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SOFTWARE INVESTMENT IS CRUCIAL AS VAT COLLECTION ENTERS NEW ERA

By Jaume Carol, Senior Manager, CS

WHITEPAPER

ABOUT

Jaume Carol, Senior Manager, CS at Aptean assesses the new software requirements for companies in light of current changes in the Spanish VAT collection system.

The system for collecting VAT in the European Union has always had its critics. Concerns exist at the extent of the administrative burden the current system places on company operations. There are also accusations of inefficiency due to the fragmented procedures involved. These will be familiar issues to many Spanish businesses.

When the European Commission announced its VAT action plan in 2016, part of their stated ambition was to make the current EU VAT system simpler to use and, as a result, more business-friendly.

BRIDGING THE VAT GAP

However, beyond this ambition, the scale of the combined EU VAT gap – the overall difference between the anticipated VAT revenue and the amount actually collected – is ultimately the driving force behind the formulation of the action plan.

Pierre Moscovici – the European Union's Commissioner for Economic and Financial Affairs, Taxation and Customs, voiced these concerns at the plan's launch: "We face a staggering fiscal gap: the VAT revenues collected are €170 billion short of what they should be. It's time to have this money back."[1]

Immediate measures proposed include enhancing cooperation between Member States through sharing and joint analysis of information; as well as an improvement in tax compliance through better cooperation with businesses. Any successful outcome for these initiatives in the long-term are undoubtedly dependent on the modernisation of tax administrations across Europe and the degree to which this boosts individual government's ability to fight fraud. The clear goal is to put in place definitive rules for a single European VAT area in 2017.

ROBUST TECHNOLOGY IS THE KEY

There is an obvious desire to make the system more robust as a means to combat cross-border fraud, which is reaching alarming levels – with an estimated VAT revenue loss of around €50 billion a year identified in the European Union.[2]

Incorporating technological innovation is key to the implementation of the proposed new system. Although any technology solution is likely to provide fresh impetus to the digital economy and e-commerce, it also poses new practical challenges for businesses in how they manage their processes and procedures for VAT collection.

THE ROUTE TO MODERNISATION

According to recently-published European Commission studies, the VAT gap in Spain has been decreasing, although at more than €6 billion it is still significant compared to some other EU Member States.[3]

In 2014, the Spanish government introduced new measures to combat tax non-compliance. An increase in resources in terms of staff working hours was provided to carry out e-audits more effectively. The subsequent decrease is due to strong revenue performance, despite the VAT rate remaining stagnant. Although the tax base has increased marginally, growth in revenue collected was mostly attributable to an increase in VAT compliance.[4]

The Spanish government is responding to the challenges of the Commission's action plan by further strengthening measures to reduce the VAT gap by applying a strategy to modernise VAT administration, through the introduction of a new system incorporating the 'Immediate Supply of Information' (SII).

CREATING A SYSTEM FOR THE FUTURE

This new system is designed to replace current VAT management procedures that are not fit for purpose and have been in operation in Spain for 30 years.

SII is another key step in the process of continuous improvement the Spanish authorities are undertaking: the mission involves upgrading systems and creating the system of the future. The government's intention is to improve the information they gather, both to gain more effective control of the system and to focus on generating more revenue. There is no change in the law – or in how VAT is applied – the changes instigated with SII represent a shift that can be very much explained on a technical level. This initiative enables the Tax Agency to prepare the data for VAT in the same way as they currently do for income tax.

The 'Immediate Supply of Information' accelerates the gap between recording or booking invoices and the conversion of the economic transaction. With the associated automation taxpayers can use SII to file their VAT returns in a simpler way, with real-time information.

The new bookkeeping system for VAT will provide additional benefits beyond improved control. It is anticipated that the SII will assist companies in obtaining their data for VAT returns and also speed up any refund process, while allowing checks on the integrity of the data to be made much more precisely.

WHO WILL BE AFFECTED?

SII will be mandatory for 62,000 companies. This will comprise those considered large companies – who are invoicing over €6.01 million a year – though smaller companies will be included if they are part of a larger group of companies.

Those applying the monthly tax rebate scheme – REDEME – will also be among these compulsory participants. However, for companies invoicing less than €6M, but included in REDEME, this will not be mandatory, so they will not have to send invoices.

Any other company can also apply for SII on a voluntary basis, independent of the type of activity they carry out – or their VAT status.

Although this number of participants may initially seem small, however, these companies represent 80% of the overall VAT billing.

PILOT PROJECT

SII was initially announced in 2015 – with the intention that it was to be effective on 1 January 2017. The problematic political situation regarding the Spanish interim government meant that initially it was impossible to approve the legal framework. However, SII was formally approved in December 2016, and it was established that participating companies must send invoices recorded and produced during the period 1 January 2017 to 30 June 2017 - the term for this is to 31 December 2017.

In order to give business sufficient time to adapt to the initiative. There is an initial six-month pilot project of forty-one companies. It is still the early stages of the pilot project and, with such a limited sample of companies involved, it is difficult to transpose information or levels of voluntary participation, let alone to pass any judgement on the system's ultimate success. As expected the situation is very fluid. Results so far have been sporadic, with only about a 50% fulfilment rate. The pilot participants may also need to respond quickly to changes as the system is adjusted in the face of any problems that arise.

Important practical concerns are also being highlighted concerning the capacity the government is providing to implement the system. Is it enough to guarantee collection and remain effective in the face of the mandatory implementation which starts on 1 July 2017?

WHAT YOU WILL NEED TO DO – IMMEDIATELY

When the SII system becomes mandatory in July, companies will have to send the invoices recorded/produced from 1 July 2017 to 31 December 2017 to the tax authorities in eight days. They will need to keep registration books, created through electronic delivery of their billing records to the AEAT Electronic Office online. These books will cover issued invoices, received invoices and investment goods. EU invoices – either received or produced – will be submitted along with the rest of the invoices. There will also be a new book, called the – 'Book for Special Intra-EU operations' – that will keep record of what are classed as special EU operations. Such as, a company sending equipment to their permanent establishment in another EU country, for example a truck, which is to be used by the company in this recipient country.

In the case of the internal movement of goods in the EU, the period will be fixed based on the date when the transport started or when the goods were effectively received. This information is usually not available in accountancy systems, as it is considered logistical, but it will be necessary to include it.

The SII will also enable VAT calculations, the application of the reverse charge and certain additional information – which at present is not included in such books – like a description of the transactions and the VAT period. The system will also provide the means to rectify prior registry entries. The option of making summarised entries will no longer be possible.

The new system allows a review of all transactions carried out by companies to check accuracy and avoid potential amendments in VAT ledgers. These commonly trigger tax audit procedures or information requests within the current system.

FINANCIAL MANAGEMENT SOFTWARE DESIGNED TO MEET THE CHALLENGE

Companies – from SMEs to large businesses – will now find themselves making a crucial choice of effective financial management software, under considerable time pressure. The chosen software should satisfy a number of key requirements. It should be a very strong product that aligns with two worlds; combining technical detail with effective communication internally and with external agencies.

It must be powerful to meet the ongoing burden of recording and transmitting information, while being agile and responsive enough to implement any changes as the SII develops. Rapid installation is a prerequisite; as is a comfortable integration that delivers data integrity and regulatory compliance, with minimum staff training. The new software must minimise the economic and operational impact of an as yet unproven system, ideally reducing the total cost of administration and ownership.

Companies are inevitably suspicious of new fiscal legislation and in particular the costs involved in implementation. How quickly the software cost will be recouped depends specifically on the scale of the company and its range of operations. The internal cost depends on factors such as the existing software that's running on the company computer systems and how many different divisions or facilities it services overall.

REWARD AND PUNISHMENT

The tax authorities are preparing some incentives for taxpayers, such as deadline extensions and faster refund proceedings, which should help to embrace change. And while these advantages should not be dismissed, cynics might argue that they are more of a natural consequence of introducing this system than a sign of any good will.

From 1 January 2018 the term for the SII is reduced to four days. Any delay in meeting obligations through the Tax Agency's Electronic Office will result in a fine of 0.5 per cent of the invoice amount. This represents a quarterly minimum of €300 – to a maximum of €6,000. Whether penalties are applied from the beginning or there is an accommodation to be made is unclear.

MIXED PERSPECTIVES ON SII

The overwhelming national advantage from introducing the SII is the long-term overall reduction in the VAT gap. This should be regarded as a first step to increased visibility of transactions in Spain; the next step might involve training tax officers to improve their analysis to prevent fraud and accelerate this reduction.

On a pragmatic level, July 1st is a difficult time of the year to implement any new system as it is in the middle of the holiday season. Also electronic certification is required to send information and currently it is not clear whose responsibility or duty it is to pass on this information once collected. There are as many questions as answers.

What is not in doubt is that Spain is entering a new era in VAT administration. Through a process of modernisation and standardisation the government is now the bookkeeper. There is a new pressure for companies to get it right. And the ability to do so requires careful investment in the right financial management software.

For more information, contact us at enquiries@aptean.com.

[1] http://europa.eu/rapid/press-release_IP-16-1022_en.htm

[2] http://europa.eu/rapid/press-release_IP-16-1022_en.htm

[3] https://ec.europa.eu/taxation_customs/sites/taxation/files/2016-09_vat-gap-report_final.pdf

[4] https://ec.europa.eu/taxation_customs/sites/taxation/files/2016-09_vat-gap-report_final.pdf