White Paper

# 8 Reasons for Compliance Reporting

**Peter Boerhof**
VAT Director, Vertex Inc.

VERTEX

# Reasons to Automate VAT Reporting

## Overcoming the complexities of VAT reporting

VAT reporting is often perceived to be a routine process easily manageable through a manual, spreadsheet driven process. However, if you breakdown this process in individual steps and take a closer look, it becomes apparent that the overall process can be quite time-consuming and requires specific knowledge. And if you then add changes in business and regulatory changes to the equation, managing your global indirect tax reporting can become a daunting task.

### The VAT reporting process

A Generic VAT reporting process can be divided into a few steps:


Each of these steps comes with its challenges of which most can be resolved by implementing VAT reporting technology, including a full audit trail covering the overall VAT reporting process.

## 1. Data gathering

In an optimal situation, the data needed for a VAT return comes from one single (ERP) system and includes all relevant transactions performed in the reporting period. However, if a legal entity operates a few businesses on different ERP's, in case of a VAT group, manual invoicing, or (incidental) transactions/corrections outside the ERP system(s) the data needed for a single VAT return has to come from multiple sources.

Collecting this data and transforming it into a single uniform template (often spreadsheet-based) is a time-consuming task prone to errors. The risk of mistakes increases if more people are involved in the gathering process or if activities are ill documented, and a person has to step into the process as a replacement. These issues can even result in missed filings.

**By implementing a VAT reporting solution, the required data is mapped once and then systematically collected and structured into a standard template without human intervention**

## 2. Data validation

Once the data is collected and structured, one needs to verify if the data relates to the correct reporting entity, reporting country, and reporting period. Also, the completeness and format of the data need to be checked. Manually executing these checks is a burdensome and monotonous activity and should be automated to the extent possible.

**A VAT reporting solution will automatically perform most of these data validations consistently. So the company no longer depends on the meticulousness or spreadsheet macros of individuals.**

***Assuming the quality of the data is correct because you use an expensive ERP system leads to expensive mistakes***

## 3. Quality checks

It is often assumed that data from an ERP system is correct and complete for VAT filing purposes. And as a result of this assumption, the quality of this data is often checked only marginal or not at all. However, when filing a VAT return, the company confirms the data in the return is accurate and complete. So at least some basic checks on the data should be performed.

These checks should include amongst others correct VAT rates and amounts, usage of tax codes, currency validations, reverse charge applied on output and input, VAT number checks, etc. However, with VAT reporting often being an on-top of everything else activity, it is tempting to forget about these checks.

**Data crunching can be automated and always involves the full set of data rather than a sample. Any issues are reported transparently and consistently to facilitate any manual interpretation and follow-up. By implementing a global VAT reporting solution, companies can create central insight into end-to-end VAT processes globally.**

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## 4. Draft return

Once all the data is sanitised for VAT reporting purposes, it will need to be transferred into the format of the final return. While doing this, it needs to be ensured all data is mapped to the correct boxes in the return, and proper rounding rules are applied. In a manual process, typos may occur, but in a macro-based solution, mapping errors become systemic and will only be discovered in a tax audit.

**During the implementation of VAT reporting technology, an expert assessment will be done to map the sanitised data to the correct boxes on a return, and after the implementation composing the draft return will no longer require human intervention. An additional benefit of the technology is that draft returns will be provided both in reporting language and English to facilitate the review.**

## 5. Reconciliation

**To the extent these other reports are also created by using VAT reporting technology, the reconciliation can be done automatically within the tool. However, most reconciliations are still manual.**

## 6. Review and sign-off

Before filing, the draft return should be reviewed and signed-off by a second person. To make this step as efficient as possible, the data should be presented consistently and transparently and should include reporting of all previous steps in the process.

**VAT Reporting Technology presents the data of all steps in the process in a standard way in both reporting language and English to facilitate an efficient and effective review and sign-off of multiple VAT returns.**

## 7. Filing and archiving

Filing of returns often must be done through a web portal of the tax authorities in a prescribed format, and transfer of the data can either be manual or via upload. A check should be executed that all relevant data has been transferred correctly. This portal often also archives the filed return. For archiving of the full process, including the raw (ERP) data and possible corrections, companies often rely on the discipline of the involved employees or 3rd parties. Having all documentation properly and automatically archived at a central repository is crucial for audit defense.

**Secure, tested connections to tax authority APIs and data transmission acknowledgments ensure compliance even when it must be done in real-time. VAT reporting technology automatically archives all steps and data in the process into a central repository that can easily be accessed in case of a tax audit. This eliminates the risk of lost data and reliance on employees or 3rd parties still being around. All data in this central repository can also easily be transferred/copied to a local server.**

## 8. Payment

Payment of the VAT and monitoring of VAT balances and refunds is an essential step in the VAT reporting process. Usually, this takes place as a manual process in ERP and/or banking systems.

## Times of change

VAT reporting globally is subject to constant changes in business operations and legislation, and this can severely impact the above-described process.

***Faster, sometimes real time reporting with country specific content requires adequate data delivery and data quality***

## + Legislative changes

Activities in only a few countries result in a stack of filing requirements such as VAT returns, ESL's, domestic Sales Lists, Intrastat returns, and SAF-T. And these reports must be filed on time, at different frequencies, and either on paper, online, e-File upload, or as XML. In addition to these periodic filings, an increasing number of countries are harvesting transactional data by imposing SAF-T and (almost) real-time transactional reporting from their VAT taxpayers. This data is then used for analysis, reconciliation with filed VAT returns, and sometimes even for pre-filled VAT returns. Unfortunately, there is very little harmonisation, and each country imposes its own content and technical requirements.

For businesses, this implies they can no longer rely on traditional VAT reporting only and need to be faster with data delivery and more proficient with data quality. As these developments are global and often communicated on short notice, businesses need to be agile and flexible, and the VAT reporting process should support this.

**VAT reporting technology embeds these changes in added requirements, content, and technology, thus providing peace of mind that you can keep up with these changes without serious investments in constant tax and technical research.**

***The benefit of this type of technology isn't just meeting today's VAT filing requirements, but its "ability to respond" to tomorrow's business opportunity with confidence***

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## + Business changes

Traditional VAT reporting is an often locally executed peoples process where both local filing and communication from tax authorities are in the local language.
The alignment between people, systems, and process requires and facilitates a specific governance model. Changes in any of the elements of the total model immediately impact all other parts. In times of globalisation and the need for tax transparency, multinational businesses start reconsidering their finance, IT and tax operations. Consolidation and centralisation are the keywords here while at the same time aiming for increased central governance. As a result, the VAT reporting process becomes less reliant on people and more reliant on systems and processes with local language as a hurdle to overcome.

When a business expands into a new market or introduces a new product line or distribution channel, setting up VAT reporting is a job easily forgotten. Without knowing local requirements or understanding local language, setting up local VAT reporting is challenging and time-consuming, especially where a company does not have a local presence and often requires external support.


**VAT reporting technology facilitates the transition to a more centralised language-independent model in a cost-efficient way. However, also in a decentralised model deployment of VAT reporting technology can standardise processes and improve (central) governance and, as a result, reduce risk and improve audit performance. The benefit of this type of technology isn't just meeting today's VAT filing requirements, it is the "ability to respond" to tomorrow's business opportunity with confidence.**

# About the author

## Peter Boerhof, VAT Director, Vertex

Peter Boerhof is the VAT Director for Vertex. In his role he provides insight and thought leadership regarding the impact of tax regulations, policy, enforcement and emerging technology trends in global tax. Peter has extensive experience in international transactions, business restructuring, tax process optimisation and tax automation. Prior to joining Vertex, Peter was responsible for leading the indirect tax function at AkzoNobel. He holds an MBA from Rotterdam School of Management and a masters in tax law from the University of Groningen.

### About Vertex

**Vertex Inc.,** has been a leading provider of tax technology and services, enabling companies of all sizes to realise the full strategic potential of the tax function by automating and integrating tax processes, while leveraging advanced and predictive analytics of tax data. Vertex provides cloud-based, on-premise, and hosted solutions that can be tailored to specific industries for every major line of tax, including income, sales and consumer use, value added and payroll. Headquartered in Pennsylvania, Vertex is a privately held company that employs over 900 professionals and serves companies across the globe.

**London**
+44 (0) 203 906 7630

**Frankfurt**
+49 (0) 69 50 506 0515

**Amsterdam**
+31 020 799 7380

**Cork**
+353 (0) 21 237 3020