Ibec
For Irish Business

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Dear Sir/Madam

**Re: Modernising Ireland's administration of Value-Added Tax**

Ibec is Ireland's largest lobby and business representative group. Our purpose is to help build a better, sustainable future by influencing, supporting and delivering for business success. Ibec engages with key stakeholders in Ireland and internationally through our six regional offices and our Brussels office, along with an extensive international network in the UK and US. Ibec positions are shaped by our diverse membership, which range from small to large, domestic to multinational and our 39 trade associations cover a wide range of industry sectors.

**Comments on the modernisation of the VAT system**

Ibec recognises the potential benefits of a transition to modernised VAT reporting, given the increasing digitalisation of invoicing over recent years, including increased speed and frequency of reporting, the potential for improved governance, along with aligning the VAT reporting system with the modernised PAYE system and bringing Ireland in step with several fellow EU member states which have transitioned to a modernised VAT system.

However, the benefit of near real-time reporting within the VAT system must be balanced against the additional compliance costs for businesses, and the potential disruption to accurate reporting among businesses that do not already have the technology or staff in place to accommodate a change in reporting process. This is a particular risk for SMEs and businesses where the necessary technology has not already been embedded. Comparatively low adoption of digital technology among Irish SMEs, particularly in labour intensive sectors such as construction and retail has been highlighted by The Department of Enterprise Trade and Employment 2019 report on the digitalisation of small and medium enterprises in Ireland.[1] Complying with near real-time reporting requirements would likely require businesses to invest significantly in their invoicing and reporting technologies and processes.

Careful consideration should be given the implementation of a modernised VAT system, along with an understanding of the investment and time needed for Irish business to adapt to such a system.

Based on feedback from its membership, Ibec wishes to highlight several technical issues which should be given consideration in the development of a modernised VAT reporting system. Firstly, invoices often require direct staff intervention for operational reasons, including customer escalation, as their processing is not entirely automated and so invoices must be

[1] *'The digitalisation of small and medium enterprises in Ireland: Models for financing digital projects'*, Department of Enterprise Trade and Employment, 2019. https://enterprise.gov.ie/en/publications/publication-files/the-digitalisation-of-small-and-medium-enterprises-in-ireland-%E2%80%93-executive-summary.pdf. Accessed 14/12/23

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readable to customers, suppliers and relevant business teams. Therefore, eInvoices should be hybrid format to allow for human processing, rather than solely machine readable.

Additionally, in current practice companies often issue invoices on a monthly basis, either on an intercompany, supplier or customer basis. To prevent a significant increase in compliance costs with the introduction of a new VAT system, the ability to issue consolidated invoicing must be retained. Similarly, the option for self-invoicing should be retained. Self-invoicing produces operational efficiencies in cases where businesses need to bill as the recipient and receive an invoice as the vendor. The reporting requirements for self-invoicing should be clearly defined and communicated to taxpayers, both supplier and buyers. Additionally, in the initial move towards VAT modernisation, only domestic self-invoicing should be considered in scope of any changes, as variance between national systems and legislation already make cross-border self-billing complex, without the additional requirements of near real-time reporting. There is potential in the future for more standardisation in the VAT system across the EU but prior to this, scope should be limited to domestic self-invoicing.

Current practices mean that an eInvoice, through file transmission, can be received by an Enterprise Resource Planning (ERP) system directly from a vendor's ERP. For scale and efficiency, this is frequently practiced with auto-file transmission from high-volume Vendors. The operational and business impact would be significant should Electronic Data Interchange Messaging not be considered an eInvoice. Concerning the effecting use of credit notes and original invoices, mandating a one-to-one relationship between a credit note and its original invoice is not best practice as it is not how many companies operate. Frequently, several invoices are linked to one credit note and vice versa. Introducing arbitrarily restrictive limits on the cross referencing of invoices and credit notes would affect operational efficiencies. Therefore, there should not be a limit on how many original invoices can be linked to a Credit note or how many Credit Notes can be issued to one original invoice.

Ibec membership have also highlighted that e-Invoicing should not be based on a pre-clearance model, where the government must pre-approve an invoice before it is issued to a customer. This can create bottlenecks and a single point of failure, whereby any issue in the relevant Government system can restrict a company's ability to issue an invoice. The pre-clearance model creates risk for business operations and should not be mandated.

In order to future proof a new VAT system, the technology & interoperability model implemented should not only be aligned to what will be implemented under VIDA but also scalable for future technology developments. In the EU, regulatory fragmentation has resulted in France and Italy defining different methodologies for what data is required and how it is shared. This has required affected entities to develop two separate systems rather than extend existing operations. In support of the EU Single Market, the interoperability model used in one Member State should be effective in subsequent EU markets. Ensuring harmonisation that coincides with associated technological upgrades is essential. Similarly, harmonisation and alignment across the EU with respect to data required for an invoice is essential to reap economies of scale and reduce frictions between national systems. Different data fields in different EU Member States creates unnecessary work streams, time constraints, and impacts efficiencies of scale. Additionally, from both an operational and a data-privacy perspective, careful consideration should be given to the extent of data required by Revenue to implement the modernised system. Data collected should be limited to what is contained and required legally on invoices under Irish and EU VAT legislation and should not extend to irrelevant or non-invoice related data beyond what is required to operate the new VAT system.

Regarding Intra-VAT Group transactions, transactions between entities in the same VAT group are outside the scope of VAT in Ireland. Accordingly, these should remain outside the scope of e-invoicing and DRR requirements.

Careful consideration also needs to be given to the mandatory timelines for reporting of purchases, i.e inbound e-Invoicing. Due to the nature of inbound transactions, which generally go through an approval process prior to posting and paying, a longer timeline will be required than for the reporting of outbound eInvoices. Failure to account for such procedural timelines means that the reporting process risks becoming a standalone "tax-only" process. Additionally, it is likely there will be timing differences between the reporting of the transactions by the seller and the buyer and rules around these timing differences will need to be carefully defined in order to avoid the burden of numerous queries from tax authorities being placed on taxpayers. Member company feedback indicates that, for companies operating across multiple markets, the timing for when an invoice is received, validated & posted can take up to 45 days from the point of receipt to posting.

Regarding cross-border eInvoicing, should this fall in scope of the changes proposed, due consideration must be given to any timelines mandated for reporting on cross border inbound eInvoices by the purchaser as the majority of businesses have a lengthy invoice approval process. In addition, consideration should be given to reducing the reporting burden on businesses by leveraging the data points collected via cross border e-Invoicing as a potential alternative to (EC) Sales reports and Intrastat reporting. This further requires improvements to the robustness and reliability of the VAT Information Exchange System (VIES) system as a source for real-time validation of VAT IDs.

Regarding the consultation request for views from businesses that are already engaged in B2B eInvoicing throughout Europe and beyond, multinational businesses across Ireland have been actively engaged in B2B e-invoicing across several jurisdictions. Among this cohort, there is in-house expertise that has been developed by implementing these mandates in various markets across a number of years. More specifically, some Ibec members have been deeply engaged in rolling out eInvoicing in markets globally. Feedback from Ibec membership concerning their operational and procedural experiences show that adequate time to prepare the implementation of this is critical, especially for multinational businesses that link compliance solutions with internal business systems. An additional challenge encountered in other markets is understanding the scope and requirements of an additional system. The most effective systems are produced when their scope and requirements are well-defined.

A final concern is the need for a long lead time and significant communication with businesses to allow them to implement new reporting processes and ensure the new reporting requirements are well flagged and understood in advance of their introduction. Business should be given reasonable time to implement requirements once legislative requirements have been finalised. A reasonable timeframe would be 24 months notice of a compliance date, and an 18 month timeline to implement once requirements are issued & final. Reasonable notice should be given to companies to prepare for any eInvoicing and Digital Reporting Requirements (DRR) implementation in Ireland. Inadequate notice and insufficient lead time for compliance requirements may result in delays and unnecessary challenges for tax payers,-service providers and Revenue respectively.

While a move towards a modernised VAT reporting system has the potential to bring several benefits, not least higher frequency reporting and increased alignment with other EU members, due consideration must be given to the technical details of the system and in particular clear guidelines and adequate implementation time must be provided to business to allow for the successful introduction of a new system.

Ibec thanks the Revenue Commissioners for the invitation to engage on this consultation and are happy to discuss any of the above at a future date. We welcome the opportunity to provide

input on this important issue and are happy to engage on these and other related issues in the future.

Kind regards,

[redacted]
Ibec