Getting down to business

Thinking beyond regulation and policy

2016 KPMG Global Indirect Tax Forum
Indirect tax update
Agenda

1. EU VAT update: Consignment Stock
   - Presenter: Janine Mueller

2. International update: To be confirmed
   - Presenter: Dennis Prestia

3. Process
   - Presenter: Peter Schalk

4. Cash flow opportunities
   - Presenter: Peter Schalk

5. Technology (KPMG’s Tax Intelligence Solutions)
   - Presenter: Leo van Loo
   - Presenter: Nils Neuhaus
EU VAT update: Consignment stock

Presenter: Janine Mueller (Senior Manager, KPMG in Germany)
Agenda

1. Consignment stock
   An overview
   A practical case

2. VAT considerations
   VAT consideration
   Simplification
   Recent changes in Germany
   Simplifications – Country specific details

3. Actions check list
Consignment stock - An overview

**General Comments**

**Consignment stock** structures are often used to ensure just-in-time delivery of the stock required. Ownership of the stock is passed from the Supplier to the Customer as and when the stock is used or “called-off”.

As the ownership of consignment stock is not transferred until use, invoicing of the stock is not immediate. Usually, a consignment stock contains stock for a number of customers and the customer is determined once the stock is used. Therefore, consignment stocks usually stock standard manufactured products.

However, in case of **call-off stock** (specific form of consignment stocks), customer specific items are at stock and only pre-defined customers can call off their parts.

In Cross-border supply structures, which include consignment stock/call-off stock, it has to be determined whether the supplier has to register for VAT purposes in the country where the stock is located.
Consignment stock – A practical case

Supply chain optimisation

Consignment stock supply structures are commonly used within the Automotive industry to achieve supply chain optimisation:

- Joint planning
- Just-in-time delivery
- Fully automated billing
- Cost optimization

Source: KPMG International 2016
VAT Considerations

The following factors should be considered:

— Whether the supply chain arrangements are structured as a **consignment or call-off stock**
— Whether the country in which the stock is located provides any **simplification rules** for consignment/call-off stock supplies
— Whether a **local registration** is required.

**Question:**

*How are your supply chains structured?*

---

**Consignment Stock**

Supply chain characteristics:

— Goods **moved between different EU countries** for the purposes of meeting future supplies in the country of arrival
— Movement of goods occurs **before the end customer has been found**

VAT treatment:

Movement of own goods + Domestic or I/C supply

---

**Call-off stock**

Supply chain characteristics:

— Goods **moved between different EU countries** for the purposes
— **End customer has been found** before/at the time when the goods are moved

VAT treatment (no simplification):

Movement of own goods + Domestic or I/C supply

VAT treatment (simplification):

Domestic supply in country of arrival
## Consignment/Call-off stock - Simplification

Countries where consignment/call-off simplification is available

<table>
<thead>
<tr>
<th>Time limits imposed</th>
<th>No time limits imposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria (6 months, reciprocity)</td>
<td>Belgium</td>
</tr>
<tr>
<td>Lithuania (12 months)</td>
<td>Czech Republic (only if not reg’d)</td>
</tr>
<tr>
<td>France (3 months)</td>
<td>Finland</td>
</tr>
<tr>
<td>Italy (12 months)</td>
<td>Hungary (only for call-off)</td>
</tr>
<tr>
<td>Ireland</td>
<td>UK</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Latvia</td>
</tr>
<tr>
<td>Poland (only if not reg’d)</td>
<td>Germany?</td>
</tr>
</tbody>
</table>

Source: KPMG International 2016
Recent changes in Germany

**Question:**
*Did your supplier charge domestic Germany VAT on a consignment stock supply?*

**Current position**

**German Tax Authorities:** The delivery should be invoiced with domestic German VAT @ 19%

**Current legislation position:** Where the customer is identified prior to departure (in the country of departure): The delivery should be invoiced without domestic German VAT
Simplifications - Country specific details

**Italy**

From an Italian VAT perspective:
- **Consignment stock** is when goods are delivered to Italy, and local customers are still to be identified. This requires the EU supplier to VAT register in Italy.

- **Call-off stock** is when an unique customer in Italy can purchase the goods upon removal from a deposit (its own or third parties') or other events. This does not require the EU supplier to VAT register in Italy as the delivery to Italy is regarded, from an Italian standpoint, as an EU acquisition made by the customer directly, whose tax point is postponed at the time the title passes. Strict conditions should be met, e.g. the goods cannot remain within the stock in Italy for more than one year and the agreement must include specific clauses.

- KPMG in Italy may provide any assistance in setting up and implementing a call-off stock arrangement, including liaising amongst the parties, drafting of call-off stock agreements etc.

**Poland**

The following requirements have to be met:
- the supplier cannot be registered for VAT purposes in Poland,
- the Polish customer operating the call-off stock has to be registered for VAT-EU purposes in Poland,
- the goods moved to the call-off stock are intended to be used by the Polish customer for production or service purposes only (i.e. the goods cannot be used by the Polish customer for resale purposes),
- the Polish customer operating the call-off stock has to inform the Polish tax authorities about the implementation of the call-off stock simplification rule before the first goods are moved by the supplier to the warehouse located in Poland,
- the Polish customer is obliged to keep proper records of the good entering / leaving the call-off stock.

Please note that the call-off stock simplification rule does not apply in cases where the goods are moved to a warehouse in Poland operated by/on behalf of the supplier.
Spain

— In contrast to other EU countries, the Spanish VAT Law does not contain a simplification rule for call-off /consignment stocks.

— The General Directorate of Taxes (body in charge of issuing binding rulings interpreting the laws to be followed by taxpayers), has analyzed such structures in a number of rulings and has considered that, under certain circumstances, it could be feasible to defend that an intra-EU acquisition of goods was actually made by the established customer (and not by the non-established supplier). Such conditioning factors are broken down as follows:

  a) Goods should be shipped according to the stock needs of the customer.
  b) The customer should bear the risk over the goods upon receipt of the merchandise, i.e. while they are kept in the warehouse as stock.
  c) The customer might use those goods for commercial or industrial purposes without any other requirements than to inform the supplier of the withdrawal.

— If the above-mentioned conditions are met, in principle, the Spanish Tax Authorities could understand that although the legal ownership of the goods remains with the supplier until their exit from the warehouse, from the VAT point of view, the right to dispose of the goods as its owner is transferred to the Spanish client immediately after it takes custody of these goods.

— Consequently, from the Spanish VAT standpoint, this kind of transaction would involve an intra-EU supply of goods in the EU country of departure of the goods performed by the supplier and an intra-EU acquisition of goods in the Spanish VAT territory made by the customer. On this basis, no VAT obligations would arise in Spain for the supplier.
Simplifications – Country specific details

UK

The following requirements have to be met:
– The goods must be transferred for a single-identified customer either
  – for consumption within its business; or
  – to make onward supplies to their own customers
– Goods should normally be stored by the supplier at the customer’s premises (Goods delivered to storage facilities operated by the supplier can still be treated as call-off stock if the above conditions are met and the customer is aware of the details of the deliveries into the supplier’s storage).
Actions check List

Our recommendation

- Do you currently make consignment/call-off stock supplies?
- How are your supply chain agreements currently structured?
- Are you up-to-date with the application of new legislative changes in the relevant EU countries?
- Have you discussed this topic with the relevant tax authorities?
- Have you discussed this topic with your customers and/or suppliers?

Follow up actions required?

- Change VAT conditions table or billing setup
- Consider potential deregistration
- Discussion/Cooperation with foreign tax authorities
International Update:
USA
Process

Presenter:
Peter Schalk (Partner, KPMG in Germany)
1 Business strategy & priorities
   Potential risk areas
   Risk management system process
**Business strategy & priorities**

**Potential risks areas**

### Enhance ERP system or tax engine tools

Maximize VAT functionality within ERP systems or, where this is difficult to achieve, implement tools to allow analysis of data at transactional level. The benefits include:

- **Effective application of Tax Policy.**
- **Automation** of manual processes and internal controls.
- **Reduced error rates** and better compliance.
- Immediate identification of risks so ‘no surprises’.

### Maximize VAT functionality within ERP systems

or, where this is difficult to achieve, implement tools to allow analysis of data at transactional level. The benefits include:

- **Effective application of Tax Policy.**
- **Automation** of manual processes and internal controls.
- **Reduced error rates** and better compliance.
- Immediate identification of risks so ‘no surprises’.

### Embedding Indirect Tax in the business

Whilst Tax remains the user of VAT data, most of the critical processes and decisions are managed by the business. KPMG’s approach is to embed tax in the processes such as AP & AR through

- **Key controls** to define what is required from the business to manage VAT.
- **Flexibility** eLearning training solutions.
- Tax knowledge databases to provide business process owners with relevant knowledge.
- Data analysis tools to identify mis-postings.

### VAT reporting processes

The goal is to **standardise reporting processes**, potentially through better use of technology. The benefits may include:

- **Standardise** reporting processes, potentially through better use of technology.
- **Reduction in manual** processing and associated errors.
- **Reduction in time** to complete returns.
- **Consistent** processing of the returns.
- **Increased efficiency & effectiveness.**

---

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services.
Cash flow opportunities

Presenter:
Peter Schalk (Partner, KPMG in Germany)
Agenda

1. Current cash flow opportunities
   Country specific opportunities – Italy & Spain

2. Selection of worldwide VAT savings

3. VCOT
Cash flow opportunities

Based on our experiences we have rated the EU countries (and Switzerland) based on how likely a review in that country may generate a working capital improvement.

We have taken a number of factors into consideration, include:

- Filing periods
- Payment / Repayment position
- Bad Debt Relief
- Input tax accrual
- Tax point rules
- VAT grouping rules
- Simplifications available

<table>
<thead>
<tr>
<th>Country</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech Rep</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slovenia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Cash flow opportunities (cont.)

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Potential Benefits</th>
<th>Possibility in multiple countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated Input Tax recovery</td>
<td>Medium</td>
<td>Yes</td>
</tr>
<tr>
<td>Bad Debt Relief</td>
<td>Medium</td>
<td>Yes</td>
</tr>
<tr>
<td>AR Tax Points/ Billing cycles</td>
<td>Medium</td>
<td>TBD</td>
</tr>
<tr>
<td>Freely Given Samples</td>
<td>Medium</td>
<td>TBD</td>
</tr>
<tr>
<td>Elida Gibbs and further ECJ cases</td>
<td>Significant</td>
<td>Yes</td>
</tr>
<tr>
<td>VAT recovery on sales and marketing costs</td>
<td>Medium</td>
<td>Yes</td>
</tr>
<tr>
<td>Value for money in R&amp;D</td>
<td>Low</td>
<td>TBD</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Potential Benefits</th>
<th>Possibility in multiple countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPT</td>
<td>Medium</td>
<td>TBD</td>
</tr>
<tr>
<td>Pension Costs</td>
<td>Low</td>
<td>No</td>
</tr>
<tr>
<td>Efficient import VAT management</td>
<td>Medium</td>
<td>Yes</td>
</tr>
<tr>
<td>Claims based on EU Rights</td>
<td>Significant</td>
<td>No</td>
</tr>
<tr>
<td>Strategic/supply chain efficiency</td>
<td>Significant</td>
<td>Yes</td>
</tr>
<tr>
<td>General VAT structuring efficiency</td>
<td>Medium</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Selection of worldwide VAT savings

- **Chile**: Distributor subsidies to Tobacco manufacturer, $1m
- **France**: Organic tax saving in IT services, €2m
- **US/EU**: Global contracting of Financial Services, $6m
- **Spain**: Bad debt relief IT services, €0.5m
- **UK**: Employee expenses in Pharmaceutical, £4.5m
- **Denmark**: Export VAT scheme, €1m
- **Netherlands**: AP reverse audit, €2.1m
- **US/EU**: Financial services (reverse charge), £1.5m
- **Russia**: Exported services to Heavy goods manufacturer, €3m
- **Germany**: VAT efficient reg. structure to Tobacco manufacturer, €3m
- **UK**: BDR advancement to communication solutions, £10m
- **South Africa**: Non-standard shift to Brewer, €6m
- **Canada**: Standard shift to Software, $2m
- **Australia**: Standard shift to Software, $0.5m
- **Finland**: Efficient import VAT recovery to Retailer, €0.5m
- **Italy**: VAT warehousing chemicals, €14m p.a.
- **Spain**: Direct discounts to consumers to Goods manufacturer, €400k
- **UK**: Self billing to Retail, £2m
- **Spain**: Supply chain optimization to Goods manufacturer, €100m

© 2016 KPMG International Cooperative (“KPMG International”), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services.
VCOT and TIS

VCOT

VAT is likely to be a company’s third largest cash flow. KPMG has a wealth of knowledge in how companies can improve their VAT cash balance and we have developed a specialised software ("VCOT") to map the VAT cash position of companies and model opportunities to improve it.

Key benefits of VCOT

- Adding and removing members to the VAT Group
- Changing VAT staggers
- Earlier or later return filing
- Changes to supply chains
- Changes to tax points applied
- Use of deferment account and importer/exporter schemes
- Change in VAT rates

As well as assisting in the identification of opportunity areas, VCOT is very effective at quantifying working capital benefits both pore and post opportunity implementation.
Presenter:
Leo van Loo (Partner, KPMG Meijburg & Co (the Netherlands))
Nils Neuhaus (Manager, KPMG in Germany)
Agenda

1. Tax Intelligence Solutions ("TIS")
   Business issues & challenges
   KPMG's Tax Intelligence Solutions
   Key client benefits
   Key client benefits – Possible findings
   Turning data into knowledge into value
   One source: Multiple solutions
   Turning data into insights
   TIS implementation models
Business issues & challenges

International tax reporting and the inherent complexity ties up significant resources in firms – each and every month.

Companies that think their VAT reclaim works flawlessly actually miss reclaiming about 5 percent of their VAT spend.

Companies are fined for incorrect VAT declaration on the invoices with EUR over 10k per EUR 1m sales on average.

These issues can lead to absolute P&L cost or timing issues, which can have a significant working capital impact upon the balance sheet, and values can be difficult to identify and quantify.

In the drive for cost reduction and increased efficiency, the value needs to be delivered with fewer resources.

Businesses are generating increasing volumes of transactional and financial data, but is this data fit for the purposes of the modern tax department? Does it allow them to proactively manage tax, risk and compliance, and how do they unlock the value that may be hidden in the data?

To transform this data into knowledge and insight, the tax department needs solutions that can deliver informed decision making for their global operations.
KPMG’s Tax Intelligence Solution (TIS) is an integrated suite of indirect tax technology analytical tools, methodologies and insights.

TIS allows businesses to gain quantitative insights and visibility into the status of compliance, process efficiencies and opportunities, which can drive real financial value for the tax department and the wider business.

KPMG’s Tax Intelligence Solution provides:

- Standardized tools to extract tax-relevant data from all major ERP systems
- Sophisticated data cubing technology, hosted in the TIS platform to analyze transactional data, and identify risks, opportunities and areas for process improvement
- The ability to ‘enrich’ finance and tax data with other key information, including authorization data, customs and logistics data, corporate credit card expense data and ERP master data
- Over 100 standardized indirect tax analytical routines to examine the information gathered
- Data visualization and reporting tools to allow easy manipulation and refinement of outputs
- Access to the collective insight of KPMG’s global network of Indirect Tax practices in driving both P&L and working capital savings for global companies.
## TIS Key Client Benefits

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fact-based insight</strong></td>
<td>In level of compliance for multiple jurisdictions</td>
</tr>
<tr>
<td><strong>Potential detection of risks and opportunities</strong></td>
<td>In your compliance process</td>
</tr>
<tr>
<td><strong>Full audit-trail</strong></td>
<td>Covering checks performed as well as findings</td>
</tr>
<tr>
<td><strong>Clear overview</strong></td>
<td>Of tax information in reports and dashboards</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Optional, periodic monitoring</strong></td>
<td>For all entities and transactions centrally</td>
</tr>
<tr>
<td><strong>Insight into potential tax or duty savings, process improvement opportunities, system improvements</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Visibility of data</strong></td>
<td>Leads to improved decision making and reduces downstream adverse impact on taxes or duties</td>
</tr>
<tr>
<td><strong>Provide valuable insights into the global supply chain</strong></td>
<td></td>
</tr>
</tbody>
</table>
Key Client Benefits - Possible findings

Identifying risks

- Supplies, which have been reported as zero-rated cross-border supplies (based on the address of the customer), although the goods remained physically within the country
- Intra-community supply of goods to customers, without valid VAT ID No.
- Zero-rating has been applied for both supplies in a chain transaction
- Input VAT has been reclaimed in a period, later than the requirements for the input VAT deduction has been met; risk that input VAT might lead to real costs, in case the correct period is already statute-barred (e.g. in Germany, Austria and Slovakia)
- Review supply of tools in various jurisdictions
- Review compliance obligations per jurisdiction

Identifying opportunities

- Reclaim input VAT in the earliest period (optimization regarding cash-flow and interest expenses)
- Identify duplicate payments of supplier invoices (direct refund claim against the supplier)
- Identify input / import VAT, which has not been reclaimed yet (either per local registration or per Directive Claim)
- Review the necessity of supply chain activities in order to optimize / reduce VAT registrations and related costs
- Optimization of the ERP based tax finding process as well as master data maintenance considering the findings of the analysis
TIS
Turning data into knowledge into value

Indirect Tax
- Identify VAT that has been incorrectly expensed
- Detect VAT determination errors earlier and reduce the risk of penalties

Trade & Customs
- Clear overview of customs information
- Validation of applied duty rates

Transfer Pricing
- SKU-level insights to evaluate correctness of inter-company margins (gross & net)
- Fact-based insight in level of transfer pricing compliance for multiple jurisdictions
TIS
One source: multiple solutions

Indirect Tax
VAT purchase Cockpit
Trade & Customs
Summary of trends
Transfer Pricing
Global transactions – Services & goods

Sales exception report
Cost savings
Gross / net margin evaluation

© 2016 KPMG International Cooperative (“KPMG International”), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services.
Turning data into insights

Data

Using proprietary ERP extraction programs, TIS is able to extract relevant tax data with minimal impact to the client IT team.

Additional data from customs authorities and other trusted external sources is also imported to TIS.

Analytics

The client ERP data is securely stored in the Tax Intelligence Center. This is when the data starts to deliver value as it is combined with the additional external sources of data.

Reports

The Tax Intelligence dashboards are populated and refreshed with the processed information in readiness for clients to access them.
TIS Implementation models:
TIS analysis and KPMG insights as a service (KPMG-hosted)

Client

Client Data

Tax Intelligence Solution Report (only)

KPMG

KPMG Tax Intelligence Center

Data

Deliverable: Reports, Analysis & Insights

Extraction, one-off or on periodic basis

Extraction on a periodic basis

(option to received updates on a periodic basis)
TIS Implementation models:
TIS data analytics as a service (KPMG or Microsoft cloud-hosted)

Client

KPMG Data Center or Microsoft Azure

Client Data

KPMG Tax Intelligence Center

Data

Tax Intelligence Dashboards

Deliverable: Access to TIS Dashboards

Extraction on periodic basis

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services.
TIS Implementation models: Tax Intelligence on premise

Client

- Client data
- TIS users

Tax Intelligence Center (Secure Local Instance)

Data extract

KPMG

- KPMG Tax Intelligence Center

Content updates & support

TIS access

Tax Intelligence Dashboards