

Avalara

Value Added Tax for U.S. Companies

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Today's Discussion

- **The Basics of Value Added Tax**
- The Importance of VAT for operations outside of U.S.
- Simple techniques for optimizing your VAT position
- Q&A



About the Presenter

- Mark Houtzager
 - 20+ years experience, 12 years in the U.S.
 - Europe (Dutch native) and Asia-Pacific (Singapore)
 - PwC and Deloitte alumnus
 - Started my own firm in August 2010
 - Support U.S. businesses dealing with VAT outside the U.S.
 - Larger and mid-size multinationals
 - Companies planning on expanding overseas
 - Frequent presenter, author and trainer
 - Value Added Tax Blog: www.us-vat.com/blog



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What is VAT

- VAT is a tax on the supply of goods or services, supplied by a taxable person, and on imports
- Originally “a simple tax,” now much more complex
- Nevertheless, VAT is a favorite revenue tool for many governments
- In the EU: one single jurisdiction, but sometimes difference between EU and local legislation



The Basics of Value Added Tax

- European Union (EU)
 - 28 member states, Croatia added on July 1, 2013
 - No internal borders (somewhat similar to U.S.)
 - VAT is centrally coordinated – “VAT Directive”
 - European Court of Justice



The Basics of Valued Added Tax

Output Tax (Accounts Receivable)

- Principle – VAT at each stage of the supply chain (“output tax”)
- Tax on all business transactions
 - Goods
 - Services
 - Inter-company changes
 - Licenses, royalties
- Collected from buyer on sales, or collected from importer on imports
- Vendors charge VAT based on the price of the goods or services



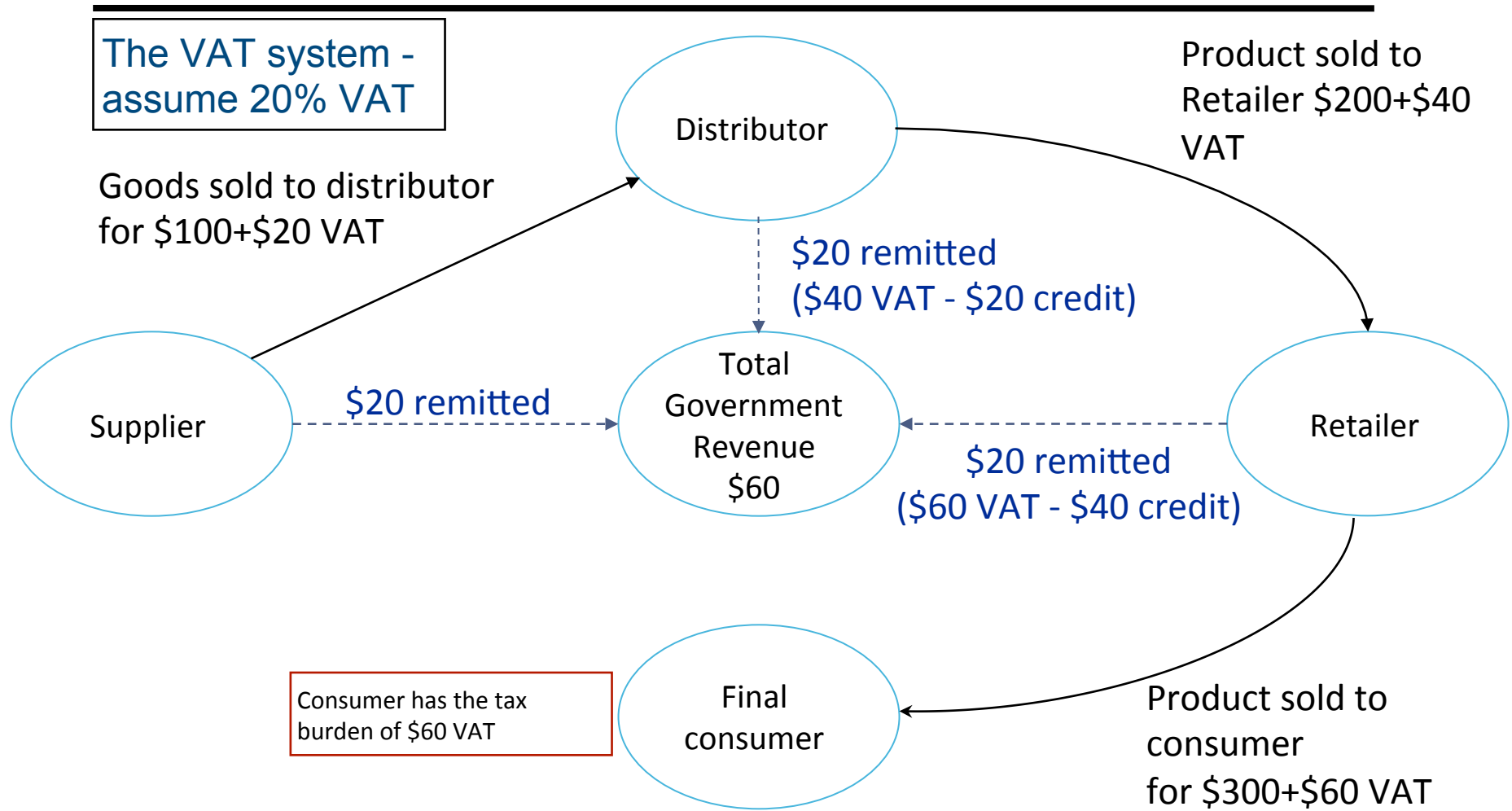
The Basics of Value Added Tax

Input Tax (Accounts Payable)

- Principle – VAT shown on purchase invoices received from vendors (“input tax”) – credit for business buyer
- Businesses do not normally have an on-going net VAT cost – all VAT paid is normally reclaimable
- VAT is finally borne by the end customer, a private individual purchasing goods or services
- The net balance shown as due to / reclaimable from the tax authorities is a balance sheet item (credit or debit balance)



The Basics of Value Added Tax



The Basics of Value Added Tax

VAT rates

- VAT comes in different rates: typically, VAT jurisdictions have a standard rate, a lower rate and a zero-rate
- The average VAT rate in the European Union is about 21%
- Rates up to 25% (Denmark, Sweden) are common. Hungary: 27%
- The lowest standard VAT rate is in Taiwan: 5%
- Lower rates are for basic necessities (food, clothing)
- The zero-rate applies when goods or services leave the country



The Basics of Value Added Tax

VAT exemptions

- Always defined by law
- Applied to a limited range of defined supplies: think financial services, health care, education
- Exempt supplies do not allow for the right to credit VAT on purchases – it is not always beneficial to provide exempt supplies!



The Basics of Value Added Tax

VAT reverse charges

- Supply is taxable for VAT
- VAT is not levied from supplier, but from buyer (business)
- Buyer self-assesses VAT
- Buyer reports on VAT return, claims the reverse charged VAT as input tax on the same VAT return – no cash outlay in most countries

- Typical supplies covered:
 - International services
 - Intra-EU supplies of goods
 - Certain domestic supplies (varies by country)



The Basics of Value Added Tax

VAT reverse charges

Example 1: Cross-border supply of goods in the EU

- German company ships goods to a French business
- German seller applies zero-rate
- French buyer to self-assess French VAT

Example 2: Consulting services in the EU

- UK company provides consulting services to an Irish company
- No VAT on UK consultant's invoices
- Irish buyer to self-assess VAT



The Basics of Value Added Tax

Invoices

- Invoices are the backbone of any VAT system
- Input tax: Vendor invoices establish the amount of input tax recoverable for the buyer
- Output tax: Invoices determine the VAT liability
- Very strict requirements on the content and the layout of the invoices



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The Importance of VAT

How much VAT is flowing through your accounts?

(assume all sales are local)

	\$ million	VAT @20%
Non-US sales (local)	100	20
Cost of Goods Sold	-50	10
Salary costs	-10	
Expenses	-15	3
Profit	25	
Total VAT throughput under management		33
Corporate Income Tax (30%)	7.5	
Net VAT Payable		7

VAT impacts all non-US sales, purchases and imports - the total VAT amount that must be managed is between 30% and 45% of gross non-US sales.



The Importance of VAT

- VAT is not a simple tax – the determination is complex
- Day-to-day VAT filing and compliance
- Strategic multi-country, regional or global approach

- Involve VAT in:
 - Business development
 - ERP implementations
 - Restructuring
 - Supply chain management



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Optimize Your VAT Position

Three recommendations

1. Keep oversight
2. Communicate across the organization
3. Improve your VAT refunds and supply chain



Optimize Your VAT Position

Keep oversight

- Use ‘dashboard’ functionality in ERP systems to review filing position
 - VAT returns
 - Various other filings, such as sales listings, statistical returns (“Intrastat”)
 - Consider using VAT ‘bolt-ons’ (like Avalara)
- Keep ‘fighting fires,’ but also consider long-term VAT strategy
 - Current VAT issues in Country A may become issues in Country B if distribution arrangements are similar
 - ERP implementations, acquisitions, business restructuring etc. are excellent opportunities to start thinking about a comprehensive VAT strategy



Optimize Your VAT Position

Communicate

- Maintain on-going communication with various stakeholders:
 - Sales
 - Business development
 - Tax
 - Logistics
 - Finance
- Decide who has global responsibility for VAT; recruit VAT manager



Optimize Your VAT Position

Make money – optimize VAT refunds

- Opportunity for U.S. multinationals to reclaim VAT on foreign expenses (hotel, travel, inter-company changes, import VAT)
- Even if the company is not VAT registered!
- Available in a number of EU countries and a few non-EU countries (Switzerland, Norway, Turkey and Australia)
- Refunds in Spain, Poland, Greece, Italy and other EU countries are difficult or impossible

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Optimize Your VAT Position

Make money – optimize VAT refunds

- Deadlines (generally June 30 after the calendar year in which the VAT has been incurred, but not for the UK)
- Typically, original hard-copy invoices are required
- Sophisticated data-analysis tools are useful – no VAT cost should remain unconsidered
- Let me know if you want to optimize your VAT refunds



Optimize Your VAT Position

Make money – optimize supply chain

- Inward processing relief, simplifications
 - This may create cash-flow and even absolute cash savings for companies that operate across regions
 - Customs duty benefits
- Bad debt relief
 - If a customer doesn't pay, the output VAT can be recovered
 - Very simple and straight-forward opportunity, but often overlooked. Does not require a credit invoice.



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Q&A

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