VAT Compliance & Reporting

What Should Be Your Business’s Strategy in 2019



# Obligations On Your Business

Following a year of operating your company’s VAT obligations, this may be a good time to assess whether you are managing to the adaptability and cost effectiveness you aimed for. In this blog, we provide useful frameworks to help you assess and plan to optimize your operating model.

# Key Questions to Ask

Assessing and implementing changes to improve compliance may seem unnecessary especially if you have not incurred any penalties. In reality your business could be still open to potential risks and avoidable costs which may come to light under an FTA audit.

Compliance risks will typically increase subject to company size, nature of business and transactional volumes. For example, large enterprise Tax Groups are more complex to manage and have greater risks and costs to comply. However, they can affect businesses of any size and some review is advised especially as the FTA has issued several clarification notices since January 1st, 2018.

Best practice recommends periodic reviews to identify compliance risks. Ideally you should be considering the following questions:

* Can we further reduce the cost of managing our VAT obligations?

* Do we have the adaptability to implement changes quickly if the Legislation changes?
* Are we managing these obligations with minimal risks?
* Could we successfully manage an FTA audit?

# Assessing Your Capability

To accurately see what strategy, you should take, the starting point should be to accurately assess your company’s current state and then determine the appropriate approach to meet your goal. Managing effectively is a combination of the VAT expertise available in your business, processes that control your compliance and IT system functionality.

Plotting where you are can help you determine the strategy for the short term and assess your longer-term plan.

In assessing where you are, you should ask the following questions:

* Do you have the trained resources to manage and minimize risks?
* Did you conduct a business wide VAT assessment and implement changes?
* Do you have the processes and governance (if required) to deal with issues and adapt to new requirements?
* Is your IT set up correctly to manage your end to end VAT compliance & reporting?
* Is your reporting process efficient?
* Is your system fully auditable to provide information and data in case of audit and generate an FTA Audit File?

Capability Assessment

High

**High-Low**

**High-High**

**Internal VAT Expertise**

**Low-High**

**Low-Low**

**IT Capability**

High

Once you have assessed your current capability, the next decision is to evaluate the required impacts to attain your desired target. The longer changes take to implement, the greater the disruption and scope of issues to manage.

Hence, speed is an important factor setting your targeted objectives and this is dependent on the nature of your business. A services business with a small volume of transactions will imply smaller impacts versus a multi entity tax group, without a central tax function and separate IT applications.

These illustrative options present a broad summary of strategies available.

|  |  |  |
| --- | --- | --- |
| Position | Risk Level | Strategy |
| Low-Low | High | Outsource |
| Low-High | Medium | Complement |
| High-Low | Medium | Support |
| High-High | Low | Maintain |

# Outsource

If your business lacks any platform, trained internal expertise or processes and is seeking a cost-effective solution, outsourcing presents the most viable and simplest option. In doing so, care should be taken in selecting the correct partner as you are fully reliant on their determination on your returns and obligations.

Ensure you have the ability to understanding their deliverables and they are available to support you over the long term. You may require their help in case of FTA queries or audits.

Ideally a platform inclusive service provider delivers the greatest transparency and longer-term solution to manage your compliance cost effectively. The additional benefit being you can implement sustainable financial management and insource at a later stage.

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| --- | --- | --- | --- |
| Ideal Business Profile | What You Should Look For | Advantages | Disadvantages |
| Micro business/start-ups below 5-10M turnover | Qualified partner providing financial and VAT reporting  FTA certified platform inclusive  Documented working processes | Cost effective  External expertise to implement your system correctly  Access to company-wide resources  Adapts to changes in Law  Implement a financial reporting framework | Instant availability for queries  May not deliver in with full transactional analysis  May not deliver with platform affecting your understanding |

# Complement

IT plays a pivotal role to minimize costs and risks through implementing an effective automated system that minimize human errors and select the correct treatment at time of transaction.

You may be an established business with legacy systems and historical financial reporting in place. Updating or changing your accounting application could be complex and budget intensive to meet the full compliance requirements. This transformation may also be difficult to justify purely for VAT requirements and fail your business case.

However, there are a variety of solutions that will co-exist with your existing application. They can present viable options and provide the flexibility and speed your finance team requires to manage their responsibilities. Some providers also provide the VAT expertise to validate your returns for greater assurance.

IT support will be essential for this option to ensure data is available from your core system reliably and on time.

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| Ideal Business Profile | What You Should Look For | Advantages | Disadvantages |
| Small-Large business 10M+ turnover | Compliance & reporting functionality  Transactional recording & validation  FAF file generation  Acceptable cost of integration & IT support | Speed to deploy  Avoids major system changes & migrations  Enhanced reporting functionality  No disruption to other functions e.g accounts receivables/payables and accounting  Expertise to improve compliance | Data reconciliation to your source platform may be required  Integration to source system may be required |

# Support

If you identify gaps in your internal human capital and processes, securing external support to provide additional best practice expertise and training can allow you better operate your processes and platform.

Alternatively, you may choose to retain a partner to prepare your returns. If so, care must be taken to ensure all your transactions are assessed and not sample based. If all your transactions are not fully assessed, you may file incorrect returns and miss areas of improvement.

**A transactional validation tool** is one of the options to also include with this strategy. These tools verify postings to a reference set of transactional tax codes and identify posting errors and rating to reduce miscalculations and reporting errors.

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| --- | --- | --- | --- |
| Ideal Business Profile | What You Should Look For | Advantages | Disadvantages |
| Small-Large business 10M+ turnover | Best practice methodology & models  Training and documentation  IT system optimization  Transactional & operational understanding/guidance | Secure external expertise  Outsource returns risks  Improves internal teams and processes  Reduces need for internal expertise | May not assess all transactions for accuracy |

# Maintain

Positive answers to all the questions assessing your capability places you in a strong position. Maintaining your performance should be your goal and this also usually means an on-going review of legislation changes and market best practices is taken to stay on top.

For finances teams that operate a complete in-house model, it can be a time-consuming process to review all transactions. It is likely transactional mis-coding for tax treatment occur in any business which need to be identified and corrected.

Therefore, use of a transactional validation tool can reduce manual checking, improve accuracy and speed your VAT preparation cycle.

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| Ideal Business Profile | What You Should Look For | Advantages | Disadvantages |
| Small-Large business 10M+ turnover | Trained or focused resources  Fully implemented VAT impact analysis  Best practice processes  Correctly set up IT for tax codes, FAF & reporting  Transactional validation | Daily operational process that will minimize risks  Can manage any query to business or FTA with confidence | None |

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