OCTOBER 2015 ISSUE 3
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AUSTRALIA

AUSTRALIAN GST: IF IT COMES INTO AUSTRALIA, WE WANT TO TAX IT!

Australia's appetite for imposing Goods and Services Tax (GST) on both tangible and intangible goods is firmly in the sights of proposed changes to the Australian GST base. This conclusion comes from announcements after two recent Council on Federal Financial Relations Tax Reform (CFFR) Workshops that involved the Federal, State, and Territory Treasurers.

As a result of the April 2015 CFFR meeting, the Commonwealth has decided it will introduce draft legislation to impose Australian GST on the cross border supply of digital products and services downloaded or streamed by consumers who are in Australia at the time the digital product or service is accessed, irrespective of the supplier's location. These draft amendments would take effect from 1 July 2017.

Further, as a result of the July 2015 CFFR meeting, it was agreed that consistent with taxing of digital products and services downloaded or streamed by consumers, "… the Australian Leaders' Retreat … agreed to broaden the GST to cover overseas online transactions (physical goods) under AUD 1,000".[1]

The Federal Treasurer, Mr Joe Hockey MP, stated the following to CFFR:

> *"…a proposal that relies on a vendor registration model as a method of collecting the GST for the states and territories. As goods would not be stopped at the border, administering a vendor registration model would have a relatively low cost.*
>
> *The Commonwealth also recommended that the existing threshold for the GST liability be reduced to zero, in line with the GST collection for other products and services. The states and territories have unanimously agreed to this in principle.*
>
> *Non-residents (overseas suppliers) will be the ones who charge, collect and remit the GST for digital and physical products. As is the case in Australia, only vendors with an Australian turnover of AUD 75,000 will need to register and charge the GST.*
>
> *The Commonwealth will draft legislation for the application of the new arrangements from 1 July 2017."*[2]

Despite Mr Hockey's comments, it is unclear how the Australian Taxation Office will be able to enforce the requirement that non-resident suppliers must register, and more importantly, how the Australian Tax Office intends to ensure the GST is reported and paid if levied on such supplies made into Australia.

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[1] Statement: Council on Federal Financial Relations Tax Reform Workshop" – http://jbh.ministers.treasury.gov.au/media-release/075-2015/

[2] See above

EDITOR'S LETTER

Dear Readers,

Many thanks for taking the time to read this latest edition of BDO's Indirect Tax News, which aims to provide you with a snapshot of recent developments relating to value added tax, goods and sales tax, sales & use tax, and customs related issues in some of the 158 countries in which BDO has offices.

Although some of the underlying indirect tax legislation enacted in different countries is quite similar, we all have our own unique culture and this often leads to differences in both the interpretation and implementation of legislation in different countries and, needless to say, this is not necessarily helpful to internationally focussed businesses.

In the circumstances, it is always recommended you seek local advices in advance of expanding your business into a new geography, as quite apart from the local tax issues that you would normally expect to face, there are often local non-conventional taxes and sometimes local formalities that need to be complied with, which you may not be aware of.

Ofcourse, BDO is well placed to assist so feel free to contact our experts at your local BDO office to enable them to make the necessary introductions.

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ARGENTINA

NEW PROVINCIAL WITHHOLDING TAX IN ARGENTINA FOR CERTAIN FOREIGN SERVICE PROVIDERS

The Province of Buenos Aires has introduced a regulation related to the turnover tax that will apply a withholding tax on non-residents who occasionally provide services within the provincial territory. The types of service providers the regulation will apply to include, for example, musicians, rock bands, actors, those who supervise engineering works, and those engaged in software implementation.

The regulation will require those in Buenos Aires who act as contractors, organisers, administrators, users, holders, or payers of such non-resident suppliers to withhold and remit the tax.

It is important to point out that when this regime comes into force it will entail a cost for non-residents, which means some may want to renegotiate existing contracts. However, since the tax will apply on the gross invoice amount, non-residents should analyse whether they might be entitled to a tax credit as a result.

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EUROPEAN UNION

COURT OF JUSTICE ENDORSES VAT RECOVERY ON CORPORATE FINANCE DEAL COSTS

The Court of Justice of the European Union (CJEU) has released a judgment that strongly supports the recovery of VAT on corporate finance deals and other holding company costs. It could also widen the scope of legal entities that may join a VAT group registration.

The joined cases of *Larentia + Minerva mbH & Co. KG and Marenave Schiffahrt AG (Larentia + Minerva)*, were referred to the CJEU by Germany and concerned two limited partnerships that acquired shareholdings in subsidiaries. The CJEU was asked to consider two issues:

- Whether the partnerships were entitled to recover VAT on acquisition costs, and
- Whether partnerships were eligible to join a VAT group registration.

VAT recovery for holding companies

The judgment considers the extent to which a holding company can recover VAT on the costs of the acquisition and financing of subsidiaries, an issue which has been the subject of a long running dispute between taxpayers and tax authorities in many EU Member States.

The court has ruled that a holding company's expenditure connected with its acquisition of shares in subsidiaries has a direct and immediate link to that holding company's economic activity, provided the holding company is involved in the management of those subsidiaries. Therefore the VAT incurred is fully recoverable, unless the holding company is partly exempt. As a result, as long as a holding company makes taxable supplies, e.g. of management or administrative services, to its subsidiaries for remuneration, it is entitled to recover the VAT it incurs on acquisition costs. It would only be subject to a "non-business" restriction to the extent that the holding company did not supply management services to one or more of the subsidiaries concerned.

While the *Larentia + Minerva* case concerned limited partnerships that were separately registered for VAT, the CJEU has also made some helpful comments supporting VAT recovery by holding companies that are VAT grouped with their subsidiaries. The court suggests that capital costs incurred by a holding company in these circumstances can be recoverable because they are linked to the supplies made by the VAT group as a whole.

VAT group registration

EU VAT law permits businesses "closely bound to one another by financial, economic and organisational links" to form a group registration. VAT group treatment, which is permitted in some EU Member States, can bring a number of monetary and administrative benefits, such as cash flow and absolute VAT savings from the removal of the requirement to charge VAT on intra-group transactions, and the elimination of exempt supplies on intra-VAT group financing arrangements.

Until now, Germany has restricted membership of VAT groups to corporate entities (a "legal person") and does not permit partnerships to join. It also requires that this legal person is integrated into the undertaking of its controlling company in financial, economic and organisational terms, in the sense of a relationship of control and subordination.

The CJEU now says that EU Member States cannot limit membership of a VAT group for these reasons unless those requirements are necessary to combat tax evasion or avoidance. It is for the national courts to decide whether their country's law is correct on this point.

A number of other member states apply membership conditions similar to those in Germany, with the limitation of groups to corporate entities being particularly prevalent. The *Larentia + Minerva* decision appears to open the door for taxpayers to challenge their national tax authority's position on this issue. Unless the tax authority can convince its national courts that the objective of its policy is to prevent tax avoidance or evasion, the CJEU judgment could allow many more business entities to benefit from VAT group registration.

What happens next?

The practical application of both aspects of this decision now depends on the reaction of the tax authorities and courts in individual member states. Businesses affected by this issue should watch out for further announcements and take advice on how best to challenge any disputes with their national tax authority.

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FRANCE

DEDUCTION RIGHT OF A BRANCH PROVIDING SERVICES TO THE HEAD OFFICE & NEW INTERPRETATION OF VAT EXEMPTION ON COMMERCIAL SHIPS

1. Deduction right of a branch providing services to the head office

In a decision of 27 January 2015, the French administrative Court of Appeal of Versailles held that the VAT incurred on costs paid by a branch to provide services to its foreign head office is not deductible.

In the case before the Court of Appeal the French branch elected for the VAT on the services supplied to its own clients in France. In addition to the services provided domestically, the branch also provided services to its head office. The French branch deducted the VAT it incurred to provide services to its foreign head office.

As a result of a tax audit, the French tax administration concluded that the VAT incurred by the branch solely to provide services to the head office was not deductible, since the services provided by a branch to its head office are outside the scope of the VAT.

The taxpayer argued that since the branch and the head office are a sole and unique entity, the services provided by the branch are qualified as "non-operations" and, as such, cannot be considered as within or outside the scope of the VAT.

The administrative Court of Appeal of Versailles denied the taxpayer's appeal on the basis of the European Court of Justice's case in *FCE Bank* and concluded that the services rendered by a French branch to its foreign head-office are outside the scope of the VAT. As a result, the VAT incurred in order to perform these services is not deductible.

Particular attention will have to be paid to the future decision of the French Supreme Court in this case, as the Supreme Court's decision might impact the deduction right of foreign companies' French branches.

2. VAT exemption on commercial ships

As a result of CJEU case 197/12 *European Commission v French Republic* dated 21 March 2013, France has changed its VAT rules applicable to commercial ships.

The amendment concerns the commercial status of ships and clarifies the criteria commercial ships must meet to benefit from the VAT exemption on the supply of goods and services purchased in France.

As a result, now only commercial ships of at least 15 meters in length that comply with the following criteria can benefit from the VAT exemption:

- The ship must be registered in a commercial register;
- The ship must have a permanent crew;
- The ship must be used exclusively for commercial purposes; and
- 70% of its cruising (per calendar year) must be outside of the French waters.

The real change concerns this last criteria, which will be applicable with retroactive effect from 1 January 2015. In practice, 2015 cruising itineraries will provide the basis for assessment and only ships that meet the 70% condition in 2015 will benefit for a VAT exemption for 2016.

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GERMANY

NO PROOF OF INTRA-COMMUNITY SUPPLIES BY MEANS OF WITNESS STATEMENTS

The Federal Court of Finance (BFH) decided on 19 March 2015 (case ref. V R 14/14) that it is not possible to prove the conditions for the zero-rating of intra-Community supplies by means of witness statements. Documentary and record evidence is required in this regard.

Facts

From 2001 to 2004 the plaintiff invoiced the sale of articles to Italian company CC. Following a VAT audit, the German tax authorities concluded that the supplies to CC are taxable supplies, not zero-rated as intra-Community supplies. As a result, the tax authorities issued amended VAT assessment notices for the relevant years.

The plaintiff's objection to the assessment and its legal case before the fiscal court failed. The fiscal court found that the plaintiff did not provide the necessary documentary evidence and so it concluded that the supplies are not intra-Community supplies that are zero-rated under the German VAT Act (UStG). No physical proof was provided regarding the consignment notes.

In this case, goods were transported but no dispatches were carried out by independent third parties (for example, forwarding agents). Furthermore, the consignment notes did not contain any details about the specific destinations in EU Member States (point of destination), nor was there any evidence regarding the insurance of the recipient, despite the fact that such insurance is required under the German VAT Implementing Regulation. Furthermore, the drawer of the consignment notes was not identified in the notes. A confirmation that was prepared later did not satisfy the documentary evidence requirement because it was not issued by the person that actually carried out the transport. The witness statement of Mr. v.B., the managing director of CC, was offered during the oral hearing but it was considered irrelevant.

The plaintiff appealed the fiscal court's decision, asking that the judgment be set aside. The plaintiff argued the supplies should be treated as zero-rated because there was no dispute that CC was a legitimate business and CC has to be regarded as a taxable person. Furthermore, the intra-Community acquisition was taxed in the country of destination (Italy). The only issue in dispute, therefore, was the physical transport of the goods to Italy. On this point Mr. v.B. was presented as a witness. As the person authorised to represent the legal entity, in his testimony, Mr. v.B retroactively confirmed the transport of the goods to Italy. Furthermore, he attested to the fact that the entire shipment was handed over to the Italian company and that destination can be inferred from the invoicing addresses. The plaintiff claims the fiscal court wrongfully ignored Mr. v.B.'s evidence at the fiscal hearing. Furthermore, the plaintiff argues that since all types of evidence are equally relevant, it is incorrect to conclude that the only means of verifying a fact is by documentary evidence. In other words, at the hearing, the fiscal court should have heard the testimony of Mr. v.B.

Reasoning of the Federal Court of Finance

Under the German VAT Act, an intra-Community supply is zero-rated if the factual requirements of the rule are met. To do this, the entrepreneur must verify the compliance by presenting the relevant documentary and record evidences. In the opinion of the Federal Court of Finance, however, the plaintiff did not provide the documents required.

Under the VAT Implementing Regulation, regardless of whether the supplier or the customer arranges for the transport of the goods, the entrepreneur must provide proof of the transport of supplies to another EU Member State by presenting:

a) A duplicate of the invoice,
b) A commercial document indicating the destination (point of destination), especially any delivery notes,
c) An acknowledgement of receipt by the customer or the customer's representative, and
d) Where transport is arranged by the customer, a document issued by the customer or the customer's agent confirming the transport of the goods into another EU state.

The fiscal court noted that the consignment notes issued lacked the places of destination or merely mentioned the general destination within Germany. The need for destination details in documents related to intra-Community supplies and acquisitions is indisputable, given the fact that intra-Community acquisitions are taxed in the EU Member State the goods are destined for.

The Federal Court of Finance concluded that the exception for cases where the customer's place of business is seen as the destination (BFH-judgment of 17 February 2011 V R 28/10, BFHE 233, 331, under II.3.c) does not apply here because the consignment notes mentioned various places of delivery (locations in several EU Member States and some in the taxpayer's domestic territory). The retroactively issued confirmations also did not provide information about the destination of the supplies.

Based on the fact that the EU Member States set the formal requirements for tax exemptions/zero-ratings, the Federal Court of Finance also was of the view that a zero-rating of the sales at hand is not justified under EU legislation either. According to the case law of the European Court of Justice, documents and declarations provided by the taxable person are the primary source of evidence of whether the goods physically left the territory of the Member State of supply (CJEU-judgment *Twoh International BV* of 27 September 2007 C-184/05, EU:C:2007:550, Rz. 24, m.w.N.).

Moreover, neither the VAT-law principle of neutrality, nor the principle of proportionality requires the zero-rating of the disputed sales. With regard to the principle of neutrality, zero-rating would be granted when the taxable person cannot satisfy, in whole or in part, the formal requirements of proving the intra-Community supplies, so long as the prerequisites of an intra-Community supply indisputably exist. (CJEU-judgment *Collée* of 27 September 2007 C-146/05, EU:C:2007:549, Rz. 31, 33). However, in this case, the prerequisites of an intra-Community supply do not exist indisputably.

As well, application of the principle of proportionality does not lead to a different result. Entrepreneurs are generally not authorised to provide the required proof by means other than documents and accounting records. Witness statements are no substitutes for the statutory documentary evidence. Only in exceptional cases, for example, when the requested records cannot be kept by the taxable person or the taxable person cannot reasonably be expected to maintain the documents in question, is it possible to apply the principle of proportionality and accept other means of evidence (compare for example, CJEU-judgment *Teleos* e.a. of 27 September 2007 C-409/04, EU:C:2007:548, Rz. 52 ff.). In the present case, the Federal Court of Finance noted there was no evidence indicating that the plaintiff was not able to keep or obtain the documents required.

The plaintiff is not entitled to claim the protection of a so-called "legitimate expectation" under the German VAT Act. Under this protection, a supply can be zero-rated if the supplier relied on false statements of the customer and the supplier was not able to recognise, even by exercising due commercial care, the incorrectness of the information. However, to claim this protection the supplier needs formal proof they exercised the diligence of an ordinary businessman.

In this case the Federal Court of Finance found that the requirement of presenting formal proof was not fulfilled, given the incomplete and contradictory information in the consignment notes and the general statements in the retroactive confirmation, as well as the resulting deficits of the documentary evidence.

Recommendation for action

According to the present BFH judgment, the question arises regarding whether a witness's statement will generally be considered insufficient proof. Based on the facts and the obscure circumstances of the particular case, such a conclusion does not seem warranted. The Federal Court of Finance observed that witness statements are generally not enough to prove a zero-rating of an intra-Community supply. However, this statement is qualified by the fact that the principle of proportionality may apply, thereby allowing for a zero-rating. As a result, in some situations proof other than documentary and record evidence may be sufficient where the requested records cannot be kept by the taxable person or the taxable person cannot reasonably be expected to maintain the documents in question.

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IRELAND

MANAGEMENT SERVICES SUPPLIED TO PENSION FUNDS

The Irish Tax Authorities (Revenue Commissioners) have recently published some guidance outlining their position following the decision of the Court of Justice of the European Union (CJEU) in case C-464/12, *ATP Pension Service A/S v Skatteministeriet*. The case dealt with the VAT treatment of management services supplied to Pension Funds.

The CJEU has ruled that defined contribution occupational pension schemes may be treated as "special investment funds" within the meaning of Article 135.1 (g) of Council Directive 2006/112/EC if the following conditions are met:

- They are funded by the persons to whom the retirement benefit is to be paid;
- The savings are to be invested using a risk spreading principle; and
- The pension customers bear the investment risk.

The Irish Tax Authorities accepted, as a corollary of the decision, that a defined contribution scheme (within the meaning of the Pensions Act 1990) is regarded as a specified fund and, as a consequence, the management of such schemes is exempt from VAT. Prior to the decision of the CJEU the management of pension schemes was not covered by the fund management exemption in Ireland.

The decision means that Pension Fund Managers will no longer have an entitlement to input credits on VAT incurred in relation to supplies to such pension schemes and input credits must be adjusted accordingly. The exemption does not extend to one member arrangement schemes.

The CJEU has also ruled that defined benefit schemes will not be regarded as special investment funds within the meaning of Article 135.1 (g) of the Directive. Accordingly, fund managers should continue to charge VAT on services supplied to defined benefit pension schemes.

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ISRAEL

VAT RATE REDUCED FROM 18% TO 17%

As a result of a recently passed regulation, Israel's VAT rate will decrease by 1% from 18% to 17% with effect from 1 October 2015.

The timing of liability for VAT on different types of transactions requires individual examination. Here are some examples of how the VAT rate change may apply to different transactions:

1. **A taxable sale of goods** – As a rule, the obligation to pay VAT arises when the goods are delivered to the consumer. Therefore:
   a) For goods that are, or that will be, delivered to the customer before 1 October 2015 the transaction will be subject to VAT at 18%, even if the payment is received in full or in part after 1 October.
   b) For goods that will be delivered to the customer on or after 1 October 2015 the transaction will be subject to VAT at 17%, even if the payment was received in full or in part before 1 October.
2. **Taxable rental of assets** – As a rule, the obligation to pay VAT arises on a cash basis, meaning when a payment of rent is made and on the amount paid. So, for rent payments received on or after 1 October the 17% VAT rate will apply.
3. **Provision of services** – The obligation to pay VAT on services is more complicated. In general, if the cash basis applies, for example, suppliers who are professionals to whom one of the relevant appendices of the Bookkeeping rules apply, the VAT rate will be the rate in effect at the time of the payment. For services that can be divided into several parts, the timing of VAT will depend on when the service is provided. If one part of a service is provided before 1 October and another part of the service is performed after 30 September then the VAT on the service provided before 1 October will be 18% and the VAT on the remaining services (in other words, services provided after 30 September) will be charged at 17%. There are additional rules affecting the VAT rate change for provision of services, so service providers should seek advice on their position, if they have not already done so.
4. **A taxable sale of real estate** – As a rule, the obligation to pay VAT is on the earlier of the following two dates:
   a) The date when the purchaser takes possession or has use of the real estate.
   b) The date the real estate is legally registered in the name of the purchaser in the appropriate the ledger.

If any payment was made before the real estate was transferred or before it was registered, VAT is due on the amount paid and at the rate applicable on the date the payment was made.

It should be stressed that the issue of invoices is not what dictates the time when the obligation to pay VAT arises. Instead, the obligation to pay VAT arises based on the timing of the liability according to the VAT law.

Where a VAT credit note is issued after 30 September 2015, the credit will include the VAT rate applied in the invoice the credit is related to.

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LATVIA

GOVERNMENT PROPOSES AMENDMENTS TO VAT LAW

On the Ministry of Finance's initiative, the Cabinet of Ministers of Latvia has entered into discussions about possible amendments to the VAT Law. The scope of amendments includes:

- Limitation of the application of the VAT exemption on cultural events; and
- Application of VAT on management services provided with regard to residential real estate.

Limitation of VAT exemption on cultural events

The proposed amendments would eliminate the VAT exemption on cultural events when the providers of the particular cultural event distribute the profits earned from the event to their shareholders or members. In such cases, the standard rate of VAT would apply. However, if the profit is used for provision of new cultural services or improvement of existing cultural services, the VAT exemption would remain in force. Thus, the amendment would impact only situations when the profits earned from the cultural events are distributed to beneficiaries.

VAT on management services provided with regard to residential real estate

The proposed amendments are required to ensure compliance with the EU VAT Directive. The VAT Directive does not allow exemption for management services provided with regard to residential real estate. Therefore, to eliminate the discrepancy between Latvian treatment and EU treatment, Latvia is obliged to amend its VAT Law. However, as the amendments would have notable impact on the society if approved by the Parliament, they are not expected to come into force until 1 July 2016 at the earliest.

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SLOVENIA

REVERSE CHARGE FOR IMPORT VAT IN SLOVENIA

The Slovenian Ministry of Finance recently published proposed changes to the Slovenian VAT Act. The purpose of these changes, which will be effective from 1 July 2016, is simplification of administrative obligations of taxable persons at import.

Under the current VAT legislation, import VAT is paid as an import duty. This means the customs authority accounts for VAT with the other import duties and so the VAT is paid by importers in accordance with the customs regulations. The import VAT can then be deducted in the VAT return in the tax period in which the customs declaration is received by importers. On average the import VAT is deducted one month after the payment.

Beginning on 1 July 2016 a reverse charge will be applied for import VAT. Importers will account for import VAT in their VAT return for the tax period in which the VAT will become chargeable, that is when the goods are imported. In the same VAT return they will deduct import VAT as input VAT. With this change, the import of the goods will not be financially burdensome to their cash flow; instead, it will merely impact their administrative operations.

The change in the VAT legislation will affect only importers identified for VAT in Slovenia, regardless of where they are established. If, however, the goods are imported by a non-Slovenian taxable person who does not have a Slovenian VAT identification number, the import VAT will still be accounted for by the customs authority at the time of import.

As a result, from July 2016 the financial authority will oversee the charging and payment of VAT on VAT returns, not on import customs declarations.

Other provisions regarding the import of goods (for example, chargeability of VAT, chargeable events, the tax base, and so on) will remain unchanged.

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SLOVENIA INTRODUCES TAX CASH REGISTERS

Beginning 2 January 2016 Slovenia will require the use of certified Tax Cash Registers. These cash registers will be connected on-line to the Financial Administration so that all "cash invoices" are recorded at the Financial Administration. The aim of the cash registers is to prevent tax fraud and tax evasion and, therefore, increase tax income. Use of the cash register will be mandatory for all taxable businesses in respect of any transaction where they do not receive payment directly deposited into their bank account. In other words, the tax cash registers will be required for all payments in "cash", which includes payments by credit card and cheque.

Exemptions

There will be some exemptions. For example, foreign taxable persons that are VAT registered in Slovenia will not be required to use a tax cash register in the following situations:

- When they sell goods from their country to Slovenia and the recipients in Slovenia are not taxable persons (so-called "distance selling"); and
- Mini one stop schemes (MOSS), which is for EU and non-EU taxable persons providing electronic or telecommunications services to recipients in Slovenia that are not taxable persons.

There will also be some other exemptions for domestic taxable persons in businesses that are not required to issue invoices (for example, train tickets, flat rate farmers for their products, vending machine sales, stamps, and so on) and for those in sectors where lots of invoices are issued on a continuing basis, such as telephone providers, suppliers of gas, electricity, water, and so on.

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SPAIN

PROPOSED NEW OBLIGATIONS TO SUPPLY INFORMATION

It is expected that starting 1 January 2017, taxpayers that must submit VAT returns on a monthly basis will be required to comply with the so-called "Immediate Delivery Information" (SII in Spanish) system. The main impact of this will be that they will have to submit the detailed records of invoices (not the invoices themselves) through VAT books on the Spanish Tax Agency's website. The VAT books generated through the website will include details of the transactions the taxpayer carried out.

The Ministry of Finance announced these proposed changes to the VAT law through the publication of a draft of a Royal Decree on 30 July 2015. The draft decree sets out the main obligations of the SII, giving taxpayers time to make changes that might be necessary to satisfy the new requirements.

Here are some of the main requirements related to the "Immediate Delivery Information" registry:

- It is mandatory for taxpayers that are required to submit VAT returns on a monthly basis.
- Other taxpayers can ask to be included in the registry.
- The information to be included is more detailed than what taxpayers have been required to provide before, including such things as whether the invoice is complete or simplified, a description of the transactions, the timeframe within which the invoice must be paid, and so on.
- As general rule, the deadlines for the electronic submission of the detailed records will be four calendar days from the date the invoice is issued and four calendar days from the date they are posted in the company's accounting register, in case of received invoices.
- The deadline for the submission of VAT returns will be extended to the 30th of the month after the month the return covers. (Currently the deadline is the 20th.)
- Taxpayers that must comply with the SII will not have to submit certain information returns, such as the annual summary VAT return or the information return regarding transactions with third parties.

We will keep you informed about additional requirements taxpayers may have to comply with related to the SII registry.

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SOUTH AFRICA

DAVIS TAX COMMITTEE TOUCHES ON THE POSSIBILITY OF A HIGHER VAT RATE

In 2013 the Ministry of Finance established the Davis Tax Committee to assess the country's tax policy framework and its role in supporting the objectives of inclusive growth, employment, development, and fiscal sustainability. The Committee released its First Interim Report on VAT in December 2014. The Interim Report included a number of recommendations and addresses the merits of a future increase in the VAT rate. In August, however, the Committee issued a media statement publicly denying that the Interim Report had any explicit recommendation about increasing the rate.

According to the Interim Report, South Africa has one of the most efficient VAT systems globally. The basis for this statement is an IMF report that commends South Africa's limited exemptions and zero-ratings, as well as its strong administration.

Despite the favourable reviews of South Africa's VAT, the Report suggests that government needs to hone its analysis of collections. For example, the IMF recommended increased monitoring of the tax and VAT compliance gaps; and detailed analysis of industry sectors and taxpayer segments of strategic risk.

The Committee also recommends that a detailed economic analysis should be done on the basket of zero-rated goods, though it believes no further zero-rated food items should be considered. BDO South Africa is of the view that consideration should be given to reducing or eliminating the zero rated basket of foodstuffs. The Committee also is of the view that dual or multiple VAT rates should not be considered and exemptions should be kept to a minimum and, ideally, should only be used for difficult to tax items or where there are solid economic reasons. BDO South Africa is of the view that dual or multiple rates and exemptions should be used very sparingly, as they create economic distortions.

The Committee also recommends that place of supply rules be adopted but that they should be in harmony with those in other countries. BDO South Africa supports this and believes it to be long overdue.

As well, the report includes recommendations on VAT on telecommunications and e-commerce, with the Committee suggesting that there be no distinction between business-to-business and business-to-consumer supplies.

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CURRENCY COMPARISON TABLE

The table below shows comparative exchange rates against the euro and the US dollar for the currencies mentioned in this issue, as at 23 September 2015.

Currency unit	Value in euros (EUR)	Value in US dollars (USD)
Australian Dollar (AUD)	0.63560	0.71604

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