and rather jumbled manner. Understanding of the position is not helped by very different types of domestic VAT procedural change being lumped together under generic terms like “technology” or “automation”. There is a world of difference, for example, between Making Tax Digital in the UK and Real Time Reporting in Hungary.

The fundamental tension is that while the EU is looking to simplify reporting obligations, Member States are taking advantage of technological developments to increase obligations. As set out in the survey, these obligations are various and very much incompatible with each other. For example:

**To be confirmed – Brexit**

Just to confuse things a little further, there is also the small matter of Brexit to consider. There are many variables around what might happen if or when Brexit happens. If there is a “hard Brexit” then the UK will no longer be a Member State and hence not subject to the EU VAT Directive. Overnight, many Member States will require
E-invoicing

In 2014, an EU Directive set the conditions for EU-wide B2G e-invoicing; this has now been widely adopted. Italy has taken this a stage further and has introduced compulsory e-invoicing for resident companies involved in B2B and B2C transactions. Before an invoice can be issued, the supplier must submit details to the tax authority relating to the supply. These will be verified by the tax authority and once that happens, the invoice issued to the recipient. The recipient will collect the invoice from the same tax authority run portal that the supplier used and use it to evidence a claim for reimbursement of any VAT costs.

SAF-T (Transactional) Reporting

This obligation involves providing information to the tax authority on each different transaction that the party has been involved with. SAF-T is a standardised audit file that is recommended for use by the OECD. However, the EU countries currently requiring this information use variations of the declaration which means businesses must bespoke each report that is required. All ask for it to be submitted as an addition to the regular VAT return, though Poland has announced its intention to drop the VAT return completely. Poland, France and Austria are just some of the countries to have added these obligations (the UK’s Making Tax Digital platform has the capacity to accept such reports but it is not yet a formal requirement).

Real Time Reporting (RTR)

This is the next evolutionary step for transactional reporting. It involves submitting transactional information to the tax authority in real time (or as close to it as required by the regulations). There are set templates to complete which dictate the information that is needed but again these vary, as does the submission process.

In our survey, we asked which of the following declarations businesses complete and submit...

<table>
<thead>
<tr>
<th>Declaration</th>
<th>Retail</th>
<th>Non-Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>None listed</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>Making Tax Digital (MTD)</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>SII</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>SAF-T</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Form 394</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Control Statement</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Sistema di Intercambio (SDL)</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Real time invoice reporting</td>
<td>17%</td>
<td></td>
</tr>
</tbody>
</table>

What do you consider the benefits of real time reporting to be?

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Retail</th>
<th>Non-Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data transparency</td>
<td></td>
<td>61%</td>
</tr>
<tr>
<td>Overall better compliance</td>
<td></td>
<td>57%</td>
</tr>
<tr>
<td>Reduced burden on internal resources</td>
<td></td>
<td>39%</td>
</tr>
<tr>
<td>Reduced risk</td>
<td></td>
<td>33%</td>
</tr>
</tbody>
</table>

What do you consider the challenges of real time reporting to be?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Retail</th>
<th>Non-Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complex systems</td>
<td></td>
<td>63%</td>
</tr>
<tr>
<td>Time</td>
<td></td>
<td>48%</td>
</tr>
<tr>
<td>Cost</td>
<td></td>
<td>44%</td>
</tr>
<tr>
<td>Lack of internal resources</td>
<td></td>
<td>40%</td>
</tr>
</tbody>
</table>

In Hungary, the information must be submitted without human intervention and “immediately”. In Spain, the deadline is to provide the information within 4 days, and it does not have to be automated.

Member States are considering and starting to roll out similar obligations on a regular basis. The challenge for business is to stay on top of the changes and understand the specific details and differences of each particular new reporting requirement. Our survey shows that the one single development respondents would like to see is harmonisation of developments – at the moment that is not happening and it will mean that a number of different resources will have to be harnessed (internally and externally) to make sure that obligations are met.

The reality is that some form of the MOSS and OSS will all almost certainly be rolled out eventually (even if with delays to the timescale). At the same time, Member States will continue to ask for detailed information on a transactional basis or to have e-invoicing applied. How these obligations will be accommodated alongside each other will be interesting to see because, in theory under the forthcoming changes, many businesses will not have local VAT registration numbers anymore even though they are charging VAT in the local country. Will the EU allow for Member States to “bolt on” other reporting requirements to the MOSS and OSS? This remains to be seen but is a challenge businesses need to be ready for.
Digitisation – what does it mean?

The term ‘digitisation’ is often used to describe the future of VAT. It’s a catchphrase that the EU is keen on and applies to many of the developments it is driving forward, including the shaping of competition policy through to the Digital Single Market and across to the agricultural sector.

The feedback from our survey showed that for a majority, digitisation means the need for electronic submissions. However, there was a wide range of responses ranging from a movement to a less complex landscape, automation, real time data throws and paperless systems. What is clear is that these diverse responses evidence that managing the future of VAT is going to be testing.

The EU’s key focus around digitisation has been on how to adapt the VAT system to make it modern, fair and efficient given the increasingly digital economy (i.e. marketplaces like Amazon, the use of bitcoin and general reliance on electronic data and communication). The EU is committed to making its tax system align with these external developments. This can most clearly be seen in the 2015 adoption of the MOSS to allow for the declaration of VAT on digital supplies. For the first time, this created a pan-EU solution which allowed for returns declaring VAT due across the Member States to be submitted via a single internet portal.

Whilst that MOSS precedent set the tone and probably the template for the new B2C goods MOSS and B2B OSS that are forthcoming, it hasn’t resulted in any further standardisation across the EU. Spain has its SII real time reporting system that already 28% of those surveyed are having to comply with. In addition, 24% and 17% respectively are filing under Italy’s e-invoicing regime and Hungary’s real time invoice reporting.

Are there advantages?

All these filing obligations have different conditions to meet, apply to different parts of VAT legislation and need, on the whole, to be looked at independently. The one common element is that the internet and new technology must be utilised in order for a business to be compliant. This then is what digitisation probably means for VAT – that to account for and declare correctly those working in tax will have to be not just adept at reading and interpreting tax statutes and legislation but also have a competent understanding of the technology mandated for use by tax authorities. They will also have to have practical familiarity with the various VAT reporting software solutions that will eventually feed in to tax authorities.

If filing under MTD in the UK, what has been your biggest difficulty?

| Lack of internal resources | 38% |
| Complexity | 23% |
| Time | 23% |
| Cost | 8% |

“We’re currently supporting clients with data reviews; the focus is on general VAT compliance and compatibility with our MTD filing solution. In the context of an increasing trend in tax digitisation it’s been a great opportunity to have wider conversations with clients about the importance of clear and consistent data”

Lucy Franklin, Managing Director

Our survey reveals that 61% of respondents think the changes will lead to better data transparency, that 57% believe compliance will be better overall and 39% think there will be reduced burdens on internal resources.

These outcomes would be positive for a business and lead to greater efficiencies. Tax departments will inevitably see a change in their role within a business as they become more integrated in order to fully understand processes and systems so that appropriate data can be harvested to meet compliance obligations.

Having more employees who fully understand their supply chains, how to record them and know about the tax implications cannot be a bad thing (it might even mitigate some penalties).

Better compliance is something all businesses strive for and it is regularly at the top of objectives for in-house professionals. It remains to be seen how much easier compliance will be or whether it will be improved – achieving an improvement is likely to only happen if tax teams can make the investments and have relationships as set out above. If that can happen however and there can be a happy marriage of technology and human expertise, those businesses will definitely see benefits such as improved compliance records and better transparency on records and tax payable/recoverable.
THE QUICK FIXES

It’s worth noting that the first set of EU changes are now under seven months away but the feedback from our survey is that these are either not understood or that businesses are not aware of them. The Quick Fixes will undoubtedly be used as a litmus test to help assess readiness for other changes down the path because although the changes are designed to make compliance easier in the long term, that is unlikely to be the case at the outset.

For example, the change to the records required to apply the exemption for intracommunity supplies of goods. First up is the need to use VIES to verify the customer’s VAT number. This should be a straightforward rule to comply with until you realise that the data uploaded to VIES by Member States has some serious inconsistencies. For instance, the UK provides VAT numbers and business names/addresses for all registrations that it issues. Spain on the other hand only updates to VIES if a specific request is made by the business and evidence for that application is provided. Germany will upload the registration but doesn’t provide the business’s details – the VAT number is merely marked as being valid or not. The “going live” of VIES data can also take some time, which needs to be factored into all decision-making processes.

This position means that as well as relying on VIES, businesses will – if they want to minimise risks – have to discuss the matter with their customers and obtain information from them. As anyone knows, this is never as easy as first appears and it can often take some time to get the information that is needed. Businesses may create risk for themselves by applying certain VAT treatments on the assumption that information to support it will be obtained. But what if that doesn’t happen?

SURVEY RESULTS

Are not aware of the four VAT ‘Quick Fixes’. A total of 86% of respondents in the UK were not aware of the ‘Quick Fixes’ compared to 57% of those in Mainland Europe.

Plan on getting advice from external advisors to comply with changes associated with the ‘Quick Fixes’; 36% were unsure on how they would prepare; 33% will have in-house training sessions; 21% will conduct a supply chain review; and 12% will attend external training events.

Are not ready for the changes associated with the ‘Quick Fixes’ and 40% are ready for some changes.

Of UK businesses are not ready for the changes associated with the ‘Quick Fixes’ 71%

Of Mainland Europe businesses are not ready for the changes associated with the ‘Quick Fixes’ 29%
CONCLUSION

All of the changes coming down the line are going to require proactivity from businesses to make sure that they can be compliant going forward. Those businesses that will best manage the changes and benefit from the positives that can be enjoyed will be those that:

**Start to plan early.** This might mean mapping supply chains and checking existing VAT treatments so as to have a “starting point”.

**Invest in technology.** Our survey results clearly show that for real time reporting (and also for the majority of systems expected to be required to meet future reporting needs) complex systems, closely followed by time and cost will be the biggest challenges to manage. Reviewing the options to find appropriate solutions and understanding the benefits/implementation outcomes will help support business cases for the investment that is required – in some cases, without this investment non-compliance will be the only available option. For non-resident companies in the mid-market, in-house investment can be prohibitive. As leading, cross-border VAT specialists for Europe, we can work with you on outsourcing solutions to ensure you’re ready to embrace the benefits of tax digitisation: data transparency, reduced risk and overall better compliance.

**Investment in human expertise.** This needs to go hand in hand with technology because the application will only be as good as the person implementing the solution and subsequently interpreting its output. This means having VAT experts who understand the legislation working alongside or with the IT team. There is a growing breed of “taxologists” who practice the two disciplines, but expertise from both arenas is usually the best way forward. Whether this is sourced in-house or externally, those experts should not be afraid to ask questions of the business in order to fully understand the business flows and current technology infrastructure in order to give the best value advice.

One thing is for sure, the next three years will see unprecedented changes to the EU’s VAT landscape and all those involved will have to be ready to adapt. These changes will include those to the technology that is utilised, the processes that are employed and to the understanding of supply chains and the VAT treatments that apply to them. And as always, those that adapt earliest will most probably prosper the most with improved compliance positions and benefits from better data transparency.

*By Rob Janering, Associate Director*

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**Contact Our VAT Experts**

Rob is an experienced VAT consultant with over 15 years working in Indirect tax. At Accordance, Rob works within the Consulting team providing cross-border supply advice, detailed reviews on existing and new business activities and practical solutions to clients’ businesses. In addition, he writes regularly on the technicalities of European VAT, and has featured in Financial Director and The Bookseller. Rob is a qualified member of the Chartered Institute of Taxation (CIOT).

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Andy is a highly experienced indirect tax professional who has worked in VAT for over twenty five years. Andy specialises in providing clients with bespoke VAT reviews that help them develop into new territories with the appropriate controls in place to manage VAT effectively. Andy has developed expertise in international VAT throughout his career and has advised on a broad range of issues in a large number of countries.

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As a member of the Consulting team, Alex has worked at Accordance since 2012. At Accordance Alex specialises in providing cross border advice to a wide range of businesses delivering detailed analyses, reports and contract reviews regarding VAT/GST systems within the EU and beyond. Alex supports a large number of businesses both from a consulting perspective and also by overseeing businesses VAT compliance obligations.

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