The possibilities of modern technology in relation to the collection of VAT and VAT fraud prevention

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Introduction

Does digitalization only bring hardship to VAT systems?

Digitalization of commerce brings along difficulties to VAT systems throughout the world.

However, although we should bear those difficulties in mind, we should also embrace digitalization as it brings tools to combat fraud, ease compliance regulations and obligations, and make VAT a more effective tax mechanism for citizens and governments.

In this workshop I will discuss the development of the use of digital tools in VAT systems worldwide since the mid-80's of the 20th century. I will do this along the lines of my own experience in various countries and in various roles. However, I do invite you all to participate in the discussions and bring forward your own experiences.

At the end of this workshop, I would like to discuss with you the impact of the use of tools like big data and blockchain, based on some statements.

Hopefully, this workshop will bring forward ideas which you can use to increase the strength of VAT systems in your own organization, whether private or public.

The 80's

How computers slowly came into play

- In the Netherlands (and many other countries), a lot of (mainly SME) organizations only use paper-based bookkeeping systems

- Computers are starting to be used privately (commodore 64 anyone?) and by large companies, but knowledge on computers and business use is not wide-spread

- VAT automation is unknown to the broader VAT community

The 90's

How computers take over the role of paper books (but not everywhere…)

- PC's become more and more mainstream and are used for more than games alone

- Tax authorities start using electronic means (software) for data analysis during audits

- Stand alone systems are more and more connected and data from different systems can be combined to get more complete pictures

- The EU "temporary" VAT system for intracommunity transactions is introduced, and relies heavily on data exchange between the member states. The (then and still) foreseen "definitive" system (one-stop-shop) with its clearing house setup, is envisaged to rely on such data interchange possibly even more

- The internet develops; data exchange becomes more practical. However, security issues slow down the development of large scale exchange (EDI, digital signatures, fear of connecting tax authorities' systems to the internet)

Exceptions; lesser developed (from a bookkeeping/digitalization perspective) countries that introduce VAT need to adopt simpler systems. Example; Dutch Antillies (no full VAT deduction but cumulative systems).

The 00's

How VAT automation comes peeking around the corner

- Use of digital bookkeeping is wide-spread even under SME's

- Digital invoicing is starting to become more and more common, and Directive 2001/115/EG is taking steps to harmonize the use of digital invoicing (under strict rules, made more easy at the end of the decade/start 10's through Directive 2010/45/EU)

- China golden tax system is a first attempt to combat fraud through digital data interchange between tax authorities and tax payers (any other earlier large scale attempts?)

- VAT tools are developed and actually starting to be used by larger companies. These tools minimize the change on human error in VAT determination and give in-house VAT managers a more in-depth and reliable source of information and control

- Tax control frameworks (TFC's) are expanding to VAT. Such institutionalized packs of policies, roles and responsibilities within companies, lead to improvement of the control over the application of VAT regulations and practice for the company itself, and for the tax authorities. These TFC's need to rely heavily on digitalization of sources of information in order to work as designed

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The 10's

Automation is the standard, blockchain brings new possibilities

- Eastern European countries introduce (mandatory) direct invoice exchange tools; issuer, receiver and tax authorities get the same information and real time

- According to the International Chamber of Commerce (ICC) use of such tools increased the VAT income in those countries by 20%[1]

- According to a study by McKinsey in January 2018, there is a large difference between the extend to which countries use digitalization in their tax collections. EY has stated that the most sophisitcated systems are currently found in Latin America. In Europe, Spain is regarded the most digitalized country[1]

- Use of TFC's expands and become the norm for larger companies

More and more countries now have a solid VAT system (e.g. recent and coming introduction in the Gulf States as virtually the only tax in these countries), but not all introduce sophisticated digital systems. However, internet is broadly used to spread information to the public (e.g. tax number verification tools)

Worries; formerly sophisticated tax software used by tax authorities is not updated thoroughly and leads to hiccups in tax collection (e.g. The Netherlands)

1) Source; Het Financiele Dagblad (Dutch Financial Times) 30 August 2018

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Discussion

Discussion on the following statements

All countries that have a VAT system, should introduce the **obligation** to upload each invoice to the tax authorities

Tax payers should be forced by law to use digital systems to process and store all of their financial information

Tax payers should be forced by law to use certain **approved software** in order to process and store their financial information

Tax authorities should have full and real time access to all digital financial information of tax payers, and have the right to analyse the data through automated tools. Any anomalies found in this process, may be used to impose assessments and fines automatically

Too much focus on digitalization leads to harsh and non-individual VAT collection, which does no right to the spirit and intention of VAT regulations; humans should decide, not robots

Taxture

Rick Franke (1969) started his career in VAT in 1986 at the Dutch Tax Authorities in Amsterdam. He worked there as a VAT auditor and as a VAT inspector. From 1996 to 1998 he has been seconded to the Tax Authorities of the Dutch Antilles (Curaçao office) to support the introduction of an indirect tax. This support entailed the setup of the Tax office as well as legislative support for the Dutch Antilles' government. Furthermore, Rick was involved in educational activities (within and outside the Tax Authorities).

As of 2000, Rick worked in the VAT advisory sector. He has worked for 7 years at a Big-4 firm. Then he co-founded an advisory partnership of VAT professionals which later became the European branch of the largest US indirect tax advisory firm. Currently, Rick works as an independent VAT advisor and is VAT of counsel at Taxture tax and legal in the Netherlands. As a VAT advisor, Rick has advised Fortune top-10 companies as well as SME businesses. Rick also acted as (part time) interim VAT manager at companies like Cisco Systems, JDE and Liberty Global.

Rick has a masters degree in tax law at the University of Amsterdam, has been a member of the NOB (Dutch association of academically schooled tax professionals), the IPT (US association of tax professionals) and is currently member of the RB (Dutch association of registered tax advisors). He has written multiple articles on VAT in Dutch and international professional publications, and has been editor of multiple VAT publications (e.g. yearly published book: BTW memo on Dutch VAT).

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