Banking & Payments Federation Ireland

BPFI Response to Modernising Ireland's Administration of Value-Added Tax (VAT)

January 2024

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Introduction

Banking & Payments Federation Ireland (BPFI) is the voice of banking, payments and fintech in Ireland. BPFI is the umbrella body representing over 100 firms and encompassing three affiliate bodies, the Irish Payments Council, the Federation of International Banks in Ireland and the Fintech & Payments Association Ireland. The sectors represented include retail banking, international banking, fintech, payments, non-bank lenders and credit servicing firms.

General Comments:

BPFI members welcome the opportunity to make this submission to the Office of the Revenue Commissioners in relation to the public consultation on "Modernising Ireland's administration of Value-Added Tax (VAT), Real Time Digital Reporting and Electronic Invoicing".

BPFI members support rules where proposed changes are designed to ensure greater efficiency in the VAT system. We believe that the implementation of proposed changes should make VAT compliance easier with a view to reducing costs and inefficiencies. In this regard, BPFI members believe that the proposals should be supported by an appropriate impact analysis before implementation as well as a realistic timeframe for implementation in order to reduce administrative burden and compliance costs. It is also important that public communication by Revenue should be issued to ensure all businesses are aware of the changes and that tax teams will have sufficient time for correct implementation. In the case of the banks, there are also competing demands from other public bodies, such as the Central Bank of Ireland, for systems changes from a regulatory perspective where timelines and budgets for other changes will need to be factored in.

It is not clear that these proposals will result in making VAT compliance easier for tax compliant Irish businesses. Based on the proposals, businesses will have a different invoicing process for non-EU Business to Business (B2B) and Business to Government (B2G) transactions and transactions with private consumers. Existing processes and systems will need to be continued for transactions not in scope of real time VAT reporting resulting in a dual VAT reporting process. It is not clear as to how many additional data points/fields will be required with these new proposals and whether exempt cross border services will be covered under the proposals.

The UK which is a principal trading partner for many Irish businesses would not be in scope for real time VAT reporting for services and transactions in goods with mainland Great Britain.

BPFI members also believe that the benefits for Irish Revenue are not stated with the move to mandatory electronic invoicing for domestic B2B and B2G transactions.

Section A- General Consultation Questions:

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

Current proposals seem to be straight forward and beneficial for small businesses however a one size fits all approach is likely to create challenges for different businesses especially larger companies. BPFI members believe that introducing real time reporting for B2B and B2G transactions will create significant additional costs for tax compliant businesses as it will require significant resources, time, effort and planning to implement the proposed VAT changes if introduced for both EU and domestic B2B and B2G transactions.

Banks, in particular, have a complex VAT profile, and it is important to recognise that these changes will present a different challenge to banks versus businesses with full VAT recovery. For banks with multiple systems with a mix of VAT exempt, Vatable and outside the scope of VAT supplies to domestic and non-domestic large and small businesses, these proposals will require a significant change.

The changes will have a significant impact on how banks send and receive invoices and will require system and data improvements. It will impact numerous VAT related stakeholders in the banks including accounts payable, procurement, finance, technology teams and individual business areas with VAT reporting obligations.

BPFI members believe that in order to minimise costs to taxpayers, it is important that there is certainty over the system being introduced in advance and that it is agreed, uniform and accepted by all EU Member States. There will need to be a clear message as to what is being introduced and a definitive timeline for introduction of any changes.

There will need to be a sufficiently long lead time for planning and engagement with both suppliers and customers. Appropriate guidance and tests systems would need to be available well in advance of the implementation date. In our experience for major tax changes like this often tax guidance and test systems are not available until close to the implementation date.

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

BPFI members believe that it is important to have a clear picture of exactly how the new reporting system will work in practice.

It is important to have sufficient lead time so that businesses can get a budget, project team and additional resources in place. Budgets are typically agreed well in advance of the project year i.e. a minimum of one to two years in advance.

There needs to be sufficient time for testing with a test system available well in advance of the implementation date. FAQs and guidance need to be available for the project teams well in advance of the implementation date.

In addition, we believe that a dedicated Revenue team with appropriate expertise and resourcing to advise on queries that arise as the project progresses is needed.

Banks typically use third party purchasing systems for general bank purchases. There would need to be sufficient time for banks to engage with the supplier of these purchasing systems or to potentially change supplier of the purchasing system if needed.

Supplier set up can take a number of months in some banks and in many cases the suppliers are once off. Supplier set up for banks would be impacted.

Banks would need sufficient time to communicate changes to their stakeholder business areas, customers and suppliers.

It can often be complex for banks to determine the correct VAT treatment applicable to foreign purchases e.g. VAT exempt supplies. There needs to be clarity on how VAT exempt sales and purchases will be treated. Banks do not issue VAT invoices for VAT exempt supplies.

Invoices can be disputed before they are agreed so this needs to be considered. With real time reporting will there be any ability to amend invoices before they are submitted?

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?**

N/A

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

We think if real time VAT reporting is introduced for both cross border EU B2B and B2G transactions and domestic B2B and B2G transactions, it should be done at the same time. We expect that this would be most cost effective for businesses.

Banks use multiple systems and different sections use different systems to invoice customers. This is a concern for banks. In many cases transactions for banks are once off and invoices are issued manually. Also, it is common to receive requests from B2C customers looking for invoices after the event where no requirement existed to provide an invoice initially. It is not clear as to how these will be catered for?

a) B2B domestic sales invoices

For banks there are many situations where specific wording is required on domestic B2B invoices such as:

- Margin scheme wording required on invoice – margin scheme – this does not give right to a VAT input credit.
- VAT 56B authorisation number must be quoted on invoice to apply 0% rate of VAT
- Invoices for construction services/RCT applicable invoices
- Certain immovable property supplies may require a specific wording on the invoice. Invoices for property transactions are typically issued manually.

There are also many industry practices in the Finance & Leasing industry such as:

- The HP agreement is accepted as the VAT invoice. It would be a big change for banks to have to issue electronic invoices to domestic business customers.
- Annual VAT invoices are typically issued for leasing – This invoice identifies the monthly rentals plus VAT for each month and there is a statement on the annual invoice.
- *"you many not claim a deduction in your VAT return for the VAT element of the amount due prior to the date on which is falls due for the payment [tax point]"*. It would be a big change to have to issue electronic leasing invoices to domestic business customers.

Banks often issue ad hoc manual invoices for once off bank transactions. Many retailers and small businesses insist on receiving paper invoices from banks.

b) B2B domestic purchase invoices

Typically, banks would use third-party purchasing systems for processing bank purchases. However, there are exceptions to these where manual processes are in place. The banks will need sufficient time to engage with these suppliers to assess the impact of this proposal.

Where suppliers are domestic and once off, banks may not set up these suppliers on their purchasing systems. There can be a long lead time in banks to set up suppliers on these purchasing systems.

In the finance and leasing business, asset purchases are generally by way of manual invoices and suppliers tend to be once off as the have been sourced by the banks' customers rather than by banks. These purchases are typically recorded and processed on a separate asset finance bank system.

c) VAT recovery

Given banks are partially VAT exempt businesses, it will need to be clear how they should deal with VAT input restrictions on a real time basis.

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?

N/A

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

See responses above.

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?

N/A

8. Are you are responding to this consultation in any capacity other than as a taxpayer, e.g. as an advisor, an accounting software or E- Invoicing service provider, Representative Body, Industry Group or, Government or Public Body?

This is a representative body response.

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

[redacted]

Banking and Payments Federation Ireland

Email: [redacted]