Tax Authorities Going Digital

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Building a better working world

Agenda

- Digitalization of Tax Audit
- Preparation for a FAIA based audit
- VAT implications

Digitalization of Tax Audit

Digitalization of tax audit

- Clear trend towards digitalization worldwide:
  - e-filing considerably eases processing of VAT returns for tax administrations and makes administration faster and more efficient;
  - having electronic data enables tax administrations to use IT-based audit tools more easily, which can help to combat fraud and evasion;
  - most taxpayers can also benefit from increased efficiencies arising from e-filing and tax administrations' increased audit capacities

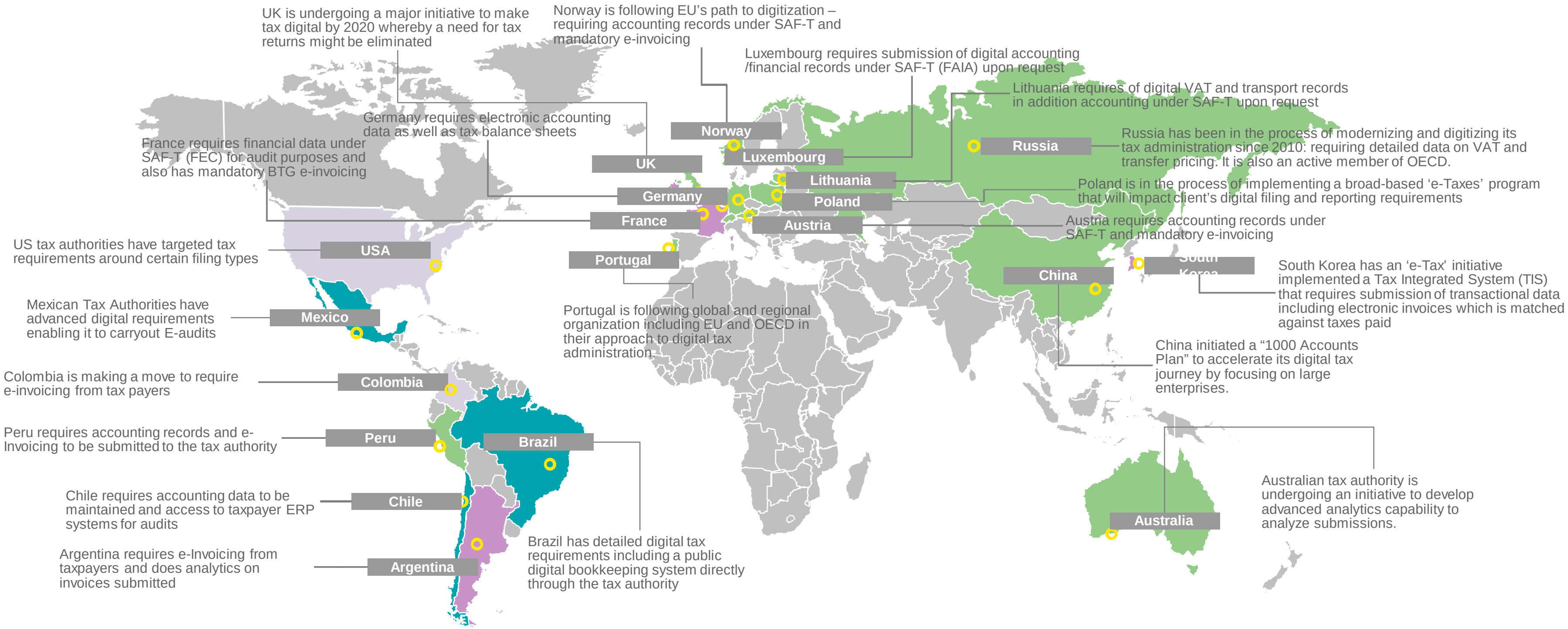
EY

Digital tax administration life cycle

Level 1	Level 2		Level 3	Level 4		Level 5
“E-file”	**“E-accounting”**		**“E-match”**	**“E-audit”**		**“E-assess”**
Use of standardized electronic form for filing tax returns required or optional; other income data (e.g., payroll, financial) filed electronically and matched annually	Submit accounting or other source data to support filings (e.g., invoices, trial balances) in a defined electronic format to a defined timetable; frequent *additions and changes at this level*	**Paradigm shift**	Submit additional accounting and source data; government accesses additional data (bank statements), begins to match data across tax types and potentially across taxpayers and jurisdictions in real time	L2 data analyzed by government entities and cross-checked to filings in real-time to map the geographic economic ecosystem; taxpayers receiving electronic audit assessments with limited time to respond	**Disruptive**	Government entities using submitted data to assess tax without the need for tax forms; taxpayers allowed a limited time to audit government-calculated tax

Note: Not all governments collect the same information or treat it the same under this model. Further, the move to digitization is not necessarily linear.

Digital Tax Administration for Certain Countries



Digitization level					
	Level 1 – E-file	Level 2 – E-accounting	Level 3 – E-match	Level 4 – E-audit	Level 5 – E-assess

Different Types of Digital Submission

Type	Submission	Filing threshold
SAF-T (Standard Audit File for Tax)	Submission can occur either through a direct interface (a configured open proxy) between the ERP system and the tax authority, or through an upload of the correctly formatted ERP generated data to the tax authority portal.	Mainly companies that are based in the country, but depending on the requirement.
Spain SII (SII-Suministro Inmediato de Información)	Submission can occur either through a direct interface module between the ERP system and that of the tax authority, or through an upload of the ERP generated data to the tax authority portal in the accepted format.	Companies with annual turnover of over €6 million.
Hungary (Audit Function)	Submit sales invoices directly to the Hungarian Tax Authority (directly from ERP system).	Companies who hold a Hungarian VAT number and issue B2B invoices on which at least HUF 100,000 (approximately EUR 320) VAT is charged.
General data such as Intrastat, ECSL, VAT returns etc. E-Invoicing BEPS Country by Country Reports, Direct Tax Returns	Submission can be directly via ERP system, add-on such as tax compliance software or direct upload to the tax authority portal, depending on country Both direct as well as indirect tax filings can be required to be submitted digitally	Varies depending on country

SAFT Overview

- SAFT (**S**tandard **A**udit **F**ile for **T**ax purposes) is an international **standard for electronic exchange of reliable accounting data** from organizations to the national tax authority or external auditors. The standard is defined by the Organisation for Economic Co-operation and Development (OECD).

- The format recognised by OECD is XML format

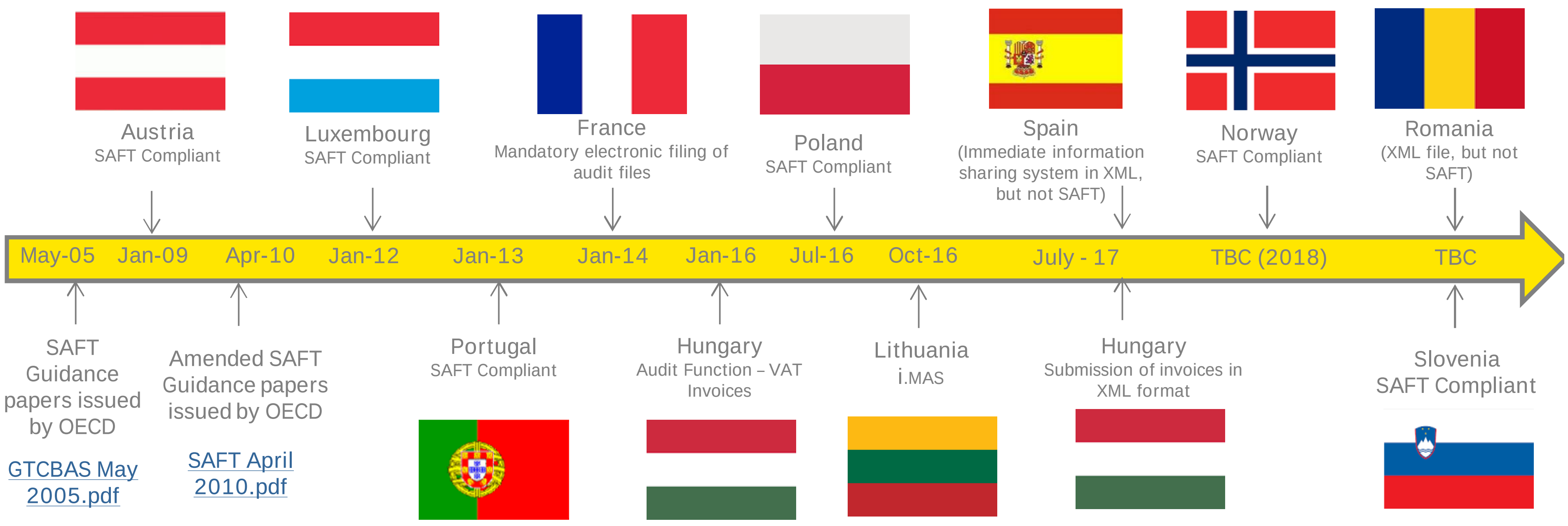
- The aim of SAFT is to **simplify tax compliance and tax audit requirements** as it relates to information required for tax purposes from business and accounting system

SAFT Overview – *in the EU*

- The European Commission is looking to develop an EU SAF-T, along the lines of what is already in force or under development in certain Member States. The aim is to both facilitate ongoing compliance by taxpayers and allow tax administrations to carry out more effective tax audits.

- A pilot project is currently under development in the specific context of the MOSS for telecommunications, broadcasting and electronic services, and further developments may be expected to follow.

SAFT Overview – *Timeline*



Preparation for a FAIA based audit

Seven leading practices for preparing e-audits

1. **Identify the required data**

- The information needed for most e-audits includes details from customer, supplier and product databases. Also one shouldn't forget items such as the algorithm for attributing VAT codes and other VAT internal procedure.

Seven leading practices for preparing e-audits

2. Determine which details are required

- How and when do the tax authorities require the data?

=> FAIA is on a calendar year basis

3. Collaborate across your business

- The data consists of large amounts of accounting and management information, spread throughout the ERP or IT systems. In most organizations, designing effective systems and processes to collect, store and retrieve the VAT information needed for an e-audit means involving several specialist functions, including tax, finance and IT.

Seven leading practices for preparing e-audits

4. Create a methodology for storing your data

- Also consider the fact that data storage periods differ from country to country — as do the rules related to how and where you may store data (for example, online or on paper).
- What are the best ways for you to store data long term? Is the solution sustainable and cost-effective?

Seven leading practices for preparing e-audits

5. Establish how to retrieve and deliver your data

- You must be able to retrieve the data requested on time and in the right format. You may need to identify specific tools for large data sets.

- Delays in producing it can cause disruption, and even penalties and fines.

Seven leading practices for preparing e-audits

6. Understand the checks that e-auditors apply

- What are the tax authorities likely to look for in your data? Do you know what they might find? Anticipate the outcome of an e-audit by examining the VAT data that the tax auditors will be given, using the same tools.

- By conducting an internal audit before an e-audit is announced, you may avoid unexpected tax adjustments and reduce or even avoid tax penalties.

Seven leading practices for preparing e-audits

7. Use e-audit techniques to manage VAT better

- Improve your ongoing VAT compliance by using data analytics software and validations. Incorporating these checks into your regular VAT control processes can greatly reduce tax risk by allowing you to remedy errors and weaknesses as they occur.

EY approaches for different types of businesses

Businesses with highly customised ERP systems	Businesses using local software and willing to make the changes themselves	Businesses outsourcing their VAT compliance	IT firms providing local ERP solutions to local businesses
• Assistance with the customisation of their own ERP system	• Assistance by providing a list of key information they need in order to have the form correctly populated and translate tax requirements into IT requirements	• Assistance with the list of data needed in their system so they can provide EY with the required information to populate the FAIA • Assistance in the production of the VAT returns based on FAIA	• Assistance to IT firms to update their software to provide solutions to their customers

VAT Implications

VAT Implications

- According to Grand Ducal Decree dated December 21st 1979 laying down accounting rules for VAT purposes, the accounting entries should be done in such a way that the elements necessary to compute the VAT are non ambiguous and easy to control

- On the income side, the following should be distinguished :
  - Amounts subject to VAT regrouped according to the applicable VAT rate
  - Amounts not subject to VAT regrouped according to the reason of the non application of VAT
  - The VAT can be booked without distinction per VAT rate

VAT Implications

- On the charge side, the following should be distinguished according to whether the transaction qualifies as purchase of goods/services or as importation of goods. Within these sections,
  - Amounts subject to VAT regrouped according to the applicable VAT rate
  - Amounts not subject to VAT regrouped according to the reason of the non application of VAT
  - The VAT can be booked without distinction per VAT rate
  - A distinction between importation for business purposes and importation for private purposes is required
  - An additional distinction has to be made between the transactions for which VAT is deductible, not deductible or partially deductible

VAT Implications

- The proper use of VAT codes allows to :

  - Automate the processing of VAT reports
  - Perform quick plausibility check of figures on a periodical basis
  - Quick reconciliation between the accounting and the VAT returns
  - Clear distinction between transactions exempt and transactions outside the scope of VAT
  - Ease the processing of data analytics

ANY QUESTIONS ?

THANK YOU,

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EY

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