The Consultative Committee of Accountancy Bodies-Ireland

Chartered Accountants Ireland
The Association of Chartered Certified Accountants
The Chartered Institute of Management Accountants
The Institute of Certified Public Accountants in Ireland

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VAT Modernisation Branch
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Consultation on VAT Modernisation

Dear Sir/Madam

Please find enclosed our submission on Modernising Ireland's administration of Value-Added Tax (VAT).

We look forward to participating in any follow-up discussion on this submission.

Yours faithfully,

[redacted]

[redacted]

VAT Modernisation

CCAB-I Response to the Public Consultation conducted by the Revenue Commissioners on Modernising Ireland's administration of Value-Added Tax (VAT)- Real-time digital reporting and electronic invoicing.

January 2024

About CCAB-I

The Consultative Committee of Accountancy Bodies–Ireland is the representative committee for the main accountancy bodies in Ireland. It comprises Chartered Accountants Ireland, the Association of Chartered Certified Accountants, the Institute of Certified Public Accountants in Ireland, and the Chartered Institute of Management Accountants.

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Introduction

Value Added Tax (VAT) legislation is predominantly directed by the EU, having been introduced in Ireland in 1972 as part of Ireland's accession to the then European Economic Community. The tax take from VAT in Ireland is increasing year on year. VAT receipts to end December 2023 amounted to €20.3 billion, up 9.4 percent on the same period in 2022. VAT receipts represent 23 percent of the total tax take to end December 2023[1].

Therefore, having a workable system for reporting and collecting VAT is essential. The use of digital technology across all sectors provides opportunity to simplify the VAT reporting and collection process. We agree that a modernised VAT system, carefully developed and cautiously implemented, could simplify VAT administration for many businesses. However, it is important that the VAT system facilitates enterprises that have capacity constraints, particularly in terms of staff and digital resources.

A successful, well-executed move to e-invoicing should ultimately reduce the incidence of innocent errors, underpayments, and non-compliance generally, while also helping to close the VAT gap and counteract VAT fraud. However, the proposal is likely to present some challenges for small and medium-sized enterprises (SMEs) and micro-sized Irish businesses. Therefore, an appropriate lead-in time and extensive consultation with various stakeholders will be essential to successfully implement VAT Modernisation (VMOD).

Every effort and support should therefore be given to businesses who play a crucial role in collecting an essential part of the tax in this country. There are many real-world exceptions that businesses experience when preparing their VAT returns. For example, from time to time, purchase and sales invoices are input incorrectly, purchase invoices are received after the VAT return date and corrections are required to invoices. It is important to consider how these situations would be dealt with through the planned modernisation. Businesses and their agents will need assurance that the planned modernisation will not restrict their ability to handle these various exceptions that arise.

It is imperative that Revenue put a well-equipped support team in place to deal with queries from taxpayers to facilitate ease of use of any new system. CCAB-I, via the TALC (Tax Administration Liaison Committee) forum, has already highlighted the difficulties our members face when dealing with Revenue, where the customer service can be at times less than adequate. This proposed new system cannot result in additional burdens being placed on the taxpayers without an improvement in Revenue's customer service. The introduction of e-invoicing will undoubtedly present challenges for taxpayers regardless of their size. As such, along with continued engagement with a wide number of diverse stakeholders, it is our view that it is imperative that a sufficient lead-in time will be crucial to successfully implement e-invoicing in Ireland.

CCAB-I's welcomes the opportunity to set out our comments on the consultation and have set out our key points below.

[1] Fiscal Monitor incorporating the Exchequer Statement, December 2023, Department of Finance

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

Members report that businesses and tax practitioners are reasonably happy with the current VAT reporting system. However, we understand that a real-time digital VAT reporting system is to be developed that is intended to both simplify VAT administration for businesses and reduce occurrences of VAT fraud, aligning our domestic system with EU proposals for VAT in the Digital Age (ViDA). If implemented in a logical and transparent manner with the incentivised involvement of all key stakeholders together with sufficient testing, we believe that this could give rise to positive adoption and achieve its objectives.

Based on discussions with other EU Member States, CCAB-I understands that most countries are focusing on e-invoicing for B2G first, followed by B2B and real-time reporting will be introduced at a later stage. We believe Ireland should follow a similar approach particularly because e-invoicing will be a significant change for most businesses in Ireland and it will take time to implement.

It is our view that Ireland's e-invoicing regimes should be aligned with what is ultimately agreed at EU-level in respect of the Digital Reporting Requirement ('DRR') aspect of ViDA in order to minimise compliance costs for taxpayers through harmonisation.

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

The fundamental matter of concern to any business regarding any change in business practice is that of costs, be it time, resources, and money. Any new reporting system must not result in increased costs in the development and adaption of reporting and invoicing systems to cater for e-invoicing when compared with the existing reporting systems. In fact, long-term cost savings would be an ideal outcome. It may be appropriate to consider grants/tax reliefs to help with the implementation of the new technology required to adopt the system.

Revenue must consider the timing of the implementation of real-time reporting and e-invoicing in line with the work being done by our EU partners. Delays in terms of universal adoption of a common e-invoicing reporting framework, necessitating duplication of reporting/invoicing functions, will add to system costs and complexity.

In our view, a reasonably long lead-in time will be required to allow businesses to prepare for the reporting and technology changes required. When planning for such a transition, it will be necessary to review standard supply chains and the invoicing requirements of various industry sectors to ensure that a more complex business environment is not created as an unintended consequence. However, the new reporting system must be implemented in a manner that prevents large businesses requiring their suppliers, no matter their size, to conform with electronic procurement requirements including adopting e-invoicing to get onto approved supplier lists.

CCAB-I recommends real-time digital reporting of VAT is introduced in a phased format based on the size of the business issuing the invoices. This should start with large enterprises (i.e. turnover above €50 million) as they are more likely to have systems and resources in place to be able to react to a change like this in a timely manner. A clear lead-in period of at least 12 months should be given to such enterprises. Once this has been done and the early issues ironed out, consultation on rolling out real-time digital reporting of VAT to medium sized entities (i.e. turnover of €12m to €50m), followed by small entities and finally micro-entities. This will take time but needs to be properly administered, considering the administrative burdens placed on SMEs, in particular already. For those businesses, given the financial costs associated with updating or changing systems, financial supports should be made available.

Many businesses will have B2B and B2C supplies and may not readily distinguish between the type of customer they supply. The new VAT reporting system must ensure that such businesses are not hampered with additional administrative requirements arising from a diverse VAT customer base.

In addition, consideration must be given to the practical differences that exist for VAT reporting purposes between businesses that account for VAT on an invoice basis versus those that account for VAT using the cash receipt basis (turnover less than €2 million).

CCAB-I is concerned that a new reporting system will require daily processing of supplier invoices by small businesses that currently engage a bookkeeper or agent on a monthly/bi-monthly basis to update its books and records and prepare a VAT return. Such a requirement would place an added burden on the service provider and one which they are likely to have to charge their client. CCAB-I supports a widely publicised phased implementation to make it as easy as possible for businesses to

transition to the new VAT reporting system. Trying to do this all in one go with a "one size fits all" strategy would be unreasonable and unfair on SMEs in particular.

There should be a sufficient period of time for taxpayers to perform testing prior to the introduction of the regime.

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?

Members report that they are co-ordinating and developing an EU wide framework to support their clients in addressing VAT reporting requirements. Some are undertaking detailed scoping and information gathering exercises with EU based colleagues to identify how an e-invoicing process would work in principle in each jurisdiction. Information provided to date indicates that each Member State is phasing in their implementation of a VAT reporting programme.

In Germany, e-invoicing for B2B will be mandatory from 2025. However, the transition period will be at least two years. and no timeline has been developed for real-time reporting. Belgium intends to implement e-invoicing in 2026 with real-time reporting planned for 2028. E-invoicing will be mandatory in Spain from 2024 for companies with a turnover of €8 million or higher; for the remainder of taxpayers, it will be mandatory from 2025.

The Belgian Tax Authorities have adopted a software Peppol which is based on the invoicing standards EN16931. For B2G e-invoicing, the parties choose an access point on Peppol via accounting software, and it works like 'a switch' to share e-invoices between parties. There is no validation of the content of the e-invoicing and no pre-approval required by the tax authorities. Draft German legislation is based on the EN16931 invoicing standard EDI is accepted once convertible into EN16931.

Portugal has implemented a system that uses SAF-T (standard audit file for tax) filing together with QR codes on invoices. The Portuguese Tax authorities obtain the required information via invoices with the QR codes when the business files its SAF-T return each month. The invoices with the QR code are not received by the Portuguese tax authorities until the SAF-T is filed. The main issue for a business operating in Portugal was the investment required to adapt the enterprise resource planning (ERP) system and the time required to run all the necessary tests. The Portuguese authorities have highlighted that a clear timeline and providing enough time for businesses is key to a successful transition.

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

Members report that, for B2B transactions, while no prescribed reporting obligations are currently in place, it has been observed that there has been adoption of e-invoicing by many businesses, based on cost benefit synergies and ESG (Environmental, Social, and Governance) awareness.

In the context of the introduction of mandatory electronic invoicing, a level of incentivisation to businesses is necessary. Businesses needs to be given clear demonstrable examples of how the benefit of adoption outweighs the financial impact or cost associated with mandatory adoption. Clear guidelines on the implementation should also be issued by Revenue well in advance.

The introduction of mandatory e-invoicing should not be designed in a way that would create issues for enterprises in carrying on with their businesses as usual. The requirements should not be seen as an additional burden. For this purpose, CCAB-I recommends that e-invoices could be sent to customers without a pre-approval or validation from Revenue.

Members are concerned about how their clients, particularly the small and micro-entities, will cope with such mandatory reporting requirements. Many such businesses may have hundreds of small value/large volume sales, that include a minority portion of B2B and B2G customers. For those taxpayers, practitioners envisage the administrative burden being excessive.

In terms of the process of transition to the new system we would request that a phase-in period for the new rules to bed-down is established. During this phase-in period, fixed penalties and tax geared penalties should be suspended in recognition that errors are likely to arise in the initial stages.

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

Our members emphasise the importance of timely and practical engagement with stakeholders in terms of interpretation and implementation of new rules, adapting reporting systems, affording adequate notice and time for response to necessary revision of reporting function and adoption of a transition/ testing period to allow refinement on both sides.

A clear timeline and providing enough time for businesses to adapt is key to a successful transition.

Other observations include:

- A need for a clear definition of B2G customers as this can vary between countries.
- Technical integrations with vendors can take a significant amount of time. As such, there should be a sufficient lead-in time to provide adequate time to integrate and implement sufficient technical solutions.
- Third-party systems (governments, vendors) might have fluctuations in their performance, which affects scalability and timeliness of our flows.
- Keeping tax data in sync with government databases complicates the user experience, requiring the creation of new workflows and potentially restricting user functionality.
- Technical challenges on the government/vendor side for high volume invoice generation (ex: sequential invoicing.

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

The implementation of a mandatory B2B and B2G e-invoicing programme will involve a fiscal and resource cost for business. Such costs must not be superfluous, regardless of the scale of the business. Phased implementation should facilitate cost containment. However, as previously stated, it may be appropriate to consider grants or tax reliefs, not only to encourage faster implementation of new technology during the transition period, but to ease the burden on businesses that are forced to change their accounting software due to the mandatory reporting requirement.

Broad consultation with key stakeholders and timely open engagement on resolving identified challenges must be undertaken in a timely manner. It would also be helpful for Revenue to organize practical workshops for tax practitioners (like when PAYE Modernisation was being introduced) and businesses to demonstrate how the process will work and the interaction required with the adopted software by Revenue, if any.

For e-invoicing, it is envisaged that invoices will be transmitted from the supplier to the customer (B2B or B2G) through software that will be implemented by Revenue. The software should work as a 'switch' connecting both parties. It should cover the creation, issuance, sending and receiving, processing and storage of e-invoices. Any eligible taxpayer (supplier or customer) should be registered to the online e-invoicing system.

We suggest that there could be two routes to access the electronic invoicing system:

1. Internet browser to create, upload or access supplier e-invoices.
2. Interface to connect the taxpayer software directly.

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

Our members advise that they and their clients are, in general, happy with the way in which VAT reporting currently operates. However, they note that prompts such as electronic notice reminder of filing deadline, acknowledgement of submission with refund/payment notification and an early reminder of when the annual return of trading details (RTD) is due would be useful. Improved guidance on how to complete the RTD would also help.

There are many businesses in Ireland that do not make any B2B or B2G supplies either intra-EU or outside the EU, though some may make purchases from outside the State. We understand that a VAT-registered business who makes a purchase from a VAT-registered business in another Member State will be required to report a subset of the data from the purchase eInvoice to Revenue within the same period. As already noted in this submission, many small businesses lack the resources that facilitate daily/weekly recording of supplier invoices. For such small businesses, it would be useful if Revenue could prepopulate the information, so the businesses only need to check the figures and approve the submission made by the supplier, if approval is required.

During the period between the end of the VAT period and reporting to Revenue via the VAT3, businesses may review their books and records to identify errors and ensure accuracy and completeness. In this regard, the reporting period should be extended to facilitate taxpayer compliance without impacting on the administrative costs, given their priority is to report their VAT liabilities correctly.

Conclusion

A fundamental requirement of any modern VAT system is the need for simplicity so that the business operator can focus on their enterprise and not VAT collection. We accept that an online system is in keeping with modern times and offers the opportunity to make VAT reporting and collection more convenient. However, taxation is complex, and the VAT system must be able to cater for unusual situations. It is inevitable that any new system will place an additional compliance burden on businesses and their agents. We do have concerns about the potential financial and resource costs to businesses. We also have concerns on whether Revenue's systems will be sufficiently robust to implement and support a new system without passing excessive administration on to businesses and their agents. We call for the launch of dedicated helplines, practical workshops with key stakeholders, and a series of information webinars resourced with trained Revenue staff as well as a media campaign to raise awareness and support the change.

CCAB-I continues to be supportive of the ongoing process to modernise communications methods with Revenue via online methods and welcomes any opportunity to provide feedback and support.