TAX IN MOTION

Global VAT in the Digital Age

Key issues for goods, services and compliance requirements

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2023 ITAX FORUM

Your presenters

Dee Adewunmi
Senior Director, Global Indirect Tax
Atlanta, GA

Dee.adewunmi@rsmus.com

Simon Kelly
Senior Manager, Global Indirect Tax
Washington DC Metro

Simon.kelly@rsmus.com

Kaatje Street
Senior Manager, Global Indirect Tax
Chicago, IL

Kaatje.street@rsmus.com

Learning objectives

By the end of this presentation, participants will be able to:

1. Identify activities that may require overseas VAT registration and reporting for the sale of digital goods and services.
2. Summarize the upcoming ViDA and DAC7 changes and how these may impact your business.
3. Explain key trends in global indirect tax around government mandated digitization of business processes, impacting day-to-day operations.
4. Appreciate how the advancement of digital and electronic requirements around global VAT compliance is impacting accounting systems and compliance processes.

Agenda

- 2023 Snapshot
- Digital Services and VAT
- E-Commerce Goods and VAT
- VAT in the Digital Age (ViDA)
- Managing change by leveraging technology

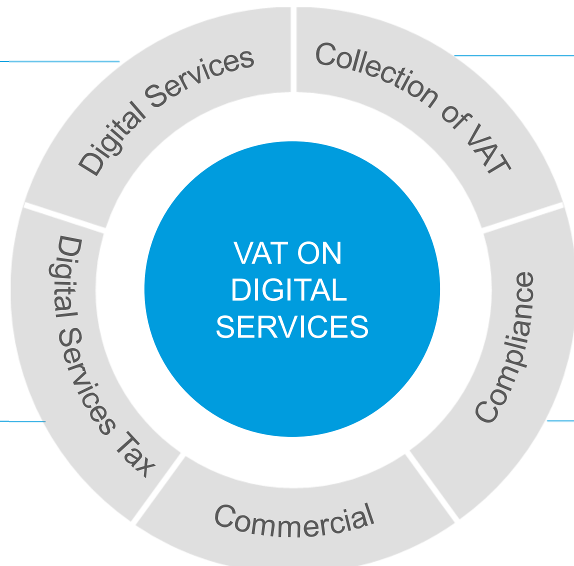
2023 Snapshot

- Services: B2C VAT registrations
- Goods: Low value goods
- Joint and several liability for unpaid VAT
- E-invoicing, SAF-T, Making Tax Digital
- DAC7 reporting
- VAT in the digital age (ViDA)

Electronically Supplied Services

VAT on digital services

The global indirect tax (VAT) landscape for companies providing *digital services* continues to change at an *exponential rate*. More and more countries continue to place obligations on "non-resident" suppliers of digital services. With *VAT rates typically between 15% and 27%*, it is crucial to ensure *VAT is managed appropriately*.



Definition of digital services

- Definition vary across countries, with some countries only taxing a limited "list" of services.

Requirement to register and collect VAT

- In most countries, a nonresident is only required to register if they provide services to private individuals (B2C supplies).

Digital services tax

- These are typically gross receipts taxes based on revenue streams earned from domestic customers.

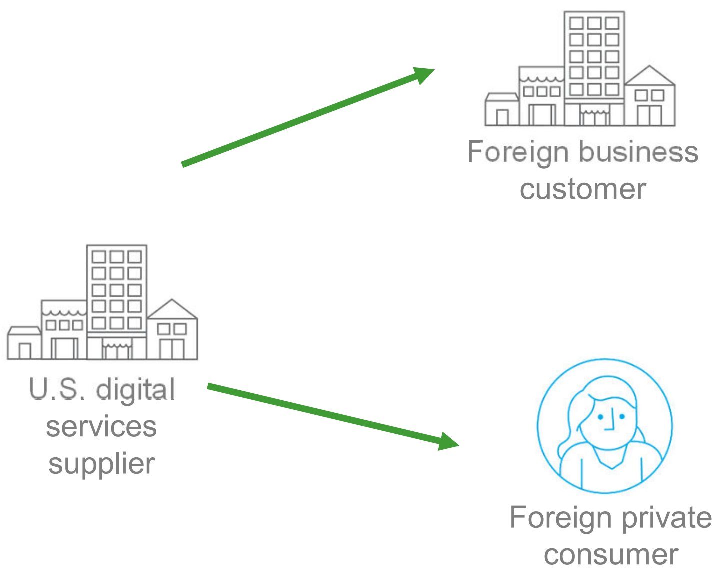
Compliance requirements

- Oftentimes there are specific simplified VAT registration and compliance requirements.

Commercial considerations

- Collection of relevant information from customers to substantiate B2B or B2C status of customer.
- Determining whether to use VAT inclusive or exclusive pricing.

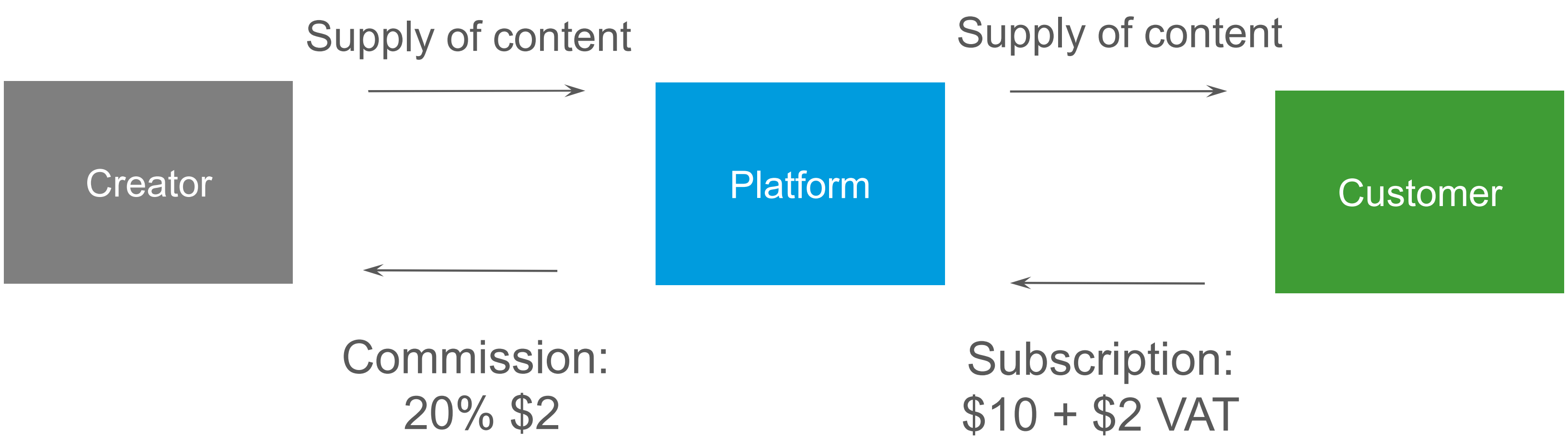
Electronically Supplied Services (ESS)



In a B2B context, VAT is typically self-accounted for by the foreign business customer under the ‘reverse charge mechanism’, although exceptions exist in South Africa, Russia, and Malaysia.

In a B2C context, private individuals cannot self-account for VAT and no VAT is collected unless the customer’s jurisdiction has enacted rules specifically around digital services.

Marketplaces and 'Onlyfans' case



E-Commerce

E-Commerce and challenges on goods

Low value goods regulations

	Australia	New Zealand	Norway	Switzerland	United Kingdom	Singapore
Implementation date	July 1, 2018	Dec. 1, 2019	April 1, 2020	Jan. 1, 2019	Jan. 1, 2021	Jan. 1, 2023
Registration Threshold	AU$75,000 (approx. $55,000)	NZ$60,000 (approx. $42,000)	NOK50,00 (approx. $6,000)	CHF100,000 worldwide (approx. $108,000)	Nil threshold	SG$100,000 (approx. $75,000)
Low-value threshold (i.e per parcel)	AU$1,000 (approx. $730)	NZ$1,000 (approx. $695)	NOK3,000 per item (approx. $350)	Consignments for which the import tax does not exceed CHF5 (approx. $5.5)	GBP135 (approx. $185)	SG$400 (approx. $300)
Applicable to B2B or B2C sales	B2C	B2C (can opt to tax *all* sales, and issue tax invoices)	B2C	B2C (once registered all supplies)	B2C	B2C
Who is responsible for VAT/GST where goods sold via OMP (marketplace or seller?)	Marketplace	Marketplace (unless goods sold by NZ seller-but can opt for marketplace to tax regardless)	Marketplace	Marketplace	Marketplace	Marketplace

DAC7 and VAT in the digital age (ViDA)

DAC7

- Requires platform operators to report certain information on sellers who use their platforms beginning Jan. 1, 2023 (first deadline for reporting is Jan. 31, 2024).
- Key information to be reported include seller's identity details, EU Member State of residence, financial account details, TIN, VAT/business registration numbers, and sales/credits by the seller.
- Information obtained is shared among tax authorities across EU Member States.
- Reportable activities will include:
  - the rental of immovable property
  - the provision of personal services
  - the sale of goods
  - the rental of any mode of transport
  - investment and lending in the context of crowd-funding

VAT in the Digital Age (ViDA): three main pillars

European Union proposal targeting January 2025

OBJECTIVES
1. Modernize VAT reporting
2. Addressing the challenges of the platform economy
3. Reducing the need for multiple registrations

Single VAT registration | VAT treatment of the platform economy | Digital reporting requirements and e-invoicing

Compliance developments and how to manage ongoing change?

AD0

Government mandated digitization of compliance obligations

- Digitization of compliance obligations refers to the transition from manual often paper based processes to digital processes and systems.
- Digitalization of VAT compliance obligations can contribute to reducing the VAT gap, which is the difference between the expected VAT revenue and the amount collected
- Measures and controls adopted by tax authorities around the world to close the VAT cap:
  - Digitalization enables reals time or near time reporting of transactions.
  - Tax authorities can access up to date data which can help them identify discrepancies and potential fraud more quickly than manual traditional compliance process.
  - The visibility of digital transactions makes it harder for businesses to avoid or evade taxes
  - Digital systems allows for better integration of data from different sources creating a more comprehensive view of the taxpayer's compliance footprint
- Tax authorities around the world are finding that the benefits of digitization in the reduction of the VAT gap far outweigh challenges of data security and privacy issues for taxpayers.

The transition to digital compliance is a significant undertaking for businesses requires careful planning and execution

Key VAT reporting trends

- E-invoicing
- Real -time reporting
- Digital reporting (making tax digital)

Continuous transactions control: e-invoicing and digital reporting

Continuous transaction controls or CTCs	Businesses are required to send transactional level data to tax authorities in real time or near time. This approach has been adopted by some countries as part of the digitization of VAT systems to improve VAT compliance and reduce the VAT gap. "Continuous" means ongoing transaction-by-transaction reporting must be undertaken by the business rather than the usual periodic reporting (monthly/bi-monthly/quarterly basis).
Clearance model	Invoice and underlying transactional data is preapproved at the time of the transaction by the tax authorities/or before the supplier issues an invoice to its customer. This model started in the Latin American region.
Post e-invoicing audit	The tax authorities audit the transaction after the issuance of an e-invoice. Under this CTC model, it is imperative that trading partners demonstrates the integrity and authenticity of their e-invoices from the moment of issuance until the end of the mandatory storage period. This method is widely adopted in Europe and some Asia Pac countries.

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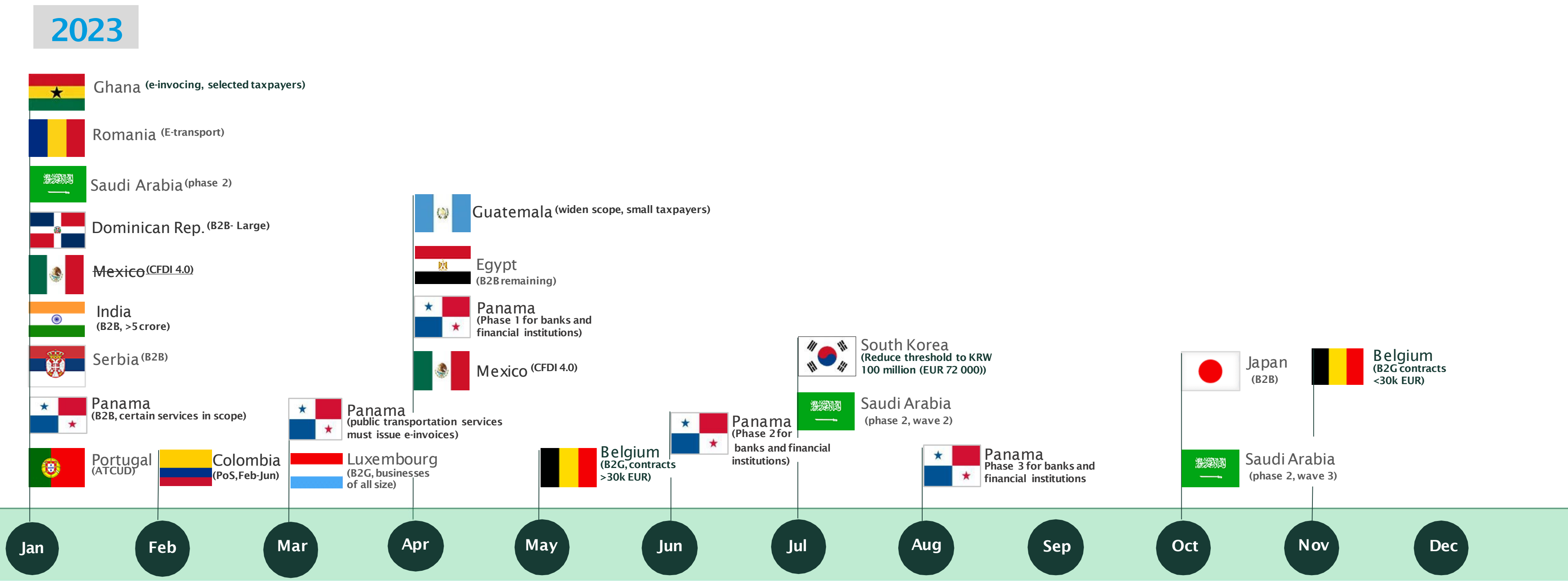
E-invoice

- Tax authorities are increasingly mandating e-invoicing to enhance revenue collection, improve compliance and reduce fraud.
- "Electronic invoice" means an invoice that contains the requisite information, and which has been issued, transmitted and received in a structured electronic format which allows for its automatic and electronic processing.
- Taxpayers would be required to issue e-invoices within 2 days to both internal and external customers
- In Europe, e-invoices would become mandatory for Intra-EU transactions.
- Some EU Member States may opt to impose issuance of e-invoices on domestic transactions.
- E-invoice is not PDF, word, excel!

Digital Reporting Requirements (DRR)

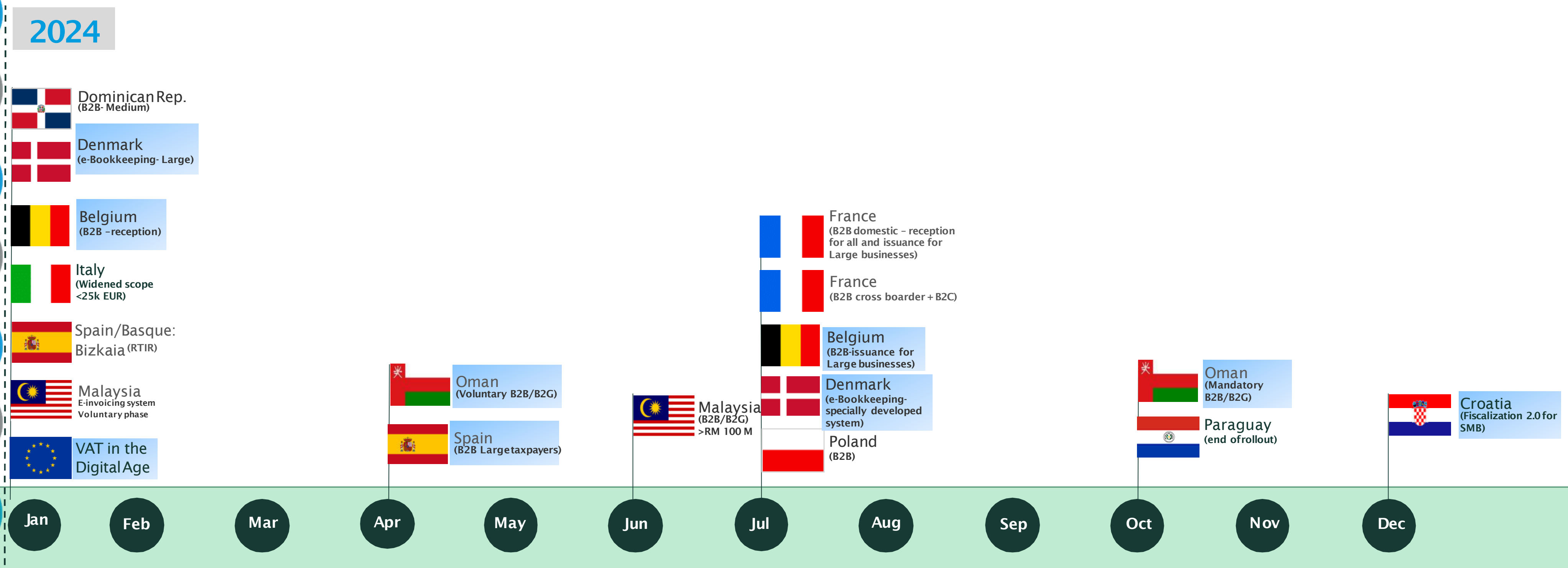
- Digital reporting must be completed within 2 working days.
- Digital reporting would be mandatory for Intra EU sale/transfer of goods and optional on domestic transactions.
- Transactions must be reported at a line-item level and not aggregated.

E-invoicing mandate proposal



Expected changes

E-invoicing mandate proposal



Expected changes

E-invoicing mandate proposal

2025

Jan

- Malaysia (B2B/B2G) >RM 50 M
- Slovakia (CTC models for B2G, B2B & B2C)
- Dominican Rep. (B2B- Small & Micro)
- Latvia (B2B)
- Belgium (B2B – issuance for Medium businesses)
- France (B2B domestic – issuance for Medium businesses)
- France (B2B cross boarder +B2C)
- China (e-fapiao countrywide implementation)

Apr

- Spain (B2B All taxpayers)

Jul

- Belgium (B2B – issuance for remaining businesses)

Countrywide B2B announced & consultation

Bill currently being read that introduces ViDA

2026

Jan

- Malaysia (B2B/B2G) >RM 25 M
- Denmark (e-Bookkeeping- small)
- France (B2B domestic – issuance for remaining businesses)
- France (B2B cross boarder + B2C)

2027

Jan

- Malaysia (B2B/B2G/B2C) All taxpayers

2028

Jan

- VAT in the Digital Age

Expected changes

Digital reporting: leveraging aggregators

- The authorities are now leveraging certain businesses, often digital platforms/marketplaces, credit cards or payment processing companies to collect and remit VAT on transactions that take place through their platforms.
- These businesses are referred to as “aggregators” because they bring together multiple sellers and buyers onto a single platform and aggregate numerous transactions.
- The use of tax aggregators by tax authorities is to ensure tax compliance where there may be challenges for tax authorities to track and collect taxes directly from individual sellers on the platform.
- This model improves tax compliance, reduce the VAT gap and level the playing field between traditional businesses and those operating through digital platforms.

SAF-T: pre-filled VAT returns

- Standard Audit File for Tax (SAF-T) is a standardized format for electronic exchange of accounting data from businesses to tax authorities and developed by OECD.
- SAF-T file generally includes:
  - Business information, its customers, suppliers, company's tax identification number, VAT registration number etc.
  - General ledger entries
  - Accounts receivable and accounts payable
  - Inventory and fixed assets
  - Bank statements
- The purpose of SAT-T is to provide tax authorities detailed and structured data that can be used for tax auditing and control purposes.
- Tax authorities can pre-fill VAT returns with SAF-T data
- Leveraging SAF-T can assist the tax authorities to verify the accuracy of the data reported by businesses, improve tax control and reduce the VAT gap.

What can businesses do to prepare?

- Embrace that the changes are certain
- Consider who will own your company’s response
- Analyze current VAT footprint and requirements
- Review current invoicing flows and capabilities
- Decide on your strategy

Your presenters

Dee Adewunmi
Senior Director, Global Indirect Tax
Atlanta, GA

dee.adewunmi@rsmus.com

Simon Kelly
Senior Manager, Global Indirect Tax
Washington DC Metro

simon.kelly@rsmus.com

Kaatje Street
Senior Manager, Global Indirect Tax
Chicago, IL

kaatje.street@rsmus.com

THANK YOU FOR YOUR TIME AND ATTENTION

RSM

RSM US LLP

+1 800 274 3978

rsmus.com

RSM Canada LLP

+1 855 420 8473

rsmcanada.com