REPUBLIC OF ESTONIA
TAX AND CUSTOMS BOARD

Digitalising VAT – Estonia

Experience with VAT listings

Maksim Baranov

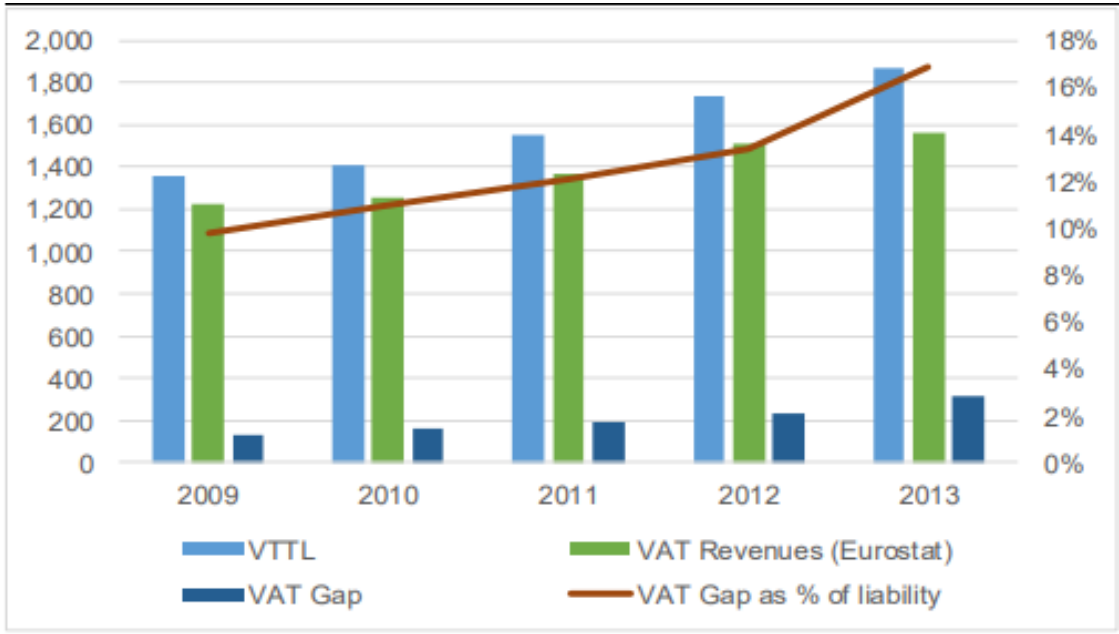
Overview

- ✓ The problem
- ✓ The solution
- ✓ The impact
- ✓ What is next?

The problem

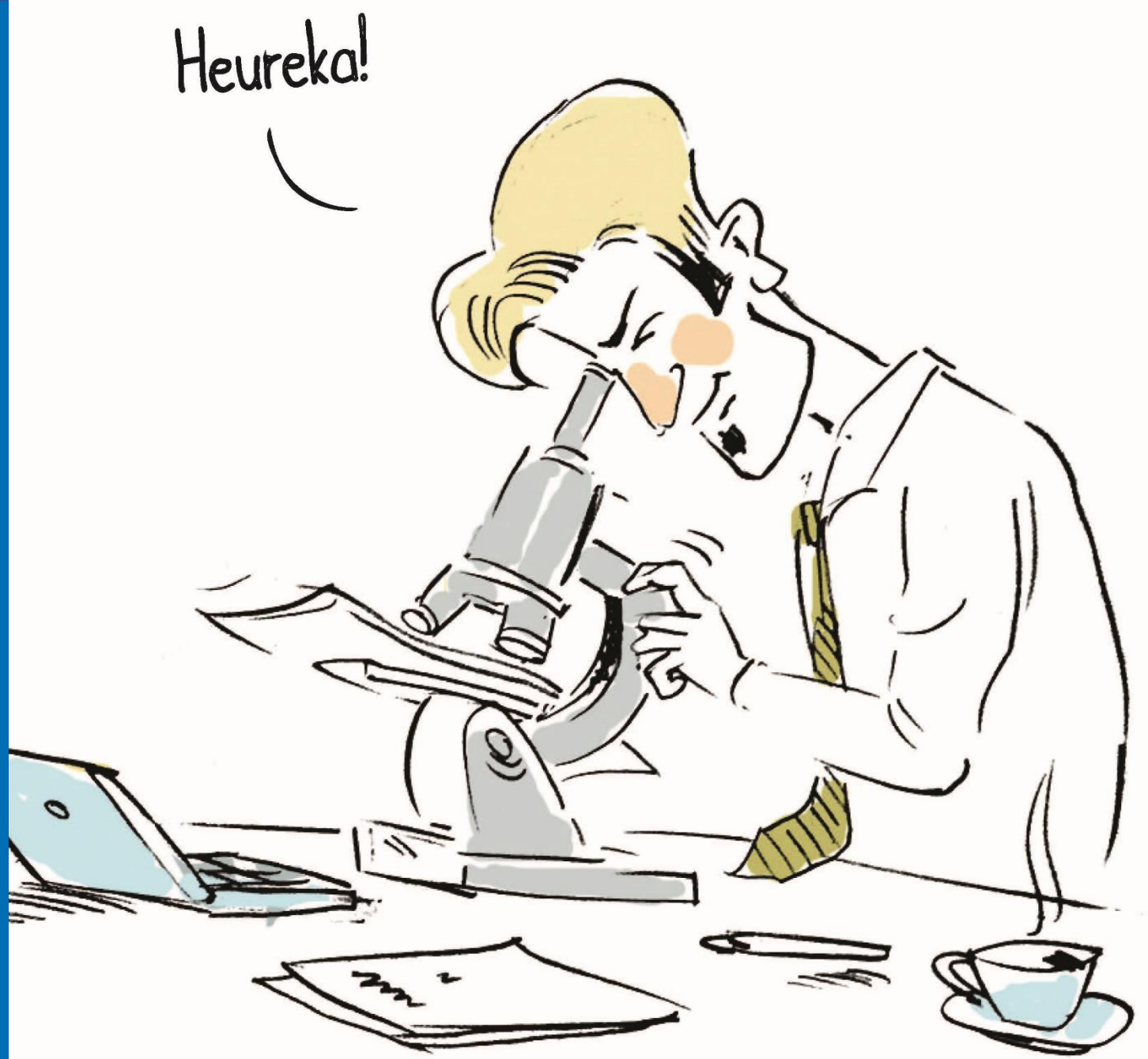
Prior to 2014

- ✓ VAT gap of 17% in 2013
- ✓ VAT return with aggregated values
- ✓ Fraud is easy to commit
  - A playground for fraudsters
  - Hinders competitiveness of honest businesses
- ✓ Tax enforcement is problematic
  - Aggregated data is difficult to see through
  - Audits are time consuming as collecting data is manual
  - We don't know what we are looking for when we start an audit



Source: European Commission. VAT gap study, 2015

The solution



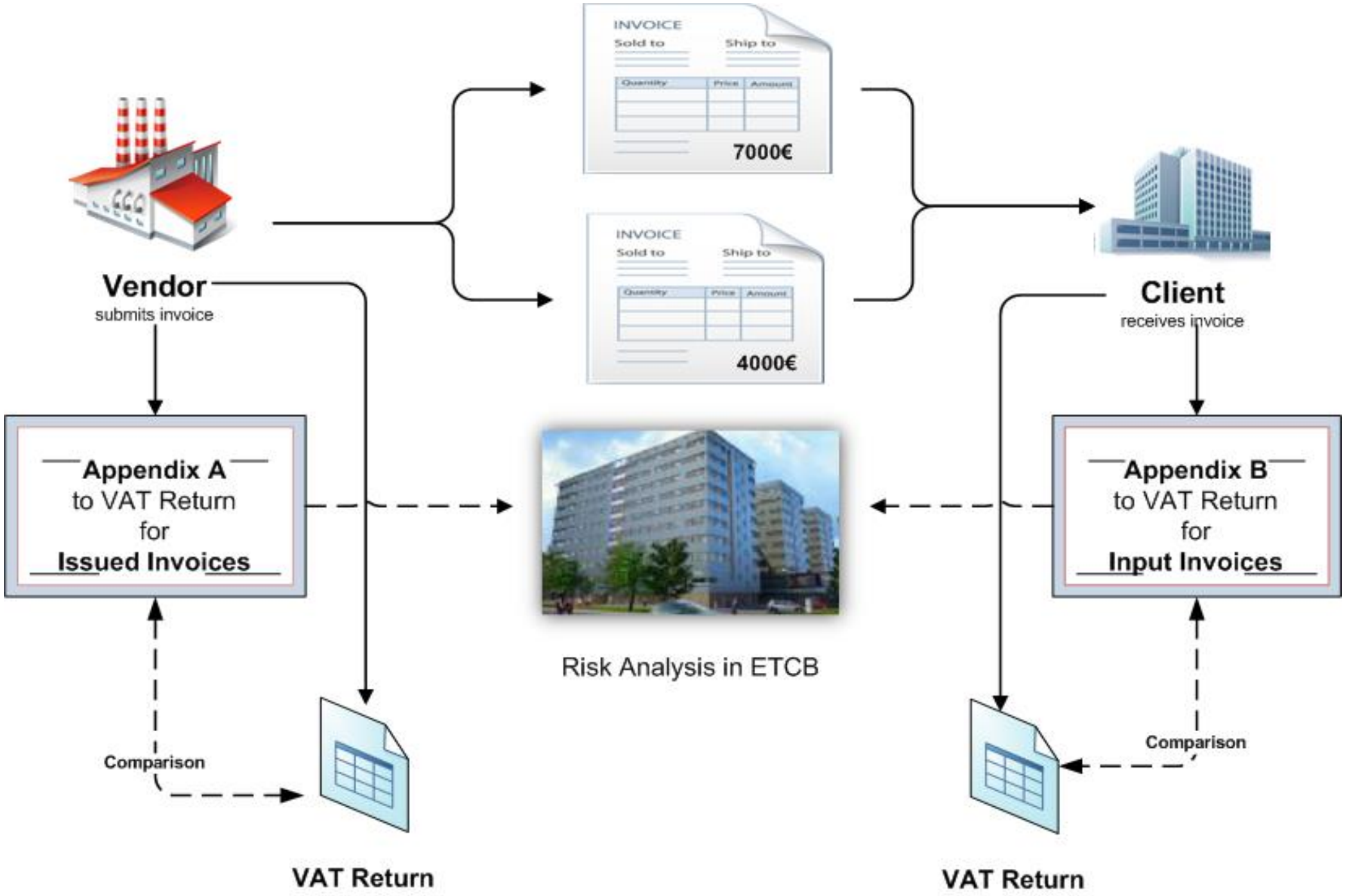
Changes introduced in 2014

Our objective

- ✓ Reduce unreported turnover and bloated expenses
- ✓ Make tax evasion more complicated
  - No longer an option for normal businesses
  - More expensive for professional fraudsters
- ✓ Spot fraudulent transactions faster

Changes introduced

- ✓ Obligation to report B2B transactions
- ✓ Universal obligation for all VAT registered persons


INVOICE
Sold to
Ship to
Quantity
Price
Amount
7000€
INVOICE
Sold to
Ship to
Quantity
Price
Amount
4000€
Vendor
submits invoice
Client
receives invoice
Appendix A
to VAT Return
for
Issued Invoices
Appendix B
to VAT Return
for
Input Invoices
Risk Analysis in ETCB
Comparison
Comparison
VAT Return
VAT Return

Data to be reported

Sales – all B2B

- ✓ ID and name of transaction partner
- ✓ Invoice date and number
- ✓ Total amount net of VAT
- ✓ Tax rate
- ✓ Taxable supply reported in VAT return
- ✓ Special code

Purchases – only from VAT registered

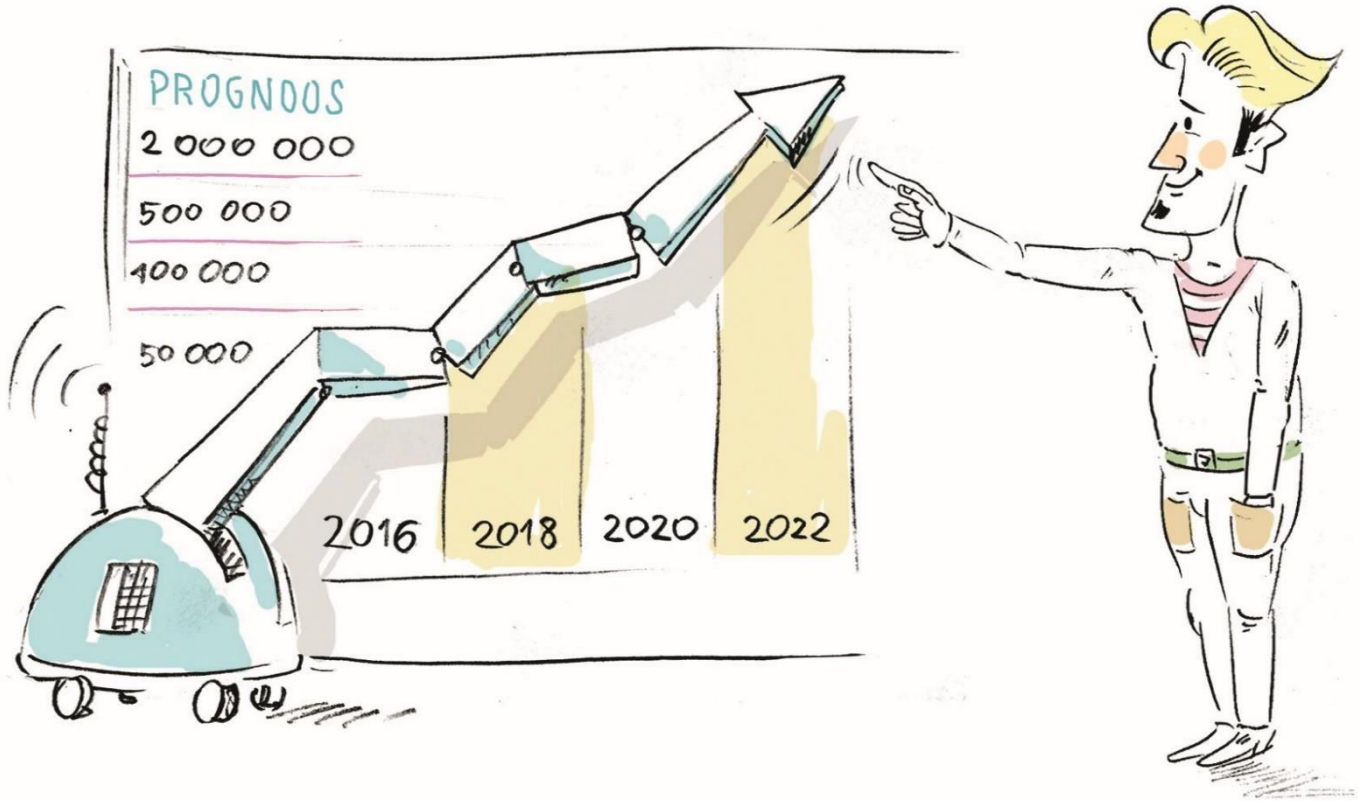
- ✓ ID and name of transaction partner
- ✓ Invoice date and number
- ✓ Total amount net of VAT
- ✓ Input VAT amount reported in VAT return
- ✓ Special code

Threshold of 1000EUR per business partner – if not exceeded then transactions may be reported as an aggregate amount

Cornerstones of the system

- ✓ Who – all VAT registered persons
- ✓ We do not oblige taxpayers to collect more data – we ask only for the data that is already in their systems

The impact

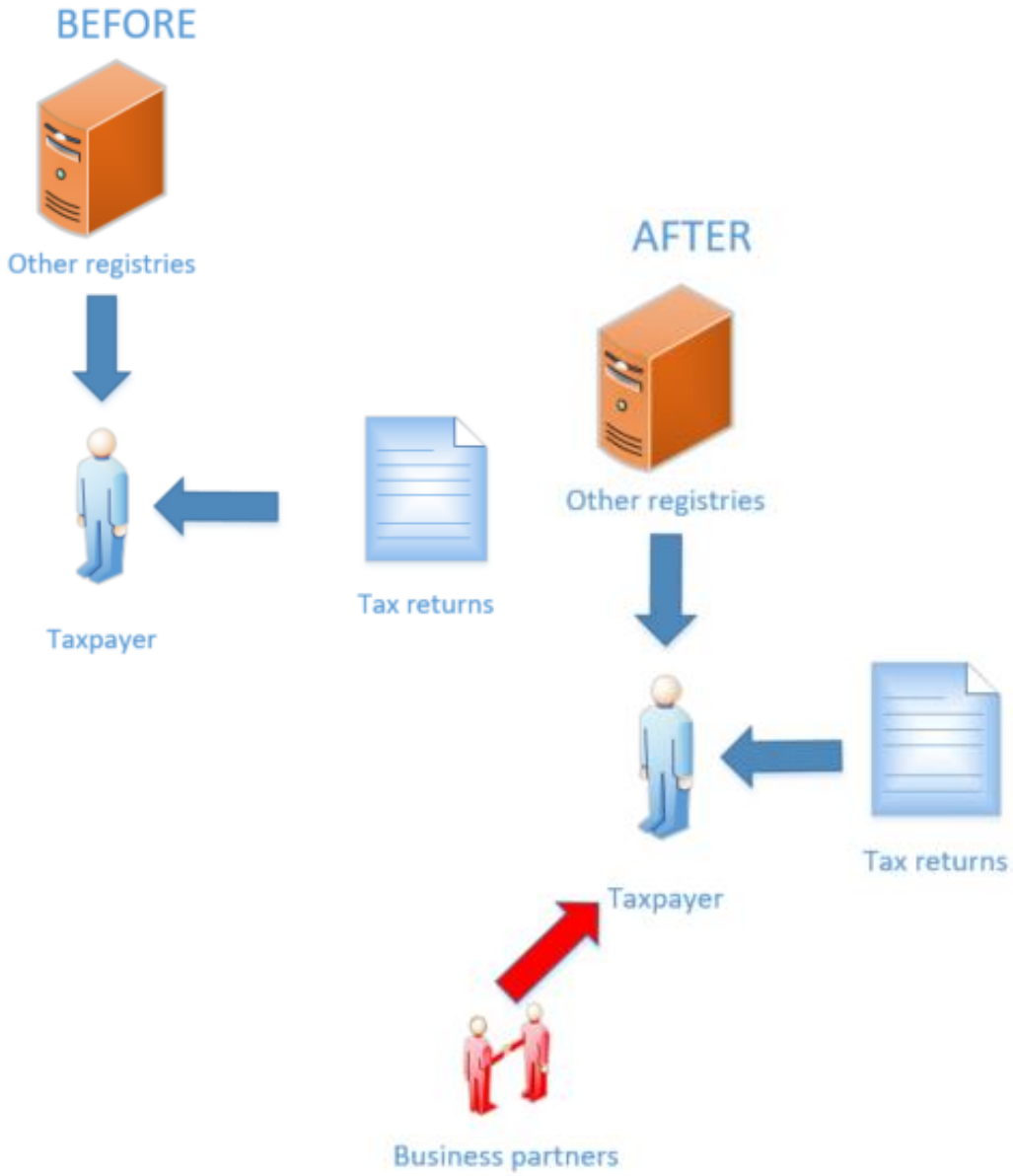


Impact on risk analysis

New dimension appeared

As a consequnece

- ✓ Improved targeting of cases
- ✓ Matching data between trading partners
  - Who does business with whom
  - Mismatches in reporting the same transaction
  - Able to spot suspicious transaction chains
- ✓ Better input for auditors

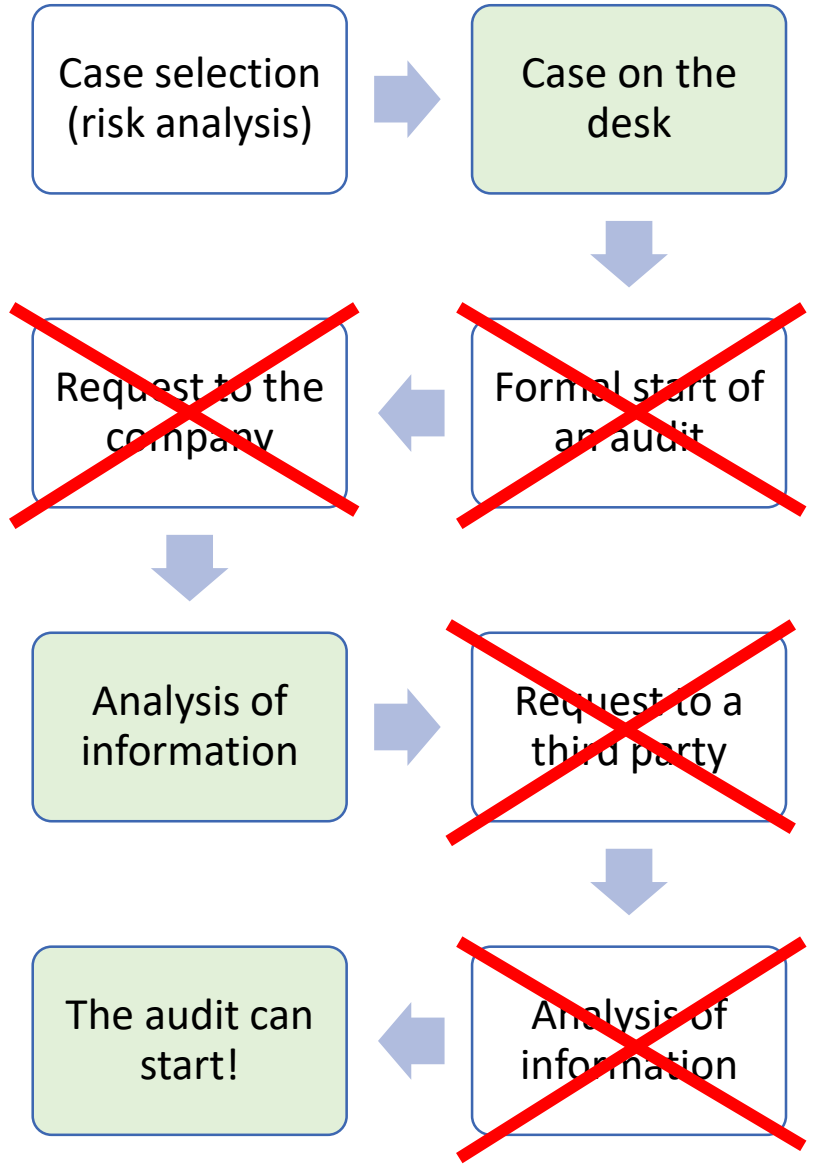


Impact on audit process

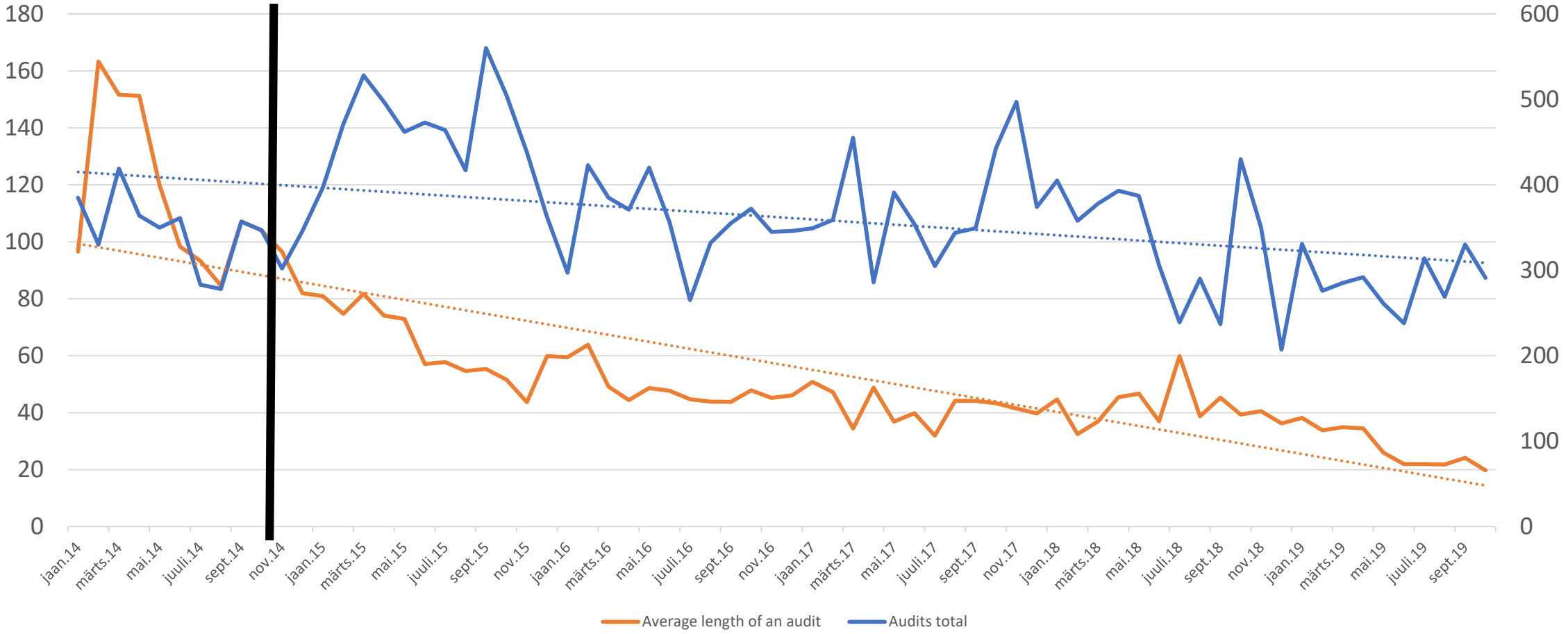
We know more before we even start

As a consequnece

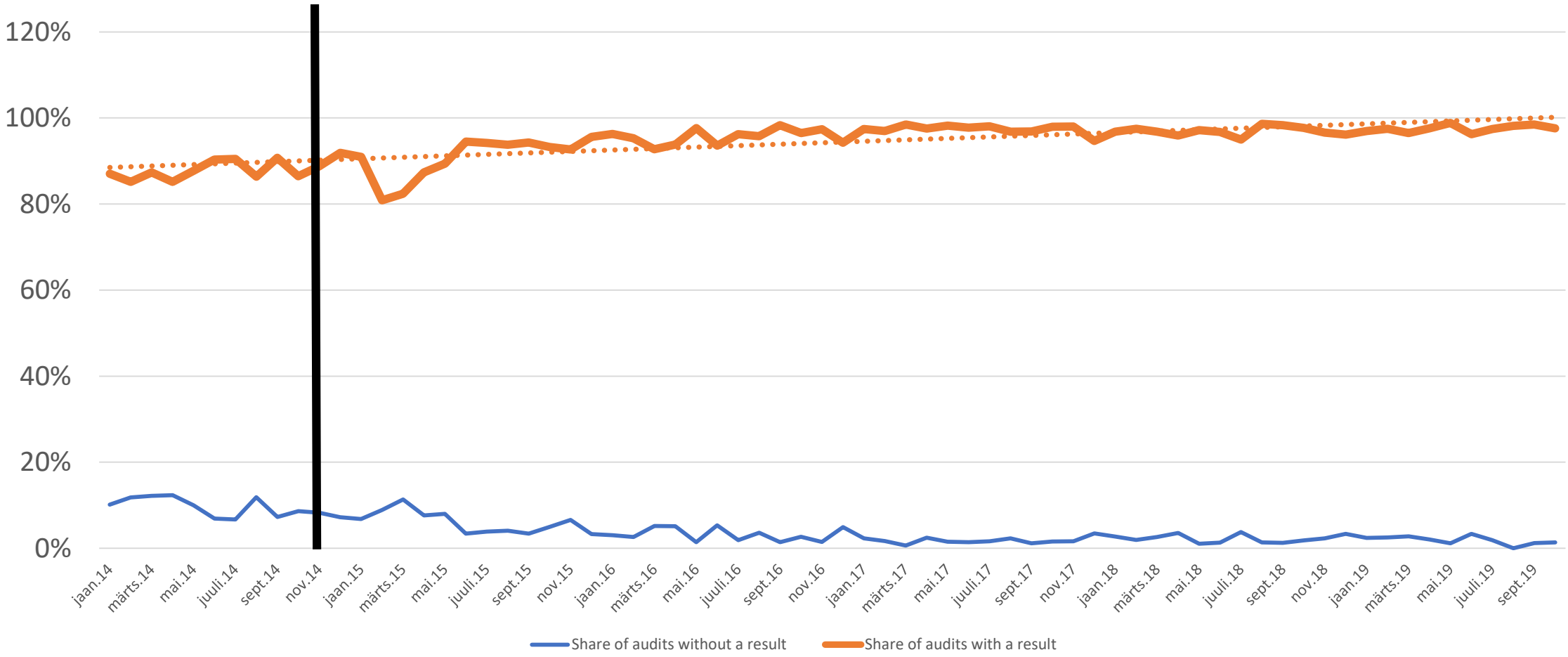
- ✓ Minimised need to collect data from third parties
- ✓ Audit is more strategic
  - Targeting particular transactions
  - Auditing transaction chains, not single taxpayers
- ✓ More efficient audit
  - Less time to complete an audit
  - Better outcomes



We audit less and it takes less time to complete an audit

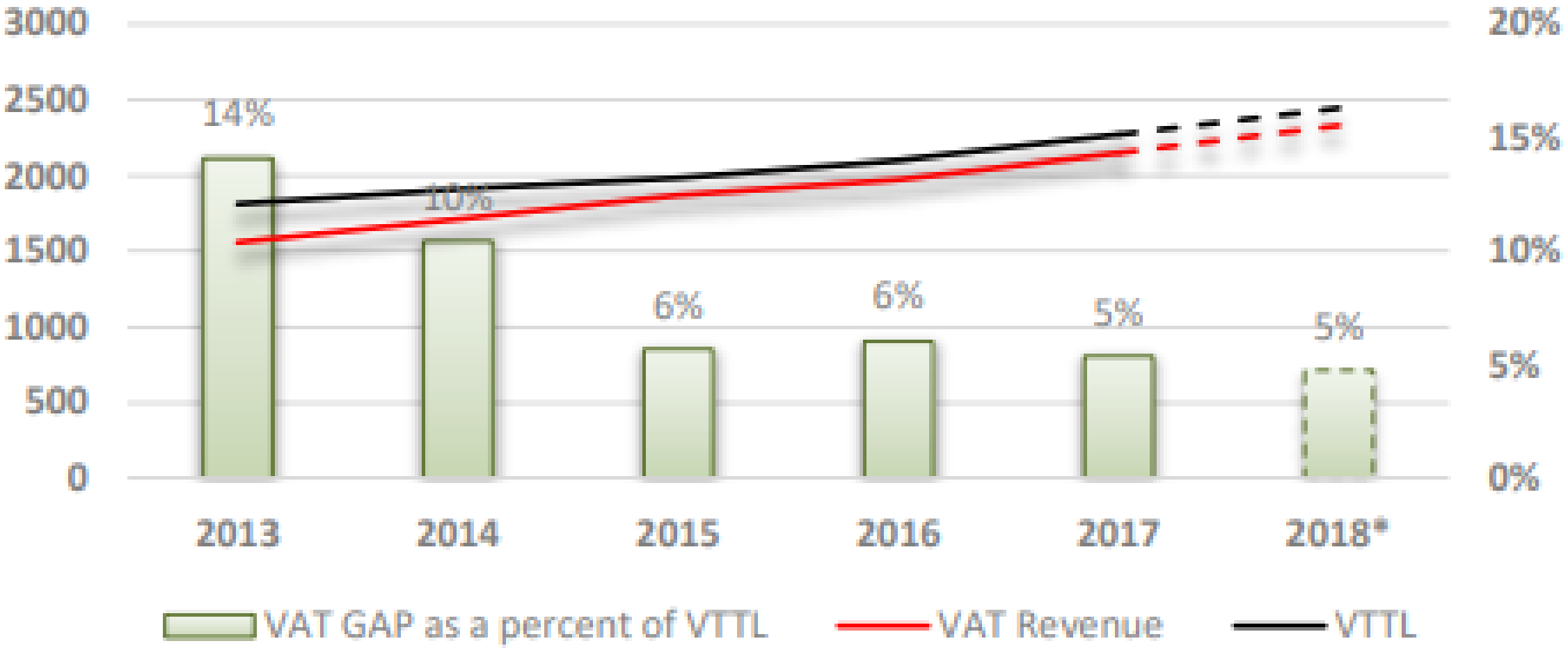


Share of audits yielding a result is growing



Impact on VAT gap

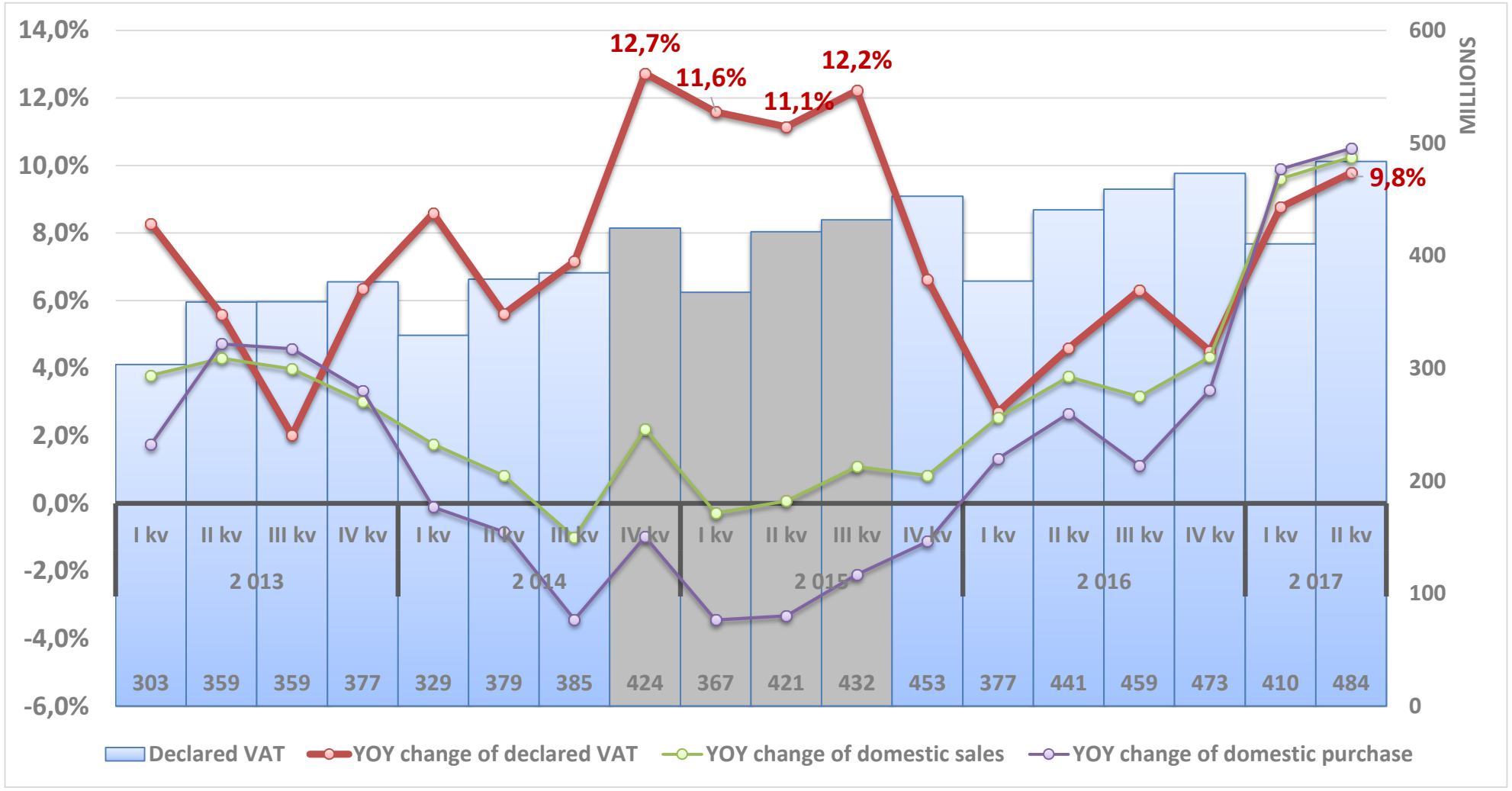
From 14% in 2013 to 5% in 2017



Source: European Commission

Impact on reported VAT

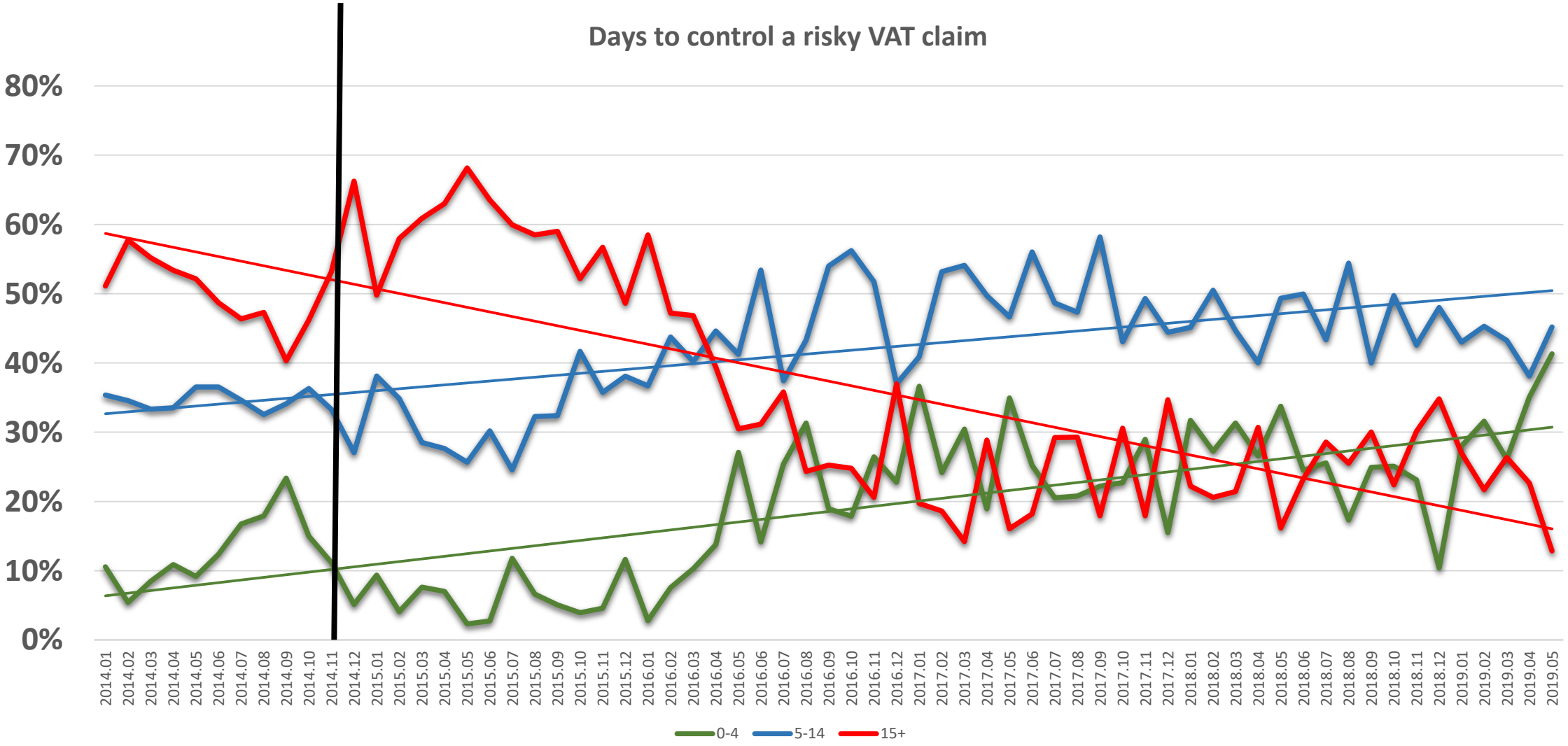
Deductible costs went down while turnover stayed the same



Impact on taxpayers

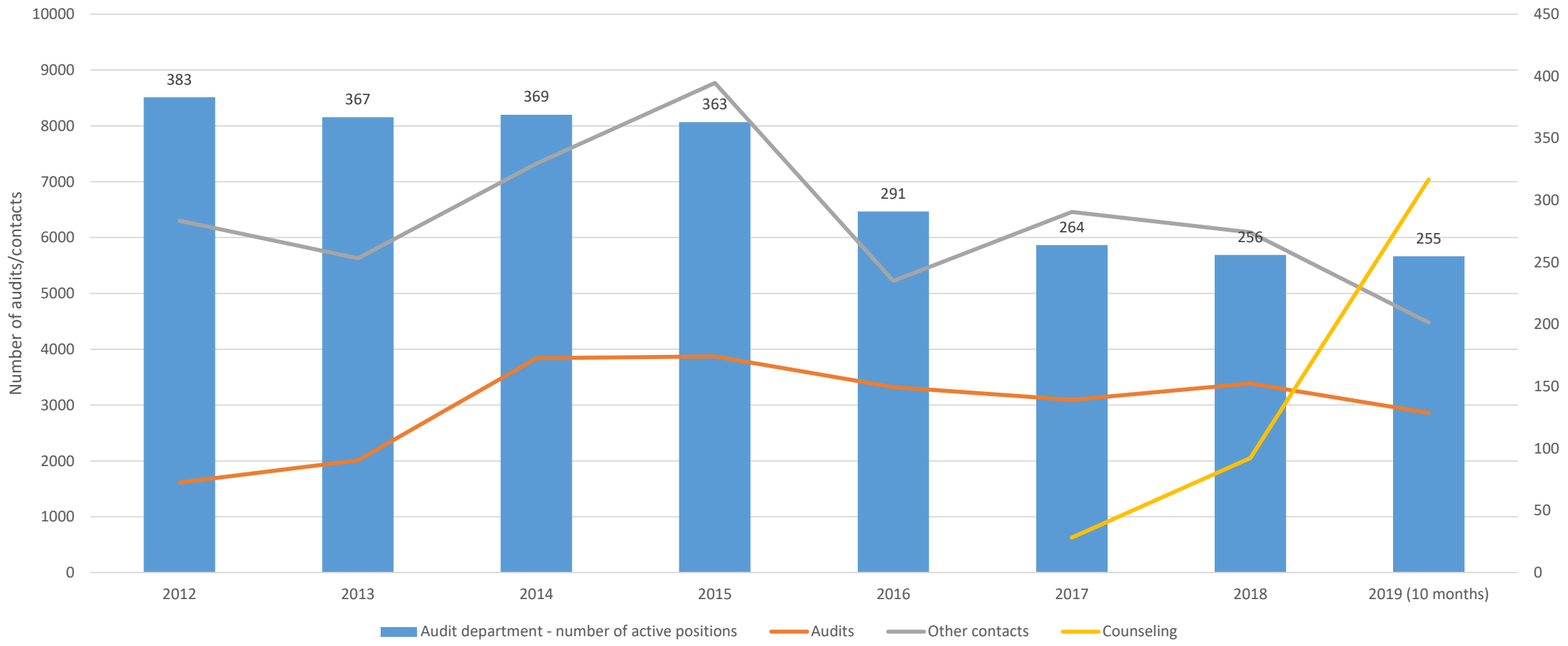
A more capable tax administration is a win for taxpayers

It takes less time to audit a risky VAT claim



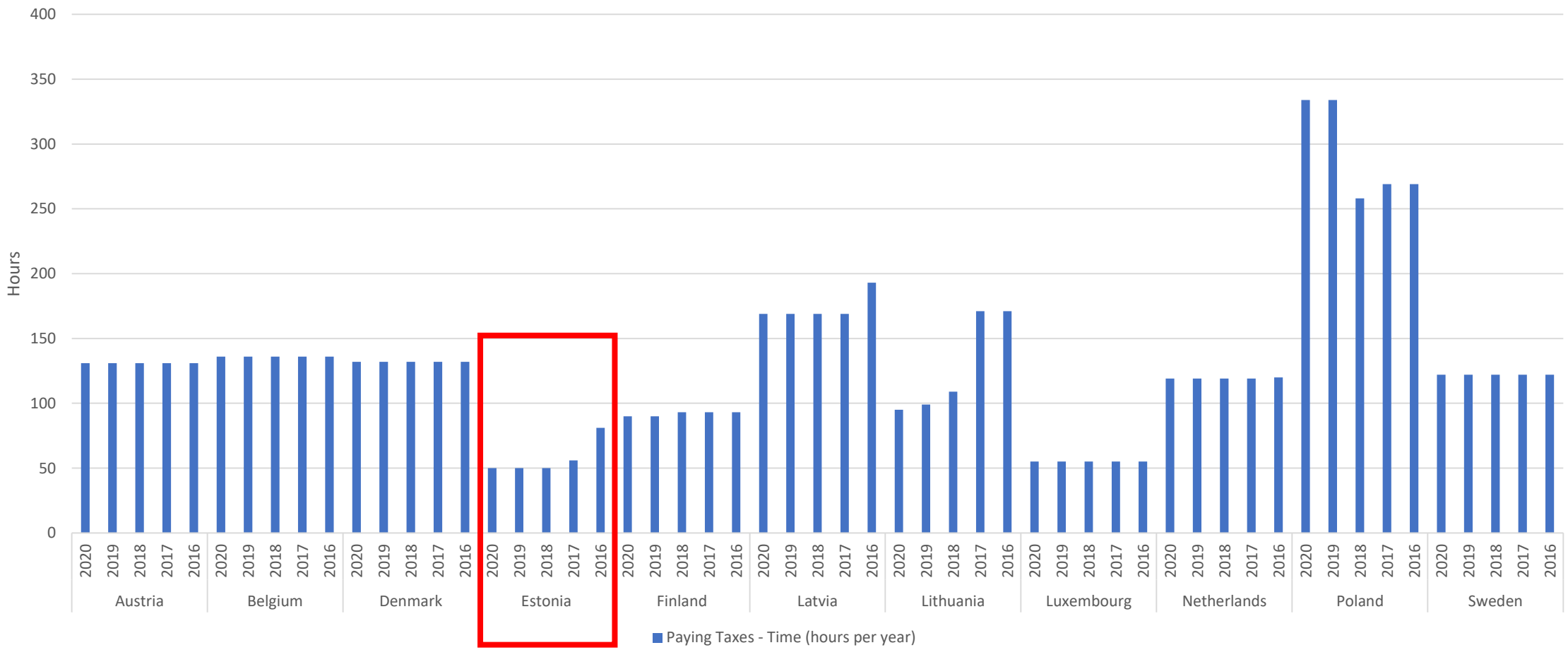
Contact statistics

We are able to do more with less and in a more pleasant way for taxpayers



Compliance costs

Time spent on tax compliance is the lowest in EU



Source: World Bank

What is next?

From filing tax returns to data capturing

AS-IS – file a return on a specific date

TO-BE – capture data and prefill a return

Conclusions

- ✓ Aggregated amounts are no longer sufficient
- ✓ Structured and granular data enables tax administrations to be more efficient
- ✓ Collecting data can be done with minimal or no additional recurrent costs to the taxpayer

Republic of Estonia
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Thank you for your attention!