

# Exposé

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**SPECIAL ISSUE**

## **Dutch tax advisers in their global role**







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# The importance of indirect taxes

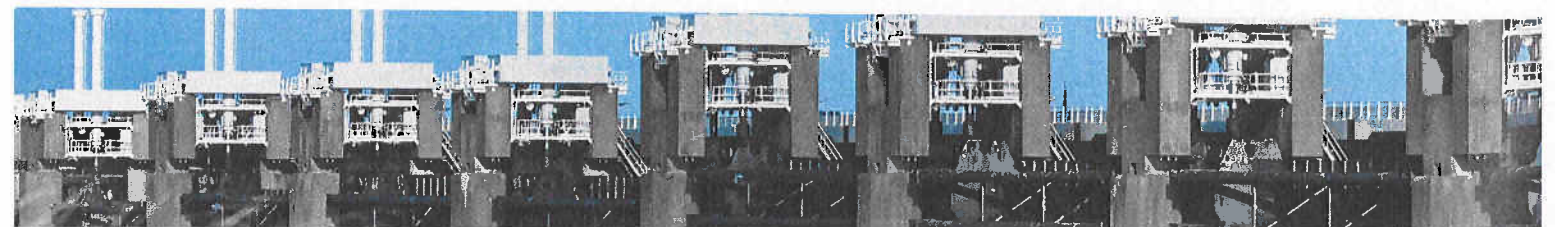
Turnover tax is often the most important tax for companies. And for the tax authorities, VAT is in many cases one of the largest – often the largest – source of income. No wonder that both parties have an interest in the effective and efficient handling of tax returns and payments. VMW Taxand advises both companies and foreign governments on domestic and foreign VAT issues. Roelof Vos is one of the specialists in the field of indirect taxation in the Amsterdam office.

#### **VMW Taxand also advises governments in the field of VAT?**

‘Yes. We assist the tax authorities of developing countries in setting up and improving their VAT systems. We do not do this exclusively from the Netherlands, but as part of an experienced international team Taxand deploys worldwide. Of course, we first and foremost take the circumstances of the jurisdiction involved into account – *inter alia* the scope of the so-called informal economy. But in practice it appears that we are always able to use elements from the European VAT system, which has been around much longer. A system we have a great deal of experience with – both the positive and the negative aspects of it.’

#### **What is your ultimate goal?**

‘Our starting point is the set up and implementation of VAT systems that are as simple as possible, the execution of which is computerized wherever possible. The main features are an extensive VAT base, low rates and as few exemptions as possible. This approach will guarantee maximum tax proceeds for the government involved.’





**How important is it that first and foremost the circumstances of the country involved are taken into account?**

'Very important. To know and respect the local culture and regulations is crucial for the success of such an operation. The British, for example, are very good at that. Therefore, they are well represented in the Taxand-team.'

**The other aspect: VAT consultancy for companies. Is compliance getting more and more attention?**

'Yes, even to the extent that many companies outsource their compliance efforts to us. They want to do away with the many co-ordinating activities involved in filing tax returns in different countries. For example: We take care of VAT returns for a Dutch multinational producing and selling electronic devices in nineteen countries. We do that from Taxand Global VAT Compliance.'

**Why such a special section?**

'Because that section has a great deal of fundamental knowledge of VAT, and it can help out in Amsterdam as well as in other Taxand jurisdictions if something unexpected occurs. A special team led by my colleagues Henk Hop and Arnoud Bakker sorts out everything for the companies that opt for this service. In the first instance, we base ourselves on the figures supplied by the client, but then we add a system of checks and balances from our knowledge of the supply chain processes and accounting rules. Are departures from established patterns visible? If so, what do they look like and how can they be explained? The client is very interested in a correct tax return, he does not want trouble with the tax inspector.'

**How do contacts with clients take place?**

'The entire process is computerized. The figures are provided on the internet. Clients have their own e-room, so that they can check their position at any time.'

**Apart from being the largest source of income, VAT is also the area most susceptible to fraud. To what extent can a VAT consultant protect his clients?**

'Indeed, VAT has one Achilles heel: carousel fraud. The latter is made possible because of a flaw in the European system. A buyer can reclaim VAT, even if his supplier has not paid this VAT to the tax authorities. Thus, each year billions of euros drop into the pockets of criminals. We help companies to mitigate this risk that they get involved in carousel frauds.'

**How is this done?**

'We advise our clients to apply a *know your customer* test. In this field much can be gained through prevention, *inter alia* an adequate VAT documentation of transactions. And if a company should fall victim to a carousel fraud, we assist them from our tax lawyers' section in instituting a lawsuit

against the tax claim. Unfortunately, so far no adequate solution has been found to eliminate this type of fraud. Criminals know how to exploit the weaknesses of the system. Especially in international transactions they seize every opportunity, as they yield the largest proceeds. Companies must be extra alert here.'

**Do you have any other specializations in the field of indirect taxation?**

'We are very active in the entertainment section. Many transactions in that area are concluded on the internet and by mobile phone. Providers offer their products in a large number of countries. This leads to all kinds of questions in the field of VAT and tax on games of chance, basically about the exact structure of the indirect taxes in all those countries. Moreover, VAT aspects of, for example, online and mobile gaming are often still unclear. But our knowledge and expertise ensure that we can reduce the risk of double taxation as much as possible for our clients.'

**Does VAT also offer possibilities for legal tax planning?**

'For a long time it seemed that everything was allowed in VAT. The turnaround came in 2006 with the Halifax ruling of the European Court of Justice. VAT taxpayers are not allowed to abuse the law, the Luxembourg court ruled. The Dutch Supreme Court concurred with this ruling in 2012. Nevertheless, the question of whether or not abuse of the law exists remains of acute interest. Does abuse of the law exist if a company meets all the requirements with regard to acting at arm's length and substance of activities? Companies have become more careful, as no-one wants to attract publicity for being accused of tax avoidance. Nonetheless, VAT offers quite a few of – quite legal – tax planning options.'

**Around the world a shift seems to be going on from direct to indirect taxation?**

'Yes, it has been going on for some time. Especially in Europe, rates are gradually being increased. The United States is thinking about introducing a VAT system. In India this will soon be realized. A short while ago we performed a road show there with a special Taxand team in order to prepare companies for the new situation. Our experience with the European VAT system appeared very instructive.'

**In 2010, within the EU two important new rules were introduced. How were they received?**

'You are talking about the VAT reverse charge mechanism – VAT on services delivered inside the country by a foreign company is now owed by the recipient – and VAT paid abroad may now be reclaimed through a portal of the company's domestic tax authorities. Both measures simplify matters for entrepreneurs, but part of the problem still remains unsolved. Many clients still seek our advice in this.' ■

