Section A - General Consultation Questions

Business to Business (B2B) and Business to Government (B2G)

Revenue is keen to reform Ireland's domestic VAT B2B and B2G Reporting system so that it is easier and seamless for businesses to comply with their VAT reporting obligations. Aligning the reporting and compliance requirements more closely with the normal operations and financial processes of the business, will increase the accuracy of returns and reduce the risk of errors and omissions.

1. *What are your views on the proposal to introduce real-time reporting for B2B and B2G transactions?*

Deloitte welcomes the opportunity to contribute to Revenue's public consultation on Modernising Ireland's Administration of VAT – Real-time Digital Reporting and Electronic Invoicing.

We had anticipated Revenue's decision to modernise our VAT reporting regime and the move to do so is broadly welcomed. It follows Revenue's modernisation of other aspects of taxation, such as PAYE, and is consistent with the ambition outlined in the VAT in the Digital Age ('ViDA') proposals for Digital Reporting Requirements ('DRRs').

The manner in which Revenue executes VAT modernisation will define its success, with taxpayers benefitting from increased efficiencies and lower compliance costs in the longer term being imperative factors to its success. Crucially, taxpayers' 'business-as-usual' should not be adversely impacted. It should also reduce the incidence of innocent errors, non-compliance, fraud and should also help to close the 'VAT gap'.

We appreciate that B2C transactions are outside the scope of the current consultation and that a separate public consultation on B2C transactions may follow in the coming months, at which point we will provide our view in respect of same.

2. *What matters should be considered in planning for a transition to a new VAT Reporting system?*

We have set out below some of the main areas in which we believe particular focus should be placed to ensure that the system is fit for purpose and that the transition is not overly burdensome for VAT registered persons:

Harmonisation

One of the most significant challenges facing taxpayers when tax authorities adopt e-invoicing, e-reporting and / or real-time reporting regimes is the lack of harmonisation between countries' regimes. As such, in line with what we understand Revenue's preference to be, we would recommend that Ireland's regime is consistent with the approach taken as part of ViDA, albeit that the Irish system is likely to cover domestic transactions as well as cross-border transactions.

Sufficient lead-in time and requirements

With the expected changes representing the most significant overhaul to our VAT reporting regime since VAT was introduced in Ireland in 1972, a sufficient lead-in time must be afforded to taxpayers to prepare for the changes.

In addition, in our experience, taxpayers prefer tax authorities to remain committed to key dates for implementation. Tax authorities in other jurisdictions have set key dates but then subsequently announced one or more delays.

While instinctively delays may be perceived as welcome, as taxpayers need to engage with an array of internal and external stakeholders to work towards being compliant from a certain date, delays are often unwelcome. In our experience, the better approach is to set and remain committed to a realistic implementation date that provides taxpayers with an appropriate lead-in time to prepare. If, after doing so, it is discovered that some taxpayers may not be ready for the changes, rather than moving the date of implementation, a better approach is to provide full amnesty on penalties for non-compliance for a period.

In addition, it is imperative that business and technical requirements are finalised as early as possible. In our experience, we have encountered situations where other countries' regimes provide such requirements at a very late stage and / or change requirements. Doing so can severely and negatively impact on a taxpayer's readiness to comply.

Ongoing stakeholder engagement

Firstly, we welcome Revenue's decision to establish a subgroup of the TALC Indirect Taxes sub-committee for this area. Ongoing dialogue between Revenue and practitioners, along with wider Revenue engagement with taxpayers, industry bodies, system / software providers, will be critical to the success of modernising our VAT reporting regime.

We believe that extra staff resources within Revenue will be required to provide adequate support services for taxpayers and agents to address queries, resolve issues and ultimately seek to ensure a smooth transition to the new system. Consideration should be given to having a dedicated team for dealing with such matters for at least an initial period.

We understand that this consultation will be the first of multiple public consultations. As it becomes clearer what the new VAT system will look like, opinions and views of all stakeholders should continue to be sought and considered.

We would also welcome the publication of guidelines and other relevant information at Revenue's earliest possible opportunity. Doing so will allow taxpayers and agents to become more familiar with – and plan for – the proposed changes.

Phased introduction

With larger taxpayers typically being better placed to adapt to changes of this nature, Revenue should consider introducing the new regime on a phased basis starting with larger taxpayers, in line with the approach taken by some other jurisdictions. Doing so would also be consistent with Revenue's approach to the implementation of new mandatory filing requirements in other areas of taxation.

We recognise that where a phased introduction is adopted, there would obviously be instances where large businesses are required to issue invoices in the new format to customers (such as small or medium taxpayers) who are not required to issue their own sales invoices in that format. We do not see this as an insurmountable obstacle to a phased introduction, as customers could still download a copy of the invoice from an online portal / system. However, we do recognise that a phased approach could require taxpayers to operate two parallel accounts payable processes for inbound invoices to deal with in-scope taxpayers and out-of-scope taxpayers.

Further stakeholder engagement should be sought on this matter before a decision is made and the upcoming introduction of France's e-invoicing regime which has a phased approach should be closely monitored.

Administrative burden for VAT registered taxpayers

While we fully appreciate that one of the aims of reforming the VAT system is to reduce the administrative burden for taxpayers (such as the filing of VIES returns), we believe that it is important to emphasise that there will be an increased administrative burden for taxpayers at the implementation stage. The adoption of a new VAT reporting system will likely result in a significant amount of taxpayers' time and resources being allocated to understanding and implementing such a system. This should not be underestimated.

Any increase in the administrative burden brought about by a changed technological environment is likely to be felt disproportionately by smaller businesses. Most smaller businesses may not have a specific VAT advisor or internal VAT trained resource(s) and may be currently preparing VAT returns without the use of an accounting system which is equipped for changes of this magnitude.

While we would like to see an approach which suits all businesses, any change in the VAT system should be done with smaller businesses in mind.

Test environment

A test environment should be made available for taxpayers so that they can interact with the new system for some time in advance of its introduction. This will make it easier for taxpayers to comply upon the launch of the new VAT reporting system.

Revenue should also invite taxpayers which are representative of all profiles to actively engage with, test and provide feedback on the system.

Pre-clearance

In line with the ViDA proposals for DRRs, we would recommend against the use of a pre-clearance model which require a supplier to submit their invoice to the tax authorities in real-time for digital approval before the invoice is provided to the customer.

It is our understanding that Revenue do not intend to introduce a pre-clearance model.

Cost of Implementation

It is expected that there will be benefits to taxpayers associated with the introduction of a new system in particular with regard to a reduction in the level of reporting required (i.e., the abolition of VIES returns) and an increased level of automation.

It is imperative however, that Revenue work closely with businesses to enable them to fulfil their reporting obligations in a cost-efficient manner. As mentioned in the public consultation document, this could be done in part by having an open and transparent design process. In particular, the interests of smaller businesses must be represented throughout the design and implementation stages. It must be acknowledged that in many cases smaller businesses may not have in-house indirect tax software or engage indirect tax advisors, and therefore the new system may prove to be very costly for them to implement. In order to minimise the cost burden and enable this group to remain compliant, Revenue could allow access to compatible software systems through ROS. For example, rather than requiring those businesses to do a full integration, there could be an upload mechanism for invoices on ROS. We would also recommend that financial assistance is available to

support businesses to upgrade or replace existing systems, along with the costs associated with training their staff and professional advice relating to same.

Penalty regime

When considering the penalty regime for the filing of incorrect returns and for payments in the context of the new system, there should be a certain level of tolerance built in to reflect the changes to the VAT reporting system. We recognise and understand that a penalty system and the enforcement of same is necessary in order to enable Revenue to enforce debt collection measures for underpayments and to introduce non-filer interventions. We are of the view however, that a transition period should be considered to allow taxpayers sufficient time to familiarise themselves with the new system. As noted above, given the magnitude of the expected changes, we would recommend a full amnesty on penalties for non-compliance with the new system for an initial period.

Agent access:

We recognise that one of the objectives of the reform of the VAT system is to make it easier and more seamless for businesses to comply with their VAT reporting obligations. We are strongly in favour of allowing agents access to this information also, where client authorisation has been provided. This is certainly something which should be considered during the design and implementation phase.

3. *If your business is currently subject to a VAT reporting programme in another EU or non-EU country, can you please share best practice, recommendations or lessons learnt?*

While we (Deloitte Ireland) are not subject to VAT reporting programmes in other countries, we have experience with other regimes from supporting our clients. We are also in ongoing contact with our colleagues in other jurisdictions to understand their experience with regimes in their jurisdictions.

In the main, VAT reporting programmes have been introduced with the promise that they would decrease the volume of tax authority interventions, on the basis that tax authorities would be provided with more accurate information on a more regular basis. However, in practice, this has not necessarily been the case. In addition, the time taken to complete interventions has not decreased either.

Our colleagues in other jurisdictions also expressed concerns that some tax authorities did not give sufficient lead-in time to allow taxpayers to prepare for the implementation of new regimes. Additionally, there was limited time given to handling errors with limited support or understanding from some tax authorities.

Some tax authorities have made frequent changes to the business and technical requirements of their new reporting system. Obviously, this is most unwelcome, given the issues, time and cost implications of making changes to a business's reporting system.

Other feedback on other jurisdictions' regimes includes:

- Technical system integrations with vendors can take a significant amount of time. While the exact timeframe can vary, such integrations can take anything from nine months to one year. Key dates should provide sufficient lead-in time to integrate and implement sufficient technical solutions.

- Legislative requirements gathering is often one of the most challenging aspects of e-invoicing implementations, typically taking many months to obtain. Having finalised and clear business and technical requirements available at the time of legislative publication is crucial.

- The lack of harmonisation between jurisdictions' regimes presents significant challenges to our clients. Differing systems, business and technical requirements result in our clients essentially needing to approach each country's regime in isolation. Variances in relevant legislation and processes across countries (e.g. product / customer taxonomy, correction flows) further compound this issue. Such differences and complexities also result in taxpayers having to engage extensively with advisers. A clear focus on technical interoperability and standardisation across jurisdictions is therefore crucial as it could significantly mitigate costs and complexity.

- The definition of what constitutes a B2G customer can vary between jurisdictions, so having a clear definition is important.

- Clear use cases, expectations, and definitions for e-invoice rejections (non-happy path flows) should be provided.

- Handling customer invoice disputes/rejections workflows required by governments (e.g. Turkey, Serbia) is challenging.

- The ability to reject invoices that do not meet business validation rules through the portal is important, allowing sufficient time to go through internal approval chains should be considered. Some countries insist that purchase invoices that pass tax validation on the portal are booked and if changes are needed a credit note and new invoice must be submitted by the supplier with all three documents reflected in the books. This is inconsistent with how businesses process such transactions.

- There should be the ability to attach supporting documents with commercial details to invoices routed through a centralised portal.

- Ongoing requirements for up-to-date buyer tax data create challenges in backfilling thousands of customer records and validating data in real-time.

- E-invoicing regulations mandate buyer tax data, which is a shift from optional collection; this presents the challenge of backfilling data for thousands of existing customers.

- Keeping tax data in sync with government databases complicates the user experience, requiring the creation of new workflows and potentially restricting user functionality.

- Workflows sometimes differ from standard practices at digital-first companies, posing challenges to scaling global operations.

- Third-party systems (e.g. governments, vendors) might have fluctuations in their performance, which affects scalability and timeliness of our clients flows.

- Technical challenges on the government or third-party vendor side for high volume invoice generation (e.g. sequential invoicing) can present challenges.

- Leveraging third-party vendors helps but doing so adds complexity – sourcing, contracting, integration, security risks.

- Real-time validation requires additional technical integrations, sometimes without a clear data source to validate against. It is important to have clarity on any validations being carried out on the data as well as details on what the system is validating against.

- Timing should consider month-end close processes and the fact that intercompany invoices can be created quite some time after the transaction date.

- Clarity should be provided on what exact transactions are included and excluded.

We believe that there are lessons which could be learned from experiences in other jurisdictions. If you would like our assistance in gathering further information in this regard, please do not hesitate to contact us.

e-Invoicing

Several EU countries are moving towards an obligatory e-Invoicing business model. The Commission's current proposals will make it mandatory to issue an eInvoice for intra-Community B2B transactions. The development of an Irish domestic e-Invoicing model supports the digital transformation across the economy and fits well with the ambition of the Government's "The Digital Ireland Framework".

4. *Have you any observations, concerns or recommendations on a move to mandatory electronic invoicing for B2B & B2G domestic transactions?*

See response to question 2.

5. *Revenue is particularly interested in hearing views from businesses that are already engaged in eInvoicing Public Bodies within Ireland or engaged in B2B eInvoicing throughout Europe and beyond. How did you prepare and what challenges prevailed in your preparations for eInvoicing?*

See response to question 3.

6. *What suggestions would you offer in Ireland's arrangements for a mandatory B2B and B2G eInvoicing programme?*

See response to question 2.

Current VAT Reporting Formats

The existing approach to VAT reporting formats (e.g., VAT 3 return) will be redesigned as part of a real-time reporting system.

7. *Revenue are cognisant that small businesses may have different perspectives and requirements to large businesses, so what information prompts would you find useful for businesses in completing the VAT return?*

We believe that a detailed step-by-step guide should be issued with regard to completing a VAT return. This guide could take the form of written articles, TDMs, and consideration should also be given to producing walkthrough videos for the new process. Simple explanations should be given for each step of the process. It would also be beneficial for Revenue to run public information meetings for taxpayers whether this is a series of in person and/or online events.

The availability of a comment box could provide assistance in the initial stages to allow filers to include any comments on particular line items which may reduce the need for further engagement through MyEnquiries.

Prompts around intra-EU transactions and imports/exports and postponed accounting would be welcome for smaller businesses. Scope to separate new sections on the form should also be considered so that only businesses which need to address a particular section of the form are required to complete it.

As Revenue will be aware, some businesses find it difficult to understand the implications of RCT. Therefore, to assist VAT registered businesses in this regard, some prompts to help businesses to understand all the reverse charges provisions for subcontractors would also be welcome.

In addition, it would be useful if each box of the VAT return had explanations as to what information/figures should be included in each. This could take the form of an information guide which a user could hover over for further information, as required.

Section B - Business Context

The answers you will give in this section will give us an insight to your responses to Section A. It will help us understand your business perspective and fully appreciate what is important to you.

8. *Are you responding to this consultation in any capacity other than as a taxpayer, eg. As an advisor, an accounting software or eInvoicing service provider, Representative Body, Industry Group or, Government or Public Body?*

- *Yes*

9. *Please provide some context about your organisation and the capacity in which you are contributing to this consultation.*

- *Deloitte Ireland*