

# Value-added Tax News Alert

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*The following is a summary of some key indirect tax developments across the globe that are particularly relevant for U.S. multinational corporations.*

## Global Indirect Taxes

### EUROPEAN UNION

#### Germany

The European Commission has formally requested Germany to expand the scope of its VAT exemption to include services that cost sharing groups supply to their members. Pursuant to the EU VAT Directive, the cost sharing exemption should apply where:

- the members' activities are exempt from VAT;
- the services acquired are "directly necessary for the exercise of the members activities";
- the consideration charged to each member represents the reimbursement of that member's

exact share of the joint expenses; and

- the exemption does not cause distortions of competition.

Under current German VAT legislation, this exemption only applies to associations in the health and medical care sector. The VAT Directive does not limit the exemption to specific sectors. Accordingly, taxpayers in sectors, other than health and medical care, cannot avail of the cost sharing exemption under current German VAT legislation.

#### Poland

##### *Reverse Charge Mechanism:*

A mandatory reverse-charge for non-residents took effect on April 1, 2011. The obligatory reverse-charge mechanism applies to a domestic



supply of goods performed by a Polish VAT registered taxpayer not having a seat or fixed place of business in Poland to a purchaser who is a taxpayer and has a seat or fixed place of business in Poland, or is a legal entity (and is not taxpayer) and has a seat in Poland. When services are supplied by a taxpayer not having a seat or fixed place of business in Poland and the place of taxation is Poland, the purchaser will still have to apply the reverse-charge mechanism. However, the mechanism does not apply for services connected with immovable properties performed by the VAT-registered taxpayer in Poland. In this instance, the seller must account for Polish VAT on an invoice documenting performance of the services.

*Other changes:*

A free-of-charge disposal or a diversion of goods for a private use belonging to the taxpayer's business constitutes a VAT-able supply in Poland, if the input VAT incurred on the acquisition of these goods was wholly or partly deductible. However, this does not apply to the disposal of printed advertising materials, samples and gifts of small value, which should not be treated as a taxable supply of goods.

A free-of-charge supply of services is treated as a taxable supply of services when:

- VAT is recovered in whole or in part of the acquisition of goods which form part of the assets of a taxpayer's business; and
- a taxpayer renders services free of charge for private uses (as well as all other free-of-charge supplies of services for purposes other than the

purposes of the taxpayer's business).

In addition, new rules apply to the pro-rata deduction for companies that have partial recovery and, effective January 2012, the standard VAT rate (23%) will apply to children's clothing and footwear.

### United Kingdom

Revenue & Customs announced that taxpayers will be charged penalties for VAT returns filed on paper in instances where electronic filing is mandatory, starting with accounting periods ending on or after March 31, 2011. The penalties will be imposed on each instance a paper return is filed.

## ASIA

### China

As part of the "12th Five-Year Plan," Chinese tax policy leaders are looking to reform the country's tax system. Among the changes concerning indirect taxes would be the expansion of VAT to include all goods and services and the gradual elimination of the Business Tax ("BT"), which is levied on most services, and the transfer of intangibles and immovable properties. Under the BT, input credit/netting is not allowed, which has resulted in double taxation or multiple taxation on services. Any BT elimination would be gradual. However, a pilot VAT reform program for the manufacturing service industry may be implemented later this year. Tax policy leaders are also considering consumption tax reform by extending the tax to cover resource consumption goods, and to impose the tax on high-end entertainment services.

### India

As previously reported, a bill has been introduced that would impose a Goods and Services tax in India, as part of the country's indirect tax reform agenda.

Specifically, the bill provides that the Centre and the States will be empowered to make laws for the GST, with the Centre legislating the Central GST and the States legislating their respective State GST. The Centre will retain powers to make laws regarding inter-State supplies and to levy and collect GST on inter-State supplies, including on imports. Revenues collected will be apportioned between the Centre and States. The bill proposes a GST council that would make recommendations regarding the taxes and surcharges to be subsumed in the GST, the applicability of exemptions from the GST, the rates of GST on goods and services, the threshold limits of turnover below which the tax will be exempted, and other matters related to the GST.

### Singapore

On April 5, 2011, the Singapore tax authority ("IRAS") announced a new GST compliance initiative, the Assisted Compliance Assurance Program ("ACAP"). The ACAP is a self-review package that sets out the IRAS's expectations regarding GST compliance and risk management. Results on an ACAP review will determine the frequency of GST audits, automatic renewal of GST schemes, and a faster turnaround of refunds and resolution of issues. To encourage participation in ACAP, IRAS is offering to fund up to 50% (up to \$50,000) of the professional fees to undertake the review plus a one-time waiver of penalties for non-fraud errors that arise from, and are voluntarily disclosed in, the ACAP report to be submitted to the IRAS.

### Taiwan

On April 1, 2011, the Taipei National Tax Administration started to conduct large scale VAT audits, where the following scenarios arise:

- entities adopting Gross Business Receipt Tax, such as banks, fail to pay business tax imposed on services purchased from foreign business entities;
- Government Uniform Invoices ("GUIs") are received from entities with whom taxpayers did not have actual business transactions;
- the taxpayer deducts input VAT under Article 19 of the Business Tax Act from its output VAT;
- the amount of input VAT is substantial, but the value-added percentage is low;
- the percentage of tax exempt revenues is high;
- the deductible input VAT is significant or has remained unutilized for a long time;
- the amount of tax refund as a result of 0% VAT applied is "abnormal";
- the taxpayer fails to issue GUIs, underreports sales on business tax returns, or intends to evade VAT;
- sales subject to 5% VAT are reported as 0% VAT; and
- GUIs for sales subject to 5% VAT are not issued, but the taxpayer erroneously reports such sales as eligible for 0% VAT, and applies for a tax refund by presenting false documentation.

## AFRICA

### South Africa

Objections to VAT assessments by a taxpayer can no longer justify delays in such the receipt of refunds from South

African Revenue Service ("SARS"). This new rule, applicable to amounts payable on or after February 1, 2011, can be evoked unless specific payment-suspension arrangements are made with the SARS. Debate has arisen as to whether these rules apply to objections filed before February 1 of this year. No communication regarding this matter has been issued by SARS as of yet.

## SOUTH AMERICA

### Uruguay

The Vice-President announced a proposal that would reduce the standard VAT rate from 22% to 20%.

PwC has a global network of 1,900 indirect tax professionals in 130 countries worldwide, including a dedicated VAT team located in the U.S. who is available to provide real-time VAT advice. This News Alert does not provide a comprehensive or complete statement of the taxation law of the countries concerned. It is intended only to highlight general issues, which may be of interest to our clients. For issues relating to this News Alert, please contact your local Indirect Tax Practice advisor or the specialists listed at the end of this article.

*For more information, please do not hesitate to contact your U.S. VAT Team:*

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### Global VAT Online Service

Many of the developments above are described in more detail on Global VAT Online (referred by many as "GVO") -- PwC's online subscription service which provides up-to-date business critical information on VAT/GST rates, rules and requirements around the world. This information will help you maintain control, mitigate risk, and improve the overall effectiveness of your VAT/GST function. For further information, please speak to your usual PwC advisor or a member of the U.S. VAT Team above. [GVO Website](#)

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