SAP® FOREIGN AP VAT

HOW MUCH MORE COULD YOU BE RECOVERING?

VATB◆X

It's VAT simple

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Only 7% of businesses use automation to process and pay company invoices.
Accounts Payable Trends and Benchmarks for 2017.

Foreign AP VAT is Complex & Lucrative

Businesses operating in countries where they are not established or VAT-registered still incur significant amounts of VAT on purchases made in those countries. Some of the most common expenses for which non-resident companies incur VAT include: co-location costs, import VAT, local purchases of demo goods, locally purchased spare parts and even (incorrectly billed) service charges from foreign vendors.

In principle, non-resident businesses are eligible to recover some or all of the VAT incurred spend, representing a significant opportunity to reduce the tax burden.

The sheer complexity of uncovering already booked invoices from supplies activities abroad that do contain recoverable foreign VAT, is challenging to even the most robust AP organizations.

And even when identified, updated and expert knowledge of the complex rules, regulations and best practices in every country is required to establish first whether the VAT was charged correctly and secondly whether the VAT is recoverable. Until now, this has been a time-consuming, and highly manual process.

Without noticing, foreign VAT may still enter your finance stream, even when working with a tax determination solution or an automated internal intercompany invoicing system.

Together, these foreign AP VAT challenges have caused more than one AP department to simply throw up their hands in the face of foreign AP VAT recovery. "Maybe easier, to just write off this opportunity?"

Yet foreign AP VAT is not just about recovering money, it's about your organization's indirect taxation strategy, as well as your team's impact on company policy and compliance.

By leading the drive to overcome these challenges, AP teams can recover otherwise lost VAT and markedly impact the organization's bottom line. By owning this process, the AP team will benefit from the enhanced control and visibility capabilities of automation and technology.

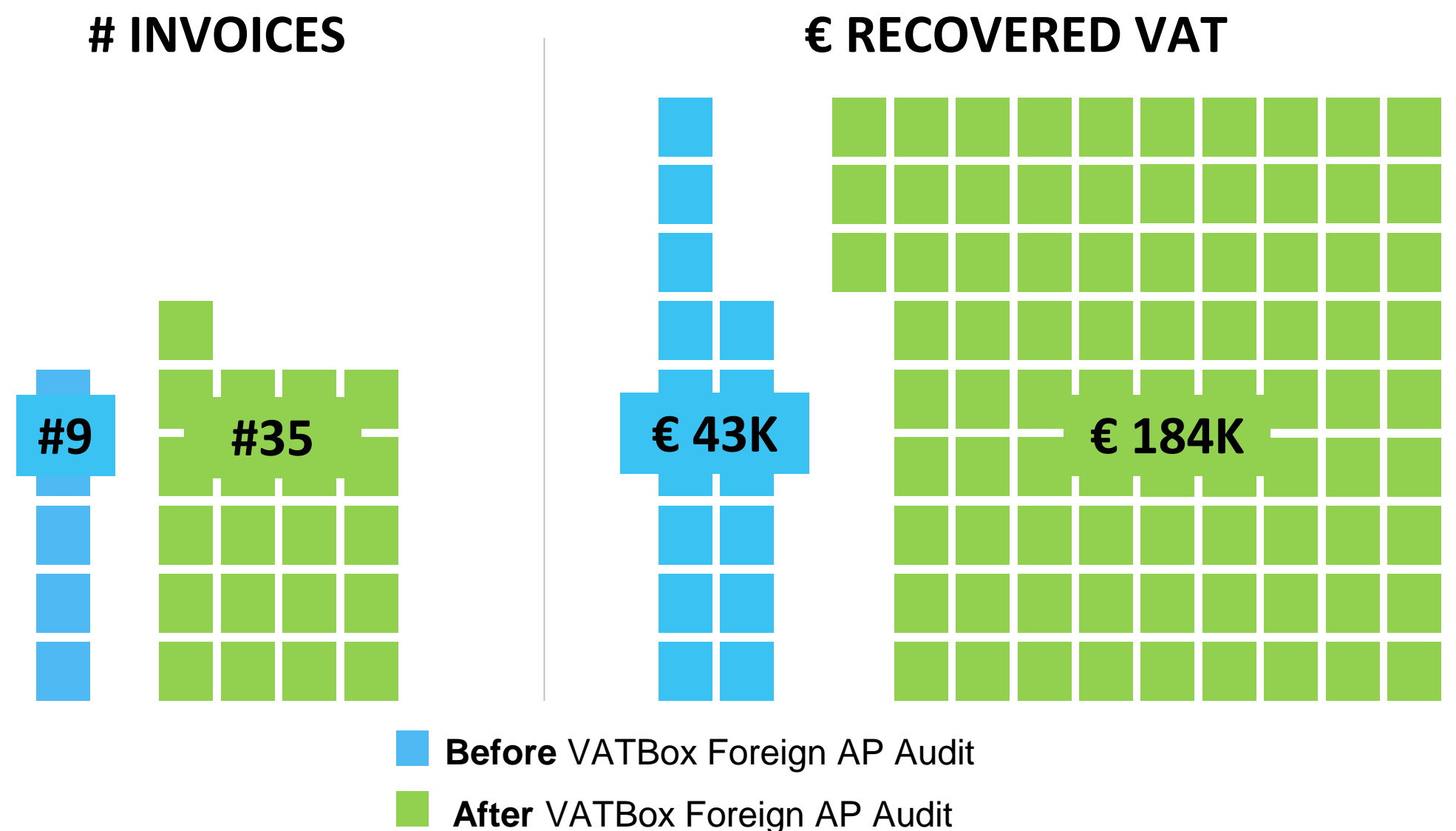*43% of organizations today do not leverage data to better understand its cash situation/impact.*
IOFM .

Foreign AP VAT Recovery touches only a few unrecovered invoices, but its impact on the bottom line is big.

Don't write off Foreign AP VAT recovery just yet!

MN Pharma Company, Foreign AP, 2015 vs. 2016

 # INVOICES

€ RECOVERED VAT

#9   #35

€ 43K   € 184K

■ **Before** VATBox Foreign AP Audit
■ **After** VATBox Foreign AP Audit

Every month, AP teams must process a huge number of AP invoices. In order to have clear visibility for VAT, each invoice must be classified with the correct tax code.

Often, incorrect tax codes are assigned or the correct tax code is not even available in SAP. For AP transactions with foreign VAT in jurisdictions where there is no VAT registration, the proper tax code is often missing. Incorrectly coding these transactions or putting the foreign VAT into a suspense account will make them invisible.

Without the right technology, it is a long and painful exercise for the already overloaded AP teams to identify these invoices.

Moreover, the question is, who will be actually motivated to spend time identifying these invoices when the VAT has already been booked to P&L and is not accrued for?

Wrongly-charged VAT is non-refundable, whereas VAT that was not charged -, but should have been charged - could represent a possible liability in cases of joint liability.

During VAT audits one of the key areas frequently targeted is input VAT that has been recovered incorrectly. This especially applies when the spend is in the area of entertainment for both business guests and employees.

However, the input VAT deduction on compensation for damages, test batches, free sample shipments, faulty product that is destroyed, is becoming more and more challenging.

With highly complex VAT regulations, whereby international rules may overlap and even contradict each other, few AP team members are qualified to make intricate indirect taxation decisions. And even fewer can devote the right amount of time to make the correct VAT determination – for every single invoice.

This leaves AP teams exposed to VAT recovery losses, as well as potential non-compliance penalties.

21% of businesses have suffered regulatory or compliance breaches in the past 12 months.

Kroll Global Fraud & Risk Report, April 2017 .

Challenge #3 | Complicated VAT Recovery

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Despite simplification efforts the VAT landscape and the rules remain complex:

- Cross -border transactions within the EU and, Intra community transactions (goods) each have its own rules and formalities to manage.
- VAT simplifications and specific exceptions are often very complicated for IT to implement.
- VAT qualification of services (e.g. combined supplies, ancillary supply of goods, connected to immovable property and effective use and enjoyment).

In addition, business models and supply chains have become more complex as they have developed and adapted to changing operating environments including:

- Increase of inter-company transactions to optimize effective tax rates (e.g. central procurement, principal structures).
- Use of call-off and consignment stocks to avoid delays in delivery but causing a time difference between invoicing and the movement of goods.
- Pick-up transactions to facilitate client's logistics savings but present high risk if formalities are not met.

This realization has spurred financial stakeholders to begin taking a closer look at the efficiency and reach of existing VAT recovery processes and how automation can provide greater value.

Challenge #4 | Achieving VAT ID Validation

VAT validation is a twofold challenge – validating not only the customer's VAT ID especially in cross-border transactions, but the supplier's VAT ID number as well.

Achieving validation for every single VAT ID can be very time-consuming and involve significant manual resources. The Finance department can't skip this step as it is absolutely critical to controlling indirect tax risks.

There are a number of inherent ERP limitations that hinder the validation process. For example, although it is possible to validate the VAT ID number format in SAP, that number ma also have to be validated in the VAT Information Exchange System (VIES) – the database established by the European Commission for the validation of VAT numbers.

And today, a simple VIES query is not sufficient. AP departments must check local databases regularly too as the burden of proof increases more and more for your business. Businesses must proceed with caution and be aware of their VAT exposure.

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Cash-strapped countries are increasingly turning to VAT as an effective way to boost tax revenues, and cracking down on non-compliance to recover VAT losses.

Also existing "VAT countries" are looking into ways to better secure leakage of VAT income by introducing SAF-T (Standard Audit File for Tax Purposes) or similar requirements. Some countries (notably Spain, Italy and Poland) have begun to demand near real-time information regarding company transactions, allowing tax authorities to perform more efficient and effective tax audits.

Efficient use of technology lowers costs of data collection and compliance. As a result, more and more tax administrations around the world are implementing electronic auditing of business' financial records and systems as part of their compliance regime.

These policies make it business-critical to keep VAT compliance up-to-date, maintain readiness for tax authority questioning or audits, and stringently conform with regulations, both local and foreign, for all transactions.

26% of businesses have suffered vendor, supplier or procurement fraud in the past 12 months.
Kroll Global Fraud & Risk Report, April 2017.

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The Solution

VATBOX DISCOVERS UNREALIZED FOREIGN VAT ON AP INVOICES

VATBox's automated, enterprise-wide, cloud-based VAT recovery technology integrates seamlessly with ERP environments, extracting and auditing your data to verify the accuracy of VAT invoice data and improving results for Foreign AP VAT reclaims.

VATBOX'S COMPREHENSIVE PROCESS:

- **Identifies missing or incomplete data** in order to boost Foreign VAT reclaims and reduce non-VAT compliant invoices.

- **Analyzes each Foreign AP transaction** using a unique knowledge-based automated engine to determine if VAT was charged, if VAT was charged correctly and, if the VAT was entered correctly into the ERP.

- **Checks for incorrect or uncharged VAT** on each invoice and line item using a rules-based invoice validation engine which is constantly updated and uses self-learning artificial intelligence.

- **Automatically requests invoice corrections**, resulting in faster foreign VAT recovery and dramatically enhanced compliance.

Proven to deliver unrivaled visibility, compliance, and data integrity, VATBox dramatically improves the overall foreign AP process and maximizes eligible VAT refunds.

"Think left and think right and think low and think high. Oh, the things you can think up if only you try"
Dr. Seuss.

Seamless Integration with SAP

VATBox helps AP teams meet the foreign AP VAT challenges with our dedicated Foreign VAT AP Audit Solution dedicated to the SAP environment.

VATBox's cloud-based solution integrates seamlessly with the SAP environment to verify the accuracy of invoice data, creating a hybrid operations environment. This tight integration enables decision-makers to achieve a 360-degree view of financial and operational data, assisting with metrics determination, cash forecasting, working capital management, spend analysis and supplier compliance.

VATBox's Foreign VAT AP Audit Solution helps your AP team realize the full potential of recovering foreign VAT on AP transactions:

- **Discover** VATBox's sophisticated Artificial Intelligence engine for identifying foreign VAT hidden in your AP transactions.
- **Validate** each relevant invoice, perform VAT ID verification and reissue the invoice through our Supplier Module if required.
- **Turbocharge** your foreign VAT reclaims and dramatically increase business benefits.

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VATBox is a global cloud-based technology company focused on simplifying the laborious VAT recovery process through intelligent knowledge-based automation. VATBox gives businesses full visibility, full international compliance and data integrity. Using intelligent automation and keeping all data entirely in the cloud, VATBox gives you full control of your VAT spending, making the VAT recovery accurate, productive and increases returns. VATBox effectively utilizes the partnership and easy integration with SAP to recover 4x more while providing full transparency on any VAT spend.

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