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#FUTUREVAT

UPDATE FROM THE EUROPEAN COMMISSION

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Overview of Presentation

*Part 1 – Characteristics and drivers of the digital economy,
Implications for VAT, New business models, and Opportunities*

Part 2 – Update on Commission EU-Commerce Proposal

Characteristics and drivers of the digital economy

- Digitalisation of the economy is challenging the norms for society generally but also in terms of both tax design and administration.

- There are threats but we must also recognise that there are opportunities.

- We are seeing new business models and trends
  - Direct B2C e-commerce
  - Increasing role of marketplaces
  - The collaborative economy

What do these business models mean for VAT?

Growth in B2C e-commerce

    Challenges tax and customs administrations

    For imports, a recent study indicated non-compliance rates of 65% where VAT is due

    Abuse of the small consignments exemption

    This is Damaging EU business and the VAT base

    Trade from outside the EU is increasing rapidly

    E.g. In Germany, 30% of e-commerce supplies come from China and 15% from the US

Marketplaces

    Can facilitate small sellers to access big markets.

    70% of total B2C sales into the EU are sold via the 3 big marketplaces.

Collaborative economy

    Disrupting markets

    Millions of consumers offering now offering services

    Competing with traditional business who are normally within the scope of VAT

Opportunities

- More effective tax and customs controls
- Technology can increase compliance and reduce burdens on tax payers
- Simple things like providing an app for small business to take photos of business receipts.
- AI can be used for pre-filling of tax forms.
- Using advanced analytics for risk analysis and cross-border cooperation.
- Perhaps new technologies can help us re-think how we design our taxes.
- We must remember however that while Innovations are positive, we cannot have a situation where 28 Member States are doing things differently. This can cause uncertainty particularly for business trading cross-border in the EU. The Commission and Member States need to work together to harness the opportunities from the digital economy.

2016 Proposal - What is included in the proposal?

Phase 1 (2018) – making life easier for SMEs and Micro-business

- *Introduction of a new Intra-EU cross-border threshold for supplies of electronic services. Below the EUR 10 000 threshold a supplier will treat cross-border supplies as a domestic transaction.*

- *A second threshold of EUR 100 000 with simplified evidence requirements – this is very important also for micro-business.*

- *Home rules for record keeping and invoicing.*

In 2021 – reducing costs and improving competiveness for EU business

- Extension of the existing One Stop Shop to B2C cross-border supplies of goods and other services.

- Improve the One Stop Shop with an extended deadline for payment of tax and making corrections in the current return.

- Remove the small consignments exemption but facilitate trade by giving access to the One Stop Shop.

- Extend the new threshold to cross-border supplies of goods but remove the problematic and distortive distance sales thresholds.

- New arrangements for the coordination of audits between Member States.

2016 Proposal - Why are we acting?

High cost of doing business cross-border – prohibits trade. VAT identified as one of the top 3 obstacle to cross border e commerce

Non established business face considerable obstacles in even trying to register to pay tax.

Lack of neutrality for EU business – current system favours non-EU sellers with the current small consignments exemption as well as high rates of non-compliance e.g. Smart Phones imported with declarations value of EUR 10. Estimated that EUR 25 billion of trade is non-compliant.

Loss of revenues for Member States – Member States considerably losing around **EUR 5 billion annually**. EUR 1 billion VAT foregone through exemption and EUR 4 billion through non-compliance.

Need for simplification measures for SMEs – the lack of a threshold in 2015, 10 year record keeping, need for 2 pieces of evidence etc.

What should it achieve?

The One Stop Shop is significantly 95% less costly than direct registration.

430,000 SMEs and Microbusiness can benefit from the cross border threshold.

Business as a whole will save EUR 2.3 billion annually.

Member States will increase VAT revenues by EUR 7 Billion annually.

State of play

- Intensive discussions in Council under the Maltese and Estonian Presidencies.

- The Estonian Presidency are aiming for agreement before the end of the year.

- Most MS agree on the general principles in the proposal.

- Broad agreement on need for thresholds. On the level, there are mixed views but a balance is needed between easing the burden on SMEs and ensuring that there are no distortions.

- Platform liability for goods has emerged as an issue in discussions. As indicated in MT report to Ecofin in June, Member States want to include this within the proposal. This has become a political issue – concerns relate to losses of tax revenues and the effect on marketplace liability. Desire is to ensure certainty of collection.

- As with the 2015 changes, the Commission will work with business in the preparation of the secondary legislation and implementation – this is essential and we expect that the OECD work of this group can feed into this future work.

- There is a lead-in time. We need this and business need this.

WHY DIGITALISE ?

Ivar Laur

Intelligence Department
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Better VAT Collection through Data

Ivar Laur

Intelligence Department

Estonian Tax and Customs Board

What? The concept of domestic recapitulative statement (VAT listings) in Estonia

Obligation: all VAT liable persons

- ✓ Sale: all B2B
- ✓ Input: from VAT liable persons only
- ✓ In case value per month by partner exceeds 1000 EUR (without VAT)
- ✓ Every invoice that contains tax rate 20% or 9%

Start: November 2014

Why VAT listings?

✓ To see transactions' network

✓ To see, who is lying

Message to companies:

„We get information about you from your business partner"

Objectives

Big picture:

- ✓ Reduce undeclared domestic turnover

- ✓ Reduce fictitious input VAT

- ✓ Increase revenue collection through more compliant tax behavior

  - ✓ Scare fearful tax evaders

  - ✓ Force serious tax evaders to make their schemes more complicated and expensive

Direct impact:

- ✓ Reach quicker to fictitious (fraudulent) transaction chains

20

The main aspects on preparation

- ✓ Ask data that already exists
- ✓ Supplier's and buyer's data has to be comparable
- ✓ Business partner has to be identifiable by machine
- ✓ Has to be linked with VAT return
- ✓ No threshold → compromise threshold 1000€ per month
- ✓ Obligation to all companies (not only to risky ones, not to some more risky trade sector, etc. the key: <u>everyone</u>)

Steps for smoother implementation

- ✓ Discussions, meetings, trainings to accountants
- ✓ Discussions, meetings with ERP and finance software developers
- ✓ State's developed accounting application for small companies
- ✓ Additional time for large companies to modify their ERP systems
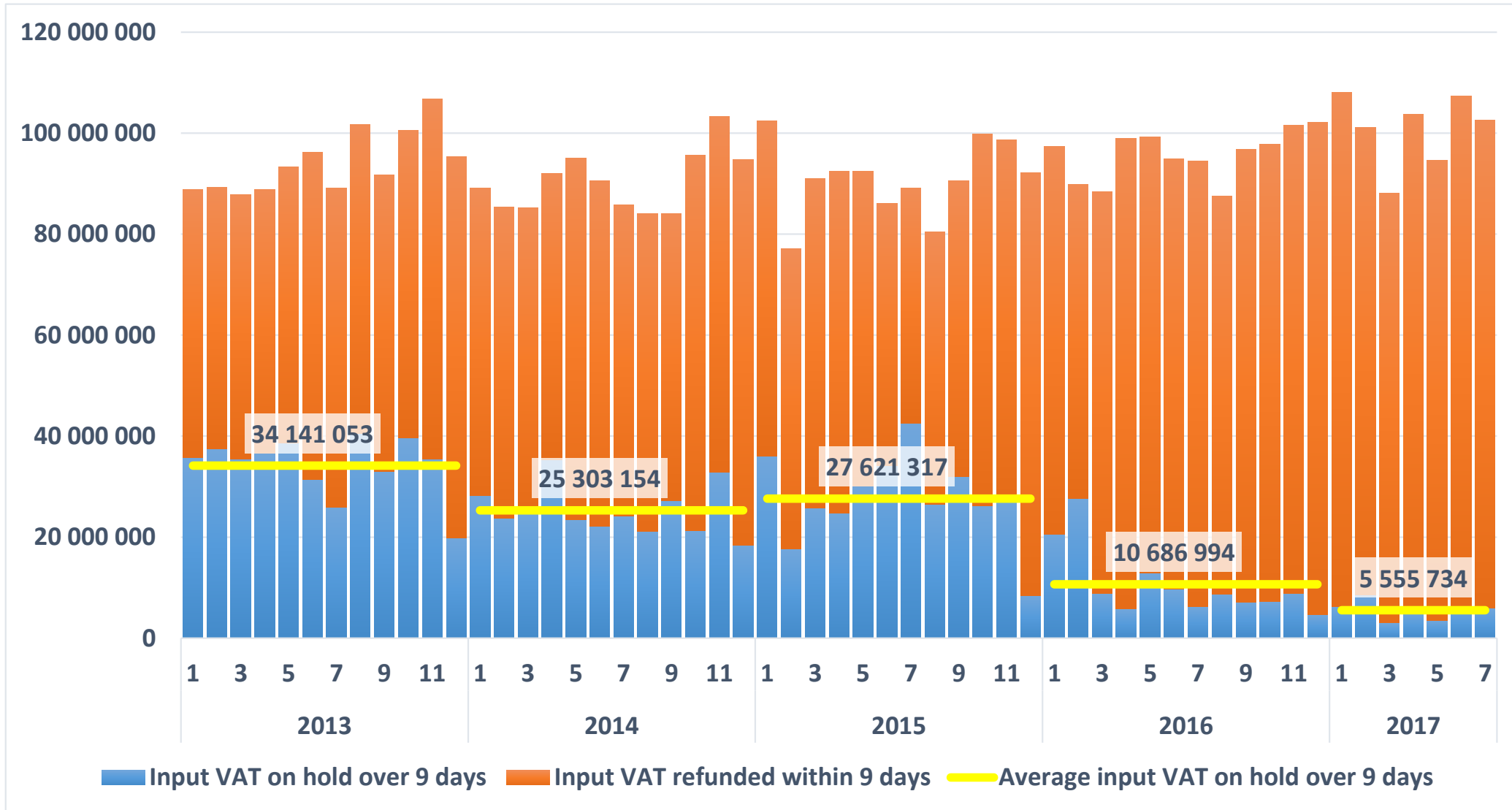- ✓ Additional time to submit summary VAT listings instead of invoice base

Finance software developers

- ✓ Focus:
  - ✓ How to fill the form automatically
  - ✓ How to keep software development expenses minimum
- ✓ All developers were invited to round table, many came
- ✓ They were given opportunity to do suggestions to modify the form so that it would be easier to fill automatically
- ✓ Their suggestions were taken into account and the form was modified
- ✓ Some developers provided their products' update for free, some asked additional fee from customers
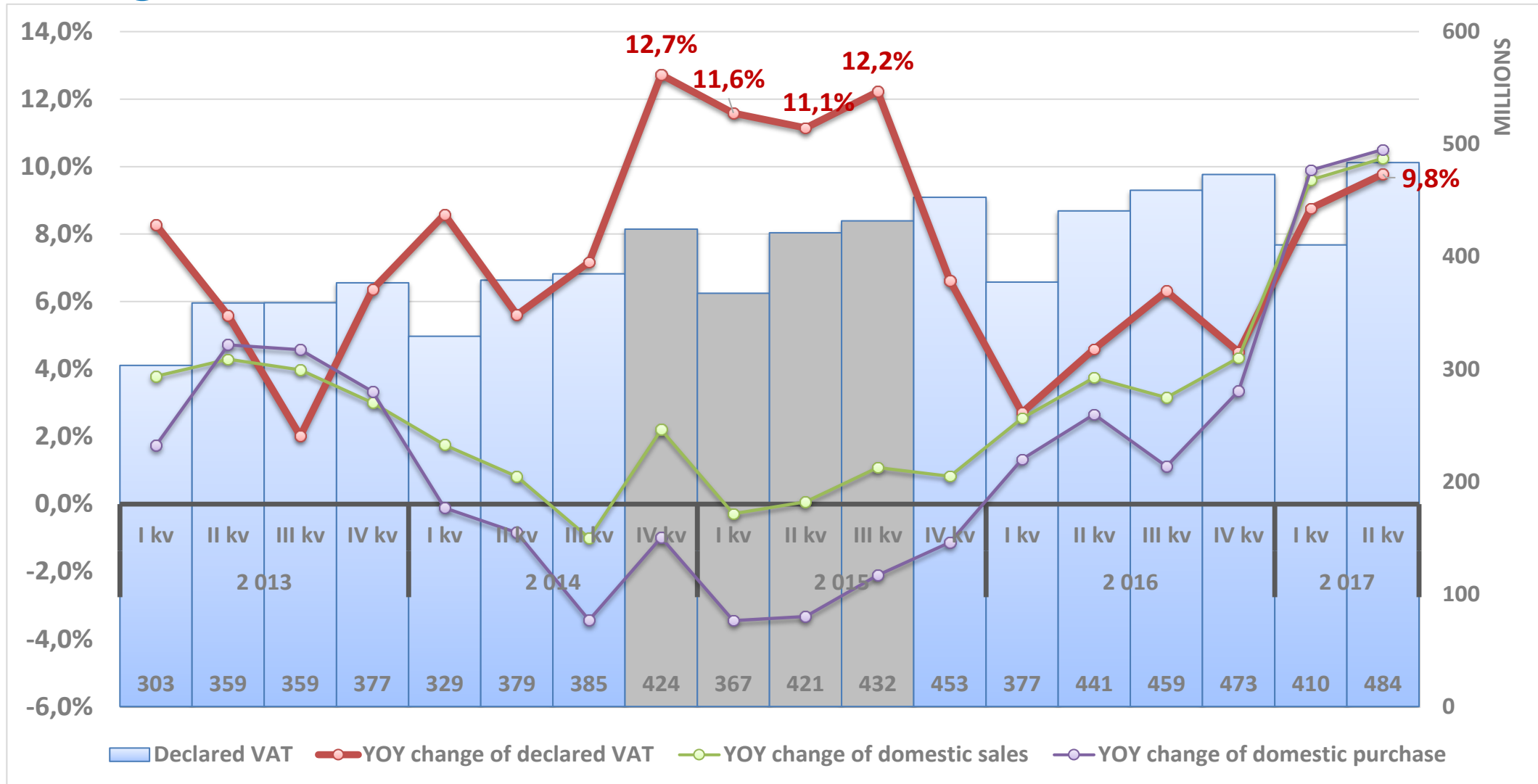
Benefit to taxpayers: quicker VAT refund

Republic of Estonia — Tax and Customs Board

Chart showing "Input VAT on hold over 9 days" (blue), "Input VAT refunded within 9 days" (orange), and "Average input VAT on hold over 9 days" (yellow line) from 2013 to 2017.

Average values:
- 2013: 34 141 053
- 2014: 25 303 154
- 2015: 27 621 317
- 2016: 10 686 994
- 2017: 5 555 734

Legend: Input VAT on hold over 9 days | Input VAT refunded within 9 days | Average input VAT on hold over 9 days
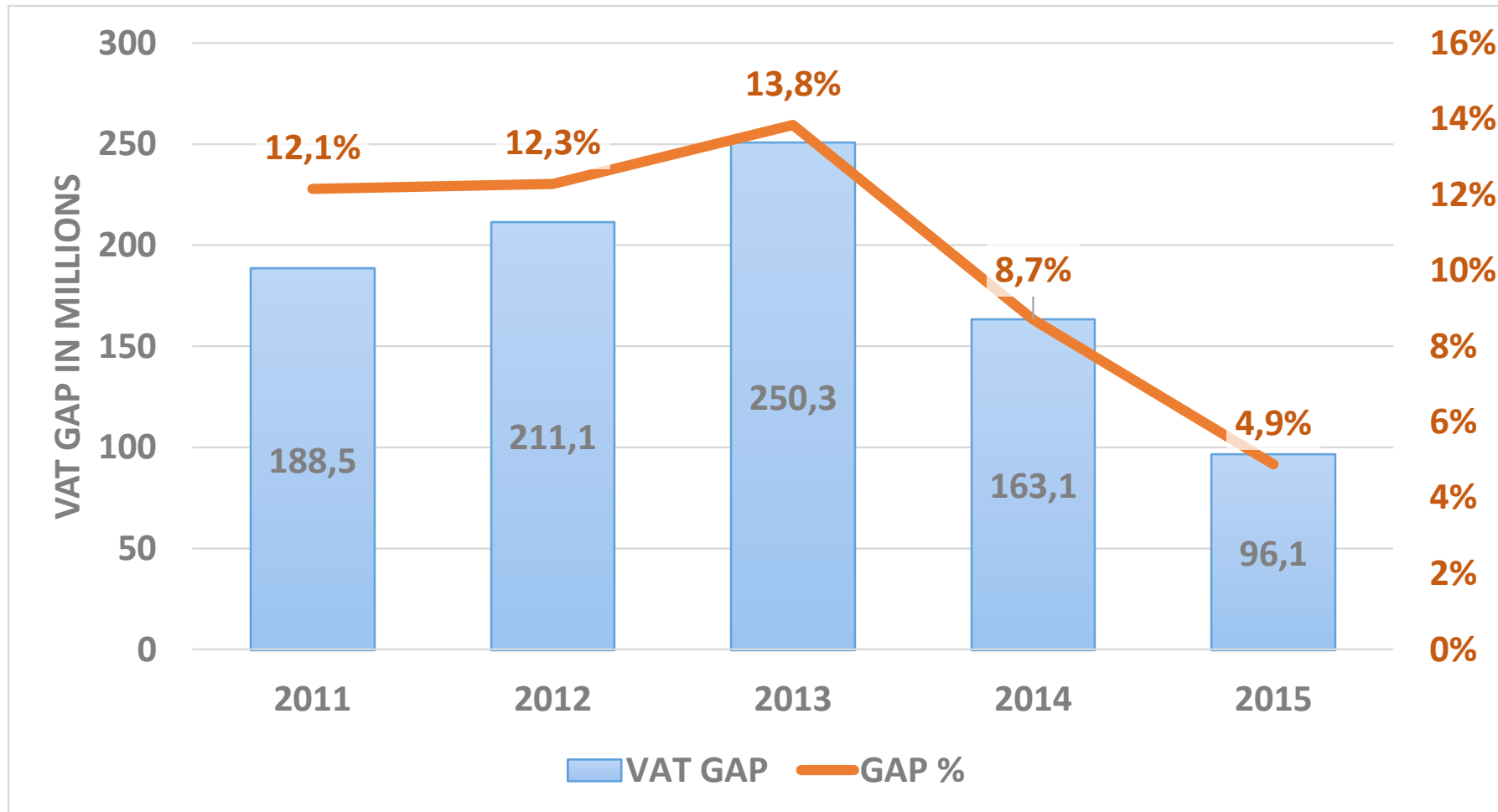
24

100 million additional annual revenue after VAT listings
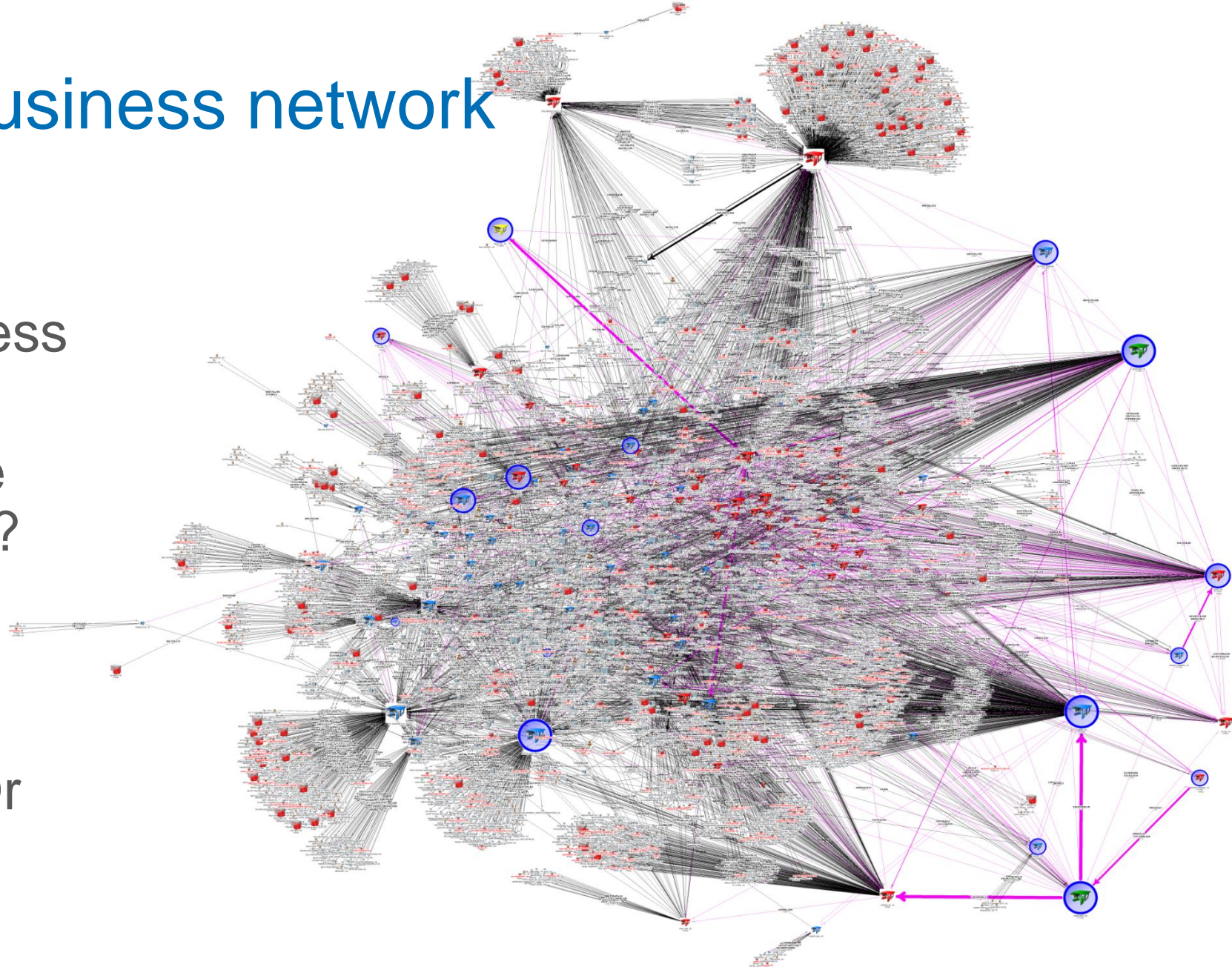
Significant decrease of VAT gap

*Source: Study and Reports on the VAT Gap in the EU-28 Member States: 2017 Final Report

Tax evasion vs business network

✓ To detect tax fraud?

✓ To learn about business patterns?

✓ What happens, if one company goes down? Where and how big domino effect it may cause?

✓ Can we prevent it? Or prepare for it?

Thank you!

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WHY DIGITALISE ?

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Making tax Digital

Ian Broadhurst

HM Revenue & Customs

12 October 2017

Our vision

Making Tax Digital is making fundamental changes to the way the tax system works – transforming tax administration so it is more effective, more efficient and easier for taxpayers to get it right.

HM Revenue & Customs

Why MTDfB?

- It will help customers get their tax right first time and significantly reduce the amount of tax lost through error.

- It's how customers increasingly expect to do business – not just with HMRC.

- The technology will allow tax to be integrated into business records, meaning 'doing tax' will be easier and more convenient.

- Widespread agreement that digitisation is the next, natural step.

- Will provide a seamless experience –only one product will be required for record keeping and reporting.

Tax Completed Online:

89% of Self Assessment

98% of Corporation Tax

99% of VAT

HM Revenue & Customs

HMRC provided **1.1** million small business customers in 2014/15 with digital assistance

3 million business have accessed their business tax account

2 million small businesses use accounting or filing software
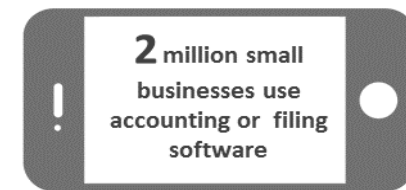
Why MTDfB?

- Digital record keeping will address the causes of errors and mistakes (for example errors in transcription of data from paper to digital systems).

- Ability to monitor your business in real time and receive a picture of your emerging tax position.

- Reduces need for businesses to spend time and money on dealing with HMRC interventions related to error

- The total UK tax gap stands at £36bn for 2014-15; £8.7bn of this relates to taxpayer error and carelessness.

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HM Revenue & Customs

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Consultation process

- HMRC launched a formal consultation on 15 August 2016 following a period of informal consultation.

- HMRC used a wide variety of communications channels to gather feedback on the proposals, including, face to face meetings with individual businesses, webinars and meetings organised by representative bodies.

- The aim of using a wide range of channels was to reach the greatest number of stakeholders possible, across geographic areas and business sectors.

- HMRC received over 3000 responses.

Consultation process (cont.)

- Our early engagement with developers, representative bodies and others enabled us to take into account their views in our response document.

- We took on board the key concerns which largely related to the scope and timetable for the programme.

- This formed the backdrop to the significant changes that the Minister announced.

- The response to these changes from stakeholders was overwhelmingly positive.

- The key lessons from the consultation process were to spread the net as wide as possible to reach different groups with different concerns. This means communicating with stakeholders in ways that are relevant to them.

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HMRC strategy flows through to digital transformation

▾ Strategic objectives	▾ Strategic decisions	▾ What does this mean for digital transformation?
Maximise revenues due and bear down on avoidance and evasion	We are **segmenting customers** by type and size, and **tailoring** our customer services based on behaviours, capabilities and level of risk	
	We are **promoting compliance and preventing non-compliance** as early as possible in each customers' relationship with us, while responding strongly to deliberate non-compliance	• Reduction of errors through digitalising route tasks • 'Nudges & Prompts' to further reduce error • Improved understanding of emerging tax liabilities for small businesses • Assurance of systems and data quality
	We are reducing the likelihood of **disputes** by helping more customers to get their affairs right, but where disputes occur we resolve them by agreement or through litigation – whichever best secures the tax that is legally due	
Transform tax and payments for our customers	We are supporting **intermediaries** to play an active role in collecting tax and providing data, so we rely less on customers providing their own data	
	We welcome the use of **agents** to present customers where they add value in helping their clients get their tax right	• Better use of existing data (e.g. bank data); maximise PAYE data provided under RTI. • Migration of clients to compatible, but diverse software products • Expansion of digital tax accounts • Suite of APIs to software developers and/or businesses • Suite of APIs to software developers for agents • API mediated access - disruptive entrants
	We are using sophisticated **digital** tax accounts and other online services as our main way of interacting with customers, making it easier for them to see all their affairs in one place and harder for them to make mistakes – but we're still providing direct support to those who need it.	
Design and deliver a professional, efficient and engaged organisation	We are moving towards a highly-skilled and more sustainable **workforce** through better training, development and by creating new, modern network of large regional centres	• Tax administration designed for digital delivery removes process failures enabling greater focus on work that adds real value
	We are using our assets and capabilities to deliver **wider Government** aims, and to design new services and systems that other Government Departments can use in the future.	

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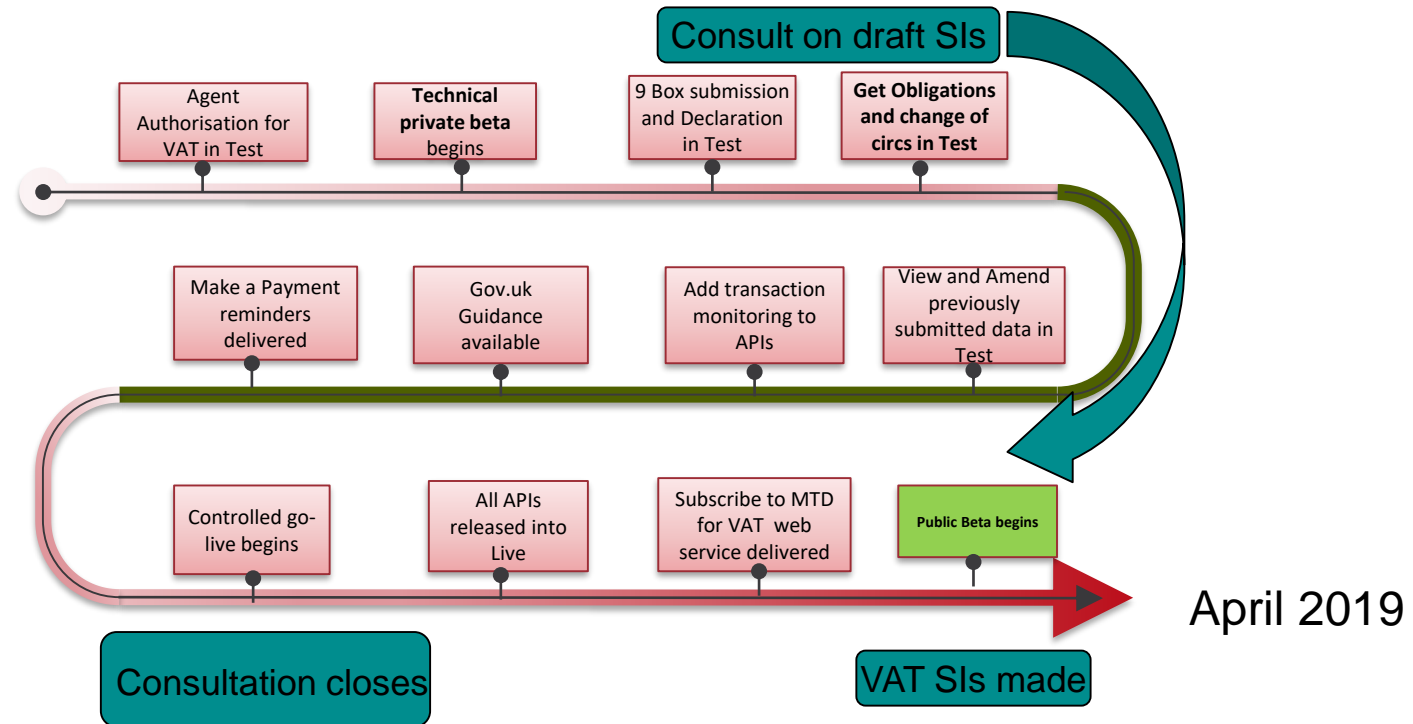
Overview of VAT changes

- Businesses in scope will commence MTD for return periods starting on or after 1 April 2019.

- MTD requirements will apply to VAT registered businesses with a taxable turnover over the VAT threshold. To create certainty, requirement will remain where businesses dip below VAT threshold in any year.

- Current digital exclusions will continue

- No change to overall record keeping requirements. Those within scope must use 'functional compatible software' capable of keeping/preserving records digitally and able to connect to HMRC via APIs. Applies equally to spreadsheets which count as a digital record

- VAT returns, consisting of mandatory 9 boxes will need to be submitted directly from compatible software. Additional summary level data can be provided voluntarily.

- Special schemes to include the retail, flat rate and annual accounting schemes to continue but records must be kept digitally and VAT return submitted via software.

- The existing process for correcting errors in VAT returns will continue but will in future be done digitally.

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How we're delivering

- HMRC is providing Application Programme Interfaces (APIs), but it won't be offering its own software solution.

- Instead, software developers will provide a range of accounting packages and record-keeping apps to enable businesses to keep their records digitally.

- HMRC is working with software developers to enable apps and software to link safely and securely to HMRC systems, which is covered by a publicly available Terms of Collaboration.

- Free software will be available for income tax for businesses with the most straightforward tax affairs.

VAT Roadmap

Consult on draft SIs

| Agent Authorisation for VAT in Test | **Technical private beta begins** | 9 Box submission and Declaration in Test | **Get Obligations and change of circs in Test** |

| Make a Payment reminders delivered | Gov.uk Guidance available | Add transaction monitoring to APIs | View and Amend previously submitted data in Test |

| Controlled go-live begins | All APIs released into Live | Subscribe to MTD for VAT web service delivered | **Public Beta begins** |

April 2019

Consultation closes

VAT SIs made

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HMRC's Experience

- Our journey has been helped by engaging our key stakeholders as early in the process as possible to understand what matters to them and how we can work collaboratively to ensure the success of the programme.

- Our experience has been a broadly positive one. Having listened to stakeholders' concerns we were able to fine tune our approach to the pace and scope of the programme to ensure a smooth transition for agents and businesses.

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Next Steps

- Passage of legislation allowing for MTDfB as part of the Finance Bill.

- Expansion of the Income Tax pilot beyond the current small, controlled group.

- Launch of VAT technical private beta.

- Software developers to launch new products giving customers a wider choice and allowing more businesses to join.

- Communications making agents and businesses aware of the changes and encouraging them to think about what the changes mean for them at an early stage.

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MANAGING CHANGE?

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Accountancy Europe, Vat Task Force

Gerhard Huemer
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Alan Rhode
Ecommerce Europe

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Agenda

VAT Treatment of the Sharing Economy

Relationship between the tax authorities, the taxpayer and the tax advisers

Managing Change
VAT Treatment of the Sharing Economy

- Taxable person
  - Independently carrying out an economic activities
  - On an continuing basis: subscribing to a sharing platform
- Exchange of goods and services
  - Direct link between the service provided and the remuneration
  - Pool systems
- Sharing economy platforms
  - Taxable person
  - Intermediary services vs electronically supplied services

Managing Change
Relationship between the tax authorities, the taxpayer and the tax advisers

- Identification of taxable person and collection of tax

  - Extension of One-Stop-Shop and issue of guidelines on tax rules

  - Review activities in the web and tax audits

  - Cooperation with platforms

- Digitalisation of tax compliance

  - Reduction of administrative burden

  - Impact on VAT gap

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THANK YOU FOR YOUR PARTICIPATION!