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VAT Modernisation Branch
Indirect Taxes Policy & Legislation Division
Revenue Commissioners
Dublin Castle
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Response to the Public Consultation on Modernising Ireland's Administration of VAT – Real-time Digital Reporting Requirements ("DRR") and Electronic Invoicing ("eInvoicing")

Dear [redacted]

EY Ireland ("EY") is delighted to have the opportunity to contribute to Revenue's public consultation on Modernising Ireland's Administration of VAT - Digital Real-time Reporting and Electronic Invoicing.

To help formulate EY's response to this consultation and to ensure we covered the views of all our clients, which span a wide range of industries, we undertook our own EY survey. EY's VAT Modernisation Survey opened on 15 December 2023 and closed on 26 January 2024[1]. We received responses from across a range of industry sectors such as insurance, wealth management, software, manufacturing, telecommunications, Fintech, banking, construction, real-estate and corporate services. Our client's range in size from Irish indigenous businesses to global multinationals and in our view are a good representative of the larger corporations, operating in Ireland today.

According to our analysis of the responses received, EY has identified 8 key points that should be considered as part of Ireland's VAT modernisation implementation process. We have set out further details regarding each of these below and for completeness, have included an anonymous summary of the responses received from our clients in Appendix 1 of this letter.

EY's view on the proposal to modernise Ireland's administration of VAT

EY fully supports and welcomes the proposal to modernise Ireland's administration of VAT and introduce DRR's and eInvoicing. Digitalising the collection of tax and data has successfully been a feature of Ireland's tax administration system following the introduction of the PAYE Modernisation programme in 2019, and modernisation of the VAT system is the next logical step to be taken by Irish Revenue.

Larger businesses with a larger number of cross-border transactions or a more streamlined B2B / B2G supply chain and/or sophisticated ERP systems are likely to adapt to the change more quickly compared to smaller paper-based businesses. While lead-in times, costs and disruption to businesses are the main concerns, it is generally accepted, by the sample of clients we surveyed, that a move to real-time DRR is inevitable in the digital age.

[1] EY's VAT Modernisation Survey, closed 26 January 2024 - 28 respondents.

J Ballard, N Byrne, I Collins, S Crawley, S Connellan, A Daly, S Doherty, S Downey, J Gilmore, P Henson, D Hogan, E McCallion, L McLoughlin, N O'Beirne, C O'Donovan, F O'Neill, J Ryan, P Smyth, C Vaughan, P Waters.

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Many other countries within the EU have introduced, or plan to introduce DRR and/or mandatory eInvoicing for VAT, providing international experience from which Ireland can learn. The VAT modernisation proposal should reduce the incidence of errors, underpayments, and non-compliance, as well as help counteract VAT fraud and close the VAT Gap. The key learnings from our EU colleagues, involved with other DRR and/or eInvoicing implementations in other EU jurisdictions is that an appropriate lead-in time and extensive consultation with the various stakeholders, is the key to successfully implementing VAT modernisation.

We understand that Irish Revenue is keen to implement domestic real-time DRR and eInvoicing which aligns with the European Commission's VAT in the Digital Age (ViDA) proposals[2] and EY would concur with this. From 1 January to 30 June 2024, Belgium will hold the Presidency of the Council of the European Union and has confirmed that they will give priority to the 'VAT in the Digital Age' proposal as part of its Programme for the Belgian Presidency.[3] The next expected update on the ViDA proposal will be at the June 2024 meeting of the Economic and Financial Affairs Council (ECOFIN).

In EY's opinion, ensuring sufficient time for consultation with all the key stakeholders, in advance of any agreement at EU level, will be crucial. Whilst there is merit in adopting a 'wait and see' approach to understand what form the EU system may take, there is no guarantee that an agreement on the ViDA proposals will be reached in June of this year. Nonetheless, we note that Irish Revenue's Public Consultation proposal issued on 13 October 2023 clarifies that "*any decisions Ireland makes about introducing a domestic B2B and B2G real-time reporting regime will be cognisant of the direction of the EU proposal and will need to fit appropriately with the final shape of the EU measure*". Alignment and coherence with the EU measures should be given the utmost priority as Irish taxpayers will not have the budget, time and resources to carry out the necessary implementation changes twice.

In summary, EY welcomes the VAT modernisation proposal and would be pleased to provide any assistance to Irish Revenue as it determines the details of Ireland's real-time DRR and eInvoicing systems.

In the meantime, we have set out below a summary of the key points that our clients have identified as being critical to the successful implementation of modernising Ireland's VAT administration system:

1. **Engagement with stakeholders**

Consultation with stakeholders and industry focus groups will be crucial to the successful implementation of DRR and eInvoicing, to inform decisions and ensure that all issues are fully addressed. We understand Revenue is engaging with various Government stakeholders and welcome Revenue's participation in various briefing sessions with firms such as EY, the professional bodies and the subgroup of the TALC Indirect Taxes Sub-committee (TALC VMOD subgroup), of which EY participates. Additionally, we would suggest consultation with the various accounting and eInvoicing software providers and firms such as EY who will be responsible for the development of IT solutions. Cross-stakeholder engagement involving businesses, tax advisers, third-party and Revenue software and systems developers will be important from an early stage, to ensure that the needs of businesses are

[2] Proposal for a Council Directive amending Directive 2006/112/EC as regards VAT rules for the digital age https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52022PC0701
[3] https://belgian-presidency.consilium.europa.eu/media/3kajw1io/programme_en.pdf

fully understood before work advances on the design of new software and systems. One client has even suggested that Revenue software developers are sent on secondment to a number of large complex multinational organisations to understand how their ERP systems operate.

2. Lead-in time and phased introduction

Revenue has historically applied a phased approach to the implementation of new mandatory filing requirements, such as mandatory e-filing of tax returns and the requirement for certain corporates to file financial statements in iXBRL format. While it was felt that a phased introduction was not suitable at the time for PAYE modernisation, VAT modernisation is quite different. Larger multinational taxpayers have significantly different VAT profiles than smaller taxpayers who are more than likely still using paper or PDF invoicing and have not invested in sophisticated ERP systems.

In EY's view a phased implementation would ensure a smoother transition to real-time DRR and eInvoicing and such an approach would have been followed by HMRC when they were implementing Making Tax Digital ("MTD") in the UK and by the Hungarian Tax Authority when they were implementing their RTIR system. In Spain, the SII system continues to only apply to taxpayers with an annual turnover in excess of €6m, VAT groups and non-resident companies with a local VAT registration, albeit that other taxpayers can opt in.

As you will see from the feedback in Appendix 1, nearly all respondents called for an appropriate lead-in time. This is deemed to be essential to allow businesses to identify what changes are necessary, test systems and work with their various system providers. 32% of respondents to our survey stated they would need at least 12 to 24 months of a lead-in time with 25% suggesting a minimum of 24 months or more, will be required.

3. Public Interface Testing (PIT) environments

Similar to what was rolled out by Revenue for the implementation of CESOP and PAYE modernisation, to ensure certainty for businesses, testing should be made available well in advance of implementation of real-time DRR and eInvoicing. It is crucial that the system implemented for domestic transactions will also work for cross-border transactions to avoid further costs and systems changes down the line. However, based on feedback obtained from clients, the testing window provided by Revenue for PAYE modernisation was too short and more time was needed. In addition, we note there was no PIT environment at all provided for the recent Enhanced Reporting Requirement rollout, which would have been useful.

In our experience, most clients do not use one unique system to capture all elements of invoicing but have to work with more than one financial ERP system. To facilitate the introduction of real-time DRR many businesses will need to undertake extensive and expensive upgrades to their systems which will need to be tested and verified well in advance of any system going "live".

We note that Irish Revenue has clarified at the December TALC meeting that it does not intend to implement any pre-clearance for eInvoicing, and EY and its clients would welcome this.

4. Flexibility for different business models and arrangements

Irish VAT law is complex with many exceptions, exemptions and concessions in place. While the below is not an exhaustive list, the following are some of the areas that have come up in our internal discussions, that we think, should be carefully considered as part of any DRR and/or eInvoicing implementation:

- There are many situations in VAT law, where specific wording is required for domestic B2B invoices, such as the VAT margin scheme, VAT 56B authorisation, Relevant Contracts Tax (RCT), property transactions etc. That will have to be factored into eInvoicing templates.
- There are certain industry practices in the finance and leasing industry where the agreement constitutes the VAT invoice so this will need to be considered.
- For VAT exempt transactions, there is no requirement to issue invoices and we presume eInvoicing will not extend to any transactions where an invoice is not currently required under Irish VAT law.
- In deciding the timeline for submission of DRR, Revenue will need to consider the various business models where invoices are slow to issue.
- Separately, across all industries timing differences will occur between when a supplier reports the outbound sale and when the recipient reports the inbound purchase. It can take a significant amount of time for inbound invoices to work their way through approvals and AP processes. For example, in the funds industry it is common to outsource all invoicing functions to a third-party administrator and there are many different elements that can lead to delays as to when the invoices are received.
- Most large businesses operate month end cut-off periods and PO systems so these will also need to be considered, particularly in respect of DRR.
- How will entities with partial VAT exemption deal with input VAT recovery in a real-time DRR system?
- How will VAT groups handle real-time DRR? We presume, it will only be the VAT group remitter that will be obliged to file under DRR? From an eInvoicing perspective presumably each member of the VAT group will continue to issue individual eInvoices for supplies to third parties?
- One-off transactions, such as property transactions, historically are dealt with by way of manual invoices, and will need to be carefully considered.

5. Business with B2B, B2G and B2C transactions

We understand that certain clients with B2B and/or B2G transactions may also have B2C transactions and therefore, for these businesses they would in essence have to operate two different reporting systems. Consequently, it may be worthwhile considering incorporating an "opt in" for B2C transactions at the same time of implementing real-time DRR for B2B and B2G transactions for certain businesses, if they wanted.

6. Clear communication and support strategy

A well-planned strategy for communicating with stakeholders and a package of Revenue supports will without doubt be necessary. Businesses will need time to prepare for the changes which will include investment in IT, training of staff and the revision of existing invoicing procedures. You will note from our survey that most clients have no budget set aside for this additional cost and currently have no idea what it will cost. Irish Revenue need to carefully manage the communication of the technical specifics and avoid last minute changes to the details. We have recently seen quite a lot of frustration with the Enhanced Reporting Requirement changes that came into effect from 1 January 2024 with some clients complaining that there was limited stakeholder engagement, a lack of reporting templates and poor communication with taxpayers on the requirements.

7. Learnings from other EU countries

While most respondents to our survey have not been involved in the implementation of DRR or eInvoicing in other EU jurisdictions directly themselves, for those that have been, the key recommendations are as follows:

- Ensure alignment with the EU ViDA proposals to ensure a single harmonised framework across the EU.
- Ensure the DRR system is stable and does not require multiple upgrades. The feedback received from our UK colleagues is that HMRC's MTD process can be unreliable and that it requires constant updates to accounting packages which are costly to budget for and time consuming. In addition, third-party software providers frequently need to intervene when connections break down leading to additional maintenance costs.
- Clear communication strategy and lead-in time.
- Testing environments to be provided
- Non-enforcement of penalties for an initial period to give taxpayers time to resolve teething issues.

8. Business support's

The move to real-time DRR and eInvoicing will be a substantial adjustment for all businesses regardless of size – the more transactions, the more complicated the ERP systems, the bigger the cost of any upgrades and changes. The costs involved for all businesses include:

1. Initial implementation costs – these will include investment in upgrading or new technology, new staff/resources, training and professional service providers.
2. Ongoing maintenance costs – as we have seen with other jurisdictions there is an increased yearly cost of managing real-time reporting and eInvoicing systems as well as ongoing maintenance and upgrades. These are frequently not budgeted for.

While we appreciate Revenue have confirmed on a number of occasions that it will not be providing businesses with grants or other financial supports, you will note that some respondents to our survey

have called for some financial assistance to be provided to cover the costs of software changes and training staff on new systems. In this regard, we would encourage Irish Revenue to consider this further, particularly given the benefits Irish Revenue will see over time with increased VAT revenues being earned and minimisation of the VAT gap and VAT fraud. In France with their proposed eInvoicing rollout, which has been delayed, the intention is to provide businesses with an option of using a central government platform model for e-invoicing which receives and distributes these invoices to the customers and will be free for businesses to use. Politically, this is being viewed as quite a helpful cost-effective option for smaller businesses or those with limited transactions.

Conclusion

An appropriate lead-in time to allow businesses test systems and work with their various system providers will be critical. We believe that thorough guidance, early definition of the data requirements together with supporting frequently asked questions (FAQs) will need to be made available well in advance of the implementation date.

Moreover, businesses will need to secure a significant budget and extra resources to implement real-time DRR and eInvoicing. Therefore, we believe the key to a successful implementation, will be clear timelines and guidance for building the system requirements, together with ongoing extensive consultation and engagement with stakeholders.

EY fully supports and is happy to constructively engage with Irish Revenue on the implementation of real-time DRR and eInvoicing. Within our wider global EY network, we have had colleagues, in our consulting business, who have been engaged by Governments and Tax Authorities to advise on the implementation of new indirect tax systems and the set-up of the respective administration frameworks. We would be happy to set up a meeting with these overseas colleagues to discuss further, if this was something the VAT Modernisation team would be interested in.

We look forward to working with you on this critical milestone in the history of Irish VAT Law administration, over the coming months and years and if you have any questions in relation to the above or the attached, please do not hesitate to give us a call to discuss.

Yours faithfully

Ernst & Young

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Attachment: Appendix 1; Summary of EY's VAT Modernisation Survey