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Hassles Free Global VAT Refunds to be Globally Competitive

Abstract

In the global business, competitiveness has become a buzzword and to achieve it every enterprise has been looking for the cost reduction methods in production and marketing goods internationally. One of such element of on this account is getting the international VAT refunds, from the foreign tax authorities, which knowingly or unknowingly is not being claimed by many firms because of complicated rules, regulations and time consuming and cumbersome refund systems. The expenses on VAT, therefore, are normally included in the cost of production and marketing. Which otherwise can be saved by reclaiming VAT from the foreign tax authorities to increase profitability of the units engaged in international business.

The paper gives the international VAT coverage and background of VAT in EU, explains the VAT's concept, describes its common features the world over, gives illustrative VAT refund rates and policies, states advantages of outsourcing of such VAT refunds and prescribes these refunds as source of cost reduction to be competitive in the international business. Attempts have been made in this paper to create awareness of VAT refund system amongst the managers/ executives employed or inspiring to join the firms engaged in international business, so that they can claim the legal dues of their firms from the foreign tax authorities without going through complicated procedures and spending their precious time and money by availing the services of VAT Recovery Agencies i.e. to get the VAT refunds hassles free. And for that, paper also provides brief details of selected VAT recovery agencies that may be approached for further information and their services.

Companies engaged in international business travel a lot in connection with their business and pay hefty Value Added Tax (VAT) on hotels, car rentals, meals, and transportations as well as on conference fees, trade show costs, professional fees, etc. These taxes paid as VAT are refundable by the respective taxation authorities in different countries, however, only a few companies go to claim such refunds as the process requires time consuming research and documentation. According to a report, in many cases, because of refund process is so cumbersome and costly importers inadvertently forget to file for the refund. In 1998, it was estimated that non-European business travelers in Europe had failed to seek refund entitlements of more than $ US 2.5 billion. Today, it is believed that refund applications amounting to less than 1% of this amount have been lodged

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in the past fiscal year[1]. Yet, another dimension of the problem is that many of the exporters all around the world often do not claim such refunds because of their sheer ignorance of such refunds and the system for the same. Thus, a large number of companies engaged in international business do not claim such VAT refunds from the foreign authorities either because of complicated time consuming processes or simply because of their ignorance of such system.

International VAT Coverage

VAT has now become the most important indirect tax in both developed and developing countries. It has been considered the most significant event in the evolution of tax structure in the last half of this century[2]. The IMF has described the 'seemingly irresistible' VAT as a 'breathtaking' tax development[3]. Real-world evidence indicates that the value-added tax, levied on the "value added" goods and services as they pass through each stage of the production process, is a money machine for big government[4]. America, however, is still one of the few nations without a VAT, but there is a growing pressure to impose the levy. Over 100 countries now employ VAT, and nearly 75 percent of these were implemented in the period 1991 to 2001. The following table shows the spread of VAT worldwide since 1970[5].

Table I

International Spread of VAT

(Total countries of)	1969	1979	1989	2001
Americas	2	12	17	27
Asia and Pacific	0	1	6	22
European Union	5	12	15	17
Eastern Europe /CIS	0	0	1	25
North Africa and Middle East	0	1	5	6
Sub-Saharan Africa	1	1	4	27
Total countries	8	27	48	124

Source: Ebrill et al .

As per a recent document (OECD, 2006), on international VAT/GST (Goods and Services Tax-GST) the spread of VAT has been the most important development in taxation over the last half-century. Limited to less than ten countries in the late 1960s it has now been implemented by about 136 countries; and in these countries (including OECD member countries) it typical accounts for one-fifth of total tax revenue[6]. A significant feature in the development of VAT is the emergence of regional trends alongside global growth (McKenzie, 1992). Although Europe has been at the forefront of the expansion of the tax, the Asia Pacific Region too has played a significant role during the last 25 years in the growth of the tax. In this region, South Korea was the first country to implement VAT in 1977. Indonesia introduced VAT in 1984 followed by New Zealand and Taiwan two years later. More recently Singapore, the Philippines, Canada, Thailand and Fiji have joined the other Asia Pacific countries in adapting VAT[7].

Since the 1994 tax reforms in the People's Republic of China (PRC) all domestic enterprises and foreign investment enterprises (FIE), are subject to both direct and indirect taxation. Indirect taxes are mainly turnover taxes in the form of business tax, value-added tax and consumption. Among the three forms of turn over tax, VAT has the widest scope and has become the major source of tax revenue for the PRC government[8]. Thus 'Dragon', the Asian giant has also joined the VAT club and from January 1, 1994. China is now the largest country to adopt a VAT system to the full retail stage[9]. The VAT system practiced in China has similar features as in most European countries. The system has two important features. First, the tax is imposed on a multilevel stage, whereby it is levied on transactions at each level of the production and distribution process. Second, at each level of the process, the net amount of VAT payable is determined by the VAT rate, multiplied by the value added at that level of the process[10].

In India, the Central Government had introduced a modified form of VAT principle popularly known as Modified VAT (MODVAT) in 1986, followed by in the name of Central Value Added Tax (CENVAT) scheme, which allowed tax credit for the payment of all taxes on inputs and capital goods received by a factory to manufacture goods. After many initiatives, 21 states have already adopted Value Added Tax (VAT) from April 1, 2005. Amongst the other, five have adopted VAT from April 1, 2006 and the remaining two i.e. Tamil Nadu and Uttar Pradesh are in process to follow the system in due course. For the computation purpose, India has opted for tax credit method, which is similar to Central Value Added Tax (CENVAT).

In Latin America, Argentina replaced its sales tax in 1974 with an income type of VAT having destination principle. Prior to that, in 1966, Brazilian tax was divided into four categories, namely (i) tax on external trade, (ii) tax on income, (iii) tax on production and, (iv) special taxes. The turnover tax levied by the states was replaced by state VAT. A federal VAT was introduced in place of the federal wholesale tax. In Chile, VAT replaced all indirect taxes in 1975 and Columbian VAT was extended to retail sector through a simplified procedure in 1983[11].

The implementation of VAT throughout Sub-Saharan Africa (SSA) has become the most important fiscal component of IMF structural programmes. At the start of 2003, 30 out of the 42 economies in SSA had implemented VAT. Interestingly, most of VAT implementation has taken place since 1998 and has been connected to earlier ESAF (Enhanced structural Adjustment Facility) and more recently HIPC (Heavily Indebted Poor Countries) initiatives[12]. The list of SSA countries along with the applicable tax rate and the year of implementation is given in Table II.

Table II
Standard VAT Rates in SSA

Country	Standard rate	Date
Angola	No VAT	
Benin	18%	1991
Botswana	10%	2000
Burkina Faso	18%	1992
Burundi	No VAT	
Cameroon	19%	1999
Central African Republic	18%	2001
Chad	18%	2000
Congo, Dem Rep.	No VAT	
Congo, Rep.	18.90%	1997
Cote d'lvoire	20%	1960
Djibouti	No VAT	
Equatorial Guina	17.50%	1999
Eritrea	No VAT	
Ethopia	15%	2003
Gabon	18%	1995
Gambia	No VAT	
Ghana	12.50%	1999

Source: Scott Riswold, (2004)

What is VAT?

At its simplest, VAT is a transaction tax borne by the ultimate consumer: it was never intended to be a cost on business. It is a tax, which is normally charged by businesses at different stages of production process and is then recovered by the next person in the chain until it is charged to the final consumer. Therefore, VAT should not be a cost to any business. However, the reality is that, to many businesses, VAT is a cost[13].

A VAT is levied on the "value added" goods and services as they pass through each stage of the production process. However, it should be borne in mind that value added tax systems are designed to tax final consumption and as such, in most cases it is only consumers who should actually bear that tax burden. Indeed the tax is levied, ultimately, on consumption and not on intermediate transactions between firms, as tax charged on these purchases is, in principle, fully deductible. This feature gives the tax its Main characteristic of neutrality in the value chain and towards international trade[14].

Thus, the value added tax is the tax levied on the valued added at each stage of production and distribution process. It is considered an ideal form of consumption tax because the valued added by a firm represents the difference between its receipts and cost incurred on the purchase of inputs. According to Pillai (2005) the greatness of VAT is that it is the most modern and scientific method for collection taxes. In recent times, it has also been extended to services in almost all VAT operating countries. An outstanding feature of VAT is its focus on the real tax base, which is value addition by the payer. The conventional indirect taxes work on bases like entry, transaction, production and so on. The all converge on the value of goods and services that includes taxes paid on inputs and intermediates. Buy indentifying the actual base of value addition, VAT ensures neutrality and efficiency.

Computation of VAT

Since VAT is a very versatile tax, it offers several methods to calculate the quantum of tax payable [15]. However, globally following three methods are used for the computation of VAT[16] :

- The subtraction method: The tax rate is applied to the difference between the value of output and the cost of input.
- The addition method: The value added is computed by adding all the payment that is payable to the factors of production (viz., wages, salaries, interest payments, etc).
- The credit method: This entails a setoff of the tax paid on inputs from tax collected on sales

Common Features of VAT

There are many differences in the way value added taxes are implemented around the world and across OECD countries. Nevertheless, there are some common core features that can be described as follows[17]:

- Value added taxes are taxes on consumption, paid, ultimately, by final consumers.
- The tax is levied on a broad base (as opposed to e.g., excise duties that cover specific products).
- In principle, business should not bear the burden of the tax itself since there are mechanisms in place that allow for a refund of the tax levied on intermediate transactions between firms.
- The system is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales. Each business in the supply chain takes part in the process of controlling and collecting the tax, remitting the proportion of tax corresponding to its margin i.e. on the difference between the VAT paid out to suppliers and the VAT charged to customers. In general, OECD countries with value added taxes impose the tax at all stages and normally allow immediate deduction of taxes on purchases by all but the final consumer.

VAT and International Business

It is an end-consumer sales tax, which is levied on almost all goods, as also on services in Europe and in many other countries. However, in international business transactions normally VAT is deductible or refundable tax. According to the official definition of European Union, Value added Tax (VAT) is a general consumption tax assessed on the value added to goods and services. It is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on companies. It is charged as a percentage of price, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is collected fractionally, via a system of deductions whereby taxable persons (i.e., VAT-registered businesses) can deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved[18].

Similarly, as per OECD (2006), Value added taxes are also neutral towards international trade according to international norms since they are destination based (even if the rule might be different for transactions made within federations or economically integrated areas). This means that exports are zero-rated and imports are taxed on the same basis and with the same rate as local production. Most of the rules currently in place aim therefore at taxing consumption of goods and services within the jurisdiction where consumption takes place. Practical means implemented to this end are nevertheless diverse across countries, which can, in some instances, lead to double or involuntary nontaxation, and uncertainties for both business and tax administrations.

Origin and Destination Principles

VAT can be levied on the principle of origin or destination. Under the former principle, value is added domestically on all goods irrespective whether the goods are consumed locally or exported to other countries and all such goods are subject to VAT. Thus, as per this principle all exports are subject to tax while imports are exempt. The second principle, computation of value addition is based irrespective of the origin and it says that all goods consumed in a country (destination) are subject to tax. Under, this principle export are exempt while imports are subject to taxation.

The origin principle is used normally in conjunction with income VAT and is unpopular for obvious reasons… Destination principle is normally used with consumption VAT and is preferred particularly in federal form of Government. Unlike the origin principle, it treats imported goods at per with domestic products. Once the goods are imported, subsequent domestic value additions are invariably taxed. Destination principle is generally chosen for retail sales tax levied by states or local bodies[19].

Why is VAT Refunded?

The main principle of VAT / GST (Goods and Service Tax-GST is charged in Australia and Canada) is that Governments do not charge the tax on exports to other countries. They extend this principle to include purchases made by foreigners – both to business visitors as well as to tourists when they take goods back to their country. This in theory is supposed to stimulate economic development. While both business travelers and tourists are entitled to VAT refunds, the refund opportunities differ greatly. Tourists can apply for VAT refunds on merchandise, but not services. Custom officials must validate this merchandise to prove that the merchandise is indeed leaving the country. Business refunds, however, also include a wide range of services and do not require customs validation.

VAT: Cost to International Business vs. Cost Reduction to be Competitive

Most often we talk about cost reduction in exports to be competitive and look for various ways and means to reduce the cost of production and marketing of our products so as to become globally competitive. Every penny saved in production or marketing raises the level of exporter's global competitiveness and adds to his profits. One such element of cost, which may be saved, is value added tax (VAT) paid on business expenses abroad are refundable. It is interesting to note that with substantial funds locked in VAT refunds, as high as 25% in EU, this particular cost of export business remains unexploited. Many of the exporters all around the world often do not claim such refunds either because of their sheer ignorance of such refunds or they hesitate to do so considering the legal provisions pertaining to VAT refunds which are rather complicated and vary largely from country to country[20].

The challenge to VAT reclaims lies in the fact that foreign tax ministries require the original travel receipt to be submitted with the tax reclaim application. Corporations fail to recover millions of dollars available in VAT refunds because they often underestimate the size of the opportunity and are deterred by the labour-intensive process required to collect the original invoices[21]. These businesses, therefore, knowingly or unknowingly simply book VAT expenses as costs and ignore the real potential of making savings be reclaimed from the authorities.

Depending upon the size of business, cost reduction through this route may vary between as little as a few hundred or thousand Euros/ Dollars, in case of export promotion tour or participation in trade fairs, to several million Euros / Dollars for Multinational Corporations for large projects. Not only in India and in many other developing countries, but also in US, Germany and in several other developed countries, many exporters even do not know that they can reclaim VAT on specific business expenses such as the travel expenses, service fees, trade fairs, conference related expenses, etc. This is supported by a research that many U. S. companies that export aren't aware, that the Value-added tax(VAT) levied on their sales and marketing expenditures overseas is often recoverable and results show that companies fail to recover 80% to 90% of their VAT expenditure, amounting to millions of dollars[22]. According to the American Express VAT refunds are typically 2% to 6% of a client's international business travel-related spending. For example a large corporation that incurs $ 6 Million in international spending could save approximately $ 1, 80,000 of that cost through participating in VAT reclaim[23].

According to Federation of International Trade Associations (FITA) a lot of companies don't seem to know this – and as per some estimates, US companies are currently reclaiming only 20per cent of the more than $1 billion they are paying in VAT in Europe, whereas German companies are giving away an estimated $ 1.2 billion in unclaimed European VAT refunds.

Similarly, in a report by the European Commission, it was found that 80% of companies do not reclaim VAT expenses that they are legally entitled. Some of the reasons companies do not reclaim include the following[24]:

Not Entitled or To Be Claimed Locally

It is often perceived that overseas business (VAT) expenses are not refundable as they are incurred abroad. Others feel that their accountant has reclaimed the VAT via the Local domestic VAT authority. Thus, unawareness of the system of VAT reclaims.

Location and Language

Location and language difficulties often deter companies from reclaiming the VAT. The costs incurred to translate the materials and the difficulties dealing, with the different time zones make it difficult for companies to liaise with the foreign VAT authority.

Time, Cost and Hassles

The time and hassles incurred by companies prevents them from reclaiming the VAT. Financial Officers often suggest that the costs incurred to process the claim often outweigh the benefits.

Background of VAT in EU

The VAT has emerged as one of the most significant fiscal innovations of the century. The origin of VAT can be traced as far as back as 1921 when F. Von Siemans proposed it as a substitute for the then newly established German Turnover Tax. VAT has become a subject of considerable interest after the European Economic Community (EEC) gave acceptance to it as an instrument of tax harmonization with the country. The VAT was first introduced in France in 1954 on experimental basis to do away with the evils of the complex and unmanageable French system of turnover tax[25]. Thus, VAT has its origins in France in the 1950's, and is the requisite form of indirect taxation for several countries (Bosch, 1993). In Europe, the tax started as TVA, which is an abbreviation of the French name: tax sur la valeur ajoute. The English name Value Added Tax is a literal translation of its French counterpart. This name tries to indicate the special characteristics of the tax. i.e, only the value added is taxed[26]. Every Member State of the European Union has a Value Added Tax (VAT). The First VAT directive of April 11, 1967 (as amended) required that Member States replace their general indirect taxes by a common system of value added tax[27]. In fact, for the assessment base for the Member States' VAT constitutes one of the critical components of "Own resources" – the EU's budgetary revenue[28]. Yet the laws establishing the VAT are national laws, each framed within certain parameters specified by the EU in the Sixth Council Directive of 1977 (as amended) on the common system of VAT and the uniform basis for its assessment[29]. This Sixth VAT Directive aims to ensure that each Member State has a broadly identical "VAT base" – VAT levied on the same transactions. Its subsequent amendments have attempted to remove anomalies.

As of January 1, 1993, the "Single Market" became a reality, national borders ceased to exist within the European Union and the practical aspects of the VAT had to be adapted to the new scenario. Initially, a "transitional arrangement" was put in place that combined origin and destination- based taxation, making it possible to abolish controls at tax frontiers. For individuals, VAT liability was incurred "by transactions," as it is under a national system. This meant that individuals could purchase goods and pay VAT on the goods in a member state other than their own (i.e., at origin). They could then return to their home Member State (destination) with their purchases without paying any more VAT. Two exceptions to this arrangement are: the purchase of new means of transport, including motor vehicles (taxed in the Member State of destination at its rates and according to its rules), and mail order sales by a company located in another Member State (VAT is charged in either the buyer's or the seller's Member State as determined by the seller's annual sales volume in the country of destination).

While private individuals have benefited from origin-based VAT, Companies have been subject to various destination-based methods. Though tax controls at frontiers have been abolished, businesses are required to maintain detailed records of purchases from, and sales to, other Member States, and the system is policed by administrative cooperation between Member States' tax authorities. This was intended to ensure that the VAT levied in each Member State reflected the volume of consumption there, and it was meant to guard against substantial transfers of revenue from one Member State to another.

Non-EU companies that export to the EU are taxed at import; exported goods are zero-rated and not subject to the VAT.

The transitional period was meant to last through 1996 at which time a "definitive" system was to be established, based on payment at "origin." Agreement on the "definitive" system for VAT has not yet been reached. Decision- makers are studying and focusing upon the detailed impact of such a system. In the meantime, the Commission has shifted its emphasis from a move to a "definitive" system towards measures to improve the present "transitional" arrangements. In June 2000, the commission published a Communication to the Council and the European Parliament entitled "A Strategy to Improve the Operation of the VAT System within the Context of the Internal Market"[30], which describes a new list of priorities and a timetable for decisions. The report considers new strategies to simplify, modernize and standardize the VAT system. It emphasizes the uniform application of implementing rules in the Member States and closer administrative cooperation between them to combat fraud.

European Union VAT Legislation and Proposals

Recent legislative developments related to VAT include a number of procedural improvements and simplifications, as well as rules relevant to the new information technology. The legislation includes Directive 2001/4/EC[31], mandating that the minimum standard VAT rate set by Member States must be 15%, which will be in effect at least until December 31, 2005. On May 7, 2002, the council adopted a proposal which modifies the rules for applying VAT to certain services supplied by electronic means as well as subscription- based and pay-per-view radio and television broadcasting. The objective is to create a level playing field for the taxation of digital e-commerce according to OECD principles. Council Directive 2002/38/EC[32] would ensure that the digital delivery within the EU of software and computer services generally-plus information and cultural, artistic, sporting, scientific, educational, or entertainment services, specifically-would be subject to VAT. When such services are supplied for consumption outside the EU, they are exempt from VAT.

A related procedural proposal was also adopted on May 7, 2002 (Council Regulation 792/2002/EC)[33], which addresses administrative cooperation on VAT particularly as it pertains to electronic commerce.

EU VAT legislation currently in force may be accessed through the EU's EUR-Lex website[34].

VAT Rates and Refund Time in EU

Since each Member State has its own VAT law and, given that the EU has only mandated that the standard minimum VAT must be 15%, rates vary among Member States and among certain types of products. The most reliable source of information on current VAT rates for a specified product in a particular Member State would be that country's VAT authority. Nevertheless, one can get an idea as to current rates by looking at EU's publication entitled as "VAT rates Applied in the Member States of the European Community"[35]. It is updated regularly and presently given the VAT rates as on June 1, 2005. This document also provides more detailed information about reduced VAT rates. VAT exemptions and product and geographical coverage.

It is always advisable to obtain this information for the concerned VAT refunding authority or the VAT recovery agency as there are different time limits for countries. Normally, VAT claims must cover a minimum three-month period, nut not more than a year. Certain limitations also apply to the minimum amount of VAT reclaimable for certain periods of time. Belgium and he Netherlands grant refunds up to 5 years retrospective. There are, however, specific periods and deadlines for companies based in EU desiring to claim VAT for the period of Jan. 1 to Dec. 31, 2004 should file their claims by the June 30 of the next year (i.e.2005). Similarly the Non-EU countries filing their returns in U. K. are required to file their VAT claims for the period of July 1, 2004 to June 30, 2005 by Dec. 31, 2005

The maximum VAT refund rates and refund time of selected countries of EU viz. U. K. Belgium, Denmark, France, Germany, The Netherlands, Sweden and Italy are given in the table-III.

Table III

Maximum VAT Refund Rates and Refund Times in Select EU Countries

Vat Refunds by Country	Rates	Refund Times
United Kingdom; Claim Period: July 1 – June 30; claims due 12/31. No retroactive claims available. Refunds also available on hotel accommodations, meals car rentals and repairs, gasoline and transportation.	Maximum Rates 17.5%	5-7 Months
Belgium; Retroactive claims available (to 5 years). Refunds also available on car rentals and gasoline (subject to certain limitations.	Maximum Rates 21%	3-5 Months
Denmark; Retroactive claims available (to 5 years). Refunds also available on gasoline	Maximum Rates 25%	3-5 Months
France; No retroactive claims available. Refunds must be made through a French representative	20.6%	6-9 Months
Germany; No retroactive information	Maximum Rates 16%	6-12 Months
The Netherlands; Retroactive claims available up to 5 years. Refunds also available on hotel accommodations, meals car rentals, repairs and gasoline.	Maximum Rates 17.5%	3-5 Months
Sweden; No retroactive claims available. Refunds available on hotel accommodations, meals, car rentals and repairs, gasoline and transportation	Maximum Rates 25%	~2 Months
Italy; No retroactive information Source:http://www.atacarnet.com/CarnetInformaitonKiosk/alueAddedTaxRefunds.aspx	Maximum Rates 20%	Up to 5 years

Further the VAT recovery agency normally requires that all relevant documents reach them at least one month before the deadlines, enabling them to process and file respective claims smoothly and recover the VAT refunds in time.

In general, refunding authorities pay VAT refunds within 3 to 12 months. Further, VAT refunds reclaimed by the VAT recovery agencies on behalf of their clients are kept in a separate account for that purpose and are paid to them in a currency of their choice.

Recoverable VAT Expenses:

The companies engaged in the international business such as corporations, partnership concerns or even the self-employed individuals can recover most of the VAT expenses on the eligible business heads such as:

- Business Travel Expenses such as car rentals, hotel accommodation[36], meals, fuel expenses, telephone expenses, business entertainment, etc.
- Business Operating Expenses such as fuel for cars, trucks and jets, aircraft handling and maintenance costs. Storage, etc.
- Expenses on Services such as marketing / advertising, professional and consultancy services, etc.
- Expenses for Participation in Trade Fairs / Shows (Attending or exhibiting): The potential for VAT reclaim in the trade shows and exhibitions activity is substantial in most of the countries in Europe. Opportunities also exist in Australia, Canada, and South Africa and in many other countries. Reclaim is permitted on heads such space rental, booth construction, audio-visual, presentations, etc. and goes to the extent of 25%
- Conferences or Exhibitions (Attending or Exhibiting).
- Training or Seminars.
- Plant Visits.
- Product Launches.
- Promotional Materials
- Printing Materials
- Corporate / Board Meetings or Motivation.
- Purchases of Goods, Machines and Equipment.
- Exports / Imports into Europe and inter-European transfers of goods (subject to certain limitations).

The policies of VAT refund for business expenses, However, differ from country to country with respect to number of visit such as once per year and minimum expenses incurred or multi-visits and minimum expenses, head of expenses which can be classified as vehicle purchase or vehicle rental, gasoline, gifts, conferences, fairs, meals, etc. Further, on some heads while full refund is permissible while on others 50% or some other percentage depending upon the country to country. An illustrative list of select EU countries for their VAT refund policies with respect to business expenses is given in table IV.

VAT Refund Conditions

In general, there are two main conditions that have to be met to finish the VAT refund procedure successfully[37]:

1. The supply of goods or services must be taxable from a VAT law perspective and
2. The company has received an original invoice from the supplier, which fulfills the invoicing requirements of the respective country.

Further, as per the provisions of VAT refunds “a taxable person not establishment in the territory of the Community” may apply to a Member State for a refund of VAT paid on goods supplied in the territory of the Community and taken out of the Community.” A taxable person not established in the territory of the community is defined as some one who has not had a business address, or a permanent place of residence in a Member State during a period of time to be determined by the Member State, and who has not supplied any goods or services in that Member State with the exception of transport services or those on which tax is payable by the customer alone. It is, however, left to the individual Member State governments to determine the practical means for application for and granting of such refunds, according to the Thirteenth Council Directive[38] 86/560/EEC of 17 November 1986. Individuals living outside the EU, and making purchases while visiting the EU, should enquire about VAT refund procedures at the time of purchase. Member State refund procedures differ, but chances are that forms will need to be filled out when the goods are bought.

Table IV
VAT Refund Policies for Business Expenses in Select EU Countries

	BEL	DEN	FRA	GER	GB	IRE	ITY	LUX	NET	SPA	SWE
Once/year minimum	$31	35	35	38	94	27	25	31	29	27	0
Multi-visit / year minimum	$246	244	278	317	203	216	179	246	310	222	0
Vehicle purchase	50%			X							
Vehicle rental	50%	?		X	X			X	X		50%
Gasoline	50%	?									
Diesel fuel	50%	X	50%	X	X	X		X	X		X
Transportation	?	?		?			40%	34%		72%	
Lodging	?			X	X			20%	34%	X	72%
Gifts	?			X			X	X			X
Professional costs	*	?	*	*	*	*	*	40%	*		X
Conferences	?		X	X	X		X	X	X	X	X
Fairs / exhibitions	?	X	X	X	X	X	X	X	X		X
Entertainment			X				X				72%
Meals	?			X	X			20%			72%
Alcoholic beverages			X				X				

*Source: http://www.ideamerge.com/motoeuropa/vat/chapter/index.html, X=Full refund, 50% = 50% Refund; ? = Depends; *=No VAT is charged for such services. BEL = Belgium, Den=Denmark, FRA = France, GB=Great Britain (UK), IRE = Ireland, LUX = Luxemburg, ITY = Italy, NET = the Netherlands, SPA = Spain, SWE = Sweden*

Has not had a business address, or a permanent place of residence in a Member State during a period of time to be determined by the Member State, and who has not supplied any goods or services in that Member State with the exception of transport services or those on which tax is payable by the customer alone. It is, however, left to the individual member State governments to determine the practical means for application for and granting of such refunds, according to the Thirteenth Council Directive[38] 86/560/EEC of 17 November 1986. Individuals living outside the EU, and making purchases while visiting the EU, should enquire about VAT refund procedures at the time of purchase. Member State refund procedures differ, but chances are that forms will need to be filled out when the goods are bought.

VAT / GST Registration

For undertaking certain activities the companies may also be required to get themselves registered for VAT or GST on temporary basis. The law thus, demand that the company to have its own VAT/GST registration number in that country and to file the returns periodically to the concerned tax authority until the particular events or activity of the said company is over. For example if a company is organizing a conference, trade show or exhibition or a cultural event and charges the registration or attendance fee, then the company is regarded as performing a taxable service in that country and the relevant VAT/GST registration becomes a mandatory requirement.

VAT Administration Offices in Select EU Countries

While the EU mandates certain guidelines for the VAT, the implementation and administration of VAT remains a matter of national law in each of the Member States. The EU has, however, obtained from the Member States' tax authorities and assembled all the relevant information on the application of VAT arrangements in each of the EU countries in one publication entitled as "VAT in the European"

Community: Application in the Member States, Facts for Use by Administrations / Traders information Networks etc." More information for each of the member country can be obtained from the VAT Administration offices of member countries as per the addresses given in table IV:

Table IV

VAT Administration Offices in Select EU Countries

AUSTRIA bundesministerium fur Finanzen; Abteilung IV/9; Himmelpfortgasse 4-8; 1010 Vienna, Austria; Tel: 0043/1/51433 / 1561; Fax: 0043/1/5124174. Website : http://www.bmf.gv.at/ministerium/ministerium/english/start.htm
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VAT Savings or Cost Reduction Estimates

There are agencies which can assist business persons to estimate the amount that can be saved through VAT refunds. Individual companies at their own can also make some estimates of VAT refunds with the help of VAT recovering rates / charts and the expenses to be incurred on various heads. There is one such agency known as **VAT Recovery Group** that can tell exporters what refunds are possible in various countries depending upon the prevailing VAT rates.

On line VAT refund calculators are also available to calculate the estimated VAT refunds by some of the VAT recovery agencies on their web site. One such agency is Tax Back International and VAT refund calculator is available on their website.[39] Similarly, CEI- Global VAT Reclaim Specialist, has also given a VAT estimations Worksheet for Traveling to UK on its website[40]. To estimate the VAT refunds, one has to just plug in the numbers- i.e. the amount spent on various heads such as on hotel, meals, venue rentals, car hire, exhibition expenses, etc. and just with one click the anticipated VAT reclaim is available.

Thus, estimates of savings can be made and then refunds claimed instead of simply booking VAT payments as costs by examining the business records of any enterprise. The advantage of working through any of the specialized agency is that the exporters can achieve a maximization of VAT refunds through their experienced handling of relevant claims with faster availability of VAT refunds.

Outsourcing VAT Refunds

VAT refund process, at least in principle is a rather complex affair. It is complicated and the laws change constantly. Further, in many cases the forms are in foreign languages and it is necessary that right thing must be done at the very first time, as normally there is no second chance. Thus, the VAT refund process requires in depth expertise and experienced hands to deal with foreign languages and it is necessary that right thing must be done at the very first time, as normally there is no second chance. Thus, the VAT refund process requires in-depth expertise and experienced hands to deal with foreign fiscal authorities.

The businessmen engaged in foreign trade are, therefore, advised to outsource the services of VAT Recovery Agencies. These agencies are normally members of the International VAT Association and are in touch with foreign fiscal authorities regularly. These agencies are indeed well informed about the changes that take place from time to time and can arrange VAT refunds without nay fuss and that too at a comparatively lower-cost. Further, normally they operate on the principle of no-refund-no-fee basis and do the following for their clients:

- Identify invoices and receipts, which are eligible for VAT refunds-it includes screening and sorting of invoices country wise and returning the invoices to the businessmen that are not eligible for refund.
- Offer advice on the required forms / documents, nature of invoices, receipts, etc. needed to maximize VAT-refund for the present as well as for the future business.
- Execute all correspondence with tax authorities on behalf of their clients, in the native language required, including the drawing up and filling of appropriate VAT refund claims and review tax assessment notices etc.
- Keep their clients up-to-date with respect to legislation changes to comply with the rules and regulation of each country.

More details, regarding their services, modus operandi, fee, etc. may be obtained from these agencies before availing of their services and if desired, businessmen may also opt for their services for getting themselves registered with the local VAT authorities through their network of representatives and consultants. Normally, fee for these agencies is deducted from the successfully recovered VAT refunds from the successfully recovered VAT refunds on a percentage basis and their clients do not have any financial risk of losing money on this account. So if there is no VAT refund, there is no fee. If there is a VAT refund, the fee is deducted from the refund amount as per the contract terms on a percentage basis.

Benefits to Outsource VAT Refunds

- **Faster Refunds** – VAT recovery agencies with their experience, skills and network make the VAT refunds quicker.
- **No upfront charges** – VAT recovery agencies normally, almost in all cases, do not charge any fee until VAT is recovered and their processing fee is deducted from the VAT refund cheques.
- **Entitlement Assessment** – VAT recovery agencies assess the entitlement of VAT refund on behalf of their clients.
- **Maximum Refunds** – With their expertise these agencies can organize maximum refund possible, as they are constantly aware of the changing VAT rules in EU and Non-EU countries.
- **Hassles Free** – Clients of these agencies keep themselves free of all the hassles of doing paper work and necessary follow up with the foreign tax authorities. Even request for application form for the VAT refund can be obtained from these agencies in line with just a click of a button[41].
- **Support Services** – Some of the well established agencies even provide 24 hours support services to their clients via instant manager on line and respond to their questions immediately.
- **Corrections in Invoices** – In case invoices have not been issued as per the VAT authorities' requirement, these agencies can even organize corrections in the invoices before putting the refund claims. Original invoices are also returned to the clients after processing the claims.
- **Refunds in Local Currency** – Depending upon the request form the clients these agencies may arrange refunds in the currency of their choice – however, most of the clients' request for the refund in local currency.
- **World Wide Refunds** – With their international network, these agencies international network, these agencies have been arranging refunds to their clients to any bank in any parts of the world – Thus refunds may be sent worldwide depending upon the clients' request.

Required Documentation for VAT Refunds

Following documents are normally needed for VAT claims:

- **Original Records** – VAT refunding authorities require original documents for filing claims such as –original invoices (not merely credit card slips or copies of invoices), original import documents, etc. The concerned VAT authorities, however, return these originals after processing of the VAT refund. Businessmen are, therefore, required to keep the photocopies of all such documents as temporary documents in their respective files till the originals are received back and replaced in their filing system.
- **Application form(s)** signed by the fully authorized signatory (only required by some countries).
- **Proof of registration as a corporate taxpayer (**for US companies this is form IRS 6166)
- **Power of attorney** granting authority to process VAT recovery claim.

Concerned VAT authorities in respective countries, however, may be contacted to ascertain the full details of these required documents. VAT recovery agencies also provide such details, if they are approached for the same.

VAT Recovery Agencies

Considering the complexities of VAT refunds, a number of specialized VAT recovery agencies have been set up in different countries and many of them have their international networks. Their services should be availed of to get latest information on VAT refund laws, the relevant changes and also to get the refunds. A list of such agencies is given on website of World Travel and Tourism Tax Policy Centre[42]. However, a few important agencies mentioned below:

The VAT Recovery Group (VRG)

This is one of the VAT recovery agencies having its head office in Germany and partners/ associates located in some 50 other countries worldwide. This agency has been providing VAT refund-related services since 1996. They handle the entire administrative procedure, right from the identification of the refundable VAT to filling up applications for refund and, finally, transfer the incoming payments. Their fees are based on a percentage of refunded VAT amount and they do not charge any additional consultancy fees.

Besides handling the VAT refund procedure in accordance with EC guidelines No.8 and 13, this group also has specialization in advising foreign customers about special arrangements applying to all aspects of German VAT. They have been representing all sizes of companies (Small, medium, large, multinationals, etc. in almost all areas such as: Aviation, Industry. Trade, Services, Sports, Associations, Transport, etc. The spectrum covers all kinds of companies ranging, for example, a medium-sized Indian pharmaceutical manufacturer to a North American Fortune 500 corporation. Amongst other businesses, VRG looks after four of the "Big Ten", the ten largest auditing and consultancy corporations in the world. The agency has its partner's offices in China, Czech Republic, GCC countries (Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman), Hong Kong, India, Indonesia, Israel, Malaysia, Philippines, Singapore, Taiwan, Thailand, Turkey, USA[43], etc.

Corporate VAT Management (CVM)

This concern is another industry leader in the field of VAT recovery and uses innovative VAT recovery techniques and reporting solutions to companies located worldwide. With its proprietary auto VAT® technology, CVM utilizes corporate expense data to drive the VAT recovery process, resulting in greater returns with less effort, and facilitating a global expense management strategy that is both more effective and efficient.

Corporate VAT Management, Known as CVM was founded in 1994, with its headquarter in Seattle, Washington USA. Through an extensive network of strategic business partners, CVM clients are provided access to enhanced VAT recovery services in over 700 locations in 140 countries. Some of these services include local document collection coordination, claim submission, appeal support, indirect tax advice and training on VAT issues. CVM affords global companies a comprehensive VAT service offering that is unmatched in the industry[44].

Auto VAT

Auto VAT ® is CVM's proprietary software that American Express uses to bring the benefits of data driven VAT management to corporate clients. It is a comprehensive rule based engine that calculates refundable VAT for transactions contained in corporate expense data and identifies these items for reporting or recovery. This enables document collection efforts to target the most valuable invoices and identify missing invoices. Vendors are contacted directly to request that missing receipts be re-issued to clients.

CVM's Corporate Partnerships

CVM has a growing network of business partners; some of these are as follows:

American Express and CVM

American Express has, from the beginning of 2005, partnered with Corporate VAT Management (CVM) to make the Value Added Tax ((VAT) reclaim process ore effective and efficient in recovering international business travel tax. This is first of its kind partnership, exclusively for the benefit of American Express Commercial (corporate) cardholders. CVM uses a unique data-driven process to help American Express Corporate Card Clients to quantify their refund opportunity upfront and improve the VAT recovery process. Thus, using Auto

VAT American Express Corporate Card clients may now receive assessment of their total VAT recovery opportunities based on their card Transaction data. Companies can analyze the gap between VAT incurred and VAT recovered, which enables a client to benchmark the success rate of their VAT reclaim programme[45].

Deloitte and CVM

Deloitte and Corporate VAT Management have also teamed together to create a unique and powerful VAT recovery solution for multinational corporations. This combination of Deloitte's in-depth VAT advisory services with CVM's proprietary data analysis technology provides the most comprehensive, effective and cost-competitive service available in the industry today. By utilizing Deloitte's global office network, this team is able to provide enhanced VAT recovery services at over 700 locations in 140 countries. Deloitte will not only provide local document collection coordination, claim submission and appeal support, but can also provide advice and training on other VAT issues[46].

Gelco Expense Management (GEM) and CVM

CVM has also teamed with Gelco Expense Management (GEM) to offer a unique, integrated expense management and VAT recovery solution to their clients. The CVM work directly with Gelco to provide VAT recovery services to Gelco's Expense Link and Receipt Management customers. After expense reports have been submitted to Gelco for imaging and auditing, CVM seamlessly manage the VAT reclaim effort, requiring no additional participation from the clients[47].

CVM and InterpIX

Yet in another partnership, CVM and InterplX have joined hands to provide InterpIX customers with integrated, state-of –the-art VAT recovery services. This provides a convenient one-stop, hands-off solution, which is unmatched in the industry. INTERPLX Technologies provides corporations of all sizes with automated services to manage the processing of expense transactions related to corporate travel and procurement. These services include web-based expense reporting software, electronic funds transfer to employees and corporate charge cards, document management, auditing, imaging and archiving, and related integration services. Clients such as Astra Zeneca, Rohm & Haas, Medco Health, and Dow Jones have strengthened controls, reduced costs, heightened employee satisfaction and reduced the burden on internal technology resources by outsourcing these non-strategic functions to InterpIX[48].

Tax Back International (TBI)

This is yet another important VAT recovery agency having its network in Australia, Bulgaria, Brazil, Czech republic, France, Germany, Ireland, Latvia, Romania, Russia, Slovakia, Slovakia, South Africa, Spain, Ukraine, United Kingdom and USA which provide state of the art services to VAT reclaim. TBI also establishes alliances with organizations Hotel Groups, Conferences / Exhibitions / Even Organizations, Meeting Planners, Incentive Travel Houses, Travel Agents, Airlines, Financial Institutions Banks, Corporate Card Programmes, etc. in assisting their clients to reclaim their VAT[49].

FEXCO VAT Refunds

Established in 1990, FEXCO VAT Refunds Ltd. Services its corporate customers that wish to outsource their VAT recovery activity and is one of the leading supplies of VAT refunds services to businesses around the globe. They claim to have 30,000 corporate customers worldwide and companies such as the General Electric has also used their VAT Refunds services. It has an extensive network of marketing alliances and intermediaries that include four and five-star UK hotel chains, credit card companies, exhibition organizations and business travel companies. FEXCO VAT Refunds Ltd. Provides an online claim tracking facility to customers around the world through its website, www.fexcovatrefunds.com, 24 hours a day, seven days a week. FEXCO VAT Refunds Ltd. Is a member of the International VAT Association[50].

Euro Cash – International VAT Specialist

This is yet another VAT recovery agency in Europe (Corporate office in UK) having its office in USA and works to ISO 9000:2001 standards. They have fully worked out process methodology for VAT recovery and their processes are mapped out with internal quality systems that are claimed to be transparent and efficient. The agency offers fully global VAT recovery services along with centrally managed accounts[51].

For VAT International BV

This, the Netherlands based agency has specialization in foreign VAT reclaim and has been dealing with the companies primarily doing business with the companies primarily doing business with EU countries and mainly with the Netherlands[52].

Dr. Sommer & Burgmaier

Based at Munich in Germany this agency has been providing its services for foreign VAT reclaims in EU countries in general and mainly in Germany. However, they may also be approached to get VAT refunds from Non-EU countries[53].

CEI – Global VAT Reclaim Specialist

This is one more company in this particular field of reclaiming the foreign VAT, which has been operating since 1989 with Offices in USA, Europe, Australia and India. This agency has been playing major role in corporate VAT/GST reclaim with customers throughout North America, Europe, Asia, India and Australia[54].

International Sales Tax Refund Corporation INSTAX

International Sales Tax Refund Corporation (INSTAX) is operated by European VAT experts and has been working in an international and multilingual environment since 1991. Their mission is to provide support to worldwide companies doing business abroad through VAT refund claims, helping them increase their international business[55].

Conclusion

VAT is the most important indirect tax both in developed and developing countries the world over. It is the refundable to the enterprises engaged in the international business on many heads. However, either because of unawareness or because of complicated, time consuming and cumbersome procedures many companies the world over do not go for such legitimate refunds from the foreign tax authorities and book such expenses to the cost of production and marketing. These refunds, however, can be obtained without going through the hassles and complexities of the VAT refund system and that too without spending much money and time if the services of VAT recovery agencies are outsourced rather than to give up such claims. The amount so claimed is indeed a part of savings that should be utilized towards the cost reduction to become competitive in the global markets. As per the estimates, the cost to companies through this route can be saved between 2% to 6% if their international travel related expenses, which may form a substantial part of cost reduction depending upon size of company. This paper enumerates the functions of such VAT recovery agencies, the advantages of outsourcing their services and lists out a few of them so that the concerned enterprises may get in touch with them for further clarifications, If any, and get their VAT refunds hassles free to become more competitive and profitable in global markets.

End Notes

1. For details, see http:// www.atacarnet.com/CarnetInformationKiosk/Value Added TaxRefunds.aspx
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3. Ebrill *et al* (2001).
4. Daniel J. Mitchell (200S), “Beware of Value Added Tax”, Backgrounder, No.1852. cfm
5. Sciott Riswold (2004).

6. ORVF (2006)

7. Hanefah (2006)

8. Cho, S. and D. Ho (1994)

9. Chui and Yang (1997)

10. Ibid. (Chui and Yang, 1997)

11. Pillai (2005).

12. Ibid. Sciott Riswold (2004)

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14. OECD (2006)

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16. Vijayalakshmi (2006)

17. Ibid. (OECD 2006)

18. For details, see the Taxation Policy in European Union at – http: /// europa.eu. int / Comm/ taxation customs / Common / about / welcome / index en.htm

19. Ibid., Pillai (2005, p. 24).

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21. For details see, American Express (2005)

22. Fore details see., Recovering VAT Refunds on Cost of Doing Business in EU, Canada", Managing Exports, March, 2002 at http://www.findarticles.com/p/articles/mi_go1528/is_200203/ai_n6845716

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28. http://europa.eu.int/comm/taxation customs/index_en.htm

29. For details, seehttp://europa.eu.int/smartapi/cgi/sga_doc?smartapilcelexapilprod!CELEXnumdoc&1g=EN&numdoc=32002L0038&model=guicheti

30. for details, see http:// europa.eu.int/comm/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_2005_en.pdf

31. Hotel invoices from overseas MUST be in favour of company (name and address). Traveling employees of the company must ensure that at check-in hotel has the correct name and address of their company, so that a proper invoice is provided at check-out.

32. http://vat-refund-claim.com/

33. For details, see Thirteenth Council Directive 86/560/EEC of 17 November 1986 on the harmonization of the laws of the Member States relating to turnover taxes – Arrangements for the refund of value added tax to taxable persons not established in Community Territory at http://europa.eu.int/smartapi/ cgi /sga_doc? Smartapi! Celexapi!prod!CELEX numdoc &1g = EN & numdoc = 31986L0560 & model = guicheti

34. http:// w w w. google. Ink. Taxbackinternational.com / #

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36. http://traveltax.msu. Edu / vat/ vat2.htm

37. For details see, http:// www.vrg.biz. For India Partner office get in touch with-VRG's partner office in India, Insta VAT Reclaim Pvt. Ltd., Mr. Kedia, Phone+91(22) 282518-06 Fax +91 (22) 28251836, Mailto:rskedia@insta-group.com

38. More information on CVM see, http:// www.autovat.com.

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