
VAT RECLAIM
for Travel Solution Experts

VAT RECLAIM for Travel Solution Experts

Executive summary

In the world of VAT reclaim not all businesses are equal. Due to the application of the legislation by different authorities or due to the businesses own internal technology adoption and processes or even purely based on where they are located, some businesses have a greater opportunity than others. Foreign VAT reclaim in particular is a very complex business. Billions of €/£/\$ are left on the table each year for many reasons. In this paper we will explore VAT reclaim in more detail and how to identify the opportunities. We look at the reasons companies choose third party suppliers and best practices for ensuring your organization is making the most out of their recovery potential.

VAT recovery – what is it?

Value Added Tax (VAT) is an indirect consumption tax on consumer expenditure. It is chargeable on most products and services and is borne by the final consumer. Ultimately VAT should not be a cost to business so there are a number of legislative systems that allow businesses to recover VAT they have paid in a foreign jurisdiction. VAT has become a very popular way of governments improving fiscal health without targeting income tax and hence VAT rates have increased substantially in recent years, as high as 27%.

How big is the opportunity

Over the last few years, there have been changes to VAT legislation, prompting the question – Is there still an opportunity to recover foreign VAT? The answer is very simple. Yes! Particularly when you get the right technology in place.

VAT that is charged on T&E, any land and property related service, conference and event organizing activity, restaurant meals, subsistence – normal types of expenses that businesses incur in the furtherance of business cross border – can still be recovered. There is still a huge amount of VAT left unrecovered every year. It is very difficult to quantify the exact amount unrecovered because the relevant jurisdictions do not publish any statistics but it is still believed to be in the €Billions.

How to identify the opportunity

Recognizing the opportunity is the first point of call for most companies. There are many companies where the international travel is significant, and they are paying this tax on all of their accommodation, meals, transport, incidentals etc. What they are not aware of, is that this VAT should be investigated to see if it can be recovered. Some countries charge up to 27% VAT. This is recoverable on many T&E expenses. Complexity arises when trying to determine how each country treats the VAT. Every jurisdiction is different. They have different rules depending on the company type, why the expense was incurred, who was incurring the expense and where your company is registered.

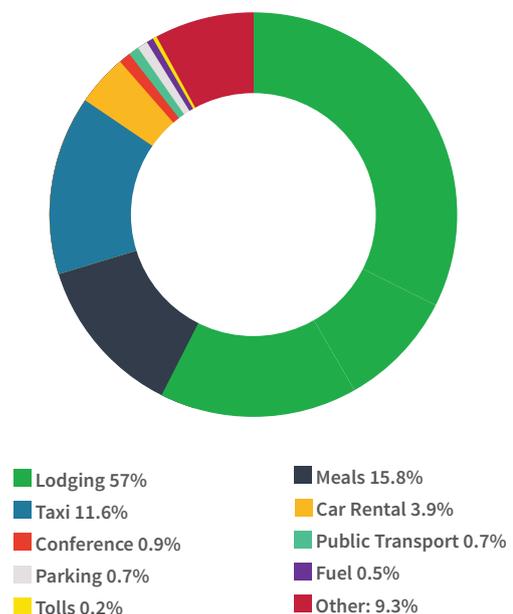
It is quite a complex process to accurately estimate what your VAT reclaim may be and it best to engage with a specialist third party to do this. Usually, when

you work with a reputable Expense Management provider, you will be able to use the reporting from their platform to help with this. But to get initial calculation on whether or not it is worthwhile to engage a 3rd party and investigate further use the following formula:

$$\frac{\text{Gross Hotel Spend in EU}}{120} \times 20 = \text{VAT}$$

Hotel spend is the largest VAT reclaimable expense type and 20% is an average standard VAT rate across the EU. While this calculation will not give you an exact recoverable amount it does allow you to decide if investigating the Foreign VAT recovery is worthwhile for you.

Below is a chart outlining VAT by category*.



*'Other' includes spend categories such as, laundry, training, gifts, subscriptions, domestic air, equipment, visas, office supplies and books.

*Note this profile is indicative based on the collective data of Meridian VAT Reclaim clients.

The role of data in VAT recovery

Data comes from many different places in the VAT reclaim process. It can come from expense management systems, travel management systems, credit cards and a company's own internal system. This data is very valuable to the process, and while there is a lot of enhancement and analysis required before this data is fully ready to be submitted, the right providers will work together to ensure that your submission is as automated as possible. Expense management data for example allows a VAT processor to understand where the VAT has been incurred, what is required and where to go and get the rest of the information. When reliable images and invoice storage is provided, the process can become much more profitable for you as an organization, with little or no burden.

The more systems that are in use by an organization, the better the picture will be as long as the 3rd party processor is experienced enough to use the complex data and bring it back to relevant information. From experience, the more connected the systems, the better the refund results.

The larger the organization the more complex this can be. The deployment of good quality systems will make a huge difference to the streamlining and accuracy of your VAT Process.

The "VAT gap"

When analyzing the potential foreign VAT reclaimable from an expense management system, it is also important to understand the VAT Gap! This is the difference between what is initially identified as the amount of potential VAT versus what will

be submitted to the authorities for reclaim. This difference can be quite significant initially until the reasons for this gap are discovered.



- Copy Invoice 30.7%
- Image only invoice 14%
- Incorrect Name 0.9%
- Non Claimable Expenses 20.6%
- Missing Invoice 3.9%
- Invoice Missing Required Information 0.7%

As you can see from the example above, there will always be an amount of VAT that is not recoverable, either due to policy, invoice type or legislation. However with the right specialist and technology in place a large proportion of this unrecoverable VAT can be converted into recoverable VAT.

Best practises to close the VAT gap

Once the “gap” has been identified, it may be necessary to take certain simple steps to bridge it. This can include small changes to your travel program or even just policing it fully. There are some helpful tips that can be given to your travellers in advance of trips to improve your VAT recovery opportunity.

1. Original invoices are key but don't need to be a burden. Using a 3rd party specialist, technology can be used to provide digital invoices and then the process can be automated for the EU*.
2. Use your travel booking tool exclusively – no rogue spending where possible. If an invoice is available digitally through your tool, this means there is no fear of losing valuable hotel invoices.
3. Use your business address – when checking into a hotel, give your business card for the address details and explain that you need this address put on the invoice.
4. When you are having a meal with colleagues or clients, use the technology provided by your expense management system (phone app for example) to capture the details before you leave the restaurant or shortly after. This way you won't forget who attended which meal, particularly if you are travelling several times before you submit your expense report.

5. Ask for a digital invoice where available – it cuts down the time for a third party to engage with suppliers to get these reissued and with the right expense management system they can usually be automatically attached to your expense report, practically completing the report for you.

Recent report stated that up to 58% of foreign VAT is not recovered despite the technological advances in the claim process.

VAT also continues to be incorrectly applied by suppliers and VAT officers reject these claims because the VAT shouldn't have been charged to begin with and can penalize companies for making erroneous claims on the basis that they are claiming a refund for VAT that should not have been charged. Most companies don't know how to handle these issues. They don't even realize that the VAT has been incorrectly applied.

This is where a third party takes the burden off the company. A third party should recognize these issues and resolve them before any submission is made and work with the supplier to get the right invoice issued.

*Remember that the claims process for businesses from outside of the EU, hasn't changed in any way so it is still very much a paper process but deploying technology means you can have suppliers reissue digitally and leave the printing to the third party Reclaim specialist.

How to identify the right suppliers

Obviously, VAT is a product of tax legislation, and tax legislation is quite complex, so there are a number of factors to bear in mind:

- ▶ You have confidence in the integrity of the third party you are considering – are their promises reasonable?
- ▶ It is important that the third party organization have all the necessary technicians needed to deal with legislation – Have they the capability of delivery and of representing your company at a tax level?
- ▶ What is their track record? Are their existing clients of a high caliber and do they stay with them a long time?
- ▶ It is important to make sure that everything is compliant so that the proper VAT is recovered for your business without any risk – an ISO rating, for example, would be good here.
- ▶ Have they got the technology to work with your expense management system/travel management system.
- ▶ Can they provide you with full visibility at every step of the process?
- ▶ Most importantly, when payments are made to your chosen third party, any funds are included in a trustee account so they are safeguarded for the business and independently retained. This separates YOUR recovered money from the operating funds of the third party itself.

Often third parties deal with claims running into the millions so it is essential that there is a high level of professionalism and trust in the partner, whichever partner is selected.

Where do complexities lie?

In 2010 the refund directive was introduced and has assisted many businesses to reclaim their VAT, particularly small to medium businesses that can now, through their own EU country portal, recover VAT incurred while abroad.

However there are still complexities such as;

- ▶ Before even submitting a claim you must be able to determine what is claimable in each country and what is not.
- ▶ Some country portals are quite difficult to use or do not allow for full claims to be input due to size restrictions.
- ▶ Many countries are still insistent that invoices are sent as well.
- ▶ Queries will be raised by the country you are claiming from in their language and must be responded to by the deadline given or the claim will be rejected.

It is for these reasons, and many more, that the burden of VAT Reclaim is better outsourced to a specialist who can remove the paper and improve the refunds without interfering in the day to day running of your tax processes.

If you would like to find out more about how Meridian VAT Reclaim and Concur together can help you streamline your VAT processes, improve compliance and add to your bottom line, please contact us at Concur@MeridianVatReclaim.com for a free, no obligation, confidential consultation and analysis.
