wts global

# WTS Value Added Tax Newsletter

## Editorial

Dear Reader,

We are pleased to present the WTS Global VAT News edition for Q4 2019.

This issue of the WTS Global VAT News reports on recent or expected changes in VAT and GST regulations and compliance duties in **various EU and third countries.**

This newsletter reports on recent developments in **China** regarding preferential VAT policies for certain industries, which is part of the continuous development of Chinese VAT reform.

We provide information about the start of the last stage of electronic sales registration (EET) in the **Czech Republic.**

In **Hungary,** the online invoice reporting system was implemented in July 2018. In their article, our Hungarian WTS Global partners give details about the experiences with the system and provide information about the developments to follow next year.

**Italy** will be introducing its Digital Services Tax on January 1, 2020. We report on the general as pects and requirements of this new tax.

In the **United Kingdom,** a Digital Service Tax ("DST") will come into force on April 1, 2020. The UK I article explains the details of the new tax. The UK II article provides information about compa nies' "digital link" with the tax authorities (HRMC) which is created by "Making Tax Digital for VAT (MTD)" which started for UK businesses in April 2019 and has now been extended to non-UK companies.

In **Portugal,** the new obligations for invoices and other tax-related documents have again been postponed. Non-resident VAT-registered companies now have time until the end of 2020 to adopt a certified invoicing program.

We hope you find our Newsletter useful and we welcome your feedback and suggestions.

If you have any questions regarding any aspects of this Newsletter, please do not hesitate to con tact us.

Yours sincerely,

Jürgen Scholz Gabriele Heemann

WTS Global VAT Team

wts global

## Contents

**China:** Preferential VAT policies for certain industries ... 3

**Czech Republic:** Start of last stage of electronic sales registration (EET) ... 4

**Hungary:** Online invoicing: experiences and version 2.0 ... 5

**Italy:** Italian Digital Service Tax 2020 ... 6

**Portugal:** Invoices and other tax-relevant documents: new rules postponed again ... 8

**United Kingdom I:** Making Tax Digital for VAT ... 9

**United Kingdom II:** UK Digital Service Tax ... 10

Please find the complete list of all contacts at the end of the newsletter.

wts global

## China

## Preferential VAT policies for certain industries

The Chinese government has taken concrete measures to implement their tax cut scheme in full this year, including lowering VAT rates starting from April 1, 2019. According to official data from the State Administration of Taxation (SAT), China's new policy to cut VAT has saved 703.5 billion yuan (around EUR 90 billion) in the first three quarters of this year.

With the ongoing development of VAT reform, the Chinese government made three announcements (Announcement [2019] No. 31, Announcement [2019] No. 84 and Announcement [2019] No. 87) in September to clarify more implementation measures to cut VAT.

### Details

- Input VAT credit for domestic passenger transportation services
  The input VAT for domestic passenger transportation services may be credited. However, the scope is limited to services incurred by an enterprise's own employees as well as those working on secondment.

- Extra deduction of input VAT
  Qualified enterprises involved in livelihood services are allowed to enjoy a further 15% deduction of input VAT for the period from October 1, 2019 to December 31, 2021. Enterprises in which sales turnover obtained from providing livelihood services exceed 50% of its total sales turnover can enjoy this extra input VAT deduction.

- Refund of VAT credits not utilised for certain manufacturing businesses
  Starting from April 1, 2019, the Chinese tax authority will allow a refund of VAT credit not utilised for qualifying enterprises. Announcement [2019] No. 84 has introduced a more preferential refund policy to certain manufacturing businesses, which allows qualified enterprises of certain manufacturing industries to obtain a bigger VAT refund and to obtain it earlier than others.

- Other implementation measures on different industries, covering:
  1) VAT exemption policy for small-scale taxpayers which operates in less than one tax period (quarter);
  2) Requirements for small-scale taxpayers in the freight transportation industry to apply for special VAT invoices issued on their behalf;
  3) Applicable tax items for transport vehicle cabin contracting and cabin exchange business;
  4) Amount deducted for construction subcontracting payment;
  5) Termination of record-keeping as an approach to simple tax computation for construction services;
  6) Application of a simple tax computation for land reclamation and real estate development projects;
  7) Determining the purchase price for restricted stock;
  8) Input VAT deduction for insurance services;
  9) Application of tax items on Food & Beverage services;
  10) Issue of invoices which apply previous tax rates.

wts global

*Maggie Han*
*maggie.han@wts.cn*

*Elena Chen*
*elena.chen@wts.cn*

*Gloria Zhu*
*gloria.zhu@wts.cn*

#### WTS Observation

- In the context of a global economic slowdown and uncertain international relationships, the Chinese government is facing great pressure from a trickle-down economy. The ongoing reduction in VAT is helping to promote the development of the real economy, especially manufacturing business, and to reduce the tax burden on Chinese enterprises.

- This largest VAT cut in recent years not only includes directly cutting VAT rates, but also covers some preferential VAT treatment and measures for certain special areas. Chinese enterprises need to update their tax knowledge promptly and determine whether they meet the conditions for applying preferential policies.

## Czech Republic

## Start of the last stage of electronic sales registration (EET)

The Act on Electronic Registration of Sales was amended by an act proposed by the government of the Czech Republic. **The areas to which EET applies will be extended.** The third and fourth stages of EET will commence on May 1, 2020.

#### What we already know from the previous EET stages

- Natural persons (entrepreneurs) who became liable to register their sales can claim a one-off personal income tax credit of up to CZK 5000.
- In the event of temporary connection failures, a sales receipt sent within 48 hours will be taken into consideration for registration purposes in addition to the usual online registration of sales.
- A simplified off-line registration scheme will be permitted upon request if the usual registration method is objectively impossible on a long-term basis.

#### What is new

- The third and fourth stages of EET give small businesses the option of using a paper form of EET. This special scheme will apply to traders who do not pay VAT with cash income of up to CZK 600,000 p.a. and a maximum of 2 employees. Thus, small businesses are free to choose either to register their sales online or to use the newly introduced paper form of registration. If they choose the paper format, they must send the tax office a form with information on the volume of sales and the number of tax documents issued and cancelled on a quarterly basis. Paper sales notes issued by the tax office free of charge will serve as proof of sale for customers.

- The last stage of EET will in principle include all other businesses that were not subject to the registration obligation in the first and second stages.
  In particular, the liberal professions, transporters, farmers and certain ‘production and craft’ professions are covered by the third stage. The fourth stage includes selected areas of ‘craft and production’.

- Sale of Christmas carp from December 18 to 24, social services, prepaid telecommunication cards, gambling, commercial air transport and blind taxpayers have been granted an automatic exemption from EET.

**Along with the government amendment to the EET Act, some supplies have been re-classified at the reduced VAT rate of 10%. These include the following goods and services**

- Home care for children, the elderly and the disabled,
- Catering services and the serving of beverages, including draught beer,
- Water and sewerage rates,
- Internal cleaning services and window cleaning services in households,
- Repair of shoes and leather goods,
- Repair and alteration of garments and textile goods,
- Bicycle repair,
- Hairdressers' and barbers' services,
- Lending or renting books,
- Drinking water supplied to customers through pipelines under the Act on Water Mains and Sewers,
- Books, e-books and audiobooks.

*Jana Kotíková*
*jana.kotikova@alferypartner.com*

Reduction of VAT on the above goods and services will apply from the same date as the date on which the last stage of electronic registration of sales started, i.e., from May 1, 2020.

## Hungary

## Online invoicing: experiences and version 2.0

Hungary introduced its online invoice reporting system on July 1, 2018 for invoices issued to another Hungarian taxpayer with a VAT amount reaching or exceeding HUF 100,000. More than a year has elapsed so it is worth taking a look at what the experiences with the system have been and what developments will follow next year based on the practical feedback from taxpayers and the Hungarian tax authority (NAV). In our article, we will focus on this IT development which aims to reduce the VAT gap in Hungary and detect VAT fraud (needless to say, the 27% VAT rate is a temptation for fraudsters).

Taxpayers and tax advisors initially had some concerns as to how the system would work, but online invoicing has started and the statistics show that millions of invoices have been uploaded to the Hungarian tax authority. Major discrepancies can trigger tax inspections, so taxpayers should check the system and may occasionally need to reconcile the reported data with that in the VAT report.

### Practical experiences, errors in the systems

- The data uploaded without human intervention to the Hungarian tax authority's system and the list supporting monthly VAT returns may differ. Sometimes the reason for this is obvious, but **the online reporting may sometimes be incorrect** and this may trigger exposure to a serious penalty.
- There are companies where the bookkeeping system is not so simple or is outsourced to non-Hungarian service providers. The fact that the **bookkeeping** and issue of invoices **take place outside Hungary** may not mean that the invoice details are not uploaded to the Hungarian tax authority.

wts global

- Some taxpayers have **problems with cancelling or modifying invoices** since they cannot link them to the original invoice(s).
- **Downloading** information from the system is not easy.

#### The penalty

Failure to provide data can result in a **default penalty of up to HUF 500,000** (roughly EUR 1,500) for each missing or incorrect invoice. We note that in addition to automatic reporting to the online system of the NAV, there is another administrative liability with respect to invoices. A **"data export" function has to be built into the invoicing software** and, at the request of the Hungarian tax authority, taxpayers have to hand over the XML file including **all the invoice details** for the period under review.

#### Increasing administration

The online invoicing system generates error and warning messages if there is any problem with the XML files submitted. It is vital to review these replies from the Hungarian tax authority. In our experience, the Hungarian **tax authority's system still needs some development** (verification of invoices submitted or issued to taxpayers could be renewed and developed further).

#### What lies ahead in 2020?

Taxpayers' developers and in-house IT experts can review the new development documentation on the website of the Hungarian tax authority. By checking this website (available in Hungarian, English and German), it can be seen that the developer's documentation of version 2.0 of the Online Invoicing System as well as scheme descriptors are available now and can be downloaded from the Documentation menu item.

All the functions of version 2.0 of XML API have been available in the test environment since the end of September, except for the metrics query service. The Hungarian tax authority will publish specific information on the exact schedule for implementation later.

*Tamás Gyányi*
*tamas.gyanyi@wtsklient.hu*

## Italy

## Italian Digital Service Tax 2020

The 2019 Italian Budget Law, still in a draft version undergoing final approval, introduced a new tax on revenues from qualifying "digital services" (Digital Service Tax, "DST"), reshaping the previous version of DST as introduced by the 2018 Budget Law, but which never came into force for lack of the implementing decree.

According to the draft, the amended DST should come into force as from January 1, 2020, **without the need for further implementing rules.**

The DST will apply to companies (whether or not resident in Italy) – stand-alone or at group level – meeting both the following requirements for the calendar year prior to the one in which the DST comes due:

- amount of worldwide revenues reported by the entity equivalent at least to EUR 750 million;
- amount of revenues from qualifying digital services linked to Italian users equivalent at least to EUR 5.5 million.

Then, in order to check whether the DST will be due on revenues achieved in FY 2020, companies should have exceeded the revenue thresholds listed above in FY 2019.

In this respect, it should be noted that, according to one of the proposed amendments (under discussion) to the draft Law available, only the threshold of revenues equivalent at least to EUR 750 million should be applicable, with no further reference to **worldwide** revenues, but to those **generated in Italy.**

The tax will be due at a rate of 3% on revenues generated from B2B and B2C "qualifying" digital services when tax is relevant in Italy, i.e., when **the user is located in Italy.** Intra-group transactions are excluded.

Such "qualifying" digital services are represented by the following three categories (briefly summarised):
- digital advertising;
- intermediation services;
- transmission of data.

However, an exclusion list has been provided (e.g., direct sale of goods or provision of services performed in the context of an intermediation service, or making a digital interface available where the sole or main purpose is to supply digital content, communication services or payment services for users).

For each tax period, companies shall determine the amount to be subject to Italian DST, as follows:
- to compute the overall worldwide taxable revenues from the provision of digital services (to any users, wherever located); and
- to determine the share of qualified revenues to be allocated to Italy.

Complex rules are established in order to determine the relevant portion of qualified revenues, mainly focusing on where the user is located and varying depending on the (3) different categories of relevant digital services. In general, a user's device should be regarded as being used in Italy by reference to the Internet Protocol (**IP**) address of the device or any other method of **geolocatio**n, in respect of the protection and handling of personal data rules.

Companies subject to DST should prepare monthly accounting reports of revenues from digital services and illustrate the criteria through which a proportion of qualifying worldwide revenues is allocated in Italy.

An annual DST return should then be filed by March 31 of the calendar year following the one to which the DST refers. DST should be paid by February 16 of that same year. It follows that, for qualifying revenues generated in 2020, DST should be paid by February 16, 2021 and the DST returns should be filed by March 31, 2021. The Italian DST will also be due from non-resident business taxpayers, who – when established in a State that has not concluded an agreement for the mutual assistance with Italy for the recovery of tax claims – shall appoint a tax representative in Italy in order to handle the subsequent DST fulfilments in Italy.

*Chiara Mejnardi*
*chiara.mejnardi@taxworks.it*

*Aldo Bisioli*
*aldo.bisioli@slta.it*

## Portugal

## Invoices and other tax-relevant documents: new rules postponed again

Decree and Law No. 28/2019 of February 15, 2019 ("DL 28/2019") consolidates and updates Portuguese obligations for invoices and other tax-relevant documents.

DL 28/2019 came into force on February 16, but its measures with the greatest impact will only apply in a phased manner. DL 28/2019 is applicable to all taxable persons that carry out taxable transactions subject to Portuguese invoicing rules. According to the new article 35-A added to the Portuguese VAT Code, which transposes article 219-A of the VAT Directive, VAT registered non-established companies are responsible for issuing invoices that comply with Portuguese rules (given that certain conditions are met).

Ministerial Order no. 349/2019.XXI of October 30 and Ministerial Order no. 4/2019–XXII, of July 29, have once again determined that some of the measures set out by DL 28/2019 should be postponed.

### Exclusive use of certified invoicing programs

Obligation to use only invoicing programs certified by the Portuguese Tax Authority ("**PTA**") for issuing invoices and other tax-relevant documents is extended to

i) taxable persons with their head office or fixed establishment in the Portuguese territory or
ii) taxable persons that perform taxable transactions to which Portuguese VAT rules apply, whenever **one** of the following conditions is met:
   - Turnover exceeds EUR 75,000 in 2019 (from 2020: EUR 50,000);
   - Use of invoicing software or
   - Obligation to have, or having opted for, organised accounting.

This obligation must be met by January 1, 2020 for resident companies which were previously not subject to the use of certified software. The **deadline for non-established (VAT registered) companies** that perform taxable transactions to which Portuguese invoicing rules apply **was postponed to January 1, 2021.**

Therefore, non-resident (VAT-registered) companies now have until December 31, 2020 to adopt one of the invoicing programs already certified (which may be consulted on the PTA's website) or to request certification for their own programs.

### Electronic archive

Invoices and other tax-relevant documents issued or received in paper form can be digitised and stored in electronic form. When the documents are in paper form, the archive must be stored in the Portuguese territory, whereas if they are in electronic form, the file may be stored in any EU Member State, subject to the prior authorisation of the PTA.

Taxable persons are obliged to notify the location of the archive to the PTA within **30 days following publication of the ordinance** that alters the specimens of the declarations of commencement and of alterations to activity (to be published).

wts global

### Notification on establishment

Obligation to provide the PTA with the following information:

- Identification and location of the establishments where invoices and other tax-relevant documents are issued;
- Identification of the equipment used for processing invoices and other tax-relevant documents;
- The number of the program's certificate used in each piece of equipment, where applicable;
- Identification of distributors and installers of billing solutions.

The deadline to meet this obligation was October 31, 2019 or within 30 days after the activity of the taxable person begins for taxable persons who initiate activity after September 30, 2019, but was **postponed until June 30, 2020,** with the specimen form yet to be published. This obligation only applies to resident companies.

### QR code and single document code

**As of January 1, 2020,** invoices and other tax-relevant documents must include a two-dimensional barcode (QR code) and a single document code to be defined by government ordinance. This deadline remains unaltered by Ministerial Orders.

*Conceição Gamito*
*crg@vda.pt*

## United Kingdom

## UK Digital Service Tax

### Overview

Following the original announcement in the 2018 UK Budget, the introduction of a similar tax in France and despite ongoing pressure from the US, the UK is pressing ahead with its Digital Services Tax (DST) from April 1, 2020.

Given the current political position in the UK, it is possible that there could be a delay in implementing this measure. However, it is prudent for those businesses affected to be preparing for this new tax.

The UK Government has calculated that DST could raise approximately GBP 1.5 bn over the four years following its introduction.

### Company conditions and threshold value

DST is an annual 2% levy on revenues generated by social media platforms, search engines and online marketplaces derived from UK users. Businesses with mixed activities will need to identify revenue that falls within and outside the scope of DST.

DST would apply to businesses or groups that:

- generate greater than GBP 500 million in global revenues from in-scope activities; and
- have revenues from in-scope activities that are linked to the participation of UK users of more than GBP 25 million

Financial and payment service providers will be exempt from the definition of an online market place and will therefore fall outside the scope of the tax.

wts global

Setting the threshold at such a level is intended to ensure the large multinational groups in this arena, such as Google or Facebook, are caught by the new tax while not negatively impacting smaller providers. In addition, the first GBP 25 m of a group's revenues derived from UK users will not be subject to DST.

Finally, the intention is to introduce a "Safe Harbour" which would allow businesses with very low profit margins to make an alternative calculation of DST. This alternative calculation should ensure the DST cannot create a loss for the business.

### The challenges

While for some businesses it may be easy to identify revenue that is within the scope of the tax, for others this will represent a challenge. Therefore, changes to systems and processes may be necessary.

Whether revenue derives from UK users will depend on the type of digital services provided. For example, advertising revenues will be deemed to have been derived from the UK when the advertising is intended to be viewed by a UK user, whereas most other services will be UK-derived where a UK user uses the platform. Revenues arising from an online platform in connection with the sale or provision of UK accommodation/real estate is also expected to be UK revenue for the purposes of DST (e.g., Airbnb).

In addition, the UK authorities have suggested that the revenue will be treated as within the scope of DST where there are any UK users. This will be the case where there are multiple users for one transaction and only one of them is a UK user. This could lead to an unfair allocation of revenue to the UK and its application will need to be considered carefully once the final legislation and guidance are published.

The current double tax treaties will not recognise DST, suggesting that multinational digital companies cannot offset relief against corporate income tax payable in their home country. Furthermore, there are potential risks that DST would overlap with other UK and non-UK taxes.

### The future of DST

As with all DSTs, either implemented or proposed, the intention is for it to be a temporary measure to address issues the OECD has been considering with regard to the digital economy. Once a global agreement is reached on taxation in the digital arena, the expectation is that DST will be revoked.

*Alistair Winning*
*alistair.winning@
fticonsulting.com*

## United Kingdom

## Making Tax Digital for VAT

### What is it?

As has been detailed in an earlier newsletter, Making Tax Digital for VAT (MTD) is the UK's attempt to ensure that all VAT records and submissions are electronic. However, unlike in some EU Member States, MTD is not a requirement to provide transactional data directly to the UK authorities. The actual data submitted (the 9 boxes) is the same as it has been for many years.

What is changing, however, is the requirement to keep transactional data digitally, for there to be a "digital journey" for all data, meaning that relevant software must link digitally and for VAT return data to be submitted directly to HMRC electronically.

The various pieces of software used by the business form the "functional compatible software" and, crucially, spreadsheets are allowed to be part of the functional compatible software. This allows businesses to continue to use spreadsheets to help assist with the preparation of VAT returns should they choose to do so.

The reason for the digital links is to prevent manual adjustments to the data on separate spreadsheets so there is a clear digital audit trail from the source data to the VAT return. However, it is accepted that certain processes, such as partial exemption calculations, can be undertaken separately from the linked digital records.

### When does it start?

Most UK businesses trading above the VAT registration threshold (currently GBP 85,000) have been required to maintain digital records and submit VAT returns digitally for VAT periods commencing April 1, 2019. However, for most non-UK companies (other than those with establishments in the UK) and certain other UK traders, implementation for VAT periods commencing after October 1, 2019 has been deferred. This means for non-UK traders on quarterly VAT return periods, the first submissions of VAT returns under MTD will be during or after January 2020.

The digital links requirement for MTD has a "soft-landing" period to April 1, 2020 or October 1, 2020 for deferred businesses, which means that additional time has been allowed for businesses to adapt to this.

### What should businesses be doing?

Businesses will need to submit VAT returns either directly from their accounting systems or, if spreadsheets are used, purchase "bridging software" that links the spreadsheet to HMRC's systems. Therefore, businesses should be contacting their accounting software providers to ask whether they have developed a VAT-return submission module or, alternatively, contacting the suppliers of the bridging solution (there are many software companies that have developed bridging tools). If an agent is used to prepare and submit the VAT returns, businesses should be asking them whether they are ready for MTD submissions.

In respect of the digital link requirement, this will depend on the types of software used by businesses for recording income and expenditure. Where everything is held on one accounting system, the business should be ensuring:

- The relevant VAT data are recorded; and
- Where a bridging solution is to be used, that data can be exported to a spreadsheet

Where there are multiple pieces of software (e.g., accounting package, invoice scanning software, and expenses software), they will need to be reviewed to ensure they do link digitally. It is likely that where multiple systems are used, IT amendments will be required to ensure the digital journey is complete.

*Alistair Winning*
*alistair.winning@ fticonsulting.com*

wts global

## Contact

**China**
**Maggie Han**
maggie.han@wts.cn
**Elena Chen**
elena.chen@wts.cn
**Gloria Zhu**
gloria.zhu@wts.cn
T +86 (21) 5047 8665
**WTS China Co., Ltd.**
Unit 031, 29F, Hang Seng Bank Tower
No.1000 Lujiazui Ring Road,
Pudong New Area
200120, Shanghai
www.wts.cn

**Czech Republic**
**Jana Kotíková**
jana.kotikova@alferypartner.com
T +420 221 111 777
**WTS Alfery s.r.o.**
Václavské náměstí 795/40
11000 Prague 1
www.alferypartner.com

**Hungary**
**Tamás Gyányi**
tamas.gyanyi@wtsklient.hu
T +36-1-887-37-36
**WTS Klient Tax Advisory Ltd**
Stefánia út 101-103.
H-1143 Budapest
www.wtsklient.hu

**Italy**
**Chiara Mejnardi**
chiara.mejnardi@taxworks.it
T +39 011 4338351
**WTS R&A Studio Tributario Associato**
Corso Re Umberto 10
10121 Torino
www.taxworks.it
**Aldo Bisioli**
aldo.bisioli@slta.it
T +39 02 763 693 1
**Studio Legale e Tributario Biscozzi Nobili**
Corso Europa 2
20122 Milano
www.biscozzinobili.it

**Portugal**
**Conceição Gamito**
crg@vda.pt
T +351 (21) 311 34 90
**Vieira de Almeida – VdA Law Firm**
Rua Dom Luís I, 28
1200-151 Lisbon
www.vda.pt

**United Kingdom**
**Alistair Winning**
alistair.winning@fticonsulting.com
T +44 (0)20 3727 1534
**FTI Consulting LLP**
200 Aldersgate
Aldersgate Street
EC1A 4HD, London
www.fticonsulting.com

wts global

## About WTS Global

With a representation in over 100 countries, WTS Global is one of the leading global tax practices offering the full range of tax services without the constraints of a global audit firm. WTS Global deliberately refrains from conducting annual audits in order to avoid any conflicts of interest and to be the long-term trusted advisor for its international clients. Clients of WTS Global include multinational companies, international mid-size companies as well as private clients and family offices.

The exclusive member firms of WTS Global are carefully selected through stringent quality reviews. They are typically strong local players in their home market being united by the ambition of building the tax firm of the future. WTS Global effectively combines senior tax expertise from different cultures and backgrounds be it in-house, advisory, regulatory or digital.

For more information please visit **wts.com**

## Imprint

WTS Global
P.O. Box 19201 | 3001 BE Rotterdam
Netherlands
T +31 (10) 217 91 71 | F +31 (10) 217 91 70
wts.com | info@wts.de

The above information is intended to provide general guidance with respect to the subject matter. This general guidance should not be relied on as a basis for undertaking any transaction or business decision, but rather the advice of a qualified tax consultant should be obtained based on a taxpayer's individual circumstances. Although our articles are carefully reviewed, we accept no responsibility in the event of any inaccuracy or omission. For further information please refer to the authors.