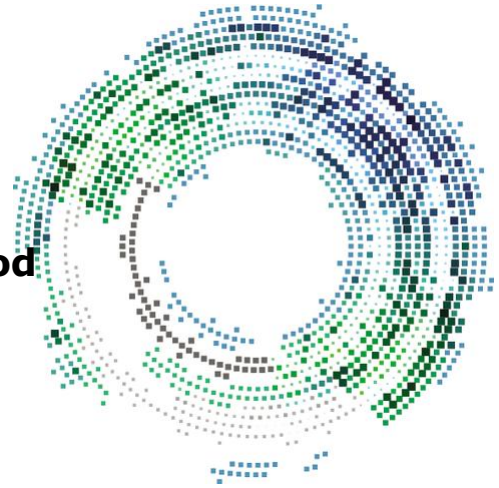


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## **Split Payment Mechanism as an alternative VAT collection method**

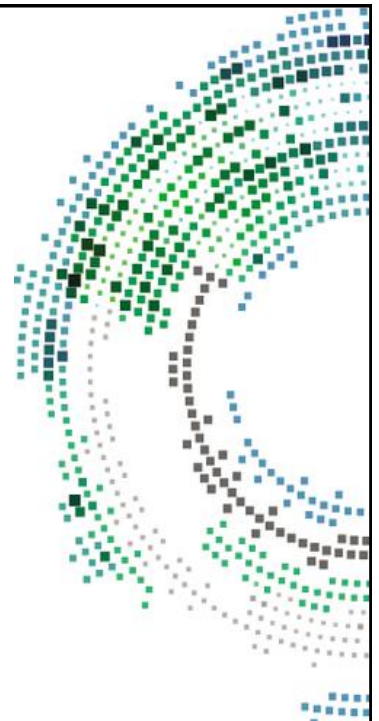
Johan Van der Paal  
Indirect Tax Partner, Deloitte Brussels

VAT Forum Prague  
26 January 2018

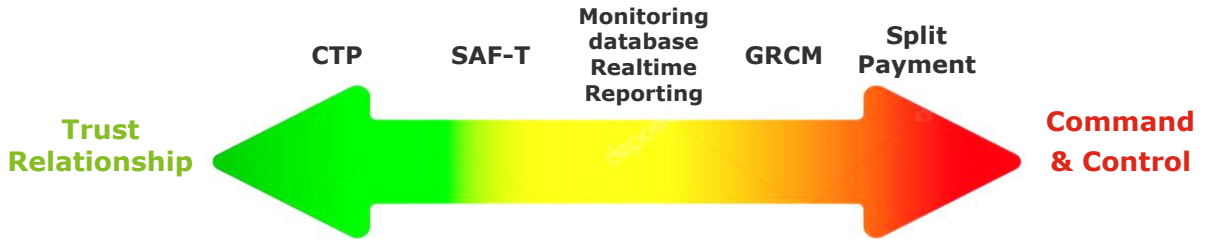


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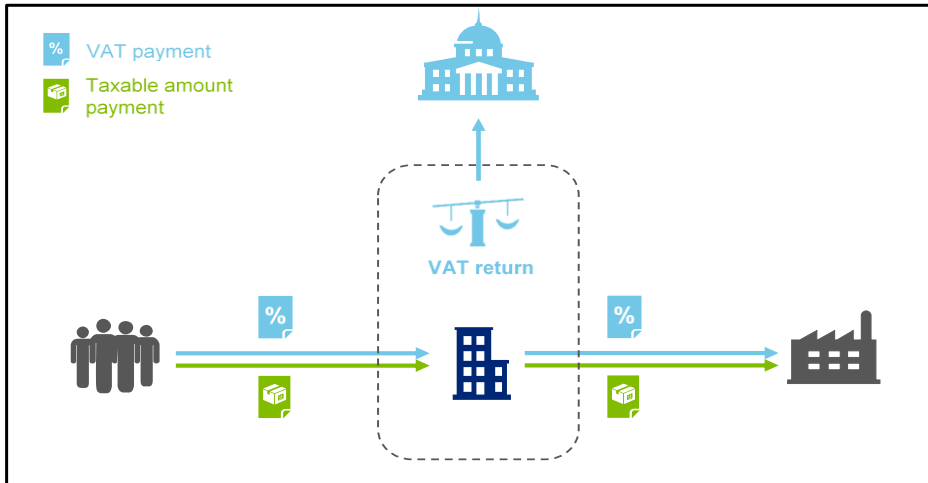


### Positioning of Split Payment as a VAT collection mechanism



### What is "a Split Payment Mechanism" for VAT?

#### Standard Procedure VAT payment

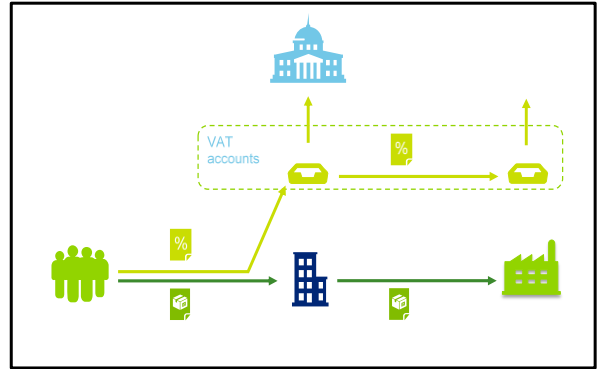


## What is "a Split Payment Mechanism" for VAT?

### Split Payment Procedure



### Split Payment Procedure with blocked VAT accounts



## What is "a Split Payment Mechanism" for VAT?

### Practical steps

Parties involved	Roles & responsibilities	VAT liability
<b>Vendor</b>	<ul style="list-style-type: none"> <li>Calculate and communicate VAT amount</li> <li>Report split paid VAT in VAT return</li> <li>Possible additional reporting</li> </ul>	Yes (except VAT payment)
<b>Customer</b>	<ul style="list-style-type: none"> <li>Possibly act as splitting agent : transfer VAT amount to authorities or blocked account</li> </ul>	No (except VAT payment) (possible input VAT rejection if no correct split)
<b>Splitting agent</b>	<ul style="list-style-type: none"> <li>Transfer VAT amount to authorities or blocked account</li> <li>Reports split paid VAT towards authorities</li> </ul>	No (except VAT payment) (possible joint liability if no correct split)
<b>Tax authorities</b>	<ul style="list-style-type: none"> <li>Reconcile reporting of split paid VAT</li> <li>Refund split paid VAT to vendor</li> <li>Possibly manage blocked accounts</li> </ul>	N/A

## How Split Payment impacts the VAT collection process

### Costs and benefits

#### Effects on tax collection

- Significant reduction of the VAT Gap:
  - SPM targets MTIC fraud and insolvency
  - Enhanced reporting prevents VAT evasion more generally
- VAT Cash flow balance significantly impacted:
  - Tax authorities collect in real time iso per VAT return period
  - Vendors lose free cash flow from VAT
  - Blocked VAT accounts limit effects somewhat (but increase complexity)
  - Performant refund procedures are required
- VAT collection fragmentation

#### Administrative burden impact

- Complexity of splitting payments :
  - Direct cost for vendor to monitor receipts
  - Direct cost for customer if designated as splitting agent
  - Indirect cost if third party splitting agent
- Additional reporting requirements for different parties : sales and purchase lists, intermediary reporting, etc.
- Blocked VAT accounts management cost
- Reconciliation/auditing cost at level of VAT authorities
- Implementation cost for taxpayers, authorities and (financial) intermediaries



*In a broad scale implementation, additional administrative burden is likely to outweigh the benefits*

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## How Split Payment impacts the VAT collection process

### Possible focused use cases

#### Italian experience

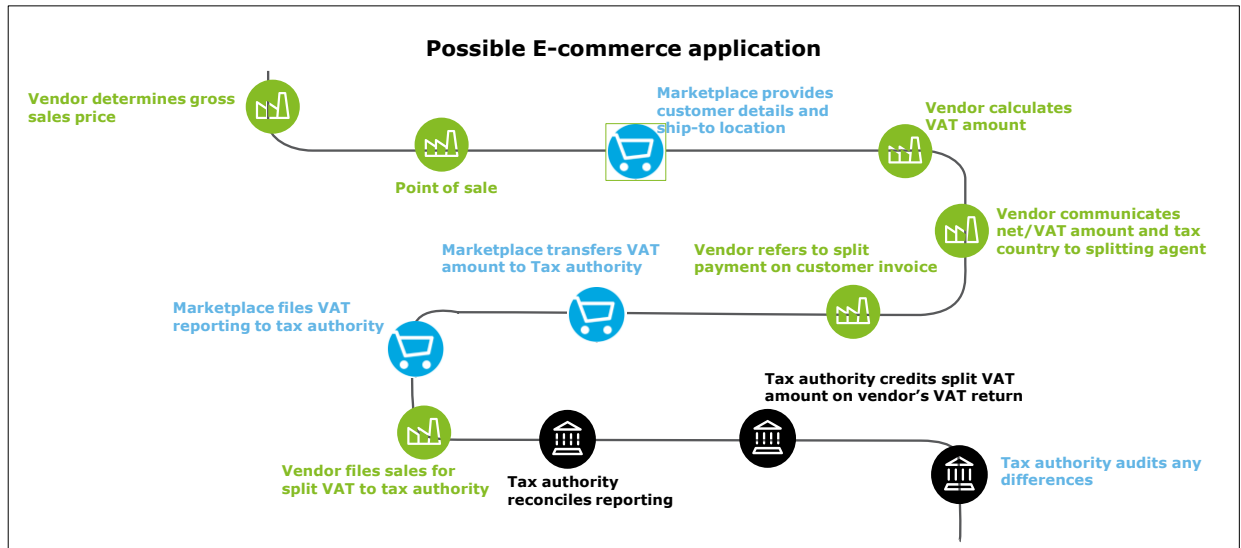
- SPM applies to supplies made to public authorities ('B2G') and assimilated entities
- Splitting agent = B2G customer
- Payment of split VAT directly to IT tax authorities : transactional/daily/monthly
- Mandatory e-invoicing
- Reporting of split VAT invoices received and issued to tax authorities
- SPM should phase out when reporting allows cross-check and monitoring of VAT payments
- Key concern : VAT refund position for suppliers
- Effective reduction of VAT loss in B2G supplies

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## How Split Payment impacts the VAT collection process

Possible focused use cases



## Introducing Split Payment Mechanisms in the EU VAT Directive

Legal framework

**EU VAT Directive sets limitations to mechanisms of VAT payment and VAT reporting applied at Member State Level**

- Article 206 EVD lays down fractionated payment of net amount on periodical basis
- SPM significantly affects this principle :
  - Separation of VAT payment obligation from VAT liability – different actors
  - Different trigger for VAT payment obligation : from VAT return to real time
- SPM requires additional mechanisms for effective functioning :
  - In B2B setting : VAT deduction right linked to correct application of SPM
  - Adapted VAT returns
  - Transactional statements allowing reconciliation by tax authorities

**Introduction of EU level most likely requires the development of a “Special Scheme”**

**SEPA legislation restricts possible splitting agent models, as no payment transactions can be carried out by a payment service provider without the explicit consent of the payer – how to obtain proper authorization ?**

**Implementation of voluntary SPM schemes : uncertain legal basis**

## Recent examples of Split Payment Mechanisms in EU

Poland



**Current scheme:** customers may settle multiple invoices via one single payment covering both the taxable base and the VAT amount of these transactions.

**Upcoming split payment scheme:** customers make a single payment *per invoice* to the supplier and the supplier's bank segregates the taxable base and the VAT amount. VAT then flows into a special account ("VAT account").

### What can be paid into the VAT account?

- VAT paid by customers
- VAT credit refund by tax authorities
- VAT refunded by a supplier (resulting from credit notes issued by the supplier)

### How to use the VAT account balance?

- Pay VAT to the Polish tax authorities
- Pay input VAT to a supplier's VAT account
- Refund VAT to a customer (resulting from credit notes issued to the customer)

Optional scheme

Implementation by  
1 July 2018

Only for B2B  
transactions

Aims at countering  
VAT evasion

## Recent examples of Split Payment Mechanisms in EU

Romania



### Timeline

Legislation approved by  
Parliament, pending  
promulgation by President

Applicable from 1 Mar 2018

### Scope

Mandatory for taxpayers with  
overdue VAT liabilities as of 31  
Dec 2017 + insolvent taxpayers

Optional for others

Not applicable to non-RO VAT  
registered businesses

### Obligations

Customers to check public  
record of taxpayers enrolled in  
split payment scheme and pay  
VAT accordingly to VAT or to  
regular account (0.06% penalty  
if failing to pay to VAT account)

Businesses enrolled in split  
payment scheme to transfer  
cash collections to VAT account  
within 30 days + to pay VAT to  
government/suppliers from VAT  
account.

### Important links:

- Information on the special VAT bank account opened by RO tax authorities for each VAT registered taxpayer
- Register of taxable persons to verify whether mandatory split payment is applicable

## Conclusions

### Key takeaways from our investigations

- **Split Payment Mechanism** has characteristics that are very effective in reducing certain types of fraud and therefore may be suited as a targeted measure with limited scope.
- **Administrative costs for businesses** are very high due to volume of transactions but could be reduced somewhat by the introduction of automation such as e-invoicing or automatic split payment (SEPA regulatory issue).
- The **design of the SPM** and the assumptions made on administrative cost for businesses strongly influence the business case.
- **Blocked VAT bank accounts** would reduce negative cash flow impact for businesses, but have a significant added complexity and cost.
- When making policy choices, **alternatives** to be considered are :
  - **GRCM** and SPM are mutually exclusive measures : GRCM's administrative burden impact is expected to be less significant, but tax collection effect is not identical.
  - As effective SPM requires **transactional reporting**, question arises whether (real-time) reporting in itself allows to achieve the reduction in VAT fraud and evasion.
- Proliferation of SPM across Member States would increase the need for a common EU framework (Special Scheme)



## Useful reading materials

European Commission, "Analysis of the impact of the split payment mechanism as an alternative VAT collection method", 2017, study conducted by Deloitte, can be downloaded at :  
[https://ec.europa.eu/taxation\\_customs/business/vat/vat-reports-published\\_en](https://ec.europa.eu/taxation_customs/business/vat/vat-reports-published_en)

Sinn, Gebauer, Parsche, "The IFO Institute's Model for Reducing VAT fraud: Payment First, Refund Later", CESifo Forum 2/2004.

Ainsworth, "VAT Fraud as a Policy Stimulus – is the US watching? VAT Withholding, RT vat, and the Mittler Model", 2011, can be downloaded at:  
<http://www.bu.edu/law/faculty/scholarship/workingpapers/2011.html>

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