



Value-added tax (VAT) is imposed in over 140 countries worldwide, making it the world's most commonly used tax. Although VAT is currently not imposed in the United States, any U.S. multinational corporation should be aware of VAT as it can impact almost every transaction that takes place while doing business overseas. In brief, VAT is applied to the sale price charged for goods or services at every point in the supply chain. A business has to account to the government for the VAT due on its income but it can usually claim a credit for the VAT that it incurs on the cost of materials and other taxable costs. Producers, wholesalers, and retailers are all required to pay VAT and must keep accurate records to ensure that they receive credits for the VAT they pay in the chain—from production to the ultimate sale of the goods.

Significant VAT issues—and real cash costs including penalties and interest for VAT non-compliance and irrecoverable VAT—can arise in areas such as:

- Global contracting
- Global supply chain
- Mergers, acquisitions, and divestitures
- Expansions into new countries
- Technology and compliance
- Cash flow enhancement
- Financial services and insurance

How can KPMG help?

KPMG's International Indirect Tax team includes professionals who have real hands-on experience working in VAT regimes across many different countries in Europe, Latin America, and the Asia Pacific. They have worked with companies in all sectors and in all stages of their development. We use this significant experience to help clients identify and manage their VAT risks and compliance costs, plus we help clients identify ways to reduce both their absolute VAT costs as well as the cash flow impact that VAT has on them. Our approach to VAT services combines an international perspective and locally based structure, using technology both as an enabler for VAT compliance and as a means to help U.S.-based companies gain visibility into their international VAT affairs. International Indirect Tax professionals work closely with Global Indirect Tax professionals from KPMG International member firms across the globe on a regular basis, enabling us to mobilize international teams quickly and provide responsive and consistent service.



Case study

KPMG was advising a client in the financial services industry regarding the purchase of a company with operations in both the United States and Europe. During the due diligence process, it was discovered that the target's U.K. entity had been incorrectly seeking credits for VAT that it was incurring on its costs. As a result of identifying this issue, the purchaser was in a position to secure a purchase price reduction from the vendor to cover the historical liabilities and to reflect the increase in costs going forward.

General VAT consulting

KPMG can assist companies to address global VAT issues as they expand internationally. Listed below are just some of the specific areas where we have knowledge and in-depth experience, but companies should keep in mind that we are also able to assist with VAT issues that might be encountered in the financial services or insurance sectors or in the areas of global contracting, mergers and acquisitions or supply chain changes.

- VAT Diagnostic Review – We use our Diagnostic Review to both interview your staff and analyze your supply chain (goods and services). This will enable you to better understand your VAT risks and opportunities, including those arising from expansion into new countries, the use of new financial systems and business processes, and nonintegrated accounting systems.
- VAT manuals/matrices – To help your accounting department make decisions with respect to purchases or the sale of goods or services, we can develop country-specific decision trees that assist with the VAT decision-making process. This country-by-country VAT manual also includes invoice and statutory reporting requirements for each country.
- Training – VAT affects everyone in a company's supply chain, specifically those in logistics, sales, and accounting. Our customized half-day or full-day training sessions have been helpful in determining that everyone understands the VAT trigger points and whom to work with, from an internal standpoint, so that VAT is managed efficiently and correctly.
- Due diligence – Before acquiring a company, you should be aware of the significant historic VAT liabilities of the target company before agreeing on a purchase price. Any timely discovered liabilities could reduce the purchase price of the company and give the buyer an idea of the VAT challenges that they may need to address after acquisition is complete.

The VAT “Through-Put”

The amount of VAT managed within a company is generally between 20 percent and 30 percent of non-U.S. revenue:

| | | VAT Rate | VAT Amount (in millions USD) |
|------------------|---------|----------|---------------------------------|
| Sales | 5,000 | 20% | 1,000 |
| Purchases | (3,000) | 20% | 600 |
| Salaries | (1,000) | N/A | N/A |
| Transfer Pricing | (500) | 20% | 100 |
| Net Income | 500 | | |
| Income Tax Rate | 30% | | |
| Income Tax | 150 | | |
| Gross VAT | | | 1,700 |

VAT compliance

As VAT is a compliance tax that affects most sales and purchase transactions, reporting requirements will need to be met once a company has transactions that are subject to VAT in a VAT jurisdiction. The services we offer in this area are to clients who are required to be registered, are currently registered, or who have outstanding liabilities that need to be quantified.

- VAT registrations and fiscal representation services – As soon as a foreign company has sales that are subject to local VAT in a VAT jurisdiction, it will most likely need to register as soon as possible with the local VAT authorities. Should the foreign company not have a physical presence in the country and is required to appoint a country representative, then KPMG can also assist with meeting this requirement, usually through the appointment of a local member firm.
- VAT returns and other reporting – KPMG’s approach is to coordinate global VAT compliance engagements centrally while the compliance preparation or review is performed by local member firms. For example, in Europe, the compliance obligations can include VAT returns and various mandatory statistical filings.
- Audit defense – Regularly, foreign tax authorities will select a VAT return or period of time for an audit and ask for underlying documents. We can assist in reviewing the documents that need to be provided and coordinate with our local member firm offices to facilitate communication with local tax authorities.
- Refund claims – U.S. headquartered companies may have the opportunity to recover VAT incurred in countries where they are not VAT registered through a nonresident reclaim filing. Types of expenditures that may qualify for a reclaim filing range from hotel stays to the importation of goods. KPMG can assist with filing the reclaim and negotiating with the local tax authorities. We can also help your overseas subsidiaries file claims for underrecovered VAT that might arise in their ongoing operations.
- Provision reviews – Audit clients may have recognized VAT exposures but are unable to quantify the exposure. KPMG can coordinate with local member firms to assist clients in quantifying potential VAT exposures by computing the potential VAT liability, penalty, and interest expense.



Technology implementation

- VAT implementation in standard Enterprise Resource Planning (ERP) software – Standard third-party ERP systems can be programmed to automatically determine the VAT derivation (i.e., rate, invoice requirements) of accounts receivable and accounts payable. However, internal and external system integrators may not have the experience with VAT to implement this and sign off on the proper VAT/GST treatment of the global transactions. KPMG can:
 - Map VAT scenarios with their proper VAT treatment to deliver a fiscal requirements document
 - Build the business design script – the blueprint to enable the ERP software provider to customize its software to achieve the correct automated VAT derivation for transactions
 - Test the new VAT settings after ERP software provider has customized the system based on KPMG’s business design script
- Implementation of specific VAT software that automatically determines the VAT treatment – VAT engines work closely together with the ERP software systems and replace the ERP software system’s standard VAT module. The implementation of a third-party VAT engine requires the same detailed VAT and system experience to properly implement the VAT module. KPMG can work closely with the providers of these software tax engines and the client to provide the ERP software provider with the building plans it needs to correctly implement the third-party VAT engine as well as undertaking the configuration and testing the resulting work flows.

Why KPMG?

Our International Indirect Tax team has significant overseas experience in VAT and can help clients address their VAT issues in order to meet their goals of effectively and efficiently managing the tax. We can work closely with KPMG International member firms in every major market that has a VAT regime in order to address our client’s specific needs.

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