TRENDING TOPICS

KEEPING GLOBAL INDIRECT TAXES IN CHECK

Trending Topics represents an executive summary compilation of news, information and perspective on matters affecting businesses and business leaders today. This insight is being provided to keep you up to date on the latest developments and trends influencing these topics. These views do not necessarily represent the views and opinions of PNC Bank. For additional research on these topics, please consult the sources cited in this article.

Indirect taxes have become a preferred method of generating revenue for many countries around the world. Indirect taxes — including valued-added taxes (VAT), goods and services taxes (GST), sales taxes, customs and excise duties — typically are based on trade flows and transactions, and not on corporate profits or income.

A recent study by accounting firm KMPG found that VAT and GST rank third as sources of revenue for governments, just behind Social Security contributions and personal income taxes.[1] The Organization for Economic Co-operation and Development (OECD) noted in its “Consumption Tax Trends 2014” that as of January 1, 2014, 164 countries levied a VAT tax.[2]

Because each country uses a unique mix of indirect taxes, companies are challenged to stay on top of tax requirements and liabilities. Government tax administrators may change their policies and rates very quickly in response to economic needs, and they expect international companies to respond immediately or face penalties. As more U.S. companies expand business overseas, they are wise to seek ways to effectively manage indirect taxes to support growth and reduce risks.

THE COMPLEX TASK OF COMPLIANCE

The task of managing international tax compliance can be complex, costly and time-consuming. Accounting firm PWC found that on average it takes a typical international company 264 hours to comply with its taxes, requiring an average of 26 payments.[3]

Many large multinational companies are developing integrated frameworks for indirect tax management that address compliance, operational issues and strategic planning.[4] Dealing with many different jurisdictions and laws can generate a large amount of data from multiple markets. “Big data” technology solutions are being used in the collection, analysis and management of indirect tax data to help companies view their tax liabilities and risks more clearly.

AUDIT ACTIVITY ON THE RISE

More tax authorities are using electronic reporting requirements and data extraction to monitor tax collection. Aggressive tax audits and investigations have become the norm in many countries, pressuring companies to respond with greater transparency or face penalties. Tax administrations are requesting large amounts of information generated in electronic invoicing, and are using new, data-driven audit tools to spot tax leakage and avoidance.[5]

The latest area subject to indirect taxes is electronic commerce, which is the fastest growing business sector in many countries. E-commerce is projected to account for 5.3% of gross domestic product in G-20 countries by 2016.[6] Many tax administrations are implementing new rules that leave companies with tax liability for a broad range of online transactions, including the purchase of goods and providing electronic services to consumers for telecommunications, content downloads, broadcasting and information retrieval services.

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Virtual currencies such as bitcoin are viewed as the next area where countries are seeking to levy indirect taxes on transactions. Although not yet in widespread use, bitcoin and other virtual currencies are becoming increasingly popular, and companies should stay attuned to developments in this area.[7]

WAYS TO MINIMIZE RISKS

There are several steps international companies can take to limit indirect tax risks and liabilities:

- View indirect tax planning as part of your strategic market analysis when considering new global markets for your company's goods and services.
- Confirm and regularly check that the latest regulations, rate changes and developments are reflected accurately in your company's enterprise resource planning (ERP) system for each country in which you do business. Periodically review country legislation to see if changes are pending or have occurred.
- Check that VAT and GST exemptions are honored and that countries are making refunds in a timely manner. Periodically check that exemptions are consistent, and update as needed.
- Conduct an internal audit of tax and customs processes to identify potential exposures and opportunities to improve communication and coordination between operations and tax functions.
- If your company is involved in e-commerce, clarify indirect tax liabilities in countries where customers reside, and remain vigilant in watching for new developments.

To discuss these topics in more detail, please contact your PNC Relationship Manager.

1 "Ten data-based tips to better manage indirect taxes," *Chartered Global Management Accountant* (*CGMA*) magazine, May 16, 2014. Available at: http://www.cgma.org/magazine/news/pages/201410142.aspx?TestCookiesEnabled=redirect

2 "Indirect Taxes in 2015." EY, page 9. Available at: http://www.ey.com/GL/en/Services/Tax/VAT--GST-and-other-sales-taxes/ey-indirect-tax-developments-in-2015

3 "Paying Taxes 2015: the Global Picture." PWC and the World Bank Group, 2015. Available at: www.pwc.com/payingtaxes

4 "Managing Indirect Tax Data: Gaining insight and control in the digital age." Ernst & Young, 2014. Available at: http://www.ey.com/GL/en/Services/Tax/VAT--GST-and-other-sales-taxes/EY-managing-indirect-tax-data-in-the-digital-age-1-overview

5 "Ten data-based tips to better manage indirect taxes," *Chartered Global Management Accountant* (*CGMA*) magazine, May 16, 2014.

6 "Indirect Taxes in 2015," EY, page 11.

7 "Indirect Taxes in 2015," EY, page 12.

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