Death of the European VAT return

Country-by-Country guide to digital transaction reporting sweeping through Europe
Death of the VAT Return

**Tax authorities pivot to live invoice submissions**

The traditional periodic VAT return is headed for extinction.

Countries around Europe, anxious to close stubborn VAT revenue gaps running to €150 billion per annum are rapidly imposing digital transaction reporting in its place.

The newest regimes include live VAT invoice and approval submissions to the tax authorities. Poland has already announced the scrapping of VAT returns in 2019, relying on monthly, detailed VAT transaction submissions instead.

This is placing huge pressures on businesses of all sizes to upgrade their accounting systems. But also to tighten their VAT determination processes since tax authorities will now have live access to taxable transactions ahead of any current month-end review and correction process.

This puts businesses on the back-foot when tax authorities are able to check and calculate VAT liabilities in real-time rather than waiting on company-sanitised self-assessment returns.

Avalara’s latest digital VAT reporting guide provides an overview of the progress of the pioneering countries, including:

- Early adopters of the OECD SAF-T transaction reporting standard;
- E-ledger obligations in countries requiring supplementary VAT return data
- Live invoice reporting and tax authorities’ approval already in place in Spain, Hungary and Italy, and coming to Greece and Portugal
- The UK’s Making Tax Digital plans for digital VAT records and filings, going live in April 2019
The advent of VAT digital reporting

Harnessing exponential improvements in software and accounting automation, tax authorities have imposed increasingly invasive VAT invoice reporting requirements. The underlying momentum has been to move from the self-assessed, historic VAT return towards the tax authorities being able to verify live VAT calculations in each invoice.

The drivers behind this evolution include:

- The failure of countries to reduce the estimated EU VAT Gap below €150 billion per annum. This measure, prepared by the European Commission, estimates how much revenue is lost to errors, poor administration and fraud in the EU VAT regime. It has remained largely unchanged in recent years, and states are anxious to probe deeper into tax payers’ calculations and reporting of individual transactions to make more progress on cutting the deficit of tax collections.
- Governments seeking to cut the costs of administering their tax regimes by adopting digital reporting and basic data analysis. Tax authorities are cutting staff numbers due to national deficits, and are skilling-up on analytical and AI tools to more efficiently capture and scrutinise tax data.
- The need to more efficiently share cross-border data with other tax authorities to track global goods and services movements. This requires the adoption of common data standards, which can by coalesced around digitalisation.
- Tax authorities seeking to improve tax payers’ experience through online data availability, including the ability to share in real-time summaries of tax liabilities and related information.
Inconsistent digitisation across Europe

For over 10 years, EU member states started moving towards the digital submission of transactions subject to VAT – including sales, purchases, fixed assets, stock movements and bank transactions.

Initially, countries adopted the OECD’s standardised Standard Audit File for Tax (SAF-T) schema, but more recently countries have imposed varying standards based on XML or API live submissions on transactions.

The common EU digital VAT formats include:

**Control Statements**: mandatory e-ledgers of sales and purchase invoices, with details of VAT calculations, submitted with the regular VAT return. Typically, these are only for domestic sales and supplement the EU Sales Listing

**SAF-T**: mandatory XML-based listings of sales, purchase, stock, fixed assets and bank transactions (see next section)

**Live invoice reporting**: real-time feeds of sales invoices to the direct authorities, often with return e-approvals
SAF-T – struggling for global harmonisation

Initially, developed by the Organisation of Economic Development, OECD, in 2005, SAF-T is an electronic schema developed for the efficient exchange of information between the tax authorities and businesses.

It was created by the Organisation for Economic Cooperation and Development in 2005 as a standard to be used globally to ensure consistency from country-to-country to facilitate exchange of data between tax authorities. The file requirements are expressed using XML, although the EU does not specify the exact file format.

There are generally five reporting structures available for adoption by countries:

1. General ledger and supporting journals
2. Accounts payable, including supplier master data and invoices
3. Accounts Receivable, with customer master data and invoices
4. Warehouse inventories, and master data
5. Fixed assets ledger, including amortisation

Countries going their own direction

At the time of its launch, it was hoped that SAF-T would lead to a single-format transaction reporting system. However, it has only been an intermediate success:

- To date, only six EU countries have adopted SAF-T. Lithuania will be the seventh in 2019. Norway is also expected to launch a SAF-T requirement in 2019
- Most countries have varied from the OECD structure to suit their own local objectives. As a result, there is virtually no single tool or software package able to report
- Most states only require submissions on an on-demand basis, typically in advance of an audit. As a result, businesses have only addressed the requirement when first requested by the tax authorities
- The XML-basis of SAF-T has fallen from favour as countries such as the UK move to API/JSON-based data exchange to facilitate more flexible and live data flows
- The European Commission has now dropped a proposal to introduce an EU-wide SAF-T requirement due to differences between the countries on data structures
Country-by-Country Guide

Digital VAT Reporting
## Country-by-Country Guide Digital VAT Reporting

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Austria introduced the Standard Audit File for Tax (SAF-T) on 31 January 2009.

At present Austrian SAF-T is only required on-demand by the tax authorities, usually prior to a VAT audit by the Austrian Bundesministerium für Finanzen.

**The required file structure for Austrian SAF-T**

- Enterprise master data:
  - Chart of Accounts
  - Customer and supplier master data
  - Product master data
- General Ledger and accounting journals
- Inventory movement data
- Invoiced: sales; purchases
- Fixed asset statement
Czech Control Statements

Czech Control Statements are supplementary filings to the regular monthly VAT return by the 25th of the following month. They were introduced on 1 January 2016 by the Czech tax authorities, Financni Sprava.

They require additional details on certain taxable invoices, and help the tax authorities monitor trade and prevent VAT fraud. Both resident and non-resident VAT registered businesses must file Control Statements.

The data to be listed in Czech Control Statement includes:

- Domestic taxable supplies – sales invoices with CZ VAT included
- Domestic taxable purchases
- Transactions where the tax payer is required to declare VAT under the VAT Act

Electronic submission

The Control Statement is uploaded online in an XML format. This enables the tax office to perform automated analyses of transactions, compare them to the VAT return, and exchange data with other tax authorities.

Czech Control Statement fines

Failure to submit the filing will result in a fine of CZK 1,000 to 500,000.
France SAF-T

France introduced the Standard Audit File for Tax (SAF-T) on 1 January 2014. France’s version of SAF-T, Fichier des écritures comptables (FEC), is aligned to the national chart of accounts, the Plan Comptable General. It is therefore at variance with the global OECD standard, see below. French SAF-T is submitted as an appendix to the corporate income tax return. It is also often requested on-demand by the tax authorities, usually prior to a VAT audit by the French Tax authorities.

The reporting structure is as follows:

- General Ledger
  - Detailing all transactions
- Accounts Receivable
  - Customer master file
  - Sales invoices
  - Settlements
- Accounts Payable
  - Supplier master file
  - Purchase invoices
  - Settlements
- Fixed Assets
  - Asset register
  - Depreciation and amortisation
- Stocks
  - Stocks master file
  - Movements during period

The required format is .txt.
Greece introduced real-time invoice reporting in January 2019. This is required of all companies related to the public sector, and limited liability companies. It will be extended to all taxpayers from January 2020.

Sales invoice details will need to be electronically submitted to the Greek tax authorities at the same time as being issued to customers. The customers must then electronically confirm live receipt with the tax authorities. The issuance of paper invoices will be banned.

All accounting records of taxpayers, including accountants reporting on behalf of clients, must be stored electronically.

It is not yet clear what the filing mechanisms will be, but will likely include an API feed (application programming interface). The aim will be for the Greek tax authorities to have live or near-live reporting of taxable transactions to help detect and prevent VAT fraud.

The Greek framework follows the 2019 Italy SdI live invoice scheme, and will need approval from the European Union.
Hungary real-time invoice reporting

On 1 July 2018 Hungary introduced real-time, electronic reporting of domestic B2B sales invoice data. The anti-VAT fraud reporting measure applies to all VAT registered businesses, resident or foreign, on invoices with a VAT element of HUF 100,000 (approximately €320) or more. The new live reporting will replace the existing domestic sales ledger listing, which is filed monthly with the VAT return.

This replaces the existing invoice itemised report, produced with the VAT return.

**Key features of Hungarian real-time invoice reporting**

Scope of new requirements:

- Applies to all Hungarian VAT registered businesses, resident and foreign
- B2B Sales invoices with an invoice element above HUF 100,000 (approximately €320) are subject to inclusion
- Exports, EU dispatches, domestic reverse charge and B2C transactions are excluded from the requirement to report
- Invoice data to be transmitted is based on the requirements of the Hungarian VAT Act
- Penalties for late or missed submissions will be up to HUF 500,000 (approximately €1,600) per invoice
- The existing domestic sales listing will be withdrawn. This is filed monthly with the VAT return. However, the domestic purchase listing will still be required to be submitted

**Submissions**

- Submissions will be to the Hungarian National Tax and Customs Administration (NAV) via the new KOBAK online portal, with sandbox environment
- The process of submissions must be fully automated over the internet from accounting, ERP or billing systems, without manual intervention
- Filtered invoice data must be converted into the XML format provided by NAV
• Submissions should be ‘live’, at the time of the invoice’s creation. This is deemed to happen when the invoice in the invoicing system is finally locked, and can only be changed by issuing a new invoice/credit note
• Locked invoices may be submitted individually, or through batches of up to 100 invoices per time will be accepted – implying not instant submissions
• When submitting, firstly an electronic invoice submission token will be issued to the tax payer. This must be then used with the upload of the locked invoice(s) batch. The token is only live for approximately 5 minutes
• KOBAK will reply per invoice with one of the following: Accept; Reject and error; Warning
• An electronic reference number is issued against the invoice. However, this does not need to be printed on the invoice as is just a reference for potential future audits
• Errors must be resubmitted electronically or manually within three days of the original submission
• Credit notes and replacement invoices changing the details of reported invoices must also be reported, including changes which increase the original invoice above the HUF 100,000 reporting threshold
• Invoices produced within manual environments must be submitted electronically within 5 days of their issuance up to HUF 500,000 VAT. Above this limit, then they should be submitted within 1 day

Fines

Failure to provide invoice information in the prescribed format and on time may result in a fine of up to HUF 500,000 (approximately €1,600) per invoice.
Italy Sistema di Interscambio (SdI) real-time e-invoices

From 1 January 2019, Italy extended its mandatory real-time electronic sales invoice issuance and reporting. All B2B and B2C invoices have to be issued and submitted by resident businesses to the Italian Revenue Agency’s e-invoicing platform, Sistema di Interscambio (SdI). The measure has been required of sales to government bodies since June 2014.

SdI effectively acts as an invoice approval portal, ensuring all taxable transactions are verified live by the Italian tax authorities.

Soft launch

There is a soft launch of the new SdI requirements for 2019. Until 30th June 2019 invoices do not have to be submitted to the SdI platform until the 15th of the month following the date of supply. However, they will not be considered issued for tax purposes until they are successfully submitted.

Between 1st July 2019 and the end of the year, invoices must be submitted within 10 days of the time of supply.

Scope of e-invoices per the 2018 Budget Law

- The requirement applies to resident VAT registered businesses
- Non-resident VAT registered businesses are not obliged to submit live invoices
- B2B and B2C transactions between private businesses
- Certain B2C transactions are also included – only where an invoice has been requested by the customer
- Invoices for a domestic supply of taxable goods or services are included
- Intercompany transactions are encompassed
- Exports and nil-rated EU intra-community supplies of goods or services are excluded. However, detailed invoice information of foreign sales and purchases will still have to be submitted to the tax authorities through a new ‘cross-border communication, Esterometro’. This is due by the end of the month following the reporting period
- From 1 September 2018, the requirement also applied to sales of goods for personal use above €155 gross, to be carried out of the EU Customs territory
• Small tax payers and those using the flat-rate VAT schemes within the ‘regime di vantaggio’ and ‘regime forgettario’ are excluded
• The option to electronically submit the data of B2C sales for the vending machines and the large-scale retail channels (mass distribution stores) has been extended until the end of 2018
• To report cross-border transactions not submitted to SdI, tax payers will be required to file a new submission. This is termed the Esterometro, and replaces the Spesometro. The Esterometro lists all imports, exports and intra-community supplies. It is submitted monthly. Non-resident businesses are exempt.

Submitting XML-format invoices

XML, PDF, JPG, and TXT e-invoices have to be submitted on a similar basis as already used with invoices sent to government bodies (B2G), based on Italian Decree no 55 or similar EU standards.

Invoices will include a digital signature. Invoice details within existing ERPs or invoicing platforms will therefore have to be extracted, converted and relayed to SdI. The approved invoice is then transmitted from the SdI to the customer. Any rejected invoice can be returned to the supplier within 5 days following the notification of rejection.

Penalties

Invoices not submitted through SdI attract penalties of between 90% and 180% of the VAT due. Penalties for the non-declaration of invoices in the ‘cross-border communication’ will be €2 per invoice up to a ceiling of €1,000 per quarter. However, the tax authorities will initially accept a minor delay given the complexity of sending live invoices to SdI.

The new invoice reporting obligation is designed to reduce errors and prevent VAT fraud. Italy’s VAT Gap – the difference between forecast revenues versus actual take – is by far the largest in Europe. It accounts for 23% of the EU estimated €150 billion VAT missing in Europe.

To introduce the measure, Italy had to seek a derogation from EU VAT Directive Article 218 and 232 from the European Commission, covering buyers’ consent to e-invoices and formats.
Latvia Control Statement

Latvian VAT registered businesses must submit quarterly Control Statements listing domestic sales with VAT. However, there is a disclosure threshold of €1,430 per invoice.

Lithuania i.MAS (SAF-T)

Lithuania introduced its version of Standard Audit File for Tax (SAF-T) on 1 October 2016. It is known at i.MAS.

Lithuania’s i.MAS will consist of eight pillars.

The first three launched are:

1. i.SAF invoice data (1 Oct 2016). This XML electronic register of sales and purchase invoices is submitted monthly with the VAT return by the 20th of the month end following the reporting period. All VAT registered businesses must complete the submission.
3. i.SAF-T accounting transaction reporting (1 Jan 2019) for resident businesses only. This will not be mandatory; instead only on request. There is a reporting threshold of €8 million sales per annum. In 2020, this will be reduced to €0.7m per annum the following year.
Luxembourg introduced the Standard Audit File for Tax (SAF-T) on 1 January 2011.

Luxembourg’s version of SAF-T is FAIA (Fichier Audit Informatisé Administration de l’enregistrement et des domaines). It is limited to resident companies subject to the local chart of accounts. There is a reporting threshold of €112,000 per annum.

It is only required on-demand from the tax authorities, generally prior to a full audit. FAIA is an XML-format report of accounting transactions, but may also be delivered in XBRL or DBF. It is based on the 2.0 OECD SAF-T model.

Luxembourgian SAF-T audit files includes:

- Header
- Masterfile
  - General Ledger Accounts
  - Customers
  - Suppliers
- General Ledger Entries
- Source Documents
  - Sales Invoices
  - Purchase Invoices

There are three schemas:

1. FAIA_Full Schema: for the majority of companies with full accounting software packages
2. FAIA Reduced: for businesses using separate accounting and invoicing software
3. FAIA Reduced B: only using accounting software
Poland introduced the Standard Audit File for Tax (SAF-T) on 1 July 2016 for large tax payers. It went compulsory for all taxpayers on 1 January 2018. It is termed JPK (Jednolity Plik Kontrolny).

Poland will replace the periodic VAT return with SAF-T filings on 1st July 2019.

Components of the monthly/quarterly submission includes:

- JPK_KR – Księgi Rachunkowe (Accounting books)
- JPK_WB – Wyciągi bankowe (Bank statements)
- JPK_MAG – Magazyn (Warehouse/Storage)
- JPK_VAT – Ewidencje zakupu i sprzedaży VAT (VAT evidence)
- JPK_FA – Faktury VAT (VAT invoices)
- JPK_PKPIR – Podatkowa księga przychodów i rozchodów (Revenue and expense tax books)
- JPK_EWP – Ewidencja przychodów (Revenues registry)

When to submit Poland SAF-T

SAF-T submissions are due at the same time as the monthly or quarterly VAT return, and must be submitted by the 25 of the month following the reporting period. The obligation applies to non-resident Polish VAT registered businesses, too.

From 1st January 2019, Polish resident and non-resident tax payers will no longer be required to file a VAT return; the mandatory SAF-T filing will replace it.
Portugal SAF-T

Portugal was the first country to introduce Standard Audit File for Tax (SAF-T) on 1 January 2008.

Initially, there was a requirement for VAT registered businesses to be able to extract and submit a SAF-T file to the tax authorities.

Portuguese SAF-T data types:

- General Ledger and entries
- Supplier master data
- Product master data
- Tax table
- Sales invoices
- Movements of goods

Monthly sales invoices & logistics SAF-T

In 2013, this was extended to resident tax payers being required to submit to the Portuguese tax website monthly in SAF-T format:

- Sales invoices (Jan 2013)
- Transport logistics document support (Jul 2013)
- Cash receipts for the VAT Cash Accounting Scheme (Oct 2013)

Submissions must be completed with the normal VAT return by the 20th of the following month. Non-resident VAT registered businesses are exempted from Portuguese SAF-T requirements.
Romania introduced a requirement to supply detailed domestic VAT transactions reports in January 2014. This requires the declaration with VAT return of local sales and purchases. This is provided via Form 394.

Key requirements include:

- In the case of no transactions, a nil submission is still required.
- Both B2B and B2C transactions must be included, including transactions applied through e-cash registers
- Exports and imports should be listed
- Intracommunity supplies provided in the ESL are excluded
- Transactions with no VAT must now be included since September 2017
- Credit notes, invoices under the reverse charge and self-invoices should be disclosed.
- The statement must be uploaded electronically, although a paper version is still permitted
Since 1 January 2014, Slovakia has required tax payers to provide e-ledgers of their domestic sales and purchases with their VAT returns by the 25th of the month following the reporting period. This is in addition to their European Sales Listing.

Resident and non-resident companies must provide the submissions if they are providing eligible transactions.

The standard template of information require includes:

- Customer or supplier VAT number
- Invoice tax, which is the tax point
- Net, VAT and gross values of the supply
- VAT rate applied
- Additional details for domestic reverse charge transactions
- Details of corrective invoices
Spain Suministro Inmediato de Información (SII)

Since the 1st July 2017 the Spanish Tax Authority has required that large companies (over €6 million turnover per annum), VAT groups and reporters using REDEME make an Immediate Supply of Information. These submissions must be completed within four working days of the issuance or receipt of the invoice.

Companies submitting via SII are no longer required to file forms 347 (third-party transactions), 340 (record books) and 390 (annual VAT summary).

**VAT deadlines for businesses reporting SII**

The monthly VAT reporting deadline for affected businesses will be moved to the 30th of the month following the reporting period. The requirement to submit recapitulative statements is removed.

- Terms exclude Saturdays, Sundays and national holidays
- February’s deadline will be the last working day of the month

There are seven submissions required for SII:

1. Issued Invoices Ledger
2. Supply of Collections for invoices recorded in the Invoices issued ledger
3. Received Invoices Ledger
4. Supply of Payments for invoices recorded in the Invoices received ledger
5. Capital asset ledger
6. Specific intra-community transactions ledger
7. Collections in cash ledger
UK Making Tax Digital

From 1st April 2019, HMRC is launching the Making Tax Digital (MTD) initiative, an ambitious plan to turn the HMRC into one of the most digitally advanced tax administrations in the world.

Under the new system every UK VAT registered business over the registration threshold, will be required to store submit their VAT returns digitally to HMRC, without any manual intervention. Avalara’s VAT Reporting software is now MTD certified by HMRC.

In October 2018, a range of businesses with complex VAT returns were deferred until October 2019.

Timetable for April 2019 VAT MTD launch

VAT is the first tax to launch on MTD. From 1 April 2019, most VAT registered businesses will be required to record and submit their VAT return data electronically. There must be no manual, human element in the process. Members of VAT groups, non-resident UK VAT registered businesses and public bodies will be deferred until 1st October 2019.

There is a control period pilot from April 2018. Between July 2018 and March 2019 the Application Programming Interface (API) goes live for businesses to use, public testing went live in October 2018. Any business entering either of these phases cannot subsequently leave them prior to the April 2019 launch.

By 2020 most businesses will be required to keep track of their corporation tax digitally too, using software or apps to keep records of their income and expenditure.

Making Tax Digital is about bringing the tax system into the digital age, saving businesses time, and in the long-run - money.
VAT MTD requirements

The requirements will only apply to businesses over the UK VAT registration threshold (currently £85,000).

This creates the following requirements:

- Storing data digitally on functional compatible software package
- Calculation of VAT liabilities by the automated software
- File the 9-box UK VAT return data via the HMRC’s JSON API platform, under the ‘API First strategy’. This replaces keying-in or the existing XML API
- A new user authentication process
- Receive digital information in return from HMRC
- A controlled process around adjustments and error corrections

The following data must be stored digitally:

- The business name
- The address of the principle place of business
- VAT registration numbers
- A record of any VAT accounting schemes that are used
- For each taxable supply:
  - The time of supply
  - The value of the supply
  - The rate of VAT charged
- For each VAT return submitted:
  - The output/input tax
  - The output/input tax on acquisitions from other EU member states
  - The tax required to be paid/reclaimed under the reverse charge for supplies
  - Any tax to be paid following a correction or error adjustment

35,000 businesses deferred until October 2019

In October 2018, HMRC announced the deferral of Making Tax Digital (MTD) by six months for over 35,000 businesses. The affected businesses include those filing:

- Group VAT returns
- VAT divisions
- Trusts
- Non-resident tax payers
- Businesses making payments on account
- Businesses on annual accounting scheme
- Public bodies with supplementary disclosure requirements
Making Tax Digital
The evolution of VAT

Bringing UK tax into the digital age
Avalara’s free MTD Filer tool, simplifies your VAT return filing under HMRC’s new MTD rules

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