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THE BEST RUN SAP

Unrecovered Tax Dollars

5 Reasons Companies Miss the Boat on VAT/GST/HST

(and how to get it back)

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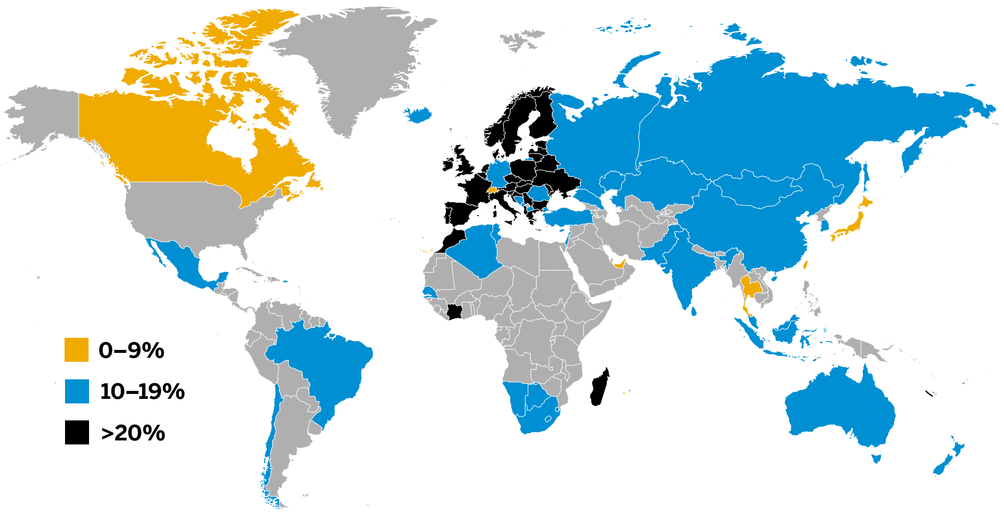
Millions of unrecovered tax dollars

If your organization operates globally, you are likely well familiar with Value Added Tax (VAT). As international trade in goods and services rapidly expands, so does the spread of VAT, Goods and Services Tax (GST) and other indirect taxes, and the complexity that comes with it — including potential double taxation, unintended non-taxation, and steep penalties for noncompliance. This poses significant risk for multinational companies that may be obligated to collect and pay VAT and GST in the countries where they operate.

In the six decades since VAT first made its debut in France, this broad-based consumption tax has spread rapidly across the globe. According to the OECD, 170 countries operated VAT in 2020 – twice as many as only 25 years ago. Since then, other jurisdictions have adopted VAT, such as Malaysia and Tanzania (2015), Egypt (2016), India (2017) and Member States of the Middle East's Gulf Cooperation Council (2018).[1]



The average VAT rate of OECD countries in 2020 was 19.3%.
The VAT rate in EU countries, however, was significantly higher at 21.8%.

1. "How VAT Took Over the Tax World," EY Tax Insights

54%

of eligible VAT is left unclaimed by businesses.

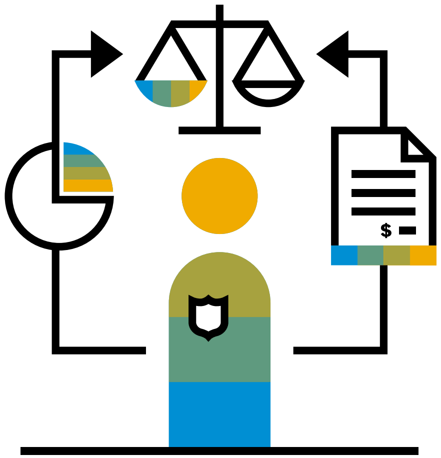
Source: Vanson Bourne: Connecting the Dots on Travel, Expense and Invoice Spend

What is VAT, GST, and HST?

Value Added Tax (VAT), Goods and Services Tax (GST), and Harmonized Sales Tax (HST) are levied on the sale of goods and services in Europe, Canada, and a number of countries around the world. Because VAT/GST/HST is charged on items that people and businesses buy, they are considered a consumption tax. And since these taxes are collected by businesses from the buyer, on behalf of the Government, they also fall under indirect tax.

VAT is charged in every step of the manufacturing and supply chain. To avoid accumulation, every business buyer is in principle entitled to recover the VAT charged by the supplier. However, there are many material and formal requirements that must be met in order to effectuate this right of VAT recovery – making it critical to use the right expertise and process knowledge.

While VAT/GST/HST is recoverable in many situations, the process is a paperwork nightmare with which many companies just do not or cannot bother. How do you get those dollars back to your bottom line while minimizing compliance risk? This eBook will provide guidance on processes and practices to help you meet compliance obligations and maximize your VAT/GST/HST recovery without all the headaches.



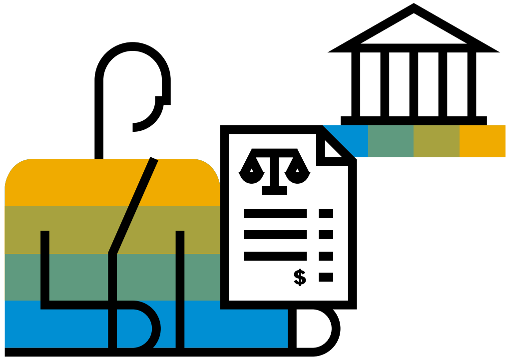
Let's dive into the 5 major reasons that these indirect taxes (from here on simply referred to as "VAT") go unrecovered.

Reason 1: Businesses don't know VAT can be recovered

Although the countries that allow VAT reclaim have well-established protocols in place, you won't be surprised to know that they are not always widely advertised. This, coupled with the fact that most employees have no idea how much they can potentially help their company reclaim nor how to properly report VAT on expense transactions, means these taxes stay a hidden cost.

Domestic VAT is even less understood

It's easy to overlook recoverable domestic VAT – especially when it comes to the smaller expenditures that employees may not know to submit. That means not only is your organization missing out on recoverable spend, but you are also running the risk of an expensive and draining audit by the local VAT authority.



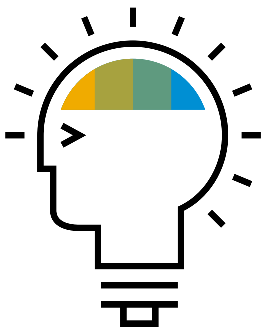
Types of VAT Recovery

DVR – DOMESTIC VAT RECOVERY
VAT recovery in the country of establishment of the respective legal entity, such as when a local employee is traveling within the country. For example, a French employee traveling within France.

FDVR – FOREIGN DOMESTIC VAT RECOVERY
VAT recovery outside the country of establishment of the respective legal entity, in which foreign country the legal entity is VAT registered. For example, a US company with a VAT registration in Germany.

Let's look at an example from Kris Van Aken, Finance Service Manager at Atlas Copco, who used a restaurant meal to demonstrate the complexity surrounding domestic VAT. "In Belgium," he explained during our February 2021 webinar, VAT in the New World, "the VAT rate for restaurant food is 6% but the rate for alcoholic drinks is 21%, and both of these can be on the same ticket submitted by a service engineer." That makes for a complicated scenario for the engineer and the company's finance team.

The problem is, as Van Aken reminds us, "The engineer's job is to maintain our compressors at customers' facilities, not to be a finance expert and especially not an expert in VAT." So, the engineer may not have realized the multiple, varying VAT rates on the expense submitted for reimbursement. A comparative analysis revealed just how often this scenario plays out. Van Aken had VATBox analyze a month's worth of expense transactions that had already been processed by his internal team. The results were eye-opening: VATBox discovered, that of the transactions his team had processed…



30% **would have qualified** for reclaim but were not submitted

30% **of transactions submitted were not compliant** due to errors such as a missing company name, the VAT amount not detailed, or having the credit card slip attached instead of the actual invoice. We'll get into this part of the problem in Reason 4.

In this example, we see the how much room there is for technology to improve compliance and achieve higher VAT recovery, while also removing the burden of tax knowledge from employees.

Types of VAT Recovery

FVR – FOREIGN VAT RECOVERY

VAT recovery outside the country of establishment of the respective legal entity, where it is not VAT registered. For example, a US company without any foreign VAT registrations incurring travel expenses or regular AP charged from European countries with VAT.

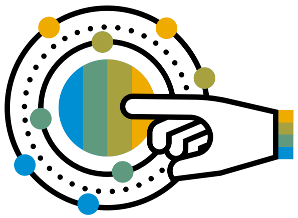
The European Union has implemented two procedures for FVR. The first covers Foreign VAT refunds within the European Union. For example, a VAT refund from Spain to Germany. The second covers VAT refunds from EU countries to non-EU countries. For example, a French VAT refund to a US company.

Reason 2: Ever-shifting regulations

Each country has the right to set its own rules and determine the process by which VAT can be reclaimed. But because the individual rules are different for each country and they are constantly in flux, the process can be quite tricky. On top of this, many submission portals are inefficient and overly complex, resulting in a high rate of rejected claims.

Two years ago, VAT was already the prevalent tax system in more than 85% of countries worldwide – each with its own set of constantly changing rules, regulations, and deadlines. With a global pandemic and Brexit adding even more complexity, it has become nearly impossible for tax, finance, and travel managers to manually keep up.

According to an SAP Concur poll of more than 200 finance, tax and compliance professionals, more than half (53%) cited digitalization, rapidly changing rates and regulations, shifting employee spend behavior, and resource limitations as factors that would drive the re-imagining of their VAT programs.[2]



More than 24 countries have changed their tax rates since March 2020. While this remains a fluid situation with rates and payment deadlines changing rapidly, here are just some examples:

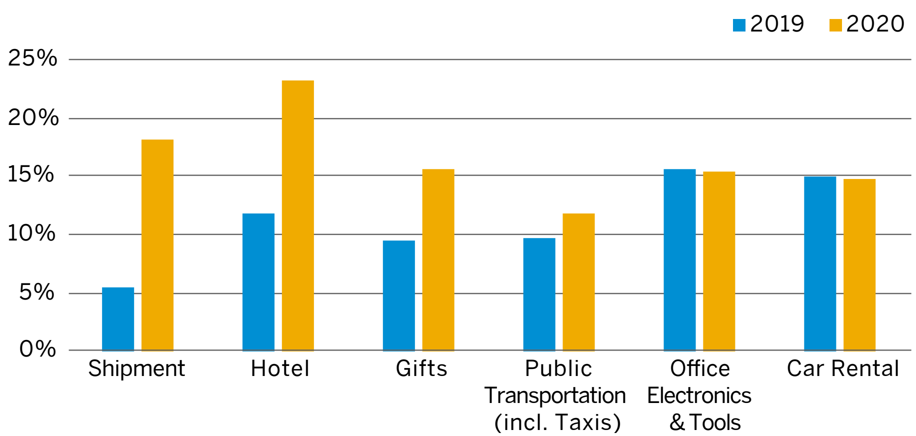
- **Austria:** The Ministry of Finance has adopted an anti-crisis tax package, which reduced the VAT rate to 5% for many goods and services impacting restaurants, accommodation, print and publishing materials, and more.
- **Germany:** The temporary VAT rate cut (from 19% to 7%) for restaurant and catering services has been extended until December 31, 2022.
- **United Kingdom:** The UK has extended the period to apply the reduced hospitality and tourism tax rate through September 30, 2021. The temporary VAT rate reduction became effective on July 15, 2020. This rate reduction from 20% to 5% is relevant for accommodation, catering, restaurants, and more.[3]

2. SAP Concur webinar "VAT in the New World," February 2021
3. SAP Concur webinar "VAT in the New World," February 2021

COVID-19 introduces new tax compliance challenges and a rise in Domestic VAT

An already challenging tax landscape has become even more complex with the shift to a remote, distributed workforce. Companies are pivoting to new ways of doing business, while governments are rapidly changing VAT regulations – and deferring tax deadlines – in an effort to aid them. While companies have done their best to shift business models in order to survive financially during the COVID-19 pandemic, they may have also unintentionally opened themselves up to risk as VAT/GST regulations have constantly changed, too.

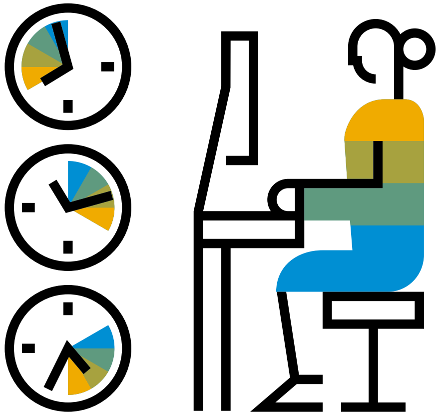
In addition to rapid rate changes, the pandemic has also influenced a shift in employee spend. The movement toward a distributed workforce has caused a rise in expense categories such as shipments, gifts, and public transportation – all of which have domestic VAT implications. While there has been a pause in overseas travel, that does not mean businesses are off the hook for VAT.



Based on Concur® Expense data

For instance, a year ago, procurement might have purchased 1,000 monitors in a single transaction that ran through a financial professional using an accounting system. Today, with decentralized consumption as many employees work from home, the same 1,000 monitors have turned into 1,000 different transactions that are submitted by 1,000 different employees – burdening finance, tax departments, and compliance teams with massive data entry, classification, and validation tasks.

Among OECD countries with VAT, more than 32% of revenue comes from VAT alone.[4] Lower levels of consumer spending and adjusted rates for hard-hit sectors during the COVID-19 pandemic has reduced VAT revenue. As industries recover and governments are able to shift their attention to recouping the revenue they have lost, the pendulum is likely to swing drastically away from relief and toward a renewed focus on audits. That makes it ever more critical that businesses have a trusted solution for VAT compliance.



4. Consumption Tax Policies in OECD Countries

How deep is your VAT knowledge?

5 fast facts about indirect taxes*

1) Fuel in France qualifies for partial VAT reclaim eligibility depending on the type of fuel.

2) In Italy, Mexico and India, e-invoices approved by the Tax Authority are required to support VAT compliance and recovery.

3) In China, input VAT claims are not allowed for catering and entertainment expenses.

4) In the United Kingdom, only 50% of the cost of a temporary company car replacement rental exceeding 10 days can be submitted for VAT recovery.

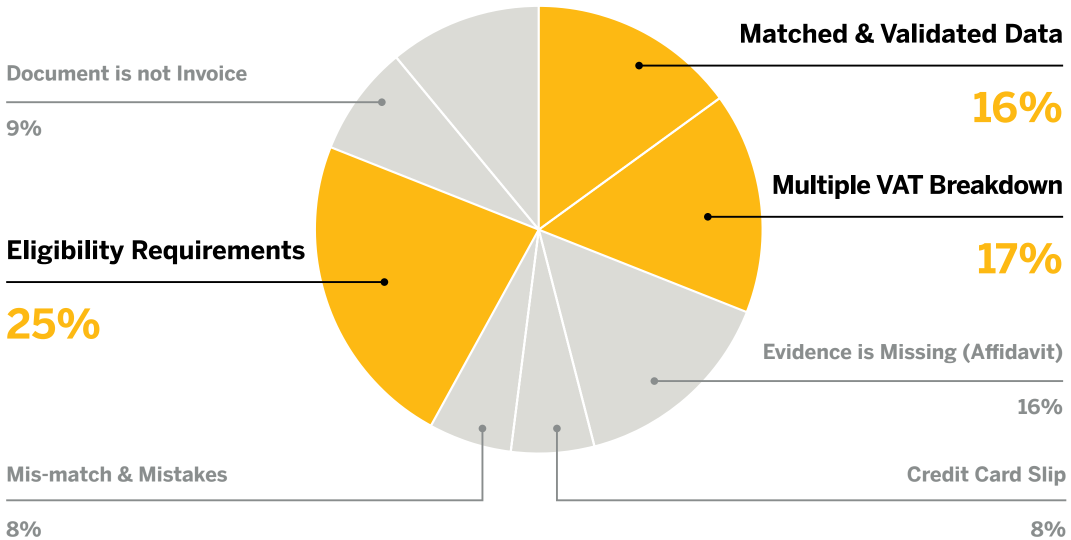
5) In the Netherlands, as a foreign business (both EU and non-EU) you can claim a refund of Dutch VAT up to 5 years after the year in which you were charged the VAT.

* In the world of indirect taxes, rules and regulations are in constant flux. These facts may be correct today, but out of date tomorrow. For the most recent, up-to-date regulations, check with your local tax authority.

Reason 3: Expenses are difficult to track and validate

Keeping track of all structured and unstructured travel and expense (T&E) data is no simple task. Most expenses are charged on company credit cards while other expenses are paid in cash or with personal cards. In addition, not all electronic invoices are valid for recovery of VAT and printed invoices often contain varied VAT recoverable rates that are not distinctly marked. The situation is further complicated as diverse foreign rules, regulations and directives apply to what constitutes an eligible recoverable VAT expense. Those complicated, manual processes are prone to human error.

Top reasons for VAT disqualification



In some countries, such as Spain, Portugal, Mexico and Croatia, the receipt must also state the client company VAT ID. In the Czech Republic, proof of business activity such as a meeting agenda must also accompany invoices for accommodations. While a scanned receipt is typically sufficient between European Union (EU) countries, for EU refunds to non-EU countries, the original invoice (either the paper version or the original e-invoice) is required to obtain a VAT refund.

42%

of employee expense transactions fail to meet VAT reclaim requirements due to incorrect information or missing data.[5]

5. VATBox 2018 Data Benchmark

Reason 4: Lack of time and expertise

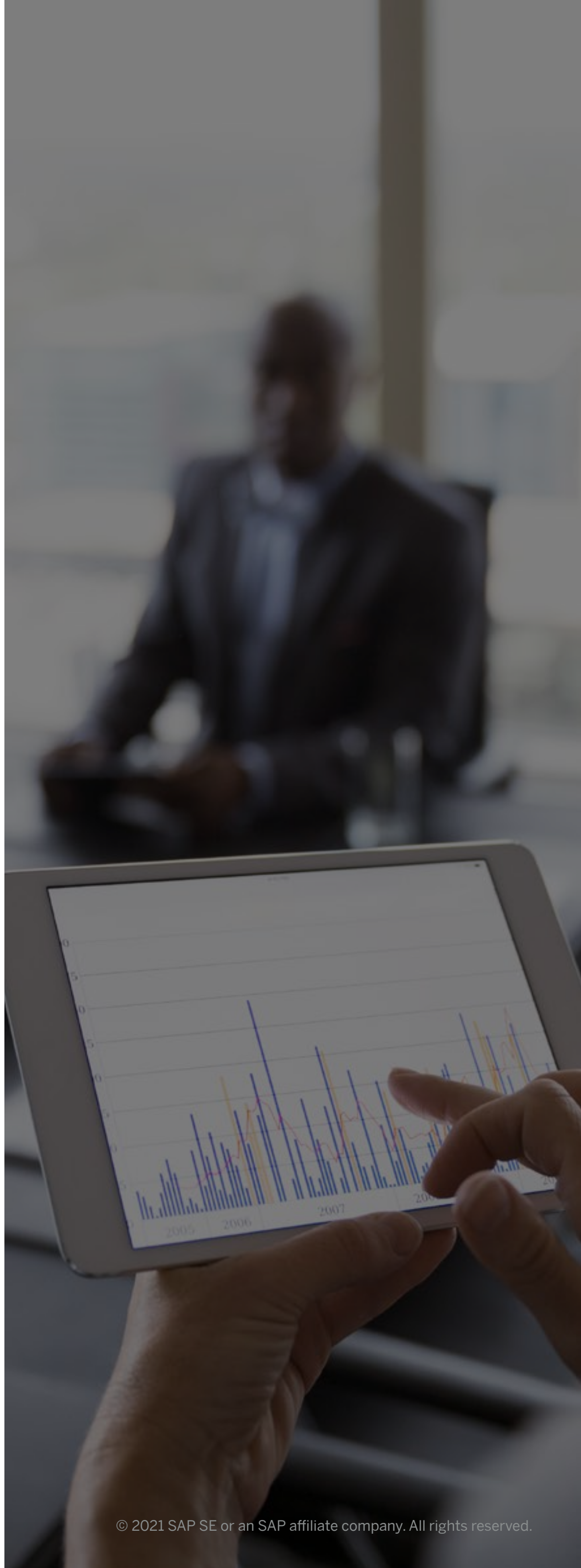
Because each country has different rules and processes in place, it is virtually impossible to find one person in your business that has all the knowledge required for complete and accurate VAT reclaim. In addition, language variations, changes in time zones and currency issues add further complexity. For these reasons, most companies assume that there is probably not much money to reclaim, and it would cost them too much to employ the team required to do so.

As if VAT compliance were not already fraught with challenges, the digitalization of taxes and advances toward real-time reporting have contributed to stricter requirements among global tax authorities. Many countries now require electronic filing of periodic VAT returns and the use of e-invoicing for VAT accounting. This means that automated expense management solutions, once considered an optional investment, are now mandatory in a growing number of countries. And those solutions need to be able to handle an increasingly large amount of data.

"Digitalization is having a significant effect on the role of tax advisors," says Remco Dewaerheijt, VP of Tax and Product Strategy at VATBox. "Every two years, data is doubling. By the end of 2021, we'll have over 44 trillion gigabytes of data."

Other industry leaders agree. An article from EY tax leaders cautioned that multinational corporations need to prepare for an increasingly interconnected global tax environment where taxpayer information can be quickly cross-referenced and shared among governments and agencies with just a few clicks. One tax administration could share its audit information with another before the earlier audit is even complete – making consistency another critical part of a company's tax risk management strategy.[6]

6. "How Global Entities are Sharing Companies' Information", EY, May 2019



Reason 5: Outdated technology and processes

With increasing demand for digitized reports and digital transaction-level data, manual and decentralized processes simply cannot keep up. Constant change in VAT rates, deadlines and procedures are difficult to capture and track, adding complexity for multinationals trying to maintain consistency across regional offices. Disqualified submissions become an added burden on teams tasked with validation, and also lead to increased audit risk.

Lisa Kelley, a Value Consultant at SAP Concur, can attest to the challenges of a decentralized approach. In her former role, she served as the T&E director for a global multinational where employee expense reports from Austria and Germany were repeatedly rejected. "For months, we were unaware that Austria had changed the VAT rate for hotels and that our VAT table was out of sync," Kelley describes. "This resulted in reports getting rejected during the audit process and sitting for months waiting to be fixed. We had many frustrated users to say the least, many of whom were our top salespeople in the country. Once the error was realized, VAT tables were updated, but it took a lot of manual effort to correct those reports and get them through the system. This made for a very difficult employee experience for those whose reports were impacted and for those working to fix the reports."[7]

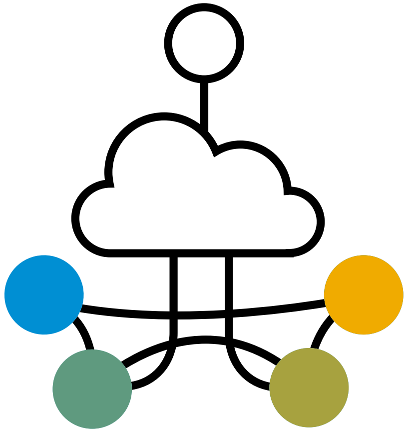
7. SAP Concur Webinar "VAT in the New World," February 2021

How to get back your VAT

It's time to build a business case to modernize your VAT program, because VAT is not just about recovering money. It is also about quality, compliance, vendor trust and reliability, and a removal of the administrative burden on your team. We have already run through 5 major reasons that make it pretty clear why VAT compliance and recovery are big problems to solve. So don't try to tackle it alone!

Invest in intelligent technology

Technology-driven automation within the tax function is delivering improved transparency, controls and efficiencies, while mitigating risks, reducing costs and delivering more accurate results. In an interview for the "Industry Leaders Reveal" educational series by VATBox, Ilona van den Eijnde, Global Trade & Indirect Tax Advisor at EY, reveals that "Over the last ten years, there has been an increase in the use of technology, both by companies and by authorities. Technology is changing the more mundane tasks that our job sometimes entails. For example, the compliance activities will all be automated and increasingly digital in the future."[7]



Despite advances in artificial intelligence and machine learning, the ideal solution still fuses deep tech and human expertise to ensure best practices and reduce risk.

Ensure your data is optimized

Data validation is key to VAT compliance. To be considered valid, invoices must have the following:

- Supplier’s Name and VAT Number
- Customer Name
- Total & Net VAT Amount
- Invoice Date
- Invoice Number
- Currency Indication
- Description of Goods/Services Supplied
- Breakdown of Multiple VAT Charges

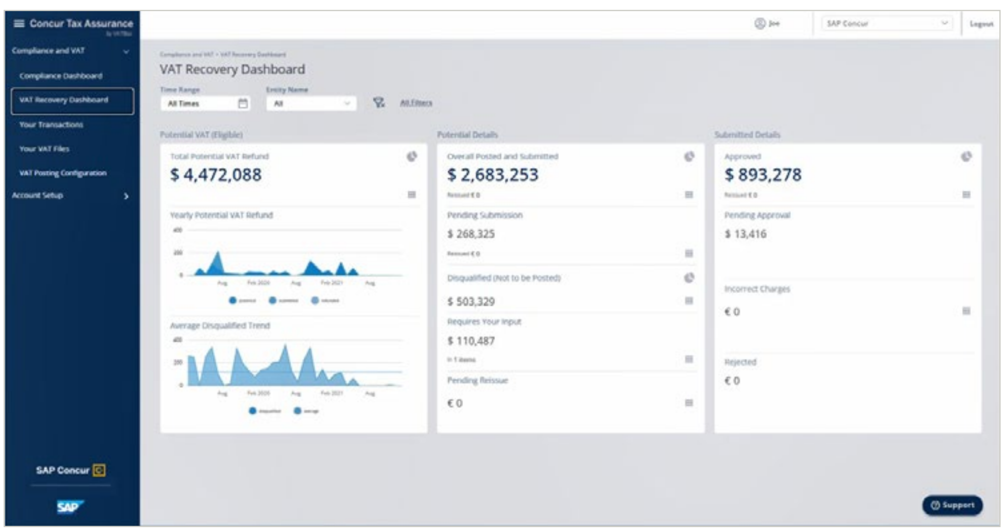
Inform employees that they must submit original invoices complete with the date, supplier’s name and VAT number. Insist that they ask for digital invoices or receipts, and that they attach the images to expense claims as evidence for reimbursement. Ensure you have the right level of transparency and reporting to ensure your data is validated, compliant, and audit-ready.

Maximizing VAT recovery is important, but equally so is understanding why a VAT transaction was disqualified. Invest in intuitive dashboards will allow you to drill down to transaction-level data in order to further understand the errors that caused disqualification so you can optimize compliance and maximize reclaim.

Automate the recovery process with Concur Tax Assurance by VATBox

Concur Tax Assurance enables three-way matching between supplier data, evidence and reports to ensure full compliance, while eliminating the need to manually sort and process employee spend transactions. You will be able to spend more time making business decisions while resting assured that your organization is in full compliance with tax authorities. By streamlining your processes and centralizing data in one system, you will also be able to reduce exposure and avoid risk liabilities across jurisdictions.

The dynamically updated financial platform is designed with sophisticated AI algorithms and embedded with intricate tax knowledge digitizing the compliance process and maximizing recovery. With intuitive dashboards and drill-down retrieval capabilities, your team can easily manage and assess expense data in order to optimize it for VAT compliance and increase the return to your bottom line.



$3.9M

Michelin was able to recover $3.9 million in 3 years with VATBox technology.

Source: VATBox case study

What can Concur Tax Assurance do for you?

Recover Domestic VAT: Automatically identify VAT-eligible expenses incurred by employees working remotely – like office supplies and shipment of goods.

Improve the Employee Experience: Give your finance team the tools to make their job easier. Integrate with your expense data and automatically validate receipts to optimize reclaim potential.

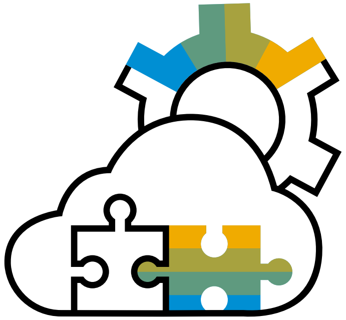
Improve Efficiency: A centralized system streamlines processes across locations to drive the consistency and traceability necessary to comply with audits.

Reduce Compliance Risk: Sophisticated AI-algorithms validate every transaction.

Maximize Profitability: Country-specific tax rules are built into the solution, optimizing recovery of every eligible transaction.

Easy Adoption: A wizard-base configuration that scales with your changing business needs makes for easy onboarding and maintenance.

Data Insights: Understand why a VAT transaction was disqualified. Intuitive dashboards allow you to drill down to transaction-level data so you can understand the errors that caused disqualification so can optimize compliance and maximize reclaims in the future.



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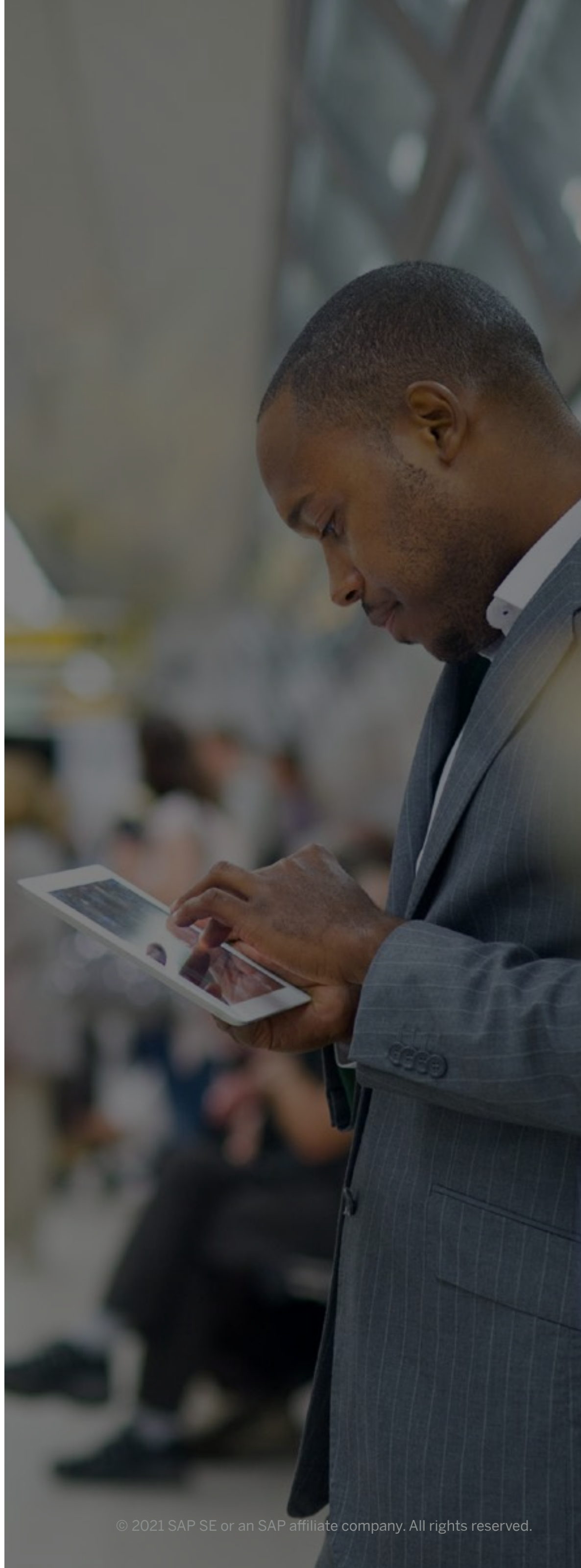

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