

Digital VAT & Development (D-VAT & D-velopment)

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Agenda

- Introduction
- The Argument:
 - VAT Concentrations**context**
 - Existing Software**opportunity**
 - Governance Reform.....**leverage**
- D-VAT
 - Digital invoices, returns, reports, statements
 - Certification (SSUTA & OECD)
 - Funds transfer
- Conclusion

E-Solutions

- Since 1990's:
 - Horizontal – one e-solution, multiple jurisdictions
 - Vertical – comprehensive e-solution, one jurisdiction
- Which way for developing countries?

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Tax Concentrations (context)

- 10% of firms = 90% of turnover
 - Ebrill (2001)
- On average: 1% taxpayers = 50% revenue
 - Baer (2002)
- On average 55% VAT = Border collection
 - Ebrill (2001)

VAT Concentrations (context)

	# of T/P	% of T/P	% of VAT
Argentina	66,666	1.36	86.10
Colombia	6,431	0.94	84.40
Costa Rica	512	0.50	65.00
Ecuador	3,969	0.28	79.20
Guatemala	2,970	0.78	79.13
Mexico	9,220	0.04	60.80
Nicaragua	364	0.33	86.78
Uruguay	1,516	1.00	65.90
Venezuela	12,009	0.20	83.05

OECD (opportunity)

- 1998 – Ottawa: *Taxation Framework*
- 2000 –
 - *Consumption Tax TAG Report*
 - *Technology TAG Report*
- 2001 – *Working Party No. 9 Report CT*
- 2003 – *Automating CT Collection*
- 2005 –
 - (Feb.) *B2C Cross-border CT Collection*
 - (May) *Guidance Note: Standard Audit File*
 - (May) *Guidance Note: Accounting Software*

Software (opportunity)

- EU – Digital Sales Directive (2002)
 - Problem: Non-established B selling digital products to EU taxpayers (place of supply)
 - Old Solutions:
 - Establish in one country
 - File in all countries
 - New Solution: registration w/o establishment
 - B2B: reverse charge
 - B2C: E-registration, e-filing (one return), e-payment (one payment)

Software (opportunity)

- US – SSUTA (2002 adopt./ 2005 eff.)
- 2 parts (harmonize laws & technology)
- Digital Intermediaries
 - One-stop-shops (in each state)
 - CSP/ CAS/ CPS
 - Certification

EU v. US (opportunity)

I. SCOPE:

- EU – limited to an economic segment
- US – all businesses in the state

II. INTERMEDIARY:

- EU – Government (Treasury)
- US – Independent Third Party

Corp. Gov. Reform (leverage)

- Natural Efficiencies of the Marketplace
- Investor Outrage at Accounting Failures
 - Enron; WorldCom; Vivendi; Ahold; Parmalat; HIH; One.Tel
- Regulatory Inadequacy:
 - Rules-based systems (US)
 - Principles-based systems (EU)

Corp. Gov. Reform (leverage)

- Most Developing Countries undergoing corporate regulatory reforms:
 - United States
 - European Union
 - France
 - United Kingdom
 - Australia
 - Japan

Cash Flow (leverage)

- Cash flow – internal controls m/b certified
- CEO & CFO penalties
 - \$1m & 10 years
 - \$5m & 20 years
- Automated systems for internal controls
- VAT and RST is all about cash flow – up to 20% of gross sales

Argument -- Conclusion

- Large taxpayer groups
 - High concentrations of VAT
- Technology is proven for fully automated VAT: e-registration, e-filing, e-payment, e-reports
- CEO & CFO of multi-national companies welcome certified VAT compliance systems because they reduce risk (leverage)

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PROPOSAL – D-VAT

- Digital notices, returns, periodic & recapitulative statements:
 - Council Directive 2002/38/EC (5-7-2002)
 - Elective by taxpayers
 - Member states can require digital methods for all taxpayers (no one has done this).

PROPOSAL – D-VAT

- Digital invoices
 - Council Directive 2001/115/EC (12-20-2001)
 - Standardized the invoice (14 elements)
 - Allows Invoice Outsourcing
 - Eliminates Signature Requirements
 - Permissible IF customer accepts

PROPOSAL – D-VAT

- Certification:
 - Standards Proposed in OECD:**
 - (Feb.) *B2C Cross-border CT Collection*
 - (May) *Guidance Note: Standard Audit File*
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 - Standards in Use in SSUTA:**
 - SAS 94[AICPA]
 - FISCAM[US-GAO]
 - ISO 17799[Int. Org. for Standardization]

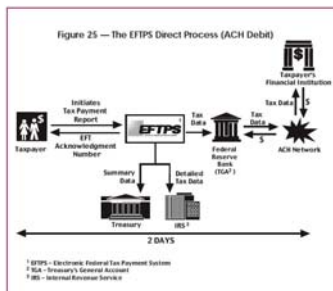
PROPOSAL – D-VAT

- CSP/ CAS/ CPS
 - Certification of the Intermediary
 - Errors (taxability matrix)
 - Liabilities
 - CSP: Providing all VAT services
 - CAS & CPS: Providing tax calculation services, but could include other services (in-house or by contract).
- Uniform Product & Service Codes
 - CN8 Codes
 - UN-CPC Codes

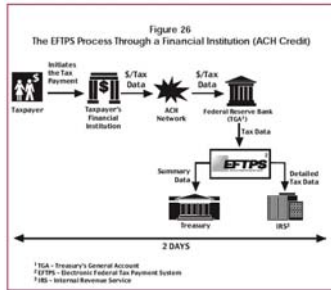
PROPOSAL – D-VAT

- Remission of Funds
 - ACH DebitremitOne
 - EFTPS
 - 1993 part of NAFTA
 - \$1.5 trillion (2003)
 - ACH Credit.....State EFT System
 - 1,700 tax types
 - 175 taxing authorities

EFTPS – ACH debit



EFTPS (under ACH credit)



PROPOSAL – D-VAT ^[8/8]

- Compensation
 - Float
 - Direct payments from State per contract:
 - Per transaction
 - Percentage of new revenues

CONCLUSION

- Developing countries have:
 - Context (large taxpayer groups)
 - Opportunity (existing software; certification processes; automated financial transfer mechanisms)
 - Leverage (certification of cash flow by CEO/ CFO requirements)
- Should consider horizontal & vertical technology intensive VAT compliance
