



THE POWER OF BEING UNDERSTOOD

GLOBAL VALUE-ADDED TAX FOR ELECTRONICALLY SUPPLIED SERVICES

Know your global obligations to collect and report accurately

If you provide services through the internet, particularly to individuals resident in another country, chances are you have value-added tax (VAT) collection and filing obligations in a number of countries around the world.

While not all service categories fall under this obligation, in broad terms, anything that can be delivered through the internet with minimal human intervention, such as highly automated services, is subject to VAT collection and filing is required.

In addition to software and technology sectors, VAT compliance frequently touches the broadcasting, telecommunications and entertainment sectors. If you provide services via the internet in these areas, to customers outside the United States, a closer look is needed to ensure you are VAT-compliant. Failure to do so could affect your bottom line or future business transactions.

What services fall under VAT?

In an effort to level the playing field among nonresident and resident service providers, international tax authorities and foreign governments have taken a stance requiring nonresident businesses to register for VAT locally, and collect and remit the relevant tax. This effort ensures competitive fairness and equitable tax revenue preservation among nonresident and resident businesses.

Typical service categories that fall under VAT collection and filing include:

- Email and internet services
- Music downloads and streaming
- Video downloads and streaming

- Online gaming
- Software downloads
- Trading platform access services
- Database access services
- Subscriptions to digital content and online communities
- Internet-based communication services

Note, additional service areas may also be subject to VAT requirements.

When and where to charge VAT

Not all of your customers must be charged VAT. For instance, customers who have the ability to self-assess VAT do not need to be charged as they will report the relevant amounts on their own VAT returns, much like a sales and use tax.

However, customers who are not able to self-assess, principally because they are not VAT-registered, are the ones where VAT should be charged. This frequently includes private individuals, but can also involve some organizations and businesses that are not VAT-registered.

Obtaining the relevant information to verify the status of a customer is one of the more challenging aspects of determining VAT.

The list is continually growing, but at present countries where one must be VAT-compliant include all European Union member states as well as Australia, South Africa, Japan, India, Russia, South Korea, Switzerland, Norway, Mexico, New Zealand and the Bahamas.

The above list is not exhaustive and is constantly changing; suppliers should review rules relevant to each of their foreign markets. Notably, Canada does not yet have a similar electronic services tax regulation but there may still be a requirement to register for Canadian goods and services tax (GST) if certain additional tests are met. One of those tests is whether the supplier has established a server in Canada, which forms an integral part of the service provision.

Why should you act?

It is fair to say that foreign tax authorities have limited powers to enforce compliance on nonresident companies, but in the spirit of promoting fairness among competition, maintaining VAT compliance is the ethical business choice and will help preserve your brand value. Likewise, if your company plans to go public or is acquired at some point in the future, foreign tax liabilities may affect related fundraising, the overall value of the company or the resulting sale of your business. In addition, in some cases, companies who do business with a government that imposes a VAT must represent that they are in compliance with local tax requirements under penalties of perjury. Staying on top of VAT requirements now means a smoother transaction later.

How we can help

RSM takes a top-down approach to reviewing your global structure and transactions with the aim of identifying areas that pose a potential VAT risk, are unnecessary or could be more effectively structured. We also identify areas where you have unmanaged VAT liabilities and obligations. Through our proven methodology, we gain a deep understanding of your business, your structure and your future plans. We then compile a VAT report with clear recommendations. Key findings can be quantified to help assess the cost and benefit of each recommendation. This scalable service can be conducted enterprise-wide or targeted at a particular function or operation.

Contact us to learn more about your business's VAT filing and reporting needs and how we can help.

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