KPMG

VAT Modernisation in Ireland

Response to Revenue's Public Consultation on Electronic Invoicing and Real-time Digital Reporting

February 2024

Contents

Key Recommendations 5

Response to Consultation Questions..... 9

Conclusion.....21

Key Recommendations

01

Timing

There should be an **appropriate lead-in time** which recognises the significant investments in new technology that would be required by both Revenue and businesses.

Fundamental to this is **early notice of the detailed technical requirements**, and once published, a commitment from Revenue that these technical requirements will not change. This would ensure the investment by businesses is not profligate.

The timing of the introduction of digital reporting and e-invoicing for domestic transactions should align with the EU's **VAT in the Digital Age ("ViDA")** proposals for cross-border transactions to ensure the technical requirements are fully compatible.

02

Harmonisation with EU proposals

The technical specifications of the VAT Modernisation proposals should also be **consistent with ViDA** to help reduce the compliance burden for businesses with international operations.

Fragmented reporting obligations are a significant challenge for businesses. 44% of respondents to KPMG's VAT/GST Global Benchmarking Survey[1], conducted in 2021, ranked the **fragmented nature of the digital reporting and e-invoicing landscape** as their biggest challenge. This challenge continues to grow as more e-invoicing and digital reporting regimes are introduced globally.

It is also important that Ireland continues to be a **strong advocate for harmonisation** of e-invoicing and digital reporting requirements at the EU Council negotiations on ViDA.

[1] 2021 VAT/GST Benchmarking Survey Report - KPMG Global - https://kpmg.com/

03

Consultation process

There should be an **extensive consultation** between Revenue and relevant stakeholders on the design and implementation of VAT Modernisation. This public consultation is a welcome first step but will need to be supplemented by an extensive programme of consultation and, in due course, training on the practical impact of the proposed changes.

We recommend that a **pilot scheme** be operated to identify and address practical operational issues arising from these proposals before they are applied more broadly. This should involve a representative cross-section of taxpayers, including a range of industries and scale of businesses, in order to obtain balanced feedback.

We also recommend a **phased implementation** and **transition period** which recognises the broad range of taxpayers who will be affected by the proposals and gives sufficient time to Revenue and taxpayers alike to prepare and implement necessary changes.

04

Limit the impact on wider business processes

The OECD's report on *Tax Administration 3.0: The Digital Transformation of Tax Administration*[2] recommends that tax compliance should **work within existing business systems and processes,** rather than introducing new tax-only requirements.

While real-time reporting and e-invoicing will inevitably require some changes to current business processes, these should be limited in so far as possible.

The obligation for businesses to report in real-time on accounts payable ("AP") transactions would in particular be a significant challenge and needs to be carefully considered.

[2] Tax Administration 3.0: The Digital Transformation of Tax Administration - OECD - https://www.oecd.org/

05 Maintain the ease of filing and paying VAT

Ireland is widely recognised as having a VAT compliance system which is relatively easy for businesses to administer by EU and global standards. Periodic VAT returns are laid out in a clear and understandable way, with online filing through the Revenue Online System ("ROS") being easily accessible for virtually all businesses.

It is essential that Ireland maintains a **simple, clear and efficient VAT administration system** which reduces the administrative cost burden for taxpayers to the greatest extent possible.

While the introduction of mandatory e-invoicing and real-time digital reporting for B2B and B2G transactions would inevitably result in expanded VAT reporting requirements for businesses, it is important that simplicity and ease of compliance remain as a corner stone of the Irish VAT system.

A quid pro quo of providing additional data to Revenue should be a reduction in the time and effort required for businesses to complete periodic VAT filings and payments. Taxpayers should have the option for **their periodic VAT returns to be pre-completed** by Revenue's systems based on the digitally reported data.

Given Revenue's access to real-time transaction data, there should also be greater scope to **reduce the frequency of businesses' periodic VAT filings**. While currently some businesses can avail of less frequent filing than the standard bi-monthly basis, the thresholds are relatively low. These thresholds should be increased as part of VAT Modernisation.

06 Maintain scope of existing VAT invoicing requirements

While the proposals aim to replace traditional VAT invoices with structured e-invoices, there should be no extension of the circumstances in which a VAT (e-)invoice is required to be issued.

Specifically, **e-invoices should not be required for business to consumer ("B2C") transactions** or **transactions which are exempt from or outside the scope of VAT**.

Businesses should have the option to issue invoices by traditional means in addition to the mandatory e-invoice if there is a business need or benefit to doing so.

07 Learn from experiences of other jurisdictions

Other countries in the EU and further afield have introduced or are introducing digital VAT reporting obligations and/or e-invoicing requirements. **Revenue should closely liaise with tax administrations, as well as taxpayers, with experience of these regimes** to learn from and adopt best practice.

In some jurisdictions, both tax authorities and taxpayers have struggled to meet ambitious implementation timelines and this has resulted in some implementation delays. This creates uncertainty which is challenging from a business perspective as it is usually necessary to map out the timelines for IT changes several years in advance.

Our clients have generally welcomed the proposal for a phased and pilot approach to the implementation of e-invoicing changes in France and the availability of accessible data, such as through an app in Poland. We recommend that Ireland adopts similar proposals which make adapting to the new requirements as simple as possible.

08 More targeted and efficient interventions

The provision of real-time transaction data should allow **Revenue VAT compliance interventions to be more targeted and efficient**. This could in turn help to **speed up the payment of VAT refunds** to businesses.

One of the principal aims of ViDA is to target non-compliance, and in particular VAT fraud. Having access to transaction information should allow Revenue and other tax authorities to target fraudulent activity more precisely, thereby reducing interventions for compliant businesses.

However, a potential concern for businesses is that there could be an increase in Revenue interventions, for example, in cases of timing differences between supplier and customer data, or between the transaction data and the amounts included in the trader's VAT return. Revenue's processes for testing of data received should therefore be targeted and **reduce the risk of "false negatives"**, which could be a significant burden for businesses.

09 Tailored approach for certain sectors

While there is a perceived benefit to consistent VAT reporting obligations across all taxpayers and sectors, the proposals should nonetheless **recognise the specific VAT complexities of certain sectors**.

For example, businesses with partial VAT recovery, such as in the financial services sector, face complexity in respect of the operation of reverse charge VAT on services received from abroad. This typically requires transaction level review by the company's in-house VAT specialist or external provider and is often completed at the time the return is due to be filed. Real-time (or close to real-time) reporting of whether such services are subject to reverse charge VAT or not would be very challenging.

Many businesses rely on outsourced providers for accounting and administration, and real-time reporting of transactions could result in significant additional compliance costs. Similarly, smaller businesses which rely on an external accountant or tax adviser to prepare their VAT returns may struggle or face additional costs to report transactions in real-time.

There are likely to be many other sectors and industries where real-time reporting would be a significant challenge and therefore a 'one-size fits all' approach may not be appropriate in all cases.

10 Provide on-going support to business

Revenue has **a proven track record of supporting business through periods of change**. For example, businesses adapting to the recent indirect tax changes prompted by Brexit were supported by extensive Revenue guidance, webinars and targeted support for specific industries.

It will be important that Revenue delivers **practical operational support to business** in advance of any changes, including guidance, videos, helplines, and roadshows.

Changes to the VAT regime are likely to have a major impact on businesses and the success of any reforms will rely heavily on the practical ease for businesses in adapting to it.

Response to Consultation Questions

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

Consultation questions

Question 1.	Question 2.	Question 3.
What are your views on the proposal to introduce real-time reporting for B2B and B2G transactions?	What matters should be considered in planning for a transition to a new VAT Reporting system?	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?

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

Question 1

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

Key Recommendations

We recommend the proposal to introduce real-time reporting for B2B and B2G transactions should be:

- ✓ Subject an extensive consultation process.
- ✓ Business-led and business-orientated.
- ✓ Supportive of Ireland's competitiveness as a location of choice for both Irish domestic enterprises seeking to expand internationally and international groups seeking a base in the EU.

We welcome Revenue's ambition to modernise the administration of VAT. VAT administration has remained relatively unchanged since the tax was first introduced over 50 years ago, whereas the world in which businesses operate has changed significantly. The European Commission has proposed mandatory e-invoicing and near to real-time reporting (i.e. within 2 days) for cross-border B2B and B2G transactions within the EU under ViDA, and other EU Member States have already introduced or are planning to introduce similar measures for domestic transactions. It is therefore understandable that Revenue is proposing similar measures for domestic B2B and B2G transactions in Ireland. We have therefore focused our responses on making the implementation proposals as business friendly as possible.

In our view, the introduction of digital reporting and e-invoicing has the potential to be a positive step for businesses and Revenue. Digitalisation is already a feature of business and could be leveraged further to simplify and streamline VAT reporting.

However, the proposed introduction of real-time reporting supported by e-invoicing also has the potential to give rise to a significant cost (particularly upfront) and on-going challenges for businesses. It will therefore require on-going discussion and collaboration between Revenue, businesses and other stakeholders.

It is important that the proposals are business-led and business-orientated, given businesses' role in collecting and administering VAT. It is also important that the proposals are consistent with and supportive of Ireland's competitiveness as a location of choice for ease of doing business.

We welcome that Revenue's consultation is focused on gathering the practical challenges of real-time reporting, and it will be important to design a system that takes account of these challenges. We set out a number of design recommendations in this regard in response to Question 2.

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

Question 2

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

Key Recommendations

- ✓ It is critical that businesses are given sufficient implementation lead time and certainty on the technical requirements.
- ✓ There should be a pilot stage available for businesses and a phased introduction.
- ✓ There should be extensive consultation between Revenue, businesses and software providers to allow digital reporting obligations to be easily integrated into business systems.
- ✓ The new reporting system should operate in harmony with Ireland's simple, clear and efficient VAT system.
- ✓ There should be demonstrable benefits for businesses from real-time digital reporting, including more targeted and efficient VAT compliance interventions, improved cash flows and ease of access to Revenue's online systems.
- ✓ The 'real-time' reporting period should be realistic and appropriate, and align with the reporting period for EU transactions under ViDA.
- ✓ The scope of what needs to be digitally reported in real-time should be carefully considered ready.

We have outlined below our views on the key matters to be considered in planning for a transition to a new VAT operating system.

Implementation Period

Taxpayers will need a significant implementation lead-in time and certainty on the requirements.

It will be crucially important that there is early publication of the technical specifications to enable businesses to begin the process of building or sourcing the required systems and processes. Once published, Revenue should commit that these technical requirements will not change.

Taxpayers have experienced challenges in other jurisdictions where e-invoicing and digital reporting requirements were proposed to be introduced at short notice. In some cases, the introduction of these requirements was then delayed, leading to uncertainty for businesses in managing competing deadlines and requirements for IT and business process support.

Lead-times for building and testing of changes to business systems and software can be lengthy, and businesses need significant notice in order to effectively budget, plan and implement technical systems changes.

We recommend that there is a lead-in period of several years to allow businesses to prepare for what would be a significant change to their processes. During this time, there should be on-going Revenue support including detailed guidance, online videos and demos, and helplines available to enable users to familiarise themselves with the system.

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

There should also be detailed Frequently Asked Questions (FAQs) available for review by both businesses and agents, which are updated in a timely manner to address issues emerging as businesses prepare for adoption, as well as a dedicated phone line and webchat facility to further support taxpayers.

Pilot and Phased Introduction

We recommend a pilot phase to allow practical testing and feedback from a test environment and a phased implementation similar to the French approach, where it is proposed to have a voluntary pilot program for 6 months prior to the phased roll-out of mandatory e-invoicing and digital reporting. The pilot programme is intended to test and confirm the proper functioning of the e-invoicing and digital reporting systems before they become mandatory and will include all of the key participants and elements of the system, such as the Public Invoicing Portal (Portail Public de Facturation—PPF), the Private Partner Platforms (Plateforme de Dématérialisation Partenaire—PDP), business users, and authorised suppliers of e-invoicing solutions.

A successful pilot phase across a varied population of businesses would give greater confidence to Revenue and businesses that the design of the new system will be fit-for-purpose. The pilot scheme should operate in parallel to participating businesses' current VAT reporting system. Identified issues should be considered by the review team with follow-up during the post-pilot period to assess whether the issues have been satisfactorily addressed before implementation across the wider population of businesses.

There should be a period of time during which the current VAT system runs in parallel with real-time reporting in order to support ongoing VAT compliance, while also supporting an effective roll-out of the VAT Modernisation programme.

While the introduction of a real-time reporting system is likely to involve additional costs (both in time and money terms) for all businesses, the proportionate impact of the cost of transition is likely to be greatest for small and micro-businesses and businesses with more complex VAT arrangements. A phased introduction would give such businesses additional time to finance the costs of transition, to change their systems and to train staff.

Integration with Business Systems

In preparing this response, we have spoken to many of our clients who raised concerns that providing accurate transaction level data on a real-time basis could be a significant challenge. Some of the concerns raised included:

- Current IT systems do not easily meet real-time digital reporting requirements, and therefore significant investment would be required.
- Many systems have challenges dealing with non-standard transactions.
- Manual corrections often continue to be necessary in the preparation of VAT returns.
- Many organisations have multiple systems and that requires detailed reconciliation at month end because those systems may not always speak to each other.
- Invoicing is typically a cross-functional process and does not sit under the ownership of those responsible for VAT reporting.

Businesses recognise the importance of improving their processes and the introduction of real-time reporting, supported by e-invoicing, could help to support this. However, it must be recognised that it will take time and cost to achieve this.

We therefore recommend Revenue collaborate with businesses and software providers to help ensure the new requirements can integrate easily with existing business systems to reduce, insofar as possible, the level of change required. The successful roll-out of PAYE Modernisation shows the benefits of such collaboration and consultation between Revenue, business and software. However, it is important to bear in mind that there is a broader range of system providers for VAT reporting

compared to payroll reporting, and therefore the consultation process for VAT Modernisation should be more extensive.

Demonstrable Benefits to Business

It is also essential for business that Ireland maintains a simple, clear and efficient VAT administration system. Opportunities to further simplify this system should form part of the VAT Modernisation proposals in order to benefit businesses in the longer term. Below is a non-exhaustive list of potential benefits that Revenue should seek to make a feature of the modernised VAT system.

More targeted and efficient Revenue VAT compliance interventions

- Having access to real-time transaction level data should, in principle, increase the efficiency of post-filing compliance interventions.
- Compliance interventions should be increasingly targeted, to reduce their prevalence for compliant businesses.
- Testing of data received should take account of explainable differences, for example, timing differences between the real-time transaction data filed by suppliers and customers and the VAT amounts reported in the trader's periodic VAT return. This might include timing differences due to delays in customers processing invoices, or where the business operates the cash receipts basis.

Maintain or improve business cashflows

- Notwithstanding the real-time reporting of transaction data, taxpayers should continue to file VAT returns and pay their VAT liabilities on a periodic basis to avoid any negative cash flow impact for business.
- Given the access to real-time data, Revenue should increase scope for businesses to avail of less frequent periodic VAT return filings beyond the standard bi-monthly basis. While reduced frequency filings are available to some businesses, the thresholds to qualify for this are relatively low. These thresholds should be increased.
- Access to real-time data should enable Revenue to expedite VAT refunds which would have a positive cash flow impact for businesses.

Maintain ease of access

- Revenue Online Service ("ROS") allows both businesses and tax agents to access returns and records in real-time. Any new system should continue to facilitate businesses and authorised agents having access to support the efficient administrative of VAT.
- The portal used to upload digital information should be accessible and user-friendly which is accessible across multiple types of devices (mobile, desktop, app etc.)

Minimise Practical Challenges

The practical challenges for business of real-time reporting will need to be considered. Digital reporting of Accounts Payable ("**AP**") transactions would, in particular, give rise to significant challenge The AP process in many organisations continues to require significant manual input, involving a series of approval steps which operate as an important business control. In many cases, the reports used to prepare VAT returns do not capture purchases invoices until the invoice has been approved for payment or paid by the business. This can be delayed due to parked, disputed or rejected invoices, and this will inevitably remain a feature of business.

While, in principle, AP transaction data based on e-invoices could be digitally reported before the payment approval process has been completed, this may lead to a significant volume of additional work in terms of reconciliations and, where the invoiced amount is subsequently changed, credit notes and reissued invoices.

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

The range of practical scenarios that could arise should be carefully considered based on extensive consultation with stakeholders.

Businesses also need to understand at an early stage what 'real-time' will mean in practice. The European Commission proposes under ViDA that transactions would be reported within two days of the issue of the e-invoice (which in turn is due to be issued within two days of the supply taking place). This timeframe is considered to be a significant challenge and may potentially be extended as the ViDA proposals develop.

To help address the range of practical issues that are likely to arise, we recommend that a joint working group comprising Revenue officials, business representatives, tax professionals and software providers be set up. AP and AR process specialists should be invited to join the working group, as their practical expertise will be critical to the success of the project.

This review team could operate in a manner similar to TALC (or perhaps under the auspices of TALC) with its objective being to oversee the effective design of VAT Modernisation.

Consider scope of what is digitally reported

The scope of what needs to be digitally reported will also need to be considered. There will be practical difficulties reporting certain types of transactions on a real-time or close to real-time basis. Examples of such transactions include:

- Purchases from suppliers established in countries which have not implemented mandatory e-invoicing.
- VAT on imports of goods as this is determined based on the customs value of the supply as recorded on the import declaration, which might not align to the supplier's invoice value.
- Services received from suppliers established abroad where it is technically complex to determine whether reverse charge VAT arises or not.
- Supplies to non-EU recipients which are outside the scope of Irish VAT.
- VAT exempt supplies or outside the scope of VAT transactions (e.g. transfer of business) for which a VAT invoice is not required to be issued.

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

Question 3

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

Key recommendations

Experiences in other jurisdictions have taught us that:

- ✓ Implementation timelines should be realistic and achievable, with businesses having access to the detailed technical requirements at an early stage. This should help avoid the need for subsequent delays.
- ✓ A fragmented approach between different jurisdictions results in significant additional cost and administration.
- ✓ A pilot and phased implementation programme are important to assisting businesses to prepare for the new requirements.

Based on discussions with our clients who are subject to VAT reporting obligations in other countries and our colleagues from member firms in the KPMG global network, we are familiar with the challenges of real-time reporting obligations for VAT.

The timelines for implementation in some jurisdictions have been challenging. Where an ambitious implementation timeline is announced, businesses often have to implement quick-fix solutions to help ensure they are compliant rather than having the time to consider the requirements more strategically. This can lead to businesses adopting different approaches in different countries. In some cases, delays to the implementation timelines can be frustrating for businesses which have already geared up for an earlier start date. Most businesses operate to strict timelines for IT and process changes and short deadlines and/or delays can be challenging to maintaining these timelines.

Another significant challenge is that there is not a harmonised EU-wide approach to digital reporting or e-invoicing. The requirements vary in terms of the form and frequency of reporting, the type of taxpayers and transactions covered, the data set required and means used to convey the information to the tax authorities. The lack of consistency creates significant compliance challenges and costs for businesses operating in multiple jurisdictions. Corporate groups doing business across multiple countries wish to avoid new methods of data integration with tax authority systems, or continually needing to reconfigure systems to meet distinct and different technical requirements in each EU Member State. This cost of fragmentation is a significant concern for business and our clients' indirect tax leaders report this lack of harmonisation to be their biggest challenge in managing their indirect taxes[3].

In recognition of this, we recommend Revenue's proposals for digital reporting are aligned with the data requirements under the common EU standard for e-invoicing (EN 16931). It is also important that Ireland continues to be a strong advocate for harmonisation of digital reporting and e-invoicing at the EU Council discussions on ViDA to ensure this key objective is achieved.

Our clients have positively received proposals for a phased introduction and pilot schemes to allow for preparation before the introduction of mandatory reporting.

---

[3] KPMG Global Indirect Tax VAT/GST Benchmarking Survey 2021

Response to Consultation Questions

E-invoicing

Consultation questions

Question 4.	Question 5.	Question 6.
Have you any observations, concerns or recommendations on a move to mandatory electronic invoicing for B2B & B2G domestic VAT transactions?	Revenue are 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?	What suggestions would you offer in Ireland's arrangements for a mandatory B2B and B2G eInvoicing programme?

Our comments in relation to Questions 1 to 3 regarding digital reporting of B2B and B2G transactions also apply to the proposals to introduce mandatory e-invoicing for such transactions (as the two concepts are closely interlinked). This includes the need for extensive consultation, an appropriate lead-in time and alignment with existing business systems/processes. In addition, we have the following specific recommendations on the e-invoicing aspect of the proposals.

Key recommendations

- ✓ E-invoicing should operate in harmony with the core commercial invoicing process and facilitate business efficiency.
- ✓ The cost of introducing e-invoicing for businesses should be reduced as much as possible by Revenue engaging with software providers to ensure clarity on the technical requirements for e-invoicing as early as possible.
- ✓ There should be no extension of the circumstances in which a VAT invoice is required to be issued.
- ✓ E-invoices should be capable of being read and used as commercial invoices, with businesses also having the option to issue a separate commercial invoice by traditional means if needed.
- ✓ The technical structure of e-invoices required for domestic transactions should be consistent with those required for cross-border transactions under ViDA.

E-invoicing

Question 4

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

E-invoicing has the potential to create efficiencies as compared to the traditional invoicing process.

However, mandatory e-invoicing for B2B and B2G transactions must not adversely impact the business's core invoicing function. To minimise this impact, we have set out certain recommendations below.

Respect existing VAT invoice requirements

- There should be no extension of the circumstances in which VAT invoices are required to be issued. For example, e-invoices should not be required for B2C transactions or for transactions which are exempt from VAT or outside the scope of VAT.
- There should continue to be scope for businesses to issue simplified invoices and summary invoices, which are an important business requirement in many industries, and for traders to agree to self-billing arrangements where appropriate.
- Current invoicing simplifications in certain industries, such as the ability to issue annual invoices for hire purchase or property rental transactions, should be maintained.

Minimise duplication

- The e-invoice should be capable of being read and used as a commercial invoice, so that from a business process perspective VAT modernisation does not result in duplication of e-invoicing and commercial invoicing.
- However, businesses should have the option to issue separate commercial invoices by traditional means in addition to the mandatory VAT e-invoice if there is a business need or benefit to doing so.

Scope

- It should be clearly defined at an early stage whether mandatory e-invoicing will apply to all Irish VAT registered businesses or if there will be exclusions from the obligations (such as for non-established entities, one-off transactions or similar).

Align with international requirements

- The format and structure of e-invoices for domestic B2B and B2G transactions should be harmonised with ViDA and the EU standard for e-invoincing (EN 16931).

Question 5

Revenue are 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?

In our experience the uptake of businesses implementing e-invoicing for B2G or B2B transactions in Ireland is relatively low. This is supported by a recent report prepared for the European Commission which indicates that the adoption of e-invoicing by enterprises in Ireland has remained flat at 14-15%

since 2013.[4] The Commission's report indicates that suppliers in Ireland are still reluctant to move away from unstructured e-invoicing formats even when presented with the option to do so by public sector buyers. By comparison, the same report notes that other jurisdictions have seen an uptick in e-invoicing, for example, the Netherlands has seen a 140% increase for e-invoicing of B2G transactions from 2019 to 2021 and this account for 77% of all invoices received for B2G transactions.

It is therefore important that the cost of moving to e-invoicing is reduced as much as possible. Revenue should engage with finance software providers at an early stage on the technical specifications for e-invoicing so that the software updates required can be developed and rolled-out in good time.

Our recommendations set out in response to Question 4 and 6 should help to mitigate these costs and reduce the time and cost for businesses of introducing mandatory e-invoicing for B2B and B2G transactions.

Question 6

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

In addition to our recommendations in response to Question 4, we recommend the following:

- Given the relatively low rate of current adoption of e-invoicing by Irish businesses, there will need to be a significant lead-in time and education period to prepare businesses for mandatory e-invoicing of B2B and B2G supplies. We have commented above on some of the challenges that can arise in other jurisdictions if the lead-in time is not sufficient and note that some of these other jurisdictions already had a higher adoption of e-invoicing than Ireland.
- The design and technical requirements of the e-invoicing system will take some time to develop and to be rolled out. While there is a documented EU e-invoicing standard (EN 16931), this is a technical document, and businesses will require user-friendly guidance on the exact data required on e-invoices.
- The means of clearing and transmitting the e-invoice must also be carefully considered. There are varying clearance models for e-invoicing between EU Member States, such as a centralised clearance model through a government portal in Italy or de-centralised model operated by authorised intermediaries as is proposed in France. Although not yet agreed, we understand the de-centralised clearance model is the favoured approach under ViDA. In our discussions, clients were keen to emphasise that the model clearing and transmitting the e-invoice should be consistent across the EU and should not interfere with the commercial operations of the business.
- The timeline for issuing the e-invoice will need to be carefully considered. The proposal for businesses to have to issue an e-invoice within two days of the supply (as proposed under ViDA) is considered to be a significant challenge and may need to be extended.
- The data security requirements for the transmission of e-invoices and digital reporting of data must be robust. Cybersecurity is an ever-increasing focus for businesses and it will be necessary to ensure this is not comprised in the implementation and operation of these proposals.

---

[4] European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, Ciciriello, C., Gray, E., *Preparatory study on the effects of the Directive 2014/55/EU on electronic invoicing in public procurement*, Publications Office of the European Union, *in public procurement*, Publications Office of the European Union, 2024

Response to Consultation Questions

Current VAT Reporting Formats

Consultation questions

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

Question 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?

Key recommendations

- ✓ We recommend changes to the existing VAT reporting formats (e.g. VAT 3 return) are kept to a minimum and, to the extent there are such changes, they increase the ease and efficiency of VAT compliance for taxpayers.
- ✓ Prompts in relation to the amounts to be included in each Box of the VAT return would be welcome.
- ✓ Revenue should consider appropriate support measures, particularly targeted at small and micro businesses in adapting to the new requirements.
- ✓ Up-front training will be required for both Revenue personnel and business advisors in relation to the proposed introduction of e-invoicing and real-time reporting and any changes to the VAT reporting process.

Ireland is globally recognised as having a business-friendly VAT compliance system, with effective supports available from Revenue. It is therefore important that this is not diluted by changes to the existing VAT reporting formats.

The current VAT 3 is a relatively simple and intuitive return compared to more complex returns in other jurisdictions. This simplicity should be maintained. Changes to the format of the return are likely to require further investments in systems and processes in many cases.

However, there could be a benefit to VAT 3 returns being fully or partly pre-filled based on the real-time data transmitted to further simplify the VAT reporting process. Pre-filled returns are a feature of the VAT reporting process in other EU countries based on transaction data digitally reported to the authorities. However, businesses would nonetheless need to carry out reconciliations between the pre-filled return and their own records.

Additional guidance on the amounts to be included in each box on the VAT 3 return would be helpful. For example, a prompt to include reverse charge VAT on purchases in both Box T1 and T2 of the VAT 3 return and to apply reverse charge VAT to both EU and non-EU established suppliers, would be welcome.

Current VAT Reporting Formats

We recommend Revenue consider appropriate support measures targeted at small and micro businesses. The EU Commission recommends tax authorities consider support measures for the investment in e-invoicing services or the provision of free software to make sure that the net costs for taxpayers are lowered or compensated[5].

Significant upfront training for both Revenue personnel and business advisers will be required both in relation to the proposed introduction of real-time reporting and e-invoicing, as well as changes to the current VAT reporting process. This will enable support for all businesses through helplines and online customer support.

[5] European Commission Directorate-General for Taxation and Customs Union, VAT in the Digital Age Report, Volume 1: Digital Reporting Requirements.

Conclusion

VAT Modernisation will mean a major operational change in the management of VAT for business.

It is essential that Ireland maintains a simple, clear and efficient VAT administration system.

The technical specifications of VAT Modernisation proposals should be consistent with the ViDA proposals to reduce the compliance burden for businesses and promote the harmonisation of e-invoicing and digital reporting requirements.

The time required for businesses to prepare for a new system of real-time digital reporting supported by e-invoicing should not be underestimated and supports should be provided to minimise the costs.

Ireland has the opportunity to learn from the experiences of other jurisdictions. Revenue should liaise with tax administrators with experience of such regimes to adopt best practice.

VAT Modernisation has the potential over time to simplify VAT reporting by leveraging digital enhancements, but this is not a guarantee. Close consultation between Revenue and all effected stakeholders at all stages will be crucial to success.

We hope that you find our response useful and are happy to continue to engage with Revenue on this topic.