VAT data management, with or without ERP
A key challenge for wise COOs

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Tax data management is a crucial task for companies. In the current fiscal environment and considering the increasingly high number of VAT audits, it may be wise to conduct a serious check of the VAT data available in the system.

Experience shows that VAT data management is a particularly thorny issue. There are a number of possible reasons for this, but the nature of the tax itself is likely to be the central issue. VAT is a transaction tax, meaning that the data to be collected in order to prepare and support the VAT-related returns and appendices is very specific. For indirect tax purposes, this data may be completely different to the usual information that is easily found in financial statements.

For example, a company has to know and keep record of the following for VAT purposes: the place where the recipient of a service is established, the location of the goods when a sale takes place, the VAT identification number of customers, the identification of the physical flow of goods, etc. Gathering this standard basic information is often difficult in itself but, depending on the operational model and/or if the company belongs to an international group, collecting and storing the relevant information for VAT purposes can be extremely challenging.

As the highest-ranking executive responsible for the day-to-day operations of a company, a COO must be aware of these possible difficulties and pitfalls. A quick overview of European-level VAT compliance requirements illustrates how challenging VAT data management can be.

The European VAT Directive, while requiring taxable persons to submit VAT returns, currently allows member states to determine the content and submissions. This results in 28 very different VAT returns with anything from fewer than 10 boxes to 100 boxes to be completed. The European Commission is currently working on a standardised VAT return providing a simpler structure and uniform information and deadlines for VAT declarations across the European Union. The idea is to allow all businesses to provide standardised information to each member state submitted in a common preferably electronic format. The aim is to implement this standardised VAT return on 1 January 2017.

According to this draft directive, the standard VAT return will only include seven basic mandatory items. However, each member state may require additional standardised information (19 different additional items). There will be no single or fully standardised VAT return across the European Union, and businesses will still have to identify the information they need to provide in their VAT return for each member state.

However – and this is the main goal of the draft Directive – , once the accounting system is set up and ready to collect the seven mandatory and 19 optional items for each member state, reporting this information in any VAT return should in theory be much easier.

In practice, apart from in the rare instance where a business conducts a single activity in a single country, gathering the relevant data could be difficult for various reasons.
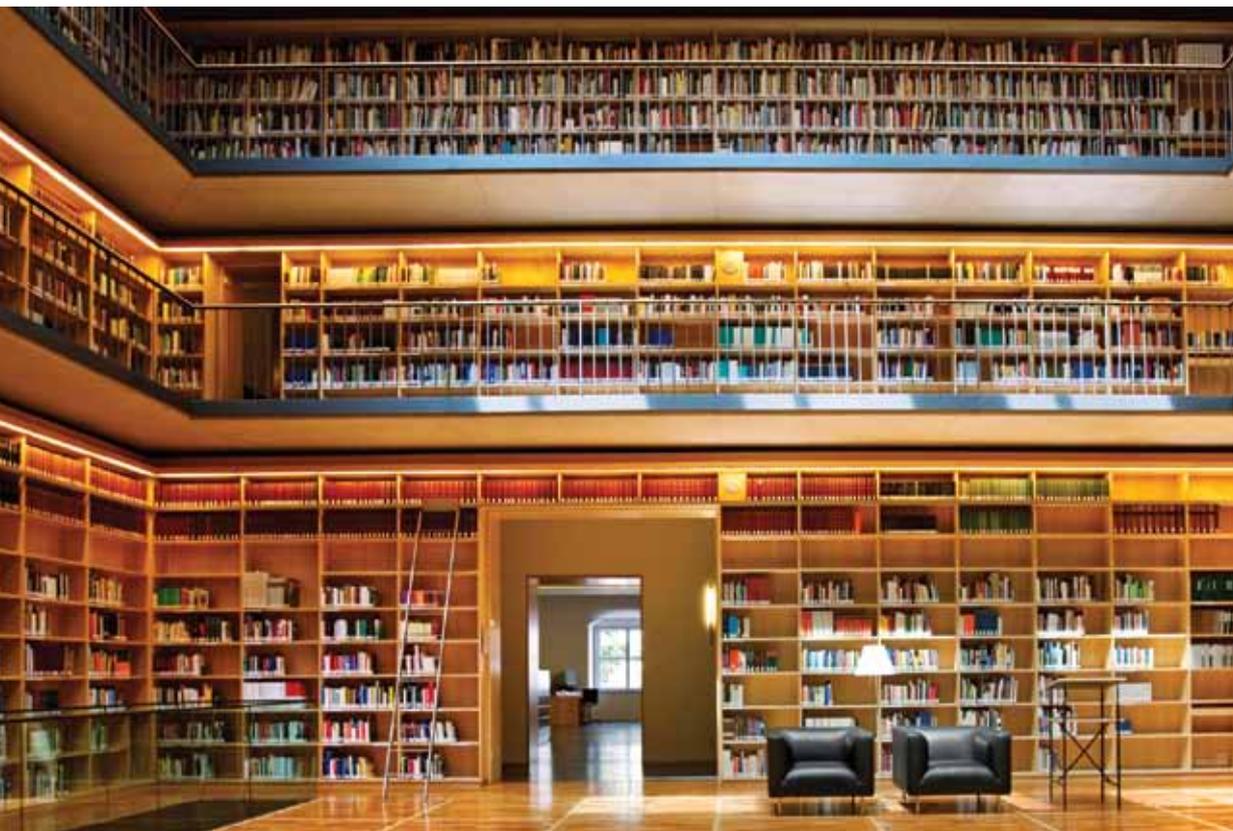
In any case, the nature of the information to be collected means that companies – regardless of their size – will not simply stumble upon the relevant VAT data in their accounting systems. Action must be taken.

Companies must ensure that the VAT data is not lost, forgotten or merely ignored from the outset. It is therefore highly recommended to have clearly identified who is responsible for gathering the VAT data and to ensure that the relevant individual in the organisation is familiar with VAT data management rules.

Identifying the relevant VAT data to be collected in relation with both the payables (providers) and receivables (customers) by each of the company's entities is of the utmost importance.

When reviewing the VAT data of large companies, it is rather common to discover that different accounting systems and/or software modules are used side by side within the organisation, depending on the activity or business line.

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Whether this is because a specific system or module is more appropriate for the needs of a particular department or is used for historical reasons (e.g. it was the accounting system used prior to an acquisition), it is imperative that the different systems and modules can communicate in order to avoid having to gather the requested VAT data manually. Ideally, the VAT data should be entered into the system generating the VAT return automatically. It is therefore crucial to have a perfect understanding of how such a transfer will take place.

Another point to keep in mind is that the initial entry of VAT data into an ERP system must be reviewed and updated regularly. VAT rules are very fast moving, especially so in recent years.

The so-called VAT package has introduced new rules and new VAT related compliance obligations have been coming into force since 2010, with more rules to be put into place before 2015. These new rules have impacted, among other things, the place of supply of services for VAT purposes, meaning that a service that was subject to Luxembourg VAT at 15% in 2009 became subject to the reverse charge mechanism in the country where the recipient is located in 2010. Should a company neglect to update its VAT codes in time, retrospective amendment of the VAT returns and European sales listings for the years in question could be an expensive process.

VAT data management should not be taken lightly. This should be a serious process subject to regular updates. Experience shows that implementing a strategic combination of process monitoring and software automation is the recipe for effective VAT data management. This may require considerable effort. However, given that the authorities are tending towards increased information provision requirements for audits (the OECD's Standard Audit File for Tax has been implemented in Luxembourg, for example), an efficient VAT data management system appears to be a 'must have'.