

The Association of Corporate Treasurers

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Comments in response to ***Green paper on the future of VAT*** European Commission, 1 December 2010

May 2011

The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the back of these comments and on our website www.treasurers.org.

Contact details are also at the back of these comments.

We canvas the opinion of our members through seminars and conferences, our monthly e-newsletter to members and others, *The Treasurer magazine*, topic-specific working groups and our Policy and Technical Committee.

General

The ACT welcomes the opportunity to comment on this matter.

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We agree with the overall aims of the Green paper to reduce operational cost to the taxpayer, ensure adaptability to changes in the economic and technological environments and decrease fraud. In principle a wholesale review of VAT could be beneficial for companies and the wider society.

The ACT has not responded to all questions. Of particular interest is the method of VAT collection that impacts both business processes and the cash flows of companies, the latter being a particular concern of corporate treasurers.

Reviewing the way VAT is collected

The EU launched a feasibility study in 2009 on ways of improving and simplifying the collection of VAT by means of modern technologies and /or via financial intermediaries.

The following four models were explored:

- Split payment model:
The purchaser instructs his bank to pay for the goods or services, with the bank splitting the payment into the taxable amount paid to the supplier and the VAT amount transferred to a blocked VAT bank account.
- Central VAT monitoring database model:
All invoice data is sent in real time to a central VAT monitoring database. This model can only work if e-invoicing is made obligatory for B2B transactions.
- Data warehouse model:
The taxable person uploads predefined transaction data presented in an agreed format into a secure VAT data warehouse maintained by the taxable person and accessible by the tax authority. This model allows monitoring of B2B and B2C transactions
- Certified taxable person model:
A taxable person's VAT compliance process and internal controls are certified.

Q30. Which of these models looks most promising in your view and why, or would you suggest other alternatives?

A feasibility study of the alternative methods was performed by PwC (September 2010) and recommended that a combination of the split payment model with a limited version of the data warehouse model, i.e. a model where data is produced in a standard format but without direct access in a data warehouse, offers the best combination in reducing the VAT Gap while keeping the estimated costs as low as possible.

The PwC study notes that each of the four models differ widely in both scope (e.g. B2B only or both B2B and B2C) and the benefits they might generate. Hence a comparison in order to assess which model "looks most promising" is rather difficult as we are not comparing like with like and those models that do not cover the full scope of transactions can only be a partial solution.

The changes in collection methods put forward each represent a huge change, with significant technology and implementation issues, and as your paper indicates, extended timescales to put them into effect. We believe that the collection of VAT should be reviewed as a separate paper with due time and consideration given and making sure that the views of companies, large and small, are adequately taken into account. One element which should be considered for each proposed model is the impact on a corporate's cash flow. In proposals where corporates will lose the use of VAT funds (average VAT value collected in a VAT period) this can have a significant impact on corporate liquidity, particularly in those countries where VAT rates are at or close to, 20%.

The Association of Corporate Treasurers

The Association of Corporate Treasurers (ACT) is the leading professional body for international treasury providing the widest scope of benchmark qualifications for those working in treasury, risk and corporate finance. Membership is by examination. We define standards, promote best practice and support continuing professional development. We are the professional voice of corporate treasury, representing our members.

Our 4,000 members work widely in companies of all sizes through industry, commerce and professional service firms.

For further information visit www.treasurers.org

Guidelines about our approach to policy and technical matters are available at <http://www.treasurers.org/technical/manifesto>.

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